

Commercial Revalue

2015 Assessment Roll

**NURSING/RETIREMENT
HOMES**

AREAS

153 & 174

King County, Department of Assessments

Seattle, Wa.

Lloyd Hara, Assessor



King County

Department of Assessments

Accounting Division

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Lloyd Hara
Assessor

Dear Property Owners:

Property assessments for the 2015 assessment year are being completed by my staff throughout the year and change of value notices are being mailed as neighborhoods are completed. We value property at fee simple, reflecting property at its highest and best use and following the requirement of RCW 84.40.030 to appraise property at true and fair value.

We have worked hard to implement your suggestions to place more information in an e-Environment to meet your needs for timely and accurate information. The following report summarizes the results of the 2015 assessment for this area. (See map within report). It is meant to provide you with helpful background information about the process used and basis for property assessments in your area.

Fair and uniform assessments set the foundation for effective government and I am pleased that we are able to make continuous and ongoing improvements to serve you.

Please feel welcome to call my staff if you have questions about the property assessment process and how it relates to your property.

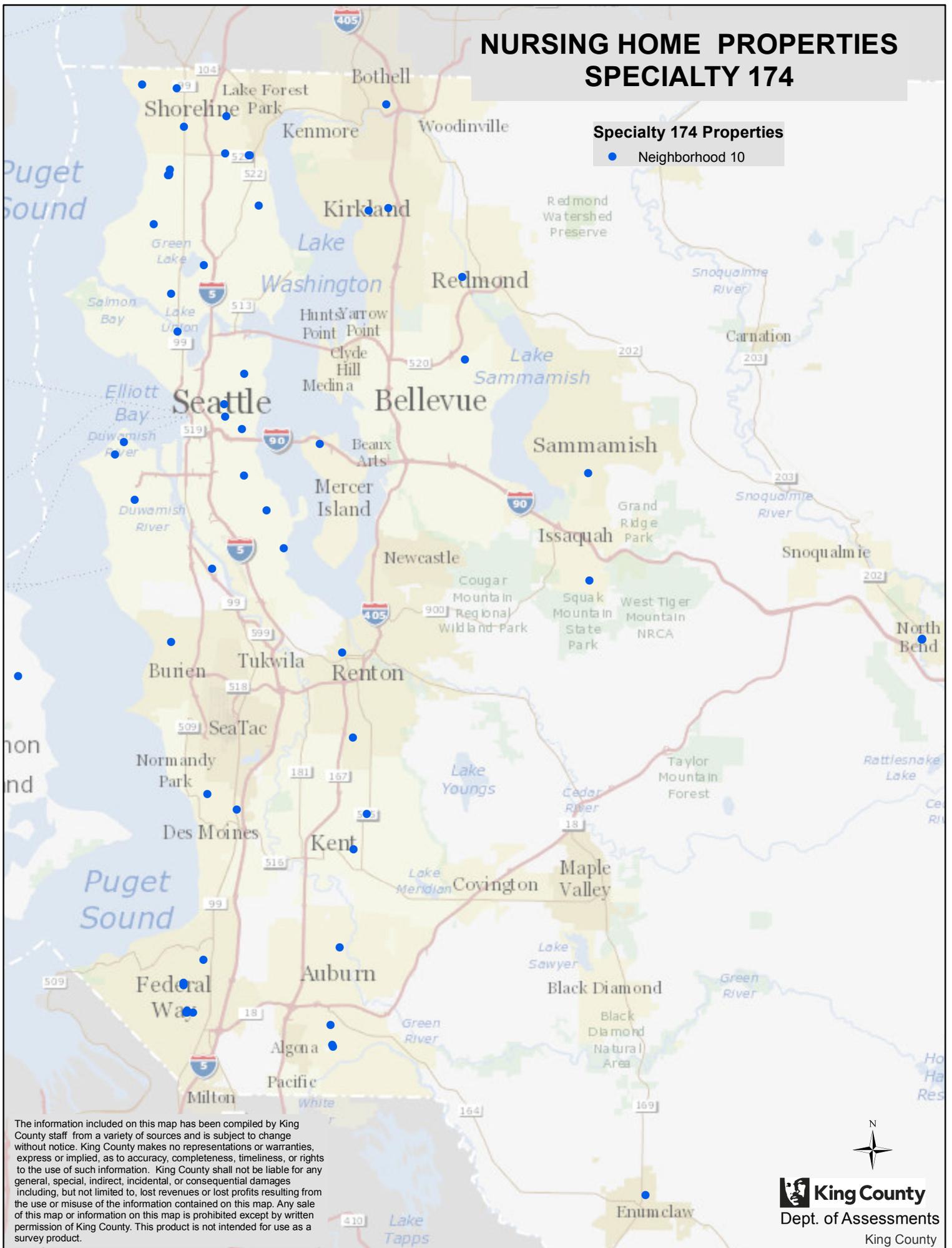
Sincerely,

Lloyd Hara
Assessor

NURSING HOME PROPERTIES SPECIALTY 174

Specialty 174 Properties

● Neighborhood 10



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Executive Summary Report

Effective Date of Appraisal: January 1, 2015 – 2015 Assessment Roll

Date of Appraisal Report: June 5, 2015

Specialty Name

- Retirement Homes, Specialty Area 153
- Nursing Homes, Specialty Area 174

Physical Inspection: Selected retirement homes and nursing homes from the West Seattle, South Seattle and South King County super groups were physically inspected, as listed in subsequent addendum within this report. These properties were inspected in 2014 prior to posting the specialty area 153 and 174 values.

Improved Sales Summary

Specialty Area 153

- Number of sales: 4
- Range of sales dates: 1/09/2013 – 3/31/2014
- There were no sales of retirement homes that meet the requirements of a fair market transaction in 2012.

Specialty Area 174

- Number of sales: 1
- Date of sale: 5/01/2013
- There were no sales of senior nursing homes that meet the requirements of a fair market transaction in 2012 and 2014.

Sales - Ratio Study Summary

Due to the limited number of sales in areas 153 and 174, a ratio study is not included. The ratio study would not be considered statistically valid.

All improved sales that were verified as market sales that did not have major renovation or have not been segregated or merged between the date of sale and the date of appraisal were included in the analysis. Sales not identified as market sales include: properties sold as a portion of a bulk portfolio sale; unknown value for personal property and business value included in sales price; sales that have had major renovations after the sale, or have been converted to another use.

Population – Parcel Summary Data

The total parcel count for specialty areas 153 and 174 is 346 parcels. There are 123 retirement homes (Area 153) in King County – 287 total number of parcels, 116 of which are condominium units. There are 56 nursing homes (Area 174) in King County – 59 total parcels. The population includes both

improved and vacant parcels. Facilities which have both retirement and nursing services are assigned to the category appropriate for the majority of units.

Specialty Area 153 – Retirement Homes

Total Population - Parcel Summary Data			
	Land	Improvements	Total
2014 Value	\$504,991,200	\$1,454,571,349	\$1,959,562,549
2015 Value	\$527,398,400	\$1,671,932,900	\$2,199,331,300
% Change	4.44%	14.94%	12.24%

Specialty Area 174 – Nursing Homes

Total Population - Parcel Summary Data			
	Land	Improvements	Total
2014 Value	\$162,159,100	\$160,353,500	\$322,512,600
2015 Value	\$171,937,100	\$169,381,700	\$341,318,800
% Change	6.03%	5.63%	5.83%

Conclusions and Recommendations

With only four sales of retirement homes (Spec 153) and one nursing home sale (Spec 174), there were insufficient sales in all of the market segments to rely on the Sales Comparison Approach in the 2015 revalue. The Income Approach is used in the final reconciliation of value because it allows for greater equalization and uniformity in the valuation of retirement facilities and nursing homes. In addition, sufficient market income data was available for the analysis.

The resulting valuation by the income approach reflects the improving income fundamentals, particularly the lower capitalization rates. The overall increase of 12.24% in Specialty Area 153 and 5.83% in Specialty Area 174 reflects the improving senior care market market in King County. The recommended values do not include the limited new construction values which are valued later.

The values recommended in this report are believed to improve uniformity, assessment level and equity. In consideration of current market conditions, it is recommended that these values be posted for the 2015 assessment year.

Analysis Process

Effective Date of Appraisal: January 1, 2015

Date of Appraisal Report: June 5, 2015

The following appraiser prepared the valuation analysis for commercial specialty areas: Specialty Area 153, Retirement Homes and Specialty Area 174, Nursing Homes.

- Nick Moody – Commercial Appraiser II

Highest & Best Use Analysis

As if Vacant: Market analysis, together with current zoning, indicate the highest and best use of the majority of the population as commercial. Any opinion not consistent with this is specifically noted in our records and considered in the valuation of the specific parcel.

As if improved: Based on neighborhood trends, both demographic and current development patterns, the existing buildings represent the highest and best use of most sites. The existing use will continue until land value, in its highest and best use, exceeds the sum of value of the entire property in its existing use and the cost to remove the improvements. The current improvements do add value to the property in most cases, and are therefore the highest and best use of the property as improved. In those properties where the property is not at its highest and best use, a nominal value of \$1,000 is assigned to the improvements and the property may be returned to the geo-appraiser.

Interim Use: In many instances, a property's highest and best use may change in the foreseeable future. For example: a tract of land at the edge of a city might not be ready for immediate development, but growth trends may suggest it should be developed in a few years. Similarly, there may be insufficient demand for office space to justify the construction of a new building at the present time, but increased demand may be expected in the future. In such situations, the immediate development of the site or conversion of the improved property to its future highest and best use is usually not financially feasible. Therefore, it is classified as interim use.

Standards and Measurement of Data Accuracy: Each sale was verified with the buyer, seller, real estate agent or tenant when possible. Current data was verified and corrected when necessary by field inspection, review of plans, marketing information, and rent rolls when available.

Special Assumptions, Departures, and Limiting Conditions

All three approaches to value were considered in this appraisal. The following departmental guidelines were considered and adhered to:

- This report intends to meet the requirements of the Uniform Standards of Professional Appraisal Practice, Standard 6.

Identification of the Specialty Areas

Specialty Area 153 Neighborhoods

Neighborhood Number	Name	Neighborhood Number	Name
Central Seattle		South Seattle	
15	Lower Queen Anne	165	Skyway
20	South Lake Union	200	Highland Park
40	Madison Park / Leschi	215	High Point
45	Queen Anne	South King County	
65	Capitol Hill East	240	Des Moines
85	First Hill	245	Burien
West Seattle		255	Sea Tac
225	Junction	270	Federal Way
230	Alki / Fautleroy	290	Auburn North
235	Admiral	300	Enumclaw / Black Diamond
North		305	Kent Valley
90	Greenwood	310	Covington / Maple Valley
95	Lake City	315	Renton
100	Northgate	320	Benson / East Hill
110	University	330	Renton Highlands
115	Wallingford	Eastside	
125	Wedgewood	340	Mercer Island
135	Leary	350	Issaquah
145	Ballard West	360	Bellevue West
150	Greenlake	365	Bellevue East
155	Phinney	370	Kirkland
385	Bothell	380	Totem Lake
400	Kenmore	425	Woodinville
415	Shoreline East	430	Redmond
420	Shoreline West	Rural King County	
		465	Snoqualmie

Specialty Area 174 Neighborhood

- Area10 – All of King County

Area Boundaries

All nursing homes and retirement facilities within King County are included.

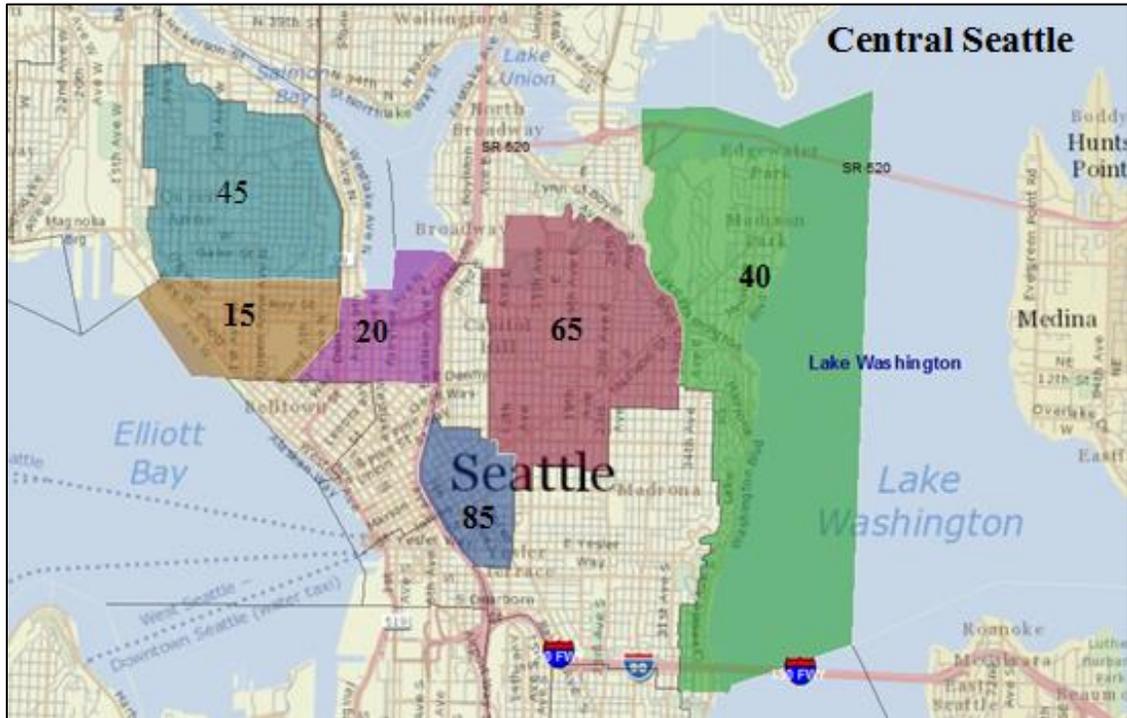
Maps

A general map of the area is included in this report. More detailed Assessor's maps are located on the seventh floor of the King County Administration Building.

Area Description

Nursing homes and retirement facilities are dispersed throughout the county. For purposes of the 2015 revaluation of the retirement home specialty, the population has been segmented into seven regions. These regions are generally described by their geographic location with the exception of nursing homes, which are described by the primary use. The following is a brief description of each specialty and market activity, if any, occurring in each area.

Central Seattle



The Central Seattle region represents 10.4% of the Specialty Area 153 population. Retirement homes located closer to downtown Seattle tend to be mid-rise to high-rise. Retirement homes located within more residential neighborhoods are low-rise to mid-rise buildings. The largest concentrations of retirement homes are located within the First Hill neighborhood in the city of Seattle. First Hill has a high concentration of health related services, which makes it an ideal location for retirement homes.



Aegis Living, a Redmond based assisted living care provider, is currently engaged in the construction of a four-story, 58 unit retirement home located at the top of Queen Anne Hill in the city of Seattle. The residence will feature one and two bedroom assisted living units and memory care residences for seniors living with Alzheimer’s. The project began in the summer of 2014 and is expected to be completed and ready for occupancy in 2015.

Aegis on Madison, owned and operated by Aegis Living was completed in 2014.

Aegis on Madison is a six-story 102-unit assisted living and memory care community with 1,445 square feet of retail space. The studio and one-bedroom units will feature full kitchens. On-site amenities include a full service dining room, fitness center, activity space and a movie theater. Aegis on Madison is located between the Capitol Hill and Madison Park neighborhoods.

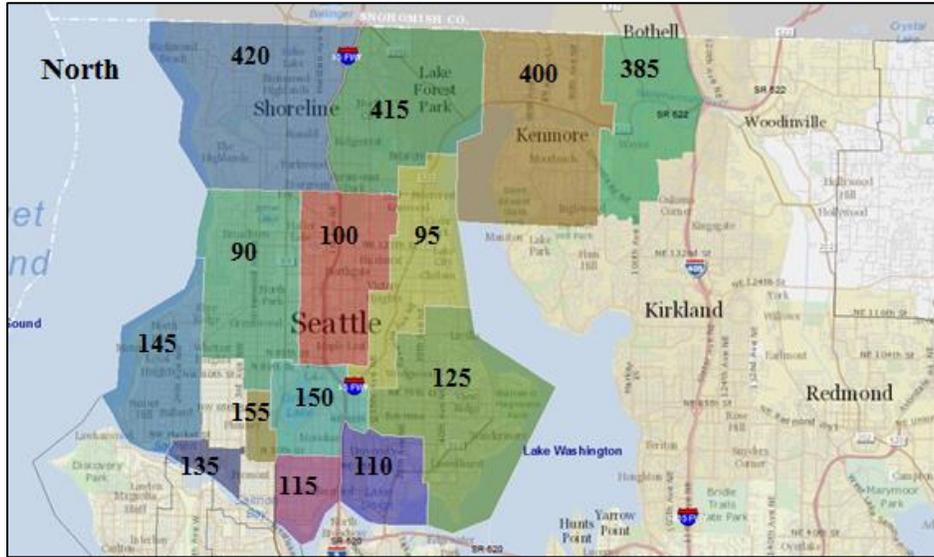
West Seattle



The West Seattle region represents 2.2% of the Specialty Area 153 population. The improvements tend to be mid-rise buildings. The West Seattle region is characterized by its walkable commercial districts and popular parks including Alki Beach. West Seattle is an ideal location for residents looking for urban

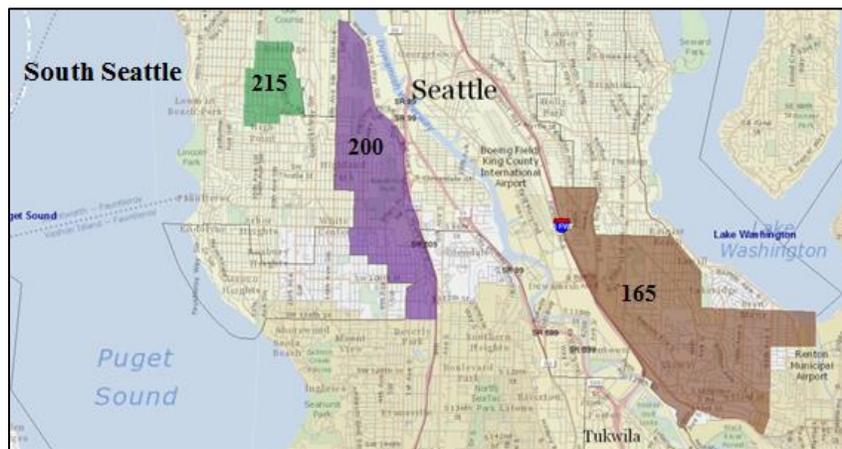
conveniences and a family oriented neighborhood. There is currently no new construction of retirement homes in the West Seattle region.

North



The North region represents 27.6% of the Specialty Area 153 population, which is equal to the South King County region. The improvements tend to be low-rise to mid-rise. The largest concentrations of retirement homes are located in the north end in the city of Seattle. The most recent project in the North region was the Aljoja Thornton Place. The Aljoja Thornton Place is a six-story 143-unit continuing care retirement center completed in 2009. There is currently no new construction of retirement homes in the North region.

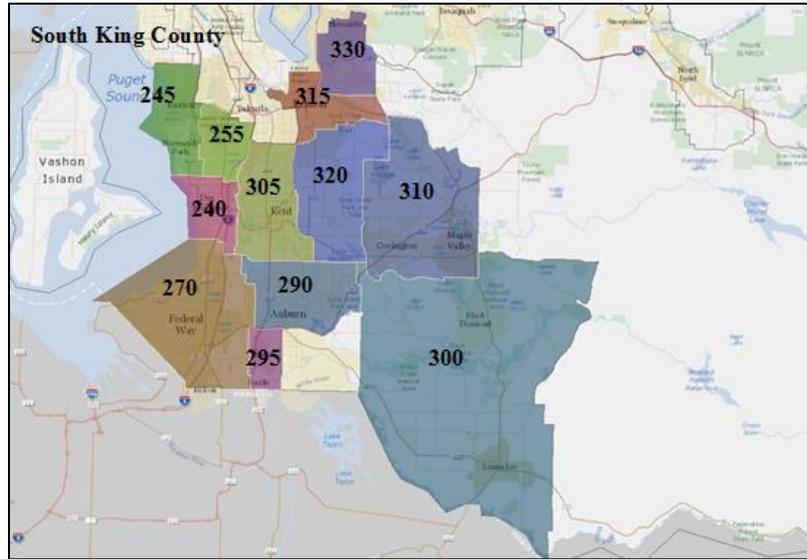
South Seattle



The South Seattle region represents 4.5% of the Specialty Area 153 population. The improvements tend to be low-rise to mid-rise. The most recent project in the South Seattle region was the Arrowhead

Gardens, an affordable senior living community. Arrowhead Gardens is a seven-story 449-unit retirement home completed in 2010. There is currently no new construction of retirement homes in the North region.

South King County



The South King County region represents 27.6% of the Specialty Area 153 population. South King County is characterized by urban and large rural areas. The improvements are comprised of low-rise to mid-rise buildings and concentrated mainly in dense urban centers. Health care amenities are primarily located within the dense urban centers.

New construction is most active in South King County region. In 2014, Wesley Homes Lea Hill in Auburn announced the addition of a 33,500 square foot skilled nursing and rehabilitation center to its existing 174 unit independent and assisted living facility. Construction is expected to be complete in 2016.



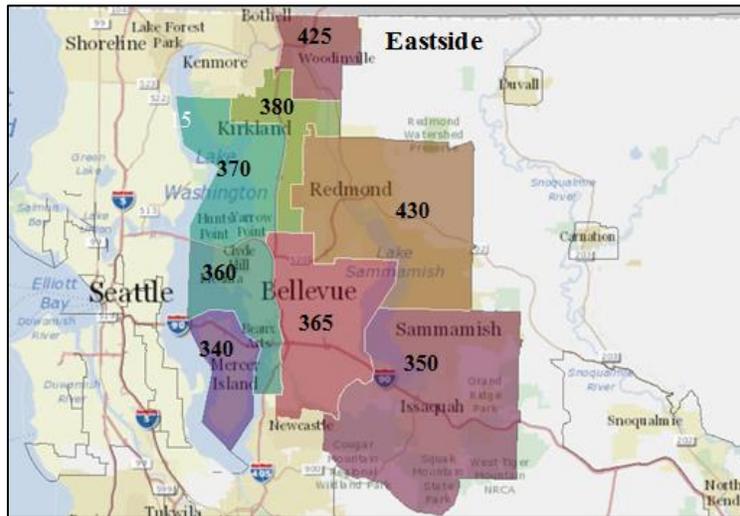
El Dorado House, an assisted living community originally built in 1975, was completely remodeled and expanded with a new addition. Construction began in 2013 with the partial demolition of the original

building. The new addition increased the unit count from 70 to 102 units and now includes studios and one and two-bedroom units. El Dorado House completed construction in late 2014.



Pacifica Senior Living purchased Stone Ridge in late 2013. At the time of purchase, Stone Ridge was unfinished and unoccupied. Construction began in 2009 and was halted in 2011 when the developer went bankrupt. Construction then restarted in 2014. When complete, the project will be known as The Meridian at Stone Creek and will include studio, one and two-bedroom apartments and detached two-bedroom cottages with garages. The Meridian at Stone Creek is expected to be complete and ready for occupancy in 2015.

Eastside



The Eastside region represents 26.9% of the Specialty Area 153 population. The improvements tend to be low-rise to mid-rise with the inclusion of one high-rise tower located in downtown Bellevue. The Eastside region is characterized by urban and suburban areas with many available commercial amenities. Health care amenities are primarily located within the dense urban centers.

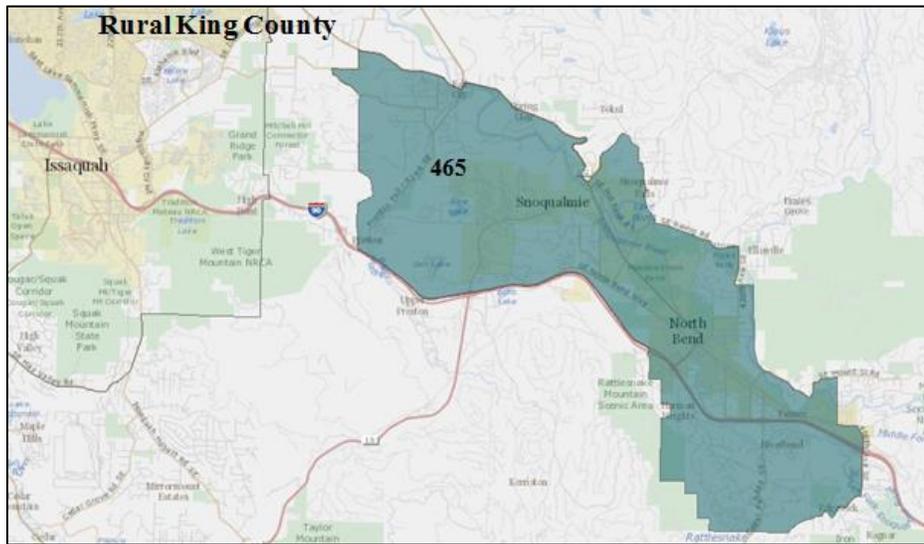


Trailside @ Emerald Heights Retirement Center

Emerald Heights Retirement Center in Redmond began the Trailside expansion in 2014. The new addition will add 43 one and two-bedroom independent living units. The Trailside expansion is expected to be complete in 2015.

In 2014, Timber Ridge at Talus in Issaquah announced their Phase II expansion. The expansion will add more units, an enhanced wellness center and an aquatic center. The new expansion is expected to be complete in 2016.

Rural King County



The Rural King County region represents 0.7% of the Specialty Area 153 population. South King County is characterized large rural areas and is located east of the more densely populated urban centers. Major health care amenities are primarily located within the dense urban centers. There is currently no new construction of retirement homes in the Rural King County region.

Retirement Facilities (153)

The three most common types of senior housing are congregate seniors housing (independent living), assisted living, and continuing care retirement communities (CCRC). In addition, some assisted living facilities have a special memory care section of the facility for persons with Alzheimer's or other forms of dementia. Full memory care units do not have kitchens and are secure to prevent the residents from wandering on their own. Regulations specify these facilities must provide qualified staff to be present at all times. Although there are no universally accepted standard definitions, retirement facilities can generally be characterized as follows:

Independent Living or Congregate senior housing is multi-family housing designed for seniors who pay for some services (e.g. housekeeping, transportation, and meals) as part of the monthly fee or rental rate, but who require little, if any, assistance with the activities of daily living. They may have some home healthcare type services (e.g. eating, transferring from a bed or chair, and bathing) provided to them by in-house staff or an outside agency. Congregate seniors housing is not regulated by the federal government, and may or may not be licensed at the state level. The units are similar to traditional apartment units and typically have full kitchens.

Assisted living residences are designed for seniors who need more assistance with the activities of daily living, but do not require continuous skilled nursing care. Assisted living units may be part of a congregate senior housing residence or a continuing care retirement community. They may be contained in a property that supports assisted living units and nursing beds, or may be in a freestanding assisted living residence. The units are similar to traditional apartment units, although they may not have full kitchens, but kitchenettes with a sink, refrigerator, and microwave.

Memory Care is a subset of Assisted Living and is designed for those with Dementia or Alzheimer's. The units will be secure and have limited or no cooking facilities.

Assisted living is still more residential than health care and basically remains a 100% private pay business. They are licensed as boarding homes in Washington and subject to more stringent state regulations than congregate seniors housing. Assisted Living and Boarding Home Reform was passed in March of 2000 to improve equitable regulations of assisted living. The rules aim to create more options and assure safety; they address medication, staff training, meal control, and residents' rights.

Boarding homes are licensed on a per-bed basis. Typically, the bed licenses are "floating" in that they can be assigned to whichever resident in the facility is utilizing the assisted living services. Thus there is not much difference between Independent Living facilities and Assisted Living facilities from a physical standpoint. The assisted living requires either more staff resources on site or contracting with others off site to provide those services.

Continuing care retirement communities are senior living complexes that provide a continuum of care including housing, healthcare, and various supportive services. Health care (e.g. nursing) services may be provided directly or through access to affiliated healthcare facilities. Fees are structured as refundable (or partially refundable) entrance fee plus a monthly fee; as equity ownership (cooperative or condominium) plus a monthly fee; or as a rental program. CCRCs are not regulated by the federal government, but are subject to state licensing and regulation in most states.

The most prevalent type of facility is one that provides both assisted and independent care. CCRCs are places where seniors can go while they are still independent and live among their peers, form new friendships and still go out and about in the community outside the campus.

The growing trend in the senior housing industry is to combine a variety of housing and services in one campus. The goal is to have residents age in one place, without the need to move off campus as their needs change. These facilities will have senior apartments with age restrictions but few services, combined with on-site meal plans for independent living, then adding varying assisted living services, and also providing a section for memory care and a skilled nursing facility. The Mirabella¹ at the corner of Westlake and Denny, and Skyline² at First Hill are examples of this concept.

In an effort to maximize the productivity of staff, some facilities, including nursing homes, are providing services to non-residents. This can complicate the valuation of the real estate because all the services are not directly related to the residents³.

Nursing Homes (174)

As our population ages, individuals needing continuing skilled nursing care leave the family setting for nursing homes. Individuals recovering from major illness or surgery may also need nursing homes on a temporary basis. Nursing facilities provide various levels of health care service on a 24-hour basis in addition to shelter, dietary, housekeeping, laundry, and social needs. Nursing facilities include intermediate, skilled, and sub-acute care. In some cases, nursing homes may be part of a CCRC. Nursing homes are often referred to as convalescent hospitals or rehabilitation facilities.

Newer nursing homes have larger bed areas, usually two-bed rooms (semi-private) or one-bed rooms (private). Older homes are more likely to have rooms containing three or more beds.

As a result of the Balanced Budget Act of 1997, a new Medicare payment system was implemented beginning July 1, 1998. It replaced the cost-based skilled nursing facility reimbursement system with prospective payment system (PPS). Skilled nursing facilities (SNF) receive payment for each day of care provided to a Medicare beneficiary. Seventy-five percent of nursing home residents are on Medicare or Medicaid.

The nursing home industry in Washington is comprised of both for-profit and nonprofit homes. The King County assessment rolls show 30% of the Nursing Home parcels as exempt or partially exempt.

Nursing homes are regulated by the Certificate-Of-Need Program (CON). The CON program is mandated by the federal government and administered by individual states. In 1971, Washington began requiring anyone wanting to build or acquire facilities to first gain state permission in the form of a certificate of need. Washington has estimated bed need to be 40 beds per 1,000 persons of age 70 and

¹ <http://www.mirabellaretirement.org/seattle/>

² <http://www.skylineatfirsthill.org/>

³ "Owner and Operators Get Creative to Boost Profits", National Real Estate Investor, http://nreionline.com/seniorshousing/owners_operators_boost_profits_1025/, downloaded 6/30/2011.

older. King County currently has 41 beds per 1,000 persons aged 70 and older.⁴ Therefore, the bed need for King County as of 2014 is determined to be met.

No new stand-alone nursing homes have been constructed in King County since 2002 and none are currently planned. Those built since then have been part of CCRCs. Healthcare properties are required to go through long procedures in demonstrating to state officials the need for additional services in the area. Other deterrents for growth include information that nursing homes are rarely built on a speculative basis, and building codes for these facilities are very stringent. Most stand-alone nursing homes in King County were constructed in the 1960's.

Regional and National Economic Conditions

Population:

Puget Sound: As of Year-End 2014, the population in the Central Puget Sound region (King, Kitsap, Pierce, and Snohomish counties) reached 3.84 million. The 2014 population level represents an increase of +3.92% from 2010 and +17.08% from 2000. Since 2000, Snohomish County experienced the greatest population increase of 22.28%, while King County had the largest increase since 2010. As of 2014, King County accounted for 52.6% of the total population within the four county region. Since 2000, King County's population grew by 280,250 or 33.80% (2.26% per year).

Current Population ⁵	2000	2010	2014	% Change 2000-2014	% Change 2010-2014
King County	1,737,000	1,931,200	2,017,250	16.13%	4.46%
Kitsap County	232,000	251,100	255,900	10.30%	1.91%
Pierce County	700,800	795,200	821,300	17.19%	3.28%
Snohomish County	606,000	713,300	741,000	22.28%	3.88%
Region Total	3,275,800	3,690,900	3,835,450	17.08%	3.92%

Population Growth Trends (Location & Demographics) ⁶			
Year	Seattle	King County	Central Puget Sound
1980	494,000	1,270,000	2,240,000
1990	516,259	1,507,305	2,748,900
2000	564,092	1,737,000	3,275,800
2010	608,660	1,931,200	3,690,900
2014	640,500	2,017,250	3,835,450

Cities & Towns: About 2,709,660 people live within the incorporated area of the Central Puget Sound region. As of 2014, incorporated cities and towns accounted for 70.6% of the total population. The changing shares reflect not only differences in population growth among locations within the region, but also annexations and new incorporations. At the top of the list of cities with the greatest percentage growth was Kirkland, Kent, and Burien, with reported population growths of 70%, 45% and 31%, respectively.

⁴ 2014 Bed Need Forecast – 70+ <http://www.doh.wa.gov/Portals/1/Documents/2300/NHBedProj70.pdf>

⁵ Puget Sound Regional Council; Puget Sound Trends, January 2015

⁶ Puget Sound Regional Council; Puget Sound Trends, January 2015; OFM (Seattle)

Top 10 Cities With Greatest Percentage Population Growth (2010 to 2014) ⁷						
Municipality	County	Census 2010	Population 2014	Change 2010-14	% Change 2010-2014	Population Annexed 2010-2014
Kirkland	King	48,787	82,590	33,803	69.3%	31,816
Burien	King	33,313	48,240	14,927	44.8%	14,292
Kent	King	92,411	121,400	28,989	31.4%	25,458
Bothell (all)	King/Snohomish	33,505	41,630	8,125	24.3%	6,789
Port Orchard	Kitsap	11,157	13,150	1,993	17.9%	943
Snoqualmie	King	10,670	12,130	1,460	13.7%	0
Gig Harbor	Pierce	7,126	7,985	859	12.1%	4
DuPont	Pierce	8,199	9,175	976	11.9%	0
Ruston	Pierce	749	830	81	10.8%	0
Bellevue	King	122,363	134,400	12,037	9.8%	5,630

The city with the greatest nominal population growth was Kirkland (33,803), followed by Seattle (31,840), Kent (28,989), Burien (14,927), and Bellevue (12,037). Except for Seattle and Auburn, the cities large growth was a result of major annexations. Like Kirkland, Kent and Burien saw extraordinary growth as a result of major annexations that incorporated a sizable population well over 10,000 people each in 2010 and 2011, respectively. Seattle and Auburn's growth was primary due from real population growth.

Top 10 Cities With Greatest Nominal Population Growth (2010 to 2014) ⁸						
Municipality	County	Census 2010	Population 2014	Nominal Change 2010-14	% Change 2010-2014	Population Annexed 2010-2014
Kirkland	King	48,787	82,590	33,803	69.3%	31,816
Seattle	King	608,660	640,500	31,840	5.2%	0
Kent	King	92,411	121,400	28,989	31.4%	25,458
Burien	King	33,313	48,240	14,927	44.8%	14,292
Bellevue	King	122,363	134,400	12,037	9.8%	5,630
Bothell (all)	King/Snohomish	33,505	41,630	8,125	24.3%	6,789
Renton	King	90,927	97,130	6,203	6.8%	757
Auburn (all)	King/Pierce	70,180	74,630	4,450	6.3%	0
Redmond	King	54,144	57,700	3,556	6.6%	149
Sammamish	King	45,780	49,260	3,480	7.6%	906

Economic Considerations:

National Economy:

Unemployment: In 2014, with a reported unemployment rate of 5.7%, down from 6.7% in 2013. New jobs continue to be added with a 12-month running average of 267,250.

Stock Market⁹: With the US economy just getting stronger, inflation is staying low, and corporate profits surging, the stock market has rebounded. In 2014, the Dow Jones Industrial Average finishing the year up 7.5%, the S&P rose 11.4%, and the tech-heavy NASDAQ soared 13.4%.

⁷ Puget Sound Regional Council; Puget Sound Trends, January 2015

⁸ Puget Sound Regional Council; Puget Sound Trends, January 2015

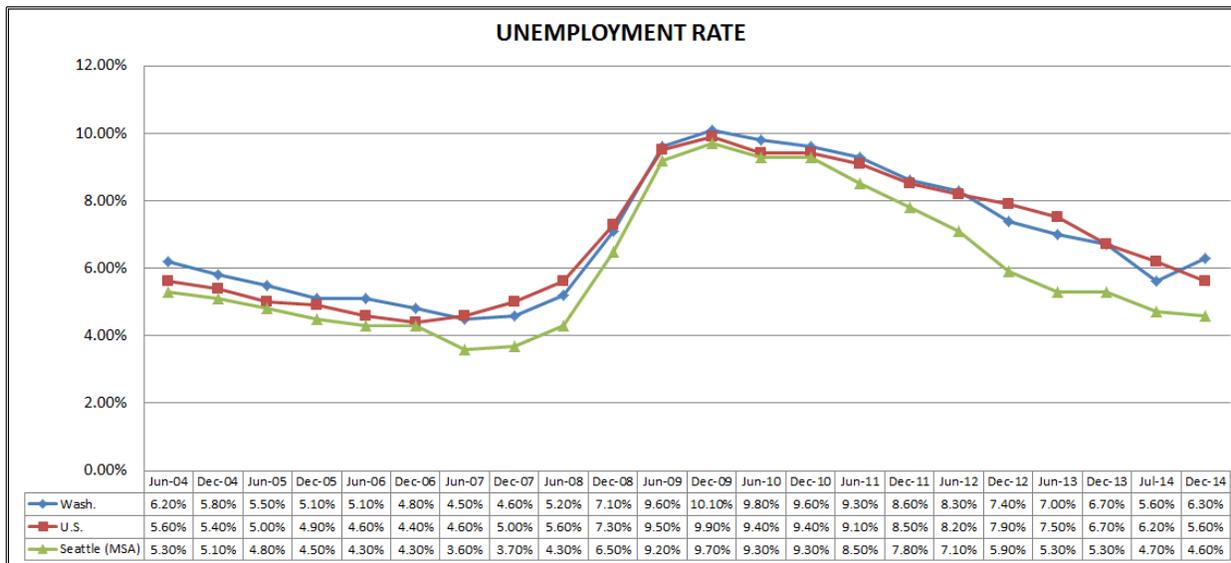
⁹ CNNMoney, December 31, 2014

Housing Starts¹⁰: Overall, the housing market has continued to improve, with the US adding 1.06 million new housing units, which represents 8.8% more than the 924,900 new homes started in 2013.

Consumer Confidence¹¹: With unemployment rates hitting pre-recession levels in addition to gas prices dropping to their lowest level in many years, consumer confidence levels have reached notable highs, helping to spur solid end-of-year growth. Midway through the second quarter of 2014, confidence levels hit 83.9% on the Consumer Board Index, the highest since January 2008. Growing steadily throughout the summer and fall, consumer confidence grew to new heights, finishing the year at 92.6%.

Puget Sound Economy:

Employment: In 2014, Washington State’s¹² year-over-year unemployment rate fell from 6.7% to 6.3%, which is .70% higher than what is reported nationally. For the Seattle MSA (Seattle-Bellevue Everett), Jones Lang LaSalle¹³ reported that unemployment decreased to 4.6% in December, marking a 2.9% increase in job growth over the past 12 months. Within King County, the overall year-over-year change in unemployment fell from 4.7% to 4.1%, while the City of Seattle experience an even lower decline from 4.4% to 3.9%.



The employment recovery is tied to the region’s diverse economy. Its strengths include aerospace, software development including internet retail and gaming, and global trade. This level is traditionally considered full employment. With a huge backlog of airplane orders, Boeing’s employment remained strong in 2014 following increased hiring in 2011. In 2011, the company won the contract for the aerial tankers, reached a labor agreement, and committed to build the next generation of 737 airplanes in Renton.

¹⁰ Forbes, “Housing Starts Hit Highest Level Since 2007”, 1/21/2015

¹¹ BDO, Consumer Business Compass, Jan. 16th, 2015

¹² Employee Security Dept. - Monthly Report

¹³ Jones Lang LaSalle, Employment Update, December 2014

In addition, a stable information-technology industry once anchored by Microsoft has evolved into one of the largest high-tech clusters in the nation with Amazon.com dramatically increasing its footprint in Seattle. Other major tech-related companies with large real estate footprints in the Seattle area are Nintendo, Expedia Inc. and F5 Networks Inc. Google and Facebook are also increasing their presence significantly in the area in order to take advantage of the large pool of tech employees. The Seattle area was recently ranked fourth for top start-up ecosystems in the world according to report by Startup Genome. The Puget Sound business climate and lifestyle, which attracts a skilled, educated workforce, has encouraged these start-ups.¹⁴ In the Seattle, metropolitan area the above average growth in tech employment has helped fill a glut in vacant office space available after the “Great Recession” and has accelerated the recovering of the office market.

International trade continues to have a strong impact on the regional economy. While foreign exports were the first sector of the economy to recover it has now slowed due to the slower world economy. Boeing with 75% of its airplanes going overseas is the region’s top foreign exporter. Besides Boeing, there are a wide list of regional businesses that provide products and services for foreign markets. These include Microsoft, Weyerhaeuser, Paccar, Russell Investments, Costco, Starbucks, Expeditors International, Perkins Coie, NBBJ, Alaska Airlines, Port of Seattle, and the University of Washington.

Retirement Facilities Market Summary

Regional: King County independent living facilities occupancy rose 20 basis points (bps) to 91.0% while assisted living facilities rose 50 bps to 88.9% compared with 2013. The average rent for an independent living unit is \$3,197 per month. Year over year rent growth was 1.9% for independent living units. The average monthly rent for an assisted living unit is \$3,965 and memory care units rent for an average of \$6,282 per month. Year over year rent growth was 0.8% for assisted living units¹⁵. Yearly inventory shrunk by 89 units for independent living facilities due in part to the sale of three independent living facilities and subsequent conversion to apartments. Yearly inventory grew by 168 units for assisted living units in order to meet growing demand.

In King County, occupancy for units in CCRCs is at 90.2% for units with an entrance fee and 95.7% for monthly rental units¹⁶. The average entrance fee for studio units is \$76,731; \$211,303 for 1 bedroom units; \$434,851 for 2 bedroom units; \$247,986 for 3+ bedroom units. The range for rental units is \$1,400 - \$5,600 per month¹⁷. King County households with seniors aged 75 and older is projected to grow by 2.8% annually which will increase demand for the construction of new CCRC’s.

National: Occupancy and rents should improve this year as seniors unlock equity in homes and move into Independent Living units. Occupancy is expected to rise 50 bps to 92.3% by year-end 2015 while average rents increase 3.1% percent to \$2,923 per month. New construction will limit improvements in the Assisted Living sector this year, resulting in a 10 bps rise in occupancy to 91.4%. Strong occupancy and high rents commanded by new properties will support a 2.3% gain in average rents this year to \$4,268 per month. Current demographic trends are supporting CCRCs across the country. Over the next five

¹⁴ CBRE Q4 2012 Puget Sound Area Office Market view

¹⁵ NIC MAP Metro Report 4th Quarter 2014, Seattle, WA, Pg. 11

¹⁶ NIC MAP Metro Report 4th Quarter 2014, Seattle, WA Pg. 11

¹⁷ NIC MAP Metro Report 4th Quarter 2014, Seattle, WA, Pg. 10

years, the cohort of those 65 to 74 is expected to grow by 23% as baby boomers age. The group of those 75 to 84 will jump 11% over the next five years increasing the demand for CCRC's. Construction remains relatively stable with 2,900 units underway across the nation.

Nursing Homes Market Summary

Regional: In 4Q14, occupancy in King, Pierce and Snohomish counties declined 20 bps to 89% from 89.2% last quarter, which was attributable to inventory decline of 3 units and absorption of -20 units during the quarter. There were 71 stabilized properties reporting occupancy, with 6 reporting stabilized occupancy of 80% or less. NIC MAP data shows 89.8% occupancy for nursing homes in King County. Average daily rent per bed is \$313. Year over year rent growth was 3.2%¹⁸, a 40 bps increase.

National: Per NIC MAP, nursing home inventory contracted by 1,800 units during the past year as obsolete facilities were closed. Only 6,800 beds are under construction in 82 facilities, the lowest level since mid-2011. Inventory is anticipated to decrease again this year. Occupancy at nursing homes remained flat during the second half of 2014 at 88.2%, though the rate ticked up 20 basis points last year. San Jose boasts the highest SN occupancy at 93.3 percent in the fourth quarter, up 10 basis points over the last 12 months. The pace of rent increases is modest, though quarterly gains continue to be made in the sector. At the end of 2014, average rents were \$284 per bed, per day, up 2.6% in the last year. Rent growth matched the gains achieved during the previous year¹⁹.

Issues in Valuation

The challenge of valuing retirement and nursing facilities for ad valorem tax assessments is to separate the real estate value from that of the business. In most instances, these facilities sell as a total business operation without separating out the intangible personal property value. Published income, expense, and capitalization rates relate to the total business entity. Nearly all appraisals for these facilities appraise the total business entity, with the breakdown of land, improvements, tangible and intangible (or business) values being only incidental to the total value estimate.

The Appraisal Institute text, *The Appraisal of Nursing Homes*,²⁰ provides insight into the challenges of appraising retirement and nursing facilities. The methods for allocating the going concern value are the subject of on-going debate. Generally, appraisers will apply a top-down approach to allocation, whereby the going-concern value is developed first and then an allocation is made between the real estate and the tangible and intangible personal property assets. The allocation process should start with the "best" known value(s). The following are some allocation techniques considered:

- Use of the cost approach
- Capitalization of entrepreneurial or proprietary profits
- Use of ratios of market rent to operational earnings
- The cost of obtaining initial operating stability plus the value of the license or certificate of need

¹⁸ NIC MAP Metro Report 4th Quarter 2014, Seattle, WA, Pg. 11

¹⁹ Marcus & Millichap Seniors Housing Report, 1st Half 2015

²⁰ James K. Tellatin, MAI, *The Appraising of Nursing Facilities*, Appraisal Institute, 2009, p. 324.

- Implied value from Medicaid capital reimbursements
- The proxy value of pure real estate assets sales such as office or apartment properties that have locations and building qualities similar to the subject

Because of this practice involving sales of the entire business, only sales that have been verified as reflecting real estate value only, and those in which the business value can be determined with some confidence, are given substantial weight. Retirement Facilities are appraised on a per unit basis, similar to apartments, while nursing homes are considered on a per-bed basis in relation to what operators actually pay in rent to lease a facility. Both types can be alternatively valued on a per square foot basis.

Current Trends

The specialized nature of these properties tends to insulate them from the rest of the real estate market. In fact, retirement communities have been anticipating growth as life spans are increasing. However, some of these individuals are postponing retirement because of the current economic conditions; others are not yet ready for a retirement community setting. As they age, the demand will increase in stages, first for independent living, then for assisted living at increasing levels, and finally for skilled nursing care.

Those entering a skilled nursing facility do so as a result of medical needs rather than a lifestyle choice. Those moving to memory care assisted living also do so as a result of medical need. Moving to a retirement facility with independent living or assisted living is more a matter of choice and economics. With many seniors experiencing a decline in their home equity and investment portfolio, moving into a retirement facility can be delayed. One alternative is to move in with children or have children move back into their parents' home to provide the social needs and assistance with tasks of daily living. The rise of reverse mortgages has also allowed seniors to stay longer in their homes. Those living alone in their homes also have access to in-home health care assistance, which may be more economical than moving to an assisted living facility.

The Affordable Care Act contains a number of provisions affecting the nursing home industry. The measures are primarily focused on improving regulation, transparency, and care for seniors. For example, nursing homes are now required to have three years of reports from surveys, certifications, and complaint investigations available for any individual upon request. The Nursing Home Compare website – the government's primary source for comparing facilities – will now provide more detailed information on nursing home staffing levels, complaints, and criminal violations. Nursing home aides are now required to receive training in dementia management and patient abuse prevention. Finally, the Elder Justice Act will provide federal funding to states in order to develop strategies to combat elder abuse.

In the spring of 2012, the Department of Health and Human Services announced the implementation of the Independence at Home Demonstration Program. "The demonstration encourages primary care practices to provide home-based care to chronically ill Medicare patients."²¹ The program will award incentive payments to healthcare providers who succeed in reducing Medicare expenditures and meet designated quality measures. Home and community based care is highly regarded due to the level of personal care provided to patients and the cost savings. "The cost of staying at a nursing home ranges

²¹ "HHS announces new Affordable Care Act options for community-based care."
<http://www.hhs.gov/news/press/2012pres/04/20120426a.html>

from about \$40,000 to \$85,000 a year, according to a recent report by John Hancock Financial Services Inc., an insurance and financial services company. The average cost of a home health aide, on the other hand, is about \$37,000 a year.”²²

Scope of Data

Physical Inspection Identification: For the 2015 assessment year, as required by WAC 458-07-0154 (A), one sixth of the population was physically inspected. An exterior observation of the properties was made to verify the accuracy and completeness of property characteristic data. The inspected properties are listed in the Addenda and shown on the included map. Other properties were also inspected as noted in the Assessor’s records for purposes of sales or data verification.

Land Value: The respective geographic appraiser valued the land. A list of vacant sales used and those considered not representative of market are included in the geographic appraiser’s reports. The individual Commercial Area Reports are incorporated by reference in this report, together with their validity as an extraordinary assumption.

Improved Value: Sales information is obtained from excise tax affidavits and reviewed initially by the Accounting Division, Sales Identification Section. Information is analyzed and investigated by the appraiser in the process of revaluation. All sales considered were verified, if possible, by calling either the purchaser or seller, inquiring in the field or calling the real estate agent. Characteristic data is verified for all sales if possible. Sales are listed in the “Sales Used” and “Sales Not Used” sections of this report. Additional information resides on the Assessor’s website.

The total parcel values were reconciled from sales comparison approach, cost approach, the income capitalization approach, and the application of the apartment model. Additional attention was given to those parcels when any increase in total assessed value above 15% or any decrease of more than 10% was indicated. The total value for the parcel or economic unit was selected and then the land value deducted to arrive at the improvement value.

Sales Comparison Approach

It is difficult to make direct sale comparisons as nursing homes and retirement facilities are designed to fit a particular location, market niche, level of care, and method of operation. These unique traits make substitution difficult. Sales often require major adjustments that are based on subjective analysis due to lack of empirical comparable data. Many times these properties sell with long term management contracts in place. Retirement and nursing homes are often purchased as part of a multi-property portfolio sale. Portfolio sales may include properties located throughout the region or nationwide making the true sales price difficult to determine. Sales that fail to distinguish the income attributable to the business from that attributable to the real estate are not relied upon.

The scarcity of reliable data – one nursing homes and only four retirement facilities have sold since 2012 – and the difficulty in relating sales to a meaningful unit of comparison for valuation, makes the direct

²² “Helping Seniors Live at Home Longer.” <http://articles.latimes.com/2011/jun/19/health/la-he-long-term-care-20110612>

sales comparison approach, at best, a rough gauge of value. Sales provide the upper bracket of value and are generally used to cross check the other two approaches.

A brief summary of the five market transactions is provided below:

Overlake Terrace Assisted Living

067310-0011: Overlake Terrace Assisted Living sold on 1/09/2013 for \$21,850,000, or \$139,172/unit. The property is located in Redmond at the intersection of 152nd Avenue Northeast and Northeast 31st Street. Sales price was negotiated and purchased by a property management trust. The sales price includes undisclosed value for the existing business. Overlake Terrace was 85% occupied at time of purchase. The property was then leased to Stellar Senior Living for 15 years with the option to renew. Overlake Terrace was originally offered as part of a portfolio of 12 properties.



Aegis Living at Marymoor

555630-0005: Aegis Living at Marymoor sold on 1/17/2013 for \$4,260,680, or \$106,517/unit. The property is located in Redmond at the intersection of West Lake Sammamish Parkway Northeast and Northeast Bellevue-Redmond Road. The property was vacant at the time of purchase. The sales price represents the value of the real estate only and does not include consideration for the existing business or personal property. The new owners have completely remodeled the property including all units and common areas.



Redmond Heights Senior Living

022505-9157: Redmond Heights Senior Living sold on 5/01/2013 for \$6,567,526, or \$65,675/unit. The property is located at the intersection of Willows Road Northeast and Northeast Redmond Way. The sales price included undisclosed business value. The buyer will continue operations as a retirement home.



Redmond Care and Rehabilitation Center

112505-9084: Redmond Care and Rehabilitation Center sold on 5/01/2013 for \$4,335,659, or \$31,191/unit. The property is located at the intersection of Willows Road Northeast and Northeast Redmond Way. The sales price included undisclosed business value. The buyer will continue operations as a nursing home.

Redmond Heights and Redmond Care and Rehabilitation Center were purchased by the same buyer.



Madison House Independent and Assisted Living

692840-0070- Madison House Independent and Assisted Living sold on March 3, 2014 for \$12,500,000, or \$85,616/unit. The property is located in the Totem Lake neighborhood in the city of Kirkland. The total sales price was \$16,600,000 which includes business value and personal property. The business value and personal property accounted for \$4,100,000 of the sales price. The adjusted sales price, which represents real estate value only, is \$12,500,000, or \$85,616/unit.



Cost Approach

The Marshall & Swift Valuation modeling system which is built into the Real Property Application is calibrated to the region and the Seattle area. Depreciation was based on studies done by Marshall & Swift Valuation Service. The Marshall & Swift cost calculations are automatically calibrated to the data in the Real Property Application.

New construction was generally valued using the cost approach from the computerized valuation model supplied by Marshall & Swift and adapted by the Department of Assessments. Traditionally, for Retirement Facilities and Skilled Nursing Facilities, the cost approach has been considered the best method for extracting the value of the building from the total business entity's value.

The limitations of the cost approach in valuing older improvements were recognized. Depreciation other than for age was also considered in applying weight to the cost approach. Functional depreciation diminishes value as older buildings do not conform to current standards. Economic depreciation diminishes the building value as the land value increases and the highest and best use of the land becomes redevelopment. Market conditions can also impact economic depreciation in the cost approach; for example, since few skilled nursing facilities have been built recently outside of retirement community complexes, the cost of a stand-alone skilled nursing facility may not be the best basis for value.

Effective year, rather than year built, is used to calculate depreciation in the cost approach. The effective year reflects upgrades and remodeling after original construction and considers the remaining economic life of the improvements. The economic age-life method was utilized in calculating depreciation. For this technique, effective age is divided by the total economic life of the improvements; the product is then multiplied by the replacement cost in order to arrive at an obsolescence deduction. This method covers all forms of depreciation (functional, physical, and external).

Income Approach

Retirement facilities are considered to be apartments that provide extra services. While the physical amenities may differ from what is typical to an apartment house, their utility is at least as great, and is considered equal in this analysis. Quoted rates from retirement facilities tend to include services which cannot be considered in valuing the real estate.

With the addition of unit breakdowns in the database for the Retirement Facilities, the Apartment Model developed for the revalue of apartments (Specialty 100) was adapted to reflect the value of the apartment use for Retirement Facilities. The Apartment Model includes two income approaches (gross income multiplier and direct capitalization), the cost approach, and two sales comparison approaches (multiple regression and direct sales comparison). The Apartment Report is incorporated by reference in this report, together with its validity as an extraordinary assumption. Comparable apartment sales were also cited for all retirement facilities.

Nursing home values are based on actual lease rates from nursing facilities, medical clinics and skilled nursing facilities. These are usually long term leases (10-20 years) and net to the owner. The lessee pays all or nearly all expenses (the income parameters are summarized on the following table).

Specialty Area 174 Income Parameters

SECTION USES	Typical Annual Rent \$/SF	Vac./Coll. Loss %	Expense Rate %	Overall Cap Rate Range
313 Convalescent Hospital 330 Home for the elderly 348 Residence 352 MULTIPLE RESIDENCE (LOW RISE) 424 Group Home 451 MULTIPLE RESIDENCE (SR. CITIZEN) 589 Multiple Residence Assisted Living 710 Retirement Community Complex	\$8.00 to \$23.00	7.00%	30% to 35%	7.00% to 9.00%
302 Auditorium 309 CHURCH 311 CLUBHOUSE 336 Laundromat 350 Restaurant, Table Service 353 RETAIL STORE 380 Theatre, Cinema 418 HEALTH CLUB 426 DAY CARE CENTER 483 FITNESS CENTER 530 CAFETERIA 761 MEZZANINES-OFFICE	\$5.50 to \$20.00	10.00%	10.00%	7.25% to 9.00%
344 OFFICE BUILDING 840 Mixed-use Office	\$5.50 to \$20.00	10.00%	15.00%	7.25% to 10.00%
326 GARAGE, STORAGE 345 PARKING STRUCTURE 388 UNDERGROUND PARKING STRUCTURE 470 Equipment Shop 702 Basement, Semi-finished 703 Basement, Unfinished 706 Basement parking 708 Basement storage	\$5.40 to \$7.00	7.00%	10.00%	7.00% to 11.00%

Reconciliation

In arriving at a final value, each parcel was individually reviewed. For nursing homes, most weight was given to the income approach. The apartment model was not used for nursing homes. For retirement facilities, the apartment model was used, with most weight given to the income approach after considering the following value indications:

- Recent subject sales per RCW 84.40.030
- Previous Board of Equalization and State Board of Tax Appeals decisions
- The previous assessed value
- The income capitalization approach from the apartment model
- Comparable sales of apartments with the apartment model adjustments
- The cost approach
- The income approach for retirement facilities (which was given less weight)

Model Validation

Total Value Conclusions, Recommendations, and Validation

Appraiser judgment prevails in all decisions regarding individual parcel valuation. The assessed value is selected based on general and specific data pertaining to the parcel, neighborhood, and the market. The appraiser determines which available value estimate is appropriate and may adjust for particular characteristics and conditions as they occur. Uniformity and equity are both improved over the previous year and in consideration of current market conditions, it is recommend that these values be posted for the 2015 assessment year.

The 2015 valuation reflects the improving market dynamics of the senior care market. The housing market is a bright spot for the industry. After the housing downturn, many seniors remained in their homes rather than liquidate the largest portion of their retirement nest egg at rock bottom prices. As the market recovered, robust appreciation supported a longer hold period for seniors to build equity. Now that some normalcy has returned to the housing market, seniors are financially and psychologically in a position to transition to some form of seniors housing.

In the independent living arena, intense demand for apartments is spilling into the sector as buyers outnumber sellers by a wide margin. The added spread between cap rates and interest rates for these properties has been a strong selling point for investors. Assisted living facilities, which typically do not receive the same level of interest from traditional multi-family buyers, are receiving a wave of new capital from REITs expanding in the sector. Nationally, approximately \$30 billion in non-traded REIT funds could enter the seniors housing market this year, with a significant share targeted at private-pay assisted living facilities.

The current economic conditions have resulted in higher valuations for most of the retirement homes (153) in King County. Current economic conditions indicate flat or minor changes in value for nursing homes (174) in King County.

Application of these recommended values for the 2015 assessment year results in a total change from the 2014 assessments of 12.24% in specialty area 153 and 5.83% in specialty area 174. The recommended values do not include the limited new construction values which is added later (the new construction valuation date is July 31st, 2015).

Property Type	Change in Total Assessed Value			
	2014 Total Value	2015 Total Value	\$ Change	% Change
Retirement Facilities (153)	\$1,959,562,549	\$2,199,331,300	\$239,768,751	12.24%
Nursing Homes (174)	\$322,512,600	\$341,318,800	\$18,806,200	5.83%

USPAP Compliance

Client and Intended Use of the Appraisal:

This mass appraisal report is intended for use by the public, King County Assessor and other agencies or departments administering or confirming ad valorem property taxes. Use of this report by others for other purposes is not intended by the appraiser. The use of this appraisal, analyses and conclusions is limited to the administration of ad valorem property taxes in accordance with Washington State law. As such it is written in concise form to minimize paperwork. The assessor intends that this report conform to the Uniform Standards of Professional Appraisal Practice (USPAP) requirements for a mass appraisal report as stated in USPAP SR 6-8. To fully understand this report the reader may need to refer to the Assessor's Property Record Files, Assessors Real Property Data Base, separate studies, Assessor's Procedures, Assessor's field maps, Revalue Plan and the statutes.

The purpose of this report is to explain and document the methods, data and analysis used in the revaluation of King County. King County is on a six year physical inspection cycle with annual statistical updates. The revaluation plan is approved by Washington State Department of Revenue. The Revaluation Plan is subject to their periodic review.

Definition and date of value estimate:

Market Value

The basis of all assessments is the true and fair value of property. True and fair value means market value (Spokane etc. R. Company v. Spokane County, 75 Wash. 72 (1913); Mason County Overtaxed, Inc. v. Mason County, 62 Wn. 2d (1963); AGO 57-58, No. 2, 1/8/57; AGO 65-66, No. 65, 12/31/65).

The true and fair value of a property in money for property tax valuation purposes is its "market value" or amount of money a buyer willing but not obligated to buy would pay for it to a seller willing but not obligated to sell. In arriving at a determination of such value, the assessing officer can consider only those factors which can within reason be said to affect the price in negotiations between a willing purchaser and a willing seller, and he must consider all of such factors. (AGO 65,66, No. 65, 12/31/65)

Retrospective market values are reported herein because the date of the report is subsequent to the effective date of valuation. The analysis reflects market conditions that existed on the effective date of appraisal.

Highest and Best Use

RCW 84.40.030

All property shall be valued at one hundred percent of its true and fair value in money and assessed on the same basis unless specifically provided otherwise by law.

An assessment may not be determined by a method that assumes a land usage or highest and best use not permitted, for that property being appraised, under existing zoning or land use planning ordinances or statutes or other government restrictions.

WAC 458-07-030 (3) True and fair value -- Highest and best use.

Unless specifically provided otherwise by statute, all property shall be valued on the basis of its highest and best use for assessment purposes. Highest and best use is the most profitable, likely use to which a property can be put. It is the use which will yield the highest return on the owner's investment. Any reasonable use to which the property may be put may be taken into consideration and if it is peculiarly adapted to some particular use, that fact may be taken into consideration. Uses that are within the realm of possibility, but not reasonably probable of occurrence, shall not be considered in valuing property at its highest and best use.

If a property is particularly adapted to some particular use this fact may be taken into consideration in estimating the highest and best use. (Sammish Gun Club v. Skagit County, 118 Wash. 578 (1922))

The present use of the property may constitute its highest and best use. The appraiser shall, however, consider the uses to which similar property similarly located is being put. (Finch v. Grays Harbor County, 121 Wash. 486 (1922))

The fact that the owner of the property chooses to use it for less productive purposes than similar land is being used shall be ignored in the highest and best use estimate. (Sammish Gun Club v. Skagit County, 118 Wash. 578 (1922))

Where land has been classified or zoned as to its use, the county assessor may consider this fact, but he shall not be bound to such zoning in exercising his judgment as to the highest and best use of the property. (AGO 63-64, No. 107, 6/6/64)

Date of Value Estimate

RCW 84.36.005

All property now existing, or that is hereafter created or brought into this state, shall be subject to assessment and taxation for state, county, and other taxing district purposes, upon equalized valuations thereof, fixed with reference thereto on the first day of January at twelve o'clock meridian in each year, excepting such as is exempted from taxation by law.

RCW 36.21.080

The county assessor is authorized to place any property that is increased in value due to construction or alteration for which a building permit was issued, or should have been issued, under chapter 19.27, 19.27A, or 19.28 RCW or other laws providing for building permits on the assessment rolls for the purposes of tax levy up to August 31st of each year. The assessed valuation of the property shall be considered as of July 31st of that year.

Reference should be made to the property card or computer file as to when each property was valued. Sales consummating before and after the appraisal date may be used and are analyzed as to their indication of value at the date of valuation. If market conditions have changed then the appraisal will state a logical cutoff date after which no market date is used as an indicator of value.

Property Rights Appraised: Fee Simple

Wash Constitution Article 7 § 1 Taxation:

All taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax and shall be levied and collected for public purposes only. The word "property" as used herein shall mean and include everything, whether tangible or intangible, subject to ownership. All real estate shall constitute one class.

Trimble v. Seattle, 231 U.S. 683, 689, 58 L. Ed. 435, 34 S. Ct. 218 (1914)

...the entire [fee] estate is to be assessed and taxed as a unit...

Folsom v. Spokane County, 111 Wn. 2d 256 (1988)

...the ultimate appraisal should endeavor to arrive at the fair market value of the property as if it were an unencumbered fee...

The Dictionary of Real Estate Appraisal, 3rd Addition, Appraisal Institute.

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

Assumptions and Limiting Conditions:

1. No opinion as to title is rendered. Data on ownership and legal description were obtained from public records. Title is assumed to be marketable and free and clear of all liens and encumbrances, easements and restrictions unless shown on maps or property record files. The property is appraised assuming it to be under responsible ownership and competent management and available for its highest and best use.
2. No engineering survey has been made by the appraiser. Except as specifically stated, data relative to size and area were taken from sources considered reliable, and no encroachment of real property improvements is assumed to exist.
3. No responsibility for hidden defects or conformity to specific governmental requirements, such as fire, building and safety, earthquake, or occupancy codes, can be assumed without provision of specific professional or governmental inspections.
4. Rental areas herein discussed have been calculated in accord with generally accepted industry standards.
5. The projections included in this report are utilized to assist in the valuation process and are based on current market conditions and anticipated short term supply demand factors. Therefore, the projections are subject to changes in future conditions that cannot be accurately predicted by the appraiser and could affect the future income or value projections.
6. The property is assumed uncontaminated unless the owner comes forward to the Assessor and provides other information.
7. The appraiser is not qualified to detect the existence of potentially hazardous material which may or may not be present on or near the property. The existence of such substances may have an effect on the value of the property. No consideration has been given in this analysis to any potential diminution in value should such hazardous materials be found (unless specifically

noted). We urge the taxpayer to retain an expert in the field and submit data affecting value to the assessor.

8. No opinion is intended to be expressed for legal matters or that would require specialized investigation or knowledge beyond that ordinarily employed by real estate appraisers, although such matters may be discussed in the report.
9. Maps, plats and exhibits included herein are for illustration only, as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose.
10. The appraisal is the valuation of the fee simple interest. Unless shown on the Assessor's parcel maps, easements adversely affecting property value were not considered.
11. An attempt to segregate personal property from the real estate in this appraisal has been made.
12. Items which are considered to be "typical finish" and generally included in a real property transfer, but are legally considered leasehold improvements are included in the valuation unless otherwise noted.
13. The movable equipment and/or fixtures have not been appraised as part of the real estate. The identifiable permanently fixed equipment has been appraised in accordance with RCW 84.04.090 and WAC 458-12-010.
14. I have considered the effect of value of those anticipated public and private improvements of which I have common knowledge. I can make no special effort to contact the various jurisdictions to determine the extent of their public improvements.
15. Exterior inspections were made of all properties in the physical inspection areas (outlined in the body of the report) however; due to lack of access and time few received interior inspections.

Scope of Work Performed:

Research and analyses performed are identified in the body of the revaluation report. The assessor has no access to title reports and other documents. Because of legal limitations we did not research such items as easements, restrictions, encumbrances, leases, reservations, covenants, contracts, declarations and special assessments. Disclosure of interior home features and, actual income and expenses by property owners is not a requirement by law therefore attempts to obtain and analyze this information are not always successful. The mass appraisal performed must be completed in the time limits indicated in the Revaluation Plan and as budgeted. The scope of work performed and disclosure of research and analyses not performed are identified throughout the body of the report.

CERTIFICATION:

I certify that, to the best of my knowledge and belief:

- *The statements of fact contained in this report are true and correct*
- *The report analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.*
- *I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.*
- *I have no bias with respect to the property that is the subject of this report or to the parties involved.*
- *My engagement in this assignment was not contingent upon developing or reporting predetermined results.*
- *My compensation for completing this assignment is not contingent upon the development or reporting of predetermined value or direction in value that favors the cause of the client, the*

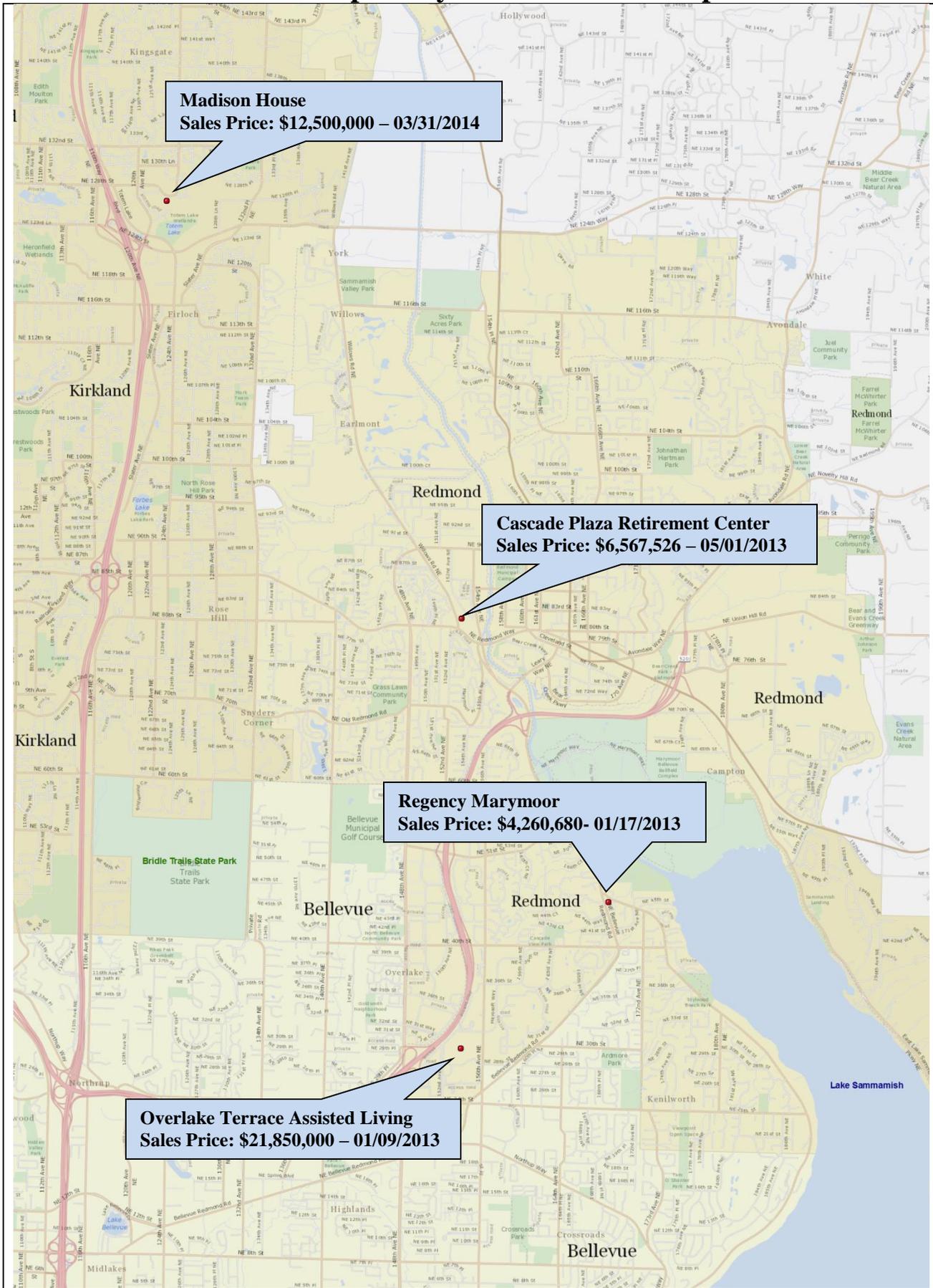
amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

- *My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.*
- *The area(s) physically inspected for purposes of this revaluation are outlined in the body of this report.*
- *The individuals listed below were part of the “appraisal team” and provided significant real property appraisal assistance to the person signing this certification. Any services regarding the subject area performed by the appraiser within the prior three years, as an appraiser or in any other capacity is listed adjacent their name.*
- *Any services regarding the subject area performed by me within the prior three years, as an appraiser or in any other capacity is listed below*
Appeal Response Preparation
Maintenance

Nick Moody, Commercial Appraiser II

Date

Specialty Area 153 Sales Map



Madison House
Sales Price: \$12,500,000 – 03/31/2014

Cascade Plaza Retirement Center
Sales Price: \$6,567,526 – 05/01/2013

Regency Marymoor
Sales Price: \$4,260,680 - 01/17/2013

Overlake Terrace Assisted Living
Sales Price: \$21,850,000 – 01/09/2013

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King County
Assessments
7/23/15

Improvement Sales for Area 153 with Sales Used

06/02/2015

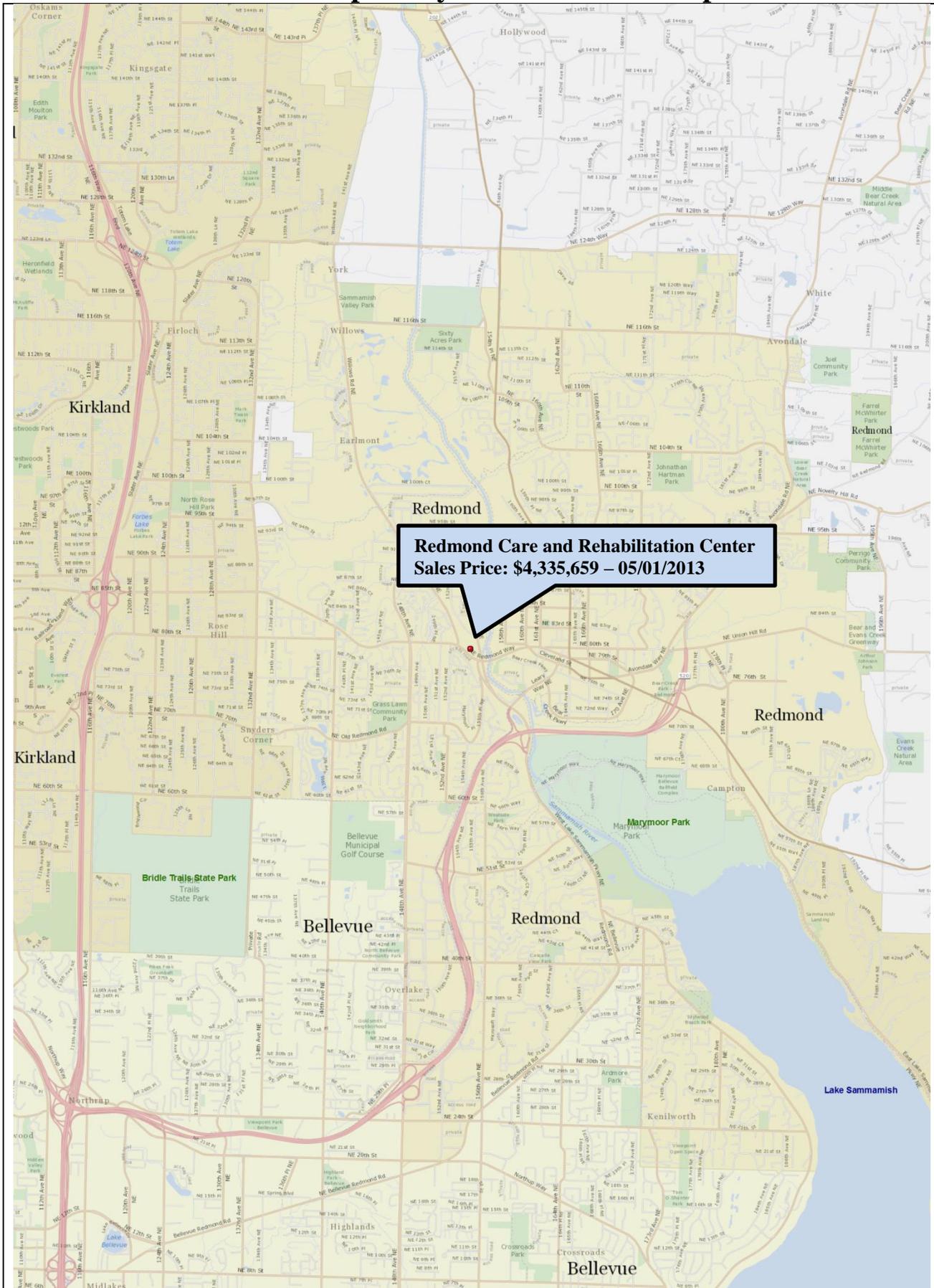
Area	Nbhd	Major	Minor	Total NRA	E #	Sale Price	Sale Date	SP / NRA	Property Name	Zone	Par. Ct.	Ver. Code	Remarks
153	010	022505	9157	64,340	2603039	\$6,567,526	05/01/13	\$102.08	CASCADE PLAZA RETIREMENT CE	R30	1	Y	
153	010	067310	0011	110,000	2583993	\$21,850,000	01/09/13	\$198.64	OVERLAKE TERRACE ASSISTED L	OV1	1	Y	
153	010	555630	0005	44,563	2586242	\$4,260,680	01/17/13	\$95.61	REGENCY MARYMOOR	R4	1	Y	
153	010	692840	0070	107,128	2659955	\$12,500,000	03/31/14	\$116.68	MADISON HOUSE	PR 1.8	1	Y	

Improvement Sales for Area 153 with Sales not Used

06/02/2015

Area	Nbhd	Major	Minor	Total NRA	E #	Sale Price	Sale Date	SP / NRA	Property Name	Zone	Par. Ct.	Ver. Code	Remarks
153	010	000100	0097	81,231	2668286	\$3,750,000	05/16/14	\$46.16	PARKSIDE WEST RETIREMENT CC	C3	1	7	Questionable per sales identificatio
153	010	011410	0545	61,245	2574245	\$20,765,000	10/31/12	\$339.05	SPRING ESTATES SENIOR LIVING	DR	1	1	Personal property included
153	010	102505	9001	42,952	2646804	\$3,121,843	12/16/13	\$72.68	PETERS CREEK Retirement and Ass	R5	1	1	Personal property included
153	010	192205	9042	88,398	2556736	\$9,650,000	07/31/12	\$109.17	FARRINGTON COURT	MR-H	1	59	Bulk portfolio sale
153	010	197820	0250	539,758	2602985	\$100,000	05/01/13	\$0.19	HORIZON HOUSE	HR-PUD	1	7	Questionable per sales identificatio
153	010	262505	9224	68,520	2695292	\$8,025,000	10/10/14	\$117.12	CROSSROADS RETIREMENT CTR	R-30	1	13	Bankruptcy - receiver or trustee
153	010	436820	0010	154,886	2647106	\$8,600,000	12/19/13	\$55.52	STONE RIDGE	PD	3	61	Financial institution resale
153	010	509440	0025	66,236	2652471	\$21,839,600	02/01/14	\$329.72	AUBURN MEADOWS	R10	1	59	Bulk portfolio sale
153	010	545330	0020	91,632	2647733	\$18,333,671	12/23/13	\$200.08	GARDEN CLUB, THE	R-20	1	59	Bulk portfolio sale

Specialty Area 174 Sales Map



Redmond Care and Rehabilitation Center
Sales Price: \$4,335,659 – 05/01/2013

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Improvement Sales for Area 174 with Sales Used

06/03/2015

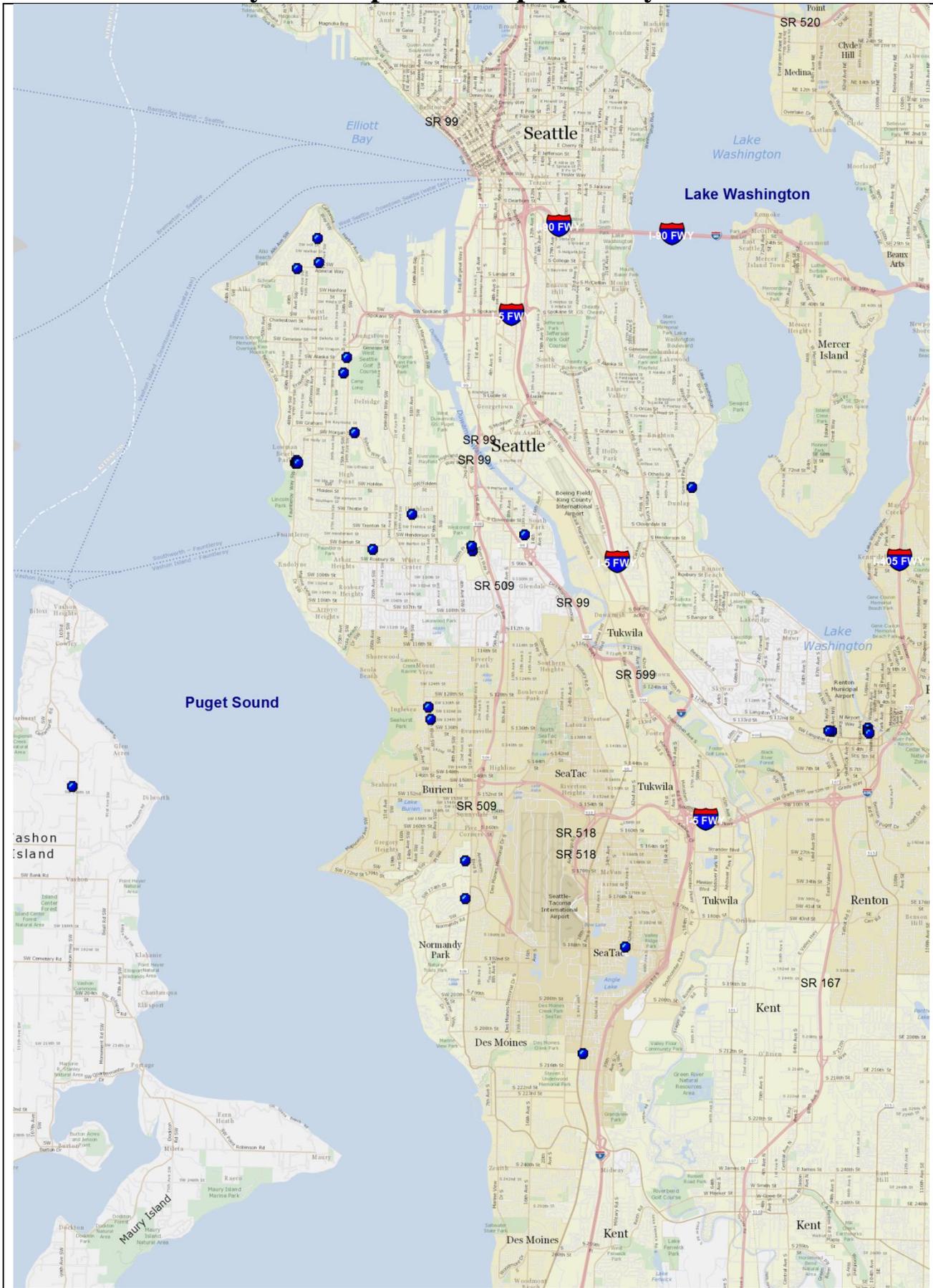
Area	Nbhd	Major	Minor	Total NRA	E #	Sale Price	Sale Date	SP / NRA	Property Name	Zone	Par. Ct.	Ver. Code	Remarks
174	010	112505	9084	34,396	2603045	\$4,335,659	05/01/13	\$126.05	Redmond Care and Rehabilitation Center	R30	1	Y	

Improvement Sales for Area 174 with Sales not Used

06/03/2015

Area	Nbhd	Major	Minor	Total NRA	E #	Sale Price	Sale Date	SP / NRA	Property Name	Zone	Par. Ct.	Ver. Code	Remarks
174	010	342406	9152	61,520	2596232	\$15,000	03/25/13	\$0.24	ISSAQUAH NURSING AND REHAB CENTER	MF-H	1	24	Easement or right-of-way
174	010	803620	0055	25,578	2561852	\$1,000,000	08/20/12	\$39.10	MT SI TRANSITIONAL HEALTH CENTER	DC	3	59	Bulk portfolio sale

2015 Physical Inspection Map Specialty Areas 153 and 174



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King County
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2015 Specialty 153 and 174 Inspection Parcels

Major	Minor	Spec Area	Addr Line	Prop Name
788360	8717	174	1040 S HENDERSON ST	SEA-MAR COMMUNITY CARE CENTER
941240	0225	174	7500 SEWARD PARK AVE S	CAROLINE KLINE GALLAND HOME
232403	9001	174	4831 35TH AVE SW	PROVIDENCE MT ST VINCENT
927420	0430	174	1729 CALIFORNIA AVE SW	PARK WEST CARE CENTER
927620	0910	174	4700 SW ADMIRAL WAY	LIFE CARE CENTER WEST SEATTLE
095200	8285	153	4611 35TH AVE SW	MERRILL GARDENS - WEST SEATTLE
312404	9216	153	9200 2ND AVE SW	ARROWHEAD GARDENS - North
312404	9205	153	9220 2ND AVE SW	ARROWHEAD GARDENS - South
327860	3190	153	3204 SW MORGAN ST	BRIDGE PARK HOLIDAY RETIREMENT
608710	0540	153	2326 CALIFORNIA AVE SW	MERRILL GARDENS - ADMIRAL HEIGHTS
688230	0020	153	2615 SW BARTON ST	DAYSTAR AT WESTWOOD
797260	2690	153	8424 16TH AVE SW	FLORENCE OF SEATTLE
431570	0240	153	7125 FAUNTLEROY WAY SW	KENNY, THE
911600	0020	153		Kenny, The
911600	0025	153		Kenny, The
911600	0030	153		Kenny, The
911600	0035	153		Kenny, The
192303	9086	174	15333 VASHON HWY SW	VASHION COMMUNITY CARE CENTER
182304	9220	174	1031 SW 130TH ST	BURIEN NURSING & REHAB CENTER
092204	9062	153	21202 PACIFIC HWY S	FALCON RIDGE ASSISTED LIVING
182304	9025	153	1010 SW 134TH ST	EL DORADO WEST
302304	9029	153	16625 1ST AVE S	NORMANDY PARK ASSISTED LIVING
312304	9001	153	17623 1ST AVE S	FERNWOOD AT THE PARK
342304	9341	153	4010 S 188TH ST	ANGLE LAKE SENIOR HOUSING
182305	9018	174	80 SW 2ND ST	REGENCY AT RENTON REHAB CENTER
182305	9017	153	71 SW VICTORIA ST	EMERITUS AT RENTON (RENTON VILLA)
723150	2120	153		Merrill Gardens - Renton Centre
000720	0156	153	7075 S TOBIN ST	Merrill Gardens - Renton Centre
723150	2030	153	104 BURNETT AVE S	MERRILL GARDENS - RENTON CENTRE