2016
Utah Assisted Living Survey

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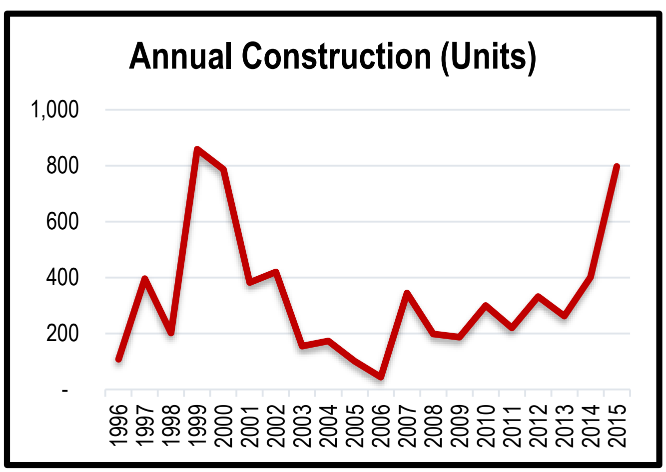
Jorgensen Appraisal is pleased to present the 2016 edition of the Utah Assisted Living Survey. To all who participated, thank you.

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 2016.

Construction

Since 1996, construction of assisted living and independent living facilities in Utah has averaged around 330 units per year. However, this is a cyclical market which is influenced by the general economic status of the state. 1999-2002 saw a spike in activity, with average construction of over 600 units per year. Occupancy rates fell as a result, in some locations rather sharply. In 2002, Utah experienced a mild recession and building slowed to an average of just 118 units per year from 2003-2006. This low level of construction in the years leading up to the 2008 financial crisis allowed the market to recover, and protected the assisted market somewhat from the worst of the recession.



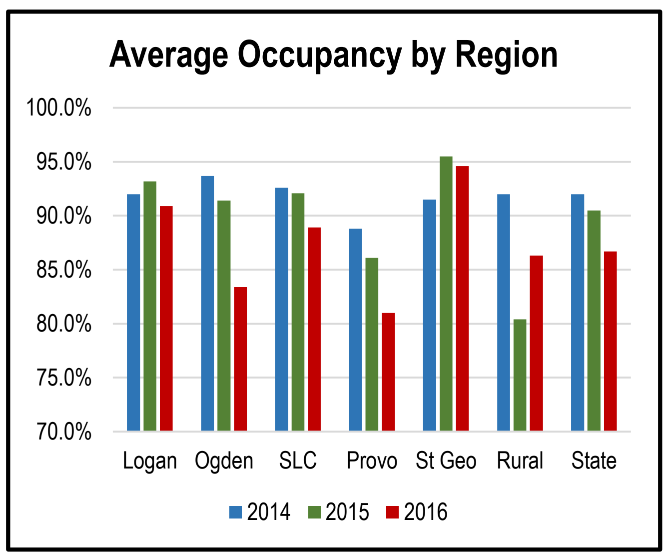
In recent years, the strengthening economy in Utah and growing demand for assisted living resulted in increasing profits. At the same time, capital market demand increased and capitalization rates fell. The result was very attractive market conditions by 2013, which has encouraged a new round of aggressive building. Construction had averaged just 250 units per year from 2008 through 2013, but grew to over 400 in 2014. In 2015, thirteen facilities were completed with a total of 797 units. This is nearly as high as the previous peak of 859 units in 1999. One additional facility with 28 units was completed in January 2016 and is also included in this report.

The March 1, 2016 *Health Facility Plan Review Report* by the Bureau of Health Facility Licensing, Certification and Resident Assessment shows 40 assisted living projects currently in the pipeline, with a total of 2,588 beds. This is well over double the number that was proposed at this time last year. In 2015, about 70% of the projects on the list were actually completed. If this ratio holds true for 2016, it would mean an additional 1,800 beds constructed. This would be a massive increase in the volume of construction and would more than double the highest number of beds that have been built in a single year since we began tracking in 1996. As we noted last year, the increase in construction raises the risk of overbuilding in many areas. However, it is important to note that some proposals may not receive funding and may be cancelled or postponed.

The trend towards larger facilities continues. Three facilities with over 100 units each were completed in 2015, and 12 are proposed for 2016. In addition, 11 facilities with over 50 beds are in the pipeline.

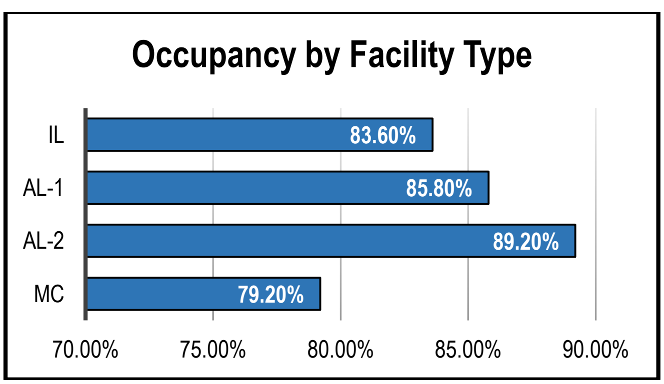
Net absorption is the yearly increase in the number of occupied units. Net absorption was 313 units from March 2015 to March 2016, which is a little above the historical average for the state. Demographics suggest demand will continue to increase around 300 units per year for a number of years, but should begin growing more rapidly in the early 2020’s as the baby boom generation reaches age 75. However, net absorption could increase over the next few years as a result of the extraordinarily large number of beds in the pipeline. New construction could result in supply being added in locations and market segments that were previously underserved, and could result in more aggressive pricing which attracts more families to choose assisted living rather than home care.

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 higher construction activity over the past two years, occupancy fell to 90.5% by March 2015 and 86.7% by March 2016.

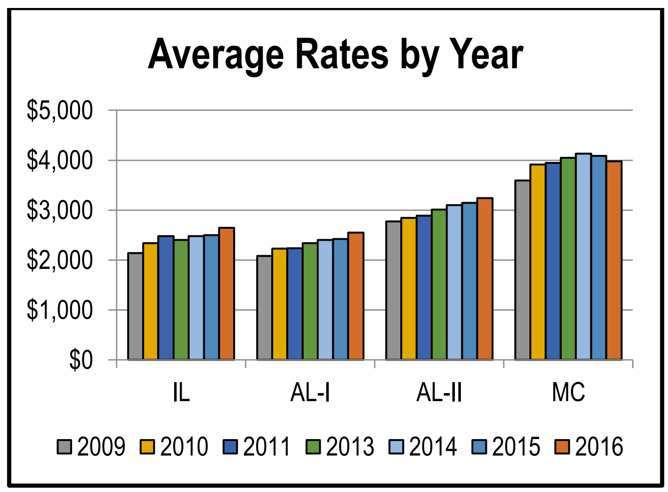
Occupancy rates in the Logan and St. George areas are still very healthy, at 90.9% and 94.6% respectively. Other areas of the state have considerably lower occupancy rates, mostly due to the high volume of recent construction. Occupancy rates for Ogden, Salt Lake and Provo are artificially low currently, because the averages include one or more recently completed project that is only beginning to fill and accounts for a large number of vacant units. If the new facilities are removed from the calculation, average occupancy increases to 87.7% in Ogden, 91.9% in Salt Lake, and 85.6% in Provo.



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 independent living and assisted living market is below equilibrium and the large number of proposed projects creates a danger of overbuilding.

Occupancy is highest for AL-II facilities. That market segment is still near equilibrium. The average for AL-I is lower, which is reasonable because these facilities are generally older. Memory care occupancy has historically been quite strong. However, this segment of the market has gained popularity among developers and saw the largest percentage increase in supply, up 17.6% over the past year. Memory care occupancy dropped to 79.2%, but we expect that to increase as the new projects stabilize. Independent living was also impacted by new construction.

Rates



Since 2001, the average annual rate increase has been 3.5% per year. That is partly due increases in the average size and quality of units. Memory care rates have declined recently, as that market segment has matured and become more less specialized. We expect rate increases to be lower going forward, as a large amount of construction is completed and the market becomes more competitive. Older facilities will have a particularly difficult time raising rates as they compete with newer, larger units.

As of March 2016, there were 9,216 units of independent living and assisted living in Utah. Survey responses were received from facilities that represent over 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
2016 Survey

No. Units	Unit Type	Average SF Size	Average Base Rate	Average 2nd Person Charge
	Independent Living			
8	Private Bedroom	156	$1,650	$575
373	Studio with Kitchenette	466	$2,119	$659
1,423	One Bedroom Apartment	597	$2,550	$671
476	Two Bedroom Apartment	915	$3,358	$719
2,280	*Subtotal/Average IL*	*640*	*$2,645*	*$679*
	Assisted Living AL-I			
44	Semi-private Bedroom (87 Beds)	245	$1,906	--
674	Private Bedroom/Shared or 1/2 Bath	171	$2,376	$893
381	Private Bedroom/Full Private Bath	251	$2,378	$834
174	Studio with Kitchenette	353	$2,588	$749
118	One Bedroom Apartment	597	$3,202	$729
9	Two Bedroom Apartment	833	$3,776	$750
1,400	*Subtotal/Average AL-I*	*266*	*$2,548*	*$871*
	Assisted Living AL-II			
23	Semi-private Bedroom (46 Beds)	294	$2,020	--
194	Private Bedroom/Shared or 1/2 Bath	178	$2,916	$759
691	Private Bedroom/Full Private Bath	271	$3,057	$932
1,811	Studio with Kitchenette	357	$3,002	$796
1,608	One Bedroom Apartment	527	$3,518	$774
204	Two Bedroom Apartment	756	$4,336	$838
4,531	*Subtotal/Average AL-II*	*414*	*$3,245*	*$808*
	Specialized Memory Care AL-II			
172	Semi-private Bedroom (322 Beds)	352	$3,650	--
846	Private Bedroom	325	$4,042	$1108
1018	*Subtotal/Average Memory Care AL-II*	*330*	*$3,976*	*$1108*
	Total Market - All Types			
9,216	*Total/Average (All Types)*	*439*	*$3,074*	*$813*

Utah Assisted Living Submarkets
2016 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	461	459	$2,231	$2,789	$3,096	86.5%	96.3%	93.75
2	Box Elder, Weber, Morgan, north Davis	1,630	1,787	$2,559	$2,340	$3,112	78.5%	83.3%	86.4%
3	Salt Lake, Tooele, south Davis	4,140	4022	$2,849	$2,604	$3,744	89.3%	91.6%	88.2%
4	Summit, Wasatch	145	145	--	--	$3,192	--	--	79.3%
5	Utah, Juab	1,866	1.837	$2,325	$2,217	$3,140	81.6%	79.9%	81.0%
6	Millard, San Pete, Sevier, Wayne, Piute	137	118	*	$2,257	$2,488	*	72.6%	95.1%
7	Beaver, Garfield, Iron	88	77	--	*	*	--	*	*
8	Washington, Kane	713	654	*	$2,658	$3,278	*	85.7%	96.5%
9-10	Daggett, Duchesne, Uintah, Carbon, Emery, Grand, San Juan	171	117	--	$2,580	$3,420	--	86.7%	93.1%
	State Total/Average	10,391	9,216	$2,645	$2,548	$3,380	83.6%	85.8%	87.4%

Notes: To maintain confidentiality, occupancy for submarkets with fewer than three facilities (marked with asterisk*) are not reported. Memory care is included in AL-II information, as licensing is the same for both facility types.

Last year, we noted that the amount of construction in pipeline was well above average, and that occupancy rates were likely to fall as a result. This year, the number of proposed developments is even higher and the risk of overbuilding has increased. Nevertheless, it would be wrong to conclude that there are no opportunities currently. Certain locations and market niches remain under-served. Well-conceived projects in the right locations will continue to outperform the market average. However, changing market conditions increase the need for fundamental market analysis prior to starting a new project, or even investing in an existing property. Fundamental analysis involves studying market demographics to predict how demand will change in for particular market segment in a given location. Changes in supply are estimated by studying pipeline projects and interviewing market participants. By comparing estimated demand to projected supply, the analyst can reasonably predict future market conditions and determine if a proposed project is adequately supported.

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