

June 22, 2012

MEMORANDUM

TO: Ms. Holly Sammons
City of Luverne

FROM: Mr. Joe Hollman
Maxfield Research Inc.

RE: Preliminary Demand Estimate for Senior Housing in Luverne, Minnesota

Introduction/Purpose and Scope of Research

This memorandum provides an assessment of the market support for senior housing (active adult, congregate, assisted living and memory care) in the City of Luverne, Minnesota. This is an update to the senior component of the Comprehensive Housing Plan which was completed by Maxfield Research for the City of Luverne in January 2008.

The methodology used to calculate demand in this memorandum is proprietary to Maxfield Research but is consistent with methodologies used by analysts throughout the senior housing industry. It is important to note that demand estimates and conclusions contained herein are preliminary, and are intended only to broadly assess the depth of demand for senior housing in the primary market area and to determine whether additional senior housing products could be supported. A more thorough investigation of the unique characteristics of the draw area, outlined in a *Full Feasibility Study*, would reveal more specific factors that would impact demand and appropriate market positioning for a senior housing development.

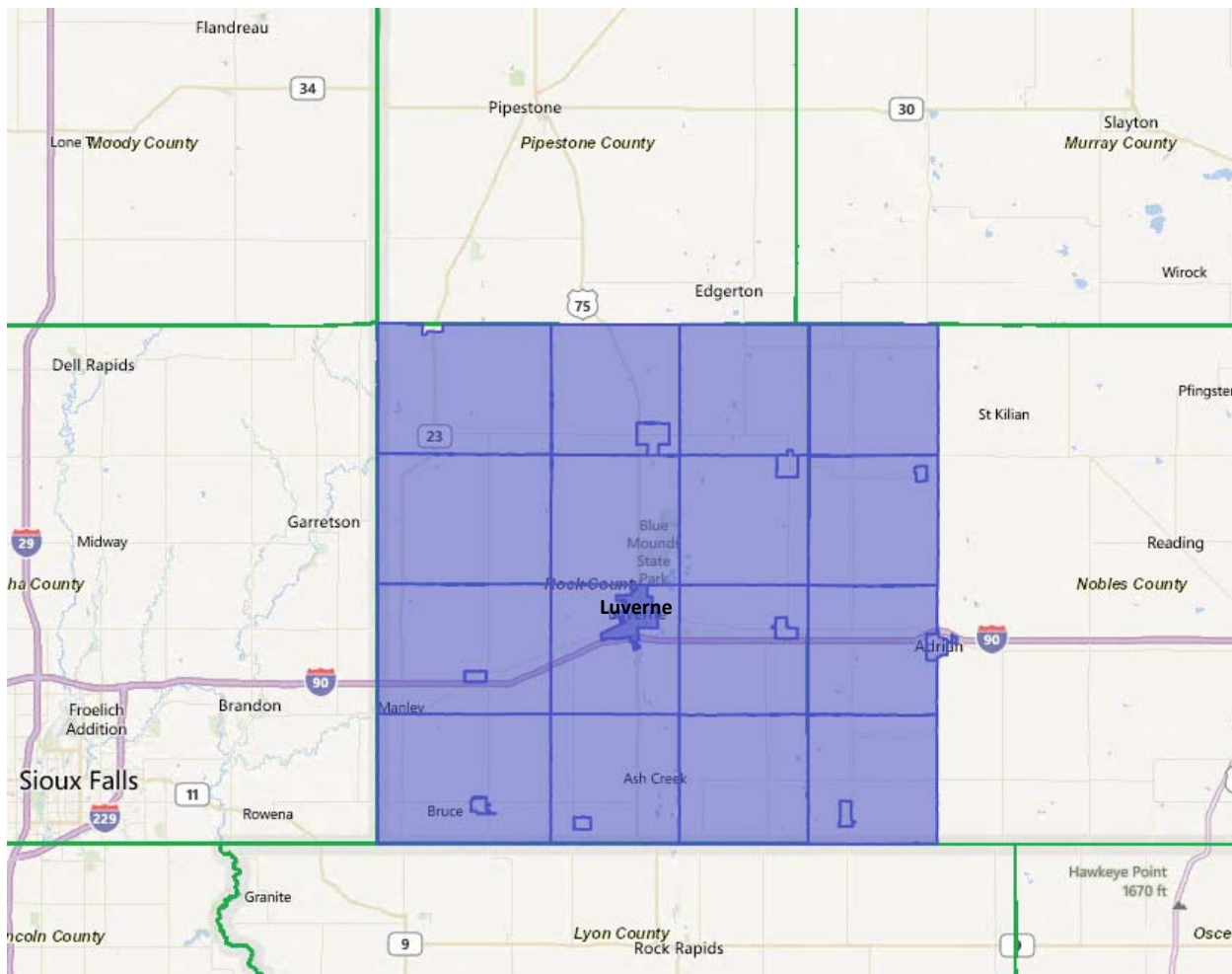
This memorandum delineates the primary draw area, or Primary Market Area (“PMA”), for senior housing in the City of Luverne and presents an overview of the demographic and economic characteristics of the PMA. It then inventories existing and pending senior housing developments that would be competitive with a senior housing development in the City. Demand for senior housing is calculated based on demographic, economic and competitive factors that would impact demand for additional senior housing units in the PMA. Our preliminary assessment concludes with an estimation of the proportion of PMA demand that would be captured by a senior housing community located in the City of Luverne.

Primary Market Area Definition

Maxfield Research reviewed the market area defined in the 2008 report and determined that no changes to the draw area (primary market area) were needed for this update. The primary market area (PMA) for senior housing in Luverne is based on growth trends and demographic characteristics, traffic and community orientation patterns, geographic and man-made barriers, discussions with local officials, and our experience in senior housing feasibility.

The PMA is defined as all of the communities within Rock County, excluding the City of Jasper. The PMA also includes the cities of Lismore, Adrian, Ellsworth and the four most western townships in Nobles County. In total the Luverne senior housing PMA is comprised of 26 separate county subdivisions. A map of the PMA is shown below.

Primary Market Area

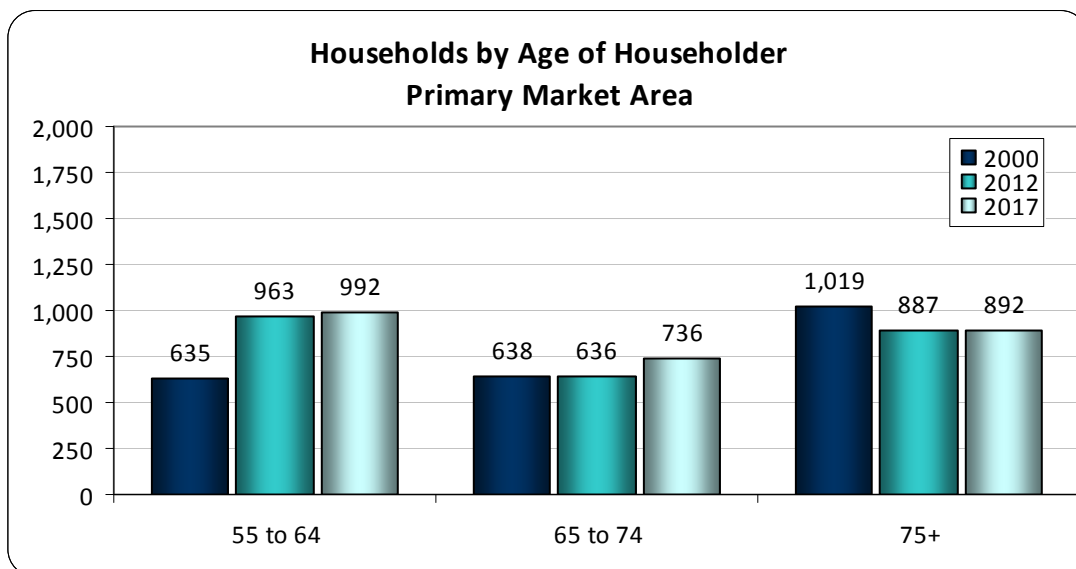


We estimate that 85% of the demand for senior housing in Luverne will be generated from the PMA. The remaining portion of the demand (15%) will come from outside the defined PMA. These individuals will include people currently residing just outside the PMA who have an orientation to the area (i.e. church, doctor, etc.), people who once resided in the area who desire to move back to be near friends and family, retirees who wish to relocate to the area, and parents of adult children living in the PMA.

Older Adult (Age 55+) Population and Household Trends

Table 1 shows the age distribution of people and households age 55 and older in the PMA. Information for 2000 and 2010 is supplied by the U.S. Census Bureau. The estimate for 2012 and the projection for 2017 were supplied by ESRI, a nationally recognized demographics firm, with adjustments made by Maxfield Research to reflect current year data. The following points are key observations from Table 1:

- ▶ As of 2010, the PMA had 12,515 residents and 5,084 households. The population declined by -323 people (+2.5%) while the household base expanded by 21 households (+0.4%) from 2000 to 2010. The number of new households was high relative to the number of new people suggesting a trend toward smaller household sizes due to an aging population.
- ▶ Aging of baby boomers led to an increase of 494 people (+43.6%) in the 55 to 64 population between 2000 and 2010. As this group ages, most cohorts age 55 or greater are predicted to see increases in the PMA over the next five years, particularly the 65 to 69 and 70 to 74 age groups which are projected to grow 25.3% (+147 people) and 14.6% (+67 people).



- ▶ Between 2012 and 2017, the PMA's senior (age 65+) population is projected to increase by 225 people (+9.3%). Much of this growth will be among people age 65 to 69, as the leading edge of the baby boom ages into their late 60s.
- ▶ The age 75 and over population is projected to hold steady between 2012 and 2017 after declining -9.4% between 2000 and 2010. Weak growth in the age 75+ population reflects the aging of people born during the Depression Era, a period of much lower births.
- ▶ The primary market for service-enhanced housing is senior households age 75 and older. While individuals in their 50s and 60s typically do not comprise the market base for service-enhanced senior housing, they often have elderly parents to whom they provide support when they decide to relocate to senior housing. Since elderly parents typically prefer to be near their adult caregivers, growth in the older adult age cohort (age 55 to 64) generally results in additional demand for senior housing products.

**TABLE 1
 OLDER ADULT (55+) POPULATION & HOUSEHOLD AGE DISTRIBUTION
 PRIMARY MARKET AREA
 2000 to 2017**

	Census	Estimate	Projection	Change				
POPULATION								
Age	2000	2010	2012	2017	2000 - 2010		2012 - 2017	
55 to 64	1,133	1,627	1,653	1,759	494	43.6%	106	6.4%
65 to 69	569	579	582	730	10	1.8%	147	25.3%
70 to 74	585	457	459	526	-128	-21.9%	67	14.6%
75 to 79	600	462	464	434	-138	-23.0%	-30	-6.5%
80 to 84	464	406	408	416	-58	-12.5%	7	1.8%
85 +	446	500	505	539	54	12.1%	34	6.7%
Total 55+	3,797	4,031	4,073	4,405	234	6.2%	332	8.1%
Total 65+	2,664	2,404	2,420	2,645	-260	-9.8%	225	9.3%
Total 75+	1,510	1,368	1,378	1,389	-142	-9.4%	11	0.8%
Tot. Pop.	12,838	12,515	12,582	12,635	-323	-2.5%	53	0.4%
HOUSEHOLDS								
Age	2000	2010	2012	2017	2000 - 2010		2012 - 2017	
55 to 64	635	948	963	992	313	49.3%	29	3.0%
65 to 74	638	633	636	736	-5	-0.8%	100	15.7%
75+	1,019	881	887	892	-138	-13.5%	5	0.6%
Total 55+	2,292	2,462	2,487	2,621	170	7.4%	134	5.4%
Total 65+	1,657	1,514	1,524	1,629	-143	-8.6%	105	6.9%
Total 75+	1,019	881	887	892	-138	-13.5%	5	0.6%
Tot. HH	5,063	5,084	5,117	5,170	21	0.4%	53	1.0%

Sources: U.S. Census Bureau; ESRI.; Maxfield Research Inc.

Older Adult and Senior Household Incomes

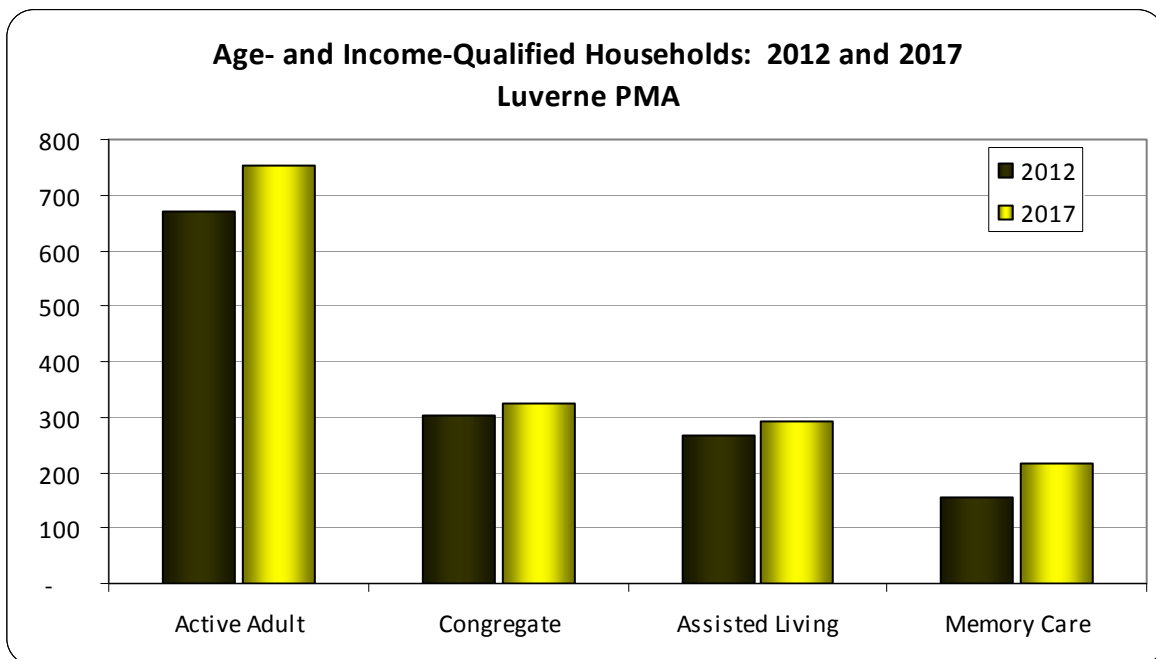
Table 2 shows incomes for older adult and senior households in the PMA in 2012 and 2017 based on information provided by ESRI and the U.S. Census Bureau with adjustments made by Maxfield Research based on current Census information. The data in Table 2 helps determine demand for senior housing based on the size of the market at specific income levels. This data is incorporated into our demand calculations, which are presented in a following section. It is important to note that the data does not account for the asset base of senior households or supplemental income that a senior household could gain from the proceeds of a sale of a home or from contributions from family members.

The frailer the senior, the greater the proportion of their income they will typically spend on housing and services. Studies have shown that seniors are willing to pay increasing proportions of their incomes on housing with services, beginning with an income allocation of 40% to 50% for market rate adult senior housing with little or no services, increasing to 65% for congregate housing and to 80% to 90% or more for assisted living housing. The proceeds from the sales of their homes, as well as financial assistance from their adult children, are often used as supplemental income in order to afford senior housing alternatives.

The following are key points from Table 2:

- ▶ Overall, senior households in the PMA have below-average incomes when compared to Minnesota. The median income of \$29,778 for 65+ households in 2012 compares to a median income of \$38,559 throughout Minnesota. Thus, a smaller proportion of seniors in the PMA should income-qualify for market rate senior housing than in the State as a whole.
- ▶ The key market for active adult/few services housing is comprised of senior households (age 65+), with incomes of \$35,000 or more. The age threshold increases to 70+ if in an apartment-style building. In 2012, we estimate there were 669 age- and income-qualified households in the PMA that comprise the key market for active adult housing. Including all households with incomes of \$40,000 and over (adjusted for inflation), the number of 65+ senior households projected to income-qualify for active adult/few services housing is expected to grow to 754 households in 2017 (+12.6%).
- ▶ Congregate housing demand is driven by senior households (age 75+) with incomes of \$35,000 or more. We estimate the number of age- and income-qualified households in the PMA as of 2012 to be 304 householders, increasing to 323 (+6.0%) householders in 2017.
- ▶ The target market for assisted living housing is senior households age 75 and older with incomes of at least \$40,000 (plus senior homeowners with lower incomes). As of 2012, there were about 266 older senior households (age 75+) in the PMA with incomes of at least \$40,000, accounting for 30% of all older senior households.

- ▶ Including all households with incomes of \$45,000 and over (adjusted for inflation), the number of older senior households projected to income-qualify for senior housing with services is expected to grow to 290 households in 2017 (+9.1%).
- ▶ Memory care housing has a target market of senior households age 75 and older with incomes of at least \$60,000. As of 2012, there were approximately 155 age 75+ households in the PMA with incomes of at least \$60,000, accounting for 17.5% of all senior households. The number of income-qualified (\$65,000 adjusted for inflation) households is projected to increase to 217 by 2017.
- ▶ Since senior housing with services is need-driven, seniors with low incomes are still candidates for private pay housing, provided they have home equity or other financial assistance that they can utilize to pay for the costs. Very low-income seniors who are Medicaid-qualified also could live in assisted living or memory care facilities that accept Elderly Waivers. Due to the limited availability of facilities that accept Elderly Waivers, demand from low-income seniors is often substantial.



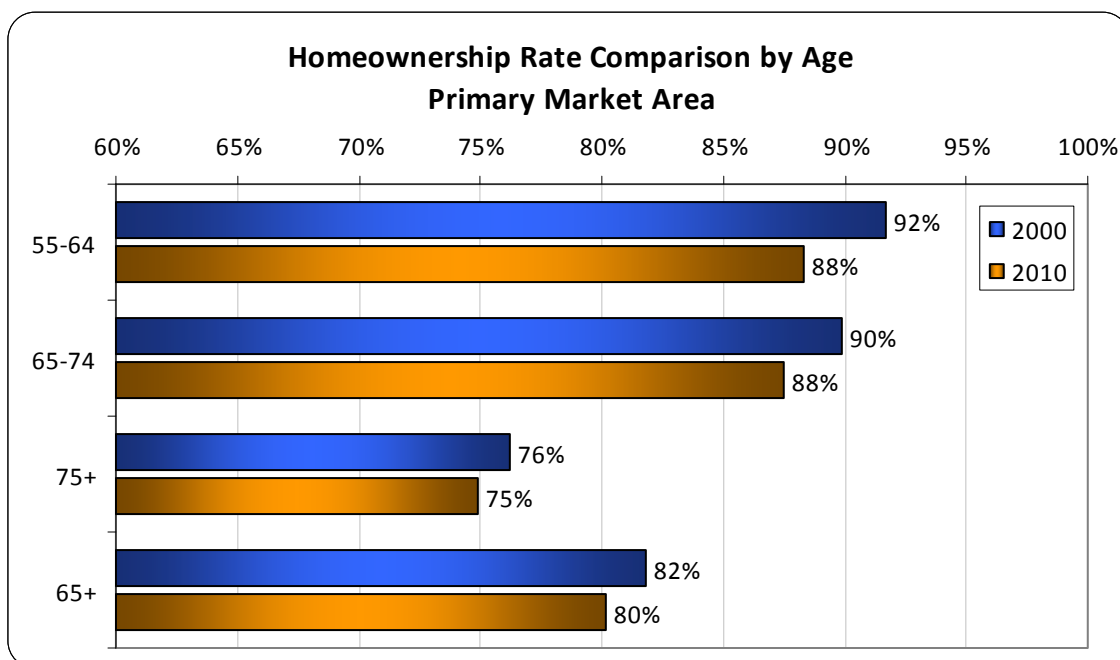
**TABLE 2
OLDER ADULT (55+) INCOME DISTRIBUTION
PRIMARY MARKET AREA
2012 & 2017**

2012								
	55-64		65-74		75+		Total 65+	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Under \$15,000	74	7.7	88	13.9	227	25.5	315	20.7
\$15,000-\$24,999	69	7.2	106	16.7	235	26.5	341	22.4
\$25,000-\$34,999	116	12.0	77	12.0	122	13.7	198	13.0
\$35,000-\$49,999	183	19.0	123	19.4	115	13.0	239	15.7
\$50,000-\$74,999	228	23.6	132	20.7	85	9.6	217	14.3
\$75,000-\$99,999	196	20.3	82	12.9	44	4.9	126	8.2
\$100,000-\$149,999	79	8.2	22	3.5	57	6.4	79	5.2
\$150,000-\$199,999	16	1.7	2	0.3	2	0.2	4	0.3
\$200,000 or more	2	0.2	3	0.5	2	0.2	5	0.3
Total	963	100.0	636	100.0	887	100.0	1,524	100.0
Median Income	\$52,854		\$39,408		\$23,848		\$29,778	
2017								
	55-64		65-74		75+		Total 65+	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Under \$15,000	65	6.5	89	12.1	228	25.5	317	19.5
\$15,000-\$24,999	54	5.5	93	12.7	200	22.4	294	18.0
\$25,000-\$34,999	105	10.6	83	11.3	109	12.2	192	11.8
\$35,000-\$49,999	155	15.6	118	16.0	98	10.9	216	13.2
\$50,000-\$74,999	254	25.6	180	24.4	103	11.5	282	17.3
\$75,000-\$99,999	208	21.0	105	14.2	56	6.3	161	9.9
\$100,000-\$149,999	114	11.5	54	7.4	92	10.4	147	9.0
\$150,000-\$199,999	26	2.6	6	0.8	3	0.3	9	0.6
\$200,000 or more	11	1.1	7	1.0	3	0.3	10	0.6
Total	992	100.0	736	100.0	892	100.0	1,629	100.0
Median Income	\$58,728		\$47,347		\$26,274		\$35,786	
Change 2012 to 2017								
	55-64		65-74		75+		Total 65+	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Under \$15,000	-10	-13.1	1	1.2	1	0.6	2	0.8
\$15,000-\$24,999	-15	-21.1	-13	-12.2	-35	-14.7	-48	-13.9
\$25,000-\$34,999	-11	-9.7	7	8.6	-13	-10.5	-6	-3.1
\$35,000+	64	9.4	105	29.3	51	16.9	156	23.6
Total	29	3.0	100	15.7	5	0.6	105	6.9
Sources: U.S. Census Bureau; ESRI; Maxfield Research Inc.								

Homeownership Rate

Table 3 shows the number of older adult and senior households that owned and rented their housing in the PMA in 2000 and 2010 according to the U.S. Census. This information lends insight into the number of households that may still have homes to sell and could potentially supplement their incomes from the sales of their homes to support monthly fees for alternative housing.

- ▶ The PMA maintains relatively high rates of homeownership in the older adult age cohorts. The homeownership rate in 2010 was 88% for age 55 to 64 households compared to 85% throughout Minnesota. The PMA homeownership remains unchanged at 88% for age 65 to 74 households compared to 85% in Minnesota. Seniors typically begin to consider moving into senior housing alternatives in their early to mid-70s. This movement pattern is demonstrated by the drop in homeownership between the 65 to 74 age cohort (88%) and the 75+ age cohort (75%). This pattern is slightly more prominent throughout the State as the homeownership rate dropped from 85% (age 65 to 74) to 70% (age 75+).



- ▶ With a homeownership rate of 80% for all households over the age of 65, a large number of residents would be able to use proceeds from the sales of their homes toward senior housing alternatives. The resale of single-family homes would allow additional senior households to qualify for market rate housing products, since equity from the home sale could be used as supplemental income for alternative housing. These considerations are factored into our demand calculations, which are presented in a following section of this memorandum.

TABLE 3 OLDER ADULT HOUSEHOLD TENURE PRIMARY MARKET AREA 2000 & 2010								
	----- Age of Householder -----							
	55-64		65-74		75+		Total 65+	
	Own	Rent	Own	Rent	Own	Rent	Own	Rent
2010								
No. of Households	837	111	554	79	660	221	1,214	300
Homeownership Rate	88%		88%		75%		80%	
2000								
No. of Households	573	52	610	69	750	234	1,360	303
Homeownership Rate	92%		90%		76%		82%	
Sources: U.S. Census Bureau, ESRI, Maxfield Research Inc.								

Home Sale Values

Table 4 presents sale data for single-family homes in the City of Luverne, Minnesota. This data was compiled from the Rock County Assessor’s office. The home sale data is useful in that it represents the amount of equity seniors may be able to derive from the sales of their homes that could be used to cover the cost of senior housing alternatives. The following points summarize key findings:

- ▶ In the City of Luverne, the average sale price of homes declined from \$95,656 in 2007 to \$90,716 in 2012, representing a drop of -5.4%. The median sale price fell from \$88,500 to \$78,750 (-12.4%) during the same time period. It should be noted that median sales prices are generally a more accurate portrayal of home equity since average figures can be skewed by a few very high- or low-priced homes.
- ▶ Consistent with housing conditions across the Nation, the housing slump has dampened market activity in Luverne. Total sale activity has declined significantly, dropping from 109 sale transactions in 2007 to 52 transactions in 2011, but activity appears to be picking up in 2012 in response to a favorable environment for home buyers.
- ▶ Based on the 2011 median sale price in Luverne (\$97,350), a senior household could generate approximately \$1,830 of additional income annually (about \$153 per month), if they invested in an income-producing account (2.0% interest rate) after accounting for marketing costs and/or real estate commissions (6.0% of home sale price).

TABLE 4 SINGLE FAMILY SALES TRANSACTIONS CITY OF LUVERNE 2007 through June 12, 2012						
Sale Trends						
	# of Sales	Average Price	Pct. Change	Median Price	Pct. Change	Median Year Blt.
2007	109	\$95,656	---	\$88,500	---	1950
2008	72	\$98,378	2.8%	\$94,650	6.9%	1957
2009	70	\$108,674	10.5%	\$80,000	-15.5%	1951
2010	85	\$99,725	-8.2%	\$88,750	10.9%	1956
2011	52	\$105,304	5.6%	\$97,350	9.7%	1955
2012*	46	\$90,716	-13.9%	\$78,750	-19.1%	1952
Change 2006-2012		-5.4%		-12.4%		
* Data in 2012 is through June 12						
Sources: Rock County Assessors Office; Maxfield Research Inc.						

- ▶ Should a senior utilize the home proceeds dollar for dollar to support living in senior housing with services, the proceeds of this home would last almost four years in congregate housing (monthly rent approximated at \$2,000), over two years in assisted living (monthly rent approximated at \$3,500), or nearly two years in memory care housing (monthly rent approximated at \$4,500). Seniors in service-intensive housing typically have lengths of stays between two and three years indicating that a portion of PMA seniors will be financially prepared to privately pay for their housing and services.

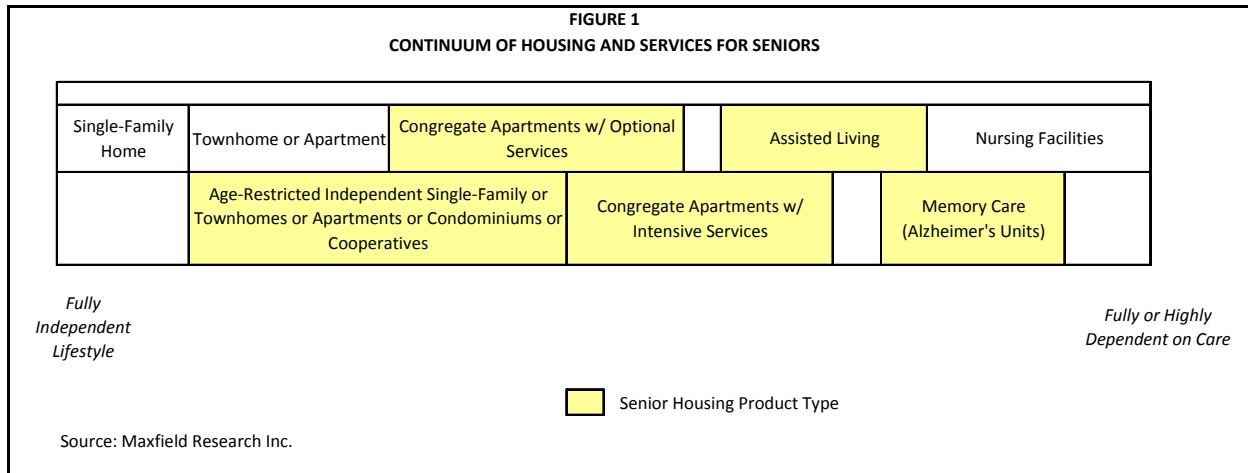
- ▶ Due to the recent decline in home values, some seniors – particularly those in the market for independent housing products – may delay their moves to housing alternatives until the housing market exhibits solid improvement.

Senior Housing Defined

Senior housing is a concept that generally refers to the integrated delivery of housing and services to seniors. However, as Figure 1 illustrates, senior housing embodies a wide variety of product types across the service-delivery spectrum. Products range from independent apartments and/or townhomes with virtually no services on one end, to highly specialized, service-intensive assisted living units or housing geared for people with dementia-related illnesses (termed "memory care") on the other end of the spectrum. In general, independent senior housing attracts people age 65 and over while assisted living typically attracts people age 80 and older who need assistance with activities of daily living (ADLs). For analytical purposes, Maxfield Research Inc. classifies market rate senior housing into five categories based on the level and type of services offered:

- ▶ **Active Adult** properties (or independent living without services available) are similar to a general-occupancy building, in that they offer virtually no services but have age-restrictions (typically 55 or 62 or older). Residents are generally age 70 or older if in an apartment-style building. Organized activities and occasionally a transportation program represent the extent of services typically available at these properties. Because of the lack of services, active adult properties generally do not command the rent premiums of more service-enriched senior housing. Active adult properties can have a rental or owner-occupied (condominium or cooperative) format.
- ▶ **Congregate** properties (or independent living with services available) offer support services such as meals and/or housekeeping, either on an optional basis or a limited amount included in the rents. These properties often dedicate a larger share of the overall building area to common areas, in part, because the units are smaller than in adult housing and in part to encourage socialization among residents. Congregate properties attract a slightly older target market than adult housing, typically seniors age 75 or older. Rents are also above those of the active adult buildings. Sponsorship by a nursing home, hospital or other health care organization is common.
- ▶ **Assisted Living** properties come in a variety of forms, but the target market for most is generally the same: very frail seniors, typically age 80 or older (but can be much younger, depending on their particular health situation), who are in need of extensive support services and personal care assistance. Absent an assisted living option, these seniors would otherwise need to move to a nursing facility. At a minimum, assisted living properties include two meals per day and weekly housekeeping in the monthly fee, with the availability of a third meal and personal care (either included in the monthly fee or for an additional cost). Assisted living properties also have either staff on duty 24 hours per day or at least 24-hour emergency response.
- ▶ **Memory Care** properties, designed specifically for persons suffering from Alzheimer's disease or other dementias, is one of the newest trends in senior housing. Properties consist mostly of suite-style or studio units or occasionally one-bedroom apartment-style units, and large amounts of communal areas for activities and programming. In addition, staff typically undergoes specialized training in the care of this population. Because of the greater amount of individualized personal care required by residents, staffing ratios are much higher than traditional assisted living and thus, the costs of care are also higher. Unlike conventional assisted living, however, which addresses housing needs almost exclusively for widows or widowers, a higher proportion of persons afflicted with Alzheimer's disease are in two-person households. That means the decision to move a spouse into a memory care facility involves the caregiver's concern of incurring the costs of health care at a special facility while continuing to maintain their home.
- ▶ **Skilled Nursing Care**, or long-term care facilities, provides a living arrangement that integrates shelter and food with medical, nursing, psychosocial and rehabilitation services

for persons who require 24-hour nursing supervision. Residents in skilled nursing homes can be funded under Medicare, Medicaid, Veterans, HMOs, insurance as well as use of private funds.



Supply of Senior Housing in the PMA

Table 5 shows an inventory of existing senior housing products located in the PMA. Utilizing information provided by the Minnesota Department of Health, the Rock County Senior Citizen Directory of Services, and discussions with local officials, we identified seven facilities in the PMA dedicated to providing housing for seniors.

- ▶ There are a total of 159 senior housing units in these seven facilities, four of which are vacant.
- ▶ We did not identify any market rate active adult living senior housing options in the Market Area, however there are two subsidized rental projects that are age-restricted. *Centennial Apartments* in Luverne is a 54-unit apartment building restricted to people age 62 and older. There are currently two available one-bedroom units available. The Adrian Housing and Redevelopment Authority built two four-unit rental townhomes for residents age 55 and older. These eight units are fully-occupied.
- ▶ *The Oaks* and *Poplar Creek Estates* are both managed by Good Samaritan Society. *The Oaks* is a 28-unit independent living facility with services available a-la-carte, making it a congregational facility. Monthly rents range from \$1,430 for the 575 square foot one-bedroom units to \$1,880 for the 937 square foot two-bedroom units. *Poplar Creek* is a 24-unit assisted living facility with four 608 square foot two-bedroom units renting for \$3,395 per month. The remaining units are 493 square foot one-bedroom units renting for \$2,945 per month. *Poplar Creek* currently has one opening that will be occupied by the end of June 2012 while *The Oaks* is fully-occupied.

TABLE 5 SENIOR HOUSING PROJECTS LUVERNE MARKET AREA June 2012					
Project Name/Location	Year Built	Total Units Vacant Units	Unit Mix	Monthly Rents	Unit Sizes
Active Adult Rental					
Centennial Apartments Luverne Subsidized	1977	54 2	50 - 1BR 4 - 2BR	income-based	552 685
<i>Notes: 24 Hour Staff, appliances Included (stove, refrigerator, dishwasher), community room with scheduled activities, includes electricity, garbage, gas, sewer, water, income restrictions apply, rent 30% of income, Section 8 project-based assistance available.</i>					
Adrian HRA Townhomes Adrian Subsidized		8 0	8 - 2BR	\$625 - \$675	1,000
<i>Notes: \$675 for 2-stall garage, \$625 for 1-stall garage. Unit, lawn and driveway maintenance included in rent. Renters pay utilities and propane.</i>					
Congregate					
The Oaks Luverne	1997	28 0	8 - 1BR 10 - 1BR Deluxe 10 - 2BR	\$1,430 \$1,585 \$1,880	575 667 937
<i>Notes: All utilities included. 1 meal per day, transportation, 24-hour response system, and free laundry on floors. Housekeeping, linens, and personal care available a la carte.</i>					
Assisted Living					
Poplar Creek Estates Luverne	2004	24 0	20 - 1BR 4 - 2BR	\$2,945 \$3,395	493 608
<i>Notes: All utilities included; 3 meals daily; weekly housekeeping and linen; 24-hour staff on site; weekly personal laundry; social activities; and medication administration.</i>					
Tuff Village Hills	2002	19 0	12 - 1BR 5 - 2BR	\$2,150 \$2,440	654 894
<i>Notes: All utilities included; 3 meals daily; weekly housekeeping and linen; 24-hour staff on site; weekly personal laundry; social activities; and medication administration. Has been full since opening in 2002.</i>					
Tuff Memorial Home Viste Manor Hills	1960s	6 0	5 - 1BR 1 - 2BR	\$1,390 \$1,670	624 888
<i>Notes: 3 meals daily; weekly housekeeping and linen; 24-hour staff on site; weekly personal laundry; social activities; and medication administration. Has been full since opening after remodel in 2005.</i>					
Adrian Country Living Cottages Adrian	2010	10 1	10 - Studio	service-based	310
<i>Notes: Staffed 24-hours per day. Services include 3 meals daily, medication assistance, laundry, housekeeping, on-site beauty salon, spa, studio and pocket-door apartments.</i>					
Memory Care					
Adrian Country Living Cottages Adrian	2010	10 1	10 - Studio	service-based	310
<i>Notes: Staffed 24-hours per day. Services include 3 meals daily, medication assistance, laundry, housekeeping, on-site beauty salon, spa, studio and pocket-door apartments.</i>					
Source: Maxfield Research, Inc.					

- ▶ *Tuff Village* is a 19-unit assisted living facility in Hills that has essentially been fully-occupied since it opened in 2002. *Tuff Memorial Home Viste Manor* is a 6-unit assisted living facility located across the street from Tuff Village. *Viste Manor* has been full since opening after an extensive remodel in 2005.
- ▶ The Adrian Housing and Redevelopment Authority began construction on *Adrian Country Living Cottages* in the fall of 2009. The project opened in 2010 with Elder Care of Minnesota managing the facility and provides ten units of assisted living and ten memory care units. Currently there are two available units (one in assisted living and one in memory care). Monthly rental rates are based on the level of services provided for each resident. Because this facility is located a relatively far distance from Luverne, the facility would have a separate, but overlapping, draw area with a senior housing development in Luverne. As such, we only include half of these units in our demand calculations presented in the next section of this study.

Pending Senior Housing Developments in the PMA

In order to assess future competition for a senior housing development project in Luverne, Maxfield Research interviewed planning staff from communities in the PMA to learn of any pending senior housing developments that may impact senior housing demand in the City. There are no senior housing projects planned or under construction in the Market Area

Market Rate Adult/Few Services Senior Housing Demand

Table 6 presents our demand calculations for market rate active adult/few services housing in the PMA in 2012 and 2017. The market for active adult/few services housing is comprised of older adult (age 55 to 64), younger senior (age 65 to 74) and older senior (age 75+) households, with market demand weighted most heavily toward older seniors. In order to arrive at the potential age-, income- and asset-qualified base for active adult housing, we include all age-qualified households with incomes of \$35,000 or more plus homeowner households with incomes between \$25,000 and \$34,999 who would qualify with the proceeds from a home sale. The number of qualifying homeowner households is estimated by applying the appropriate homeownership rate, as identified in Table 3 to each age cohort. We estimate there were 1,634 age-, income- and asset-qualified PMA households that comprise the market for active adult housing in 2012, increasing to 1,698 qualified households in 2017.

Adjusting to include appropriate capture rates for each age cohort (1.0% of households age 55 to 64, 7.5% of households age 65 to 74, and 15.0% of households age 75 and older) results in a demand potential for 100 active adult housing units in 2012 and 104 units in 2017. These capture rates reduce the total number of age/income/asset-qualified households to consider only

the portion of older adult and senior households who would be able, willing, and inclined to move to senior housing alternatives, including both owner- and renter-occupied housing.

We estimate that seniors currently residing outside the PMA will generate 15% of the demand for active adult housing – increasing demand to 118 active adult units in 2012. Demand from outside the PMA includes parents of adult children living in the PMA, individuals who live outside the PMA but have an orientation to the area and former residents who desire to return upon retirement.

TABLE 6 MARKET RATE ADULT/FEW SERVICES HOUSING DEMAND PRIMARY MARKET AREA 2012 & 2017						
	2012			2017		
	Age of Householder			Age of Householder		
	55-64	65-74	75+	55-64	65-74	75+
# of Households w/ Incomes of >\$35,000 ¹	704	365	304	716	431	323
# of Households w/ Incomes of \$25,000 to \$34,999 ¹	+ 116	77	122	+ 104	81	87
(times) Homeownership Rate	x 88%	88%	75%	x 88%	88%	75%
(equals) Total Potential Market Base	= 806	433	396	= 808	502	388
(times) Potential Capture Rate	x 1.0%	7.5%	15.0%	x 1.0%	7.5%	15.0%
(equals) Demand Potential	= 8	32	59	= 8	38	58
Potential Demand from Market Area Residents	= 100			= 104		
(plus Demand from Outside Market Area (15%))	+ 18			+ 18		
(equals) Total Demand Potential	= 118			= 122		
	Owner-Occupied	Renter-Occupied		Owner-Occupied	Renter-Occupied	
(times) % by Product Type	x 40%	x 60%		x 40%	x 60%	
(equals) Demand Potential by Product Type	= 47	= 71		= 49	= 73	
(minus) Existing and Pending Active Adult Units ²	- 0	- 0		- 0	- 0	
(equals) Pent-up Demand by Type	= 47	= 71		= 49	= 73	
(times) Percent capturable in Luverne	x 65% - 70%	x 65% - 70%		x 65% - 70%	x 65% - 70%	
(equals) # of units supportable in Luverne	= 31 - 33	= 46 - 50		= 32 - 34	= 48 - 51	

¹ 2017 calculations define income-qualified households as all households with incomes greater than \$40,000 and homeowner households with incomes between \$30,000 and \$39,999.
² Existing and pending are deducted at market equilibrium (95% occupancy) and only include market rate units.

Source: Maxfield Research Inc.

Demand for active adult/few services housing in the PMA is apportioned between ownership and rental product types. Based on the age distribution of the PMA population, homeownership rates and trends for senior ownership product, we project that 40% of the PMA’s demand will be for owner-occupied active adult housing (47 units in 2012), and the remaining 60% of demand will be for rental active adult housing units (71 units in 2012). There are no existing market rate active adult housing options in the PMA to satisfy the housing needs in the PMA.

No single Site can capture all of the excess demand in a PMA. We estimate that the City of Luverne can capture between 65% and 70% of total demand for active adult units. Based on our demand calculations, we estimate that a new project in Luverne could capture approximately 31 to 33 owner-occupied units and 46 to 50 rental units in 2012.

Adjusting for inflation, we estimate that households with incomes of \$40,000 or more and home-owners with incomes of \$30,000 to \$39,999 would be candidates for active adult housing in 2017. Following the same methodology, we project that there will be demand for 49 owner-occupied and 73 active adult rental units in the PMA in 2017. Demand for owner-occupied active adult housing capturable in Luverne will increase to between 32 and 34 units in 2017 while there will be demand for approximately 48 to 51 rental units.

Demand for Congregate Senior Housing

Table 7 presents our demand calculations for congregate living senior housing in the Primary Market Area in 2012 and 2017. This analysis focuses on the potential private pay/market rate demand for congregate living units in the Primary Market Area. In order to arrive at the potential age-income qualified base for congregate senior housing, we include all senior households with incomes of \$35,000 or more and homeowners with incomes between \$25,000 and \$35,000 who would qualify with the proceeds from a home sale (this proportion was estimated based on the homeownership rates for each age cohort). Senior householders with incomes of \$35,000 allocating 65% of their income toward base housing cost could afford beginning rents of \$1,900. We estimate the number of age/income/asset-qualified households in the Market Area to be 828 householders as of 2012, increasing to 891 in 2017.

Demand for congregate housing is need-driven, which reduces the qualified market to only the portion of seniors who need some assistance. Thus, the age/income-qualified base is multiplied by the percentage of seniors who need some assistance with IADLs (at least three), but not six or more ADLs/IADLs, as these frailer seniors would need the level of care found in service-intensive assisted living. According to the Summary Health Statistics of the U.S. Population: National Health Interview Survey, 2007 (conducted by the U.S. Department of Health and Human Services), the percentage of seniors having limitation in activities of daily living (bathing, dressing, toileting, transferring, eating) and instrumental activities of daily living (using the telephone, shopping, food preparation, housekeeping, laundry, transportation, taking medication, handling finances) are as follows:

<u>Limitation in ADLs & IADLs</u>		
Age	ADLs	IADLs
65-74 years	3.3%	6.3%
75+ years	11.0%	20.0%

It is most likely that seniors who need assistance with ADLs also need assistance with multiple IADLs, and are more likely to be candidates for service-intensive assisted living. The prime candidates for congregate living are seniors needing assistance with IADLs, but not ADLs. We derive the capture rate for congregate housing by subtracting the percentage of seniors needing assistance with ADLs from those needing assistance with IADLs, which equates to 3.0% of seniors age 65 to 74 and 9.0% of seniors 75+. For the purposes of this report and understanding current market conditions and a sluggish housing market, we have reduced the potential capture rates for the 65 to 74 age group to 1.5% while increasing the capture rate of the 75+ age group to 11.0%. Multiplying the senior household base by these capture rates results in Market Area demand potential for 50 congregate housing units in 2012 and 2017.

TABLE 7 CONGREGATE LIVING DEMAND PRIMARY MARKET AREA 2012 & 2017				
	2012		2017	
	Age of Householder		Age of Householder	
	65-74	75+	65-74	75+
# of Householders w/ Incomes of \$35,000+ in 2012 / \$40K in 2017 (plus)	365	304	431	323
# of Hhldrs w/ Incomes of \$25K - \$35K in 2012 / \$30K - \$40K in 2017 (times) Homeownership Rate (equals) Potential Market	+ 77 x 88%	122 75%	+ 81 x 88%	87 75%
(equals) Total Potential Market Base	= 68	92	= 71	65
(times) Potential Capture Rate of Congregate Living Demand ¹ (equals) Potential Demand	= 433 x 1.5%	396 11.0%	= 502 x 1.5%	388 11.0%
Total Local Demand Potential (plus) Demand from Outside the PMA (15%) (equals) Total Demand Potential	= 6 + 44		= 8 + 43	
(minus) Existing Competitive Units ² (equals) Excess Limited-Care Demand Potential	= 50 + 9	59	= 51 + 9	60
(times) Proportion Capturable in Luverne	- 27	= 32	- 27	= 33
(equals) Excess Limited-Care Demand Potential in Luverne	x 65% - 70%	= 21 - 22	x 65% - 70%	= 21 - 23

¹ The potential capture rate is derived from data from the Summary Health Statistics for the U.S. Population: National Health Interview Survey, 2007 by the U.S. Department of Health and Human Services. The capture rate used is the percentage of seniors needing assistance with IADLs, but not ADLs (seniors needing assistance with ADLs typically need assistance with multiple IADLs and are primary candidates for service-intensive assisted living.).

² Competitive existing and pending units at 95% occupancy (market equilibrium).

Source: Maxfield Research Inc.

As discussed earlier in this report, we estimate that seniors currently residing outside the Market Area will generate 15% of the demand for congregate senior housing – increasing total demand by 9 congregate units. This demand consists primarily of parents of adult children living in the Market Area, individuals who live just outside the Market Area and have an orientation

to the area, retirees who wish to relocate to the area and former residents who desire to return upon retirement. Together, the demand from Market Area seniors and demand from seniors who would relocate to the Market Area totals about 59 congregate units.

Next, existing congregate units are subtracted from overall demand. There is one property with a total of 28 competing units in the Market Area. Overall, we subtract 27 competitive units (after accounting for a 5% vacancy rate) from the demand potential, resulting in a total Market Area excess demand potential of 32 units. No single site can capture all of the potential demand in a PMA. We preliminarily estimate that the City of Luverne can capture between 65% and 70% of the PMA excess demand for a total range of 21 to 22 units in 2012 and 2017.

Assisted Living Demand Estimate

Table 8 presents our demand calculations for assisted living housing in the PMA in 2012 and 2017. This analysis focuses on the potential *private pay/market rate* demand for assisted living units in the PMA.

The availability of more intensive support services such as meals, housekeeping and personal care at assisted living facilities usually attracts older, frailer seniors. According to the 2009 Overview of Assisted Living (which is a collaborative research project by the American Association of Homes and Services for the Aging, the American Seniors Housing Association, National Center for Assisted Living, and National Investment Center for the Seniors Housing and Care Industry), the average age of residents in freestanding assisted living facilities was 87 years in 2008. Hence, the age-qualified market for assisted living is defined as seniors ages 75 and over, as we estimate that of the half of demand from seniors under age 87, almost all would be over age 75. In 2012, there were an estimated 1,377 seniors ages 75 and over in the PMA. We project that this number will slip slightly to 1,389 in 2017.

Demand for assisted living housing is need-driven, which reduces the qualified market to only the portion of seniors who need assistance. According to a study completed by the U. S. Census Bureau (1990 & 1991 panels of the Survey of Income and Program Participation (SIPP) files), about 30% of seniors needed assistance with everyday activities (from 19.5% of 75-to-79-year-olds, to 31.2% of 80-to-84-year-olds and 49.5% of 85+ year olds). Applying these percentages to the senior population yields a potential assisted living market of an estimated 468 seniors in the PMA in 2012 and 481 in 2017.

Due to the supportive nature of assisted living housing, most daily essentials are included in monthly rental fees which allow seniors to spend a higher proportion of their incomes on housing with basic services. Therefore, the second step in determining the potential demand for assisted living housing in the PMA is to identify the income-qualified market based on a senior's ability to pay the monthly rent. We consider seniors in households with incomes of \$40,000 or greater to be income-qualified for assisted living senior housing in the PMA. Households with

incomes of \$40,000 could afford monthly assisted living fees of \$3,000 by allocating a high proportion of their income toward the fees.

According to the 2009 Overview of Assisted Living, the average arrival income of assisted living residents in 2008 was \$27,260, while the average annual assisted living fee was \$37,281 (\$3,107/month). This data highlights that seniors are spending down assets to live in assisted living and avoid institutional care. Thus, in addition to households with incomes of \$40,000 or greater, there is a substantial base of senior households with lower incomes who income-qualify based on assets – their homes, in particular.

Seventy five percent of age 75+ households in the PMA are homeowners and the median sale price of single family homes in Luverne in 2011 was \$97,350. Seniors selling their homes for the median price would generate about \$91,509 in proceeds after selling costs. With an average monthly fee of \$3,500, these proceeds would last approximately 2.2 years (26 months) in assisted living housing, which is slightly longer than the average length of stay in assisted living (20 months according to the 2009 Overview of Assisted Living).

For each age group in Table 8, we estimate the income-qualified percentage to be all seniors in households with incomes at or above \$40,000 (who could afford monthly rents of \$3,000+ per month) plus 40% of the estimated seniors in owner households with incomes below \$40,000 (who will spend down assets, including home-equity, in order to live in assisted living housing). This results in a total potential market for about 239 units from the PMA in 2012.

Because the vast majority of assisted living residents are single (88% according to the 2009 Overview of Assisted Living), our demand methodology multiplies the total potential market by the percentage of seniors age 75+ in the PMA living alone, or 59% based on Census data. This results in a total base of about 141 age/income-qualified singles. The 2009 Overview of Assisted Living found that 12% of residents in assisted living were couples. Including couples results in a total of 161 age/income-qualified seniors needing assistance in the PMA in 2012.

We estimate that 60% of the qualified market needing significant assistance with ADLs could either remain in their homes or less service-intensive senior housing with the assistance of a family member or home health care, or would need greater care provided in a skilled care facility. The remaining 40% could be served by assisted living housing. Applying this market penetration rate of 40% results in demand for 64 assisted living units in 2012.

We estimate that a portion of demand for assisted living units in the PMA (15%) will come from outside the PMA. This secondary demand will include seniors currently living just outside the PMA, former residents, and parents of adult children who desire supportive housing near their adult children. Applying this figure results in total potential demand for 75 assisted living units in 2012.

**TABLE 8
MARKET RATE ASSISTED LIVING DEMAND
PRIMARY MARKET AREA
2012 & 2017**

Age group	2012				2017					
	People	Percent Needing Assistance ¹	Number Needing Assistance	Percent Income- Qualified ²	Number Income- Qualified	People	Percent Needing Assistance ¹	Number Needing Assistance	Percent Income- Qualified ²	Number Income- Qualified
75 - 79	464	19.5%	90	52%	47	434	19.5%	85	53%	45
80 - 84	408	31.2%	127	51%	65	416	31.2%	130	52%	67
85+	505	49.5%	250	51%	127	539	49.5%	267	53%	141
Total	1,377		468		239	1,389		481		254
Total potential market					239					254
(times) Percent living alone				x	59%				x	59%
(equals) Age/income-qualified singles needing assistance				=	141				=	150
(plus) Proportion of demand from couples (12%) ³				+	19				+	20
(equals) Total age/income-qualified market needing assistance				=	161				=	170
(times) Potential penetration rate ⁴				x	40%				x	40%
(equals) Potential demand from PMA residents				=	64				=	68
(plus) Proportion from outside the PMA (15%)				+	11				+	12
(equals) Total potential assisted living demand				=	75				=	80
(minus) Existing market rate assisted living units ⁵				-	41				-	41
(equals) Total excess market rate assisted living demand				=	34				=	39
(times) Percent that could be captured in Luverne				x	65% - 70%				x	65% - 70%
(equals) Excess market rate assisted living demand in Luverne				=	22 - 24				=	25 - 27
Note: See footnotes on the following page.										
Source: Maxfield Research Inc.										

¹ The percentage of seniors needing assistance with ADLs, based on the 1990 & 1991 panels of the Survey of Income and Program Participation (SIPP) files, conducted by the U.S. Census Bureau.
² Includes households with incomes of \$40,000 or more (who could afford monthly rents of \$3,000+ per month) plus 40% of the estimated owner households with incomes below \$40,000 (who will spend down assets, including home-equity, in order to live in assisted living housing).
³ The 2009 Overview of Assisted Living (a collaborative project of AAHSA, ASHA, ALFA, NCAL & NIC) found that 12% of assisted living residents are couples.
⁴ We estimate that 60% of the qualified market needing assistance with ADLs could either remain in their homes or reside at less advanced senior housing with the assistance of a family member or home health care, or would need greater care provided in a skilled care facility.
⁵ Existing and pending units at 95% occupancy, minus units estimated to be occupied by Elderly Waiver residents.

Next, existing and pending assisted living units are subtracted from overall demand. There are four existing assisted living properties in the PMA with a total of 54 competing units. However, we exclude estimated units occupied by low-income seniors utilizing Elderly Waivers (11 units). After subtracting these existing competitive units (minus a 5% vacancy factor) from the total demand equals an excess demand potential for 34 assisted living units in the PMA in 2012.

Following this same methodology, we project that total excess demand in the PMA will increase to 39 units in 2017. Allocating a range of 65% to 70% of the total assisted living demand to the City of Luverne results in excess demand for between 22 and 24 additional assisted living units in 2012, climbing to approximately 25 to 27 units in 2017.

Demand for Memory Care Senior Housing

Table 9 presents our demand calculations for memory care housing in the Primary Market Area in 2012 and 2017. Demand is calculated by starting with the estimated Market Area senior (ages 65+) population in 2012 and multiplying by the incidence rate of Alzheimer's/dementia among this population's age cohorts. This yields a potential market of about 399 seniors in the Primary Market Area. We project that this number will climb 413 in 2017.

According to data from the National Institute of Aging, about 25% of all individuals with memory care impairments are a market for memory care housing units. This figure considers that seniors in the early stages of dementia will be able to live independently with the care of a spouse or other family member, while those in the latter stages of dementia will require intensive medical care that would only be available in skilled care facilities. Applying this figure to the estimated population with memory impairments yields a potential market of about 100 seniors in the Primary Market Area in 2012 and 103 in 2017.

Because of the staff-intensive nature of dementia care, typical monthly fees for this type of housing start at about \$4,000. Although some of the seniors will have high monthly incomes,

most will be seniors willing to spend down assets and/or receive financial assistance from family members to afford memory care housing. Based on our review of senior household incomes in the Market Area, homeownership rates, and home sale data, we estimate that 44% of all seniors in the Market Area have incomes and/or assets to sufficiently cover the costs for memory care housing. This figure takes into account married couple households where one spouse may have memory care needs and allows for a sufficient income for the other spouse to live independently. Multiplying the potential market (100 seniors) by 44% results in a total of about 44 income-qualified seniors in the Market Area in 2012.

TABLE 9 MEMORY CARE DEMAND PRIMARY MARKET AREA 2012 & 2017		
	2012	2017
65 to 74 Population	1,042	1,256
(times) Dementia Incidence Rate ¹	x 2%	x 2%
(equals) Estimated Senior Pop. with Dementia	= 21	= 25
75 to 84 Population	873	850
(times) Dementia Incidence Rate ¹	x 19%	x 19%
(equals) Estimated Senior Pop. with Dementia	= 166	= 162
85+ Population	505	539
(times) Dementia Incidence Rate ¹	x 42%	x 42%
(equals) Estimated Senior Pop. with Dementia	= 212	= 226
(equals) Total Population with Dementia	399	413
(times) Percent Needing Specialized Memory Care Assistance	x 25%	x 25%
(equals) Total Need for Dementia Care	= 100	= 103
(times) Percent Income/Asset-Qualified ²	x 44%	x 46%
(equals) Total Income-Qualified Market Base	= 44	= 47
(plus) Demand from Outside the Market Area (15%)	+ 8	+ 8
Total Demand for Memory Care Units	52	56
(minus) Existing and Pending Memory Care Units	- 4	- 4
(equals) Excess Primary Market Area Demand Potential	48	52
(times) Estimated Percent Capturable on in Luverne	x 65% - 70%	x 65% - 70%
(equals) Memory Care Demand Capturable in Luverne	= 31 - 33	= 34 - 36
¹ Alzheimer's Association: Alzheimer's Disease Facts & Figures (2007)		
² Income greater than \$60,000 in 2010 and greater than \$65,000 in 2015, plus some lower-income homeowners.		
Source: Maxfield Research Inc.		

We estimate that 15% of the overall demand for memory care housing in Luverne would come from outside the Market Area, for a total demand for 52 units in 2012. Currently, there is only one facility with competing memory care units in the Market Area. We subtract 15% of these units (excluding public Elderly Waivers) and allocate a 7% vacancy factor for a total of 4 existing

units. We estimate that Luverne can capture between 65% and 70% of the total demand in the Market Area. Applying the capture rate results in an excess demand for between 31 and 33 market rate memory care units in Luverne in 2012. Excess demand is expected to grow to between 34 and 36 units in 2017.

Preliminary Conclusions

As described below, our preliminary assessment of the factors impacting demand for senior housing, including demographic, economic and competitive variables, supports additional active adult, congregate, assisted living and memory care senior housing in the PMA in 2012 and over the next five years. A growing older adult and senior population should maintain long-term demand for senior housing alternatives in the PMA.

There is currently demand to support an additional 31 to 33 owner-occupied and 46 to 50 renter-occupied active adult units in Luverne. Demand is expected to grow to a range of 32 to 34 owner-occupied and 48 to 51 renter-occupied units by 2017. Demand exists for 21 to 22 congregate units in 2012 with little change anticipated by 2017. An additional 22 to 24 assisted living and 31 to 33 memory care units can be supported in Luverne. By 2017, assisted living demand is expected to grow to between 25 and 27 units while memory care demand is anticipated to expand to between 34 and 36 units. If residency to lower-income residents with Elderly Waivers is allowed, then more units could be supported.

Service Level	Total Excess Demand in the PMA		Demand Capturable in Luverne	
	2012	2017	2012	2017
Owner-Occupied Active Adult	47	49	31 - 33	32 - 34
Renter-Occupied Active Adult	71	73	46 - 50	48 - 51
Congregate	32	33	21 - 22	21 - 23
Assisted Living	34	39	22 - 24	25 - 27
Memory Care	48	52	31 - 33	34 - 36
Total Units	232	246	151 - 162	160 - 171

Source: Maxfield Research Inc.

It should be noted that our conclusions are preliminary and do not consider the quality of a particular site for a senior housing development, historical performance of other senior housing developments in the PMA, price and positioning of a particular development site, or other important factors (i.e. architectural, marketing and management issues) that would likely impact the market feasibility of a possible development.