

Overview of Bancroft Redevelopment Plan: Potential for a CCRC October 25, 2010

Introduction

ParenteBeard LLC (ParenteBeard) has undertaken an analysis of the proposed Redevelopment Plan and other background documents related to the potential development of a continuing care retirement community (CCRC) on the Bancroft School site (For background information on ParenteBeard, please see Appendix A). We performed certain internal financial calculations using preliminary assumptions for a range of project parameters (unit size, mix, fees, debt structure, and interest rates) to assess the financial viability of redeveloping the site into a CCRC. We gathered some limited market data on other CCRCs in the local marketplace. In addition, we analyzed the Fiscal Impact Analysis prepared by Banisch Associates for Bancroft.

A limitation of this approach is related to the fact that the Bancroft School may sell its site to an organization that may opt for a very different mix of units, fees, and services. However, the purpose of our internal financial analysis was not to come up with a final program description for the project, but, rather, to ascertain that a project could be developed on the Bancroft School site given the variables that are known to date including current interest rates for debt, average construction costs, and project size. Please note this internal financial analysis is for internal use only and is not meant to be relied upon by other third parties since the underlying assumptions are based upon standard senior living industry data and conservative financial assumptions versus project-specific assumptions, and primary and secondary consumer research has not been performed to assure a market for the project. Additionally, the data may impact negotiations with the entity selected to redevelop the site as relates to the PILOT and the future site plan review process. While this preliminary information should provide the Borough of Haddonfield with assurance that a CCRC can be developed on the site, it will be incumbent upon the developer selected by Bancroft to develop a financial pro forma and development plan that is based upon market research and market conditions at the time of development.

Please note that we did not examine or compile the analysis in accordance with standards established by the AICPA. Additionally, even if the project occurs, there will usually be differences between the projected and actual results, because events and circumstances often do not occur as expected, and those differences may be material.

Our initial analysis indicates that based on the financial assumptions considered, a CCRC project can be structured and developed on the site with a reasonable expectation of financial success. The most significant variable is the depth and interest of the market for a CCRC project, which is a partial unknown at this stage of planning. Market research will need to be undertaken by the developer of the property to validate that there is sufficient market support for a project. This research ideally should be completed before the development process begins in earnest. ParenteBeard will continue to assess the project as the redevelopment process moves forward.

Following are ParenteBeard's comments on the Redevelopment Plan:

Fiscal Analysis

There are a number of financial variables that will impact the potential redevelopment of the Bancroft School site as a CCRC. Some of these variables are within the control of the Borough of Haddonfield (e.g., number of units, building heights, site coverage, formula for negotiating a payment-in-lieu-of-taxes program with the end user) while others are more directly tied to market conditions (e.g., price of land, interest rates available in credit markets, depth of senior market, cost of demolition, building material costs, size and scope of residents contracts, and entrance fees). Therefore, it will be important to closely monitor the redevelopment process and to work cooperatively with Bancroft and with the organization that could potentially develop the CCRC to balance competing interests.

Financial Structure of a Potential CCRC Project

As noted above, ParenteBeard assembled a preliminary analysis of the parameters under which a CCRC might be developed on the Bancroft School site. Given that so many of the financial assumptions underlying the financial projection are still unknown, we prepared an internal financial calculation using senior living industry standards, data known to date, and conservative assumptions where data was still unknown. In the process of planning for a CCRC, it is industry common practice to build a financial projection around standard methodologies that use the number of independent living units, the average housing resale prices for the marketplace, and average cost of construction of similar facilities. Another component is the pricing of competitors in the local marketplace. In addition, a key variable is the cost of borrowing for construction financing.

For the ParenteBeard internal calculations we considered local CCRCs for a comparison of entrance fees charged. Our research showed the following:

Medford Leas (Medford)

Entrance Fees ranging from \$212,000 for a one bedroom to \$572,000 for a patio home (both are for single occupancy with contract at 80% refundability).

The Evergreens (Moorestown)

Entrance Fees ranging from \$271,000 for a one bedroom to \$762,000 for a two bedroom with den (both are single occupancy with contract at 80% refundability).

Cadbury at Cherry Hill

Entrance Fees range from \$77,000 for a studio to \$124,000 for a one bedroom with den (fees are for single occupancy, with no refundability once a 50-month period of depreciation is completed. As such, this contract type is difficult to compare to those with 80% refundability).

Based on these ranges of fees charged locally by other CCRCs and an analysis of local housing resale values that averaged approximately \$560,000 in 2008, our internal model considered entrance fees ranging from \$350,000 to \$650,000 with refundability set at 90%, which is a common type of contract today for newer retirement communities. In calculating potential entrance fees, it is standard to correlate local housing values to entrance fees since most seniors generally do not spend more than the value of their home on an entrance fee.

The interest rate for tax exempt debt (the most common financing method) for new CCRCs has been at approximately 8% for the past 12 months. Therefore, although there is a reasonable expectation that the rate will lower as the U.S. economy moves from recession to recovery, we used 8% as a method of reflecting a conservative interest rate.

A tax payment, or payment-in-lieu-of-taxes (PILOT), was calculated using \$1 million per year for a thirty year period. In calculating the impact of this approach, the payments of the taxes/PILOT were reduced in the years of construction and fill-up, with escalation in later years to achieve the goal of \$1 million per year.

Finally, in estimating construction costs, we blended the likely cost of construction for different campus segments including independent living units (apartments), community spaces (dining, administrative offices, meeting rooms) and long-term care (skilled nursing and assisted living) to arrive at an overall cost per square foot of approximately \$150. The actual cost may vary, depending upon the decisions of the organization that develops the site, as it relates to unit sizes, level of finishes, and types of building systems; however, the estimates used in the ParenteBeard calculations are based on the construction costs of comparable CCRC projects that were recently completed.

After applying the financial variables outlined above, ParenteBeard concludes that, given what is known to date and using conservative assumptions when necessary, it is reasonable to assume that a CCRC project (assuming sufficient market demand) could be developed on the Bancroft School site and operated to generate sufficient cash flow to cover its annual debt service and fund adequate cash reserves. The organization that agrees to purchase the site from the Bancroft School will undoubtedly undertake a range of planning activities, including the completion of both a comprehensive market study and a financial feasibility analysis of the proposed CCRC project. Data gather from these independent activities will likely impact the program definition of a CCRC project, including the size and mix of units.

Financial Stability of CCRCs

Historically, more than 1,850 CCRCs in the U.S. have been financially stable. In fact, continuing care retirement communities have been among the more stable sectors in residential real estate, with very few defaults or bankruptcies. The recent exceptions have been a small number of highly publicized projects that were involved in bankruptcy for various reasons that were unique to the projects involved.

The short and long term financial stability of most CCRCs across the US over the past 20 to 30 years is generally a reflection of the multiple levels of review and oversight that are inherent in the planning of new CCRC projects. The review begins on a regulatory level with the State of NJ, Department of Community Affairs, which reviews applications for certificates of authority to operate a CCRC in the state. Since 1987, the State of New Jersey has regulated CCRCs, with a stated goal of strengthening the long-term financial stability of CCRCs while protecting consumers by requiring the disclosure of a wide range of important information before seniors place a deposit on an independent living unit or sign a residency contract. The New Jersey law that established the regulatory framework, known as the Continuing Care Retirement Community Regulation and Financial Disclosure Act (N.J.S.A. 52:27D-330 et seq.), requires those who own or run a CCRC to register their facility with the State and prepare a Disclosure Statement describing their services, financial stability, fees and other contract terms. Copies of the Disclosure Statement are required to be provided to anyone who is considering living in a CCRC. Once certified by the State of NJ, every CCRC is subject to regular oversight.

The Department of Community Affairs issues a Certificate of Authority to CCRCs that have demonstrated compliance with the regulations. This certification is an affirmative determination that all of the following requirements of the regulations have been met satisfactorily, including:

1. The provider can fulfill its obligations under the Continuing Care Agreement if the resident complies with the terms of the offer.
2. There is reasonable assurance that all proposed improvements can be completed as represented.
3. The provider, its officers and/or principals have not been convicted of a crime in this State, the United States, or foreign country within the past 10 years, the seriousness of which, in the opinion of the Department, warrants the denial of certification.
4. The provider, its officers and/or principals have not been subject to any permanent injunction or final administrative order restraining a false or misleading plan involving a facility disposition, the seriousness of which, in the opinion of the Department, warrants the denial of certification.
5. The Disclosure Statement requirements have been satisfied.

A Certificate of Authority is issued only to CCRCs that have complied with all the regulations and whose facilities fulfill the characteristics of a CCRC specified in the regulations. This regulatory oversight of CCRCs by the State of NJ is relatively comprehensive as compared to other states, thereby helping to ensure that projects are well planned and appropriately structured.

The majority of CCRCs in the United States are owned and operated by not-for-profit corporations. This reflects the history of CCRCs, since the earliest organizations to develop the first projects were religious organizations and community-based not-for-profits that pursued methods of providing for safe, secure residential options for seniors. The not-for-profit CCRCs that have been developed in recent years have almost exclusively relied upon tax-exempt bond financing as the method of financing construction. As institutional bond buyers have become increasingly familiar with these projects, it has become standard to require specific bond covenants, reserve requirements, and regular financial disclosures that provide assurance to the bond buyers that the CCRCs are being planned, developed and operated in a fiscally prudent manner. With these requirements for regular financial disclosures and adherence to specific financial ratios in place in most recent bond financings, the financial stability of CCRCs have been well documented and are likely to continue to increase since potential financial problems are usually identified and addressed early in the process.

Many not-for-profit CCRCs are overseen and controlled by boards of directors with fiduciary responsibilities for the development and management of the CCRC project. The boards of directors of CCRCs are typically made up of local business leaders and heads of community organizations, which generally have a demonstrated commitment to the mission and goals of the organization. These individuals volunteer to serve on the board of directors as a way of lending their knowledge and experience to the organization. A properly functioning board of directors provides another level of financial protection for CCRCs, since there are regular meetings to review financial and operational data. With such oversight in place, again, potential challenges can be identified early and addressed before becoming material.

Another factor that can positively impact the financial stability of CCRCs is the knowledge and support of a cadre of experienced developers, planners, underwriters, market research firms, actuaries, feasibility consultants, and investment bankers who work with sponsors to ensure that the projects are well planned and financed. The level of specialization and sophistication on the part of these senior living professionals has increased in recent years, as more and more projects have been planned and developed. While state regulations have certainly helped to provide increased protections for senior consumers and providers, the maturation of the industry has also played an important role in ensuring that retirement communities are well planned, well financed, and well run. It is reasonable to conclude that the combination of all of these factors has contributed to the development of a robust industry that normally inspires confidence among the seniors who choose live in a continuing care retirement community.

Within the CCRC industry, it is standard to have pre-sales requirements with a minimum ten percent deposit of the entrance fee for at least 70% of the proposed independent living units, which must be achieved before a project will be permanently financed. This relatively high marketing target helps to ensure that a project is likely to be successful before tens of millions of dollars are borrowed for the construction process. While the downturn in the real estate market has made it more difficult for seniors to sell homes in some markets so that they can move into new CCRCs, the high presales requirements have protected CCRC projects from default. Although some newer projects have been subject to a slower fill than was common before the recession, the majority of projects opening since 2008 have been successfully filling up, using conservative marketing milestones and benchmarks.

In summary, there are a number of interrelated factors that positively influence the relative success and financial stability of CCRCs as compared to other residential developments. These projects have the advantage of primarily not-for-profit sponsorship, tax-exempt bond financing methodologies, and mature senior living industry support by increasingly sophisticated consultants and business advisors. In New Jersey, there is also the advantage of a high level of regulatory oversight protecting seniors and sponsors. Given all of these factors, the Borough of Haddonfield can reasonably expect that should an experienced developer and/or not-for-profit sponsor be selected by the Bancroft School as the purchaser of their site, a CCRC project can be developed to serve area seniors while meeting the goals of the Borough related to project size and the revenue targets as part of a PILOT program.

PILOT

ParenteBeard has been party to the negotiation of a number of PILOT programs for other projects. Therefore, we understand their structure and the needs of both CCRC projects and localities. The challenge for a newly developed and constructed project is the period from opening until its residents have moved in. Therefore, we believe it likely that developers will seek a ramp up period of PILOT payments that allows the project to be constructed and occupied to stabilization before full PILOT payments are made.

In assembling the financial analysis, ParenteBeard utilized the Borough of Haddonfield goal of \$1 million per year from a PILOT as one of the variables. With a projected project size of between 160 and 190 independent living units, a PILOT payment of that size will pass through to residents at the average rate of \$5,250 - \$6,250 per year for each independent living unit at full occupancy. Given the estimated size of apartments, which are likely to range from 750 to over 1700 square feet, this average PILOT cost per apartment falls within an acceptable range for projects of this type in a market such as Haddonfield, New Jersey.

For purposes of this analysis, we built in a ramp-up period of five years (two years for construction and three years for fill-up of independent living apartments). This is followed by a fifteen year period of annual escalations of the PILOT payments to make up for the lower payments during the ramp-up period.

In analyzing a possible structure for a PILOT program that will be negotiated with the developer of the Bancroft School site, ParenteBeard gathered data on the tax payments (or PILOT payments) made by local CCRCs to their municipalities. The structure in the three neighboring localities is as follows:

Medford Leas (Medford)

- Full taxes for independent living units are passed through to residents
- Range: \$1,500 to \$11,600 per unit, per year depending on unit size and location (Medford Leas has a campus in Medford and one in Lumberton)

Cadbury at Cherry Hill

- Fully tax-exempt (i.e., no real estate taxes)

The Evergreens (Moorestown)

- Negotiated a PILOT program that excludes their skilled nursing and assisted living beds from taxes while applying regular tax rates for the independent living units; an estimate of the impact of the PILOT is that the retirement community pays approximately 70% to 75% of the taxes that would be paid if the entire campus was fully taxable
- The breakdown is not readily available; included in monthly fees paid by residents and varies according apartment type and size

ParenteBeard read the draft fiscal analysis undertaken in June 2010 by Banisch Associates on behalf of the Bancroft School related to a potential PILOT. It appears to be set forth in a manner generally acceptable for this type analysis. However, it is difficult to comment on the validity of the conclusions since the variables set forth in this analysis rely on financial estimations for municipal costs that are difficult to verify. Also, the estimated annual municipal costs for the redevelopment components and for existing costs of the Bancroft School are subjectively constructed without empirical data supporting the estimations. Finally, the total assessment for a CCRC that might be developed on the site is an estimate that is not supported with potential development cost data.

Separate fiscal analysis completed by Heyer, Gruel & Associates provides data that conflict with the Banisch Associates analysis. This more recent analysis relies upon methodologies that are generally acceptable in assessing municipal impacts of future development. However, there is still a need to include variables that are based on industry standards and cost estimates that will need to be verified should a redevelopment project move forward.

With so many variables still unknown about a future redevelopment project, both studies of potential fiscal impacts are useful in establishing a potential framework for future negotiations with a developer of the site. It will be incumbent upon the Borough to negotiate a PILOT that covers its costs and that meets revenue goals over its term with the entity that redevelops the site during the site plan review process.

Land Cost

ParenteBeard recognizes that the Bancroft School is seeking to maximize the value of its land. A CCRC is the type of project that can generally support a premium price for land since the cost is spread over a large number of independent living units. There is a risk, however, that the establishment of a land price which is too high will increase project risk by forcing the developer/sponsor to set entrance fees and monthly fees higher than what can be paid by local consumers.

Although the negotiation of the land sale is a private transaction between the Bancroft School and an, as yet, unidentified organization, it will be incumbent upon the Borough to track this transaction since land cost may impact the financial feasibility of the project and the sponsor's ability to pay the PILOT.

Project Size

CCRCs offer a unique blend of residential living options (apartments) for healthy, active seniors, plus community spaces for amenities and services. In addition, the inclusion of assisted living units and skilled nursing beds provide the residents with the security of knowing that should their needs change for reasons of failing health or increasing frailty associated with the aging process, there are high quality long-term care services available as part of the same campus. The balance that allows a continuum of care approach to work is related to the fact that the vast majority of residents are still living independently. Only a small percentage of residents have the need for long-term care services at any given time. Therefore, for a project such as been proposed for the Bancroft School site to operate successfully and with financial stability, there must be a sufficient number of independent apartments to support the cost to develop the site, provide appropriate amenities for residents, and generate sufficient monthly service fees to fund routine operating expenses.

The initial projections show a project that will have between 160-190 independent living units (ILU) and 75 long-term care beds, split between assisted living and skilled nursing. This configuration is typical of CCRC projects that have been developed in recent years. The number of apartments is a key to determining the financial feasibility of a project since it drives revenues in the form of entrance fees and monthly fees.

The tendency in some localities has been to try to force developers to create smaller projects, with less site coverage and lower numbers of residents and staff. The challenge with regard to the Bancroft School site is that the cost of land is likely to be relatively high, and there is an expectation of a sizable PILOT payment over 20 to 30 years; therefore, incentives to shrink the ILU component to the lower end of the range (160 units) may not exist. In fact, it is possible that a project developed on the Bancroft site will need the maximum number of apartments allowed and as the market will bear to support the cost of development.

Site

An assessment of the Bancroft School property quickly leads to a conclusion that it is a very attractive site for a potential CCRC. The Borough of Haddonfield is a desirable location for area seniors. The proximity of the site to the Haddonfield business district, the Cooper River Preserve, and park land are a few of many positive attributes.

From a development perspective, the site is very conducive to a CCRC project and is large enough to accommodate a project of the size currently contemplated. The frontage of the property on Kings Highway is appealing, with mature trees and landscaping and attractive residential and commercial properties in close proximity.

Experience in many other similar localities has demonstrated that CCRCs are attractive additions to most neighborhoods. CCRC projects are residential in focus, with the long-term care services incorporated to serve the changing needs of residents living in apartments. A CCRC's resident population is composed of generally healthy, active seniors with an average age on move-in of approximately 78 years, generally well-educated with higher than average amounts of disposable income. Economic benefit analysis completed for other projects has shown that the seniors living in a CCRC will positively impact area businesses and restaurants with their spending.

For a project located on the Bancroft School site, it is reasonable to expect that a high percentage of future residents will originate from Haddonfield and surrounding communities. Industry standards indicate that 75% or more of projected residents are likely to originate from the primary market service area (commonly a 10-12 mile radius). Another 10% to 15% may come from further away to be near children and grandchildren who live in or near Haddonfield. In almost all CCRC projects, the resident population is drawn from a close geographic area.

APPENDIX A – Background Information on ParenteBeard, LLC

ParenteBeard, LLC was created in 2009 when two of the Mid-Atlantic region's longstanding accounting powerhouses – Parente Randolph and Beard Miller Company – joined forces to create the premier CPA and business advisory firm, one that offers the right mix of professional services targeted to add value and build confidence. Our singular mission is to foster a client experience based on honesty, integrity, and accountability that reflects and respects the privilege of serving our clients.

As recognized leaders in senior living, ParenteBeard's Senior Living Services Consulting Group provides expert advice on a full range of strategic initiatives: project planning, financial feasibility, operations, market research, regulatory compliance, clinical issues, mergers and acquisitions, and process improvements. Our areas of expertise include Retirement Communities, CCRCs, Age-Restricted Housing, Assisted Living, Nursing Care, Hospitals, Home Health and Community Based Services. Our goal is to identify and understand the unique business challenges facing clients and develop practical, lasting, and bottom line oriented solutions specific to those needs. Our consulting group possesses a valuable mix of industry experience and professional capabilities, which enable us to serve as a valuable extension of any leadership team. ParenteBeard provides the advice needed today for a successful tomorrow.

The Senior Living Consulting Group has approximately 25 professionals that spend 100 percent of their time in consulting with providers, municipalities, and other related organizations. ParenteBeard has participated in over \$2 billion of tax-exempt bond financings for senior living projects. Our team members are "Thought Leaders" in Senior Living, as represented by our client success, our presence on state and national task forces, and wide ranging speaking engagements.

At the heart of our relationships is continuous and candid communication. We will not hesitate to bring issues and challenges to the attention of clients and we work to minimize surprises whenever possible. As a firm we have an uncompromising dedication to quality and excellence in everything we undertake. One of our core values is our commitment to quality. It is first, last and always.