



**Market Feasibility & Demand Analysis
Ocean View, DE Market Area**

Presented to Silverstock Builders LLC

October 2012

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I. Introduction

The information and data provided in this report by Sage Age Strategies (Sage Age) is intended to provide Silverstock Builders LLC (Silverstock) with a comprehensive overview of the Ocean View, DE market area, as well as the competitive environment within that market area for active adult market rate apartments, independent living, traditional assisted living and memory care assisted living. This report includes a demographic evaluation of the market area, a full competitor review and market demand analyses for active adult market rate apartments independent living, assisted living, and memory care assisted living lifestyles.

This information is provided for the sole purpose of helping to better direct Silverstock in their consideration of the potential development of a retirement living community on the Ocean View, DE property. The data and findings in this report will provide the solid base required to help guide Silverstock's decision, as well as determine the need and direct the plans for the potential development project.

Sage Age greatly appreciates the opportunity to present this report and looks forward to further discussion with Silverstock regarding this project.

II. Project & Site Information

Site Location

The Ocean View, DE site location is conveniently located off of Route 1 and Route 113, easily accessible from other areas of Delaware, as well as Pennsylvania and Maryland. Ocean View, DE is a great destination location for retirees, offering easy access to broad, sandy beaches and serene nature areas, such as Delaware Seashore State Park. The Bethany Beach/Fenwick area is popularly known as "The Quiet Resorts" and retirees to this area can enjoy culture, cuisine and charm.

In addition to being within minutes of beaches, the Ocean View site location is close to the boardwalk and provides great areas for walking and biking, as well as a host of restaurants and an abundance of activities. Silverstock has a great opportunity to develop a resort-style senior living option in the Ocean View market for those who wish to retire to a great destination location – beautiful coastal Delaware.

Site Roadways

The site for the Silverstock project will be located along the new Alternate State Route 26. The SR 26 Detour Routes project will improve almost five miles of roadways to provide two 11-foot travel lanes with 5-foot shoulders/bike lanes. In addition to improving the roadways, drainage facilities will be provided within the city limits. This work will improve the overall roadway conditions and provide safer roads for both vehicular and pedestrian/bicycle traffic. These improved roadways will be utilized by additional traffic both during the construction of the SR 26 Mainline project and into the future.

The SR 26 Mainline project will improve over four miles of SR 26 between the Assawoman Canal and Clarksville. The existing travel lanes and shoulders will be widened to meet current standards, and a 12-foot shared center turn lane as well as a right turn lanes will be added throughout the project limits. Sidewalks will be added between Canal and Windmill Road. These improvements will enhance the safety of the traveling public, reduce congestion and improve the overall roadway conditions.

This roadway project is being done, in part, to help manage the traffic in southeast Sussex County from both visitors to the beach and the increasing year round population. Work on these projects is scheduled to be completed by 2017, but could last until 2019 or 2020. The SR 26 project will enhance the value of the 34.5 acres of approved commercial acreage – the 460 single and multifamily units, which will include approximately 180 55+ dwellings, as well as the Independent and Memory Care Assisted Living facilities.

Delaware Retirement Benefits

In addition to the exceptional retirement destination location of the project, it is also important to note that the state of Delaware offers many benefits to retirees. In comparison to other nearby states, such as Pennsylvania, New York or Maryland, the advantages of retiring to Delaware are notable. Marketing efforts for the Silverstock project, targeted to seniors in these nearby states, can also highlight some of these benefits to help persuade individuals to retire to beautiful coastal Delaware.

One of the biggest areas that Delaware retirees benefit is in relation to tax advantages. Delaware offers some of the lowest real estate taxes in the country. Additionally, there is no sales tax, no personal property taxes, no local taxes (with the exception of Wilmington) and no state tax on social security benefits. Inheritance tax is applied only to large estates, and most residents do not pay an inheritance tax. Also, there is an age-dependent exclusion amount on pension benefits (up to \$12,500 of pension income, including capital gains, interest and dividends).

Senior Population Growth in Delaware

The baby boomer generation is just beginning to make an impact on the senior living industry, with the leading age of the baby boomers reaching age 65 in 2010. This generation has already played a huge role in reshaping America and will continue to do the same as these individuals reach retirement age. As baby boomers age, the demand for senior housing and long-term care will increase dramatically. It is important to note, however, that many seniors will desire to stay in their own homes for as long as possible, even as they begin to need additional support.

During the next decade, growth in the senior population will account for approximately 62 percent of Delaware's total net growth. Sussex County, in particular, will experience dramatic increase with an additional 20,000 seniors, resulting in one in every four people being 65 years or age or older. This growth will be a result of not only "aging in place" but also from in-migration to Delaware. According to the *Implications of the Gray Wave Crashing into Delaware* report, over half (57%) of those individuals in Sussex County who are soon to retire (ages 55-64) are expected to move there from other areas between 2010 and 2020, with much of this movement into the beach areas.

Those who choose to migrate to another state for retirement often do so for a variety of reasons, such as the benefit of low property taxes and/or estate/inheritance taxes. Additionally, individuals may be drawn to coastal properties or areas with low seasonal temperature variation, low crime rates and high median home values. Typically, seniors who choose to move to another state for retirement are a bit younger and are often more financially stable. The Ocean View, DE market area offers many advantages for seniors who are considering a move to a senior living community, whether they are already living in Delaware or reside out of state. Together, New Jersey, New York, Pennsylvania, Maryland and Massachusetts account for over 80 percent of the net moves to Delaware, including those in the senior age cohorts.

Senior population growth is expected to continue in Delaware through both aging in place and in-migration. Between 2000 and 2009, Delaware is estimated to have added over 24,000 seniors, with the majority of this growth occurring in Sussex County. Seniors age 65+ in Sussex County accounted for approximately one-half of the total increase in the state's senior population. Furthermore, the number of Delaware seniors is projected to grow at an even greater pace through 2020, with the addition of 50,000 individuals aged 65 years and older. It is important to note that a large concentration of individuals 65+ reside along the coastal areas of Sussex County, Delaware.

III. Market Area Definition

The market area identifies the geographic region in which the subject facility would operate and can expect to draw the majority of its residents from. Generally speaking, anywhere from 50% to 90% of a facility's residents are drawn from the market area. This percentage, referred to as the market draw, will vary depending upon several factors including, but not limited to the size of the market area, a facility's relationship with referral sources in the market area, a facility's reputation within a community, physical or psychosocial barriers, national appeal of the community and the competitive environment. The market area can be expressed as a ring or polygon mapped out from a specific location (i.e. radius) or as a list of specific zip codes.

Physical barriers are geographic features that can limit or inhibit the accessibility of a facility. Such barriers may include mountain ranges, rivers and other bodies of water, and interstates and major roadways. These barriers may not only serve to make access to a facility difficult, but may also increase travel time to a facility, possibly rendering the facility a less desirable option.

Psychosocial barriers may include a state or county's political borders that residents of an area are reluctant to cross in order to receive services. Conversely, psychosocial boundaries that limit or define a service area may represent more complex factors, including differences in ethnic backgrounds and social convention. Psychosocial barriers, though sometimes difficult to define, can be critical in assessing a facility's operating market and in explicating resident origin patterns.

Based upon the geography and traffic patterns of the Salisbury/Dover/Ocean View market area, the primary market area for the Silverstock project was identified.

Primary Market Area

The primary market area for the Silverstock project was identified by a specific list of zip codes that fall primarily within a 32-mile radius of the proposed site location in Ocean View, Delaware and extend north along Route 13 and Route 1 to Dover. This radius includes Sussex County, as well as portions of Worcester, Wicomico and Kent counties in Maryland and Delaware. Major towns that fall within the market area include Lewes, Rehoboth Beach, Milton, Selbyville, Berlin as well as Salisbury and Dover.

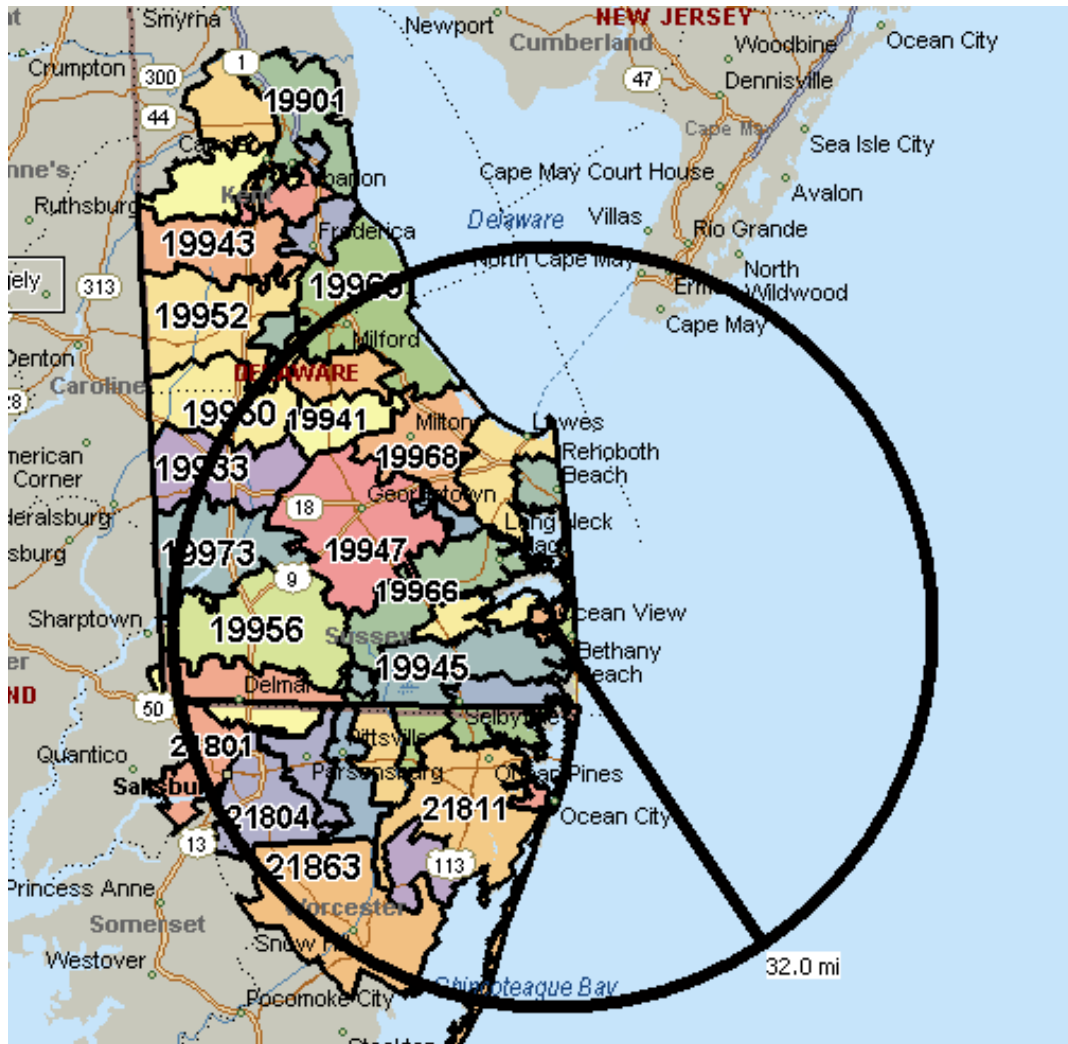
The zip codes that fall within the market area are indicated in the chart below:

19901	19902	19904	19930	19931	19933	19934
19939	19940	19941	19943	19944	19945	19946
19947	19950	19951	19952	19954	19956	19958
19960	19962	19963	19966	19968	19970	19971
19973	19975	19979	21801	21804	21811	21813
21841	21842	21849	21850	21863	21872	21874
21875						

It is believed that a strong percentage of the Silverstock project residents would be drawn from this primary market area, as the determined primary market covers a larger geographic area than most typical market areas, given the nature of the site location. Access to beaches and the boardwalk, as well as the attractiveness and convenience of the Ocean View/Bethany Beach area, makes this market a great location to be a retirement destination for seniors.

Sage Age also feels that Silverstock has the opportunity to entice individuals from outside of this primary market area to move to Ocean View, Delaware for their retirement living, not only due to the exceptional coastal location, but also as a result of the tax benefits and advantages of retiring to Delaware over other nearby states. Future residents may pull from cities outside of the market area, such as Annapolis or Baltimore, and other nearby states such as New Jersey, New York or Pennsylvania. This may especially be the case for those seniors who move to the area to be closer to adult children living within the Ocean View, Delaware market area. It is important to keep in mind that adult children are becoming key decision makers in care for their parents, especially in relation to areas such as traditional assisted living and memory care assisted living. Adult children often want their parents or loved ones to move into communities that are close to where they live for their convenience and peace of mind. Not only does Silverstock have the opportunity to market to seniors within the primary market area, but the project can also be marketed to adult children living in the Ocean View, DE area.

Primary Market Area Map



IV. Primary Market Area Demographics

This section presents an analysis of demographic trends for the Ocean View, Delaware market area. Data for the state of Delaware and the United States are presented for comparison purposes.

The demographic characteristics and trends for the primary market area are provided by data derived from the US Census Bureau regarding population and households. This will include updated US Census data from the year 2010, estimates for 2011 and projections for 2016. This data is part of the Senior Market Profile and Senior Market Report provided by PMD Advisory Services, LLC and AGS.

Senior Population

The age distribution of a population in a geographic area is a key factor in determining the market area's housing needs. Based on current demographic estimates, it appears that the market area will continue to experience continued growth in regards to both total population as well as senior population between 2011 and 2016.

In 2011, there were a total of 35,052 persons aged 75+ in the primary market area. By 2016, persons aged 75+ are expected to increase by approximately 3,650 individuals. In addition, the concentration of seniors in the market area during this time period is expected to remain steady at 7.5%, which is a fairly strong concentration and speaks well overall to the 75+ population in the market. Additionally, it is important to note that all age cohorts are expected to increase between 2011 and 2016, with the highest percent increase gain in the 75-79 and 80-84 populations, the key target market for independent living in a retirement community.

**Table 1:
75+ Population Change by Age Cohorts**

	2000 Census	2011 Estimated	2016 Projected
Total Market Area Population	369,329	466,786	516,964
Age 75-79 Population	11,746	15,464	17,088
Age 80-84 Population	7,160	10,521	11,621
Age 85+ Population	5,488	9,067	9,990
Total 75+ Population	24,394	35,052	38,699
Percent of Total Population	6.6%	7.5%	7.5%

It is also important to consider a slightly younger target market for the potential development of active adult market rate apartments. In 2011, there were a total of 79,271 persons aged 60-74 in the primary market area. By 2016, persons in this age bracket are expected to increase by nearly 8,500 individuals.

In addition, the concentration of seniors age 60-74 in the market area during this time period is expected to remain steady at 17.0%, which is a strong concentration and speaks well to this population in the market. Additionally, it is important to note that all age cohorts are expected to increase between 2011 and 2016.

**Table 2:
Active Adult Population Change by Age Cohorts**

	2000 Census	2011 Estimated	2016 Projected
Total Market Area Population	369,329	466,786	516,964
Age 60-64 Population	18,474	31,920	35,329
Age 65-69 Population	17,930	27,116	30,040
Age 70-74 Population	15,552	20,235	22,383
Total 60-74 Population	51,956	79,271	87,752
Percent of Total Population	14.1%	17.0%	17.0%

The senior population in both Delaware and the Ocean View market area are expected to experience continued growth between 2011 and 2016. Comparatively speaking, the Ocean View market experienced a much stronger growth rate than Delaware and the United States between 2000 and 2011, with the percent change per year at 2.76%. Between 2011 and 2016, the Ocean View market area is also expected to experience a higher growth rate than both Delaware as a whole and the United States. Although the market area's estimated annual growth rate from 2011 to 2016 is less than the growth rate that was experienced between 2000 and 2010, it is important to note that there is still a 9.42% positive percent change expected through 2016, which speaks well to a growing age 75+ market.

**Table 3:
Percent Change in 75+ Population**

	Ocean View Market Area	Delaware	United States
2000 Population	24,394	45,311	16,600,767
2011 Population	35,052	57,993	18,807,279
<i>Percent Change 2000-2011</i>	30.41%	21.87%	11.73%
<i>Percent Change Per Year</i>	2.76%	1.99%	1.07%
2011 Population	35,052	57,993	18,807,279
2016 Population	38,699	62,017	19,473,250
<i>Percent Change 2011-2016</i>	9.42%	6.49%	3.4%
<i>Percent Change Per Year</i>	1.88%	1.30%	0.68%

These positive population statistics, both for the independent living and active adult target markets, bode well for the potential for senior living communities in the market. While overall senior population within the market area plays a large role in the potential success of the project, there are several other demographic factors that must be considered as part of this analysis.

Senior Home Value

Due to the fact that many seniors utilize a majority of their home sale proceeds to apply towards their rent or buy-in fee when they move to a retirement community, it is also important to consider home values of seniors in the market area.

It is estimated that in 2011, the median home value for seniors in the Ocean View market area was around \$132,000. By 2016, this value is projected to rise to approximately \$147,500. The housing values for both all age households as well as senior households in the market area are very comparable to the median home values for Delaware as a whole. For 2011 and 2016, senior housing values in the Ocean View market area are expected to remain approximately \$13,000 - \$15,000 less than the median home values for all ages in the market area, which is typical for most markets.

**Table 4:
Median Senior Home Values**

	Ocean View Market Area	Delaware
All Age Households		
2011	\$144,870	\$153,112
2016	\$162,276	\$164,139
75+ Senior Households		
2011	\$131,698	\$139,191
2016	\$147,521	\$149,215

Additionally important to consider are home value ranges with the highest concentration of seniors in the Ocean View market area. In 2011, the highest concentration of senior home values was in the \$75,000 to \$99,000 range at 15.3%, followed by the \$125,000 to \$149,999 range at 13.8%. While the seniors with home values in this lower bracket may not be able to afford the buy-ins at a senior living community, those with homes in the higher range would likely be able to do so.

By 2016, the highest percentage will fall into the \$150,000 to \$199,999 range at 14.7%. This is followed by the \$100,000 to \$124,999 range at 12.9%. It is also important to note that between 2011 and 2016, all of the home value ranges over \$150,000 are expected to experience increased growth, with the exception of the \$200,000 to \$249,999 bracket. Also, all home value ranges under \$150,000 will decrease in terms of percentage of the total population. The biggest change will occur in the \$150,000 - \$199,999 range, increasing from 10.3% of the total population in 2011 to 14.7% in 2016.

Additionally, the concentration of seniors with homes valued at over \$150,000 is expected to continue to increase through 2016 to eventually account for approximately 48.7% of all senior households in the market area, which bodes well for the ability for seniors in the market area to be able to afford living in a senior community.

**Table 5:
Age 75+ Households by Home Value
2000 – 2016**

Home Value	2000 Census % of Total	2011 Estimate % of Total	2016 Projection % of Total
Less than \$40,000	6.0%	4.9%	4.4%
\$40,000-\$59,999	9.9%	5.8%	4.4%
\$60,000-\$74,999	11.9%	6.7%	4.9%
\$75,000-\$99,999	16.4%	15.3%	12.4%
\$100,000-\$124,999	16.7%	13.6%	12.9%
\$125,000-\$149,999	5.5%	13.8%	12.2%
\$150,000-\$199,999	13.3%	10.3%	14.7%
\$200,000-\$249,999	5.3%	10.0%	9.0%
\$250,000-\$299,999	3.0%	4.4%	6.9%
\$300,000-\$499,999	4.5%	5.8%	7.1%
\$500,000 and Over	7.5%	9.4%	11.0%
\$150,000 and Over	33.6%	39.9%	48.7%
Median Home Value	\$108,756	\$131,698	\$147,521

Senior Household Income

In addition to looking at housing values of seniors in the market area, the household income of seniors is also significant. In order to be able to afford the monthly rental fees associated with a retirement community, seniors must have the appropriate income levels.

Income demographics are analyzed in relation to a level at which the senior would be able to afford monthly rental fees at a retirement community without having to access money from other assets. Using a base annual income of \$50,000, which would be a conservative income level at which seniors would be able to afford to pay privately for retirement living in the market area, income demographics for the Ocean View market area are evaluated below.

Among the 60-74 target market for active adult market rate apartments, the highest concentration of seniors falls into the \$10,000 to \$25,000 income bracket at 19.4%, followed very closely by the \$50,000 to \$75,000 range at 19.3%. The next highest bracket is the \$35,000 to \$50,000 range at 14.0%. While the lower income bracket, under \$25,000, would most likely not be able to afford monthly rental fees for an active adult market rate apartment, those in the \$35,000 to \$50,000 and the \$50,000 to \$75,000 income brackets would likely have the funds to do so. Additionally, it is important to note that the percentage of seniors in the 60-74 target market with an income of over \$50,000 is 47.4%, which speaks well to the affordability of active adult market rate apartments for the market area.

Among the 75+ target market, the highest concentration of seniors also falls into the \$10,000 to \$25,000 income bracket at 22.5%, followed by the \$50,000 to \$75,000 range at 17.0% and the \$25,000 to \$35,000 and \$35,000 to \$50,000 ranges at 12.5% and 12.3%, respectively. While the lower income brackets, under \$35,000, would most likely not be able to afford monthly fees at a senior living community for an extended period of time, those in the \$35,000 to \$50,000 and the \$50,000 to \$75,000 income brackets would likely have the funds to do so. Additionally, it is important to note that the percentage of seniors aged 75+ in the market area with an income of over \$50,000 is 42.6%. The median income for this target market demographic is \$40,995.

**Table 6:
Projected 2016 Household Income by Age Cohort**

Household Income	Age 60-64	Age 65-69	Age 70-74	Age 75-79	Age 80-84	Age 85+	60-74 Target Market	75+ Target Market
Less than \$10,000	5.1%	5.9%	6.8%	8.8%	9.2%	13.8%	7.4%	10.1%
\$10,000-\$25,000	14.6%	17.8%	20.7%	20.8%	25.1%	22.2%	19.4%	22.5%
\$25,000-\$35,000	11.8%	14.8%	12.1%	11.3%	13.7%	13.2%	13.0%	12.5%
\$35,000-\$50,000	12.9%	16.0%	15.2%	15.2%	11.3%	8.1%	14.0%	12.3%
\$50,000-\$75,000	22.6%	18.9%	18.9%	20.1%	14.6%	14.0%	19.3%	17.0%
\$75,000-\$100,000	11.0%	12.2%	10.0%	9.3%	11.3%	9.6%	10.9%	10.0%
\$100,000-\$150,000	14.9%	8.0%	10.5%	8.8%	10.0%	9.5%	10.6%	9.3%
\$150,000-\$250,000	4.5%	3.5%	4.8%	3.6%	3.0%	7.0%	4.3%	4.2%
\$250,000 and Over	2.5%	2.9%	1.1%	2.0%	1.7%	2.6%	2.2%	2.0%
Over \$50,000	55.6%	45.5%	45.1%	43.9%	40.7%	42.7%	47.4%	42.6%
Median Income	\$56,135	\$45,787	\$45,180	\$43,955	\$37,628	\$36,461	\$43,743	\$40,995

Individuals in Need of Assistance

When it comes to assisted living services, demographics must be examined based upon households/individuals that are in need of these services, as well as the income levels of these households for affordability of an assisted living community.

Within the defined market area, an estimated total of 3,697 senior households have an individual in need of assistance with at least one activity of daily living. In addition, of these households, 1,193 (or 32.3%) appear to have income levels over \$50,000, which would most likely allow them to be able to afford to live in an assisted living community to receive the services they need. The chart below details household income levels of individuals in need of assistance with one or more activities of daily living.

**Table 7:
2011 Household Income for Individuals Needing 1+ ADL Assistance**

Household Income	75+ Target Market
Less than \$10,000	16.7%
\$10,000-\$25,000	26.0%
\$25,000-\$35,000	13.4%
\$35,000-\$50,000	11.6%
\$50,000-\$75,000	13.7%
\$75,000-\$100,000	7.5%
\$100,000-\$150,000	6.4%
\$150,000-\$250,000	3.2%
\$250,000 and Over	1.4%
Total Households	
	3,697
Over \$50,000	
	1,193
Percent of Total	
	32.3%

Households in Need of Memory Care Services

Similar to looking at assisted living services, demographics for memory support also need to be examined on a need basis, in addition to having the income levels to be able to afford this level of care in a secure memory care community. The chart below details household income levels of individuals in need of Alzheimer's or other memory support care.

**Table 8:
2011 Household Income for Individuals Needing Memory Care**

Household Income	75+ Target Market
Less than \$10,000	18.2%
\$10,000-\$25,000	26.1%
\$25,000-\$35,000	13.7%
\$35,000-\$50,000	10.2%
\$50,000-\$75,000	12.8%
\$75,000-\$100,000	7.5%
\$100,000-\$150,000	6.4%
\$150,000-\$250,000	3.6%
\$250,000 and Over	1.5%
Total Households	
	1,746
Over \$75,000	
	332
Percent of Total	
	19.0%

In 2011, it is estimated that there were 1,746 households with an individual in need of memory care assisted living services. Of those households, approximately 19.0%, or 332 households, have income levels over \$75,000, which would likely be necessary for an individual to be able to afford living in a memory care community in the market area.

It is important to note that those with incomes over \$50,000 may be able to afford living in a memory care community, but would likely require living in semi-private accommodations. Those households with incomes over \$50,000 in the market area account for 556 households, or 31.8% of total households with a need for memory care services.

Market Area Demographics Summary

In looking at the potential Silverstock project, the demographic data for the market area seems to provide positive support for the building of a senior living community in the Ocean View/Bethany Beach market area. Senior population trends, home values and income levels all appear to show encouraging statistics. The 75+ population is expected to continue to grow through 2016. In 2000, the 75+ age group accounted for 6.6% of the total population, but has increased to 7.5% in 2011 and is estimated to remain steady at this percentage through 2016. The 60-74 age target market for active adult market rate apartments is also expected to grow through 2016 and maintain its steady percentage of the total population at 17%. Additionally, the trends indicate that the market area will experience a greater percentage of growth per year between 2011 and 2016 than both the state of Delaware and the United States as a whole.

The median home values for the senior population in the market area are expected to increase significantly from \$131,698 in 2011 to \$147,521 in 2016. Additionally, 39.9% of those aged 75+ currently have homes valued over \$150,000, and that percentage will increase through 2016 to account for 48.7% of the total. Also by 2016, the highest percentage of senior home values will fall within the \$150,000 - \$199,999 range.

Senior income levels also show positive support for the potential development of a senior living community in the Ocean View/Bethany Beach market area. While the median income for those in 75+ target market is only \$40,995, those with income levels over \$50,000 account for 42.6% of the population.

In terms of individuals in need of assistance, approximately 3,700 individuals require assistance with one or more activities of daily living, with 32.3% of these individuals having an income over \$50,000, which would likely be required to afford living in an assisted living community in the market area. Additionally, 19% of those individuals in need of memory care assisted living (332 people) have an income over \$75,000, which would be a conservative income level to afford memory care assisted living in the market area.

V. Competitive Overview

A survey of competitive communities within the determined market area identified **369** units for active adult market rate apartments, **411** units for independent living, **877** units for traditional assisted living and **234** units for secure memory care assisted living.

Primary Market Area Competitors

Community Name	55+ Apts.	IL Units	AL Units	ALZ Units
The Grande	144	0	0	0
Woods Edge Apartments	40	0	0	0
Mallard Landing	17	0	0	0
The Woodlands of Ocean Pines	52	0	0	0
Courtside Apartments	32	0	0	0
Planters Run	72	0	0	0
Zimmerhaus II Senior Apartments	12	0	0	0
Cadbury at Lewes	0	130	30	15
Gull Creek Retirement Community	0	38	38	10
Methodist Manor House	0	112	58	17
Westminster Village	0	119	42	17
Tressler Lutheran Village	0	12	30	10
Lakeside Assisted Living at Mallard	0	0	61	23
Brandywine Assisted Living Fenwick	0	0	64	34
Catered Living of Ocean Pines	0	0	32	0
Brandywine Assisted Living Seaside	0	0	82	14
Atria Salisbury	0	0	50	20
Emeritus at Dover	0	0	61	24
Heritage at Dover	0	0	52	19
Heritage at Milford	0	0	65	15
Seaford Center	0	0	17	0
John B Parsons Home	0	0	49	0
State Street Assisted Living	0	0	98	0
Marilyn's Home for the Aged*	0	0	16	0
Sarah, Margaret & Mollie's Place*	0	0	16	0
Delmar Manor Assisted Living*	0	0	0	16
Golden Gardens*	0	0	16	0
TOTAL	369	411	877	234

**Please note that Marilyn's Home for the Aged, Sarah, Margaret & Mollie's Place, and Delmar Manor Assisted Living are a small, residential assisted living setting and will not be comparable to the Silverstock offering. As a result, these units were not included in the demand analysis that was completed. The total competitive unit count that was taken into consideration in the demand analysis was 829 units for traditional assisted living.*

Planned Competition

At the time of the study, local Planning and Zoning offices were contacted to determine if there are currently any planned developments for senior living communities within the primary market area. Contact was made with Kent, Sussex, Wicomico and Worcester counties, as well as the cities of Dover, Milford, Salisbury, Smyrna, Snow Hill and Ocean City. The consultant is still awaiting information from the City of Dover. While there were two low income senior projects (one in Milford and one in Berlin), there was only one community currently under construction that would be considered potentially competitive.

Davey's Assisted Living just recently broke ground on another 16-bed assisted living community that will be called Delmar Villas, located in Delmar next to Delmar Manor. It is projected to open within the next three to four months. It will feature a movie theatre, living room, a wellness center and concierge services. Rates will be all inclusive, with the exception of any necessary medical supplies and transportation to doctor's appointments, which will be offered for \$50 round trip. Estimated rates are \$3,200-\$3,800 for semi-private, \$4,000-\$4,500 for private, and \$6,500-\$7,000 for a suite. This product seems as though it will be a step up from the current offerings of Davey's Assisted Living; however, it still is only a 16-bed community and will likely be more of a residential environment, similar to the other locations. Therefore, this new assisted living community was not factored into the demand calculations.

VI. Market Demand Analysis

The following is the analysis and details regarding the working assumptions used to test the market saturation of active adult market rate apartments, independent living, traditional assisted living and memory care assisted living in the Ocean View, DE market area. Market study and demand results are also presented in this section of the report.

Data collected from a 2012 Senior Market Report and Senior Market Profile of the market area was employed in this demand analysis. Market area competitor information and insights report were also used to help formulate assumptions in the determination of market feasibility.

Active Adult Market Rate Apartments

Demand Model Assumptions

Following is a summary description of the assumptions used for evaluating the demand for independent living rental units in the Ocean View, DE market area using a first year of occupancy in 2014.

Age Range: 65-85 years of age

Discounting Households: All owner household types in the market area were discounted by 75% to reflect the difficulty of reflect the difficulty of dislodging residents from their existing home into an active adult rental community. All renter households were discounted by 25% to reflect the difficulty of dislodging a current renter into an active adult rental retirement community setting.

Ratio of Rent to Pre-Tax Income: A factor of 40% was used for all household types, which is reflective of the level of services that are assumed to be included in this monthly fee.

Proposed Monthly Fees: Monthly fees reflective of the current active adult market rate apartment pricing at competitive communities in the market area were utilized for the purpose of this demand analysis. These price points are represented in the chart below:

Active Adult Market Rate Rental Unit Demand Pricing

	Demand Pricing
Price Point 1	\$900
Price Point 2	\$1500
Price Point 3	\$2100
Second Occupant	N/A

Above rates are intended for the sole purpose of analyzing the demand in the market for active adult market rate rental units. These prices do not necessarily reflect recommended pricing for the Silverstock project. Pricing recommendations will be provided based upon unit and project specifics.

Stabilized Occupancy: In order to be conservative in the demand projection, stabilized vacancy was set at 5%, assuming a constant occupancy of 95%.

Percent Draw from the Market Area: Based on industry experience, it is common to find that approximately 75% of future residents will be drawn to the project from within the market area, while 25% of the residents will come from outside the primary market area in surrounding communities in Delaware, nearby states and elsewhere in the United States.

Upper Income Limit: No upper income limit was used in this analysis.

Percent of Home Value Proceeds to Apply to Rent: 90% of home sale proceeds were factored in as a contribution to annual income to be used for rent in this analysis for both single and married household types; 10% of home sale proceeds represent realtor fees and closing costs. 0% of home sale proceeds were assumed to be applied towards rent for other household types. The annual return was based on a 4% interest rate.

Competitive Units: The Ocean View market area consists of a total of 369 competitive active adult market rate units that were all accounted for in the demand analysis.

Capture Rate: A capture rate is an assumption used to identify what portion of the target market the analyst expects the subject project to acquire. As an industry standard, capture rates for independent living units generally fall between 3% and 5%. For the purposes of this demand, results from both rates are calculated and reported.

Demand Analysis Results

Using active adult market rate price points that are in line with the current market pricing in the identified market area, it appears that the Ocean View, DE market area could support additional active adult market rate rental apartments. A 1%, 3% and 5% capture rate were tested.

At a 1% capture rate, there appears to be demand in the market for an additional **105** active adult market rate apartments. At a 3% capture rate, the demand increases to an additional **317** units. At a slightly higher capture rate of 5%, the demand increases significantly to **529** units.

A capture rate of 1% was tested simply for a conservative demand projection, as it is assumed that it would be more difficult to entice individuals to move from their current home into a strictly rental situation. It is important to note, however, that Sage Age feels strongly that the Silverstock project could capture a higher percentage (in the 3% to 5% range) if a variety of services/amenities are offered to residents. Supportive services are a critical component, as seniors are typically waiting longer to make a move to a senior living community and often require some type of assistance, even if it is minimal. For instance, an active adult market rate apartment community that offers additional supportive services – even if offered on a la carte basis – could likely capture a higher percentage of the market than the conservative demand calculation of just 1%. By offering services such as housekeeping, transportation and flexible meal plan options, the Silverstock project can likely accomplish rates within the 3% to 5% range.

Independent Living Units

Demand Model Assumptions

Following is a summary description of the assumptions used for evaluating the demand for independent living rental units in the Ocean View market using a first year of occupancy in 2014.

Age Range: 75 - 100 years of age

Discounting Households: For a pure monthly rental demand, all owner household types in the market area were discounted by 50% to reflect the difficulty of reflect the difficulty of dislodging residents from their existing home into a rental independent living community. All renter households were discounted by 25% to reflect the difficulty of dislodging a current renter into a rental retirement community setting.

To analyze a buy-in and monthly fee structure for independent living, all owner household types in the market area were discounted by a particular percentage to reflect the number of 75+ with home values less than a given amount. Two separate demands were completed – one with a discount of 45% to discount out households with home values of less than \$150,000 and one with a discount of 70% to discount out households with home values less than \$200,000. All renter households were discounted by 100% because it is conservatively assumed they would not have the funds to afford a buy-in fee.

Ratio of Rent to Pre-Tax Income: A factor of 70% was used for all one-person household types and a factor of 60% was used for married and other household types, which is reflective of the level of services to be included in the monthly fee, for the apartment demands.

Proposed Monthly Fees: Monthly fees reflective of the current independent living pricing at competitive communities in the market area was utilized for the purposes of this demand analysis. These price points are represented in the charts below:

Rental Unit Demand Pricing

Unit Type	Demand Pricing
One Bedroom	\$3,000
One Bedroom/Den	\$3,500
Two Bedroom	\$4,000
Second Occupant	\$500

Buy-in Apartment Demand Pricing

Unit Type	Demand Pricing
One Bedroom	\$1,700
One Bedroom/Den	\$2,500
Two Bedroom	\$3,500
Second Occupant	\$500

Above rates are intended for the sole purpose of analyzing the demand in the market for independent living units. These prices do not necessarily reflect recommended pricing for the Silverstock project. Pricing recommendations will be provided based upon unit and project specifics.

Stabilized Occupancy: In order to be conservative in the demand projection, stabilized vacancy was set at 5%, assuming a constant occupancy of 95%.

Percent Draw from the Market Area: Based on industry experience, it is common to find that approximately 75% of future residents will be drawn to the project from within the market area while 25% of the residents will come from outside the primary market area in surrounding communities and elsewhere in Delaware, as well as nearby states such as New Jersey, Maryland, Pennsylvania and elsewhere in the United States.

Upper Income Limit: No upper income limit was used in this analysis.

Percent of Home Value Proceeds to Apply to Rent: For the rental demand analysis, 90% of home sale proceeds were factored in as a contribution to annual income to be used for rent in this analysis for both single and married household types; 10% of home sale proceeds represent realtor fees and closing costs. 0% of home sale proceeds were assumed to be applied towards rent for other household types. The annual return was based on a 4% interest rate.

In the case of the buy-in demand analyses, 0% of home sale proceeds were expected to be used towards rent for all household types because it is assumed that the home value would be used to pay for the buy-in fee at the community.

Competitive Units: The Ocean View, DE market area consists of a total of **411** competitive independent living units that were all accounted for in the demand analysis.

Capture Rate: A capture rate is an assumption used to identify what portion of the target market the analyst expects the subject project to acquire. As an industry standard, capture rates for independent living units generally fall between 3% and 5%. For the purposes of this demand, results from both rates are calculated and reported.

Demand Analysis Results

It appears that the Ocean View, DE market area could support additional independent living units under either a rental or buy-in fee structure. A 3% and 5% capture rate were tested for both fee structures.

For rental type units, based on a 3% capture rate, there appears to be a demand in the market for an additional **140** units. At a 5% capture rate, this demand increases to **233** units.

For independent living buy-in units, based on a 3% capture rate and discounting out households with home values less than \$150,000, it would appear that the age and income qualified pool of households in the market area would support an additional **209** independent living units. At a 5% capture rate, calculations show the demand increases to approximately **349** units.

For independent living buy-in units, discounting out households with home values less than \$200,000, the demand decreased considerably, but still remained positive. At a 3% capture rate, it would appear that the age and income qualified pool of households in the market area would support an additional **106** independent living units. At a 5% capture rate, calculations show the demand increases to approximately **178** units.

These calculations are all strong and speak well to the feasibility of building an independent living community in the market area, under either a rental or buy-in fee structure.

Market Area Penetration Rates

Market penetration rates for independent living units in the Ocean View area were also calculated as a second test of feasibility and as a cross-check to gauge the amount of target households that may utilize existing and planned units in the market. The higher penetration of these units into the market, or the more the market is saturated, the slower the absorption rate (prolonged occupancy growth period) and the larger the marketing budget that may be necessary to fill new units.

Penetration rates are equal to the total number of existing and planned beds in a market in relation to the number of target households in that particular area. For independent living, mature markets tend to have penetration rates of approximately 30%. Rates under 30% indicate an opportunity, while rates above 30% indicate a highly competitive market.

Using a target market of age 75+ with an annual income above \$50,000, the market penetration rate for independent living units in the Ocean View market area is currently **4.74%**. This market penetration rate indicates penetration significant opportunity for growth for independent living units within the market area and supports the demand results that were determined for this study.

Traditional Assisted Living Units

Demand Model Assumptions

Following is a summary description of the assumptions used for evaluating the demand for traditional assisted living units in the Ocean View market area using a first year of occupancy in 2014.

Age Range: 75+ years of age

Discounting Households: Single owner and renter household types were not discounted to reflect the propensity of individuals living alone to seek assisted living if necessary. Married and other households were discounted by 25% to reflect the lower likelihood of one individual seeking care in an assisted living facility. Elderly persons in non-elderly households were discounted by 50%.

Ratio of Rent to Pre-Tax Income: A factor of 80% was used for single, one person households and factors of 70% and 60% were used for married couple and all other households, respectively. These factors are reflective of the level of services to be included in the monthly fee.

Proposed Monthly Fees: For means of this demand analysis, comparable pricing for assisted living units at competitive communities in the market area were used in this demand analysis. Tested price points are represented in the chart below.

	Demand Pricing
Price Point 1	\$3,800
Price Point 2	\$5,000
Price Point 3	\$6,000

Above rates are intended for the sole purpose of analyzing the demand in the market for traditional assisted living units. These prices do not necessarily reflect recommended pricing for the Silverstock project. Pricing recommendations will be provided based upon unit and project specifics.

Stabilized Occupancy: In order to be conservative in the demand projection, stabilized vacancy was set at 5%, assuming a constant occupancy of 95%.

Percent Draw from the Market Area: Based on industry experience, it is common to find that approximately 75% of future residents will be drawn to the project from within the market area while 25% of the residents will come from outside the market area in surrounding communities and elsewhere in Delaware, as well as nearby states such as New Jersey, Maryland, Pennsylvania and elsewhere in the United States. For the purpose of this analysis, a 70% market draw was utilized. It is common within this market to see a larger portion of residents come from outside the market area, most commonly as a result of moving closer to their adult children.

Upper Income Limit: No upper income limit was used in this analysis.

Percent of Home Value Proceeds to Apply to Rent: 90% of home sale proceeds were factored in as a contribution to annual income to be used for rent in this analysis for one person household types; 10% of home sale proceeds represent realtor fees and closing costs. The annual return was based on a 4% interest rate. For married and other households, a factor of 0% was utilized to reflect the unlikelihood of selling a home to support one individual in assisted living care.

Spending Down of Assets: One person households are expected to sell down all of their assets for care, while married couples are expected to sell down half of all assets (except for their home) for care and other households are expected to sell down none of their assets for care.

Competitive Units: The Ocean View market area consists of **829** competitive assisted living units that were accounted for in the demand analysis. *This demand calculation did not take into consideration any small, residential assisted living homes with 16 units or less, as these products would not be expected to be competitive with the planned Silverstock project.*

Capture Rate: A capture rate is an assumption used to identify what portion of the target market the analyst expects the subject project to acquire. As an industry standard, capture rates for assisted living units generally fall between 15% and 20%. For the purposes of this demand, results from both rates are calculated and reported.

Demand Analysis Results

Using price points that are consistent with the assisted living rates in the market area, the demand for traditional assisted living units was calculated. Based on the analysis, it would appear that the need-based age and income qualified pool of households in the market area would not support the addition of any traditional assisted living units.

At a 15% capture rate, the calculations resulted in a positive demand of **24** assisted living units. At a 20% capture rate, the demand increased to **33** assisted living units.

Market Area Penetration Rates

Market penetration rates for traditional assisted living units in the Ocean View market area were also tested as a second test of feasibility and as a cross-check to gauge the amount of target households that may utilize existing and planned units in the market. The higher penetration of these units into the market, or the more the market is saturated, the slower the absorption rate (prolonged occupancy growth period) and the larger the marketing budget that may be necessary to fill new units.

Penetration rates are equal to the total number of existing and planned beds in a market area in relation to the number of target households in that particular market area. For traditional assisted living, mature markets tend to have penetration rates between 75% and 80%.

Using a target market of age 75+ with an annual income above \$50,000, the market penetration rate for traditional assisted living units was **73.5%**, indicating a slight opportunity within the market for traditional assisted living.

Memory Care Assisted Living Units

Demand Model Assumptions

Following is a summary description of the assumptions used for evaluating the demand for memory care assisted living units in the Ocean View, DE market area using a first year of occupancy in 2014.

Age Range: 75+ years of age.

Discounting Households: This discount accounts for the difficulty in dislodging an individual from their current living situation and into a memory care facility. Given the types of impairment associated with memory diseases, one-person households were not discounted in this analysis. Married couple and other households were discounted by 10%. Elderly persons in non-elderly households were discounted by 25% to reflect the desire of some adult children to care for their parents in their home.

Ratio of Rent to Pre-Tax Income: A factor of 80% was used for single, one person households and factors of 60% were used for married couple and all other households. These factors are reflective of the level of services to be included in the monthly fee.

Proposed Monthly Fees: For means of this demand analysis, comparable pricing for memory care assisted living units at competitive communities in the market were used. Tested price points are represented in the chart below.

	Demand Pricing
Price Point 1	\$4,400
Price Point 2	\$6,000
Price Point 3	\$7,500

Above rates are intended for the sole purpose of analyzing the demand in the market for memory care assisted living units. These prices do not necessarily reflect recommended pricing for the Silverstock project. Pricing recommendations will be provided based upon unit and project specifics.

Stabilized Occupancy: In order to be conservative in the demand projection, stabilized vacancy was set at 5%, assuming a constant occupancy of 95%.

Percent Draw from the Market Area: Based on industry experience, it is common to find that approximately 75% of future residents will be drawn to the project from within the market area while 25% of the residents will come from outside the primary market area in surrounding communities and elsewhere in Delaware, as well as nearby states such as New Jersey, Maryland, Pennsylvania and elsewhere in the United States. For the purpose of this analysis, a 70% market draw was utilized. It is common within this market to see a larger portion of residents come from outside the market area, most commonly as a result of moving closer to their adult children.

Upper Income Limit: No upper income limit was used in this analysis.

Percent of Home Value Proceeds to Apply to Rent: 90% of home sale proceeds were factored in as a contribution to annual income to be used for rent in this analysis for one person household types; 10% of home sale proceeds represent realtor fees and closing costs. The annual return was based on a 4% interest rate. For married couple and other households, a factor of 0% was utilized to reflect the unlikelihood of a couple selling their home to support one individual in memory care.

Spending Down of Assets: One person households are expected to sell down all of their assets for care, while married couples are expected to sell down half of all assets (except for their home) for care and other households are expected to sell down half of their assets for care.

Existing Competitive Facilities: The Ocean View market consists of **218** competitive units that were all accounted for in the demand analysis. *The demand calculation excludes small, residential memory care assisted living communities that would not be expected to be competitive with the Silverstock project.*

Capture Rate: A capture rate is an assumption used to identify what portion of the target market the analyst expects the subject project to acquire. As an industry standard, capture rates for memory care assisted living units is generally around 25%, which was the rate that was utilized in this demand calculation.

Demand Analysis Results

Using the market rate price points, a total of 218 competitive units, and based upon a 25% capture rate, it would appear that the need-based age and income qualified pool of households in the Ocean View market area would support an additional **48** memory care assisted living units.

Market Area Penetration Rates

Market penetration rates for memory care living units in the Ocean View market area were also tested as a second test of feasibility and as a cross-check to gauge the amount of target households that may utilize existing and planned units in the market. The higher penetration of these units into the market, or the more the market is saturated, the slower the absorption rate (prolonged occupancy growth period) and the larger the marketing budget that may be necessary to fill new units.

Penetration rates are equal to the total number of existing and planned beds in a market area in relation to the number of target households in that particular market area. For memory care assisted living, mature markets tend to have penetration rates at approximately 80%.

Using a target market of age 75+ with an annual income above \$75,000, the market penetration rate for memory care assisted living units in the Ocean View market area was **70.5%**. Using an annual income above \$50,000, the market penetration rate was calculated at **42.1%**. Both penetration rates indicate a fair to moderate opportunity for memory care assisted living in the Ocean View market area and supports the results of the demand findings.

VII. Market Study Findings

The market research efforts conducted by Sage Age have presented a demographic analysis of the Silverstock project market area, a review of competition and a market demand analysis for the potential development of a retirement community in the Ocean View, Delaware. The primary findings of the market study indicate:

Significant Demand for Active Adult Market Rate Apartments

The market demand analysis that was completed for the Silverstock project resulted in a positive demand for active adult market rate apartments. The demand ranged from a moderate 109 units at a 1% capture rate to a strong demand of 544 units at a 5% capture rate. Again, it is important to keep in mind that with the addition of some supportive services to this offering, the demand would likely fall within the 3% to 5% capture rate range rather than the more conservative 1% capture rate. These demand calculations speak well to the opportunity to build active adult market rate apartments, especially considering that the market area has the potential to be a resort-style retirement destination. While there are a fair amount of active adult communities within the market, the majority are purchase-only.

Strong Demand for Independent Living Units

The demand analysis resulted in a significant demand for independent living units, with either a rental or buy-in fee structure. Demands ranged from 97 to 319 units. Utilizing a buy-in fee structure and discounting out households with home values less than \$150,000, there was found to be a demand for an additional 191 to 319 units. When households with home values less than \$200,000 were discounted out, this demand decreased significantly to 97 to 160 units. For rental type units, it would appear that the age and income qualified pool of households in the market area would support an additional 126 to 211 units. These calculations speak well to the opportunity that currently exists within the market area for additional independent living units. Additionally, a strong market penetration rate was calculated for independent living units at approximately 5%, indicating a market with minimal competition and considerable opportunity.

Fair Demand for Traditional Assisted Living Units

Utilizing current market area rates for assisted living and taking into consideration the current competitive units in the market area, the demand analysis for traditional assisted living resulted in a positive demand ranging from 24 to 33 units, calculated at a 15% and 20% capture rate. The penetration rate of 73.5% that was calculated further demonstrates that there is a small, but fair opportunity for traditional assisted living within the market area for the Silverstock project.

Moderate Demand for Memory Care Assisted Living Units

The demand analysis established a moderate to strong demand for memory care assisted living units in the Silverstock market area of 48 units at a 25% capture rate. The penetration rate of 42.1% at \$50,000 income and 70.5% at \$75,000 income support the results of these demand calculations.

It is also important to keep in mind that the demand for both traditional assisted living and memory care assisted living will eventually be created among a community's own active adult/independent living residents. While this would not be an immediate consideration, it is important to ensure that internal residents' needs are met and services are available should needs change.

VIII. Executive Opinion & Offering Recommendations

The results of the demographic and demand analyses presented in this report are the basis upon which the following recommendations are made to the Silverstock team for the potential development of a retirement community in the Ocean View, DE market area.

There are several factors that help to provide strong support for the potential that is presented for the addition of several senior living options on the property in Ocean View, DE. Positive demands were calculated for all levels of senior care, with significant demands calculated for active adult market rate apartments and independent living and fair to moderate demands for assisted living and memory care assisted living. The demand calculations, combined with the positive demographic trends for the market area, provide strong support for a true demand within the market for senior living.

It is important to note that while the demands for active adult market rate apartments and independent living units were positive, seniors are waiting longer to move into senior living communities. While it will likely be possible to draw a somewhat younger crowd to this particular community due to the location/resort-style retirement destination, many residents will likely desire or require supportive services to help them remain in their active adult market rate apartments/independent living units longer. Generally speaking, independent living residents typically have some sort of challenge, whether it is physical, social or emotional, but may not be ready for traditional assisted living. Additional senior services, such as housekeeping, transportation and flexible meal options are an important consideration.

The baby boomer generation – the wealthiest retiring population yet – will also play an important role in this market. Ocean View/Bethany Beach, Delaware offers an ideal location to become a popular retirement location for baby boomers throughout Delaware and other nearby states such as New Jersey, New York, Maryland and Pennsylvania in the next several years. This is based on the assumption that these individuals will likely choose to move into a more desirable location for retirement, simply because they have the funds to be able to do so.

Given these factors, it would be the recommendation of Sage Age for Silverstock to move forward with Phase II of the assessment, which will include in-market visits to enable Sage Age to provide detailed recommendations on product offering, pricing, amenities, etc. as well as the strength of the competitors in terms of overall sales process and appeal.

Active Adult Market Rate Apartments/Independent Living

Based upon the demand calculations calculated for this study, Sage Age would recommend that Silverstock consider constructing an independent living apartment building and attached Community Center with no more than approximately 75 to 100 apartments. In addition to these apartments, there is also a great potential in the market for independent living patio homes. These patio homes could be constructed as they are sold and could eventually account for approximately 20+ of the independent living units on the campus, depending on the availability of usable land and how the units would fit into the overall site plan. Sage Age feels that these should be marketed as independent living (age restricted at 62) as even those individuals moving into the active adult market rate apartments in the market area are typically above the age of 75.

Independent Living with Supportive Services

While the site location will potentially attract a slightly younger crowd to the community due to the resort retirement destination feel of the area, many of the independent living residents will likely benefit from access to supportive services to the independent living offering on campus. While the demand that was calculated for traditional assisted living services was positive, it is important to keep in mind that individuals desire to stay within their own home – or their independent living apartment – for as long as possible. As independent living residents age, however, they will likely require some type of assistance within their apartment.

It would be Sage Age’s recommendation to meet the need for traditional assisted living services by incorporating these supportive services into the plans for this property, without adding a separate and dedicated assisted living component on the campus. There are two viable ways to accomplish this:

- Enhanced service offerings within the independent living apartments/patio homes as a more affordable option to traditional assisted living units
- The addition of home health services to the overall offering (either provided by the community or contracted out to a local provider) which could also be provided to residents in their independent living units as their needs change, allowing them to help meet the needs of residents, as well as seniors within the greater community.

Memory Care Assisted Living

To meet the unmet demand within the market for memory care assisted living units, Sage Age would also recommend the construction of a separate memory care building or “care home”. These care “homes” are smaller, free-standing buildings that can house approximately 12 residents. Given the nature of memory diseases, these types of smaller care homes have been shown to be the best living arrangement for these residents, limiting their confusion and offering a quieter, less stressful environment. When considering the completed site plan, there should also be land available for the potential construction of a second care home, if the demand in the market continues to increase.