

Welcome to the 2014 edition of the Utah Assisted Living Survey.

The Utah Assisted Living Survey is a service of Jorgensen Appraisal and covers licensed assisted living facilities and independent living (congregate care) facilities. It is intended to be a service to property owners and managers, as well as government agencies, developers, lenders, appraisers and other interested parties. The survey covers unit types and sizes, average rates and occupancy, and is broken down by geographic area. Data for the survey was collected in the spring and summer of 2014.

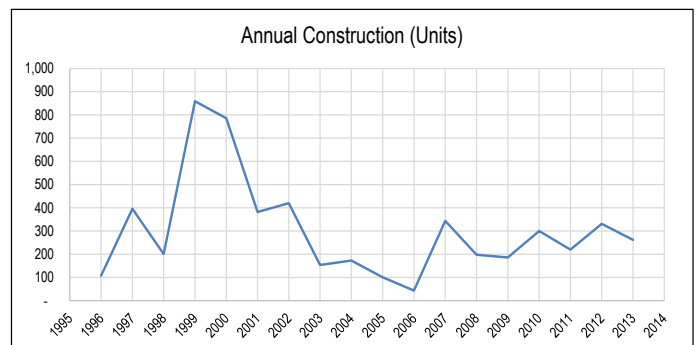
Construction

Over the past 18 years, construction of assisted living and independent living facilities in Utah has averaged just over 300 units per year. However, there has been a complete market cycle in that time. For four years from 1999 through 2002, construction averaged over 600 units per year, which was unsustainable. By 2002, many local markets were overbuilt and the Utah economy suffered a mild recession, so some new developments were slow to fill and some properties ended up in foreclosure. However, the next four years (2003-2006) saw an average of only 118 new units per year, which allowed the market to correct itself. The low level of construction also prevented the assisted living market from suffering as badly from the 2008 recession as other property types.

2014 Utah Assisted Living Survey

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Since 2007, construction has been fairly stable at an average of 263 units per year. That is a little below the long-term average, which is reasonable because the economy has been weak. Eight facilities with a total of 262 units were completed in 2013, and another two with 140 units have been completed so far in 2014.

The December 13, 2013 *Health Facility Plan Review Report* by the Bureau of Health Facility Licensing, Certification and Resident Assessment shows 13 assisted living projects currently in the pipeline, with a total of 602 beds. However, three of those, with a total of 181 beds, have already been completed and are included in the current survey. If the remaining projects are all completed, it would represent a fairly large increase in the volume of construction. Nevertheless, with a strengthening economy, the risk of overbuilding appears to be low for most markets. Underwriting criteria are still rather restrictive and it is likely that some proposals will not receive funding and will end up delayed or canceled. Five of the proposals are small residential facilities with 16 beds or less. However, the majority of the new beds are in larger facilities of from 27 to 138 beds.

Net absorption is the yearly increase in the number of occupied units. Net absorption was 603 units from spring 2013 to summer 2014, which is an absorption rate of about 425 units per year. This is well above the historical range, and indicates assisted living is benefiting from the economic recovery. It appears assisted living is capturing a larger proportion of seniors with ADL needs. If that trend continues, the 421 units currently in the approval and construction pipeline could be filled rather quickly.

The estimated Utah population over age 75 grew at a compounded rate of 2.3% per year from 2000 to 2010, according to the census. For the five year period 2013 through 2018,

the age 75+ population is projected to grow only 1.0% per year (from 115,727 to 128,750).¹ The decrease in growth relates to a lull in births during the WWII years, and will eventually be followed by a period of rapid growth in the elderly population as the baby boom generation reaches age 75. Once the economy is fully recovered and stabilized, it is reasonable to expect that slower growth in the elderly population will naturally result in slower increases in demand for assisted living over the next few years. By the early 2020's, the age 75+ population will begin growing rapidly.

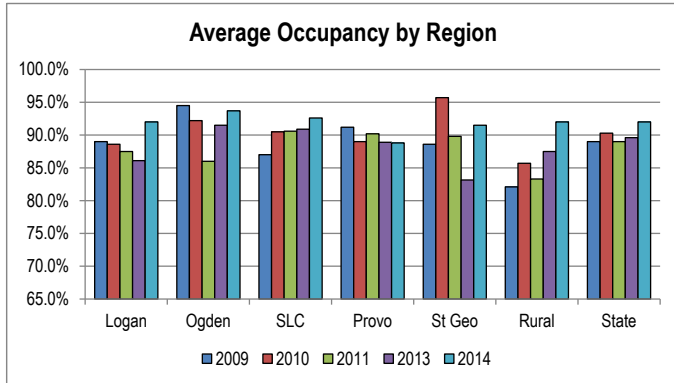


Occupancy

Occupancy rates for assisted living suffered in the recent recession, but somewhat less than many other property types. Due to the very good net absorption, average occupancy increased in almost every region of the state in 2014. The only exception was Utah County, where several new projects were completed and had not fully stabilized by the time of our survey. Even there, the rate of absorption is good and the small oversupply is likely to be filled rather quickly.

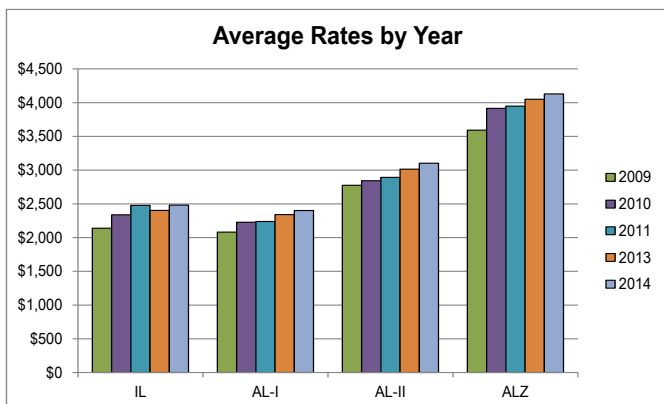
¹ STDBonline

Independent living occupancy had been more impacted by recession than assisted living, and average statewide occupancy fell to 86.2% by 2012. However, even independent living has recovered significantly and the current statewide occupancy rate is 94.1%.



Assisted Living markets are in balance at occupancy rates around 90%. Occupancy rates below 90% tend to discourage new construction and tend to keep rate increases low. Occupancy rates above 90% allow operators to increase rates and tend to encourage new construction. Based on that generalization, Utah's assisted living and independent living market is very healthy currently, with occupancy rates above equilibrium in nearly every region. Of course, it is important to remember that the market is cyclical, and favorable market conditions tend to attract new construction, so the favorable conditions are likely to be temporary.

Rates



Since 2001, the average annual rate increase has been 3.4% for independent living, 3.6% for AL-1, 3.3% for AL-2 and 2.0% for memory care. The average size and quality of units has been increasing over that time, so the change in market rates for a particular facility has likely been lower. The lowest rate of increase was memory care. We attribute that to the fact that memory care was highly specialized at one time, but now that more facilities offer that service the market is more competitive.



From 2013 to 2014, the average rate increase was 3.3% for independent living, 2.6% for AL-1, 3.0% for AL-2 and 1.9% for memory care. Those increases are a little below the long-term average. With occupancy rates now above equilibrium, we expect rate increases to be a little higher in the coming year, at least until more new facilities come on line.

As of July 2014, there were 8,176 units of independent living and assisted living in Utah. Survey responses were received from facilities that represent nearly 92% of the state total.

The following table summarizes average rates statewide. However, keep in mind that facilities vary somewhat in the amount of care and services included in the base rate.

Utah Assisted Living Industry 2014 Survey				
No. Units	Unit Type	Average SF Size	Average Base Rate	Average 2 nd Person Charge
Independent Living				
8	Private Bedroom	144	\$1,300	\$575
322	Studio with Kitchenette	433	\$2,091	\$606
1,202	One Bedroom Apartment	578	\$2,434	\$647
349	Two Bedroom Apartment	850	\$3,040	\$671
1,881	Subtotal/Average IL	602	\$2,482	\$644
Assisted Living AL-I				
56	Semi-private Bedroom (101 Beds)	263	\$1,897	
599	Private Bedroom/Shared or 1/2 Bath	166	\$2,295	\$1,195
490	Private Bedroom/Full Private Bath	254	\$2,360	\$1,027
165	Studio with Kitchenette	369	\$2,577	\$912
104	One Bedroom Apartment	611	\$3,111	\$765
10	Two Bedroom Apartment	815	\$3,475	\$731
1,424	Subtotal/Average AL-I	260	\$2,402	\$1,065
Assisted Living AL-II				
17	Semi-private Bedroom (35 Beds)	282	\$2,485	--
229	Private Bedroom/Shared or 1/2 Bath	176	\$2,745	\$831
614	Private Bedroom/Full Private Bath	262	\$2,992	\$850
1,651	Studio with Kitchenette	351	\$2,829	\$817
1,347	One Bedroom Apartment	518	\$3,410	\$738
183	Two Bedroom Apartment	751	\$4,201	\$792
4,041	Subtotal/Average AL-II	401	\$3,103	\$795
Specialized Alzheimer's Care AL-II				
205	Semi-private Bedroom (417 Beds)	325	\$4,099	--
625	Private Bedroom	330	\$4,140	--
830	Subtotal/Average Alzheimer's AL-II	329	\$4,129	--
Total Market - All Types				
8,176	Total/Average (All Types)	415	\$2,942	\$808

**Utah Assisted Living Submarkets
2014 Survey**

Area	Counties	No. of Beds	No. of Units	Average Rates			Average Occupancy		
				IL	AL-I	AL-II	IL	AL-I	AL-II
1	Cache, Rich	476	421	\$2,237	\$2,793	\$2,706	86.2%	96.7%	96.7%
2	Box Elder, Weber, Morgan, north Davis	1,618	1,455	\$2,474	\$2,280	\$2,918	93.4%	91.7%	94.2%
3	Salt Lake, Tooele, south Davis	4,351	3,857	\$2,531	\$2,597	\$3,311	94.5%	94.1%	91.2%
4	Summit, Wasatch	71	61	--	*	*	--	*	*
5	Utah, Juab	1,562	1,412	\$1,965	\$2,102	\$2,963	99.2%	87.8%	86.9%
6	Millard, San Pete, Sevier, Wayne, Piute	132	117	*	\$2,196	\$2,320	*	84.6%	98.4%
7	Beaver, Garfield, Iron	88	79	--	*	*	--	*	*
8	Washington, Kane	713	657	*	\$2,401	\$3,019	*	83.0%	93.9%
9-10	Daggett, Duchesne, Uintah, Carbon, Emery, Grand, San Juan	171	117	--	\$2,527	\$3,157	--	91.1%	90.3%
State Total/Average		9,182	8,176	\$2,482	\$2,402	\$3,103	94.1%	90.9%	91.9%

Notes: To maintain confidentiality, occupancy for submarkets with fewer than three facilities (marked with asterisk*) are not reported.

In contrast to most real estate markets and the general economy, the assisted living market in Utah held up relatively well during the recent recession, and is currently enjoying relatively high occupancy and good market conditions. However, the future is uncertain. Due to a lack of opportunities elsewhere, an increasing number of investors are interested in the industry and the number of potential projects is relatively high. At the same time, the increase in elderly population is expected to be slower for the next several years. Therefore, it is important to acquire detailed fundamental demand analysis, prior to starting a new development, or even investing in an existing facility. Fundamental demand analysis involves studying market characteristics to project demand for a

particular market segment, and comparing projected demand to projected supply.

About Jorgensen Appraisal

Jorgensen Appraisal is a full service appraisal and consulting firm. Kerry M. Jorgensen, MAI has specialized in healthcare property consulting since 1979, including; acute hospitals, surgical centers, nursing homes, assisted living, independent living (congregate care) and other elderly housing. Services include appraisals, market analysis, feasibility studies and general consulting. For information, contact Kerry Jorgensen at (801)523-1616.