

BUSINESS PLAN: OAK VILLAGE ASSISTED LIVING

By

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Bachelor of Commerce, University of Victoria, 1999

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Abstract

This project is a business plan for an assisted living facility concept called Oak Village Assisted Living. The purpose of this document is to outline the industry, trends and competitors. It then goes on to introduce the Oak Village concept and how it intends to differentiate itself in the marketplace and carve out a niche to support future expansion and growth while continuing to define the assisted living segment of the retirement living market. The business model is defined and detailed to illustrate Oak Village's unique offering and describes the key features that will set it apart from its rivals. The economics, marketing plan, operating plan, management team and projected financials for both the facility development and initial operations are also included.

The two key elements of this venture that will determine its success are the real estate development and the business model for the Oak Village concept. Stacy Scott will ultimately oversee each of these, but pertinent industry professionals will be engaged to improve chances for overall success. Ultimately, the exit strategy will be to sell to a strategic buyer, one of the large national or international retirement living companies, as the industry continues to see significant consolidation both domestically and abroad.

Keywords: Alternative; Unbundled, Independent Living; Activities of Daily Living; Long-Term Care; Experience; Home-Like Setting

Dedication

This project is dedicated to my amazing wife, Kelli Scott, and to my two beautiful children, Madison and Oliver Scott, for their love and support throughout my post-secondary education and for sacrificing quality time during periods of heavy commitment to studies. Without their love and support, none of this would have been possible.

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Table of Contents

Approval	ii
Abstract.....	iii
Dedication	iv
Acknowledgements.....	v
Table of Contents	vi
List of Figures.....	ix
List of Tables	x
1: The Industry	1
1.1 Industry Description: Long-term Care Facilities.....	1
1.2 Types of Facilities	2
1.3 Size of Industry	3
1.3.1 Substitutes	4
1.3.2 Buyers.....	5
1.3.3 Suppliers.....	5
1.3.4 Barriers to Entry	6
1.3.5 Rivalry	7
2: THE OAK VILLAGE ASSISTED LIVING CONCEPT	8
2.1 The Concept	8
3: THE MARKET	10
3.1 Definition of Relevant Market and Customer Overview.....	10
3.1.1 Prospective Residents.....	10
3.2 Market Size (Population).....	10
3.2.1 Current > 65 Population.....	10
3.2.2 Future >65 Population.....	10
3.2.3 Income Distribution.....	11
3.2.4 Degrees of Frailty.....	12
3.3 Market Size (\$).....	13
3.4 Purchase Decision	14
3.5 Competition	15
3.6 Estimated Market Share and Sales	17
3.7 Ongoing Market Evaluation	18
4: THE ECONOMICS OF THE BUSINESS.....	19
4.1 Revenue Streams	19
4.1.1 Accommodations.....	19
4.1.2 Ancillary Services.....	19
4.2 Fixed and Variable Costs	20
4.3 Operating Leverage and its Implications	20
4.4 Start Up Costs	21
4.5 Breakeven Chart and Calculation	21

5: THE MARKETING PLAN	23
5.1 Marketing Strategy	23
5.2 Marketing Challenges	23
5.3 Pricing	24
5.3.1 Accommodations.....	24
5.4 The Selling Cycle	25
5.4.1 Three Pronged Approach	25
5.4.2 Marketing Staff.....	25
5.4.3 Three Key Audiences	25
5.4.4 Supplemental Marketing Efforts.....	26
5.5 Detailed Marketing Plan	26
5.5.1 Online Campaign	26
5.5.2 Referral Marketing Plan.....	26
5.5.3 Newsletter.....	27
5.5.4 Mailing Lists	27
5.5.5 Host an Open House.....	27
6: OPERATIONS PLAN	28
6.1 Operations	28
6.2 The Physical Environment	28
6.2.1 Entrance to Property	28
6.2.2 Warm Reception.....	29
6.2.3 Navigating the Home	29
6.2.4 Dining Experiences.....	29
6.2.5 Other Physical Elements	30
6.2.6 Staffing.....	30
7: MANAGEMENT TEAM	31
7.1 Key Personnel:	31
7.2 Shareholders	32
8: OVERALL SCHEDULE	33
9: CRITICAL RISKS, PROBLEMS AND ASSUMPTIONS	35
9.1 Key Risks and Assumptions	35
9.1.1 Cost Overruns or Delays with Construction	35
9.1.2 Higher Vacancies than Anticipated.....	35
9.1.3 Difficulty obtaining Financing	36
10: FINANCIAL PLAN	37
10.1 Sources and Uses of Funds	37
10.2 Pro-Forma Financial Statements	37
10.3 Financial Statement Assumptions and Analyses	37
10.3.1 Balance Sheet.....	37
10.3.2 Income Statement	38
10.3.3 Cash Flow Statement	39
11: EXIT STRATEGY	41
Appendix 1: Organization Chart	42
Appendix 2: Balance Sheet	43
Appendix 3: Income Statement	44

Appendix 4: Cash Flow Statement.....	45
Appendix 5: Development Costs.....	46
Reference List	47

List of Figures

Figure 1	Five Forces Analysis.....	4
Figure 2	The Buying Process.....	14
Figure 3	Breakeven Analysis – Year 1.....	22

List of Tables

Table 1	Types of Long-term Care Facilities.....	2
Table 2	Substitutes	4
Table 3	Buyers.....	5
Table 4	Suppliers.....	5
Table 5	Barriers to Entry.....	6
Table 6	Rivalry	7
Table 7	Prospective Residents.....	10
Table 8	Average Assisted Living Rents in Canada	13
Table 9	Competition in the Fraser Valley Region*	16
Table 10	Ancillary Services.....	20
Table 11	Start Up Costs	21
Table 12	Select Assisted Living Rates in Fraser Valley.....	25
Table 13	Sources and Uses.....	37

1: The Industry

1.1 Industry Description: Long-term Care Facilities

In general, long-term care facilities provide living accommodation for people who require on-site delivery of 24 hour, 7 days a week supervised care, including professional health services, personal care and services such as meals, laundry and housekeeping.

Long-term care facilities are not publicly insured under the Canada Health Act. They are governed by provincial and territorial legislation. Across the country, different jurisdictions offer a range of different services and cost coverage - consequently, there is little consistency in what facilities are called (e.g. nursing homes, assisted living facilities, personal care facilities, residential continuing care facilities, etc.).

Table 1 on the following page compares and contrasts the key facility types to allow for a better understanding of where each fits in the industry and which markets they target.

1.2 Types of Facilities

Table 1 Types of Long-term Care Facilities

FACILITY TYPE	DESCRIPTION	DEGREE OF PROFESSIONAL CARE	DEGREE OF REGULATION	TYPE OF BUILDING
Nursing Homes	Skilled nursing and rehabilitative long term care home for seniors.	Occupied by the most physically and cognitively impaired elderly population. Professional staffing includes on-staff nurses.	These facilities are licensed and heavily regulated by the government.	Offered in a hospital or institutional-like setting.
Congregate Care or Independent Living Facilities	Multi-unit apartment buildings with self-contained rental units marketed to an independent senior population.	No professional health care. Residents are independent for the most part, but may like to have, or require a little bit of assistance with activities of daily living – cleaning, grooming, transit, etc.	Limited specific regulation – these facilities are largely treated as multi-unit residential buildings offering one to three services to seniors.	Multi-unit residential buildings typically indistinguishable from market housing.
Assisted Living Facilities	Professionally managed senior housing facility with self-contained rental units marketed to higher-income seniors and offering hospitality services unlike with Congregate Care or Independent Living facilities.	Typically offer all the supportive services of congregate care and independent living, but also, at a minimum, the five hospitality services: meals, housekeeping, laundry, social and recreational opportunities and a 24-hour emergency response system.	Lightly regulated under the Mandate of the Office of the Assisted Living Registrar. The Registrar administers registration of facilities, establishes and monitors health and safety standards, investigates tenant complaints and refers to appropriate authorities and has the power to inspect facilities as needed.	Multi-unit residential complexes designed much like independent living facilities, but with more amenities as the residents are more dependent on the facility to provide services and support. This tends to drive design elements of the facility towards more of a self-contained community.

Although not traditionally permitted in the past, non-health authority funded/subsidized or private pay beds emerged in some provincial health authorities, including B.C. Private pay beds are now found in all types of long-term care facilities (nursing homes, independent living facilities and assisted living facilities), but they are most prevalent in independent living and assisted living facilities (Health Canada, 2004).

The private pay segment generally evolved as a result of provincial health authorities being unable to fund/accommodate growing demand for long-term care space, especially for those individuals who were deemed functionally healthy, but who wished to move into long-term care for some level of added security and support with activities of daily living. The result was the expansion of the independent living and assisted living segments, which primarily catered to healthier retirees willing to pay for better accommodations and service, but who may have been ineligible for government subsidies due to good health. That noted, there are some government subsidized independent living and assisted living beds and there likely will be more in the future as this model of long-term care is shown to be more efficient, but there are also some nursing homes which have private pay beds, primarily occupied by retirees who require less income assistance from the government, but still require the level of care provided by a nursing home. Eligibility for admission into a nursing home and the cost of the stay are both based on a needs assessment.

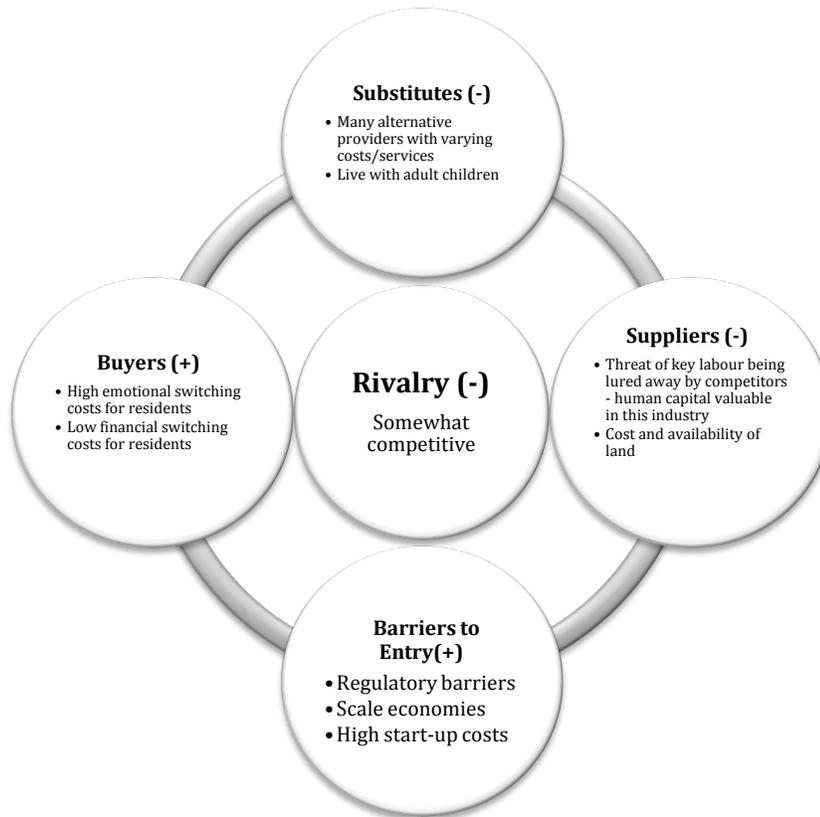
So, while all three facility types can receive government funding for beds, the vast majority of the funding goes towards nursing homes, which provide healthcare as opposed to independent or assisted living services.

1.3 Size of Industry

The nursing home and long-term care facilities industry includes about 75,000 establishments in North America with combined annual revenues of about \$185 billion (First Research, November 2011). The industry is heavily fragmented with the 50 largest companies accounting for approximately 20 percent of total revenues. Consumer spending growth for Assisted Living Facilities is expected to track around 7 percent per year in North America (Interindustry Economic Research Fund, May 2011).

Locally, in the target Fraser Valley Region, there are greater than 35 long-term care facilities of which 14 are deemed assisted living facilities. These are covered in more detail under Competition.

Figure 1 Five Forces Analysis



1.3.1 Substitutes

Table 2 Substitutes

Availability of Substitutes		Very Poor		Neutral		Very Good	
Living with Adult Children	Large			X			Small
Homecare	Large		X				Small

Alternatives include living with adult children and homecare services. Living with adult children is a growing area as children increasingly view it as part of their responsibility to take care of aging parents and houses are now being constructed with in-law suites included to accommodate. That noted households today increasingly have two parents working which leaves less time for to taking care of aging parents, so this substitute is under constant strain.

Homecare services are also being viewed as an option for this segment of the market, but they are typically more targeted towards independent seniors and, thus, do not act as a perfect substitute for prospective assisted living tenants who need more on demand services.

1.3.2 Buyers

Table 3 Buyers

Bargaining Power of Buyers		Very Poor		Neutral		Very Good	
# of Buyers	Few				X		Many
High Emotional Switching Costs for Residents	Low				X		High
Low Financial Switching Costs for Residents	Low	X					High

Demand for long-term care is growing due to an aging population coupled with increased life expectancy. Together with a target market that is both wide and varied and a shortage of supply of long-term care homes, buyers are left with little bargaining power. While the financial switching costs for residents is considered nominal as movement to a new facility can happen with relative ease it is the high emotional costs of moving at a delicate time in life that shifts power away from the buyers.

1.3.3 Suppliers

Table 4 Suppliers

Bargaining Power of Suppliers		Very Poor		Neutral		Very Good	
Key Staff	Low		X				High
Supply of Land	Low		X				High

Adequate staffing is often a major problem. With the average facility carrying roughly one staff member per every two beds, a facility can ill-afford to have a high turnover rate, but that

is exactly how the industry is characterized. Typically, the highest turnover is for the lowest wage, lowest skilled workers, so they are replaceable, but it does impact at the administrator and caregiver level as new people are always being recruited and trained.

Limited supply of land and the associated cost also represents a key supply pressure, especially in the Lower Mainland of British Columbia, which includes the target Fraser Valley Region.

1.3.4 Barriers to Entry

Table 5 Barriers to Entry

Barriers to Entry		Very Poor		Neutral		Very Good	
Start-up Costs	Low				X		High
Scale Economies	Low			X			High
Regulatory Barriers	Low		X				High

High start-up costs characterize entry into this industry as construction of new facilities or remodelling of existing ones is expensive. For-profit ventures must rely heavily on equity or bank financing to support expansion and to a lesser extent on donations to supplement generated earnings.

Demand is growing in most markets and continues to exceed supply, with occupancy rates generally stable at 98% to 99%. New beds coming on stream are a result of pent-up demand and expected to be absorbed quickly such that lease up and occupancy are not critical risks to the success of a project.

Provinces are faced with the need to balance budgets in the increasing demand for long-term care. Rising health care costs have forced provincial governments to shift public funding away from hospitals and towards the private retirement living sector for the provision of long-term care, as the sector is simply a more efficient and cost effective provider of these services.

1.3.5 Rivalry

Table 6 Rivalry

Rivalry Among Competitors		Very Poor		Neutral		Very Good	
Industry Growth Rate	Slow			X			Fast
Number of Competitors	Large		X				Small
Diversity of Competitors	High				X		Low

The industry is characterized by slow, steady growth, however, many of the new entrants to this industry are real estate developers who not only look at the pace of growth of the long-term care business, but also at the potential capital gains to be realised on the real estate investment itself.

As earlier noted, this is a highly fragmented industry with a few very large players. Many of the existing participants in the industry are relatively undifferentiated leading to low diversity and better opportunity for Oak Village to differentiate.

2: THE OAK VILLAGE ASSISTED LIVING CONCEPT

An aging population coupled with evolving consumer preference for more ‘home-like’ assisted living options is driving demand for new concepts in retirement living representing an excellent business opportunity long into the future. The desire to pursue this project evolved out of personal frustrations experienced seeking retirement living options for an elderly family member. After viewing countless facilities, it became apparent very few could be considered substitutes for home despite that being the quality most sought after by many prospective residents.

Oak Village Assisted Living intends to demonstrate how the right ingredients can lead to a greatly improved overall experience for both the residents and their families and, in turn, become a relevant and profitable venture.

Oak Village will be incorporated under a numbered company, and registered in B.C. with anticipated commencement of operations in Spring 2013.

2.1 The Concept

Oak Village is an assisted living facility that will strive to differentiate from existing assisted living models in terms of facility layout, interior/exterior design and methods/combinations of service delivery.

Instead of large institutional-feeling designs that are both cold and sterile, the facilities will emphasize a homelike feel that marries the comforts of home with some of the oversight and personal care consistent with a nursing home. Unlike a nursing home, however, residents will have access to assistance as required for daily living, but without that care becoming the focal point of their existence.

Much as the members of any family would, residents could also enjoy home-cooked meals and each other’s company in a small, relaxed, intentionally designed ‘community’. The facility will be setup to host weekly community events including farmers markets, craft fairs, etc. to ensure a strong connection to both local merchants and local residential population. It is envisioned, Oak Village will act as a conduit to connect to the community and themselves and, in turn, enhance the Oak Village brand.

The Oak Village concept will offer unbundled services to increase revenues and drive profitability. This will be a key point of differentiation from other assisted living facilities which either do not offer unbundled service options, or have not taken full advantage of what services could be offered. With Oak Village, residents will no longer need to leave the premises each time they wish to enjoy a gourmet coffee, a glass of wine at the bar, a new seasonal shirt or the latest movie releases in a theatre setting. The idea is to create a unique, almost village-like, experience for the residents where they can enjoy some added leisure services without having to leave the premises.

Oak Village will offer a wide variety of supplemental services like rehabilitative and wellness classes as well as alternative food/dining options. Such services will promote enriched, rehabilitative independent living, while at the same time further improve revenues. Customer retention and company revenues will improve because “unbundled” services will generate new service fees and provide additional customer choice.

Future growth of the facility will come from expanded service offerings.

3: THE MARKET

3.1 Definition of Relevant Market and Customer Overview

3.1.1 Prospective Residents

Oak Village's relevant market for residents consists of both men and women, over the age of 65 who live within the Fraser Valley, B.C. and who have retirement household incomes in the \$70,000+ range.

Table 7 Prospective Residents

3.2 Market Size (Population)

3.2.1 Current > 65 Population

The population > 65 years in Canada in 2006 was 4,819,000, representing 14.8% of the total Canadian population of 32,576,074 (Stats Canada, 2006). The population > 65 years in BC in 2006 was 600,000, representing 14.1% of the total BC population of 4,244,000 (BC Stats, Sept 2011). The population > 65 years in the target Fraser Valley Region in 2006 was 37,515, representing 14.6% of the region's total population of 256,952 at the time. (BC Stats, 2006)

3.2.2 Future >65 Population

The growth of the > 65 population in BC is expected to be dramatic as the baby boom generation begins entering the retirement years. Looking back ten years, the growth rate of the >65 cohort has averaged approximately 1.2% per year; going forward, the rate is expected to

average closer to 1.8% per year. By extension then, the forecasted population in BC > 65 years by 2020 is 983,000 people, or 19% of the province's projected total population of 5,174,000. By 2030, that number is expected to increase to 1,338,000 or 23% of the province's projected total population of 5,817,391 (BC Stats, 2011).

While forecasted figures for the Fraser Valley Region are not readily available, applying the same growth rates as those projected for BC is deemed a close approximation for the Fraser Valley growth rates. Given the Fraser Valley represented approximately 6% of BC's total population in 2006, by extension then, it is forecasted the region's population will reach 310,440 by 2020 and 349,043 by 2030.

Applying the same percentage of > 65 as above, it is anticipated the > 65 population in the Fraser Valley will reach 58,983 people by 2020 or 19% of the region's projected total population and 80,280 people by 2030 or 23% of the region's projected total population.

Given 5.4% of BC seniors >65 reside in long term care facilities including assisted living facilities (BC Ombudsman Report, Dec 2009), applying to the 2006 >65 population in the Fraser Valley suggests approximately 2,000 people live in long term care facilities. While there is reason to believe this percentage will increase over time as the assisted living concept becomes more refined and government funding shifts to further support, in the interest of conservatism, this analysis assumes no change.

Applying the same 5.4% to the estimated 2020 and 2030 >65 populations in the Fraser Valley suggests total number of people living in long term care facilities will reach 3,185 in 2020 and 4,335 in 2030.

Approximately 60% of those living in long term care facilities reside in assisted living facilities (BC Ombudsman Report, Dec 2009). That further narrows the estimated target market to 1,200 people in 2006 and 2,000 and 2600 for 2020 and 2030 respectively.

3.2.3 Income Distribution

While detailed information for income distributions in the target Fraser Valley Region are difficult to obtain for the target demographic, it is estimated the average British Columbia retiree between the ages of 65 and 74 has an annual retirement income of \$35,200/year, or \$70,400/year per household (Russell Investment Report, 2012). Of this, on average, about \$18,300 comes from government sources such as Old Age Security and Canada Pension Plan, with the balance contributed by company pensions and invested assets. This is estimated to be the minimum required household income to afford residency at Oak Village and, while that implies roughly

80% of income will go towards shelter, it is important to note that all board, transit and some entertainment/leisure is included in the monthly cost, leaving little else but pure discretionary spending for the account of the residents. Spending beyond discretionary amounts typically come from retiree's investment portfolios or from sales of former residences. It is estimated that somewhat less than half of the population in the 65 to 74 cohorts would meet the minimum income requirement to afford residency at Oak Village.

3.2.4 Degrees of Frailty

The target market for prospective residents includes those seniors who exhibit good functional health, but who require or wish to have some assistance with Activities of Daily Living (“ADLs”). Functional health is generally measured by vision, hearing, cognitive ability, mobility, dexterity, feelings, memory and speech. Those who score well in these categories are deemed healthy, active seniors and fit well into Oak Village's target population.

While hard data related to the number of seniors who fall into the above category is difficult to come by, the Ministry of Health for B.C. estimates the following:

- 62 percent of B.C. seniors age 65 and over have very good or perfect functional health status;
- 72 percent of B.C. seniors age 65 to 74, and about half of those 75 and over, have very good or perfect functional health status (Health Canada, 2004).

It is very difficult to ascertain how long seniors may remain ‘functionally healthy’ as every case is different and the measure for degrees of frailty is relatively new, so there is limited historical data to draw upon. That noted, the vast majority in the 65 to 74 year age category still consider themselves to have very good or perfect functional health, so the deterioration rate does appear gradual implying potential for longer term residents (i.e. greater than the average 3-4 years).

3.3 Market Size (\$)

At an average monthly rate of \$4,718/resident (see Table 8), or \$56,616/year, that puts the total potential market size for assisted living facilities in the Fraser Valley Region at \$113.2 million in 2020 and \$147.2 million in 2030. Worth noting, the average rent in British Columbia is considerably higher due largely to higher land prices – monthly rates for assisted living are quite closely correlated to market rents, which are significantly higher in British Columbia than any other jurisdiction in Canada.

Table 8 Average Assisted Living Rents in Canada

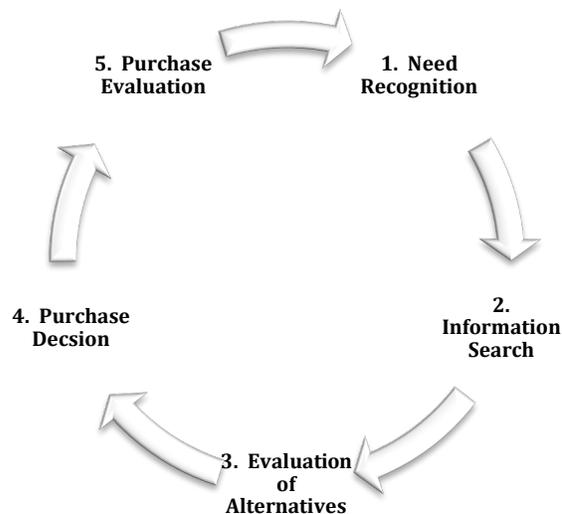
	Average rent	
	Monthly	Annual
British Columbia	\$4,718	\$56,616
Alberta	\$3,403	\$40,836
Saskatchewan	\$2,686	\$32,232
Ontario	\$3,437	\$41,244
Quebec	\$2,563	\$30,756
Prince Edward Island	\$2,867	\$34,404
Source: Canada Mortgage and Housing Corporation, 2009		

3.4 Purchase Decision

The purchase decision for assisted living facilities essentially resides with a small group including prospective residents, their adult children, close friends and health care and social workers.

The buying process typically begins a year or two in advance at the needs recognition stage and moves along a relatively predictable path to the purchase and subsequent evaluation.

Figure 2 The Buying Process



The *Need* becomes apparent when the prospective resident’s health begins deteriorating to the point where it is apparent they will no longer be able to care for themselves. Oftentimes, this is accompanied by loneliness as well given few are able to spend sufficient time caring for them or keeping them company;

This initiates the *Information Search* stage by one of the above noted caring parties or, less frequently, by the prospective residents themselves. The search undertaken varies by the party doing the search:

Family members and friends will often begin online and through available databases and publications and, failing success there, will move on to discussion with health and social workers;

Health and social workers are often heavily canvassed by the care facilities and will often have recommendations based on the level of care required.

Evaluation of Alternatives is initiated once a shortlist of options is identified. Direct contact with the facilities begins to help determine levels of care, costs, accommodations and availability. It is coming practice to spend time observing a “day in the life” or even taking in a short term stay (i.e. one or two weeks) to *test the waters*;

Finally, the *Purchase Decision* is taken and families begin readying residents for eventual move into new home.

Purchase Evaluation is ongoing and it is important for the facility to remain open and accessible for frequent dialogue and visits as necessary to accommodate residents’ families and provide for a comfortable transition for all involved. This is often the most critical time for any assisted living facility as new customers will monitor their service very closely for a long period after the move – the word-of-mouth that comes out of this is critical for the long term success of the facility.

3.5 Competition

Competition for the assisted living space comes broadly from home care and other long term care concepts such as nursing homes and congregate care homes, etc., but the assisted living model is without a doubt, a niche unto itself with a well-defined market for independent living seniors who no longer wish to remain in their homes and who could not only benefit greatly from the added services offered by an assisted living facility, but would value them as well. Further, while some of these seniors may have immediate need for assistance with ADLs such as bathing, dressing, light housekeeping, etc, others may simply wish to move to this type of facility for reasons of loneliness or safety.

While there are several assisted living competitors in the Fraser Valley Region only three are considered direct competitors to Oak Village: Hallmark on the Park; Langley Seniors Village and Maple Ridge Seniors Village. The set of competitors essentially varies along four key dimensions of competition: cost, quality of care, quality of facilities and amenities:

- **Cost** is often a key consideration in the assisted living space as they are often not subsidized by government funding and there are much less expensive alternatives. With that noted, the assisted living concept is a premium service that customers have shown a willingness to pay for assuming a quality experience;
- **Quality of care** is generally gauged by cleanliness of facilities, quality of food, support of care workers and attendants and responsiveness of management to needs/concerns;

- **Quality of facilities** is a function of the location, layout, functionality of the buildings and aesthetics;
- **Amenities** refers to the range of services available to make the seniors’ time at the facility more enjoyable. Generally, the greater availability of in-demand services, the better grade the facility will get for this component.

Table 9 Competition in the Fraser Valley Region*

Facility	City	**Cost	Quality of Care	Quality of Facilities	Amenities
Abbotsford Community Services	Abbotsford				
Hallmark on the Park	Abbotsford	\$3,550	3	2	4
Menno Assisted Living	Abbotsford				
MSA Manor Home	Abbotsford				
Sherwood Crescent Manor	Abbotsford				
Lions Grove Estates	Aldergrove				
Lotus Place	Aldergrove				
Birchwood Retirement Residences	Chilliwack				
Cascade Manor	Chilliwack				
Waverly Seniors Village	Chilliwack				
Brookwood Manor	Langley				
Langley Seniors Village	Langley	\$4,200	3	2	2
Legion House	Maple Ridge				
Maple Ridge Seniors Village	Maple Ridge	\$4,000	2	4	2
The Cedars	Mission				
Meadow View Manor	Mission				
Oak Village Assisted Living	Fraser Valley	\$4,140	2	2	1

* Quality of Care, Quality of Facilities and Amenities are rated on scale of 1-5 with 1 being good and 5 being poor.

These subjective ratings were arrived at after review of the competition’s offerings and positioning in the marketplace

** Cost is the weighted average cost of one and two bedroom units.

Hallmark on the Park: averaging \$3,550/month, located in Abbotsford, Hallmark is often considered the “gold standard” in the industry given its proximity and relations to its natural surroundings – the Fishtrap Creek Park and Lake. The quality of care is deemed satisfactory and they have 24-hour access to nursing as needed. They make good use of technology to keep residents engaged in online games and connected to the outside world, but they lack many of the added amenities like shops, a theatre room, meal menus, etc. Essentially, they do not do a good job of offering additional unbundled services to their residents which is not only desirable to prospective residents, but also a potentially important revenue driver (www.hallmarkretirement.ca)

Langley Seniors Village: a similarly priced facility to Oak Village averaging \$4,200/month, the Langley Seniors Village is the closest direct competitor to the Oak Village model in that it strives to create a homelike experience nestled within a purpose built neighbourhood/community. They offer a suite of activities, including exercise classes, spa

services, onsite and offsite entertainment, etc. and allow residents to select from a changing list of meal menu options. Owned by Retirement Concepts, owners of over 16 assisted living facilities across B.C., Alberta and Quebec, this is a model Oak Village will look to replicate and build on with a different mix of services and amenities being offered.

(<http://www.retirementconcepts.com/homes/langley-seniors-village>)

Maple Ridge Seniors Village: also similarly priced to Oak Village at around \$4,000/month average, this facility offers much of what Oak Village contemplates (pets allowed, custom meal menu options, full suite of activities, boutique shops, etc.), but it is located in downtown Maple Ridge, which does not afford it much in the way of green space, which is a critical consideration for many seniors who are leaving detached residences. This facility is also owned by Retirement Concepts. (<http://www.retirementconcepts.com/homes/maple-ridge-seniors-village>). Oak Village will look to differentiate from this model in terms of location and welcoming, comfortable outdoor space.

3.6 Estimated Market Share and Sales

In the coming years, it is likely to be healthier seniors who live longer more active lives who wish to reside at Oak Village Residences. It is anticipated these cohorts will be more social longer and will in turn demand greater opportunities for social gatherings.

Oak Village Residences will target this defined market with continued enhancements to its offering to remain current with current demands.

Initially, the Oak Village Residences will be developed with 50 units (20 one bedroom and 30 two bedroom) with a variety of layouts. At an average rent of \$3,600/month for one bedroom and \$4,500/month for two bedrooms, total annual rent will come in at \$2,484,000 before other revenue sources (i.e. spa treatment, food service, day trips, etc.).

Rental of 50 units is deemed conservative as it represents 6% of the 2006 assisted living market in the Fraser Valley Region (50/794). This is a market that continues to show good absorption leaving vacancies at virtually nil (it is not zero as tenants only stay on average 3-4 years, so turnover is quite high). Given the relatively high turnover, it is important Oak Village remain active in its community through farmers markets, craft fairs, schools, etc. and in close, regular contact with referral sources, to ensure a steady flow of prospective new residents is maintained. Oak Village's ongoing marketing efforts are designed to ensure this (see Marketing Plan).

3.7 Ongoing Market Evaluation

Oak Village Residences staff will be trained to listen to the residents and have regular feedback sessions with family members as not only a way to show empathy and concern for residents' well-being, but also to gain insight on what the residents value and wish to see at their home going forward. Oak Village will also seek to engage external consultants as required to bring innovative ideas that may otherwise be overlooked in the review process with internal personnel only.

4: THE ECONOMICS OF THE BUSINESS

4.1 Revenue Streams

Majority of revenues will be derived from two sources: accommodations (one and two bedroom units) and ancillary services.

4.1.1 Accommodations

Rents are private pay (no government funding), though it is expected as governments increasingly recognize the cost effectiveness of the for-profit assisted living industry as an alternative to conventional nursing facilities, government subsidies will become more the norm and benefit for profit facilities by bringing costs within reach of a wider market.

Combined, rents make up approximately 90% of sales volumes broken down as follows: one bedroom suites – 20 units at \$3,600/month = \$72,000/month; and two bedroom suites – 30 units at \$4,500/month = \$135,000/month.

Occupancy levels in the industry are typically strong driven by government limitations on the supply of licensed beds and on prevailing and growing demand for this accommodation class. The limitations on supply of licensed beds stems largely from real constraints on government's ability to subsidize additional licensed facilities, which pushes more and more developers to the private pay model.

4.1.2 Ancillary Services

Ancillary services include spa sessions, custom meal options, rehabilitative services, transportation, wellness and personal care.

While it is difficult to accurately predict the revenue per resident on ancillary services, industry averages indicate approximately \$100/month is achievable with relatively few services sold. The breakdown is shown in Table 10.

Table 10 Ancillary Services

Sources of Income	% of Residents	# of Residents	Monthly Rate (net)	Annual Income
Spa and Rehabilitation	50%	40	\$50	\$24,000
Custom Meal	65%	52	\$50	\$31,200
Hair Salon	100%	80	\$30	\$28,800
Wellness	30%	40	\$25	\$12,000
Annual Ancillary Income				\$96,000
Divided by 80 Residents x 12 months				960
Monthly Revenue per Resident				\$100/mth

At an average of \$100 per month per resident x 80 residents, ancillary services are expected to generate an additional \$96,000 per year in revenue.

4.2 Fixed and Variable Costs

The assisted living business is one characterized by high fixed costs due largely to requirement to build a facility and keep running fully staffed irrespective of occupancy rates, which would otherwise be the driver of variable costs.

The one cost that will vary materially based upon occupancy levels is food and beverage. Using industry averages, it is estimated this variable cost will equal approximately \$13 per day per resident (incl. food, supplies and equipment). Labour costs are anticipated to remain the same (First Research, 2011).

For purposes of analysis, the costs of providing ancillary services, which would otherwise be considered a variable cost, have been treated as a fixed cost due in large part to materiality (represent less than 4% of total revenues) and difficulty accurately predicting demand for these services.

4.3 Operating Leverage and its Implications

The cost structure of Oak Village is characterized by high operating leverage due in large part to the heavy up front investment in the facility and the requirement to maintain staffing levels irrespective of occupancy levels. The implications are that initially, a vast percentage of Oak Village's revenues will go towards covering fixed costs, but once full occupancy is reached, each incremental dollar of revenue will be accretive to profit at increasing rate.

4.4 Start Up Costs

Table 11 Start Up Costs

Uses:	Estimated Costs:
Land Acquisition	\$1,500,000
Pre-Opening Marketing	\$150,000
Opening Inventory	\$75,000
Furniture and Decor	\$200,000
Equipment	\$50,000
Startup Working Capital	\$80,000
Total	\$2,055,000

Notes to Start Up Costs:

- Land Acquisition: cost to acquire land to build facility on;
- Pre-Opening Marketing: advertising and staffing in advance of grand opening;
- Opening Inventory: stationary, linens, food, etc.
- Furniture and Decor: plants, chairs, tables, pictures, etc.
- Equipment; for activities rooms, kitchen, dining area, rehab, personal care areas, etc.;
- Cash: held for sundry items and general day-to-day working capital needs

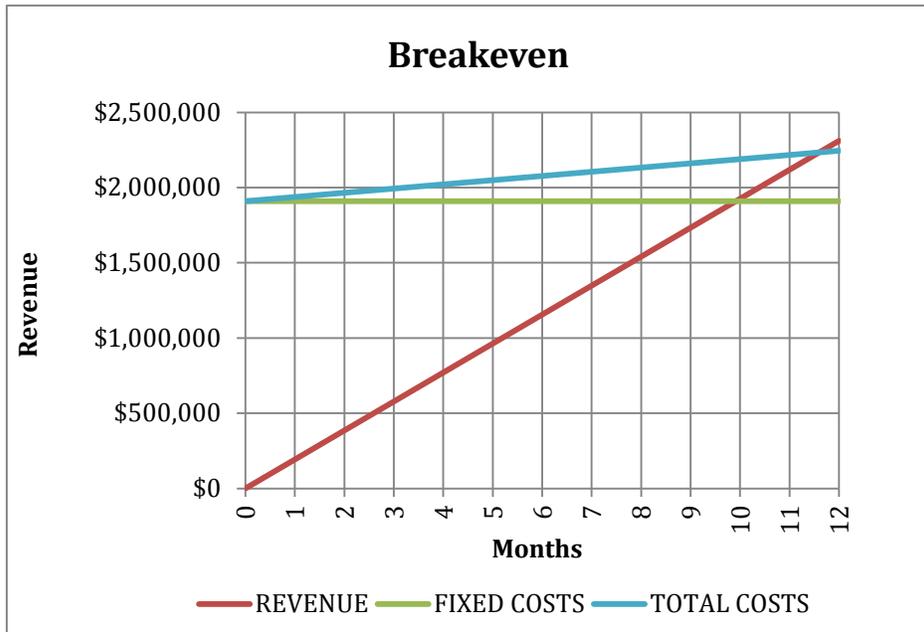
4.5 Breakeven Chart and Calculation

As can be seen in Figure 3 on following page, breakeven is expected to occur between the eleventh and twelfth months of Year 1.

This is primarily of function of higher vacancies and heavier advertising and marketing expenses during the ramp up period, which should reduce marginally in subsequent years once reputation is established and referral sources are in place.

For comparison purposes, subsequent years are expected to reach breakeven shortly after the tenth month as occupancy hovers at 95% and advertising, marketing and mortgage interest decrease.

Figure 3 Breakeven Analysis – Year 1



Note: figures for Breakeven Analysis are drawn from *Appendix 3: Income Statement*

	Revenues	Cost of Sales	Fixed Exp.
Year 1	\$2,322,250	\$335,400	\$1,909,637

5: THE MARKETING PLAN

5.1 Marketing Strategy

The assisted living industry is expected to experience significant growth as populations age and seniors live longer, healthier lives. This will continue to expand the market for facilities that provide less assistance with ADLs and which offer more custom-tailored, service-oriented offerings to enhance quality of life (i.e. meal options, boutique shops, spas, theatres, etc.). This is the niche segment Oak Village will be targeting with its marketing efforts

5.2 Marketing Challenges

Developing an assisted living marketing program presents some unique marketing challenges.

Consumers either do not fully understand or are confused about the assisted living concept and this is further perpetuated by the industry's use of so many different terms to describe the service models (nursing homes, congregate care, independent living, assisted living, etc.). On top of this, there is a brief timeline for consumer decision-making (typically less than a year), so if the marketing message reaches the consumer too soon, their reaction is that they are not yet ready and if the message reaches the consumer too late, the individual may need a higher level of care than that traditionally provided in an assisted living environment.

To address the above, Oak Village will use a blend of referral-based marketing and direct sales vehicles such as trade publications, web marketing and direct mail marketing to introduce its offering and how it fits in the spectrum of options. Oak Village will also make use of open houses and community event sponsorships to further reinforce its brand and embed itself in the community to ensure that when customers are ready to make a decision, they know where to turn.

Choice will be a real differentiator for Oak Village and will form the centrepiece of the marketing strategy. The consumer will be provided with a variety of options in accommodations, ranging from one and two bedroom apartments with varied layouts to flexible service packages and meals and a variety of ADL support services. Accommodations and services will be tailored to the consumer's specific needs and desires.

5.3 Pricing

Oak Village essentially has two main revenue sources: accommodations and ancillary services. Initially, accommodations will represent approximately 96% of total revenues and thus will form the primary focus of the pricing strategy. Over time, it is anticipated unbundled ancillary services will add additional revenues, but this will occur gradually and will not represent the focus of the pricing strategy. While upselling unbundled services to residents does not represent a new model in this industry, it is gaining in popularity as assisted living facilities seek new ways to customize their offering and at the same time capture additional revenues that might otherwise be spent outside the facility. As relatively independent individuals, residents are largely in charge of how they spend their money and increasingly demand a more customized experience from their chosen assisted living facility.

5.3.1 Accommodations

To be competitive in Oak Village's region, prices must be set in the \$3,400-\$3,800/month price range for one-bedroom suites and \$4,200-\$5,000/month price range for two bedrooms. The average monthly rent for assisted living facilities in BC is \$4,718 (Canada Mortgage and Housing Corporation, 2009), but this is in part skewed by the much higher rents charged for facilities located in Vancouver. Oak Village will set one-bedroom pricing at \$3,600/month and two-bedroom pricing at \$4,500/month (average monthly rent of \$4,140/month), which places it in the upper mid-range for facilities of this type.

While the quality of facility and service will justify pricing in the higher end of the range for assisted living facilities, Oak Village will set its pricing a little lower initially to attract occupancy and to afford it time to build its brand. It is expected the facility will be able to charge premium prices once its reputation is established and it is better able to differentiate itself from the competition through unbundled service offerings and overall quality of experience.

Current rates for competitors in the region (Table 12) suggest the pricing strategy is well supported for a high-end facility and will allow for quick market acceptance. Worth noting, the Langley region already commands a slight premium over the other two regions shown below, so the Langley Seniors Village is the best comparable.

Table 12 Select Assisted Living Rates in Fraser Valley

Hostel	Where	Average Monthly Rent
Hallmark on the Par	Abbotsford	\$3,550
Langley Seniors Village	Langley	\$4,200
Up the Creek	Maple Ridge	\$4,000
<i>Oak Village Assisted Living</i>	<i>Langley</i>	<i>\$4,140</i>

5.4 The Selling Cycle

Oak Village will develop and mobilize a comprehensive marketing plan about eight to twelve months in advance of the facility opening. The physical launch of the pre-marketing program will occur three to four months prior to opening. This is where the start-up marketing costs will be incurred prior to earning any revenue.

5.4.1 Three Pronged Approach

The marketing efforts will begin by educating the market early and often through a multifaceted program. Education will occur at three levels:

- Building awareness about the assisted living concept;
- Communicating how assisted living is an attractive alternative to the consumer's current situation; and
- Describing how Oak Village's offering is different from the competitors.

5.4.2 Marketing Staff

Oak Village will employ a full-time staff person who is responsible for marketing and sales. The marketing launch will be time-consuming with accountabilities for community outreach and management of multiple contacts with prospective residents and family members. This position will be expected to devote approximately 70% of its time to working with prospects with the balance allocated to strategic networking with influencers in the medical and financial fields (financial planners, accountants, trust advisors, etc.)

5.4.3 Three Key Audiences

The marketing program will be designed to target the three different audiences for assisted living: the prospective resident, the adult child and decision influencers (e.g., personal physicians). These three audiences have different information needs and utilize different information sources - e.g., prospective residents are interested in comparisons with their home

environment; family members are interested in costs and comfort; the decision influencers want to know about the competence of staff.

5.4.4 Supplemental Marketing Efforts

Implement an aggressive strategic networking program - an organized community outreach effort aimed at introducing the facility to prospective residents and people in the community who may prospective residents and their relatives to the facility. It is important to cast a wide enough net in order to reach various communities, civic, health care, senior and other social groups that can furnish potential residents and their families with information about service options in the Fraser Valley Region.

Oak Village will supplement strategic marketing efforts with direct mail or newspaper advertising, especially in the initial marketing stage. Though enquiries will eventually come from referrals, this is not expected to occur until after Oak Village has established its reputation as a quality facility.

Oak Village will make use of a sales/relationship management system to catalogue and analyze data about prospective resident demographics, marketing program performance and the productivity/performance of the sales team. This data will in turn be used to determine which aspects of the program need to be modified to meet objectives.

5.5 Detailed Marketing Plan

5.5.1 Online Campaign

At a cost of approximately \$15,000, Oak Village will hire a graphic designer and copywriter to build a robust website including virtual tours and account management access for registered users to help manage and monitor resident's finances.

With the site, Oak Village will avail itself of a variety of free online marketing tools such as listing with free online directories such as dmoz.org, dmegs.com or freewebdirectory.us and will create links to Twitter, Facebook, LinkedIn, YouTube and other social media channels to become 'part of the conversation' and further market it's facility. These applications are intended to primarily target Influencers of prospective residents (see Target Market above).

5.5.2 Referral Marketing Plan

A referral-marketing plan will be established to allow Oak Village to promote its facility through "word-of-mouth marketing." Incentives programs will also be formulated to encourage

patients and their families refer individuals to the facility – this will likely come in the form of a 10 percent discount on lodging fees for six months or free meals upgrades for a year.

Professionals will also form a key part of the Referral program and Oak Village will make a point of staying connected with this community through face-to-face calls, trade shows, event sponsorship, etc. These professionals will include doctors, financial planners, tax advisors and pharmacists.

5.5.3 Newsletter

A regular newsletter will be published online and in print for select circulation (above noted professionals). This will help Oak Village stay in constant contact with patients and their caregivers who may consider the facilities services. Every prospect who visits the facility or requests information will be asked for their mailing address and/or email address, so Oak Village can send them a monthly newsletter via post or email covering important topics such as the process for enrolling a loved one into an assisted living home; financial considerations and advice; different health conditions and how staff are trained to address them. The newsletter will also have some light, entertaining reading about current events at the facility to build a warm affection for Oak Village.

5.5.4 Mailing Lists

Partner with a mailing list company, which will help Oak Village develop a targeted list of patients and caregivers who might need the facility's services. A mailing list company can help develop a targeted list of caregivers who currently provide care for an elderly parent for example. A detailed, targeted list can be had for less than \$2,000. Once the list is ready to go, Oak Village will send an Introduction Letter and a brochure that explains the benefits of the assisted living facility, provide contact information and includes a sheet with "frequently asked questions."

5.5.5 Host an Open House

Oak Village will host semi-annual open houses. These are the only occasions when traditional advertising media will be used (i.e. local newspapers, radio, etc.). Incentives will be offered for people to come, such as free food and drinks, massages or keynote speakers and when they arrive, they will be taken on tours of the facility, answer any questions about Oak Village and request feedback on 'things to improve on' – after all, Oak Village wants the facility to become a key part of the community.

6: OPERATIONS PLAN

6.1 Operations

Quality of life for residents at Oak Village will not just be about the physical environment, but will also be about the social and cultural environment and how mixed with the right services they all work together to provide a first rate experience. Developing this experience will be about hiring the right staff, training and educating them on the expectations of Oak Village and its residents and incentivizing them to perform through spot awards. It will be about having service offerings that are flexible (i.e. custom spa experiences, differential menu options, tailored activities, etc.), but with a consistent level of service delivery. In sum, these operational attributes will define Oak Village and will contribute to an overall unsurpassed quality of life for the residents and their loved ones.

6.2 The Physical Environment

Oak Village will borrow many design elements from existing assisted living facilities with an aim to build on those and add to them from both the aesthetic perspective and in terms of functionality and service mix. Some of these are detailed below.

6.2.1 Entrance to Property

Within the home-like context, the entrance will play a large role in establishing a first and lasting impression. The following design elements will make the first approach to the building much more welcoming with excellent ‘curb appeal’:

- Clearly marked, attractive heritage signs identifying the entrance – not unlike a country club sign;
- More convenient and abundant parking for visitors than at many assisted living facilities which tend to have limited visitor parking;
- Landscaping that is colorful, inviting and varied (including benches, a pond, lawn bowling pitch, etc.);
- Comfortable seating areas and garden nooks.

6.2.2 Warm Reception

The first impression continues when you walk through the main entrance at Oak Village. With many assisted living facilities, the first thing you encounter when you walk through the front doors is a care station. For a variety of reasons, Oak Village feels that this sets the wrong tone and will instead create a warm and welcoming lodge-like setting complete with a fireplace and large, comfy chairs that double as a reading area. The reception area will also employ a fulltime greeter who will double as security; a coffee/tea bar for both hospitality and for creating inviting aromas (such as fresh baked bread) as you enter the facility; soothing and inviting, ambient music and a guest book and non-conspicuous video cameras to monitor the space - this is still a secure main entrance.

6.2.3 Navigating the Home

Corridors start residents and visitors on their way through the premises. Adequate lighting and signage is important here, but so is the opportunity for Oak Village to use the spaces to tell stories.

- Photographs and artwork will create a history of the region;
- Recent events and activities will be displayed in photograph collages;
- Local area students' and residents' artwork will display prominently and be updated regularly;
- The corridors will be functional with non-slip flooring, grab bars, etc.;
- Resting/reading areas with alcoves will be common.

6.2.4 Dining Experiences

While many assisted living facilities maintain one common dining area, Oak Village will host two: one will be the main dining hall and the other a less formal gathering place offering a slightly different menu. In each of the dining rooms, residents will be able to order off of daily menus or, for an added cost, choose from an extensive array of custom menu options. The dining experience is crucial to the satisfaction of residents and families alike.

Typically, the dining areas in many assisted living facilities are cavernous and impersonal. Oak Village will take a different approach by breaking up some of the dining space to allow for more personal dining experiences as desired with tables separated by lattice screens and plants. In addition, it will be done in such a way as to allow for easy conversion back to larger open spaces to accommodate events such as community functions, pancake breakfasts, etc. The ability to have multifunctional spaces like this will allow for community functions which also

serve to integrate the facility into the larger community, bringing a lively experience to Oak Village and further driving its brand. Views will be available to the garden areas from each of the dining rooms

6.2.5 Other Physical Elements

Oak Village will incorporate an aviary with adjoining library as an escape area for residents to read a book and enjoy nature in a quiet, indoor setting. The library will be stocked initially with books from resident's personal collections and added to as requested/required to keep it fully stocked.

A pet policy will also be considered, though is not yet finalized. Notwithstanding, Oak Village will invite school children to bring their pets for show and tell or encourage staff members to bring their pets to work from time to time.

Investing in creating an environment that creates great experiences will yield rewards. Word will spread and lead to new admissions to Oak Village and happy employees will stay while desirable employees attracted.

6.2.6 Staffing

Consistent with the assisted living philosophy, Oak Village will have a non-professional staffing environment. That is, it will deliver housing with support rather than medical care.

Notwithstanding the non-professional environment, there are several key staff qualifications that Oak Village will demand. First of all, all staff and volunteers will go through extensive, internal, senior care training and come with the appropriate education for their respective roles to ensure knowledge, skills and abilities meet the highest industry standards and the expectations of Oak Village and its residents. For example, employees who provide personal assistance services will either have to have a college-level home support/resident care aide certificate or an equivalent combination of education and experience.

All staff will be trained for best-in-class service and expected to operate with the utmost in integrity, compassion and care at every resident interaction. Management will continue to coach to this and will maintain comprehensive documentation on staff selection and training and have it available for review by the Office of Assisted Living Registrar at all times.

7: MANAGEMENT TEAM

7.1 Key Personnel:

Board of Directors

The volunteer board will be comprised of community leaders and professionals in healthcare/gerontology, which will include Fraser Valley Region professional representatives including a lawyer, accountant, businessperson and community representatives.

Principals

The shareholders will include Stacy and Clinton Scott and one or more other to be named investors.

Administrator

The Administrator will be responsible for everyday operations, directing and supervising the work of staff in providing for the care and needs of the residents and will reporting directly to the shareholders with little or no reason to be in direct contact with residents. The Administrator will also be in charge of management recruitment and strategy planning in coordination with the principals. (\$100,000 salary)

General Manager

The General Manager will handle and record payments and makes sure that billing is adjusted according to the level of service and amenities that are chosen. In charge of day-to-day management and oversight of functional groups in the facility on a more granular level than Administrator, the General Manager will report directly to the Administrator. (\$65,000 salary)

Director of Resident Care

The Director of Resident Care will be responsible for oversight of caretakers who offer residents assistance when needed with daily chores and activities such as cleaning, cooking and laundry. The Director of Resident Care will ensure resident's needs are met regarding physical, mental, and psychosocial needs and will act as a liaison to ensure resident's needs are dealt with as they arise. The Director of Resident Care will report directly to the General Manager. (\$50,000 salary)

Director of Housekeeping

The Director of Housekeeping will be responsible for all housekeeping activities including personnel management and procurement of cleaning agents and equipment. (\$40,000 salary)

Activities Director

The Activities Director will be responsible for planning physical and social activity programs to encourage and stimulate residents. (\$40,000 salary)

Director of Food Services

The Director of Food Services will oversee the dining services and the coordination of wait staff. While this person will be responsible for meal planning, he or she may not necessarily be a registered dietician. The Director of Food Services will also be responsible for the lobby cappuccino bar and any catering functions at the facility. (\$60,000 salary)

Director of Maintenance

The Director of Maintenance will be in charge of routine maintenance items and oversight for anticipation of major project work to be done. (\$40,000 salary)

Shuttle Driver

The Shuttle Driver will be responsible for resident transportation to and from the facility for offsite events, shopping, doctor's appointments, etc. (\$28,000 salary)

7.2 Shareholders

The venture will be capitalized with both equity and conventional bank financing. The proposed shareholders are as follows pending formal approvals of overall business plan. Both Stacy and Clinton Scott are confirmed with the balance to be determined:

- Stacy Scott (\$425,000) – 23%
- Clinton Scott (\$400,000) – 22%
- To be Determined Investor(s) (\$1,000,000) – 55%

8: OVERALL SCHEDULE

Development Stage	Jun 2012 – Dec 2012 Incorporation/Registration of Oak Village Architectural work Site planning Zoning/Permitting Source construction financing from bank
Construction Period	Jan 2013 – Dec 2013 Recruitment of key management staff Marketing plan put in motion Website development Print ads in industry magazines Initiate referral network marketing
Pre-Opening	Jan 2014 – May 2014 Construction complete Website launch Advertise Open House Direct Marketing Campaign begins
Year 1 Opening	May 2014 First residents move in Evaluate marketing program and tweak Review operations
Year 2 Adjust Expenses	Reduce advertising expenses to maintenance levels Increase repairs and maintenance expense to accommodate continual upgrades and allow facility to remain current Increase wages by 3% to keep pace with inflation

Year 3

Adjust Expenses

Increase wages another 3% to keep pace with inflation

Strategic Review

Reconfirm marketing strategy

Review opportunities for additional ancillary services

9: CRITICAL RISKS, PROBLEMS AND ASSUMPTIONS

9.1 Key Risks and Assumptions

9.1.1 Cost Overruns or Delays with Construction

As with any sizeable construction project, there always exists the risk of materials overruns or delays due to myriad unanticipated events. Oak Village could experience unexpected overruns due to labour shortages; spiralling material costs, permitting issues, etc. To mitigate these risks, Oak Village will take a number of critical steps:

Oak Village will hire very well regarded, local developer *Kasper Development Corp.* (www.kaspercorp.ca) to oversee every aspect of facility development. Kasper has deep experience in the assisted living industry acting as General Contractor, Project Manager and Builder and would bring to bear over thirty years in the industry. They have completed over a dozen assisted living facilities in BC and have considerable experience dealing with local zoning, permitting and labour laws.

A fixed price contract will be entered into to ensure no ongoing *cost creep* justified by continuous change orders. The costs-to-date will regularly be compared to budget to ensure all is on track at all times and that if any costs begin to stray, they are caught early in the process.

9.1.2 Higher Vacancies than Anticipated

Despite the demonstrated demand for this type of facility in this region at this price point, it is possible vacancies could remain higher for a longer period of time due one or more of changing consumer preference, innovative new retirement living models, significant economic downturn or new regulatory hurdles.

While Oak Village feels the risk of higher vacancies remains remote given current trend lines (i.e. aging demographics, low vacancies in industry, move to less institutional models, etc.), it has taken the risks into consideration and feels they are well mitigated through development of a facility that can quite easily be converted to Multi-Unit Residential market housing subject to zoning accommodation.

9.1.3 Difficulty obtaining Financing

The scale of the project and start-up nature of the facility could make obtaining initial financing a challenge. While banks are quite willing to lend to these ventures, they often look to CMHC to insure them at start-up to mitigate exposure.

While securing financing is obviously a critical hurdle, Oak Village feels it's prospects of obtaining it are excellent for a number of reasons:

- First, Oak Village will have solid sponsorship from the shareholders who come with more than a decade of facilities financing and management experience;
- Second, the sector is characterized by low industry risk as vacancy rates are negligible and growth trends are consistent going back more than a decade;
- Third, the project will have excellent security to backstop financing as provided by the new, easily convertible multi-unit residential facility. In the event of dissolution, with relatively minor modifications, the facility could be converted to market housing and likely sold swiftly to pay down or eliminate any remaining debt;
- Finally, outside of Schedule A Banks, there are other senior lenders who would entertain financing a project of this nature including regional banks, large credit unions and life insurance companies who have all shown an appetite to do business in this sector.

10: FINANCIAL PLAN

10.1 Sources and Uses of Funds

Table 13 Sources and Uses

Sources		Uses	
Shareholders	\$1,825,000	Land Acquisition	\$1,500,000
		Building Construction	\$5,428,000
Mortgage Financing	\$5,428,000		
Capital Leases	\$250,000	Pre-Opening Marketing	\$125,000
Bank Operating Line	\$125,000	Opening Inventory	\$75,000
		Furniture and Decor	\$200,000
		Equipment	\$50,000
		Startup Working Capital (Cash)	\$250,000
Total	\$7,628,000		\$7,628,000

10.2 Pro-Forma Financial Statements

See Appendices

10.3 Financial Statement Assumptions and Analyses

10.3.1 Balance Sheet

Assumptions

- Oak Village will seek approval for a commercial mortgage equal to 78% of the value of the project or \$5.428 million. This leverage is in line with Schedule A Bank guidelines of maximum 80% leverage;
- The mortgage is expected to be amortized over 20 years, which is conservative given many new buildings are amortized over 25 years;
- The building will be amortized over 20 years;
- Oak Village will seek approval for \$250,000 in leases to finance couches, tables and chairs, kitchen equipment, TVs and computer equipment;
- It is anticipated amortization of the leases will average 7 years;

- Paid in capital will comprise \$425,000 from Stacy Scott, \$400,000 from Clinton Scott and \$1 million from other investors.

Analysis

- At step-off, the venture will be well-capitalized with a good combination of cash, debt and equity;
- The Current Ratio at day 1 will be **1.06:1**. This implies the company will be liquid and able to make ongoing payments as they come due, but with not much of a buffer. By Year 3, however, liquidity improves to a respectable **1.35:1**, which is more in line with industry norms of minimum **1.50:1** (First Research, November 2011);
- The Debt to Equity Ratio at day 1 shows the company will be highly levered at **2.94:1** versus industry averages of less than **2.00:1**. That noted, the initial leverage is not unusual during the start-up phase of a company in this industry where the property is owned. The sole driver of the high leverage is the significant up front cost to develop the property, driven in part by high local land costs. Notwithstanding the above, the leverage is shown to improve by Year 3 to **2.14:1** as debt is reduced and profits retained, which brings leverage much more in line with industry norms.

10.3.2 Income Statement

Assumptions

- Revenues are collected by direct deposit or credit card. There are no accounts receivable;
- Suppliers are paid by cash/cheque on time. Accounts payable are ignored, as major ongoing purchases are groceries;
- Inventory primarily comprises groceries and sundry items such as stationary and linens;
- No major capital expenditures are anticipated in the first three years of the new facility;
- No room rate increases in first three years;
- Labour cost increases are expected to mirror inflation (i.e. 3% per year);
- Annual depreciation on building is straight line over 25 years;
- \$5.428 million mortgage financing over 20 years at 5%;
- \$1.5 million land acquisition cost to be financed by shareholders (see Startup Costs).

Analysis

- Unlike many new ventures, at step-off, Oak Village is expected to enjoy reasonable profitability given industry dynamics. Assisted living facilities are often viewed like multi-unit rental properties where market dynamics essentially drive pricing and near full occupancy. As long as the product is good and rent is priced appropriately (discussed earlier), Oak Village should be able to generate a small profit in Year 1 and beyond;
- The three shareholders are expected to receive a return on investment of **3.60%** in Year 1, improving to **11.30%** in Years 2 and 3. While this may appear a little low, it is worth noting there are expected to be long term returns on the real estate as well, but those are not factored into the calculation;
- The pre-tax return on sales will be **1.90%** in Year 1 and **5.40%** in each of Year 2 and Year 3. This is in line with industry averages of **6.00%** (First Research, November);
- Because Oak Village is taking out a large mortgage for its building, it is important to show sufficient cash flow to cover principal and interest payments. As shown, Debt Service Coverage will be **1.14:1** in Year 1 improving to **1.41:1** and **1.42:1** in Years 2 and 3 thereafter. Industry norms and conventional bank financing dictate **1.25:1** as sufficient coverage (First Research, November 2011).

10.3.3 Cash Flow Statement

Assumptions

- While shareholder injections show as point in time on Month 1, same actually occurs some months prior when land is acquired;
- Mortgage financing represents the takeout amount of the fully utilized construction financing including capitalized interest;
- Pre-opening marketing costs occur during construction period, but for simplicity, are shown as a point in time cash outflow at mortgage funding. These costs will be borne out of pocket (i.e. shareholder funds) until that date.

Analysis

- Despite the upfront costs that will be borne by Oak Village, it is expected the shareholders' initial investments coupled with conventional bank financing will be sufficient to cover pre-opening and opening costs;

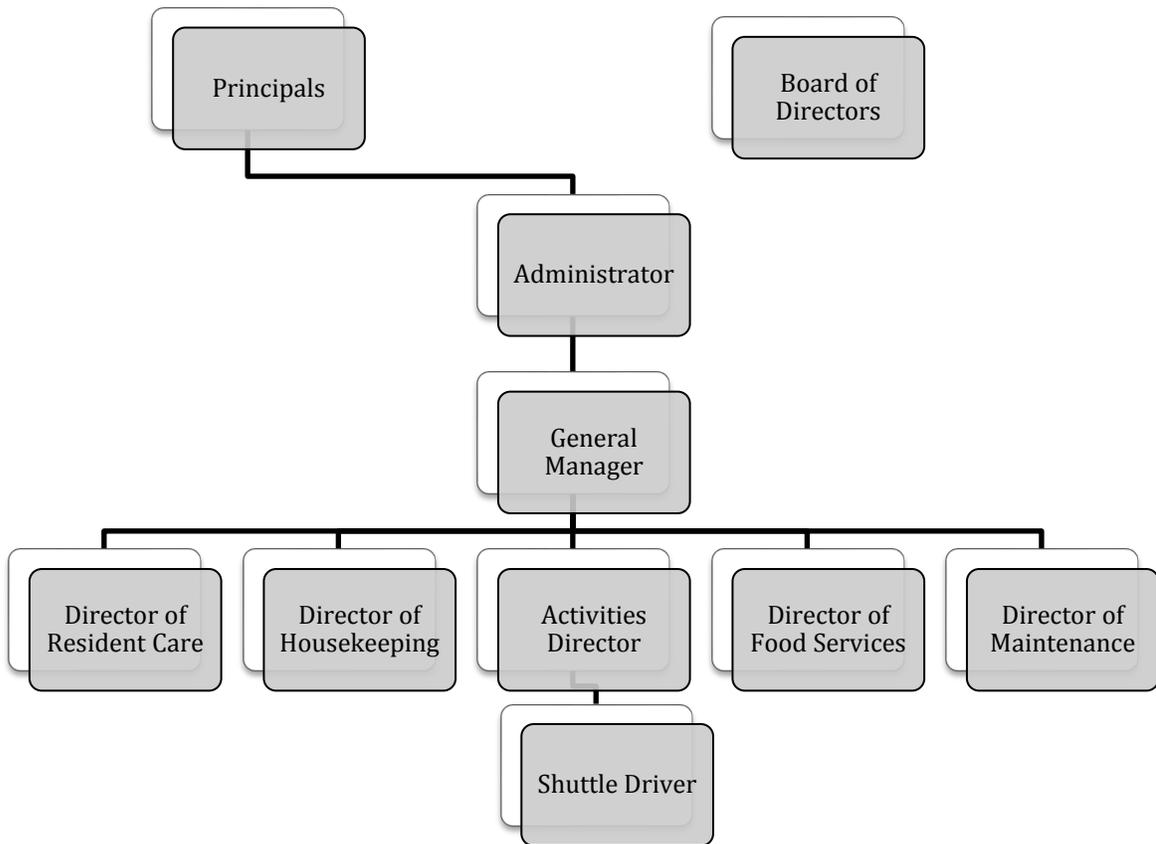
- A \$125,000 bank operating line will be secured to cover the cash shortfall of \$103,000 in Month 1 and operating cash flows will have the company out of the operating line by Month 6;
- Oak Village is expected to be generating positive cash flow by Month 2, subject to 85% occupancy, which is deemed easily achievable given industry dynamics and pre-marketing efforts;
- The company is expected to generate positive cash flow of \$378,360 in Year 1, \$901,518 in Year 2 and \$1,424,676 in Year 3.

11: EXIT STRATEGY

The long-term goal of Oak Village is to build a brand and an operation that sets a new standard in the assisted living industry in B.C., after which, a sale to a strategic buyer will be pursued. This is anticipated to occur within ten years.

It is believed a strategic buyer will be the best possible acquirer for Oak Village given synergies of operations and the value to a strategic of being able to enter a new market at a fraction of the cost and risk given existing operations. Ongoing consolidation in this industry suggests there will be a healthy market for this type of divestiture when the time comes.

Appendix 1: Organization Chart



Appendix 2: Balance Sheet

Oak Village Residences				
Years 1 - 3				
(all numbers in \$000)				
ASSETS	Opening	Year 1	Year 2	Year 3
Current Assets				
Cash	\$250	\$301	\$436	\$460
Net accounts receivable	\$0	\$0	\$0	\$0
Inventory	\$75	\$50	\$50	\$50
Total Current Assets	\$325	\$351	\$486	\$510
Long Term Assets				
Furniture and fixtures	\$250	\$200	\$150	\$100
Land	\$1,500	\$1,500	\$1,500	\$1,500
Buildings (net of depreciation)	\$5,428	\$5,211	\$5,002	\$4,802
Total Long Term Assets	\$7,178	\$6,911	\$6,652	\$6,402
TOTAL ASSETS	\$7,503	\$7,262	\$7,138	\$6,912
LIABILITIES				
Current Liabilities				
Bank operating line	\$0	\$0	\$0	\$0
Accounts payable	\$0	\$0	\$0	\$0
Income Taxes payable	\$0	\$23	\$72	\$72
Current portion of capital leases	\$36	\$36	\$36	\$36
Current portion of Mortgage Payable	\$271	\$271	\$271	\$271
Total Current Liabilities	\$307	\$330	\$379	\$379
Long-term Liabilities				
Capital leases	\$214	\$178	\$142	\$106
Mortgage	\$5,157	\$4,886	\$4,615	\$4,344
Total Long-term Liabilities	\$5,371	\$5,064	\$4,757	\$4,450
SHAREHOLDERS' EQUITY				
Paid in capital	\$1,825	\$1,825	\$1,825	\$1,815
Retained earnings	\$0	\$0	\$43	\$134
Net Income	\$0	\$43	\$134	\$134
Total Shareholders' Equity	\$1,825	\$1,868	\$2,002	\$2,083
TOTAL LIABILITIES & EQUITY	\$7,503	\$7,262	\$7,138	\$6,912

Appendix 3: Income Statement

Oak Village Residences Years 1-3 (all numbers in \$000)

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Year 1	Year 2	Year 3
Occupancy															
% Occupied (before vacancy)	85%	85%	85%	85%	85%	90%	90%	90%	95%	95%	100%	100%	100%	100%	100%
% Occupied (after vacancy)	85%	85%	85%	85%	85%	90%	90%	90%	95%	95%	95%	95%	95%	95%	95%
# Residents	68	68	68	68	68	72	72	72	76	76	76	76	76	76	76
Revenue															
1 - Bedroom Units	72,000	72,000	72,000	72,000	72,000	72,000	72,000	72,000	72,000	72,000	72,000	72,000	864,000	864,000	864,000
2 - Bedroom Units	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	1,620,000	1,620,000	1,620,000
Ancillary Services	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	96,000	120,000	120,000
Gross Revenue	215,000	215,000	215,000	215,000	215,000	215,000	215,000	215,000	215,000	215,000	215,000	215,000	2,580,000	2,604,000	2,604,000
Less Vacancy Factor	32,250	32,250	32,250	32,250	32,250	21,900	21,900	21,900	10,750	10,750	10,750	10,750	268,750	130,200	130,200
Net Revenue	182,750	182,750	182,750	182,750	182,750	193,500	193,500	193,500	204,250	204,250	204,250	204,250	2,311,250	2,473,800	2,473,800
Operating Expenses															
Direct Costs:															
Food and Beverage	26,520	26,520	26,520	26,520	26,520	28,080	28,080	28,080	29,640	29,640	29,640	29,640	335,400	335,400	335,400
Total Direct Costs:	26,520	26,520	26,520	26,520	26,520	28,080	28,080	28,080	29,640	29,640	29,640	29,640	335,400	335,400	335,400
Personnel:															
Administrative & General	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	90,000	92,700	95,481
Maintenance	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000	61,800	62,700
Resident Care Services	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	240,000	247,200	248,000
Kitchen and Meal Services	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	72,000	74,160	72,000
Activities	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	300,000	309,000	300,000
Other	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	96,000	98,880	96,000
Total Personnel:	71,500	71,500	71,500	71,500	71,500	71,500	71,500	71,500	71,500	71,500	71,500	71,500	858,000	883,740	896,181
Administrative:															
Repairs and maintenance	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000	25,000	25,000
Bank Charges and Fees	300	300	300	300	300	300	300	300	300	300	300	300	3,600	3,600	3,600
Insurance	3,655	3,655	3,655	3,655	3,655	3,870	3,870	3,870	4,085	4,085	4,085	4,085	46,225	48,805	48,805
Information Systems	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000	18,000	18,000
Legal	850	850	850	850	850	850	850	850	850	850	850	850	10,200	10,200	10,200
Accounting	750	750	750	750	750	750	750	750	750	750	750	750	9,000	9,000	9,000
Office supplies	500	500	500	500	500	500	500	500	500	500	500	500	6,000	6,000	6,000
Advertising	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000	15,000	15,000
Marketing/promotion	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000	18,000	18,000
Vehicle and licenses	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400	14,400	14,400
Training and development	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000	18,000	18,000
Total Administrative:	15,255	15,255	15,255	15,255	15,255	15,470	15,470	15,470	15,685	15,685	15,685	15,685	185,425	186,005	186,005
Other:															
Mortgage Interest	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	264,000	257,000	244,000
Amortization	23,097	23,097	23,097	23,097	23,097	23,097	23,097	23,097	23,097	23,097	23,097	23,097	277,160	277,160	277,160
Utilities	5,483	5,483	5,483	5,483	5,483	5,805	5,805	5,805	6,128	6,128	6,128	6,128	69,338	73,208	73,208
Property Taxes	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	100,000	100,000	100,000
Equipment Leases	2,976	2,976	2,976	2,976	2,976	2,976	2,976	2,976	2,976	2,976	2,976	2,976	35,714	35,714	35,714
Management Fees	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000	120,000	120,000
Total Other:	71,889	71,889	71,889	71,889	71,889	72,211	72,211	72,211	72,534	72,534	72,534	72,534	866,212	863,082	850,082
Total Operating Expenses	185,164	185,164	185,164	185,164	185,164	187,261	187,261	187,261	189,359	189,359	189,359	189,359	2,245,037	2,266,227	2,287,668
Operating Income (Loss)	(2,414)	(2,414)	(2,414)	(2,414)	(2,414)	6,239	6,239	6,239	14,891	14,891	14,891	14,891	66,213	205,573	206,132
Income Taxes	(845)	(845)	(845)	(845)	(845)	2,184	2,184	2,184	5,212	5,212	5,212	5,212	23,174	71,951	72,148
Net Income (Loss) After Tax	(1,569)	(1,569)	(1,569)	(1,569)	(1,569)	4,055	4,055	4,055	9,679	9,679	9,679	9,679	43,038	133,622	133,984

Appendix 4: Cash Flow Statement

Oak Village Assisted Living

Year 1-3
(all numbers in \$500)

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Year 1	Year 2	Year 3
Receipts															
1 - Bedroom Units	72,000	72,000	72,000	72,000	72,000	72,000	72,000	72,000	72,000	72,000	72,000	72,000	864,000	864,000	864,000
2 - Bedroom Units	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	1,620,000	1,620,000	1,620,000
Ancillary Services	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	96,000	96,000	96,000
Gross Receipts	215,000	215,000	215,000	215,000	215,000	215,000	215,000	215,000	215,000	215,000	215,000	215,000	2,580,000	2,604,000	2,604,000
Less Vacancy Factor	32,250	32,250	32,250	32,250	32,250	21,500	21,500	21,500	10,750	10,750	10,750	10,750	268,750	130,200	130,200
Shareholder Injections	1,620,000														
Mortgage Financing	5,428,000														
Capital Leases	250,000														
Total Receipts	7,685,750	182,750	182,750	182,750	182,750	193,500	193,500	193,500	204,250	204,250	204,250	204,250	2,311,250	2,473,800	2,473,800
Payments															
Direct Costs:															
Food and Beverages	26,520	26,520	26,520	26,520	26,520	26,520	26,520	26,520	26,520	26,520	26,520	26,520	318,240	335,000	335,000
Personnel:															
Administrative and General	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	90,000	90,000	90,000
Maintenance	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000	60,000	60,000
Resident Care Services	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	240,000	240,000	240,000
Kitchen and Meal Services	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	72,000	72,000	72,000
Activities	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	300,000	300,000	300,000
Other	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	96,000	96,000	96,000
Administrative:															
Repairs and maintenance	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000	20,000	20,000
Bank charges and Fees	300	300	300	300	300	300	300	300	300	300	300	300	3,600	3,600	3,600
Insurance	3,655	3,655	3,655	3,655	3,655	3,670	3,670	3,670	4,065	4,065	4,065	4,065	46,225	46,925	46,925
Information Systems	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000	18,000	18,000
Legal	850	850	850	850	850	850	850	850	850	850	850	850	10,200	10,200	10,200
Accounting	750	750	750	750	750	750	750	750	750	750	750	750	9,000	9,000	9,000
Office supplies	500	500	500	500	500	500	500	500	500	500	500	500	6,000	6,000	6,000
Advertising	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000	24,000	24,000
Marketing/promotion	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000	18,000	18,000
Vehicles and licenses	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400	14,400	14,400
Training and development	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000	18,000	18,000
Other:															
Mortgage Interest	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	264,000	257,000	257,000
Utilities	5,463	5,463	5,463	5,463	5,463	5,463	5,463	5,463	5,463	5,463	5,463	5,463	65,556	73,200	73,200
Property Taxes	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	100,000	100,000	100,000
Equipment Leases	1,786	1,786	1,786	1,786	1,786	1,786	1,786	1,786	1,786	1,786	1,786	1,786	21,429	21,429	21,429
Management Fees	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000	120,000	120,000
Onetime Costs:															
Land Acquisition	1,500,000														
Construction Takeout Mortgage	5,428,000														
Pre-Opening Marketing	125,000														
Pre-Opening Staff Costs	75,000														
Furniture and Decor	200,000														
Equipment	50,000														
Working Capital	250,000														
Total Payments	7,768,877	169,877	169,877	169,877	169,877	161,092	161,092	161,092	161,307	161,307	161,307	161,307	1,932,890	1,950,642	1,950,642
Cashflow Surplus/Deficit (L)	(103,127)	21,873	21,873	21,873	21,873	32,408	32,408	32,408	42,943	42,943	42,943	42,943	378,360	523,158	523,158
Opening Cash Balance	0	(103,127)	(81,254)	(59,381)	(37,508)	(15,635)	16,773	49,181	81,589	124,532	167,475	210,417	0	378,368	901,518
Closing Cash Balance	(103,127)	(81,254)	(59,381)	(37,508)	(15,635)	16,773	49,181	81,589	124,532	167,475	210,417	253,360	378,368	901,518	1,424,676

Appendix 5: Development Costs

Oak Village Residences						
	Wt Avg Sq Ft per Unit	# Units	Total Unit Sq Ft	% Common Areas	Tot Sq Ft	% of Tot Sq Ft
Assisted Living	600	50	30,000	25.0%	37,500	100.0%
Total		50	30,000		37,500	100.0%

Estimated Construction Costs per Sq Ft	\$ 125.00
Total Estimated Construction Costs	\$ 4,687,500

Preliminary Estimate of Development Costs	
Total Estimated Construction Costs	\$ 4,687,500
Estimated Land Costs	\$ 1,500,000
Total Estimated Development Costs	\$ 6,187,500

Detailed Development Budget	
	Estimated Costs
Acquisition Costs	
Land	\$ 1,500,000
Building(s)	-
Subtotal - Acquisition Costs	\$ 1,500,000
Construction/ Rehabilitation Costs	
Site Work	450,000
Structure(s)	3,941,429
Elevator	15,000
Off-Site Improvements	15,000
Furniture, Fixtures and Equipment (FF&E)	45,000
Construction Contingency 5.00%	221,071
Total - Hard Construction Costs	\$ 4,687,500
General Requirements 5.00%	234,375
Subtotal Construction	\$ 4,921,875
Construction Financing Costs	
Construction Bond	\$ 15,000
Construction Loan Interest	258,511
Construction Loan Origination Fee	50,000
Subtotal-Construction Financing Costs	\$ 323,511
Soft Costs - General	
Architectural Fees	\$ 25,000
Engineering Fees	24,000
Surveys/Appraisals/Environmentals	12,500
Project Audit Fee	5,000
Legal Fees	7,500
Local Development Impact Fees	9,000
Permit Processing Fees	6,000
Utility Connections	18,000
Marketing	20,000
Total - Soft Costs	\$ 127,000
Plus Contingency % for Soft Costs 5.00%	6,350
Subtotal-Soft Costs	\$ 133,350
Developer Costs	
Developer Fee and Overhead	50,000
Subtotal-Developer Costs	\$ 50,000
TOTAL PROJECT COSTS	\$ 6,528,737

PROJECT SUMMARY	
	Per Sq. Foot
Total Construction Costs	\$125.00
Total Project Costs	\$164.77

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