

The logo for ARA SENIORS HOUSING. 'ARA' is in a large, white, serif font. 'SENIORS' is in a smaller, white, serif font above a horizontal line, and 'HOUSING' is in the same smaller, white, serif font below the line. A registered trademark symbol (®) is at the end of 'SENIORS'.

ARA SENIORS<sup>®</sup>  
HOUSING

2011 SENIORS INDUSTRY OUTLOOK



**Types of Seniors Housing**

The following chart summarizes the primary types of seniors housing.

ITEM	SENIOR APARTMENTS	INDEPENDENT LIVING	ASSISTED LIVING	NURSING HOMES	CCRCs AND COMBINATIONS
State Licensing	Not Required	Not Required	Required	Required	Required
State Approvals Needed to Build	Not Required	Not Required	Not in most states, but there are a few with CON requirements	Most states require a CON or application for Medicaid funding	Most states have some state approval requirements
Resident Funding	Private pay or Section 8. Many Low Income Housing Tax Credits and have rent and income restrictions	Private pay	Primarily private pay, some Medicaid Waiver	Predominantly funded by Medicaid and Medicare	Primarily private pay, some Medicaid and Medicare in assisted and/or nursing components
Payment Type	Primarily rent by the month	About 3/4 rental by the month, 1/4 entry fee	Primarily rent by the month, a small percentage are entry fee	Primarily rent by the day, virtually none are entry fee	Majority of CCRCs require an entry fee for independent living, and some require for assisted living too
Typical Size	60 to 250 units average is +/-200 units	80 to 200 units, average is +/-125 units	40 to 100 units, average is +/-75 units	100 to 200 beds, average is +/-120 beds	Typically 200+ units/beds, many in the 300 to 500 range
Meal Service	Limited	Typically 1 to 3 meals per day included in rent	Typically 3 meals per day included in rent	Typically 3 meals per day included in rent	Varies by care types within the community
Typical Services Provided	Transportation and activities	All provided in senior apartments plus meal service, housekeeping, and 24 hour monitoring	All provided in independent living plus laundry and assistance with activities of daily living	All provided in assisted living plus 24-hour nursing care	Varies by care types within the community

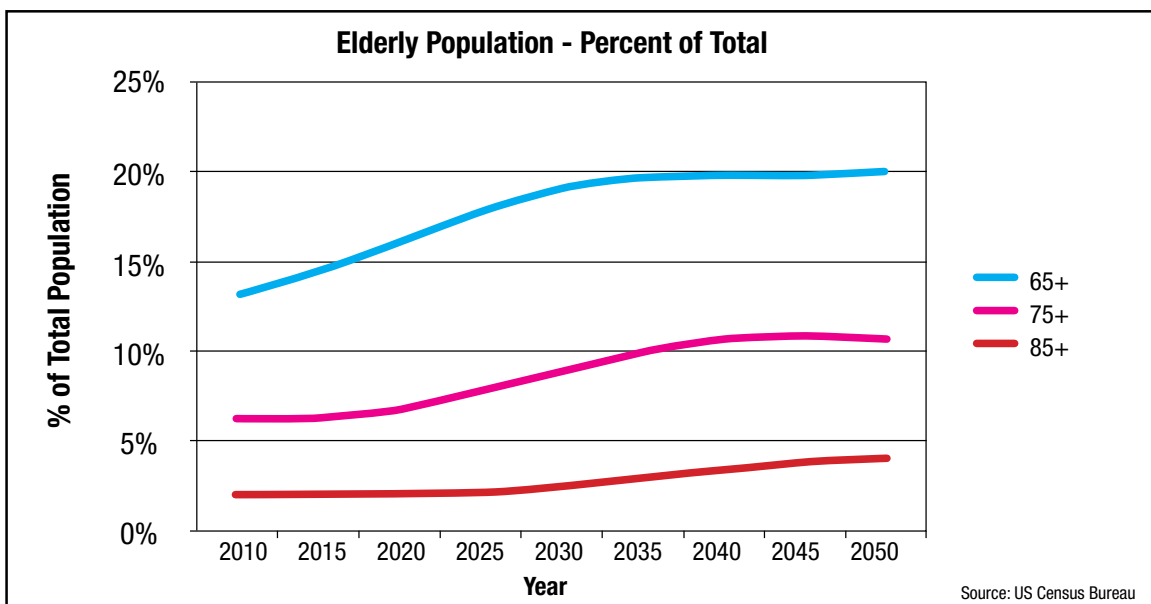
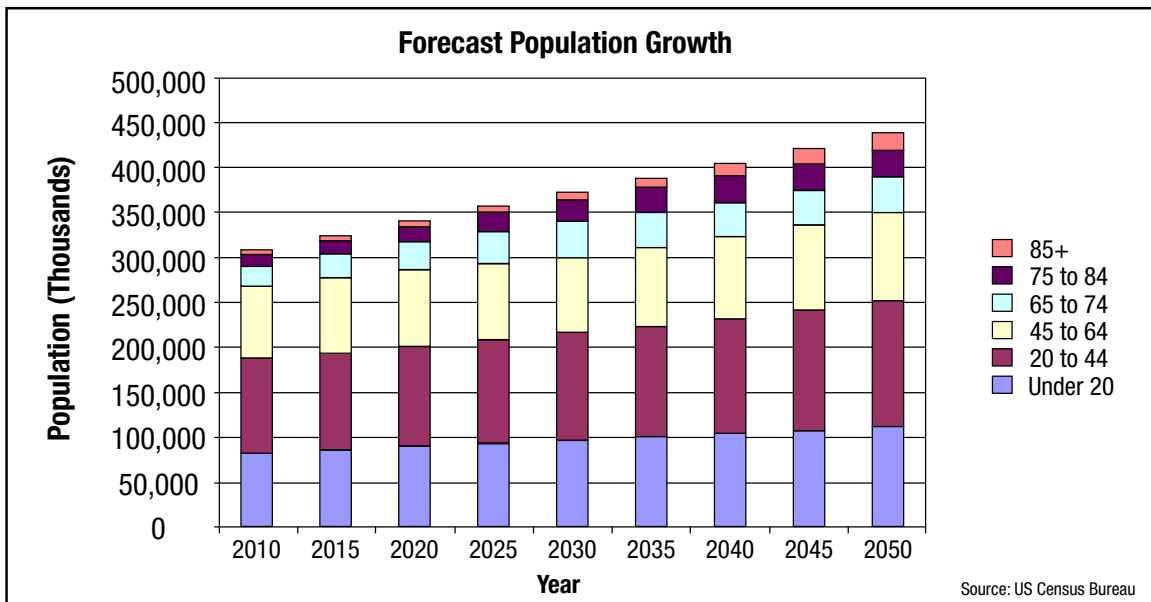
Another type of care is Alzheimer's/Dementia care, which is normally provided using an assisted living license and is generally considered a subset of assisted living. Many properties feature a combination of care types, such as assisted and independent living. CCRC stands for a

continuing care retirement community. A true CCRC includes independent living, assisted living and nursing care, but the term is also often applied to any entry fee facility even if it does not offer the full spectrum of care.

**Demand Trends**

There is no denying that the demographic trends impacting the seniors housing sector are positive. As of the 2000 Census, there were 34.1 million elderly Americans (those aged 65 and older), making up nearly 13% of the total population. The elderly population is expected to more than double by the year 2030 to 72 million, to make up 19% of the total population. As of the 2000 Census, there were 3.8 million Americans aged 85 and older, just over 1% of the total population. This population is expected to more than double by 2030 and become 2.3% of the total population. In 2050, as many as one in five Americans could be elderly.

Much of the forecast growth will occur between 2010 and 2030, when the “Baby Boom” generation enter their elderly years. This is most apparent when comparing growth rates. Between 2010 and 2030, the overall US population is forecast to grow at an annual pace of 0.9% per year. But growth in all three elderly sectors is much stronger: 3.0% per year for the 65+ population; 2.9% per year for the 75+ population and 2.1% per year for the 85+ population. These strong rates of growth will lead to growing demand for seniors housing.



## Sector Overview

While not entirely immune to the recent recession, the seniors housing market outperformed the primary property sectors through the recent recession. The chart below outlines the key seniors housing metrics used in analyzing the overall market performance, as of fourth quarter 2010. While seniors housing rent growth and new construction inventory have slowed or remained flat, many other real estate sectors have seen negative trends in each category. Furthermore, seniors housing occupancy levels did not fall

as steeply through the recession as did occupancy levels in other real estate sectors and has recovered well since the initial drop.

With new construction near historic lows and the seniors aged demographic continuing to grow, we anticipate positive growth in both rents and occupancy for 2011 over all of the seniors housing categories.

Property Type	Seniors Housing			Majority Nursing Care
	Aggregate	Majority Independent Living	Majority Assisted Living	
All Occupancy	87.6%	87.1%	88.4%	88.3%
YoY Rent Growth	0.0%	0.2%	-0.2%	3.1%
Quarterly Absorption	1,173	744	448	-1,357
Quarterly Inventory Growth	1365	745	620	-304
Units/Beds Under Construction	9,291	6,127	3,164	2,472
Construction vs Inventory	1.8%	1.9%	1.7%	0.4%
Inventory	502,326	320,051	182,275	569,850
Penetration	10.6%	6.7%	3.8%	12.0%

Source: NIC

## Occupancy Levels

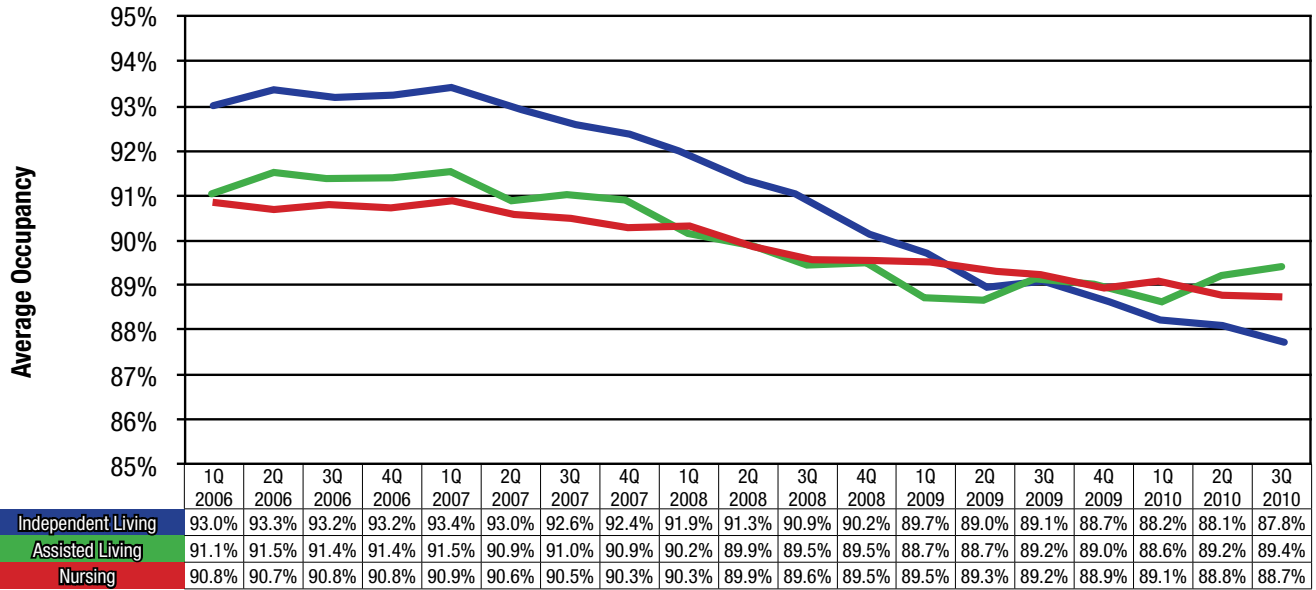
Of the three types of seniors housing, the independent living sector was negatively impacted by the recession to the greatest degree. In the 31 largest MSAs, independent living occupancy levels fell from a high of 92.4% at the beginning of the recession (the fourth quarter of 2007) to 87.8% in the third quarter of 2010. This decline of 460 basis points was much more significant than in the other sectors. The average assisted living occupancy fell only 150 basis points, from 90.9% to 89.4% over the same period, and nursing care occupancy levels fell 160 basis points from 90.3% to 88.7%.

Independent living is more of a lifestyle decision than a needs-based decision, and seniors and their children have simply delayed or foregone this lifestyle change in the face of a challenging housing market and economy. Not surprisingly, the markets with the most significant issues in the housing

sector have seen the greatest challenges in independent living occupancy levels. It appears that occupancy may have bottomed, as public operators such as Capital Senior Living and Brookdale are reporting stabilization or improvements in occupancy in their portfolios.

Occupancy levels in the assisted living and nursing care sectors held up much better through the recession. These are more needs-based product, and seniors and their caregivers found ways to finance the move to assisted living or nursing care even in the face of the most severe economic downturn since the great depression. It should be noted that while independent living is almost entirely private pay, nursing care is predominately funded by Medicaid and Medicare, and Medicaid funding in assisted living is becoming more prevalent.

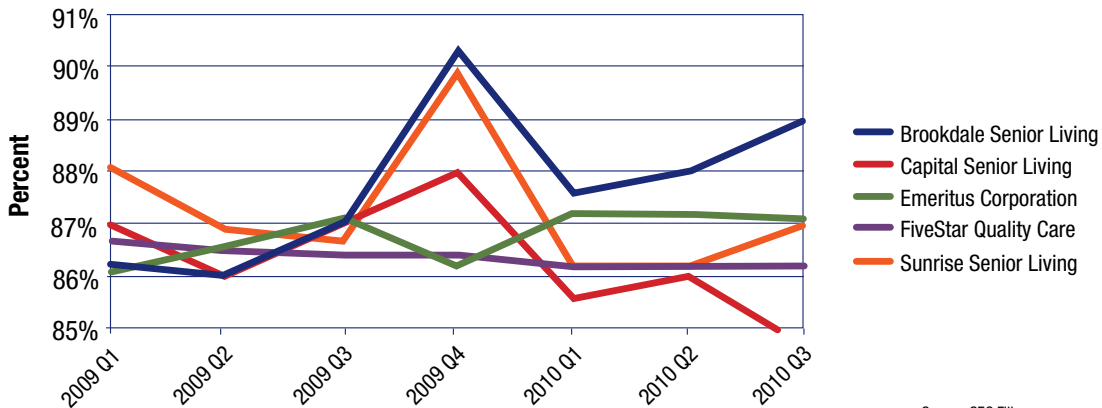
### Occupancy Levels - 31 Largest MSAs



— Majority Independent Living    
 — Majority Assisted Living    
 — Majority Nursing

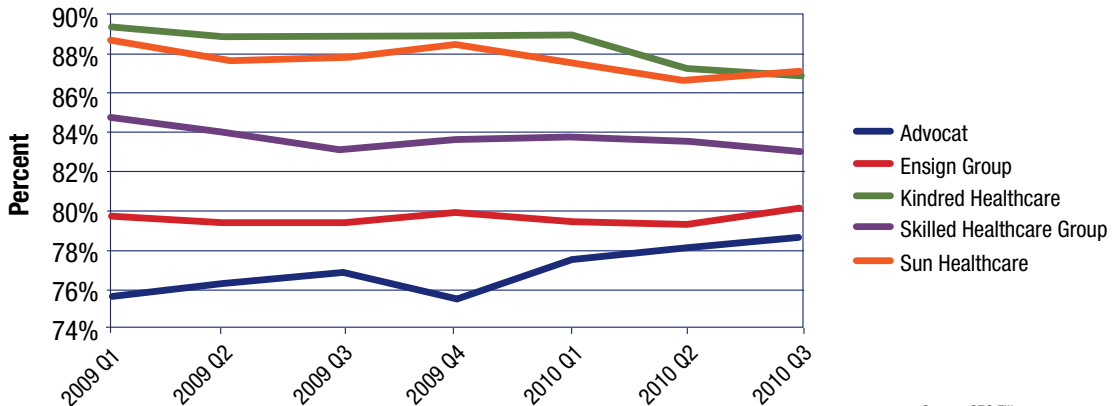
Source: NICMAP

### IL/AL - Occupancy



Source: SEC Filings

### SNF - Occupancy

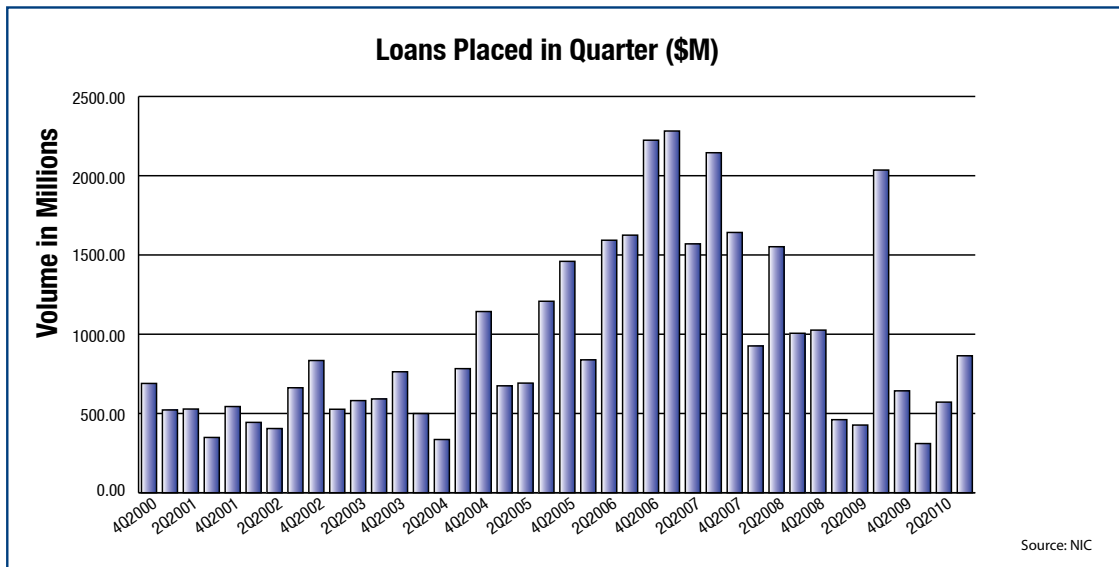


Source: SEC Filings

**Capital Markets**

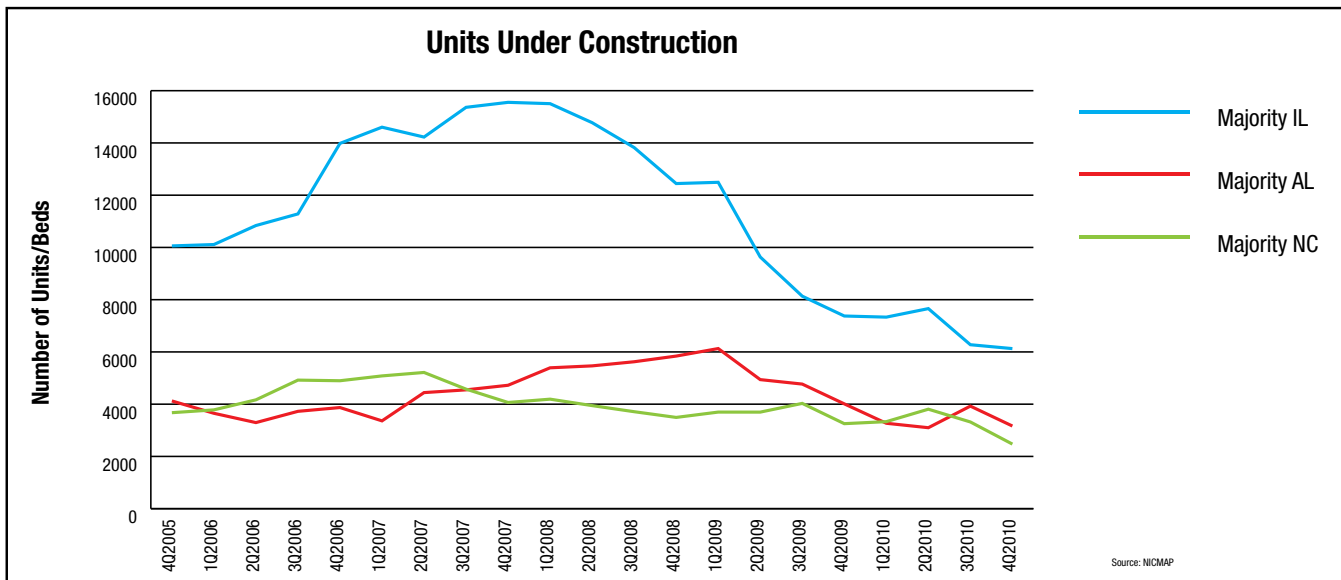
Seniors housing industry loan performance remains high in comparison to other commercial real estate sectors, although non-performing loans as a percentage of total loans have increased to approximately 2.5% as of the third quarter of 2010, according to NIC. The main providers of debt for seniors housing continue to be Fannie Mae, Freddie Mac, and HUD. All of these GSEs offer attractive leverage and terms depending on the seniors housing type. While a big chunk of the lending is being provided by GSEs, there are still local and regional banks getting deals done. The

absence of CMBS lending is impacting the industry to a degree. In the past, CMBS loans funded large acquisitions, such as the Fortress acquisition of Holiday Retirement, and Carlyle Group’s acquisition of ManorCare. However, there are rumors that the CMBS seniors housing market will be opening up in the near term, albeit at lower leverage levels than in past cycles. We anticipate that liquidity will remain at or near current levels for 2011 and expect loan volume to increase or remain constant as well.



**New Construction**

The inventory of seniors housing grew at an annual rate of 1.7% in the third quarter of 2010, which is a slowdown from the levels seen a few years ago. For more than three years prior to the second quarter of 2010, inventory was growing in excess of 2% annually.



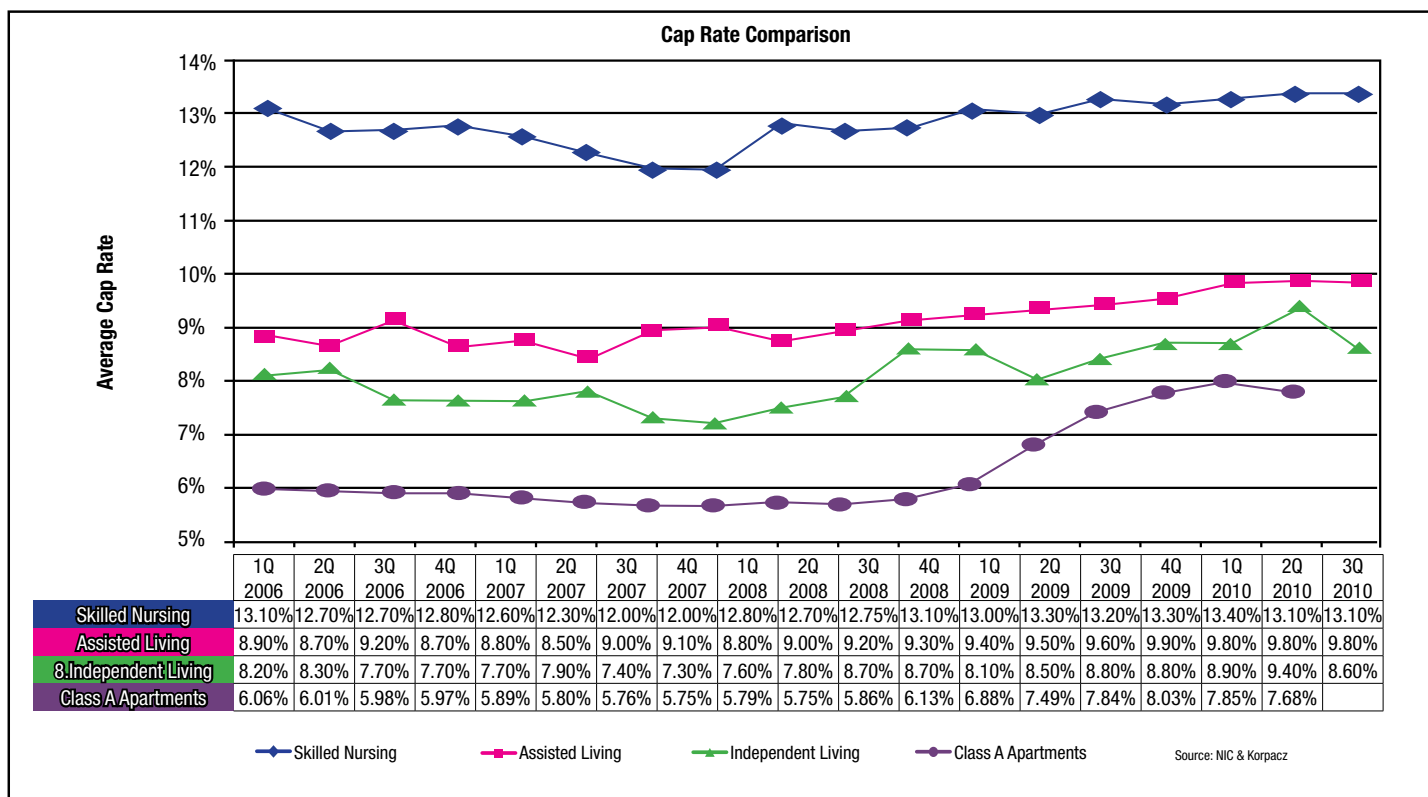
**Capitalization Rates**

Historically, seniors housing capitalization rates have moved in lockstep with cap rates for other asset classes (the sole exception being SNF cap rates which have remained in a fairly narrow band). This is shown in the graph that follows.

As seen, apartment capitalization rates have started to decline in recent quarters, as investors have gotten more aggressive and long term financing rates have fallen to historical lows. The most recent quarter that has been reported for seniors housing capitalization rates is the first quarter of 2010. Sale and pending sale data collected by IRR

indicates that capitalization rates have fallen since then, and are now in the 7% to 8% range for high quality independent and assisted living assets in major markets. Nursing home capitalization rates continue to be in the 12% to 15% range, depending upon age, quality and location.

REITs have announced several large deals recently using Taxable REIT Subsidiaries. The largest such deal is the planned acquisition of Atria by Ventas in a deal valued at \$3.1 billion. The reported capitalization rate on the stabilized portfolio is a low 6.5%.



**2011 Forecast**

It appears that occupancy levels for assisted living and nursing bottomed in 2010, while independent living is still searching for a floor. Absent a setback in the economic recovery, we anticipate occupancy levels in all three sectors will rise throughout 2011. There is a low level of new construction underway in the seniors housing market, but demand will continue to grow. Thus, it is likely that occupancy levels and rent levels will increase for several years as supply tightens.

New capital is likely to continue to flow into the sector. The REITs that focus on seniors housing have built large war chests of funding, and will need to deploy it over the next few years. In addition, a number of institutional and opportunity funds have been raised and are seeking opportunities to invest this capital. While 2009 and 2010 saw very few sales transact, there have been several recent very large sales announced and this is likely a sign of things to come. Due to sound sector fundamentals and the opportunities for income growth, we expect to see capitalization rates decline relative to levels seen in 2009 and early 2010.

EXCLUSIVELY PRESENTED BY  
**ARA NATIONAL SENIORS HOUSING GROUP**

FOR MORE INFORMATION PLEASE CONTACT

**ARA NATIONAL SENIORS HOUSING GROUP**  
14114 Dallas Parkway, Suite 550  
Dallas, Texas 75254  
Phone: (214) 420-3101  
Fax: (972) 239-4829

**INVESTMENT SALES**

**Jeff Patterson**  
T: (949) 500-6211  
patterson@ARAUSA.com

**Daryl McCombs**  
T: (813) 600-3824  
dmccombs@ARAUSA.com

**PARTNERS**

**Charles Bissell**  
cbissell@ARAUSA.com

**Jeff Pritchard**  
pritchard@ARAUSA.com

**Brian O'Boyle, CCIM**  
oboyle@ARAUSA.com

**ARA SENIORS<sup>®</sup>**  
**HOUSING**

**SENIORS HOUSING INVESTMENT SERVICES**

ATLANTA • AUSTIN • BOCA RATON • BOSTON • CHARLOTTE • CHICAGO  
DALLAS • DAYTON • DENVER • HOUSTON • IRVINE • JACKSONVILLE  
KANSAS CITY • LAS VEGAS • ORLANDO • PHOENIX • PORTLAND  
SACRAMENTO • SALT LAKE CITY • SAN FRANCISCO • SEATTLE • TAMPA

[WWW.ARAUSA.COM/SENIORSHOUSING](http://WWW.ARAUSA.COM/SENIORSHOUSING)

**Jeff Patterson**  
patterson@ARAUSA.com  
949-500-6211



**Daryl McCombs**  
dmccombs@ARAUSA.com  
813-600-3824



**Charles Bissell**  
cbissell@ARAUSA.com  
972-960-1222



**Jeff Pritchard**  
pritchard@ARAUSA.com  
214-420-3115

