

DRAFT

Assisted and Independent Care Facility

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



January 24, 2012

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.**

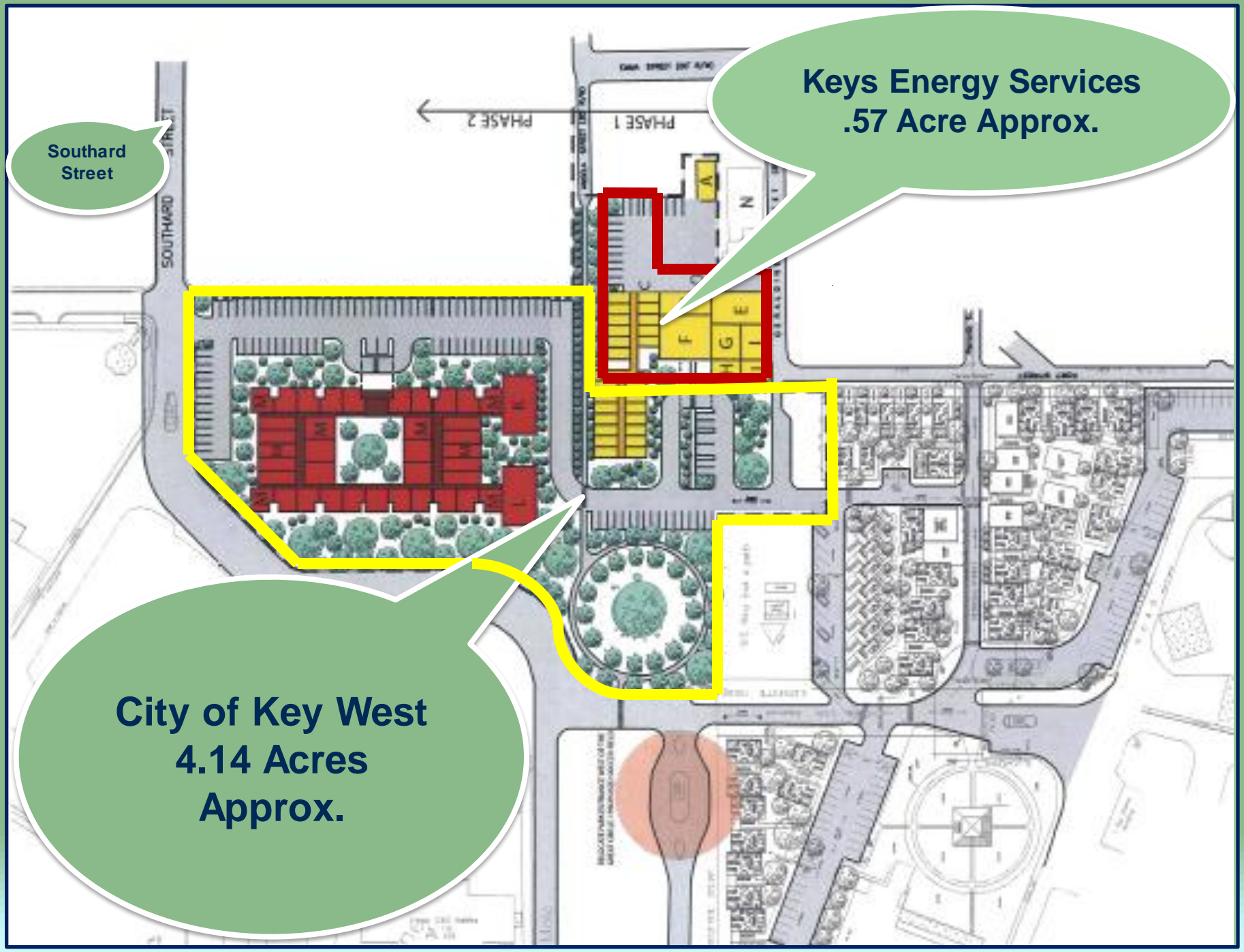
The Project (Original Plan)

- **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**

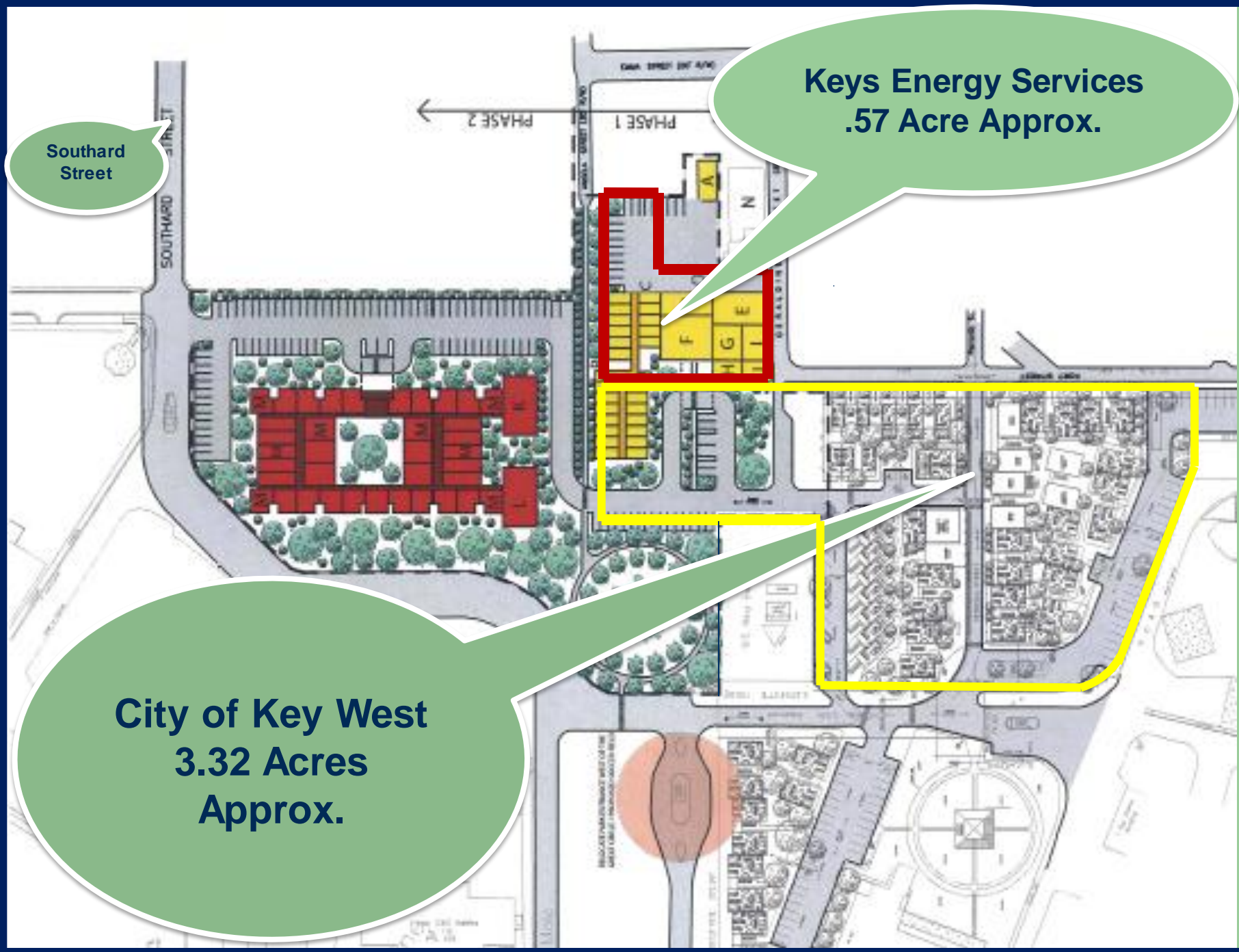
- Assisted and/or Independent – To Be Negotiated
 - Number and Mix of Units – To Be Negotiated
 - Financial Terms- To Be Negotiated

- Affordability In Accordance with KWAHA Guidelines

Southard Street

Keys Energy Services
.57 Acre Approx.

City of Key West
3.32 Acres
Approx.

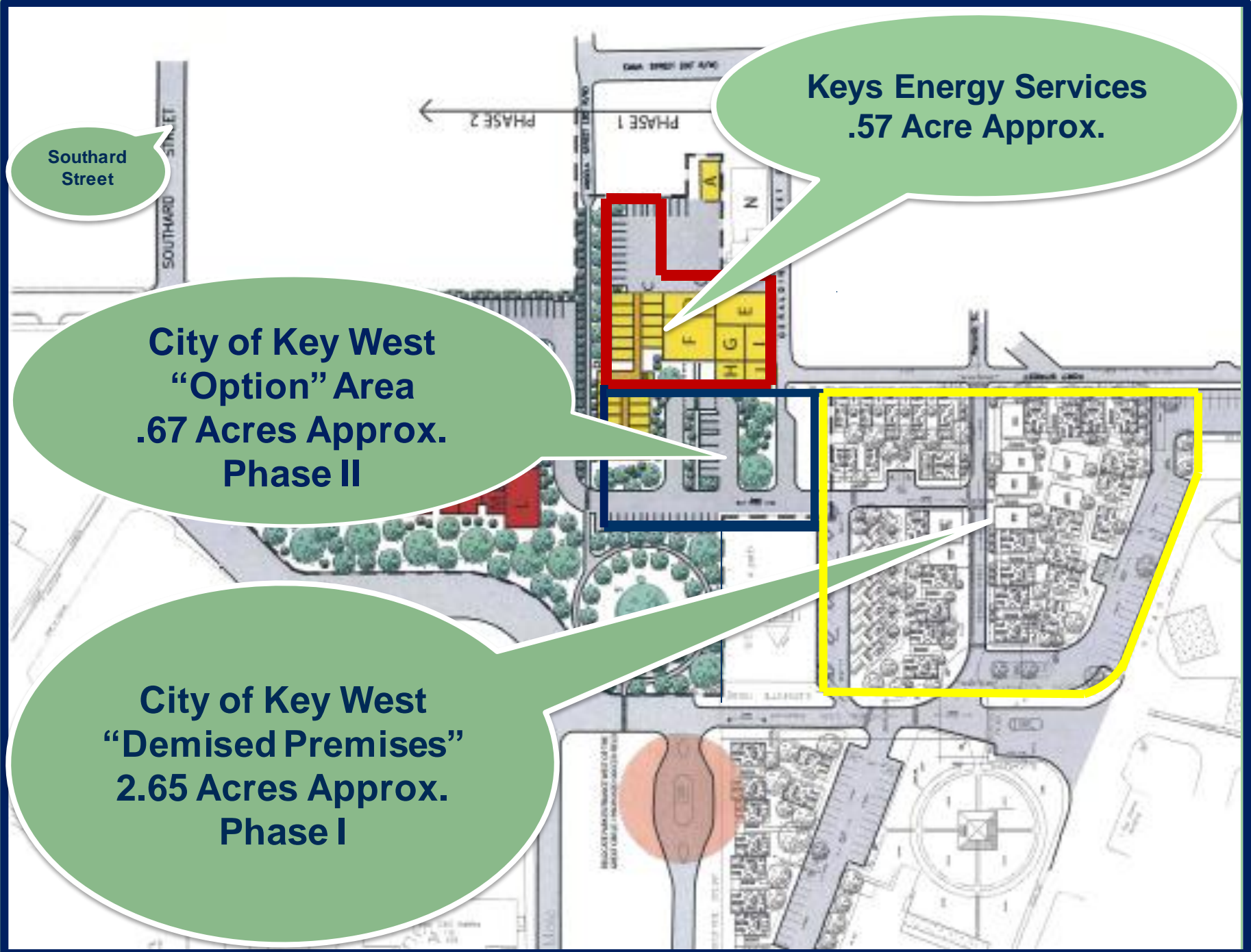


Southard Street

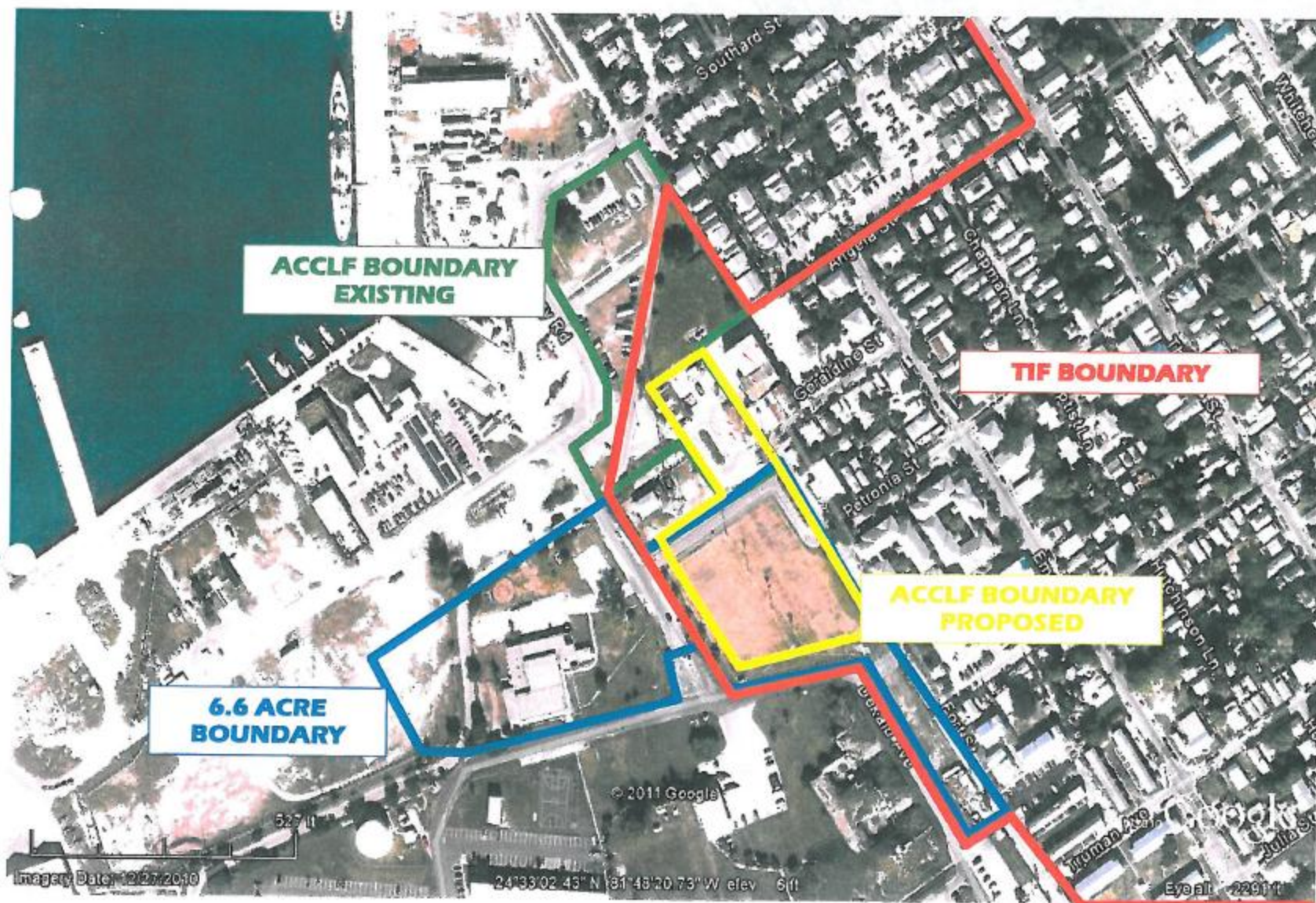
**Keys Energy Services
.57 Acre Approx.**

**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

The Financials (Cont.)

- **Construction Budgets**

- Phase I (Revised) \$ 10.2M
- Phase II (Option) \$ TBD
- No Developer Fees Authorized 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 3.0 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 – 80 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”:

Appraisal conducted for each option period to determine the fair rental value per market rate unit based on existing use of the Demised Premises. No “cap” on possible increases. Cannot be less than prior period established additional ground rent.

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**

“Open/Unresolved” Issues

- **Section 4.3 – Additional Ground Rent During Option Term(s)**
 - City Position – Appraisal conducted for each option period to determine the fair rental value per market rate unit based on existing use of the Demised Premises. No “cap” on possible increase.
 - Lessee Position – Appraisal approach is acceptable, however, must have “cap” on possible increases.
- **Section 8. – Assignment and Subleasing**
 - City Position – Assignment “which may be withheld for any reason or for no reason”.
 - Lessee Position – Assignment “not to be unreasonably withheld”.
- **Section 18.2 – Permitting and Costs**
 - City Position – Will only provide three (3) affordable allocations to cover the 28 low and moderate units.
 - Lessee Position – City to provide three (3) affordable allocations to cover the 28 low and moderate units, as well as four (4) allocations to cover the 42 market units.

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Assisted and Independent Care Facility

Lease with Family Pride



Questions and Answers