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Senior Housing Financing Options

A Whitepaper by Ecumen

Even in housing downturns, senior housing development will continue to grow as the nation's baby boomers retire in record numbers.

While many boomers will continue to live in single family homes or townhouses for years after they retire, housing developers should still find a vibrant market for senior housing ranging from income-qualified projects to independent living apartments to assisted living to community care retirement communities (CCRC).

For developers a key question is: What financing options exist for building senior housing? As it turns out, there are plenty of lenders and paths to financing available for senior building projects. While this paper is not inclusive of all financing options, what follows is a discussion of the most common financing strategies used by senior housing developers.

- **Bank Lending:** Banks are strong partners for small loans of \$2 million to \$50 million. Depending on interest rates, bank lending can be attractive, especially when interest rates fall into the 4 to 4.5 percent range. Bank loans have other advantages. Interest is paid on the amount being used, not the total amount of the loan. If you use \$500,000 the first month of your project, you pay the interest

on that amount, not the total of \$5 million you may have borrowed. They offer great flexibility, too –you could pay off a bank loan in as little as two years and then use long term bonds for the project. Most lending for senior housing generally comes from community banks, not large national banks. Bank lending tends to work best for building senior rental projects rather than larger CCRC-style campuses.

- **Tax Exempt Government Bonds:** For senior communities being built in the \$50 million to \$200 million range – especially CCRCs – the bond market is the most likely option for financing, although bonds can be used for smaller projects. Many larger projects requiring an entrance fee, or deposit money from buyers, take two to four years just to reach the requirement that 70 percent of the units be pre-sold. (Buyers, for their part, typically put down 10 percent of the market value of their units.) Government agencies back tax exempt bonds for senior developments. When working on a larger project it is common to find a multiple number of agencies using their bonding authority – municipalities, development agencies, housing agencies or other government entities. Those bonds are then purchased in most cases by mutual funds focused on the tax exempt municipal bond market.
- **Angel Investors and Friendly Parties:** Bigger senior housing developments often require startup capital to acquire land, pay architects, consultants, planners and other team members. Angel investors can be found who will take a share of ownership in return for early capital input of as much as \$3 million to \$7 million. Religious organizations building senior housing have also borrowed from friendly parties – high net worth members of their congregations – to pay the early costs to move a project along until it can get bonded.

- **U.S. Department of Housing and Urban Development (HUD):** The federal government has played an active role in financing senior housing primarily through the HUD's Section 207/232. Though the HUD loans come with some strings attached it provides competitive interest rates and an accelerated processing program.
- **Freddie Mac:** The Multifamily Seniors Housing Project provides permanent financing for senior apartments, independent living, assisted living and for properties designed for residents with special needs, such as memory care. Financing options include conventional fixed rate mortgages, standard and capped ARMs, multifamily bond credit enhancement and supplemental mortgages. The minimum loan amount is \$3 million.
- **Fannie Mae:** Loans are purchased by Fannie Mae if the senior developer works with one of its lending partners. It also provides credit enhancement for tax exempt bond financed properties.

Too many senior housing project developers wait too long to establish a business plan for financing. Having a financial partner that understands the complexities of senior housing – along with a strong market study, a good site, a high-quality architectural firm, and developer and manager that know senior housing – will lead to planning and completion of a successful project.

Ecumen (www.ecumen.org) is the innovative leader of senior housing and services, empowering individuals to live richer and fuller lives. Based in Shoreview, Minn., Ecumen is a member of the Evangelical Lutheran Church in America. Ecumen's mission is to create home for older adults wherever they choose to live.