

MINNETONKA COUNTRYSIDE: A RETIREMENT COMMUNITY

by

Charles D. Nolan Jr.
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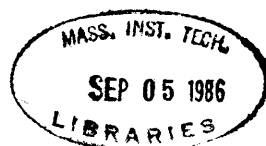
Charles D. Nolan Jr.
Charles D. Nolan Jr.
Department of Architecture
August 15, 1986

Certified by _____

James McKellar
James McKellar
Professor of Architecture and Planning
Thesis Supervisor

Accepted by _____

James McKellar
James McKellar
Chairman of the Interdepartmental
Degree Program in Real Estate Development



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Submitted to the Department of Architecture on August 15, 1986 in partial fulfillment of the requirements of the Degree of Master of Science in Real Estate Development at the Massachusetts Institute of Technology.

ABSTRACT

The purpose of this thesis is to investigate the development potential of a parcel of land known as Minnetonka Countryside in Minnetonka, Minnesota for use as a retirement community. The project incorporates living units with services and amenities to assist and enhance the lifestyle and independence of retirees. Minnetonka Countryside would become a community within a community.

The retirement housing industry, its history and current trends are discussed. Potential problems in the development of such a project, and how those problems can be mitigated or avoided are presented. A site analysis, design analysis and market analysis are provided to assist in the determination of the project's feasibility. A marketing plan for the projects is also designed. Finally, there is a financial investigation of the project, identifying the risks.

Thesis Supervisor: James McKellar
Title: Professor of Architecture and Planning

INTRODUCTION

Housing production for the over-65 age group has become one of the most active real estate markets in recent years and there is every indication that it will continue. The 1983 census reported that there were approximately 27 million Americans aged 65 or older, constituting 12% of the general population. Due to changing demographics, better health care, and improved lifestyles, the figures are expected to increase dramatically over the next 50 years. Forecasters predict that by the year 2030, there will be approximately 65 million Americans in this age group, or one in every five Americans will be 65 or older (Gabler & McKinley, p. 35). One industry journal reported that each day, 5500 Americans reach age 65, and 3800 persons over age 63 die. This translates into a net increase of 1700 elderly per day (Adams, p. 75). Another source predicted that by the end of this century, more than 1 million new nursing home beds, 812,000 new units in retirement centers and 116,000 new units in lifecare centers would be required (Horn, p. 26).

Today's elderly population is not only expanding, it is also wealthier and better educated than ever before. In 1983, 72% of the elderly population owned their own home, and 84% of those homes were mortgage-free. In 1983,

39% of those over age 65 had incomes of \$20,000 or higher ("Housing the Graying Market," p. 71.)

Well-publicized statistics like these have prompted a wave of interest and involvement in the industry. Interest has been exhibited by conventional multi-family housing developers, church groups, hospitals and other health related organizations, and large national corporations. As a result, the industry has broadened and become much more sophisticated. There are several options available to the retiree of the 80's, creating competition among developers. The developer of retirement housing must understand the needs of the market and address them. Developers must provide a well planned, quality product, with excellent service and superior management in order to have a successful project.

This paper attempts to identify and to address the issues in the context of a proposed project. Where possible, the paper will report site specific details. However, in some cases this paper will provide only an outline of how the task should be performed rather than the actual analysis (e.g. in-depth market analysis). The project is a development proposal for a retirement housing community, prompted by a conversation with Minnetonka city officials, who expressed an interest in seeing such a facility.

CHAPTER ONE
THE RETIREMENT HOUSING INDUSTRY

Housing for the elderly is not a new industry. Americans began special housing for the elderly as far back as the Revolutionary War era. The concept of continuing care emerged in response to the gradual change in the American social structure.

The earliest modern facilities were built in the 1920's in the Midwest as new continuing care facilities (Jeck & Carlson, p. 58). Despite this early and on-going interest in the elderly, only recently has the industry has responded to the demand with a variety of housing alternatives. The industry has always been dominated by religious organizations but they are quickly giving way to other organizations. Today's industry still finds religious groups sponsoring many projects, but the majority of these groups are involved only to provide the project with credibility within the community. Hospitals, nursing homes, and universities, which frequently have under-utilized land, are either venturing on their own or are being approached by developers for joint-ventures. Many other for-profit organizations are becoming involved such as multi-family housing developers and major national corporations such as Marriott. The growth within the

industry is generally in response to the skewed demographics taking place, but it comes at a time when government appears to be cutting back much of the assistance that was once set aside for the elderly.

The industry is also faced with increasing regulations, both federal and state. This comes in response to some well-publicized failures. Although the number of failures to date have been few, the consequences are serious. "The failure of a retirement housing project is as bad as the crash of a 747, in the eyes of the American people" (Curran & Brecht, p. 66). If a project fails, the elderly are without shelter and sometimes without funds. As a result, many states carefully regulate retirement or elderly housing. Some have regulations demanding that substantial reserves be held in the project, while others require annual inspections of all financial information or have strict guidelines for management. The regulations vary, not only within each state, but within each project. The industry is in the midst of such a dramatic transition that there does not appear to be any standardization or set formula for retirement housing projects.

Current Trends

The market for elderly housing offers a wide variety of options. In addition, the industry has not yet adopted standards that clearly differentiate between the various

product types being offered. As a result, it is difficult to categorize the options available. The following appears to be the most commonly used description ("The Graying of America," p. 137).

1) Congregate Housing: Sheltered or enriched housing. Specially planned, designed and managed multi-unit rental housing where support services such as meals, housekeeping, transportation, social and recreational activities are provided. Congregate is an updated version of a boarding house, providing ambulatory persons the opportunity to be independent of their families. Health care is not usually provided on-site. Residents living in a congregate facility are generally between 75 and 85 years old.

2) Domiciliary Care: Personal care or residential care. Group living arrangements providing staff-supervised meals, housekeeping, personal care and private or shared sleeping rooms. These facilities are generally licensed and must meet designated operating standards, including minimum staff requirements.

3) Echo Housing: Elder cottage, granny flats. A self-contained "removable" living unit occupied by a relative on the same property and adjacent to a single-family home. Due to the small size, this is an affordable housing alternative for many families with an elderly member.

4) Life Care Complex: Life care community, continuing care retirement community, continuing care campus complex. A housing development planned, designed, and operated to provide a full range of services for older adults (85 years and older). Life care or continuing care is not a singular concept but includes a continuum of living arrangements within a single facility. As individuals over 65 grow older, their needs change. These projects are designed to provide elderly residents with the level of care needed, ranging from independent living units to skilled nursing care in adjacent nursing homes. The projects generally require substantial up-front fees (endowments) as well as substantial monthly rents.

5) Retirement Village: These developments offer ownership and/or rental units. They range from new towns to moderate subdivisions. They typically offer a wide selection of recreational activities, creating a campus or country club atmosphere, attracting more active retirees, aged 65 to 74. A wide range of support services are offered for a fee.

Many projects presently in operation are a combination of one or several of the above described product types. The projects can differ in many ways. They can be rental or condominium, offering services as a package or as-needed. Health care can be packaged or pay-as-you-go; it can be

on-site or off-site. There can be a variety of levels of care available. Living units can be high-rise, low-rise, garden apartments, or individual cottages, depending on where the project is located. There does not appear to be one established method for projects for the elderly.

The industry is pursuing a wide mix of financing options and modes of ownership. There are projects which are strictly non-profit, for-profit/non-profit joint ventures, for-profit developments with religious sponsors, etc. Questions such as what does each party bring to the project (i.e. land or capital), what are their areas of expertise (development, management, health care, etc.), or what are the various tax implications, are all important in determining the structure of the project.

There is a wide variety of financing options available. The most commonly used method in today's market has been the issuance of tax exempt bonds. However, due to potential changes in the current tax laws, the continued availability of this method is questionable.

Target Sector

The project proposed for the Minnetonka Countryside property is a combination of product types. The project would have the character of a retirement village with additional services more commonly found in the congregate and domiciliary projects. The project would be developed

as a campus-like setting with 280 garden style and low-rise "independent living" units, combined with 40 personal care units, to be built in two phases. The proposal offers a maximum of services on an as-needed basis where possible. The general character of the project would be upscale or luxury, with an emphasis on quality to draw from the surrounding communities.

The elderly housing industry is not a homogeneous group. A potential development must look closely at this market and identify a target sector within it. The needs of this population change every 5-10 years as they age past 65. The industry has identified three subgroups within the over-65 market ("Housing the Graying Market", p. 73).

1) The "go-go's." These are the young retirees, aged 65 to 74 years. They are active, independent, self-sufficient and want to enjoy their newly acquired leisure. They enjoy travel, entertainment, and recreation. They do not want to be tied down.

2) The "slow-go's". Individuals ages 75 through 85 who are beginning to slow down. They can generally care for themselves but may need some assistance. They may, for example, require assistance with meal preparation and housekeeping. They would enjoy a putting green rather than an 9-hole golf course. Typically they like being

at or near home, enjoy fellowship, outings, and other social activities.

3) The "no-go's." This is the group over age 85 who have slowed down. They need assistance beyond meals and housekeeping. Services from personal care to skilled nursing care may be required. The population over age 85 often have some form of failing physical attribute. When this occurs, access to health care becomes an important need.

The slow-go group is targeted for the Minnetonka project because the property is not large enough to provide for the recreational activities required by the go-go group, and the facility would not be equipped with the proper medical facility to interest the no-go group. A more in-depth study of this target group, how the project proposes to attract this group, and why this segment was selected will be discussed later in the paper.

Potential Pitfalls and Problems

Retirement housing is complicated in that it is more than just a real estate transaction. A project involves the development of both commercial and residential space, with emphasis on the selling of services. This section looks at this issue, and others, to guide decision makers toward a successful project.

The first key to a successful project is understanding the market. As stated earlier, the elderly market is not a homogeneous group. The needs of these individuals continually change as they grow older. For the project to be successful, it must target a specific group, not the elderly market in general. The complex must be designed with one group in mind; the amenities selected to appeal to one group and the services aimed at satisfying the needs of that group. Failing to focus on one sector would result in the creation of amenities that might not be used or result in not offering the services potential residents are seeking. The wrong amenity package can waste capital, and adversely affect the project's feasibility.

The developer should contract with a qualified market analyst or consultant to perform an in-depth market study of the area to determine the proper group and the particular characteristics or needs of that group. The market will determine the proper combination of variables defining the product.

A good market study should review the competition. It should focus on size, location, services, fee structure, age, and sponsor. It is also helpful to know how successful the competition has become.

In assessing the market, it is important to consider local conditions. Has the concept been introduced to the area, or will it be necessary to educate the market? Educating the market requires capital, but it also means a slower rent-up rate. What is the relative affluence of the elderly population and can they afford the product? How quickly can they move or sell their home? These are important issues determining the demand for the project. An accurate assessment of the market is difficult due to the newness of the industry. Accuracy is directly related to the level of risk assumed. In fact, it can be assumed that "generic" market studies are useless because each project is unique.

A second major pitfall is the lack of a premarketing or presales effort. Although this is more difficult in a rental project because future residents cannot be committed to a downpayment, it still should be attempted. A deposit should be collected equal to one month's rent or whatever the market will bear, providing assurance that tenants are committed beyond a casual interest. An average time frame of six months for a presales campaign is recommended (Cwi, 1986). Many lenders today are seeking 50-70% presales of a project before construction funds are released. It would, therefore, be prudent to implement a strong marketing effort prior to construction. Marketing results should be monitored carefully with an unbiased evaluation, and

the decision to proceed should be based in part on those results.

A third area of concern in the retirement housing industry is management. These projects are management intensive due to the heavy orientation toward providing services. The management of a retirement project may be compared to that of a luxury hotel. The problem is that most developers do not have adequate experience to operate a quality food service or to understand what is required to properly manage personnel. Food service is one of the most difficult components to manage when dealing in volume. Floyd Greene of the National Institute for the Food Service Industry stated, "With few exceptions . . . commercial food service profits and institutional food service budgets hang by delicate threads which require careful manipulation to avoid a collapsing stress at some point in the system." (Jeck & Carlson, p. 63)

The elderly, by nature, require a delicate and balanced diet, and they prefer a varied and interesting menu of quality foods. Most lenders require developers to hire outside, qualified management and food service firms to handle each respective operation unless the developer has had a successful track record in those areas.

The importance of providing quality service should not be underemphasized. A large proportion of tenants

come from referrals by others already in the project. The number of referrals are a direct result of the quality of service provided.

Another major pitfall in the development of a retirement community is in financial planning. Unrealistic and overly optimistic assumptions have been the cause of many project failures.

A sound financial plan requires an accurate assessment of the size of the market and the rate of capture within that market. This relates to an earlier recommendation for a good market analysis. It also relates to a critical financial assumption, the rate of rent-up.

Many project failures have occurred because developers were too optimistic about the rate at which the units would be rented. The elderly population is generally conservative and slow to act. They view the move to a retirement project as the last move they will make, and are particularly cautious.

The typical prospective tenant is said to need four to six visits over a two month period before a decision is made. Many are not familiar with the concept and require an education process. Industry experts feel that a rate of 6 to 8 units per month is realistic, but as few as 4 should be expected (Cwi, 1986).

A sound financial plan requires several forms of reserves; the first is a construction contingency. This

is common to most large development projects and should be included here. Second, is the rent-up deficit. As discussed above, the rent-up deficit reserve should be sufficient to carry the project through a worse case scenario. The financial plan should also allow for adequate operating and replacement reserves. Many lenders require such reserves to be shown. As the project ages and units are turned over, the project should have sufficient funds set aside to maintain the quality expected by residents. If neglected, interest in the project will decline and the project would ultimately fail.

The strength of the ownership entity is an important factor. These projects require substantial financial commitments. It is important that the investor(s) have the ability to withstand the lengthy construction period, and the slow rent-up period. A successful development is backed by financial strength to adequately deal with situations which will inevitably arise.

The best project requires sophisticated planning. The developer should work out detailed budgets and schedules for each phase of the process, have organized methods of reporting, control of quality, and clearly designated channels for decision making.

The design, services, amenities, and management of a retirement development are different from other types

of development. Therefore, it is essential for the success of the project that the developer assemble the best development team possible, with previous experience a mandatory requirement. This requirement extends from the architect, to the banker, lawyer, marketer, contractor and manager. With an experienced team, proper planning, and realistic assumptions, the developer can avoid errors that ruin potentially good projects.

Finally, Laventhol and Horwath (Conference, 1986) identified three areas which can cause retirement projects to fail within the first year: construction, site location, and marketing. Although these pitfalls are not unique to the retirement industry, the type of risks taken are quite different due to the nature of the product.

Laventhol and Horwath (Conference, 1986) stated that construction decisions require a good understanding of the needs of the elderly. Developers must understand that details such as layout and placement of fixtures must be adapted when building for the elderly. Some projects provide inadequate common areas or activities areas in the buildings. It is advantageous to work with architects who have designed projects for elderly residents. The construction of the project must be carefully monitored and should have a system for quality control and reporting. This is important for two reasons. First, the elderly

as a group, are demanding. They will not accept mediocrity and demand quality craftsmanship. Second, the development of such a project has a low tolerance for mistakes. Change orders can make the difference between a competitive, successful project and one that has priced itself out of the market.

Poor site selection was the second area of concern identified by the study. Selecting the right site is difficult because there are several variables to consider. The site should be located in a secure neighborhood, near where the prospective residents already live. The site should be large enough to accommodate the requirements of the project, and in an area that will satisfy the needs of the elderly.

The third area of concern cited in the study is that of marketing the project. The reason this is a problem area stems from the fact that there is a common misconception about what is being sold. A marketing effort that focuses on selling real estate will fail; selling units in a retirement center is the selling of a lifestyle. The prospective residents have a place to eat and sleep; what they are purchasing is a place in which to "live". They want to feel secure and have basic, recreational, social and medical needs met.

CHAPTER TWO

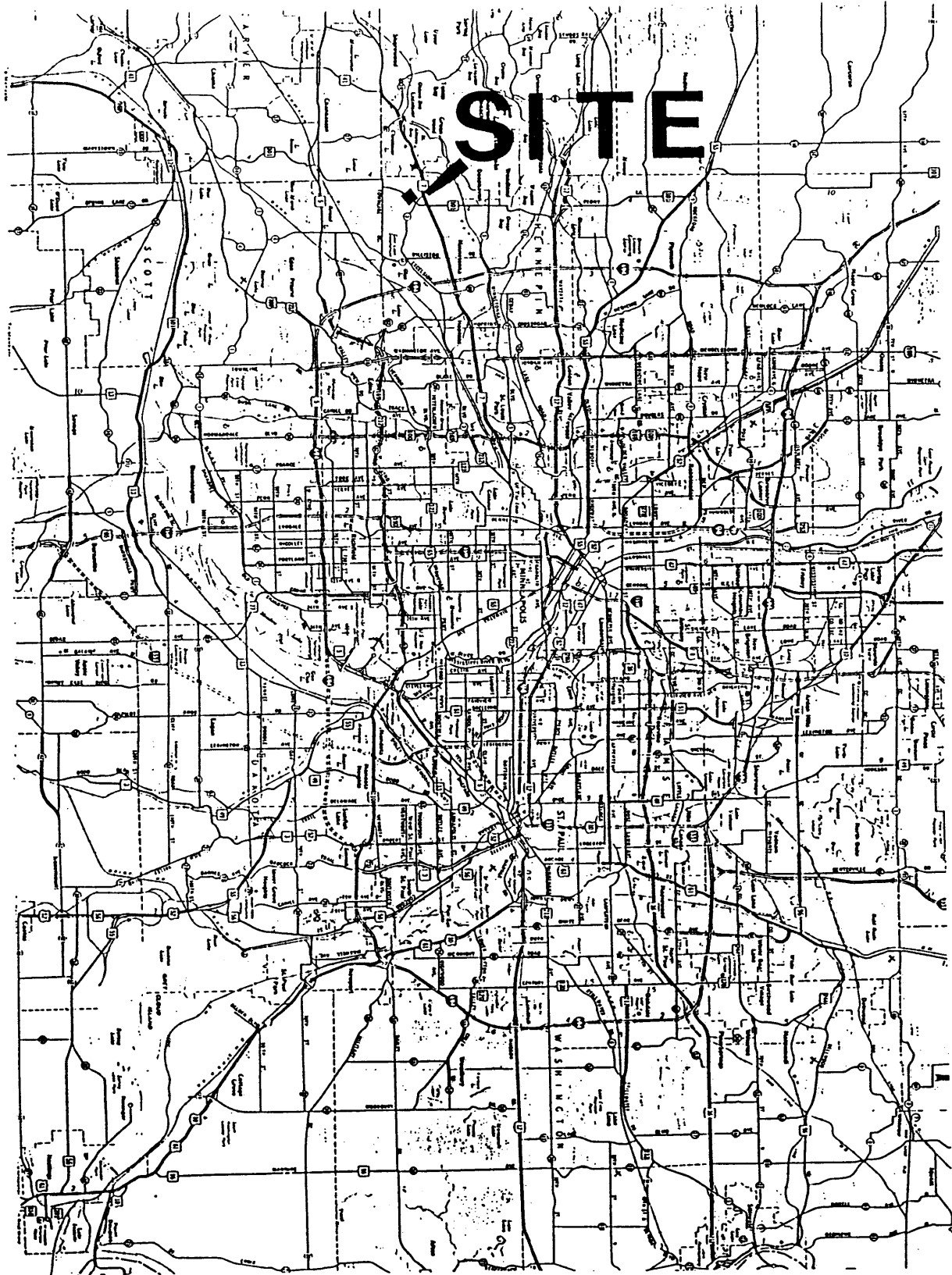
THE SITE

Description and Context

Minnetonka Countryside is a 30+ acre site located 12 miles west of Minneapolis in the affluent bedroom community of Minnetonka, Minnesota. It is accessed by State Highway 101, which runs north and south. State Highway 7, which crosses 101 approximately 1/4 mile to the north, is a major four lane divided highway that provides access to downtown Minneapolis (see map on following page).

This major intersection provides access to most of the commercial amenities for the area. The intersection is characterized by three sub-regional shopping centers. Included within two of these centers are large-scale, quality food stores, a discount center, and upscale boutiques. Also within the area are banks, restaurants, gas stations, flower shops, optical stores and professional offices. A key amenity is the existence of a clinic and professional medical/dental building. There is also a 24-hour, walk-in medical emergency clinic. The surrounding area consists of single-family homes.

The city of Minnetonka is one of the more affluent suburbs in the Minneapolis/St. Paul metropolitan area.



It is convenient to downtown Minneapolis and the international airport, yet maintains a rural-suburban atmosphere because of the dense woods, abundance of lakes, and extremely strict zoning.

History

Minnetonka Countryside is the last remaining undeveloped parcel of land zoned for multi-family housing in the city of Minnetonka. The property has a history of long and sometimes bitter battles between the City and various land owners.

The property was originally platted in the 1960's for 49 single family homes, and was named "Minnetonka Countryside". The owners, prior to Nolan Brothers, were two partners, Mr. Lund and Mr. Gullickson. They spent several years attempting to get the property rezoned from an R-1 (single family) zoning to an R-4 (multi-family) zoning, so that the property could be developed as an apartment complex. The City would not yield and the zoning change attempts were denied.

The site became available for sale soon after the denial to Lund and Gullickson, and Nolan Brothers entered into an option agreement with the partners on December 6, 1971 to purchase the land. The agreement stipulated that the sale was contingent upon the property being rezoned from an R-1 to an R-4.

The original proposal submitted by Nolan Brothers requested approval for 224 units. The development was to encompass 200 quadraplex condominium units in 50 separate buildings and 24 separate townhouse units. The structures were designed as large colonial style homes with separate lots. The City of Minnetonka eventually granted approval for 202 units and the property was successfully rezoned on April 16, 1972. Nolan Brothers consummated the purchase the following day. However, due to the economic recession and an involvement with other developments, the Minnetonka project was not built.

For the next several years Nolan Brothers remained in contact with the City for fear of losing the multi-family zoning. In 1977 they decided not to develop the site and, rather than risk losing the zoning, the property would be sold.

On February 1, 1979, Nolan Brothers signed an option agreement with Minnetonka Homes, a division of Lyman Lumber Company. Minnetonka Homes proposed to develop the same 202 unit project that had been approved in 1972, but this time the City denied approval of the project. The City determined that the density was too great and did not fit in with the surrounding community. Minnetonka Homes dropped their proposal to 184 units and was again denied. The City wanted only 109 units, which was basically single family homes on 15,000 square foot lots.

On the third attempt, Minnetonka Homes dropped the proposal to 165 units, and in the middle of a planning board meeting for this proposal, the board stated that it was going to recommend to the council that the property be down-zoned to an R-1 district. The down-zoning was recommended as part of a Highway 7 guide plan that was being studied for the area. The study, which began in 1977, was used to redevelop a master plan of appropriate uses for the Highway 7 corridor. However, despite its not being adopted as law until 1983, the City of Minnetonka down-zoned the land to R-1 and the current proposal was denied. This arbitrary action provoked the beginning of a long and expensive court battle between Nolan Brothers and the City of Minnetonka, that still is not completely resolved.

In 1980, Nolan Brothers filed suit against the City's action, questioning whether the City legally down-zoned the property, given the circumstances, and whether the City Council legally denied the preliminary approval of the proposal that was before them at the time. After 2 years of preparation and court battles, the Fourth District Court rendered its decision in favor of the plaintiff. On December 16, 1981, Judge Iverson found that the action of the City was arbitrary and capricious. The Judge's decision went so far as to say, "This Court is dismayed in the face of such a record that any governing

body would play so fast and loose with the rights of others" (Iverson, p. 6).

The Court ordered: "1) That the Minnetonka City Council shall permit the petitioners to submit a new plat, including proposed building and other plans, which will conform to its ordinance relating to multiple residence land use. 2) That density of the proposed plat for purpose of its conformance to the ordinance shall be calculated to include the outlot dedicated to the city in total acreage. 3) That the Court hereby retains jurisdiction over this matter to insure that petitioners' land use proposals to the Minnetonka City Council are afforded fair and reasonable consideration . . ." (Iverson, p. 6).

Two important points were addressed in the above decision. First, that the Court ordered to maintain jurisdiction over the matter to insure the rights of the developer. This is critical because the decision does not relieve the developer from the regulatory process. The City still retained its right to consider traffic impacts and site plan approval. Second, that the calculation of density for future proposals is to include Outlot 1. This is a 9.2 acre parcel of land (see exhibit), which was dedicated to the City as park land by the previous owner as part of his proposal. The lot would not be available for development, but is considered for calculation

of allowable density. According to a consulting planning company hired by Nolan Brothers after the trial, the total acreage available for density calculation was now 40.88. In the same report, the planners calculated that under the Court's decision, the site could be developed to a maximum of 710 units (Dahlgren, p. 3).

The City of Minnetonka appealed the Court's decision. It was not until August 16, 1984 that the State Supreme Court upheld the lower Court's decision and Minnetonka was defeated.

Following the Supreme Court ruling, the property was again put on the market for sale. Soon thereafter, a contract was signed and a proposal went before the Council. The developer was seeking to develop 465 units (well below the maximum allowable) and was turned down. The City felt that the Judge's decision restricted the number of units to the original 202 accepted a decade before.

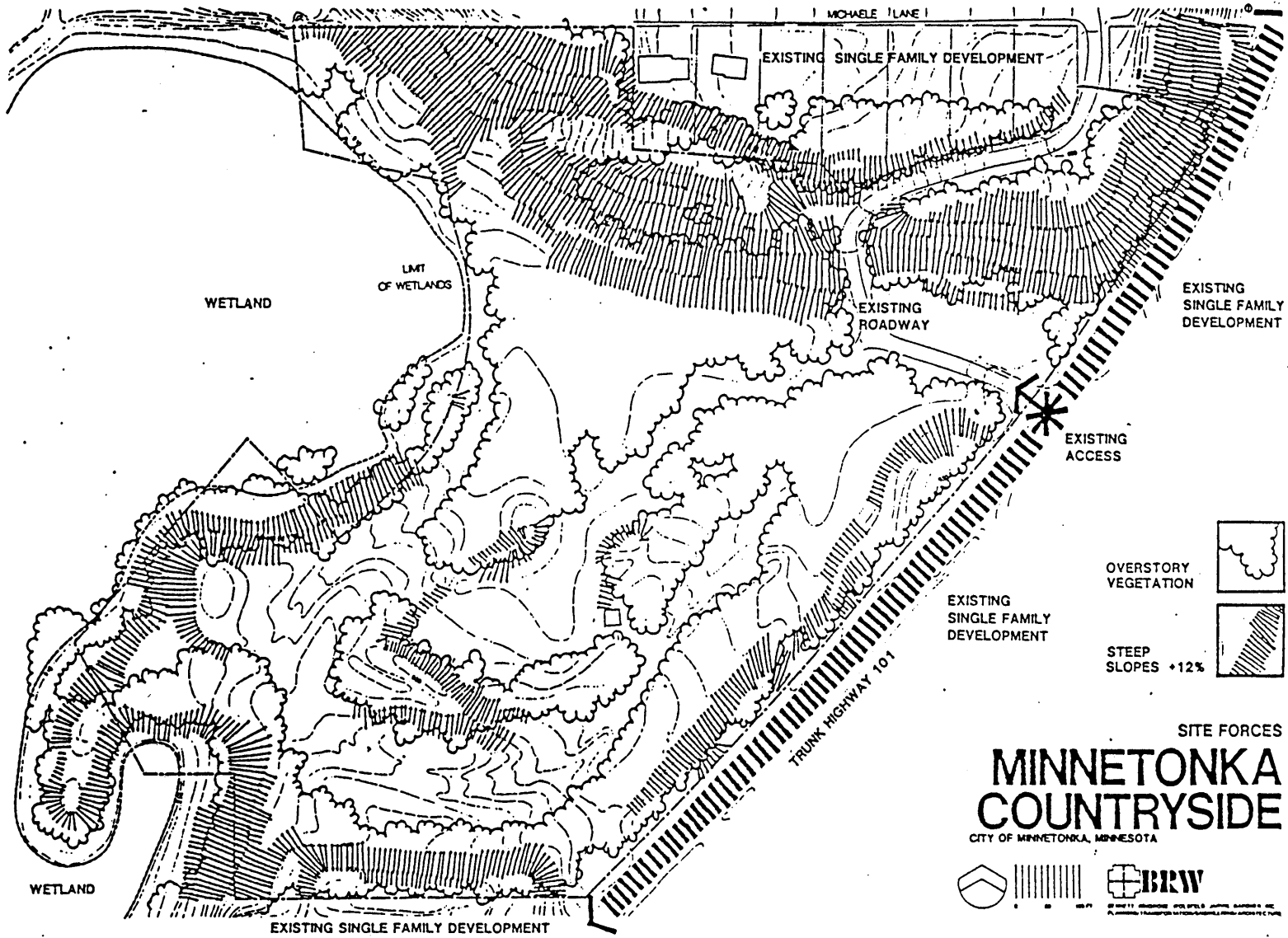
In an effort to avoid costly time and expense, both parties agreed to waive court and instead seek an Order of Clarification from the now retired Judge Iverson. On July 30, 1985, the Judge reaffirmed his earlier decision that the developer was not limited to 202 units but rather is allowed to develop the land as provided in the R-4 zoning ordinance regardless of the City's claims of its

possible effect on the density question. The Judge, however, also reaffirmed that the developer must still obtain approval from the City and the City maintains the right of approval or disapproval. After 15 years, six development proposals, tremendous legal expenses, and several court appearances, the property remains undeveloped and the battle continues.

Survey and Physical Analysis

The site is situated on the west side of Highway 101 and consists of 31.68 acres. It is within an easy walk to the major retail area, yet remains quiet and private. This privacy is aided by the dense and mature nature of the vegetation. The site lies within the Purgatory Creek watershed area. The general topography is hilly and uneven, with steep hills surrounded by low-lying swamp land.

Where the site is bordered by existing development, there are either steep slopes or swampy marsh, with the exception of the side bordering the road. Although these characteristics require more costly site preparation, the amenity resulting from the attractive terrain will compensate by generating a stronger purchase price. The woods serve to create privacy and atmosphere. If marked and removed selectively, the trees provide the finished project with a sense of maturity.

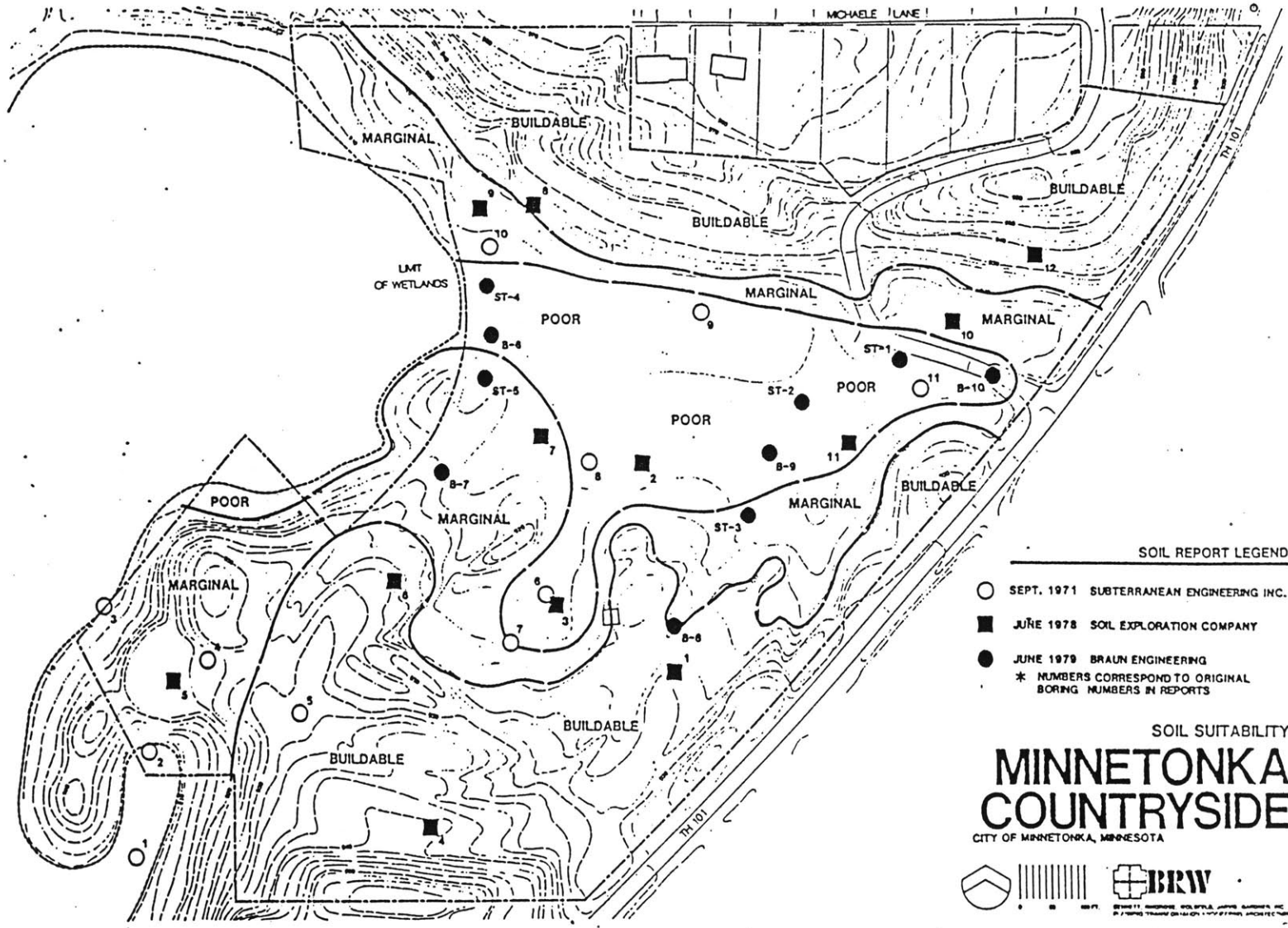


The site has been studied on three separate occasions, a summary of which can be seen on the following map. Natural soils in the area are predominately glacial outwash sand and gravels. There is evidence of a granular borrow pit operation from a former hill adjacent to the easterly property line. At the time of this operation, some fill consisting of fine sandy soil was apparently spread over the flanking low lying areas (Mindess, p. 2).

There is a distinct ground water table gradient through the area, from the north-west to the south-east. At the time of investigation, the ground water table was found to be in the approximate elevation of 906.5 to 904.5 feet. The report states that seasonal fluctuation should be anticipated.

The study of the test pits revealed that all portions of the property above the 920 foot contour contain sandy soils of medium to high density. They are probably capable of supporting conventional, relatively shallow spread footing foundations. This area constitutes 55% of the total property (Mindess, p. 3).

The land between the 910 and 920 foot contours is generally favorable, although 4 to 4.5 feet of unsuitable surface soils may have to be excavated at actual building locations. This represents another 12% to 17% of the total property (Mindess, pp. 3-4).



SOIL REPORT LEGEND

- SEPT. 1971 SUBTERRANEAN ENGINEERING INC.
- JUNE 1978 SOIL EXPLORATION COMPANY
- JUNE 1979 BRAUN ENGINEERING
- * NUMBERS CORRESPOND TO ORIGINAL BORING NUMBERS IN REPORTS

SOIL SUITABILITY
MINNETONKA
COUNTRYSIDE
 CITY OF MINNETONKA, MINNESOTA

BRW
 0 50 FT. 100 FT.

The worst soil conditions encountered lie below the 920 foot contour in the central and east-central parts of the site. In these locations silty sand fill was placed directly over peat. Building foundations or utility lines would have to bypass the peat layer, necessitating excavations 6 to 11 feet deep. These areas are estimated to occupy 28% to 33% of the total property (Mindess, p. 4). However, another study found that organic soils necessitated an excavation in the range of 15 to 22 feet. This, of course, would be excessively costly. An alternative would be to utilize the method of surcharging.

The recommendation would be to excavate usable soil that was filled over the organic material, thus making it available for use in other areas of the site. This would reduce the time and money necessary to correct the existing condition and it would provide substantial usable fill for the remainder of the site. Another important result of this procedure would be that it would produce a small pond.

The site is abutted to the west by a large marsh, and area is graced with woods, water and bog in the true fashion of the Great North Woods. This area, which is currently owned by the City of Minnetonka, could be developed as a boardwalk park. This proposal has several beneficial effects. First, the potential of a boardwalk

park offers an opportunity to create a desirable amenity for the project, enhancing the value of the units and increasing the desirability for tenancy, resulting in a quicker rent-up period. Second, it would ease the resistance and possibly gain support from the abutters, which have been so difficult in the past, by creating an amenity for the existing neighborhood. It would also encourage better interaction between the planned community and the community at large. Finally, the development of the park may serve to ease the tension between the property owners and the City, perhaps allowing the developer to obtain a greater density.

CHAPTER THREE
MARKET ANALYSIS

Location Analysis

The criteria for site location analysis of a retirement project is unique because of the special needs of the target market. However, proper locational analysis is as important to these projects as it would be for any other real estate development proposal.

The first and most important criteria for a satisfactory site is that it be located in a safe area or neighborhood. The elderly are more vulnerable to crime or abuse than other sectors of society. The Minnetonka Countryside location is well suited to address this concern because the City of Minnetonka has one of the lowest crime rates in the metropolitan area (Minneapolis Tribune, June 23, 1979).

A second important criteria is the site's proximity to a potential tenant's present residence, or to their family. Current information indicates that approximately 80% of a project's market is located within a 20 to 25 minute drive of the site ("The Graying of America," p. 74; "Housing the Graying Market," p. 75).

A third important criteria for site selection is its proximity to various medical facilities. The services demanded include those of physicians, dentists, nursing homes and hospitals. The Minnetonka site addresses these adequately in most respects. The project is located less than 1 mile from several professional medical/dental buildings.

There are two nursing home facilities within the area. One is located approximately 5 miles to the west and the other is 8 miles to the north. Although these are not long distances, they are not as close as would be desired, considering that some projects in the metropolitan market have facilities on site. If a friend or spouse of a resident were to become too ill to reside in the project and were forced to move to a nursing home, that resident would want to be conveniently located so that visits would not be difficult. The hospital for the area is located approximately 10 miles to the east. This is a negative attribute of Minnetonka's location and could cause some loss of potential tenants.

The fourth criteria important to potential residents is the project's proximity to other services and cultural events. Minnetonka is well situated to satisfy these needs. As mentioned earlier, the site is less than 1 mile away from 3 sub-regional shopping malls. Cultural

options include several restaurants and movie theaters within the immediate area and an extremely popular dinner theater 5 miles south of the site.

The final criteria is the site's general accessibility. Minnetonka Countryside is easily accessible by major highways. It is approximately 2 miles from Interstate Highway 494, the major beltway circling the metropolitan area. The site is 20-25 minutes from downtown Minneapolis, and 25 minutes from the international airport, yet is not congested with traffic even during peak driving hours.

The site is well suited for use as a retirement center despite its distance to a major hospital. It is close to most amenities, yet maintains a very peaceful, suburban environment in a community that consistently remains one of the most desirable in the metropolitan area.

Competition

There are 61 housing facilities in operation or under construction in the Minneapolis/St. Paul metropolitan area catering to the elderly population (see Appendix 1). There are another 140+ housing projects that offer some form of elderly housing, but do not cater exclusively to those over 60. These projects cover a wide range of product types, offering virtually every combination of amenities and services available. Approximately 75% of

the projects on line or in operation offer some form of subsidized rental housing ("Consumer's Guide," Dec. 1985). The programs include public housing programs, Farmers Home Administration programs, Section 8 programs, Section 236 programs, and some privately sponsored programs. While these projects house a large proportion of the aged currently residing in elderly housing projects, they are not in direct competition with the proposed Minnetonka location because the target markets are quite different with regard to income levels. There are another 40+ projects that can be discounted as potential competition because of their distance from the site. The local nature of the market puts them beyond the primary market area of the project.

Suburban Hennepin County, the major portion of the primary market, presently has 11 market rate rental housing projects for the elderly either in operation or under construction. These projects offer 1,557 units of various sizes. There are another 9 projects within suburban Hennepin County adding 1,727 market rate units for sale. Not all of these projects are in direct competition because of differences in rents charged and services offered.

Further investigation of the market reveals that there are 6 projects within a 20 minute drive of the Minnetonka site that offer upscale or luxury accommodations

for the elderly. Luxury is defined to be a project where the average rents are above \$1200, and the average sale price is above \$120,000. The projects offer 1,196 units of which approximately 400 are for sale and the balance for rent. Four of the six projects are high-rise structures and two are low-rise. None of the projects are located on parcels of land larger than 10 acres. Minnetonka is the only project located on a campus-type site.

Each of the six projects offers an amenities package, but Minnetonka Countryside has the most extensivelist of amenities and services in the metropolitan market. One project offers a variety of restaurants on site; Minnetonka has a formal dining area. Some of the projects offer guest accomodations for visitors of the residents; Minnetonka does not. One project offers an amphitheater on site; Minnetonka offers a multi-purpose facility. Two of the facilities are located in neighborhoods adjacent to downtown, two are located adjacent to regional malls and two are located in suburban areas. None of the projects offer the walking paths or privacy that Minnetonka offers. Three of the projects are under construction and will open in late 1986 or early 1987.

Demographic Analysis

The methodology used to determine potential market demand for the Minnetonka Countryside project began by

determining the primary market area. The size of the primary market area depends on factors such as the amount of competition currently in the market place. Most of the analyses to date assume that 75% of a project's potential residents would currently reside within a 20 minute drive of the site (Cwi, Laventhol & Horwath, 1986).

The range used in this study included towns and cities within a 10 to 15 mile radius of the site, depending on how direct the route is from the area to the site. Twenty-four towns and cities were found to be within the primary market area (see Appendix 2).

Population figures for the 74-85 age group (the market segment targeted by the project) were then obtained using 1980 figures published by the Metropolitan Council (Appendix 2).

The target market consists of those individuals between 74 and 85 years of age, who live alone or own their own home, who live within a 20 minute drive of the site, and who are income qualified (\$35,000 annual income). The potential market is then broken down further in this analysis. Census figures show that 5% of those 74-85 years of age will move in any given year ("Housing the Graying Market," p. 72).

The results of the analysis show the potential for 50 tentants per year from the primary market area. If

this figure represents 75% of the total demand (67), then the projections for lease-up of 6 units per month or 72 units per year may be slightly aggressive.

It should be noted that the market analysis can be considered to be somewhat conservative. More individuals would be income qualified through the sale of their residence than the figures represent. Second, the potential market might not be limited to those individuals who had already planned to move. Third, the figures used were obtained from the 1980 census. The number of individuals in this age group is growing rapidly and would undoubtedly be substantially higher by the time this project comes on-line. Finally, the competition taken into account in this analysis is already beginning rent-up. The amount and type of competition could significantly change by the time Minnetonka began its sales effort.

In conclusion, it appears that the market potential is adequate to support the proposed Minnetonka Countryside project. However, this is only a "first-run" market analysis. It is recommended that a more in-depth analysis be performed prior to any decisions to proceed with the project.

CHAPTER FOUR

THE PROJECT

Amenities and Operations

Minnetonka Countryside will offer a variety of alternatives and amenities to the prospective tenants. Five alternative living arrangements will be offered: studios, 1 bedroom, 1 bedroom with den, 2 bedrooms, and assisted living units. With the exception of the assisted living units, all units will be equipped with full kitchens, fireplaces, and balconies or porches. Each unit will also be provided with a separate storage closet in the main building. Every unit is equipped with a 24 hour emergency call system in the bedroom, bathroom, and kitchen.

Monthly rents will range from \$1100 to \$1950, which includes one meal per day, twice weekly linen service, weekly housekeeping service, maintenance-free grounds, maintenance-free living units. All utilities except telephone service, are included in the monthly rental fee. Additional services include transportation, concierge, and postal service, monthly medical examinations and a social activities director who will provide a selection of group activities and events.

The tenant is allowed use of all amenities and activities within the project. These include an indoor swimming pool, whirlpool, tennis courts, woodworking and crafts room, card and game room, library, theater, party room, several lounges, garden plots, a putting green, shuffle board courts, horseshoes, an exercise room, and a nature boardwalk.

Additional services will be made available. These will include a local bank branch, mini-market/delicatessen, gift shop, beauty/barber shop, and underground parking.

If a unit is to be occupied by more than one individual, an additional charge of \$300 per month is added to the base monthly rent. The additional person is provided with all the benefits covered by the base rent. A unit may not be occupied by more than 2 people unless written approval has been granted. Pets are not allowed without written approval.

A system of health check is also used to monitor the residents on a daily basis. This is a flag system attached to the door of each unit. An attendant sets the flags of each occupied unit in the middle of the night. In the morning, when a resident opens their door, the position automatically changes, signaling that the resident is up. By mid-afternoon, the attendant checks to see that all flags have been removed. If one has not, then

the attendant may enter the unit to determine if the individual is in need of assistance.

The assisted living units are available to residents who are either temporarily or permanently handicapped, or in failing physical health. The benefit of these units is that they allow residents an opportunity to stay in the project despite the inability to live independently. The services provided include assisting the resident to bathe, dress, and move about. Meals can be brought to the units if the resident so desires.

There is a fine line between assisted living and nursing care with regard to regulations. Nursing care is highly regulated and requires a certificate of need, whereas, assisted living does not. A resident is free to move temporarily to an assisted living unit, provided space is available. However, the management reserves the right to decide, with the aid of a physician, whether such a move should be permanent. The management also reserves the right to decide, with the aid of a physician, whether a resident should cancel their lease and assume residency in a more skilled nursing facility.

Selecting Management

Minnetonka Countryside will be managed by an experienced third party firm. The expertise required is beyond

the scope of the developer. Selecting the right company is as important as any task in the development process. A thorough screening and investigation of the candidates is recommended.

The selection process should begin by narrowing the choices to no more than four or five alternatives. Once this has been accomplished, an intensive interview process should be undertaken. The interview should focus on the actual management team to be assigned to the project. The questions should be carefully thought out to identify the personalities and philosophy of a particular team.

An area of extreme importance is the management candidate's hierarchy and system for quality control. What methods of reporting are used? Also of concern is the role the residents play in the management and how this is accomplished. A successful project should involve some form of residents' association. A good project will encourage residents to become involved in many of the management decisions.

The selection process should also include several on-site visits to other projects currently being managed by the candidates. How does the staff react to and interact with the residents? Are they courteous, patient, and interested? Do they know each of the tenants by name? These are key characteristics for management to exhibit. A positive and courteous staff is vital for the success

of the project.

The on-site visits should also investigate the activities center of the project. What type and how often are activities being offered? Do the residents seem to be enjoying themselves. Does the staff get involved in the activities?

Finally, the selection process should include interviews with the residents of the various projects. This is the best resource available because they are the consumers. The interviews should identify trends. Repetitive answers or common attitudes, rather than individual complaints should be evaluated. Questions should focus on courtesy, patience, quality of service, and interest. Finally, would they recommend the project to a friend.

The above is a guide only, but it is recommended that the actual decision process be carefully planned and executed.

Physical Requirements

Minnetonka Countryside is to consist of 280 independent living units and 40 assisted-living units built in two phases. The units should laid out with the idea of maximizing views and security, yet allowing privacy. The majority of the views should overlook areas of activity because the elderly enjoy spending time observing the activities of others. The unit layout should also consider issues

such as circulation, placement of parking and distance to amenities. Other issues, common to most development projects, such as topography, vegetation, micro-climate, and treatment of the edge, should also be considered.

The 280 independent living units should be broken down into 10 studio, 100 one bedroom, 70 one bedroom with den, and 100 two bedroom units. The 40 assisted living units will all be studios.

All units will be equipped with full kitchens except the assisted living units. The studio units will be 750 s.f., one bedrooms 900 s.f., one bedroom with dens 1050 s.f., the two bedrooms 1250 s.f. and the 40 assisted living units would contain 650 s.f. An investigation of the existing projects in the metropolitan area have found these unit sizes to be 10% to 25% larger than any competing facility is currently offering.

The 2 bedroom and large 1 bedroom units will be built in five separate clusters. Each cluster will be made up of several buildings of four-plex to eight-plex garden style and patio units, providing an independent village atmosphere. The assisted living and smaller 1 bedroom units will be built in a low rise structure as part of the central community building and are to be connected by elevators and interior hallways. This allows a greater density on the site without sacrificing recreation and

open space. Second, it provides a more diverse selection to potential residents. Finally, most projects currently in operation have established that tenants attracted to smaller units are generally less mobile; tenants attracted to larger units are generally more independent. The internal hallways provide less mobile residents with protection from the severe Minnesota climate while limiting their commuting distance to the various amenities. Individuals enjoying more independence would have living units similar to many luxury condominium developments, with easy access to many of the services.

The site plan should be laid out so that the pond and community building are centrally located. Together they divide the site down the middle, minimizing the distances, creating a sense of community, and affording each unit with privacy.

The walkways connecting various structures should be designed with the extreme climate conditions which characterize Minnesota winters. However, completely enclosed walkways can be extremely expensive and may create a poor environment. This issue should be explored thoroughly to avoid a poor decision.

The core of the project is the community building. This structure houses many of the project's activities, in addition to the smaller living units. It is the most

visible and therefore, the most important structure on campus. The community structure will serve as the main entrance to the project. As such, it should be well defined to aid visitors in finding their way, while creating a sense of place for the residents. The lobby should be designed and have the quality of a first class hotel, with a lounging area near, but not in the mainstream of traffic. The entrance and lobby are very important areas to the residents because this is where most of the action takes place. Studies have found that this is the most favored spot for residents to sit and observe the activities of others (Wentling, 1986). Particular attention should be given to creating an environment that caters to this interest.

The central dining room is also housed in the main activities building. The important elements to incorporate are similar to those one might find in a nice but quiet restaurant.

The entrance should offer a lounge separated from the main dining area, with comfortable seating so that friends can gather or meet prior to dinner. The main dining area should be designed to divide the room into smaller areas. This is important because dinner for most of these people, is traditionally an intimate gathering of family or friends to share conversation. This atmosphere

can eliminate an institutional atmosphere. The dining facility should be situated with optimal views of the central pond and surrounding green areas. It should be adequate in size to accommodate approximately one third of the residents at any given time (125-135).

Adjacent to the dining facility will be the multi-purpose room. This is an auditorium style space of about 1500 s.f. with a small stage at one end. The room would be used for cultural activities, such as showing movies or as a party room with a dance floor. The room will be separated from the dining facility by a moveable wall so that the two can be joined for community wide affairs such as a Christmas party.

The community center will house a small gift shop, a barber/beauty shop and a resident-operated mini-market/delicatessen. In addition, there will be a small branch bank and post office with post office boxes. Mail will be delivered to the boxes to encourage residents to get out and interact with others.

A separate structure, the fitness center, will be located in the core of the project. This building houses the fitness facilities and medical clinic. The fitness center includes an exercise room, men's and women's locker rooms, an indoor/outdoor pool, and a whirlpool. The medical clinic would consist of a small check-up room with a nurse

on staff and a visiting physician available weekly.

Adjacent to the fitness center is the activities center. This area houses the craft/woodworking shop, a library, and a game room, which includes card tables, pool table, and a lounge with a large screen television. The backside of this structure will house the service area. This requires a loading dock, small storage areas, and employees' lounge. The basement of this building will provide space for residents to store additional belongings in separate wire cages.

The project should also include approximately one interior parking space per unit. This should be divided in the same manner as the units, whereby each cluster will have its own garage and the main building will house the parking for the units within it. Additional parking for employees and visitors will be provided but will not be interior.

The grounds surrounding the project and between structures should also be planned. The area between the community buildings should contain additional outside activities such as shuffle board, a putting green, horseshoes, and two tennis courts. An additional area of about 8,000 square feet, away from the structures, should be set aside for garden plots. The balance of the grounds should consist of landscaped green area that has been skillfully integrated

with places to sit. Finally, the marsh area behind the project could be developed into a series of boardwalk paths with benches.

CHAPTER FIVE

MARKETING

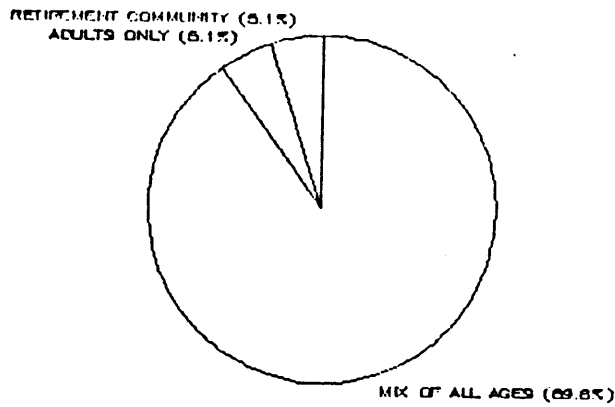
What to Market

The proper marketing of a retirement housing project is critical to its ultimate success. Although this may seem obvious, how this is accomplished is not at all obvious. The developer who approaches the task as if it were a typical rental project will be unsuccessful. The approach is not similar to other real estate projects because the marketing effort should not be focused on real estate, but rather, on providing a lifestyle.

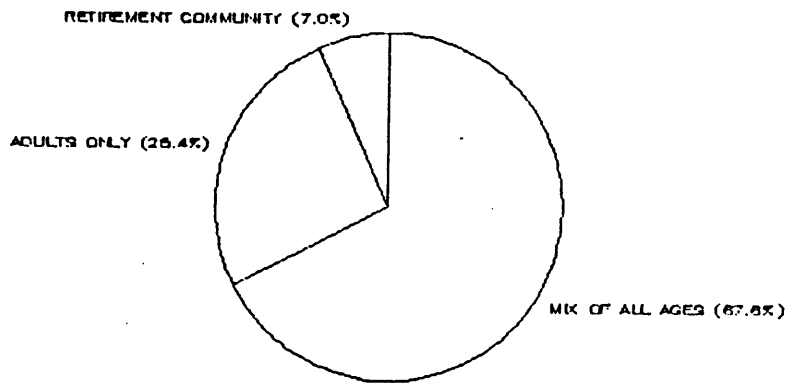
Some elderly people are content with where they reside, but find it difficult to handle the daily tasks of independent living. They do not like the idea of moving to a place filled with other elderly. The proper marketing effort must create a desire to move; it must remove the deeply ingrained belief that all elderly housing is institutional and is merely a holding ground for individuals who are soon to die.

A study showed that 90% of the empty nesters and 68% of the retirees prefer to reside in communities that have people from all age groups (Adams & McLeister, p. 71) (see figure). The same study showed that 77% of the

WHERE OLDER AMERICANS WANT TO LIVE
EMPTY NESTERS



RETIRES



WHAT TURNS ON AND OFF OLDER AMERICANS

	EMPTY NESTERS		RETIRES	
	TURN ON	TURN OFF	TURN ON	TURN OFF
LIVE WITH SAME AGE GROUP	27.80%	72.20%	23.50%	76.50%
LIVE AMONG OTHER PEOPLE	57.10%	42.90%	42.40%	57.60%
LOTS OF ACTIVITIES	66.70%	33.30%	75.00%	25.00%
COMMON DINING FACILITY	29.40%	70.60%	37.30%	66.70%

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* SOURCE: PROFESSIONAL BUILDER APRIL 1986 PG.71

retirees do not desire to live in a community with the same age group. These values must be dealt with when marketing a retirement project. They clearly show that the desire to accept tenancy must be created.

For nearly 50% of all prospective tenants, a physician or the children of the elderly make the initial inquiry ("Location", March 1985). Leon Roderman, a developer of retirement housing, stated, "You're marketing against guilt. The children feel that they should have mom living with them, but they can't provide her with the companionship she needs. Still they want to be able to say 'my mother lives near the good shopping center, near the golf course, or in the great part of town.' You have to sell the way of life. In advertising, assure people subliminally that this is the place to come to live, not to die." ("Location, Recreation," March 1985).

As discussed earlier, the proper mix of amenities is critical in satisfying the needs of the targeted age group. A good set of amenities will provide the impetus toward overcoming prospective tenants' misconceptions.

The marketing approach should focus on the issues which are of greatest concern to this group. A major concern is security. People over 65 have a strong need to feel secure. This stems from the fact that they are so vulnerable. They also recognize failing health and

the inability to do things. As a result, emphasis should be placed on the maintenance aspect of retirement center living. This should be dealt with cautiously because there is also a strong need to remain independent. It has been documented that attitudinally, people are only 75% of their chronological age (Cwi, 1986). This means that a typical 80 year old has the mind set or attitudes of a 60 year old. A loss of independence or a feeling of being put into an institution does not coincide with the mind set of the target market.

Another issue of concern to this age group is the availability of activities. This means on-site and within the community at large. They do not want to feel apart from society; they desire accessibility to shopping, cultural activities, and medical facilities. More importantly, they want to be in close proximity to their families. These are areas that should be focused on in the marketing effort. Research done by Leisure Technology, Inc. indicated that the primary motivations of buyers are security, maintenance services, recreational facilities, and lifestyle opportunities (Tenzer, Feb. 1984).

The marketer may be aware of the motivations discussed above and should keep in mind that the decision to move to such a facility is actually the acceptance of a dramatic lifestyle change for the tenant. Most prospective tenants

view this as the last move they will ever make. As a result, the process is slowed considerably from what is already a cautious way of thinking. The marketing team should be prepared for, and patient with, the indecisiveness of the individual. The best way to attract the elderly market is to calm their worries about health and mobility, while providing the most independent environment possible.

Curb appeal is also an important marketing tool. Although it is not necessarily ranked as one of the top needs of the elderly, this is because it has become an expectation. The retirees generally have a tremendous amount of pride in their homes. Therefore, to create a desire to move, curb appeal is necessary. Curb appeal will generate inquiries; services and selling approach sell the product. However, without curb appeal, inquiries are more difficult to obtain.

A final aspect to be marketed is the credibility and longevity of the project. This is closely related to the issue of security. The elderly want to feel confident that the project will remain solvent and that they will be taken care of over the years. As stated earlier, they view this as the last move they will make. It stands to reason that they would have concerns about the longevity of the project and the credibility of its owners. Methods of dealing with this issue will be

discussed in the next section.

Methods

Several effective methods of marketing retirement centers are currently being employed in the industry. The elderly will not respond to a "hard sell" approach. This point was touched on previously, but its importance warrants further discussion. As mentioned, the elderly are extremely slow in making a decision to move. Six to eight and as many as ten repeat visits are usually necessary before a final decision is reached ("Housing the Graying Market," p. 76). These people will not be pressured. The soft sell approach is the best way to keep their interest. "There is no impulse buying among the elderly," stated one developer. "They have seen everything in life and are suspicious of the hotshot stuff." ("Housing the Graying Market," p. 76)

Today's elderly population is better educated than ever before. They bring intelligence to the marketing table, coupled with uncertainty, suspicion and a fear of the unknown. A method commonly used in the industry is to work marketing efforts through religious organizations. The relationship with such organizations can take on different forms. A religious group can sponsor the project, providing the credibility needed to gain the trust of potential tenants. The organization might

be contracted to manage and/or market the facility for the development entity, which again, provides credibility to the project. It also means that the individuals representing the project have a stronger interest in the well-being of the elderly and are not necessarily money motivated. The religious organization may also be a joint venture partner with the developer. In this case, their role would take on any of those mentioned above, with a legal interest in the project.

The use of model units is a highly recommended method of marketing. This is expensive, but the consensus within the industry is that it is worth the expense. An artist's rendering is an alternative, but not as effective. The elderly want to see and touch the final product. The model unit should be located on-site if at all possible, and should be a good representation of the project. It should not take on the appearance of an office interior, but should be decorated as a comfortable high quality living unit.

The model is an effective method of marketing a retirement center, but it is not sufficient by itself. A proper marketing effort should have a top quality slide or video presentation. The presentation should consist of a professional 15 minute show explaining the concept, showing the product (perhaps in a rendering), and describing

the services. Most importantly, it sells a lifestyle. It is effective to interject interviews of tenants. The goal is to educate the consumer and dispel stereotypes.

Another effective method of marketing the project is to hold group gatherings at the site or, if possible, a local place of worship. Seminars create a comfortable environment for the prospective tenants. They feel less threatened than if approached individually. The seminar approach also allows the marketing team to reach more prospective tenants in a given time period.

To create interest for these gatherings, marketers have tried various methods of incentives. A common method is the use of open house brunches, with invitations sent in direct mail marketing efforts. One developer sponsored a celebrity luncheon in an effort to increase attendance.

Referrals are one of the most effective marketing tools available. It has been reported that 50-60% of the eventual tenants come from the referral of tenants already residing in the project. This does not, however, benefit a presales campaign. Church leaders are an excellent source for referrals. They often are aware individuals in need of such housing, and provide the credibility that is needed. Physicians and social workers are also excellent sources of referrals.

Strategy

The marketing strategy for the Minnetonka Countryside project should begin with the proper selection of a marketing team. This is the most important aspect of the strategy and should be approached cautiously. The team must be experienced in the marketing of elderly housing. Most sales agents with a typical residential background would have a difficult time dispensing with the "hard sell" style.

The profile of a good retirement housing salesperson is one who is patient and sensitive, understands the needs of the elderly and knows how to work with them. They cannot be money motivated and must learn to gain the trust and friendship of the individual. Women are more effective than men at selling units to elderly clients. In fact, most marketing staffs consist entirely of women 30-50 years old. According to industry figures, the staff for a project the size of Minnetonka should consist of five salespeople and a marketing director (Leprevost, 1986).

Another important aspect of the development of a marketing strategy is an effective method of monitoring the sales effort. This should include an intensive training session. The system should monitor presentation and track the various agents' follow-up. The ability and effectiveness of the follow-up is important because of

the protracted decision making time required by elderly individuals. The system should also allow for maintenance of lists of contacts for future marketing efforts.

A proper marketing budget and schedule should allow for a maximum of time and funds. With enough time and funds, any project can be filled (Drass, 1986). The key word here is "enough".

The project should allow \$4,000 per unit in marketing expenses. The schedule should allow for an average of 6 units per month to be leased, or a total of 24 months for phase one. Phase two could expect to lease at a rate of 8 units per month due to the help of referrals, and require a total of 18 months. The preleasing effort should commence 8 months prior to construction. Preleasing loses its effectiveness if performed too far in advance as individuals may change their decision or experience changes in their health.

The next step in the marketing plan is to generate contacts with potential clients. This is done after the approvals have been obtained, or when it is reasonably certain what form the project will take. Starting this process before approvals have been granted can create problems. Changes, which may occur in obtaining the approvals, can be difficult to explain to the buyer.

Once a list of potential tenants is compiled, the marketing effort should focus on educating these individuals about the concept and the project. The use of direct mailing, cold calling and presentations or seminars are effective. A top quality brochure should be used during the education stage. The brochure is a critical element because it represents the first impression a buyer will have of the project.

Once the project has been approved, the design complete, and the costs determined, the sales staff should begin their presales effort. If a model unit is to be used, it should be started as early as possible because of the fairly lengthy delay from construction. By this stage of the marketing program, the marketing team should have developed an extensive list of contacts and potential consumers who have been kept aware of the progress through mailings or newsletters.

CHAPTER SIX
FINANCIAL ANALYSIS

The base case financial analysis assumes the financing to be a straight 10% fixed rate mortgage amortized over 30 years for each phase in the development. The loan is for 80% of the value of each phase, including developer's profit and rent-up deficit, and is funded when the project reaches 60% occupancy for each.

The analysis allows \$6000/unit for marketing expenses. The base construction cost was set at \$60/foot. There was no consideration given to the potential for preleased units; leasing was assumed to commence following completion of construction. A construction contingency of 10% was added. The project produces a relatively strong 22% internal rate of return.

Because of the slow lease-up rate for these projects, the developer realizes very little return on his investment until the 6th year (Appendix 3). The developer is faced with a rather substantial up-front investment to get the project to the breakeven stage. The equity required for phase 1 reaches \$6,448,000 by the time the project can stand on its own. Phase 2 requires an additional \$1,538,000 to get it up and running, making the total equity invested

\$8,031,000. The analysis illustrates the importance of a deep-pocket investor who can fund such a deficit and can withstand a slow payback period.

Once the project reaches stabilization, it produces a very attractive return on investment. A look at exhibit 6 of Appendix 3 reveals that when the project reaches stabilization in year 7, the net return on investment is 21%. The cash-on-cash return climbs steadily, so that by year 10 the investor is receiving a 32% return on his investment per year.

The debt coverage ratio also reflects a sound investment once stabilization is reached. The mortgage payments in year 7 are covered 1.51 times by the net operating income and continually rise from there. However, the early years reflect a deficiency of operating income and the debt is not fully covered until year 5. This forces the investors to fund the deficit and continue equity investment until the project stabilizes.

The need for capital becomes more evident upon investigating part two of Appendix 3 (worst case scenario). In this pro forma, the analysis models a situation where the actual rental rate accepted by the market is only 90% of that which was originally predicted. The rent-up rate was reduced from 72 units per year to 48 per year.

This combination caused an increase in the rent-up deficit and the equity required. The worst case scenario required the developer to invest \$8,625,000 of equity to fund the first phase and \$4,105,000 to fund the second. In addition, the return of that equity was significantly reduced even after the project reached stabilization. The investor, in this case, never reaches a return greater than 20%. The internal rate of return drops from 23% to 14%, and the majority of this return is realized only after the project has been sold. The potential of this should be weighed, but more importantly, it illustrates the necessity of an in-depth and accurate market study.

The importance of a good study is further illustrated by part 3 of Appendix 3. The rent and the rent-up rate were held to be the same as the worst case, but the construction cost was cut from \$60 per foot to \$50 per foot. The result of this investigation showed returns equivalent to those of the base case. If a marketing study could identify approximately what rents would be obtainable, then the project could be built for that market. Over-building on quality for the market is definitely a risk associated with this project because rent levels sought have not been achieved by any other project in the metropolitan area.

Another important issue illustrated by the analysis is the impact of the substantial front-end costs. The development strategy calls for all the amenities and facilities to be built and in place when the project opens. While this might be helpful in marketing the units, it places a substantial financial burden on the investors. The cost that is added because of these extras results in a \$21,193/unit difference between phase 1 and phase 2. However, there are 22% more units to spread the cost over in phase 1 (Exhibit 4 of Appendix 3).

This burden on the phase 1 cash flow is increased further because the nature of these projects requires that the facility be fully staffed the day the doors open for business. There are very few areas where staff can be reduced, even if there are only a few tenants in the building.

The combination of these heavy front-end and staffing costs are responsible for the large equity investment and poor initial returns. It is only when these costs are spread over many units that the facility produces an attractive return. One could mitigate this burden somewhat by delaying the construction of some facilities until the second phase. There are certain risks involved in this strategy, therefore, careful thought should be given before deciding what is to be delayed. It should

be noted that one should not consider cutting services in this strategy.

The analysis indicates that investors must be well capitalized and patient. Most of the retirement development failures have been the result of poor financial planning. The first five years of this project will almost certainly produce negative returns. However, if this is anticipated and investors have made financial provisions for carrying the project, the returns over the long run should more than compensate for the added risks.

CHAPTER SEVEN
SUMMARY AND CONCLUSIONS

Summary

The retirement housing industry is one of the most active real estate markets in recent years. As a result of changing demographics, better health care, and improved lifestyles, the number of individuals in the over-65 age group continues to climb. The growth in this market sector has prompted increased interest and involvement within the retirement housing industry. To succeed in this industry, developers must provide a well planned, quality product, with excellent service and superior management.

Several housing alternatives are now available to the elderly. The most commonly used descriptions for these alternatives are: Congregate Housing, Domiciliary Care, Echo Housing, Life Care Complex, and Retirement Village. A variety of structures, services and amenities are provided within these broad categories, including various levels of care.

The industry is pursuing a wide mix of financing options and modes of ownership. The project might be

non-profit, for-profit/non-profit joint ventures, or for-profit developments sponsored by a religious organization. The resources, expertise, and tax implications of each are important in determining the structure of the project.

A combination of product types is proposed for the Minnetonka Countryside property. The project would have the character of a retirement village with additional services more commonly found in congregate and domiciliary projects. With an emphasis on quality to draw from the surrounding affluent bedroom communities, this project would be upscale or luxury.

Conclusions

An important factor in the development of a retirement project is understanding the market. The elderly market is not a homogeneous group. A specific sector within this market must be targeted. The complex should then be designed with one group in mind, amenities selected to appeal to that group, and the services aimed at satisfying the specific needs of that group.

The developer should contract with a qualified market analyst or consultant to perform an in-depth market study of the area. The market will determine the proper combination of variables defining the product. A good

study will also review the competition and evaluate local conditions.

Site location analysis is important to evaluate suitability. The elderly require a safe area, proximity to present residence, proximity to medical facilities and cultural events, and general accessibility.

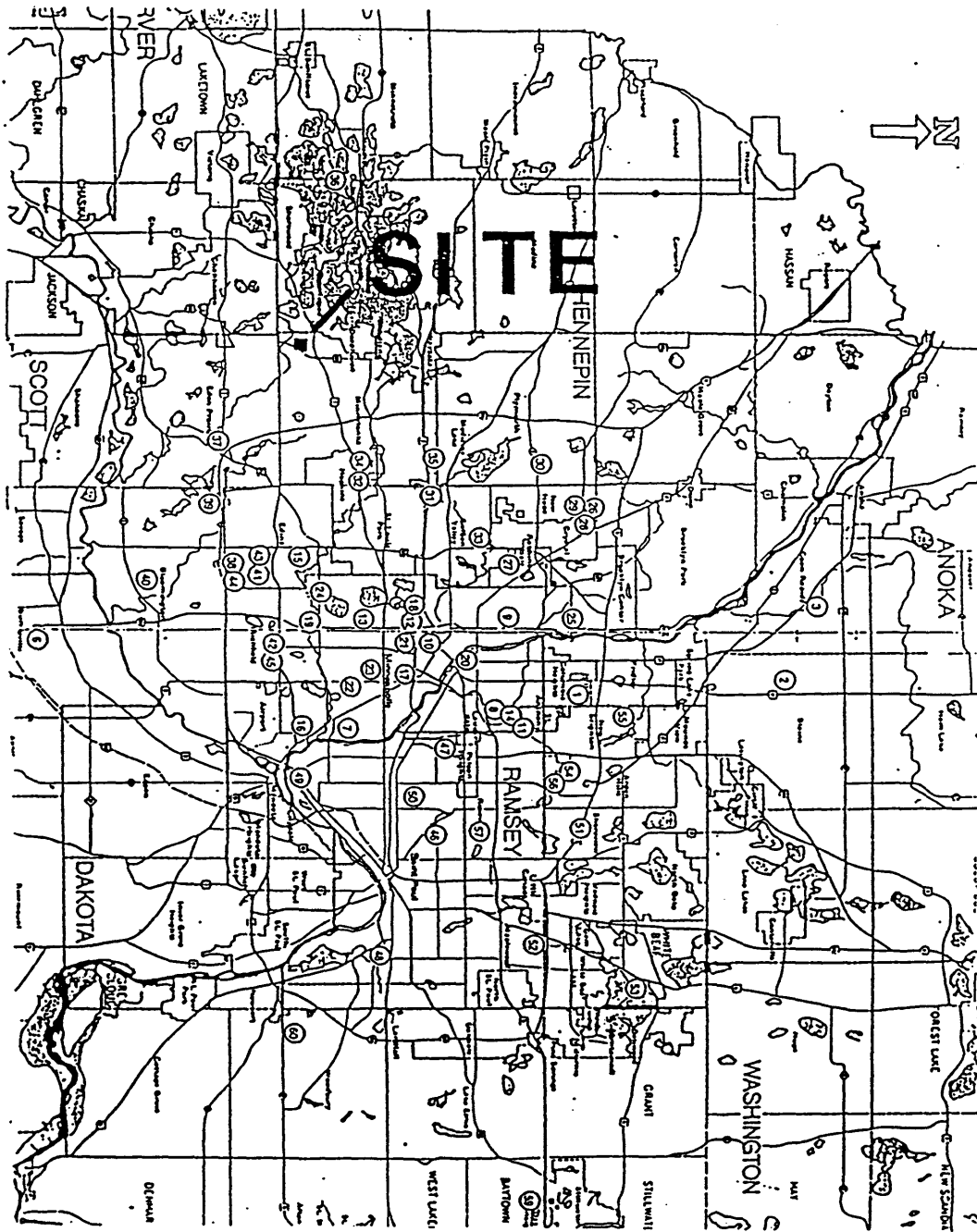
Minnetonka Countryside will be managed by an experienced third party firm, after a thorough screening and investigation of the candidates. A retirement complex requires extensive management involvement, comparable to that of a luxury hotel. It is imperative that management and food service personnel be experienced and knowledgeable in catering to the needs of the elderly.

A good marketing program is essential to the ultimate success of the project. The approach is not similar to other real estate projects because the focus here must be on providing a lifestyle for residents. The marketing approach should focus on the issues of greatest concern to this target group. Physicians and religious organizations appear to provide the credibility needed to succeed in the marketing effort. Additional methods would include the use of model units, a video presentation, seminars, and open houses. Referrals are one of the most effective marketing tools available. Church leaders, social workers, and physicians are an excellent source for referrals. The most effective referral, however,

is the individual already residing in the complex.

The strength of the ownership entity is an important factor in the success of the project. The project will require substantial financial commitment, and the investor(s) must have the ability to withstand the lengthy construction period and a slow rent-up period. Detailed budgets and schedules for each phase of the process must be developed, with organized methods of reporting, quality control, and designated channels for decision making.

APPENDIX 1
COMPETITION



THE MARKET

EXISTING PROJECTS IN THE MINNEAPOLIS/ ST. PAUL METROPOLITAN AREA

ANOKA COUNTY:

- 1) THE BOULEVARD - COLUMBIA HEIGHTS, MN.
Rental units owned by and attached to Crestview Lutheran Home
1 and 2 bdrms. Annuity gift from \$8,500 to \$12,500.
Monthly rents from \$523 to \$688
Amenities: Beauty shop, dining room, transportation service library, and underground parking.
Pets allowed.
- 2) HACIENDA PLACE - BLAINE, MN.
Townhouses for sale owned by Cypress Development Co
2 bdrms. priced from the low \$90's.
Amenities: Attached double garages, screened porches, garden patios, maintenance free exterior.
Household pets allowed.
- 3) MARGERET'S PLACE - COON RAPIDS, MN.
Rental units owned and managed by Mary T. Inc.
On campus with Camilia Rose Health Center.
1 and 2 bdrms. Rents to be determined.
Amenities: Craft room, exercise room, sauna, whirlpool, library and covered parking.
Pet policy to be determined.

CARVER COUNTY:

- 4) WESTVIEW ACRES - WACONIA, MN.
Rental units owned and managed by Good Neighbor Care Center Inc. On campus with Waconia Health Care Center.
1 and 2 bdrms. and 1 and 2 bdrm. luxury apartments.
Monthly rents from \$600 to \$1025.
Amenities: Beauty parlor, library dining room, mini-market, lounges and garages.
Pets allowed.

DAKOTA COUNTY:

- 5) APPLE VALLEY VILLA - APPLE VALLEY, MN
Owned by Lemieux Partnerhsip II and managed by Lemieux Management Co. On campus with Apple Valley Health Care.
1, 2, and 3 bdrm. units.
Monthly rents from \$650 to \$1275.
Amenities: Beauty/barber shop, dining room, library, pharmacy, recreation area and underground parking.

- 6) FAIRVIEW RIDGES RETIREMENT HOUSING - BURNSVILLE, MN
Rental units owned by Fairview Ridges Hospital.
1 and 2 bdrms., and 1 bdrm. with den.
Rent to be determined.
Amenities: Beauty shop, library, craft rooms, and
underground parking.

HENNEPIN COUNTY - MINNEAPOLIS:

- 7) BECKETWOOD COOPERATIVE - MINNEAPOLIS, MN.
Cooperative managed by Episcopal Church Home of Minne-
sota, Inc.
Studios, 1, 2, and 3 bdrms.
Priced from \$57,000 to \$181,000.
Amenities: Craft room, woodworking shop, dark room,
dining room, exercise room, library, whirlpool, chapel,
and party room. Opened April 1986.
- 8) BETHANY APARTMENTS - NORTHEAST MINNEAPOLIS
Rental units managed by Evangelical Covenant Church
Studios and 1 bdrms.
Rents from \$835 to \$1260. Entrance fees from \$2000.
Amenities: Beauty/barber shop, community room, garden
space, library, dining room and craft room.
No pets.
- 9) BETHANY ANNEX - NORTHEAST MINNEAPOLIS
Rental units managed by Evangelical Covenant Church
1 bdrms. Rent from \$23.50 to \$30.50 per day
Amenities: Three meals per day, housekeeping, and
linen service are included in rent. Beauty/barber
shop, community room, craft room, garden space, library
and lounges.
- 10) BREMER WAY CONDOMINIUMS - NORTH MINNEAPOLIS
Condos managed by Realty Management Services
1 and 2 bdrms. and 1 bdrms. with den.
Price from \$53,900 to \$67,900
Amenities: Community room, craft room, lounges,
underground parking, library and party room.
Small pets allowed.
- 11) CENTRE PLACE - MINNEAPOLIS
Rental units managed by Walker Management Inc.
Studios, 1 and 2 bdrms.
Rents from \$365 to \$650 per month.
Amenities: Indoor garage, library, dining room,
and community rooms.
Pets allowed with approval.

- 12) CHANDLER PLACE - NORTHEAST MINNEAPOLIS
 Rental units managed by and attached to St. Anthony Health Center
 Studios, 1 and 2 bdrms. and 1 bdrms with den
 Rent from \$750 to \$1250
 Amenities: Underground parking, beauty/barber shop, exercise room, greenhouse, craft room, and coffee/gift shop
- 13) THE KENWOOD - SOUTHWEST MINNEAPOLIS
 Rental units managed by ActiveLife Retirement
 Studios, 1 and 2 bdrms.
 Rent ranges from \$950 to \$1455 per month
 (includes two meals/day, weekly housekeeping & linen)
 Amenities: Party room, sauna, exercise room, whirlpool, gift shop, card room with large screen TV, beauty/barber shop, and arts and crafts room.
 Small pets allowed.
- 14) KENWOOD ISLES CONDOMINIUM - SOUTHWEST MINNEAPOLIS
 Condo units managed by the Ebenezer Society
 1, 2, and 3 bdrms priced from \$58,200 to \$143,600
 Amenities: Community room, underground parking, library, medical clinic attached, lounges, and garden space.
 No pets
- 15) THE KENZINGTON OF ST. ANTHONY - MINNEAPOLIS
 Condominiums managed by Health Central, Inc.
 1 and 2 bdrms. and 1 bdrm with den
 Priced from \$62,900 to \$128,900
 Amenities: Lounge, library, underground garage, game room, exercise room, whirlpool, and hobby room.
 No pets. Open May.
- 16) THE LINDENS - SOUTH MINNEAPOLIS
 Condo units managed by Schwartz/Weber Development Co
 1 and 2 bdrms. Priced from \$61,000 to \$102,000
 Amenities: Garden spaces, guest room, inside parking, and lounges.
- 17) NOKOMIS SQUARE COOPERATIVE - SOUTH MINNEAPOLIS
 Co-op units managed by Realty Management Services.
 1 and 2 bdrms and 1 bdrm with den
 Priced from \$67,725 to \$117,328
 Amenities: Underground parking, guest room, dining room, arts and crafts room, woodworking shop, library and party room.

- 18) PARK CENTER APARTMENTS - EAST MINNEAPOLIS
Rental units managed by Augustana Homes, on campus
with Augustana Health Care Center
1 and 2 bdrms. Rents from \$560 to \$775
Amenities: Exercise room, underground parking, garden
space, library, craft room, woodworking shop, whirl-
pool, lounges, beauty/barber shop.
- 19) PENNINGTON PLACE - SOUTHWEST MINNEAPOLIS
Rental units managed by Rainbow Development
1 bdrms. Rents from \$1,000 to \$1,500
Amenities: Library, sunrooms, fireplace and dining
room.
- 20) RAHKMA HOME ONE - SOUTH MINNEAPOLIS
Rental units managed by Shirley Shaw
Studios that rent at \$60/day or \$1,800/month
Amenities: Fireplace, private yard, deck and sun
rooms
- 21) ST. ANTHONY GREEN - NORTHEAST MINNEAPOLIS
Rental units managed by Catholic Eldercare. On campus
with St. Anthony Eldercare Health Center
1 and 2 bdrms. Rents to be determined.
Opens spring 1987
Amenities: Library, activity room, and dining room
- 22) ST. CHARLES - EAST MINNEAPOLIS
Rental units managed by City Homes
Studios and 1 bdrms rent from \$395 to \$910
Amenities: Community room, dining room, and under-
ground parking. Pets allowed.
- 23) STANDISH GREEN - EAST MINNEAPOLIS
Condo units managed by Walker Methodist
1 and 2 bdrms. priced from \$59,900 to \$81,900
Amenities: Underground parking, garden plots, lounges,
and library. Pets allowed.
- 24) TEACHERS HOME - SOUTH MINNEAPOLIS
Rental units managed by Ebenezer Society
Teachers Home has 13-bed care center.
Studios, 1 and 2 bdrms. Rent from \$231 to \$486 per
month.
Amenities: Beauty/barber shop, dining room, library,
lounges, underground parking, and community room.

- 25) WALKER PLACE - SOUTH MINNEAPOLIS
Endowment units managed by Walker Methodist Resident Health Services
1 and 2 bdrms. Endowments from \$23,100
Amenities: Beauty/barber shop, exercise room, garden space, craft room, community room, pharmacy, gift shop, post office, library, lounges, and enclosed parking.

HENNEPIN COUNTY - NORTHERN

- 26) BROOKWOOD MANOR - BROOKLYN CENTER
Rental units owned by Brutger Companies and managed by Realty Management Services
1 and 2 bdrms and 1 bdrms with den.
Rents from \$430 to \$510
Amenities: Community room, garden space, and craft room.
- 27) BROOKWOOD ESTATE APARTMENTS - BROOKLYN CENTER
Rental units owned by Brutger Companies and managed by Realty Management Services
1 and 2 bdrms and 1 bdrms with den.
Rents from \$535 to \$635
Amenities: Sauna, whirlpool, exercise room, party room, and craft room.
- 28) CHARDON COURT - NEW HOPE
Rental units owned and managed by Northridge Properties
1 and 2 bdrms and 1 bdrms with den. Rents from \$495 to \$750
Amenities: Community room, lounges, transportation to beauty/barber shop and pharmacy
- 29) LEE SQUARE COOPERATIVE - ROBBINSDALE
Co-op units managed by Ebenezer Company
1 and 2 bdrms and 1 bdrms with den
Priced from \$53,900 to \$82,900
Amenities: Underground parking, dining room, work-shops, garden spaces
- 30) NORTHRIDGE APARTMENTS - NEW HOPE
Rental units owned and managed by Good Neighbors Inc.
Studios, 1 and 2 bdrms and 1 bdrm handicapped units
Monthly rents from \$735 to \$1060 (includes dinner)
Amenities: Beauty/barber shop, pharmacy, library, greenhouse, and craft room

- 31) ST. THERESE RESIDENCE - NEW HOPE
 Rental units owned and managed by St. Therese Home, Inc., on campus with St. Therese Health Care Center
 1 and 2 bdrms. Rent from \$605 to \$780
 Amenities: Solarium, library, sauna, dining room, whirlpool and beauty/barber shop
- 32) SAGAMORE CONDOMINIUMS - PLYMOUTH
 1, 2, and 3 bdrms. Priced from \$64,900
 Amenities: Indoor pool, outdoor pools, sauna, party, game and exercise rooms, and 4-hole golf course

WESTERN HENNEPIN COUNTY

- 33) CAVALARY CENTER COOPERATIVE - GOLDEN VALLEY
 Co-op units managed by Realty Management Services
 1, 2, and 3 bdrms. Priced from \$57,000 to \$120,000
 Amenities: Greenhouse, garden space, dining room, underground parking, craft room, library, and beauty/barber shop
- 34) CHAPEL VIEW APARTMENTS - HOPKINS
 Rental units owned by Chapel View, Inc. on campus with Chapel View Health Center
 Studios, 1, and 2 bdrms. Monthly rents from \$462 to \$924 plus an entrance fee of \$17,000 (fully refundable)
 Amenities: Library, beauty/barber shop, chapel, activity room on each floor
- 35) COVENANT MANOR APARTMENTS - GOLDEN VALLEY
 Endowment unit owned and managed by Evangelical Covenant Church. Across the street from Colonia Acres Health Center
 Studios, 1 and 2 bdrms. Prices not available
 Amenities: Dining room, swimming pool, garden plots, sauna room, and jacuzzi
- 36) THE HOMESTEAD - MINNETONKA
 Rental units managed by Walker Management Inc
 Studios and 1 bdrms. Rents from \$995 to \$1475
 Amenities: Dining room and lounges. To open July 1986
- 37) RIDGEPOINTE - MINNETONKA
 Rental units owned by Marion Corp. and managed by Ebenezer Company
 1 and 2 bdrms, and 1 and 2 bdrms with den
 Monthly rents from \$635 to \$1035
 Amenities: Guest rooms, whirlpool, arts and crafts room, private dining room, underground parking, exercise room, garden plots and library. To open summer 1986

- 38) TWIN BIRCH VILLA - SPRING PARK
Rental units managed by Edgewood Management Inc
Studios, 1 and 2 bdrms. Monthly rents from \$590
to \$1500
Amenities: Hot tubs, greenhouse, beauty/barber shop,
guest room, and underground parking. To open June
1986

SOUTHERN HENNEPIN COUNTY

- 39) CASTLE RIDGE - EDEN PRAIRIE
Rental units managed by Eberhardt Company
Studios, 1 and 2 bdrms. Rents from \$710 to \$1050
Amenities: Indoor swimming pool, guest room, dining
room, solarium, and greenhouse, library, and woodwork-
ing shop
- 40) EDINA PARK PLAZA - EDINA
Rental units managed by Active Life Retirement Co
1 and 2 bdrms and penthouses. Monthly rents from
\$950 to \$1900 (includes 2 meals/day, twice weekly
housekeeping and linen service)
Amenities: Spa, beauty/barber shop, gift shop, arts
and crafts room, party room, swimming pool, tennis
courts, and crafts room, party room, swimming pool,
tennis courts, amphitheater, and restaurants. To
open January 1987
- 41) FRIENDSHIP VILLAGE - BLOOMINGTON
Life care units managed by Lifecare Retirement. On
campus with Friendship Village Nursing Home
Studios, 1, 2, and 3 bdrms. Endowment fees from
\$49,750 to \$118,800
Amenities: Chapel, dining room, crafts room, and
library
- 42) GIDEON POND - BLOOMINGTON
Co-op units managed by Presbyterian Homes of Minnesota
Inc
Priced from \$69,500 to \$140,000
Amenities: Gift shop, greenhouse, pharmacy, indoor
pool, whirlpool, exercise room, and library
To open December 1986
- 43) GOOD NEIGHBOR RESIDENTIAL HOME - EDINA
Homelike suites for persons needing some nursing
care.
Managed by Good Neighbor Services Inc.
Fee \$98/day includes 3 meals, housekeeping, and nurse.
Amenities: Sauna, whirlpool, workout gym, and beauty
salon

- 44) LAKE SHORE DRIVE CONDOMINIUMS - RICHFIELD
 Condo units managed by Health Central Enterprises
 1 and 2 bdrms and 1 bdrms/den. Prices vary with every unit
 Amenities: Beauty/barber shop, exercise room, hobby area, game area, whirlpool, and guest room, and library
- 45) REMBRANDT RETIREMENT COMMUNITY - EDINA
 Studios, 1 and 2 bdrms. Rent from \$735 to \$1395
 Amenities: Beauty shop, dining room, resident store, and underground parking
- 46) 7500 YORK COOPERATIVE - EDINA
 Co-op units managed by Ebenezer Society
 1, 2, and 3 bdrms priced from \$13,543 to \$29,518 (plus a monthly fee)
 Amenities: Beauty/barber shop, convenience store, library, lounges, underground parking, and whirlpool
- 47) WOODLAKE POINT CONDOMINIUMS - RICHFIELD
 Condo units managed by Brookside Enterprises
 Prices from \$62,000 to \$160,000
 Amenities: Underground parking, exercise room, whirlpool, terrace, library, community room, and craft room
- 48) 900 COMO - ST. PAUL
 Rental units managed by Rainbow Development Co.
 1 and 2 bdrms. Monthly rents from \$635 to \$935
 Amenities: Guest room, beauty shop, dining room, underground garage and steam room
- 49) LUTHER PLACE - ST. PAUL
 Condo units managed by Association
 1 and 2 bdrms, and 1 and 2 bdrms/den
 Amenities: Guest room, library, underground parking, and woodworking shop
- 50) PATHWAYS ON THE PARK - ST. PAUL
 Rental units owned by Pathways Partnership and managed by Skyline Builders
 1 and 2 bdrms and 1 bdrms/den. Rents from \$470 to \$710
 Amenities: Lounge, solarium, social club, and parking
- 51) THE WELLINGTON - ST. PAUL
 Rental units owned and managed by the Stewart Corp
 1 and 2 bdrms. Rents from \$770 to \$995 including one meal a day and weekly housekeeping
 Amenities: Guest apartment, beauty shop, convenience store, dining room, exercise room, whirlpool, library and crafts

- 52) WILDER PARK CONDOMINIUMS - ST. PAUL
Condos owned by association and managed by Wilder Foundation
1 and 2 bdrms. Resale only, prices depend on size
Amenities: Community room, underground parking, library, garden plots, and sauna

SUBURBAN RAMSEY COUNTY

- 53) THE ATRIUM - SHOREVIEW
Rental units owned and managed by Hiner Homes Inc
1 and 2 bdrms and 1 bdrms/den. Rents \$550 to \$715
Amenities: Underground parking, workshop, exercise room, and atrium
- 54) HAZEL RIDGE - MAPLEWOOD
Rental units owned and managed by Health Resources Inc
1 and 2 bdrms. Rents to be determined
Amenities: Underground parking, beauty/barber shop, community room, and sun deck. To open early 1987.
- 55) LAKE SQUARE - WHITE BEAR LAKE
Rental units managed by Stuart Corp.
Studios, 1 and 2 bdrms and 1 and 2 bdrms with den
Monthly rents from \$540
Amenities: Exercise room, library, underground parking, beauty/barber shop, dining room, and guest room. Open 1987.
- 56) LAKEVIEW RESIDENCE PRESBYTERIAN HOMES OF MN - ARDEN HILLS
Rental units owned and managed by Presbyterian Homes of MN.
1 bdrms and suites. Monthly rents from \$670 to \$1200 includes 3 meals per day
Amenities: Swimming pool, beauty/barber shop, exercise room, gift shop, and whirlpool
- 57) PARK PLACE SENIOR HOUSING - NEW BRIGHTON
Rental units owned by Housing Alliance
1 and 2 bdrms. Monthly rents to be determined
Amenities: Covered parking, dining room, community and crafts rooms. To open spring 1987
- 58) SUTTON PLACE APARTMENTS - ARDEN HILLS
Rental units owned by Presbyterian Homes of Minnesota and on campus with Presbyterian Homes
1 bdrms. Monthly rents from \$740 to \$1240 includes 1 meal
Amenities: Beauty/barber shop, coffee shop, gift shop, library, exercise room, garden space, swimming pool and whirlpool

- 59) VILLA PARK - ROSEVILLE
Condo units owned by Housing Alliance and managed
by Lynblomsten Management Co.
1 and 2 bdrms and 1 and 2 bdrms with den
Priced from \$63,400 to \$124,800
Amenities: Heated garage, guest room, library, and
exercise room

WASHINGTON COUNTY

- 60) CROIXDALE APARTMENTS - BAYPORT
Rental apts. sponsored by Washington County and managed
by Margaret Juhl
Studios and 1 bdrms. Rent from \$467 to \$605
Amenities: Beauty/barber shop, craft and exercise
rooms
- 61) OAK RIDGE PLACE - OAK RIDGE HEIGHTS
Rental units managed by Ebenezer Company
1 and 2 bdrms. Rents to be determined
Amenities: Underground parking, dining room, two-story
atrium, rec/craft room, and terraces. To open Fall
1986
- 62) WOODBURY VILLAS - WOODBURY
Rental units managed by Edgewood Management Inc. On
campus with Woodbury Health Center
Studios, 1 and 2 bdrms. Rents from \$550 to \$1000
Amenities: Hot tub, greenhouse, lounges, dining
room, underground parking, and recreation areas.

Sources: Seniors Choice Housing Guide, Spring 1986, pub-
lished by The Seniors Choice; Consumer's Guide to Housing
Options for Older People, December 1985, published by
The Metropolitan Council of the Twin Cities Area.

APPENDIX 2
DEMOGRAPHIC ANALYSIS

APPENDIX #2
MARKET DEMOGRAPHIC ANALYSIS

CITY	# AGED 74-85	% LIVING ALONE OR OWN A HOME	% INCOME QUALIFIED	% OF MARKET POTENTIAL	
GOLDEN VALLEY	895	77.80%	69.00%	15.00%	3.60
NEW HOPE	1,082	60.30%	51.00%	15.00%	2.50
DEEPHAVEN	121	86.70%	78.00%	20.00%	0.82
EXCELSIOR	197	83.30%	45.00%	20.00%	0.74
GREENWOOD	25	91.50%	68.00%	20.00%	0.16
HOPKINS	1,022	84.30%	48.00%	20.00%	4.14
LONG LAKE	70	71.20%	62.00%	20.00%	0.31
MAPLE PLAIN	112	71.20%	49.00%	10.00%	0.20
MEDICINE LAKE	11	88.20%	70.00%	10.00%	0.03
MEDINA	66	88.40%	63.00%	15.00%	0.28
MINNETONKA	933	79.40%	70.00%	20.00%	5.19
MNTKA BEACH	11	95.50%	81.00%	15.00%	0.06
MINNETRISTA	56	88.60%	70.00%	15.00%	0.26
MOUND	256	91.20%	46.00%	15.00%	0.81
ORONO	198	91.20%	71.00%	20.00%	1.28
PLYMOUTH	320	86.20%	63.00%	15.00%	1.30
ST LOUIS PARK	2,489	85.50%	53.00%	15.00%	8.46
SHOREWOOD	88	92.00%	60.00%	15.00%	0.36
TONKA BAY	36	91.50%	62.00%	15.00%	0.15
WAYZATA	261	92.20%	66.00%	20.00%	1.59
WOODLAND	17	87.50%	92.00%	15.00%	0.10
BLOOMINGTON	1,936	83.30%	66.00%	15.00%	7.98
EDEN PRAIRE	130	85.90%	63.00%	10.00%	0.35
EDINA	2,865	90.60%	73.00%	10.00%	9.47
TOTAL POPULATION	13,197		PROJECTED ANNUAL RENT-UP FROM PRIMARY MARKET		50.14

APPENDIX 3
FINANCIAL ANALYSIS

MINNETONKA COUNTRYSIDE

EXHIBIT #1 DESCRIPTION

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LIVING UNIT PHASE1	NUMBER	SQ FT	TOT SQ FT	MO FEE	TOT INC
STUDIO	10	750	7,500	\$1,100	\$11,000
1 BDRM	60	900	54,000	\$1,400	\$84,000
1 BDRM/DEN	40	1,050	42,000	\$1,700	\$68,000
2BDRM	70	1,250	87,500	\$1,950	\$136,500
SUBTOTAL	180		191,000		\$299,500
LOUNGES 3 @ 400 SF. EA.			1,200		
CIRCULATION @ 10%			19,220		
TOTAL			211,420		

COMMUNITY SPACE	S.F.	COMMUNITY SPACE	S.F.
LOBBY	1,500	DINING	4,000
GIFT SHOP	800	PARTY ROOM	1,200
MINI-MARKET	1,200	POST OFFICE	200
BANK	500	LIBRARY	600
BARBER SHOP	300	CRAFT ROOM	800
ADMIN OFFICES	1,000	CARD & GAME ROOM	800
POOL AREA	3,500	MEDICAL CLINIC	600
SERVICE AREA	1,500	EXCERCISE ROOM	600
SUBTOTAL	10,300		8,800

CIRCULATION @ 18%	3,438
TOTAL	22,538

PARKING: INTERIOR 150 @ 200 S.F.	30,000
EXTERIOR 60 @ 200 S.F.	12,000
CIRCULATION 70 @ 150 S.F.	10,500
TOTAL BUILDING AREA PHASE 1	233,958
TOTAL PARKING AREA PHASE 1	42,000

LIVING UNIT PHASE2	NUMBER	SQ FT	TOT SQ FT	MO FEE	TOT INC
1 BDRM	40	900	36,000	\$1,400	\$56,000
1 BDRM/DEN	30	1,050	31,500	\$1,700	\$51,000
2 BDRM	30	1,250	37,500	\$1,950	\$58,500
ASSISTED LIVING	40	650	26,000	\$1,400	\$56,000
SUBTOTAL	140		131,000		\$221,500
LOUNGES 2 @ 400 SF. EA.			800		
CIRCULATION @ 10%			13,180		
TOTAL BUILDING AREA PHASE 2			144,980		

PARKING: INTERIOR 150 @ 200 S.F.	30,000
EXTERIOR 20 @ 200 S.F.	4,000
CIRCULATION 80 @ 150 S.F.	12,000

MINNETONKA COUNTRYSIDE

EXHIBIT #2 ASSUMPTIONS

ADDITIONAL INCOME:				OCCUPANCY:	
PARKING FEE/MO.	\$20	RENT-UP PERIOD	PHASE 1	PHASE 2	
SECOND OCCUPANT/MO	\$300	STABILIZED OCCUPANCY	30 MONTH	18 MONTH	
UNITS WITH 2 PER	20%			95%	
RETAIL/FT/YR	\$6.00	REPLACEMENT RESERVE		1.00%	
		INFLATION: @ 6%		1.06	
		HURDLE RATE		20.00%	
DEVELOPMENT COSTS:		CAP RATE		10.00%	

HARD		SOFT	
LAND COST	\$1,250,000	ARCHITECTURE	5.0%
SITE IMPROVEMENTS/UNIT	\$6,000	ENGINEERING	1.0%
CONSTRUCTION/S.F.	\$60.00	DEV CONSULTANT	\$50,000
PARKING/SPACE INTERIOR	\$8,000	MKT ANALYSIS	\$50,000
EXTERIOR	\$1,200	ARCH CONSULTANT	\$50,000
BOARDWALK/L.F.	\$40	LEGAL FEES	\$50,000
		PERMITS	\$50,000
		FFE	\$200,000
CIRULATION FOR PARKING IS CALCULATED		MARKETING/UNIT	\$5,000
FOR ONLY THE SMALLER INTERIOR		DEVELOPMENT FEE	4.0%
UNITS. ALL OTHERS WILL BE SEPARATE GARAGES.		CONTINGENCY	10.0%

FINANCING:

CONSTRUCTION		PERMANENT	
AMOUNT PHASE 1	\$20,000,000	AMOUNT PHASE 1	\$21,500,000
AMOUNT PHASE 2	\$10,000,000	AMOUNT PHASE 2	\$10,500,000
INTEREST RATE	9.50%	LTV RATIO	80.00%
AVG OUTSTANDING	50.00%	INTEREST RATE	10.0%
CONST PERIOD	12 MONTHS	POINTS	1.0%
POINTS	1.00%	TERM	30

MINNETONKA COUNTRYSIDE

EXHIBIT 3 STATEMENT OF EXPENSES

STAFFING PAYROLL:	FTE	WAGES	ANNUAL /PERSON	ANNUAL
ADMINISTRATION:				
ADMINISTRATOR	1.0		\$75,000	\$75,000
ASSISTANT ADMINISTRATOR			\$40,000	\$40,000
ACTIVITIES DIRECTOR	1.0		\$30,000	\$30,000
ADMISSIONS DIRECTOR			\$30,000	\$30,000
RECEPTION	1.4	\$6.00	\$12,480	\$17,472
SECURITY	3.0	\$6.00	\$12,480	\$37,440
NURSE	3.0	\$10.00	\$20,800	\$60,240
SECRETARY	1.0	\$6.50	\$13,520	\$13,520
BOOKEEPER	1.0	\$7.00	\$14,560	\$14,560
SUBTOTAL	11.4			\$318,232
HOUSKEEPING:				
HOUSEKEEPING DIRECTOR	1.0		\$25,000	\$25,000
WORKING SUPERVISOR	2.5	\$7.00	\$14,560	\$36,400
HOUSEKEEPERS	6.0	\$5.50	\$11,440	\$68,640
JANITOR	2.0	\$6.00	\$12,480	\$24,960
ROVING HELPERS	2.0	\$5.50	\$11,440	\$22,880
LAUNDRY AIDE	1.0	\$5.50	\$11,440	\$11,440
SUBTOTAL	14.5			\$189,320
MAINTENANCE:				
MAINTENANCE SUPERVISOR	1.0		\$25,000	\$25,000
GROUNDS CREW	4.0	\$5.50	\$11,440	\$45,760
DRIVER	2.0	\$5.50	\$11,440	\$22,880
SUBTOTAL	7.0			\$93,640
TOTAL PAYROLL		PHASE 1		PHASE 1 & 2
BENEFITS @ 22%		\$508,632		\$601,192
		\$111,899		\$132,262
TOTAL STAFFING EXPENSES		\$620,531		\$733,454
COST PER UNIT PER MONTH	PHASE 1:	\$287	PHASE 2:	\$191
OPERATING EXPENSES:				
REAL ESTATE TAXES		PHASE 1		PHASE 1 & 2
SEWER AND WATER		\$165,000		\$250,000
UTILITIES		\$10,000		\$15,000
INSURANCE		\$50,000		\$75,000
MISCELLANEOUS @ \$2/UNIT/DAY		\$125,000		\$175,000
TOTAL		\$131,400		\$233,600
		\$481,400		\$748,600
DINING SERVICES @ \$260/UNIT/MONTH		\$561,600		\$998,400

* SOURCES: NORTH HILL RETIREMENT CENTER, NEEDHAM, MA. AND, AN UNNAMED PROJECT IN PHILADELPHIA, PENNSYLVANIA.

MINNETONKA COUNTRYSIDE

EXHIBIT 4 DEVELOPMENT BUDGET PHASE 1

	COST/UNIT	COST/S.F.	TOTAL COST
HARD COSTS:			
LAND AQUISITION	\$3,906	\$5.34	\$1,250,000
SITE IMPROVEMENT	\$6,000	\$4.62	\$1,080,000
CONSTRUCTION	\$77,986	\$60.00	\$14,037,480
PARKING: INTERIOR	\$6,667	\$5.13	\$1,200,000
EXTERIOR	\$400	\$0.31	\$72,000
CIRCULAT	\$6,667	\$5.13	\$53,865
BOARDWALK	\$556	\$0.43	\$100,000
TENNIS	\$111	\$0.09	\$20,000
POOL	\$139	\$0.11	\$25,000
PUTTING	\$28	\$0.02	\$5,000
SUBTOTAL	\$102,459	\$81.17	\$17,843,345
SOFT COSTS:			
ARCHITECTURE	\$5,123	\$4.06	\$892,167
ENGINEERING	\$1,025	\$0.81	\$178,433
DEV CONSULTANTS	\$222	\$0.17	\$40,000
LEGAL FEES	\$222	\$0.17	\$40,000
PERMITS	\$222	\$0.17	\$40,000
FFE	\$1,111	\$0.68	\$160,000
MARKETING	\$6,000	\$4.62	\$1,080,000
ARCH CONSULTANT	\$222	\$0.17	\$40,000
SUBTOTAL	\$14,148	\$10.85	\$2,470,601
DEVELOPMENT FEE	\$812,558		
CONTINGENCY	\$2,031,395		
TOTAL PHASE 1	\$23,157,898		

MINNETONKA COUNTRYSIDE

EXHIBIT 4 DEVELOPMENT BUDGET PHASE 2

	COST/UNIT	COST/S.F.	TOTAL COST
HARD COSTS:			
SITE IMPROVEMENT	\$6,000	\$5.79	\$840,000
CONSTRUCTION	\$62,134	\$60.00	\$8,698,800
PARKING: INTERIOR	\$8,571	\$8.28	\$1,200,000
EXTERIOR	\$171	\$0.17	\$24,000
CIRCULAT	\$8,571	\$8.28	\$99,360
SUBTOTAL	\$76,877	\$74.24	\$10,862,160
SOFT COSTS:			
ARCHITECTURE	\$3,879	\$3.75	\$543,108
ENGINEERING	\$776	\$0.75	\$108,622
DEV CONSULTANTS	\$107	\$0.10	\$15,000
ARCH CONSULTANTS	\$107	\$0.10	\$15,000
LEGAL FEES	\$179	\$0.17	\$25,000
PERMITS	\$107	\$0.10	\$15,000
FFE	\$357	\$0.34	\$50,000
MARKETING	\$6,000	\$5.79	\$840,000
SUBTOTAL	\$11,512	\$11.12	\$1,611,730
DEVELOPMENT FEE	\$498,956		
CONTINGENCY	\$1,247,389		
TOTAL PHASE 2	\$12,473,890		

MINNETONKA COUNTRYSIDE

EXHIBIT 5 ANNUAL CASH FLOW ANALYSIS

YEAR	1	2	3	4	5	6	7	8	9	10	11
	CONSTRUCTION	LEASING1	LEASING1	LEASING1	LEASING2	LEASING2	STABILIZED	STABILIZED	STABILIZED	STABILIZED	SALE
INCOME:											
AVG OCCUP (UNITS)	0	36	108	180	260	300	320	320	320	320	320
RENTAL INCOME	\$0	\$718,800	\$2,285,786	\$4,038,221	\$6,182,965	\$7,562,242	\$8,550,375	\$9,063,398	\$9,607,201	\$10,183,633	\$10,794,651
PARKING INCOME	\$0	\$8,640	\$27,475	\$48,540	\$74,319	\$90,898	\$96,352	\$102,133	\$108,261	\$114,757	\$121,642
SECOND OCCUPANT	\$0	\$25,920	\$82,426	\$145,619	\$222,958	\$272,695	\$308,327	\$326,827	\$346,436	\$367,223	\$389,256
RETAIL	\$0	\$9,600	\$10,176	\$10,787	\$11,434	\$12,120	\$12,847	\$13,618	\$14,435	\$15,301	\$16,219
TOTAL INCOME	\$0	\$762,960	\$2,405,862	\$4,243,166	\$6,491,677	\$7,937,955	\$8,967,901	\$9,505,975	\$10,076,334	\$10,680,914	\$11,321,769
LESS VACANCY	\$0	\$0	\$0	\$0	\$0	\$0	(\$427,519)	(\$453,170)	(\$480,360)	(\$509,182)	(\$539,733)
PROJECT COST	(\$23,157,898)				(\$12,473,890)						
EFFECTIVE INC. MANAGEMENT FEE	(\$23,157,898)	\$762,960	\$2,405,862	\$4,243,166	(\$5,982,213)	\$7,937,955	\$8,540,383	\$9,052,806	\$9,595,974	\$10,171,732	\$10,782,036
EXPENSES:	\$0	\$45,778	\$144,352	\$254,590	\$389,501	\$476,277	\$512,423	\$543,168	\$575,758	\$610,304	\$646,922
ADMINISTRATION	\$0	\$297,432	\$315,278	\$334,195	\$376,294	\$398,872	\$422,804	\$448,177	\$475,063	\$503,567	\$533,781
HOUSEKEEPING	\$0	\$129,000	\$136,740	\$144,944	\$217,580	\$230,635	\$244,473	\$259,141	\$274,690	\$291,171	\$308,642
MAINTENANCE	\$0	\$82,200	\$87,132	\$104,486	\$110,755	\$117,401	\$124,445	\$131,910	\$139,826	\$148,216	\$157,109
TOTAL PAYROLL	\$0	\$508,632	\$539,150	\$583,625	\$704,630	\$746,908	\$791,722	\$839,224	\$889,579	\$942,954	\$999,531
BENEFITS	\$0	\$111,899	\$118,613	\$128,398	\$155,019	\$164,320	\$174,179	\$184,630	\$195,707	\$207,450	\$219,897
TOT STAFF EXP	\$0	\$620,531	\$657,763	\$712,023	\$859,649	\$911,228	\$965,901	\$1,023,854	\$1,085,287	\$1,150,404	\$1,219,428
OPERATING EXPENSES	\$0	\$381,400	\$467,884	\$510,284	\$1,001,488	\$1,047,704	\$1,110,566	\$1,177,207	\$1,247,832	\$1,322,702	\$1,402,064
DINING EXPENSES	\$0	\$112,320	\$357,178	\$595,296	\$859,872	\$992,160	\$1,058,304	\$1,121,800	\$1,189,110	\$1,260,457	\$1,336,084
TOTAL EXPENSES	\$0	(\$1,160,029)	(\$1,627,176)	(\$2,072,193)	(\$3,110,509)	(\$3,427,369)	(\$3,647,194)	(\$3,866,025)	(\$4,097,988)	(\$4,343,867)	(\$4,604,499)
REPLACEMENT RESERV	\$0	(\$7,630)	(\$24,059)	(\$42,432)	\$59,822	(\$79,380)	(\$85,404)	(\$90,525)	(\$95,960)	(\$101,717)	(\$107,820)
NET OPERATING INC	(\$23,157,898)	(\$404,698)	\$754,627	\$2,128,541	(\$9,032,901)	\$4,431,207	\$4,807,784	\$5,096,251	\$5,402,027	\$5,726,148	\$6,069,717

MINNETONKA COUNTRYSIDE

EXHIBIT 6 LEVERAGED CASH FLOW ANALYSIS

YEAR	1	2	3	4	5	6	7	8	9	10	11
	CONSTRUCTION	LEASING 1	LEASING 1	LEASING 1	LEASING 2	LEASING 2	STABILIZED	STABILIZED	STABILIZED	STABILIZED	SALE
NET OPERATING INC	(\$23,157,898)	(\$404,698)	\$754,627	\$2,128,541	(\$9,032,901)	\$4,431,207	\$4,807,784	\$5,096,251	\$5,402,027	\$5,726,148	\$6,069,717
SALES PROCEEDS											\$60,697,170
CONST. MORTGAGE	\$20,000,000	(\$20,000,000)			\$10,000,000	(\$10,000,000)					
CONST INTEREST	(\$950,000)	(\$1,900,000)			(\$475,000)						
PERM MORTGAGE		\$21,500,000				\$10,500,000					(\$29,871,386)
PERM POINTS		(\$215,000)				(\$105,000)					
DEBT SERVICE			(\$2,074,453)	(\$2,074,453)	(\$2,074,453)	(\$3,180,193)	(\$3,180,193)	(\$3,180,193)	(\$3,180,193)	(\$3,180,193)	
CASH FLOW AFTER DEBT SERVICE	(\$4,107,898)	(\$1,019,698)	(\$1,319,826)	\$54,088	(\$1,582,354)	\$1,646,014	\$1,627,591	\$1,916,058	\$2,221,834	\$2,545,955	\$30,825,784
DEBT COVERAGE RATIO CASH-ON-CASH			0.36	1.03	1.63	1.39	1.51	1.60	1.70	1.80	
				0.85%	-24.79%	20.94%	20.71%	24.38%	28.27%	32.39%	
BEFORE TAX CASH FLOW RETURNS:											
NET PRESENT VALUE	\$936,676										
INTERNAL RATE	22.37%										

MINNETONKA COUNTRYSIDE

EXHIBIT #1 DESCRIPTION WITH 10% DROP IN RENTAL RATES

LIVING UNIT PHASE1	NUMBER	SQ FT	TOT SQ FT	MO FEE	TOT INC
STUDIO	10	750	7,500	\$990	\$9,900
1 BDRM	60	900	54,000	\$1,260	\$75,600
1 BDRM/DEN	40	1,050	42,000	\$1,530	\$61,200
2BDRM	70	1,250	87,500	\$1,755	\$122,850
SUBTOTAL		180	191,000		\$269,550
LOUNGES 3 @ 400 SF. EA.			1,200		
CIRCULATION @ 10%			19,220		
TOTAL			211,420		

COMMUNITY SPACE	S.F.	COMMUNITY SPACE	S.F.
LOBBY	1,500	DINING	4,000
GIFT SHOP	800	PARTY ROOM	1,200
MINI-MARKET	1,200	POST OFFICE	200
BANK	500	LIBRARY	600
BARBER SHOP	300	CRAFT ROOM	800
ADMIN OFFICES	1,000	CARD & GAME ROOM	800
POOL AREA	3,500	MEDICAL CLINIC	600
SERVICE AREA	1,500	EXCERCISE ROOM	600
SUBTOTAL			8,800

CIRCULATION @ 18%	3,438
TOTAL	22,538

PARKING: INTERIOR 150 @ 200 S.F.	30,000
EXTERIOR 60 @ 200 S.F.	12,000
CIRCULATION 70 @ 150 S.F.	10,500
TOTAL BUILDING AREA PHASE 1	233,958
TOTAL PARKING AREA PHASE 1	42,000

LIVING UNIT PHASE2	NUMBER	SQ FT	TOT SQ FT	MO FEE	TOT INC
1 BDRM	40	900	36,000	\$1,260	\$50,400
1 BDRM/DEN	30	1,050	31,500	\$1,530	\$45,900
2 BDRM	30	1,250	37,500	\$1,755	\$52,650
ASSISTED LIVING	40	650	26,000	\$1,260	\$50,400
SUBTOTAL		140	131,000		\$199,350
LOUNGES 2 @ 400 SF. EA.			800		
CIRCULATION @ 10%			13,180		
TOTAL BUILDING AREA PHASE 2			144,980		

PARKING: INTERIOR 150 @ 200 S.F.	30,000
EXTERIOR 20 @ 200 S.F.	4,000
CIRCULATION 80 @ 150 S.F.	12,000

MINNETONKA COUNTRYSIDE

EXHIBIT 5 ANNUAL CASH FLOW ANALYSIS WORST CASE

YEAR	1 CONSTRUCTION	2 LEASING1	3 LEASING1	4 LEASING1	5 LEASING2	6 LEASING2	7 STABILIZED	8 STABILIZED	9 STABILIZED	10 STABILIZED	11 SALE
INCOME:											
AVG OCCUP(UNITS)	0	24	72	122	170	218	266	305	320	320	320
RENTAL INCOME	\$0	\$431,280	\$1,371,471	\$2,463,315	\$3,638,437	\$4,945,706	\$6,396,749	\$7,774,696	\$8,646,481	\$9,165,270	\$9,715,186
PARKING INCOME	\$0	\$5,760	\$18,317	\$32,899	\$48,593	\$66,053	\$70,016	\$74,217	\$78,670	\$83,390	\$88,394
SECOND OCCUPANT	\$0	\$17,280	\$54,950	\$98,697	\$145,780	\$198,158	\$256,297	\$311,507	\$346,436	\$367,223	\$389,256
RETAIL	\$0	\$9,600	\$10,176	\$10,787	\$11,434	\$12,120	\$12,847	\$13,618	\$14,435	\$15,301	\$16,219
TOTAL INCOME	\$0	\$463,920	\$1,454,915	\$2,605,697	\$3,844,245	\$5,222,037	\$6,735,909	\$8,174,037	\$9,086,022	\$9,631,184	\$10,209,055
LESS VACANCY	\$0	\$0	\$0	\$0	\$0	\$0	(\$319,837)	(\$388,735)	(\$432,324)	(\$458,264)	(\$485,759)
PROJECT COST	(\$23,157,898)				(\$12,473,890)						
EFFECTIVE INC.	(\$23,157,898)	\$463,920	\$1,454,915	\$2,605,697	(\$8,629,645)	\$5,222,037	\$6,416,072	\$7,785,302	\$8,653,698	\$9,172,920	\$9,723,295
MANAGEMENT FEE	\$0	\$27,835	\$87,295	\$156,342	\$230,655	\$313,322	\$384,964	\$467,118	\$519,222	\$550,375	\$583,398
EXPENSES:											
ADMINISTRATION	\$0	\$297,432	\$306,355	\$315,546	\$346,436	\$356,829	\$367,534	\$378,560	\$389,917	\$401,614	\$413,663
HOUSEKEEPING	\$0	\$129,000	\$132,870	\$136,856	\$203,091	\$209,184	\$215,460	\$221,923	\$228,581	\$235,439	\$242,502
MAINTENANCE	\$0	\$82,200	\$84,666	\$98,989	\$101,959	\$105,018	\$108,168	\$111,413	\$114,756	\$118,198	\$121,744
TOTAL PAYROLL	\$0	\$508,632	\$523,891	\$551,391	\$651,486	\$671,031	\$691,162	\$711,897	\$733,253	\$755,251	\$777,909
BENEFITS	\$0	\$111,899	\$116,256	\$121,306	\$143,327	\$147,627	\$152,056	\$156,61	\$161,316	\$166,155	\$171,140
TOT STAFF EXP	\$0	\$620,531	\$639,147	\$672,697	\$794,813	\$818,658	\$843,217	\$868,51	\$894,569	\$921,406	\$949,049
OPERATING EXPENSES	\$0	\$381,400	\$454,642	\$495,842	\$973,144	\$1,018,052	\$1,048,594	\$1,080,05	\$1,112,453	\$1,145,826	\$1,180,201
DINING EXPENSES	\$0	\$74,880	\$231,379	\$392,059	\$546,312	\$700,565	\$854,818	\$880,46	\$906,876	\$934,082	\$962,105
TOTAL EXPENSES	\$0	(\$1,104,646)	(\$1,412,463)	(\$1,716,940)	(\$2,544,924)	(\$2,850,597)	(\$3,131,593)	(\$3,296,14)	(\$3,433,120)	(\$3,551,690)	(\$3,674,752)
REPLACEMENT RESERV	\$0	(\$4,639)	(\$14,549)	(\$26,057)	\$86,296	(\$52,220)	(\$64,161)	(\$77,853)	(\$86,537)	(\$91,729)	(\$97,233)
NET OPERATING INC	(\$23,157,898)	(\$645,365)	\$27,902	\$862,701	(\$11,088,273)	\$2,319,220	\$3,220,318	\$4,411,304	\$5,134,041	\$5,529,501	\$5,951,310

MINNETONKA COUNTRYSIDE

EXHIBIT 6 LEVERAGED CASH FLOW ANALYSIS WORST CASE

YEAR	1 CONSTRUCTION	2 LEASING 1	3 LEASING 1	4 LEASING 1	5 LEASING 2	6 LEASING 2	7 STABILIZED	8 STABILIZED	9 STABILIZED	10 STABILIZED	11 SALE
NET OPERATING INC	(\$23,157,898)	(\$645,365)	\$27,902	\$862,701	(\$11,088,273)	\$2,319,220	\$3,220,318	\$4,411,304	\$5,134,041	\$5,529,501	\$5,951,310
SALES PROCEEDS					\$10,000,000	(\$10,000,000)					\$59,513,102
CONST. MORTGAGE	\$20,000,000	(\$20,000,000)									
CONST INTEREST	(\$950,000)	(\$1,900,000)			(\$475,000)						
PERM MORTGAGE		\$21,500,000				\$10,500,000					(\$29,871,386)
PERM POINTS		(\$215,000)				(\$105,000)					
DEBT SERVICE			(\$2,074,453)	(\$2,074,453)	(\$2,074,453)	(\$3,180,193)	(\$3,180,193)	(\$3,180,193)	(\$3,180,193)	(\$3,180,193)	
CASH FLOW AFTER DEBT SERVICE	(\$4,107,898)	(\$1,260,365)	(\$2,046,551)	(\$1,211,752)	(\$3,637,726)	(\$465,973)	\$40,125	\$1,231,111	\$1,953,848	\$2,349,308	\$29,641,716
DEBT COVERAGE RATIO			0.01	0.42	0.63	0.73	1.01	1.39	1.61	1.74	
CASH-ON-CASH				-16.49%	-42.49%	-3.85%	0.32%	9.80%	15.55%	18.78%	
BEFORE TAX CASH FLOW RETURNS:											
NET PRESENT VALUE	(\$2,640,164)										
INTERNAL RATE	13.87%										

MINNETONKA COUNTRYSIDE

EXHIBIT 4 DEVELOPMENT BUDGET PHASE 1 (CONSTRUCTION COST \$50/FT)

	COST/UNIT	COST/S.F.	TOTAL COST
HARD COSTS:			
LAND AQUISITION	\$3,906	\$5.34	\$1,250,000
SITE IMPROVEMENT	\$6,000	\$4.62	\$1,080,000
CONSTRUCTION	\$64,988	\$50.00	\$11,697,900
PARKING: INTERIOR	\$6,667	\$5.13	\$1,200,000
EXTERIOR	\$400	\$0.31	\$72,000
CIRCULAT	\$6,667	\$5.13	\$53,865
BOARDWALK	\$556	\$0.43	\$100,000
TENNIS	\$111	\$0.09	\$20,000
POOL	\$139	\$0.11	\$25,000
PUTTING	\$28	\$0.02	\$5,000
SUBTOTAL	\$89,461	\$71.17	\$15,503,765
SOFT COSTS:			
ARCHITECTURE	\$4,473	\$3.56	\$775,188
ENGINEERING	\$895	\$0.71	\$155,038
DEV CONSULTANTS	\$222	\$0.17	\$40,000
LEGAL FEES	\$222	\$0.17	\$40,000
PERMITS	\$222	\$0.17	\$40,000
FFE	\$1,111	\$0.68	\$160,000
MARKETING	\$6,000	\$4.62	\$1,080,000
ARCH CONSULTANT	\$222	\$0.17	\$40,000
SUBTOTAL	\$13,368	\$10.25	\$2,330,226
DEVELOPMENT FEE	\$713,360		
CONTINGENCY	\$1,783,399		
TOTAL PHASE 1	\$20,330,750		

MINNETONKA COUNTRYSIDE

EXHIBIT 4 DEVELOPMENT BUDGET PHASE 2 (CONSTRUCTION COST \$50/FT)

	COST/UNIT	COST/S.F.	TOTAL COST
HARD COSTS:			
SITE IMPROVEMENT	\$6,000	\$5.79	\$840,000
CONSTRUCTION	\$51,779	\$50.00	\$7,249,000
PARKING: INTERIOR	\$8,571	\$8.28	\$1,200,000
EXTERIOR	\$171	\$0.17	\$24,000
CIRCULAT	\$8,571	\$8.28	\$99,360
SUBTOTAL	\$66,521	\$64.24	\$9,412,360
SOFT COSTS:			
ARCHITECTURE	\$3,362	\$3.25	\$470,618
ENGINEERING	\$672	\$0.65	\$94,124
DEV CONSULTANTS	\$107	\$0.10	\$15,000
ARCH CONSULTANTS	\$107	\$0.10	\$15,000
LEGAL FEES	\$179	\$0.17	\$25,000
PERMITS	\$107	\$0.10	\$15,000
FFE	\$357	\$0.34	\$50,000
MARKETING	\$6,000	\$5.79	\$840,000
SUBTOTAL	\$10,891	\$10.52	\$1,524,742
DEVELOPMENT FEE	\$437,484		
CONTINGENCY	\$1,093,710		
TOTAL PHASE 2	\$10,937,102		

MINNETONKA COUNTRYSIDE

EXHIBIT 6 WORST CASE WITH CONSTRUCTION COST AT \$50/FT

YEAR	1	2	3	4	5	6	7	8	9	10	11
	CONSTRUCTION	LEASING 1	LEASING 1	LEASING 1	LEASING 2	LEASING 2	STABILIZED	STABILIZED	STABILIZED	STABILIZED	SALE
NET OPERATING INC	(\$20,330,750)	(\$645,365)	\$27,902	\$862,701	(\$9,551,485)	\$2,319,220	\$3,220,318	\$4,411,304	\$5,134,041	\$5,529,501	\$5,951,310
SALES PROCEEDS											\$59,513,102
CONST. MORTGAGE	\$20,000,000	(\$20,000,000)			\$10,000,000	(\$10,000,000)					
CONST INTEREST	(\$950,000)	(\$1,900,000)			(\$475,000)						
PERM MORTGAGE		\$21,500,000				\$10,500,000					(\$29,871,386)
PERM POINTS		(\$215,000)				(\$105,000)					
DEBT SERVICE			(\$2,074,453)	(\$2,074,453)	(\$2,074,453)	(\$3,180,193)	(\$3,180,193)	(\$3,180,193)	(\$3,180,193)	(\$3,180,193)	
CASH FLOW AFTER DEBT SERVICE	(\$1,280,750)	(\$1,260,365)	(\$2,046,551)	(\$1,211,752)	(\$2,100,938)	(\$465,973)	\$40,125	\$1,231,111	\$1,953,848	\$2,349,308	\$29,641,716
DEBT COVERAGE RATIO			0.01	0.42	0.00	0.73	1.01	1.39	1.61	1.74	
CASH-ON-CASH				-36.64%	-44.19%	-7.15%	0.57%	17.63%	27.99%	35.65%	
BEFORE TAX CASH FLOW RETURNS:											
NET PRESENT VALUE	\$333,393										
INTERNAL RATE	21.08%										

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