Senior Housing Trends

Grubb & Ellis|Apex Commercial
Senior Housing Division

Midwest Region
2010 Forecast

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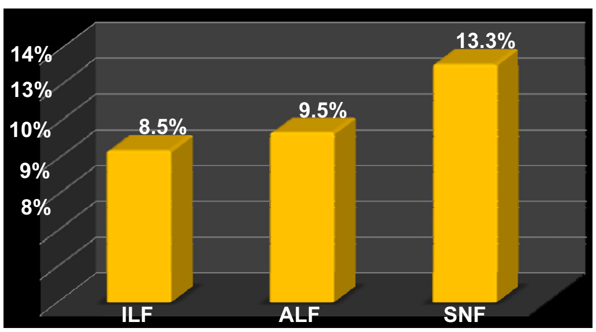
Apex Commercial

Cap Rates by Property Type
Average Cap Rate Nationwide



Source: NIC (National Investment Center
Quarter Ending 6/30/09

After the past two years and all the challenges that we've faced, let's start with the sector fundamentals because they are positive and trending ever moreso. The demographics that are impacting the senior housing sector are solid. In twenty years the elderly population will likely double (those 65 and over). This will lead to seniors becoming 20 percent of the overall population in the United States. Even more positive trends will be exhibited by the oldest segment, those 85 and over, as they are expected to grow the quickest of all.

However, we all know that the recession of the past two years has had negative consequences for the three primary senior housing types. The sector most impacted has been the Independent Living Facility sector, where occupancy has dipped downward the most. Many seniors have delayed a move to the independent sector because of the residential housing market weaknesses and because of the overall decline in consumer confidence. Because assisted living is more need based, it has been spared somewhat to a lesser degree. Nonetheless, those serving the frail elderly and the dementia care facilities both have seen occupancies suffer. Resourceful operators have responded to the influx of a more frail clientele by increasing service income. The impact on occupancy in the skilled nursing sector has been less noticeable, as the majority of residents are funded by Medicaid, Medicare and private insurance.

With regards to Capitalization Rates, those in the senior housing market have tended to move in concert with other asset classes. The sole deviation has been skilled nursing facility Cap Rates that have remained amazingly consistent at or around 13 percent. Looking ahead, here is what could impact Cap Rates going forward. The amount of loans coming due in the next three to four years will be significant. Many may not be able to be refinanced, but instead will either be renegotiated or will go into default. This will have some upward pressure on Cap Rates. In addition, the potential of rising inflation and interest rates is very real. That is why we believe Cap Rates will continue to rise somewhat in 2010.

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Independently Owned and Operated

We believe occupancy levels bottomed out in the latter part of 2009. We expect that occupancy will increase in 2010 and 2011 as supply tightens. Further, rent levels will moderately increase as well.

While sales have slowed significantly in 2008 and 2009, we expect 2010 to see solid improvement over last year. As the credit freeze begins a slow thaw, don't expect things to revert to 2006 - 2007. Underwriting terms will be tougher. Underwriting eligibility will be tighter and loan costs will increase. In addition everything is taking longer to get done than at any time in my eighteen years in the business. The good news is there are lenders with money to lend.

Continue working to improve your internal operations. These tough times serve to reinforce the fact that now more than ever we need to improve occupancies through any and all avenues. In addition, keep working towards any and all expense reductions. Remember, the increased revenue and decreased expenses will drop down right into your bottom line!

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