

Seniors Housing Appraisal Guidance

Question: How should an appraisal report analyze the various unit types at a seniors housing property?

Analyzing Specific Unit Types in an Appraisal:

- The appraisal must state and analyze each specific unit type.
 - **Example:** Independent living, assisted living, memory care and skilled nursing. Shared units and companion units
- The appraisal must also include support for the market rent conclusion for each unit type.

Example:

ABC Retirement Community								
Care Type	Unit Type	No. Units	No. Beds	Unit of Measure	Revenue Units	Avg SF	NRA	% of GBA
Independent Living	1 Bedroom	52	52	Units	52	600	31,200	32.9%
Assisted Living	Studio	17	17	Units	17	450	7,650	8.1%
Assisted Living	1 Bedroom	18	18	Units	18	600	10,800	11.4%
Memory Care	Studio	8	8	Units	8	450	3,600	3.8%
Memory Care	Companion Studio	4	8	Beds	8	450	1,800	1.9%
Memory Care	Companion 1 Bedroom	3	6	Beds	6	550	1,650	1.7%
		102	109		109	517	56,700	59.9%

Question: How should base rent and personal care charges be addressed in an appraisal?

Analyzing Rent and Personal Care Charges in an Appraisal:

- Clarify and document whether the subject property and competing communities use a la carte rates (room + itemized care), tiered/base rates (room + base care + extra charges) or all-inclusive rates (single rate covers all care).
- Describe the rent by unit type and personal care stated in typical ranges based on the survey of competing communities.
- Base rent and personal care should be discussed and determined separately as a component of determining the all-in cost.
- Personal care should be based on the most probable charge, rather than an average.
- Adequate support should be provided when the subject property’s personal care is forecasted outside the range of the observed comparables.
- Include a discussion on how higher acuity has higher associated personal care expenses, thus higher risk as it relates to the capitalization rate.

Example of Incorporating an All-In Cost:

Community	Studio Base Rent	Care System	Most Probable Care Range	Total Monthly Cost (All-In Cost)
Competitor A	\$3,500	All-Inclusive	\$0	\$3,500
Competitor B	\$2,800	Tiered	\$600 - \$800	\$3,400 - \$3,600
Competitor C	\$2,700	a la carte	\$750 - \$950	\$3,450 - \$3,650
Competitor D	\$2,600	Point	\$700 - \$900	\$3,300 - \$3,500

“As shown above, Competitor A has an all-inclusive rate. The remaining studio rent ranges from \$2,600 to \$2,800 and the most probable personal care ranges from \$600 to \$950. The ‘all-in’ costs for the subject property’s studio units range from \$3,300 to \$3,650. The subject property’s forecasted all-in cost of \$3,500 for this unit type is market supported.”

Note: Typically, higher acuity levels (personal care) have higher associated personal care expenses, thus higher risk as it relates to the capitalization rate. The acuity level must be appropriately analyzed in the capitalization rate selection.