

SIMS RAISES \$3.4 MILLION OF SUBORDINATE DEBT FOR CONSTRUCTION OF DISCOVERY VILLAGE IN BRADENTON, FLORIDA.

BACKGROUND

Sims was approached by Discovery Management Group, LLC, a successful senior housing developer and operator, to finance the development of Discovery Village at Sarasota Bay, a 126 unit supervised independent living, assisted living and memory care community that Discovery is developing in Sarasota Bay, Florida (the "Community"). Community & Southern Bank and Synovus Bank have agreed to provide a \$22.5 million first mortgage construction loan.

Herbert J. Sims & Co., Inc., through an affiliate, provided \$3.4 million of subordinate debt (the "Subordinate Loan") to finance the construction of Discovery Village at Sarasota Bay (the "Community"), a senior living community that will be comprised of 126 supervised independent living, assisted living and memory care units. The Community is being developed by affiliates of Discovery Management Group, LLC ("Discovery").

CHALLENGES

There were several challenges associated with this financing, including:

- » Structuring the subordinate debt (the "Subordinate Loan") to meet the Senior Lender requirements
- » Creating a flexible debt structure which would accrue interest until the Community reaches stabilized occupancy
- » Structuring the security package to minimize upfront funded equity
- » Structuring an investment that can be paid off with the proceeds of a debt refinancing

SOLUTION

Sims worked with the Discovery and the senior lenders to create a financing structure which met the Senior Lender's structure requirements, the Borrower's desire to minimize debt service until the Community reaches stabilization and maximizes the long-term value for the Borrower.

The Subordinate Loan had several innovative features:

- » Sims negotiated an intercreditor agreement with the senior lenders that upon a default would allow Sims an opportunity to take over the project to protect its investors
- » Sims capitalized base interest on the Subordinate Loan for the first two years and incorporated an accrual interest rate structure and variable principal payments in the early years of the loan. This debt structure is favorable for Discovery as it allows them to weather the storm if a slower-than-anticipated absorption occurs.
- » The security package included a liquidity reserve and operating deficit guaranty that is funded only if the Community cannot achieve reasonable fill-up benchmarks. This structure minimized the equity funded upfront by Discovery, preserving equity for other planned developments while simultaneously maximizing Discovery's return on capital.
- » By structuring Sims' investment as debt, Discovery is able to refinance the Loan with proceeds of a bank or agency financing shortly after stabilization. This was an essential part of Discovery's long-term plans to maximize its total returns.

IMPLEMENTATION

A new entity owned by Sims, Discovery Funding Sarasota Bay, LLC (the "Issuer"), was formed to issue Taxable Bonds. Proceeds from the Bonds were used by the Issuer to make the Subordinate Loan to Discovery. The Bonds were structured identically to the Subordinate Loan to minimize debt service until the Community reaches stabilization.

RESULT

Sims was able to provide a loan that met the needs and the requirements of both the client and the Senior Lender. The expertise and creativity of Sims' bankers, along with the flexibility and industry knowledge of its retail investors, resulted in a unique solution for Discovery.

Subordinate loans with excellent owners such as Discovery are the latest example of Sims using its extensive investor base to provide financing to senior housing providers. Sims excels in filling the niches that allow an owner or developer to complete a transaction by providing creative financing such as preferred equity or mezzanine debt.

**For more detailed information
on how Discovery Village at
Sarasota Bay
was Financed Right® by HJ Sims,
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