

DRAFT

Assisted and Independent Care Facility

**Lease Agreement
Family Pride Senior Care
of Key West, LLC**



September 19, 2011

Senior Care at Truman Waterfront

- The History
- The Project
- The Financial Considerations
- The Lease
- Questions and Answers

The History

- **The Referendum**

“To encourage housing for senior citizens, shall the Naval Properties Redevelopment Authority of the City of Key West be authorized to lease real property of approximately four acres at the Truman Waterfront, to a qualified operator or management company that has yet been selected., for a period of 99 years for exclusive use as a mixed-income senior citizens assisted living and independent living facility”

October 2007

65.31% Voted Yes

The History (Cont.)

- **Lease executed on October 7, 2008 with Florida Keys Assisted Care Coalition, Inc. (a Florida non-profit)**
 - **Expired December 31, 2010**
 - **Extended by Resolution 09-283 until December 31, 2011**
 - **99 Year Exclusive Use**
 - **Mixed Income Senior Citizens Assisted and Independent Living Facility**
 - **Rent - \$1.00 Per Lease year**

The History (Cont.)

- **Florida Keys Assisted Care Coalition, Inc. (a Florida non-profit), through a competitive process, selected Family Pride Corporation(a for profit entity) as the desired developer with Senior Solutions management Group as the operator of the project.**

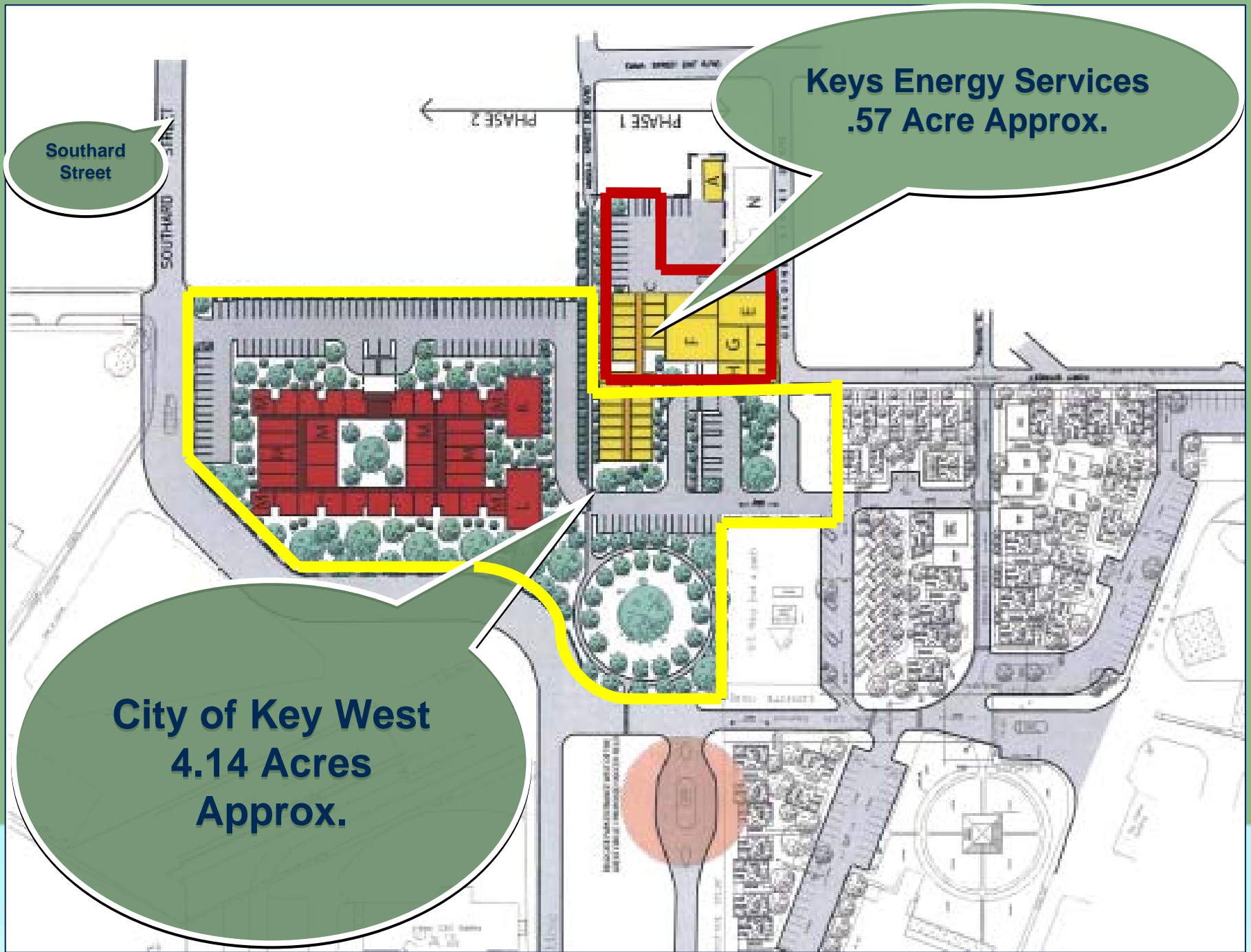
The Project (Original Plan)

- **Phase I All Assisted**
 - **Total - 50 Units /60 Beds**
 - 25 Market
 - 15 Moderate
 - 10 Low
- **Phase II All Independent**
 - **Total - 90 Units**
 - 60 Market - 50 One Bedroom / 10 Two Bedroom
 - 20 Moderate - All One Bedroom
 - 10 Low - All One Bedroom
- **Affordability In Accordance with KWAH Guidelines**

Southard Street

**Keys Energy Services
.57 Acre Approx.**

**City of Key West
4.14 Acres
Approx.**



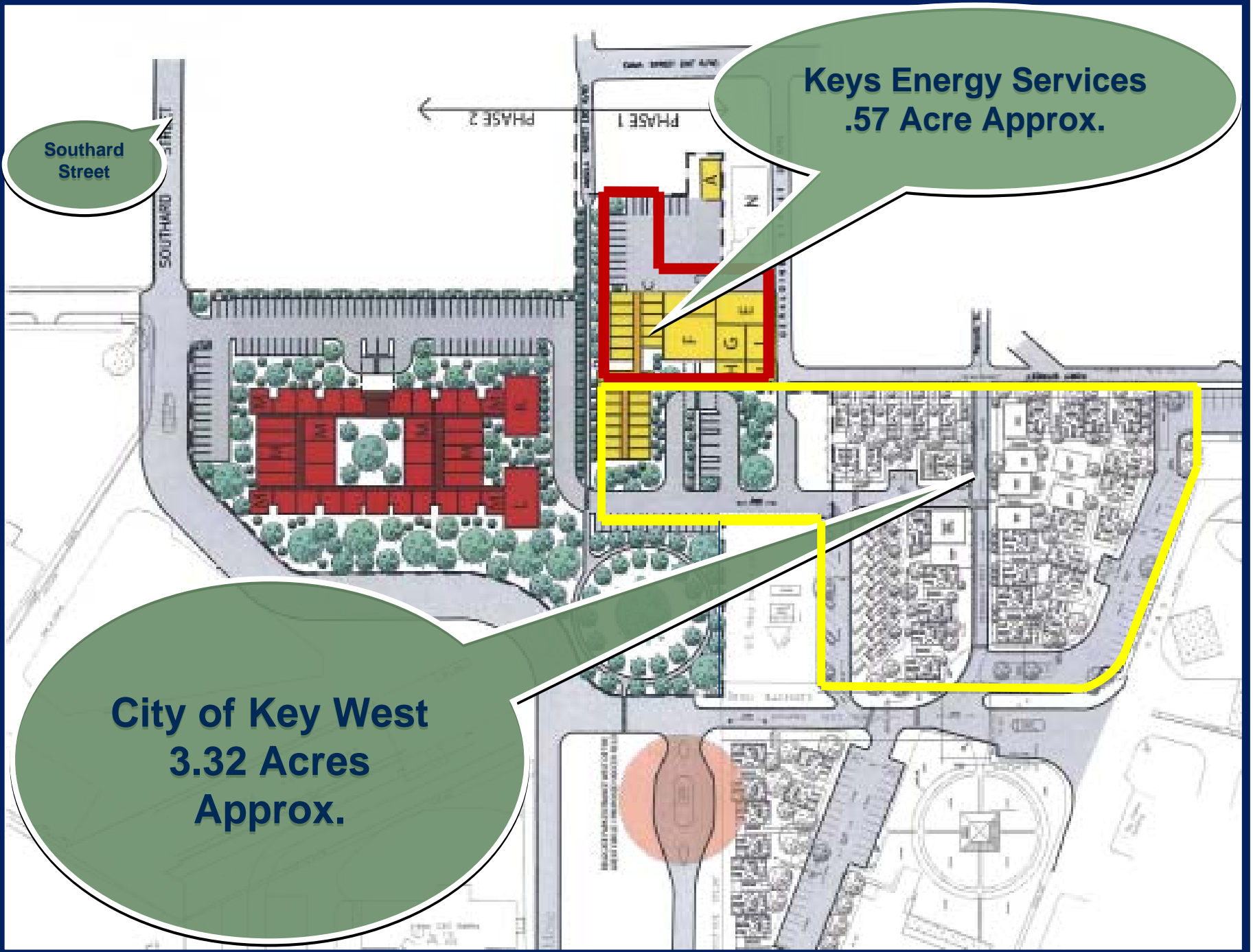
The Project (Revised Plan)

- **Phase I All Assisted**
 - **Total - 70 Units**
 - 42 Market
 - 10 Moderate
 - 18 Low
- **Phase II**
 - **Assisted and/or Independent – To Be Determined**
 - **Number and Mix of Units – To Be Determined**
 - **Number of Restricted (Low & Moderate) Units must be in comparable percentages to total units as Phase I**
- **Affordability In Accordance with KWAH Guidelines**

Southard Street

**Keys Energy Services
.57 Acre Approx.**

**City of Key West
3.32 Acres
Approx.**

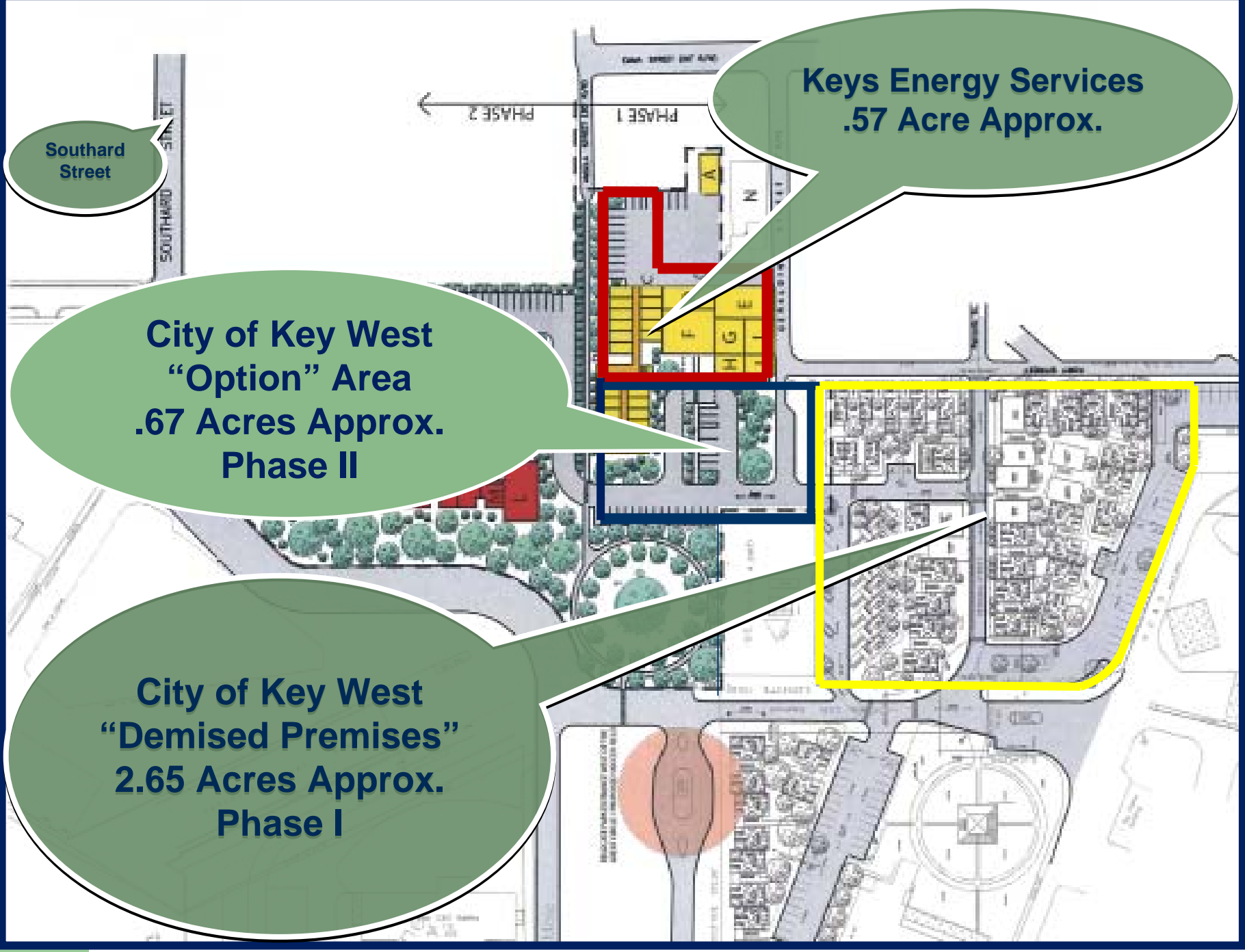


Southard Street

**Keys Energy Services
.57 Acre Approx.**

**City of Key West
"Option" Area
.67 Acres Approx.
Phase II**

**City of Key West
"Demised Premises"
2.65 Acres Approx.
Phase I**



BOUNDARY LINES



The Financials

- **Senior Capital Advisors, Inc.**

Mr. Bruce Gibson

- **Operational Projections**
- **Construction Budgets**
- **Financing**
- **Ground Rent**

The Financials

- **Operational Projections Phase I (Revised) - Assisted**
 - **Proposed Rents and other revenue sources are within senior care industry standards.**
 - “Average Occupancy” @ 91.25 Percent during Year 3
 - **Budgeted Expenses appear reasonable, customary and within senior care industry standards.**
 - **Net Operating Income (NOI) for a well managed and stabilized Assisted living facility is 25% to 35% - up to 40 %**
 - The Developer shows a 28% profit margin (Year 3) – Within range
 - Consultant states “profit margin may be slightly aggressive given the low/moderate income units”.

The Financials (Cont.)

- **Construction Budgets**

- Phase I (Revised) \$ 10.2M
- Phase II (Option) \$ TBD
- No Developer Fees Proposed for Phase I and Phase II.
- “Despite these seemingly large-scale plan changes, the overall development cost is still well within industry norms. The net of all of these changes results in a project average of \$145,700 per unit (including the workforce and assisted living units) whereas the original cost per unit for Phase I, which included only assisted living, was \$137,700.”
Phase I Consultant Report (Revised)
- Developer to pay all permit fees, impact fees and connect fees normally assessed by the City.
- City to provide 2.8 affordable allocations to cover the 18 moderate income and 10 low income assisted units planned for Phase I.

The Financials (Cont.)

– Construction / Permanent Financing

- Several potential permanent lenders available
 - Federal National Mortgage Association (Fannie Mae) – Historically largest player in senior housing market
- General terms of Permanent Financing
 - 75 Percent Loan To Value (LTV)
 - 20-25 Year Amortization / 6.0 - 6.5 Interest rate
- Lending market favorable for senior care financing for ALFs
- Difficult to gauge ILF market when build out is 4-5 years out

The Financials (Cont.)

– Equity Investment

“Based on FPC’s construction budget, operating budget and lease up assumptions, a monthly cashflow schedule was created for the purpose of calculating the IRR, which represents the rate of return to the investor on the equity invested in a project. In this case, the IRR is calculated as 12.11%. An annualized summary of the monthly schedule is shown below. As noted in the original Phase I Report, investors typically like desire an IRR above 20% for development projects and an IRR in the low teens for existing projects.”

Phase I Consultant Report (Revised)

The Financials (Cont.)

- **Return to City of Key West**
 - **Land Value per Unit – Key West & Vicinity**
 - **“Highest and Best Use” development project:**
 - **\$60,000 - \$100,000 per unit acquisition cost**
 - *James Wilson, Appraisal Co. of Key West*
 - **Affordable residential development project:**
 - **\$30,000 - \$40,000 per unit acquisition cost**
 - **Not a senior care project – unit cost could be lower**
 - *James Wilson, Appraisal Co. of Key West*
 - **Land Value per Unit - Typical**
 - **Development project for senior care:**
 - **\$10,000 - \$20,000 per unit acquisition cost**
 - *Bruce Gibson, Senior Capital Advisors, Inc.*

The Financials (Cont.)

- So what is a fair and reasonable ground rent for assisted living units located at the Truman Waterfront property:
 - \$15,000 per unit - market units only – Assisted or Independent
 - Land Lease Capitalization Rate of 8 Percent
 - “Highest and Best Use”, or the ability of the City to secure a market rate ground lease, is not possible with a senior care facility in which the developer typical would pay \$10,000 to \$20,000 per unit.

The Financials (Cont.)

- **Base Ground Rent Phase 1 (Revised)**

- \$1.00 Per Year

- **Additional Ground Rent Phase I (Revised)**

- Rent During Lease Years 11 through 49:

Additional Ground Rent in an amount equal to one hundred percent (100%) of a stipulated \$15,000.00 land value per market rate unit with an eight percent (8%) rent multiplier, calculated at a total of \$50,400.00 per year for the 42 market rate units.

- Rent During Five (5) Successive Ten (10) year “Option Periods”:

The Financials (Cont.)

- **Additional Base ground Rent Adjustments**
 - Based on CPI – All Urban Consumers
 - Adjusts at Five Year Intervals
- **Full Financial Reporting**
- **Cap level of debt at 80 percent**

The Lease

- **Who is the Lessee/Tenant**
 - **Direct with Family Pride Senior Care of Key West, LLC?**
 - **Direct with Florida Keys Assisted Care Coalition?**
 - **Sublease/Assignment to Family Pride**
 - **Some other Legal Form?**
- **Section 3. - Term**
 - **Developer** **99 Year Lease**
 - **City** **49 Year “Base” Lease**
 5 Successive 10 Year Option Periods
- **Section 4. – Rent**
- **Section 8. – Assignment and Subleasing**

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Lease with Family Pride



Questions and Answers