Tranquility at Fredericktown: A Value Add Investment Proposition

Evaluation Proposal

Submitted By:

Korinna S. Garbis
Johns Hopkins University
Cary Business School
Edward St. John Department of Real Estate
Term: Fall 2009

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I. OVERVIEW

Before we investigate the total development process of a value add addition to Tranquility Assisted Living Facility, we must first establish its origins, the parties involved, and the overall timeline of development. KG Consulting, LLC has been retained by Tranquility I, LP to review the asset's existing operations and produce a value add feasibility study. Several options were assessed: 1) Current Asset; hold or sell in next year 2) Operational, light cosmetic and Dementia floor changes; hold or sell in a year and 3) New wing addition; hold or sell in ten years. These options provide several options with varying degrees of risk, investment, and potential returns to the investors.

Executive Summary:

Client- Tranquility at Fredericktown, LP

Tranquility at Fredericktown located in Frederick, Maryland was originally built in 1999, and is owned by Tranquility 1, LP. In an effort to add value to the existing facility, the company would like to examine several potential options to do so. The Evaluation Proposal will first examine proposed operational changes, existing facility upgrades. An additional option will analyze the planning, design, financing, construction, marketing and delivery of a new wing to the facility. The new wing will have one floor of 24 rooms of Dementia, and two floors of 36 rooms of Assisted Living, for 60 total additional rooms. Thereafter a new loan will refinance the existing loan as well as the construction loan.

The demand for residential communities for seniors rises as the U.S. population continues to age. This growth means that new administrators and staff members often are learning by trial and error the complicated task of delivering high-quality and consistent services to

elderly persons. While many new facilities have been successful, others have been plagued by a variety of administrative and financial difficulties.

Assisted Living combines congregate care living with personal assistance with some tasks, such as bathing, dressing and walking. Resident must be ambulatory and not in chronic need of assistance. Assisted Living facilities are not nursing homes, nor are they intended to provide nursing care. They can provide occasional assistance for residents who are ambulatory and mentally alert. Monthly feels generally include shelter, meals, housekeeping, laundry service, some utilities and personal assistance. The state of Maryland licenses facilities such as Tranquility in order to provide greater levels of care and better quality for the residents.

Current trends in the industry include the following:

a) assisted living residents will become increasingly impaired, both physically and cognitively

b) the future "look" of assisted living will be driven by market forces, in that the industry will respond to what owners and investors believe will fit the needs and preferences of more well-off elders and their families

c) assisted living residences will remain largely unavailable to low and moderate income elders

d) families will carry on as the chief provider of informal elder care with their care roles continuing in assisted living residences[1]

Given the above trends, it is imperative that Tranquility prepare and make appropriate changes to transform the facility.

As a healthcare and residential option, Assisted Living has a solid future. According to the journal, *The Gerontologist*, "assisted living will continue to be largely an option for wealthier elders; and small board-and-care homes, the primary option for most low-income elders, will continue to lose ground."[2]

[1] National Real Estate Investor, http://nreionline.com/seniorshousing/assisted_living_occupancy_0727/
[2] 2000, The Gerontologist, "The Uncertain Future of Assisted Living" Mary M. Ball, page, 580.

II. MARKET AND SITE SELECTION ANALYSIS

Introduction:

The facility's success and potential growth is based on the selection of an appropriate location. Tranquility's site is located in Frederick County, Maryland just outside the Frederick City limit. The following section analyses the county and city, its demographics, and the need for additional Dementia Care Facilities in addition to the current Assisted Living Supply.

Frederick County, Maryland Regional Data

Frederick covers 662 square miles and is the largest county area-wise in the state. It has undergone tremendous growth in the past few years and its population now numbers close to 225,000. The county is also among the top 1.5 percent of America's wealthiest counties, according to a report by the U.S. Census Bureau. Within its borders are 12 municipalities and several communities. The general area surrounding the site contains mixed residential and commercial uses as well as rural land. A wonderful view of nearby small mountains and hills to the north and south is present. Two of Frederick County's most popular and scenic state parks, Sugarloaf Mountain and Cunningham Falls are each located approximately 8 and 13 miles from the site. The City of Frederick is located in the approximate center of

Frederick County and has developed as a bedroom community to both Baltimore, Maryland and Washington, DC. Although much of Frederick County remains rural in character, small cities and towns have emerged, are more urbanized and continue to grow.
The City of Frederick is home to more than 62,000 residents, nearly a third of Frederick County's 2008 population of 232,104. The County has the 2nd largest population in the State of Maryland Frederick is located 44 miles from Washington, D.C. and 52 miles from Baltimore, Maryland. Both are an approximate one hour away from Frederick. Frederick County is bounded to the east by Carroll, Howard and Montgomery Counties, to the south by Montgomery County and the Potomac River, and to the west by Washington County, Maryland. To the north it is bordered by Adams County, Pennsylvania.

Frederick's diversity is growing, with non-Caucasian races and ethnicities representing 28% of the population. Frederick's local workforce of 120,000 is further enhanced by commuters from neighboring Maryland counties as well as Loudon County VA., Southern Pennsylvania, and West Virginia. The City's workforce is well-educated, with 34% holding a Bachelors Degree or higher.

Frederick, as part of the Bethesda-Gaithersburg-Frederick metro region, was recently named by Forbes.com as the 2nd smartest region in the country, is located less than 1 hour from Washington, DC and Baltimore, MD, and has the 2nd largest population in the State of Maryland. The balanced and thriving economy, highly educated workforce and quality of life is nothing short of enviable. Emerging as a leading national location for the bioscience industry, Frederick is located within the Maryland Biotech Cluster. Sixty plus bioscience companies have chosen the region due in part to Fort Detrick calling the City home and employing almost 8,100 personnel. Factors such as these draw in an ever-growing diverse resident population.

Because of Frederick's location at the northern end of the I-270 Technology Corridor, there is close proximity to more than 350 thriving bioscience companies throughout Maryland offering extensive local support and networking. The Frederick region is home to nearly 400 IT companies because the majority of the fiber optic networks supplying Washington, DC are routed through Frederick County. There is a wealth of regional businesses to be served

by those IT companies and the hip and lively lifestyle is attractive to professionals of all ages.

Market Area Definition:

The Market Area for this project has been defined as including portions of Frederick and Montgomery Counties, Maryland. The borders of the Market Area are as follows:

- Northern Border: The northern boundary of Frederick County which borders the Pennsylvania State line.
- Eastern Border: The eastern edge of Frederick County excluding Census Tract 7516 and the eastern edges of Census Tracts 7007.07, 7007.09, 7001.01, 7001.02, 7002.02 in Montgomery County.
- Southern Border: The southern boundary of City of Gaithersburg following Route 28 northwest to the Frederick County line and the Potomac River (also boundary of Frederick County).
- Western Border: The west edge Frederick County from the Potomac River to just south of Route 70.

Traffic Counts:

The traffic counts noted in the below graph show the high volume which passes by or in close proximity to Tranquility which is an asset to it's location.

Collection Street	Cross Street	Cross St Dist/Dir	Traffic Volume	Count Year	Dist from Subject	Type
Jefferson Pike	Butterfly Ln	0.10 E	24,475	2003	0.09	AADT
Jefferson St	Ballenger Creek Pike	0.13 NE	27,475	2003	0.14	AADT
Butterfly Ln	Jefferson Pike	0.14 SE	12,688	2002	0.17	ADT
Ballenger Creek Pike	Solarex Ct	0.04 N	26,546	2003	0.27	AADT
Jefferson St	Ballenger Creek Pike	0.16 SW	41,475	2003	0.30	AADT
Jefferson Pike	I-70	0.24 NE	4,175	2003	0.52	AADT
United States Highway 15	Jefferson St	0.30 SE	93,475	2003	0.60	AADT
United States Highway 15	I-70	0.48 NE	54,875	2003	0.63	AADT
United States Highway 15	Jefferson St	0.31 NW	91,825	2003	0.64	AADT
I-70	United States Highway 15	0.21 E	78,875	2003	0.70	AADT

Frederick Demographics:

At a glance, the general trend is growth for Frederick County and Frederick City over the past decade. From 2000 to 2009, there was an 19% increase in population. The projection for the next five years includes a 21% increase. Although there was a sharp Median

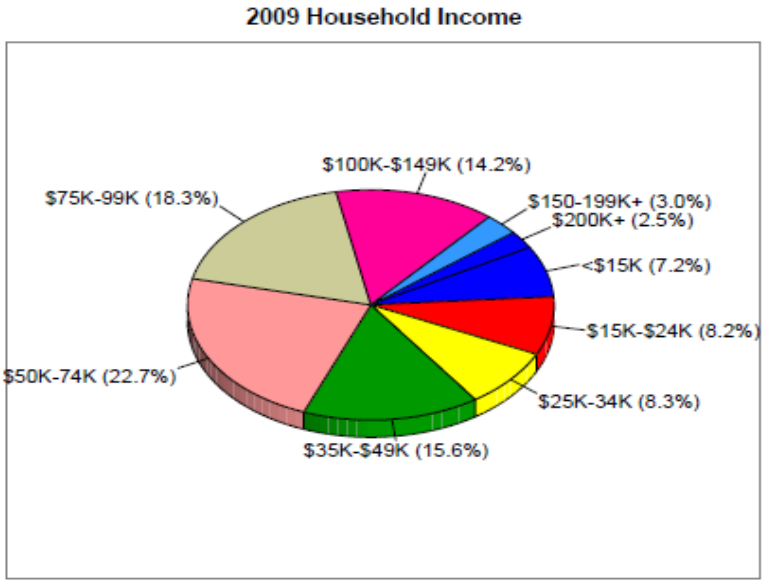
Household income increase by $12,966 from 2000 to 2009, there will actually be a .13% decrease in the next five years.

Frederick City

2000 Total Population	52,767	2000 Median HH Income	$47,793
2009 Total Population	63,226	2009 Median HH Income	$60,759
2014 Total Population	67,154	2014 Median HH Income	$60,360
2009 - 2014 Annual Rate	**21%**	**2009 - 2014 Annual Rate**	**-0.13%**

Income:

Further detail of the 2009 Annual household income for Frederick County is strong. The actual diversification of income levels itself includes the majority, 22.7% with an average household income of $50,000-$74,000 a year. This bracket is XX of the area median income. Next, the second highest is $75,000-$99,000 with 18.3%, and the third is $100,000-$149,000 with 14.2%. That means that 55.2% of the households in the county are in an above the median for the county.[3]



Age:

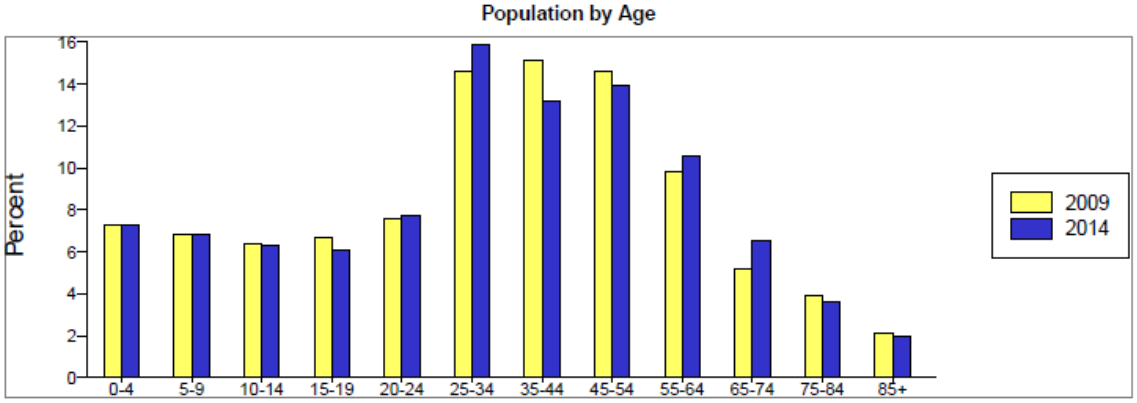
The majority of Frederick's population is in the middle age groups of 25-54, with the largest percentage in the 25-34 age bracket (17.7%) , and a close second to the 35-44 age bracket (17.6). This surge of a younger demographic is a result of the insurgence of new home buyers in the county in the past decade.

Particular attention must be paid to the older population given our target demographic of aging individuals. Further analysis indicates that there is a slight decrease projected for the

[3] ESRI

85+ age bracket by 2014, to 2.0%, and down to 3.6% for the 75-84 brackets from 3.9% currently in 2009. On the rise is the 65-74% age bracket up to 6.5% from 5.2% in 2009. The below bar graph reflects the projected population changed from 2009-2014, which is in most cases a decline from the 2009 numbers. [4]

	2000		2009		2014	
Population by Age	Number	Percent	Number	Percent	Number	Percent
0 - 4	3,944	7.5%	4,599	7.3%	4,871	7.3%
5 - 9	3,931	7.4%	4,282	6.8%	4,597	6.8%
10 - 14	3,516	6.7%	4,030	6.4%	4,262	6.3%
15 - 19	3,159	6.0%	4,215	6.7%	4,128	6.1%
20 - 24	3,641	6.9%	4,805	7.6%	5,196	7.7%
25 - 34	9,323	17.7%	9,255	14.6%	10,650	15.9%
35 - 44	9,275	17.6%	9,531	15.1%	8,883	13.2%
45 - 54	6,521	12.4%	9,213	14.6%	9,306	13.9%
55 - 64	3,512	6.7%	6,194	9.8%	7,133	10.6%
65 - 74	2,787	5.3%	3,298	5.2%	4,345	6.5%
75 - 84	2,243	4.3%	2,484	3.9%	2,412	3.6%
85+	915	1.7%	1,317	2.1%	1,368	2.0%



As of the census of 2000[5], there were 195,277 people, 70,060 households, and 51,914 families residing in the county. The population density was 295 people per square mile (114/km^2). There were 73,017 housing units at an average density of 110/square mile (43/km^2). The racial makeup of the county was 89.33% White, 6.36% Black or African American, 0.21% Native American, 1.67% Asian, 0.03% Pacific Islander, 0.92% from other races, and 1.47% from two or more races. 2.39% of the population were Hispanic or Latino of any race. 24.7% were of German, 12.9% American, 12.3% Irish and 10.1% English ancestry according to Census 2000.

[4] ESRI
[5] http://factfinder.census.gov

In the county the population was spread out with 27.60% under the age of 18, 7.40% from 18 to 24, 32.70% from 25 to 44, 22.60% from 45 to 64, and 9.60% who were 65 years of age or older. The median age was 36 years. For every 100 females there were 96.90 males. For every 100 females age 18 and over, there were 93.90 males.[6]

55 and Older Trends

Within the next 25 years the residents of Frederick County age 55 and older are projected to grow by 51,360 people, increasing from 20% of the total population to 28%. By 2015, the 55 and older population will out number the school-aged population by a ratio of 1:1.14. Which means that for every school aged child three will be 1.14 people older than 55 years of age. The growth in the elderly segments of the population is a national dilemma and has raised concerns over the future housing needs, and the ability of the County to support such an increase in this segment of the population.

By 2030 there will be 94,793 (1 in every 3.6 residents) people in Frederick County 55 and older. The cause for such an increase is mainly due to the Baby Boom Generation coming of age. In 2006, the first of the Baby Boomer's turned 60 years old. This generation lasted for 18 years and within the next 25 years all Baby Boomers will be between the ages of 66 and 84. Another impact on increase in this population is the advanced medical care and better health of the elderly residents. Within the past 4 years (just in the 85 and older age cohort) the death rate has decreased from 16.2 to 14.4. Migration patterns will also impact the growth of the older population in neighboring geographic areas. Historically, between the ages of 55 to 74 residents moved out of Frederick County for retirement and moved back into the County after reaching 75 years of age, most likely to be closer to family members. The Baby Boom generation does not seem to be following this type of migration pattern and many more of them prefer to age in place.

The new generation of elderly (55+) will have a different demographic face than previous generations. By 2030, it is projected that the 55 and older population will be more racially diverse with 1 in every 9 persons being a minority compared to the current ratio of 1 in

[6] http://en.wikipedia.org/wiki/Frederick_County,_MD

every 16 persons. The increased educational attainment of this population is being attributed to higher levels of income, better health, and a higher standard of retirement lifestyle. With increased divorce rates and less families in the County, many aging residents may find it more difficult than previous generations to find the needed family support in retirement or their later years in life, making the issue of adequate housing a major concern.[7]

National Markets:

Below is a chart which notes National Occupancy Rates for this year for stabilized properties (those which have been open 24 months or longer) of major providers for the first quarter of 2009. Occupancy is defined as: number of occupied units or beds divided by number of total available units or beds "set up". National Investment Center for the Senior Housing & Care Industry believes these are representative of major national and regional providers.[8]

Property Type	Mean Occupancy %	Number of Properties	Number of Units (*Beds)
Independent Living	87	539	78,047
Assisted Living	88	1430	105,171
Nursing Homes	84	958	118,417
CCRCs	89	167	61,373

According to the Assisted Living Federation of America (ALFA), ne trend uncovered in their recent survey is that the person paying the rent is changing. In 2009, 66% of assisted living residents paid the bill themselves. Three years ago, 52% of residents paid the bill themselves, with 34% paid for by the family. About 6% of residents get support from long-term care insurance, up from 3% three years ago. In addition, resident profiles are changing. The average age of a resident this year is 86.9, up from 85.3 three years ago. The average annual turnover rate of residents is 42% compared with 38% three years ago. The average length of stay for a resident is about 28 months.

Regional Market

The majority Assisted Living metro area trends listed in the below notes the general decline of occupancy of all properties since its peak of 94.1 in 2006. This can be attributed to the increase costs of health care and the decline of the national economy. The second quarter of

[7] 2006, Age Restricted Community Report: Trends and Issue of the Aging Population 2006-Final Report, Frederick County, Maryland. Frederick County of Planning

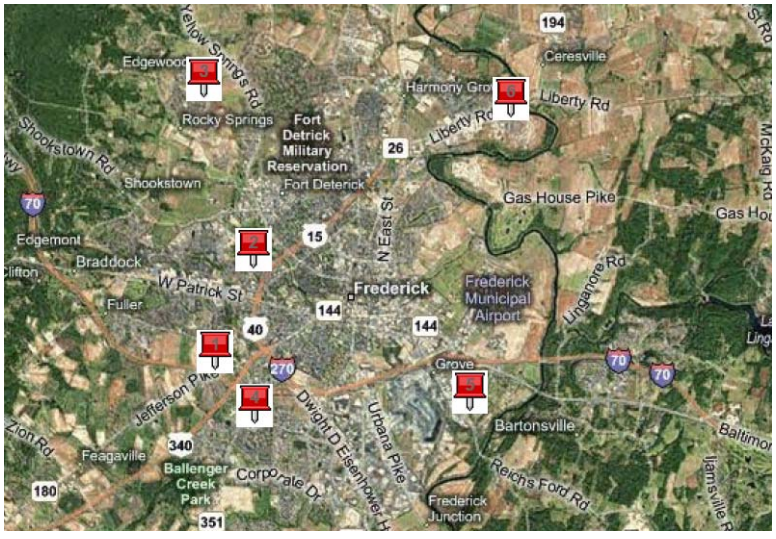
[8] National Investment Center, http://www.nic.org/research/kfi/occupancy.aspx

2009 has the lowest percent of growth, 2.9% since prior to 2006. Only three properties are under construction, bringing 207 beds onto the market. More specifically, regional trends show that Frederick has the highest stabilized occupancy of 95.2%, exceeding DC, Montgomery, and Fairfax counties. Montgomery County has the only significant growth of inventory in the region. The District has the highest average rent per unit of $5638, while Frederick is on the low end of $4006 per unit a month. Therefore, Frederick can afford to absorb at least 60 additional beds in the market, in particular, dementia beds.

	Existing Inventory		Occupancy		Quarterly Supply and Demand		Under Construction Inventory		
Period	# Properties	# Units/Beds	All Properties	Stabilized	Absorption	Inventory Growth	# Properties	# Units/Beds	YoY Rent Growth[1]
2Q2009	115	19,889	91.3%	92.9%	211	479	3	207	2.9%
1Q2009	114	19,410	92.5%	92.8%	1	59	5	686	3.8%
4Q2008	114	19,351	92.7%	93.1%	371	325	4	614	3.5%
3Q2008	112	19,026	92.4%	92.4%	-49	144	6	944	5.3%
2Q2008	111	18,882	93.3%	93.4%	-12	27	6	1,098	5.4%
1Q2008	111	18,855	93.5%	93.5%	-77	-66	7	988	4.5%
2007	111	18,921	93.6%	93.6%	151	266	6	883	4.5%
2006	112	18,655	94.1%	94.3%	229	342	6	431	6.4%

Submarket	Stabilized Occupancy	YoY Rent Growth	AL Average Rent per Unit	MC Rent per Unit	Construction vs. Inventory	Inventory	Penetration	Yearly Absorption	Yearly Inventory Growth
District of Columbia	91.1%	-2.1%	$5,638	Protected	0.0%	406	1.7%	6	3
Frederick	95.2%	1.4%	$4,006	$4,361	0.0%	455	7.3%	-10	2
Montgomery	92.0%	4.6%	$4,790	$5,702	0.0%	1,113	3.4%	51	82
Prince Georges	91.5%	4.6%	$3,633	Protected	0.0%	411	2.4%	-4	0
Arlington	86.5%	2.3%	$4,005	$3,909	0.0%	274	4.4%	5	5
Fairfax	88.2%	.7%	$4,636	$5,116	0.0%	1,018	4.6%	5	16
Loudoun	86.0%	3.7%	$4,858	No Data	0.0%	242	6.4%	4	-1
Prince William	89.3%	.3%	$4,257	Protected	0.0%	225	5.1%	5	0
Spotsylvania	Protected	Protected	Protected	Protected	0.0%	140	5.5%	Protected	0
Alexandria City	Protected	Protected	Protected	Protected	0.0%	78	2.0%	Protected	2

Market Comps:



There are five competitive communities which were built in the in the late 1990's and early 2000's and are located in the market area identified: Sunrise, Somerford, Edenton, Country Meadows and Heartfields. Edenton and Country Meadows offer Independent Living,

Dementia Care as well as Assisted Living. All five competitors have an ALZ option available which leaves Tranquility, the outlier, not able to officially absorb the dementia demand, which routinely detracts prospects. All other communities which offer Dementia care, are typically 98% occupied. These other communities are better able to serve the continuation of care that is needed for residents and their families. Tranquility must make a commitment to deliver quality care to its residents for the families.

The market comps are approximately 95% occupied, whereas currently, Tranquility is about 91% occupied. It is determined that Tranquility's laggard appearance, inability to separate ALZ patients, and continued staffing and management problems contribute to its lower occupancy rates. Operational and cosmetic improvements will immediately increase occupancy.

Occupancies at dementia care facilities in the subject area stand at 98%, an indication that housing for those who need a significant amount of care should continue to fare well.[9] This is a typical national occupancy trend for Dementia as well.

Rental Income

Rental income is based on a blended rate for each room type, with a weighted average based on typical occupancy. For instance, currently each room type has a fee based on a Level of Care, and also is dependent on whether the room is shared or private. In comparison to county averages, $4006 found in the NIC report, Tranquility's averages are below standard. With four room types, three levels of care, and either a private or shared scenario, there are potentially 24 rate scenarios to take into account. In order to project a Potential Gross Income, a blended rate was determined as follows:

Rental Income: Potential Gross Income with Blended Rates

Type of Unit	No. of Beds	Monthly Rate	Total Monthly	Total Yearly
English Rose	48	$ 3,435	$ 164,880	$ 1,978,560
Mountain Laurel	10	$ 3,606	$ 36,060	$ 432,720
Day Lily	10	$ 3,578	$ 35,780	$ 429,360
Hollyhock	10	$ 3,578	$ 35,780	$ 429,360
Subtotal	78		$ 272,500	$ 3,270,000

[9] National Real Estate Investor, http://nreionline.com/seniorshousing/assisted_living_occupancy_0727/

Dementia Income Analysis

The potential financial analysis of simply converting one wing of the existing facility must be analyzed. The north wing of the second floor currently houses 14 rooms with yearly revenue of approximately $542,264 ($45,272 per month). In this scenario, potential yearly revenue for this space could exceed $1.1 million (before vacancy factor) resulting in a gross revenue increase of $550,736.

The pricing is derived from the base rates of competitor Somerford Place ($140 per day shared and $160 per day private) with a level three service plan (out of 5) valued at $15 a day and does not assume any Medicaid recipients. It is important to keep in mind that Medicaid rates fall well below the above referenced private rates of $155 and $175 per day. At a monthly rate of roughly $2500, each Medicaid recipient would reduce overall revenue potential by approximately $26,500 per year ($2500 versus a private rate of $4712 per month for a shared unit). Somerford Place's rates are well below average Dementia Care rates. For this Rent Roll analysis (see **Exhibit I**), $183 per day was used for an average of 14 beds, which is $5500 a month.

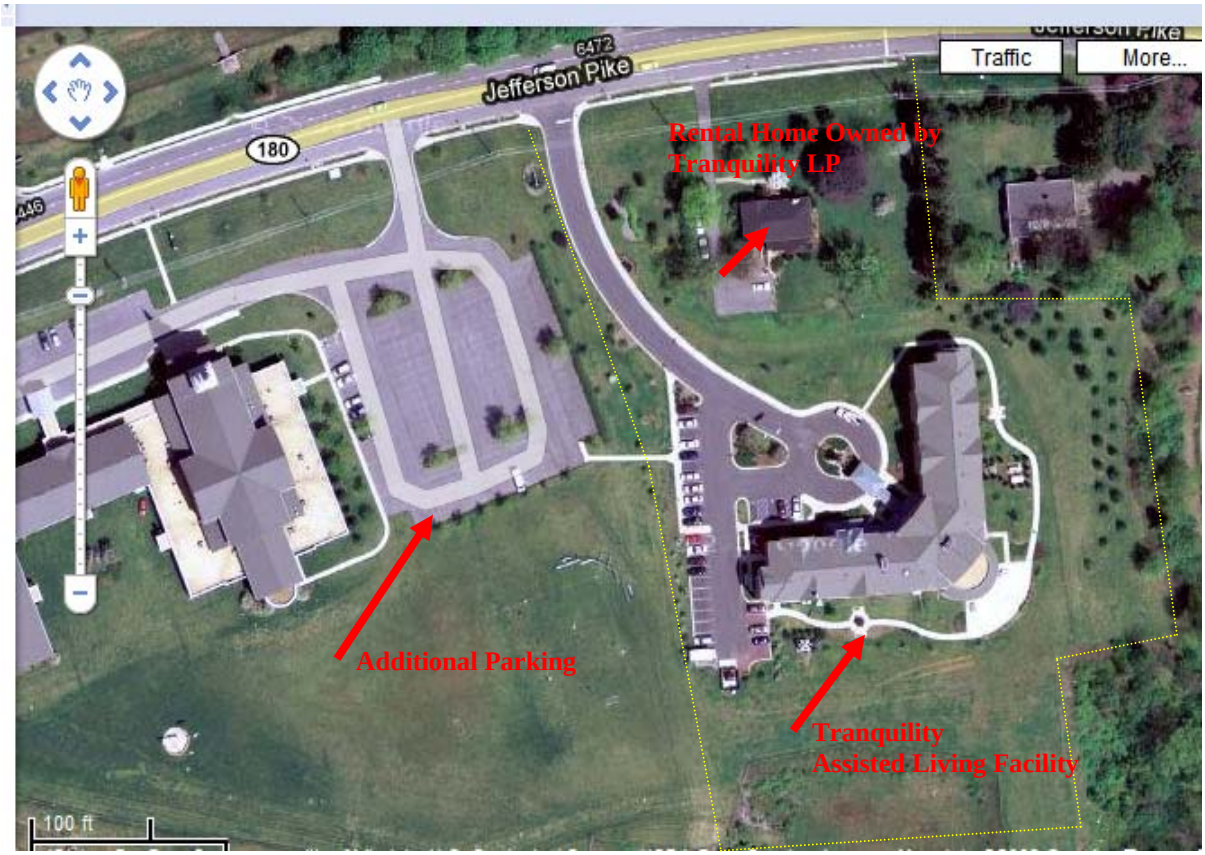
However, the ideal capacity for a Dementia unit is approximately 24 residents. Therefore the closer to this number that the unit can occupy the better the economies of scale will be, which lends itself to a floor in a new Wing. However, one floor, of one wing includes 14 beds.

It is anticipated that additional staffing would cost approximately $288,960 including a 25% factor for benefits (direct care staff, nursing, housekeeping and activities). This number is conservative and could possibly be decreased by creatively utilizing existing staff and resources. It would also be safe to estimate an additional $50,000-$75,000 per year in miscellaneous expenses including raw food, supplies and other recurring costs. As such, net revenue potential on an annual basis could reach $186,776.

Site Analysis

Tranquility at Fredericktowne is located in the City of Frederick in Frederick County. The parcel size is two contiguous parcels totaling 3.6 acres, 1.1 acres and 2.5 acres respectively. Recently, one single family home was purchased in 2005 by the ownership for future

development. It is .5 acres. Zoning for the parcels are "Open Space and Institutional." The closest major intersection to the site is Route 180 or Jefferson Pike, and Butterfly Lane, which is .1 mile east of the site, and is a highly trafficked location. The property is adjacent to the Seventh Day Adventist Church and School.



Existing Facility Analysis:

The facility is surrounded by lush meadowlands. Views of the Catoctin and Sugarloaf Mountains and the City of Frederick, Maryland are visible. Tranquility is locally owned and operated by lifetime Frederick County residents, setting Tranquility apart from other Assisted Living Facilities in the area.

Tranquility's mission is to enhance the well-being and quality of life for their residents by providing a home-like, stimulating, and compassionate environment. Tranquility is committed to being an active partner in the Frederick community.

Tranquility aims for the highest standards of excellence for their residents and is focused on providing choices that will preserve dignity, encourage independence and nurture the spiritual, emotional and physical well-being of each resident.

Facility:

Tranquility at Fredericktowne was developed and constructed in 1999 and opened in 2000. The 44,976 square foot facility has 68 rooms, 58 one bed rooms (private units), and 10 two bed rooms (companion suites), for 78 total beds. However, the facility is licensed to operate 90 beds. One bedrooms may be shared by two persons, as long as the square footage is greater than the regulated limit of 90 square feet. The same policy applies to Dementia-only rooms.

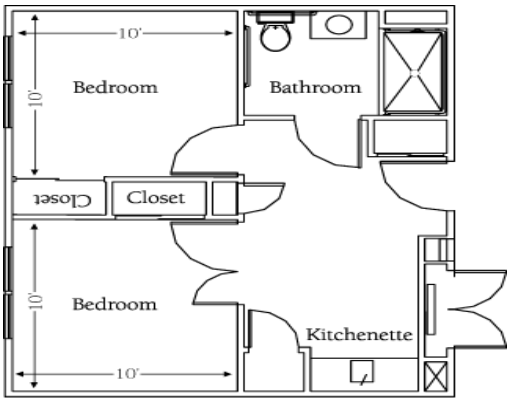
Unit Mix:

Type	# of Beds Per Rooms	Quantity	TOTAL BEDS
A:	1 bedrooms	48	48
B:	1 bedrooms	10	10
C:	2 bedrooms	5	10
D:	2 bedrooms	5	10
Total		68	78

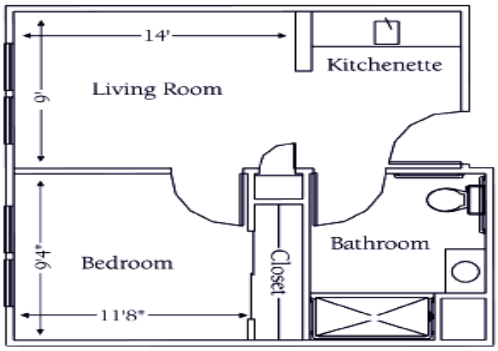
The first floor includes a wing of rooms to the left off of the entryway/reception area, and dining room and kitchen to the right. Straight ahead are common areas including a library, TV room, and a spacious solarium which receives sunlight throughout the day. The second Floor includes the nursing station, bedrooms and a community room. Again on the third floor are rooms as well as a meditation room.

The typical floor layouts:

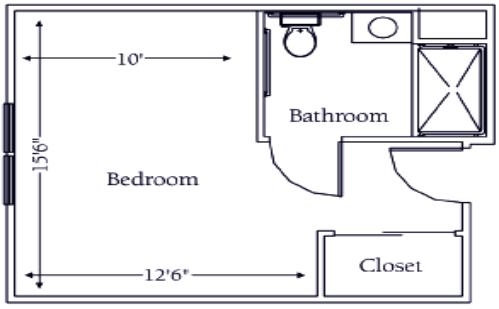
Day Lily Model
Two-Bedroom/Kitchenette



English Rose Model
One-Bedroom Suite



Mountain Laurel Model
One-Bedroom Suite



The exterior is red brick masonry, in a colonial style. The facility is three floors with 2/3 of the first floor providing common area space, and 1/3 reserved for rooms. There are 78 beds through the space and no reserved space for Independent Care, Assisted Care or Dementia. The Nurses Station is provided on the second floor, adjacent to a community room.

Currently, there are 30 parking spots, 2 of which are Handicapped, off to the west side of the building and a wrap around drop off portico which is located at the front entrance.

The existing Country Victorian décor of the facility is dated. The style is dated and includes dark colors of maroon, navy blue, and forest green. General wear and tear is visible in common areas. Currently mismatched light fixtures and light bulbs are utilized and exchanged haphazardly. Common area restrooms are mixing fixtures, and operable handicap support systems, i.e grab bars. Visible signs of previous leaks can be seen in the ceiling. Appropriate drywall repair and paint is needed. The furniture in the dining room including tables and chairs are 10 years old, and has experienced a high level of wear. Additional unrepaired water damage is seen in the ceiling.

Existing Management

The existing management of the facility has been and is currently independently run by its owners with mediocre success. Third party managers were previously unsuccessfully enlisted to provide support over the past ten years. Tranquility has an average occupancy rate of 91%, and an average un-levered NOI of $789,963. Income could be increased if mandated reviews of patients were conducted according to regulation. Those reviews routinely re-assess resident's health needs and standard of care. Higher levels of care cost more.

It appears as though a refined approach by a seasoned and professional third party management company would provide a unified and seasoned approach to Tranquility's problem areas: resident relations, operating methods, staffing ratios, department management, cost containment, sales and marketing strategies, techniques of financial analysis, budgeting, and human resources. In addition, the new Executive Director should guide the proposed changes immediately.

Currently, adequate staffing levels and the need for skilled nursing personnel as a result of the increasing frailty of residents are of the utmost importance to Tranquility. Ensuring the residents quality of life is imperative and bolsters the value of an individualized care approach. The staff must be identified appropriately at all times. Nursing Assistants and Tech's must wear a uniform and some form of identification for a professional appearance.

Health Services

Tranquility at Fredericktowne, is licensed to provide assisted living and short term respite care, by the Department of Health and Mental Hygiene. A doctor is available and on call at all times if a need arises. The doctor comes every week in order to review charts and health plans. The new Director of the Facility is a Registered Nurse, which provides a clinical approach and emphasis on the management and care of the residents. The local hospital includes Frederick Memorial Hospital which is 2 miles away.

Food Service

Timing is everything with food service in senior communities. If the food is consistently not ready or of poor quality, residents will note the trend and grow frustrated and complain. Therefore, attention to food quality and service is imperative for overall resident satisfaction. The preparation should be well orchestrated to maximize efficiency in order to promote "logical dish-up progression and facilities quick and smooth filing of orders."[10]

Currently, $5.75 is budgeted daily for each person's food costs. National research from 2007 indicates the average cost is $3.79-$4.95 for assisted living facilities.[11] The ranges vary on how many meals are served per day. Often Chefs deduct costs for guests and employee meals to yield a lower cost per meal. Lunch, typically the heavier meal of the day or dinner, produces the main meal and also half of the daily cost. However, it should be noted that substituting caned goods such as vegetables which is cheaper is no legitimate alternative to fresh fruits and vegetables.

Federal and State Regulations

All assisted living facilities accepting state or federal funds must be licensed. For those accepting federal funds, most of the applicable regulations and rules are incorporated into those applicable to nursing homes in general. They include:

- The Nursing Home Reform Act is absorbed in a massive piece of legislation known as the Omnibus Budget Reconciliation Act of 1987 (OBRA 1987). The Act imposes more than just minimum standards; it requires that a facility provide each patient with a level of care that enables him or her "to attain or maintain the highest practicable physical, mental and psychosocial wellbeing." Importantly, OBRA 87 makes each state responsible for establishing, monitoring, and enforcing state licensing and federal standards. Under the Act, states must fund, staff, and maintain investigatory and Ombudsman units as well.

[10] 2007: Senior Living Communities: Operations Management and Marketing for Assisted Living Facilities." Benjamin W. Pearce

[11] 2007: *Senior Living Communities: Operations Management for Assisted Living Communities*, Benjamin W. Pearce.

- The Patient Self Determination Act of 1990 is absorbed in the Omnibus Budget Reconciliation Act of 1990 (OBRA 1990). Applicable to more than just nursing homes, it essentially mandates that facilities provide written information to patients regarding their rights under state law to participate in decisions concerning their medical care. This includes the right to execute advance directives and the right to accept or reject medical or surgical treatments. The facilities must also provide a written policy statement regarding implementation of these rights, and must document in each patient's record whether or not an advance directive has been executed.

Resident Rights

States are required to mandate adherence to a *Bills of Rights* for nursing home residents. Generally, the same rights attach to residents in assisted living facilities as those in nursing homes. Most state declarations of rights parallel the federal ones, codified at 42 **USC** 1395i-3(a) to (h); and 1396r(a) to (h) (1988 supplement to the U.S.C.). They are enumerated in the section addressing nursing homes.[12]

Funding

Public subsidies for elders in residential settings take different courses in different states. Older persons qualifying for low-income subsidies may apply their federal SSI benefits, as well as any state supplemental SSI benefits, toward assisted living charges for room and board. Medicaid generally pays for nursing or medical services provided to qualified individuals. In most states, this is done through Home and Community Based Services (HCBS) (Section 1915(c)) waivers. Waiver programs acknowledge that many individuals at high risk for being institutionalized can be cared for in their own homes or communities, thus preserving their independence and ties to family and community, at no more cost than that of institutional care. Thus, a person eligible for institutional care may "waive" that right and apply the funds toward home care or assisted living arrangements. Waivers are generally granted for three years and may be renewed for five years.

[12] *Legal Guide for Older Americans.* American Bar Association. Random House, 1998.

Finally, many states are developing policies that combine SSI with Medicaid benefits to provide one level of care appropriate for the resident. This encourages "aging in place" rather than the stressful alternative of finding another facility should the resident's health decline and he or she needs more than what assisted living can offer.

In Maryland, Assisted living programs are covered under Md. Code Ann., Title 10.07.14. Facilities may not serve persons who require more than intermittent nursing care. Medicaid does not reimburse for assisted living beyond the existing Senior Assisted Housing Program. Assisted living programs have three levels of care distinctions for purposes of staffing requirements and services provided.[13]

State Survey Results

The state conducts Survey Reports which review the facility and its operations. Historically, Tranquility has struggled to do well during these audits which are posted and easily located online for potential residents to view. A facility survey report, called a Statement of Deficiencies, is written when the Department of Health and Mental Hygiene, Office of Health Care Quality (OHCQ) performs a survey in an assisted living residence. Surveys are done for several reasons such as for an initial licensure to operate, re-licensure, complaint investigations or other types of visits. The purpose of the surveys is to assure the safety and well-being of the individuals residing in Maryland's assisted living residences. Generally, there will be at least one survey annually in each facility for licensure compliance.

The Statement of Deficiencies records the survey findings and lists any deficiencies found during the survey. A deficiency is a violation of State regulations governing assisted living facilities found in the Code of Maryland Regulations (COMAR) Chapter 10.07.14. If deficiencies are found, the Plan of Correction (POC) is written by the assisted living provider and submitted to OHCQ.

[13] *State Assisted Living Policy: 1998.* Mollica, Robert L., National Academy for State Health Policy, 1998.

The audits have produced the following results:

Survey Date	Number of Deficiencies
5/22/09	8
12/12/08	9
10/1/08	14
5/23/08	29
4/4/08	3

The most recent survey, which was completed May 22, 2009, included 8 deficiencies. While that amounts is better than a peak of 29 deficiencies in May 2008, a year prior, there is still much room for improvement. The historical problem areas which need immediate attention include basic functions of any Assisted Living Facility.

- The facility needs to insure the Delegating nurse be on site or on call, observe resident every 45 days, manage clinical oversight and review assessments. Tranquility has already hired a new Delegating Nurse to complete all required functions for this job.
- The Assisted Living Manager, or Executive director is responsible for the written service plans which are developed for each resident, including how often services are provided, how and by whom.
- It is specifically noted that service plans are in need of improvements. The deficiencies note that service plans were noted as disorganized and fragmented. New services were not added as needed or were added without supporting documentation on how staff was to provide the care and monitoring.
- Incident reports have not been completed thoroughly. All reports should include time, date, place, and individuals present; complete description of the incident; response of the staff at the time; notification, including notification to the Resident, or if appropriate the resident's

- Representative, Resident's physician, Program's delegating nurse, Licensing or law enforcement authorities, when appropriate; and Follow-up activities, including investigation of the occurrence and steps to prevent its reoccurrence.
- Resident Care Notes must be completed thoroughly for each resident which includes: On admission and at least weekly; with any significant changes in the resident's condition, including when incidents occur and any follow-up action is taken; When the resident is transferred from the facility to another skilled facility; on return from medical appointments and when seen in home by any health care provider; on return from non- routine leaves of absence; and when the resident is discharged permanently from the facility, including the location and manner of discharge. Staff shall write care notes that are individualized, legible, chronological, and signed by the writer.
- Medication Management and Administration must be properly adhered to. For instance, if a resident requires that staff administer medications and the administration of medications has been delegated to an unlicensed staff person, the assisted living manager shall comply by arranging for an on-site review by the delegating registered nurse at least every 45 days. The delegating nurse shall make appropriate recommendations to the appropriate authorized prescriber, and the assisted living manager or designee.

The above reflects changes that must be made immediately and strictly adhered to by staff. Leadership from an experienced Executive Director with clinical experience would be helpful to solidify procedures for Tranquility's staff.

Assisted Living Federation of America has produced a guideline that explains what consumers can expect from an assisted living community. Also included are suggestions for locating communities, as well as a valuable checklist which is included in the addendum portion of this report to use when potential residents visit and evaluate a potential new home. It is prudent for the Marketing Director at Tranquility to address each one of the questions a potential resident may have for a facility including how the environment suits the prospect, and if the services, activities and accommodations are sufficient. Below are the current amenities and proposed amenities for the new Dementia Wing.

Amenities

The current amenities of the facility include the following:

- Customized lifestyle plans tailored to the individual needs of each resident
- Routine wellness checks by a Registered Nurse
- Professional licensed nurses on site 7 days a week
- 24 hour emergency call system
- Medication Administration
- Incontinence care
- Therapy Services
- Housekeeping
- Personal laundry and linen services
- Accommodation for special dietary needs
- Nutritious, homemade meals and snacks
- Complete social calendar
- Holiday celebrations and community outings
- Spiritual services respectfully serving a variety of denominations
- Transportation
- Telephone and cable hookups
- Beauty and barbershop
- Spacious, comfortable areas to entertain friends and family, including a private dining room and full kitchen.
- Great room with elegant fireplaces

Proposed Dementia Amenities*:*

Additionally, the below Amenities would be provided and marketed to new residents and their families.

- Specially oriented staff
- Medically supervised Care Programs
- Three well-balance nutritious meals served daily
- Between-meal snacks

- Monitoring of medications and health conditions
- Resident emergency call system
- Daily housekeeping and personal laundry service
- Licensed nurses are available
- Bathing, dressing and grooming assistance
- Pharmacy services
- All utilities including cable (except telephone)
- Non-denominational spiritual activities and counseling
- Assistance with Veteran Benefits (VA) Applications

Based on proposed amenities, can increase rents to the blended amount of $3,270,000 from the current annual income of $3,055,320.

Operating Budget Assumptions

After construction is complete, the facility's success will hinge on its ongoing operational budget and ability to get permanent financing based on project pro forma. There are a variety of sources for participant revenue. Revenue will be achieved through private individual sources as well as Medicaid. Medicaid, or Medical Assistance, is a state and federally funded health insurance program that pays health care providers to care for indigent and "medically needy" persons. To quality for services under Medicaid, one must meet specific financing and medical criteria.

In calculating the Year 1 pro forma, other budget assumptions include:

- Staffing reflects staggered shifts, and additional staffing for Dementia specific care
- Salaries and benefits are largest budget item
- Food will be third largest budget item
- Additional budgeted expenses for New Wing

Year 1 pro forma projected NOI, $789,693 based on 90% average occupancy, utilizing the 78 beds as the total possible number of units to value against (See **Exhibit II** for full pro forma of existing operations).

The Cap Rate that was used, 10% is based on local and national data trends (see Box Below). Capitalization rates are defined as: forecast earnings (or NOI or EBITDA) divided by market valuation of (or price paid for) the enterprise.[14] Mean Capitalization rates are weighted by the number of property transactions involved. Low and high values represent a range of reported values. Though appraisers were requested to submit capitalization rates only for transactions that have closed during the quarter, data may include some transactions proposed but not yet closed, or from refinancing valuations.

National Cap Rates:

Q3/09

Property Type	Low %	Average %	High %	Number of Transactions
Independent Living	7	8.1	9.5	22
Assisted Living	7.2	9.4	11.5	50

Cap Rates Q2/09

Property Type	Low %	Average Mean%	High %	Number of Transactions
Independent Living	8	8.5	9.5	14
Assisted Living	8.2	9.5	13.5	33

*NIC Research & Data

[14]National Investment Center, http://www.nic.org/research/kfi/capitalization.aspx

III: DESIGN

Introduction

The overall design of an Assisted Living Facility must address the gerontological issues of the residents and be sensitive to the unique needs of the elderly. In addition, it must respond to their lifestyles, attitudes and expectations. The intent must be to create a home-like atmosphere to avoid an institutional look. The proposed goal is a design that's inviting: aesthetically pleasing and comfortable for residents, and appealing to their families. At the same time, it must be economical and easily maintained by the staff.

Existing Facility Cosmetic Upgrades

The existing facility has not had any significant changes or upgrades since it was built in 1999. An immediate examination of the existing condition of the facility was completed to assess needed improvements. Based on the current dated appearance, it has been determined that cosmetic upgrades are immediately necessary. Thereafter a plan to update these spaces was prepared.

Existing Facility Conditions

TV Room

Facility Entrance

Dinning Room

Proposed Interior Upgrades

Preliminarily, an Interior Designer was contacted and suggested a unified and approved palate selection of paint colors should be utilized and coordinated with new carpet. Warm tones such as butternut, red and royal blue should be incorporated into the facility instead of the current cold colors. Accent walls down the hallways will be offset by contrasting front door colors to create the feel of an apartment home community, and distance the appearance of a hospital or nursing facility. Sample pictures of award winning Assisted Living and Dementia spaces are included in this section.

The lighting in the facility should follow a

subscribed schedule for all fixtures and bulbs with warm tones to avoid the industrial feel of cool white lights which have been interspersed with warm tones.

Existing space should be re-tooled to create destination spots for the residents. Currently, the entrance to the facility is the preferred destination for socializing amongst the residents instead of the sun room, TV room, etc. However, an effort should be made to utilize other common areas such as the aforementioned TV room, sun room as well as the library, community room on the second floor and solarium on the 3rd floor.

Common areas in the entrance, stairs, and hallways should have new low VOC carpet. Hard wood floor substitute such as Pergo should replace existing linoleum in bedrooms, nursing offices, community room, and solarium. Depending on color and product, the wood alternative is typically more expensive than the linoleum, but the familiar home like affect the look has will be approachable to visitors and attract new traffic.

Proposed Dementia Rooms

In combination with other therapies and high-quality care giving, a design that specifically addresses Dementia/Alzheimer's disease can have a positive effect on the extension of independence for those who suffer from it. There are therapeutic effects of a consciously and sensitively designed and built environment specifically for those with Dementia /Alzheimer's. Unfortunately, most facilities currently housing these residents were designed on an acute-care medical model that accentuates the institutional aesthetic while diminishing most of the humanizing aspects of care giving.

The terms dementia and Alzheimer's should not be used interchangeably. There are differences between the two conditions. Dementia is the gradual loss of intellectual function.

Alzheimer's is the most common form of dementia marked by memory loss in older people and is defined characterized by the gradual loss of several important mental functions. Alzheimer's statistics show that the disease can strike a person as early as 45, whereas dementia generally occurs after age 70. Another way to compare dementia vs. Alzheimer's disease is to realize that dementia is a medical term used to describe a number of various conditions characterized by the gradual loss of intellectual function.

As Alzheimer's medical research continues at its current rate, early diagnosis of Alzheimer's disease is becoming more commonplace, public awareness of the disease's symptoms is increasing at a rapid rate, and new drug therapies continue to appease the disease's symptoms. In a few short years there will be approximately 14 million Americans afflicted with Alzheimer's, therefore, there will soon be a large population of individuals who have been diagnosed, but who are in the early stages of the disease and remain in the early stages of the disease for a longer period of time. This is the population that needs and will demand the assisted-living product that extends the independence of the individual and maintains that individual's dignity of living.

The challenge is to create a design which provides environments that add to, or at the very least maintain, the security, dignity and independence of the individual. In addition, it must provide appropriate stimulation and flexibility in rhythm and patterns for the individual, and to do so within the context of an environment that is not overtly institutional, but is at a scale that allows individual transition from the home.

Design Considerations:

- Safety, security, well-being –providing enough double door exits in case of an emergency
- Barrier-free and easy access- easing mobility around the open area
- Reinforced orientation and awareness- using colors and textures to differentiate edges and level changes
- Opportunities for social contact- enforcing a social atmosphere and stimulating conversation amongst participants

- Atmosphere warm and inviting- comfortable area to spend the day
- Independence facilitated- enforcing confidence amongst participants
- Stimulation of senses- different lighting, textures, and smells
- Options and choices- variety of activities
- Support for staff and caregivers- providing enough preparation area for staff to effectively care for participants
- Street Level- aiding mobility and access
- Ramp and/or elevators when needed- allowing more design possibilities of space

Existing Dementia at Tranquility:

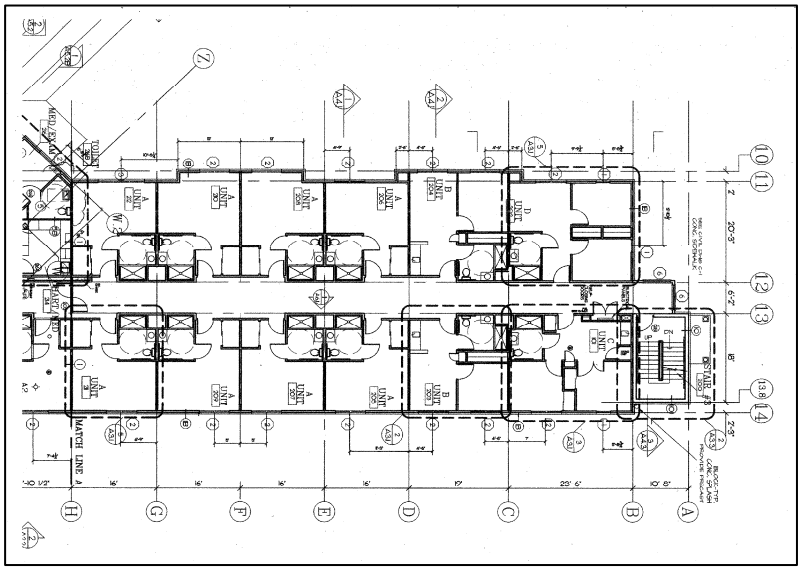
Since opening, Tranquility Assisted Living Facility has elected to meet the needs of its residents with memory impairments in an integrated setting. In recent years the acuity level of the typical assisted living resident has increased which has made it difficult to operate the assisted living facility without a separate Dementia Unit. Most significantly, site based staff believes that marketing and sales efforts are being negatively impacted by not having a secured Dementia unit.

Based on the average high occupancy levels at competing Dementia units of 98% in the Frederick area and conversations with the Tranquility leadership staff there appears to be a need in the community for more Dementia beds. Further discussion regarding dementia demand is found in the Marketing Section.

It should also be noted that Tranquility administration has indicated that at least 9-10 current residents would benefit from a specialized Dementia unit. Provided these residents can afford the increased price of Dementia care and are willing to transition to the new unit, we could expect an accelerated ramp-up of a Dementia program. There are two options of creating a Dementia only space.

Option I: Existing Facility Dementia Relocation

One short term option is to take the second floor, north wing in the existing building and dedicate it to Dementia care. Assuming construction costs of $50,000 (which includes wander guard/exit door technology, equipment to support food delivery and creation of a fenced in area on the facility grounds) and ramp-up costs of $300,000, the project could pay for itself less than 2 years. This assumes starting the program with 8 residents and ramping up only one resident per month with all expenses included which should be an absolute worst case scenario. The ability to ramp-up at a rate of 2 residents per month will allow for an approximate 12 month period to recoup development costs.

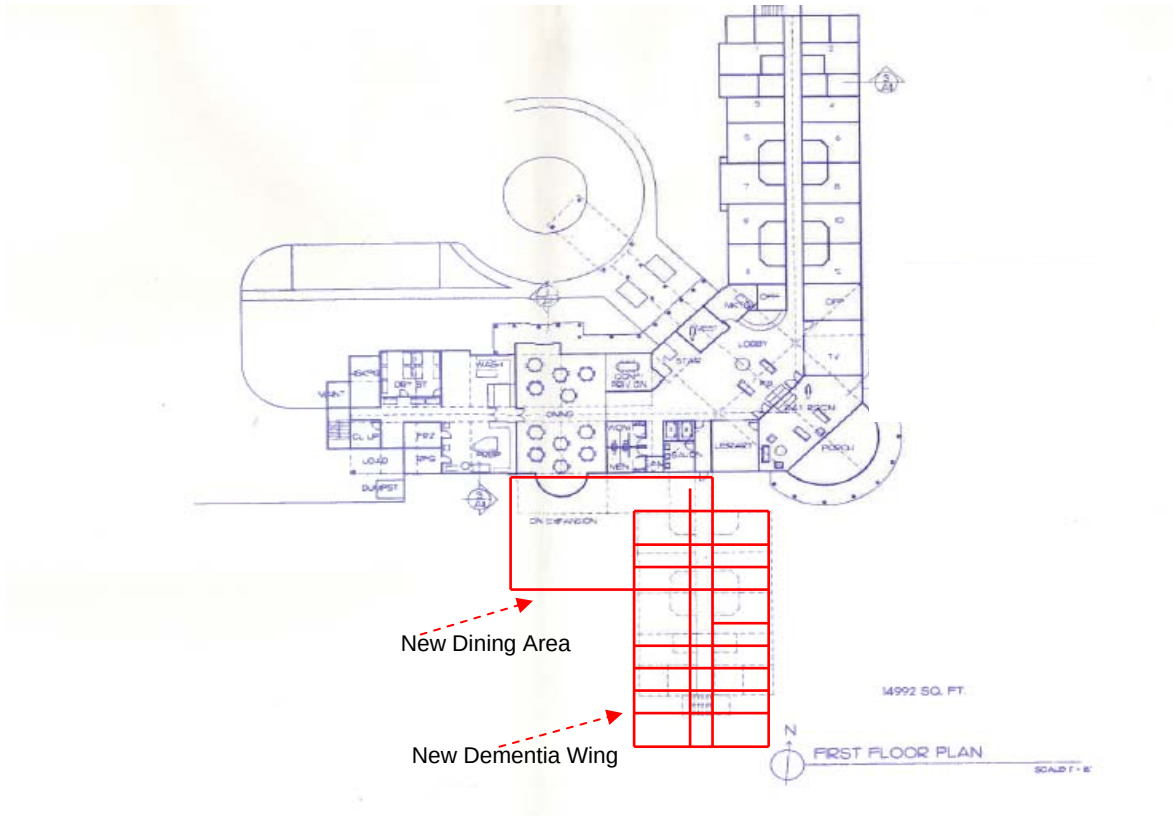


Tranquility's Second Floor North Wing

Option II: New Wing Addition

A second, more thorough option is to build on to the facility with a 19,280 square foot addition. This wing on the Eastern side of the building would include 24 Dementia rooms, 36 Assisted Living Rooms from three stories. The addition would take the hall where the beauty salon is and extend it into the rear yard and into the new East wing. Security door hardware would be installed, and a side fence enclosed courtyard exclusively for Dementia/ALZ patients. The utilization of a new dementia dedicated floor while combining two additional stories of Assisted Living Rooms is an efficient investment. There is an economy of scale for the new construction, by building three stories instead of only one level addition for Dementia only.

Proposed New Wing



The average size of existing Tranquility rooms average about 288 square feet, and can be about 414 for a two bedroom suite. Industry average states Dementia dwelling units are between 200- 300 square feet on average and are linked to generous common spaces and a nursing station. [15] However, Maryland law states that rooms should be at least 80 square feet of functional space for a single occupancy room and 120 square feet for a double.

The new wing proposed is designed for three floors. The first floor would be a Dementia floor, and the top two would be assisted living. Dementia rooms are scheduled at approximately 200 square feet on average, for 24 beds, twelve units on each floor. The ground level floor will have a nursing station and large community space.

Additionally, the existing dining room would be increased in size, but a wall with translucent glass would maintain the separation between the two dinning spaces and allow

[15] Victor Regnier, Design for Assisted Living; Guidelines for Housing the Physically and Mentally Ill. 2002, P.119.

light to transfer into the main dining room. The proximity would allow for transfer of food between locations, and for additional assistance from staff if needed. This space would also double as community space. Providing appropriate and efficient dining facilities is a critical part of the design process considering it is the most staff intensive period of the day. Some considerations to factor are the number of participants served at one time, providing more than enough space for walkers and wheelchairs (more than the rule of thumb), and encouraging social interaction by distinguishing the space without overwhelming participants.

	Design Data
Dementia room SF/per room	200
Total Rooms per floor	24
Total Dementia Room SF	4800
Circulation Space	960
Common Area SF	2000
Floor Plate	5760
New Room SF/per room	288
2nd and 3rd floor plate room quantity	18
Total Additional SF	19280
	Number of Rooms
Floor 1: Dementia	24
Floor 2: Regular AL	18
Floor 3: Regular AL	18
Total	60

The top two floors would have 36 rooms or 18 rooms on each floor. Each room is scheduled to be a one bedroom English Rose style at 288 feet. The total square footage proposed for all three floors is 19, 280 square feet. A design schedule for the proposed space is included in **Exhibit IV**.

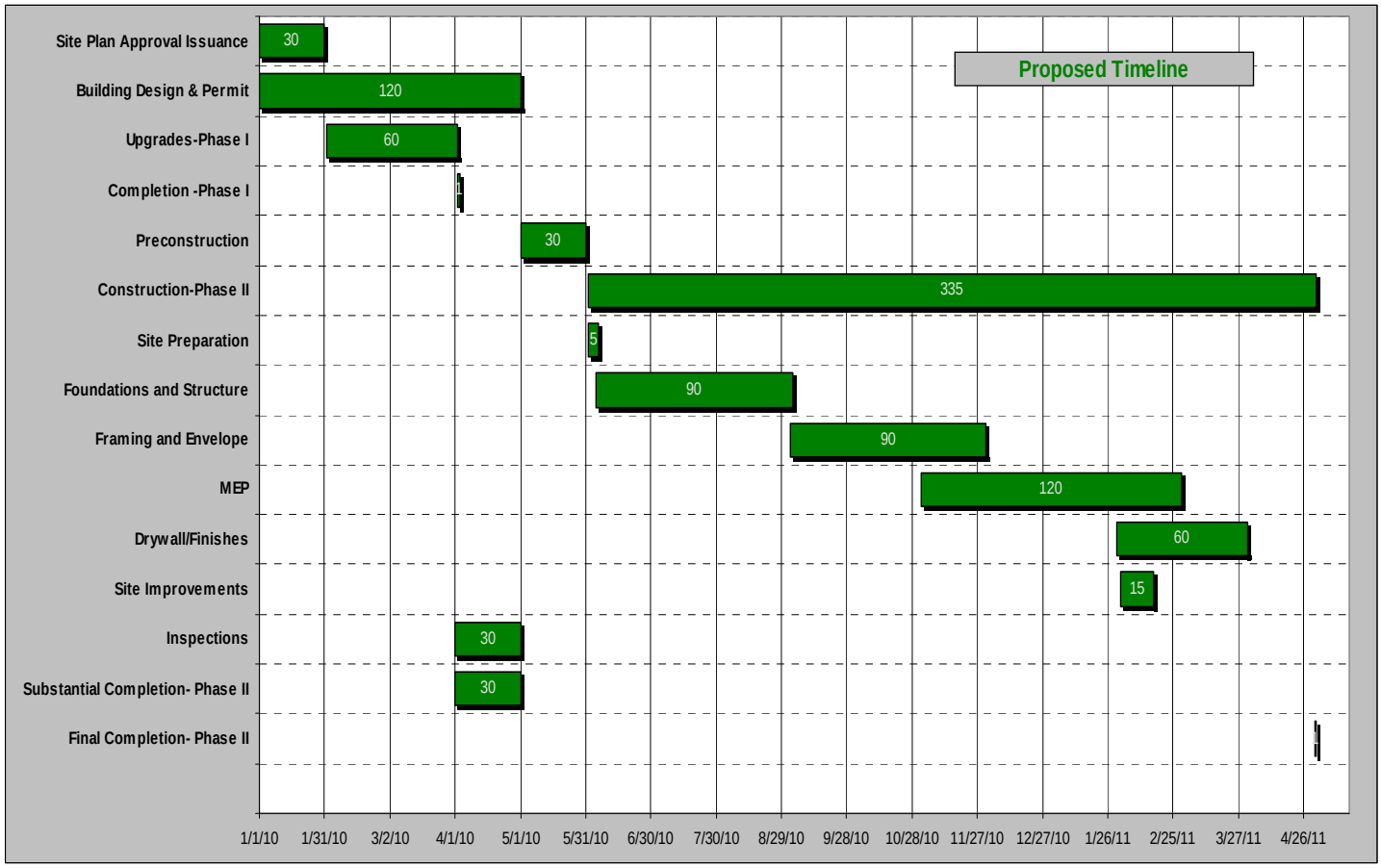
The addition will be steel frame with brick exterior construction on a concrete foundation. Limited site development is required beyond a separate fenced and separate access to a Dementia specific spacious courtyard space. An additional elevator will be required for ADA accessibility. Utilizing the existing elevator for proposed Wing use is feasible given traffic flow and design considerations, including an additional emergency exit at the tail end of the new east wing.

Construction Management Controls

The project will use a design-build construction delivery system where the design and construction aspects are contracted with a single entity, usually the general contractor. This will allow Tranquility to minimize project risk by overlapping the design and construction phases of the project. The benefits to the owner include: increased accountability of the designer/contractor, single source of project delivery and enhanced communication with no middle layer of project management. Ownership and contractor will most likely agree to an AIA contract stipulating the cost of work plus a design-builder's fee with a guaranteed maximum price ensuring the project is completed under budget and on time.

Schedule

The following schedule details a proposed construction schedule spanning for 12 months. It also includes a preliminary two month schedule for the cosmetic improvements. The schedule shows each step of the planning, design and construction process. Construction loan draws are also included in the proformas, **Exhibit IV.**



Phases:

- Design Phase- Continual
  - Site plan and design documents are continued refined throughout the entire process with the guidance of Tranquility and zoning officials.
  - Specialized Consultants to provide commentary on design.
  - Receive recommendations on general contractors.
  - Upon approval of design documentation, demolition, foundation, and full building permits will be pulled.
- Construction Phase- 8 months
  - Due to the specialized nature of the facility, the project will utilize the design/bid/build scenario. In order to expedite the entire project timeline, the construction phase will begin prior to having final design documents. Project will then be bid and awarded to a qualified contractor at a guaranteed maximum price.
- Advertising and Marketing- 3 months prior to opening
  - New collateral created for advertising to new residents. Market with hospitals, the county and other facilities.
- Stabilization- 12 months after opening
  - Current operations have a total of at least 9-10 residents who could qualify for Dementia care, which could give a head start to stabilization, which is 60 beds, for the new wing.

Construction and Soft Costs

The construction costs which were generated were determined by producing an estimate based on discussions with industry specific experts. Our construction company, Hamel Builders inferred that a typical estimate in our location for an assisted living facility would be approximately $120 per square foot.

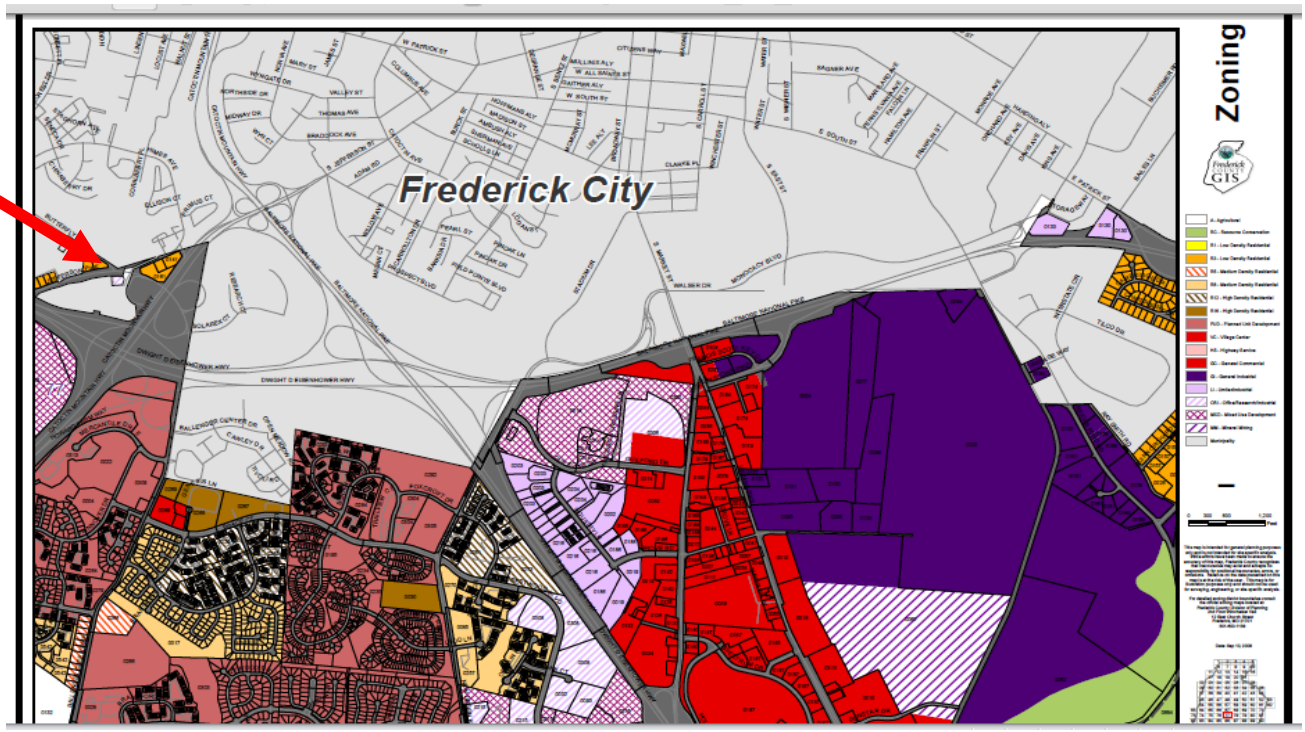
Hard Costs		PSF
Base Building and Fees	$2,474,634	$120.00
Total Hard Costs	**$2,474,634**	**$120.00**

Soft costs were derived by calling consultants and experts to retrieve hard quotes for projects of this size. Total soft costs for the proposed new wing addition are projected to be $732,489. The complete chart is located in **Exhibit IV.**

IV: REGULATION

ZONING

The Zoning for Tranquility at Fredericktown is found on the Zoning Map, for Tax Map 77, which notes the location is zoned "ORI: Office/Research/Industrial."



Zoning District: Open Space and Institutional

Uses	RC	A	R1	R3	R5	R8	R12	R16	VC	HS	GC	ORI	LI	GI
Assisted Living Facility			PS	PS	PS	PS	PS	PS	PS		PS			

Assisted Living Facilities are defined as "PS" which means "Principal permitted use subject to site development plan approval. This use requires site development plan review and approval by Planning. Review and approval come through 1 of 3 procedures to ensure that the proposed development complies with the requirements of this chapter. In our case, a Type 1 procedure applies to provide for development review involving standards for design or review of uses permitted by this chapter which may be complex in nature requiring interpretation of County Comprehensive Plan policies or the requirements of the Frederick County Code. The Type I application shall be circulated for multi- agency review prior to

Planning Commission review. Type I - Planning Commission review and approval is required for modifications to a Planning Commission approved site development plan involving an increase in building height or number of floors, requests for reduction in open space square footage, change in the type or square footage of an amenity and modifications that increase the number of required parking and loading spaces.

Each application involving site development plan approval, together with the required and other required plan submissions, including, but not limited to adequate public facilities ordinance studies, forest resource ordinance plans, sight-distance studies, storm water management concepts. The Division of Permitting and Development Review shall not accept an application if it is determined that the information submitted is incomplete.

After the Division of Permitting and Development Review deems that the application is complete, the site development plan will be scheduled for a Technical Advisory Committee (TAC) meeting for review by agency representatives and representatives of the applicant. The applicant may not file for a zoning certificate and building permit with the Office of Permits and Inspections before receiving site plan approval. Applications for site plan review shall be void if approval has not been received within 3 years, beginning on the date the application was accepted. A void application shall have no further status and must be resubmitted.

For all Type I - Planning Commission site plan review applications, the applicant shall place a sign within 10 feet of each property line that abuts a public road. If the property does not abut a public road, a sign shall be placed in such a manner so that it may be most readily seen by the public. The Division of Permitting and Development Review will provide the required sign and it must be placed on the property at least 30 days prior to the initial Planning Commission meeting at which the Type I - Planning Commission site development plan is to be considered.

The below code indicates that Institutional facilities with a minimum lot area of 12,000 square feet, need a lot width of at least 200 feet, a front yard, side yard and rear yard set back of 40 feet as well as a height of at least 30 feet.

Use Classification	Min Lot Area	Min Lot Area per Unit	Lot Width	Front Yard	Side Yard	Rear Yard	Height
Institutional	12,000	-	200	40	40	40	30'

Parking:

For Institutional zoned properties, code indicates that Tranquility would need one spot for each 2 beds. Tranquility currently has 30 parking spots for 90 beds, and is currently utilizing the Shared Parking provision of the code.

Sanitariums, homes for the aged, nursing homes, children homes, asylums, and similar uses	1 for each 2 beds

However, given the space requirements, Tranquility has requested and received approval to utilize the Shared Parking provision of the code. Tranquility is next door to a Seventh Day Adventist Church and Community center with ample weekly parking available. Under the Shared Parking Code, § 1-19-6.240, a partial reduction in the total number of required off-street parking spaces may be granted where the applicant can demonstrate the sufficient provision of shared parking facilities based on characteristics of uses, hourly parking demand studies published by the Institute of Transportation Engineering or other appropriate source, or other documentation as determined by the Planning Commission or their authorized representatives.

A shared parking plan may utilize on-street parking, community/common parking, parking areas located on the same parcel as the proposed use, adjacent to the proposed use, or two parcels that are not adjacent, subject to the following provisions as long as the facility is no farther than 500 feet from the building or use to be served and maximum of 50% of the required off-street parking may be located off-site. Applicants need to submit of a vicinity map reflecting the proposed shared parking areas, parking spaces, and hours of operation, pedestrian access between parking area, and uses, as well as a detailed explanation of the proposed shared parking plan. In addition, a safe, convenient pedestrian connection must exist or be constructed between the buildings or uses and the parking area and the parties

involved in the use of the shared parking plan shall provide evidence of an agreement for such use and parking plan by a legal instrument approved by the County Attorney.

Therefore, with the 60 potential additional beds for a new Wing, Tranquility would need a total of 75 spots for 150 total beds. 20 more spots can be located and stripped along road entrance to the facility. The remaining 25 spots could be allocated from the Shared Parking at the adjacent Seventh Day Adventist Church. That equals 75 spots needed if a new wing is built.

State License Application

Currently, Tranquility is licensed to operate 90 beds out of the facility. In order to increase the capacity up to 150, and in order to provide an official Dementia/Alzheimer's Special Care Unit or program, certain requirements must be met. During the 2002 General Session, Senate Bill (SB) 746, entitled *Alzheimer's Special Care Unit or Program,* was enacted into law. Assisted Living Programs offering services to individuals with Alzheimer's or a related disorder need to develop a program description as outlined in the law. The instructions for the required submission includes the following are completed for the Office of Health Care Quality:

- A written description of the special care unit or program using a disclosure form that has been
- adopted by the Department of Health & Mental Hygiene;
- A statement of the philosophy or mission;
- Description of how services in the Special Care Unit differ from the rest of the program;
- Staff training and staff job titles;
- Admission procedures, including screening criteria;
- Assessment and service planning protocol;
- Staffing patterns;
- A description of the physical environment and any unique design features appropriate to support the functioning of cognitively impaired individuals;
- A description of activities, including frequency and type;

- Charges to residents for services provided by the Alzheimer's Special Care Unit or Program;
- Discharge procedures; and
- Any services, training, or other procedures that are over and above those that are provided in the existing assisted living program.

V: DEVELOPMENT TEAM

Tranquility LP will organize a development team with various consultants and specialists to complete the proposed project. Part of Tranquility's success can be ascribed to the local roots of its owners. The history of the project and biographical information about the owners is included below. Thereafter is a list of team members with a brief description of the various roles.

Ownership and History:

A chain of assisted living facilities initially targeted Tranquility's site because of its prime location at the crossroads of many major thoroughfares in on of Maryland's fastest growing areas. When their deal fell through, two Frederick County residents saw an opportunity to build an assisted living community dedicated to serving the local community. The investment team they assembled sought to offer a facility that could be reasonably priced and take care of Frederick's elder citizens.

Together, these four partners, with equal ownership, took Tranquility at Fredericktowne from a solid idea to a comfortable, state-of-the art facility in 1999. The owners' roots in the Frederick community is a benefit because it gives them a unique perspective on all this area has to offer and makes them accessible to Tranquility's residents, staff and administration. The ownership team is available to make quick decisions based on what they feel is right. Their approach provides an accessible touch in comparison to competing market competition. However, their combined lack of clinical experience is a great shortcoming given the tight regulatory environment surrounding the health care industry in Maryland.

Management Team

The Owners must immediately identify a Third Party Management firm with the required experience to assist them. This team should have the ability to work with on site staff to accomplish Ownership's goals. Current market data from comps must be available at all time including estimates for room rental rates and occupancy by room type and level of

care. Financial analysis must be completed including generation of income from all sources, and value add potential. Appropriate staffing includes proper training and management of staff, and assurance that staff is adhering to policies and procedures. The Manager must guide Tranquility through the process of ongoing compliance with the state and adherence to applicable rules and regulations. General business improvement advice and suggestions are needed in order to continue to maintain the Asset. Additional oversight includes the following functions:

- Business Management-Administration and Accounting
- Regulatory Compliance
- Marketing
- Personal and Clinical Care Management
- Food Services
- Housekeeping
- Maintenance-Property Management
- Activities and Social Services
- Transportation
- Personnel Administration and Human Resources Management
- Staff Recruitment, Selection, Orientation and Training
- Quality Assurance

Design Consultants

- Architect: The architect will design the most efficient yet cost efficient yet cost effective building and layout conducive to Dementia wings at Assisted Living Facilities. The firm will create a design in compliance with the county's building codes and the area's master plan.
- Mechanical Plumbing, Electrical Engineer: These specialized engineers will orchestrate the various mechanical, plumbing and electrical systems during the design process. They will calculate building requirements such as HVAC, plumbing lines, electrical needs, etc.

- Structural Engineer: The structural engineer provides structural elements for the building's foundation. Their main goal is to keep the buildings structure safe without over design.

Other Key Players

- General Contractor: The GC will lead the execution of the construction. Tranquility will work closely with the architect and general contractor to meet project deadlines and budget constraints.

Hamel Builders:

The GC which has been identified for this project is Industry leader, Hamel Builders. Originally founded in 1988, under Hamel Commercial, Inc., Hamel Builders has developed into one of the Mid-Atlantic's most valued and respected construction services providers, specializing in the renovation and new construction of multi-family housing. A full service builder with construction management and design-build capabilities, Hamel Builders has established a reputation in the building industry for our strength of character, as well as, professionalism and building expertise.

With corporate offices in Elkridge, MD and Washington, DC, Hamel maintains a presence throughout the region, having constructed more than 15,000 units of multi-family residential, affordable housing, adaptive-reuse, senior living, historic, and mixed-use development, including over 3,000 resident-in-place renovations.

According to Hamel's Estimating Director, Assisted Living Facilities, like the proposed construction, cost an average of $120 psf. In addition, Hamel was the original firm to handle Tranquility's construction in 1999.

- Subcontractors: The specialized work may be contracted out to smaller contractors.
- Permit Expeditor: An expeditor uses its county connections to ensure building permits are pulled efficiently.

- Specialized Senior/Independent Living Consultants: A consultant can help identify design or construction elements specific to senior case (i.e stimulating color choices, texture grades, and bathing/bathroom designs).
- ADA Consultants: A consultant can advise on design elements for those with visual, auditory, or mobility disabilities (i.e ramp designs, signage, guardrail placement, etc).

JV/Equity Partner

It is possible that the Partnership will not be able to produce the required equity needed for the new wing addition. An option is to invite an equity partner to produce the required cash needed for the deal to proceed. However, it may also be feasible for one of the four existing owners to act as an equity partner, and receive an additional preferred return.
If the new wing is built a total of $1,062,863 of equity is needed to close the loan, at a 65% LTV. In this scenario, it is proposed that the equity partner produce 70% of the needed equity and the existing ownership produce 30%.
The return to the equity partner is a total 21.22% IRR from a 11% preferred return, 20% cash slit from NOI, and a 10% split upon sale. It was determined that an increase cut of the cash flow split to 20% of NOI from 10% would make the deal more attractive to outside investors. Details can be found in **Exhibit IV**.

Reporting Structure

Currently, the Executive Director reports directly to the Owners. There is a monthly Owner's meeting where operations and financials are reviewed. One of the Owners, Russ H., is the elected President of the Partnership and available to answer any requests from on site management. Proposed changes to the existing reporting structure for the facility operations are required. Weekly and monthly management reports noting operational conditions are imperative to audit performance. Once the new Third Party Management or Consultants are retained, their responsibility will be to act as intermediary between Ownership and Staff. This will provide an impartial buffer between Ownership expectations and Staff shortcomings.

VI: FINANCE AND INVESTMENT ANALYSIS

The below assumptions are based on operating expense data, rental income, development costs and general assumptions from the previous sections and are also located in **Exhibit I, II, III and IV**.

Exit Scenarios

Three different exit strategies were examined for the purposes of this report. Each scenario has merit and its own inherent risks and returns. Currently, the ownership is seeking to add value to the existing facility and is interested in all feasible options, including a sale in the near future. A potential sale would be to a competitor or operator/owner operation. The basic operating budget assumptions are the same for all scenarios. Each scenario takes into account additional services offered, such as dementia and additional costs associated with those operations.

1) Current Financial Condition: Hold or Sell

A thorough financial analysis was completed to examine Tranquility's existing financial position.

Existing Financial Condition

Currently, Tranquility is still under the original HUD permanent loan from April 29, 2000. The principal amount was $6,200,000 of which $5,801,000 is still owed. It is a 40 year amortized loan at a 7.79% interest rate. The term expires in April 2010. If alternative financing isn't available, it is possible HUD will permit a renewal of the existing loan at that time. However, achieving a lower interest rate through refinance would immediate help cash flow.

The facility is able to meet its note payments monthly. It is projected the year end NOI for operations before debt services is projected to be $740,139. Although 2009 has been a promising year for Tranquility, the asset has historically suffered with faltering financials.

A thorough examination of all income, including levels of care and other income indicated operations was not capturing full rent potential by placing residents at a lower level of care. By correctly capturing levels of care, and maximizing short-term, high yielding respite stays, Tranquility will financially benefit.

According to the pro forma the unleveraged present value at a 10% Terminal Cap Rate is producing a 9.15% IRR. Currently, the project value of the asset is $7,896,932.

2) Operational, Cosmetic and Dementia upgrades: Hold or Sell in 2011

Cosmetic changes are needed immediately, and a plan to upgrade the facility was prepared. Operational changes, including hiring appropriate experienced staff to manage the facility are recommended, as well as correcting all state mandated requirements which are indicated in the most recent state survey. The second floor, North wing is identified as the perfect location for a 14 bed Dementia wing. A $300,000 investment for appropriate hardware, and modifications to the existing wing was included in the financial analysis. With those changes, an existing need, which has great demand, Dementia, would be resolved. Dementia rooms are slated at $5500 a room a month. The additional income from the Dementia rooms produces a potential gross income of $ 3,558,143. Projected operating expenses, $2,620,726 are greater starting in 2010 when Dementia services would be offered.

The inherent value added by these changes is realized by a projected 16.11% IRR, and a Year 2 (2011) NOI of $833,314. With modifications to one half of one floor, ownership will not have to go to regulators to their license, which is another short term benefit. If the investment is made to incorporate these changes, it would be prudent to hold the asset until the market equalizes. Complete analysis is found in **Exhibit III**.

3) New Wing: Hold or Sell in 10 Years

A new wing would include on floor of 24 Dementia rooms, two floors of 36 total assisted living rooms and additional Dementia common area on the first floor for 19,280 additional square feet**.** It made sense to accommodate economies of scale by building three stories instead of just one wing of Dementia by itself. The deduction is that if the budget includes a roof for one story, that cost is saved and not tripled by adding two more floors.

The proposed construction budget shows $3,207,288 in total costs not including FFE estimates. This estimate is based on an estimated construction cost assumption of $120 per square foot. A full discussion of the hard and soft costs can be found in the Design and Construction section, as well as **Exhibit IV**.

Equity/Debt Analysis and Strategy

Tranquility I LP development budget for the new wing is $3,207,288 and will budget approximately $744,004 in needed raised equity, or 70% of the needed equity for the construction loan. The remaining 30% would be produced by the ownership. There are several options of how to raise the capital, either from themselves, or through outside partners. Equity partners would get their original investment, 11% interest on that investment, 20% of the NOI, and also 10% of the future sale proceeds. The IRR for the JV partner is 21.2%, a tolerable level given market conditions.

As the capital markets currently exist (or don't exist) at Q4 2009, availability of debt is scarce through traditional lenders. Based on conversations with a Commercial Loan specialist at BB& T, any construction loan on Tranquility given current financials will have a 65% LTC, be at approximately 8% interest rate and there will be a recourse guarantee based on the net worth of the owners. However, there is a possibility of utilizing Tranquility's relationship with local banks to procure a more attractive construction or mini-perm financing.

The potential gross income (PGI) in year one is $3,886,766 which is projected to grow to a PGI in year 10 of $5,056,887. Rental income and potential gross income is discussed further in the Marketing section and Rent Roll computation is located in **Exhibit I**. Proposed permanent financing would ultimately take out 100% of the construction loan which is $3,036, 751. Projecting $439,478 in annual debt service (at 6.5% interest rate and 30 year amortization), Year 1 NOI $1,074,093 would project a 1.83 DCR. There will be a 10 year balloon. According to the pro forma, the unleveraged present value at a 10% Terminal Cap Rate is $10,747,930 producing a 46.53% IRR for the Owners, and a 21.22% IRR for the Equity partners.

4) Alternative Land Acquisition

A fourth scenario which is not previously discussed or immediately feasible based on current demand was identified. There is an additional single family home next to Tranquility. The single family home is one story, 1.5 bathrooms, and two bedrooms. Given comparable sales, a purchase price of $300,000 should be accounted for. The additional half acre, along with the other single family property next door which Tranquility has already purchased and gone through the process of subdivision would create a total land area of approximately 3.0 acres.

6512 Jefferson Pike Frederick MD 21730

Data through 09/30/2009	
Home Value Index	$219,900
1-Year Change	-9.1%
Median list price ($)	$239,900
Median sale price ($)	$228,000
Total homes sold in Sep	111

This additional land borders Jefferson Pike, and its placement obscures Tranquility's direct view of the busy artery. By controlling this piece of property, the unflattering house could be razed, grade of the land could be brought down, and a new asset could be developed. A potential use could be a medical office focused to meet gerontological needs, or a small Independent Living Multi-Family building.


Traffic
More...
6472
Jefferson Pike
180
446
Rental Home Owned by
Tranquility LP
6512 Jefferson Pike
Additional Parking
Tranquility
Assisted Living Facility
100 ft

VII: CONCLUSION:

A shift in investor attitude toward senior housing is evident. While opportunity funds have been pursuing the real estate asset class for some time, core investors--those in search of stabilized assets -- are now increasingly willing to step up to the plate.

Most recently at the NIC National Conference in September 2009, it was mentioned that while senior housing maybe down along with the broader commercial real estate market, it is more resilient than other real estate investment classes in the current economic environment based upon its ability to increase the rents and with stand decreases in occupancy.[16] Participants expressed concern that with the current downtrend in construction financing, there may be a lack of new senior housing inventory during the next few years as that market has all but stopped, which supports Tranquility's expansion plans.

Given the current state of the economy, there is less certainty regarding what prospective residents will want and be able to afford. New financing for these types of projects will present its challenges. This will further limit choices of consumers who need long-term care.

The current trends in the industry are for providers to configure their operations to attract consumers with a broad range of care needs. Assisted living will continue to be largely an option for wealthier elders. Small board-and-care homes, the primary option for most low-income elders will continue to lose ground.

The uncertainty in the market today assures the inability for new projects to gain the financing and support needed, which will ensure the existing supply will exhaust

[16] http://seniorhousingnews.com/2009/09/28/nic-conference-highlights-challenges-and-opportunities-for-coming-year-in-senior-housing/

demand for Assisted Living needs. Therefore, Tranquility's owners should plan to diversify their current model to prepare for inevitable market demand.

Recommendation:

The analysis presented in this report indicates an infusion of capital investment will create immediate value by updating the facility and allowing tranquility to offer a service, Dementia care that is in high demand. There are inherent benefits to initiate plans to proceed with Option 3, the new wing. The construction costs lower are lower today, and there are no new developments in the pipeline for 2010. By the time the new wing was to come online, Tranquility would be ahead of its competition. Given the current state of the economy, it makes sense to take the in house, **Option 2** renovation approach immediately and plan for a new wing addition to commence in 12 months.

Building a new wing and upgrading the operations of the facility ultimately will bring the highest and best value to the existing partnership. The existing partners will keep their current investment from achieving mediocre returns. With more equity investment, the new return on their investment will surge to 46.53% IRR. In addition, the possibility of a 21.22% IRR for a potential JV equity partner due to a 20% split of NOI and 10% proceeds from a future sale is appealing enough to attract a JV partner, given what current real estate and investments are achieving.

VIII: EXHIBITS

Exhibit I: Proforma(General Assumptions)

GENERAL INFORMATION	
Project Name:	**Tranquility**
Total Acres	2.5
Total SF (land)	108,900
% of Lot Occupancy	52%
Total SF	64,256
Total GSF (new wing)	19,280
# of Rooms Today	68
# of Dementia Rooms Proposed	24
# of Parking Spaces Needed	69
# of Total Rooms with New Wing	128
Lease Up Begins	2/1/2011
Construction Start	6/1/2010
Completion Date	2/1/2011
Stabilization Peric 1st Year	2011
1st Month	7/1/2011
Sales Date	1/1/2021

DEVELOPMENT COSTS	
Land	$0
Base Building	$2,313,600
3rd Party Inspectors	$5,000
Building Permits	$5,000
General Contractor Fees (3% of HC)	$69,708
General Contractor Overhead (2% of HC)	$46,472
Bond (1.5% of HC)	$34,854
Legal (Zoning Review)	$7,500
Advertising	$5,000
Appraisal	$2,500
Architectural and Engineering (7% of HC)	$162,652
Furniture, Fixtures & Equipment (FF&E)	$150,000
Market Analysis	$3,500
Environmental Review	$2,000
Development Fee (2.5% of HC)	$58,090
Mortgage Insurance	$5,000
Builders Risk Insurance (.024% of HC)	$5,000
Legal and Settlement	$5,000
Loan Fees	$15,000
Real Estate Taxes During Const	$5,000
Recording Tax	$35,882
Operating Reserve / Start Up	$50,000
Contingency (2%)	$49,493
Bank Inspection Fee	$500
Total Budget	$3,036,751

FINANCING ASSUMPTIONS: Future	
Required Equity	1,062,863
Sponsor Equity	106,286
JV Partner Equity	956,577
JV Preferred Return	11%
Conventional Loan	1,973,888
Interest Rate (Principal)	6.50%
Payment	$149,716
Term	12
Amortize	30
Commences	2/1/2011

Exhibit I: Proforma (Rent Rolls)

Rental Income: Actual 12/1/09

Daily Rate (Including Level of Care)	No. of Residents	Rent Month	Gross Rent per Year	Total Rent Escalation
$ 107	4	$ 12,840	$ 154,080	2%
$ 97	6	$ 17,460	$ 209,520	2%
$ 113	11	$ 37,290	$ 447,480	2%
$ 117	42	$ 147,420	$ 1,769,040	2%
$ 129	6	$ 23,220	$ 278,640	2%
$ 135	2	$ 8,100	$ 97,200	2%
$ 138	2	$ 8,280	$ 99,360	2%
Total	73	$ 254,610	$ 3,055,320	2%

Additional Services: Current

Meals	$	26	per month
Transportation	$	380	per month
Therapy-Rental Income	$	400	per month
Community fee	$	4,500	per month
Subtotal	$	5,306	
Total	$	63,672	per year

Rental Income: Actual 12/1/09

Daily Rate	Number	Monthly Rate	Room Type
$ 107	4	$ 3,210	Mountain Laurel Shared
$ 97	6	$ 2,910	English Rose Shared
$ 113	11	$ 3,390	Holly Hock Shared
$ 117	42	$ 3,510	English Rose Single
$ 129	6	$ 3,870	Mountain Laurel Single
$ 135	2	$ 4,050	Holly Hock Single
$ 138	2	$ 4,140	Respite Care-Single
Total	73		

Rental Income: Actual Blended Rates

$ 147,420		English Rose Single
$ 17,460		English Rose Shared
$ 164,880	**$ 3,435**	
$ 23,220		Mountain Laurel Single
$ 12,840		Mountain Laurel Shared
$ 36,060	**$ 3,606**	
$ 8,100		Holly Hock Single
$ 37,290		Holly Hock Shared
$ 8,280		Respite Care-Single
$ 53,670	**$ 3,578**	

Rental Income: Potential Gross Income with Blended Rates

Type of Unit	No. of Beds	Monthly Rate	Total Monthly	Total Yearly
English Rose	48	$ 3,435	$ 164,880	$ 1,978,560
Mountain Laurel	10	$ 3,606	$ 36,060	$ 432,720
Day Lily	10	$ 3,578	$ 35,780	$ 429,360
Hollyhock	10	$ 3,578	$ 35,780	$ 429,360
Subtotal	78		$ 272,500	$ 3,270,000

Rental Income: Future Wing Addition

Type of Unit	No. of Rooms	Rent per room per Month	Gross Rent per Month	Annual Rent	Total Rent Escalation
English Rose	48	$ 3,435	$ 164,880	$ 1,978,560	2%
Moutain Laurel	10	$ 3,606	$ 36,060	$ 432,720	2%
Day Lily	10	$ 3,578	$ 35,780	$ 429,360	2%
Hollyhock	10	$ 3,578	$ 35,780	$ 429,360	2%
Subtotal	78		$ 107,620	$ 1,291,440	2%
Dementia Rooms	24	$ 5,500	$ 132,000	$ 1,584,000	2%
New Rooms	36	$ 4,100	$ 147,600	$ 1,771,200	2%
Total	138		$ 387,220	$ 4,646,640	2%

Actual Number of Rooms with New Wing **128**

Additional Services: Wing Addition

Meals	$	100	per month
Transportation	$	450	per month
Therapy-Rental Income	$	400	per month
Community Fee	$	10,000	per month
Subtotal	$	10,950	
Total	$	131,400	per year

Lease Up Schedule: Wing Addition

Month	Percentage Leased	No. of Units	Rental Income
02/01/11	17%	10	$ 169,600
03/01/11	20%	12	$ 174,000
04/01/11	23%	14	$ 178,400
05/01/11	30%	18	$ 187,200
06/01/11	37%	22	$ 196,000
07/01/11	43%	26	$ 204,800
08/01/11	52%	31	$ 215,800
09/01/11	58%	35	$ 224,600
10/01/11	65%	39	$ 233,400
11/01/11	73%	44	$ 244,400
12/01/11	78%	47	$ 251,000
01/01/12	90%	54	$ 266,400
02/01/12	100%	60	$ 279,600
Total Year 1		60	$ 1,110,000

Rental Income: Future with 14 Dementia Beds (no Wing Addition)

Type of Unit	No. of Beds	Rent per room per 3435	Gross Rent per Month	Annual Rent	Total Rent Escalation
English Rose	40	$ 3,435	$ 137,400	$ 1,648,800	2%
Mountain Laurel	8	$ 3,606	$ 28,848	$ 346,176	2%
Day Lily	10	$ 3,578	$ 35,780	$ 429,360	2%
Hollyhock	8	$ 3,578	$ 28,624	$ 343,488	2%
Dementia Rooms	14	$ 5,500	$ 77,000	$ 924,000	2%
Total	80		$ 307,652	$ 3,691,824	2%

Exhibit II: Proforma (Current Cash Flow)

Existing Facility Hold/Sale Value

INVESTMENT ANALYSIS

Debt Financing		Existing Loan
LTV		70%
Loan		$5,801,263
Interest Rate		7.29%
	Total Debt	

DETAILED CASH FLOW

	Year Ending	Year 9 2009	Year 10 2010	Year 11 2011	Year 12 2012	Year 13 2013	Year 14 2014	Year 15 2015	Year 16 2016	Year 17 2017	Year 18 2018	Year 19 2019
INCOME												
Potential Gross Revenue		3,055,320	3,270,000	3,335,400	3,402,108	3,470,150	3,539,553	3,610,344	3,682,551	3,756,202	3,831,326	3,907,953
Other Income		63,672	64,945	66,244	67,569	68,921	70,299	71,705	73,139	74,602	76,094	77,616
Vacancy/Credit Loss		197,353	327,000	333,540	340,211	347,015	353,955	361,034	368,255	375,620	383,133	390,795
Potential Gross Income		2,921,639	3,007,945	3,068,104	3,129,466	3,192,056	3,255,897	3,321,015	3,387,435	3,455,184	3,524,287	3,594,773
EXPENSES												
Nursing		977,000	996,540	1,016,471	1,036,800	1,057,536	1,078,687	1,100,261	1,122,266	1,144,711	1,167,605	1,190,958
Dietary		282,000	301,540	310,586	319,904	329,501	339,386	349,568	360,055	370,856	381,982	393,441
Housekeeping		77,587	97,127	100,041	103,042	106,133	109,317	112,597	115,975	119,454	123,038	126,729
Activities		58,149	77,689	80,020	82,420	84,893	87,440	90,063	92,765	95,548	98,414	101,367
Maintenance		214,121	233,661	240,671	247,891	255,328	262,988	270,877	279,003	287,374	295,995	304,875
Marketing		82,101	101,641	104,690	107,831	111,066	114,398	117,830	121,365	125,006	128,756	132,618
Other Expenses		440,988	460,528	474,344	488,574	503,231	518,328	533,878	549,894	566,391	583,383	600,884
Net Operating Income		789,693	739,220	741,282	743,004	744,268	745,354	745,942	746,113	745,845	745,115	743,902
CAPITAL EXPENDITURES												
Tenant Improvements		26,988	33,734	40,481	47,228	53,975	59,373	65,310	71,841	79,025	86,927	95,620
T & I		5,567	5,567	5,567	5,567	5,567	5,567	5,567	5,567	5,567	5,567	5,567
Replacement Reserves		17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000
Cash Before Debt Service		740,139	682,918	678,234	673,209	667,826	663,414	658,065	651,705	644,253	635,621	625,715
LOAN PAYMENT												
Total		478,890	478,890	478,890	478,890	478,890	478,890	478,890	478,890	478,890	478,890	478,890
Principal		46,040	49,580	53,391	57,495	61,915	66,675	71,800	77,319	83,263	89,664	96,557
Interest		432,849	429,310	425,499	421,395	416,975	412,215	407,090	401,570	395,627	389,226	382,333
Net Cash Flow for Distribution		261,249	204,028	199,344	194,319	188,936	184,524	179,176	172,815	165,363	156,731	146,825
Capital Event (Loan Proceeds)		(356,328)										
Total for Distribution		(95,079)										

Partner Cash Flows											**Sale Proceeds**
Annual Return											
Total Partner Cashflows	(1,834,120)	261,249	204,028	199,344	194,319	188,936	184,524	179,176	172,815	165,363	1,517,555
Internal Rate of Return	9.15%										

Permanent Loan: Hold Value		**NOI Year 9**
NOI (Capitalization Rate)	10.00%	789,693
Gross Valuation		7,896,930
Gross Valuation / SF		122.90
Loan Costs	1.50%	(118,454)
Net Valuation		7,778,478
New Loan Proceeds	70.00%	5,444,935
Repay Existing Debt		(5,801,263)
Net Proceeds of Refinance / Sale		(356,328)
Interest Rate		7.29%
Debt Service		478,890
DCR		1.65

Future Sale: After Stabilization		**NOI Year 13**
Capitalization Rate	10.00%	743,902
Gross Valuation		7,439,018
Gross Valuation / SF		$385.84
Brokerage Fee	3.00%	($223,171)
Net Valuation		7,215,848
Repay Permanent Loan		(5,698,293)
Net Proceeds of Sale		1,517,555

Exhibit II: Proforma (Current Amortization Schedule)

Permanent Existing Loan

Principal	6,113,000
Monthly Interest Rate	0.619%
Months	480
Beginning Month	1
Beginning Year	2000
Monthly Payment	$39,907
Annual Payment	$478,890

Month	Payment	Principal	Interest	Ending Balance	Balance at Sale
				6,113,000	
1	39,907	2,063	37,845	6,110,937	
2	39,907	2,076	37,832	6,108,861	
3	39,907	2,089	37,819	6,106,773	
4	39,907	2,101	37,806	6,104,671	
5	39,907	2,114	37,793	6,102,557	
6	39,907	2,128	37,780	6,100,429	
7	39,907	2,141	37,767	6,098,289	
8	39,907	2,154	37,753	6,096,135	
9	39,907	2,167	37,740	6,093,967	
10	39,907	2,181	37,727	6,091,786	
11	39,907	2,194	37,713	6,089,592	Year 1
12	39,907	2,208	37,700	6,087,384	
13	39,907	2,222	37,686	6,085,163	
14	39,907	2,235	37,672	6,082,928	
15	39,907	2,249	37,658	6,080,679	
16	39,907	2,263	37,644	6,078,415	
17	39,907	2,277	37,630	6,076,138	
18	39,907	2,291	37,616	6,073,847	
19	39,907	2,305	37,602	6,071,542	
20	39,907	2,320	37,588	6,069,222	
21	39,907	2,334	37,574	6,066,888	
22	39,907	2,348	37,559	6,064,540	
23	39,907	2,363	37,545	6,062,177	Year 2
24	39,907	2,378	37,530	6,059,800	
25	39,907	2,392	37,515	6,057,407	
26	39,907	2,407	37,500	6,055,000	
27	39,907	2,422	37,485	6,052,578	
28	39,907	2,437	37,471	6,050,141	
29	39,907	2,452	37,455	6,047,689	
30	39,907	2,467	37,440	6,045,222	
31	39,907	2,483	37,425	6,042,739	
32	39,907	2,498	37,410	6,040,242	
33	39,907	2,513	37,394	6,037,728	
34	39,907	2,529	37,379	6,035,199	
35	39,907	2,545	37,363	6,032,655	Year 3
36	39,907	2,560	37,347	6,030,094	
37	39,907	2,576	37,331	6,027,518	
38	39,907	2,592	37,315	6,024,926	
39	39,907	2,608	37,299	6,022,318	
40	39,907	2,624	37,283	6,019,694	
41	39,907	2,641	37,267	6,017,053	
42	39,907	2,657	37,251	6,014,396	
43	39,907	2,673	37,234	6,011,723	
44	39,907	2,690	37,218	6,009,033	
45	39,907	2,707	37,201	6,006,326	
46	39,907	2,723	37,184	6,003,603	
47	39,907	2,740	37,167	6,000,863	Year 4
48	39,907	2,757	37,150	5,998,106	
49	39,907	2,774	37,133	5,995,331	
50	39,907	2,791	37,116	5,992,540	
51	39,907	2,809	37,099	5,989,731	
52	39,907	2,826	37,081	5,986,905	
53	39,907	2,844	37,064	5,984,062	
54	39,907	2,861	37,046	5,981,200	
55	39,907	2,879	37,029	5,978,322	
56	39,907	2,897	37,011	5,975,425	
57	39,907	2,915	36,993	5,972,510	
58	39,907	2,933	36,975	5,969,578	
59	39,907	2,951	36,957	5,966,627	Year 5
60	39,907	2,969	36,938	5,963,658	
61	39,907	2,987	36,920	5,960,670	
62	39,907	3,006	36,902	5,957,664	
63	39,907	3,025	36,883	5,954,640	
64	39,907	3,043	36,864	5,951,596	
65	39,907	3,062	36,845	5,948,534	
66	39,907	3,081	36,826	5,945,453	
67	39,907	3,100	36,807	5,942,353	
68	39,907	3,119	36,788	5,939,234	
69	39,907	3,139	36,769	5,936,095	
70	39,907	3,158	36,749	5,932,937	
71	39,907	3,178	36,730	5,929,759	Year 6
72	39,907	3,197	36,710	5,926,562	
73	39,907	3,217	36,690	5,923,345	
74	39,907	3,237	36,670	5,920,108	
75	39,907	3,257	36,650	5,916,850	
76	39,907	3,277	36,630	5,913,573	
77	39,907	3,298	36,610	5,910,276	
78	39,907	3,318	36,590	5,906,958	
79	39,907	3,338	36,569	5,903,619	
80	39,907	3,359	36,548	5,900,260	
81	39,907	3,380	36,528	5,896,880	
82	39,907	3,401	36,507	5,893,479	
83	39,907	3,422	36,486	5,890,057	Year 7
84	39,907	3,443	36,464	5,886,614	
85	39,907	3,464	36,443	5,883,150	
86	39,907	3,486	36,422	5,879,664	
87	39,907	3,507	36,400	5,876,156	
88	39,907	3,529	36,378	5,872,627	
89	39,907	3,551	36,356	5,869,076	
90	39,907	3,573	36,334	5,865,503	
91	39,907	3,595	36,312	5,861,908	
92	39,907	3,617	36,290	5,858,291	
93	39,907	3,640	36,268	5,854,651	
94	39,907	3,662	36,245	5,850,988	
95	39,907	3,685	36,222	5,847,303	Year 8
96	39,907	3,708	36,200	5,843,596	
97	39,907	3,731	36,177	5,839,865	
98	39,907	3,754	36,154	5,836,111	
99	39,907	3,777	36,130	5,832,334	
100	39,907	3,800	36,107	5,828,533	
101	39,907	3,824	36,083	5,824,709	
102	39,907	3,848	36,060	5,820,862	
103	39,907	3,872	36,036	5,816,990	

104	39,907	3,895	36,012	5,813,095	
105	39,907	3,920	35,988	5,809,175	
106	39,907	3,944	35,964	5,805,231	
107	39,907	3,968	35,939	5,801,263	Year 9
108	39,907	3,993	35,915	5,797,270	
109	39,907	4,018	35,890	5,793,253	
110	39,907	4,042	35,865	5,789,210	
111	39,907	4,067	35,840	5,785,143	
112	39,907	4,093	35,815	5,781,050	
113	39,907	4,118	35,790	5,776,932	
114	39,907	4,143	35,764	5,772,789	
115	39,907	4,169	35,738	5,768,620	
116	39,907	4,195	35,713	5,764,425	
117	39,907	4,221	35,687	5,760,204	
118	39,907	4,247	35,660	5,755,957	
119	39,907	4,273	35,634	5,751,683	Year 10
120	39,907	4,300	35,608	5,747,384	
121	39,907	4,326	35,581	5,743,057	
122	39,907	4,353	35,554	5,738,704	
123	39,907	4,380	35,527	5,734,324	
124	39,907	4,407	35,500	5,729,917	
125	39,907	4,435	35,473	5,725,482	
126	39,907	4,462	35,446	5,721,020	
127	39,907	4,490	35,418	5,716,531	
128	39,907	4,517	35,390	5,712,013	
129	39,907	4,545	35,362	5,707,468	
130	39,907	4,574	35,334	5,702,894	
131	39,907	4,602	35,306	5,698,293	Year 11
132	39,907	4,630	35,277	5,693,662	
133	39,907	4,659	35,249	5,689,003	
134	39,907	4,688	35,220	5,684,315	
135	39,907	4,717	35,191	5,679,599	
136	39,907	4,746	35,161	5,674,853	
137	39,907	4,775	35,132	5,670,077	
138	39,907	4,805	35,103	5,665,272	
139	39,907	4,835	35,073	5,660,437	5,738,704
140	39,907	4,865	35,043	5,655,573	
141	39,907	4,895	35,013	5,650,678	
142	39,907	4,925	34,982	5,645,753	
143	39,907	4,956	34,952	5,640,797	Year 12
144	39,907	4,986	34,921	5,635,811	
145	39,907	5,017	34,890	5,630,794	
146	39,907	5,048	34,859	5,625,746	
147	39,907	5,079	34,828	5,620,666	
148	39,907	5,111	34,797	5,615,555	
149	39,907	5,143	34,765	5,610,413	
150	39,907	5,174	34,733	5,605,239	
151	39,907	5,206	34,701	5,600,032	
152	39,907	5,239	34,669	5,594,794	
153	39,907	5,271	34,636	5,589,522	
154	39,907	5,304	34,604	5,584,219	
155	39,907	5,337	34,571	5,578,882	Year 13
156	39,907	5,370	34,538	5,573,513	
157	39,907	5,403	34,505	5,568,110	
158	39,907	5,436	34,471	5,562,674	
159	39,907	5,470	34,438	5,557,204	
160	39,907	5,504	34,404	5,551,700	
161	39,907	5,538	34,370	5,546,162	
162	39,907	5,572	34,335	5,540,590	
163	39,907	5,607	34,301	5,534,983	
164	39,907	5,641	34,266	5,529,342	
165	39,907	5,676	34,231	5,523,666	
166	39,907	5,711	34,196	5,517,954	
167	39,907	5,747	34,161	5,512,208	Year 14
168	39,907	5,782	34,125	5,506,425	
169	39,907	5,818	34,089	5,500,607	
170	39,907	5,854	34,053	5,494,753	
171	39,907	5,890	34,017	5,488,863	
172	39,907	5,927	33,981	5,482,936	
173	39,907	5,964	33,944	5,476,972	
174	39,907	6,000	33,907	5,470,972	
175	39,907	6,038	33,870	5,464,934	
176	39,907	6,075	33,832	5,458,859	
177	39,907	6,113	33,795	5,452,747	
178	39,907	6,150	33,757	5,446,596	
179	39,907	6,189	33,719	5,440,408	Year 15
180	39,907	6,227	33,681	5,434,181	
181	39,907	6,265	33,642	5,427,915	
182	39,907	6,304	33,603	5,421,611	
183	39,907	6,343	33,564	5,415,268	
184	39,907	6,382	33,525	5,408,886	
185	39,907	6,422	33,486	5,402,464	
186	39,907	6,462	33,446	5,396,002	
187	39,907	6,502	33,406	5,389,500	
188	39,907	6,542	33,365	5,382,958	
189	39,907	6,582	33,325	5,376,376	
190	39,907	6,623	33,284	5,369,752	
191	39,907	6,664	33,243	5,363,088	Year 16
192	39,907	6,706	33,202	5,356,383	
193	39,907	6,747	33,160	5,349,636	
194	39,907	6,789	33,119	5,342,847	
195	39,907	6,831	33,077	5,336,016	
196	39,907	6,873	33,034	5,329,143	
197	39,907	6,916	32,992	5,322,227	
198	39,907	6,958	32,949	5,315,269	
199	39,907	7,002	32,906	5,308,267	
200	39,907	7,045	32,863	5,301,222	
201	39,907	7,089	32,819	5,294,134	
202	39,907	7,132	32,775	5,287,002	
203	39,907	7,177	32,731	5,279,825	Year 17
204	39,907	7,221	32,687	5,272,604	
205	39,907	7,266	32,642	5,265,338	
206	39,907	7,311	32,597	5,258,028	
207	39,907	7,356	32,552	5,250,672	
208	39,907	7,401	32,506	5,243,270	
209	39,907	7,447	32,460	5,235,823	
210	39,907	7,493	32,414	5,228,330	
211	39,907	7,540	32,368	5,220,790	
212	39,907	7,586	32,321	5,213,203	
213	39,907	7,633	32,274	5,205,570	
214	39,907	7,681	32,227	5,197,889	
215	39,907	7,728	32,179	5,190,161	Year 18
216	39,907	7,776	32,131	5,182,385	
217	39,907	7,824	32,083	5,174,561	
218	39,907	7,873	32,035	5,166,688	
219	39,907	7,921	31,986	5,158,767	
220	39,907	7,970	31,937	5,150,796	
221	39,907	8,020	31,888	5,142,777	
222	39,907	8,069	31,838	5,134,707	
223	39,907	8,119	31,788	5,126,588	
224	39,907	8,170	31,738	5,118,418	
225	39,907	8,220	31,687	5,110,198	
226	39,907	8,271	31,636	5,101,927	
227	39,907	8,322	31,585	5,093,605	Year 19

Exhibit III: Proforma (Current Cash Flow with Dementia Floor)
Existing Facility With 14 Dedicated Dementia Beds

INVESTMENT ANALYSIS

Debt Financing		Existing Loan
LTV		70%
Loan		$5,801,263
Interest Rate		7.29%
	Total Debt	

DETAILED CASH FLOW

	Year Ending	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19
INCOME		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Potential Gross Revenue		3,691,824	3,765,660	3,840,974	3,917,793	3,996,149	4,076,072	4,157,593	4,240,745	4,325,560	4,412,071	4,500,313
Other Income		63,672	64,945	66,244	67,569	68,921	70,299	71,705	73,139	74,602	76,094	77,616
Vacancy/Credit Loss		197,353	376,566	384,097	391,779	399,615	407,607	415,759	424,075	432,556	441,207	450,031
Potential Gross Income		3,558,143	3,454,040	3,523,121	3,593,583	3,665,455	3,738,764	3,813,539	3,889,810	3,967,606	4,046,958	4,127,897
EXPENSES												
Nursing		1,277,000	1,302,540	1,328,591	1,355,163	1,382,266	1,409,911	1,438,109	1,466,872	1,496,209	1,526,133	1,556,656
Dietary		282,000	307,540	316,766	326,269	336,057	346,139	356,523	367,219	378,235	389,582	401,270
Housekeeping		77,587	103,127	106,221	109,407	112,690	116,070	119,552	123,139	126,833	130,638	134,557
Activities		58,149	83,689	86,200	88,786	91,449	94,193	97,018	99,929	102,927	106,015	109,195
Maintenance		214,121	239,661	246,851	254,256	261,884	269,741	277,833	286,168	294,753	303,595	312,703
Marketing		92,101	117,641	121,170	124,805	128,549	132,406	136,378	140,470	144,684	149,024	153,495
Other Expenses		440,988	466,528	480,524	494,939	509,787	525,081	540,834	557,059	573,770	590,983	608,713
Net Operating Income		1,116,197	833,314	836,799	839,957	842,772	845,223	847,291	848,956	850,195	850,987	851,308
CAPITAL EXPENDITURES												
Tenant Improvements		26,988	33,734	40,481	47,228	53,975	59,373	65,310	71,841	79,025	86,927	95,620
T & I		5,567	5,567	5,567	5,567	5,567	5,567	5,567	5,567	5,567	5,567	5,567
Replacement Reserves		17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000
Cash Before Debt Service		1,066,643	777,013	773,750	770,162	766,230	763,283	759,414	754,548	748,603	741,492	733,121
LOAN PAYMENT												
Total		478,890	478,890	478,890	478,890	478,890	478,890	478,890	478,890	478,890	478,890	478,890
Principal		46,040	49,580	53,391	57,495	61,915	66,675	71,800	77,319	83,263	89,664	96,557
Interest		432,849	429,310	425,499	421,395	416,975	412,215	407,090	401,570	395,627	389,226	382,333
Net Cash Flow for Distribution		587,753	298,123	294,860	291,272	287,340	284,394	280,524	275,658	269,713	262,603	254,231
Capital Event (Loan Proceeds)		1,894,917										
Total for Distribution		2,482,670										

Partner Cash Flows											Sale Proceeds
Annual Return											
Total Partner Cashflows	(2,134,120)	587,753	298,123	294,860	291,272	287,340	284,394	280,524	275,658	269,713	262,603	2,559,396
Internal Rate of Return	16.11%											

Permanent Loan: Hold Value		NOI Year 9
NOI (Capitalization Rate)	10.00%	1,116,197
Gross Valuation		11,161,972
Gross Valuation / SF		173.71
Loan Costs	1.50%	(167,430)
Net Valuation		10,994,543
New Loan Proceeds	70.00%	7,696,180
Repay Existing Debt		(5,801,263)
Net Proceeds of Refinance / Sale		1,894,917
Interest Rate		7.29%
Debt Service		478,890
DCR		2.33

Future Sale: After Stabilization		NOI Year 11
Capitalization Rate	10.00%	851,308
Gross Valuation		8,513,081
Gross Valuation / SF		$441.55
Brokerage Fee	3.00%	($255,392)
Net Valuation		8,257,688
Repay Permanent Loan		(5,698,293)
Net Proceeds of Sale		2,559,396

Exhibit IV: Proforma (Future Cash Flow with New Wing)

INVESTMENT ANALYSIS

Debt Financing		Const. Loan
Total Construction Costs		$3,336,751
LTV		60%
Loan		$1,979,888
Required Equity		$1,062,863
JV Partner Equity		$744,004
Sponsor Equity		$318,859
Interest Rate		11.00%

Equity Capital	Preferred Return	% Equity	Initial	Add Equity	Total
Total Equity Required to Close		100%	$ -	$ 1,062,863	$ 1,062,863
Third Party Equity	11.00%	70%	$ -	$ 744,004	$ 744,004
Sponsor Equity		30%	$ -	$ 318,859	$ 318,859

Total Development Cost including Interest Carry $ 3,179,885

DETAILED CASH FLOW

INCOME	Year Ending	Year 1 2011	Year 2 2012	Year 3 2013	Year 4 2014	Year 5 2015	Year 6 2016	Year 7 2017	Year 8 2018	Year 9 2019	Year 10 2020
Potential Gross Revenue		4,172,640	4,648,640	4,739,573	4,834,364	4,931,052	5,029,673	5,130,266	5,232,871	5,337,529	5,444,279
Other Income		181,400	184,028	186,709	189,443	192,232	195,076	197,978	200,937	203,956	207,035
Vacancy/Credit Loss		457,264	464,864	473,857	483,486	493,105	502,967	513,027	523,287	533,753	544,428
Potential Gross Income		3,896,776	4,318,804	4,402,424	4,490,321	4,580,178	4,671,782	4,765,217	4,860,522	4,957,732	5,056,887
EXPENSES											
Nursing		1,357,070	1,384,211	1,411,895	1,440,134	1,468,936	1,498,315	1,528,281	1,558,847	1,590,024	1,621,824
Dietary		385,932	393,651	401,524	409,554	417,745	426,100	434,622	443,315	452,181	461,224
Housekeeping		114,987	117,287	119,632	122,025	124,466	126,955	129,494	132,084	134,726	137,420
Activities		79,243	79,828	81,404	83,032	84,693	86,387	88,114	89,877	91,674	93,508
Maintenance		265,795	271,101	276,523	282,053	287,694	293,448	299,317	305,303	311,409	317,638
Marketing		111,035	113,256	115,521	117,831	120,188	122,592	125,043	127,544	130,095	132,697
Other Expenses		488,920	508,810	519,588	529,470	540,059	550,860	560,877	573,115	584,577	596,269
Net Operating Income		1,074,793	1,647,781	1,476,737	1,506,272	1,536,897	1,567,125	1,598,468	1,630,437	1,663,068	1,696,307
CAPITAL EXPENDITURES											
Tenant Improvements		8,098	8,098	20,244	20,244	20,244	21,459	22,025	25,965	28,821	35,891
TBI		8,567	8,567	8,567	8,567	8,567	8,567	8,567	8,567	8,567	8,567
Replacement Reserves		32,000	32,000	32,000	32,000	32,000	32,000	32,000	32,000	32,000	32,000
Cash Before Debt Service		1,026,128	1,599,117	1,415,926	1,445,461	1,475,586	1,505,099	1,534,795	1,564,905	1,593,658	1,622,749
LOAN PAYMENT											
Total		439,478	585,970	585,970	585,970	585,970	585,970	585,970	585,970	585,970	585,970
Principal		84,235	90,653	98,724	103,202	110,113	117,488	125,356	133,751	142,709	152,266
Interest		355,242	495,318	489,247	482,769	475,857	468,482	460,614	452,219	443,261	433,704
Net Cash Flow for Distribution		586,651	813,146	829,956	859,490	889,616	919,129	948,826	977,935	1,007,687	1,037,779
Capital Event (Const Loan Proceeds)			(987,343)								
Total for Distribution			(420,693)								

JV Equity Partner Cashflows											Due on Sale
Accrued 11% Preferred Return Due			81,840	81,840	81,840	81,840	81,840	81,840	81,840	81,840	654,723
11% Preferred Return Paid		81,840									
10% of Sale Proceeds											1,058,287.18
Excess Cash Flow Split 20%			(218,507)	162,829	165,991	171,998	177,923	183,826	189,663	195,587	201,587	488,546
Total JV Equity Partner Cashflows		(744,004)	(136,667)	162,829	165,991	171,998	177,923	183,826	189,663	195,587	201,587	2,196,477
Internal Rate of Return		**21.22%**										

Sponsor Cash Flows											Sale Proceeds
Annual Return											
Total Sponsor Cashflows		(1,029,035)	(200,348)	650,517	663,964	667,592	711,693	735,303	758,661	782,348	806,150	9,498,865
Internal Rate of Return		**46.53%**									

Permanent Loan		NOI Year 1
NOI (Capitalization Rate)	**10.00%**	1,074,793
Gross Valuation		10,747,930
Gross Valuation / SF		167.27
Loan Costs	1.50%	(161,219)
Net Valuation		10,586,711
Max Loan Proceeds	65.00%	6,881,362
Repay Existing Debt		(7,725,572)
Repay Loan Accrued Interest		(79,454)
Repay Equity Accrued Interest		(63,680)
Net Proceeds of Refinance / Sale		(987,343)
Interest Rate		6.50%
Debt Service		585,970
DCR		1.83

Stabilized Value		NOI Year 10
Capitalization Rate	**9.00%**	1,696,307
Gross Valuation		18,847,855
Gross Valuation / SF		877.58
Brokerage Fee	3.00%	(565,436)
Net Valuation		18,282,419
Repay Permanent Loan		(6,389,074)
JV Equity Return Due		(488,546)
JV Partner Preferred Return Due		(654,723)
Net Proceeds of Sale		10,750,075

Exhibit IV: Proforma (Future Amortization Schedule)

Permanent Take-Out Loan (after New Wing)

Principal	7,725,572
Monthly Interest Rate	0.542%
Months	360
Beginning Month	2
Beginning Year	2011
Monthly Payment	$48,831
Annual Payment	$585,970

Month	Payment	Principal	Interest	Ending Balance	Balance at Sale
				7,725,572	
1	48,831	6,984	41,847	7,718,588	
2	48,831	7,022	41,809	7,711,566	
3	48,831	7,060	41,771	7,704,506	
4	48,831	7,098	41,733	7,697,408	
5	48,831	7,137	41,694	7,690,271	
6	48,831	7,175	41,656	7,683,096	
7	48,831	7,214	41,617	7,675,882	
8	48,831	7,253	41,578	7,668,629	
9	48,831	7,292	41,538	7,661,336	Year 1
10	48,831	7,332	41,499	7,654,004	
11	48,831	7,372	41,459	7,646,632	
12	48,831	7,412	41,419	7,639,221	
13	48,831	7,452	41,379	7,631,769	
14	48,831	7,492	41,339	7,624,277	
15	48,831	7,533	41,298	7,616,744	
16	48,831	7,574	41,257	7,609,171	
17	48,831	7,615	41,216	7,601,556	
18	48,831	7,656	41,175	7,593,900	
19	48,831	7,697	41,134	7,586,203	
20	48,831	7,739	41,092	7,578,464	
21	48,831	7,781	41,050	7,570,683	Year 2
22	48,831	7,823	41,008	7,562,860	
23	48,831	7,865	40,965	7,554,995	
24	48,831	7,908	40,923	7,547,087	
25	48,831	7,951	40,880	7,539,136	
26	48,831	7,994	40,837	7,531,142	
27	48,831	8,037	40,794	7,523,105	
28	48,831	8,081	40,750	7,515,025	
29	48,831	8,124	40,706	7,506,900	
30	48,831	8,168	40,662	7,498,732	
31	48,831	8,213	40,618	7,490,519	
32	48,831	8,257	40,574	7,482,262	
33	48,831	8,302	40,529	7,473,960	Year 3
34	48,831	8,347	40,484	7,465,613	
35	48,831	8,392	40,439	7,457,221	
36	48,831	8,438	40,393	7,448,783	
37	48,831	8,483	40,348	7,440,300	
38	48,831	8,529	40,302	7,431,770	
39	48,831	8,575	40,255	7,423,195	
40	48,831	8,622	40,209	7,414,573	
41	48,831	8,669	40,162	7,405,905	
42	48,831	8,716	40,115	7,397,189	
43	48,831	8,763	40,068	7,388,426	
44	48,831	8,810	40,021	7,379,616	
45	48,831	8,858	39,973	7,370,758	Year 4
46	48,831	8,906	39,925	7,361,852	
47	48,831	8,954	39,877	7,352,898	
48	48,831	9,003	39,828	7,343,895	
49	48,831	9,051	39,779	7,334,844	
50	48,831	9,100	39,730	7,325,743	
51	48,831	9,150	39,681	7,316,594	
52	48,831	9,199	39,632	7,307,394	
53	48,831	9,249	39,582	7,298,145	
54	48,831	9,299	39,532	7,288,846	
55	48,831	9,350	39,481	7,279,496	
56	48,831	9,400	39,431	7,270,096	
57	48,831	9,451	39,380	7,260,645	Year 5
58	48,831	9,502	39,328	7,251,142	
59	48,831	9,554	39,277	7,241,589	
60	48,831	9,606	39,225	7,231,983	
61	48,831	9,658	39,173	7,222,325	
62	48,831	9,710	39,121	7,212,615	
63	48,831	9,763	39,068	7,202,853	
64	48,831	9,815	39,015	7,193,038	
65	48,831	9,869	38,962	7,183,169	
66	48,831	9,922	38,909	7,173,247	
67	48,831	9,976	38,855	7,163,271	
68	48,831	10,030	38,801	7,153,241	
69	48,831	10,084	38,747	7,143,157	Year 6
70	48,831	10,139	38,692	7,133,018	
71	48,831	10,194	38,637	7,122,825	
72	48,831	10,249	38,582	7,112,576	
73	48,831	10,304	38,526	7,102,271	
74	48,831	10,360	38,471	7,091,911	
75	48,831	10,416	38,415	7,081,495	
76	48,831	10,473	38,358	7,071,022	
77	48,831	10,529	38,301	7,060,493	
78	48,831	10,587	38,244	7,049,906	
79	48,831	10,644	38,187	7,039,262	
80	48,831	10,702	38,129	7,028,561	
81	48,831	10,759	38,071	7,017,801	Year 7
82	48,831	10,818	38,013	7,006,983	
83	48,831	10,876	37,954	6,996,107	
84	48,831	10,935	37,896	6,985,172	
85	48,831	10,995	37,836	6,974,177	
86	48,831	11,054	37,777	6,963,123	
87	48,831	11,114	37,717	6,952,009	
88	48,831	11,174	37,657	6,940,835	
89	48,831	11,235	37,596	6,929,600	
90	48,831	11,296	37,535	6,918,305	
91	48,831	11,357	37,474	6,906,948	
92	48,831	11,418	37,413	6,895,530	
93	48,831	11,480	37,351	6,884,050	Year 8
94	48,831	11,542	37,289	6,872,507	
95	48,831	11,605	37,226	6,860,903	
96	48,831	11,668	37,163	6,849,235	
97	48,831	11,731	37,100	6,837,504	
98	48,831	11,794	37,036	6,825,710	
99	48,831	11,858	36,973	6,813,852	
100	48,831	11,923	36,908	6,801,929	
101	48,831	11,987	36,844	6,789,942	
102	48,831	12,052	36,779	6,777,890	
103	48,831	12,117	36,714	6,765,773	
104	48,831	12,183	36,648	6,753,590	
105	48,831	12,249	36,582	6,741,341	Year 9

106	48,831	12,315	36,516	6,729,025	
107	48,831	12,382	36,449	6,716,644	
108	48,831	12,449	36,382	6,704,194	
109	48,831	12,516	36,314	6,691,678	
110	48,831	12,584	36,247	6,679,094	
111	48,831	12,652	36,178	6,666,441	
112	48,831	12,721	36,110	6,653,720	
113	48,831	12,790	36,041	6,640,930	
114	48,831	12,859	35,972	6,628,071	
115	48,831	12,929	35,902	6,615,142	
116	48,831	12,999	35,832	6,602,144	
117	48,831	13,069	35,762	6,589,074	Year 10
118	48,831	13,140	35,691	6,575,934	
119	48,831	13,211	35,620	6,562,723	
120	48,831	13,283	35,548	6,549,440	
		1,176,131	4,683,573		6,549,440

Exhibit IV: Proforma (Assumptions)

ASSUMPTIONS

Rent Escalation (Years 2 - 3)	2%	
Vacancy/Credit Loss	10%	

Tenant Improvements (1-5)	1.50	PSF
Tenant Improvements (6-10)	4.00	PSF
Turnover Rate	70%	
Renewal Rate	30%	

Operating Expenses	**Cost**	**Annual**	**Escalation**
Common Area Utilities	0.30	PSF	3%
Water & Sewer	0.063	PSF	3%
Repairs & Maintenance	1.40	PSF	3%
Ground Maintenance	0.06	PSF	3%
Advertising/Marketing	0.15	PSF	3%
Administrative	0.12	PSF	3%
Real Estate Taxes	0.85	per $100	3%
Insurance	0.23	PSF	3%
Submetering Fee	0.00	Unit/Month	3%
Management Fee		Month	3%

Capital Reserve	250.00	Unit

Stabilization Period	6	months

LTV	65%
Perm Interest Rate	6.50%

Cap Rate	10%
Terminal Cap Rate	10%

Exhibit IV: Proforma (Construction Budget)
Development Cost: New Wing
December 1, 2009

Item	Budget	
Electrical Heavy-up	$	24,880
Demolition	$	15,000
Roof	$	30,000
Concrete	$	105,000
Insulation	$	24,000
Masonry	$	300,000
Windows	$	150,000
Drywall	$	150,000
Rough Carpentry	$	161,199
Finishes	$	150,000
Painting	$	96,000
Plumbing	$	260,000
HVAC	$	150,000
Electrical	$	225,000
Finish Carpentry	$	240,000
Flooring	$	135,000
Contingency	$	75,000
Total Construction Cost	**$**	**2,291,079.00**

Exhibit IV: Proforma (Development Budget)

DEVELOPMENT BUDGET: NEW WING

		PSF
Hard Costs		
Base Building	$2,313,600	$120.00
3rd Party Inspectors	$5,000	$0.26
Building Permits	$5,000	$0.26
Total Hard Costs	**$2,323,600**	**$120.52**
General Construction Costs		**PSF**
General Contractor Fees (3% of HC)	$69,708	$3.62
General Contractor Overhead (2% of HC)	$46,472	$2.41
Bond (1.5% of HC)	$34,854	$1.81
Total General Construction Costs	**$151,034**	**$7.83**
Soft Costs		**PSF**
Legal (Zoning Review)	$7,500	$0.39
Advertising	$5,000	$0.26
Appraisal	$2,500	$0.13
Architectural and Engineering (7% of HC)	$162,652	$8.44
Furniture, Fixtures & Equipment (FF&E)	$150,000	$12.68
Market Analysis	$3,500	$0.18
Environmental Review	$2,000	$0.10
Development Fee (2.5% of HC)	$58,090	$3.01
Mortgage Insurance	$5,000	$0.26
Builders Risk Insurance (.024% of HC)	$5,000	$0.26
Legal and Settlement	$5,000	$0.26
Loan Fees	$15,000	$0.78
Real Estate Taxes During Const	$5,000	$0.26
Recording Tax	$35,882	$1.86
Operating Reserve / Start Up	$50,000	$2.59
Contingency (2%)	$49,493	$2.57
Bank Inspection Fee	$500	$0.03
Total Soft Costs	**$562,117**	**$34.06**
Total Budget	**$3,036,751**	**$162.41**
Construction Loan Interest Carry	$79,454	
JV Partner Accrued Equity Carry	$63,680	
Total Project Costs w/Carry	**$3,179,885**	

Exhibit IV: Proforma (Design Analysis)

	Design Data
Dementia room SF/per room	200
Total Rooms per floor	24
Total Dementia Room SF	4800
Circulation Space	960
Common Area SF	2000
Floor Plate	5760
New Room SF/per room	288
2nd and 3rd floor plate room quantity	18
Total Additional SF	19280

	Number of Rooms
Floor 1: Dementia	24
Floor 2: Regular AL	18
Floor 3: Regular AL	18
Total	60

Exhibit IV: Proforma (Draw Schedule)

CONSTRUCTION INTEREST RATE SCHEDULE

		Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	TOTAL
New Building	$2,913,600	(208,224)	-	(208,224)	(208,224)	(208,224)	(208,224)	(208,224)	(208,224)	(208,224)	(208,224)	(208,224)	(191,360)	(2,913,600)
3rd Party Inspectors	$5,000	(450)	-	(600)	(600)	(550)	-	(600)	(550)	-	(550)	(550)	(550)	(5,000)
Building Permits	$5,000	(5,000)	-	-	-	-	-	-	-	-	-	-	-	(5,000)
General Contractor Fee (3% of HC)	$89,708	-	(6,274)	(6,274)	(6,274)	(6,274)	(6,274)	(6,274)	(6,274)	(6,274)	(6,274)	(6,274)	(6,971)	(89,708)
General Contractor Overhead (2% of HC)	$68,472	-	(4,182)	(4,182)	(4,182)	(4,182)	(4,182)	(4,182)	(4,182)	(4,182)	(4,182)	(4,182)	(4,647)	(66,472)
Bond (1.5% of HC)	$34,854	-	(3,137)	(3,137)	(3,137)	(3,137)	(3,137)	(3,137)	(3,137)	(3,137)	(3,137)	(3,137)	(3,485)	(34,854)
Legal (Zoning Review)	$7,500	(7,500)	-	-	-	-	-	-	-	-	-	-	-	(7,500)
Advertising	$5,000	-	-	-	-	-	-	-	-	(1,000)	(1,000)	(1,500)	(1,500)	(5,000)
Appraisal	$2,500	(2,500)	-	-	-	-	-	-	-	-	-	-	-	(2,500)
Architectural and Engineering (7% of HC)	$162,852	(81,926)	(81,926)	-	-	-	-	-	-	-	-	-	-	(162,852)
Furniture, Fixtures & Equipment (FF&E)	$150,000	-	-	-	-	(37,500)	(37,500)	(37,500)	(37,500)	-	-	-	-	(150,000)
Market Analysis	$3,500	(3,500)	-	-	-	-	-	-	-	-	-	-	-	(3,500)
Environmental Review	$2,000	(2,000)	-	-	-	-	-	-	-	-	-	-	-	(2,000)
Development Fee (2.5% of HC)	$58,090	(4,847)	(4,847)	(5,228)	(4,847)	(4,847)	(5,228)	(4,847)	(4,847)	(5,228)	(4,847)	(4,847)	(5,228)	(58,090)
Mortgage Insurance	$5,000	(400)	(400)	(400)	(400)	(400)	(450)	(400)	(400)	(450)	(400)	(400)	(450)	(5,000)
Builders Risk Insurance (.026% of HC)	$5,000	(5,000)	-	-	-	-	-	-	-	-	-	-	-	(5,000)
Legal and Settlement	$5,000	(5,000)	-	-	-	-	-	-	-	-	-	-	-	(5,000)
Loan Fees	$15,000	(1,200)	(1,200)	(1,200)	(1,850)	(1,200)	(1,850)	(1,200)	(1,850)	(1,200)	(1,200)	(1,200)	(1,850)	(15,000)
Real Estate Taxes During Const	$5,000	(5,000)	-	-	-	-	-	-	-	-	-	-	-	(5,000)
Recording Tax	$35,882	(35,882)	-	-	-	-	-	-	-	-	-	-	-	(35,882)
Operating Reserve / Start Up	$50,000	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	(1,500)	(50,000)
Contingency (2%)	$49,493	(49,493)	-	-	-	-	-	-	-	-	-	-	-	(49,493)
Bank Inspection Fee	$500	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(500)
Total	3,036,751	(425,667)	(105,706)	(233,835)	(233,854)	(270,609)	(270,885)	(270,704)	(270,804)	(234,240)	(233,654)	(234,154)	(257,087)	(3,036,751)

Project Equity														
Beginning Balance		$744,004	$750,824	$757,707	$764,652	$771,662	$778,735	$785,873	$793,077	$800,347	$807,684	$815,087	$822,559	$830,099
11.00% Interest	$63,680	$6,820	$6,883	$6,946	$7,009	$7,074	$7,138	$7,204	$7,270	$7,337	$7,404	$7,472	$7,540	$7,609
Ending Balance		$750,824	$757,707	$764,652	$771,662	$778,735	$785,873	$793,077	$800,347	$807,684	$815,087	$822,559	$830,099	$837,708
Construction Debt	$1,973,888													
Prior Advances (includes interest)		$0	$424,478	$533,719	$772,671	$1,012,782	$1,290,947	$1,573,252	$1,858,249	$2,141,233	$2,391,810	$2,642,464	$2,895,796	$3,173,902
Period Advance		$425,667	$105,706	$233,835	$233,854	$270,609	$270,885	$270,704	$270,804	$234,240	$233,654	$234,154	$257,087	$3,036,751
8.00% Accrued Interest	$79,454	$2,851	$3,535	$5,117	$6,707	$8,556	$10,419	$12,293	$14,180	$15,836	$17,500	$19,177	$21,019	$41,404
TOTAL DEVELOPMENT COSTS with CARRY	$2,117,022													

Percent Complete	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Total
New Building	9%	0%	9%	9%	9%	9%	9%	9%	9%	9%	9%	10%	100%
3rd Party Inspectors	9%	0%	12%	12%	11%	0%	12%	11%	0%	11%	11%	11%	100%
Building Permits	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%
General Contractor Fee (3% of HC)	0%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	10%	100%
General Contractor Overhead (2% of HC)	0%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	10%	100%
Bond (1.5% of HC)	0%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	10%	100%
Legal (Zoning Review)	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%
Advertising	0%	0%	0%	0%	0%	0%	0%	0%	20%	20%	30%	30%	100%
Appraisal	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%
Architectural and Engineering (7% of HC)	50%	50%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%
Furniture, Fixtures & Equipment (FF&E)	0%	0%	0%	0%	25%	25%	25%	25%	0%	0%	0%	0%	100%
Market Analysis	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%
Environmental Review	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%
Development Fee (2.5% of HC)	8%	8%	9%	8%	8%	8%	8%	8%	9%	8%	8%	9%	100%
Mortgage Insurance	8%	8%	9%	8%	8%	8%	8%	8%	9%	8%	8%	9%	100%
Builders Risk Insurance (.026% of HC)	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%
Legal and Settlement	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%
Loan Fees	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	9%	100%
Real Estate Taxes During Const	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%
Recording Tax	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%
Operating Reserve / Start Up	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	3%	100%
Contingency (2%)	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%
Bank Inspection Fee	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	100%

Exhibit V

GLOSSARY

ABSORPTION PERIOD—The number of months necessary to rent a specific number of beds or units. If over 12 months, the absorption period is adjusted to reflect replacement for turnover (see *aggregate absorption* and *net absorption*).

ABSORPTION RATE—The number of beds or units expected to be rented per month.

ADULT GROUP OR FAMILY HOMES—See Assisted Living Licensure

AGGREGATE ABSORPTION—The total number of beds or units absorbed by a subject site without accounting for turnover.

ASSISTED-LIVING—Combines congregate care living with personal assistance with some tasks, such as bathing, dressing, and walking. Residents must be ambulatory and not in chronic need of assistance. Assisted-living facilities are not "mini" nursing homes, nor are they intended to provide nursing care. They can provide occasional assistance for residents who are ambulatory and mentally alert. Monthly fees generally include shelter, meals, housekeeping, laundry service, some utilities, and personal assistance.

ASSISTED-LIVING LICENSURE—Many states license these facilities to provide greater levels of care and better quality for their residents. These facilities are usually licensed by the Department of Health. However, this may vary from state to state; terminology used for the category of assistance may also vary. Residents are either aged and mentally or physically dependent on others or they are aged or physically or mentally impaired and dependent on others. Assisted-living facilities do not provide nursing care for either category of residents.

In Ohio, facilities may obtain Residential Care Facilities (RCF) designation to provide assistance with activities of daily living. Facilities offering accommodations for 6 to 16 unrelated individuals are licensed as Adult Group Homes, while facilities providing accommodations for 3 to 5 individuals are licensed as Adult Family Homes. Adult Family Homes and Adult Group Homes are known as Adult Care Facilities. These facilities are regulated by the Ohio Department of Health.

CONGREGATE CARE—Generally represents apartment living in a communal setting, which includes meals in a community dining room, house keeping, laundry service, a social program, and targeted services. Increasingly, congregate care facilities are offering a la carte assisted-living services through outside agencies.

CONTINUING CARE RETIREMENT COMMUNITY (CCRC)–A campus environment that accommodates independent-living, congregate care, assisted-living, and skilled nursing care in one location. Persons residing in the independent-living/congregate care generally receive priority over nonresidents for entrance into the on-site assisted-living and nursing home facilities.

DAILY FEE–Typically represents the base daily cost of residing at an assisted-living facility or nursing home. Additional fees are usually assessed for more intensive services.

DENSITY–The number of units per acre.

ECONOMIC VACANCY–An existing unit that is not collecting book rent. Economic vacancies include manager's units, model units, units undergoing renovation, units being prepared for occupancy, and units being discounted. The Danter Company determines vacancies based on a *market vacancy* standard (see *vacancy*).

EFFECTIVE MARKET AREA (EMA)[SM] –The geographic area from which a proposed development is expected to draw between 60% and 70% of its support. Also the area from which an existing project actually draws 60% to 70% of its support. An EMA is determined based on the area's demographic and socioeconomic characteristics, mobility patterns, and existing geographic features (i.e. a river, mountain, or freeway).

EMPTY-NESTER–An older adult (age 55 or over). Typically, households in this age group contain no children under 18.

ENTRANCE FEE–A large advance payment to a retirement center which ensures that the resident will be provided with long-term shelter and care. Typically, several days of nursing care are included on an annual basis.

EXTERNAL MOBILITY–Households moving to an area from well outside a market area.

FIELD SURVEY–The process of visiting existing developments as part of the information-gathering process. Each project listed in this survey has been visited on-site by an analyst employed by The Danter Company, unless specified otherwise. Also the name of the section detailing information gathered during the field trip.

HOUSING DEMAND ANALYSIS (HDA)[SM]–A statistical analysis of the relationship of an area's housing demand to its housing supply. This is provided at the county level. The purpose of this analysis is to place the overall housing market within the context of housing demand.

INDEPENDENT-LIVING–People who reside in their owner-occupied residences are considered to be living independently, as are people who live in market-rate apartment projects. In retirement facilities, independent- living facilities are typically apartments or cottages, and are almost always a portion of a large development with other levels of care.

INTERNAL MOBILITY–Households moving within the same market area.

INTERMEDIATE NURSING CARE–Provides services which are less intensive than the kinds of services provided by a skilled nursing facility or a hospital. Intermediate facilities are licensed by the state and may participate in the Medicaid program.

MARKET VACANCY–See *vacancy.*

MEDIAN RENT–The midpoint in the range of rents for a unit type at which exactly half of the units have higher rents and half have lower rents.

MEDICAID–A state administered program that provides for the certification of nursing facilities and intermediate care facilities for the mentally retarded, as eligible for Medicaid reimbursement payment under Title XIX of the Social Security Act.

MEDICARE–A federal program that provides for the certification of skilled nursing facilities as eligible for Medicare insurance payment under Title XVIII of the Social Security Act.

MSA—Metropolitan Statistical Area. Denotes an area associated with an urban area. MSA determinations are made by the Census Bureau based on population and interaction. Nonurban areas included in an MSA are marked by a high rate of commuting and interaction.

NET ABSORPTION—The total number of units absorbed when accounting for turnover.

NURSING HOME—Provides the most constant level of care for older adults/retirees. Shelter, meals, utilities, house keeping, laundry service, and a social program (adapted to the residents' abilities) are included in the monthly fee. Additionally, 24-hour nursing care is provided. Payment of medication fees is the responsibility of the resident.

100% DATA BASE—When The Danter Company conducts a field survey, we gather data on all (100%) of the elderly residential facilities in an EMA. This methodology allows us to examine the market at all price and amenity levels in order to determine market rents and the most competitive properties.

PMSA—Primary Metropolitan Statistical Area. Used for Metropolitan Statistical Areas that have been combined with other adjacent MSAs into a larger Consolidated MSA. Each PMSA is defined in the same manner as a standard MSA (see *MSA*).

PRIVATE BED—A single-occupied unit within an assisted-living facility or nursing home.

PRIVATE PAY—Nursing home residents that pay for their accommodations through their own estate.

PROJECT AMENITY—An amenity that is available for all residents of a community. Project amenities include laundry facilities, exercise rooms, arts/crafts rooms, dining rooms, etc.

RADIAL ANALYSIS—An analysis focusing on the area within a set distance of a site (usually 1, 3, 5, or 10 miles). Such analyses usually disregard mobility patterns, geographic boundaries, or differences in socioeconomic characteristics which separate one area from another.

REPLACEMENT ABSORPTION—The number of tenants necessary for a project to attract to counteract the number of tenants who chose to break or not renew their lease.

RESIDENTIAL CARE FACILTIY (RCF)—See Assisted-Living Licensure

SKILLED NURSING CARE—Generally includes complicated nursing procedures such as chemotherapy, ventilators, complex dressings, and intravenous medications. Skilled nursing facilities are state licensed and may participate in Medicare and Medicaid programs.

TURNOVER—Units whose tenants choose to break or not renew their lease.

UNIT AMENITIES—Amenities available within an individual unit, or only to individual tenants. For example, a microwave or balcony are considered unit amenities because they are generally available only to individual tenants.

UNIT TYPE—Based on the number of bedrooms: studio, one-bedroom, two-bedroom, etc.

UPPER-QUARTILE RENTS—The rent range including the 25% of units at the high end of the range scale.

VACANCY—As used by The Danter Company, a vacancy is a unit or bed available for immediate occupancy. Manager's units and model units are not counted as vacant units, nor are units that are unrentable due to excessive damage or renovation. This definition of vacancy is often referred to as a market vacancy and is different from an economic vacancy (see economic vacancy).

Exhibit VI

Maryland Department of Assessments and Taxation
FREDERICK COUNTY
Real Property Data Search (2007 vw2.3d)

Go Back
View Map
New Search

Account Identifier: **District** - 02 **Account Number** - 218755

Owner Information

Owner Name:	TRANQUILLITY AT FREDERICKTOWNE LIMITED PARTNERSHIP	**Use:**	COMMERCIAL
		Principal Residence:	NO
Mailing Address:	6441 JEFFERSON PIKE FREDERICK MD 21703-7039	**Deed Reference:**	1) / 2434/ 623 2)

Location & Structure Information

Premises Address	**Legal Description**
JEFFERSON PIKE	LOT 2
FREDERICK 21701	2.50 ACRES
	ADVENTIST SUB.

Map	Grid	Parcel	Sub District	Subdivision	Section	Block	Lot	Assessment Area	Plat No:
77	7	3					2	3	**Plat Ref:** 63/ 50

Special Tax Areas	**Town**	FREDERICK CITY
	Ad Valorem	FRED CITY DIST 1 FIRE TAX
	Tax Class	

Primary Structure Built	Enclosed Area	Property Land Area	County Use
2000	42,489 SF	2.50 AC	000000

Stories	Basement	Type	Exterior

Value Information

	Base Value	Value As Of 01/01/2009	Phase-in Assessments As Of 07/01/2009	As Of 07/01/2010
Land	544,500	544,500		
Improvements:	4,397,500	4,528,000		
Total:	4,942,000	5,072,500	4,985,500	5,029,000
Preferential Land:	0	0	0	0

Transfer Information

Seller:	CHESAPEAKE CONFERENCE ASSOC. OF	**Date:**	06/19/1998	**Price:**	$280,000
Type:	UNIMPROVED ARMS-LENGTH	**Deed1:**	/ 2434/ 623	**Deed2:**	
Seller:		**Date:**		**Price:**	
Type:		**Deed1:**		**Deed2:**	
Seller:		**Date:**		**Price:**	
Type:		**Deed1:**		**Deed2:**	

Exemption Information

Partial Exempt Assessments	Class	07/01/2009	07/01/2010
County	000	0	0
State	000	0	0
Municipal	000	0	0

Tax Exempt: NO
Exempt Class:

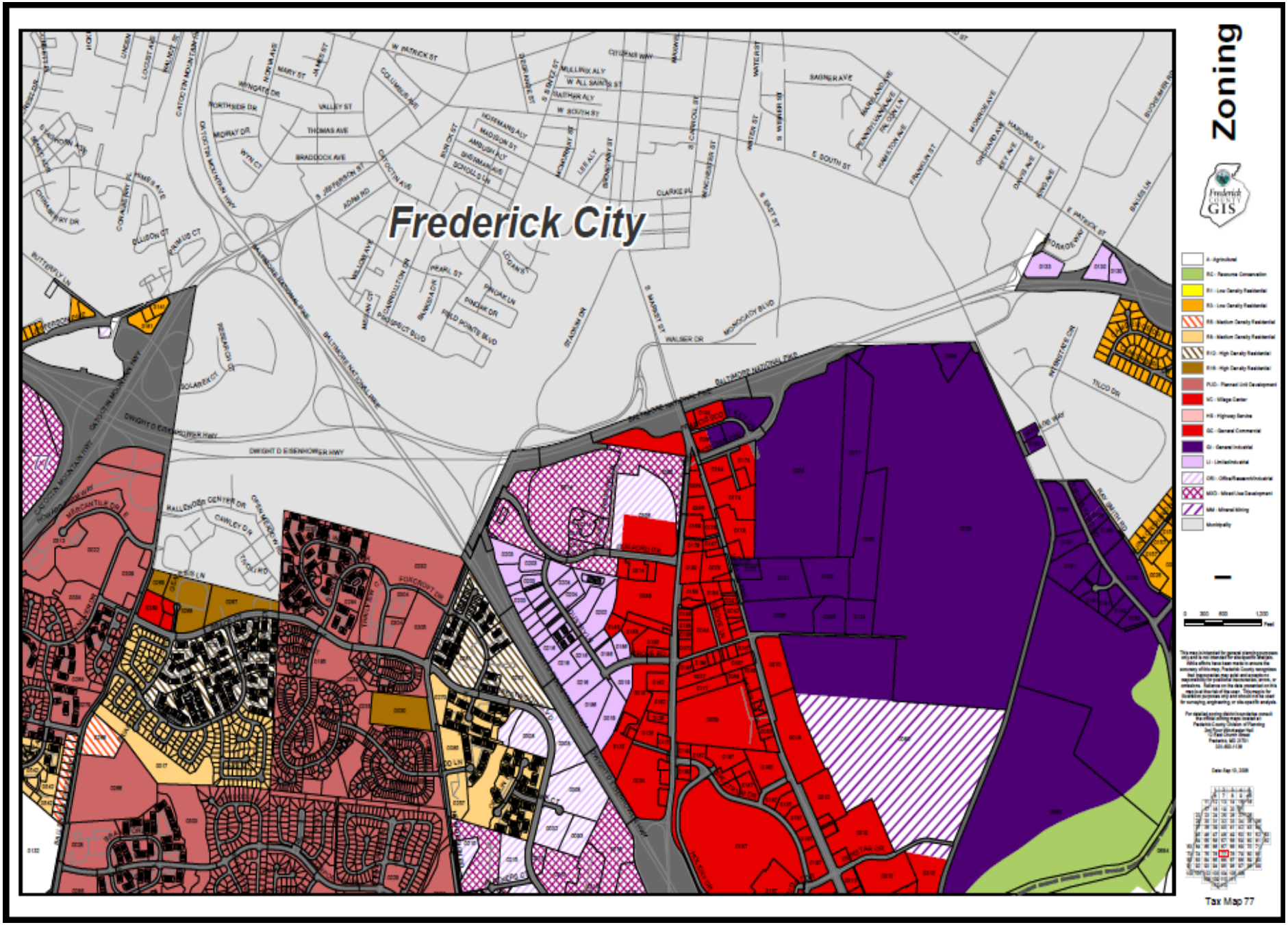
Special Tax Recapture:
* NONE *

Maryland Department of Assessments and Taxation
FREDERICK COUNTY
Real Property Data Search

Go Back
View Map
New Search

District - 02**Account Number** - 218755

Exhibit VII


Frederick City
Zoning
Frederick County GIS
A - Agricultural
RC - Resource Conservation
R1 - Low Density Residential
R3 - Low Density Residential
R4 - Medium Density Residential
R4A - Medium Density Residential
R10 - High Density Residential
R18 - High Density Residential
PUD - Planned Unit Development
VC - Village Center
HS - Highway Service
GC - General Commercial
GI - General Industrial
LI - Limited Industrial
ORI - Office/Research/Industrial
MXD - Mixed Use Development
MM - Mineral Mining
Municipality
Tax Map 77

Zoning District: Open Space and Institutional

Uses	RC	A	R1	R3	R5	R8	R12	R16	VC	HS	GC	ORI	LI	GI
Assisted Living Facility			PS	PS	PS	PS	PS	PS	PS		PS			

Since Assisted Living Facilities are PS, it is defined as "Principal permitted use subject to site development plan approval. See §§ 1-19-2.160, and 1-19-3.300 through 1-19-3.300.4"
Which means that the following procedure must be followed:
DIVISION 3. SITE PLAN REVIEW
§ 1-19-3.300. PURPOSE AND INTENT.

(A) The Board of County Commissioners has determined that certain uses require site development plan review and approval by the Planning Commission (see § 1-19-2.160).

(B) Site plan review is intended to promote safe and efficient development that maximizes compatibility and connections with existing or anticipated surrounding land uses and the natural environment through careful consideration of site development, transportation and parking, public utilities, natural features, and common areas, as required by this chapter.

(Ord. 09-22-526, 7-14-2009)
§ 1-19-3.300.1 REVIEW AND APPROVAL PROCEDURES.

(A) A use subject to site development plan approval as required in § 1-19-5.310 (Use Table) or subject to the site plan review process as otherwise required in this chapter shall be reviewed through 1 of 3 procedures to ensure that the proposed development complies with the requirements of this chapter. The 3 procedures are:

(1) Type I - Planning Commission. The purpose of the Type I - Planning Commission process is to provide for development review involving standards for design or review of uses permitted by this chapter which may be complex in nature requiring interpretation of County Comprehensive Plan policies or the requirements of the Frederick County Code. The Type I application shall be circulated for multi- agency review prior to Planning Commission review. Type I - Planning Commission review and approval is required for all of the following:

(a) Applications for site development plan approval where review and approval is not provided for through the Type II - Limited or Type III - Administrative site plan review processes.

(b) Modifications to a Planning Commission approved site development plan involving an increase in building height or number of floors; modifications to landscaping or screening that reduce the number of plantings or opacity required in the initial Type I - Planning Commission approval; requests for reduction in open space square footage; change in the type or square footage of an amenity; and modifications that increase the number of required parking and loading spaces.

(2) Type II - Limited. The purpose of the Type II - Limited process is to provide for development review and approval by Planning Commission authorized representatives based on standards specified in the zoning ordinance. The Type II - Limited application shall be processed at staff level and circulated for multi-agency review. Type II - Limited applications shall be restricted to modifications provided through the Type III - Administrative process or any one or more of the following minor modifications to Planning Commission approved site development plans provided that the modification does not require Planning Commission review of adequate public facilities, forest resource ordinance, or stormwater management requirements:

(a) Minor modifications to utility location;

(b) Minor modifications to parking and loading design required by physical site constraints that has no detrimental impact upon or that improves bicycle, pedestrian and traffic safety or circulation;

(c) Building footprint modifications:

1. Between 201 square feet and 2,000 square feet not resulting in an increase in square footage; or

2. Not to exceed a total of 2,000 square feet or 10% of the square footage approved by the Planning Commission, whichever is less;

(d) Minor landscaping modifications that do not constitute a material alteration of the Planning Commission approved site development plan and that do not require a Type I Planning Commission approval as provided in § 1-19-3.300.1(A)(1);

(e) Minor modifications to pedestrian pathway location, open space or amenity design to improve access, safety, or efficiency, that do not require Type I Planning Commission approval as provided in § 1-19-3.300.1(A)(1).

(3) Type III - Administrative. The purpose of the Type III - Administrative process is to provide for development review and approval by Planning Commission authorized representatives based on standards specified in the zoning ordinance. The Type III application shall be processed as a staff level single agency review and shall be restricted to any one or more of the following minor modifications, provided that the modification does not require adequate public facilities, forest resource ordinance, or stormwater management review:

(a) A change in use approved by the Zoning Administrator;

(b) Building footprint modifications of not more than 200 square feet provided that there is no increase in overall building footprint square footage;

(c) Change of permitted and approved signs;

(d) Minor landscaping modifications involving substitution of species that do not require Type I Planning Commission approval as provided in § 1-19-3.300.1(A)(1); or

(e) Other minor modifications as established by the Zoning Administrator.

(B) An applicant may request a Type I - Planning Commission review at any time during a Type II - Limited or Type III - Administrative review process.

(C) Planning Commission authorized representatives may require a Type I - Planning Commission or Type II - Limited review for a site development plan application permitted through the Type II - Limited or Type III - Administrative review process, where it is determined that the proposed modification may have an adverse impact on surrounding properties, public facilities, or is inconsistent with the initial Type I - Planning Commission approval.

(D) Each application involving site development plan approval, together with the required fee (§1-19-2.130) and other required plan submissions, including, but not limited to adequate public facilities ordinance studies, forest resource ordinance plans, sight-distance studies, stormwater management concepts and the information described below, shall be submitted to the Division of Permitting and Development Review. The Division of Permitting

and Development Review shall not accept an application if it is determined that the information submitted is incomplete.

After the Division of Permitting and Development Review deems that the application is complete, the site development plan will be scheduled for a Technical Advisory Committee (TAC) meeting for review by agency representatives and representatives of the applicant. The applicant may not file for a zoning certificate and building permit with the Office of Permits and Inspections before receiving site plan approval. Applications for site plan review shall be void if approval has not been received within 3 years, beginning on the date the application was accepted. A void application shall have no further status and must be resubmitted.

(1) For all Type I - Planning Commission site plan review applications, the applicant shall place a sign within 10 feet of each property line that abuts a public road. If the property does not abut a public road, a sign shall be placed in such a manner so that it may be most readily seen by the public.

(a) The Division of Permitting and Development Review shall provide the required sign(s).

(b) The sign(s) shall be placed on the property at least 30 days prior to the initial Planning Commission meeting at which the Type I - Planning Commission site development plan is to be considered.

(c) The sign(s) shall be affixed to a rigid board, protected from the weather, and maintained at all times by the applicant until the initial Planning Commission meeting is held.

(d) The applicant shall file an affidavit certifying that the sign(s) has been posted and maintained for the required time period.

(2) If any person removes or tampers with a posted sign during the above 30 day posting period, that person, upon conviction, shall be guilty of a misdemeanor, as provided in § 1-19-2.220.

(E) The Planning Commission may attach conditions to the approval of a site development plan in order to ensure that the proposal will conform to the provisions of this chapter.

(F) Approval of a site development plan submitted under the provisions of this division shall expire 3 years after the date of the decision by the Planning Commission or its authorized representatives unless construction has begun as defined by "start of construction" in § 1-19-11.100. The length of site plan approval may not exceed the length of the approval under the Adequate Public Facilities Ordinance (APFO) if APFO approval is required.

(Ord. 77-1-78, § 40-73(B), (C), 1-24-1977; Ord. 82-19-263, 9-7-1982; Ord. 85-11-343, 3-26-1985; Ord. 87-22-454, 8-4-1987; Ord. 94-06-101, 5-31-1994; Ord. 96-17-169, 8-6-1996; Ord. 00-21-263, § 1, 7-18-2000; Ord. 02-21-317, 10-15-2002; Ord. 05-27-388, 10-25-2005; Ord. 08-26-502, 10-14-2008; Ord. 09-22-526, 7-14-2009)

§ 1-19-3.300.2 CONCEPT PLAN.

(A) Where specified within the Zoning Ordinance, concept plan approval shall be required as the first step in the development approval process (§ 1-19-7.500(D)).

(B) The concept plan shall include the following elements:

(1) An application in a form acceptable to the Division of Permitting and Development Review;

(2) A map drawn at 1 inch equals 100 feet or greater scale showing property lines, all existing natural and man-made features, and a vicinity map;

(3) A map identifying the type and location of all proposed uses including:

(a) The generalized location, footprint, and exterior elevation of all proposed buildings including height, number of stories, number of attached units, and the location of doors and windows;

(b) All proposed parking locations and generalized information regarding the use of an alternate parking plan including shared, joint, community, or other means;

(c) The generalized location of all roadways, sidewalks, and other public or private facilities adjacent to and necessary for development of the site;

(4) Existing structures on all lots facing and adjacent to the proposed development including the height, setbacks;

(5) Photographs of the subject parcel and all facing and adjacent lots and structures used to determine height and setbacks.

(Ord. 07-27-467, 6-19-2007; Ord. 08-26-502, 10-14-2008)

§ 1-19-3.300.3 SITE PLAN REVIEW APPLICATION.

An application submitted for site plan review shall include the following information:

(A) A map of the subject property at a convenient scale;

(B) A vicinity map at a scale of 1 inch equals 2,000 feet or more to the inch, indicating the location of the property with respect to surrounding property and streets. The map will show all streets and highways within 2,000 feet of the applicant's property;

(C) A topographic map of the property, at a minimum of 5 foot contour intervals, unless otherwise specified, showing the existing and proposed regrading surface of the land and the location of natural features, such as streams, rock outcrops, and wooded areas;

(D) In accordance with the Division of Permitting and Development Review checklist requirements a site development plan showing all existing and proposed improvements including but not limited to: proposed use; location and height of all buildings; location of existing and proposed rights-of-way; location and dimensions of all parking areas, drive aisles, and truck loading areas with access and egress drives thereto; location of sidewalks, pedestrian crossings, and existing or planned transit stops; location and type of any outdoor storage; location and type of any recreation facilities; proposed grading, landscaping, and screening plans; description of proposed method to provide buffer areas and landscaping where required; location, design and height of outdoor lighting facilities; building elevation for the purpose of depicting the location, size, and type of all signs; and the location, size and type of all proposed storm water management facilities;

(E) A computation of the total areas of the lot, including the building floor area, building floor area for each type of proposed use, the roads and parking, green area, landscaped and screened areas, recreation areas as required, and total lot coverage;

(F) Commercial or industrial uses will designate:

(1) The specific uses proposed and the number of employees for which buildings are designed;

(2) The type of power to be used for any manufacturing processes;

(3) Type of wastes or by-products to be produced by any process and proposed method of disposal of such wastes or by-products; and

(4) Such other information as may be required by the Planning Commission or its authorized representatives to determine compliance with the requirements with this chapter and the impact of a particular use on adjoining properties;

(G) (1) Soil type(s) information shall be provided and appropriate boundaries shown. In the event "wet soils" are located on or within 100 feet of any proposed residential site plan, a soils delineation report shall be prepared by a soils scientist or professional engineer registered in the State of Maryland. The Planning Commission may waive this requirement if the "wet soils" are located within open space areas. The soils report shall be submitted for review by SCD prior to approval of the site plan by the Planning Commission or its authorized representatives unless a soils report was completed earlier within the development review process.

(2) If residential structure(s) with basements are proposed within "wet soils" a geotechnical report is required to be submitted by a professional engineer registered in the State of Maryland. A note shall be placed on the site plan that all construction shall be in accordance with the findings of the geotechnical report.

(3) Site plans may be prepared and submitted by an applicant. The submitted information, if found deficient or in error, may be required to be resubmitted over the certification of an engineer, architect, landscape architect, land surveyor or other certified professional. Site plans will be prepared to a scale of not smaller than 1 inch equals 100 feet, unless approved by the Division of Permitting and Development Review; the sheet or sheets shall be no less than 18 inches by 20 inches nor more than 24 inches by 36 inches, including a 1-1/2 inch margin for binding along the left edge. A site plan may be prepared on one or more sheets, in which case, match lines and an index sheet shall be provided.

(Ord. 77-1-78, § 40-73(B), (C), 1-24-1977; Ord. 82-19-263, 9-7-1982; Ord. 85-11-343, 3-26-1985; Ord. 87-22-454, 8-4-1987; Ord. 94-06-101, 5-31-1994; Ord. 96-17-169, 8-6-1996; Ord. 00-21-263, § 1, 7-18-2000; Ord. 02-21-317, 10-15-2002; Ord. 05-27-388, 10-25-2005; Ord. 08-26-502, 10-14-2008; Ord. 09-22-526, passed 7-14-2009)

§ 1-19-3.300.4 APPROVAL CRITERIA.

Site development plan approval shall be granted when the Planning Commission or its authorized representatives find that the application for development has met the following criteria based upon the standards and provisions of this chapter:

(A) *Site development.* Existing and anticipated surrounding land uses have been adequately considered in the design of the development and negative impacts have been minimized through such means as building placement or scale, landscaping, or screening, and an evaluation of lighting. Anticipated surrounding uses shall be determined based upon existing zoning and land use designations.

(B) *Transportation and parking.* The transportation system and parking areas are adequate to serve the proposed use in addition to existing uses by providing safe and efficient circulation, and design consideration that maximizes connections with surrounding land uses and accommodates public transit facilities. Evaluation factors include: on-street parking impacts, off-street parking and loading design, access location and design, vehicular, bicycle, and pedestrian circulation and safety, and existing or planned transit facilities.

(C) *Public utilities.* Where the proposed development will be served by publicly owned community water and sewer, the facilities shall be adequate to serve the proposed development. Where proposed development will be served by facilities other than publicly owned community water and sewer, the facilities shall meet the requirements of and receive approval from the Maryland Department of the Environment/the Frederick County Health Department.

(D) *Natural features.* Natural features of the site have been evaluated and to the greatest extent practical maintained in a natural state and incorporated into the design of the development. Evaluation factors include topography, vegetation, sensitive resources, and natural hazards.

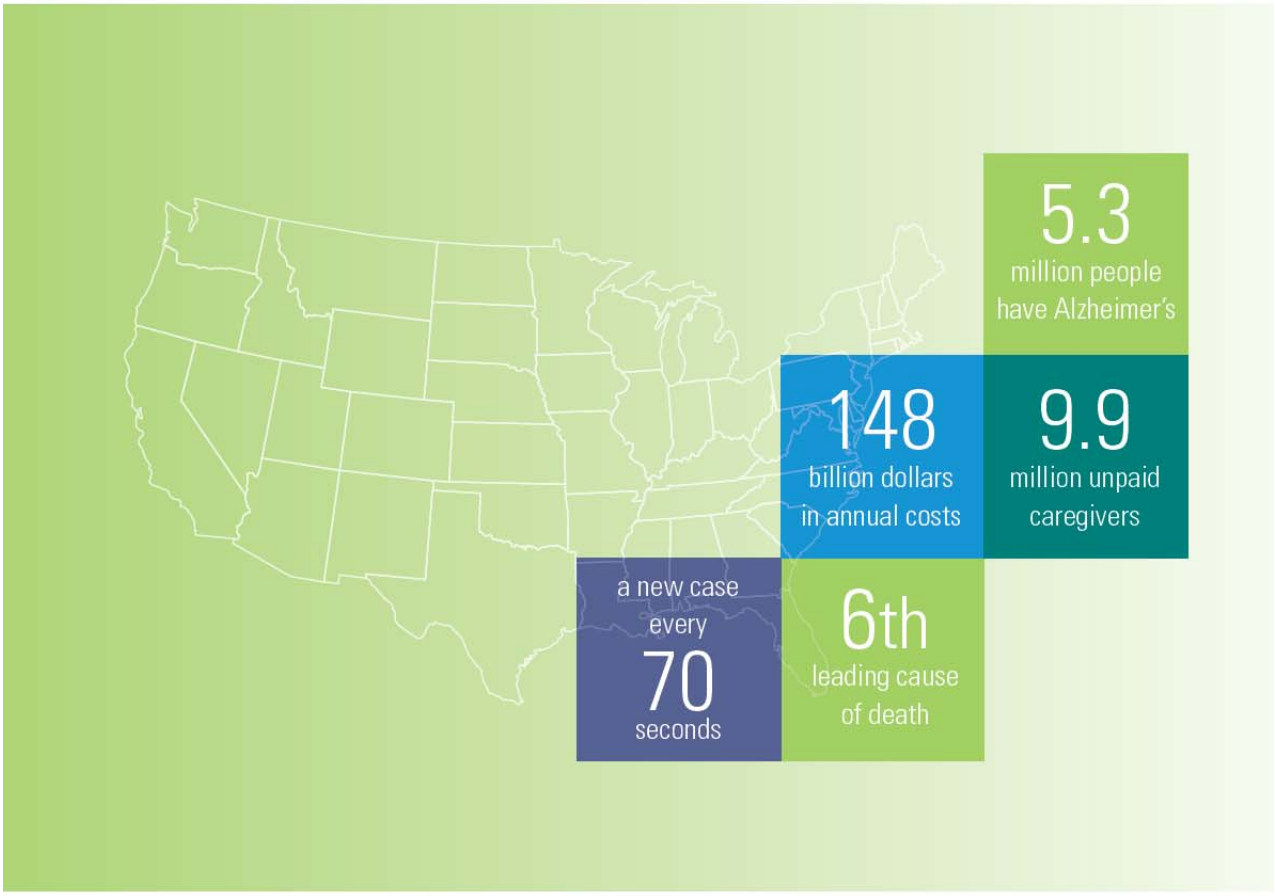
(E) *Common areas.* If the plan of development includes common areas and/or facilities, the Planning Commission as a condition of approval may review the ownership, use, and maintenance of such lands or property to ensure the preservation of such areas, property, and facilities for their intended purposes.

(Ord. 77-1-78, § 40-73(D), 1-24-1977; Ord. 08-26-502, 10-14-2008; Ord. 09-22-526, passed 7-14-2009)

Exhibit VIII

2009 Alzheimer's Disease Facts and Figures

Executive Summary



alzheimer's association

Alzheimer's is the sixth leading cause of death in the United States.

2009 Alzheimer's Disease Facts and Figures

Executive Summary

In 2009, an estimated 5.3 million Americans have Alzheimer's disease, a form of dementia that is associated with memory loss. However, as the disease advances, increased nerve cell death in the brain also causes individuals to develop problems with basic physical functions such as walking and swallowing. Ultimately, the disease is fatal, with death typically occurring between four and six years after diagnosis.

Alzheimer's is the sixth leading cause of death in the United States and the fifth leading cause of death for those aged 65 and older. Alzheimer's is not a normal part of aging, but increasing age is the greatest risk factor for the disease. Therefore, the United States can expect an unheralded increase in the number of individuals with the disease as baby boomers reach their mid-60s. This will be accompanied by an enormous increase in costs to Medicare and Medicaid and to businesses, which experience decreased productivity when Alzheimer caregivers reduce work hours to take care of their loved ones with the disease. Alzheimer's and other dementias cost Medicare, Medicaid and businesses a total of $148 billion annually.

The financial and societal consequences of Alzheimer's disease will be magnified in 2030, when an estimated 7.7 million Americans will have Alzheimer's, and will be magnified further still in 2050, when approximately 11–16 million Americans will have the disease.

Historical Influences on Alzheimer Prevalence

To understand what the United States faces today and will face in the future, one must understand the history of research into Alzheimer's disease, the first case of which was diagnosed more than 100 years ago. For decades, Alzheimer's was considered hopeless, and research languished. This changed in the 1970s, with research advances dramatically gaining speed beginning in the 1990s. Despite an immense increase in knowledge about the biological mechanisms that may lead to Alzheimer's, no treatments are available to slow or stop the brain cell death that causes the disease to progress. In the last 16 years, the U.S. Food and Drug Administration has approved five drugs that slow the worsening of symptoms, providing benefit for about six to 12 months for half the people who take them, but these drugs do not stop brain cell death.

The need for better treatments is especially apparent when one compares death statistics for Alzheimer's with death statistics for other top causes of death. Between 2000 and 2006, deaths attributed to Alzheimer's disease increased 47.1 percent. In contrast, deaths attributed to heart disease decreased 11.5 percent and deaths attributed to stroke decreased 18.1 percent.

Percentage Changes in Selected Causes of Death, 2000 and 2006

Cause	2000	2006	Percentage Change
Heart disease	710,760	629,191	-11.5
Breast cancer	41,200	40,970	-0.6
Prostate cancer	31,900	27,350	-14.3
Stroke	167,661	137,265	-18.1
Alzheimer's disease	**49,558**	**72,914**	**+47.1**

Created from data from the following sources: National Center for Health Statistics. *Deaths: Final Data for 2000*, National vital statistics reports, vol. 50, no. 15. Hyattsville, Md.: National Center for Health Statistics; 2002. American Cancer Society. *Cancer Facts and Figures 2000*. Atlanta: American Cancer Society; 2000. American Cancer Society. *Cancer Facts and Figures 2006*. Atlanta: American Cancer Society; 2006. Heron, MP, Hoyer, DL, Xu, J, Scott, C, Tejada-Vera, B. Deaths: *Preliminary Data for 2006*. National vital statistics reports, vol. 56, no. 16. Hyattsville, Md.: National Center for Health Statistics; 2008.

Most researchers believe that the earlier one can intervene in the development of Alzheimer's disease, the greater the chances of delaying or stopping additional damage to the brain. Extensive research efforts are under way to detect Alzheimer's at its earliest stages. One population of special interest is individuals with mild cognitive impairment (MCI). MCI is part of the continuum of brain health that features normal cognitive function at one end and cognitive impairment such as Alzheimer's at the other. Individuals with MCI have problems with memory, language or another essential cognitive function that are severe enough to be noticeable to others and show up on tests, but not severe enough to interfere with daily life. While some individuals with MCI revert to normal cognitive function or do not go on to develop Alzheimer's, those with MCI are at higher risk of developing the disease. Although an issue of scientific debate, some researchers believe MCI is a precursor to Alzheimer's or a transitional state to early Alzheimer's disease. If this proves to be the case, MCI will contribute to the overall number of cases of Alzheimer's and to the potential of Alzheimer's to overwhelm perilously scarce health care resources.

Between 10 and 20 percent of individuals aged 65 and older have MCI. Among those whose MCI symptoms cause them enough concern to visit a physician, as many as 15 percent per year go on to develop dementia. From this estimate, nearly half of all people who have visited a physician about MCI symptoms will develop dementia in three or four years. Individuals with MCI are at higher risk of progressing more rapidly to Alzheimer's if they experience biological changes associated with the disease, such as decreased brain volume; decreased ability of the brain to use glucose, its key fuel source; and abnormal levels of certain proteins in cerebro-spinal fluid. These biological changes are referred to as biomarkers and are the subject of extensive research. If this research results in treatments that are successful in individuals showing early symptoms of MCI, they may also be helpful for individuals who haven't yet developed symptoms but are at high risk based on the presence of Alzheimer biomarkers.

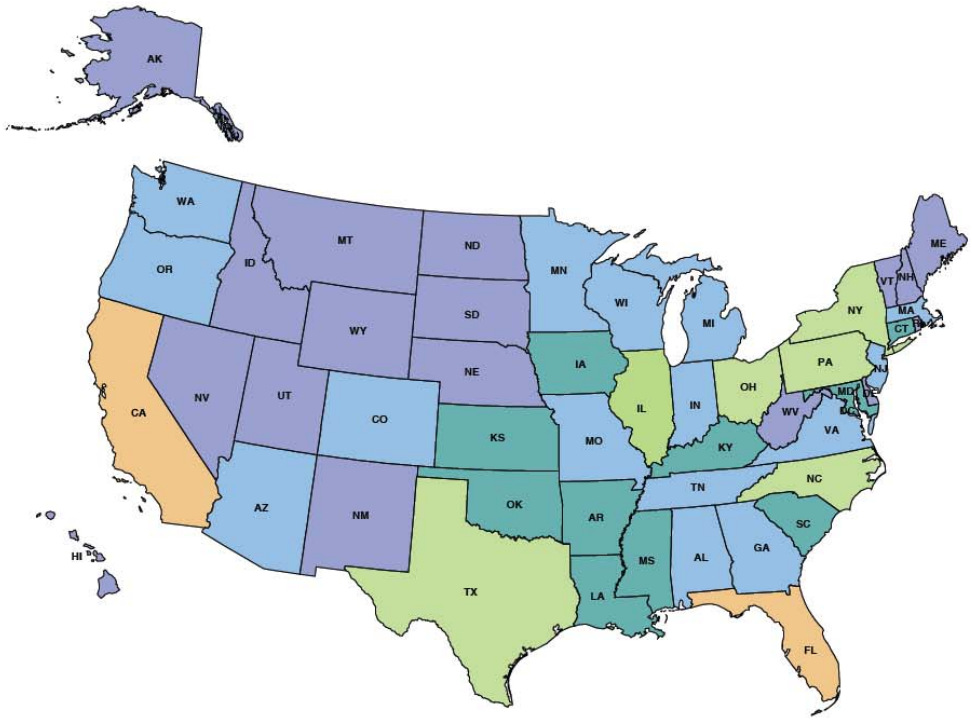
Such a treatment does not exist today. Today, every 70 seconds someone in the United States develops Alzheimer's disease. By mid-century, someone will develop Alzheimer's every 33 seconds. One in eight people aged 65 and older has Alzheimer's disease. The risk is even higher for those aged 85 and older, a population whose numbers are expected to grow in the years and decades ahead. Another segment of the population affected by Alzheimer's is those younger than age 65. These individuals with younger-onset Alzheimer's account for 200,000 of the 5.3 million Americans with the disease.

Impact on States and Caregivers

The number of Americans with Alzheimer's is increasing each year because of the steady growth of the older population. Each region of the country will experience unprecedented growth in the numbers of individuals with Alzheimer's. Between 2000 and 2025, the South, Midwest and West are expected to experience 30–50 percent increases in the number of people with Alzheimer's. In some states (Alaska, Colorado, Idaho, Nevada, Utah and Wyoming), the number of

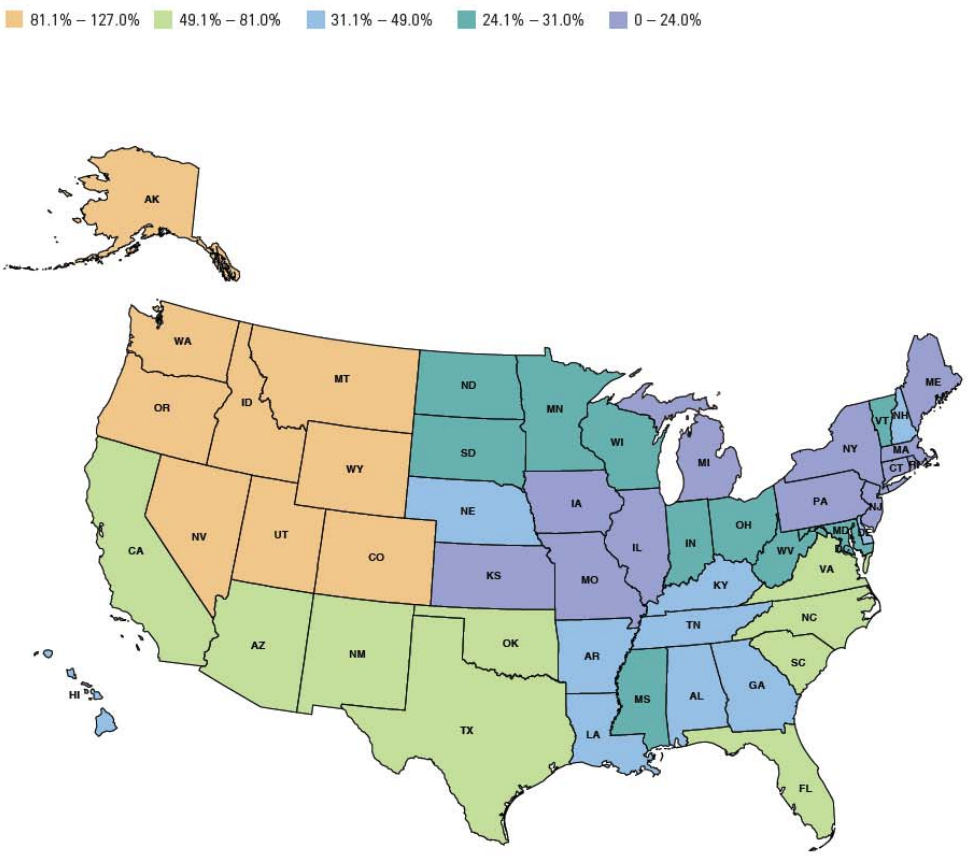
Estimated Number of People with Alzheimer's by State, 2025

500,000+ 201,000 – 499,000 101,000 – 200,000 51,000 – 100,000 50,000 or less



Created from data from Hebert, LE, Scherr, PA, Bienias, JL, et al. "State-specific projections through 2025 of Alzheimer's disease prevalence." *Neurology* 2004; 62:1645.

Projected Changes Between 2000 and 2025 in Alzheimer Prevalence by State



Created from data from Hebert, LE, Scherr, PA, Bienias, JL, et al. "State-specific projections through 2025 of Alzheimer's disease prevalence." *Neurology* 2004; 62:1645.

people with Alzheimer's is expected to double. The impact on regions' and states' healthcare systems will be significant. Additional state-specific data are needed to help states address the challenges of a growing Alzheimer population. One mechanism for obtaining these data is to incorporate Alzheimer-related questions into the Behavioral Risk Factors Surveillance System telephone surveys conducted annually by each state with assistance from the U.S. Centers for Disease Control and Prevention. A few states have already incorporated questions regarding Alzheimer's into their surveys, but the adoption of this practice by additional states would enable individual states to better prepare for the specific needs of their residents who have Alzheimer's or are Alzheimer caregivers.

The increase in the number of individuals with Alzheimer's will also take an extraordinary toll on those who care for them. An estimated 9.9 million Americans provide unpaid care for people with Alzheimer's or other dementia. In 2008, they provided 8.5 billion hours of unpaid care, a contribution to the nation valued at $94 billion. Care was valued at more than $1 billion in each of 31 states. Unpaid caregivers in California, Florida, New York, Pennsylvania and Texas provided care valued at more than $4 billion.

Sixty percent of caregivers are women, and 87 percent of caregivers are relatives of the individual with Alzheimer's. For 57 percent of caregivers, the individual is a parent or parent-in law; for 11 percent, the individual is a grandparent; and for 6 percent the individual is a spouse. Caregivers' average age is 48, but they range in age from very young to very old. Nineteen percent are under age 35; 29 percent are age 35–49; 37 percent are age 50–64; and 14 percent are aged 65 and older. An estimated 250,000 American children age 8–18 are unpaid caregivers for a person with Alzheimer's or other dementia.

Although memory loss is the best known symptom, Alzheimer's also causes loss of judgment, orientation and ability to understand and communicate effectively, and frequently, changes in personality and behavior. Individuals require increasing levels of supervision and personal care as the disease progresses. This can result in caregiver stress. More than 40 percent of caregivers rate the emotional stress of caregiving as high or very high, and about one-third have symptoms of depression. In addition, caregivers are more likely than non-caregivers to have reduced immune function, slow wound healing, new hypertension and new coronary artery disease.

Caregiving also takes a financial toll, with many individuals having to quit work, reduce their work hours or take time off because of caregiving responsibilities. The financial loss to caregivers can extend beyond smaller paychecks, with half of caregivers spending more than $200 out of pocket each

month on caregiving-related expenses.

Financial Impact on Individuals and the Health Care System

The financial impact of Alzheimer's on caregivers is but one part of the overall financial impact of the disease. Individuals with Alzheimer's and other dementias have average out-of-pocket expenses totaling $2,464 annually for healthcare and long-term care services not covered by other sources. Average out-of-pocket costs are highest ($16,689 annually) for people with Alzheimer's and other dementias living in nursing homes and assisted living facilities.

Individuals with Alzheimer's and other dementias are high users of healthcare and long-term care services. In fact, they incur three times the cost for these services per year ($33,007)

Average Per Person Payments by Source for Healthcare and Long-term Care Services, Medicare Beneficiaries Aged 65 and Older, with and without Alzheimer's Disease and Other Dementias, 2004

	Beneficiaries with No Alzheimer's or Other Dementia	Beneficiaries with Alzheimer's or Other Dementia
Total payments*	$10,603	$33,007
Medicare	5,272	15,145
Medicaid	718	6,605
Private insurance	1,466	1,847
Other payers	211	519
HMO	704	410
Out of pocket	1,916	2,464
Uncompensated	201	261

* Payments by source do not equal total payments exactly due to the effect of population weighting.

Created from data from Bynum, J. *Characteristics, Costs, and Health Service Use for Medicare Beneficiaries With a Dementia Diagnosis: Report 1: Medicare Current Beneficiary Survey* (Lebanon, N.H.: Dartmouth Institute for Health Policy and Clinical Care, Center for Health Policy Research, January 2009).

as individuals without these conditions ($10,603). About half of that cost is billed to Medicare, and about 20 percent to Medicaid. Alzheimer's and other dementias cost Medicare $91 billion per year and Medicaid $21 billion. These figures will grow substantially and quickly as baby boomers reach age 65. Since the greatest risk factor for Alzheimer's is advancing age, with most cases developing in those aged 65 and older, most individuals with Alzheimer's have other age-related coexisting conditions, including hypertension, coronary heart disease, stroke and diabetes. Alzheimer's and other dementias further drive up the cost of treating each of these other conditions.

At present, no federal financial plan is in place to address the certainty of the coming leaps in Medicare and Medicaid expenses for Alzheimer's. Without such a plan—or treatments that slow or stop the disease—Alzheimer's could well bankrupt Medicare and Medicaid.

Looking to the Future

The number of Americans aged 65 and older is expected to grow because of advances in medicine and medical technology as well as social and environmental factors. This, coupled with the increase in the older population that will be created by baby boomers, who will begin to turn 65 in 2011, will result in dramatic increases in the number of new cases of Alzheimer's per year. In 2000, an estimated 411,000 new cases of Alzheimer's disease were expected to develop. That number is expected to increase to 454,000 per year by 2010; 615,000 per year by 2030; and 959,000—nearly 1 million—per year by 2050.

Who will take care of these individuals? The National Academy of Sciences estimates that an additional 3.5 million health care workers will be required by 2030 just to maintain current levels of staffing. Training in geriatrics is lacking among health care workers who provide the bulk of services to the elderly today. Less than 1 percent of physician assistants specialize in geriatrics; similar percentages of pharmacists and registered nurses have this certification. Only about 4 percent of social workers specialize in geriatrics.

Unless dramatic change occurs, health care staffing needs for individuals with Alzheimer's are anticipated to be unmet or underserved as America approaches a time of unparalleled demand for these services. Whether the healthcare professions and the country as a whole can rise to the challenge presented by unprecedented numbers of individuals with Alzheimer's is a question that remains to be answered.

The Alzheimer's Association is the leading voluntary health organization in Alzheimer care, support and research.

Our mission is to eliminate Alzheimer's disease through the advancement of research; to provide and enhance care and support for all affected; and to reduce the risk of dementia through the promotion of brain health.

Our vision is a world without Alzheimer's disease.

Alzheimer's Association
National Office
225 N. Michigan Ave., Fl. 17
Chicago, IL 60601-7633

Alzheimer's Association
Public Policy Office
1319 F. Street N.W. Suite 500
Washington, D.C. 20004-1106

1.800.272.3900
www.alz.org

alzheimer's association

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