

CASE STUDY

SINAI RESIDENCES OF BOCA RATON

\$213,750,000 | May 2014 | Boca Raton, FL



HJ SIMS UTILIZES INNOVATIVE FINANCING STRUCTURE TO FINANCE \$214 MILLION START-UP CCRC WITH OVER \$75 MILLION SOLD TO RETAIL INVESTORS

DESCRIPTION

Federation CCRC Operations Corp. is a Florida not-for-profit corporation that was organized to develop, own and operate a continuing care retirement community ("CCRC") to be known as Sinai Residences of Boca Raton ("Sinai Residences" or the "Community"). Sinai Residences will initially consist of approximately 237 independent living units, 48 assisted living units, 24 memory-support units, 60 skilled nursing beds and common areas, to be located on approximately 21 acres of land on the 100-acre campus of the Jewish Federation of South Palm Beach County (the "Federation") in Boca Raton, Florida.



examined thirteen zip codes in the south Palm Beach County area year round, representing the largest ethnic group for seniors in the study area (approximately 68% of the overall 75+ population in the study area).

In 2007, supported by the findings in the demographic study, the Federation identified a need for a CCRC to serve the medical, residential and other care needs of an aging population in south Palm Beach County. From 2007 to 2009, the Federation evaluated a number of

alternatives for the development of Sinai Residences and assembled a project team experienced in the development and financing of CCRCs. The project team included Greenbrier Development as

development and marketing consultant, Life Care Services as manager of the Community, and Perkins Eastman as the architect.

The Federation's mission is to further the welfare of the Jewish community in Palm Beach County, Florida, in Israel and in more than sixty countries around the world through fundraising, financial support and the delivery of philanthropic services. In 2013, the Federation raised over \$25 million that was distributed to more than 30 different Jewish agencies for programs and services. The Federation also has a history of providing care and housing for seniors including two rental housing communities for low income seniors and persons with disabilities. Both communities have full occupancy with an approximately three year waiting list. In addition, the Federation provides adult day care and memory care services.

"Working with Sims on the \$250 million Sinai project since its inception and through closing this week has been a total pleasure. Their financial acumen, counsel, leadership, innovation, availability and professionalism allowed our project to be successfully financed. You could not ask for a better financial development partner."

***— Mel Lowell, Chief Operating Officer,
Jewish Federation of South Palm Beach County***

The Federation conducted a demographic study of the Jewish community in south Palm Beach County between 2005 and 2006. The intent of the study was to collect extensive information on the Jewish population regarding a broad range of demographic, geographic, and religious characteristics. The study indicated a Jewish population of approximately 43,400 seniors age 75 years and older that reside in the

Other services provided by the Federation include:

- » Federation Transportation Service that provides nearly 80,000 trips annually to a thousand elderly and disabled adults for medical appointments, grocery shopping, social services and other life sustaining activities. A Jewish Community Center which serves more than 30,000 participants through its various programs, including education, childcare, summer camps, special needs services, sports and wellness, cultural arts and adult services.
- » A wide range of services to over 35,000 people annually for people of all ages. Services include crisis intervention and therapeutic counseling programs, and delivery of over 10,000 kosher food packages per year to needy Jewish families and individuals
- » The Jewish Association of Residential Care that provides housing and job-training programs for adults with developmental disabilities. With nearly 4 million hours of programming per year, the organization offers services that include 24 hour care for its residents and vocational programs such as culinary training, mailroom functions, environmental services and computer education.
- » Four local Jewish day schools teaching over 1,000 students and providing nearly \$800,000 in financial aid for the students
- » Feeding nearly 600 individuals and families who receive food from its local food pantry

CHALLENGES

Housing and Financial Markets

Despite the solid demographics to support the proposed Sinai Residences project and the strong reputation and market presence of the Federation, the underlying weakness of the housing and financial markets posed a direct threat to the development of the project. Despite these market challenges and realities, the Federation determined that given the strength of the underlying demographics, the lack of competition

and the need for a CCRC to serve its constituents as identified by the demographic study, the slowdown in the housing and financial markets presented an opportunity to plan for the development of Sinai Residences and to be in position to move forward with the project once the housing and financial markets improved. During this time, Sims participated in monthly meetings with the Federation, its dedicated lay leaders and its development and project team, to analyze alternative development scenarios depending on various market and financial constraints. As Sims was tasked to raise the pre-development capital for Sinai Residences, this analysis was critical to ensure there was a “back-up” plan in the event the full scope of the proposed project could not be realized if housing and financial market conditions did not improve when permanent financing was needed.

Seed Money

To finance the pre-development costs of Sinai Residences, Sims raised two tranches of tax-exempt Bond Anticipation Notes (“BANs”). The first \$9.45 million tranche of BANs was raised in June 2011. The second \$2.9 million tranche of BANs was raised in March 2013 to fund additional development and marketing costs.

Bond Market

Despite the fact that Sinai Residences experienced excellent pre-sale velocity and met its development milestones ahead of schedule, bond market condition in 2013 again were very poor with record outflows from the bond funds. Sims was tasked with identifying a more efficient financing structure to reduce costs and the inefficiencies of the required financing reserves, particularly the amount of capitalized interest. In addition, while the proposed permanent financing will be non-recourse to the Federation, the Federation also owned the land for the proposed project. The Federation saw the Sinai Residences project as an opportunity to monetize the land and to create a future cash flow stream to support the Federation’s core mission and programs.

The seed capital was structured as tax-exempt bond anticipation notes (“BANs”). The BANs carry a five-year term, but are expected to be repaid at the end of a three year development period from proceeds of approximately \$175 million in permanent financing. Interest on the BANs is capitalized for the full term of the loan at 2.0% paid currently, with additional compound interest accruing at 9.5%. The BANs were sold to a combination of accredited retail and institutional investors. The BANs, which are secured by a first mortgage on the future CCRC property, are non-recourse to the Federation.

SOLUTION

On May 21, 2014, Sims closed the \$213,785,000 bond financing (the “Financing”) for Sinai Residences. The Financing includes \$189,735,000 of bonds (the “Bonds”) consisting of \$120,735,000 million of tax-exempt non-rated fixed rate bonds and \$69,000,000 of tax-exempt Entrance Fee Principal Redemption BondsSM. Sims’ sales force sold approximately \$76 million of the Bonds to retail investors with the balance of the Bonds sold among 36 institutional investors. To support the retail distribution of the bonds, Sims undertook a robust marketing effort which included significant web-based and print advertising as well as a local retail seminar. The success of Sims retail and institutional sales efforts combined with an improvement in the bond market and the strength of the overall project and pre-sales velocity (which achieved 91% by the bond pricing date) resulted in an annual debt service savings of greater than \$1 million per year over the feasibility study.

In addition, \$24.05 million of the bonds will be purchased over an 18-month period on a draw down basis (the “Draw Down Bonds”) to significantly reduce the amount of capitalized interest. \$21 million of the Draw Down Bonds will be repaid from entrance fee

proceeds with the final \$3.05 million of draw down bonds maturing concurrently with the final maturity of the Bonds. To ensure the sufficiency of funds, Sims required the purchaser of the draw-down bonds to provide a third-party irrevocable letter of credit which will be drawn upon if the purchaser does not honor future draws.

Proceeds of the Financing were also used to pay the Federation \$14 million for the land. Of the \$14 million in proceeds, a portion was used to provide liquidity support for the Financing, a portion was taken back by the Federation as a subordinate note, and a portion was paid at closing to support various Federation programs and services. Once certain financial milestones are achieved, the monies dedicated to liquidity support and the subordinate note can be returned to the Federation. In addition, the Financing included provisions for the transfer of cash from Sinai Residences to the Federation which will provide significant dollars to support the Federation’s ongoing mission to help those persons most in need.

**For more detailed information
on how Sinai Residences was
Financed Right® by HJ Sims,
please call or email:**

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