

CAPITAL SUCCESS

FINANCING FOR SENIOR LIVING PROJECTS

STEP-BY-STEP GUIDANCE THROUGH
THE COMPLICATIONS OF FINANCING



www.capitalsuccess.us

A Real Estate Senior Living Tidal Wave with an Exceptional Business Opportunity

More and more families need caregiving assistance for their aging mother, father, or other family-member.

As a profitable service business with an appreciating real estate asset, the small or boutique Residential Assisted Living (RAL) property is a proven, favored model, amidst COVID disruptions, to larger, conventional facilities. Listed below are insights from our experience assisting with the financing of these properties nationwide:

- RAL facilities have high occupancy levels, and many have waiting lists.
- An RAL has focused staff and higher caregiver-to-resident ratios, further supporting the market appetite for this home-like setting.
- There will continue to be an under-supplied market for right-sized, boutique, residential-style assisted living locations for the next two decades.
- An RAL operator can scale to multiple properties and locations. Successful Operators build a portfolio of RALs: multiple locations with resident capacity of 8, 10, 12, 16, 20, 25 beds per new construction site are the trend. Final RAL square footage is determined by site footprint.

Caregiving Locations as a Business are in High Demand

- An RAL is a privately-owned property that provides comfortable accommodations with amenities and supportive care from trained caregivers.
- RAL care homes provide similar services and amenities as independent living communities and provide supportive care from trained employees to residents who are unable to live independently.
- Residents who are unable to live independently experience all-inclusive support with their activities of daily living, including management of medications, bathing, dressing, toileting, ambulating and dining in a restful, home-like setting.
- An RAL can also specialize in dementia or Alzheimer's care by trained staff members. These properties are identified as a **Memory Care** residence and have 24-hour support with more structured activities to ensure safety and quality of life. Most of these living environments are fully secured with locked areas and allow access to outdoor walking paths or gardens. A portion of an RAL is sometimes dedicated to Memory Care suites as a subset of assisted living.

The smaller, RAL model is attractive to seniors, as is indicated by high occupancy rates. There is strong demand for this model with low penetration, indicating a deep market for smaller, residential assisted living homes. For assistance with location analysis and site selection, we have contact with professional organizations who provide **Market Feasibility Studies** ahead of making a site acquisition.

RALs tend to have lower operational costs due to smaller, simplified improvement design, less programming, and amenities. Without comprise, RALs are constructed with luxury, home-like appearance, and design. Residents' fees are privately paid or paid by long term care insurance.

Most importantly, the success of an RAL property benefits from its location within the market. The respective use and amenities offered are commensurate with the demands of neighboring households. Seniors that can pay personally, or with the support of others for their mother, father, or other loved one's resident fees are the "private pay" model RAL.

In summary, an RAL developed within an upscale community is forecasted to experience an area increase in senior-targeted population growth, accompanied by an increase in household income, and an increase in household values.

Experienced Financing Resource in Senior Living

Helping Structure Deals for Maximum Financing



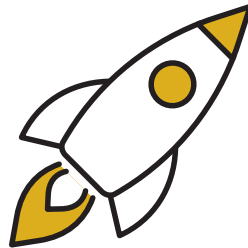
Pre-Development & New Construction

PRE-DEVELOPMENT NEW CONSTRUCTION GUIDANCE & SOLUTIONS

We help builders and real estate investors with stepwise guidance, workflow checklists, Land Loans, Bridge Loans, and interim Business Credit Lines for getting a project "shovel ready." Next, a construction loan or construction to permanent solution is provided to complete the project.

MAXIMIZE SBA LOAN ACCEPTANCE

We facilitate maximizing Small Business Administration (SBA) and Commercial Loan capacity using years of experience and processing knowledge.



Maximize SBA Loan Acceptance

FINANCE AND BUSINESS DEVELOPMENT CONSULTING

We advise and direct our clients in finance and business decisions to encourage continued project growth and business expansion strategies.

EXPERIENCED SPECIALISTS

We represent over 25 years of business experience and finance relationships. We understand deal structure and finance capacity best practices as you seek to scale your business from start up to 1, 2, 3, or more locations.

GET STARTED

Sign up today and receive a complimentary consultation.



Finance, Franchise, and Business Development Consulting

WWW.CAPITALSUCCESS.US/GET-STARTED

GET STARTED

The Capital Success unique value proposition:

The conventional lending community generally does not understand how to overcome the hurdles of financing special-use real estate and business startups. *We do!*

How we help you finance your RAL Project

Here are the basics for creating a **financeable** project:

*keywords and terms are in **bold**

1. Form an LLC as a Borrowing Entity.
2. Deposit 10% [Equity Injection] and another 20% [for Operating Reserves - depending on the Guarantor's available collateral and assets] of the **Total Project Cost** (TPC) into the LLC bank account for meeting lending requirements (stay below \$1.6 MM for your first location to be conservative).
3. Investigate the licensing requirements for the target market area.
4. Concurrently develop your business plan and projected operating expense proforma for years 1,2,3.
5. Consider signing up for a Business Credit Line consultation program (**please ask about this**).
6. After looking over the real estate market decide whether to:
 - a. **ACQUIRE**: buy an existing ALF or Care Home business,
 - b. **REPOSITION**: purchase a property and renovate,
 - c. **NEW CONSTRUCTION**: build a facility from the ground up. ****When construction is involved, carefully choose your Architect/Builder/Contractor. Ask for our guide or a referral.**
7. Fine tune the Business Plan and Projections to meet the approach above (**we'll provide a complimentary review**).
8. We'll submit a complete package for preapproval and schedule your kickoff call. Note: A **Market Feasibility Study and Appraisal** may be requested by the Investor or Lender. *If the results come back showing positive demand, your loan request should be considered.*

Estimated time frame for this whole process: 90 - 140 days, yet, it all depends on how long it takes to complete your construction bid process and equipment budgeting process.

We know this will raise more questions, so always feel free to ask by using the contact information below.

Some key issues are: obtaining **licensing**, arriving at **total project costs (TPC)** and **acceptable financial projections**, while **identifying an experienced manager** in order to support a successful loan request. **[See the following pages.]**

The highest and best use of capital is to achieve 100% financing so you can scale your business to multiple locations.

Locating the right Lender who understands the Residential Assisted Living business is difficult.

Buying real estate is the easy aspect. Creating and funding a startup **company** is the **real challenge** for a new RAL owner.

What we do is guide you -- step-by-step -- through the hurdles that you meet while trying to complete this process. Contact us to learn more.



Rick Miller

Lead Consultant, Capital Success LLC

rick@capitalsuccess.us | 317-538-2988

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Satisfying the Industry Experience Requirement

When making a loan request, the following approaches may be utilized for maximizing the strength of your presentation for a Bank Loan Committee or Private Investor.

1. **Include an Additional Guarantor** with direct experience in the caregiving, healthcare, or assisted living industry as a manager of staff.
 - a. For the best presentation, the additional Guarantor should have worked in the respective field at least two years in the last five years as a minimum.
 - b. More recent experience and working for a historical period of much more than five years would be a stronger presentation.
 - c. An exit strategy to release this additional Guarantor from the original debt would be to refinance or replace the original debt with a new loan that does not involve the experienced Guarantor. As an example, the typical window of time is after 36 payments (the original pre-payment penalty period). At that time, the business should be stabilized, and the original business owners would be considered experienced operators, eliminating the need for the additional Guarantor.
 - d. Consider offering a package of blended financial incentives such as: Base compensation at 20% above the market salary surveyed, plus NOI revenue sharing, bonuses for achieving specific milestones, and others. Contact us to discuss what we have seen work for other Developers/Operators. Note: It is not necessary for the additional Guarantor to be granted an equity interest in your company for financing purposes.
2. **Contract with an Experienced Assisted Living/Memory Care Operations Management Company (OMC)** to operate your location.
 - a. The OMC should have an established local business presence.
 - b. The contract should provide a clause for the Guarantor/Business Owner to terminate the relationship “at will.”
 - c. The OMC does not need to act as a Guarantor for any debt.
3. **Provide an Executed Employment Contract** with an industry-related, experienced Operations Manager or Facilities Manager.
 - a. The contract should be accompanied by a strong resume of management experience with verifiable references.
 - b. The employment contract should be for two or more years.
 - c. The contract can be an “at-will” agreement. This means the employment relationship can end at any time by choice of either party.
 - d. Compensation detail will be disclosed and usually takes the form of a base salary plus performance bonuses related to maintaining high occupancy levels after stabilization is achieved at the location.
 - e. We suggest the Manager’s salary and bonus plan should be 20% higher than the surveyed competition in order to attract the best Manager.
 - f. The employment contract does not bind the employed Manager as a Guarantor for any debt.

Active Versus Passive Management

It is important to provide a consistent narrative in your business plan that eliminates concerns pertaining to Guarantors being only “passively” involved in the business. This is especially true when applying for a business loan such as a Small Business Administration (SBA) loan. SBA lenders expect to see a strong level of active involvement by the Guarantors and their Management Staff. Our preferred Lenders have informed us that default rates are much higher on “passively” managed businesses versus those where the **Guarantors are actively involved in day-to-day management of RAL operations.**

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Flexible Liquidity and Equity Injection Solutions

When making a loan request, the following information will strengthen your presentation before a Bank Loan Committee or Private Investor. In our experience, commercial lenders require a **minimum equity injection of ten percent (10%) and post-closing liquidity (also known as reserves) up to twenty percent (20%)**, otherwise additional collateral to secure the loan request will be required.

Important Note on Maximizing ROE: The more capital contributed or “parked” as equity in a deal, the lower the return on equity (ROE). Being able to gain commercial loan approval always *leverages any capital contribution and increases its returns* for either the business owner or an outside Participant who contributes capital to a project.

Liquidity is capital that needs to present *before* closing.

Equity is capital that will be spent or “parked” for a long term in your project/deal.

The following key questions will be asked by a Commercial Lender or astute Private Investor of the company Owner/Guarantor:

- **Credit Requirement:** How well has the company Owner/Guarantor managed debt in the past as evidenced by a full credit report and scores?
- **Liquidity Requirement:** How much personal and/or business capital will the company Owner/Guarantor be contributing to the deal?
- **Collateral Requirement:** How much collateral (real estate, or other assets assigned as security) will the company Owner/Guarantor be investing into the deal?
- **Net Worth Requirement:** The stronger the personal balance sheet (Net Worth) reported by the company Owners/Guarantors, all the better. NW required: 30-40% of the Finance Amount. If not available, additional Guarantors needed.

When considering bringing in capital from **outside participants** for meeting financing requirements, it should be encouraging to know that flexible possibilities do exist. Some common questions:

Question: Do I have to offer a Participant “Equity” or an “Ownership Interest” in my company to accept their capital?

Answer: Providing equity to outside Participants is not a requirement for commercial financing approval. When you “give up” an ownership interest, this creates “*equity dilution.*” The details of your operating agreement will specify who has ownership interest, voting rights, and control of business decisions. As a privately-owned entity, offering “equity” in exchange for capital is not required for obtaining commercial financing.

Question: What are some methods that will be considered by a lender for bringing in capital from an outside Participant? What have you seen work in most situations? **

Answers:

Funds that are accompanied by Gift Letters – When funds are being supplied by a close business associate, family friend, or family member they are usually acceptable for financing purposes. The funds must be sourced by three months of statements.

Private Unsecured Promissory Notes – These notes are accompanied with funds from a private individual or a private company. The funds must be sourced by three months of statements.

Royalty or Revenue Sharing Agreements – This approach works best for more sophisticated Participants who have prior business experience and have raised capital for their own businesses in the past.

Business Credit Lines: When the company Owner’s/Guarantor’s current personal and/or business income can support the additional debt, funds from these credit lines can be used if drawn down, deposited, and seasoned for 60-90 days before making a loan request.

Question: What are best practices or some limitations on offering some form of Equity Participation in my company or project?

Answer: If equity is being offered to additional members (Limited Liability Company) or shareholders (corporation), and you are attempting to avoid having them sign as additional Guarantors of debt, their ownership should remain at 15-20% or lower.

Also, if additional collateral can be pledged by the company Owner/Guarantor *and* the Participant to offset risk, that will be considered by the Lender.

From the Commercial Lender’s Underwriter’s perspective: The Lender is looking to avoid a “straw borrower” scenario, so a minimum of 5% should be coming from the company Owner/Guarantor.

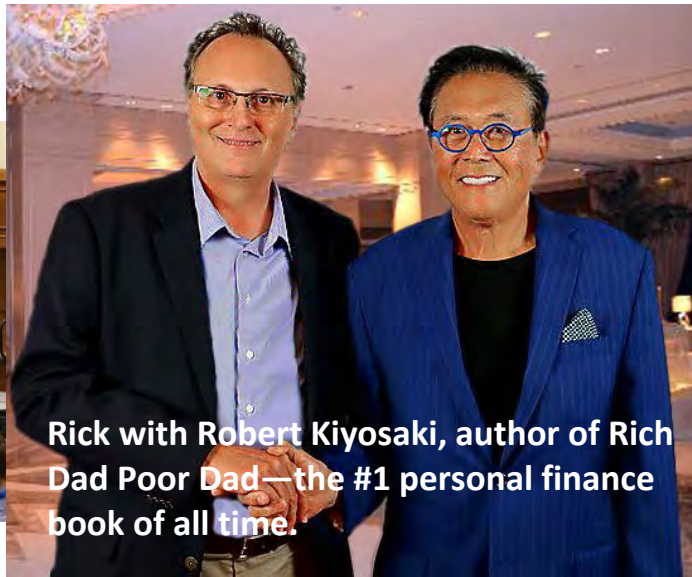
Getting started to involve outside Participants who will contribute only capital, with no involvement in ongoing business decisions:

Prepare by setting up your business structure (LLCs, Corporations) well ahead of attempting to meet with potential Participants. By laying an acceptable foundation -- location-specific business plan, local market study with competitive analysis, financial projections, and transparent company financial reports -- you can move forward with clarity, achieve critical momentum, and close your deal faster.

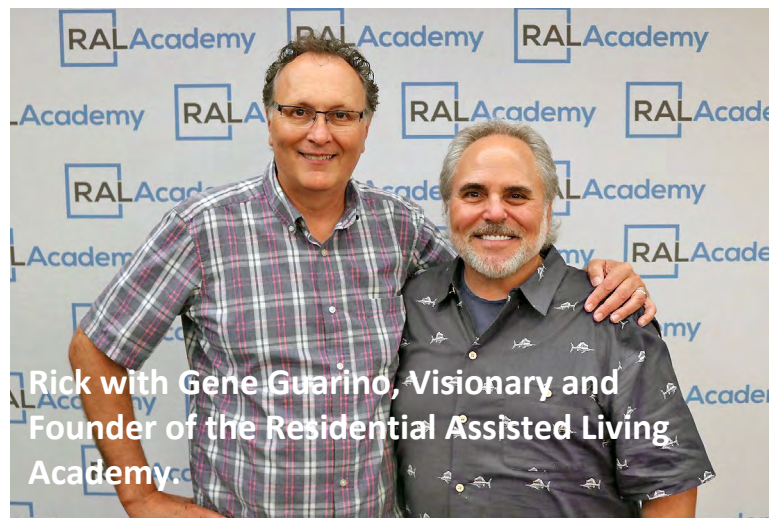
****These are generally accepted practices.** Keep in mind that a Lender can ask for whatever they require to approve a loan.



Rick leading a panel discussion on financing special use properties.



Rick with Robert Kiyosaki, author of Rich Dad Poor Dad—the #1 personal finance book of all time.



Rick with Gene Guarino, Visionary and Founder of the Residential Assisted Living Academy.

"Rick knows how to maximize your dollars and leverage your assets to quickly ramp up for the next deal. Not only did he help get me this property and mortgage, but Rick also got me a large Line of Credit for future deals and told me how to maximize the funds. Rick is a seasoned professional, a true gentleman, a kind soul to work with, calm and even keeled. Attentive to every detail. He did not miss a beat during the whole process, he helped it along and made it as smooth as it could be. He doesn't just stop at getting you a mortgage -- yes,-- he knows his mortgages, he also knows asset protection, how to leverage, and how to grow your business. He is a wonderful resource, an ace in the hole. A good guy to have on your team. I cannot say enough about how wonderful he was to work with. I highly recommend him. Thank you, Rick!!"

- Memory Care Home Operator, Connecticut

"I began working with CapitalSuccess a few months ago and have nothing but good things to say about my experience thus far. Rick truly is an expert in his field and that is more and more apparent every time I speak with him. Rick brings a very tactical approach as he walks you step-by-step through the lending process. The knowledge that he possesses and the vast array of strategies that he can offer have made him an invaluable resource."

- Assisted Living Operator, Indiana

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“You do not need investor loan
experience to get started, you just need to
WORK WITH AN INVESTOR LOAN SPECIALIST!”

A few months ago, while I attended a conference in Las Vegas, one of the speakers introduced me to Capital Success and Rick Miller. I was and still am very grateful for this connection. Rick is very patient and attentive to all my calls, emails and texts. He is always available to answer me, to make me feel comfortable in the process of commercial lending, which is my first time doing this. Rick is very professional, and his knowledge is an asset. I feel that I have whom to trust and I'm happy I'm working with Rick!

Senior Living Care Home Owner, California

I've worked with Rick myself and highly recommend him and his team. They are the only company that I've found who understands the RAL business model and can get it funded! This dream has taken so many different turns along the way, we're just so happy to finally open our doors and look forward to serving our local community for many years to come.

Assisted Living Operator / Owner,
Tennessee

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Everything You Need To Get Started



Questions?

Rick Miller

Lead Consultant with 20+ years experience

Capital Success LLC

p: (317) 538-2988

rick@capitalsuccess.us

www.capitalsuccess.us

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