CONSTRUCTION/PERMANENT FINANCINGS FOR GSA

BACKGROUND

- Raymond James was hired to act as sole underwriter for the General Services Administration's (GSA) build-to-suit lease for the National Cancer Institute's (NCI) new facility on Johns Hopkins' Montgomery County, Maryland campus.
- The facility would total 575,000 square feet and comprised offices and meeting / seminar rooms to facilitate cancer research.

OBJECTIVE AND APPROACH

- The bonds were structured as two series: Series A amortized over the 10 year initial lease term and Series B was interest only through the initial term and amortized over the 10 year renewal period.
- The financing included 30 months of capitalized interest and a debt service reserve fund (DSRF) equal to two months maximum annual debt service. The sponsor was able to use a Letter of Credit to guarantee later equity contributions to the project.
- Raymond James worked closely with the developer and Standard and Poor's (S&P) to obtain ratings of AA for Series A, and A+ for Series B.
- The sponsor formed a single purpose LLC and after construction the bonds were non-recourse to the sponsor. In addition, the sponsor mitigated construction risk by obtaining a Guaranteed Maximum Price (GMP) contract from a contractor who also provided a payment and performance bond.
- The bonds were offered to qualified buyers in a 144a limited offering, and the banking team worked closely with the sales team to educate potential investors about the product.

OUTCOME

- Lease renewal risk was cited as a concern by some investors. Using the GSA's own data, Raymond James could find only one instance of a large GSA build-to-suit project not being renewed (it was a Department of Defense building that was closed in one of the rounds of the Base Realignment and Closure Commission).
- Overall, 14 different investors participated in the financing with total proceeds of $174,205,000.
- Raymond James' Reinvestment team handled the investment of proceeds which consisted of five distinct laddered portfolios and a DSRF Guaranteed Investment Contract (GIC).

CONSTRUCTION/PERMANENT FINANCINGS FOR GSA

BACKGROUND

- Raymond James was hired as sole underwriter for the GSA's lease for the Department of Health and Human Services (HHS) in Rockville, Maryland.
- The project was for the renovation of the building that was currently occupied by HHS and had been since the 1970's. As we mentioned in the NCI case study, Federal agencies tend to stay in their build-to-suit buildings a long time. At completion, the building would be just over 935,000 square feet.

OBJECTIVE AND APPROACH

- As with the NCI financing, there were two Series of bonds: Series A amortizes over the 15 year initial term and Series B amortizes over the 10 year renewal period.
- Raymond James worked with S&P to present a more realistic view of renewal risk. Given the critical nature of the facility and the fact that HHS had already occupied it for so long, both series of bonds were rated AA.
- Again, as with NCI, the sponsor formed a single purpose LLC, obtained a GMP contract with a payment and performance bond, and post construction the bonds are non-recourse to the sponsor.
- The financing was structured with 56 months of capitalized interest to cover both construction and the free rent period, and two months of max annual debt service for the debt service reserve fund.
- The Reinvestment team at Raymond James again structured and brokered the funds for the investment of proceeds. There were four distinct funds invested in laddered securities, and the DSRF was invested in a forward purchase contract.

OUTCOME

- A renovation this large with employees still occupying the premises was quite unusual; investors had concerns and not only about renewal risk.
- Raymond James and the sponsor worked together to create a presentation for investors. With 85 different investors participating, the sponsor and Raymond James held an investor call to review the project and answer questions.
- The bonds were offered to qualified buyers as a 144a limited offering. A total of 25 different investors participated for total proceeds of $308,310,000 and a very favorable cost of funds for our client.

REVENUE ANTICIPATION NOTES FOR GSA

BACKGROUND

- Because of a change in mandate during construction of the HHS building in Rockville, GSA would no longer pay up front for additional tenant improvements (TIs).
- Working with our client and GSA, we suggested the issuance of Revenue Anticipation Notes (RANs) that would be repaid from rent payments made during the free rent period. This meant that GSA would forego free rent and begin paying rent at the lease start date. This would be the first time a GSA related project would use RANs to fund part of the construction.

OBJECTIVE AND APPROACH

- Raymond James, the client and our counsel worked together to reach out to bondholders for consent to allow the “free rent” rent payments to be used to repay the RANs. We were able to convince bondholders that the use of the “free rent” monies would improve the project and therefore their investment.
- The next issue was that S&P was requiring two months of MADS for a DSRF in order for the RANs to be rated AA.
- As the total free rent period was just under 20 months, two months of MADS would negatively impact the total amount of proceeds GSA could use for TIs. Also, the RANs had just less than a three year maturity and capitalized interest covered almost half of that period.
- As such, Raymond James chose to issue the RANs unrated. Some investors chose not to participate because of the lack of a rating. Also, some did not like the par call, but GSA has no mechanism for paying a call premium.

OUTCOME

- Ultimately, the RANs were offered to investors via a 144a offering to qualified buyers. The issue was two times oversubscribed. Ten investors participated, resulting in proceeds of $47,515,000, and GSA actually received more funds than they were expecting because of the lower rate.

GSA PORTFOLIO ACQUISITION

BACKGROUND

- Raymond James was hired to underwrite the acquisition financing of a portfolio of GSA properties. The portfolio consisted of eight smaller, single tenant properties that were either a build-to-suit or renovated-to-suit for a federal agency such as a local Social Security Administration office.
- The portfolio represented three different federal agencies in four different states. The buildings were already built and occupied by their respective federal agencies and so would begin paying principal and interest immediately.

OBJECTIVE AND APPROACH

- All of the properties were in the initial lease term but all would be subject to at least one renewal before the 20 year final maturity. Furthermore, all of the leases had different lease renewal dates.
- In order to mitigate some of that risk, Raymond James structured the financing so that a DSRF equivalent to three months of MADS was funded at closing. In addition, excess NOI was trapped by the trustee and placed in a fund for the benefit of bondholders until such point that NOI + DSRF + Trapped Funds was equal to two times MADS. Also, debt service coverage goes up over the life of the bonds.
- The bonds carried a NAIC 1 rating but had no other rating from a NRSRO. As such, some investors did not participate.

OUTCOME

- Raymond James structured the deal with four tranches of pari-passu debt with staggered maturities.
- The securities were offered to qualified buyers in a 144a limited offering. The first two tranches were oversubscribed with total proceeds of $37,345,000.