

[DOC ID: 008 | DEAL: Ridgeway Rehab Hospital – Construction Financing Proposal]

Borrower: Ridgeway Health LLC (sponsor group from Philadelphia). The project is a 42-bed inpatient rehab hospital to be built in Bethlehem, PA on 3.6 acres currently under contract. Total project cost estimated \$27.8 MM. Sponsor requests \$23.5 MM construction loan ($\approx 84\%$ LTC).

Project Snapshot (working draft)

Item	Cost (USD MM)	Notes / Formula Reference
Land Purchase	2.4	under contract – closing July 15
Hard Costs	$= (42 \text{ beds} \times 520 \text{ SF} \times 425/\text{SF})$	≈ 9.3
Soft + Permits	3.1	includes design + impact fees
FF&E + IT	1.8	vendor quotes pending
Contingency	$= (\text{above sum} \times 0.06)$	≈ 1.0
Total Cost	≈ 17.6	(no land + finance costs)
Financing + Reserves	10.2	interest + fees
Grand Total	27.8	rounded

Equity = 4.3 MM (15.5 %); unverified bank statements show 2.1 MM cash and 2.2 MM “pending liquidity event.”

Construction timeline 18 months. Exit via HUD take-out or refi with regional bank. Assumed permanent rate 6.0 %, 25-yr amort. Projected NOI Yr 3 ≈ 2.4 MM.

Quick calc:

Value = NOI / Cap

$= 2.4 / 0.0825 \rightarrow 29.1 \text{ MM}$

LTC 0.84 \rightarrow LTV ≈ 0.81

DSCR Yr 1 $\approx 0.92\times$ rising to $1.25\times$ stabilized

Risks / Considerations

- Borrower has never built medical facility (three small MF rehabs only).
- GC bid unsigned; assumes steel pricing flat through 2026 (optimistic).
- Construction draw schedule uses front-loaded billing (~40 % first 6 months).
- Certificate of Need approved but appeal period open until July 30.
- Operator contract with NorthStar Healthcare still draft form.
- Market absorption low (three facilities within 25 mi radius, avg occupancy 82 %).

Mitigants

- Site proximate to Route 22 and Lehigh Valley Hospital network.
- Preliminary HUD desk review shows eligibility if stabilized DSCR > 1.2×.
- Borrower willing to add subordinated mezz 2 MM if required.

Our sizing under base case supports ≈ 21 MM loan limit ($1.15\times$ DSCR). If lender proceeds at requested 23.5 MM, must price \geq SOFR + 425 bps and include interest reserve of 1.4 MM. At those terms levered IRR ≈ 10 %, barely meeting hurdle.

Recommendation: proceed to term sheet at ≤ 21 MM loan amount, require completion guaranty and evidence of mezz commit. Tag as “marginal approve – tight coverage.” If cost overrun > 3 %, convert to partial recourse.