



August 10, 2009

MEMORANDUM

TO: Ms. Karen Skepper
Anoka County Housing and Redevelopment Authority

FROM: Mr. Brian Smith
Ms. Mary Bujold
Maxfield Research Inc.

RE: Preliminary Demand Estimate for an Independent Senior Rental Housing Project
in Lexington, Minnesota

Introduction/Purpose and Scope of Research

This memorandum provides a preliminary assessment of the market potential for additional senior housing to be developed in Lexington, Minnesota. As we understand, the proposed Site location is the former City Hall.

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

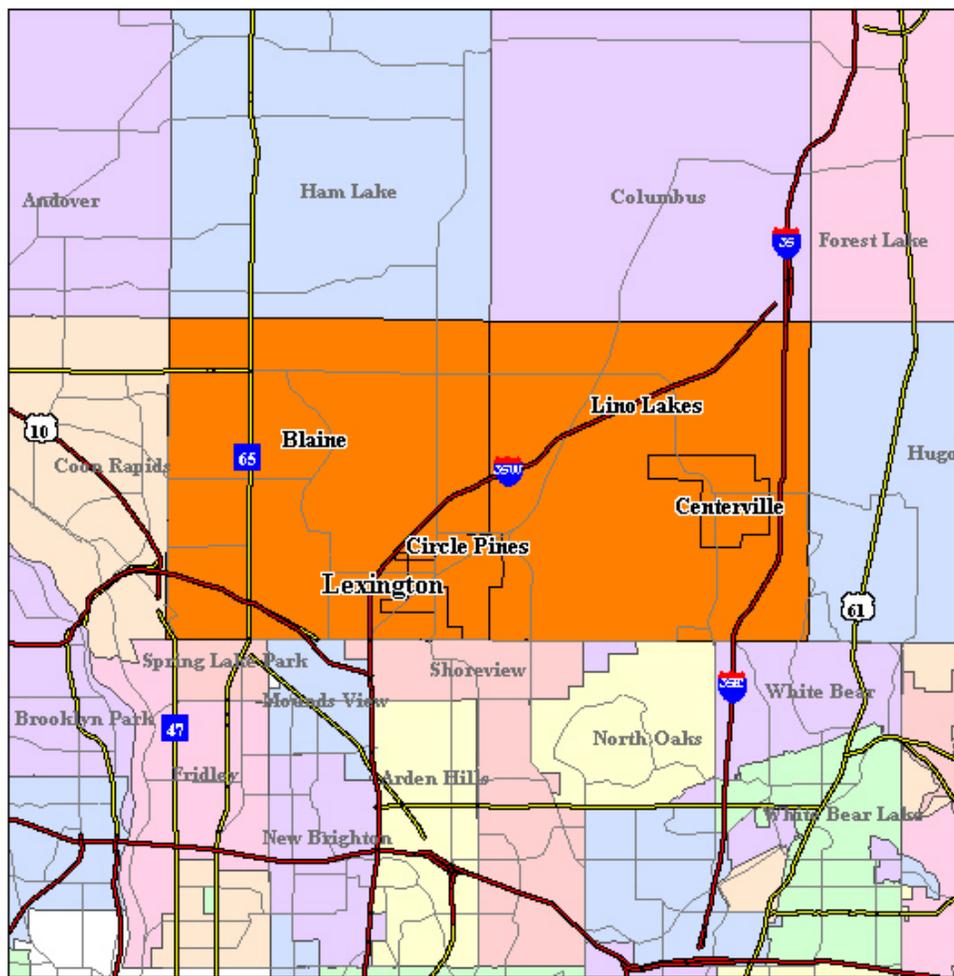
This memorandum delineates the primary draw area (“Market Area”) for senior and special needs housing in Lexington and presents an overview of the demographic and economic characteristics of the Market Area. It then inventories existing and pending senior that would be competitive with the subject development. Demand for senior and special needs housing is calculated based on the demographic, economic and competitive factors that would impact demand for additional units in the Market Area. Our preliminary analysis concludes with an estimate of the total Market Area demand that would be captured by a development on the subject Site and provides preliminary conclusions based on our findings.

Market Area Definition

Based on the location of the Site, transportation routes, man-made geographic boundaries, and our experience of the draw areas for independent senior housing, we define the primary draw (or “market”) for this Initial Market Assessment as the following group of communities: Lexington, Blaine, Centerville, Circle Pines, and Lino Lakes. The Map below illustrates the geographic areas included in the Lexington Market Area (highlighted in orange).

We estimate that approximately 80% of the market support for independent senior housing in Lexington would come from this Market Area. The remaining portion of the demand (20%) for a senior housing development in Lexington will come from outside the defined Market Area. These individuals will include people currently residing just outside the Market Area who have an orientation to the area (i.e., church, doctor, etc.); people who once resided in the area that desire to move back to be near friends and family, as well as parents of adult children living in the Market Area.

Lexington Market Area



Maxfield Research Inc.

Older Adult (Age 55+) Population and Household Trends

Tables 1 and 2 show the age distribution of people and households age 55 and older in the Lexington Market Area. Demographic information is presented for Lexington as well as for the Market Area as a whole. Data in the tables is provided by the U.S. Census and Claritas, Inc., with local adjustments calculated by Maxfield Research Inc. according to data supplied by Metropolitan Council.

The following are key trends observed in the population age distribution in Lexington and the Market Area overall:

- The Market Area is estimated to have strong growth from 2000 to 2009 with the addition of over 18,690 people (26%). However, Lexington is estimated to have declined by roughly 50 people (-2%) by 2009.
- The population is aging through the life cycle and older adult and senior age cohorts are growing rapidly. Between 2000 and 2009, the Market Area's older adult and senior population (age 55+) is estimated to have grown by about 7,650 people (90%). Roughly less than 2% of the overall growth in the 55+ population occurred in Lexington.
- The target market for independent senior housing is seniors age 65 and older. Between 2000 and 2009, this age cohort grew by 2,895 people in the Market Area, or 76%. Over the next five years, an additional 2,700 seniors age 65+ are forecast to be added to the Market Area.
- The Lexington Market Area is a newer suburban area in the Twin Cities Metro and much of its development has occurred over the past decade. New suburban areas generally have a younger population compared to urban areas or first-tier suburbs where seniors have resided for many years. Hence, the proportion of the total population that is age 55 and older is relatively low (estimated at 18% in 2009). As adult caregivers continue to reside in the Market Area, an increasing number of seniors may choose to relocate to senior housing alternatives to be near their adult children. Therefore, growth in the population overall indirectly results in additional demand for senior housing alternatives.

TABLE 1 POPULATION AGE DISTRIBUTION (AGE 55+) LEXINGTON MARKET AREA 2000-2014							
POPULATION							
Age	2000	2009	2014	2000-2009		2009-2014	
Lexington							
55 to 64	128	214	279	86	67.0%	66	30.7%
65 to 69	34	57	75	23	67.9%	18	31.1%
70 to 74	39	35	51	-4	-9.5%	15	43.4%
75 to 79	25	26	27	1	3.8%	1	5.6%
80 to 84	15	19	18	4	24.6%	-1	-4.1%
85 +	8	12	18	4	55.7%	5	43.9%
Total 55+	249	363	468	114	45.9%	105	28.8%
Total 65+	121	149	189	28	23.5%	39	26.2%
Total 75+	48	57	63	9	18.9%	6	10.8%
Tot. Pop.	2,214	2,161	2,141	-53	-2.4%	-20	-0.9%
Market Area Overall							
55 to 64	4,914	9,672	12,346	4,758	96.8%	2,674	27.6%
65 to 69	1,401	2,685	3,934	1,284	91.7%	1,249	46.5%
70 to 74	1,016	1,695	2,428	679	66.8%	733	43.2%
75 to 79	664	1,077	1,435	413	62.2%	358	33.3%
80 to 84	338	617	789	279	82.6%	172	27.9%
85 +	164	404	592	240	146.1%	188	46.6%
Total 55+	8,497	16,150	21,524	7,653	90.1%	5,374	33.3%
Total 65+	3,583	6,478	9,178	2,895	80.8%	2,701	41.7%
Total 75+	1,166	2,098	2,816	932	79.9%	719	34.3%
Tot. Pop.	71,812	90,500	96,250	18,688	26.0%	5,750	6.4%
Sources: U.S. Census Bureau; Claritas, Inc.; Metropolitan Council; Maxfield Research Inc.							

The following are key trends observed in the household age distribution in Lexington and the Market Area overall:

- The growth rate in the household base, which represents the number of housing units demanded, closely parallels the growth rate in the population base. Between 2009 and 2014, the Market Area is projected to add nearly 3,090 households age 55+, a growth rate of 32% over the five-year time period. Of this growth, approximately 65 households (27%) will be added in Lexington.
- As stated earlier, the target market for the subject development will be seniors age 65 and older. This age segment is forecast to add about 1,605 households over the next five years (4%). Approximately 2% of the Market Area's growth in the 65+ household base is forecast in Lexington.

- Overall, the Market Area will see continued demand for senior housing products due to growth forecast for older seniors and adult caregivers over the next five years, 2009 to 2014.

TABLE 2 HOUSEHOLD AGE DISTRIBUTION (AGE 55+) LEXINGTON MARKET AREA 2000-2014							
HOUSEHOLDS							
Age	2000	2009	2014	2000-2009		2008-2014	
Lexington							
55 to 64	83	133	169	50	60.8%	35	26.3%
65 to 69	23	38	50	15	66.4%	11	29.4%
70 to 74	21	25	37	4	18.2%	12	48.6%
75 to 79	28	20	22	-8	-29.8%	2	12.6%
80 to 84	16	14	15	-2	-9.5%	0	1.9%
85 +	10	10	14	0	3.5%	3	32.4%
Total 55+	181	241	306	60	33.2%	65	26.8%
Total 65+	98	108	137	10	9.8%	29	27.3%
Total 75+	54	44	51	-10	-17.6%	6	13.7%
Tot. HH	844	869	881	25	3.0%	12	1.4%
Market Area Overall							
55 to 64	2,925	5,660	7,141	2,735	93.5%	1,481	26.2%
65 to 69	796	1,630	2,367	834	104.7%	737	45.2%
70 to 74	738	1,030	1,465	292	39.6%	435	42.3%
75 to 79	325	704	925	379	116.7%	221	31.4%
80 to 84	217	413	531	196	90.1%	118	28.6%
85 +	158	252	347	94	59.4%	95	37.7%
Total 55+	5,159	9,689	12,776	4,530	87.8%	3,087	31.9%
Total 65+	2,234	4,028	5,635	1,794	80.3%	1,606	39.9%
Total 75+	700	1,369	1,803	669	95.5%	434	31.7%
Tot. HH	24,248	32,000	34,600	7,752	32.0%	2,600	8.1%

Sources: U.S. Census Bureau; Claritas, Inc.; Metropolitan Council; Maxfield Research Inc.

Older Adult and Senior Household Incomes

Table 3 shows incomes for older adult and senior households in the Market Area in 2009 and 2014 based on information provided by Claritas, Inc. with adjustments calculated by Maxfield Research Inc. The data in Table 3 helps determine demand for senior housing based on the size of the market at specific income levels. This data is incorporated into our demand calculations, which are presented in a following section. It is important to note that the data does not account for the asset base of senior households or supplemental income that a senior household could gain from the proceeds of a sale of a home or from contributions from family members.

Many of the seniors who would income-qualify for affordable senior housing may use other resources, such as the proceeds of the sale of a home. The data in Table 3 helps determine the demand for market rate and affordable senior housing based on the size of the market under the income restriction. This data, adjusted to account for seniors who can use home sale proceeds, is incorporated into our demand calculations, which are presented in a following section.

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

Demand for market rate adult rental housing will typically come from households with incomes of \$30,000 or more. Based on an income allocation of 40%, a household with an income of \$30,000 could afford a gross monthly rent of \$1,000, roughly the beginning gross rents in new market rate independent senior projects without services.

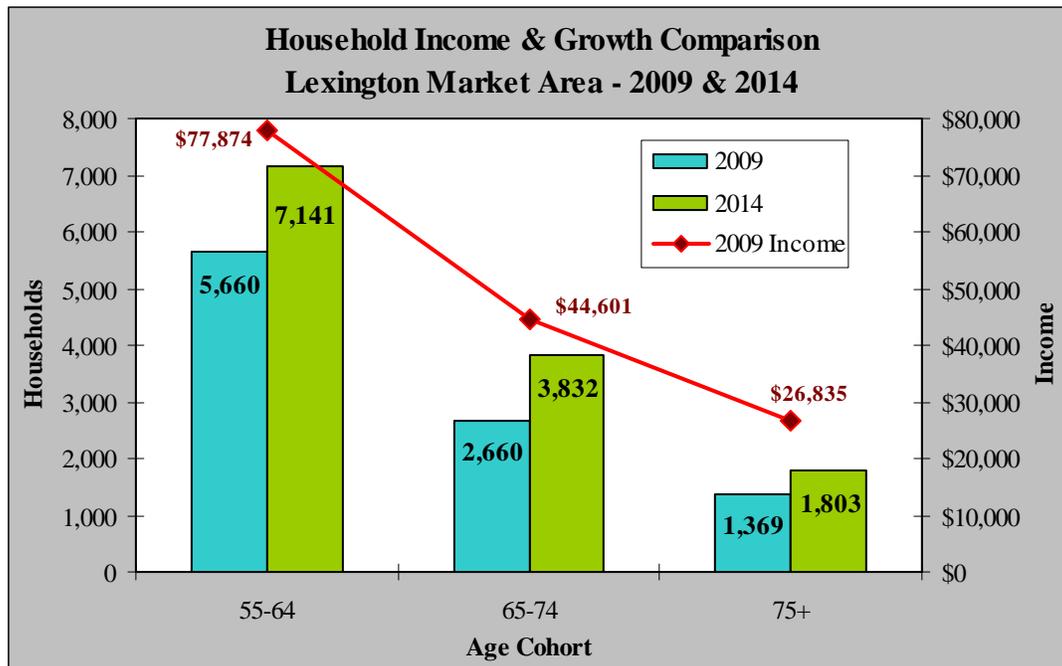
The following are key points from Table 3:

- ▶ The Market Area's older adult households have substantially higher incomes than senior households who have reached retirement age. The 2009 estimate shows that the median income of households ages 55 to 64 was \$77,874, compared to \$44,601 for households age 65 to 74, and \$26,835 for households ages 75 and older. The higher incomes for younger senior households (65 to 74) compared to older seniors (75 plus) are primarily due to the fact that a higher proportion of younger seniors are married and are more likely to have two pensions or higher Social Security benefits, while some continue to work.
- ▶ The target market for senior rental housing is generally senior households age 65 and older with incomes of at least \$30,000. A small portion of older adults, ages 55 to 64, may also choose age-restricted housing but overall, they usually account for only a small portion of the demand within any given market area. As of 2009, we estimate there are 2,580 senior households in the Market Area with incomes of at least \$30,000, accounting for nearly two-thirds of all senior households.
- ▶ The number of age (65+) and income-qualified households in 2014 (\$35,000+ to account for inflation) is expected to increase by about 1,015 households from 2009, for a total of roughly 3,600 income-qualified households age 65+.

TABLE 3								
OLDER ADULT (55+) AND SENIOR INCOME DISTRIBUTION								
LEXINGTON MARKET AREA								
2009 & 2014								
2009								
	55-64		65-74		75+		Total 65+	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Under \$15,000	162	2.9	164	6.2	309	22.6	473	11.7
\$15,000-\$24,999	184	3.3	326	12.2	331	24.2	656	16.3
\$25,000-\$34,999	319	5.6	396	14.9	243	17.7	639	15.9
\$35,000-\$49,999	703	12.4	694	26.1	252	18.4	946	23.5
\$50,000-\$74,999	1,307	23.1	583	21.9	125	9.1	707	17.6
\$75,000-\$99,999	1,340	23.7	204	7.7	60	4.4	264	6.6
\$100,000 or more	1,644	29.0	294	11.0	49	3.6	343	8.5
Total	5,660	100.0	2,660	100.0	1,369	100.0	4,028	100.0
Median Income	\$77,874		\$44,601		\$26,835		\$38,904	
2014								
	55-64		65-74		75+		Total 65+	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Under \$15,000	186	2.6	199	5.2	319	17.7	518	9.2
\$15,000-\$24,999	175	2.4	374	9.8	372	20.6	745	13.2
\$25,000-\$34,999	313	4.4	475	12.4	299	16.6	774	13.7
\$35,000-\$49,999	738	10.3	896	23.4	373	20.7	1,268	22.5
\$50,000-\$74,999	1,538	21.5	985	25.7	209	11.6	1,194	21.2
\$75,000-\$99,999	1,643	23.0	359	9.4	92	5.1	451	8.0
\$100,000 or more	2,548	35.7	545	14.2	139	7.7	684	12.1
Total	7,141	100.0	3,832	100.0	1,803	100.0	5,635	100.0
Median Income	\$84,445		\$49,541		\$32,042		\$44,222	
Change 2009-2014								
	55-64		65-74		75+		Total 65+	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Under \$15,000	24	14.9	35	21.4	10	3.2	45	9.5
\$15,000-\$24,999	-9	-5.1	48	14.8	41	12.4	89	13.6
\$25,000-\$34,999	-6	-2.0	79	19.9	57	23.3	135	21.2
\$35,000-\$49,999	35	5.0	201	29.0	121	48.0	322	34.1
\$50,000-\$74,999	230	17.6	402	69.1	84	67.1	486	68.7
\$75,000-\$99,999	303	22.6	155	76.1	32	53.0	187	70.8
\$100,000 or more	904	55.0	251	85.4	90	183.2	341	99.4
Total	1,481	26.2	1,172	44.1	434	31.7	1,606	39.9
Median Income	\$6,570		\$4,940		\$5,207		\$5,318	
Sources: Claritas, Inc.; Maxfield Research Inc.								

The graph below shows the number of households by age cohort in 2009 and 2014, as well as the

2009 median household income.



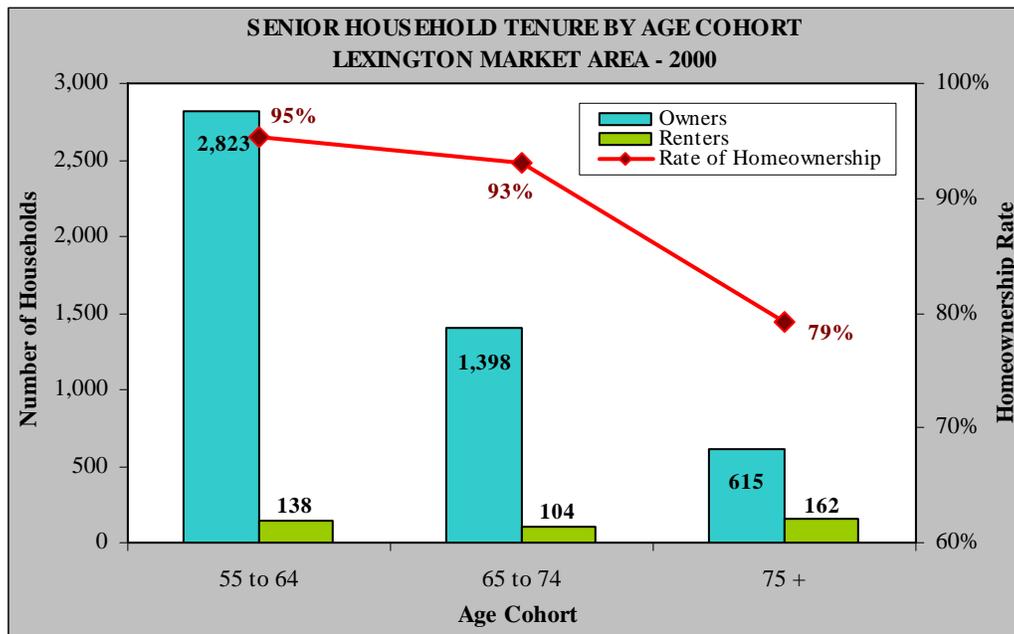
Homeownership Rate

In addition to existing income sources, many senior households are able to derive additional income by investing the proceeds from the sale of a home. This supplemental income can be used to cover the costs associated with residency in an age-restricted facility. Table 4 shows homeownership rates from the 1990 and 2000 Census for senior households in the Market Area.

- Overall, 92% of the Market Area's older adult and senior (age 55+) households owned their housing in 2000. Homeownership rates, however, decline as householders age, from 95% among households age 55 to 64, to 93% among householders ages 65 to 74, and 79% for households age 75 and older in 2000.
- Total older adult and senior (age 55+) owner-occupied households increased by 2,024 (a 72% increase) and the number of renters increased by 226 households (a 127% increase) between 1990 and 2000. The high homeownership rate indicates a large percentage of seniors today have equity in an existing home that they can allocate to senior housing.
- Households age 75 and over experienced an increase of 131 renter households (a 423% increase) and a decrease in the homeownership rate from 90% to 79% from 1990 to 2000. This shows both the strong growth in the Market Area and the increasing desire of seniors to move into maintenance-free housing.

- As seniors age, they may no longer desire, or be able or willing to maintain their single-family homes. They may prefer to move to housing that offers them greater freedom from maintenance and/or offers support services. Seniors typically begin to consider moving into senior housing in their early 70s.

TABLE 4 OLDER ADULT HOUSEHOLD TENURE LEXINGTON MARKET AREA 1990 & 2000								
	Age of Householder							
	55-64		65-74		75+		Total 65+	
	Own	Rent	Own	Rent	Own	Rent	Own	Rent
2000								
No. of Households	2,823	138	1,398	104	615	162	2,013	266
Homeownership Rate	95%		93%		79%		88%	
1990								
No. of Households	1,717	75	819	72	276	31	1,095	103
Homeownership Rate	96%		92%		90%		91%	
Change 1990-2000								
No. of Households	1,106	63	579	32	339	131	918	163
Pct. Change	39%	46%	41%	31%	55%	81%	46%	61%
Sources: U.S. Census Bureau, Maxfield Research Inc.								



The graph on the previous page shows that as seniors in the Market Area age, the rate of homeownership declines. The graph illustrates that many seniors over the age of 70 begin to choose

alternatives to their single-family homes.

Home Values

Maxfield Research gathered data on resale prices for all single-family homes in the Lexington Market Area. Table 5 below presents home resale data for homes in the Market Area. This data is presented for the years 2004 through June 2009 from the local Multiple Listing Service. This information is useful because it is a good indicator of the amount of equity that seniors may be able to derive from the sale of their homes. This information is also useful in that this built-up equity could be used to cover the cost of housing or supplement their income should they desire to move into alternative housing.

- As of June 2009, the average value of homes resold in the Lexington Market Area is just \$219,382, while the median sale price was \$196,750. It should be noted that median sale prices are generally a more accurate portrayal of home equity since average figures can be skewed by a few very high- or low-priced homes.

TABLE 5				
SINGLE-FAMILY HOME RESALE VALUES				
LEXINGTON MARKET AREA				
2004 to June 2009				
Area	No. of Sales	Average Price	Median Price	Avg. DOM
Lexington				
2009*	7	\$139,600	\$134,000	45
2008	18	\$165,210	\$170,000	114
2007	15	\$176,007	\$159,300	81
2006	8	\$227,406	\$230,500	44
2005	27	\$201,813	\$199,900	91
2004	14	\$205,564	\$209,450	50
% Change 2004-2008		-19.6%	-18.8%	
Market Area				
2009*	404	\$219,382	\$196,750	76
2008	726	\$249,670	\$220,000	81
2007	717	\$297,478	\$254,000	81
2006	893	\$304,261	\$264,600	66
2005	1,124	\$294,524	\$266,885	69
2004	1,169	\$271,427	\$243,000	33
% Change 2004-2008		-8.0%	-9.5%	
* Data obtained through June 2009.				
Sources: Northstar MLS; Maxfield Research Inc.				

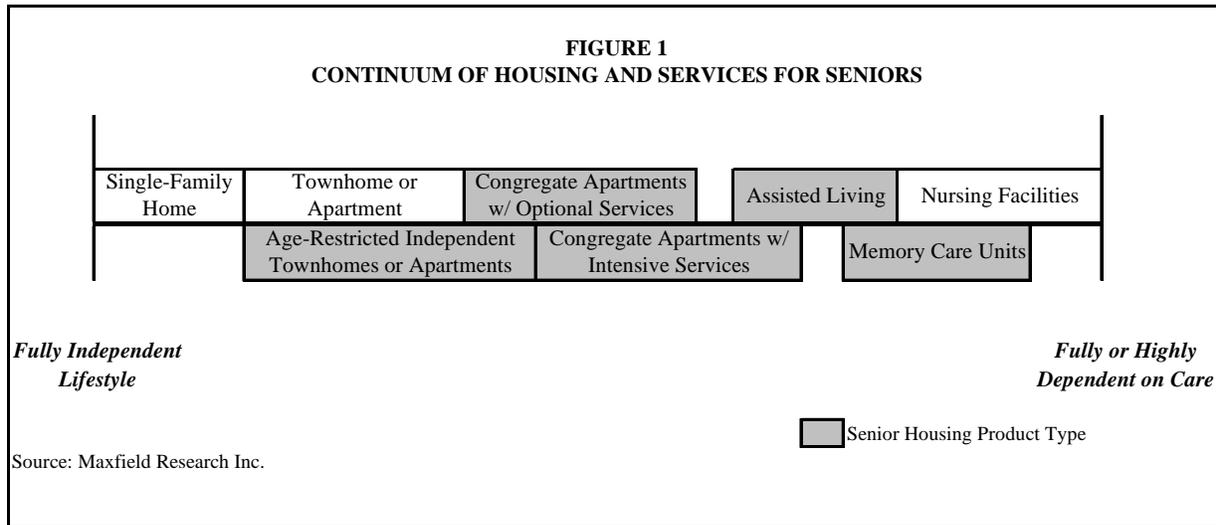
- Home sales in Lexington are significantly less than the Market area as a whole. The average sales price in June 2009 was \$139,600 and the median sales price was \$134,000.

- Home values have depreciated significantly in the Market Area since 2004 due to the sluggish housing market and economy. From 2004 to 2008, the average and median sales prices decreased by 8% and 9.5%, respectively. The City of Lexington has fared worse with the average and median home values declining by 20% and 19%, respectively.
- In 2004, the average length of time a home remained on the market was 33 days, while as of June 2009, the average days on market has increased to 76 days. The average sale time of nearly three months is significant and indicates the market is a buyers market and that seniors may have difficulty selling their home in a short time should they decide or need to sell their homes.
- Because a large majority of senior homeowners own their homes outright, they have access to a sizeable financial resource in the form of the equity they can realize from the sale of their homes. While the interest earned on investing these funds can help offset the monthly costs associated with living in a senior housing facility, many seniors are also willing to begin spending-down assets in order to live in a facility that meets their needs. For example, a senior who owns their home outright for \$220,000 would likely be able to derive approximately \$204,000 after factoring in marketing/real estate commissions and moving costs. Should this equity be invested in an interest-bearing account with a four percent return, it would produce an income of \$7,184 annually (or \$682 per month).

Senior Housing Defined

Senior housing is a concept that generally refers to the integrated delivery of housing and services to seniors. As shown in Figure 1, however, senior housing can include a wide range of product types across the service-delivery spectrum. These product types range from independent apartments and/or townhomes with virtually no services to highly specialized, service-intensive, assisted living units or housing geared for people with dementia-related illnesses (termed "memory care"). In general, independent senior housing attracts people age 65 and over while assisted living typically attracts people age 80 and older who need assistance with activities of daily living (ADLs).

The least service-intensive projects, also termed "*active adult*" or "*adult/few services*" projects, are similar to general occupancy housing projects in that they offer virtually no support services or health care, but are age-restricted (typically 55 or 62 and over). Organized activities, transportation programs and common areas are typical of these projects. However, due to the lack of services, adult/few services projects typically do not command the rent premiums of more service-intensive senior housing.



Congregate/optional-services projects, the next level up on the service-delivery spectrum, offer residents some support services such as meals and housekeeping, but these services are typically a-la-carte so that residents can choose whether or not to pay for them. Next on the service-delivery spectrum are *congregate/service-intensive* projects, which include even more personalized support services in the rent, and attract a frailer senior population than adult or optional-services projects. As the proposed project in Lexington will be independent senior housing, this preliminary demand study focuses on independent senior housing (with and without services) in the Lexington Market Area.

The most service-intensive product types, *assisted living* and *memory care*, offer the highest level of services that are just short of a nursing home. Typically, services covered in the fee for both of these product types include all meals, housekeeping, linen changes, personal laundry, 24-hour emergency response, and a wide range of personal care and therapeutic services (either built into the fee or a-la-carte). Sponsorship by a nursing home, hospital, faith-based organization or other health care entity is common for assisted living and memory care projects (as well as for many *congregate/service-intensive* projects).

Supply of Independent Senior Housing in the Lexington Market Area

The Lexington Market Area currently contains a total of eight “adult” properties with a total of 424 senior units. There are 17 total vacant units (4.0%), with 15 vacancies located at Blaine Towne Square. We have counted Chauncey Barrett building I and II as separate projects due to their price difference.

Table 6 on Page 14 summarizes the existing supply of adult/few services senior housing in the Lexington Market Area.

Blaine Towne Square

Blaine Towne Square senior apartments were developed by Sherman Associates in 2005. Located in Blaine near the National Sports Center, Blaine Towne Square is a three-story project for seniors 62+ and has a total 87 units. The units consist of 15 one-bedroom units, 12 one-bedroom plus den units, 42 two-bedroom units, and 18 two-bedroom plus den units. They currently have 15 vacancies of which nearly all are two- or two-bedroom plus den units. They have had large vacancies within the two-bedroom units since opening. Rents range from \$800 to \$950 for one-bedroom units, \$890 to \$945 for one-bedroom plus units, \$1,100 to \$1,295 for two-bedroom units, and \$1,295 to \$1,400 for two-bedroom plus den units. There are four affordable one-bedroom units at 50% of AMI renting for \$656.

Pines Manor Estates

Pine Manor Estates was developed in 2005 and contains a total of 44 units. The three-story building is for seniors 55+ and consists of 16 one-bedroom units that rent for \$830, six one-bedroom plus den units for \$1,030, 22 two-bedroom units with rents that range from \$1,130 to \$1,315. Pine Manor has 44 underground parking stalls that rent for \$40 that roughly about 50% of the residents are utilizing. As of July there were two vacancies.

Chauncey Barrett phases I and II

Developed by Dunbar Development and located in Centerville, phase I has 16 units consisting of 2 one-bedrooms, 6 one-bedroom plus dens, and 8 two-bedroom units. One-bedrooms rent for \$687, \$736 for one-bedroom plus dens, and \$800 for two-bedrooms. They have been fully occupied since 1999 and have a waiting list. Phase II was opened in 2004 and has 31 units consisting of eight one-bedrooms, 13 one-bedroom plus dens, and 10 two-bedroom units. One-bedrooms rent for \$750, \$825 for one-bedroom plus dens, and \$925 for two-bedrooms. Chauncey Barrett I and II are affordable and do not allow more than 25% of the residents to have incomes over \$60,000. Both are at full occupancy and do not maintain a waiting list.

Cloverleaf Courts

Cloverleaf Courts is a three-story building that opened in 2000 and was developed by Twin Cities Christian Homes in Blaine. They have 102 units with a mix of 9 studios, 71 one-bedrooms, and 22 two-bedrooms. Rents range from \$466 for studios to \$1,130 for two-bedrooms. Cloverleaf Courts is fully occupied with a six month waiting list. This project is affordable at 50% of the AMI and has set aside 51 units strictly affordable although the on-site manager stated that only three tenants pay market rate rent.

TABLE 6
INDEPENDENT SENIOR HOUSING DEVELOPMENTS
LEXINGTON MARKET AREA
July 2009

Project	Year Open	Units	Vac.	Unit Mix	Unit Size (Sq. Ft.)	Monthly Fee	Services	Amenities/Features/Comments
Adult/Few Services								
Blaine Towne Square <i>Blaine</i> 4 1BR units affordable at 50% of AMI	2005	87	15	15 - 1BR 12 - 1BR/D 42 - 2BR 18 - 2BR/D	721 - 909 788 - 862 1,043 - 1,282 1,249 - 1,381	\$656 - \$950 \$890 - \$945 \$1,100 - \$1,295 \$1,295 - \$1,400	None offered	Magic Pak heating and A/C, balconies, in-unit washer/dryer, community room, sunroom, fitness center and lap pool, underground parking \$45/mo.
Pines Manor Estates <i>Circle Pines</i> Market Rate 1 Resident Uses Voucher	2005	44	2	18 - 1BR 6 - 1BR/D 20 - 2BR	732 832 978 - 1,264	\$830 \$1,030 \$1,130 - \$1,215	None offered	Community room, patio, reading area, exercise area, Underground garage \$40, in-unit laundry, scheduled transportation, balconies.
Chauncey Barrett II <i>Centerville</i> 25% of residents cannot have incomes higher than \$60,000	2004	25	0	8 - 1BR 13 - 1BR+D 10 - 2BR	703 - 786 907 - 970 964 - 1,024	\$796 \$876 \$982	None offered	Central A/C, community room, garage for \$35/mo., walking paths, garden plots, patio, in-unit washer/dryer.
Cloverleaf Courts <i>Blaine</i> 51 units are affordable at 50% of AMI	2000	102	0	9 - 0BR 71 - 1BR 22 - 2BR	566 - 579 702 - 830 886 - 1,030	\$510 \$672 - \$772 \$930 - \$1,193	None offered	Wall A/C, underground parking \$45/mo., community room, garden plots, whirlpool, library, exercise room, chapel.
Chauncey Barrett I <i>Centerville</i> 25% of residents cannot have incomes higher than \$60,000	1998	16	0	2 - 1BR 6 - 1BR+D 8 - 2BR	750 970 1,005	\$721 \$781 \$849	None offered	Central A/C, community room, garage for \$35/mo., walking paths, garden plots, patio, in-unit washer/dryer.
Oak Hills Manor <i>Circle Pines</i> All units affordable at 60% of AMI	1995	48	0	12 - 1BR 36 - 2BR	704 - 774 863 - 971	\$645 \$705 - \$730	None offered	AC, community room, craft hobby room, floor laundry, garages \$35/mo., car plug-ins \$18/mo.
Willow Ponds <i>Lino Lakes</i> All units affordable at 60% of AMI	1996	47	0	6 - 1BR 41 - 2BR	728 878 - 930	\$720 \$830 - \$840	None offered	A/C, balcony, community room, common area kitchen. Avg. age in 70s, 25% couples.
Blaine Court <i>Blaine</i> 12 units are section 8 subsidized 43 units affordable at 50% of AMI	1991	55	0	44 - 1BR 11 - 2BR	696 - 835 833 - 933	\$599 - \$629 \$719 - \$740	None offered	Wall A/C, patio, library, craft room, community room. Avg. age is 83, 9 couples. Garage for \$40/mo. Plug-ins for \$60/yr. Very long waiting list.
Total		424	17	4.0% Vacancy Rate				
Source: Maxfield Research Inc.								

Oak Hills Manor

This three-story building opened in Circle Pines in 1995 and was developed by Hill & Associates. It has 48 units consisting of 12 one-bedrooms and 36 two-bedroom units. Rent for a one-bedroom unit is \$645 and ranges from \$705 to \$730 for two-bedroom units. The project has been fully occupied for many years now. Oak Hills Manor is an affordable project at 60% of the AMI.

Willow Ponds

Willow Ponds consists of 47 one-level cottages with attached and detached garages. Opened in 1996 by Eloigne Companies, Willow Ponds has 6 one-bedroom cottages that rent for \$715 and 41 two-bedroom cottages that range in rent from \$800 to \$830. The development had no vacancies at the time of the survey. Willow Ponds is affordable at 60% of the AMI.

Blaine Court

The oldest independent senior housing project in the Market Area, Blaine Court opened in 1991 by Twin Cities Christian Home. The project consists of 55 units with 44 one-bedroom units and 11 two-bedroom units. One-bedroom units have basic rents ranging from \$542 to \$570, while two-bedroom units range from \$651 to \$670. Blaine Court has been fully occupied since it opened and has a very long waiting list. The project has 12 units that are section 8 subsidized and the remaining units are affordable at 50% of AMI.

All projects in the Market Area are adult/few services developments and do not offer any services. Common features and amenities among the projects include central/wall air conditioning, community room, library, garden plots. All projects offer garage parking for \$35 to \$50 a month and is included at Willow Ponds. Chauncey Barrett is the only development that has in-unit washer and dryers.

Pending Senior Developments

The Market Area currently has a few developments proposed. We have identified three pending senior projects in the Lexington Market Area over the next several years in the preliminary development planning stage. We identified approximately 350 units of senior housing that are proposed at this time. Of which, there could be only 35 rental units for independent seniors. We are uncertain that any of the following developments will be developed in the near future. The following, summaries pending projects for each of the communities within the Market Area:

Lexington

- There are currently no pending senior projects in the City of Lexington.

Blaine

- **Winkelman Building Corporation**, with management by Augustana Care, received approval to develop *Afilius Senior Living* at the Hipp Farm Site on 125th Avenue. The development is planned to include 93 congregate units, 82 assisted living units and 31 memory care units. A planner at the City of Blaine commented that this development has been placed on hold and is unlikely to move forward.

The Hipp Farm Site above has been acquired by **Walker Methodist**. Walker Methodist is proposing to build a senior housing campus in which they recently applied for approval for a three phase project that would include 35 independent units, 39 assisted living units, 16 memory care units, 10 care suites, and 34 skilled nursing beds in the first phase. The other two phases do not have any specifics at this time. This project is in the early stages of development and is currently going through the approval process with the City. This project is also located on the far west end of the Market Area and may have limited market overlap with the proposed independent units. In addition, we are not including this project in our demand calculations due to the uncertainty of this project receiving the proper funding for development in the near future.

Centerville

- Beard Group Inc. is exploring the potential to build 100 housing units in the Downtown area of Centerville. As we understand, half of these units would be senior cooperative housing. Additional information on this project is not available as of July 2009 and to our understanding, it remains very preliminary. We do not consider it competitive with the proposed project.

Circle Pines

- There are currently no pending senior projects in the City of Circle Pines.

Lino Lakes

- The **Hartford Group** proposed a development in Lino Lakes called *Regent at Woods Edge* that is part of the Legacy at Woods Edge housing development near Interstate 35W and Lake Drive. The development was proposed to include approximately 100 congregate units, 30 assisted living units and 20 memory care units. As we understand, the developer is disbanding and the City is seeking to secure another master developer. No developer has been secured as of July 2009 and no additional senior projects are pending in the City of Lino Lakes at this time. Because these units are planned to offer services we do not consider this development competitive with the proposed project.

Preliminary Demand Estimates for Senior Housing

Demand for Market Rate Independent Senior Housing

Table 7 presents our demand calculations for market rate independent senior housing without services (i.e. “active adult”) in the Market Area in 2009 and 2014.

The market for independent rental housing is comprised of older adult (age 55 to 64), younger senior (age 65 to 74) and older senior (age 75+) households in the Lexington Market Area. In order to arrive at the potential age, income and asset-qualified base for active adult housing, we include all older adult, younger senior and older senior households with incomes of \$35,000 or more plus homeowner households with incomes between \$25,000 and \$34,999 who would qualify with the proceeds from a home sale. The number of qualifying homeowner households is estimated by applying the appropriate homeownership rate, as identified in Table 4, to each age cohort. In 2009, we estimate there are 8,120 age, income and asset-qualified households that would support demand for market rate independent rental housing in the Lexington Market Area.

Adjusting to include appropriate capture rates for each age cohort (0.5% of households age 55 to 64, 4.0% of households age 65 to 74 and 14.5% of households age 75 and older) results in a demand potential for an estimated 211 market rate independent rental units in 2009.

In addition to the demand generated from within the Market Area, a second portion of demand would come from outside the Market Area. We estimate that seniors currently residing outside the Market Area will generate 20% of the demand for active adult housing – increasing total demand to roughly 265 independent adult rental units. Demand from outside the Market Area includes of parents of adult children living in the Market Area, individuals who live just outside the Market Area and have an orientation to the area and former residents who desire to return upon retirement.

The existing supply of independent housing satisfies some of the total demand for independent housing in the Market Area. To calculate excess demand—the demand beyond the supply of existing units—we deduct the number of existing units from the total demand potential. After reducing demand by the number of existing competitive units at market equilibrium (95% occupancy), total excess demand potential remains for 65 units of market rate independent housing.

No single Site can capture all of the excess demand in a Market Area. We estimate that a high-quality location in Lexington can capture 25% of total demand for market rate independent senior rental housing. Based on the calculations in Table 7, we find **excess demand capturable on the subject Site in Lexington for 16 market rate independent senior housing units.**

Adjusting for inflation, we estimate that households with incomes of \$40,000 or more and homeowners with incomes of \$30,000 to \$39,999 would be candidates for independent housing in 2014. Following the same methodology, we project that **demand for independent housing on the Site increases to 26 market rate independent senior housing units through 2014.**

TABLE 7						
MARKET RATE INDEPENDENT HOUSING DEMAND						
LEXINGTON MARKET AREA						
2009 & 2014						
	2009			2014		
	Age of Householder			Age of Householder		
	55-64	65-74	75+	55-64	65-74	75+
# of Households w/ Incomes of >\$35,000 ¹	4,994	1,775	486	5,975	2,188	564
# of Households w/ Incomes of \$25,000 to \$34,999 ¹	+ 319	396	243	- 402	538	174
(times) Homeownership Rate	x 95%	93%	80%	x 95%	93%	80%
(equals) Total Potential Market Base	= 5,297	2,143	680	= 6,357	2,688	703
(times) Potential Capture Rate	x 0.5%	4.0%	14.5%	x 0.5%	4.0%	14.5%
(equals) Demand Potential	= 26	86	99	= 32	108	102
Total Market Rate Demand Potential	= 211			= 241		
(plus) Demand from Outside Market Area (20%)	+ 53			+ 60		
(equals) Total Demand Potential	= 264			= 302		
(minus) Existing and Pending Independent Units ²	- 199			- 199		
(equals) Total Demand Potential in Market Area	= 65			= 103		
(times) Percent of Demand Capturable on a Site	x 25%			x 25%		
(equals) Excess Demand Capturable on a Site	= 16			= 26		

¹ 2014 calculations define income-qualified households as all households with incomes greater than \$40,000 and homeowner households with incomes between \$30,000 and \$39,999.

² Includes existing and pending units at 95% occupancy, or market equilibrium. No additional units are planned through 2014.

Source: Maxfield Research Inc.

Demand for Subsidized/Affordable Independent Senior Housing

Table 8 presents our demand calculations for subsidized/affordable independent senior housing without services (i.e. “active adult”) in the Market Area in 2009 and 2014.

While the methodology used to calculate demand for subsidized/affordable housing closely mirrors the methodology used to calculate demand for market rate housing, we make several adjustments to more precisely quantify demand among this market segment. The following points summarize these adjustments:

- **Income-Qualifications:** Seniors who earn up to 80% of the Area Median Income would be qualified for income-restricted housing products. Based on information supplied by the Minnesota Housing Finance Agency, current income-restrictions for the upper end of the range for affordable housing (80% AMI) are \$44,800 for a one-person households and \$51,200 for a two-person household. It is important to note that individual affordable developments may have unique income-guidelines that are more precise than these income-

opments may have unique income-guidelines that are more precise than these income-restrictions due to subsidy type or other factors.

We exclude homeowner households with incomes between \$25,000 and \$35,000, as these households would have additional equity that could be converted to monthly income following the sales of their single-family homes.

TABLE 8						
SUBSIDIZED/AFFORDABLE INDEPENDENT HOUSING DEMAND						
LEXINGTON MARKET AREA						
2009 & 2014						
	2009			2014		
	Age of Householder			Age of Householder		
	55-64	65-74	75+	55-64	65-74	75+
# of Households w/ Incomes of <\$34,999 ¹	665	886	883	920	1,347	1,114
Less Households w/ Incomes of \$25,000 to \$34,999 ¹	-	319	396	-	402	538
(times) Homeownership Rate	x	95%	93%	x	95%	93%
(equals) Lotal Potential Market Base	=	362	518	=	538	847
(times) Potential Capture Rate	x	2.0%	10.0%	x	2.0%	10.0%
(equals) Demand Potential	=	7	52	=	11	85
Total Market Rate Demand Potential	=	197 		=	290 	
(plus) Demand from Outside Market Area (20%)	+	49		+	73	
(equals) Total Demand Potential	=	246		=	363	
(minus) Existing and Pending Independent Units ²	-	204		-	204	
(equals) Total Demand Potential in Market Area	=	42		=	159	
(times) Percent of Demand Capturable on a Site	x	35%		x	35%	
(equals) Excess Demand Capturable on a Site	=	15		=	56	
¹ 2014 calculations define income-qualified households as all households with incomes less than \$39,999. Homeowner households with incomes between \$30,000 and \$39,999 are excluded from the market potential for financially-assisted housing.						
² Includes existing and pending units at 95% occupancy, or market equilibrium. No additional units are planned through 2014.						
Source: Maxfield Research Inc.						

- **Capture Rates:** Households in a need-based situation (either requiring services or financial assistance) more readily move to housing alternatives than those in non-need based situations. Hence, the capture rate among each age group is higher than for market rate housing. Capture rates are employed at 2.0% for households age 55 to 64, 10.0% for households age 65 to 74 and 20.0% for households age 75 and older.
- **Potential Demand Capture:** Seniors in a need-based situation are less selective when securing housing than those in a non-need based situation. We estimate that a high-quality site would capture a greater proportion of total demand for financially-assisted housing than for

market rate housing; hence, the potential capture rate increases to 35% for active adult housing.

Based on the calculations in Table 8, we find **excess demand capturable in Lexington for 15 financially-assisted independent senior housing units in 2009.**

Adjusting for inflation, we estimate that households with incomes up to \$39,999 would be candidates for financially-assisted independent housing in 2014. We reduce the potential market by homeowner households earning between \$30,000 and \$39,999 that would exceed income-restrictions once equity from their home sales is converted to monthly income. Following the same methodology, we project that **demand for independent housing in Lexington is calculated for 56 financially-assisted independent senior housing units 2014.**

Preliminary Conclusions

The initial market assessment of the age/income-qualified senior base and inventory of existing competitive units in the Lexington Market Area indicate that demand as of 2009 exists for both market rate and affordable independent senior rental housing. Our calculations indicate that there is sufficient demand to support up to 16 market rate and 15 affordable independent adult rental units in 2009. With the increasing senior population in the Market Area, demand will rise to 26 market rate units and 56 affordable units by 2014.

<i>Housing Type</i>	<i>Market Area Demand</i>		<i>Demand Capturable on a Site in Lexington</i>	
	2009	2014	2009	2014
Market Rate Independent	65	103	16	26
Affordable Independent	42	159	15	56
Total Housing Units	107	262	31	82

Source: Maxfield Research Inc.

Recommended Development Concept

We recommend building a senior housing project with no more than 44 units, or about 80% of the calculated demand in 2011. On the following page, we have provided recommended unit mix, sizes, and pricing for a senior housing project on the Subject Site based on the demand fig-

ures. We would recommend that the project consist of roughly half market rate and half affordable units and include a range of unit sizes and types to appeal to a broader target market. We are conservative on the market rate units, knowing that a high percentage of units will most likely have to be occupied by seniors currently living outside of the City of Lexington. Based on rents achieved at existing and pending projects in the Market Area, we recommend monthly rents ranging from \$800 to \$850 for one-bedroom units, \$925 to \$975 for one-bedroom plus den units, and \$1,050 to \$1,150 for two-bedroom units. However, the recommended market rate rents are on the low end for new construction and it may be difficult to achieve these rents for a developer. Because many of the market rate residents will likely come from the surrounding communities of Lexington in the Market Area it is possibly for these rents to increase slightly if needed to make the project financially feasible. These monthly rents include water, sewer, and trash removal. Residents would responsible for heat and electricity, however.

TABLE 10 RECOMMENDED CONCEPT INDEPENDENT SENIOR HOUSING LEXINGTON MARKET AREA July 2009					
# of Units	Unit Type	Unit Sizes (Sq. Ft.)	Monthly Rent	Rent per (Sq. Ft.)	
Market Rate					
8 - 10	1BR	725 - 825	\$800 - \$850	\$1.03 - \$1.10	
4 - 4	1BR/Den	800 - 925	\$925 - \$975	\$1.05 - \$1.16	
6 - 6	2BR	950 - 1,100	\$1,050 - \$1,150	\$1.05 - \$1.11	
18 - 20					
Affordable					
10 - 10	1BR	725 - 825	50-60% of AMI	--	
4 - 4	1BR/Den	800 - 925	50-60% of AMI	--	
6 - 8	2BR	950 - 1,100	50-60% of AMI	--	
20 - 22					
Note: All rents are quoted in 2009 dollars and can be trended upward by 3% annually until opening. Monthly rents should include water, sewer, and trash.					
Source: Maxfield Research Inc.					

Proposed Site Location

Important criteria for independent seniors when choosing locations for senior rental housing are accessibility and visibility, proximity to health care and community services, compatibility with surrounding land uses, and aesthetics of surrounding land uses.

This Site for the proposed development is the location of the former Lexington City Hall build-

ing at the corner of Lexington Avenue and Lovell Road. The current building is being utilized as office/retail/commercial space and appears to be mostly empty with tenants such as Pizza Man, H&R Block, and Book Mill.

The proposed Site is located within one-half mile of goods and services. The Northway Shopping Center located in Lexington offers a variety of shops that would appeal to seniors from Festival Foods, Checker Auto Parts, Family Dollar, Monterey Mexican Restaurant, Great Clips, Benton Bakery, Workout Express, and a tobacco store. More services are located at the intersection of Lexington and Lake Drive that include U.S. Bank, Papa Murphy's, Burger King, Walgreen's, McDonalds, Subway, and numerous other small retailers. The Site is in close proximity to places of worship as there are 10 different churches within two miles of the Sites and 24 churches within five miles. A number of medical services and physicians are located within a 10-mile radius of the Site, giving seniors options for their health care needs. Kate Haven Golf Course is also located one-half mile south of the Lake Drive/Lexington intersection. Interstate 35W is located about one and a half miles west of the Site, giving seniors convenient access to the Twin Cities communities.

The Site is easily accessible via Lexington Avenue or Lovell Road. There are no incompatible land uses adjacent to the Site and it is located a short drive or walk from most if not all goods and services in the area. Residential neighborhoods dominate the land west/east/north of the Site while retail and services are located south and southeast of the Site along Lake Drive and Lexington Avenue.



View of south side of existing building on proposed Site facing north from across Lovell Road.



View of east side existing building on proposed Site facing southwest from across Lexington Ave.



View of west side of existing building on proposed Site facing east from existing underutilized parking lot.



View of adjacent single-family homes and playground/park west of proposed Site.



View west along Lovell Road from entrance to parking lot on proposed Site.



View east of townhomes adjacent to proposed Site across Lexington Avenue.



View southeast from proposed Site of intersection of Lexington Ave. and Lake Dr. beyond retail center parking lot.



View south from proposed Site of retail center on Lovell Road.

Projected Absorption

Based on our review of the current and projected housing needs of senior households in the Market Area, our assessment of the existing competitive independent senior housing in the market, and our assessment of overall housing market conditions, we have estimated the absorption of the recommended units at the proposed project based on a 2011 opening with a pre-leasing period. The new development would be the newest property built in the Market Area since 2005 and it would enjoy an attractive site and good location.

Our projected absorption accounts for the slowed resale housing market. Marketing staff at existing buildings have noticed that seniors are having greater difficulty selling their homes and this is impacting some seniors' ability to move into alternative housing options. If the housing market improves over the next year then absorption may be quicker than our projections. The effect would be seen at the independent building, since it is less need-driven than senior housing with services that is more need driven.

For the recommended **market rate independent units (18 to 20 units)**, we forecast that **stabilized occupancy (95%) would be reached in 10 to 17 months** of initial occupancy. This assumes that 15% of the units would be pre-leased and that the remaining 15 to 17 units would be leased at an average rate of 1.0 to 1.5 units per month.

We forecast that the recommended **affordable independent units (20 to 22 units)** would reach **stabilized occupancy (95%) in nine to 13 months** of initial occupancy. This assumes that 15% of the units would be pre-leased and the remaining 17 to 19 units would be leased at an average rate of 1.5 to 2.0 units per month.

In order to achieve the above absorption rates, it will be paramount that the project develops an aggressive and professional marketing campaign to maximize absorption. It is important to note that the above absorption rates assume a spring or summer opening and would most likely be lower if the opening was during the fall or winter.

Summary

Overall, there is sufficient demand for a new independent senior rental development in Lexington that offers both market rate and affordable units within the project. In addition, we believe that the Site location is well suited for independent senior housing. The location is within quick access to goods and services in Lexington and Circle Pines and has no incompatible land uses adjacent to any of the Site. The Site has high visibility and is easily accessible from the surrounding communities. The Site is desirable due to the location near the Northway Shopping Center which would provide seniors convenient access to goods and services such as groceries, salon, exercise facilities, and restaurants without the use of a vehicle.