



APPRAISAL CO.

OF KEY WEST

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May 5, 2011

Mr. Mark Finigan, Assistant City Manager
City of Key West
525 Angela Street
Key West, Florida 33040

Subject: Proposed Key West Senior Housing Development
Truman Waterfront
Key West, Florida 33040
Our File No.: 173-11

Dear Mr. Finigan:

Per our telephone conversations and meetings, the City of Key West wishes to establish a market rent for the ground lease to the developer of the proposed senior housing and assisted living facility(ALF). I have provided some market data and calculations below for informational purposes and in order to assist your negotiations; however, *this is not an appraisal of the subject site* and I have not been engaged to perform an appraisal of the subject site or proposed development.

It is my understanding that the total site will contain approximately 4.1 acres of upland area, currently zoned as HMDR (Historic Medium Density Residential) and HPS-1 (Historic Public Service). It is located between the terminus of Southard and Angela Streets. The site appears to have water views; yet any future development and/or landscaping could impede harbor views.

The proposed development will be in two phases: Phase I, a 50-unit ALF, and Phase II, a 90-unit independent living facility. Per the developer, Family Pride, it appears that the worst case construction budget is about \$26.2 million for the total project or \$187,143 per unit, not including land cost. Your advisor, SHIA, LLC indicates that land cost for a typical ALF new development is \$10,000 to \$20,000 per unit, which is typically within the 7% to 13% range of total project costs. Obviously, Key West land costs well exceed this range. The subject's proposed development may not be the highest and best use of the site; yet, it does have a socioeconomic benefit and the current zoning is quite restrictive.

Recent land residential development or redevelopment sales range from a low of \$26 per square foot (SF) per site area (New Town Key West) to about \$100/SF (Old Town). Downtown commercial land is generally in the \$90 to \$100 per SF of site area at this point in the market. Since, the subject site is quite large and the zoning is restrictive, the lower to mid-range of the data is reasonable. Recent land sales on a per developable market rate unit basis or in the \$60,000 to \$100,000, while affordable residential land is likely in the \$30,000 to \$40,000 per unit range at this point of the market. It should be noted that the subject's mix of affordable and market rate units would impact land value.

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My recommendation to establish a fair ground lease is to estimate a land value, apply a land lease capitalization or overall rate (return to the City), and in effect back into the base lease rate. RealtyRates.com indicates land lease capitalization rate range for health care/senior housing from 3.41% to 12.21% with a mean at 7.58%. Your advisor will likely have land lease overall rate data. It would be prudent to have a base lease rate, plus percentage or overage rent beyond an attainable gross revenue amount. The following calculations are shown for informational purposes.

| | |
|-----------------------------|---|
| Land Value: | \$40/SF (equals \$7.1 million or \$50,714 per unit, Phase I and II) |
| <u>Times Land Cap Rate:</u> | <u>X 8%</u> |
| Equals Annual Rent/SF: | \$3.20/SF (equals about \$47,626 per month) |

The above calculations assume that the ground lease is absolute net (tenant pays all expenses) and there is no vacancy and collection loss. There is no land lease data available for ALF's in the Florida Keys. Furthermore, there is limited data for large acreage leases, most of which are industrial in nature at lower rent levels. It should be noted that \$51,000 per unit represents about 27% of total developer's construction costs.

If you have any questions regarding this letter, please feel free to contact me. Thank you for giving me the opportunity to provide this service for you.

Respectfully submitted,



James E. Wilson, MRICS, President
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