

Seniors Housing

RESEARCH REPORT

Marcus & Millichap

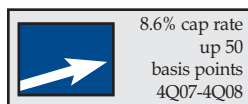
First Half 2009

SIGNS OF STABILIZING DEMAND EMERGING IN SENIORS HOUSING

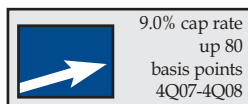
The effects of the national economic slowdown are weighing on the seniors housing market, pushing occupancy levels lower across all property subtypes. In the assisted living and dementia care segments, rising unemployment and a significant portion of homeowners struggling with mortgage payments are causing some seniors to opt out of seniors housing units and move in with their children to help cover costs. In addition, the number of seniors deciding to stay employed longer, due in part to shrinking net worth, will continue to soften occupancy levels in the independent living arena through the end of the year. Lower home prices also will strain the sector as potential retirees delay a transition into independent living facilities until some of their home values are regained, which could take several years. Nonetheless, occupancies are converging in the low-90 percent range, an indication that demand may be starting to stabilize and the market is positioned for a recovery.

Investment activity dropped dramatically in 2008 and is expected to remain at current levels this year; total dollar volume fell nearly 90 percent last year to less than \$2 billion. Although much of the decrease can be attributed to tighter credit markets, several large buyers have moved to the sidelines as turmoil in the stock markets plunders REITs of cash reserves. As a result, mostly smaller deals will transpire this year, led by well-capitalized buyers seeking value-add opportunities. If institutional activity does occur, it will likely be driven by the fate of the Sunrise portfolio. Currently, the maligned REIT is selling enough properties to maintain operational cash while financing deadlines continue to be extended. A structured dissolution could emerge, however, enticing some buyers into the market to grab top-tier properties in what may be the only opportunity to acquire such assets this year.

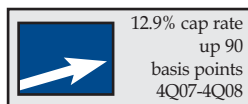
SENIORS HOUSING MARKET HIGHLIGHTS¹



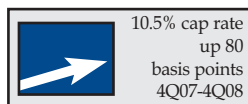
Independent Living (IL): Weakness in the residential market and depleted investment accounts are delaying retirement plans for many seniors. As a result, occupancy levels in the IL sector fell 220 basis points in 2008 to 93.1 percent. The average revenue per occupied unit climbed 4.7 percent during that time to \$2,502 per month.



Assisted Living (AL): The AL sector has struggled, as more unemployed workers have taken over care responsibilities of their parents to save costs. Last year, occupancy in the segment dropped 170 basis points to 93.8 percent, while the average revenue per occupied unit increased 5.2 percent to \$3,612 per month.



Skilled Nursing (SN): As expected, demand for SN beds has remained steadier than in other seniors housing subtypes during the economic downturn. In 2008, occupancy fell just 90 basis points to 92.9 percent. Average per-diem revenue, meanwhile, ticked up 4.7 percent to \$229 per bed.

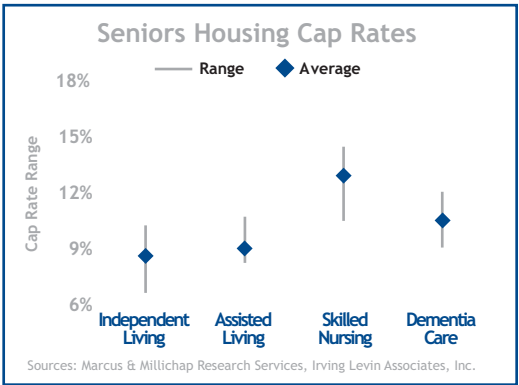


Dementia Care (DC): Over the past 12 months, occupancy in the DC segment has declined 260 basis points to 93.8 percent, the largest decrease among all subtypes. Average revenue growth was 3.7 percent during that period, or \$5,409 per occupied unit.



INDEPENDENT LIVING FACILITIES

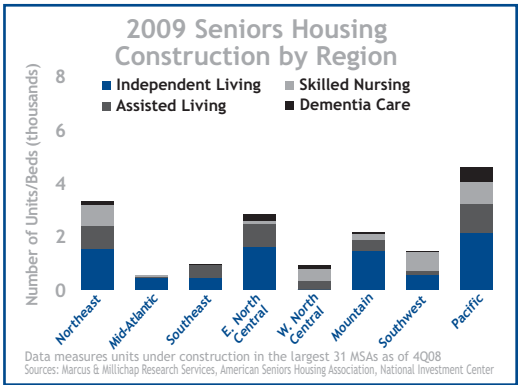
Occupancy levels in the IL segment retreated 220 basis points in 2008 to 93.1 percent, according to NIC MAP. Heightened competition from alternative housing options and steep declines in the stock market have been the largest contributors to the rise in vacancy, while falling investment portfolios are causing some ready-to-retire seniors to pause. Weakness in IL facilities has been consistent in the past six months, as occupancy has slipped 110 basis points. Nonetheless, the average monthly revenue has climbed 4.7 percent during the last year to \$2,505 per occupied unit. Signs of easing are emerging, however, as revenues rose just 0.6 percent in the fourth quarter of 2008. In the high-priced Northeast region, revenues declined by 0.8 percent in that time. The effect of new supply on occupancy is expected to diminish in 2009 as construction activity stalls. Since peaking in the first quarter of last year, the number of units under way has dropped 30 percent to 8,300.



The year-over-year deceleration of sales velocity in the IL sector has been more significant than in any other subtype, mostly due to the overall turmoil in the commercial real estate industry. The median price has fallen just 6 percent in the past year to \$137,500 per unit, though figures are based on only a handful of transactions. Average cap rates increased 50 basis points in 2008 to the mid-8 percent range, with further upward pressure expected during the coming months as operations continue to soften and the cost of capital remains elevated. Velocity in the Southeast, where alternative retirement living options are pronounced and occupancy rates are the lowest in the country, is projected to stay below the national average until some of the competitive stock is absorbed.

ASSISTED LIVING FACILITIES

Operations in AL facilities have weakened, though the decline has been more modest than in the IL segment. Per NIC MAP, occupancy in the sector has fallen 170 basis points over the last 12 months to 93.3 percent, including a 50 basis point drop in the fourth quarter. The Pacific region posted the greatest year-over-year decrease in occupancy of 300 basis points to 91.1 percent; nearly all of the dip can be attributed to the nearly 3 percent increase in stock during the past year, though the number of units under construction has abated since the second quarter of last year. Nationwide, under way development has dropped 13 percent from mid-2008, with further cooling expected going forward. Despite falling occupancy levels, the average monthly revenue has climbed 5.2 percent to \$3,612 per occupied unit in the past 12 months. Similar to the IL sector, however, revenue gains slowed in the fourth quarter to 1 percent.



The investment arena in the AL segment was mixed in 2008, as few listings met the goals of buyers. Most investors were seeking top-tier assets for long-term hold strategies, though owners of these properties are waiting out the downturn. As a result, a greater proportion of lower-tier assets changed hands last year, pushing the median price down 30 percent to \$98,400 per unit. Average cap rates for AL deals advanced 80 basis points to the low-9 percent range in the most recent 12-month period due to the change in the property mix. Going forward, investors will likely favor the AL sector over other seniors housing subtypes, as government regulations in the segment are not nearly as stringent as in skilled nursing facilities, and AL properties are less susceptible to changes in demand. In fact, the cohort of retirees that needs assistance with no more than two activities of daily living (ADLs) is growing, which should support long-term operations.

¹Occupancy, rent and construction data throughout this report measure the 31 largest MSAs unless otherwise noted. NIC MAP Data and Analysis Service, 4Q 2008, www.nicmap.org

SKILLED NURSING FACILITIES

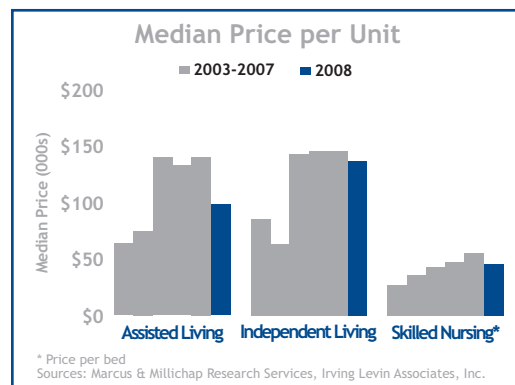
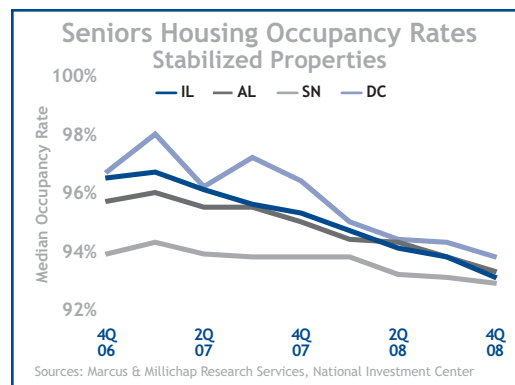
According to NIC MAP, development activity has fallen 13 percent in the SN sector since the second quarter of 2008, when seniors housing construction peaked. Nearly half of the new rooms are in the Pacific and Southwest regions, which have become increasingly desirable for retirees and, in turn, builders. Despite the supply-side pressure on occupancy in these areas, fundamentals have been mixed. In the Southwest, occupancy has remained flat over the last 12 months at 86.7 percent. Properties in the Pacific region, however, have recorded a 170 basis point drop in occupancy to 91.5 percent during the past year. Marketwide, occupancy has decreased just 90 basis points to 92.9 percent due to steady demand, making SN the strongest-performing subtype in the seniors housing sector. Over the past 12 months, the average per-diem revenue has climbed 4.6 percent to \$229 per occupied bed, including a 1.3 percent increase in the fourth quarter. In the Mountain region, a 20 basis point year-over-year rise in occupancy has helped owners realize a 10.6 percent gain in revenues to \$199 per occupied bed, the largest improvement in the country.

The investment market in the SN segment, which is largely considered recession-resistant, is feeling the effects of the current downturn, even though signs of stabilization have emerged during the past six months. In 2008, the median price dropped 17 percent to \$45,500 per bed, and average cap rates jumped 90 basis points into the high-12 percent range, with some deals closing above 13 percent. At least some of the increase in initial yields can be attributed to a change in the mix of properties that traded. Owners of well-performing assets with a strong census have been reluctant to place their facilities on the market, opting to wait for a rebound in prices. As a result, investors who have existing relationships with local banks and are seeking value-add opportunities have made up a larger proportion of the buyer pool in the past year, a trend that is expected to persist over the next few months while the credit markets remain tight.

DEMENTIA CARE FACILITIES

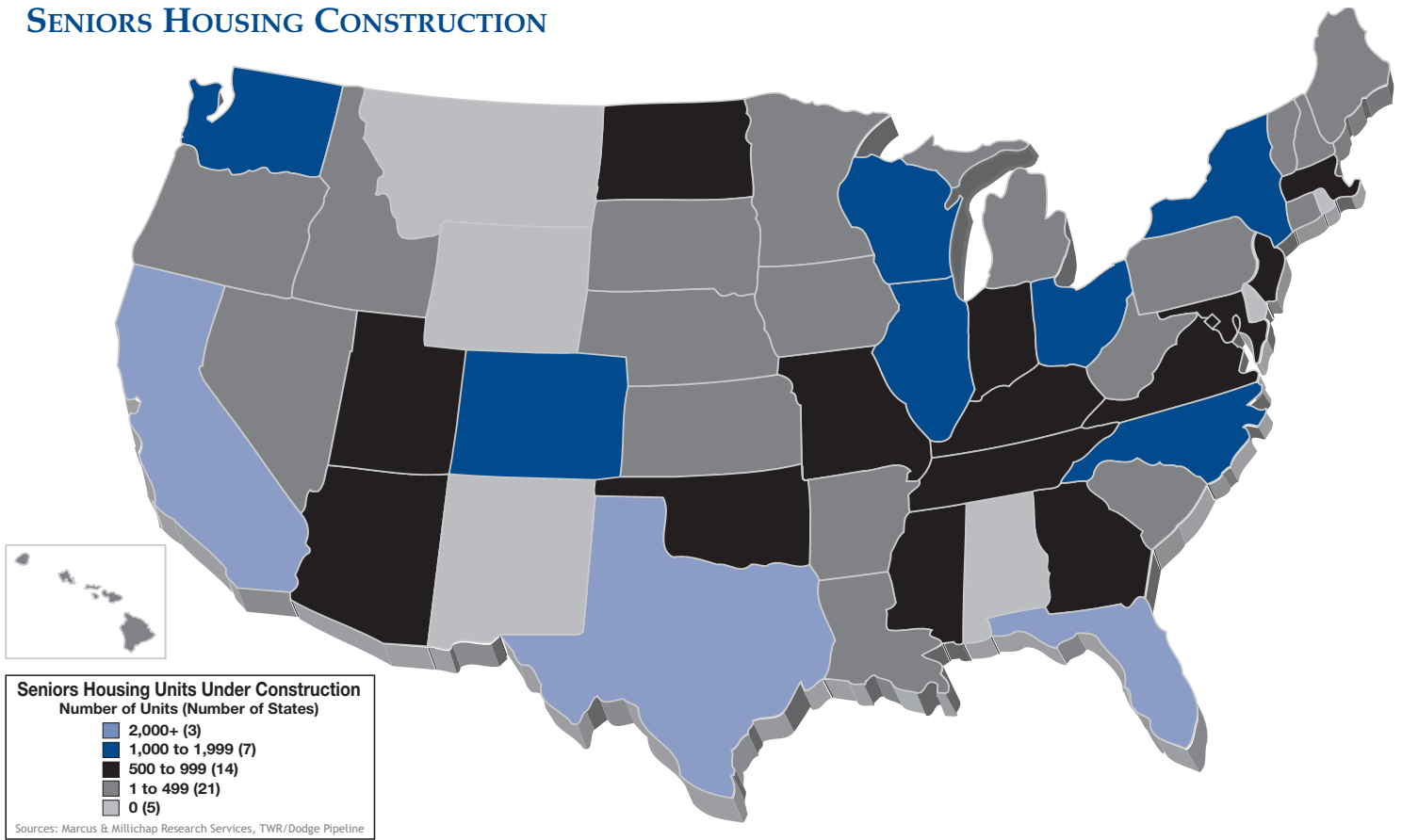
The DC segment continues to emerge as a specialized component of seniors housing, though fundamentals have weakened with the downturn in the economy. NIC MAP reports that occupancy in DC facilities has fallen 260 basis points during the past year to 93.8 percent. As families seek to cut costs and the nation's unemployment rate rises, some memory-impaired seniors are being cared for by their children rather than moving into DC facilities. Over the past year, revenue per occupied unit has increased 3.7 percent to \$5,409 per month, the lowest gain across the seniors housing sector. In the East North Central region, owners have posted 7.6 percent revenue growth per occupied unit to \$5,207 per month, despite a 340 basis point decrease in occupancy. With occupancy in the region now below the national average, advances in revenue are likely to slow considerably until occupancy levels begin to realign with historical trends.

In the DC investment arena, average cap rates are in the mid-10 percent range, higher than the more stable SN segment. Due to the rapid deterioration of fundamentals, sellers will likely have to alter their price expectations to achieve competitive bids. With nearly 80 percent of the for-profit facilities owned by chains, listings of stabilized assets are not projected to emerge until the economy begins to show signs of a recovery. As a result, most of this year's transactions will involve distressed properties.



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SENIORS HOUSING CONSTRUCTION



RECENT SALES HIGHLIGHTS

Property Type	Property Name	City, State	Sales Price	No. of Units/Beds*	Price per Unit/Bed*
SN	Main Line Nursing & Rehabilitation Center	Malvern, PA	\$8,437,500	184	\$45,856
AL	The Place at South Park	Charlotte, NC	\$8,000,000	110	\$72,727
AL	Forestview Manor	Meredith, NH	\$7,480,000	60	\$124,667
AL	Spring Arbor of Daniel Island	Charleston, SC	\$6,675,000	59	\$113,136
AL	The Woodlands	Columbus, OH	\$6,500,000	89	\$73,034
SN	Laurelton Rehabilitation & Nursing Center	Alabaster, AL	\$6,090,000	230	\$26,478
SN	Haverford Nursing & Rehabilitation Center	Haverton, PA	\$5,063,000	110	\$46,027
AL	Regency House	Hixson, TN	\$4,900,000	48	\$102,083
CC	The Senior Residences of Conroe	Conroe, TX	\$4,460,000	44	\$101,364
SN	Harrah Nursing Center	Harrah, OK	\$3,400,000	147	\$23,129
SN	Liberty Nursing Care	Wheelerburg, OH	\$3,100,000	75	\$41,333
AL	Broadmoor Assisted Living	Fort Pierce, FL	\$3,000,000	31	\$96,774
SN	McLoud Nursing Center	McLoud, OK	\$2,200,000	85	\$25,882
SN	Meeker Nursing Center	Meeker, OK	\$2,000,000	70	\$28,571
AL	Belleair Country House	Clearwater, FL	\$1,841,000	20	\$92,050
SN	Westside Care Center	West Frankfort, IL	\$1,800,000	96	\$18,750
SN	Harrisburg Care Center	Harrisburg, IL	\$1,400,000	68	\$20,588
SN	Medical Center Nursing Home	Clarendon, TX	\$992,000	26	\$38,154

* Number and price per bed apply to sales of SN facilities

AL = Assisted Living

IL = Independent Living

CC = Congregate Care

SN = Skilled Nursing

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein.

Sources: NIC MAP Data and Analysis Service (www.nicmap.org), Marcus & Millichap Research Services, American Health Care Association, American Legislative Exchange Council, American Retirement Corp., American Seniors Housing Association, Assisted Living Federation of America, Capital Senior Living Corp., CoStar Group, Inc., Council for Affordable Health Insurance, Eli Research, Irving Levin Associates, Inc., Ziegler Capital Markets Group.

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