



April 1, 2005

MEMORANDUM

TO: Mr. Tim Yantos
Anoka County Housing and Redevelopment Authority

FROM: Brian Smith
Mary Bujold
Maxfield Research Inc.

RE: Initial Market Assessment for an Independent Senior Rental Housing Project in
Lexington, Minnesota

Introduction/Purpose and Scope of Research

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This memorandum contains an initial market assessment of the demand for independent senior housing in Lexington, Minnesota. Maxfield Research Inc. calculated demand for senior housing and services based on estimates of the senior household base, estimates of senior household incomes and an inventory of existing competitive and planned units in the defined Market Area.

The methodologies used to calculate demand in this memorandum are proprietary to Maxfield Research, but are consistent with methodologies used by analysts throughout the senior housing industry.

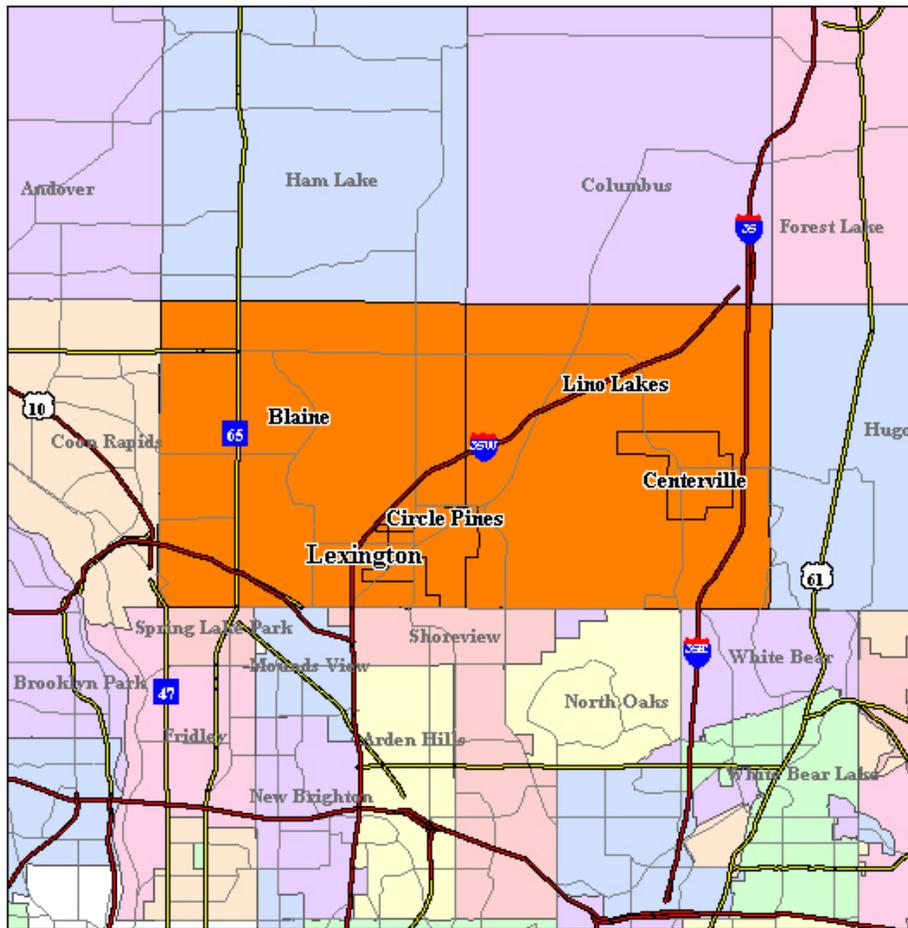
This memorandum begins by presenting our initial conclusions based on the research findings. It then defines the Market Area and presents estimates and projections of the senior population and senior household incomes in the Market Area. Finally, this assessment presents demand calculations for independent living units.

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.

Household Income Trends

Table 1 shows estimated and projected incomes for senior households in the Market Area in 2004 and 2009. The income estimates were made by Maxfield Research Inc., based on data from Claritas Inc., a national demographics firm. The data helps determine the demand for senior housing based on the size of the market at specific price levels. It should be noted that the data does not account for the asset base of senior households, nor supplemental income that a senior household could gain from the proceeds of a home sale or from contributions from family members. This information has been compiled and is presented later in this report.

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 often willing to pay 40% or more of their incomes for market rate senior housing with little or no services, while income allocations of 50% to 65% are typical in a congregate setting, and 80% to 90% percent or more for assisted living housing. The proceeds from the sale of a home, as well as financial assistance from adult children are often used as supplemental income to afford senior housing alternatives.

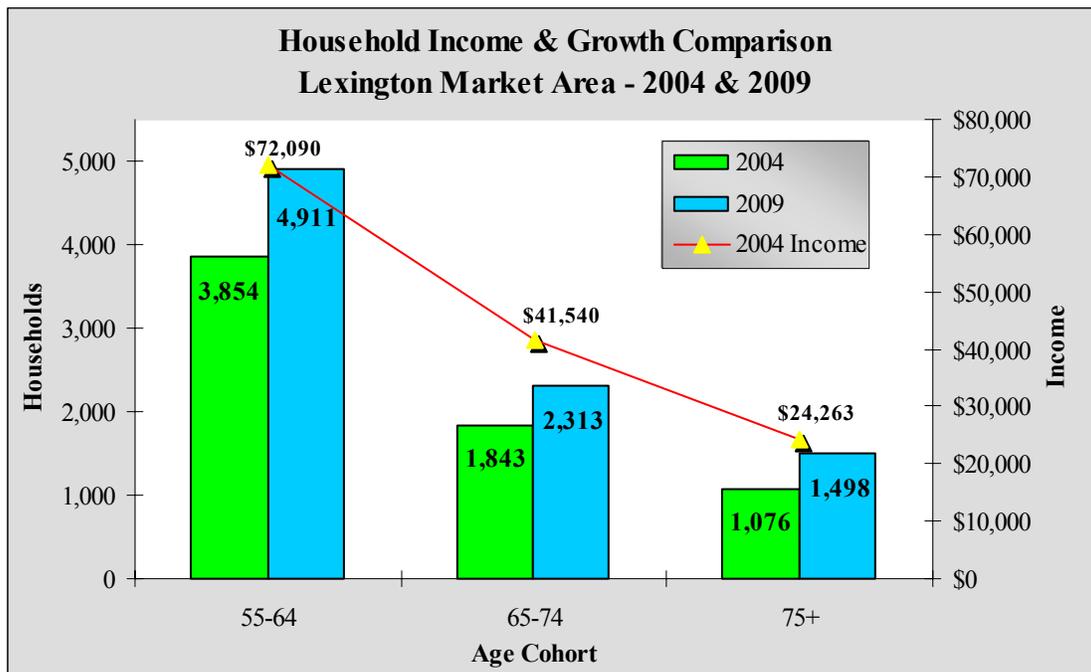
The following are key points regarding senior household incomes from Table 1.

- The median income among all age 65+ households in the Lexington Market Area was estimated at \$35,171 in 2004. Within this age group, the median income for households between the ages of 65 and 74 was \$41,540, while the median income for households age 75 and older was \$24,263. The higher incomes for younger senior households (65 to 74) compared to older seniors (75+) is primarily due to the higher proportion of younger seniors who are married, and more likely to have two pensions or higher Social Security benefits, while some continue to work. Households age 55 to 64, who are often in their peak earning years, had a 2004 estimated income of just over \$72,090. These older adults are not a primary market for age-restricted senior housing.
- A senior household earning \$41,540 (the median income for households age 65 to 74 in 2004) could afford a monthly housing cost of \$1,385, allocating 40% of the household's annual income towards housing, or \$1,731, allocating 50% of income. A senior household earning \$29,096 (median income for households age 75+) could afford a monthly housing cost of \$1,011, allocating 50% of income towards housing.
- It is expected that the median income among age 65+ households will increase to \$40,411 in 2009, an increase of 16.2% over five years. Among age 65 to 74 households, the median income is projected to increase to \$48,249 in 2009, and among age 75 and older households, it is expected that the median income will increase to \$28,308.

TABLE 1								
OLDER ADULT INCOME DISTRIBUTION								
LEXINGTON MARKET AREA								
2004 & 2009								
2004								
	55-64		65-74		75+		Total 65+	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Under \$10,000	69	1.8	72	3.9	131	12.2	203	7.0
\$10,000-\$14,999	52	1.3	83	4.5	157	14.6	240	8.2
\$15,000-\$24,999	176	4.6	246	13.3	268	24.9	514	17.6
\$25,000-\$34,999	270	7.0	313	17.0	187	17.4	500	17.1
\$35,000-\$49,999	517	13.4	474	25.7	158	14.7	632	21.7
\$50,000-\$74,999	959	24.9	353	19.2	92	8.6	445	15.2
\$75,000-\$99,999	854	22.2	146	7.9	53	4.9	199	6.8
\$100,000 or more	957	24.8	156	8.5	30	2.8	186	6.4
Total	3,854	100.0	1,843	100.0	1,076	100.0	2,919	100.0
Median Income	\$72,090		\$41,540		\$24,263		\$35,171	
2009								
	55-64		65-74		75+		Total 65+	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Under \$10,000	70	1.4	78	3.4	158	10.5	236	6.2
\$10,000-\$14,999	47	1.0	69	3.0	151	10.1	220	5.8
\$15,000-\$24,999	150	3.1	227	9.8	358	23.9	585	15.4
\$25,000-\$34,999	244	5.0	287	12.4	227	15.2	514	13.5
\$35,000-\$49,999	543	11.1	566	24.5	265	17.7	831	21.8
\$50,000-\$74,999	1,040	21.2	515	22.3	196	13.1	711	18.7
\$75,000-\$99,999	1,010	20.6	263	11.4	68	4.5	331	8.7
\$100,000 or more	1,807	36.8	308	13.3	75	5.0	383	10.0
Total	4,911	100.0	2,313	100.0	1,498	100.0	3,811	100.0
Median Income	\$83,939		\$48,249		\$28,308		\$40,411	
Change								
	55-64		65-74		75+		Total 65+	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Under \$10,000	1	1.4	6	8.3	27	20.6	33	16.3
\$10,000-\$14,999	-5	-9.6	-14	-16.9	-6	-3.8	-20	-8.3
\$15,000-\$24,999	-26	-14.8	-19	-7.7	90	33.6	71	13.8
\$25,000-\$34,999	-26	-9.6	-26	-8.3	40	21.4	14	2.8
\$35,000-\$49,999	26	5.0	92	19.4	107	67.7	199	31.5
\$50,000-\$74,999	81	8.4	162	45.9	104	113.0	266	59.8
\$75,000-\$99,999	156	18.3	117	80.1	15	28.3	132	66.3
\$100,000 or more	850	88.8	152	97.4	45	150.0	197	105.9
Total	1,057	27.4	470	25.5	422	39.2	892	30.6
Median Income	\$11,849		\$6,710		\$4,045		\$5,240	
Sources: Claritas, Inc. Maxfield Research Inc.								

- The target market for market rate independent senior housing is generally senior households age 65 and older with incomes of at least \$25,000 in 2004 (plus senior homeowners with incomes of at least \$15,000). Younger seniors, ages 55 to 64, may also choose age-restricted housing, accounting for only a small portion of the overall demand within any given Market Area. As of 2004, there were 1,962 senior households (ages 65+) in the Market Area with incomes of \$25,000 or higher, accounting for just over half of all senior households.
- The number of senior households (65+) in the Lexington Market Area is projected to increase by 892 households between 2004 and 2009, resulting in an increase of 30.6%. The number of income eligible seniors (\$30,000 or higher accounting for inflation) increased by 551 households from 1,962 households in 2004 to 2,513 households in 2009.

The graph below shows the number of households by age cohort in 2004 and 2009, as well as the 2004 median household income.



Homeownership Rate

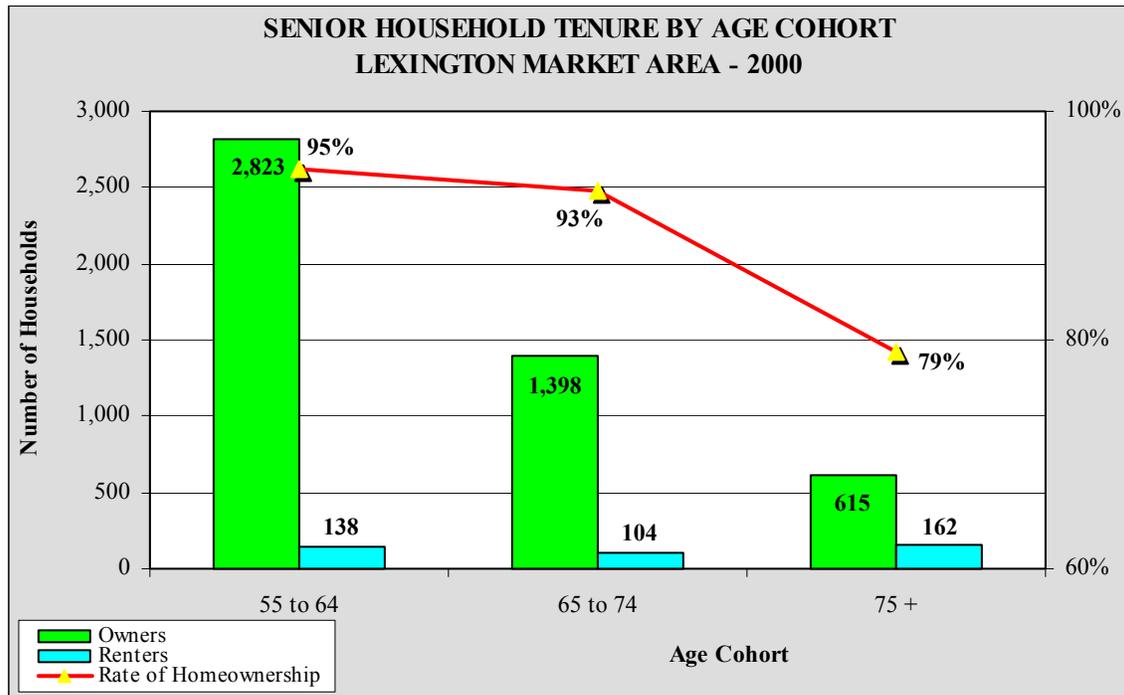
In addition to existing income sources, many senior households are able to derive additional income by investing the proceeds from the sale of a home. This supplemental income can be used to cover the costs associated with residency in an age-restricted facility. Table 2 shows homeownership rates from the 1990 and 2000 Censuses for senior households in the Market Area.

- Homeownership rates in all age categories increased from 1990. 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 2 OLDER ADULT HOUSEHOLD TENURE LEXINGTON MARKET AREA 1990 and 2000								
	Age of Householder							
	55-64		65-74		75+		Total 55+	
	Own	Rent	Own	Rent	Own	Rent	Own	Rent
2000								
Number of Households	2,823	138	1,398	104	615	162	4,836	404
Homeownership Rate	95%		93%		79%		92%	
1990								
Number of Households	1,717	75	819	72	276	31	2,812	178
Homeownership Rate	96%		92%		90%		94%	
Change								
Number of Households	1,106	63	579	32	339	131	2,024	226
Homeownership Rate	64%	84%	71%	44%	123%	423%	72%	127%
Sources: US Census Bureau, Maxfield Research Inc.								



The graph above 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 3 on the following page presents home resale data for homes that are 15 years and older in the Market Area. This data is presented for the years 2000 through 2004 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. To better gauge the likely equity that area seniors might be able to command, we have examined sales data only for homes 15 years and older. We collected data on older homes because most seniors' homes are older and many of the new homes constructed in the Market Area over the last decade and a half are occupied by younger households, especially in the southern part of the Market Area.

- In 2004, the average value of homes resold in the Lexington Market Area (among homes that are over 15 years old) is just about \$215,022, while the median sale price was \$205,500. 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. In the Market Area, for example, the highest-price home sold in the year 2004 was \$815,000, and

the lowest-priced home was \$50,000.

- Home values have appreciated significantly in the Market Area over the last four years. From 2000 to 2001, the average and median sales prices jumped 13 percent and 15 percent, respectively. Since 2001, both the average and median home sale prices have steadily increased around 8 to 9 percent per year through 2004.

Year	# of Resales	Average Market Time (Days)	Sale Price Distribution			
			Median Sale Price	% Change	Average Sale Price	% Change
2000	319	33	\$140,900	--	\$146,934	--
2001	368	35	\$159,900	13%	\$168,302	15%
2002	298	42	\$173,000	8%	\$183,547	9%
2003	376	34	\$187,900	9%	\$197,641	8%
2004	375	36	\$205,500	9%	\$215,022	9%

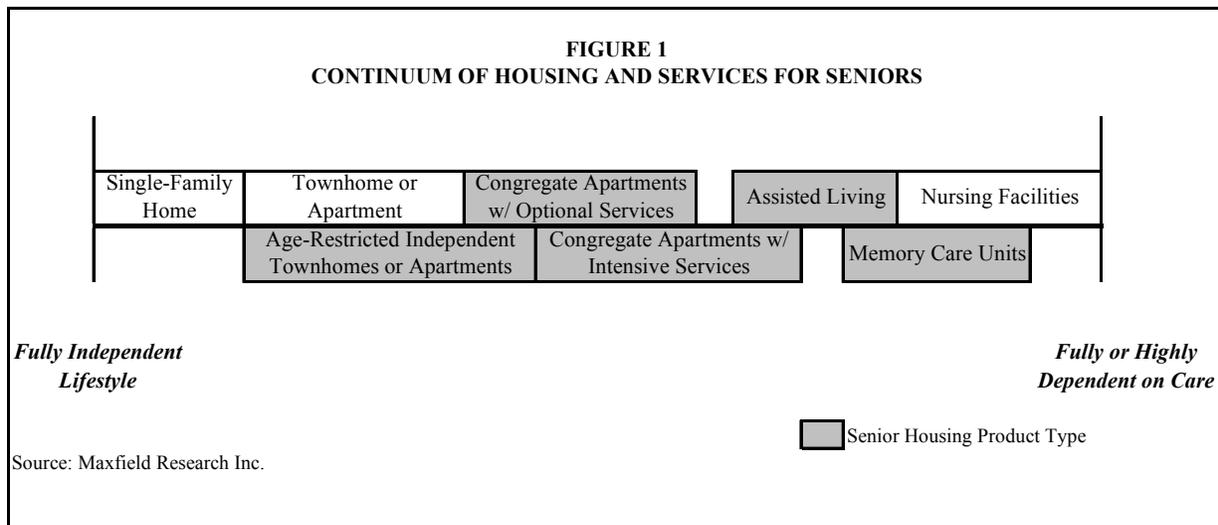
Sources: Regional Multiple Listing Service of Minnesota (MLS); Maxfield Research Inc.

- In 2000, the average length of time a home remained on the market was 33 days, while in 2004, the average days on market decreased to 36 days. The average sale time of one month is significant and indicates the market is a sellers market and that seniors would be able to sell their homes in a very short period of 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 \$205,000 would likely be able to derive approximately \$190,650 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 \$7,626 annually (or \$635 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 6 “adult” properties with a total of 299 senior units. There are 25 total vacant units (8.4%), with all vacancies located at Chauncey Barrett Phase II in Centerville. We have counted Chauncey Barrett phase I and phase II as separate projects due to their price difference. Chauncey Barrett phase II opened in December 2004 and is still in the initial lease up phase. If we subtract the vacant units from the total, we then have a vacancy rate of 0.0% in the Market Area, well below the market equilibrium of 5.0%.

Table 7 on the following page summarizes the existing and pending supply of adult/few services senior housing in the Lexington Market Area.

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 recently opened in December 2004 and has 31 units consisting of 8 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. Still in the initial lease-up period, phase II has leased 19% of the units at the time of the survey. Chauncey Barrett I and II are affordable and do not allow more than 25% of the residents to have incomes over \$60,000.

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 rents.

TABLE 4 INDEPENDENT SENIOR HOUSING DEVELOPMENTS LEXINGTON MARKET AREA March 2005									
Project	Year Open	Vacancies	Vac. Rate	Unit Mix	Unit Size (Sq. Ft.)	Monthly Fee	Services	Amenities/Features/Comments	% of Units Considered Competitive
Adult/Few Services									
Chauncey Barrett II* <i>Centerville</i> 25% of residents cannot have incomes higher than \$60,000	2004	25	80.6%	8 - 1BR 13 - 1BR+D 10 - 2BR 31	703 - 786 907 - 970 964 - 1,024	\$750 \$825 \$925	No services offered.	Central A/C, community room, garage for \$35/mo., walking paths, garden plots, patio, in-unit washer/dryer.	100%
Cloverleaf Courts <i>Blaine</i> 51 units are affordable at 50% of AMI	2000	0	0.0%	9 - 0BR 71 - 1BR 22 - 2BR 102	566 - 579 702 - 830 886 - 1,030	\$466 - \$482 \$616 - \$876 \$851 - \$1,130	No services offered.	Wall A/C, underground parking \$35/mo., community room, garden plots, whirlpool, library, exercise room, chapel.	100%
Chauncey Barrett I <i>Centerville</i> 25% of residents cannot have incomes higher than \$60,000	1998	0	0.0%	2 - 1BR 6 - 1BR+D 8 - 2BR 16	750 970 1,005	\$687 \$736 \$800	No services offered.	Central A/C, community room, garage for \$35/mo., walking paths, garden plots, patio, in-unit washer/dryer.	100%
Oak Hills Manor <i>Circle Pines</i> All units affordable at 60% of AMI	1995	0	0.0%	12 - 1BR 36 - 2BR 48	704 - 774 863 - 971	\$645 \$705 - \$730	No services offered.	AC, community room, craft hobby room, floor laundry, garages \$35/mo., car plug-ins \$18/mo.	100%
Willow Ponds <i>Lino Lakes</i> All units affordable at 60% of AMI	1996	0	0.0%	6 - 1BR 41 - 2BR 47	728 878 - 930	\$715 \$800 - \$830	No services offered.	A/C, balcony, community room, common area kitchen. Avg. age is 70, 17 couples.	100%
Blaine Court <i>Blaine</i> 12 units are section 8 subsidized 43 units affordable at 50% of AMI	1991	0	0.0%	44 - 1BR 11 - 2BR 55	696 - 835 833 - 933	\$542 - \$570 \$651 - \$670	No services offered.	Wall A/C, patio, library, craft room, community room. Avg. age is 83, 9 couples. Garage for \$40/mo. Plug-ins for \$65/yr. Very long waiting list.	0%
Existing Total		25	8.4%	299					
PENDING									
Blaine Towne Square <i>Blaine</i> <i>Sherman Associates</i> 4 units affordable at 80% of AMI	June 2005			15 - 1BR 12 - 1BR/D 42 - 2BR 18 - 2BR/D 87	721 - 909 788 - 862 1,043 - 1,282 1,249 - 1,381	\$656 - \$910 \$820 - \$850 \$1,010 - \$1,220 \$1,260 - \$1,275	No services offered.	Magic Pak heating and A/C, balconies, in-unit washer/dryer, community room, sunroom, fitness center and lap pool, underground parking \$45/mo.	50%
Pines Manor Estates <i>Circle Pines</i> <i>Vanneste Group</i>	June 2005	15% Preleased		18 - 1BR 6 - 1BR/D 20 - 2BR 44	N/A N/A N/A	\$895 \$1,095 \$1,195 - \$1,295	No services offered.	Community room, patio, reading area, exercise area, Underground garage \$40, in-unit laundry, scheduled transportation, balconies.	0%
Village Plaza <i>Circle Pines</i> <i>Uppal Enterprises</i>	Summer 2005			56 1BR 2BR 3BR	750 - 900 1,025 - 1,125 1,300	\$750 - \$825 \$890 - \$950 \$1,025	No services offered.	Mixed use with 13,000 of commercial space on first level. Underground heated garage, community room, lounge, exercise room.	100%
Senior Condominiums <i>Blaine</i> <i>Noecker Development</i>	2006/2007			60 1BR 2BR	850 1,300	\$130,000 \$190,000	No services offered.	For-Sale Condominiums	0%
Living Blaine <i>Blaine</i> <i>Noecker Development</i>	2007/2008			92 1BR 2BR	700 1,130	\$855 \$1,325	No services offered.	Market Rate Rental	0%
Regent Senior Living <i>Lino Lakes</i> <i>Hartford Group</i>	2007			N/A N/A	N/A	N/A	N/A	Hartford could not give hard figures because they are currently in the development planning stage.	0%
Pending Total				339					
* Phase II of Chauncey Barrett (31 units) which was completed in December 2004 is still in their initial lease up period.									
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. They have 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 the 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 \$40 a month and is included at Willow Ponds. Chauncey Barrett is the only development that has in-unit washer and dryers.

The Market Area currently has numerous developments under construction or planned in the near future. We have identified six under construction/pending senior projects in the Lexington Market Area over the next several years. There are currently three projects under construction and scheduled to open in the summer of 2005, while the remaining three are still in the development planning stage. We identified approximately 339 units of senior housing in various stages of the development pipeline. The following are 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

- Sherman Associates is currently constructing the ***Blaine Towne Square Senior Apartments*** an 87-unit independent senior development located at 109th Avenue and Radisson Road. The project is part of the Blaine Towne Square master plan which includes Blaine City Hall, general-occupancy rental housing and townhomes, park and recreational space, and retail. Of the 87 units, four will be affordable at 80% of the AMI, while the remaining units will be market rate. The unit mix of the project consists of one-bedrooms ranging in size from 721 to 909 square feet with rents from \$656 to \$910 per month, one-bedroom den units ranging from 788 to 862 square feet with rents from \$820 to \$850,

two-bedroom units ranging in size from 1,043 to 1,282 square feet with rents from \$1,010 to \$1,220, and two-bedroom den units ranging from 1,249 to 1,381 with rents from \$1,260 to \$1,275. Occupancy is planned for June 2005. Due to some of the lower rents, we have estimated that half of the units at this project will be competitive with the proposed project.

- Noecker Development has plans to develop a 60-unit senior condominium and a 92-unit independent rental building near the intersection of Highway 65 and County Road 242. Both projects will be located on the same site, but will consist of two separate buildings. The condominium will have units that range in price from roughly \$130,000 for an 850 square foot one-bedroom unit to \$190,000 for a 1,300 square foot two-bedroom unit. The independent rental building will have monthly rents that range from \$855 for a 700 square foot one-bedroom unit to \$1,325 for a 1,130 square foot two-bedroom unit. The developer will likely proceed with the condominium building first. This project has been pending since 2002 and was in limbo until it recently picked up steam again. Therefore, the earliest either project would come online would be 2007.

Centerville

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

Circle Pines

- ***Pine Manor Estates*** independent senior living by the Vanneste Group is scheduled for occupancy in June, 2005. The project located at South Drive and South Pine Drive has a total of 44 one- and two-bedroom units along with some one-bedroom plus den units. One-bedroom units are priced to rent at \$895 per month, one-bedroom plus den units at \$1,095 per month, and two-bedroom units from \$1,195 to \$1,295 per month. As of March 2005, Pine Manor Estates had preleased 15 percent of the 44 units.
- The second project to open this summer in Circle Pines is ***Village Plaza*** which is located near the intersection of Lexington Avenue and Lake Drive and is being developed by Uppal Enterprises. The development consists of 98 units of which 56 units are market rate independent senior rental and the remaining units are general occupancy apartments and townhomes. The senior proponent offers one- two- and three-bedroom units ranging in size from 750 to 900 square feet for one-bedroom units, 1,025 to 1,125 square feet for two-bedroom units, and three-bedroom units are 1,300 square feet. Rents range from \$750 to \$825 for one-bedroom units, \$890 to \$950 for two-bedroom units, and three-bedroom units rent for \$1,025. This project is scheduled to open in the summer of 2005. Due to the lower rent structure, we estimate that 100 percent of this development would be competitive with the proposed project.

Lino Lakes

- The Hartford Group is in the planning stage for **Regent Senior Living** which is part of a larger development called the Legacy at Woods Edge. Early plans showed two mixed use buildings connected via skyway with independent senior cooperative on floors two through four. A contact at Hartford could not provide detailed data because they are re-designing their original plans for the development.

Market Rate Independent Senior Housing Demand Estimates

Table 5 below and the accompanying chart present our demand calculations for market rate independent senior rental housing in Lexington.

TABLE 5 ADULT RENTAL SENIOR HOUSING DEMAND LEXINGTON MARKET AREA 2004 & 2009						
	2004			2009		
	Age of Householder			Age of Householder		
	55-64	65-74	75+	55-64	65-74	75+
# of Households w/ Incomes of >\$25,000/\$30,000	3,557	1,442	520	4,522	1,796	718
(plus)						
# of Households w/ Incomes of \$15-\$25K/\$20-30K	176	246	268	197	258	293
(times) Homeownership Rate	x 95%	93%	79%	x 95%	93%	79%
(equals) Potential Market	= 167	229	212	= 187	240	231
(equals) Total Potential Market Base	= 3,724	1,671	732	= 4,709	2,036	949
(times) Potential Short-Term Capture Rate	x 0.4%	6.5%	12.5%	x 0.4%	6.5%	12.5%
(equals) Potential Demand	= 15	+ 109	+ 91	= 19	+ 132	+ 91
Total Local Short-Term Demand Potential	= 215			= 243		
(plus) Demand from Outside Market Area (30%)	+ 92			+ 104		
(equals) Total Adult Rental Demand Potential	= 307			= 347		
(minus) Existing Competitive Units *	-	232		-	326	
(equals) Senior adult rental demand in Market Area	= 75			= 21		
(time) Percent of demand capturable by project in Lexington	x 30% - 35%			x 30% - 35%		
(equals) Senior adult rental demand in the Market Area	= 23 - 26			= 6 - 7		

* Existing Competitive unit counts reflect the estimated number of units that will be competitive based on position in the Market Area, less a 5% vacancy rate.

Source: Maxfield Research Inc.

Table 5 calculates demand based on senior households that have incomes of \$25,000 or more. This estimate also includes senior households whose incomes would rise to this level based on proceeds gained from the sale of their single-family homes. We have estimated this proportion based on the homeownership rates and home values in the Lexington Market Area.

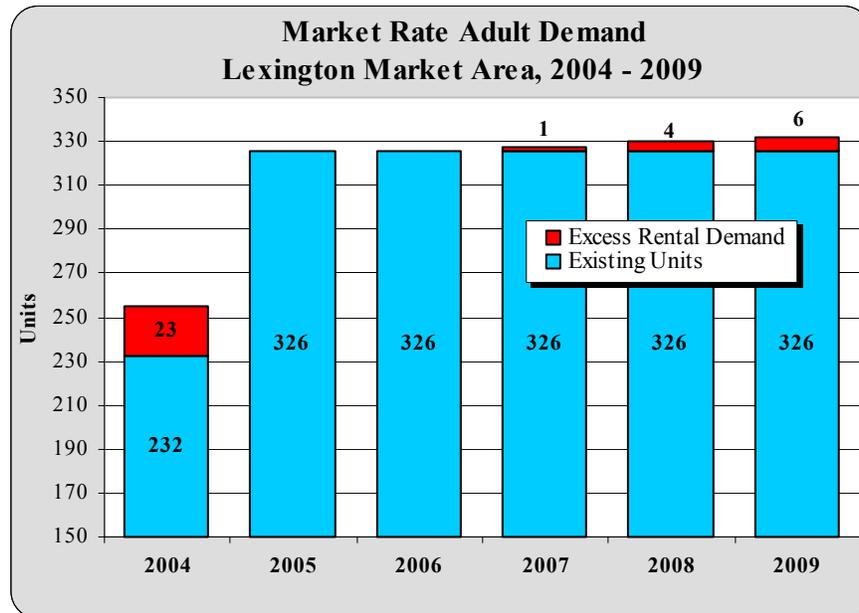
To arrive at the potential age- and income-qualified base for market rate independent senior housing, we have included all older adult and senior households that have incomes of \$25,000 or more plus households that have incomes between \$15,000 and \$25,000 who would qualify with the proceeds from the sale of their home. We estimate that the number of age- and income-qualified older adult and senior households in the Market Area in 2004 to total 6,127.

We then adjusted the number of age-qualified older adults to include appropriate short-term capture rates for each age cohort. In 2004, we estimate these capture rates to be 0.4% of households age 55 to 64, 6.5% of households 65 to 74, and 12.5% of households age 75 and older. We used the same capture rates for 2009. This results in a short-term (2004) demand potential of approximately 215 market rate independent senior rental units.

We also estimate that additional demand will come from outside the Lexington Market Area. This demand will consist primarily of parents of adult children living in the Market Area, individuals who live just outside the Market Area and have an orientation to the area, as well as former residents who desire to return. Due to the proximity of Lexington and the Remainder of the Market Area from the Metro Area, we estimate that approximately 30 percent of the demand for independent senior rental housing will come from outside the Market Area. The demand from local seniors is then added to the demand from seniors who would relocate to the Lexington Market Area resulting in a total unmet demand for 307 independent senior units in 2004 and 347 independent senior housing units in 2009.

From this estimate, a portion of existing and pending competitive rental units serving the Market Area are subtracted (minus a vacancy factor of 5% to allow for sufficient consumer choice and turnover), resulting in net demand for 75 rental units in the Market Area in 2004. We estimate that by 2009, the demand for senior rental units in the Market Area will decrease to approximately 21 units.

Finally, we estimate a range of 30-35 percent of this demand could be captured by a project located in the Market Area. This results in a demand for 23 to 26 independent senior rental units in 2004 and 6 to 7 senior rental units in 2009 due to increased competitive supply.



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 2004 exists for market rate independent senior rental housing. However, as soon as the two competitive pending developments in the Market Area come online summer 2005, all excess demand will be absorbed and there will not be sufficient demand to support additional units of independent senior housing in the City of Lexington. As shown in the chart above, our calculations indicate that there is sufficient demand to support up to 23 to 26 adult rental units in 2004. In 2005, demand will diminish to 0 after both pending projects (Blaine Towne Square and Village Plaza) come online. Over the next four years from 2006 to 2009 demand will begin to increase as the new units are absorbed in to the Market Area. Based on this level of unmet demand we would not recommend proceeding with an independent senior housing development.

Although demand is shown as minimal in 2009 we have provided recommended unit mix, sizes, and pricing for the proposed senior housing project based on the 2004 demand figures. We would recommend that the project include a range of unit sizes and types to appeal to a broader target market. Based on rents achieved at existing and pending projects in the Market Area, we recommend monthly rents ranging from \$725 to \$750 for one-bedroom units, \$825 to \$850 for one-bedroom plus den units, and \$950 to \$1,050 for two-bedroom units. These monthly rents include water, sewer, and trash removal. Residents would be responsible for heat and electricity, however.

TABLE 6
RECOMMENDED CONCEPT
INDEPENDENT SENIOR HOUSING
LEXINGTON MARKET AREA
April 2005

# of Units	Unit Type	Unit Sizes (Sq. Ft.)	Monthly Rent	Rent per (Sq. Ft.)
8 - 10	1BR	725 - 800	\$725 - \$750	\$0.94 - \$1.00
7 - 8	1BR/Den	850 - 875	\$825 - \$850	\$0.97 - \$0.97
8 - 8	2BR	950 - 1,100	\$950 - \$1,050	\$0.95 - \$1.00
23 - 26				

Source: Maxfield Research Inc.

Site Locations/Descriptions

Lexington City officials recommended a number of locations to analyze for senior housing. Three sites in Lexington were felt to be most viable. 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.

All three Sites are 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. All Sites are 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 Sites 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 all the Sites, giving seniors convenient access to the Twin Cities communities.

Site #1

This Site is located directly behind the Northway Shopping Center on both sides of Griggs Avenue. Other than a small city park, the land is vacant and owned by the Shopping Center. The owner has been approached by interested developers in the past and has chosen not to sell. Surrounding land uses are compatible with residential housing located to the south and the southeast of the Site. Northwest and north of the Site is the Shopping Center which would give seniors easy access to goods and services within a very short walk. Visibility of the Site is good from Griggs Avenue and Restwood Road with slight visibility from Lake Drive if the development

were built higher than the shopping center. We believe that the location of this Site would be appropriate for senior housing. There are no incompatible land uses adjacent to the Site and it is located behind the Northway Shopping Center in a highly visible location within a short walk or drive to goods and services. The Site is easily accessible from any direction as Restwood Road intersects with Lexington Avenue and Lake Drive. Griggs Avenue intersects with Lake Drive and Restwood Road.



View of Site #1 on the west side of Griggs Avenue towards the Northway Shopping Center.



View of Site #1 on East side of Griggs Avenue towards the Northway Shopping Center.

Site #2

This Site is located on Lovell Road adjacent to Lexington City Hall building, one block west of Lexington Avenue and is currently used as a parking lot for the building. This is easily accessi-

ble via Lexington Avenue and Lovell Road. There are no incompatible land uses adjacent to the Site and it is located a short drive or walk from goods and services. Residential neighborhoods dominate the land west and north of the Site while retail and services are located south and east of the Site. The City did mention that they must provide enough parking spaces for the tenants in their building and that this parking lot was used for this purpose, although the parking here is more for overflow from their other lot.



View of Site #2 north from access driveway on Lovell Road.

Site #3

Site #3 is vacant land located in between Lexington Avenue and Jackson Avenue in the southeastern end of Lexington. The Site is surrounded by residential housing on the north, south, and west. The eastern view from the Site would be Hidden Lake and Kate Haven Golf Course towards the southeast. The Site would be highly visible and accessible from Lexington Avenue. The Site could be accessed from Jackson Avenue also which comes to a dead end at the Site. New townhomes are currently being constructed west of Site on the other side of Jackson Avenue. The surrounding land is compatible with the Site and goods and services are located one-half mile north of the Site at the corner of Lexington and Lake Drive. The desirability for seniors of possible views of the Lake and Golf Course give this Site a slight advantage over the previous Sites.



View of Site #3 northwest from Lexington Avenue



View of Site #3 west from Lexington Avenue.

Summary

Overall, we believe that all Site locations are adequate for independent senior housing. The locations are within quick access to goods and services in Lexington and Circle Pines and have no incompatible land uses adjacent to any of the Sites. All three locations have high visibility and are easily accessible from the surrounding communities. Site #1 is desirable due to its location

behind 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. Site #2 is within a short drive of the Northway Shopping Center and a short walk from the strip mall on the corner of Lexington Avenue and Lake Drive. Site #3 is the most aesthetically pleasing location with some possible views of Hidden Lake and Kate Haven Golf Course along with residential neighborhoods.