

# Assisted Living Strategies for Changing Markets

**Addendum II**  
*February, 2009*

***Special Notice:***

Due to the unprecedented demand for *Assisted Living Strategies for Changing Markets*, I have provided this “Addendum” to supplement this printing. The purpose is to allow the reader to continue to look into the future and plan accordingly. Quantitative update information contained in this addendum should be now considered an integral part of the contents of this book.

**21<sup>ST</sup> CENTURY SENIOR LIFE SERIES**

***Jim Moore***

# *Assisted Living Strategies for Changing Markets*

*Addendum II – February, 2009*

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## **ADDENDUM II UPDATES – February, 2009**

### **Chapter 1**

Page 6 Because of higher acuity, escalating liability insurance premiums and other expense escalation, the median operating expenses for assisted living in 2009 are approximately \$79 per resident-day. Refer to updated Figures 14-1 and 14-1a for expanded detail. On page 6 the basic outlay for operating expenses without debt service allocation can now exceed \$2,400 per month.

Page 14 Looking forward from 2009, the annual resident turnover in assisted living now exceeds 50 percent. The age 85+ senior prospect growth from 2010 to 2015 will average approximately a 2.3% percent annual increase or 140,000 households per year from 2010 to 2015.

### **Chapter 5**

Page 48 In 2009, hard construction cost can range from \$100 to \$115 per square foot. So your incremental increase in project costs for “neighborhoods” or “clusters” could be approaching at least \$600,000. The resultant debt service would likely cause an increase in monthly service fees of approximately \$70 to \$90 per resident per month.

Page 50 In the 2009 time frame, the total all-in development costs are likely to range between \$148,000 and \$180,000 per unit. Typical operating costs could average \$79 per resident-day. Operating profit margins have declined to between 27 percent to 30 percent because of the resulting operating expense ratios of 70 percent to 73 percent. Only the top tier of sponsors or owner/operators are achieving operating profit margins in excess of 30 percent.

### **Chapter 6**

Page 59 Total dietary costs (raw food, labor other supplies) currently range from approximately \$10.80 to \$20.60 per resident-day.

### **Chapter 7**

Page 68 Nursing bed occupancy in 2009 is approximately 89 percent. Current estimates of quality assisted living units are approximately 540,000.

### **Chapter 10**

Pages 96, 97 Currently, there is definitely a trend toward larger assisted living units. The 450 to 550 square foot modest one bedroom is now a common product and some owner/operators are even providing a limited number of moderate sized two-bedroom assisted living units.

Page 99 The total all-in cost for assisted living in 2009 ranges from approximately \$148,000 to \$180,000 per unit. Refer to Figure 13-1 in this Addendum.

Page 100 Baseline (before higher acuity tiered pricing) assisted living operating expenses at stabilized occupancy typically range from \$54 to \$108 per resident-day or about \$1,660 to \$3,275 per unit per month in 2009. Refer to Figures 14-1 and 14-1a herein.

Page 102 In addressing project size and cost trade-offs between 2010 and 2015, increased emphasis must be placed on the updated financial factors that are contained in Figures 14-1, 14-1a and 17-1 in this Addendum.

Pages 105-108 Refer to a revised Figure 10-2 in this Addendum for planning beyond the 2009 time frame.

### **Chapter 13**

Pages 149-159 When looking to the future (beyond 2009), Figure 13-1 has been updated to reflect forward looking capital cost indices and benchmarks. When considering unique shared occupancy strategies, you should be influenced by updated capital costs, operating expenses and resulting increased monthly service fees. Figures 24-1 through 24-6 in the *Assisted Living Strategies* book

## **ADDENDUM II UPDATES – February, 2009**

provides the strategic structure . . . you need to use updated benchmarks contained in this Addendum for your unique planning situation.

### **Chapter 14**

Pages 160-172 Obviously operating expenses escalate each and every year. However, in the assisted living industry, this escalation has been rather dramatic from 2005 to 2009. Therefore, the reader should pay very close attention to the updated costs reflected in Figure 14-1. A *range* of operating expense benchmarks including median values is also presented in Figure 14-1a in this Addendum.

### **Chapter 15**

Page 184 Updated Figure 15-3 in this Addendum reflects the probable 2009 assisted living operating expense profile with and without the impacts of cost creep.

### **Chapter 17**

Pages 201-214 This chapter was designed to allow you to compare your operation with a typical, stabilized assisted living income statement. Obviously, each operational situation is unique and different. Refer to updated Figure 17-1 to get optimum value from this chapter; especially when looking to the future beyond 2009.

### **Chapter 19**

Pages 221-233 The medical tax deduction financial modeling reflected in Chapter 19 is subject to changes on an annual basis. These changes include, but are not necessarily limited to, the following:

- The latest IRS Publication 502
- 65+ Social Security income that is not subject to income tax
- 65+ standard deductions and personal exemptions

Check with your tax advisor on these important matters.

### **Chapter 21**

Page 243 Figure 21-1 has been updated for current 2009 indices, ratios and benchmarks.

### **Chapter 22**

Page 256, 260 For escalated pricing from 2009 and beyond, an assisted living baseline monthly service fee of \$3,400 per month would require an after-tax, disposable income of approximately \$51,000 per year. (See page 260.) This is a blended average of studios and one bedroom units.

### **Chapter 24**

Pages 276-289 From 2004 to 2009 there have been large increases in expenses and both hard construction and soft costs. Use the updated benchmarks in this Addendum with caution. Value engineering can still produce dramatic variance in total, all-in costs.

### **Chapter 27**

Pages 301-303 Refer to future/forward looking benchmarks in updated Figures 13-1, 17-1 and 22-1.

### **Chapter 28**

Pages 305-314 Figure 28-4 now reflects 2009 qualified income (before any spend-down). Figure 28-5 provides updated savings portfolio information.

### **Chapter 29**

Pages 320-326 Figures 29-1 through 29-3 have been updated to consider current expenses and adjusted pricing.

### **Chapter 38**

Page 426 Figure 38-1 has been updated to reflect the current 2009 time frame.

### **Chapter 39**

Page 440 The opportunity cost of a vacant unit is constantly changing. Updated Figure 39-1 reflects the approximate status as of 2009.

**FIGURE 10-2**

**RUNNING THE NUMBERS . . .  
 . . . ASSISTED LIVING STUDIO VS.  
 ONE BEDROOM UNIT SYNERGY**

	<u>Studio</u>	vs.	<u>1-BR</u>	<u>Percent Increase</u>
● Living Area Square Footage	350		500	43%
● Typical Cost per Unit	\$150,000		\$165,000	10
● Monthly Service Fee	\$ 3,200		\$ 3,600	13
● Operating Expenses per Resident Day	\$76		\$82	8
● Cash Flow:				
- <u>Before</u> Debt Service	\$ 10,660		\$ 13,270	24
- <u>After</u> Debt Service	\$ 2,281		\$ 4,053	78
● Resident's Qualifying Income - Pre-Tax	\$53,500		\$60,000	12

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**FIGURE 13-1**  
**SENIOR LIVING CAPITAL COST INDICES AND BENCHMARKS<sup>1, 2</sup>**  
(In 2009 Dollars)

<u>Element of Capital Cost</u>	80 Units	150 Units
	<u>Assisted Living</u>	<u>Independent Living</u>
1. Raw Land	\$8,000 - \$12,000/Unit	\$12,000 - \$16,000/Unit
2. Site Development	1,000 - 3,000	5,000 - 8,000
3. Hard Construction (Bricks & Mortar)	98,500 - 115,000	143,000 - 170,000
4. Design & Engineering	5,500 - 6,600	5,000 - 7,500
5. Furniture Fixtures & Equipment	4,600 - 5,500	6,500 - 8,500
6. Development Fee	5,000 - 6,000	7,300 - 9,000
7. Accrued Construction Interest	5,100 - 6,200	8,750 - 9,800
8. Working Capital/Fill-up Reserve Fund	7,500 - 8,500	8,500 - 11,000
9. Sales & Marketing	6,000 - 8,000	9,000 - 13,000
10. Financing/Underwriting	2,500 - 3,500	3,000 - 3,500
11. Community Contingency	<u>5,000</u> - <u>5,500</u>	<u>8,500</u> - <u>11,000</u>
Average Total (All- In) Cost Per Unit Before Debt Service Reserve Fund <sup>3</sup>	\$148,700 - \$179,800	\$216,550-\$267,300
12. Debt Service Reserve Fund <sup>4</sup>	7,400 - 9,000	10,800 - 13,300

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<sup>1</sup>Indices and benchmarks reflect approximately 75% of current industry comparables; the remaining 25% can either be above or below ranges indicated herein.

<sup>2</sup>Costs can vary significantly as a function of area of the country, urban vs. suburban, and unit design density (number of units per acre).

<sup>3</sup>From 2003 to 2008 there have been huge swings and escalation in both hard construction and soft costs. Use these benchmarks with caution. Value engineering can still produce dramatic variance in total all-in costs.

<sup>4</sup>Typically required for tax-exempt bond financing (12 months of debt service).\

**FIGURE 14-1**  
**80-UNIT ASSISTED LIVING COMMUNITY**  
**OPERATING EXPENSE BENCHMARKS**  
*(2009 Benchmarks)*

<u>Major Dept./ Cost Center</u>	<u>Annual Operating Expense Budget<sup>1</sup></u>	<u>Range of Expenses Per Resident-Day<sup>1</sup></u>
1. Administration	\$ 194,158	\$ 5.43 to 10.34
2. Activities	57,840	1.70 2.56
3. Assisted Living (ADLs)	484,717	12.60 21.00
4. Plant Maintenance/ Security	131,702	3.59 7.01
5. Food/Dietary	437,739	12.41 20.94
6. Hseking & Laundry	105,090	2.54 5.44
7. Transportation	29,599	0.87 1.31
8. Property/Taxes/Util./ Liab. Ins.	287,571	7.70 14.78
9. Marketing & Sales	95,043	2.34 4.86
10. Management Fees	156,956	4.47 8.13
11. Other Expenses	117,310	0.77 9.46
11. Reserve for Replacement	<u>46,707</u>	<u>1.59 2.19</u>
<b>TOTALS</b>	<b>\$ 2,144,430</b>	<b>\$ 56.01 to 108.02</b>

**CAUTIONS:**

1. Each community and market area will have a unique operating expense profile.
2. Accounting systems and chart of account formats vary and could impact these benchmarks.

<sup>1</sup>As an example, resident-days for an 80-unit assisted living community would be 80 x 365 days or 29,200 resident-days at 100% occupancy and 27,155 resident-days for 93% occupancy. Annual operating expense budget shown here based on *median* expenses PRD at 93% occupancy.

**FIGURE 14-1a**  
**2009 ASSISTED LIVING**  
**MDS BENCHMARK RANGES**

<u>Department - Cost/Profit Center</u>	Range of 2009		
	<u>Expenses Per Resident Day (PRD)</u>		
	Lower Parameter	Median	Upper Parameter
Administration	\$5.43	\$7.15	\$10.34
Activities	1.70	2.13	2.56
Assistance In Living/Direct Care (Baseline)	12.60	17.85	21.00
Plant/Maintenance/Security	3.59	4.85	7.01
Dietary	12.41	16.12	20.94
Housekeeping/Laundry	2.54	3.87	5.44
Transportation	0.87	1.09	1.31
Property/Taxes/Utilities/Liability Ins	7.70	10.59	14.78
Sales & Marketing	2.34	3.50	4.86
Management Fees	4.47	5.78	8.13
Other Expenses	0.77	4.32	9.46
Reserve For Replacement	1.59	1.72	2.19
	<u>\$56.01</u>	<u>\$78.97</u>	<u>\$108.02</u>

***Operating expenses - especially direct care - continue to be an escalating moving target. Note that the "Assistance in Living/Direct Care" cost center reflects a baseline of approximately 45 minutes per resident per 24 hour day. Your actual direct care experience may be different and could be the subject of required additional tiered pricing. Note that - where appropriate - direct labor and related fringe benefits have been included in each department/cost center.***

***Each community and market area will have a unique operating expense profile. Accounting systems and chart of account forms vary and could impact these benchmarks.***

### FIGURE 15-3 COST CREEP SENSITIVITY FOR A TYPICAL ASSISTED LIVING PROJECT

<b>Input Assumptions</b>			
Number of Units:	80	Total Cost:	\$13,200,000
Assumed Occupancy:	93.0%	Equity @ 30% =	\$3,960,000
Cost Per Unit:	\$165,000	Debt @ 70% =	\$9,240,000
Base Monthly Service Fee:	\$3,400	Loan Interest Rate:	7.0%
Operating Expenses PRD:	\$79.00	Amortization (Yrs):	30
Baseline Direct Care Level:	45 minutes per resident day/24 hour day		
	Net Annual Resident Days:		27,010
<b>Additional Cost Creep</b>			
Average # of residents requiring additional care:		25 residents	
Average additional care time/resident (minutes/day):		30 minutes/day	
Estimated cost/additional 30 minute interval:		\$11.33 /resident/day	
<b>INCOME STATEMENT:</b>			
	<i>With-out</i>	<i>With</i>	
	Cost Creep	Cost Creep	
Gross Annual Income	\$3,264,000/yr	\$3,264,000/yr	
Vacancy Factor @ 7.00%	(228,480)	(228,480)	
Double Occupancy Revenue	23,070	23,070	
Net Rental Revenues	\$3,058,590	\$3,058,590	
Other Revenues	\$ 61,172	\$ 61,172	
Net Revenues	\$3,119,762	\$3,119,762	
Operating Expenses	(2,133,790)	(2,133,790)	
<b>Additional Care (Cost Creep)</b>	<b>0</b>	<b>(129,054)</b>	
NET OPERATING INCOME	\$985,972/yr	\$856,918/yr	
Debt Service	(737,687)	(737,687)	
CASH FLOW	\$248,284/yr	\$119,688/yr	
<b>PER UNIT SUMMARY:</b>			
<b>Operating Expenses</b>	<b>\$26,672/unit</b>	<b>\$28,286/unit</b>	
<b>Net Operating Income</b>	<b>\$12,325/unit</b>	<b>\$10,711/unit</b>	
<b>Cash Flow</b>	<b>\$3,104/unit</b>	<b>\$1,496/unit</b>	
<b>KEY FINANCIAL RATIOS</b>			
Debt Service Coverage (DSCR):	1.34	1.16	
EBITDA	31.6%	27.5%	
Operating Expense Ratio:	68.4%	72.5%	
Cash-on-Cash Return on Equity:	6.3%	3.0%	
Imputed Market Value @ 8.0%	\$12,324,638	\$10,711,463	

**FIGURE 17-1**  
**ASSISTED LIVING'S FINANCIAL ENGINE**  
**Income Statement For An 80-Unit Community**

**I. INPUT VARIABLES**

1. Average Monthly Service Fee:	\$3,400	Total Cost:	\$13.2 Mil
2. Operating Expenses PRD:	\$79.00	Equity @ 30% =	\$3.96 Mil
3. Cost Per Unit:	\$165,000	Debt @ 70% =	\$9.24 Mil
Number of Units:	80	Loan Interest Rate:	7.0%
		Amortization (Yrs):	30

**II. FINANCIAL PERFORMANCE**

4. Gross Annual Income	\$3,264,000/yr
5. Vacancy Factor @ 7.0%	(228,480)
5a. Double Occupancy Revenue	23,070
6. Net Rental Revenues	\$3,058,590
7. Other Miscellaneous Revenues	61,172
8. Total Net Revenues	\$3,119,762
9. Operating Expenses	(2,133,790)
10. NET OPERATING INCOME	\$985,972 /yr
11. Debt Service	(737,687)
12. CASH FLOW	\$248,284 /yr

**III. KEY FINANCIAL RATIOS**

13. Debt Service Coverage (DSCR):	1.34
14. EBITDA	31.6%
15. Operating Expense Ratio:	68.4%
16. Cash Flow/Unit (unleveraged)	\$12,325
17. Cash Flow/Unit (leveraged)	\$ 3,104
18. Cash Return on Total Investment (unleveraged)	7.5%
19. Cash-on-Cash Return on Equity (1st year):	6.3%
20. Internal Rate of Return	17.7%

**FIGURE 21-1  
ASSISTED LIVING INDICES & RULES OF THUMB**

	Range Covering Approx. 75% of the Market	
	Low	High
<b>I. Lender Criteria</b>		
1. Debt Service Coverage Ratio	1.25	1.35
2. Loan to Value	70%	80%
3. Implied Equity	30%	20%
4. Capital Reserve for Replacement (per unit)		
● New Start-Up Communities	\$250	\$350
● Existing Communities	\$580	\$800
<b>II. Operations/Pricing Criteria</b>		
1. Operating Expense Ratio	65%	75%
2. Operating Expenses PRD	\$55-\$79	\$79-\$107
3. Average FTE's per Unit		
● Assisted Living	.45	.55
● Dementia	.50	.60
4. Management Fee as a Percent of Revenues	4.5%	6.0%
5. Percent of Cash Flow Disposable Income Used for Monthly Service Fees	75%	90%
6. Assisted Living Fees as a Percent of Prevailing Private Pay Nursing Rates	75%	80%
7. Operating Margin (EBITDA)	25%	35%
<b>III. Capital Budget Criteria</b>		
1. Total Cost/Unit	\$148,700	\$179,800
2. Land Cost/Unit	8,000	12,000
3. Marketing Cost/Unit	6,000	8,000

Industry Benchmarks Can Be Both Helpful And Dangerous - Use With Caution

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**FIGURE 22-1**

**KEY ELEMENTS OF TYPICAL ASSISTED LIVING PRICING**

<u>Cost to be Covered</u>	<u>Monthly Cost</u>	<u>Percent of Total Cost</u>
● Operating Expenses @ \$79 PRD <sup>1</sup>	\$2,400/mo	71%
● Debt Service Payment <sup>2</sup>	825	24
● Cash Flow/ Entrepreneurial Profit <sup>3</sup>	<u>175</u>	<u>5</u>
<b>Total Monthly Service Fee</b>	<b>\$3,400/mo</b>	<b>100%</b>

<sup>1</sup>Per Resident Day

<sup>2</sup>\$165,000/unit @ 70% debt, 30% equity, 7% interest, 30 years

<sup>3</sup>When combined with the profit/cash flow from *second person charges* and *other miscellaneous revenues* - provides acceptable and required debt service coverage ratio of 1.3x.

**FIGURE 28-4**

**MINIMUM QUALIFYING CASH FLOW INCOME REQUIREMENTS  
FOR A TYPICAL ASSISTED LIVING COMMUNITY**

**(Based on Estimated 2009 Monthly Service Fees)**

<u>Assisted Living Unit Type</u>	<u>Required Base</u>		<u>Annual Cash Flow</u>	
	<u>Monthly Service Fees</u>		<u>After-Tax</u>	<u>Before-Tax</u>
	<u>Monthly</u>	<u>Annual</u>		
<b>Assisted Living Units:</b>				
● Studio/Alcove	\$3,000- \$3,200	\$36,000- \$38,400	\$45,000- \$48,000	\$50,000- \$53,300
● One Bedroom	\$3,400- \$3,800	\$40,800- \$45,600	\$51,000- \$57,000	\$56,700- \$63,300

**Assumptions:**

1. Rates based on single occupancy in 2009 dollars.
2. Senior's cash flow allocation for fees: 80.0%
3. Assumed average Senior's tax rate: 10.0%

**FIGURE 28-5  
INCOME QUALIFIED SENIORS MUST HAVE  
AN EXTENSIVE SAVINGS PORTFOLIO**

	Gross Pre-Tax Income <sup>1</sup>		
	\$40,000	\$50,000	\$60,000
<b>I. <u>Gross Pre-Tax Income Typical Sources</u></b>			
● <b>Widow's Social Security</b> Annual Benefit: \$13,840 (\$1,153/month)	<u>\$13,840</u>	<u>\$13,840</u>	<u>\$13,840</u>
● <b>Gross Earnings Needed</b> From Other Sources . . .	<u>26,160</u>	<u>36,160</u>	<u>46,160</u>
● <b>In Order to Realize a</b> Gross Pre-Tax Income of:	<b>\$40,000</b>	<b>\$50,000</b>	<b>\$60,000</b>
● <b>Less Income Taxes<sup>1</sup></b>	<u>(4,000)</u>	<u>(6,000)</u>	<u>(9,000)</u>
● <b>After-Tax Income</b>	<b>\$36,000</b>	<b>\$44,000</b>	<b>\$51,000</b>
<b>Average Tax Bracket<sup>1</sup></b>	<b>10%</b>	<b>12%</b>	<b>15%</b>
<b>II. <u>Required Savings Portfolio<sup>2</sup></u></b>			
● <b>Required Savings</b> <b>Portfolio Earnings</b> <b>(Before-Tax)<sup>3</sup></b>			
5.0%	\$523,200	\$723,200	\$923,200
7.0%	\$373,714	\$516,571	\$659,429

<sup>1</sup> Seniors typically have an average tax bracket of approximately 10% - 15% - considering deductions, adjusted gross income, etc. These examples are net after-tax disposable income of \$36,000, \$44,000 and \$51,000 respectively (\$40,000 with 10% tax = \$36,000 net).

<sup>2</sup> Reflects a combination of conventional savings portfolio and pension proceeds (if applicable). The savings portfolio requirement might be decreased by an average of \$100,000 to \$150,000 for a current homeowner selling a home and moving into market rate rental senior housing. (Thereby increasing their savings portfolio.)

<sup>3</sup> Cash or near-cash savings rates are currently approaching 10 year lows (2009). These rates presume a mix of cash and low risk mutual/index funds.

**FIGURE 29-1  
TYPICAL OPERATING SCENARIOS**

Costs to be Covered <sup>1</sup>	"Typical" \$165,000 Unit Cost		"Affordable" \$110,000 Unit Cost	
	Monthly Cost	Percent of Total Cost	Monthly Cost	Percent of Total Cost
	Cost	Total Cost	Cost	Total Cost
• Operating Expenses @ \$79 PRD <sup>2</sup>	\$2,400	71%	\$2,400	79%
• Debt Service Payment	825 <sup>3</sup>	24	496 <sup>4,5</sup>	16
• Cash Flow/Requirement - Investor Return on Equity and/or Debt Service Coverage	175	5	152	5
• Required Monthly Service Fee	\$3,400	100%	\$3,048	100%

<sup>1</sup>93% occupancy.  
<sup>2</sup>Per Resident Day (30.4 days per month).  
<sup>3</sup>@ 70% debt, 30% equity, 7% interest, 30 years.  
<sup>4</sup>@ 70% debt, 30% equity/fund-raising, 6% interest, 30 years.  
<sup>5</sup>Also provides acceptable and required debt service coverage ratio of 1.3x.

**FIGURE 29-2**

**REQUIRED MONTHLY SERVICE FEES  
VS. REDUCED PROJECT COST**

	<u>Total (All-In) Cost/Unit - (The Very Best Cases)</u>		
	<u>\$83,000</u>	<u>\$100,000</u>	<u>\$110,000</u>
<ul style="list-style-type: none"> <li>● <b>Debt Service</b> (100% financing @ 5.5%, 30 yrs) Per Occupied Unit <sup>1,2</sup></li> </ul>	\$500/mo	\$600/mo	\$660/mo
<ul style="list-style-type: none"> <li>● <b>Debt Service Coverage Factor@1.25x</b></li> </ul>	<u>125</u>	<u>150</u>	<u>165</u>
<b>Subtotal</b>	\$625/mo	\$750/mo	\$825/mo
<ul style="list-style-type: none"> <li>● <b>Operating Expenses @ \$65 PRD<sup>3</sup></b></li> </ul>	<u>\$1,975</u>	<u>\$1,975</u>	<u>\$1,975</u>
<b>Minimum/Best Case Required MSF<sup>4</sup></b>	\$2,600/mo	\$2,725/mo	\$2,800/mo

<sup>1</sup>Assumes 95% occupancy  
<sup>2</sup>Optimum debt service; 5.5%, 30 years, 100% financing  
<sup>3</sup>PRD = Per Resident Day – an optimistic assumption  
<sup>4</sup>MSF = Monthly Service Fee (Best Case)

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**FIGURE 29-3  
POSITIVE SPIN . . . “BLENDING THE RENT ROLL”  
REAL WORLD . . . “RATE SHIFTING”!**

***I. TARGET MARKET RATE PRICING***

<u>Assisted Living Units</u>	<u>Market Rate Monthly Fees</u>	
	<u>Monthly Service</u>	<u>Total Annual</u>
	<u>Fee</u>	<u>Revenues</u>
Studio	\$2,800	\$33,600
1-Bedroom	\$3,100	\$37,200

***II. BLENDING RATES WITH SUBSIDIZED PRICING***

<u>Assisted Living Units</u>	<u>Subsidized Units</u>			<u>Non-Subsidized Units (NSU)</u>			<u>Effective Total Annual Revenues</u>
	<u>%Mix Subsidized Residents</u>	<u>Monthly Subsidy Amount</u>	<u>Effective Subsidized Mo. Fee</u>	<u>Remaining NSU Resident %</u>	<u>Additional Monthly \$ NSU</u>	<u>Adjusted NSU Mo. Fee</u>	
Studio	25.0%	(\$1,200)	\$1,600	75.0%	\$400	\$3,200	\$33,600
1-Bedroom	20.0%	(\$1,300)	\$1,800	80.0%	\$325	\$3,425	\$37,200

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**FIGURE 38-1  
SEVEN VITAL SIGNS FOR A SOUND  
ASSISTED LIVING EXIT STRATEGY**

**How are you doing?**

<b>1. Expenses per Resident-Day<sup>1</sup></b>	<b>\$55.00 - \$79.00</b>
<b>2. Operating Expense Ratio</b>	<b>65% - 75%</b>
<b>3. Operating Profit Margin:</b>	
● <b>EBITDA<sup>2</sup></b>	<b>25% - 35%</b>
<b>4. <i>Minimum Debt Service</i></b>	
<b>Coverage Ratio</b>	<b>1.25x - 1.30x</b>
<b>5. Total Staffing – FTEs/Unit:</b>	
● <b>Assisted Living</b>	<b>.45 - .55</b>
● <b>Special Care Dementia</b>	<b>.55 - .65</b>
<b>6. Reserve for Replacement</b>	
● <b>New</b>	<b>\$250 - \$350/Unit/Year</b>
● <b>Existing</b>	<b>\$580 - \$800</b>

***Approximately 75 percent of the assisted living projects in the U.S. fit this profile. If yours is off, take a closer look: Is there a good reason or does something need to be fixed?***

Source: Moore Diversified Services, Inc.

<sup>1</sup>Includes approximately 45 minutes per resident-day of direct care. Higher levels of direct care would increase expenses PRD - but should also be the subject of tiered pricing to maintain acceptable profit margins.

<sup>2</sup>Earnings Before Interest, Taxes, Depreciation and Amortization (also referred to as Net Operating Income).

**FIGURE 39-1**

**THE OPPORTUNITY COST OF A VACANT UNIT**

**Current Occupancy**

Total Units Available	80	Base Line MSF	\$3,400
Current Occupied Units	74	Additional Cost	30.0%
Vacant Units	6	% MSF to NOI	70.0%
Percent Occupied	92.5%	Cost Per Vacant Unit	<b>\$2,380</b>

**Impact of Enhanced Occupancy**

	<u>Scenario 1</u>	<u>Scenario 2</u>	<u>Scenario 3</u>
Additional Occupied Units	1	3	5
Percent of Vacant Units	16.7%	50.0%	83.3%
New Percent Occupied	93.8%	96.3%	98.8%

<b>Net Cost Recovery Per Month</b>	<b>\$2,380</b>	<b>\$7,140</b>	<b>\$11,900</b>
<b>Net Cost Recovery Per Year</b>	<b>\$28,560</b>	<b>\$85,680</b>	<b>\$142,800</b>

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1. Identify A Problem
2. Recommend A Solution/Strategy
3. Show The Return On Investment

With each issue, a real world problem is defined and suggested practical solutions and recommended long-run strategies are offered to avoid the reoccurrence of the problem. Finally, the potential return on investment to be realized by addressing the problem-solution is indicated.

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