Key West Senior Housing Development – Phase I Final Report

Project Sponsor:

Advisor:

Senior Housing Investment Advisors

Contents

Definitions

Following are definitions for many of the terms and acronyms used in this report.

1) ALF – Assisted Living Facility.
2) Cashflow after Debt Service – NOI less Debt Service.
3) City – The City of Key West.
4) Consultant – Senior Housing Investment Advisors, LLC.
5) Debt Service – The total monthly payment of principal and interest toward a mortgage.
6) FPC – Family Pride Corporation, the developer of Project.
7) FKACC – Florida Keys Assisted Care Coalition.
8) FNMA – Federal National Mortgage Association.
9) ILF – Independent Living Facility.
10) LTC – Loan-To-Cost, ratio expressed as a percentage and calculated as the construction loan amount divided by the construction cost.
11) LTV – Loan-To-Value, ratio expressed as a percentage and calculated as the loan amount divided by property value.
12) NOI – Net Operating Income, defined as total revenue less total expenses. Expenses include operating expenses, management fees, property taxes, insurance and capital reserves but exclude amortization, depreciation, taxes and debt service.
13) Final Report – This report, which covers Phase I of Project.
14) Project – The Assisted and Independent Living community to be developed in the Truman Annex section of Key West, (Phase I: 50-unit / 60 bed ALF; Phase II: 90-unit ILF).
15) PSF – Per Square Foot
16) SSMG – Senior Solutions Management Group, the operator of Project.

Forward

Consultant was engaged by the City on January 24, 2011 to provide advice with respect to the ground leasing, financing, development and operation of the Project. The Project is to be developed by FPC and operated by SSMG. This Final Report focuses exclusively on Phase I of the Project, which involves a 50-unit, 60-bed, ALF.

Specifically, Consultant was asked to perform the following tasks:

A. Review and provide City with comments on the proposed ground lease or sublease between either City and FPC or FKACC and FPC.
B. Assist City in establishing the financial structure to be incorporated into the ground lease or sublease with FPC so that City is afforded an appropriate return.
C. Review and provide City with comments on the proposed construction budget to assure that FPC is providing City with a budget that is within established senior housing industry guidelines. This will involve a comparison to projects similar in size and type.
D. Review and provide City with comments on the proposed operating budget to assure that FPC is providing City with a budget that is within established senior housing industry guidelines. This will involve a comparison to projects similar in size and type.
E. Review and provide City with comments on the proposed construction and operating budgets as they relate to potential construction or permanent financing to be placed on Project.
F. Review and provide City with comments on any proposed financing instruments relating to Project, especially as they relate to Project's feasibility and potential impact on financial returns to City.

In preparing this Final Report, Consultant has relied heavily on discussions with and information provided by FPC, especially with respect to construction and operating budgets. Consultant has also discussed various issues surrounding the Project with City officials. It should be noted that because this Final Report is being submitted prior to completion of several Project milestones, a) Item A (above) can only be discussed in terms of the existing ground lease between the City and FKACC and Consultant's suggestions for how a new ground lease may be structured; and b) Item F (above) is omitted from consideration as there are not currently any proposed financing instruments for the Project.

Generally speaking, the Project appears to be well conceived and has a credible developer and operator in the form of FPC and SSMG. The Project will serve a largely unmet need in the lower Keys. Consultant looks forward to seeing this Project come to fruition and is able to provide additional advice once additional Project milestones have been met or as the City deems appropriate.

Ground Lease

There is currently a ground lease between the City and the FKACC regarding the subject site. It is, however, Consultant's opinion that it would be more efficient, in terms of a) communication between the parties; b) administration; and c) financing, for any ground lease to be directly between the City and FPC, as opposed to between the City and FKACC with a sublease between FKACC and FPC, as is presently the case. The additional layer could be seen as an issue by some lenders in the event of foreclosure and could also hinder or delay communication between the City and FPC. That said, Consultant does see value in FKACC's continued involvement in the Project, which could perhaps come in the form of an advisory or board of directors type roll.

Existing

On October 7, 2008, the City, through its Naval Properties Local Redevelopment Authority authorized the execution of a land lease with their designated assisted living developer, Florida Keys Assisted Care Coalition, Inc. ("FKACC") to build the Project. Following is a summary of the major terms of the existing ground lease.

1) The commencement date for the lease will be no later than December 31, 2011.
2) The term of the lease will be for 99-years unless terminated for non-performance or non-compliance.
3) The property encompasses approximately 4 acres. In addition, The Utilities Board of the City of Key West has set aside a parcel of land adjacent to the subject property for future development.
4) Annual rent under the lease is set a $1.00 per year.
5) A development plan will be submitted to the City for review within 180 days after the commencement of the lease.
6) The City Planning Board must provide development plan approvals with or without conditions, within 180 days of submission of the development plan.
7) Issuance of City Commission resolution for either approval or approval of the development plan with or without conditions within 120 days after the effective date of development plan approvals.
8) Issuance of a building permit for Phase I under the approved development plan within 120 days after the building permit is deemed complete by the Building Official.
9) Issuance of a Certificate of Occupancy for Phase 1 improvements within two years following issuance of the building permit.
10) FKACC is responsible for payments of all real estate taxes, property assessments, utilities, maintenance, repairs, and insurance.
11) FKACC is responsible for all applicable governmental regulations pertaining to the operation of the assisted living and seniors housing facility.

12) The City has disclosed that the subject parcel was previously part of a military base on which hazardous substances were kept and used. FKACC will be responsible for the removal or remediation that may be required.

Proposed

It is the City's stated goal to receive some type of financial remuneration in exchange for providing the site on which the Project will be developed and operated. This is in contrast to the existing ground lease which calls for $1 per year in rent. The City has further stated that it is willing to wait until after the debt is repaid to receive that return. However, debt on income properties is not typically simply retired. Instead, mortgages are usually refinanced so as to take advantage of either lower interest rates or increased property values which result in higher loan proceeds. Maintaining a certain level of debt on a property assures that the overall cost of capital is minimized thereby maximizing the return on equity.

There is no need for this Final Report to discuss in detail all of the potential terms of a ground lease, but it will attempt to define a basis on which the ground rent can be established. In formulating an appropriate rent structure that satisfies both the City and FPC, there are several variables that must be taken into consideration, including construction cost, operating budget and permanent financing alternatives. The items are relevant because they will all likely be finalized after the ground lease is completed, but will influence FPC's ability to pay the ground rent.

Because there is an affordable component to the Project, it will be more difficult for the Project to produce an appropriate level of return to FPC. (See the section on Equity for an explanation of appropriate returns.) The reason for this is that, typically, an ALF starts producing a profit (after debt service) at somewhere between 65% to 75% occupancy, with the majority of profits coming in the last 10% or so of stabilized occupancy. For underwriting purposes, most lenders assume a maximum occupancy of 90% to 93%, depending on the market. With 50% of the units being affordable, the impact on the top line, or rental revenue, and the resulting decrease in the bottom line, or NOI, can be meaningful.

As such, the formula for ground rent must be crafted in a manner that is flexible enough to recognize the profit limitations and uncertainty of affordable rents, but that also prohibits numbers from being manipulated so as to eliminate the possibility of an operator ever paying ground rent. This takes a certain amount of trust on both sides, but can be achieved if the appropriate definitions and guidelines are established.

In a typical ALF development project, a developer could expect to pay from $10,000 to $20,000 per unit for land. This usually equates to a range of 7% to 13% of total project costs. Given that the land is being contributed by the City, the ground rent could be based on a reasonable return on the value of the land (as valued for senior housing, as opposed to the value for the highest and best use). It should be noted however, that the value for senior housing should take into consideration that only 50% of the units will be market rate and the remaining units will be for moderate/low income residents which could substantially impact profitability and therefore the value which can be attributed to the land. The key factor here is that the operator will be taking substantial risk given that the affordable units will largely be paid for with Medicaid waiver, OSS, VA or other government sponsored programs that may be subject to budget changes in the future. As such, it may be appropriate to consider either a) charging a fixed or percentage based ground rent only on the market rate portion of the Project or b) charging a fixed or percentage ground rent on the market rate portion and a contingent ground rent on the moderate/low income portion. The latter will be more difficult to implement as not all operating costs will be directly attributable to just one component or another and may be difficult to pro rate. Thus, it may be more appropriate, if it is determined the latter method is to be used, for the contingent ground rent to be based on attaining certain operating benchmarks such as profit margin, and occupancy percentage.

With that said, Consultant suggests a ground lease that includes the following general ground rent terms. It should be noted that these terms are general guidelines or suggestions that may help to form the basis for how ground rent is calculated. These suggestions can be modified by the parties and should not be considered absolutes. The suggestions are designed to provide protections for both sides.

1) A fixed Base Ground Rent to commence three years from the opening of Phase I of the Project. This time period should allow for FPC to stabilize the property and obtain permanent financing.
2) Base Ground Rent equal to some percentage of the value assigned to that portion of the land attributed to Phase I of the Project then multiplied by 50% (to include only the market rate units).
3) Base Ground Rent to be payable to the City and Keys Energy Services on a monthly basis provided that:
    a. All property taxes, insurance and mortgage payments are current. This ensures the order of priority in payments.
    b. Occupancy of at least 85% in the market rate units and overall occupancy in the Project (this includes market rate and moderate/low income units) of 80% has been maintained for the previous 3 months. There is a reasonable expectation of profitability at this occupancy.
4) Additional Ground Rent to commence three years from the opening of Phase I of the Project and equal some percentage of Cashflow after Debt Service, paid on a monthly basis, subject to the below provisions. This Additional Ground Rent is essentially

conditioned on the moderate/low income units being well occupied and contributing some level of profitability.

a. All property taxes, insurance and mortgage payments are current. This ensures the order of priority in payments.
b. Occupancy of at least 85% in the moderate/low income units has been maintained for the previous 3 months.
c. The level of debt is not allowed to go above a certain LTV, perhaps 80%. This could depend somewhat on what type of mortgage is sought. For example, FNMA currently allows 75% LTV, while HUD could be closer to 85% LTV and traditional banks could be somewhere in between these amounts. This limit will help assure that the Project is not overleveraged.
d. The Additional Ground Rent should be capped at some level. Perhaps the greater of an agreed upon annual return on the value of the land contributed; or b) once the present value of Additional Ground Rent equals the total value of the land contributed plus an agreed upon annual return.
e. It will also be important to clearly define terms such as Total Revenue, Operating Expenses, NOI, LTV, etc.

Construction Budget

According to The Weitz Company, a large general contractor, construction costs, nationally, for a ALFs range from $128 to $190 PSF for residential areas and $180 to $252 PSF for common areas. These figures exclude site costs which can vary dramatically form one project to another. Weitz assigns Miami, which is the MSA closest to Key West, an index of 89.7, which translates to a local cost PSF of $129 to $187 PSF if we apply the index and the typical ratio of unit to common area (70% vs 30%) to the previous figures. It is assumed that many costs in the Keys will be higher than this index. Of course, these types of cost estimates are very general and must be viewed with the understanding that part of the Project involves rehab of an existing structure, which can have a large impact on cost PSF as many rehab projects end up costing considerably more than would new construction.

FPC's construction budget dated February 28, 2011 (see Exhibits A and B) shows a total cost of $6,885,000 or $137,700 per unit or $203 PSF after backing out $350,000 or $10 PSF for environmental remediation. These calculations assume that Phase I will have about 34,000 square feet. Given that construction drawings have not yet been completed, it is not certain whether this will be the final cost. However, a cost in the range of $140,000 per unit is certainly in the range of what would be considered normal or acceptable for new ALF construction.

On a per unit basis, the construction budget appears to be reasonable and in line with other recent ALF development projects in Florida. However, the cost is above average on a PSF basis. This is likely due to the following factors:

1) The existing building may have inherent inefficiencies since it was not purpose built for assisted living. Purpose-built ALFs typically have about 30% of the total building area dedicated to common areas, kitchen, laundry and offices. With units in the Project ranging from 350 to 575 square feet, assuming an average of approximately 450 square feet with 50 units, a normal ratio of unit to common square footage would yield a total building square footage of 29,250. This suggests that there is potentially some inefficiency with respect to the existing building design. This could be attributed partly to the two-story design and partly due to inefficiencies in most non-purpose-built structures.
2) The existing building falls under the National Trust for Historic Preservation guidelines. As such, there are additional costs attributable to the Project that would not otherwise be incurred.
3) The Project, being located in Key West, is subject to higher material and skilled labor costs than many other areas in Florida.
4) Construction contingencies represent over $18 PSF. This component, at $625,000, likely represents the biggest area for potential savings and would bring the Project much closer to average.

Also of note is the fact that the proposed construction budget does not contain a development fee. Typically, these fees are 3% to 6%, depending on overall project size. For a project in this dollar range, a 5% fee would be common.

Below is a summary level construction budget from one of Consultant’s other clients that is for a 59-unit ALF in Florida. While there are some differences in the budget line items and a few project level differences (location, lack of historic preservation, wood vs block construction) the overall costs are quite similar. In this case, the ground cost and development fee were each removed so total costs could be more easily compared.

Construction Budget **59-Unit ALF in Florida**		
Hard Costs		
Permits / Bonds / CON		$ 250,000
FF&E Kitchen Equipment		$ 80,000
FF&E other		$ 367,500
Architecture & Engineering		$ 176,850
Site Development		$ 1,000,000
Construction Cost	40,636 SQ @ $95 PSF	$ 3,860,420
Contingency		$ 300,000
Total Hard Costs		**$ 6,034,770**
Soft Costs		
Closing Costs		$ 97,500
Pre-opening Expenses		$ 140,000
Working Capital		$ 300,000
Construction Interest at 6%		$ 195,000
Total Soft Costs		**$ 732,500**
Total Costs		**$ 6,767,270**

In the example, the development cost of $114,700 per unit or $167 PSF is below the $137,700 per unit or $203 PSF for the subject Project. However, a variance of this size is not of concern when dealing with averages and preliminary budgets.

Operating Budget

The Operating Budget (see Exhibit C) shows a lease-up period of 14 months. This results in an average of 4 net leased units per month and is perfectly in line with industry standard lease-up scenarios for new projects. The fact that the first phase of construction, 50 units / 60 beds, is smaller than most ALFs bodes well for the Project due to the geographic and population limitations of the Key West primary market area which is likely limited to the lower Keys. It is also appropriate for budgeting purposes that occupancy is shown to stabilize at 56 residents, or 92.8%. This is a level that most underwriters, lenders and appraisers find acceptable, even though it may be possible for actual occupancy to be higher. It should be noted that ALF occupancy levels often fluctuate and are sometimes subject to seasonal variances.

The budget calls for the following unit and rate mix:

- 25 market rate units at $3,800/unit
- 15 moderate income units at $1,700/resident
- 10 low income units at $1,100/resident

The market rate of $3,800 per month is well within the range of typical ALF rents. Typical rates in South Florida range from $2,500 to $4,500 per month and are often supplemented with various level of care and/or a la carte charges depending on the community. Moderate and low income standards are defined by each community and are assumed to be appropriate. An important note is that the low and moderate income rates shown above are for the unit rental component only and do not include care or other charges that would likely be covered by some third party payor.

As for fee structures, ALFs usually operate under one of two plans: a) fully loaded structure in which the residents pay a higher set amount each month, whether or not they receive all of the services and b) a la carte plan in which residents pay a lower base rate (usually comprised of rent or rent and meals) then pay for every additional service. It will usually net out to close to the same total and is just a different philosophy as to how to best serve the residents. "Level of Care" charges as they are often termed usually come in the form of 3 to 4 levels above the base rate and may range from as little as a few hundred dollars to just under a thousand dollars per level. These are usually only charged for Assisted Living, whereas Memory Care residents usually pay a fixed charge. Of course, additional items such as diapers, extra housekeeping, extra laundry, etc. can increase the monthly cost.

It should be noted that low and moderate income units can sometimes be rented as double occupancy. In practical terms, there are usually some residents that are willing to share and others that are not. As such, these potentially double occupancy units are rarely occupied to their full potential. The operating budget recognizes this fact of life as it only shows only 6 such double occupancy units at stabilization. This is a fair and realistic estimate.

The general & professional liability insurance estimate of $36,000 ($720 per unit) is about average. The property & auto insurance estimate of $106,200 ($2,124 per unit), although high compared to most other senior housing properties is within range given the Project's somewhat remote island location. Several years ago, liability insurance costs skyrocketed due to law suits encouraged by a few law firms. During the peak of the crisis, it was not unusual for liability insurance to cost $1,500 to $2,000 per bed in some areas of Florida, if coverage was even available. Fortunately, the State instituted tort reform several years ago and the liability insurance crisis has since abated.

Of particular note is the Evacuation Reserve line item of $60,000 per year. This item is an insurance rider that covers costs for evacuation, transportation, shelter and care for residents in the event of a named storm. It is an unusual coverage that most ALFs do not incur, but that is required for this Project.

Property taxes were estimated at $60,000 per year, which were obtained by FPC via the Property Tax Appraiser's office. As such, this estimate should be considered reliable. Property taxes can vary from one area to another, but this would appear to be in line with an ALF of 50 units.

The operating budget shows a management fee of 5% of total revenue. This rate is very typical and could be considered an industry standard. Some may consider 5% a little low for managing a property with only 50 units, but will be brought in line once the second phase of the Project is completed.

Consultant added a line item in the operating budget for capital reserves, so that they could be used in the NOI calculation. Because the Project will be new and will likely require a relatively low level of replacement and repair the first several years, Consultant chose to use $300 per unit per year for capital reserves. As time goes by, this number should be gradually increased and may be higher depending on the permanent lender's requirements, which are sometimes higher than what may actually be necessary.

Newer, well operated and stabilized ALFs typically see profit margins running from 25% to 35%, with some seeing margins as high as 40% or more. The project shows a stabilized profit margin of approximately 34%, which is within range of what would be considered normal. While Consultant cannot point to any individual items in the operating budget that are out of line, the profit margin may be aggressive given the moderate/low income component of the Project.

Construction Financing

Before the downturn in 2007, there were a number of potential senior housing construction lenders, including HUD, banks, insurance companies, pension funds and even unions. Today, HUD is the only reliable lender, but even HUD can be extremely slow and is often considered a lender of last resort due to the paperwork and other requirements. Some of the larger national banks and insurance companies are starting to come back to the construction market, but few of them will consider Florida due to the massive overbuilding that took place in the residential arena. The most probable source of construction financing is a stable local or regional bank. Sometimes local or regional banks are willing to participate with other local and regional banks to fund a project. This practice is quite common among smaller banks that are perhaps more willing to lend than the larger banks, but that may have lower loan limits.

Consultant is aware of a few owner/operators that would normally be considered very easy to finance, with solid balance sheets and strong operational track records. However, they started projects in Florida during 2009 and were unable to obtain construction financing. Luckily for these groups, they had strong cash positions and were able to fund their construction out of cash on hand. Now that the projects are completed and closer to stabilization, they are currently seeking bridge financing to take out the construction loan.

Until recently, the construction lenders that were actually lending were requiring full recourse on construction loans. Now they are beginning to drop to 50% recourse and in some cases 25% recourse. This is a positive sign, but lenders are still very cautious when considering construction projects in Florida. It is Consultant's opinion that construction financing represents the single largest risk factor relative to the Project's proposed timeline.

Construction loans typically have LTCs that range anywhere from 60% to 75%, depending on the level of recourse provided by the developer and general market conditions. The higher the recourse, the higher the lender may go with the LTC.

Permanent Financing

There are several potential permanent lenders for the Project including: FNMA lenders, HUD lenders, banks, insurance companies and pension funds, with the most likely being a FNMA lender or a traditional bank.

Historically, FNMA has been a very big player in the senior housing market. Although not a direct lender, FNMA has provided billions of dollars in the form of securities that increase liquidity and thus increase the availability of loan dollars. There are many changes to FNMA that have been proposed in recent months. Although it is difficult to predict what changes may take place relative to FNMA, it should be recognized that FNMA plays a critical role in the senior housing industry. As such, this section of the Final Report will discuss FNMA's current underwriting criteria, with the understanding that banks, insurance companies and pension funds all tend to be slightly less stringent, especially with respect to the requirements in the following paragraph. The key to completing a FNMA permanent financing is a strong owner/sponsor and management company. FNMA has a five-year / five-property rule, meaning the borrower needs to have five properties in their portfolio and have been in the business for at least five years. It is sometimes possible to obtain a waiver if the owner has less than five years in the industry as long as the manager has a long history of successful operations.

FNMA loan underwriting currently requires: 75.0% LTV, 1.40x debt service coverage, 90% occupancy for 12 consecutive months, with a term of 10 years utilizing a 25-year amortization. The interest rate is fixed based on the ten year treasury plus an investor spread and servicing and guarantee fees. The underwritten NOI is based on the property financials, adjusted for known expense increases, if any, such as future insurance costs, property taxes or other extraordinary costs. Revenues are based on actual current rent rolls and other income is generally based on the prior twelve months. The up-front fees are the lenders origination fee of 1%, and the usual third party costs. FNMA loans are non-recourse, except for the standard fraud and environmental carve outs.

As noted above, there is a wide variety of potential lenders for the Project once it is stabilized in a few years and should not present a major issue for FPC. The real question lies in exactly where interest rates and LTVs will be at that time.

A stabilized NOI in year three of $727,000 and a potential capitalization rate of 8.5% results in a value of $8,550,000. With a 75% LTV, the loan amount would be $6,412,500. If we further assume a 6.5% interest rate and a 25-year amortization, the mortgage payment would be $43,295 per month, or $519,543 per year. This results in a debt service coverage ratio of 1.4, which meets the FNMA standard and is more than sufficient for most other lenders. It should be noted that owners sometimes prefer a wide range of LTVs depending on their entity structure (i.e. private

REIT vs institutional investor or private capital), risk tolerance, the financial markets and interest rate levels vs cost of investment capital. As such, LTVs can range from perhaps 50% to 90%, so there is no standard, although private owners typically prefer LTVs more in the 65% to 80% range.

While it does not appear likely, based on the numbers provided by FPC, in the event the permanent financing, or a subsequent refinancing, of the Project results in excess cash proceeds being available to FPC, Consultant suggests that the City and FPC share those proceeds on a pro rata basis. In other words, if a capital event such as a permanent loan being placed on the Project results in excess loan proceeds (cash out), the City should receive an amount equal to the result of the value of the land for ground rent purposes divided by the sum of the value of the land for ground rent purposes and the equity contributed/invested by FPC, multiplied by the excess loan proceeds. For example, if the value of the land for ground rent purposes is $5 and the equity contributed by the developer is $25, the total equity is $30 and the City would receive 16.7% of any excess loan proceeds.

Equity

No discussion of financing would be complete without a section on the equity required, typically due to the construction lender's LTC percentage. For purposes of any construction loan, a lender will require the developer to provide equity in the form of cash and/or land that is free and clear of any debt. This equity makes up the difference between the total development cost and the amount of the construction loan.

In this case, equity will come both in the form of the land contributed by the City and Keys Energy Services as well as cash from FPC. That said, construction lenders may evaluate the land contribution differently due to the fact that it is under a long-term ground lease and controlled by a municipal government and utility company as opposed to being owned on a fee simple basis by the developer where the land could be used as collateral in the event of default. In other words, for underwriting purposes, a construction lender may disregard the value of the land relative to the total project costs and require all cash to make up the required equity.

Owners/developers and equity investors typically seek returns of 20% or more for development projects and anywhere from the low to mid teens for stabilized projects. In the event of a long-term investment, the returns can be bifurcated into periods of construction/lease-up and stabilization. Developers and operators often need an equity investor to put money into development projects. The developer and investor come to some form of agreement on how to split the cashflow once the agreed upon return to the equity investor is satisfied. This split can vary quite dramatically from one investor to the next and could range from the developer receiving all cashflow over and above the investor's return to there being several return levels for the investor with an increasing percentage of the available cashflow going to the developer. The exact structure often depends on the equity investor's investment horizon and type of project (stabilized, turnaround, new construction, etc).

It can be somewhat difficult for the uninitiated to understand the concept of rate of return, especially when there may be financings involved that allow for a "return of capital", as opposed to just a "return on capital". A return of capital essentially lowers the equity basis and increases the future rate of return, given a fixed level of income. For example, if the total equity contributed to a project is $30 and the cashflow after debt service is $4, there would be a 13.3% return on equity. However, if there were a financing that provided cash out of $5, the new equity basis would only be $25 and the $4 cashflow would result in a return on equity of 16.0%.

Exhibit A – Construction Budget (2/28/11)

Site/utility work	$50,000
Drainage/retention	650,000
Environmental	350,000
Demolition	110,000
Foundation	135,000
Masonry	80,000
Framing and carpentry	595,000
Mechanical	250,000
Electrical	300,000
Plumbing	450,000
Low voltage systems (security, fire, nurse call)	120,000
Roofing/guttering	85,000
Windows and Exterior Doors	200,000
Exterior trim	120,000
Interior trim (including insulation and drywall)	700,000
F F & E	525,000
Landscaping/paving/irrigation	275,000
Predevelopment/permitting, etc.	495,000
Marketing	75,000
Administration	50,000
Contractor	150,000
Architect and Engineer	195,000
Legal and Accounting	25,000
Taxes/Insurance	120,000
Interest/bank costs	400,000
Contingency/Operating Loss Reserves	730,000
Total	$ 7,235,000

Exhibit B – Pre-Development/Permitting Detail

CITY	
Renovation permit	$ 67,200
New Construction permit	57,600
Impact Fees (includes library, road, solid waste)	50,900
Sewer connection	50,500
Subcontractor permits (estimate)	8,000
SUB TOTAL – CITY	**234,200**
AQUEDUCT AUTHORITY	
Fixture fees ($900/unit plus common areas / $8,000)	53,000
2” domestic water tap	2,575
Hydrant	9,000
2” meter	790
Backflow by-pass meter	325
Meter deposits ($90 fire, $500 domestic)	590
SUB TOTAL - AA	**66,260**
KEYS ENERGY SERVICES	
Relocate down guys	21,100
Remove overhead lines and rebuild	44,200
Connection fees	1,480
CIAC (estimate)	3,500
Deposits (estimate)	40,000
SUB TOTAL - KES	**110,280**
TOTAL	**410,740**
Contingency	84,260
GRAND TOTAL	**495,000**

Exhibit C – Operating Budget (3/17/11)

Summary Pro Forma Income Statement (3/17/11)

Truman Waterfront	**Month 1**	**Month 2**	**Month 3**	**Month 4**	**Month 5**	**Month 6**	**Month 7**	**Month 8**	**Month 9**	**Month 10**	**Month 11**	**Month 12**	**Total Year 1**
Number of Residents	**1**	**10**	**18**	**25**	**32**	**39**	**42**	**45**	**48**	**51**	**53**	**55**	**35**
Average Occupancy	**8.9%**	**22.5%**	**35.0%**	**46.7%**	**58.3%**	**66.4%**	**71.4%**	**76.4%**	**81.4%**	**85.8%**	**89.2%**	**91.4%**	**61.3%**
Revenue:													
Assisted Living	17,267	45,250	68,950	90,750	112,550	125,217	129,117	133,017	136,917	140,250	142,450	143,917	1,285,650
Leveling Charges	238	678	1,036	1,366	1,696	1,907	2,017	2,127	2,237	2,347	2,457	2,530	20,634
Special Care Living													-
Community Fees	13,500	15,000	15,000	15,000	15,000	7,500	7,500	7,500	7,500	6,000	6,000	3,000	118,500
Other	1,000	2,500	4,000	5,500	7,000	8,500	9,000	10,500	12,000	13,500	15,000	17,000	105,500
Total Revenue	**32,005**	**63,428**	**88,986**	**112,616**	**136,246**	**143,123**	**147,633**	**153,143**	**158,653**	**162,097**	**165,907**	**166,447**	**1,530,284**
Operating Expenses:													
Labor:													
Resident Care	18,333	20,388	25,997	28,379	33,038	33,658	36,399	37,069	37,576	39,417	39,897	42,005	392,156
Dietary	10,732	9,622	10,650	10,331	10,807	10,366	10,845	10,742	10,541	10,779	10,578	10,938	126,932
Activities	3,034	2,740	3,034	2,936	3,034	2,936	3,034	3,034	2,936	3,034	2,936	3,034	35,719
Housekeeping & Laundry	3,593	3,212	3,554	3,451	3,628	3,468	3,645	3,597	3,549	3,614	3,566	3,689	42,566
Maintenance	3,034	2,740	3,034	2,936	3,034	2,936	3,034	3,034	2,936	3,034	2,936	3,034	35,719
Marketing	-	-	-	-	-	-	-	-	-	-	-	-	-
Transportation	1,026	918	1,016	986	1,036	991	1,041	1,028	1,014	1,033	1,019	1,054	12,162
Administration	9,047	8,205	9,047	8,766	9,047	8,766	9,047	9,047	8,766	9,047	8,766	9,047	106,595
Total Labor	48,799	47,824	56,331	57,784	63,623	63,120	67,044	67,551	67,319	69,957	69,697	72,799	751,849
Non-Labor:													
Resident Care	577	618	655	690	725	749	764	779	794	808	818	824	8,800
Dietary	2,218	2,471	3,822	4,858	6,071	6,715	7,373	7,833	8,052	8,703	8,845	9,314	76,275
Activities	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Housekeeping & Laundry	1,250	900	1,100	1,200	1,250	1,300	1,300	1,300	1,400	1,500	1,500	1,500	15,500
Maintenance	3,075	3,075	3,075	3,075	3,075	3,075	3,075	3,075	3,075	3,075	3,096	3,075	36,921
Marketing	1,686	1,686	1,686	1,686	1,686	1,686	1,686	1,686	1,686	1,686	1,686	1,686	20,232
Transportation	345	345	345	345	345	345	345	345	345	345	345	345	4,140
Administration	3,484	3,584	3,684	3,784	3,884	3,934	4,084	4,084	4,084	4,084	4,084	4,084	46,858
Total Non-Labor	13,135	13,179	14,867	16,138	17,536	18,304	19,127	19,602	19,936	20,700	20,873	21,328	214,726
Total Controllable	**61,934**	**61,002**	**71,199**	**73,922**	**81,159**	**81,424**	**86,171**	**87,153**	**87,255**	**90,658**	**90,571**	**94,128**	**966,575**
Management fees	1,600	3,171	4,449	5,631	6,812	7,156	7,382	7,657	7,933	8,105	8,295	8,322	76,514
Real estate taxes	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Utililities	5,250	5,250	5,750	5,750	6,250	6,250	6,750	6,750	6,750	7,250	7,250	7,250	76,500
Workers Compensation	1,482	1,482	1,482	1,482	1,482	1,482	1,482	1,482	1,482	1,482	1,482	1,482	17,780
General and Prof Liability	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Property & Auto Insurance	8,850	8,850	8,850	8,850	8,850	8,850	8,850	8,850	8,850	8,850	8,850	8,850	106,200
Evacuation Reserve	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Capital Reserves ($300/unit)	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	15,000
Total Operating Expenses	**93,366**	**94,005**	**105,980**	**109,885**	**118,803**	**119,412**	**124,885**	**126,142**	**126,519**	**130,594**	**130,697**	**134,282**	**1,414,569**
Net Operating Income (Loss)	**(61,361)**	**(30,577)**	**(16,994)**	**2,731**	**17,443**	**23,711**	**22,749**	**27,002**	**32,134**	**31,503**	**35,209**	**32,165**	**115,715**
Net Operating Margin	**-191.7%**	**-48.2%**	**-19.1%**	**2.4%**	**12.8%**	**16.6%**	**15.4%**	**17.6%**	**20.3%**	**19.4%**	**21.2%**	**19.3%**	**7.6%**

Summary Pro Forma Income Statement (3/17/11)

Truman Waterfront	Month 13	Month 14	Month 15	Month 16	Month 17	Month 18	Month 19	Month 20	Month 21	Month 22	Month 23	Month 24	Total Year 2
Number of Residents	**55**	**56**	**56**	**56**	**56**	**56**	**56**	**56**	**56**	**56**	**56**	**56**	**56**
Average Occupancy	**91.7%**	**92.8%**	**92.8%**	**92.8%**	**92.8%**	**92.8%**	**92.8%**	**92.8%**	**92.8%**	**92.8%**	**92.8%**	**92.8%**	**92.7%**
Revenue:													
Assisted Living	144,100	144,833	144,833	144,833	144,833	144,833	144,833	144,833	144,833	144,833	144,833	144,833	1,737,267
Leveling Charges	3,809	3,864	3,864	3,864	3,864	3,864	3,864	3,864	3,864	3,864	3,864	3,864	46,310
Special Care Living													-
Community Fees	7,500	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	73,500
Other	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	204,000
Total Revenue	**172,409**	**171,697**	**171,697**	**171,697**	**171,697**	**171,697**	**171,697**	**171,697**	**171,697**	**171,697**	**171,697**	**171,697**	**2,061,077**
Operating Expenses:													
Labor:													
Resident Care	29,837	26,959	29,822	28,948	30,359	29,070	30,487	30,137	29,667	30,263	29,791	30,807	356,146
Dietary	9,916	8,889	9,839	9,544	9,986	9,577	10,021	9,925	9,741	9,959	9,774	10,108	117,279
Activities	2,447	2,210	2,447	2,368	2,447	2,368	2,447	2,447	2,368	2,447	2,368	2,447	28,813
Housekeeping & Laundry	3,593	3,212	3,554	3,451	3,628	3,468	3,645	3,597	3,549	3,614	3,566	3,689	42,566
Maintenance	3,034	2,740	3,034	2,936	3,034	2,936	3,034	3,034	2,936	3,034	2,936	3,034	35,719
Marketing	-	-	-	-	-	-	-	-	-	-	-	-	-
Transportation	1,026	918	1,016	986	1,036	991	1,041	1,028	1,014	1,033	1,019	1,054	12,162
Administration	8,084	7,335	8,084	7,834	8,084	7,834	8,084	8,084	7,834	8,084	7,834	8,084	95,260
Total Labor	57,937	52,263	57,796	56,067	58,574	56,244	58,759	58,252	57,110	58,434	57,289	59,222	687,946
Non-Labor:													
Resident Care	825	828	828	828	828	828	828	828	828	828	828	828	9,937
Dietary	9,346	8,599	9,451	9,167	9,451	9,167	9,451	9,451	9,167	9,451	9,167	9,451	111,318
Activities	600	600	600	600	600	600	600	600	600	600	600	600	7,200
Housekeeping & Laundry	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	15,840
Maintenance	2,390	2,390	2,390	2,390	2,390	2,390	2,390	2,390	2,390	2,390	2,411	2,390	28,701
Marketing	1,686	1,686	1,686	1,686	1,686	1,686	1,686	1,686	1,686	1,686	1,686	1,686	20,232
Transportation	345	345	345	345	345	345	345	345	345	345	345	345	4,140
Administration	3,319	3,319	3,319	3,319	3,319	3,319	3,319	3,319	3,319	3,319	3,319	3,319	39,828
Total Non-Labor	19,831	19,088	19,939	19,655	19,939	19,655	19,939	19,939	19,655	19,939	19,676	19,939	237,196
Total Controllable	**77,767**	**71,351**	**77,735**	**75,723**	**78,513**	**75,899**	**78,698**	**78,191**	**76,765**	**78,373**	**76,965**	**79,161**	**925,142**
Management fees	8,620	8,585	8,585	8,585	8,585	8,585	8,585	8,585	8,585	8,585	8,585	8,585	103,054
Real estate taxes	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Utilities	7,250	7,250	7,250	7,250	7,250	7,250	7,250	7,250	7,250	7,250	7,250	7,250	87,000
Workers Compensation	1,360	1,360	1,360	1,360	1,360	1,360	1,360	1,360	1,360	1,360	1,360	1,360	16,316
General and Prof Liability	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Property & Auto Insurance	8,850	8,850	8,850	8,850	8,850	8,850	8,850	8,850	8,850	8,850	8,850	8,850	106,200
Evacuation Reserve	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Capital Reserves ($300/unit)	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	15,000
Total Operating Expenses	**118,097**	**111,645**	**118,030**	**116,017**	**118,807**	**116,194**	**118,993**	**118,486**	**117,060**	**118,668**	**117,260**	**119,456**	**1,408,712**
Net Operating Income (Loss)	**54,312**	**60,052**	**53,667**	**55,680**	**52,890**	**55,503**	**52,704**	**53,212**	**54,638**	**53,029**	**54,437**	**52,241**	**652,365**
Net Operating Margin	**31.5%**	**35.0%**	**31.3%**	**32.4%**	**30.8%**	**32.3%**	**30.7%**	**31.0%**	**31.8%**	**30.9%**	**31.7%**	**30.4%**	**31.7%**

Summary Pro Forma Income Statement (3/17/11)

Truman Waterfront	**Month 25**	**Month 26**	**Month 27**	**Month 28**	**Month 29**	**Month 30**	**Month 31**	**Month 32**	**Month 33**	**Month 34**	**Month 35**	**Month 36**	**Total Year 3**
Number of Residents	**56**	**56**	**56**	**56**	**56**	**56**	**56**	**56**	**56**	**56**	**56**	**56**	**56**
Average Occupancy	**92.8%**	**92.8%**	**92.8%**	**92.8%**	**92.8%**	**92.8%**	**92.8%**	**92.8%**	**92.8%**	**92.8%**	**92.8%**	**92.8%**	**92.8%**
Revenue:													
Assisted Living	134,167	134,167	134,167	134,167	134,167	134,167	134,167	134,167	134,167	134,167	134,167	134,167	1,610,000
Leveling Charges	4,215	4,215	4,215	4,215	4,215	4,215	4,215	4,215	4,215	4,215	4,215	4,215	50,580
Special Care Living	15,017	15,017	15,017	15,017	15,017	15,017	15,017	15,017	15,017	15,017	15,017	15,017	180,200
Community Fees	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	72,000
Other	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	204,000
Total Revenue	**176,398**	**176,398**	**176,398**	**176,398**	**176,398**	**176,398**	**176,398**	**176,398**	**176,398**	**176,398**	**176,398**	**176,398**	**2,116,780**
Operating Expenses:													
Labor:													
Resident Care	30,097	26,953	29,816	28,942	30,353	29,063	30,481	30,131	29,661	30,257	29,785	30,800	356,339
Dietary	9,916	8,889	9,839	9,544	9,986	9,577	10,021	9,925	9,741	9,959	9,774	10,108	117,279
Activities	2,447	2,210	2,447	2,368	2,447	2,368	2,447	2,447	2,368	2,447	2,368	2,447	28,813
Housekeeping & Laundry	3,593	3,212	3,554	3,451	3,628	3,468	3,645	3,597	3,549	3,614	3,566	3,689	42,566
Maintenance	3,034	2,740	3,034	2,936	3,034	2,936	3,034	3,034	2,936	3,034	2,936	3,034	35,719
Marketing	-	-	-	-	-	-	-	-	-	-	-	-	-
Transportation	1,026	918	1,016	986	1,036	991	1,041	1,028	1,014	1,033	1,019	1,054	12,162
Administration	8,084	7,335	8,084	7,834	8,084	7,834	8,084	8,084	7,834	8,084	7,834	8,084	95,260
Total Labor	58,197	52,258	57,790	56,061	58,567	56,238	58,753	58,245	57,104	58,428	57,283	59,216	688,138
Non-Labor:													
Resident Care	828	828	828	828	828	828	828	828	828	828	828	828	9,940
Dietary	10,110	9,233	10,110	9,818	10,110	9,818	10,110	10,110	9,818	10,110	9,818	10,110	119,271
Activities	700	700	700	700	700	700	700	700	700	700	700	700	8,400
Housekeeping & Laundry	1,520	1,520	1,520	1,520	1,520	1,520	1,520	1,520	1,520	1,520	1,520	1,520	18,240
Maintenance	3,925	3,925	3,925	3,925	3,925	3,925	3,925	3,925	3,925	3,925	3,946	3,925	47,121
Marketing	1,686	1,686	1,686	1,686	1,686	1,686	1,686	1,686	1,686	1,686	1,686	1,686	20,232
Transportation	345	345	345	345	345	345	345	345	345	345	345	345	4,140
Administration	4,069	4,069	4,069	4,069	4,069	4,069	4,069	4,069	4,069	4,069	4,069	4,069	48,828
Total Non-Labor	23,183	22,306	23,183	22,891	23,183	22,891	23,183	23,183	22,891	23,183	22,912	23,183	276,172
Total Controllable	**81,380**	**74,564**	**80,973**	**78,952**	**81,750**	**79,129**	**81,936**	**81,429**	**79,994**	**81,611**	**80,195**	**82,399**	**964,311**
Management fees	8,820	8,820	8,820	8,820	8,820	8,820	8,820	8,820	8,820	8,820	8,820	8,820	105,839
Real estate taxes	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Utilities	7,550	7,550	7,550	7,550	7,550	7,550	7,550	7,550	7,550	7,550	7,550	7,550	90,600
Workers Compensation	1,360	1,360	1,360	1,360	1,360	1,360	1,360	1,360	1,360	1,360	1,360	1,360	16,321
General and Prof Liability	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Property & Auto Insurance	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	42,000
Evacuation Reserve	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Capital Reserves ($300/unit)	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	15,000
Total Operating Expenses	**116,860**	**110,044**	**116,453**	**114,432**	**117,230**	**114,609**	**117,416**	**116,909**	**115,474**	**117,091**	**115,675**	**117,879**	**1,390,070**
Net Operating Income (Loss)	**59,538**	**66,354**	**59,946**	**61,966**	**59,168**	**61,790**	**58,983**	**59,490**	**60,924**	**59,308**	**60,724**	**58,520**	**726,710**
Net Operating Margin	**33.8%**	**37.6%**	**34.0%**	**35.1%**	**33.5%**	**35.0%**	**33.4%**	**33.7%**	**34.5%**	**33.6%**	**34.4%**	**33.2%**	**34.3%**