COST BENEFIT ANALYSIS
SUBSTANTIATION OF NEED FOR SUFFOLK COUNTY IDA FINANCIAL ASSISTANCE

Renderings of Proposed Assisted Living Facility

PROJECT APPLICANT AND NAME
Sunrise of East Northport
Sunrise of Northport Propco, LLC
(Subsidiary of Sunrise Development, Inc.)

LOCATION
1381-1387 Pulaski Road, East Northport, Town of Huntington, NY 11731

PROJECT DESCRIPTION
90 Room Assisted Living Facility

REQUESTED FINANCIAL ASSISTANCE
Property Tax Abatement
Sales Tax Exemption on Building Materials and Equipment
Mortgage Recording Tax Exemption

October 20, 2022

The National Development Council ("NDC") has an on-going engagement with the Suffolk County Department of Economic Development and Planning (the County). NDC is a national not-for-profit economic development entity that provides development finance advisory services to municipalities throughout the country. NDC is routinely requested to analyze financial structures of proposed developments and determine the appropriateness of direct financial assistance or incentives. As part of the contract with the County, the Suffolk County Industrial Development Agency (the "IDA") occasionally requests NDC to review applications for tax assistance. The purpose of this memo is to describe NDC's project understanding and findings regarding the proposed Sunrise of Northport Propco, LLC project.

I. PROJECT SUMMARY

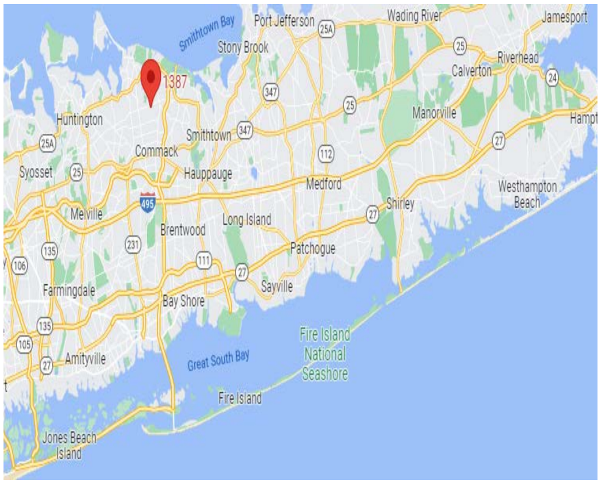
Sunrise of Northport Propco, LLC, subsidiary of Sunrise Development, Inc., (the "Applicant" and "Developer"), is applying for financial assistance for a proposed assisted living facility project within the Town of Huntington. The application requests a sales tax exemption on building materials and equipment, a mortgage recording tax exemption, and a property tax abatement in the form of a payment in-lieu of taxes ("PILOT").

The subject parcel is a 6.13-acre site containing a vacant residential building. The Developer proposes to demolish the building and transform the property into a two-story, 90-unit assisted living facility. The approximate 77,500 square foot building will include fifty (50) assisted living units and forty (40) "reminiscence units," or Alzheimer/memory care units. The unit types consist of studio, two-bedroom, and "Denver" units (see Appendix 1 for renderings). The residential program is summarized as follows:

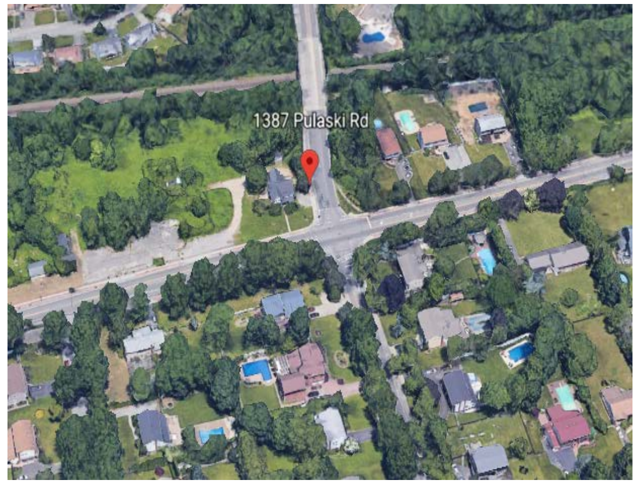
Rent Roll				
Unit Description	*%*	*Units*	*Daily Rate Private*	*Daily Rate Shared*
Assisted Living				
Studio Unit	36%	32	$200	$120
Two Bedroom Unit	10%	9	$265	$159
"Denver" Unit	10%	9	$240	$144
Reminiscence				
Studio Unit	20%	18	$220	$143
Two Bedroom Unit	18%	16	$292	$190
"Denver" Unit	7%	6	$264	$172
TOTAL / AVERAGE	100%	90	$247	$155

The Developer currently has eighteen communities in New York and 258 communities nation-wide, ranging from assisted living to memory care to independent living facilities. From 2015 through 2020, Sunrise communities have received more than 340 National Quality Awards, which recognize long-term and post-acute care communities across the United States that have demonstrated their commitment to continuous learning and improvement.

The Developer requested a property tax exemption in the form of a 12-year PILOT, starting at 60% abatement in Year 1 of operations. After a review of the application, a 10-year 485(b) PILOT is proposed as featured in the IDA's Uniform Tax Exemption Policy (UTEP). It is 10-year PILOT starting at 50% abatement and declining 5.0% per year thereafter. The IDA's UTEP 485 (b) formula was used as part of financial assistance for two previous assisted living facility projects in Suffolk County: Sunrise of West Hills (same developer) and Benchmark Senior Living in the Town of Smithtown.



Project Location



Satellite Image of Site

Demolition of the existing structure is expected to commence in December of 2022 and construction will begin shortly thereafter. The Developer expects substantial completion by August of 2024, with an estimated opening date in October of 2024.

II. SOURCES & USES

The Developer intends to finance the 90-unit assisted living facility with a conventional debt (65%) and equity (35%) capital structure. The summarized sources and uses are presented below.

USES OF FUNDS	$	Per Unit	Per GSF	%
Acquisition	$5,670,625	$63,007	$73	10%
Construction Hard Costs + Contingency	$34,226,882	$380,299	$442	63%
Furniture, Equipment & Machinery	$2,260,288	$25,114	$29	4%
Soft Costs and Professional Fees	$5,744,847	$63,832	$74	11%
Reserves	$4,319,570	$47,995	$56	8%
Developer Fee	$2,411,002	$26,789	$31	4%
TOTAL	$54,633,214	$607,036	$705	100%

SOURCES OF FUNDS	$	Per Unit	Per GSF	%
Loan	$35,511,589	$394,573	$458	65%
Equity	$19,121,625	$212,462	$247	35%
TOTAL	$54,633,214	$607,036	$705	100%

** Permanent Loan may be as high as... $40,974,911*

The development budget measured in absolute dollars ($54.6 million), costs per gross square foot ($705/SF), and cost per unit ($607K) are high but assisted living facilities are typically more expensive to build than standard rental residential units as the buildings include full-service kitchens, community spaces, and other amenities/features not typical in standard residential buildings. The high overall costs can also be attributed to the high costs of land ($63K per unit), soaring construction, and building material costs, and the fact that the assisted living units will

III. SUMMARIZED BENEFITS PACKAGE

The Town of Huntington Consolidated Real Property Tax Bill itemizes "as-is" taxes currently at $22,593. An assessment provided by the Town of Huntington's Assessor's Office estimates that based upon the proposed improvements, the "as complete" taxes would be $389,849. NDC used this estimate in its analysis. The Tax Benefit Summary below includes the PILOT as recommended as part of this analysis, as well as the estimated materials sales tax and mortgage recording tax exemptions.

IDA TAX BENEFITS						
IDA RELATED PROPERTY TAXES				SALES TAX EXEMPTION ON BUILDING MATERIALS & EQUIPMENT		
Current Taxes	$22,593	$251 per unit		Construction Cost		$34,226,882
As Complete Full Taxes	$389,849	$4,332 per unit		Value of Building Materials	60%	$20,536,129
Multiplier	17.26 x			Sales Tax		8.625%
PILOT schedule	10-year phase-in			Value of Exemption on Construction		$1,771,241
PILOT over 10 Years	$3,391,294					
Savings over 10 Years	($1,138,724)			Furniture, Equipment, & Machinery		$2,260,288
Increment over Savings	$2,252,570			Sales Tax		8.625%
				Value of Exemption on M&E		$194,950
MORTGAGE RECORDING TAX EXEMPTION						
Mortgage	$35,511,589			Total Value of Sales Tax Exemption		$1,966,191
Mortgage Recording Tax	1.05%					
Transit District Exclusion	-0.30%					
Mortgage Recording Tax Savings	0.75%					
Value of Exemption	$266,337					

The proposed PILOT schedule, as detailed in Appendix 1, is consistent with the IDA's UTEP 485 (b) formula and commences at a 50% abatement in the first operating year before phasing in evenly at 5.0% annually over the balance of the 10-year period.

With the PILOT and the abatement schedule, the tax increment is significant. The PILOT increases revenue to the taxing jurisdictions by more than 850% in the first year (the base tax is $22.6K and the first year PILOT payment is $218.8K). Over $3,390,000 in real estate tax revenue is realized over the 10-year term. The average annual PILOT ($339.1K) paid over the term is a 15X multiplier above the $22.6K current real estate taxes. The PILOT paid over the term is 75% of estimated full taxes, meaning that the project realizes a 25% savings during the term.

IV. SUMMARY OF NDC ANALYSIS

NDC based its analysis on the revenue assumptions provided in the IDA application. According to the Developer, all units are expected to be private in the first operating year, but as the building stabilizes, between 20-30% of the units will be shared. Financial returns from the project with the proposed PILOT schedule as projected are reasonable, in line with market expectations for an assisted living facility, and do not constitute undue enrichment. The IDA's UTEP 485 (b) formula is a standard incentive for commercial developments to help secure necessary financing.

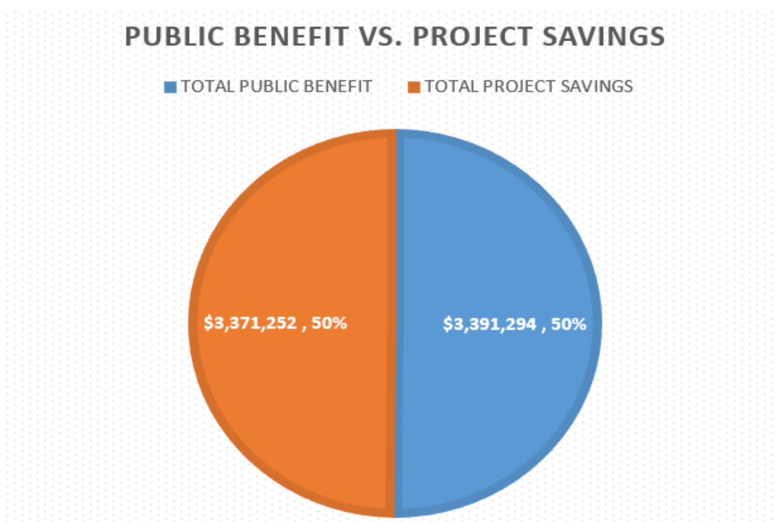
The 485(b) commercial PILOT is proposed rather than the longer PILOT schedules normally included for standard residential developments as the assisted living facilities are more like an operating business since so much of the income and expenses are attributed to the services being offered to the residents who typically require intensive therapeutic and medical assistance. Accordingly, the income (over $10,000 per room monthly) and expenses (over $100,000 per room annually) are considerably above standard residential rental developments.

The PILOT and IDA package is a productive incentive package to assist with project economics to mitigate the risk associates with building, placing into service, and operating an assisted living facility.

V. BENEFIT SUMMARY

The below analysis demonstrates a net positive public value. The public benefit factors the PILOT increment. There is no affordable housing that is part of the public benefit determinations. The project benefits factor savings realized from the PILOT, exemption on the mortgage recording tax, and exemption on the sales tax on building materials and equipment.

PILOT VS SAVINGS	
Full IDA Taxes (PILOT) over 10 Years	$3,391,294
TOTAL PUBLIC BENEFIT	**$3,391,294**
Real Estate Tax Savings Over 10-Year Term	$1,138,724
Sales Tax Exemption on Building Materials & Equipment	$1,966,191
Mortgage Recording Tax Exemption	$266,337
TOTAL PROJECT SAVINGS	**$3,371,252**
NET PUBLIC BENEFIT	**$20,042**



Not captured in the above graph are the substantial new jobs to be created and intangible benefits of the proposed project. Assisted living facilities are known for creating a high number of jobs in their surrounding communities. Sunrise Development currently employs 440 individuals in Suffolk County and expects sixty-five (65) full-time equivalent (FTE) jobs within the first year of operations at Sunrise of East Northport. Additionally, the Applicant expects to add eighteen (18) FTE positions in its second year of operations, totaling eighty-three (83) new jobs and $4,527,872 in total wages. Average worker salaries are estimated at $54,500 a year with benefits including health and dental insurance.

Appendix 1: Unit Renderings

Studio
ASSISTED LIVING

Sunrise of Huntington

Two Bedroom
ASSISTED LIVING

Sunrise of Fairfax

Denver
ASSISTED LIVING

Sunrise of Fairfax

APPENDIX 2: PILOT SCHEDULE

PILOT SCHEDULE							
Sunrise of East Northport							
Tax Assumptions						PILOT Terms	
Current Taxes	$22,593					Starting Abatement	50%
Improvement Taxes	$367,256					PILOT Term	10
"As Improved" (Full) Taxes	$389,849					Decrease	0.05
Proposed Units	90						
Estimated Taxes/Unit	**$4,332**						
Annual Escalator	2.00%						
Operating/PILOT Year	**Base Taxes**	**Improvement Taxes**	**"As Improved" Full Taxes**	**Abatement**	**Savings**	**PILOT**	**Increment**
1	$23,976	$389,735	$413,711	50.00%	($194,868)	$218,843	$194,868
2	$24,455	$397,530	$421,985	45.00%	($178,889)	$243,097	$218,642
3	$24,944	$405,481	$430,425	40.00%	($162,192)	$268,233	$243,288
4	$25,443	$413,590	$439,033	35.00%	($144,757)	$294,277	$268,834
5	$25,952	$421,862	$447,814	30.00%	($126,559)	$321,255	$295,303
6	$26,471	$430,299	$456,770	25.00%	($107,575)	$349,195	$322,724
7	$27,000	$438,905	$465,906	20.00%	($87,781)	$378,125	$351,124
8	$27,540	$447,683	$475,224	15.00%	($67,153)	$408,071	$380,531
9	$28,091	$456,637	$484,728	10.00%	($45,664)	$439,065	$410,973
10	$28,653	$465,770	$494,423	5.00%	($23,288)	$471,134	$442,481
TOTAL (Operating Years)	$262,525	$4,267,493	$4,530,019		($1,138,724)	$3,391,294	$3,128,769
					25% of full taxes	75% of full taxes	
						$339,129 annual avg.	
						$3,768 per unit annually	

APPENDIX 3: 10-Year Pro Forma

Sunrise at East Northport											
10-YEAR PRO FORMA											
Year		**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Vacancy		40%	10%	7%	7%	7%	7%	7%	7%	7%	7%
Room Revenue	3.00% start Year 5	8,955,975	9,196,134	9,478,601	9,762,958	10,055,847	10,357,523	10,668,248	10,988,296	11,317,945	11,657,483
Extended Care Income	3.00% start Year 5	2,389,915	3,952,201	4,359,694	4,490,489	4,625,204	4,763,960	4,906,879	5,054,085	5,205,707	5,361,879
Med Management Income	3.00% start Year 5	694,791	1,089,632	1,226,324	1,275,027	1,313,278	1,352,676	1,393,256	1,435,054	1,478,106	1,522,449
Incontinence Income	3.00% start Year 5	54,966	84,628	90,135	92,839	95,624	98,493	101,448	104,491	107,626	110,855
Community Fee	3.00% start Year 5	476,950	336,064	165,350	147,260	151,678	156,228	160,915	165,742	170,715	175,836
Other Revenue	3.00% start Year 5	38,893	59,423	63,392	65,246	67,203	69,219	71,296	73,435	75,638	77,907
Gross Income		12,611,490	14,718,082	15,383,496	15,833,819	16,308,834	16,798,099	17,302,042	17,821,103	18,355,737	18,906,408
Residential Vacancy		(3,582,390)	(919,613)	(663,502)	(683,407)	(703,909)	(725,027)	(746,777)	(769,181)	(792,256)	(816,024)
Cost of Sales	3.00% start Year 5	(49,367)	(75,426)	(80,463)	(82,817)	(85,302)	(87,861)	(90,496)	(93,211)	(96,008)	(98,888)
Effective Gross Income		8,979,733	13,723,043	14,639,531	15,067,595	15,519,623	15,985,212	16,464,768	16,958,711	17,467,473	17,991,497
Operating Expenses Excl Taxes	3.00% start Year 5	(8,850,652)	(9,874,751)	(9,952,146)	(10,253,590)	(10,561,198)	(10,878,034)	(11,204,375)	(11,540,506)	(11,886,721)	(12,243,323)
PILOT		(218,843)	(243,097)	(268,233)	(294,277)	(321,255)	(349,195)	(378,125)	(408,071)	(439,065)	(471,134)
Net Operating Income		(89,762)	3,605,195	4,419,152	4,519,728	4,637,170	4,757,983	4,882,269	5,010,134	5,141,688	5,277,040
Debt Service		(2,419,571)	(2,419,571)	(2,419,571)	(2,419,571)	(2,419,571)	(2,419,571)	(2,419,571)	(2,419,571)	(2,419,571)	(2,419,571)
Cash Flow		(2,509,333)	1,185,625	1,999,582	2,100,158	2,217,600	2,338,412	2,462,698	2,590,563	2,722,117	2,857,469
Debt Coverage Ratio		-0.04	1.49	1.83	1.87	1.92	1.97	2.02	2.07	2.13	2.18
Cash on Cash Rate of Return		-13.12%	6.20%	10.46%	10.98%	11.60%	12.23%	12.88%	13.55%	14.24%	14.94%
Yield to Cost		-0.16%	6.60%	8.09%	8.27%	8.49%	8.71%	8.94%	9.17%	9.41%	9.66%
Valuation Cap Rate	6.00% cap rate										$87,950,662
Outstanding Loan Balance											($29,506,095)
Net Sale Proceeds											$58,444,567
	Equity										
Benefit Stream	($19,121,625)	(2,509,333)	1,185,625	1,999,582	2,100,158	2,217,600	2,338,412	2,462,698	2,590,563	2,722,117	58,444,567
Pre-Tax Levered IRR	15.78%										

STANDARD DISCLOSURE

Standard disclaimer regarding NDC's compliance with Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") and amended Section 15B of the Securities and Exchange Act of 1934 ("Exchange Act"):

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