

# Senior Housing Trends

Grubb & Ellis | Apex Commercial, Inc.  
Senior Housing Division

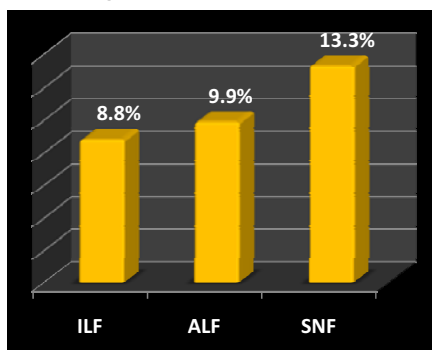
# Midwest Region

Mid-Year 2010



**GRUBB & ELLIS.**  
Apex Commercial

**Cap Rates by Property Type**  
Average Cap Rate Nationwide



Source: NIC (National Investment Center)  
Quarter Ending 9/30/09

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**T**he economy, the economy, the economy. It is what is seemingly on everyone's mind these days. We asked Grubb & Ellis Senior Vice President and our Chief Economist, Robert Bach, for his perspective. Here is what he had to say: "The question facing the economy, and by extension commercial real estate, is whether the recovery has built up enough momentum to keep going after the stimulus package and the inventory connection cycle fade. More recently, the question has morphed into whether the US economy can withstand a hit from Europe in the form of financial contagion and slowing growth if not an outright recession in the Eurozone countries. The answer lies in job creation, the missing piece to make the domestic recovery - under way since the third quarter of last year - self-sustaining. So far the jury is still out (The May Labor Department employment report showed only 41,000, less than 10% of the total, were private sector jobs)." He goes on to say that while "the employment news could be better, the report is in line with a sluggish economic recovery versus one that is V-shaped. The silver lining is that a weak employment report is likely to keep a lid on interest rates, inflation and energy prices, which should help support continued, moderate economic expansion."

Keep in mind that commercial real estate almost always lags the economy by a full year. A full recovery cannot occur until two things occur:

1. Steady job creation
2. Liquidity in the credit markets

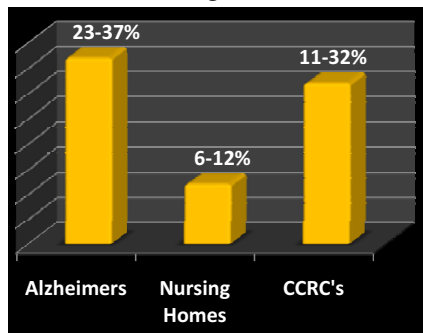
Liquidity is the fuel for the engine in the commercial real estate market. And it is slowly coming around.

The National Investment Center (NIC) for the Senior Housing & Care Industry reports on occupancies quarterly. In their most recent report they indicate that occupancy rates fell in the first quarter of 2010. The good news was that rent growth continued to rise, albeit slightly in the same period. Mean occupancies in assisted living facilities for stabilized properties was 88%. Independent Living Facilities came in at 87%, while Nursing Homes were at 84% nationally. Construction starts have slowed considerably over the past 12 months but it will take a while to see and feel its impact in the marketplace. We still believe that occupancy levels will begin to increase before year end 2010.

Cap Rates continue to rise as we predicted in our Grubb & Ellis | Apex Commercial, Inc. Senior Housing Trends 2010 Midwest Region Forecast. As we stated in the January forecast, the amount of loans coming due in the next 3-4 years will be significant, with some needing to be renegotiated or they will go into default. This will continue to have upward pressure on Cap Rates overall.

## NOI/EBITDAR

## Profit Margin Benchmarks

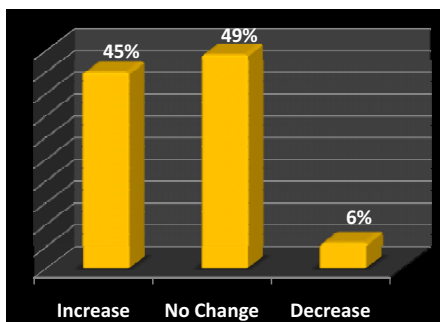


Source: Moore Diversified Services, Inc.  
Fort Worth, Texas

The acquisition market continues to slowly improve, albeit very methodically. Some sellers do not want to sell into a market with rising Cap Rates, while many buyers were attempting to “cherry-pick” the market. This disconnect between sellers and buyers will need to narrow to increase the merger and acquisition markets velocity in the near future.

While it is true that quality operators interested in buying profitable senior housing can often get funding, the Wall Street Journal writes that Washington should and could have done much more to alleviate the credit freeze. In fact they reported recently that the “value of large bank loans to small businesses shrank 9% between 2008 and 2009, more than double the 4.1% drop” off in overall lending. So said a report recently released by the Congressional Oversight Panel. The Chairwoman, Elizabeth Warren, said that “*big banks pulled back on everyone, but they pulled back harder on small business.*” They point out that “underwriting standards at banks have tightened so much that small business, which are considered riskier investments, can’t squeeze through.” The upside to this? Operators with strong track records and with the requisite down payments of 20-30% can indeed find lenders willing to lend. Just don’t expect standards to fall back to 2005-2007 any time soon.

Wisconsin Manufacturers & Commerce member CEOs were asked:  
Number of employees in the next 12 months?



Source: WMC 2010 Economic Outlook Survey - Journal Sentinel

Internal fundamentals need to be reviewed and whenever possible, improved during these tough times. Small census/occupancy improvements as well as even small expense reductions can be significant for you long-term. These improvements will serve you well going forward.

## Positive Thought for the Day

*“The glory of friendship is not the outstretched hand, nor the kindly smile, nor the joy of companionship; it is the spiritual inspiration that comes to one when he/she discovers that someone else believes in him/her and is willing to trust him/her with his/her friendship.”* Ralph Waldo Emerson

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