Jorgensen Appraisal
A Professional Real Estate Appraisal Group

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Appraisal Report

Assisted Living Supply and Demand Analysis
Park City, Utah Market Area

October 28, 2014

Prepared for:

Park City Corporation
C/0 Phyllis Robinson
445 Marsac Avenue
Park City, Utah 84060

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October 28, 2014

Park City Corporation, C/o Phyllis Robinson
445 Marsac Avenue
Park City, Utah 84060

RE: Assisted Living Supply and Demand Analysis
Park City, Utah Market Area

Dear Ms. Robinson:

At your request, we have completed a senior care supply and demand analysis for the Park City, Utah market area. The purpose of the study is to estimate market support for construction of a new assisted living facility. Selection of a specific site has not been finalized, so this analysis relates to the market in general, rather than one specific location. For analysis purposes, we have assumed a location which is central and convenient to the local population.

We consider the primary market area to be the general Park City area, including the Snyderville Basin, Parley's Park Corridor and the Highway 40 corridor. The secondary market is the remainder of Summit County and all of Wasatch County. There are currently five independent living and assisted living facilities in the general market, with a total of 150 units. Two of those facilities, with 21 units, are in the subject's primary market area: Broph's Place is a small, five-bed facility that opened in January of 2014 and Beehive Homes of Park City is a small, 16-bed facility that will open at the beginning of November. We have surveyed all five facilities in connection with this assignment. The average occupancy rate is 52.0% for the general market area overall and 42.9% for the two facilities in the subject's primary market. The low occupancy is due to the fact that more than half of the total units in the market are brand new and have not had time to achieve stabilized occupancy.

Our research included contacting each of the major jurisdictions in Summit and Wasatch Counties regarding proposed projects. There are no facilities in any phase of the planning process in either county, which is a little unusual because assisted living is a very popular development concept currently. For Wasatch County, developers may be waiting for the new Abbington of Heber to achieve stabilization before planning new projects. For Summit County, and for the Park City area in particular, the problem appears to be a lack of affordable development sites.

Forecasted demand for the subject is based on demographics, and on demand statistics derived from The Utah Assisted Living Survey, a comprehensive annual study by our firm. Our conclusions are broken down into three scenarios. The low scenario is based on the most pessimistic set of assumptions we consider reasonable. The high scenario is based on the most optimistic assumptions we consider reasonable. The mid scenario is our opinion of the most probable outcome. The following table is a summary of our mid scenario estimates of marginal demand.

Residual Demand Conclusions			
	Low Scenario	Mid Scenario	High Scenario
Primary Market Demand, Occupied Units (Park City Area)	83	89	93
Adjustment for Frictional Vacancy (10%)	÷ 0.90	÷ 0.90	÷ 0.90
Supportable Supply in Primary Market	**92**	**99**	**104**
Forecasted Supply	21	21	21
Residual Demand in Primary Market	**71**	**78**	**83**
Secondary Market Demand (Summit & Wasatch Counties)	102	111	117
Adjustment for Frictional Vacancy (10%)	÷ 0.90	÷ 0.90	÷ 0.90
Supportable Supply in Secondary Market	**113**	**123**	**130**
Forecasted Supply	129	129	129
Residual Demand in Secondary Market	**(16)**	**(6)**	**1**
Total Residual Demand for General Market Area	**55**	**72**	**84**

Our conclusion is that demand is adequate to support from 71 to 83 units of construction in the primary market area. The mid scenario estimate is 78 units, and our final recommendation is an initial construction of 80 units.

There is significant overlap in the independent living, assisted living and memory care segments of the market, so the ratio of units attributed to independent living, assisted living or memory care can vary somewhat from one market to another. Nevertheless, we note that the subject's primary market has no independent living units and an above-average ratio of assisted living and memory care beds. Therefore, our recommendation is that the subject should include an above-average ratio of independent living and be limited to about 15% memory care. The following is the allocation we recommend for the 80-unit construction:

	Residual Demand (Supportable Construction)
Independent Living	16-20 Units
Assisted Living	48-52 Units
Memory Care	12 Units
Total Development	80 Units

Thank you for this assignment. Please contact us if you have any questions or if we can help further in any way.

Respectfully submitted,

Digitally signed by Kerry M Jorgensen
DN: cn=Kerry M Jorgensen, o=Jorgensen Appraisal, ou, email=kerry@jorgensenappraisal.com, c=US
Date: 2014.10.29 08:15:42 -06'00'

Kerry M. Jorgensen, MAI

Utah State-Certified General Appraiser
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Jacob R. Jorgensen

Utah State-Licensed Appraiser
License 7338339-LA00 Expires 6-30-16

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CERTIFICATION

We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- We have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- We have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- No one provided significant real property appraisal assistance to the persons signing this certification. We have the appropriate education and experience to complete the assignment competently, as required by USPAP. A summary of qualifications is included in the addenda of the report.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute*.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, Kerry Jorgensen has completed the continuing education program of the Appraisal Institute.

Digitally signed by Kerry M Jorgensen
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Jacob R. Jorgensen

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License 7338339-LA00 Expires 6-30-2016

ASSUMPTIONS AND LIMITING CONDITIONS

This report and all of the analyst's work in connection with the assignment are subject to the assumptions, limiting conditions and other terms outlined below or stated elsewhere in the report. Any use of the assignment results by any party, regardless of whether such use is authorized or intended by the analyst, constitutes acceptance of all such assumptions, limiting conditions and terms.

General Assumptions:

1. No responsibility is assumed for the legal description provided or for matters including legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
2. The property is assumed to be free and clear of any or all liens or encumbrances unless otherwise stated.
3. Responsible ownership and competent property management are assumed.
4. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.
5. All engineering is assumed to be correct. The plot plans and illustrative material in this report are included only to help the reader visualize the property.
6. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for obtaining the engineering studies that may be required to discover them.
7. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless the lack of compliance is stated, described and considered in the report.
8. It is assumed that the property conforms to all applicable zoning and use regulations and restrictions unless a nonconformity has been identified, described and considered in the report.
9. It is assumed that all required licenses, certificates of occupancy, consents, and other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value opinions contained in this report are based.
10. It is assumed that the use of the land and improvements is confined within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.
11. Unless otherwise stated in the report, it is assumed the property is in general compliance with requirements of The Americans with Disabilities Act (ADA). However, the analysts are not trained or qualified to conduct an ADA compliance survey, and no responsibility is assumed for any non-compliance or for any

expertise required to discover non-compliance. The client is urged to retain an expert in this field, if desired.

12. Unless otherwise stated in this report, the existence of hazardous materials, which may or may not be present on the property, was not observed by the analysts. The analysts have no knowledge of the existence of such materials on or in the property. The analysts, however, are not qualified to detect such substances. The presence of substances such as asbestos, lead-based paint, toxic mold, urea-formaldehyde foam insulation, soil contamination, and other potentially hazardous materials may affect the value of the property. The value opinions are predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field if desired.
13. The analyst's liability in connection with any and all claims related to the assignment shall be limited to the amount of the fee actually paid by the client.

General Limiting Conditions:

1. Neither all nor any part of the contents of this report shall be conveyed to any person or entity, other than the analyst's client, through advertising, solicitation materials, public relations, news, sales, or other media without written consent and approval of the authors, particularly as to conclusions, the identity of the analyst or firm with which the analyst is connected, or any reference to the Appraisal Institute or MAI designation. Further, the analyst or firm assumes no obligation, liability, or accountability to any third party. If this report is placed in the hands of anyone but the client, client shall make such party aware of all the assumptions and limiting conditions of the assignment.
2. The analysts, by reason of this assignment, are not required to give further consultation or testimony or be in attendance in court with reference to the property in question unless arrangements have been previously made.

Extraordinary Assumptions:

None

Hypothetical Conditions:

None

EXECUTIVE SUMMARY

ASSIGNMENT:	Assisted living supply and demand analysis
LOCATION:	Park City, Utah market area
PURPOSE OF ASSIGNMENT:	Provide an opinion of market support for a proposed assisted living facility to be located in an unspecified Park City location
Intended Used of Report:	In project planning
Intended User:	Park City Corporation
EFFECTIVE DATES	
Report Date:	October 28, 2014
Effective Date of Conclusions:	October 13, 2014
PROPERTY DATA	
Site:	Not specified

FINAL OPINIONS AND CONCLUSIONS:

Residual Demand Conclusions

	Low Scenario	Mid Scenario	High Scenario
Primary Market Demand, Occupied Units (Park City Area)	83	89	93
Adjustment for Frictional Vacancy (10%)	÷ 0.90	÷ 0.90	÷ 0.90
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	Residual Demand (Supportable Construction)
Independent Living	16-20 Units
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Memory Care	12 Units
Total Development	80 Units

ASSIGNMENT AND SCOPE OF WORK

Purpose of the Assignment

The purpose of this supply and demand study is to provide an opinion of market support for construction of a proposed assisted living facility in the Park City, Utah market area. The study is general in nature and does not relate to a specific site or location.

Client and Intended User

The client and intended user is Park City Corporation. Use of this report by any other entity is not intended or authorized. The analysts are not responsible for unauthorized use.

Intended Use

The intended use of this report is in project planning, approvals and licensing. The scope of work for the assignment is based specifically on that intended use. The work and reporting may not be adequate for other uses. Therefore, the opinions in this report are not intended or authorized for any other purpose.

Effective Date

The effective date of the analysis is October 13, 2014, which is near the time primary data collection for the assignment took place. Supply, demand and general market conditions are constantly changing so the conclusions herein are specific to that effective date.

Scope of Work

Scope of work refers to the type and extent of research and analysis in a report. Scope of work includes, but is not limited to; the extent to which the property is identified, the extent to which tangible property is inspected, the type and extent of data researched, and the type and extent of analysis applied to arrive at opinions or conclusions. The scope of work can be limited by the client as part of the assignment, but the Uniform Standards of Professional Appraisal Practice (USPAP) require the scope to be adequate to provide credible results. The following briefly describes the scope of work included in this assignment.

Property Identification and Inspection

- A specific site for the proposed facility has not yet been identified. Therefore, the scope of work does not include an on-site inspection. Nevertheless, we are generally familiar with the market area under consideration.

Type and Extent of Data Researched

- Market data relied on in the assignment includes a survey of competitive properties, demographic data and general market analysis. Where possible, we have specifically cited the source of data in each case. Research included assembling information from our office files; driving portions of the market area to note neighborhood influences and evidence of market activity; interviews of administrators or others at competitive properties; a telephone survey of planning departments at the various zoning jurisdictions regarding proposed and current developments; and a review of Utah Department of Health license lists and the Health Facilities Plan Review Report showing approval status for proposed projects.

Type and Extent of Analyses Applied

- In arriving at the conclusions in this report, we have included both inferred demand analysis and fundamental demand analysis.
- As agreed with the client, this study is limited to an analysis of supply and demand. To fully establish feasibility, a projection of income would need to be completed and compared to projected cost, to check that the potential income is adequate to support the estimated cost. Because the floor plans and construction information are not yet available for the proposed development, that additional step is not included in the scope of work for this assignment.

Market Area Map

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MARKET AREA DATA

Overview

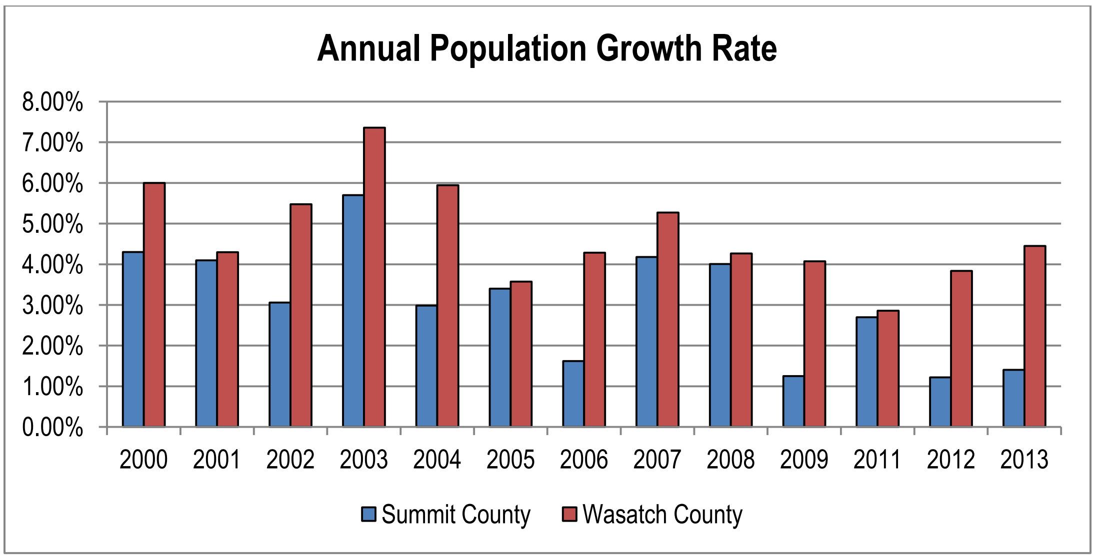
The subject is located in Park City, Utah, which is in Summit County. Summit and Wasatch Counties are located in north central Utah on the eastern slope of the Wasatch Mountain Range and make up a market area referred to as the *Wasatch Back*. The market area benefits from a mountain setting, within commuting distance to the urban Wasatch Front areas of Salt Lake City and Provo/Orem. Residential development activity was strong until the recent recession, and property values are relatively high. Development activity is generally centered around Park City in Summit County and Heber City in Wasatch County.

The area is also a vacation destination, with three major ski and summer resorts; Deer Valley, Park City Mountain Resort and The Canyons. Jordanelle and Deer Creek Reservoirs provide lake recreation in summer, and the surrounding mountains are popular for hiking, cycling and horseback riding. There are 11 golf courses, and a number of other recreation attractions.

Population

According to the 2010 Census, Summit County had a population of 36,324, and Wasatch County had a population of 23,530. The total for the two-county market area is now over 65,000 persons. These are among the fastest growing counties in the state. However the growth rate slowed during the recent recession. Census Bureau estimates for 2014 are not yet available, but it appears the rate of growth is increasing again, particularly in Wasatch County. Another notable trend is that the area of rapid population growth has shifted from Summit County to Wasatch County. Summit County growth fell from 6.8% per year in the 1990s to only 1.9% in the 2000s. That is likely the result of increasing land prices in Summit County which makes housing unaffordable for middle and lower income ranges.

Summit and Wasatch County Population					
	Summit County		Wasatch County		State
	Population	Growth Rate	Population	Growth Rate	Growth Rate
1980	10,400		8,650		
1990	15,518	4.08%	10,134	1.60%	1.60%
2000	30,048	6.83%	15,433	4.30%	2.60%
2010	36,324	1.91%	23,530	4.31%	2.12%
2011	37,447	2.70%	24,376	2.86%	1.45%
2012	37,904	1.22%	25,311	3.84%	1.42%
2013	38,436	1.40%	26,437	4.45%	1.61%



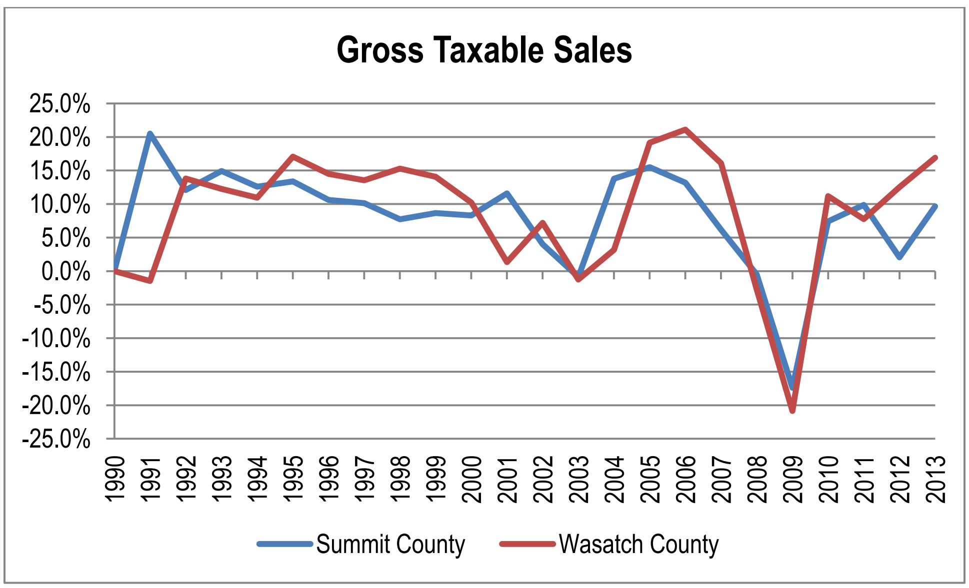
The Economy

The majority of Summit County's economic activity is in Park City. Park City's economy is based primarily on tourism and ski-related businesses. According to Utah Job Service, approximately 43% of the local work force is employed in travel or recreation related positions. (Utah Job Service indicates 36% work in recreation and leisure, the second highest percentage of Utah counties.) Park City is recognized regionally, nationally and internationally as a destination winter and summer resort town. The following table summarizes visitor nights and skier days, as compiled by the Park City Chamber of Commerce.

Annual Visitorship - Park City					
Visitor Nights			Skier Days		
Year	Visitor Nights	% Change	Year	Skier Days	% Change
Average Change		*3.3%*	*Average Change*		*3.0%*
2014			2013/14	1,838,641	3.1%
2013	3,086,547	0.5%	2012/13	1,782,878	0.0%
2012	3,071,015	-1.5%	2011/12	1,783,252	-4.5%
2011	3,118,065	3.7%	2010/11	1,866,317	7.6%
2010	3,007,970	6.8%	2009/10	1,734,025	5.4%
2009	2,816,326	-11.8%	2008/09	1,645,283	-12.1%
2008	3,194,339	-3.5%	2007/08	1,871,540	7.2%
2007	3,310,976	-1.4%	2006/07	1,746,333	1.8%
2006	3,357,614	2.9%	2005/06	1,715,536	6.7%
2005	3,263,751	13.0%	2004/05	1,608,332	13.4%
2004	2,887,162	8.6%	2003/04	1,418,345	5.5%
2003	2,658,178	-1.8%	2002/03	1,343,941	15.7%
2002	2,706,633	-0.8%	2001/02	1,161,734	-9.2%
2001	2,727,748	14.8%	2000/01	1,278,796	10.3%
2000	2,375,449	4.7%	1999/00	1,158,911	-3.7%
1999	2,267,997	-2.5%	1998/99	1,203,905	0.0%
1998	2,326,619	15.7%	1997/98	1,204,399	14.1%
1997	2,011,227	13.1%	1996/97	1,055,857	-7.2%
1996	1,778,695	16.2%	1995/96	1,137,589	14.7%
1995	1,531,365	-5.6%	1994/95	992,000	2.3%
1994	1,621,552	-0.6%	1993/94	970,000	23.0%
1993	1,631,327	-0.3%	1992/93	788,830	-16.4%
1992	1,635,822	-3.3%	1991/92	943,040	9.5%
1991	1,692,256	12.8%	1990/91	861,242	-2.9%
1990	1,500,311		1989/90	887,314	

The above visitor figures illustrate steady long-term growth in Park City's tourism-based economy. Visitor nights have increased an average of 3.3% per year and skier days have increased an average of 3.1% per year. However, there was a modest downturn in the 2002-2003 recession, and a rather sharp decline in 2009. Since 2010 the figures show some limited recovery.

Another broad measure of economic activity is growth in gross taxable sales. Gross taxable sales in the two counties have increased rapidly overall. However, there was a small decline in the 2003 recession, and 2009 was down sharply. 2009 sales were $1.37 billion, which was about the level of 2006. Here again, 2010-2011 showed a recovering trend, and by 2012 sales surpassed the previous peak in 2007. The economy is quite dependent on tourism and recreation, and taxable sales tend to be more volatile than the state as a whole.



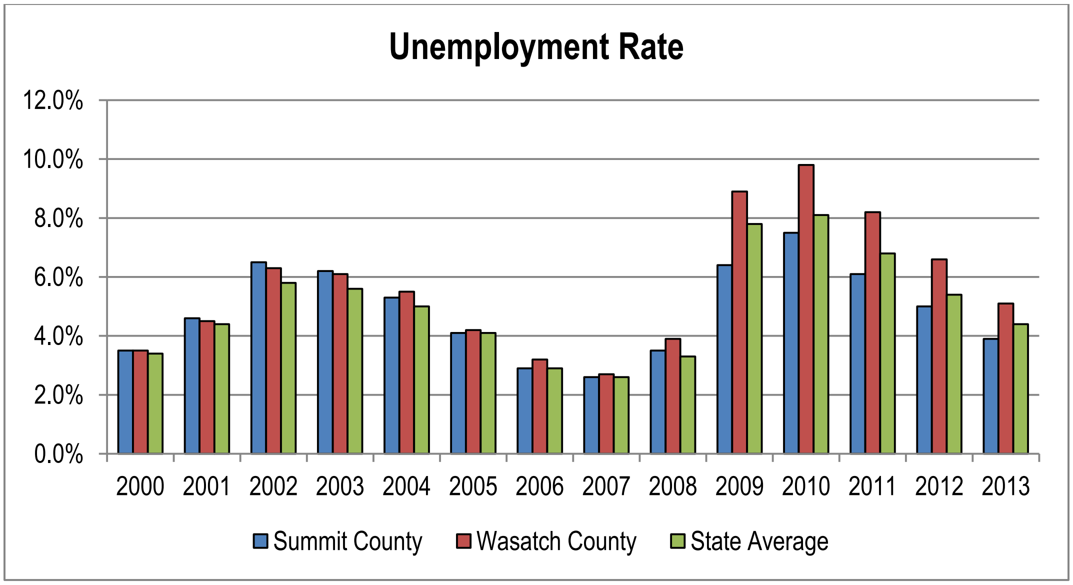
The largest private employers in the Park City area are Deer Valley Resort (250 to 1,200), Park City Mountain Resort (90 to 650), The Canyons (65 to 900), Nutraceutical International (400), Stein Eriksen Lodge Owners Assoc. (300), Rolls Royce Gear Systems (270), and Deer Valley Lodging (140 to 250).

The Labor Market

The Park City labor market had been very strong, and labor shortages were reported. However, in 2009-2010 jobs declined rather sharply as the national recession impacted the tourism and recreation industries. Each year since 2010 has seen healthy growth and in 2013 total non-farm employment in the area surpassed peak levels of 2007 and 2008.

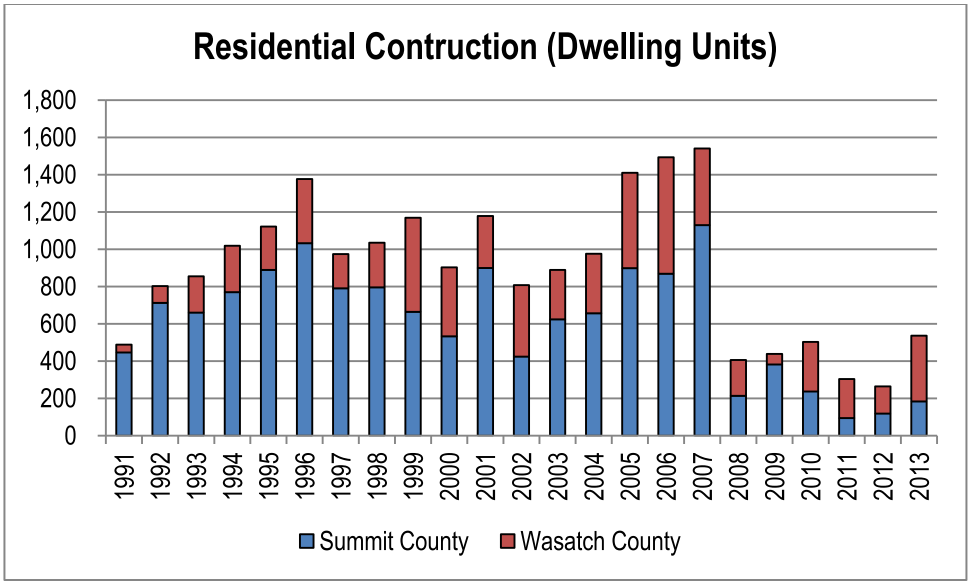
Summit/Wasatch County Employment Statistics				
	Summit County		Wasatch County	
	Non-Farm Employment	Annual Job Growth	Non-Farm Employment	Annual Job Growth
2000	17,533		7,468	
2001	17,936	2.3%	7,522	0.7%
2002	18,133	1.1%	7,692	2.3%
2003	18,761	3.5%	8,015	4.2%
2004	19,556	4.2%	8,378	4.5%
2005	20,711	5.9%	8,972	7.1%
2006	21,206	2.4%	9,846	9.7%
2007	21,324	0.6%	9,996	1.5%
2008	21,533	1.0%	9,884	-1.1%
2009	20,840	-3.2%	9,263	-6.3%
2010	20,286	-2.7%	9,073	-2.1%
2011	20,729	2.2%	9,152	0.9%
2012	21,394	3.2%	9,538	4.2%
2013	22,296	4.2%	10,177	6.7%

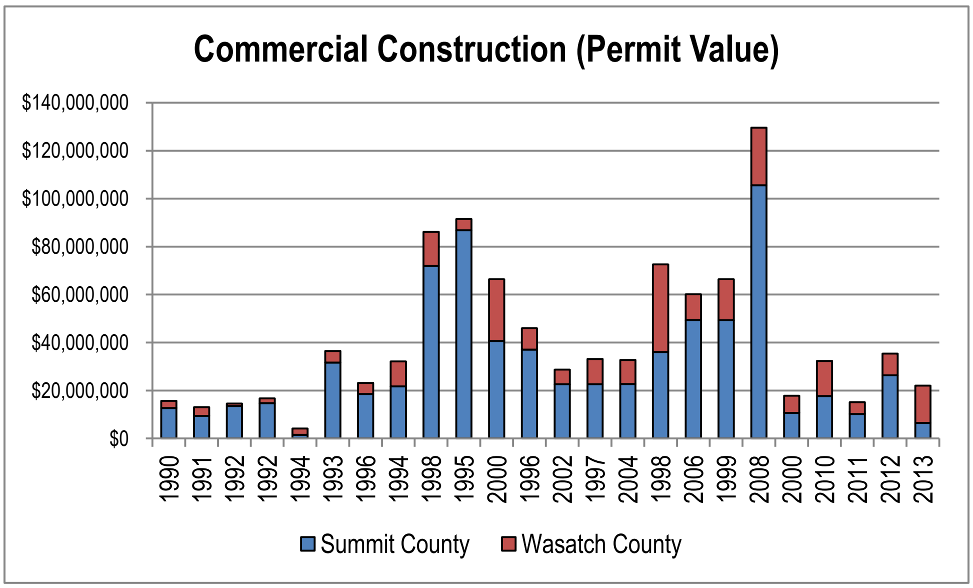
For February 2014, the most recent figures available, Utah Department of Workforce Services shows year-over-year employment up 3.5% in Summit County and 4.9% in Wasatch County. That is further evidence that the labor market bottomed out in 2010-2011 and is making a good recovery.



Construction

Residential construction activity in the two counties has generally grown over the last two decades, except for a moderate decline in the 2002-2003 recession. However, 2008 saw a dramatic reversal. According to *Utah Construction Report*, total construction for the two counties was only 406 units, which was just over one-fourth the numbers in the previous year. In 2009-2013 there have been some small variations, but the number of units constructed has remained very low. The construction market is expected to stay weak in 2014. The following chart summarizes construction information from the *Utah Construction Report*.





Summary

Long term, the outlook for Summit and Wasatch Counties is very favorable. Statistics indicate strong historical population and economic growth. Tourism and recreation have also had a healthy recovery since the sharp declines in 2008 and 2009. Construction activity has been very weak, but appears to have improved somewhat in 2013. Market conditions are likely to continue to improve through 2014.

Neighborhood Map

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NEIGHBORHOOD DATA

General Neighborhood

Park City sprung up as a mining town in the 1860's, and grew rapidly during a boom in silver mining to a population of about 10,000 by the 1880's. In the "great fire of 1898," over 200 homes on and around Main Street were destroyed, but many were rebuilt. By World War 1, the mining economy was in decline and the population was shrinking. In 1963, United Park City Mines opened a ski resort on the west side of town, and Park City began a gradual transition to a resort community. Park City is now recognized as one of the premier ski towns in North America. Historic Main Street features many restored store fronts dating back to 1898, with shops, boutiques, bars and restaurants. Homes and apartments in the surrounding area are protected by historic district designation, and many have been completely restored. The base of Park City Mountain Resort is at the west side of the historic district, several blocks from the commercial district on Historic Main Street. However, prior to the 2002 Winter Olympics the Town Lift was installed, connecting Park City Mountain Resort directly to the historic Main Street district. For the past 18 years, Park City Mountain Resort has been consistently ranked in the top 10 by *Ski* magazine.

Deer Valley Resort is located on the south side of Park City, and is the location of heaviest development activity in recent years. Deer Valley Resort is widely recognized as one of the top ski resorts in the nation. This is an attractive, mountainous area with steep slopes and substantial open, wooded areas. There are a number of high-end single family residential and multi-family residential developments at Deer Valley, some benefitting from direct ski-in/ski-out access to the slopes. There are also several resort hotels at Deer Valley. A new St. Regis Hotel opened in January 2010 and Montage Hotel opened in December 2010. These are two of the premier hotels in Park City and further enhance the area as a destination resort location.

At the north side of Park City is the Snyderville Basin area. Olympic Parkway (Highway 224) is the main highway north from Park City to I-80 at Kimball Junction. Along the highway itself are good quality single family residential subdivisions, and a few medium density townhomes and high density condominiums. Southwest of Olympic

Parkway is The Canyons resort, which bills itself as the largest resort in Utah, with 17 ski lifts and 3,700 skiable acres. Base and mountain facilities include restaurants, hotels and some retail shops. There are also several condominium developments in a cluster at the base of the mountain. East of the Olympic Parkway corridor, South Snyderville Basin becomes more rural in nature, with homes generally on large estate lots or rural acreage.

SENIOR CARE INDUSTRY OVERVIEW

The senior housing and senior care industry is generally broken down into six property classifications, endorsed by the following organizations: American Association of Homes & Services for the Aging (AAHSA); American Health Care Association (AHCA); American Seniors Housing Association (ASHA); Assisted Living Federation of America (ALFA); National Center for Assisted Living (NCAL); and the National Investment Center for the Seniors Housing & Care Industry, Inc. (NIC).

Active Adult Communities: For-sale single-family homes, townhomes, cluster homes, mobile homes and condominiums with no specialized services, restricted to adults at least 55 years of age or older. Rental housing is not included in this category. Residents generally lead an independent lifestyle; projects are not equipped to provide increased care as the individual ages. May include amenities such as clubhouse, golf course and recreational spaces. Outdoor maintenance is normally included in the monthly homeowner's association or condominium fee.

Senior Apartments: Multifamily residential rental properties restricted to adults at least 55 years of age or older. These properties do not have central kitchen facilities and generally do not provide meals to residents, but may offer community rooms, social activities, and other amenities.

Independent Living Communities: Age-restricted multifamily rental properties with central dining facilities that provide residents, as part of their monthly fee, access to meals and other services such as housekeeping, linen service, transportation, and social and recreational activities. Such properties do not provide, in a majority of the units, assistance with activities of daily living (ADLs) such as supervision of medication, bathing, dressing, toileting, etc. There are no licensed skilled nursing beds in the property.

Assisted Living Residences: State regulated rental properties that provide the same services as independent living communities listed above, but also provide, in a majority of the units, supportive care from trained employees to residents who are unable to live independently and require assistance with activities of daily living (ADLs) including management of medications, bathing, dressing, toileting, ambulating and eating. These properties may have some nursing beds, but the majority of units are licensed for assisted living. Many of these properties include wings or floors dedicated to residents with Alzheimer's or other forms of dementia. A property that specializes in the care of residents with Alzheimer's or other forms of dementia that is not a licensed nursing facility should be considered an assisted living property.

Nursing Homes: Licensed daily rate or rental properties that are technically referred to as skilled nursing facilities (SNF) or nursing facilities (NF) where the majority of individuals require 24-hour nursing and/or medical care. In most cases, these properties are licensed for Medicaid and/or Medicare reimbursement. These properties may include a minority of assisted living and/or Alzheimer's/dementia units.

CCRCs: Age-restricted properties that include a combination of independent living, assisted living and skilled nursing services (or independent living and skilled nursing) available to residents all on one campus. Resident payment plans vary and include entrance fee, condo/coop and rental programs. The majority of the units are not licensed skilled nursing beds.

MARKET ANALYSIS

A primary tenet of valuation is the *anticipation principle*, which states that value is created by the anticipation of future benefits. Market analysis is the process of studying current supply and demand, and projecting future changes in the balance of supply and demand so that the future benefits of property ownership can be predicted more reliably. The term *marketability analysis* is sometimes used to refer to a study tailored to a specific property, rather than a market in general.

The level of market analysis required for a particular assignment can vary based on the nature of the property, current and anticipated market conditions, and the intended use/user of the report. When market conditions are likely to substantially change in the future, fundamental analysis may be appropriate. In a fundamental analysis, specific projections are made for future supply and demand based on market fundamentals such as anticipated change in population, household income, employment or sales. In other situations, inferred analysis is adequate. In inferred analysis, comparable data, historical trends, published studies and general market information are used to make inferences regarding the likely trend in market conditions.

Property Productivity

The property's ability to compete against other properties of its type is a function of its location, physical characteristics and management. This analysis is not specific to a particular property or development plan. Nevertheless, the conclusions in this report assume any development is located central to the market area population, has good access and reasonable visibility, and is not impacted by adverse neighborhood influences. We also assume a project would be good construction quality, modern and attractive in design, and appropriately laid out to allow a broad range of rates appropriate to local income levels.

Market Delineation

The purpose of market delineation is to determine where demand comes from and which properties compete for this demand. The market is determined not only by geography and general use, but also by competitive class, quality, amenities and other factors.

The subject's natural geographic market area is Wasatch and Summit Counties. The existing Sante Assisted Living in Heber and Elk Meadow Estates in Oakley have been the only two assisted living facilities operating in the two-county area. However, that is beginning to change. Broph's Place, a home-based facility with five bedrooms has opened in Park City, and Abbington of Heber, a 73-unit facility opened very recently in Heber City. Beehive Homes of Park City, a 16-unit facility, is under construction in the Snyderville Basin area of Summit County and will open before the end of 2014. These five facilities would make up essentially all of the competition to the subject. To the west, Salt Lake County and Utah County are much more urbanized and are fully self-contained for health care services, so the subject would have little potential to draw significant demand from those areas. Rural Duschesne County is to the east, but the populated area of that county is 1.5 to 2.0 hours' drive from Park City, and is served by the Parkside Manor assisted living in Roosevelt, so the subject's potential to draw from that market is also very limited. Morgan County is only about 45 minutes north on I-80, but Family Tree Assisted Living opened a new 43-unit assisted living facility there in 2009, and Ogden Valley is geographically nearer than Park City, so the subject's potential to draw from Morgan County is also very limited.

On a following page is a drive time map by Site-To-Do-Business, centered at Kimball Junction near Park City, illustrating 10-minute and 15-minute drive times. The 15-minute drive time is the area we consider to be the primary market area for this analysis. The map shows essentially the entire Park City market area to be within 15 minutes, including Park City proper, the Snyderville Basin, Parley's Park Corridor and the Highway 40 corridor north of Jordanelle. These are the areas that tend to shop and obtain health care services within the Park City area. Park City has a new hospital campus near Highway 40, and a relatively broad range of medical services for a community of this size. However, until now there have been no licensed senior care facilities in the Park City area, including assisted living and skilled nursing.

We consider the secondary market area for the subject to be Wasatch County and the portions of Summit County beyond 15 minutes' drive time. Wasatch County and

Summit County are somewhat interrelated economically, and have somewhat similar market characteristics. The population in this secondary market is mainly concentrated in three areas, Heber Valley, Kamas Valley (South Summit) and North Summit. All three of these areas are about 20-30 minutes' drive time from Park City, so it will be a little more difficult for a Park City facility to attract residents from those markets. Nevertheless, it is reasonable to expect some overlap in the demand between Park City and these nearby areas.

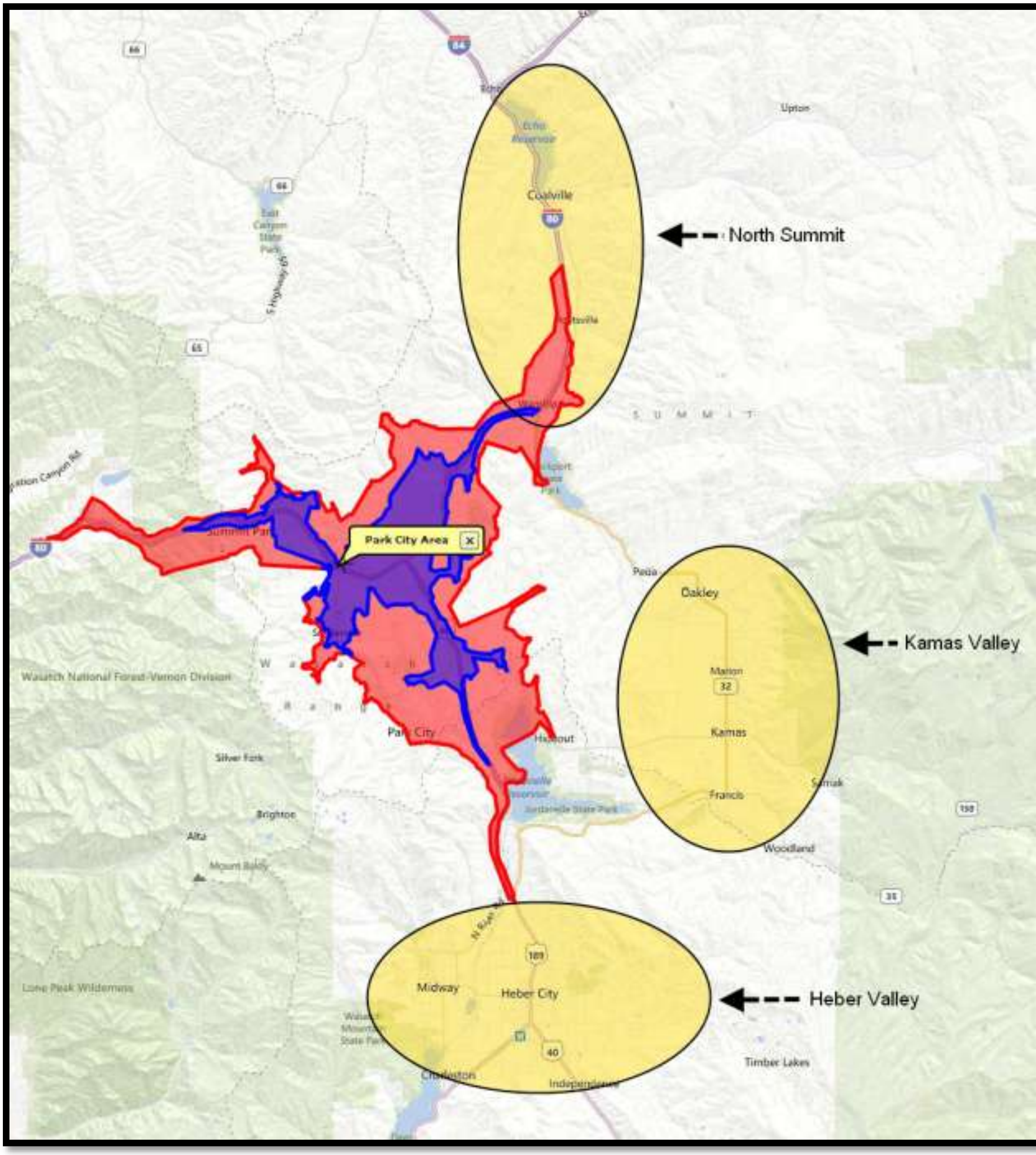
The largest population center in the secondary market is the Heber Valley, including Charleston, Heber City and Midway. Heber City is the retail and healthcare center for the Heber Valley. At the southern end of Heber City is an IHC hospital, and the community has several physicians, a skilled nursing home and one 16-unit assisted living facility in operation. Demand for assisted living in Heber Valley is likely well above 16 units, and it appears a significant share of assisted living demand from Heber Valley has been migrating to facilities in Utah Valley. However, a large new facility (Abbington of Heber) opened in mid-October 2014 and is experiencing very good initial absorption. That new facility will likely satisfy much or all of the pent-up demand from Heber Valley.

From Heber Valley, Utah Valley is almost as short a drive time as Park City, and Utah Valley is a much larger market area. All other things being equal, a large market with many competitors will have more drawing power than a small market with a few competitors. In other words, if a population has two locations available for a good or service, at an equal distance, a location with more competitors will capture a larger share of demand from that population than a location with fewer competitors. With that in mind, it is likely the subject's capture rate in Wasatch County is likely to be relatively low, even though the subject will be somewhat closer to most of the population than Utah County facilities.

The Kamas Valley is only about 20 minutes from Park City, including the communities of Francis, Kamas and Oakley. The valley is quite rural and rather sparsely populated. There is a neighborhood retail district anchored by a small supermarket in Kamas, and a small medical office building. Nevertheless, a significant share of retail and healthcare services for residents of Kamas Valley are provided in Park City. There is an existing assisted living facility with 42 units in Oakley (Elk Meadows Assisted

Living). That one facility substantially exceeds the supply necessary for an area as sparsely populated as Kamas Valley. Elk Meadows struggled with high vacancy for a number of years after opening, but has now achieved strong occupancy by attracting residents from other market areas, including Park City. For residents of Kamas Valley, Elk Meadows would have a significant location advantage over a facility in Park City, so it is likely the subject's capture rate in Kamas Valley will be relatively low.

North Summit County population is situated along the I-80 corridor from Wanship to Echo and includes Coalville, the Summit County seat. This is also a rural area with a rather small population. There is a supermarket and some minor retail in Coalville, and at least one family practice physician. There are no senior care facilities in North Summit, so Park City is the natural location to obtain these services. Nevertheless, Elk Meadows in Oakley is a similar distance and would also compete for north Summit County.



Primary Market Area Map

Market Area Demographics

The general market area is all of Summit and Wasatch counties. That population is nearly all within a twenty five minute drive time. The general market area is broken down into a primary market and a secondary market. The primary market area is the area within a 15-minute drive time of Kimball Junction near Park City. The secondary market area is everything in the general market that is outside the primary market. The following is a summary of population in the primary and secondary markets.

Market Area Population Projections					
		2010 Census	STDB 2013	STDB 2018	Average Growth %
Primary Market	All Ages	20,528	21,645	23,893	2.0%
	Age 45-64	6,845	7,282	7,630	0.9%
	Age 65-74	1,120	1,482	2,128	7.5%
	Age 75-84	317	388	634	10.3%
	Age 85+	87	95	127	6.0%
Secondary Market	All Ages	39,326	42,009	47,530	2.5%
	Age 45-64	9,272	9,761	10,456	1.4%
	Age 65-74	2,065	2,519	3,409	6.2%
	Age 75-84	931	987	1,263	5.1%
	Age 85+	265	300	374	4.5%
Combined General Market (Summit & Wasatch Counties)	All Ages	59,854	63,654	71,423	2.3%
	Age 45-64	16,117	17,043	18,086	1.2%
	Age 65-74	3,185	4,001	5,537	6.7%
	Age 75-84	1,248	1,375	1,897	6.6%
	Age 85+	352	395	501	4.9%

The projections indicate the age 75+ population on which the senior housing market depends is the fastest growing population segment in the primary market; growth in the age 65 to 74 population is also well above average. The general market area is a little more like other areas of Utah, where the age 65 to 74 is the fasted growing segment and the age 75+ population is growing a little slower.

The conclusions in this analysis are tied primarily to the 2018 projections. Demand for senior housing will begin increasing more rapidly a few years later, but more than four years is probably too long to justify construction of excess supply. The cost of carrying the excess supply of beds for several years would offset any economies of scale that might be enjoyed by doing a larger construction all at once. There is also additional risk in constructing a large supply of beds too early. By 2021, there could be unanticipated changes in the economy, the population, or the way health care is provided.

The census figures and the population projections relate to July 1 of the year, so the 2018 projection is about 3.75 years from the current date. That would allow about 6 months for concept, funding and approval; 12 months for construction; and up to 27 months to achieve stabilization. Therefore, the 2018 figures reasonably relate to about the time a new project could be expected to be completed and stabilized.

Current Market Supply

General Market (Summit & Wasatch Counties)

There are currently four assisted living facilities open and operating in the general market area, Sante Assisted Living in Heber City, Elk Meadows Assisted Living in Oakley, Broph's Place in Park City, and the brand new Abbington of Heber in Heber City. Beehive Homes of Park City is scheduled to open before the end of the year. These competitive properties are summarized in some detail on the following pages.

Indirect competition could come from independent living facilities or skilled nursing homes. There are no independent living facilities in operation in the market area. There is one skilled nursing home, Rocky Mountain Care Center in Heber City. It has 46 beds in 2 private rooms and 22 semi-private rooms. The facility was built in the 1960's and is over 50 years old. The owner has installed some new flooring and made a few other upgrades, but the property remains quite outdated. The facility houses mostly Medicaid patients, but does do some Medicare rehab for patients released from the new hospital in Park City. The owner has considered constructing a new facility, but no specific plans have been submitted to the state. Due to the outdated facilities and substantially higher rates, Rocky Mountain Care Center will not represent meaningful competition to the subject.

Competitive Property #1

Identification:	Sante Assisted Living
Location:	905 S. Southfield Road Heber City, Utah
Number of Beds/Units:	16/14
Level of Care:	AL-2
Year Built/Condition:	2003/average
Features and Amenities:	Emergency call/intercom, beauty shop, covered porch/patio.
Vacancy:	14.3%

Monthly Rates:

No.	Unit Type	SF Size	Base Rates		Vacant
			IL	AL-2	
14	Private Bedroom w/ Full Bath	250		$2,520	2
14	Total				2
--	Second Person Charge	--			--

Services Included in Base Rate

Meals and Snacks:	Included (3/day)
Utilities	Included
Housekeeping:	Included
Recreation Program:	Included
Scheduled Transportation:	Not available
Linen Laundry:	Included
Personal Laundry:	Available at additional charge
Cable TV in Room:	Available at additional charge
Telephone in Room:	Available at additional charge
Medication Reminders:	Included
Dressing/Grooming Assist:	Included
Bathing Assistance:	Included

Source of Information: Jessee, administration

Comments: The rooms are all private bedrooms; 8 have private full bathrooms and 6 have private half bathrooms. Two double occupancy rooms are available at $3,400/month. The flat rate includes most of the care provided, and there are relatively

Competitive Property #1

few additional charges. This is a small, residential-style property with modest common areas and amenities.

Competitive Property #2

Identification:	Elk Meadows Assisted Living
Location:	360 West 4200 North Oakley, Utah
Number of Beds/Units:	50/42
Level of Care:	AL-2
Year Built/Condition:	2000, closed in 2003, then re-opened in 2004; good condition
Features and Amenities:	Emergency call/intercom, fireplace, beauty shop, covered porch/patio.
Vacancy:	0.0%

Monthly Rates:

No.	Unit Type	SF Size	Base Rates		Vacant
			IL	AL-2	
27	Studio w/Kitchen	250		$2,775	0
5	One Bedroom w/Kitchen	625		$3,450	0
10	Private Bed			$3,500	0
42	Total				0
--	Second Person Charge	--		$1,000	--

Services Included in Base Rate

Meals and Snacks:	Included (3/day)
Utilities	Included
Housekeeping:	Included
Recreation Program:	Included
Scheduled Transportation:	Included
Linen Laundry:	Included
Personal Laundry:	Available at additional charge
Cable TV in Room:	Included
Telephone in Room:	Available at additional charge
Medication Reminders:	Included
Dressing/Grooming Assist:	Included
Bathing Assistance:	Included

Source of Information: Marci, marketing

Competitive Property #2

Comments: This facility's location is in the eastern part of the county, about 20 minutes away from the heaviest concentration of county population in the Park City area. The property suffered relatively high vacancy for a number of years, but reported no vacancy in July of 2014. (The management office refused to discuss occupancy when we contacted them regarding this assignment.) This is a nice facility with good amenities, but is probably too large for the small rural community it is located in. Additional care and services range from $0 to $1,000 per month, and average about $650.

<u>Competitive Property #3</u>

Identification: Abbington of Heber

Location: 551 East 1200 South
Heber City, Utah

Number of Beds/Units: 80/73

Level of Care: AL-2 & MC

Year Built/Condition: 2014/new

Features and Amenities: Emergency call/intercom, fireplace, library, beauty shop, covered porch/patio.

Vacancy: 79.5%

Monthly Rates:

No.	Unit Type	SF Size	Base Rates: AL-2	Base Rates: Memory Care	Vacant
30	Studio w/Kitchen		$2,450		26
23	One Bedroom Apartment		$2,850		18
3	Two Bedroom Apartment		$3,500		0
17	Private Bed			$3,950	14
73	Total				58
--	Second Person Charge	--			--

Services Included in Base Rate

Meals and Snacks:	Included (3/day)
Utilities	Included
Housekeeping:	Included
Recreation Program:	Included
Scheduled Transportation:	Included
Linen Laundry:	Included
Personal Laundry:	Included
Cable TV in Room:	Included
Telephone in Room:	Available at additional charge
Medication Reminders:	Included
Dressing/Grooming Assist:	Included
Bathing Assistance:	Included

Competitive Property #3

Source of Information: Marketing Director (435-657-8888) by Jake Jorgensen

Comments: This facility is brand new and opened on October 13, 2014. Preleasing began at the beginning of June 2014 and they have so far filled 15 rooms with 20 residents. The rates above are base rates, with each additional level of care being $450 extra. Memory care is all-inclusive.

Competitive Property #4

Identification: Beehive Homes of Park City

Location: 241 West Highland Drive
Park City, Utah

Number of Beds/Units: 20/16

Level of Care: AL-2

Year Built/Condition: 2014/new

Features and Amenities: Emergency call/intercom

Vacancy: 50.0%

Monthly Rates:

No.	Unit Type	SF Size	Base Rates AL-2	Base Rates Memory Care	Vacant
12	Studio w/kitchenette	300	$3,900		5
4	Studio w/kitchenette	350	$3,900		3
16	Total				8
--	Second Person Charge	--			--

Services Included in Base Rate

Meals and Snacks: Included (3/day)

Utilities Included

Housekeeping: Included

Recreation Program: Included

Scheduled Transportation: Included

Linen Laundry: Included

Personal Laundry: Included

Cable TV in Room: Included

Telephone in Room: Available at additional charge

Medication Reminders: Included

Dressing/Grooming Assist: Included

Bathing Assistance: Included

Source of Information: Marketing Director (435-657-8888) by Jake Jorgensen

Competitive Property #4

Comments: This facility has not yet opened, but is scheduled to open by the first week of November. Eight units have been committed to in the approximate eight-month marketing time.

Competitive Property #5

Identification: Broph's Place

Location: 500 Deer Valley Drive
Park City, Utah

Number of Beds/Units: 5/5

Level of Care: AL-1

Year Built/Condition: 2013/new

Features and Amenities: Small, residential-style facility

Vacancy: 80.0%

Monthly Rates:

No.	Unit Type	SF Size	Base Rates		Vacant
			AL-1	Memory Care	
5	Private bedroom w/ full bath	175	$4,000		4
5	Total				4
--	Second Person Charge	--			--

Services Included in Base Rate

Meals and Snacks: Included (3/day)

Utilities: Included

Housekeeping: Included

Recreation Program: Included

Scheduled Transportation: Included

Linen Laundry: Included

Personal Laundry: Included

Cable TV in Room: Included

Telephone in Room: Available at additional charge

Medication Reminders: Included

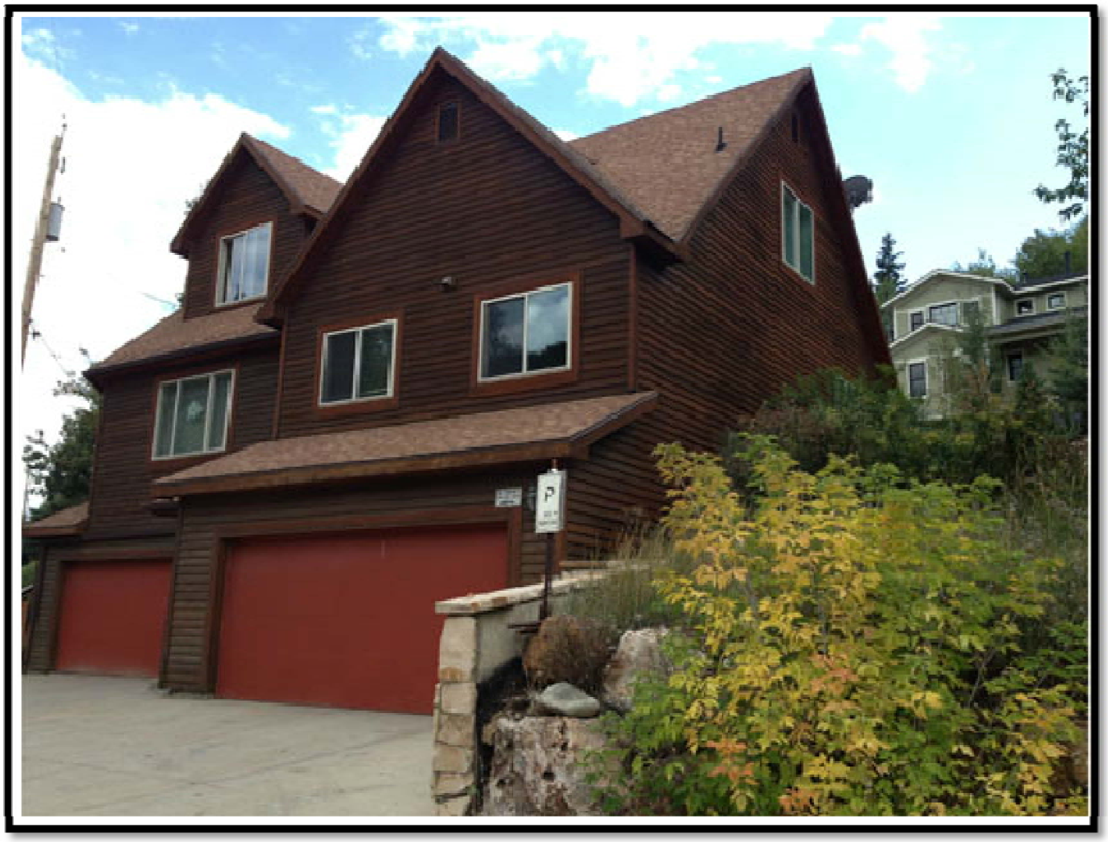
Dressing/Grooming Assist: Included

Bathing Assistance: Included

Source of Information: Marketing Director (435-657-8888) by Jake Jorgensen.

Comments: This is a home-based assisted living in Park City. It opened in January 2014. There is only one resident, who is apparently a parent of the owner.

Competitive Property #5



Primary Competition Map

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Primary Competition							
Comp	Facility Name	Units		Level I	Level II	Vacant Units	Vacancy Rate
1	Sante Assisted Living Heber City, Utah	14	Private Full Bath		$2,520.00	2	
		14	**Subtotal**			**2**	**14.3%**
2	Elk Meadows Assisted Living Oakley, Utah	27	Studio with Kitchenette		$2,775.00	-	
		5	One Bedroom		$3,450.00	-	
		10	Private ALZ		$3,500.00	-	
		42	**Subtotal**			**-**	**0.0%**
3	Abbington of Heber Heber City, Utah	30	Studio with Kitchenette		$2,450.00	26	
		23	One Bedroom		$2,850.00	18	
		3	Two Bedroom		$3,500.00	-	
		17	Private ALZ		$3,950.00	14	
		73	**Subtotal**			**48**	**65.8%**
4	Beehive Homes of Park City Park City, Utah	16	Studio with Kitchenette		$3,900.00	8	
		16	**Subtotal**			**8**	**50.0%**
5	Broph's Place Park City, Utah	5	Private Full Bath	$4,000.00		4	
		5	**Subtotal**			**4**	**80.0%**
Total/Weighted Average		-	Semi Private				
		-	Private Half Bath			-	
		19	Private Full Bath	$4,000.00	$2,520.00	6	
		73	Studio with Kitchenette		$2,606.10	34	
		28	One Bedroom		$2,960.48	18	
		3	Two Bedroom		$3,500.00	-	
		-	Semi Private ALZ			-	
		27	Private ALZ		$3,758.18	14	
		150	**Total**	**$4,000.00**	**$3,068.95**	**72**	**52.0%**

Our experience shows assisted living markets are in equilibrium at average occupancy rates in the 90% range. For independent living, we estimate equilibrium to be a little higher, in the 92% range. When assisted living occupancy rates exceed 90%, most properties are operating profitably, and new construction is feasible so market conditions encourage new construction. When market occupancy rates fall below about 90%, profits start to decline and market conditions discourage new construction.

According to our survey, there are 150 units of independent and assisted living in Wasatch and Summit counties. There are currently 72 vacant units, which indicates an average vacancy rate of 52.0%. However, the vacancy rate is skewed by the fact that three of the five facilities are new or not yet opened. The 73 units at Abbington of Heber opened only two weeks ago and the 16 units at Beehive Homes are not yet opened. Absorption at these two new facilities has actually been very good. Abbington of Heber already has 25 units occupied, and Beehive Homes of Park City has 8 of its 16 units already committed prior to opening. The two mature facilities in the market area, Sante Assisted Living and Elk Meadows Assisted Living have only two vacant units out of 64, which is a vacancy rate of just 3.6%. The subject's general market has been undersupplied historically and it is likely that occupancy will return to about equilibrium once these new facilities stabilize.

Primary Market (Park City Area)

Although the subject's primary market area is the largest population center in Summit and Wasatch Counties, it includes only a small minority of the assisted living supply. There are only two facilities in the primary market area, Broph's Place and Beehive Homes of Park City. Beehive Homes of Park City is not yet open, but already has half its units committed. Broph's Place is a home-based facility and appears to have very little marketing and limited business operation. There is only one resident currently, who is apparently a parent of the owner.

Developing Inventory

In order to project the supply of assisted living over the next few years, we have worked to identify any pipeline projects either under construction or in the planning and approval process. A preliminary list of pipeline projects was taken from the *Health Facility Plan Review Report* published by the Utah Department of Health, which reports the status of facilities in the plan review process or under construction. We have also telephoned each of the city and county planning departments, to get information on very early proposals the health department is not yet aware of.

Other than Beehive Homes of Park City, none of the municipalities in Summit and Wasatch Counties report any assisted living projects in the planning or construction stages. This is quite unusual, especially for a market that has been undersupplied historically, like the subject's. Statewide, there is a large amount of development activity and most markets have new projects proposed. For Wasatch County, completion of the new Abbington of Heber quite dramatically increased the local supply. It is reasonable that developers may be waiting for that project to stabilize before moving forward with any new proposals. For Summit County and for Park City in particular, we have had conversations with developers in recent years who say they have looked into the Park City market, but were unable to locate any affordable and suitable development sites. It appears high land prices are the major constraint on new development in the Park City area.

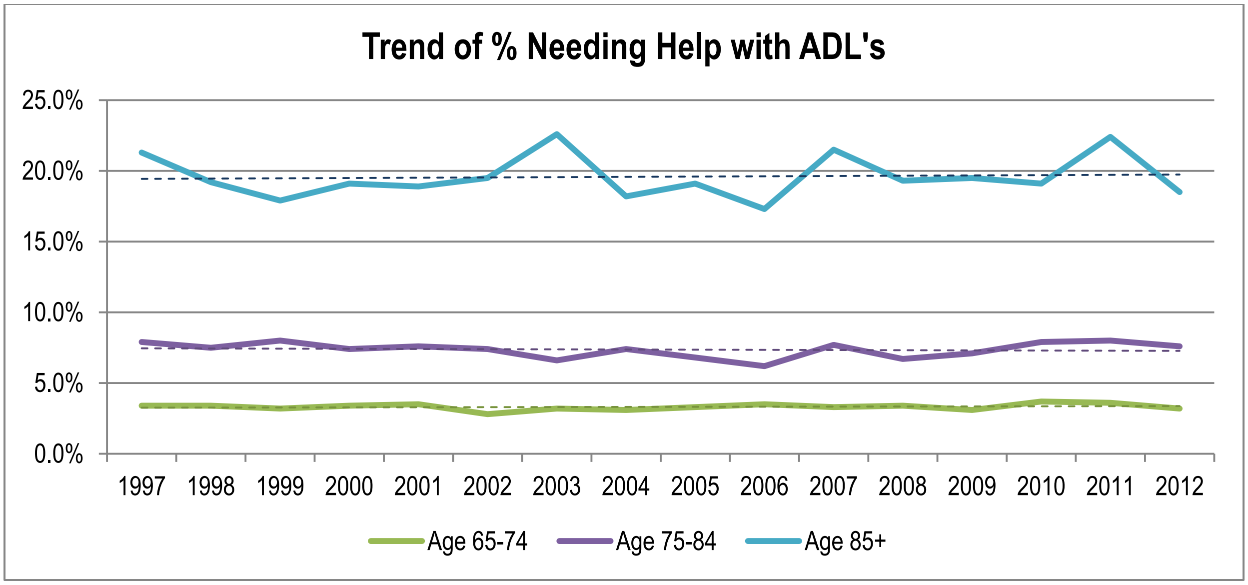
Demand

Potential Market

For senior care, the potential market is any older person who needs nursing care or living assistance. In order to study the relationship of age and need for assistance, we have considered data from the annual National Health Interview Survey by the Centers for Disease Control. The following is a summary of the reported percentage of the senior population needing help with *activities of daily living* (ADL) such as bathing, dressing, eating and getting around the home. ADL's are the primary driver of demand for assisted living. Need for assistance with *instrumental activities of daily living* (IADL), such as housekeeping, shopping, paying bills and transportation are also considerations, particularly for independent living.

Percent needing help with personal care from others (US, 1997 to Present, Source NHIS)			
	Age 65-74	Age 75-84	Age 85+
1997	3.4%	7.9%	21.3%
1998	3.4%	7.5%	19.2%
1999	3.2%	8.0%	17.9%
2000	3.4%	7.4%	19.1%
2001	3.5%	7.6%	18.9%
2002	2.8%	7.4%	19.5%
2003	3.2%	6.6%	22.6%
2004	3.1%	7.4%	18.2%
2005	3.3%	6.8%	19.1%
2006	3.5%	6.2%	17.3%
2007	3.3%	7.7%	21.5%
2008	3.4%	6.7%	19.3%
2009	3.1%	7.1%	19.5%
2010	3.7%	7.9%	19.1%
2011	3.6%	8.0%	22.4%
2012	3.2%	7.6%	18.5%
2013	3.3%	10.5%	
Average	3.3%	7.3%	19.4%

The NHIS survey shows some significant variation year to year. However, that is likely due to sampling error, rather than to real changes in average need for assistance. In the following chart we have calculated the linear trends of the above ratios, which show a nearly flat line, with perhaps a very slight downward trend. With that in mind we have estimated the ratio of seniors needing assistance with activities of daily living at the long term average; 3.3% of ages 65-75, 7.3% of ages 75-84 and 19.5% of age 85+.



Based on the above, the potential market for senior care is estimated as follows for the subject's primary market (15-minute drive time) and the secondary market (other Summit & Wasatch Counties). The senior population projections are from Site-To-Do-Business online, as presented earlier.

Potential Market (Persons Needing Assistance with Activities of Daily Living)										
	Age 65-74			Age 75-84			Age 85+			**Total**
Year	Population	% ADL's	Persons with ADLs	Population	% ADL's	Persons with ADLs	Population	% ADL's	Persons with ADLs	**Total Persons with ADLs**
Primary Market										
2013	1,482	3.3%	49	388	7.3%	28	95	19.5%	19	**96**
2014	1,593	3.3%	53	428	7.3%	31	101	19.5%	20	**103**
2015	1,713	3.3%	57	472	7.3%	34	107	19.5%	21	**112**
2016	1,841	3.3%	61	521	7.3%	38	113	19.5%	22	**121**
2017	1,979	3.3%	65	575	7.3%	42	120	19.5%	23	**131**
2018	2,128	3.3%	70	634	7.3%	46	127	19.5%	25	**141**
Secondary Market										
2013	2,519	3.3%	83	987	7.3%	72	300	19.5%	59	**214**
2014	2,676	3.3%	88	1,038	7.3%	76	314	19.5%	61	**225**
2015	2,844	3.3%	94	1,092	7.3%	80	328	19.5%	64	**237**
2016	3,021	3.3%	100	1,147	7.3%	84	342	19.5%	67	**250**
2017	3,209	3.3%	106	1,204	7.3%	88	358	19.5%	70	**264**
2018	3,409	3.3%	112	1,263	7.3%	92	374	19.5%	73	**278**
Combined General Market										
2013	4,001	3.3%	132	1,375	7.3%	100	395	19.5%	77	**309**
2014	4,270	3.3%	141	1,466	7.3%	107	414	19.5%	81	**329**
2015	4,556	3.3%	150	1,564	7.3%	114	434	19.5%	85	**349**
2016	4,862	3.3%	160	1,668	7.3%	122	456	19.5%	89	**371**
2017	5,189	3.3%	171	1,779	7.3%	130	478	19.5%	93	**394**
2018	5,537	3.3%	183	1,897	7.3%	138	501	19.5%	98	**419**

Market Penetration

Market penetration is defined as, "A measure of the amount of sales or adoption of a product or service compared to the total theoretical market for that product or service."[1] For purposes of this analysis, we consider the penetration ratio to be the proportion of seniors needing assistance who are cared for in independent living, assisted living or skilled nursing facilities. The proportion not in one of those facilities is presumably cared for in the home by family and friends, or perhaps with the help of a home health agency. We have also considered the separate penetration ratio for each of the three submarkets; independent living, assisted living and skilled nursing.

On the following two pages are tables outlining the data we have considered in forecasting the penetration ratio for senior care facilities in general and for the three levels of care in particular. The first table is an historical summary of the average number of occupied senior care units/beds. For skilled nursing, the statistics come from Facility Cost Profiles that Medicaid-certified nursing homes are required to file with the state (adjusted to include a few non-Medicaid long term care facilities). For assisted living and independent living, the statistics come from the Utah Assisted Living Survey, conducted most years by our firm. Prior to 2003, no comprehensive surveys are available for assisted living and independent living, although we have relatively good data on the number of units year-by-year. Therefore, in those years we have simply assumed the occupancy ratio was near equilibrium, with a few exceptions. On that basis, the total occupancy in senior care facilities has increased from about 6,058 occupied units/beds in 1987 to about 12,768 occupied units/beds in 2014, which is an increase of about 2.0% per year, compounded.

[1] Answers.com <http://www.answers.com/topic/market-penetration-2#ixzz18ldOggmx>

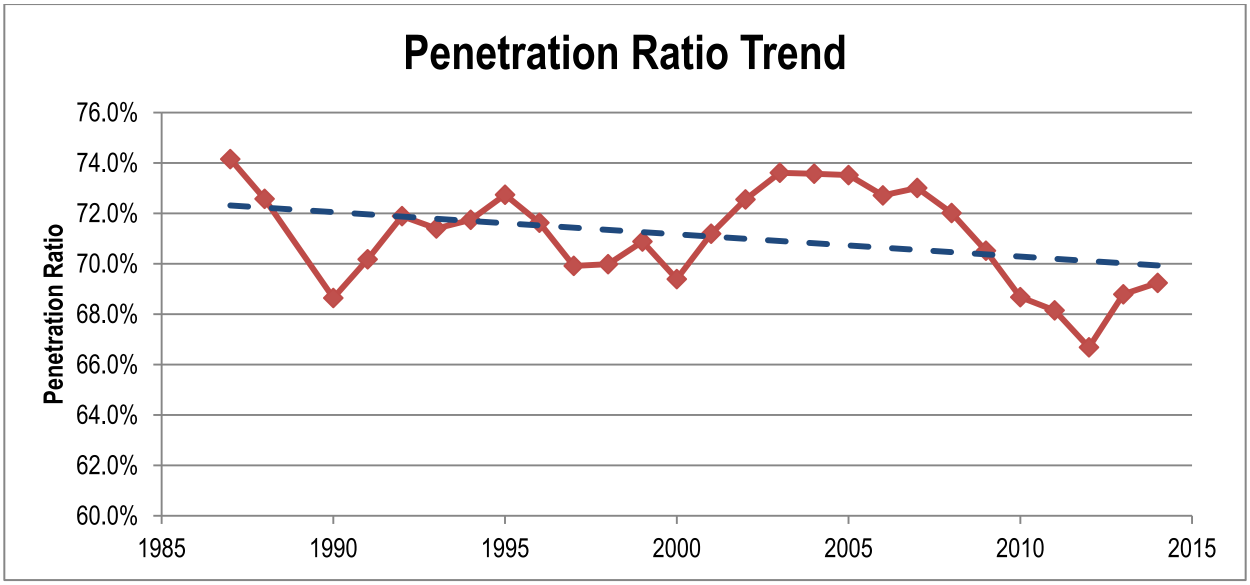
Senior Care Demand/Utilization										
	Independent Living			Assisted Living			Skilled Nursing			Total Senior Care
Year	Units	Occupancy Rate	Occupied Units	Units	Occupancy Rate	Occupied Units	Beds	Occupancy Rate	Occupied Beds	Occupied Units/Beds
1987	674	92.0%	620	544	90.0%	490			4,948	6,058
1988	771	92.0%	709	544	90.0%	490			4,923	6,122
1990	771	92.0%	709	649	90.0%	584	6,397	76.0%	4,862	6,155
1991	885	92.0%	814	676	90.0%	608	6,479	80.0%	5,183	6,606
1992	885	92.0%	814	747	90.0%	672	6,634	83.2%	5,519	7,006
1993	885	92.0%	814	841	90.0%	757	6,725	83.4%	5,609	7,180
1994	885	92.0%	814	1,060	90.0%	954	6,939	82.0%	5,690	7,458
1995	1,064	92.0%	979	1,285	90.0%	1,157	6,708	84.3%	5,655	7,790
1996	1,127	92.0%	1,037	1,366	90.0%	1,229	6,862	82.1%	5,634	7,900
1997	1,175	92.0%	1,081	1,570	90.0%	1,413	6,913	78.2%	5,406	7,900
1998	1,175	92.0%	1,081	1,770	90.0%	1,593	6,683	80.6%	5,386	8,060
1999	1,175	92.0%	1,081	2,070	90.0%	1,863	6,920	76.7%	5,308	8,252
2000	1,450	92.0%	1,334	2,650	78.0%	2,067	7,044	75.8%	5,339	8,740
2001	1,516	93.0%	1,410	3,224	79.0%	2,547	7,118	72.7%	5,175	9,132
2002	1,516	90.0%	1,364	3,667	80.0%	2,934	7,110	72.7%	5,169	9,467
2003	1,833	82.8%	1,518	3,832	82.4%	3,156	7,155	71.6%	5,123	9,797
2004	1,799	85.5%	1,538	4,022	87.2%	3,508	7,178	69.2%	4,967	10,013
2005	1,742	93.4%	1,627	4,094	90.1%	3,690	7,231	68.5%	4,953	10,270
2006	1,742	93.4%	1,627	4,242	89.9%	3,816	7,163	69.7%	4,993	10,435
2007	1,742	93.4%	1,627	4,391	89.8%	3,941	7,505	68.9%	5,171	10,739
2008	1,827	93.4%	1,706	4,539	89.6%	4,067	7,493	69.3%	5,194	10,967
2009	1,827	93.4%	1,706	4,687	89.4%	4,192	7,628	69.1%	5,267	11,165
2010	1,789	92.2%	1,649	5,138	90.5%	4,651	7,762	64.5%	5,005	11,305
2011	1,905	89.0%	1,695	5,244	90.6%	4,753	7,802	66.2%	5,166	11,614
2012	2,020	86.2%	1,741	5,350	90.7%	4,855	7,970	64.7%	5,154	11,750
2013	1,884	88.4%	1,665	5,943	90.5%	5,380	7,971	64.3%	5,122	12,167
2014	1,881	94.1%	1,770	6,295	91.3%	5,748	8,088	64.9%	5,250	12,768

Figures in blue highlight are estimates where no data is available.

In the next table, we have compared the estimated population of persons needing assistance to the average occupancy in senior care facilities, in order to calculate the penetration ratio. The total penetration ratios are in the right-hand column, and range from 65.8% to 74.2%. In other words, of those persons who need assistance with activities of daily living, about 66% to 74% are being cared for in senior care facilities and the remaining 26% to 34% are being cared for in the home. These figures may not be entirely precise, for several reasons. There may be some persons in senior care facilities who have no ADL's, but only IADL's (particularly in independent living); there are some short-term rehab patients in skilled nursing who still have a personal residence; and the independent and assisted living figures do not include second occupants in the same unit. Nevertheless, we consider the ratios to be reasonable for forecasting purposes as long as they are used consistently.

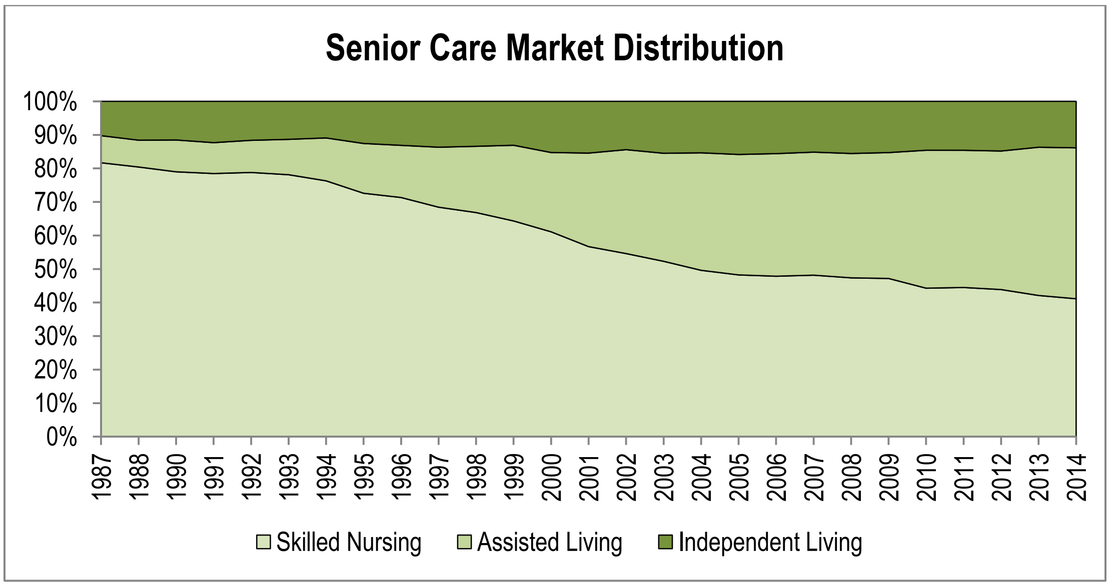
Historical Senior Care Penetration Ratio (1987 to Present)												
	Age 65-74			Age 75-84			Age 85+			Total		
Year	Population	% ADL's	Need Assistance	Population	% ADL's	Need Assistance	Population	% ADL's	Need Assistance	Need Assistance	Occupied IL/AL/SNF	Penetration Ratio
1987	79,964	3.3%	2,639	43,689	7.3%	3,189	12,007	19.5%	2,341	8,169	6,058	74.2%
1988	81,733	3.3%	2,697	45,213	7.3%	3,301	12,501	19.5%	2,438	8,435	6,122	72.6%
1990	85,269	3.3%	2,814	48,260	7.3%	3,523	13,489	19.5%	2,630	8,967	6,155	68.6%
1991	90,342	3.3%	2,981	49,826	7.3%	3,637	14,332	19.5%	2,795	9,413	6,606	70.2%
1992	91,913	3.3%	3,033	51,465	7.3%	3,757	15,157	19.5%	2,956	9,746	7,006	71.9%
1993	93,135	3.3%	3,073	53,300	7.3%	3,891	15,855	19.5%	3,092	10,056	7,180	71.4%
1994	94,173	3.3%	3,108	55,317	7.3%	4,038	16,666	19.5%	3,250	10,396	7,458	71.7%
1995	95,385	3.3%	3,148	56,832	7.3%	4,149	17,506	19.5%	3,414	10,710	7,790	72.7%
1996	96,289	3.3%	3,178	58,646	7.3%	4,281	18,311	19.5%	3,571	11,029	7,900	71.6%
1997	96,579	3.3%	3,187	60,176	7.3%	4,393	19,074	19.5%	3,719	11,299	7,900	69.9%
1998	96,772	3.3%	3,193	61,293	7.3%	4,474	19,744	19.5%	3,850	11,518	8,060	70.0%
1999	96,994	3.3%	3,201	63,227	7.3%	4,616	19,617	19.5%	3,825	11,642	8,252	70.9%
2000	102,073	3.3%	3,368	67,446	7.3%	4,924	22,072	19.5%	4,304	12,596	8,740	69.4%
2001	103,741	3.3%	3,423	68,506	7.3%	5,001	22,578	19.5%	4,403	12,827	9,132	71.2%
2002	105,591	3.3%	3,484	69,545	7.3%	5,077	23,012	19.5%	4,487	13,049	9,467	72.6%
2003	107,976	3.3%	3,563	70,378	7.3%	5,138	23,631	19.5%	4,608	13,309	9,797	73.6%
2004	110,352	3.3%	3,642	71,507	7.3%	5,220	24,352	19.5%	4,749	13,610	10,013	73.6%
2005	113,925	3.3%	3,760	72,827	7.3%	5,316	25,099	19.5%	4,894	13,970	10,270	73.5%
2006	117,400	3.3%	3,874	74,084	7.3%	5,408	25,996	19.5%	5,069	14,352	10,435	72.7%
2007	122,374	3.3%	4,038	75,009	7.3%	5,476	26,644	19.5%	5,196	14,710	10,739	73.0%
2008	127,926	3.3%	4,222	76,740	7.3%	5,602	27,722	19.5%	5,406	15,229	10,967	72.0%
2009	133,674	3.3%	4,411	78,267	7.3%	5,713	29,276	19.5%	5,709	15,834	11,165	70.5%
2010	138,224	3.3%	4,561	80,247	7.3%	5,858	30,991	19.5%	6,043	16,463	11,305	68.7%
2011	145,349	3.3%	4,797	81,403	7.3%	5,942	32,322	19.5%	6,303	17,042	11,614	68.1%
2012	152,474	3.3%	5,032	82,559	7.3%	6,027	33,652	19.5%	6,562	17,621	11,750	66.7%
2013	156,170	3.3%	5,154	82,230	7.3%	6,003	33,497	19.5%	6,532	17,688	12,167	68.8%
2014	162,809	3.3%	5,373	85,726	7.3%	6,258	34,921	19.5%	6,810	18,440	12,768	69.2%

For the 27 years in the study, the average penetration ratio was 71.1%. In order to analyze the long term trend, we have graphed the penetration ratios and have used a linear regression calculation, as follows.



The notable conclusion that can be drawn from this data is that the overall penetration ratio for senior care has remained relatively stable over a long period of time. The trend line is just slightly downward over 25 years, and the downward trend appears to be skewed by a drop during the recent recession. It is thought that with more women working and unable to provide full time care to elderly parents, demand for senior care could be increasing. However, these statistics indicate that is not necessarily the case. It could be that a reduction in Medicaid assistance or a decline in insurance coverage is offsetting other trends. In any case, our conclusion is that long term demand for senior care will tend to be in the range of 70% to 72% of elderly persons with ADL's. It is interesting to note that the periods of time when the demand was a little below this long-term trend somewhat correspond to economic recessions (the late 1980's, 2001-2003 and 2008-2010). The mid 1990's and the 2004-2007 period are above the long term trend, and were very strong economic periods. A possible explanation is that when the economy is very strong, a slightly higher ratio of families choose senior care facilities, and when the economy is weak a slighter higher ratio provide care in the home. With that in mind, it is reasonable to expect that the senior care penetration ratio will return near its historical average as the economy improves.

A final conclusion that can be drawn from analysis of the 27 years of data is that, although the penetration ratio of senior care facilities overall has remained quite stable, the penetration ratios of the three segments of the senior care industry have changed dramatically. In 1987, the large majority of senior care was provided by nursing homes. In the years since then, demand for assisted living has grown rapidly while demand for skilled nursing has declined. Assisted living facilities are more affordable than skilled nursing, and have a less institutional atmosphere. Therefore, they are a more desirable alternative for the healthier segment of the senior care market. The following chart illustrates the breakdown of the senior care market year by year.



An analysis of the proportion of senior care demand captured by the three facility types shows that independent living increased from 10.2% of demand in 1987 to 15.3% of demand in 2000, and has held relatively level at an average of 15.0% of senior care demand since then. Assisted living, on the other hand, has continued to increase its proportion of the market, reaching a peak of 45.0% in 2014. Linear regression analysis indicates the long term trend has been about 160 basis points (1.6%) annual increases in the proportion of demand captured by assisted living. That trend could continue for some time. At some point, however, the remaining portion of market will be elderly who are simply too frail to be adequately cared for in assisted living. At that time, the proportion cared for in skilled nursing homes should stop declining, and assisted living will no longer enjoy as rapid increases in demand. In fact, the chart above indicates some leveling out may already be occurring. If the regression analysis is limited to the period from 2002 to the present, the trend is only 1.0% increase per year. However, that could be impacted by recession.

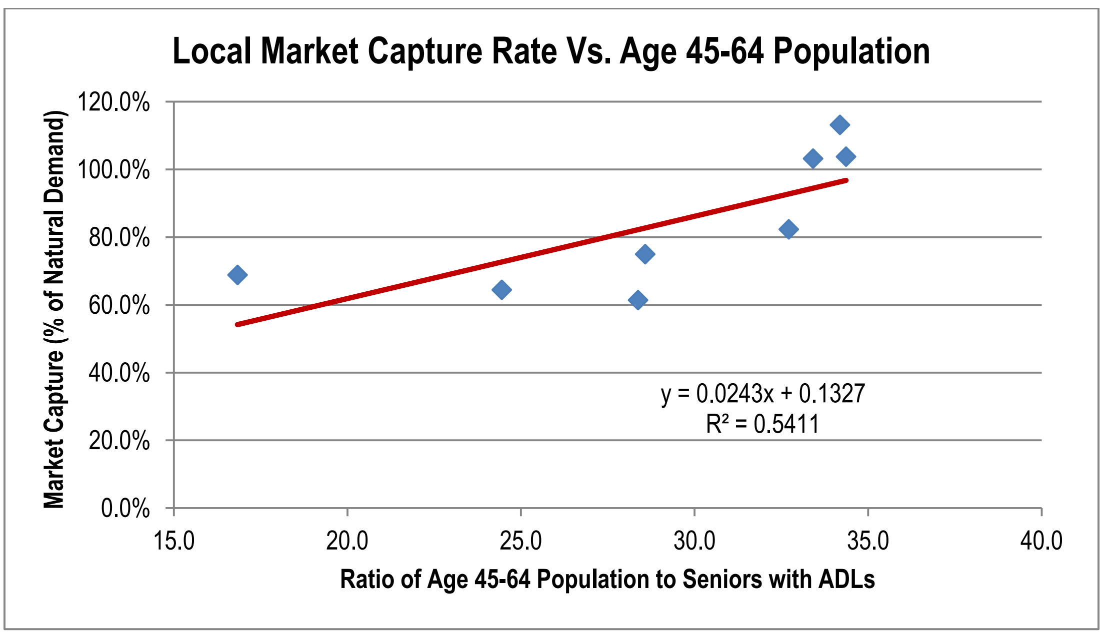
With the above in mind, we have broken our forecasts into three scenarios. In the high scenario, we assume the proportion of demand attributable to assisted living continues to increase 1.6% per year, which is about the trend of the past 25 years. In the mid scenario, we assume the increase is 1.0% per year, which is nearer the trend of the most recent years. In the low scenario we assume the ratio holds constant at about the level of 2014.

In-migration or Out-migration of Market Area Demand

The above conclusions relate to the state of Utah overall. However, there can be significant variations from one market area to another, for several reasons. The two major issues, in our experience, are the population of persons age 45 to 64, and the relative wealth of the population. The 45 to 64 year age range is the population likely to have a parent in need of senior care. In some cases, seniors are placed in a facility near their children, rather than near their previous place of residence. Therefore, a location with a high proportion of persons age 45 to 64 can have higher demand for senior care than would be indicated solely by the number of seniors in the area. Some rural locations have a relatively low ratio of working age persons to the number of seniors. These locations can experience a net out-migration of seniors when they are placed in senior care, as some children working in urban areas bring parents to facilities near them. That also appears to be an issue in Washington County, a popular retirement destination, where it appears some seniors return to urban areas when they are no longer able to care for themselves independently.

In the following table and chart, we have analyzed the relationship of senior care demand in a particular market with the population of 45-64 year olds.

Senior Care Supply and Demand Analysis (Utah Counties 2013)								
County	Occupied IL/AL Units	Occupied NF/SNF Beds	Total Senior Care Occupancy	Seniors With ADLs	Penetration Ratio	Ratio to Expected (at 69.3%)	Population Ages 45-64	Ratio 45-64 to Seniors With ADLs
Cache, Rich	374	158.5	532.5	658	80.9%	116.6%	19,947	30.3
Box Elder, Weber, Morgan, north Davis	1,264	911.4	2,175.4	3,023	72.0%	103.8%	103,860	34.4
Salt Lake, Tooele, south Davis	3,503	2,503.2	6,006.2	7,653	78.5%	113.1%	261,632	34.2
Summit, Wasatch	49	27.3	76.3	309	24.7%	35.6%	17,043	55.1
Utah, Juab	1,117	610.0	1,727.0	2,413	71.6%	103.2%	80,611	33.4
Millard, Sanpete, Sevier, Wayne, Piute	106	159.3	265.3	594	44.7%	64.4%	14,511	24.4
Beaver, Garfield, Iron	78	100.5	178.5	419	42.6%	61.4%	11,890	28.4
Daggett, Duchesne, Uintah	53	146.5	199.5	349	57.1%	82.3%	11,431	32.7
Carbon, Emery, Grand, San Juan	50	208.0	258.0	496	52.0%	75.0%	14,179	28.6
Washington, Kane	542	297.8	839.8	1,759	47.7%	68.8%	29,609	16.8
Total/Average	**7,136**	**5,122.5**	**12,258.5**	**17,688**	**69.3%**	**100.0%**	**564,713**	**31.9**



In the above chart, we have compared the penetration ratio for a market against its ratio of 45-64 year olds to seniors with ADLs. There is a clear positive trend, although the correlation is not very tight. The trend line formula would indicate occupancy equal to 147.1% of natural demand for the subject's general market area (in-migration of

47.1%), and 198.1% of natural demand for the subject's primary market area (98.1% in-migration). However, the actual for Summit & Wasatch Counties was only 35.6% (64.4% outmigration) in 2013, which is significantly lower than the trend line prediction. In fact, Summit & Wasatch Counties have the lowest utilization rate in the state, despite having the highest ratio of person age 45 to 64. This is likely due to the limited supply in the general market and the close proximity of the Salt Lake and Utah county markets. As new facilities are completed and opened in the subject's market area, we expect that ratio to increase. We conclude that with the recent doubling of supply in the subject's market area, that outmigration will decrease. However, it is unlikely that in-migration will reach the levels indicated by the trend line formulas as Salt Lake and Utah counties still have significant drawing power.

The greater Salt Lake market is over half the state supply of senior care facilities, and captures a disproportionately large share of demand. Its senior care utilization is 13.1% higher than natural demand, assuming natural demand is the state average of 69.3% of seniors with ADLs. The Greater Ogden Area and Utah County also have penetration ratios above the state average. One possible factor in the high demand in more urban locations is that these locations have numerous hospitals and more healthcare options than more rural communities. It could be that when an elderly patient is released from the hospital, they tend to be placed for rehab in a facility near the hospital and their physician. The Salt Lake area also has a wider selection of facilities than any other location, and is a natural choice for seniors from rural locations where there are few options; hence, a significant amount of in-migration of demand. Cache is also over 100%. It is an anomaly because it attracts significant demand from southeastern Idaho that is not reflected in the calculation. The other markets all appear to experience a net out-migration of demand for senior care to Salt Lake County, Utah County, or the Greater Ogden area.

With these figures in mind, our projections are 5% in-migration of demand in general market area and 20% in-migration for the primary market area.

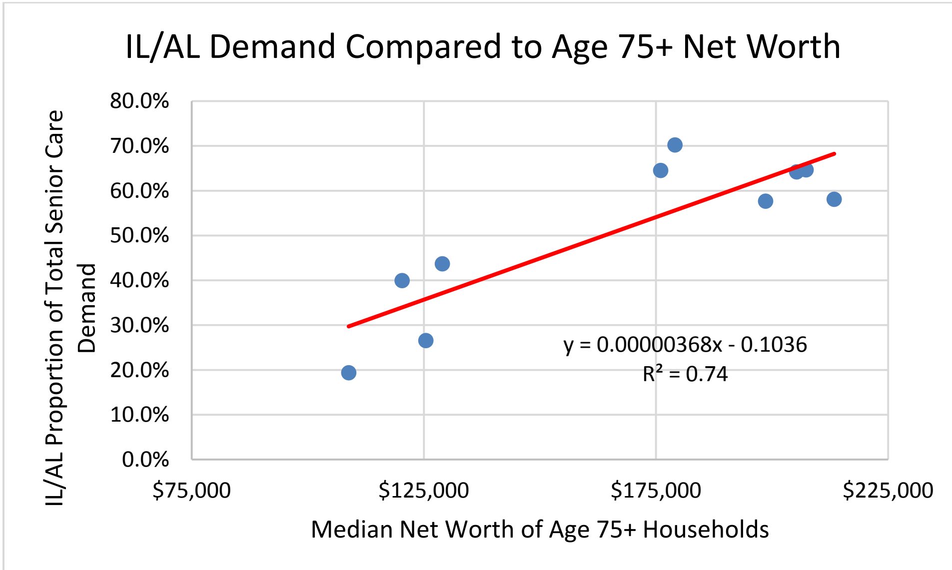
Distribution of Market Area Senior Care Demand

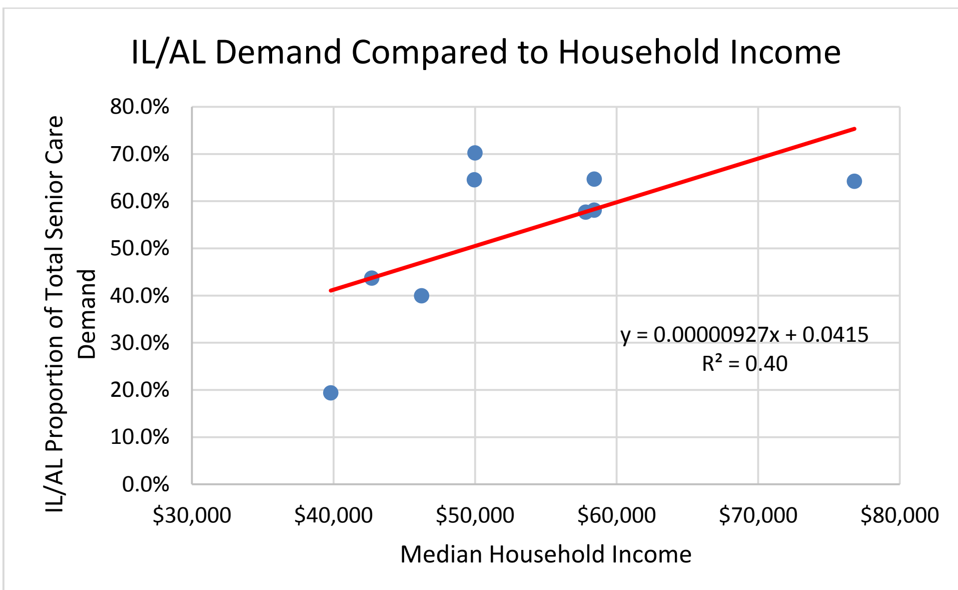
The population demographic can impact overall demand for senior care in a market area. The income demographic can impact the type of facility a family chooses. The majority of residents in nursing homes are supported by Medicaid. For low income seniors who are unable to pay for their own care, Medicaid covers the cost of a stay in a nursing home. Therefore, low income seniors without assets tend to be placed in nursing homes, even if they would prefer assisted living. For seniors with higher income or assets, and without long term care insurance, nursing home care is very expensive. Therefore, higher net worth seniors most often start in independent living or assisted living, and are only moved to skilled nursing if they can no longer be adequately cared for in assisted living. The result is that, in higher income areas, the proportion of senior care provided by assisted living and independent living facilities is higher. In lower income areas, the proportion in nursing homes is higher.

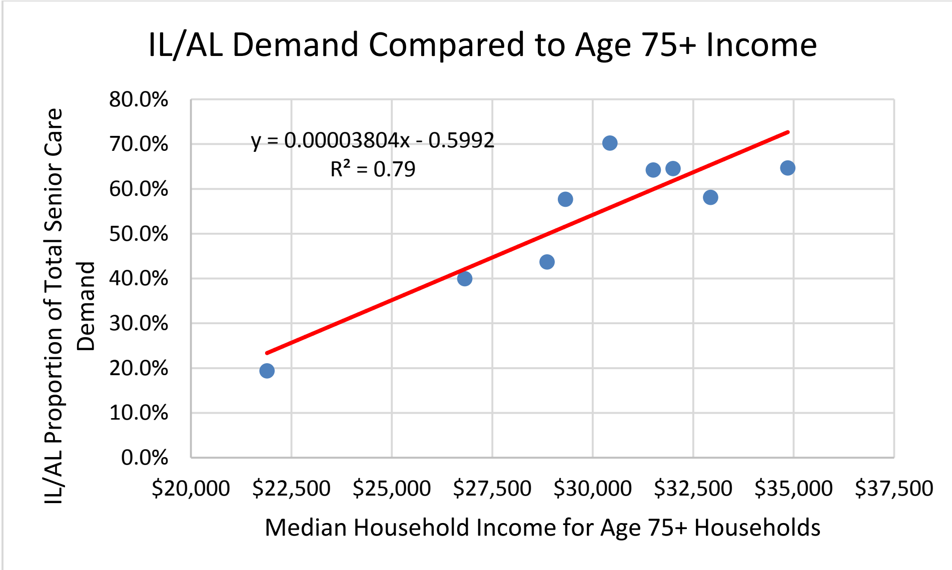
In the following table and charts, we have analyzed how the breakdown in demand between independent living/assisted living and skilled nursing varies from market to market, based on income. As expected, markets with higher incomes have a significantly higher proportion of senior care demand in assisted living, while lower income markets are more dependent on nursing homes.

Senior Care Supply and Demand Analysis (Utah Counties 2013)

County	Occupied IL/AL Units	Occupied NF/SNF Beds	Total Senior Care Occupancy	Ratio of IL/AL to Total	75+ Net Worth (2010)	Median HH Income	Median HH Inc. Age 75+
Cache, Rich	374	158.5	532.5	70.2%	$179,088	$49,994	$30,427
Box Elder, Weber, Morgan, north Davis	1,264	911.4	2,175.4	58.1%	$213,381	$58,416	$32,932
Salt Lake, Tooele, south Davis	3,503	2,503.2	6,006.2	58.3%	$198,608	$57,814	$29,320
Summit, Wasatch	49	27.3	76.3	64.2%	$205,296	$76,799	$31,506
Utah, Juab	1,117	610.0	1,727.0	64.7%	$207,327	$58,419	$34,853
Millard, Sanpete, Sevier, Wayne, Piute	106	159.3	265.3	40.0%	$120,309	$46,223	$26,814
Beaver, Garfield, Iron	78	100.5	178.5	43.7%	$128,977	$42,701	$28,862
Daggett, Duchesne, Uintah	53	146.5	199.5	26.6%	$125,424	$54,792	$32,037
Carbon, Emery, Grand, San Juan	50	208.0	258.0	19.4%	$108,813	$39,806	$21,892
Washington, Kane	542	297.8	839.8	64.5%	$176,002	$49,949	$31,998
Total/Average	**7,136**	**5,122.5**	**12,258.5**	**58.2%**	**$191,291**	**$56,334**	**$30,583**


IL/AL Demand Compared to Age 75+ Net Worth
IL/AL Proportion of Total Senior Care Demand
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
$75,000
$125,000
$175,000
$225,000
Median Net Worth of Age 75+ Households
y = 0.00000368x - 0.1036
R² = 0.74


IL/AL Demand Compared to Household Income
IL/AL Proportion of Total Senior Care Demand
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
$30,000
$40,000
$50,000
$60,000
$70,000
$80,000
Median Household Income
y = 0.00000927x + 0.0415
R² = 0.40



Median household income in the subject's general area (Summit & Wasatch Counties) is above average, at $76,799 in 2013 compared to the state average of $56,334. That indicates the 45 to 64 year old group in the market area is above average in its ability to assist with the cost of care for an elderly parent. The net worth of age 75+ households in the general market area is above average at $205,296 in 2010 compared to an average of $191,291. The median income for age 75+ households is about average, at $31,506 in 2013 versus $30,583 for the state. That indicates the seniors themselves have about average resources to use in paying for care.

The trend line formula from the above regression analysis related to median household income implies that independent living and assisted living should capture 75.3% of senior care demand in the market area. The trend line formula relating to age 75+ household net income implies 59.9%. The trend line relating to age 75+ net worth indicates 65.2%. The age 75+ income statistics have the tightest correlation and are therefore given most weight. On that basis, we estimate 60.0% of senior care demand in the general market area relates to independent living and assisted living. However, we noted earlier that the IL/AL proportion has been growing over time, and concluded the state average would increase annually from 0% (low scenario) to 1.0% (mid scenario) to 1.6% (high scenario).

For the subject's primary market area (Park City area), median household income is $103,158. The median net worth of age 75+ households is $287,025 and the median household income for age 75+ households is $45,596. The three regression formulas would imply 99.8%, 113.5% and 95.3%. These are less consistent, and the subject is well outside the data the statistics were pulled from, and extrapolation reduces the reliability of the results. Nevertheless, it is clear that the subject's primary market area is even more affluent than the general market area. We have therefore estimated 70% of senior care demand in the primary market area relates to independent living and assisted living.

Fundamental Demand Analysis

Below are fundamental demand analyses used to forecast market conditions over the next five years. The first three relate to the general market area (Summit & Wasatch Counties) and are presented in three scenarios; mid scenario, low scenario and high scenario. The next three relate to the immediate market (Park City area) and include the same three scenarios.

Fundamental Analysis of Supply and Demand - **Mid Scenario**					
	General Market Area - Summit & Wasatch Counties				
	2014	2015	2016	2017	2018
Population Age 65-74	4,270	4,556	4,862	5,189	5,537
% With ADL Limitations	3.3%	3.3%	3.3%	3.3%	3.3%
Subtotal	141	150	160	171	183
Population Age 75-84	1,466	1,564	1,668	1,779	1,897
% With ADL Limitations	7.3%	7.3%	7.3%	7.3%	7.3%
Subtotal	107	114	122	130	138
Population Age 85+	414	434	456	478	501
% With ADL Limitations	19.5%	19.5%	19.5%	19.5%	19.5%
Subtotal	81	85	89	93	98
Total With ADL Limitations	329	349	371	394	419
Senior Care Penetration Ratio	69.2%	70.0%	71.0%	71.0%	71.0%
Natural Senior Care Demand	227	244	263	280	297
Adjustment for Inmigration/Outmigration	1.05	1.05	1.05	1.05	1.05
Total Senior Care Demand	239	257	277	294	312
Proportion Captured by IL/AL	60.0%	61.0%	62.0%	63.0%	64.0%
IL/AL Demand (Occupied Beds)	**143**	**157**	**171**	**185**	**200**
Adjustment for Frictional Vacancy	÷ 0.90	÷ 0.90	÷ 0.90	÷ 0.90	÷ 0.90
Supportable Supply (Units)	159	174	191	206	222
New IL/AL Construction (Units)	-	-	-	-	-
Projected IL/AL Supply (Units)	**150**	**150**	**150**	**150**	**150**
Residual Demand (Oversupply)	**9**	**24**	**41**	**56**	**72**
Projected IL/AL Occupancy (Demand ÷ Supply)	95.0%+	95.0%+	95.0%+	95.0%+	95.0%+

Fundamental Analysis of Supply and Demand - **Low Scenario**					
	General Market Area - Summit & Wasatch Counties				
	2014	2015	2016	2017	2018
Population Age 65-74	4,270	4,556	4,862	5,189	5,537
% With ADL Limitations	3.3%	3.3%	3.3%	3.3%	3.3%
Subtotal	141	150	160	171	183
Population Age 75-84	1,466	1,564	1,668	1,779	1,897
% With ADL Limitations	7.3%	7.3%	7.3%	7.3%	7.3%
Subtotal	107	114	122	130	138
Population Age 85+	414	434	456	478	501
% With ADL Limitations	19.5%	19.5%	19.5%	19.5%	19.5%
Subtotal	81	85	89	93	98
Total With ADL Limitations	329	349	371	394	419
Senior Care Penetration Ratio	69.2%	70.0%	70.0%	70.0%	70.0%
Natural Senior Care Demand	227	244	260	276	293
Adjustment for Inmigration/Outmigration	1.05	1.05	1.05	1.05	1.05
Total Senior Care Demand	239	257	273	290	308
Proportion Captured by IL/AL	60.0%	60.0%	60.0%	60.0%	60.0%
IL/AL Demand (Occupied Beds)	**143**	**154**	**164**	**174**	**185**
Adjustment for Frictional Vacancy	÷ 0.90	÷ 0.90	÷ 0.90	÷ 0.90	÷ 0.90
Supportable Supply (Units)	159	171	182	193	205
New IL/AL Construction (Units)	-	-	-	-	-
Projected IL/AL Supply (Units)	**150**	**150**	**150**	**150**	**150**
Residual Demand (Oversupply)	**9**	**21**	**32**	**43**	**55**
Projected IL/AL Occupancy (Demand ÷ Supply)	95.0%+	95.0%+	95.0%+	95.0%+	95.0%+

Fundamental Analysis of Supply and Demand - **High Scenario**					
	General Market Area - Summit & Wasatch Counties				
	2014	2015	2016	2017	2018
Population Age 65-74	4,270	4,556	4,862	5,189	5,537
% With ADL Limitations	3.3%	3.3%	3.3%	3.3%	3.3%
Subtotal	141	150	160	171	183
Population Age 75-84	1,466	1,564	1,668	1,779	1,897
% With ADL Limitations	7.3%	7.3%	7.3%	7.3%	7.3%
Subtotal	107	114	122	130	138
Population Age 85+	414	434	456	478	501
% With ADL Limitations	19.5%	19.5%	19.5%	19.5%	19.5%
Subtotal	81	85	89	93	98
Total With ADL Limitations	329	349	371	394	419
Senior Care Penetration Ratio	69.2%	70.0%	71.0%	72.0%	72.0%
Natural Senior Care Demand	227	244	263	284	302
Adjustment for Inmigration/Outmigration	1.05	1.05	1.05	1.05	1.05
Total Senior Care Demand	239	257	277	298	317
Proportion Captured by IL/AL	60.0%	61.6%	63.2%	64.8%	66.4%
IL/AL Demand (Occupied Beds)	**143**	**158**	**175**	**193**	**210**
Adjustment for Frictional Vacancy	÷ 0.90	÷ 0.90	÷ 0.90	÷ 0.90	÷ 0.90
Supportable Supply (Units)	159	176	194	215	234
New IL/AL Construction (Units)	-	-	-	-	-
Projected IL/AL Supply (Units)	**150**	**150**	**150**	**150**	**150**
Residual Demand (Oversupply)	**9**	**26**	**44**	**65**	**84**
Projected IL/AL Occupancy (Demand ÷ Supply)	95.0%+	95.0%+	95.0%+	95.0%+	95.0%+

Fundamental Analysis of Supply and Demand - **Mid Scenario**					
	Primary Market (Park City Area)				
	2014	2015	2016	2017	2018
Population Age 65-74	1,593	1,713	1,841	1,979	2,128
% With ADL Limitations	3.3%	3.3%	3.3%	3.3%	3.3%
Subtotal	53	57	61	65	70
Population Age 75-84	428	472	521	575	634
% With ADL Limitations	7.3%	7.3%	7.3%	7.3%	7.3%
Subtotal	31	34	38	42	46
Population Age 85+	101	107	113	120	127
% With ADL Limitations	19.5%	19.5%	19.5%	19.5%	19.5%
Subtotal	20	21	22	23	25
Total With ADL Limitations	103	112	121	131	141
Senior Care Penetration Ratio	69.2%	70.0%	71.0%	71.0%	71.0%
Natural Senior Care Demand	72	78	86	93	100
Adjustment for Inmigration/Outmigration	1.20	1.20	1.20	1.20	1.20
Total Senior Care Demand	86	94	103	111	120
Proportion Captured by IL/AL	70.0%	71.0%	72.0%	73.0%	74.0%
IL/AL Demand (Occupied Beds)	**60**	**67**	**74**	**81**	**89**
Adjustment for Frictional Vacancy	÷ 0.90	÷ 0.90	÷ 0.90	÷ 0.90	÷ 0.90
Supportable Supply (Units)	67	74	82	90	99
New IL/AL Construction (Units)	-	-	-	-	-
Projected IL/AL Supply (Units)	**21**	**21**	**21**	**21**	**21**
Residual Demand (Oversupply)	**46**	**53**	**61**	**69**	**78**
Projected IL/AL Occupancy (Demand ÷ Supply)	95.0%+	95.0%+	95.0%+	95.0%+	95.0%+

Fundamental Analysis of Supply and Demand - **Low Scenario**					
	Primary Market (Park City Area)				
	2014	2015	2016	2017	2018
Population Age 65-74	1,593	1,713	1,841	1,979	2,128
% With ADL Limitations	3.3%	3.3%	3.3%	3.3%	3.3%
Subtotal	53	57	61	65	70
Population Age 75-84	428	472	521	575	634
% With ADL Limitations	7.3%	7.3%	7.3%	7.3%	7.3%
Subtotal	31	34	38	42	46
Population Age 85+	101	107	113	120	127
% With ADL Limitations	19.5%	19.5%	19.5%	19.5%	19.5%
Subtotal	20	21	22	23	25
Total With ADL Limitations	103	112	121	131	141
Senior Care Penetration Ratio	69.2%	70.0%	70.0%	70.0%	70.0%
Natural Senior Care Demand	72	78	85	91	99
Adjustment for Inmigration/Outmigration	1.20	1.20	1.20	1.20	1.20
Total Senior Care Demand	86	94	102	110	119
Proportion Captured by IL/AL	70.0%	70.0%	70.0%	70.0%	70.0%
IL/AL Demand (Occupied Beds)	**60**	**66**	**71**	**77**	**83**
Adjustment for Frictional Vacancy	÷ 0.90	÷ 0.90	÷ 0.90	÷ 0.90	÷ 0.90
Supportable Supply (Units)	67	73	79	85	92
New IL/AL Construction (Units)	-	-	-	-	-
Projected IL/AL Supply (Units)	**21**	**21**	**21**	**21**	**21**
Residual Demand (Oversupply)	**46**	**52**	**58**	**64**	**71**
Projected IL/AL Occupancy (Demand ÷ Supply)	95.0%+	95.0%+	95.0%+	95.0%+	95.0%+

Fundamental Analysis of Supply and Demand - **High Scenario**					
	Primary Market (Park City Area)				
	2014	2015	2016	2017	2018
Population Age 65-74	1,593	1,713	1,841	1,979	2,128
% With ADL Limitations	3.3%	3.3%	3.3%	3.3%	3.3%
Subtotal	53	57	61	65	70
Population Age 75-84	428	472	521	575	634
% With ADL Limitations	7.3%	7.3%	7.3%	7.3%	7.3%
Subtotal	31	34	38	42	46
Population Age 85+	101	107	113	120	127
% With ADL Limitations	19.5%	19.5%	19.5%	19.5%	19.5%
Subtotal	20	21	22	23	25
Total With ADL Limitations	103	112	121	131	141
Senior Care Penetration Ratio	69.2%	70.0%	71.0%	72.0%	72.0%
Natural Senior Care Demand	72	78	86	94	102
Adjustment for Inmigration/Outmigration	1.20	1.20	1.20	1.20	1.20
Total Senior Care Demand	86	94	103	113	122
Proportion Captured by IL/AL	70.0%	71.6%	73.2%	74.8%	76.4%
IL/AL Demand (Occupied Beds)	**60**	**67**	**75**	**84**	**93**
Adjustment for Frictional Vacancy	÷ 0.90	÷ 0.90	÷ 0.90	÷ 0.90	÷ 0.90
Supportable Supply (Units)	67	75	84	94	104
New IL/AL Construction (Units)	-	-	-	-	-
Projected IL/AL Supply (Units)	**21**	**21**	**21**	**21**	**21**
Residual Demand (Oversupply)	**46**	**54**	**63**	**73**	**83**
Projected IL/AL Occupancy (Demand ÷ Supply)	95.0%+	95.0%+	95.0%+	95.0%+	95.0%+

Conclusions

Fundamental demand analysis indicates current demand for 143 units in the general market area for 2014. That is quite a bit higher than the actual number of units currently occupied according to our survey in connection with this assignment. However, we attribute that to the fact that the subject's market has been significantly undersupplied, and the new facilities have not had enough time to fully stabilize. If Abbington of Heber and Beehive Homes of Park City achieve stabilization, the number of occupied units in the general market area would be nearer to the 143 units indicated by the mid scenario. Nevertheless, the senior care penetration rate, the amount of in-migration and the proportion of care handled by assisted living and independent living facilities (rather than nursing homes) is likely to change in the future. Therefore, our calculations are presented in three scenarios, to represent the full range of reasonably likely outcomes. The mid scenario forecast represents our opinion of the most likely outcome.

The mid scenario forecast for the general market estimates demand for assisted living will grow at an average of about 15 units per year. With no future projects being planned in the pipeline, the mid scenario forecast shows favorable market conditions and an undersupply for the foreseeable future. Residual demand (supportable construction) is 72 units by 2018.

The low scenario assumes stagnation in the senior care penetration ratio and in the proportion of senior care demand captured by assisted living and independent living, so demand grows only very slowly. On that basis, residual demand is only 55 units by 2018. The low scenario is likely too pessimistic, because the ratio of senior care demand captured by assisted living has increased every year for a number of years

The high scenario forecast for the general market assumes the proportion of demand captured by assisted and independent living increases 1.6% per year. On that basis, demand increases at a rate nearer 20 units per year and residual demand is 84 units by 2018. The high scenario may be overly optimistic because the proportion of demand captured by assisted living has been lower than 1.6% in recent years.

For the primary market, residual demand is currently 46 units, and is estimated to grow at an average of 8 units per year. The mid scenario estimate of residual demand is about 78 units by 2018. The low scenario figures slower growth in demand. In this scenario, residual demand reaches only 71 units by 2014. The high scenario figures a larger growth in demand and residual demand is 83 units by 2018.

The following is a summary of our residual demand conclusions:

Residual Demand Conclusions			
	Low Scenario	Mid Scenario	High Scenario
Primary Market Demand, Occupied Units (Park City Area)	83	89	93
Adjustment for Frictional Vacancy (10%)	÷ 0.90	÷ 0.90	÷ 0.90
Supportable Supply in Primary Market	**92**	**99**	**104**
Forecasted Supply	21	21	21
Residual Demand in Primary Market	**71**	**78**	**83**
Secondary Market Demand (Summit & Wasatch Counties)	102	111	117
Adjustment for Frictional Vacancy (10%)	÷ 0.90	÷ 0.90	÷ 0.90
Supportable Supply in Secondary Market	**113**	**123**	**130**
Forecasted Supply	129	129	129
Residual Demand in Secondary Market	**(16)**	**(6)**	**1**
Total Residual Demand for General Market Area	**55**	**72**	**84**

For the general and primary market areas, all three scenarios indicate an undersupply in 2018. However, for the secondary market, the low and mid scenarios show a small oversupply. This is likely due to the fact that the majority of supply in the general market is located in the secondary market, in Oakley and Heber. The primary Park City market has 33.7% of the general market's senior population, but only 14% of the assisted living supply. This is a good indication that any new construction should be located in the primary Park City market area. The mid scenario prediction for the general market is residual demand of -6 units, which we consider to be the most likely forecast. Our final conclusion is that forecasted demand is more roughly in line with forecasted supply, and market conditions in Summit and Wasatch Counties are likely to be reasonably good in the foreseeable future.

For the subject's primary market area specifically, our conclusion is that there is a significant undersupply of assisted living currently, and the amount of undersupply is likely to grow at a rather high rate. The scenarios indicate between 71 and 83 units of residual demand by 2018. The mid scenario represents the most likely forecast and predicts residual demand of 78 units. The low scenario predicts low residual demand, but is based on rather pessimistic assumptions. The high scenario is possible if the rate of growth in demand returns to pre-recession levels, but may be too optimistic otherwise. Overall, we conclude that demand is adequate to support construction of an assisted living facility of about 80 units.

Alzheimer's and Memory Care

A paper by the Alzheimer's Association notes three prominent studies relative to Alzheimer's disease and dementia in residents of assisted living facilities. The Maryland Assisted Living Study was conducted in 2001-2002 and included thorough interviews by geriatric psychologists of residents, family and staff at 22 facilities. The study found 67.7% of residents had some level of Alzheimer's or dementia, although many were not completely recognized or treated. Collaborative Studies of Long Term Care is a four-state (FL, MD, NJ, MO) study covering 2,078 elderly in 193 facilities, based on staff reports. It found that 63% of elderly in small facilities and 45% of those in large facilities had "cognitive impairment indicative of dementia." Of those, about half were rated mild or moderate and about half were rated severe. The National Survey of Assisted Living Facilities was conducted in 1998 and covered 1,581 residents in 1,547 facilities. It concluded 32% to 36% of residents had moderate to severe cognitive impairment indicative of dementia, depending on facility size. No information was collected on mild impairment.

In summary, these studies indicate 25% to 30% or more of assisted living residents have moderate to severe cognitive impairment. (Larger facilities had a lower ratio of Alzheimer's and dementia than small facilities.) However, nationwide only about 15% of assisted living beds are specifically staffed and set up for care of those persons. In Utah, the ratio is even lower. The 2014 Utah Assisted Living Survey shows just 10.1% of beds are specialized memory care. The ratio is a little higher in urban areas, but specialized care is non-existent in most rural markets. It is apparent that more residents need the specialized care than actually receive it. However, it is likely that some residents with "moderate cognitive impairment" are adequately cared for in non-specialized assisted living. Most large, new assisted living developments are designing about 15% of assisted living units as specialized Alzheimer's and memory care, which appears to be well supported.

Demand Segmentation

Independent living residents are persons who benefit from help with instrumental activities of daily living, such as meal preparation, housekeeping, marketing and socialization, but are otherwise able to live independently and do not require assistance with bathing, dressing, grooming, etc. They are at the low end of the senior care spectrum. Residents in memory care beds have moderate to severe cognitive impairment that leaves them unable to be cared for adequately in a traditional assisted living environment. They tend to be in the upper part of the senior care spectrum and require more assistance. The majority of assisted living residents fall somewhere in the middle of the range, and need more assistance than is available in an independent living facility but do not require specialized memory care. However, there are not absolute lines between the levels of care and there can be significant overlaps. Some assisted living facilities offer an independent living rate for units licensed as assisted living and market themselves as including independent living, although our experience is that the number of independent living residents in these facilities is rather small because independent living residents prefer to eat and socialize with other independent seniors. Some independent living facilities have residents who need more assistance than is offered by the facility, but rather than move to assisted living they get by with home health agencies or other assistance. There are also differences in the amount of cognitive impairment assisted living facilities will allow in areas not specifically set aside for memory care. In fact, there is no difference in the AL-2 license between assisted living and memory care. As a result, properties that have both AL-2 assisted living and AL-2 memory care tend to be stricter about moving residents into memory care, and properties that do not have memory care tend to leave them in assisted living longer.

For the above reasons, markets can vary somewhat in the ratio of units allocated to independent living, assisted living and memory care without occupancy being negatively impacted. Nevertheless, some general observations can be made as guidance in determining the optimal mix in a project. One is that the larger markets along the Wasatch Front allow a greater amount of specialization. In some rural markets small assisted living facilities handle the full continuum of care from independent living to memory care, because the markets are too small to support facilities of other types. Therefore, it is reasonable that the urban Wasatch Front has a higher ratio of independent living and specialized memory care than the state as a whole. On that basis, a continuing care retirement campus in the urban Wasatch Front can probably support a higher ratio of memory care and independent living than the market as a whole, assuming supply and demand are in balance.

Another observation is that independent living demand is highest in relatively high income areas, and is limited in lower income areas. The likely explanation is that independent living is a little less about necessity and a little more about lifestyle. For lower income seniors and their families, the decision to move to a senior care facility tends to be put off when the senior has only IADL needs like shopping, meal preparation, housekeeping and socializing. When the need becomes great enough to force a decision to move to a senior care facility, the senior may have ADL needs that require them to move straight to assisted living.

The following table breaks down the proportion of occupied units between independent living, assisted living and specialized memory care:

Demand Segmentation (2014 Utah Assisted Living Survey)				
	Independent Living	Assisted Living	Memory Care	Total
State of Utah	23.5%	66.4%	10.1%	100.0%
Summit & Wasatch Counties (General Market)	0.0%	82.0%	18.0%	100.0%
Park City Area (Primary Market)	0.0%	100.0%	0.0%	100.0%

The general market area has a higher ratio of residents in assisted living and memory care than the state as a whole and no independent living units; while the Abbington of Heber advertises its base rates as independent living rates, these are still essentially assisted living units. That would seem to suggest that independent living is a good investment opportunity in this location, and we recommend about 20% to 25% of the proposed construction should be allocated to independent living. Independent living units are generally a little larger than equivalent assisted living units, and work best if they have a separate dining and activity rooms from the assisted living. Some facilities have been successful with a cottage concept, where the independent living units are in a cluster of detached townhouses, and the residents walk to the main building for meals. That concept could be more challenging in Park City due to the heavy snowfall and the need to keep walking paths safe.

Memory Care represents a little higher risk for the subject currently. The primary market already has a relatively high ratio of memory care. Vacancy rates are high, but that is because most of the memory care units are brand new. Therefore, actual demand for memory care in the general market is difficult to estimate until the new facility stabilizes. For that reason, we recommend an initial construction should be limited to about 15% specialized memory care, and should incorporate a design that would allow for some flexibility in allocation between memory care and assisted living.

Segmented Conclusions

With the above conclusions, the following is our final recommendation for an initial construction on the subject property:

	Residual Demand (Supportable Construction)
Independent Living	16-20 Units
Assisted Living	48-52 Units
Memory Care	12 Units
Total Development	80 Units

Residual demand analysis is not precise, but our conclusion is that market demand is adequate for a project of up to about 80 units, allocated about 20% to 25% independent living, 55% to 60% assisted living and about 15% memory care.

ADDENDA

APPRAISER QUALIFICATIONS

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EDUCATION

University of Utah, Bachelor of Science Finance Degree with Real Estate Emphasis - 1982
Honors: Graduated "Cum Laude"
American Institute of Real Estate Appraisers - Courses:
Real Estate Appraisal Principles - 1980
Basic Valuation Procedures - 1980
Capitalization Theory and Techniques, Part I, II and III - 1981
Standards of Professional Practice - 1982
Case Studies in Real Estate Valuation - 1983
Investment Analysis Exam - 1984
Advanced Applications (Instructor Audit) – 1999
Separating Real & Personal Property from Intangible Business Assets (Instructor Audit) - 2003
Basic Appraisal Principals (Instructor Audit) – 2006
Condemnation Appraising: Principles & Applications - 2009
Litigation Appraising: Specialized Topics and Applications – 2011
The Appraiser as Expert Witness: Preparation and Testimony - 2011
Continuing Education:
400+ Hours from 2002-2012 (over twice the Appraisal Institute requirement and three times the State of Utah requirement). Seminar topics include:

- *Subdivision Analysis, Residential Development*
- *Appraising for the Institutional Investor*
- *Discounted Cash Flow Analysis*
- *Americans With Disabilities Act*
- *Appraisal of Retail Properties*
- *Appraisal Review - Income Properties*
- *Advanced Techniques in Investment Feasibility*
- *Industrial Valuation*
- *Trends in the Health Care Industry and Medical-Related Real Estate*
- *Appraising in Limited Markets*
- *Multiple Regression Analysis, Graphic Analysis*
- *Appraising Government Leased Buildings*
- *Self-Storage Valuation*
- *Water Valuation, Wetlands Regulation, Conservation Easements*
- *Smart Buildings*

LICENSES AND PROFESSIONAL MEMBERSHIPS

Licensed Real Estate Sales Agent-State of Utah #5451942-SA00 -1979 to Present
Member - Salt Lake Board of Realtors
Fee Appraiser - 1979 to Present
Certified General Appraiser - State of Utah #5451942-CG00 - 1991 to Present
Certified General Appraiser - State of Idaho #CGA-248 - 1991 to 2012
MAI Member, Appraisal Institute - 1984 to Present
  Candidate Guidance Chairman, Utah Chapter, #28 AIREA - 1987 - 1988
  Admissions Committee Chairman, Utah Chapter, #28 AIREA - 1989 - 1990
  Chairman, Salt Lake Subchapter, Appraisal Institute - 1992
  Board of Directors, Utah Chapter, Appraisal Institute 1993 - 1998
  President, Utah Chapter, Appraisal Institute – 1999
  3rd Director, Region II, Appraisal Institute – 2012
  National Board of Directors and Vice Chair of Region II, Appraisal Institute – 2013
Board of Directors, Utah Association of Appraisers - 1995 – 2000, 2011 - present
Approved Instructor (Market Analysis Courses, Income Capitalization Courses, Advanced Concepts Course and Separating Intangibles Course) for the Appraisal Institute (1987 to Present) and the State of Utah (1990 to Present). Currently Content Expert for Advanced Concepts and recently authored the new course material for the Appraisal Institute.

BUSINESS PRACTICE

I began my career as a fee appraiser in early 1979, under the tutelage of my father who had been an MAI since the 1960's. In 1984, I was awarded the MAI membership designation in the American Institute of Real Estate Appraisers and acquired my own practice. Jorgensen Appraisal is now a full service appraisal firm with three full-time appraisers and additional support staff. Our services are used and approved by essentially every major local bank. I am also experienced in condemnation appraisal, property tax appeal and expert witness testimony. I have completed the Appraisal Institute's Professional Development program in litigation appraising. I have personally completed appraisals on many of Utah's largest properties. Nevertheless, I take pride in the quality of my work on even very small assignments. Among my areas of specialization are health care, senior care, subdivisions and lodging, for which I have completed appraisals in nearly every western state.

BRIEF LIST OF CLIENT REFERENCES

Zions First National Bank - (801)524-2391
  Contact: Decker Adams, MAI
Wells Fargo (RETECHS) - (801)246-1565
  Contact: Bryce Clinger, MAI
JPMorgan Chase Bank, N.A. (602)221-2882
  Contact: Gary Schnell, MAI, CCIM
Washington Trust Bank (509)353-3854
  Contact: Tim Higginbotham

Intermountain Health Care (801)442-3987
  Contact: Tom Uriona, MAI
Stoel Rives, LLP (801)578-6985
  Contact: Matt Moscon (attorney)
Parr Brown Gee & Loveless (801)257-7979
  Contact: Justin Matkin (attorney)
Salt Lake County Assessor (801)468-3435
  Contact: Darhl Nielsen

APPRAISER QUALIFICATIONS

Jacob R. Jorgensen
9677 South 700 East, Suite C
Sandy, Utah 84070
Phone: (801) 523-1616 Fax: (801) 471-2800 E-mail: jacob@jorgensenappraisal.com

EDUCATION

Utah Valley University, Bachelor of Science Finance Degree with Real Estate Emphasis - 2013
Appraisal Institute - Courses:
Basic Appraisal Principles – 2009
Basic Appraisal Procedures – 2009
National USPAP Equivalent Course – 2009
Business Practices and Ethics – 2011
Residential Market Analysis & Highest & Best Use – 2011
Residential Site Valuation & Cost Approach – 2011
Residential Report Writing & Case Studies – 2011
7-Hour National USPAP Equivalent Course – 2011
Residential Sales Comparison & Income Approach - 2011

LICENSES AND PROFESSIONAL MEMBERSHIPS

Appraiser Trainee – 2009-2011
Associate Member – Appraisal Institute – 2009-2012
Licensed Appraiser – State of Utah #7338339-LA00 – 2012 to Present

BUSINESS PRACTICE

I began my career in 2009 as an appraiser trainee in my Father's appraisal firm and in 2012 I received my appraiser's license. I have completed appraisal assignment for nearly every major local bank. I am most experienced in health care, senior living, and land developments.

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Contact: Justin Matkin (attorney)
Salt Lake County Assessor (801)468-3435
Contact: Darhl Nielsen

APPRAISAL/CONSULTATION AGREEMENT

Jorgensen Appraisal, Inc.	Client:	Park City Corporation, C/o Phyllis Robinson
9677 South 700 East, Suite C	Address:	445 Marsac Avenue
Sandy, Utah 84070		Park City, Utah 84060
Phone: (801) 523-1616	Phone/Fax:	435-615-5189
Fax: (801) 523-1717	E-mail:	probinson@parkcity.org

This contract is binding upon Jorgensen Appraisal, Inc., hereinafter referred to as The Consultant and Park City Corporation, hereinafter referred to as The Client.

1. The Consultant agrees to provide a supply and demand analysis for independent living and assisted living in the general Park City area (Snyderville Basin). The report will conform with and be subject to the Uniform Standards of Professional Appraisal Practice. It will be subject to certain assumptions and limiting conditions. A partial list of assumptions and limiting conditions is on the following page as an exhibit. If other assumptions are necessary, they will be outlined in the final appraisal report.

2. The Client agrees to provide The Consultant with a signed copy of this agreement, the retainer as outlined in Paragraph 4 below, and the items requested in the form entitled 'Items to be Supplied to the Consultant', which is included on the back of this contract.

3. The fee for the assignment shall not exceed a total of $6,250, which is $3,750 for the initial report and up to $2,500 for up to 10 hours of consulting separate from and subsequent to delivery of the initial report, to be billed at a rate of $250 per hour. Additional consulting beyond 10 hours shall be charged separately at a rate of $250 per hour, only upon written authorization by the client. The Consultant reserves the right to void this entire agreement, or renegotiate the fee, if a thorough inspection of the property or documents reveals an unusual problem that complicates the appraisal process.

4. The Client agrees to pay The Consultant the fee as follows:

   A retainer of $1,875 upon signing of this contract by The Client, $1,875 upon delivery of the report, and the balance for consulting to be paid monthly at a rate of $250 per hour up to a cumulative total of $2,500.

5. The Consultant agrees to deliver three (3) hard copies of the report and one (1) PDF copy of the report to The Client approximately four (4) weeks from the date the items discussed in Paragraph 2 have been received. The delivery date of the report is based on best estimate. Circumstances unknown to the Consultant on acceptance of the assignment may delay delivery of the report. The Client will be billed for additional copies of the report, based on the actual cost of providing them. It is agreed and understood that The Consultant will not commence work on the assignment until The Client has furnished The Consultant with the retainer and other items requested on the attached form.

6. The report will be prepared for the sole and exclusive use of The Client. The Consultant shall not be held responsible for unauthorized use or by parties other than the Client. The Consultant herein shall not be required to give testimony or to attend any public or private hearing in court with reference to the property unless a prior arrangement has been made. Any time involved with preparing or delivering court testimony shall be billed separately from the fee agreed upon in Paragraph 3 above.

7. It is further agreed and understood that if any portion of the compensation or costs due to The Consultant becomes delinquent, The Client will pay interest thereon at the rate of 18% per annum (1.5% per month) on said account from the due date until paid, and further agrees to pay all costs of collection thereof, including reasonable attorney's fees, court costs, etc.

8. In the event that The Client desires to cancel this contract, written notice thereof shall be delivered to The Consultant, and it is agreed that The Client shall pay to The Consultant compensation for all services rendered to the date of cancellation at the rate of $250 per hour for Kerry M. Jorgensen, MAI and $125 per hour for associate consultants for the time actually spent prior to receipt of written notice to stop work, plus all costs advanced in connection with said assignment prior to receipt of written notice to stop work.

9. The Client authorizes The Consultant to inspect the property and agrees to furnish The Consultant with all pertinent data which The Consultant requests in connection with the property. The Client, if not the owner of the property, warrants that owner, or occupant, has been notified of this assignment and will be cooperative with The Consultant unless otherwise noted herein.

10. The Client hereby engages The Consultant and The Consultant hereby agrees to perform services and The Client hereby agrees to furnish information and pay compensation in accordance with the foregoing and with the agreements and conditions set forth on the attached page, all of which are fully and completely part of this Agreement for Professional Appraisal/Consulting Services.

Accepted by:

Digitally signed by Kerry M Jorgensen
DN: cn=Kerry M Jorgensen, o=Jorgensen Appraisal, ou, email=kerry@jorgensenappraisal.com, c=US
Date: 2014.09.22 10:19:37 -06'00'

By ______________________

Kerry M. Jorgensen, MAI, President
Jorgensen Appraisal, Inc.

Date ______________________

Client:

By Phyllis M Robinson

Phyllis M Robinson, Public

Date 9/25/14

2014 Utah Assisted Living Survey

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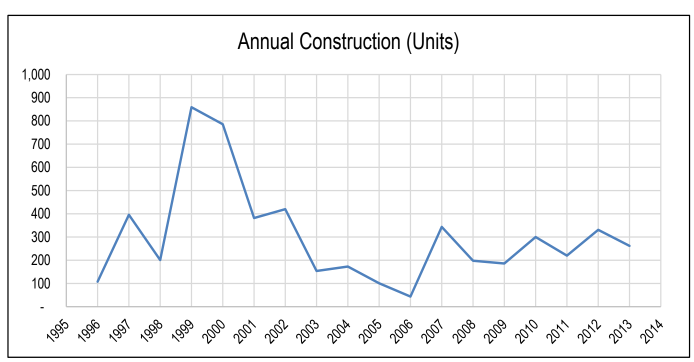
Welcome to the 2014 edition of the Utah Assisted Living Survey.

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.



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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 over-building 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.

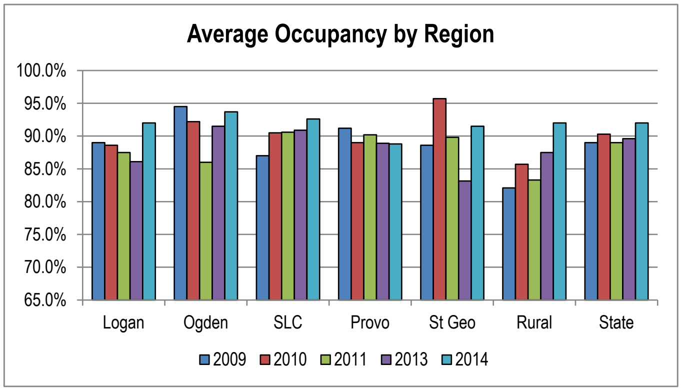
The estimated Utah population over age 75 grew at a compounded rate of 2.3% per year from 2000 to 2010, according to the census. For the five year period 2013 through 2018, the age 75+ population is projected to grow only 1.0% per year (from 115,727 to 128,750).[1] The decrease in growth relates to a 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.

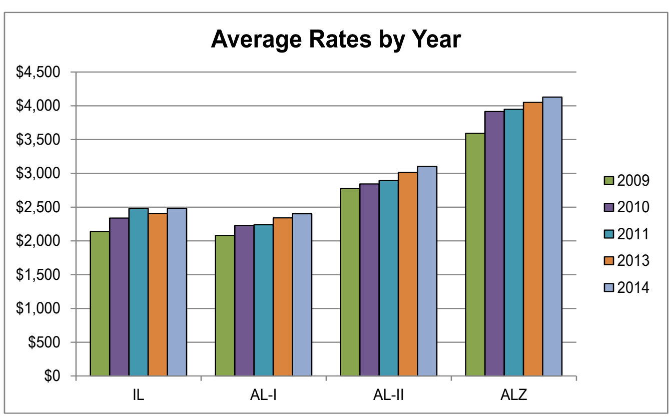
[1] STDBonline

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 2nd 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.