



Trusted Guidance to the Senior Living Industry

**Strategic Positioning
Analysis**

of

**Westchester Meadows
Valhalla, NY**

**Prepared for Bethel Methodist Home, Inc.
June 2016**

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SK Advisors (“SK”) has conducted an independent analysis of Westchester Meadows. This analysis, referred to as the Strategic Positioning & Feasibility Analysis, is intended for the purposes of evaluating the potential acquisition of Westchester Meadows by Bethel Methodist Home, Inc. (“Bethel”).

Westchester Meadows is a continuing care retirement community located in Valhalla, NY and consisting of 120 independent living units, 10 enriched housing units and 20 skilled nursing beds. Westchester Meadows has experienced declining occupancy for several years, putting significant strain on its operations and cash flows. In December 2015, Westchester Meadows filed for bankruptcy with the intent of selling itself to another operator.

Westchester Meadows is pursuing a sale via Chapter 363 of title 11 of the United States Code (the “Bankruptcy Code”). This process involves identifying an initial bidder (also known as the “Stalking Horse”) and conducting a sale through an auction. At this time, it is uncertain whether Bethel will serve as the Stalking Horse bidder, or simply participate via the auction process.

Bethel engaged SK to evaluate the opportunity, including an analysis of the market positioning and financial feasibility if Bethel were to acquire the community. This report will summarize the work conducted by SK, which focused on the following:

- (1) **Market Positioning & Opportunities Analysis:** SK analyzed both the current and future market positioning of Westchester Meadows. This exercise first looks at how the community is currently positioned, helping to inform us as to the reasons for its recent challenges. It then examines the competitiveness and marketability of the community as a product taking into account our knowledge of and familiarity with other CCRCs in the market and across the region, and also broader industry trends. The end result is a set of recommendations regarding pricing and product positioning for moving forward.
- (2) **Financial Feasibility:** Based on the market positioning work, a set of detailed revenue projections were developed. SK also analyzed the current expenses of Westchester Meadows, and worked with Bethel management to develop a set of expense assumptions. The end result is a detailed set of financial projections illustrating the feasibility of Westchester Meadows if it were to be acquired by Bethel and repositioned as recommended. The financial feasibility will be distributed under separate cover.

It should be noted that there will usually be differences between the forecasted results and actual results as events and circumstances often do not occur as expected. It is possible that those differences could be material.

Market Positioning & Opportunities Analysis:

To address the key questions and concerns regarding the future positioning and sustainability of Westchester Meadows, SK Advisors conducted a thorough market positioning and opportunities analysis. The primary purposes of the analysis were to identify the root cause behind Westchester Meadows' challenges and help to determine potential product/pricing strategies that will position it for success going forward. Our goal was ultimately to support Bethel's efforts to develop a successful long-term positioning strategy and plan for the community.

This analysis began with a foundation of research and analysis of the dynamics impacting the market and Westchester Meadows specifically. SK also provided background on trends and environments across the senior living and long-term care industry (with emphasis on CCRCs) that could be impacting Westchester Meadows and Bethel, and that should be taken into account. The crux of the analysis, however, will include a unique and thorough examination of the product and price position of Westchester Meadows in the market. This included the development of a matrix comparing Westchester Meadows to its primary competitors across key characteristics and comparing and contrasting strengths and weaknesses, as well as an in-depth pricing analysis by product and residence type to provide for an "apples to apples" comparison of the lifetime cost for a resident across different contract types and communities. The goal of this was to develop a clear understanding of the positioning of Westchester Meadows relative to its competitors and root cause behind its struggles.

Based on all of this research and analysis we have determined product and service opportunities in the market and how Bethel can position Westchester Meadows to take advantage of these opportunities and better meet the needs of the market and enhance its performance going forward. In short, the analysis answers the questions: "why has Westchester Meadows struggled?", "what services can/should Westchester Meadows provide for the market?", and "what combination of services and price will put Westchester Meadows in a position for long-term sustainability?".

The Market Positioning Analysis is comprised of the following components: (1) Attribute Scoring, (2) demographic analysis, and (3) comparative analysis. The output from these components helps to shape the recommendations as to future positioning of the community, i.e. pricing and program recommendations.

Attribute Scoring

To analyze community positioning we provide an assessment of the subject across a number of key positioning attributes that we have placed into sub-categories that comprise the key elements of product positioning (such as location, common areas, residential units, etc.). This tool was developed by Kivov Consulting (predecessor to SK Advisors) and the intention is to illustrate the subject's relative product position, and strengths and shortcomings.

For each attribute examined we have awarded a grade ranging from an A to an E. Grades are based on our familiarity with and knowledge of product and properties on an industry-wide basis and are not market specific. An "A" is considered to be elite by industry standards, something that has true "wow factor". Each grade is then converted to a number and based on this a numerical score is calculated, just like a grade point average. This numerical score is termed an Attribute Score (AS) and allows for the comparison and ranking of communities by attribute and also overall. The overall average AS for a

community is akin to an overall grade, with a 4.00 being the highest possible (but in reality unrealistic and virtually impossible) score, representing an A average, a 3.70 representing an A-, a 3.30 representing a B+, a 3.00 representing a B, and so on. This is, of course, somewhat subjective, but does help to illustrate the picture of the relative positioning and competitiveness of a property.

The following summarizes the grade to score relationship and the general criteria of the impression for each grade:

Grade	Score	Criteria
A	4.0	Elite, a true "wow factor"
A-	3.7	Stand Out and premier
B+	3.3	Strong
B	3.0	Good
B-	2.7	Average to just above
C+	2.3	Average to just below
C	2.0	Somewhat lacking
C-	1.7	Subpar and lacking
D+	1.3	Poor
D	1.0	Poor
D-	0.7	Very Poor
E	0.0	Atrocious
F	-1.0	Unmentionable

Figure 1 shows an individual score-sheet providing grades and comments for each attribute for Westchester Meadows. The analysis exhibits that Westchester Meadows scores very poorly overall, with an average attribute score of 2.25. Scaled relative to its competition, this effectively translates to a failing grade.

There are certain key contributing factors leading to the poor grade for Westchester Meadows. The first factor relates to the overall physical plant. As is typically the case with challenged operators, Westchester Meadows had pulled back on investment in its physical plant. While it is not significantly in disrepair, the community is in need of an investment to enhance its curb appeal and general marketability. Beyond this, the dining and wellness spaces – which are integral to the lifestyle aspect of a CCRC and at the heart of its marketability to independent living consumers – are substandard and in need of improvement. A third factor relates to certain intangible aspects, such as sponsorship and reputation. As can be seen in Figure 1, Westchester Meadows scores poorly in overall physical appearance, with regard to amenities (including wellness and dining), and sponsorship/reputation. These are the three principal drivers of the community’s poor attribute score.

Figure 2 shows a revised attribute score, whereby certain improvements have been made to the community. Specifically, these improvements consist of (1) investment of \$2-3 million in the physical plant, and (2) the benefit of Bethel’s reputation and perception in the market. As can be seen in Figure 2, these improvements significantly enhance the product position of Westchester Meadows, lifting it squarely into the B category for attribute scoring.

Figure 1

WESTCHESTER MEADOWS		
Attribute	Grade	Comment
Site/Location Attributes		
Location/Neighborhood	B-	Not most marketable part of Westchester...some modest housing around, across from cemetery
Proximity to Infrastructure	B	Nothing too immediate but downtown White Plains is 10 minutes and has an abundance
Accessibility	B	Somewhat mid-county away from N-S routes into NYC, but also not far from 287
Visibility & Exposure	B	Good visibility, perched on a hill with decent signage; drive-by is somewhat modest
Ingress/Egress	B+	Fairly direct ingress and an access road that winds up a hill into the property
Site/Location Subtotal	B	
Property Attributes		
Setting/Campus Appeal	C	Not much of a campus, tight site where buildings developed; landscaping could be improved
Exterior/Curb Appeal	C+	Not bad looking overall, basic building of vinyl siding and shingles...needs some investment
Interior Appearance	C-	Décor is decent in some areas, though somewhat Spartan; narrow, dark corridors a challenge
Property Attributes Subtotal	C	
Common Areas Attributes		
Entrance and Reception	C	Reminiscent of mid-market AL property, not to the expectation of a quality CCRC buyer
Dining Venues	C	Somewhat sterile main dining and a bistro that was a good idea but poor effort; decent bones
Wellness	C+	A conundrum. One of largest--and least attractive--pool spaces in any CCRC; weak fitness
Amenity Offerings	C	Lacking for a CCRC targeting somewhat affluent buyers
Common Area/Amenities Appearance	C	Ranges from mundane to tired (and challenging in pool)
Common Areas Attributes Subtotal	C	
ILU Attributes		
Independent Living Offerings	B-	Decent range of apt sizes (largest in line with Kendal) but poor mix, too many small 1BRs
Apartment Product Design/Finish	B-	Decent bones, large baths and closets; need to be opened up some, basic finishes upgraded
Cottage/SF Product Design/Finish	--	No cottages
ILU Attributes Subtotal	B-	
Long-Term Care Attributes		
Quality of Care	B-	Not a strong reputation good or bad for care
Assisted Living Product	B	Residential and spacious; in fact too large (11,000 sf for 10 units); better served as ILUs?
Dementia Care Product	D	No distinct dementia care environment but do have a adult day service venue on site
Nursing Care Product	B-	Have a small SNF that is adequate...phase this out into enhanced AL like Kendal?
Long-Term Care Attributes Subtotal	C+	
Contracts & Services Attributes		
Contract Options	C	Have overwhelmed and confused marketplace with constant change
Continuum Concept and Delivery	B+	Lacking dementia solution but have day care
Dining Program	C	Standard package and subpar effort, needs to become more restaurant like
Services & Programming	B-	Standard package...settling on a contract would help to define the service approach
Contracts & Services Subtotal	C+	
Sponsor & Background Attributes		
Sponsor/Financial Health	E	Obviously the major disruptor...not even actively taking new contracts at present until solved
Property Reputation	C-	Mud right now...but was doing fine at first and until the Recession...so something to build back on
Impact/Intangibles	C-	Has lawsuits to settle with residents, but some optimism they'd be OK if had refund guarantees
Sponsor & Background Subtotal	D	
OVERALL AVERAGE SCORE:	2.25	
RELATIVE (SCALED) GRADE:	E	

Figure 2

WESTCHESTER MEADOWS: Improved (2017)		
Attribute	Grade	Comment
Site/Location Attributes		
Location/Neighborhood	B-	Not most marketable part of Westchester...some modest housing around, across from cemetery
Proximity to Infrastructure	B	Nothing too immediate but downtown White Plains is 10 minutes and has an abundance
Accessibility	B	Somewhat mid-county away from N-S routes into NYC, but also not far from 287
Visibility & Exposure	B	Good visibility, perched on a hill with decent signage; drive-by is somewhat modest
Ingress/Egress	B+	Fairly direct ingress and an access road that winds up a hill into the property
Site/Location Subtotal	B	
Property Attributes		
Setting/Campus Appeal	C+	More landscaping to improve overall look and feel
Exterior/Curb Appeal	B-	Deferred maintenance on exterior fixed, it shows decently
Interior Appearance	B-	Halls significantly brightened, contemporary lighting, new FF&E, common area finishes upgraded
Property Attributes Subtotal	B-	
Common Areas Attributes		
Entrance and Reception	B-	Made more inviting with lighting, finishes, FF&E, rearrangement of space, etc.
Dining Venues	B	Solid investment to renovate and modernize dining, make more restaurant-like
Wellness	B-	Some effort to mitigate look of pool; improve fitness facility
Amenity Offerings	B-	Still somewhat limited for a CCRC, but critical improvements to dining and wellness
Common Area/Amenities Appearance	B	No reason solid refurb cant make these contemporary and decent on the whole
Common Areas Attributes Subtotal	B-	
ILU Attributes		
Independent Living Offerings	B	Upgrade existing inventory to improve marketability
Apartment Product Design/Finish	B+	Ready to sell units upgraded to include higher-end finishes and perhaps some opening up
Cottage/SF Product Design/Finish	--	No cottages
ILU Attributes Subtotal	B	
Long-Term Care Attributes		
Quality of Care	B+	Immediate improvement to quality of care and operation
Assisted Living Product	B	Residential and spacious; in fact too large (11,000 sf for 10 units); better served as ILUs?
Dementia Care Product	D	No distinct dementia care environment but do have a adult day service venue on site
Nursing Care Product	B-	Have a small SNF that is adequate...phase this out into enhanced AL like Kendal?
Long-Term Care Attributes Subtotal	C+	
Contracts & Services Attributes		
Contract Options	B+	Appropriately priced and positioned offerings (Type C with DB, high refund, maybe 3rd plan)
Continuum Concept and Delivery	B+	Lacking dementia solution but have day care
Dining Program	B+	Institute flexible plan (debit/dollars), significantly upgrade quality and make chef-driven
Services & Programming	B+	Flexibility and some deconstructed/limited service options available
Contracts & Services Subtotal	B+	
Sponsor & Background Attributes		
Sponsor/Financial Health	B	New buyer will have strong local reputation (and with Jewish crowd)
Property Reputation	B-	A fresh and hopeful start with new owner and operator that can turn around, investment made
Impact/Intangibles	B	New start and hope, everyone pulling in one direction, some positive buzz about "new WM"
Sponsor & Background Subtotal	B	
OVERALL AVERAGE SCORE:	2.89	
RELATIVE (SCALED) GRADE:	B-	

Competitive Environment

The competitive landscape in the Westchester Meadows market is not particularly deep, principally due to New York’s stiff regulations for CCRCs. There is only one directly competitive CCRC located within the defined market area, Kendal on Hudson. The Osborn is another CCRC that is proximate to but outside of the defined market area. Nonetheless, as we believe that The Osborn does exert some competitive impact on the market, we included it in our analysis. There are also two other directly competitive service-enriched independent living rental model communities in the market area, both of which are Atria Senior Living properties.

Figure 3 below inventories the competitive facilities included within this analysis. **Figure 4** provides occupancy detail. **Figure 5** summarizes their level of care.

Figure 3

Competitive Service-Enriched Independent Living Communities Inventory of Facilities Westchester Meadows Market Area						
Community	City	Distance (In Miles)	Drive Time	Year Open	Ownership	Operator
CCRCs/Continuums						
Kendal on Hudson	Sleepy Hollow	5	15	1995	Non-Profit Org.	Kendal Corp
Osborn, The**	Rye	8	20	1908	Non-Profit Private	Self-Managed
Rentals/Freestanding						
Atria Rye Brook	Rye Brook	5	15	N/A	For Profit Corp.	Atria Senior Living
Atria Woodlands	Ardsley	5	10	N/A	For Profit Corp.	Atria Senior Living
Westchester Meadows	Valhalla	--	--	2004	Non-Profit Org.	Self-Managed

Figure 4

Competitive Service-Enriched Independent Living Communities Occupancy Data Westchester Meadows Market Area			
Community	Occupancy Data		
	Units	Occupied	Occupancy
CCRCs/Continuums			
Kendal on Hudson	222	189	85.1%
Osborn, The**	188	181	96.3%
CCRC Sub-Total	410	370	90.2%
Rentals/Freestanding			
Atria Rye Brook	164	156	95.1%
Atria Woodlands	68	61	89.7%
Rental Sub-Total	232	217	93.5%
Grand Total	642	587	91.4%
Westchester Meadows	120	74	61.7%

The competitive market is performing relatively well overall, with an aggregate occupancy of 91.4% across the four communities and 642 units within our competitive analysis (587 of 642 units occupied) at the time of our analysis (April 2016). Of note, Kendal on Hudson recently had a sharp drop in its occupancy due to a wave of attrition that was expected due to its natural maturation as a community;

it is now in the process of rebuilding its census. Atria Rye Brook was struggling one year ago with an occupancy reportedly around 80%; a new marketing/sales team has re-invigorated the community and made it a top performer. Westchester Meadows performance clearly has been an outlier.

Figure 5

Competitive Service-Enriched Independent Living Communities Levels of Care Westchester Meadows Market Area					
Community	Levels of Care Provided				
	CCRC	IL	AL	ALZ	SNF
CCRCs/Continuums					
Kendal on Hudson	Yes	222	34	13	42
Osborn, The**	Yes	188	97	13	84
Rentals/Freestanding					
Atria Rye Brook	No	164	Yes	Yes	0
Atria Woodlands	No	68	Yes	Yes	0
Westchester Meadows	Yes	120	10	0	20

IL = Independent Living; AL = Assisted Living; ALZ = Alzheimer’s (Dementia) dedicated; SNF = Nursing

Figure 6 details the different contracts and plans offered by the competing facilities. **Figure 7** compares the unit sizes.

Figure 6

Competitive Service-Enriched Independent Living Communities Contracts and Plans Westchester Meadows Market Area						
Community	Contract Types			Plans and Refund Options		
	A	B	C	Declining	Refund	Rental
CCRCs/Continuums						
Kendal on Hudson	✓	✓	–	Yes	50%/90%	No
Osborn, The**	–	–	✓	No	100%	Yes
Rentals/Freestanding						
Atria Rye Brook	–	–	✓	No	No	Yes
Atria Woodlands	–	–	✓	No	No	Yes
Westchester Meadows	–	✓	–	Yes	No	No

Of the two CCRCs directly impacting the market area, Kendal on Hudson provides primarily a Lifecare (Type A) contract and The Osborn is a fee-for-service provider (Type C contract). Both communities offer high refund plan options (The Osborn offers only a 100% refund plan).

Figure 7

Competitive Service-Enriched Independent Living Communities Independent Living Product and Unit Sizes: Apartments Westchester Meadows Market Area								
Community	IL Product			Apartment Unit Types and Sizes				
	Multi/Apts	SF Attached	SF Detached	Studio	1BR	1BR/Den	2BR	2BR/Den
CCRCs/Continuums								
Kendal on Hudson	222	X	X	535 - 630	730 - 842	930 - 1,200	1,010 - 1,180	1,260 - 1,540
Osborn, The**	144	44	X	Yes	Yes	X	Yes	Yes
Westchester Meadows	120	X	X	X	701	879	1,047 - 1,320	1,589

Westchester Meadows’ unit sizes actually match up well with those at Kendal on Hudson for similar unit types/floor plans; a key difference is that Westchester Meadows mix is heavily weighted towards the smaller one-bedroom plans and thus its overall weighted average unit size is much smaller than Kendal.

Competitive Environment - Attribute Scoring

Taking all of the above, combined with in person site visits, SK also conducted Attribute Scoring for the primary competitors of Westchester Meadows. Kendal on Hudson was clearly the premier property in the market and obtained an “A” grade from the attribute scoring (which is scored relative to the competition in the market). The Osborn is a slightly older product but still well-done. It was graded a “B”. From the attribute scoring above, the current Westchester Meadows was a clear laggard in the market with an “E” grade; however, with new sponsorship and investment in the physical plant, Westchester Meadows could be solidly positioned in the “B” category as well, a notch below The Osborn.

Demographics

The Market Area was defined as a 15-minute drive time from Westchester Meadows. It is a densely populated and affluent mature market with an above average concentration of older adults. **Figure 8** below details the population by age and year for the market area.

Figure 8

Older Adult Population by Age and Year Westchester Meadows 15-Minute Primary Market								
Population	2010		2016		2021		% Annual Change	
	#	% of Total	#	% of Total	#	% of Total	(2010-2016)	(2016-2021)
Total	752,685	100.0%	774,563	100.0%	793,106	100.0%	0.5%	0.5%
55 to 64	92,114	12.2%	104,614	13.5%	112,467	14.2%	2.3%	1.5%
65 to 74	55,778	7.4%	68,473	8.8%	83,240	10.5%	3.8%	4.3%
75 to 84	38,589	5.1%	38,231	4.9%	41,290	5.2%	-0.2%	1.6%
85+	18,592	2.5%	21,182	2.7%	22,153	2.8%	2.3%	0.9%
55+	205,073	27.2%	232,501	30.0%	259,151	32.7%	2.2%	2.3%
65+	112,959	15.0%	127,887	16.5%	146,684	18.5%	2.2%	2.9%
75+	57,181	7.6%	59,414	7.7%	63,444	8.0%	0.7%	1.4%

The 75+ population is approximately 59,400 in the current year; this represents 7.7% of the total population, which is well above the national average 75+ population concentration (6.3% per 2015 US Census Population Projections).

Figure 9 below details the 75+ household cohort in the market by income.

Figure 9

Households 75+ by Income Westchester Meadows 15-Minute Primary Market								
Income	2000		2016		2021		% Annual Change	
	#	%	#	%	#	%	(2000-2016)	(2016-2021)
Total	32,136	100.0%	38,344	100.0%	40,926	100.0%	1.2%	1.3%
\$35,000+	14,581	45.4%	22,184	57.9%	24,543	60.0%	3.3%	2.1%
\$50,000+	10,641	33.1%	17,467	45.6%	19,540	47.7%	4.0%	2.4%
\$75,000+	6,638	20.7%	12,522	32.7%	14,377	35.1%	5.5%	3.0%
\$100,000+	4,323	13.5%	8,979	23.4%	10,498	25.7%	6.7%	3.4%

There are over 38,300 households age 75+ in the market area. Nearly 17,500 75+ households have an income in excess of \$50,000, representing 46% of all 75+ households. The number of 75+ households with incomes in excess of \$50,000 is projected to increase by 2.4%, or approximately 415 households, per annum through 2021. There are approximately 12,500 75+ households with an income of \$75,000+, representing approximately one-third of all 75+ households.

The market is generally affluent with very high home values. The median household income in the market is over \$91,100, as shown in **Figure 10** below. The median household income for all older adult age cohorts is projected to increase by approximately 1.5% per annum over the next five years. **Figure 11** shows the median home value in the market area, according to data based on the US Census, as being nearly \$583,000.

Figure 10

Median Household Income of Older Adult Households by Age Westchester Meadows 15-Minute Primary Market					
Age	2000	2016	2021	% Annual Change	
				(2000-2016)	(2016-2021)
All Households	\$67,460	\$91,128	\$96,483	2.2%	1.2%
55 to 64	\$78,315	\$114,829	\$123,614	2.9%	1.5%
65 to 74	\$51,192	\$80,126	\$85,626	3.5%	1.4%
75 to 84	\$33,006	\$49,503	\$53,502	3.1%	1.6%
85+	\$24,984	\$35,052	\$37,404	2.5%	1.3%

Figure 11

Home Value Distribution (Census Data) Westchester Meadows 15-Minute Primary Market								
Home Values	2000		2016		2021		2016-2021 Growth	
	#	%	#	%	#	%	Period	Per Annum
<\$60,000	6,142	3.7%	4,811	2.7%	4,801	2.6%	-0.2%	0.0%
\$60,000 - \$99,999	9,323	5.6%	3,083	1.7%	2,982	1.6%	-3.3%	-0.7%
\$100,000 - \$149,999	9,538	5.7%	5,633	3.1%	5,545	3.0%	-1.6%	-0.3%
\$150,000 - \$199,999	15,243	9.2%	6,862	3.8%	6,644	3.6%	-3.2%	-0.6%
\$200,000 - \$299,999	42,728	25.7%	12,670	7.1%	12,303	6.7%	-2.9%	-0.6%
\$300,000 - \$399,999	30,689	18.4%	17,840	10.0%	17,177	9.3%	-3.7%	-0.7%
\$400,000 - \$499,999	17,078	10.3%	22,643	12.6%	22,342	12.2%	-1.3%	-0.3%
\$500,000 - \$749,999	18,312	11.0%	48,594	27.1%	49,264	26.8%	1.4%	0.3%
\$750,000 - \$999,999	8,199	4.9%	25,251	14.1%	27,254	14.8%	7.9%	1.6%
\$1,000,000+	9,163	5.5%	31,859	17.8%	35,487	19.3%	11.4%	2.3%
Total	166,415	100.0%	179,246	100.0%	183,799	100.0%	2.5%	0.5%
Median Home Value	\$300,760		\$582,735		\$602,031		3.3%	0.7%
\$150,000+	141,412	85.0%	165,719	92.5%	170,471	92.7%	2.9%	0.6%
\$250,000+	104,805	63.0%	152,522	85.1%	157,676	85.8%	3.4%	0.7%
\$300,000+	83,441	50.1%	146,187	81.6%	151,524	82.4%	3.7%	0.7%
\$400,000+	52,752	31.7%	128,347	71.6%	134,347	73.1%	4.7%	0.9%
\$500,000+	35,674	21.4%	105,705	59.0%	112,005	60.9%	6.0%	1.2%

Demand Analysis

Overall, the measures of demand in the market are extremely favorable due to the deep target market of age- and income-qualified households and the relatively limited competitive inventory serving the market. The demand findings suggest that there is more than adequate depth in the market to support the existing inventory, including Westchester Meadows. Furthermore, there appears to be sufficient depth to support the addition of a substantial amount of new inventory.

The market penetration rate – which is a measure of all existing inventory in a market relative to the size of the age- and income-qualified target market – is extremely modest (see **Figure 13**). In our experience, market penetration rates of or in excess of 25% are achievable in most markets. With a minimum income threshold of \$50,000 the market penetration rate is just 3.8%; a more conservative scenario with a minimum income threshold of \$75,000+ (in which competitive units are adjusted to reflect the higher income target) increases only nominally to 4.3%.

Figure 13

2016 Independent Living Demand Market Penetration Rate Analysis Westchester Meadows 15-Minute Primary Market				
Household Age			75+	75+
Income Target			\$50,000+	\$75,000+
Tenure			All	All
Home Value			All	All
Market Penetration Rate				
Age and Income Qualified Households			17,467	12,522
Estimated Directly Competitive Continuum ILUs			316	253
Estimated Competitive Freestanding ILUs			232	186
Planned Competitive Units			0	0
Subject Property Existing Units			120	96
Total ILUs in Market			668	534
Market Penetration Rate			3.8%	4.3%

Projecting forward to 2021 – and including for two significant planned projects that we identified, Club at Briarcliff Manor and the Purchase College property – the penetration rates increase slightly but still remain extremely modest overall at approximately 5%, as shown in **Figure 14**.

Figure 14

2021 Independent Living Demand Market Penetration Rate Analysis Westchester Meadows 15-Minute Primary Market				
Household Age			75+	75+
Income Target			\$50,000+	\$75,000+
Tenure			All	All
Home Value			All	All
Market Penetration Rate				
Age and Income Qualified Households			19,540	14,377
Estimated Directly Competitive Continuum ILUs			316	253
Estimated Competitive Freestanding ILUs			232	120
Planned Competitive Units			350	280
Subject Properties Existing Units			120	96
Total ILUs in Market			1,018	749
Market Penetration Rate			5.2%	5.2%

The project capture rate – which is a specific measure of the market share that any one community must capture in order to fill its units – for Westchester Meadow’s 120 units is extremely modest. Adjusting to assume in-migration of approximately 30%, the required capture rate for Westchester Meadows 120 existing units is less than 1% under both the \$50,000+ and \$75,000+ minimum income scenarios. In our experience, a capture rate of approximately 3% is typically achievable for a given community. This indicates that the market can readily support Westchester Meadows. See **Figure 15** for the Project Capture Rate.

Figure 15

2016 Independent Living Demand Project Capture Rate Analysis Westchester Meadows 15-Minute Primary Market				
Household Age			75+	75+
Income Target			\$50,000+	\$75,000+
Tenure			All	All
Home Value			All	All
Project Capture Rate				
Qualified Target Market			17,467	12,522
(Less Existing Competitive Supply)			(548)	(438)
Total Unserved Target Market			16,919	12,084
Subject Property Existing Units				
Subject Property Existing Units			120	120
In-Migration Adjustment			30.0%	30.0%
Total Project ILUs to be Filled			84	84
Project Capture Rate			0.5%	0.7%

Conclusion – Market Dynamics and Positioning & Pricing

- Demand in the market is strong and more than adequate to support the existing independent living product, including Westchester Meadows. The fundamental market dynamics – demographics, competitive supply, and demand – do not appear to be root causes or primary contributing factors to the occupancy challenges at Westchester Meadows.
 - Rather, in our opinion, occupancy challenges are primarily a result of unfavorable product and price position (and the current lack of value provided by the product relative to its competition), poor reputation and public relations issues, the lack of a concerted marketing effort, and questionable management and operational strategies that have been employed in recent years.
- Westchester Meadows is a mid-market product with a number of evident product limitations and shortcomings
 - We believe that a number of the major shortcomings holding back the property are directly related to current ownership and management and otherwise “soft attributes” (relating to contracts, services, intangibles, experience, etc. and things that can be

addressed with more minimal to modest capital investment); once these are addressed the property will be much improved.

- It is a reasonable target to enhance the product positioning of the community from what is at present a failing product to a solid, C+ to B- product, with the improvements identified within a \$2MM to \$3MM capital improvements budget.
- It does not appear reasonable to position Westchester Meadows as a market leader or a Class A property that could compete more directly with Kendal or even The Osborn, short of a complete redevelopment and substantial capital investment.
 - Enhancing it to the point of being a solid mid-market product, however, appears readily achievable.
- The competitive CCRCs in the market are much stronger products overall than Westchester Meadows, with standout features and fewer shortcomings. They clearly stand out several notches above Westchester Meadows and are much better positioned to appeal to the more affluent buyers in the market and command higher price points.
 - Kendal on Hudson in particular is a Class A product that is elite on a regional basis and is clearly the market leader from a product standpoint. A significant recent investment into redevelopment of wellness, dining, and other common spaces in particular has pushed this community well beyond its competitors in the market and into a regionally elite position.
 - The Osborn is an older property that has some weakness and attributes in which it is mediocre to below average (in particular common areas) but also has some stand out attributes, including its independent living residences. It overall is a strong, though not exceptional, property.