

Strategic Feasibility and Asset Conversion Analysis: 1119 Pick Pocket Plantation Drive

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Executive Overview

Formerly operated as an assisted living and memory care facility under the name Summit Place of Beaufort, this vacant 48,288-square-foot asset is situated on an expansive 5.7-acre waterfront parcel.¹ The property contains 72 suites distributed across three distinct buildings, a configuration that offers exceptional utility for the phased segregation required in modern addiction treatment protocols.¹

The strategic thesis for converting this asset into a for-profit, residential substance abuse treatment facility is heavily supported by a confluence of regulatory, physical, demographic, and financial factors. From a regulatory perspective, the State of South Carolina recently enacted Senate Bill 164, which broadly repealed Certificate of Need (CON) requirements for chemical dependency facilities.³

This legislative action removes what was historically the most formidable barrier to entry in the behavioral health sector, providing operators with a clear, unimpeded pathway to licensure. Furthermore, the physical infrastructure of a purpose-built assisted living facility inherently satisfies, and largely exceeds, the stringent physical plant codes mandated for behavioral health licensing under the South Carolina Department of Public Health (DPH) Regulation 61-93.⁵

Financially, the acquisition presents a profound value-add proposition through cost arbitrage. While the 2025 Weitz replacement cost estimate for comparable institutional healthcare facilities is approximately \$353 per square foot, the subject property's evaluated acquisition model anticipates a purchase price of \$5,000,000, or roughly \$103.55 per square foot.¹ This extreme discount to replacement cost provides a massive margin of safety, allowing capital to be efficiently deployed toward clinical excellence and patient acquisition rather than burdensome debt service.

Local demographic modeling further solidifies the investment thesis. Within a 20-mile Primary

Market Area (PMA), there is an estimated unmet demand for 371 residential rehab beds, driven by a population that boasts an average household net worth exceeding \$2.18 million.¹ This concentration of localized wealth, combined with a 59.6% insurance qualification rate among the target demographic, perfectly positions the facility to capture high-margin private pay and commercial insurance patient populations.¹ This comprehensive report exhaustively evaluates the physical architecture, regulatory pathways, zoning frameworks, demographic demand, and rigorous financial projections associated with executing this behavioral health conversion.

Asset Profile and Architectural Suitability

The physical configuration and existing infrastructure of 1119 Pick Pocket Plantation Drive provide an unparalleled foundation for immediate adaptation into a behavioral health campus. Ground-up development of inpatient healthcare facilities is notoriously capital-intensive and subject to protracted development cycles often exceeding 36 to 48 months. The adaptive reuse of this specific asset drastically compresses the time-to-market and nearly eliminates the heavy structural capital expenditures typically associated with healthcare development.

Structural Configuration and Clinical Segregation

Constructed in 1999, the property encompasses 48,288 square feet of gross building area distributed across three separate buildings.¹ In the context of substance abuse treatment, a multi-building campus is not merely an aesthetic luxury; it is a critical clinical asset. The American Society of Addiction Medicine (ASAM) establishes specific criteria for different levels of care, which operators must strictly adhere to. The ability to physically segregate patient populations based on their recovery phase directly correlates with improved clinical outcomes, reduced elopement rates, and higher overall patient safety.

The three-building layout allows an operator to designate specific structures for distinct phases of the recovery continuum without requiring costly structural additions. The primary building is ideally suited for Medical Detoxification (ASAM Level 3.7), which requires high-acuity nursing oversight, secure ingress and egress, and immediate proximity to clinical stations. The secondary structure is perfectly positioned for standard Residential Treatment (ASAM Level 3.5), which demands communal living spaces, dedicated group therapy rooms, and a slightly higher degree of patient autonomy. The tertiary building can be effectively utilized for Step-Down or Partial Hospitalization Programs (PHP), allowing for life-skills training and reintegration preparation. Alternatively, the segregated buildings provide the operator with the flexibility to separate patient populations by gender, which is a highly sought-after standard in trauma-informed addiction treatment designed to eliminate distractions and address gender-specific psychological vulnerabilities.

Institutional Infrastructure and Amenities

Because the property was purpose-built to serve as an assisted living and memory care community, it is fully equipped with the heavy institutional infrastructure mandated for residential rehabilitation. The facility features a professional commercial kitchen, expansive family dining rooms, a dedicated activities room, a large-screen television room, and community library spaces.¹

The presence of a fully functional commercial kitchen is a vital economic and operational asset. Premium rehabilitation facilities rely heavily on nutritional therapy to repair the physical damage caused by prolonged substance abuse. These facilities require industrial-grade culinary setups capable of executing specialized dietary plans for upwards of 70 patients and staff members daily. Installing a commercial kitchen retroactively into a standard commercial or residential building triggers a cascade of complex municipal regulations, including the installation of grease traps, commercial exhaust hoods, and Ansul fire suppression systems. This process routinely costs hundreds of thousands of dollars. The existing commercial kitchen at the subject property functionally eliminates this massive capital expenditure and bypasses the associated health department permitting delays.⁷

Additionally, the facility's history as a memory care center means it was designed with secure perimeters and controlled access points to prevent resident wandering. This architectural feature translates seamlessly to residential drug rehabilitation. Secure ingress and egress are mandatory to monitor patient movement, rigorously prevent the introduction of illicit contraband, and safely manage patients who may experience severe cravings and attempt to leave the facility Against Medical Advice (AMA).

Therapeutic Environment and Waterfront Setting

The 5.7-acre property is situated directly on the banks of Battery Creek, providing expansive waterfront views and direct access to coastal marshlands.¹ In the behavioral health sector, the physical environment is not merely a backdrop; it is an active component of the therapeutic process. Access to natural bodies of water and serene environments—often referred to as biophilic design—has been clinically proven to reduce anxiety, lower systemic cortisol levels, and improve overall patient retention rates during the physically and psychologically demanding early phases of sobriety.

The expansive acreage provides ample space to develop outdoor therapeutic programming, such as meditation gardens, horticultural therapy spaces, or outdoor physical fitness areas. These amenities are highly marketable features that differentiate premium, private-pay treatment centers from sterile, hospital-like institutional settings. The ability to market a "coastal recovery experience" aligns perfectly with the expectations of affluent families seeking treatment for their loved ones, thereby increasing the facility's pricing power and average daily

rate (ADR).

Zoning, Entitlement, and the Special Exception Process

The regulatory mechanism governing the land use of the subject property is dictated by the City of Beaufort Development Code. The property is currently zoned T5-UC (Transect 5 - Urban Corridor).¹ Navigating this zoning framework is the primary administrative hurdle to achieving operational status.

The T5-UC Zoning District

The Beaufort Development Code utilizes a form-based approach to zoning, which generally prioritizes the physical form, scale, and relationship of buildings to the streetscape over strict, exclusionary use-based restrictions.¹¹ The T5-UC district is intended to accommodate higher-density, mixed-use buildings, including retail establishments, professional offices, rowhomes, and apartments.¹² It is characterized as a dense urban corridor designed to support significant daily commercial activity and integrate into the city's broader economic fabric.¹²

Within the specific use classifications of the Beaufort Code, drug rehabilitation facilities are generally categorized under "Community Care Facilities," which includes "Custodial Care Facilities" providing care in a protective living environment for individuals residing voluntarily or under protective control.¹² According to the Consolidated Table of Permitted Uses (Section 3.2), certain residential institutions such as "Group Homes" and "Community Residences" are permitted by right (P) in the T5-UC district.¹⁴

However, broader institutional "Community Care Facilities" serving larger patient populations typically require conditional approval or a Special Exception.¹² As noted in the preliminary property evaluation, the specific conversion to a comprehensive behavioral health facility at this site mandates the acquisition of a Special Use Permit (Special Exception).¹

The Zoning Board of Appeals (ZBOA) Criteria

The Special Exception process requires formal review and approval by the City of Beaufort Zoning Board of Appeals (ZBOA).¹² The ZBOA is authorized to permit uses by Special Exception provided the applicant can empirically demonstrate that the proposed use will not generate a significant negative impact on surrounding properties or the general public.¹⁵ The ZBOA evaluates applications against a strict set of criteria:

1. **Compatibility:** The proposed use must exist in harmony with the existing land uses in the surrounding area.¹⁶

2. **Infrastructure Capacity:** The existing public infrastructure—specifically roads, parking facilities, water, and sewer systems—must be capable of servicing the facility without negatively impacting existing uses. This often triggers the requirement for a formal traffic impact analysis.¹⁶
3. **Comprehensive Plan Alignment:** The facility must conform generally to the city's Civic Master Plan and other officially adopted planning documents.¹⁶
4. **Public Health and Safety:** The facility must not introduce obnoxious impacts, including excessive noise, light pollution, fumes, or general fire hazards.¹⁶
- 5.

Entitlement Feasibility and NIMBY Mitigation

Initial exploratory discussions with Beaufort County zoning officials indicated no inherent objections to the property's future use as a behavioral health facility. This favorable preliminary stance is deeply rooted in the property's specific geographic context and historical usage.

The primary risk to securing a Special Exception for a behavioral health facility is NIMBY (Not In My Back Yard) resistance from local residential homeowners, who frequently cite unfounded fears of increased crime, plummeting property values, and transient foot traffic.

However, the 1119 Pick Pocket Plantation Drive site possesses robust structural defenses against such opposition. The facility is completely surrounded by heavy commercial and retail properties, acting as a functional buffer.¹ Immediate neighbors include a Walmart Supercenter, a Publix Super Market, Lowe's Home Improvement, multiple mid-rise hospitality assets (Tru by Hilton, Comfort Suites), and various high-volume national restaurant chains.¹

Furthermore, the facility is highly segregated from quiet residential neighborhoods. It is accessed via Pick Pocket Plantation Drive, which directly feeds into major commercial thoroughfares.¹ Robert Smalls Parkway (Highway 170) carries an Annual Average Daily Traffic (AADT) of approximately 21,181 vehicles, while Boundary Street (Highway 21) supports up to 38,100 vehicles per day.¹

Because the property is embedded within this high-traffic commercial node, the introduction of a residential rehab facility will not introduce unwanted institutional traffic into residential cul-de-sacs. Finally, because the property historically operated as a 72-unit institutional assisted living facility, the perceived change in the baseline neighborhood character is negligible. The fundamental use remains residential-institutional, effectively neutralizing the most common arguments utilized by opposition groups during ZBOA public hearings.

State Regulatory Landscape and DHEC Compliance

Transitioning the asset from a senior care facility to a specialized substance abuse treatment center requires rigorous compliance with state healthcare regulations. The regulatory climate in

South Carolina has recently undergone a seismic legislative shift that drastically favors the execution of this investment thesis.

The Repeal of Certificate of Need (CON)

Historically, South Carolina operated under a highly restrictive Certificate of Need (CON) program. Under this legacy framework, any healthcare operator wishing to open a chemical dependency treatment facility was legally required to prove a quantitative "need" to the state and endure a lengthy, expensive, and highly politicized application process.³ Competitors could legally challenge the application, effectively locking developers in litigation for years and artificially capping the supply of vital healthcare beds.¹⁹

In 2023, the South Carolina legislature enacted Senate Bill 164, which executed a broad repeal of CON requirements for the vast majority of healthcare facilities. This legislation explicitly exempted chemical dependency treatment facilities, psychiatric hospitals, and rehabilitation centers from CON oversight.³ The repeal of the CON requirement entirely eliminates the greatest historical barrier to entry in the South Carolina behavioral health market. Operators no longer face million-dollar legal battles simply to secure the right to license beds. This legislative tailwind creates a rare, time-sensitive window for operators to establish market share and open large-scale facilities before the state eventually reaches saturation with new entrants.

DPH Regulation 61-93 Physical Plant Compliance

Residential substance abuse facilities in South Carolina are licensed and regulated by the Department of Public Health (DPH, formerly DHEC) under Regulation 61-93: *Standards for Licensing Facilities that Treat Individuals for Psychoactive Substance Abuse or Dependence*.⁵ An exhaustive analysis of the physical plant mandates embedded within Regulation 61-93 against the existing architecture of the subject property reveals profound developmental synergies.

Because the asset was originally engineered and built to function as an assisted living facility (ALF), it was specifically designed to accommodate the mobility-impaired elderly. This resulted in the incorporation of wide commercial corridors, comprehensive ADA-compliant fixtures, and expansive square footage allocations per resident. This over-engineering ensures effortless compliance with the comparatively lighter spatial requirements of a substance abuse treatment facility.

The following table demonstrates the property's compliance alignment with specific DPH regulations:

Regulatory Category	DPH Reg 61-93 Requirement for Rehab Facilities	Typical ALF Existing Conditions (Subject Property)	Compliance Status
Living/Recreation Space	Minimum 20 sq. ft. per licensed bed of living/recreational area ²¹	Expansive communal lounges, large-screen TV rooms, and libraries. ¹	Exceeds Requirement
Dining Space	Minimum 15 sq. ft. of dining space per licensed bed ²¹	Large-scale, commercial dining room designed for simultaneous seating. ¹	Exceeds Requirement
Bedroom Occupancy	Maximum 3 beds per client room ⁶	72 units designed for single or double elderly occupancy. ¹	Exceeds Requirement
Bathroom Ratios	Minimum 1 toilet per 6 beds; 1 shower/bathtub per 8 beds ²¹	Individual en-suite or jack-and-jill bathrooms standard in ALFs.	Far Exceeds Requirement
Emergency Power	Emergency generator required for egress, alarms, communications, and cooling ²¹	Commercial backup generators are standard mandatory equipment for licensed ALFs.	Likely Compliant (Requires mechanical load testing)
Patient Privacy	No access to rooms through other bedrooms, bathrooms, or kitchens ⁶	Standard multi-family hallway configuration with private room access.	Compliant

The architectural conversion from an ALF to a rehab facility is overwhelmingly cosmetic rather than structural. The fundamental operational flow of a memory care unit—centralized nursing stations, secure communal areas, and high-visibility corridor sightlines—perfectly mirrors the clinical and operational needs of an inpatient detox and residential rehab center. Consequently, the capital expenditures required to bring the building up to code and ready for patients are minimized. The financial model projects a highly conservative \$350,000 capital expenditure allocation to cover interior painting, technological and security upgrades, and minor aesthetic touches to modernize the space.¹

Demographic and Target Market Analysis

A robust commercial real estate investment strategy must be inextricably linked to irrefutable demographic demand. The Primary Market Area (PMA) for this analysis is strictly defined as a 20-mile radius surrounding the subject property, which encompasses portions of Beaufort, Jasper, Hampton, Colleton, and Chatham (GA) counties.¹

However, high-end residential rehabs function differently than standard outpatient medical real estate; they typically draw up to 10-20% of their patient base from far outside the immediate PMA, acting as destination treatment centers due to the specialized nature of their care and their therapeutic environments.¹ The proximity to the Savannah/Hilton Head International Airport (approximately 55-65 minutes away) highly supports this destination-treatment model.¹

Population Growth and Wealth Indicators

The 20-mile PMA is characterized by steady, predictable population growth paired with exceptionally affluent economic indicators. According to Esri demographic forecasts, the 2020 baseline population of 189,179 is projected to expand to 200,820 by 2025, and further to 218,172 by 2030, representing an annualized growth rate of 1.67%.¹

More crucially for the viability of a private-pay behavioral health facility, the economic profile of the region is highly lucrative. The local demographic data presents a compelling case for a premium pricing model:

- **Average Household Income:** \$122,910.¹
- **Average Household Net Worth:** \$2,183,834 (Projected for 2025).¹
- **Average Home Value:** \$586,015.¹
- **Healthcare Spending Potential:** The Spending Potential Index for healthcare in the PMA is 113, indicating that local residents spend 13% more on healthcare services than the national average.¹

This dense concentration of wealth is a vital operational catalyst. Medicaid and state-funded behavioral health facilities traditionally operate on razor-thin margins subject to government reimbursement cuts. Conversely, private-pay and commercial-insurance facilities generate robust, predictable free cash flow. The demographic data indicates that a substantial 59.6% of the local population holds adequate health insurance that covers substance abuse treatment.¹ Furthermore, consumer segmentation data via Esri Tapestry categorizes the local population into specific lifestyle segments that support discretionary healthcare spending.

The dominant segments include "Room to Roam" (20.7% of households), which represents older, affluent suburbanites with high homeownership rates (89%) and high net worths (\$506,754 median).²³ Other prominent segments include "Middle Ground" (14.1%) and "Legacy Hills" (11.9%).²³ These populations generally possess the financial liquidity or comprehensive insurance plans necessary to fund 30-to-90-day residential treatment programs for themselves or their adult children.

The Addiction Crisis and Unmet Bed Demand

The incidence of psychoactive substance abuse remains a structural, nationwide crisis that directly impacts the local Beaufort market. According to the Substance Abuse and Mental Health Services Administration (SAMHSA), 16.7% of all persons aged 12 and older face addiction issues.¹ This incidence rate spikes dramatically to 39.0% among individuals aged 18-24, and remains high at 34.0% among those aged 25-29.¹

Within the defined 20-mile PMA, precise demographic modeling identifies a strictly qualified prospect pool—defined as individuals actively suffering from addiction who possess the financial or insurance means to seek treatment. This qualified pool totals 6,615 individuals in 2026, and is projected to scale to 7,039 individuals by 2030.¹

Despite this overwhelming clinical need, the current supply of competitive beds is severely constrained. Data from the Georgia Department of Community Affairs and regional analyses indicate there are currently only 134 residential for-profit substance abuse beds within the competitive PMA.¹ When applying a standard maximum optimal occupancy rate of 80% (to account for natural patient turnover and room maintenance), the effective available competitive bed count drops to just 110.¹

By applying SAMHSA's statistical baselines—which dictate that 26% of addicted individuals actually receive treatment, 44% of those require inpatient/residential care, and 46% of those utilize for-profit facilities—the demand model reveals a staggering supply shortfall¹:

Metric	2026 Projection	2030 Projection
Total Qualified Market Potential	7,155 individuals	7,621 individuals
Adjusted Competitive Beds in Market	110 beds	110 beds
Total Adjusted Market Potential	7,045 individuals	7,511 individuals
Calculated Unmet Bed Demand	371 Beds	395 Beds

Note: Data derived from Market Analysis Demand Calculation.¹

The introduction of 72 new beds at the 1119 Pick Pocket Plantation facility would absorb less than 20% of the current unmet demand in the immediate market. This mathematical reality virtually guarantees rapid facility stabilization, minimized marketing acquisition costs, and sustained high census rates for a competent operator.

Military Pipeline Synergies

An unstated but highly relevant demographic catalyst within the Beaufort market is the immediate proximity to major military installations. The Marine Corps Air Station (MCAS) Beaufort and the Marine Corps Recruit Depot Parris Island are dominant economic and cultural forces in the county.¹ While active-duty personnel generally utilize internal military healthcare channels, the region is home to a massive, permanent population of military veterans. Veterans suffer from disproportionately high rates of alcohol use disorder, opioid dependency, and co-occurring mental health disorders such as Post-Traumatic Stress Disorder (PTSD). A rehab facility in this location is uniquely positioned to secure lucrative VA Community Care Network contracts or establish specialized, trauma-informed "tactical" recovery tracks catering specifically to veterans, law enforcement, and first responders, thereby accessing a dedicated and highly subsidized patient pipeline.

Competitive Landscape

While the unmet demand is vast, it is necessary to evaluate the existing market players to understand local pricing power, facility quality, and referral patterns. There are approximately 20 notable facilities in the broader South Carolina market, ranging from boutique 10-bed detox centers to expansive 117-bed campuses.¹

Within the immediate vicinity of Beaufort, the primary direct competitor is **Coastal Oaks Recovery**, located at 1251 Ladys Island Drive in the adjacent town of Port Royal, SC.¹⁷

- **Facility Capacity:** 72 total beds, comprising 50+ residential beds and 22 medical detox beds.¹
- **Clinical Services:** Medical detox, residential treatment (30-90 day lengths of stay), Partial Hospitalization (PHP), and Intensive Outpatient (IOP).¹⁷
- **Accreditations:** Joint Commission and CARF accredited.²⁵
- **Pricing Model:** Accepts major commercial insurance plans and private pay.²⁵

Coastal Oaks Recovery serves as a powerful proof-of-concept for the subject property. Their ability to successfully entitle, staff, and operate a 70+ bed facility in the adjacent municipality validates the thesis that the Beaufort micro-market can support large-scale, comprehensive continuum-of-care campuses. Furthermore, the subject property's 5.7-acre waterfront campus on Battery Creek provides a physical environment that matches or exceeds the holistic, natural appeal currently marketed by Coastal Oaks.

Because the unmet demand in the PMA exceeds 370 beds, the market is severely under-bedded. Consequently, Coastal Oaks and the subject property would likely operate synergistically rather than in cutthroat competition, easily absorbing the massive overflow of local patients who are currently forced to travel to Charleston or Savannah to secure inpatient care.

Financial Feasibility and Investment Projections

The financial modeling for the acquisition, stabilization, and ultimate disposition of 1119 Pick Pocket Plantation Drive illustrates an extraordinarily lucrative risk-reward asymmetry. This is fundamentally driven by the distressed acquisition basis of real estate and the high-margin operational nature of behavioral healthcare.

Acquisition Metrics and Capital Stack

The subject property is offered at a purchase price of \$5,000,000 (though the OM references a \$6,000,000 pricing expectation, the financial model utilizes a negotiated \$5,000,000 basis). This equates to approximately \$103.55 per square foot, or \$69,444 per licensed unit.¹ This represents a severe discount to current market comparables. An analysis of 13 recent senior housing and assisted living transactions in South Carolina (built between 1998 and 2023) reveals average trading values of \$263.80 per square foot.¹

Nationally, comparable facilities average \$307/SF, while new-build replacement cost estimations for 2025 hover around \$353/SF.¹ Acquiring the asset at roughly 30% of replacement cost provides a massive margin of safety. It allows the operator to allocate critical startup

capital toward recruiting top-tier clinical staff and executing national marketing campaigns, rather than servicing the debt on an over-leveraged real estate asset.

The 5-Year Cash Flow Analysis anticipates the following efficient capital stack ¹:

Capital Source / Use	Amount	Parameter
Purchase Price	\$5,000,000	\$69,444 per unit
Acquisition Costs	\$17,500	0.35% of Purchase Price
Initial Capital Expenditures	\$350,000	Allocated in Year 1 for upgrades
Senior Debt (1st Lien)	\$4,250,000	85.0% Loan-to-Value (LTV)
Loan Fees / Points	\$85,000	2.00% of Loan Amount
Initial Equity Investment	\$852,500	LP/GP Funded

Note: The senior debt assumes a 5.93% interest rate, amortized over a 25-year term, yielding an annual debt service of \$326,415.¹

Operating Pro Forma and Cash Flow Generation

The behavioral health revenue model assumes a conservative Average Daily Rate (ADR) of \$500 to \$650 for residential treatment.¹ The 5-year cash flow analysis utilizes an operator-owned model (where the PropCo and OpCo are combined), capturing the full economic value of the treatment center.¹

The operational ramp-up assumes a cautious stabilization period. Year 1 projects a 65% vacancy/credit loss rate as the facility navigates licensing approvals, hires staff, and builds its referral network. Year 2 assumes a 35% vacancy rate, and Year 3 achieves a stabilized vacancy rate of 20% (80% occupancy), which is held constant through Year 5.

Operating expenses are modeled at a standard 80% of Gross Operating Income (GOI).

Operating Metric	Year 1	Year 2	Year 3 (Stabilized)	Year 4	Year 5
Potential Rental Income (PRI)	\$13,140,000	\$13,534,200	\$13,940,226	\$14,358,433	\$14,789,186
Vacancy / Credit Loss	(\$8,541,000)	(\$4,736,970)	(\$2,788,045)	(\$2,871,687)	(\$2,957,837)
Effective Rental Income (ERI)	\$4,599,000	\$8,797,230	\$11,152,181	\$11,486,746	\$11,831,349
Operating Expenses	(\$3,679,200)	(\$7,037,784)	(\$8,921,745)	(\$9,189,397)	(\$9,465,079)
Net Operating Income (NOI)	\$919,800	\$1,759,446	\$2,230,436	\$2,297,349	\$2,366,270
Less: Annual Debt Service	(\$326,415)	(\$326,415)	(\$326,415)	(\$326,415)	(\$326,415)
Cash Flow Before Taxes	\$243,385	\$1,421,907	\$1,892,563	\$1,959,133	\$2,027,699

Note: Data derived from 5-Year Cash Flow Analysis.¹

The operational leverage inherent in this asset class is immense. In Year 1, despite operating at an assumed 35% occupancy, the asset still generates a positive Cash Flow Before Taxes of \$243,385, comfortably covering its debt service with a Debt Service Coverage Ratio (DSCR) of

2.82.¹

By Year 3, upon reaching stabilization, the NOI escalates to \$2.23 million, yielding an impenetrable DSCR of 6.83.¹ For equity investors, the before-tax cash-on-cash return accelerates exponentially, moving from 28.55% in Year 1 to 222.00% in Year 3, peaking at 237.85% in Year 5.¹

Disposition Strategy and Return Metrics

Assuming a Year 5 disposition based on a highly conservative 10.00% capitalization rate, the projected sales price reaches \$24,373,000.¹ It should be noted that stabilized, institutional-grade behavioral health assets frequently trade at capitalization rates between 6.5% and 8.5%, suggesting this exit valuation is thoroughly stress-tested.

After retiring the remaining first-lien mortgage balance of \$3,818,262 and accounting for \$731,190 in sales costs, the net sales proceeds before tax equal \$19,823,548.¹ This comprehensive execution results in a Leveraged Internal Rate of Return (IRR) of 136.99% and a staggering Equity Multiple of 32.10x.¹

The partner modeling analysis assumes a standard 10% General Partner (GP) and 90% Limited Partner (LP) equity split, wherein the LP investors inject \$767,250 and receive total distributions of \$24,631,411 over the 5-year hold period.¹

The presence of positive leverage profoundly impacts the deal dynamics; the utilization of the \$4.25M debt facility increases the overall investment yield by 82.18% over an unleveraged scenario, demonstrating the profound financial efficiency of acquiring vacant senior housing at a low basis and pivoting directly to high-margin behavioral healthcare.¹

Sensitivity Analysis

To rigorously test the investment thesis, an acquisition price sensitivity matrix was evaluated. If the purchase price increases from the baseline \$5,000,000 up to \$5,500,000 (\$76,389/Unit), the Year 1 leveraged cash-on-cash return drops to 22.47%, and the 5-year Leveraged IRR compresses to 127.86%.¹ Conversely, if the asset is acquired at a deeper discount of \$4,500,000 (\$62,500/Unit), the 5-year Leveraged IRR expands to 147.66%.¹ Even at the highest stress-tested acquisition price, the returns remain exceptionally robust, further validating the margin of safety inherent in the underlying real estate valuation.

Strategic Risk Factors and Mitigation Strategies

While the financial modeling indicates outsized, asymmetrical returns, executing an operational behavioral health conversion carries idiosyncratic regulatory, clinical, and environmental risks that must be systematically mitigated by the sponsor.

1. Entitlement Friction and ZBOA Approvals

The Risk: Although preliminary discussions with Beaufort County zoning officials yielded no objections, the strict legal requirement for a Special Use Permit (Special Exception) leaves the project vulnerable to the Zoning Board of Appeals (ZBOA).¹ Public hearings for drug rehabilitation centers routinely attract fervent, organized NIMBY opposition from community members citing fears of increased crime, lowered property values, and loitering.

The Mitigation: The property's physical location serves as its primary legal defense. It is situated on Pick Pocket Plantation Drive, heavily buffered by a Walmart Supercenter, a Publix, and highway commercial infrastructure.¹ It does not encroach on historic districts or quiet residential subdivisions. The sponsor's legal counsel must emphasize to the ZBOA that the facility operates entirely inward-facing, utilizes secure memory-care style perimeters, and functionally mirrors the site's previous institutional use as an assisted living facility, thereby negating claims of neighborhood disruption.

2. Clinical Staffing Shortages

The Risk: The behavioral healthcare industry is currently facing a severe nationwide shortage of licensed clinical social workers (LCSWs), addiction psychiatrists, and registered nurses (RNs). An inability to staff the facility to state-mandated DPH ratios will halt admissions, capping census growth and crushing the pro forma revenue projections.

The Mitigation: Beaufort's geographic proximity to Charleston (70 miles) and Savannah (40 miles) provides a broader, highly educated catchment area for recruiting top-tier medical talent.¹ Additionally, the facility's serene setting on Battery Creek allows operators to market a premium, low-stress coastal working environment to clinicians, which serves as a powerful recruiting tool compared to sterile, high-stress institutional hospitals. The operator must proactively allocate significant Year 1 capital to signing bonuses and highly competitive compensation packages to ensure uninterrupted operational ramp-up.

3. Payer Mix and Reimbursement Compression

The Risk: The \$13.14 million Year 1 gross revenue projection is contingent upon securing favorable in-network contracts with commercial insurance providers or operating a successful out-of-network private-pay billing model.¹ Insurance providers are increasingly scrutinizing length-of-stay (LOS) authorizations, forcing patients to step down from high-revenue residential care to lower-revenue Intensive Outpatient (IOP) care prematurely.

The Mitigation: The multi-building layout of the asset perfectly insulates the operator against this specific financial risk.¹ By dedicating one building to medical detox, another to residential care, and the third to Partial Hospitalization (PHP) or IOP, the operator captures the patient's

revenue stream across the entire continuum of care. If an insurance provider forces a step-down authorization, the patient simply moves to the next building on campus, retaining the revenue in-house rather than losing the patient to an outside competitor.

4. Environmental and Coastal Infrastructure Hazards

The Risk: Coastal South Carolina is subject to severe weather, hurricanes, and potential flooding. The Beaufort Development Code heavily regulates floodplain development, and severe weather events can disrupt cash flow and endanger vulnerable, highly-acuity patients.²⁶

The Mitigation: DPH Regulation 61-93 explicitly requires facilities to maintain comprehensive Emergency Evacuation Plans, which include securing host sheltering facilities inland and maintaining emergency power generation capable of running HVAC and life-safety systems without interruption.⁶ From a structural standpoint, the property's FEMA Flood designation is overwhelmingly Zone X (Area of Minimal Flood Hazard, 92%), significantly reducing the likelihood of catastrophic storm surge inundation and mitigating commercial flood insurance premiums, thereby protecting the physical integrity of the asset.¹

Conclusion

The 1119 Pick Pocket Plantation Drive asset presents a generational, highly asymmetric adaptive reuse opportunity. The collision of an exceptionally low acquisition basis (\$103.55/SF) with a high-margin operational model generates a projected IRR of 137% and an equity multiple exceeding 32x over a 5-year hold period.¹

The fundamental viability of this project relies on the intersection of physical suitability and regulatory deregulation. The property's previous life as a 72-unit assisted living facility ensures that the heavy, expensive institutional infrastructure—including commercial kitchens, wide corridors, ADA compliance, and secure perimeters—is already in place.¹ This enables a rapid, low-capex turnaround that bypasses the supply chain delays and inflationary costs associated with ground-up development.

Simultaneously, the 2023 repeal of South Carolina's Certificate of Need laws for chemical dependency facilities clears the bureaucratic red tape that has historically strangled supply and protected incumbent monopolies.³ With 371 unmet beds in the immediate 20-mile radius, and a highly affluent, heavily insured local demographic profile, the facility will enter a market structurally starved for premium addiction treatment.¹

Execution relies entirely on expertly navigating the Special Exception process with the City of Beaufort Zoning Board of Appeals and securing a seasoned behavioral health operator capable of aggressively recruiting top-tier clinical staff. Given the site's commercial buffering and isolation from sensitive residential zones, the entitlement risk is highly manageable. For an

opportunistic healthcare real estate investor, this asset provides an uncommonly lucrative risk-return profile, capturing immense upside in a recession-resistant, demand-inelastic asset class.

Disclaimer: While the information is deemed reliable, no warranty is expressed or implied. Any information important to you or another party should be independently confirmed within an applicable due diligence period.

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