

2015 Utah Assisted Living Survey

© Copyright 2015 Jorgensen Appraisal, \$125.00

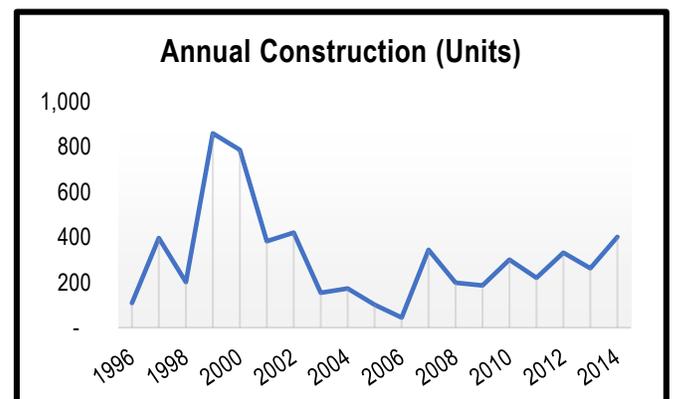
Jorgensen Appraisal
9677 South 700 East, Suite C
Sandy, Utah 84070

Jorgensen Appraisal is pleased to present the 2015 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 provided as 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 February and March of 2015.

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, the market has been quite cyclical. 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.



Since 2007, construction has been fairly stable at an average of 280 units per year. That is a little below the long-term average, which is reasonable because the economy has been weak. Six facilities with a total of 401 units were completed in 2014, and another two with 69 units have been completed so far in 2015.



The March 16, 2015 *Health Facility Plan Review Report* by the Bureau of Health Facility Licensing, Certification and Resident Assessment shows 20 assisted living projects currently in the pipeline, with a total of 1,152 beds. That is nearly double the number in the same report last year. Two of the current proposals, with a total of 40 beds, have recently been completed and are included in the current survey. If the remaining 1,112 beds are all completed, it will represent a huge increase in the volume of construction. Underwriting criteria are still rather restrictive and it is likely that some proposals will not receive funding and will end up delayed or canceled. Still, it is clear the volume of new construction is likely to rise and the risk of overbuilding in some markets has increased.

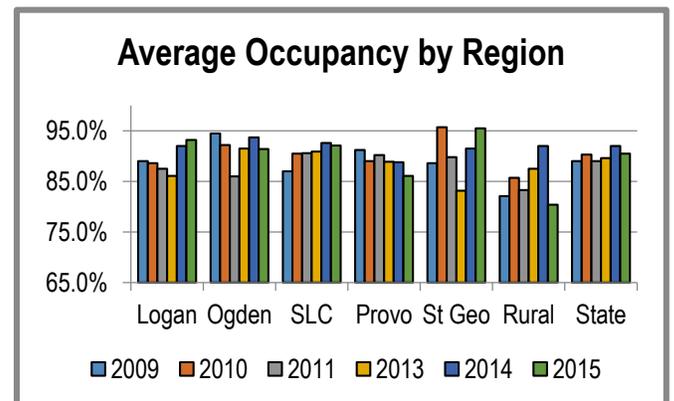
Net absorption is the yearly increase in the number of occupied units. Net absorption was 122 units from July 2014 to March 2015, which is an absorption rate of under 200 units per year. This is down from about 400 units

per year in the previous two years. Those years were particularly strong net absorption, which we attributed to the economic recovery following a deep recession. Over the next few years, we anticipate net absorption will average 300 units per year or so. Still, the 1,112 beds in the pipeline could represent well over three years' absorption.

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. However, for the 2010 to 2014 period, the change slowed to just 1.4% per year. 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 and net absorption will likely increase.

Occupancy

Occupancy rates for assisted living suffered in the recent recession, but somewhat less than many other property types. The statewide average never fell below 88%, and had rebounded to 92.0% by 2014. Due to somewhat higher construction activity and slower net absorption over the past year, the current occupancy rate has fallen to 90.5%.



The average occupancy for AL-II facilities is a little above the overall average, at 91.1%. The average for AL-I is a little lower, at 89.7%, which is reasonable because these facilities are generally a little older. Memory Care occupancy has historically been quite strong. However, this segment of the market has gained popularity among investors and developers. Memory Care saw the largest percentage increase in units over the year, up 10%, which caused Memory Care occupancy to drop to 85.6%. However, absorption in most of the new facilities is good and we expect this market segment to recover quickly.

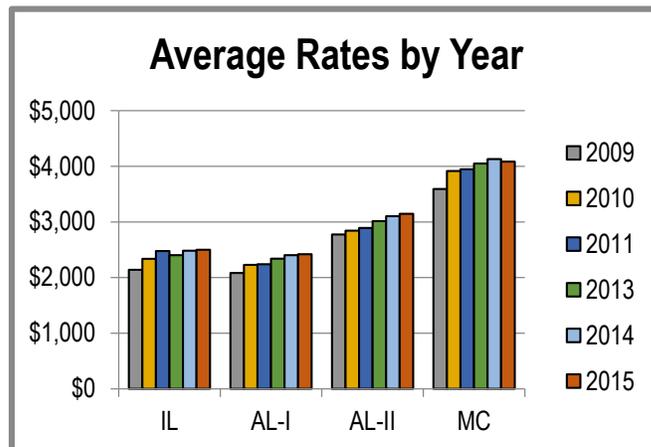
Logan, Ogden, Salt Lake and St. George all enjoy good occupancy rates currently. Due to high construction volumes, occupancy in Utah County and in the rural markets declined somewhat. Those markets could be somewhat overbuilt. However, absorption has generally been strong so they could recover fairly quickly if the amount of new construction is not out of line.

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 3.5% for independent living, 3.7% for AL-1, 3.4% for AL-2 and 1.9% 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 2014 to 2015, the average rate increase was 0.77% for independent living, 0.75% for AL-1, 1.35% for AL-2 and -1.07% for memory care. Those increases are below the long-term average. This is likely due to the large amount of construction in 2014. Existing facilities would have to hold off on typical rate increases in order to compete with new supply.



As of March 2015, there were 8,479 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 2015 Survey					
No. Units	Unit Type	Average SF Size	Average Base Rate	Average 2 nd Person Charge	
Independent Living					
8	Private Bedroom	156	\$1,350	\$575	
334	Studio with Kitchenette	437	\$2,017	\$566	
1,300	One Bedroom Apartment	590	\$2,457	\$557	
378	Two Bedroom Apartment	851	\$3,107	\$533	
2,020	Subtotal/Average IL	612	\$2,501	\$554	
Assisted Living AL-I					
43	Semi-private Bedroom (85 Beds)	244	\$1,861		
592	Private Bedroom/Shared or 1/2 Bath	167	\$2,354	\$935	
492	Private Bedroom/Full Private Bath	234	\$2,297	\$1,007	
151	Studio with Kitchenette	356	\$2,440	\$721	
144	One Bedroom Apartment	540	\$3,178	\$737	
9	Two Bedroom Apartment	750	\$3,799	\$750	
1,431	Subtotal/Average AL-I	253	\$2,420	\$915	
Assisted Living AL-II					
14	Semi-private Bedroom (28 Beds)	282	\$2,284	--	
229	Private Bedroom/Shared or 1/2 Bath	176	\$2,609	--	
615	Private Bedroom/Full Private Bath	262	\$3,028	\$935	
1,674	Studio with Kitchenette	349	\$2,895	\$778	
1,421	One Bedroom Apartment	502	\$3,438	\$782	
209	Two Bedroom Apartment	737	\$4,148	\$737	
4,162	Subtotal/Average AL-II	404	\$3,145	\$802	
Specialized Alzheimer's Care AL-II					
159	Semi-private Bedroom (312 Beds)	378	\$3,738	--	
707	Private Bedroom	320	\$4,164	--	
866	Subtotal/Average Alzheimer's AL-II	331	\$3,861	--	
Total Market - All Types					
8,479	Total/Average (All Types)	421	\$2,942	\$757	

**Utah Assisted Living Submarkets
2015 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	436	\$2,240	\$2,834	\$2,774	86.2%	96.7%	98.8%
2	Box Elder, Weber, Morgan, north Davis	1,676	1,503	\$2,484	\$2,335	\$2,942	93.9%	79.4%	94.1%
3	Salt Lake, Tooele, south Davis	4,266	3,857	\$2,639	\$2,562	\$3,362	94.4%	95.1%	89.9%
4	Summit, Wasatch	163	150	--	*	\$2,967	--	*	67.6%
5	Utah, Juab	1,789	1,631	\$2,267	\$2,131	\$3,011	72.8%	89.9%	91.3%
6	Millard, San Pete, Sevier, Wayne, Piute	137	119	*	\$2,259	\$2,460	*	80.6%	90.2%
7	Beaver, Garfield, Iron	88	79	--	*	*	--	*	*
8	Washington, Kane	713	656	*	\$2,493	\$3,174	*	88.6%	96.5%
9-10	Daggett, Duchesne, Uintah, Carbon, Emery, Grand, San Juan	171	117	--	\$2,544	\$3,220	--	91.1%	87.5%
State Total/Average		9,479	8,479	\$2,506	\$2,421	\$3,145	89.4%	89.7%	91.1%

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 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 senior housing. Services include appraisals, market analysis, feasibility studies and general consulting. For information, contact Kerry Jorgensen at (801)523-1616.