



*REIA HOT TOPIC:*

*Seniors Housing Fundamentals and Current Trends*

By:

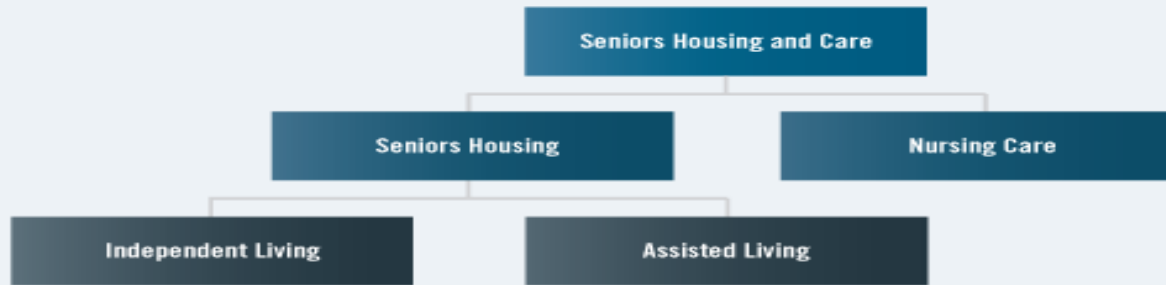
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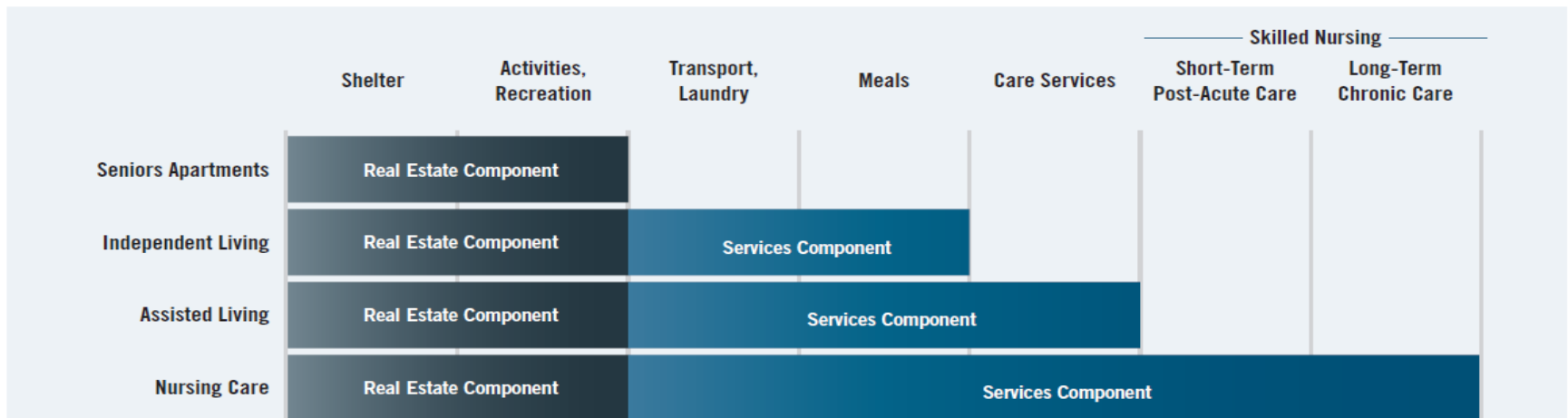
REIA Chairman

# Senior Housing – Housing and Care Types

## Seniors Housing and Care Property Types



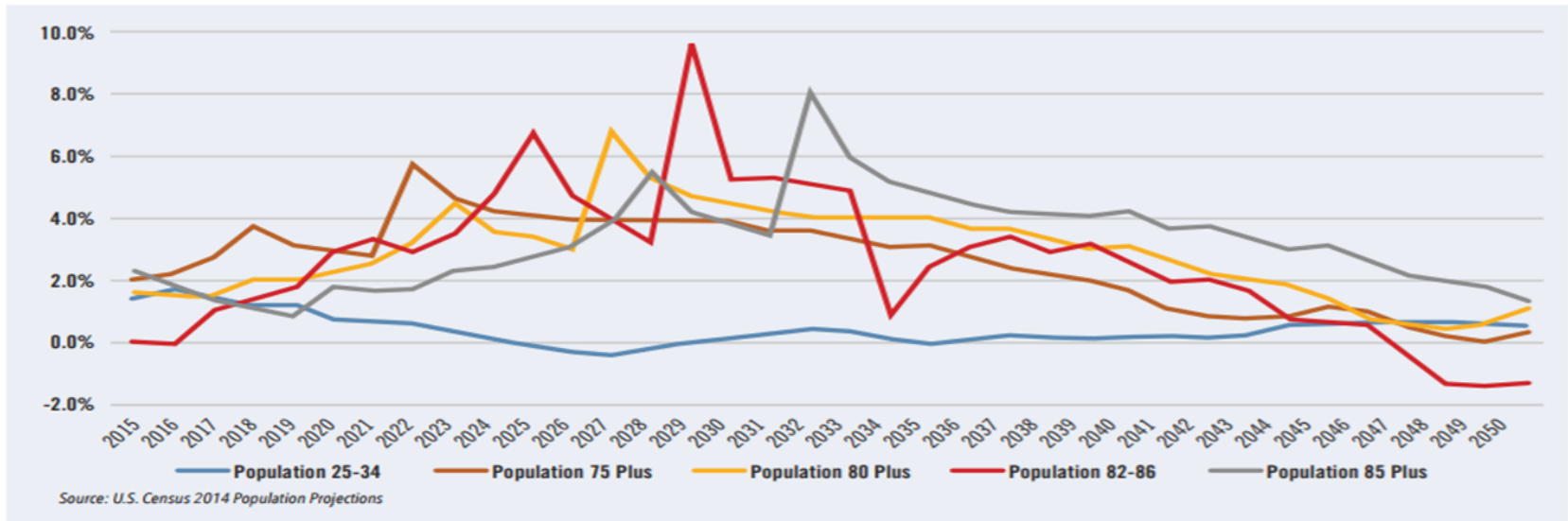
## Property Types by Services Provided



Source: NIC Research & Analytics

# Senior Housing – Demand 75+ Age Cohort

## Annual Population Growth Rate Projections 2015-2050



## 75+ Age Cohort

- 20MM Individuals today
  - An estimated 4.0% annualized growth through 2026 (29MM)
- Estimated population projection in 2040 is 42,000,000 and by 2050 50,000,000

# Senior Housing – Demand and Growth Catalysts

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## Demand Factors and Growth Catalysts

- Increased population growth
- Increased life expectancies and expanding aging population
- Current demand/supply imbalance, especially when existing community obsolescence is accounted for
- Desire for less demanding and more carefree lifestyles and housing options – New Opportunities
- Geographic markets with concentration of adult children aged 44-64 (adult children very involved in senior living decision-making process)
- Increasing acceptance and awareness among consumers and investors (i.e. current 7%-10% senior living penetration rate likely to rise)
- Improved health care and resident outcomes, relatively more affordable than alternatives
  - Aligned with health care reform goals/themes
  - more appropriate setting/lifestyle = greater wellness, fewer high cost hospital visits
- Physical plant obsolescence
- Consumer demand for more space and services
- Federal and state policy addressing the need for more affordable senior living
- Potential cap rate compression - increased investor awareness and acceptance
  - currently senior living cap rates 150 - 250 bps above multi-family

# Healthcare Services and Senior Housing – Industry Scope

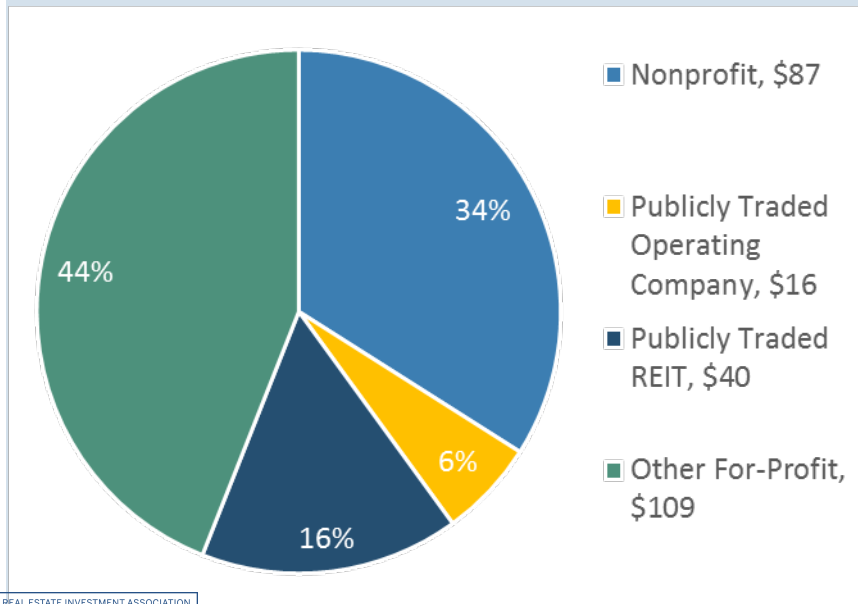
## Health Care Services Industry

- \$3.4 trillion
- 17.5% of GDP
- 6.1% annual growth since 1990, well ahead of inflation

## U.S. Private Pay Senior Housing Market

- \$60 billion in annual revenue
- \$252 billion in assets
- 12,400 communities
- 1,528,000 units
  - IL-57%, AL-39%, MC-4%
- Ownership fragmented
  - Top 50 owners/operators control an estimated 35% of the units

Ownership: U.S. Private Pay Seniors Housing (\$ in billions)



# Senior Housing – Existing Supply

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- ~1.5MM units (IL-871k, AL-596k, MC-61k)
- ~70% of supply in top 100 MSAs
- Fragmented ownership, with top 50 owners/operators controlling an estimated 35% of the units
- 10-11% vacancy
- ~25% of existing supply at risk of obsolescence
- Supply growth represents 5.5 – 6.0% of existing inventory. Est. 4<sup>th</sup> Qtr. 2016 – Est. 2017

# Private Pay Senior Housing – Supply and Demand

	Supply		Demand
Current supply	1,528,000 units	Current population (75+yrs)	20,296,000
Plus: Aggregate new unit growth thru 2026	427,969 units (2.5% annual growth)	Plus: Aggregate population growth thru 2026	9,459,000 (3.9% annual growth)
Minus: Aggregate unit obsolescence/loss thru 2026	76,400 units (~0.5% per year)	Equals: 2026 population (75+yrs)	29,755,000
Equals: 2026 estimated senior housing unit supply	1,879,569	Multiplied by: Senior housing penetration rate (assumes no increase from recent average)	8.5%
		Equals: 2026 estimated aggregate senior housing demand	2,529,175
		Estimated Supply Shortfall	649,606 units

# Senior Housing - Risks

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- Operationally intensive - Healthcare services operating model, IL offering limited services
- Regulation and licensing standards/Healthcare reform
  - Federal and State
- Affordability
  - Lack of income/savings/net worth – outliving savings
  - Retirement portfolios, largely in fixed income, receiving low rates of return
- Construction/development and lease-up execution
- Physical plant obsolescence and capex
  - Physical plant must adapt to changing senior resident needs and profiles
- Cost increases: land, construction, and materials
- Competing seniors housing options
  - Multigenerational and/or communal living
  - Adult children building homes with “in-law” suites
  - More affordable home health
- Healthier for longer – Potential resident able to live in current home longer
- Inability of potential resident to sell current home



# Senior Housing – Operational and Investment Summary

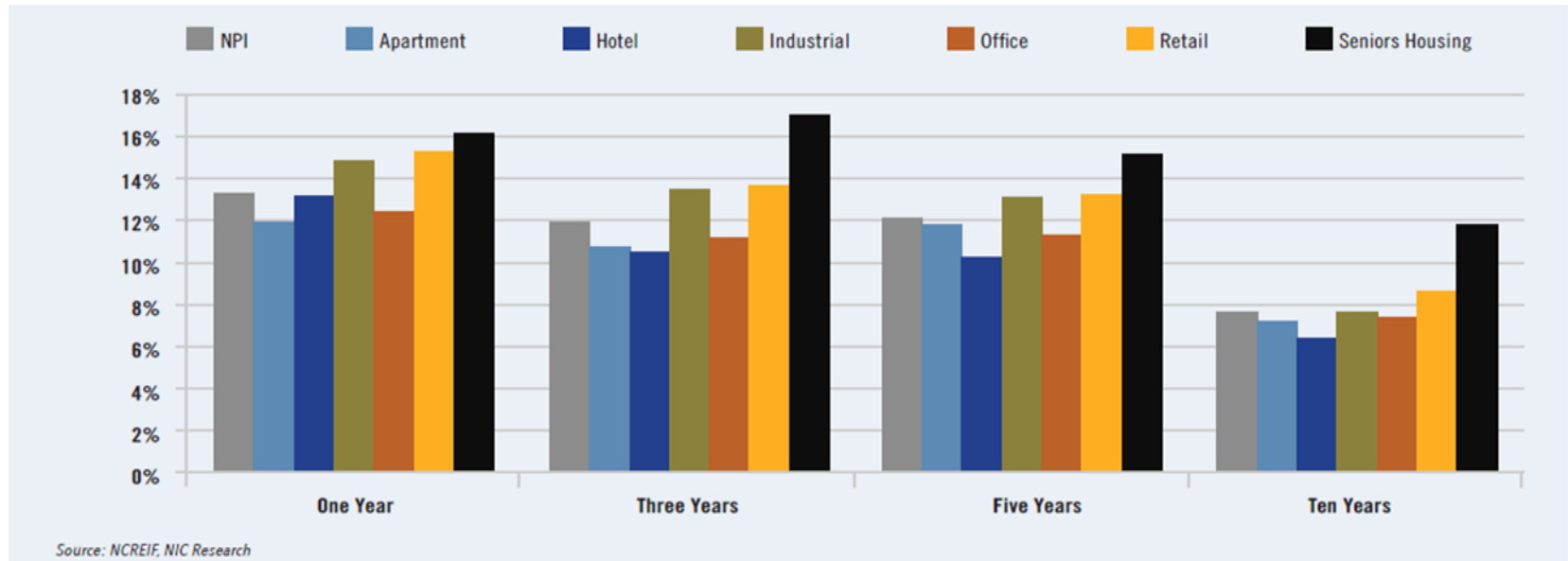
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## Favorable and Sustainable Risk and Reward Profile

- “Need driven” and less cyclical industry and demographic
- Demand expected to meet/exceed supply for foreseeable future
- High barriers to entry – operations, zoning/entitlement
- Increasing awareness, acceptance and utilization among consumers, healthcare providers and investors
  - more care / cost / socially/ emotionally/outcome appropriate and practical housing alternative for the senior resident, their families, and the healthcare delivery system
- Above average historical operational and return performance, relative to other commercial real estate sectors
- Income and Growth
- Investment spreads, relative to other CRE, are wide

# Senior Housing – Investment Outperformance

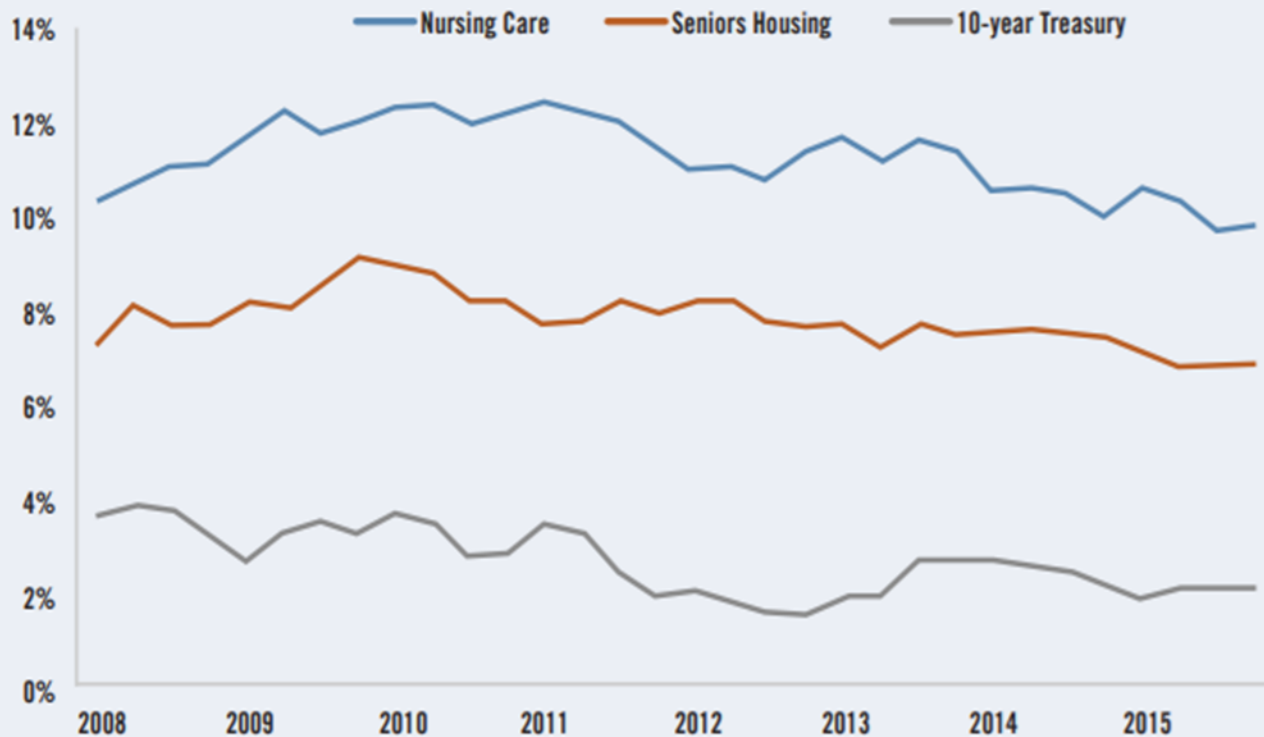
- Historically delivered more consistent operating performance through economic and real estate cycles, in terms of rent growth and occupancies, than other commercial real estate sectors
- **Trailing 10-Year Average Annualized Total Returns, Through 2015**
  - Senior Housing: 11.9%
  - Multifamily: 7.3%
  - NCREIF NPI: 7.8%



# Senior Housing - Attractive Relative Investment Spreads (500 basis points over 10 Yr. Treasury)

## Rolling 4-Quarter Capitalization Rates/Yield

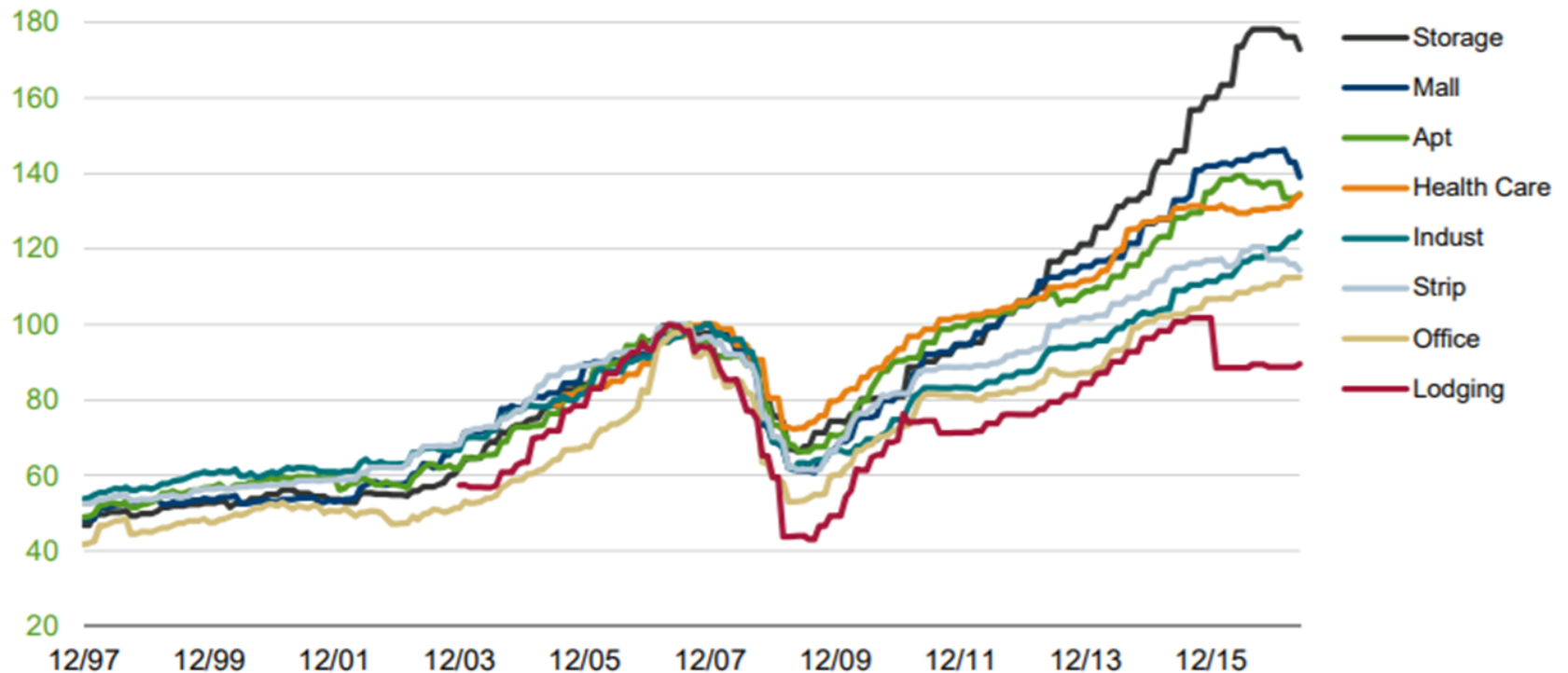
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Source: NIC MAP\* Data Service

# Senior Housing - Less Volatile Underlying Asset Valuation Performance

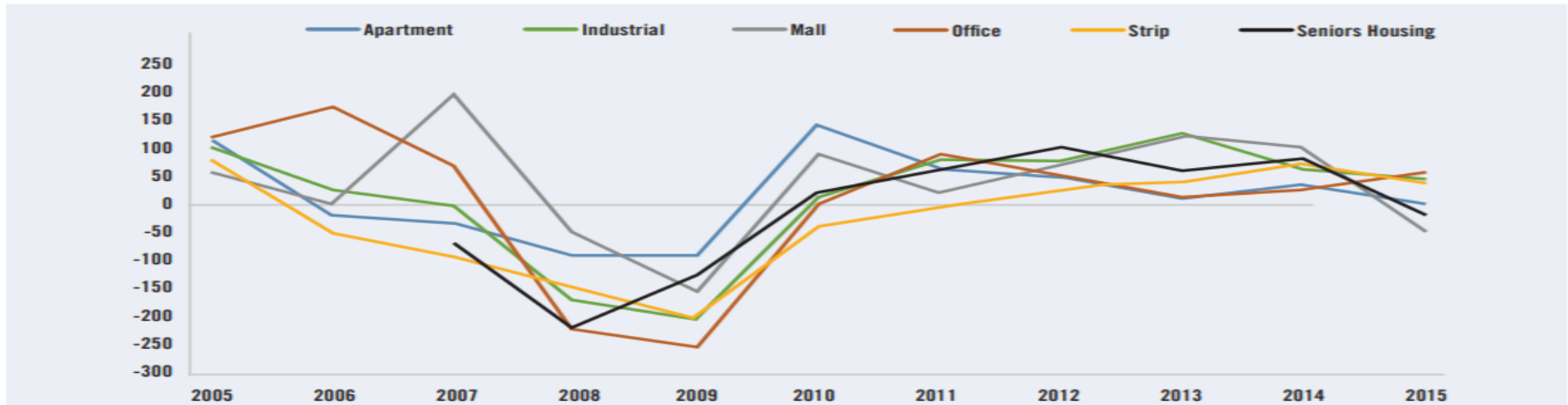
Green Street Property Sector Indices



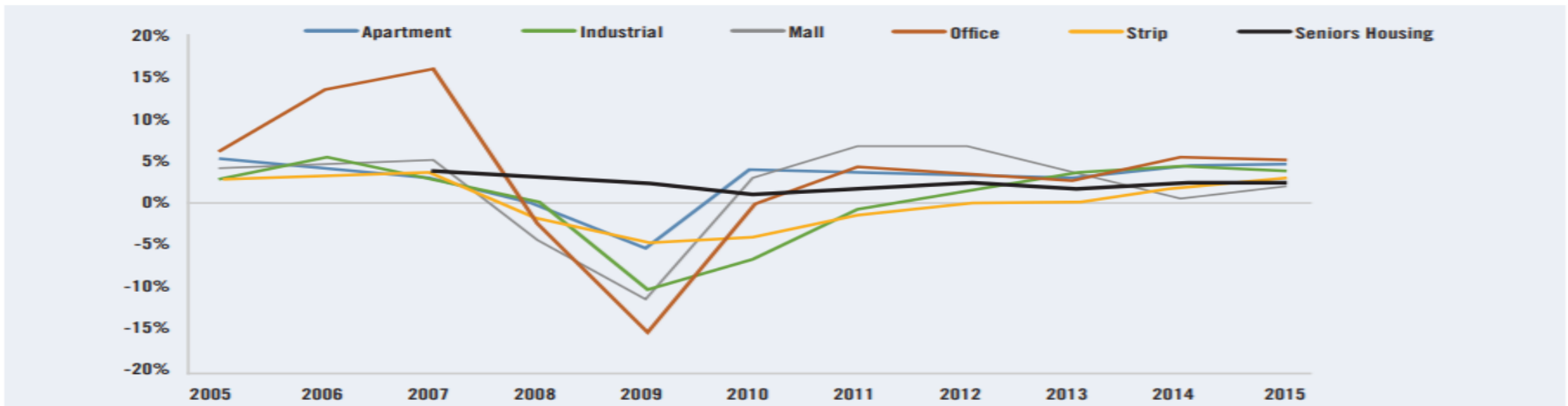
Property sector indices are indexed to 100 at their '07 peaks.

# Senior Housing – Less Volatile Operating Performance

Commercial Real Estate Year-Over-Year Occupancy Trends (Basis Points)



Commercial Real Estate Year-Over-Year Asking Rent Growth Trends



Source: NIC MAP® Data Service; Green Street Advisors

# Pathway Demand Analysis

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Aspired Assisted Living and Memory Care  
La Grange, IL  
116 Units

# Aspired Living of LaGrange



# Summary of Project Development

**Name:** Aspired Assisted Living and Memory Care

**Location:** 35 Shawmut Ave., La Grange, IL 60525 (adjacent to intersection Hwy 34 and Hwy 45)

## Assisted Living:

Unit Mix:	Unit Type	Sq Ft	Units
	Studio	459	8
	One-bedroom	570	52
	One-bedroom Deluxe	710	12
	Two-bedroom	933	12

**Rent:** \$4,200 - \$6,300

Levels of Care:	Level of Care	Fee
	Level 1	\$700
	Level 2	\$1,300
	Level 3	\$1,800
	Level 4	\$2,300

**Amenities:** Dining room and Kitchen; Private Dining Room; Bistro; Library and Computer Room; Wellness Center; Doctors Exam Room; Physical Therapy; Exercise Room; Theater; Living Room; Arts & Craft Room; Beauty Salon; Lounge Areas; Spa/Bathtique/Massage; Gazebo; Courtyards

## Memory Care:

Unit Mix:	Unit Type	Sq Ft	Units
	Studio	330	32

**Rent:** \$7,200

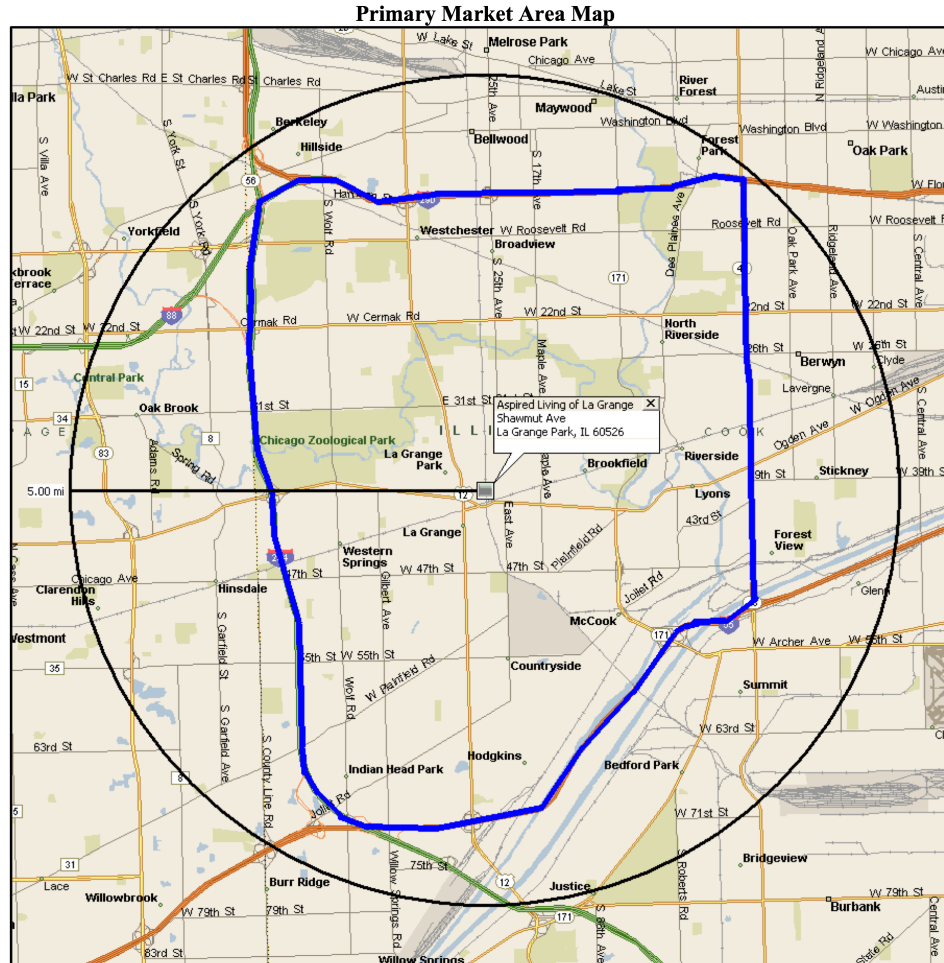
**Levels of Care:** All-Inclusive

**Total Cost: \$41,201,892**



# Primary Market Area

As a starting point, we defined the Primary Market Area (PMA) as a 3-mile radius ring surrounding the subject site for both assisted living residents, and memory care residents. A 3-mile ring is a good, starting approximation of a PMA in the suburbs of Chicago MSA. After further internal market assessments, we determined the 'true' Primary Market Area (delineated by the blue line), is bounded by I-290 (Dwight D. Eisenhower Expressway) to the north, Route 43 (Harlem Ave) to the east, Interstate 55 (Stevenson Expressway) to the south, and I-294 (Tri-State Tollway) to the west. Six communities fall within the Primary Market Area, totaling 363 competitive IL/AL units, and 26 MC units. We have defined the Secondary Market as the area outside the PMA, but within a 5-mile radius of the site. In order to take a conservative competitor analysis approach, competitors within the Secondary Market are included in our internal demand analysis.



# Site Overview

The proposed site is located on 35 Shawmut Ave., La Grange, IL 60525, and is approximately 2.82 acres of park district land. Just west of the site is N La Grange Rd, a major north/south thoroughfare that averages 26,800 cars per day. Immediately east of the development site is Gordon Park, which features tennis courts, baseball diamonds, and a soccer field. North of the site, across Brewster Ln, is Plymouth Place, a 347 unit entrance fee CCRC, which opened in 1944. Currently under construction in the parcel adjacent to the south, Uptown La Grange Luxury Apartments is a development by The Opus Group which is expected to open with 254 units in April of 2017. Further south, N La Grange Rd intersects with E Ogden Ave, a major east/west thoroughfare with an average daily traffic count of 25,000. Less than half a mile south of the development site, is the BNSF Railway La Grange Stop, a major Metra station that has an average weekday ridership of over 65,000 commuters. Across N La Grange Rd to the west, are single family residential home subdivisions, which average \$541,000 in price. Major retailers within half a mile from the development site include Chipotle, Panera Bread, Noodles & Company, Corner Bakery, and Trader Joe's.

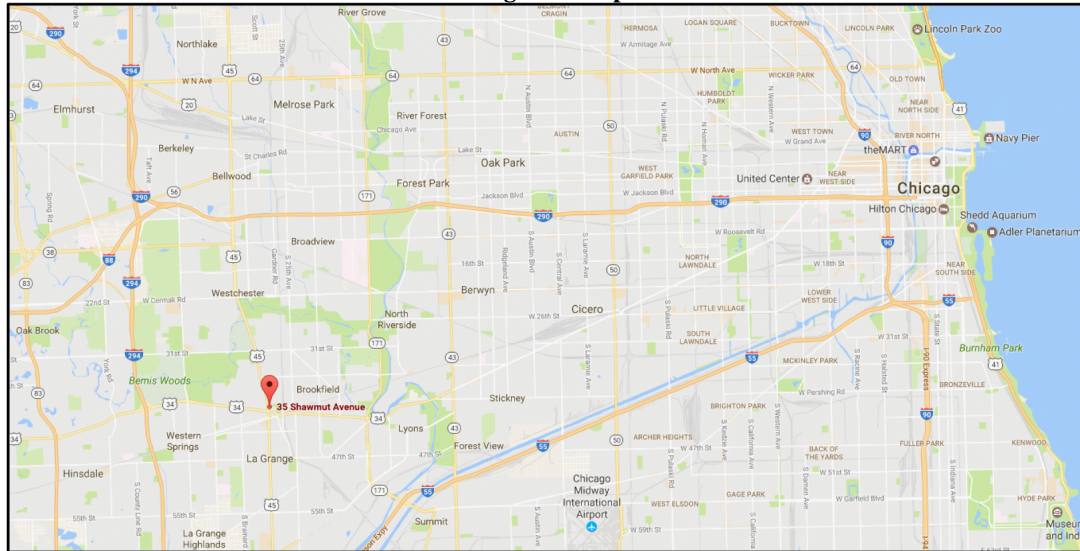
Proposed Site Map



# Area Overview Location

The Site is on the northern end of La Grange Village, a mature, affluent suburb with a 2016 population of approximately 15,453. 12 miles southwest from the downtown Chicago area, La Grange Village is in the western section of Cook County, within the Chicago-Naperville-Elgin Metropolitan Statistical Area (MSA).

**Regional Map**



La Grange Village, as well as its surrounding municipalities, predominantly show positive population growth within the seniors aged 75+ cohort. A forecasted growth of senior population within the market can help mitigate the risks associated with absorbing new senior housing units.

**Growth and Maturation of Market**

Municipality	2016 Population	5 Year Pop. Growth %	2016 Population 75+	5 Year Senior 75+ Growth %	% of Adults Over 75
Illinois	13,022,485	1.08%	802,678	11.86%	6.16%
Chicago, MSA	9,649,592	1.58%	536,000	13.40%	5.55%
<b>La Grange Village</b>	<b>15,453</b>	<b>-0.21%</b>	<b>1,004</b>	<b>5.88%</b>	<b>6.50%</b>
Brookfield Village	18,966	0.02%	1,231	4.71%	6.49%
La Grange Park Village	13,795	0.96%	1,734	2.54%	12.57%
Western Springs Village	13,069	0.44%	1,206	8.96%	9.23%
Countryside City	6,429	4.82%	569	18.63%	8.85%
McCook Village	225	-0.89%	9	11.11%	4.00%

\* Source: ESRI 2016

# Area Overview Location

## Wealth Indicators:

### Median Household Incomes and Home Values

INCOME AND HOME VALUE PROFILE	1-Mile Radius	PRIMARY MARKET AREA (PMA)	5-Mile Radius	RELATIVE TO THE METRO	RELATIVE TO THE COUNTY	RELATIVE TO THE STATE	RELATIVE TO NATIONAL
		Primary		Chicago MSA	Cook County	Illinois	United States
2016 Median Household Income	\$86,485	\$72,640	\$66,006	\$62,058	\$55,831	\$57,337	\$54,149
2021 Median Household Income	\$99,610	\$80,067	\$73,744	\$68,454	\$59,068	\$61,215	\$59,476
5-Yr % Change	15.18%	10.22%	11.72%	10.31%	5.80%	6.76%	9.84%
2016 Median Home Value	\$369,596	\$282,364	\$260,274	\$238,253	\$244,668	\$190,380	\$198,891
2021 Median Home Value	\$382,177	\$305,013	\$287,895	\$271,533	\$280,076	\$227,291	\$231,895
5-Yr % Change	3.40%	8.02%	10.61%	13.97%	14.47%	19.39%	16.59%

\*Source: ESRI 2016

## Quality of Market:

### Quality of Market Profile

MARKET DEMOGRAPHIC PROFILE	1-Mile Radius	PRIMARY MARKET AREA (PMA)	5-Mile Radius	RELATIVE TO THE METRO	RELATIVE TO THE COUNTY	RELATIVE TO THE STATE	RELATIVE TO NATIONAL
		Primary		Chicago MSA	Cook County	Illinois	United States
Unemployment Rate - (June 2016)	4.00%	6.20%	7.10%	6.00%	6.1% <sup>1</sup>	6.2% <sup>2</sup>	5.1% <sup>3</sup>
Professional Service Employment	77.00%	70.00%	57.00%	63.00%	63.00%	61.00%	60.00%
College Educated - 4 Year Degree or More	55.40%	41.67%	20.64%	36.54%	36.80%	33.21%	30.45%
2010 Households Owner Occupied	72.03%	71.80%	67.93%	60.41%	52.46%	61.62%	57.69%
2010 Owned Free and Clear	27.02%	30.24%	29.07%	23.80%	25.97%	28.35%	30.28%

\*Source: ESRI 2016

1 - BLS.gov 2015 annual average

2 - BLS.gov June 2016

3 - BLS.gov June 2016

# Competitor Supply

## Competitive Communities within the PMA:

ID	Distance (Miles)	Property Name	Property Address	City	Year Opened	Property Type	Primary Payment Type	Operator	Total Units	TOTAL IL	TOTAL AL	TOTAL MC	TOTAL NC
6600	0.13	Plymouth Place	315 N La Grange Rd	La Grange Pk	9/1/1944	Majority IL	EF	United Church Of Christ Homes	347	182	53	26	86
7246	0.37	Windsor Place	42 S Ashland Ave	La Grange	1/1/1969	Majority IL	Rent		40	40	0	0	0
826	1.05	Presence Bethlehem Woods Retirement Living Center	1571 W Ogden Ave	La Grange Pk	1/1/1990	Majority IL	EF	Presence HealthCare	334	273	61	0	0
7594	1.92	Cantata Adult Life Services	8700 31st St	Brookfield	5/1/1920	Majority AL	Rent	Cantata Adult Life Services	231	66	93	0	72
2662	2.65	Golden Years Retirement Home	7848 Ogden Ave	Lyons	11/1/2004	Majority AL	Rent		60	0	60	0	0
5690	2.83	The Scottish Home	2800 Desplaines Ave	Riverside	1/1/1910	Majority AL	Rent	Illinois St. Andrew Society	105	0	69	20	36
<b>Sub Total</b>													

Gross Competitive IL+AL Units	Competitive Factor by Distance	Net Competitive IL+AL Units	Competitive Factor by Distance	Net Competitive MC Units
53	100.00%	53	100.00%	26
10	100.00%	10	100.00%	0
61	100.00%	61	100.00%	0
110	100.00%	110	100.00%	0
60	100.00%	60	100.00%	0
69	100.00%	69	100.00%	20
<b>363</b>				
<b>46</b>				

## Competitive Communities within the Secondary Market:

### Existing Competitive Units

Distance (Miles)	Property Name	Property Address	City	Year Opened	Property Type	Primary Payment Type	Operator	Total Units	TOTAL IL	TOTAL AL	TOTAL MC	TOTAL NC	Gross Competitive IL+AL Units	Competitive Factor by Distance	Net Competitive IL+AL Units	Competitive Factor by Distance	Net Competitive MC Units
3.60	King Bruwaert House	6101 S County Line Rd	Burr Ridge	1/1/1933	Majority AL	Rent	Privately Owned	168	31	77	0	60	85	30.00%	25	30.00%	0
4.66	Harvester Place	15W150 N Frontage Rd	Burr Ridge	2/1/2016	Majority AL	Rent	Anthem Memory Care	66	0	0	66	0	0	30.00%	0	30.00%	20
4.73	Brookdale Burr Ridge	6801 High Grove Blvd	Burr Ridge	4/1/1995	Majority AL	Rent	Brookdale Senior Living	132	0	102	0	30	102	30.00%	31	30.00%	0
4.75	Park Place of Elmhurst	1050 S Euclid Ave Unit 1150	Elmhurst	2/1/2012	Majority IL	EF	Providence Life Services	282	181	44	20	37	44	30.00%	13	30.00%	6
4.80	Birches Assisted Living, The	215 55th St	Clarendon Hls	10/1/1999	Majority AL	Rent	The Birches, L.L.C.	90	0	58	32	0	58	30.00%	17	30.00%	10
4.93	Altenheim, The	7824 Madison St	Forest Park	1/1885	Majority IL	Rent	The Altenheim German Old	56	56	0	0	0	14	30.00%	4	30.00%	0
<b>Sub Total</b>													<b>91</b>			<b>35</b>	

### Pipeline Competitive Units

Distance (Miles)	Property Name	Property Address	City	Year Opened	Property Type	Primary Payment Type	Operator	Total Units	TOTAL IL	TOTAL AL	TOTAL MC	TOTAL NC	Gross Competitive IL+AL Units	Competitive Factor by Distance	Net Competitive IL+AL Units	Competitive Factor by Distance	Net Competitive MC Units
4.65	Artis Senior Living of Elmhurst	123 W Brush Hill Rd	Elmhurst	9/1/2017	Majority AL	Rent	Artis Senior Living	0	0	0	72	0	0	30.00%	0	30.00%	22
<b>Sub Total</b>													<b>0</b>			<b>22</b>	

# Demand Analysis – definitions

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- What is a demand analysis?
- Critical issues and outcomes

## Basic Definitions

- Target Market
- Secondary Market
- Assisted Living Qualifications
- Memory Care Qualifications

## Comparable Property

- What is a comp?

# Assisted Living Demand Analysis

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The following Assisted Living Demand Analysis shows a current net demand for 323 beds and a future demand of 357 beds.

### Income Benchmark to afford Base Rental Rates

To establish metrics to financially qualify seniors, we analyze the ability of those seniors to afford Assisted Living (AL) services within the PMA. Our first step is to set a benchmark based on income needed for an average length stay in our community. Pathway has set AL studio base rates at \$4,200. We've assumed that a resident would pay 80% of their income toward monthly fees, with much of the remaining 20% going toward medications, taxes, and other personal items. We've also assumed a 2 year stay within AL, based ASHA's report, The State of Seniors Housing 2015. (ASHA's reported median AL 'Implied Length of Stay' - 22.0 months)

Monthly Base Rent	Annual Base	Allocation of	Income Based on	Income necessary
4,200	x 12 = 50,400	x 80%	= 63,000	x 2yrs = 126,000

### Financial Qualification - Net Worth

Pathway analyzes both Net Worth and Income to financially qualify seniors. Income alone is not enough to assess a senior's ability to pay for AL services. An average AL resident has median income of \$18,972 and average assets of \$205,000 (including his/her home).

Based on the total income necessary for a 2 year stay, we qualify householders Age 75+ with a net worth of \$126,000 or more. As the data is grouped into ranges of net worth rather than \$1,000 increments, we've assumed an even share distribution throughout each bracket - as noted by the '% Share Qualified' factor.

Net Worth	2015 Householders Age 75+ *	% Share Qualified	Total Qualified
\$0 - \$15,000	646	0%	-
\$15,000 - \$34,999	203	0%	-
\$35,000 - \$49,999	83	0%	-
\$50,000 - \$99,999	607	0%	-
\$100,000 - \$149,999	612	48%	294
\$150,000 - \$249,999	1,225	100%	1,225
\$250,000	4,752	100%	4,752
	<b>8,128</b>	<b>Total Net Worth Qualified Householders Age 75+</b>	<b>6,271</b>

\* Source: ESRI - Data Note: Net Worth is total household wealth minus debt, secured and unsecured. Net worth includes home equity, equity in pension plans, net equity in vehicles, IRAs and Keogh accounts, business equity, interest-earning assets and mutual fund shares, stocks, etc. Examples of secured debt include home mortgages and vehicle loans; examples of unsecured debt include credit card debt, certain bank loans, and other outstanding bills. Forecasts of net worth are based on the Survey of Consumer Finances, Federal Reserve Board.

### Financial Qualification - Income

Because net worth does not include monthly income, we also consider support from income-qualified householders. We've qualified householders Age 75+ with incomes of \$63,000 or more. To avoid overstating demand, a 50% overlap is assumed\* in net worth-qualified householders. The following table summarizes household income for age 75+:

Household Income	2015 Householders Age 75+ **	% Share Qualified	Total Qualified
\$0 - \$15,000	971	0%	-
\$15,000 - \$24,999	1,314	0%	-
\$25,000 - \$34,999	1,129	0%	-
\$35,000 - \$49,999	1,377	0%	-
\$50,000 - \$74,999	1,496	48%	718
\$75,000 - \$99,999	619	100%	619
\$100,000 - \$149,999	738	100%	738
\$150,000 - \$199,999	242	100%	242
\$200,000	244	100%	244
	<b>8,130</b>	<b>Total Income Qualified Senior Householders</b>	<b>2,561</b>
		<b>Total Income Qualified Seniors accounting for 50% Overlap</b>	<b>1,281</b>

\* Source: Vogt Santer Insights Market Research

\*\* Source: ESRI

**Total Financial and Age Qualified Senior Householders 7,551**



### Single Householders

On a national basis, the majority of AL prospects live alone; therefore, the number of total households is decreased to account for single person households. To do so, the percentage of single person households is applied to all age-qualified households.

Total Financial & Age Qualified Senior Householders	7,551
Percentage of Householders Living Alone *	x 62.8%
<b>Total Financial and Age Qualified Senior Householders Living Alone</b>	<b>4,742</b>

\* Source: Hamlin Senior Research Market Analysis

### Acuity Qualification based on ADL Need

To establish Financially Qualified Seniors most likely to require AL level of care, Pathway has conservatively utilized ADL need rates based on the Medicare Current Beneficiary Survey (2003) as reported by National Center for Health Statistics (2004).

Age Category	Share with 3 to 6 ADL's	2015 PMA Population*	Estimated Share of 3 to 6 ADL's
75-79	7.0%	4,150	291
80-84	22.1%	3,428	758
85+	32.7%	4,631	1,514
<b>Total</b>		<b>12,209</b>	<b>2,562</b>
		<b>Total 'ADL Need' Rate</b>	<b>21.0%</b>

\* Source: ESRI

### Gross Market Support Calculation

We estimate 70% of AL units will be marketed within the primary market area, while the remaining 30% will be filled by residents moving into the PMA. Seniors will be persuaded by children and younger family members to move to the area.

Total Financial and Age Qualified Seniors	4,742
Total 'ADL Need' Rate	x 20.99%
Total Qualified Seniors with ADL need	995
Support from inside market*	÷ 70.00%
<b>Total Gross Market Support</b>	<b>1,422</b>

### Net Market Support Calculation - Less Competition

In assessing net market support for AL, Pathway includes all 'existing' AL units within the PMA, a percentage of rental Independent Living (IL) units in the PMA, and a percentage of AL and rental IL units within the Secondary Market. For AL and rental IL units within the Secondary Market, which are both outside the Primary Market and within the 5-mile radius band, a "competitiveness" factor, based on distance, is taken into account. Pathway also recognizes IL providers employ Home Health Agencies (HHA) as the ADL needs of their residents rise. Pathway estimates about 25% of the IL units utilize HHA care. Entrance Fee IL units are not included in this analysis.

Total Gross Market Support	1,422
Less 'Existing' AL Competitive Beds	(453)
<b>Net Market Support</b>	<b>969</b>
"Double Deep" Recommendation	484
"Triple Deep" Recommendation	323

### Forecasted Net Market Support Calculation

Pathway Uses 5-year growth estimates in both population and affluency in order to determine future gross market support. This, along with 'existing' AL competitive beds and 'pipeline' AL competitive beds can be used to calculate net forecasted demand for 2021.

Total Gross Market Support	1,523
Less 'Existing' AL Competitive Beds	(453)
Less 'Pipeline' AL Competitive Beds	-
<b>Net Market Support</b>	<b>1,070</b>
"Double Deep" Recommendation	535
"Triple Deep" Recommendation	357

### Conclusion

Pathway's model of building 84 Assisted Living beds falls well within the "Triple Deep" recommendation. Pathway recommends a "Triple Deep" market support considering not all Financially, Age, and Need Qualified Seniors (currently not residing in AL) will choose to reside in AL due to the availability of other options such as HHA care within a home, In-Direct Care given by relative/friends, Adult Day Care, etc. This conservative analysis assumes the "Qualified Senior" will be entirely self-reliant financially and does not account for financial assistance from the Adult Child/Relative.

# Memory Care Demand Analysis

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The following Memory Care Demand Analysis shows a current net demand for 78 beds and a future demand of 80 beds.

### Income Benchmark to afford Base Rental Rates

To establish metrics to financially qualify seniors, we analyze the ability of those seniors to afford Memory Care (MC) services within the PMA. Our first step is to set a benchmark based on income needed for an average length stay in our community. Pathway has set private MC base rates at \$7,200. We've assumed that a resident would pay 85% of their income toward monthly fees, with much of the remaining 15% going toward medications, taxes, and other personal items. We've also assumed a 2 year stay within MC, based ASHA's report: The State of Seniors Housing 2015. (ASHA's reported median AL/ALZ 'Implied Length of Stay' - 23.9 months)

Monthly Base Rent	Annual Base Rent	Allocation of Income to Rent	Income Based on Allocation	Income necessary for a 2 Yr Stay
7,200	7,200 x 12 = 86,400	x 85%	= 101,647 x 2yrs	= 203,294

### Financial Qualification - Net Worth

Based on the total income necessary for a 2 year stay, we qualify householders Age 75+ with a net worth of \$203,294 or more. As the data is grouped into ranges of net worth rather than \$1,000 increments, we've assumed an even share distribution throughout each bracket - as noted by the '% Share Qualified' factor.

Net Worth	2015 Householders Age 75+ *	% Share Qualified	Total Qualified
\$0 - \$15,000	646	0%	-
\$15,000 - \$34,999	203	0%	-
\$35,000 - \$49,999	83	0%	-
\$50,000 - \$99,999	607	0%	-
\$100,000 - \$149,999	612	0%	-
\$150,000 - \$249,999	1,225	47%	572
\$250,000	4,752	100%	4,752
	8,128	<b>Total Net Worth Qualified Householders Age 75+</b>	<b>5,324</b>

\* Source: ESRI - Data Note: Net Worth is total household wealth minus debt, secured and unsecured. Net worth includes home equity, equity in pension plans, net equity in vehicles, IRAs and Keogh accounts, business equity, interest-earning assets and mutual fund shares, stocks, etc. Examples of secured debt include home mortgages and vehicle loans; examples of unsecured debt include credit card debt, certain bank loans, and other outstanding bills. Forecasts of net worth are based on the Survey of Consumer Finances, Federal Reserve Board.

### Financial Qualification - Income

Because net worth does not include monthly income, we also consider support from income-qualified householders. We've qualified householders Age 75+ with incomes of \$101,647 or more. To avoid overstating demand, a 50% overlap is assumed\* in net worth-qualified householders. The following table summarizes household income for age 75+:

Household Income	2015 Householders Age 75+ **	% Share Qualified	Total Qualified
\$0 - \$15,000	971	0%	-
\$15,000 - \$24,999	1314	0%	-
\$25,000 - \$34,999	1129	0%	-
\$35,000 - \$49,999	1377	0%	-
\$50,000 - \$74,999	1496	0%	-
\$75,000 - \$99,999	619	0%	-
\$100,000 - \$149,999	738	97%	714
\$150,000 - \$199,999	242	100%	242
\$200,000	244	100%	244
	8,130	<b>Total Income Qualified Senior Householders</b>	<b>1,200</b>
		<b>Total Income Qualified Seniors accounting for 50% Overlap</b>	<b>600</b>

\* Source: Vogt Santer Insights Market Research

\*\* Source: ESRI

**Total Financial and Age Qualified Senior Householders 5,924**

### Single Householders

On a national basis, the majority of Assisted Living prospects live alone; therefore, the number of total households is decreased to account for single person households. To do so, the percentage of single person households is applied to all age-qualified households.

Total Financial & Age Qualified Senior Householders		5,924
Percentage of Householders Living Alone *	x	62.8%
<b>Total Financial and Age Qualified Senior Householders Living Alone</b>		<b>3,720</b>

\* Source: Hamlin Senior Research Market Analysis

### Acuity Qualification based on ADL Need

To establish Financially Qualified Seniors most likely to require Assisted Living level of care, Pathway has conservatively utilized ADL need rates based on the Medicare Current Beneficiary Survey (2003) as reported by National Center for Health Statistics (2004).

Age Category	Share with 3 to 6 ADL's	2015 PMA Population*	Estimated Share of 3 to 6 ADL's
75-79	7.0%	4,150	291
80-84	22.1%	3,428	758
85+	32.7%	4,631	1,514
<b>Total</b>		<b>12,209</b>	<b>2,562</b>
		<b>Total 'ADL Need' Rate</b>	<b>21.0%</b>

\* Source: ESRI

### Alzheimer Affliction

Pathway calculates Seniors in need of Alzheimer's care within an Assisted Living setting based on the prevalence rates of Alzheimer's disease from the National Institute on Aging as presented in the August 2003 issue of Archives of Neurology. Pathway recognizes a smaller percentage of Seniors Ages 65-74 are also afflicted with Alzheimer's disease. Seniors Ages 65-74 are not included in this demand analysis.

Age Category	ALZ Affliction Rate	2015 PMA Population*	Estimated # w/ Alzheimer's Disease
75-84	18.4%	7,578	1,394
85+	44.7%	4,631	2,070
<b>Total</b>		<b>12,209</b>	<b>3,464</b>
		<b>Total ALZ Affliction Rate</b>	<b>28.4%</b>

\* Source: ESRI

### Gross Market Support Calculation

We estimate 70% of MC units will be marketed within the primary market area, while the remaining 30% will be filled by residents moving into the PMA. Seniors will be persuaded by children and younger family members to move to the area.

Total Financial and Age Qualified Seniors		3,720
'ADL Need' Rate	x	20.99%
Total Qualified Seniors with ADL need		781
ALZ Affliction Rate	x	28.38%
Total Qualified Seniors in need of Memory Care		222
Support from inside market	÷	70.00%
<b>Total Gross Market Support</b>		<b>317</b>

**Net Market Support Calculation - Less Competition**

In assessing net market support for MC, Pathway includes all 'existing' MC units within the Primary Market, and a percentage of MC units within the Secondary Market. For MC units within the Secondary Market, which are both outside the Primary Market, and within the 5-mile radius band, a "competitiveness" factor, based on distance, is taken into account.

Total Gross Market Support	317
Less 'Existing' MC Competitive Beds	(81)
Less 'Pipeline' MC Competitive Beds	-
<hr/>	
<b>Net Market Support</b>	<b>235</b>
<b>"Double Deep" Recommendation</b>	<b>118</b>
<b>"Triple Deep" Recommendation</b>	<b>78</b>

**Forecasted Net Market Support Calculation**

Pathway Uses 5-year growth estimates in both population and affluency in order to determine future gross market support. This, along with 'existing' MC competitive beds and 'pipeline' MC competitive beds can be used to calculate net forecasted demand for 2021.

Total Gross Market Support	343
Less 'Existing' MC Competitive Beds	(81)
Less 'Pipeline' MC Competitive Beds	(22)
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<b>Net Market Support</b>	<b>240</b>
<b>"Double Deep" Recommendation</b>	<b>120</b>
<b>"Triple Deep" Recommendation</b>	<b>80</b>

**Conclusion**

Pathway's model of building 32 Memory Care beds falls well within the "Triple Deep" recommendation. Pathway recommends a "Triple Deep" market support considering not all Financially, Age, and Need Qualified Seniors (currently not residing in an Assisted Living setting) will choose to reside in a purpose built MC community due to the availability of other options such as HHA care within a home, In-Direct Care given by relative/friends, Adult Day Care, etc. Note this analysis assumes the "Qualified Senior" will be entirely self-reliant financially and does not account for financial assistance from the Adult Child/Relative.

# Current Pathway Projects

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The following renderings are recently opened and currently under-construction Pathway developments in Illinois.

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# Q&A Period

# Azpira Place in Lake Zurich – 120 Units





# Aspired Living of Westmont – 107 Units

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# Aspired Living of Westmont – 107 Units



# Aspired Living of Westmont – 107 Units



# Aspired Living of Westmont – 107 Units



# Aspired Living of Westmont – 107 Units



*The Sycamore Restaurant and Bar*

# Aspired Living of Westmont – 107 Units



# Aspired Living of Westmont – 107 Units

