KeyBank
Real Estate Capital

# Revolving Credit. Removing Complexity in Seniors Housing


**By Wayne D. Horvath, Senior Vice President, KeyBank Real Estate Capital® Healthcare Group**

The highest bids are not always the winning bids—even in today's competitive market for seniors housing real estate investments.

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Sellers place great importance on the speed and certainty of a borrower's ability to close on deals, often taking the faster, more reliable choice over a marginally higher price. And that's just one reason that investors and developers in the seniors housing and affordable housing sectors should consider a revolving credit line, widely known as a "revolver," to streamline the project financing process.

## Real estate revolvers vs. traditional lines of credit

Like a traditional line of credit, a revolver is underwritten based on the strength of the borrower's business and/or on the value of their real estate portfolio. The difference is that a traditional line of credit, used mainly for smaller operational expenses, can be drawn down at the borrower's discretion, whereas a revolver designed for real estate acquisitions generally requires lender approval on acquisitions, which can be financed under the revolver.

Why not just use a traditional line of credit? Many investors would appreciate the independence that would offer, but in general, traditional lines of credit do not offer enough credit to cover real estate acquisitions or development. Therefore, they don't represent a viable option for investment or development financing.

## Key Takeaways

- Securing a revolving credit line, or revolver, enables active investors and developers to streamline the project financing process.
- A revolver is different from a line of credit in that it can be used to fund real estate transactions with lender approval.
- In a competitive marketplace, the ability to offer speed, flexibility, and certainty of closing deals can be a major advantage.
- Key provides revolvers directly and helps clients secure Agency revolvers that enable them to add and release assets and take out equity over the term of the loan.

## Lender approval

The need for lender approval to add assets to a revolver is generally due to the size of the borrowing and need not be a major roadblock or delay in the financing of the project. Deal approval is typically a minor hurdle, since the revolver comes with a promissory note from the lender that spells out parameters for loan-to-value and loan-to-cost ratios, amortization schedules, debt service coverage, and other terms. Generally, as long as a deal falls within those parameters, transactions can be approved relatively quickly.

Further, although banks retain discretion on individual deals, investors can use revolvers to show prospective sellers that they have the capability to complete transactions. That advantage can often mean the difference between winning and losing in a competitive bid situation.

## Flexibility

In addition, revolvers provide flexibility for investors to expand more quickly and invest in off-the-beaten-path opportunities:

- Revolvers are highly customized to meet specific borrower's needs. They can be a consistent form of capital that allows borrowers to grow. For example, if borrowers use a revolver to acquire assets that are stabilizing, they can then place those assets when stabilized with Agency, CMBS, and/or Life companies to permanently finance assets, creating capacity under the revolver to acquire additional assets. At Key we use our balance sheet capabilities along with our commercial mortgage platform to size revolvers to our customers' 3-5 year business plans. By sizing the revolvers appropriately, the borrowers can focus on their businesses by not having to negotiate multiple loan documents and spending a lot of money on attorney fees and closing costs.
- Revolvers enable investors and developers to fund lower-performing assets as part of the larger borrowing base. For example, a lower performing property may present a great opportunity for repositioning, expanding or to optimize an asset's performance. With a revolver in place, an investor can get a lower cost of capital that makes these deals work more easily, as the other assets in the borrowing base will offset the weaker performance of the asset being acquired while it is repositioned, expanded or optimized.
- With lender approval, general partners in affordable and seniors housing funds can use revolvers to buy mortgage notes and other investments that may result in a higher overall yield to limited partners.

## Speed

The essence of the revolver is that the majority of a lender's due diligence on the borrower's business and the terms and conditions of the funding are performed once rather than repeatedly for each deal. This efficient approach saves money by eliminating redundant costs, such as legal fees that can range from $25,000 or more per transaction. An even more important factor in this market climate is that having a revolver in place saves time.

Time is money, and in rising markets, the value of time is at a premium. The more time investors and developers spend in negotiating terms of individual deals, the greater the opportunity cost of deals not pursued. Sellers often put a lot of value on an offer with certainty and that can close quickly.

## Obstacles

The main drawback to revolvers is the challenge of convincing limited partners (LPs) in private equity investments to buy into a portfolio financing rather than a single-property financing. LPs experienced in the seniors housing and affordable housing market understand single-asset investment, while investing in a pool backed by a revolver requires them to conduct more due diligence and put more faith in the owner/operator. Getting them on board may require extra effort, but to get the advantage of a revolver, it is time well spent.

## Agency revolvers

Banks are not the only providers of revolvers. Agency revolvers have become more popular with investors in recent years. Key recently arranged two substantial facilities—$675 million for SRG and $344 million for Enlivant—through the Fannie Mae DUS program. Freddie Mac also has a revolver product. Agency revolvers generally are originated with a minimum of $50 million. They are customized but to a lesser extent than traditional bank-provided transactions and they leverage the strength of the entire portfolio performance over the individual assets, allowing for some assets that need more seasoning to be included.

In the right circumstances, these Agency facilities are great solutions for borrowers who want long-term, non-recourse fixed or floating financing with the flexibility to add assets, release assets, and take out additional equity over the term of the loan.

## Enhancing ROI

At Key, we have found that revolvers can provide a superior path for many investors and developers to accelerate their deal flow and enhance overall return on investment. The advantages include lower cost, greater time efficiency, and most important, credibility with sellers that deals can be closed quickly with limited financing complications.

**To learn more, contact:**

**Wayne D. Horvath**, Senior Vice President, KeyBank Real Estate Capital® Healthcare Group
at 216-689-3808 or wayne_d_horvath@keybank.com, or visit us at key.com/REC.

Wayne Horvath, Senior Vice President with Key Bank Real Estate Capital, is a Senior Banker in the Healthcare Group's Cleveland, OH office, where he structures financial solutions for clients located in the Central, Great Lakes, Northeastern, and Mid-Atlantic sections of the country.

Key's Healthcare Group focuses on the financing of healthcare REITs and companies that own and operate medical office buildings and seniors housing facilities, including assisted living, independent living, and skilled nursing facilities. Key has a dedicated team of experienced bankers ready to serve as a single integrated idea source to help clients meet their unique financial goals and objectives. The team is headquartered in Cleveland and has regional offices in Tampa, Atlanta, and Seattle.

Joining Key in 1986, Wayne has been assisting healthcare clients since 1999. Prior to joining the Healthcare Group, Wayne worked in the Bank's Special Assets, Corporate Banking, and Loan Review areas.

Wayne graduated from the University at Albany and has a B.A. in Economics with a minor in Business Administration.

At Key, we are proud to offer our clients the quality ideas and financial solutions that Wayne provides. The bottom line is a more effective approach that requires less of your time—leaving you with more time to focus on your business.

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