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SENIOR HOUSING MARKET EXHIBITING POSITIVE TRENDS

All sectors of the senior housing market have been showing positive trends of late and attracting outside capital once again. Is another development boom in the offing? Probably not like we saw in the mid to late 1990's, but we are likely to see more development going forward.

Acquisitions continue to show strong demand across all property types with especially strong market strength for the higher quality properties. Financing is also plentiful for all property types and across most quality levels.

The assisted living housing market has had a tremendous run-up in value recently especially for the newer, state of the art properties. There continues to be strong investor demand for this asset class. This is unlikely to change anytime soon as long as occupancies continue to rise. Even with little reimbursement risk, cap rates will probably not drop much further into single digits even for the highest quality properties.

The nursing home market has also come back somewhat. Favorable real estate and funding markets along with a decent reimbursement environment is fueling this optimism. Cap rates will never get into the high single digits like assisted living, but have been pretty steady regionally as well as nationally, averaging around 13%.

Independent living continues to be a growing segment with a positive outlook. Operating margins remain stable. Low interest rates continue to support this segment's performance, as do slowly rising occupancy rates.

Macroeconomic issues affecting all areas of healthcare are the increased labor costs and the nursing labor pool shortage. Another challenge is the increasing cost and availability of liability insurance across the board. This will continue to adversely impact operating results for all senior living operators.

As baby boomers move into their golden years, they will have an impact on the new development of senior housing properties. We will likely see more amenity-laden properties including more fitness centers, low-impact pools, and more computer rooms. The most successful facilities will have a solid degree of visibility. They will be accessible in a location that is convenient for adult children and family to visit. They will be built close to institutions of higher learning and near cultural venues, offering residents considerable opportunity to be involved in community causes. And last but not least today's consumer is looking for larger living units with more of the amenities of "home" with full baths and walk-in closets as requisites.

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