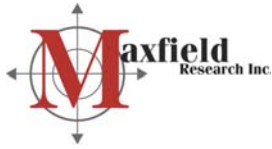


Senior Housing *Update* **2005**



 **Maxfield**
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Dear Clients, Colleagues, and Friends,

MAY 2005. Maxfield Research is pleased to present our ***Senior Housing Update 2005*** for the Twin Cities market.

The impetus for this report is to provide the senior housing industry with current market data critical to understanding this rapidly growing and ever evolving industry on a local level. The data can be utilized to discover opportunities as well as flag areas that may be in danger of temporary saturation.

For over 20 years, Maxfield Research has been tracking the local senior housing market through an annual comprehensive survey of all market-rate and affordable senior housing developments in the Twin Cities Metro Area. The data collected from our survey provides the industry with the most comprehensive and current information available on local senior housing market trends.

The information contained in this year's report was collected by Maxfield Research through telephone surveys conducted with individual property managers and owners during the fourth quarter of 2004.

The survey is limited to "market-rate" and "affordable" senior developments and thus, excludes projects with a "deep" subsidy. This year's survey includes nearly 400 projects with 27,449 units.

We hope you find the information in this report helpful. I would like to personally thank all of the property managers and owners that have responded to the survey now and in years past, for without the information they provide this report would not be possible.

Sincerely,

Jay M. Demma
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SENIOR HOUSING UPDATE 2005

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Disclaimer:

This report broadly assesses the market for senior housing in the Twin Cities as of first quarter of 2005. This report does not profess to determine the demand for specific senior housing developments at specific locations. Instead, we recommend such decisions be made with the assistance of a detailed market study that reveals the unique supply and demand characteristics of the market area under consideration.

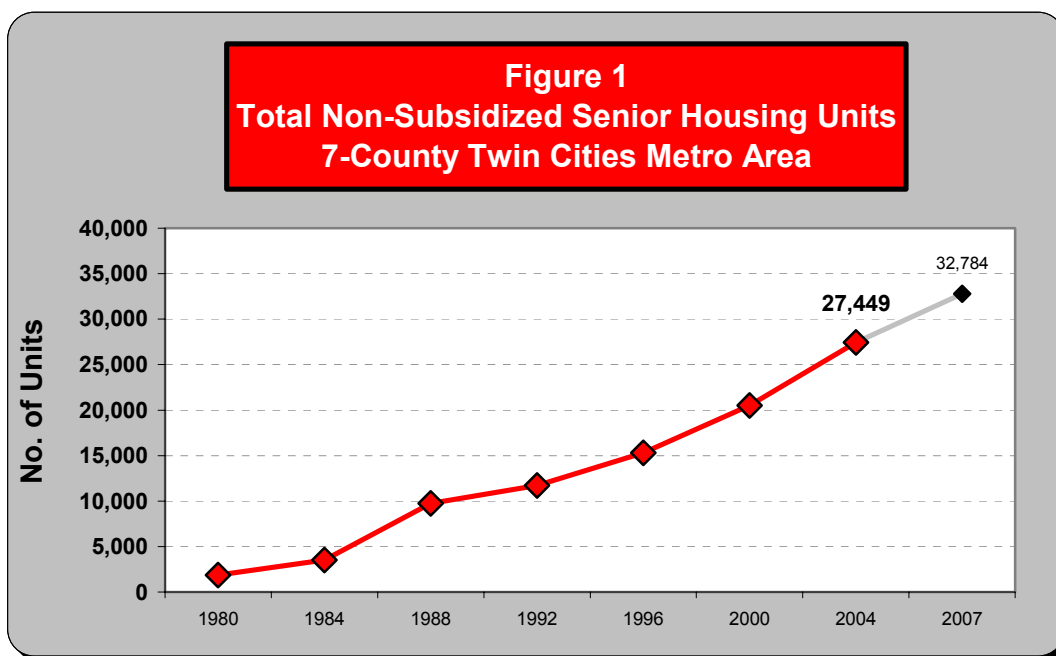
Acknowledgments:

Jay M. Demma wrote this report with research assistance from Ricky Wong, Grant Martin, Jay Thompson, Matt Mullins, Mark Spector, and Brian Smith. In addition to her research, Mary Bujold provided invaluable direction and insight in the crafting of the report.

THE STATE OF THE SENIOR HOUSING MARKET

- **GROWTH CONTINUES UNABATED**
- **PRODUCT DIVERSIFICATION FUELED BY DEMAND**

Growing acceptance of senior housing along with absolute growth in the number of senior households has contributed to remarkable growth in the industry since 2000. The number of non-subsidized senior housing units now well exceeds 27,000. Barring any major market downturns, projects currently in the development pipeline could push the total to nearly 33,000 units by the end of 2007 (see Figure 1 below).

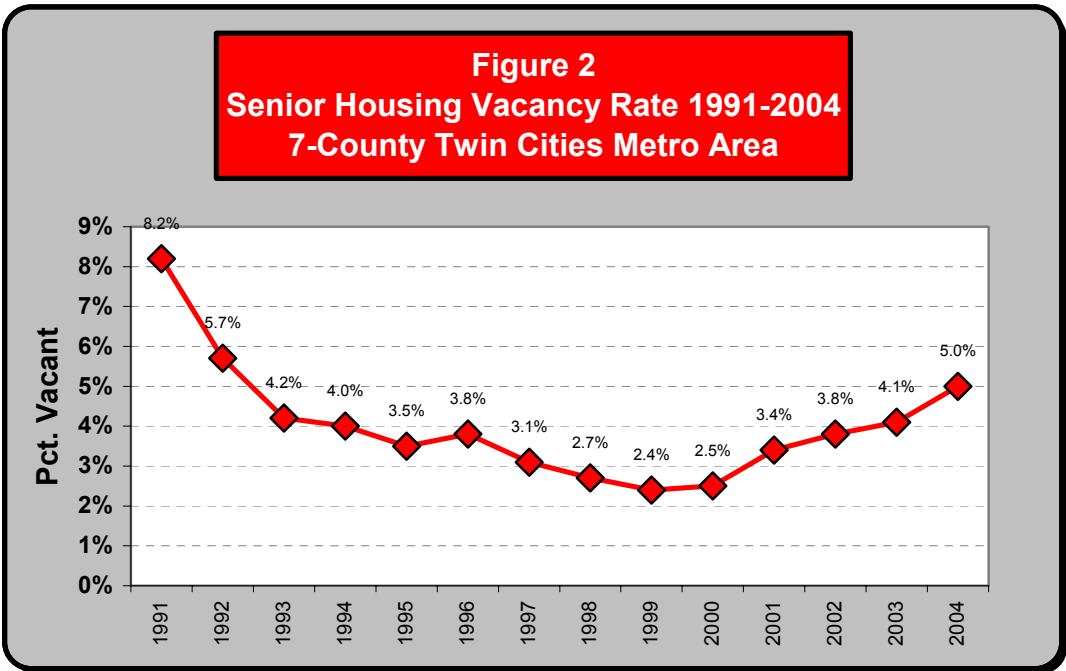


Developers of senior housing, both for-profit and non-profit, continue to aggressively seek untapped market niches. The result is an incredible array of choice within the market. Households now have the option of choosing almost any type of housing style (e.g., single-family home versus high-rise apartment) that meets their ownership preference (i.e., rental or owner-occupied) and lifestyle needs (i.e., services available or not available). Such choice has broadened the pool that considers age-restricted housing attractive, thus fueling demand for additional units. This same choice, however, has also exposed certain product niches as being vulnerable to changing consumer tastes, preferences, and demographics.

THE STATE OF THE SENIOR HOUSING MARKET (cont'd)

- **GREATER PRODUCT CHOICES CONTRIBUTES TO INCREASED VACANCY RATE**
- **SOME PRODUCT CATEGORIES BEGINNING TO CLEARLY PERFORM BETTER THAN OTHERS**

Our survey indicates that the overall vacancy rate as of the 4th Quarter 2004 was 5.0%, an increase of nearly 1% over the previous year. This marked the fifth year in a row that the overall vacancy rate has increased. It is now the highest it has been since 1992 (see Figure 2 below).



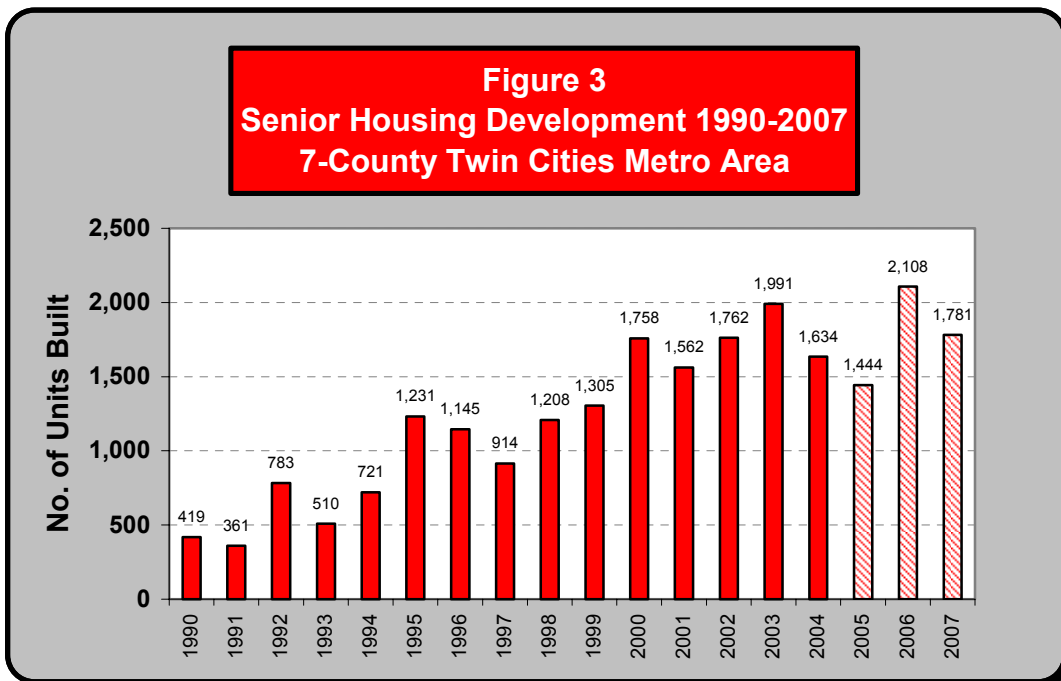
While the market for senior housing in the Twin Cities still remains relatively strong, the industry is becoming increasingly competitive, despite greater product diversity. Current demographic trends indicate that growth in demand for service-oriented senior housing will wane somewhat over the short-term as these product niches will be marketing to a smaller Depression-era generation. Conversely, ownership product marketed to active and healthy households will continue to experience lower vacancy rates as the baby boom generation begins to discover these products. Furthermore, recent national research indicates that the baby boom will not settle for more of the same senior housing products. Therefore, in-depth research will become increasingly important in order to identify appropriate locations, products, services, programming and market niches that will set a project apart from the existing product in an ever-increasing competitive market place.

CONSTRUCTION TRENDS

- **CONSTRUCTION OF NEW UNITS SLOWS IN 2004, BUT ABOVE 1990S’ RATES**
- **NEW DEVELOPMENT WILL CONTINUE TO SLOW IN 2005, BUT PICK UP IN 2006**

During 2004, the Seven-County Twin Cities Metro Area saw the addition of 1,634 new senior housing units. This figure was below what we had projected to be built in last year’s report as several developments’ openings were delayed until 2005 or were tabled due to rising land costs.

As Figure 3 below shows, the Metro Area experienced nominal growth during the early 1990s, but then began to see activity increase by the end of the decade. The first half of the 2000s, however, has seen tremendous growth with an average of 1,740 new units added in each year. The number of market-rate/affordable senior housing units currently in the planning process could produce an additional 1,780 senior housing units annually in the Twin Cities Metro Area over the next three years. Going beyond 2007, however, we anticipate that the overall number of new units will ultimately decline compared to recent years because of increasing competition, but that certain product niches may continue to see substantial growth.



DEFINITIONS OF SENIOR HOUSING

In order to understand potential opportunities within the senior housing market, it is critical to understand the differences between the various senior housing products offered in the market today. Maxfield Research Inc. has developed the following senior housing classifications based on the level (or lack) of support and/or personal care services offered.

ADULT AFFORD- ABLE

We have defined **“Affordable”** senior housing as units targeting modest income households. These projects usually have ceilings on the income of residents and rents, which are typically set to be affordable to persons with incomes of up to 60% of the County median. Affordable projects contrast with deeply subsidized projects where rents are typically based on a sliding scale (generally 30 % of adjusted household income) and are geared towards very-low income seniors. Affordable Housing usually receives some type of shallow subsidy, and historically has been financed with Tax Increment Financing, Tax-Credit Financing or through a special County/City sponsored tax-levy. Such projects can be free-standing developments but increasingly consist of units within a mixed income-building where market rate units are also present. Usually, the Affordable product offers few services unless the units are within a market rate building with Congregate services available on an optional basis.

ADULT MARKET RATE

The least service-intensive product, termed **“Adult”** projects, offer virtually no support services or health care, but restrict tenancy to those ages 55 or 62 and over. These projects are usually apartment-style rentals, but also include age-restricted condominiums, cooperatives, (for-sale and rental) townhome developments and even detached housing units. Some of these developments provide scheduled transportation and limited activities for residents.

CONGRE- GATE

“Congregate” projects offer support services such as transportation, meals and housekeeping either for an additional cost (optional services) or included in the monthly fee (service-intensive). These developments tend to attract an older and frailer resident than do Adult projects. Congregate units are also much more likely to be occupied by a single person (typically 75% to 85% of the units) than Adult projects which can have as many as one-half or more of their units occupied by couples.

ASSISTED LIVING

The most service-intensive product types, Assisted Living and Memory Care, offer the highest level of services short of a nursing home. **“Assisted Living”** housing typically includes at least two daily meals as well as all of the support services found in Congregate housing. Most distinguishing however, is that Assisted Living housing also provides 24-hour staffing and emergency response along with the availability of personal care assistance (bathing, dressing, grooming, etc.).

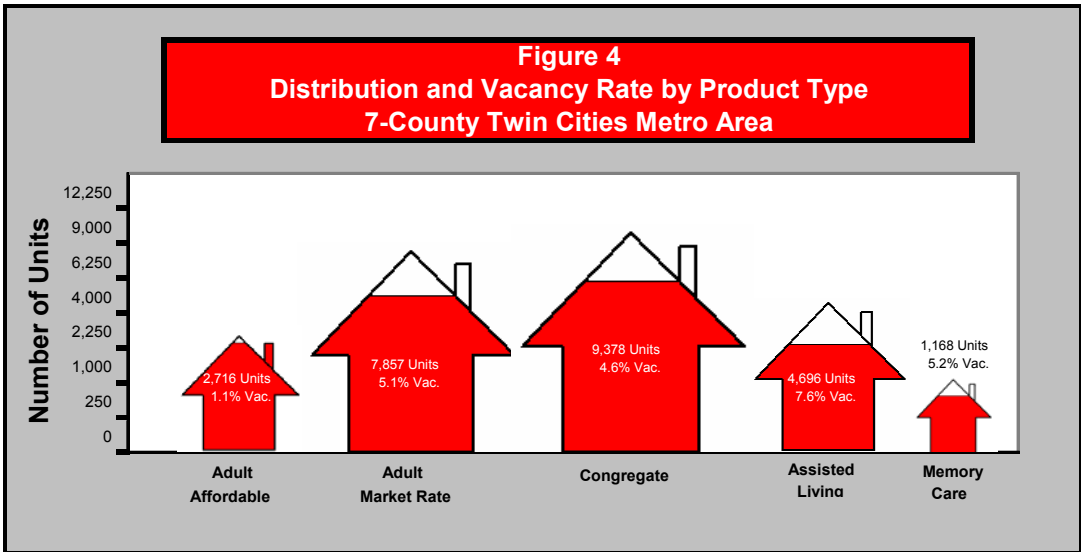
MEMORY CARE

“Memory Care” housing is a specialized Assisted Living product specifically designed and programmed for persons afflicted with Alzheimer’s disease or other dementias. These facilities include all of the same services as traditional Assisted Living, additional safety through secured-access doors and/or wander-guard systems as well as higher staff-to-resident ratios. Furthermore, special active (stimulating) and passive (calming) programming is involved to respond to this population’s needs. While Memory Care facilities can be freestanding buildings, just as often, they comprise a wing of a traditional Assisted Living facility.

DISTRIBUTION OF PRODUCT TYPES

- **CONGREGATE IS THE LARGEST CATEGORY OF SENIOR HOUSING, BUT IS LOSING MARKET SHARE TO ADULT UNITS**
- **AFTER SUBSTANTIAL GROWTH IN THE 1990s, ASSISTED LIVING AND MEMORY CARE ARE LOSING MARKET SHARE**
- **ADULT OWNERSHIP HAS POSTED THE LARGEST GROWTH IN MARKET SHARE IN RECENT YEARS**

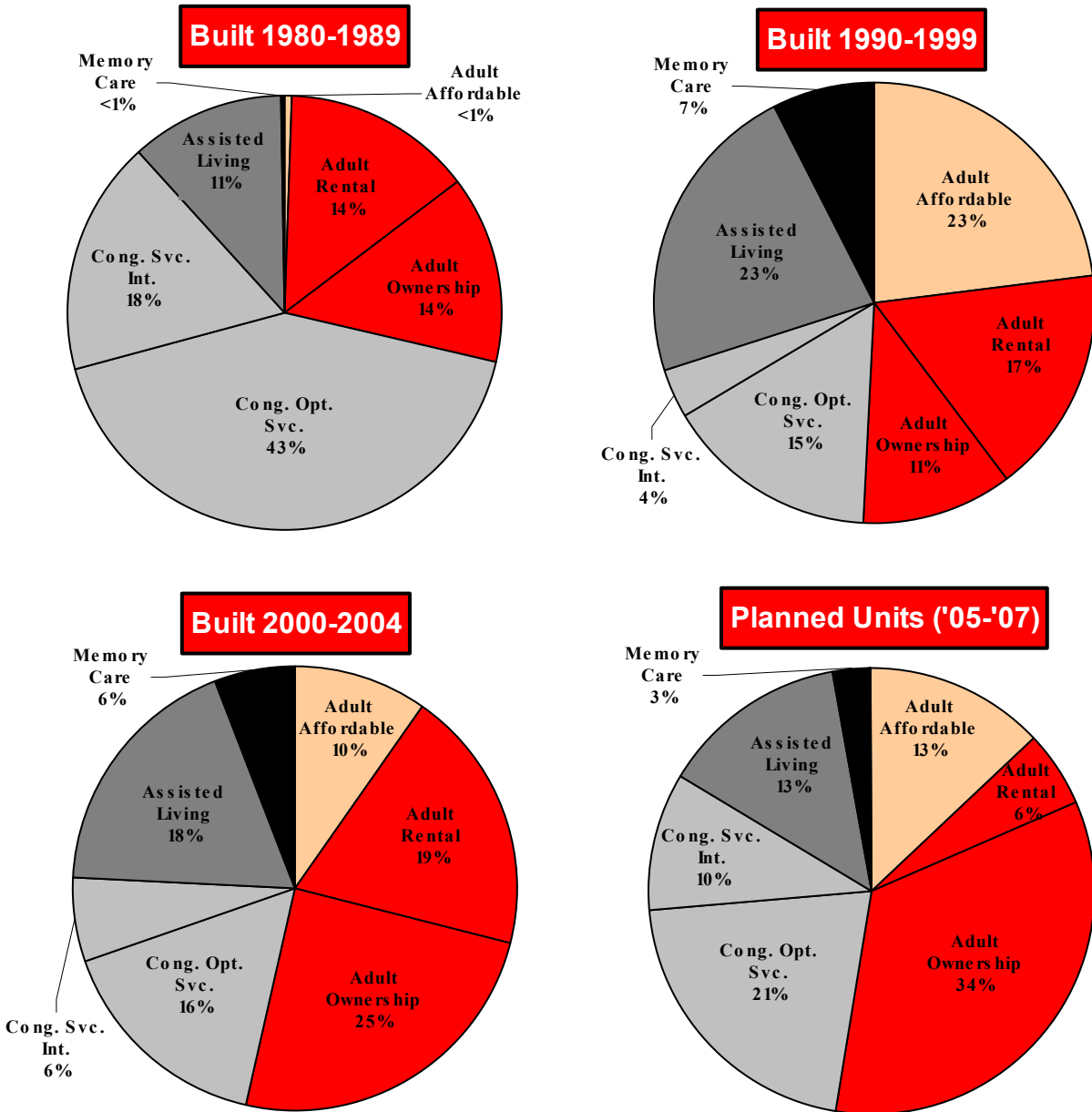
Figure 4 below displays the relative size of the five different senior housing classifications and their associated vacancy rates [for projects built prior to 2004]. We can see from the figure that Congregate housing remains the largest category with about 36% of all units, despite in-roads in the last 10 years from each of the other four categories. We can also see from the figure that each category is currently experiencing vacancy rates within or near industry equilibrium standards, which are 2% for Affordable product, 5% for Adult and Congregate product, and 7% for Assisted Living and Memory Care.



While senior housing development during the 1980s concentrated on Congregate housing, today’s senior housing has evolved into a complete continuum of products designed to accommodate the lifestyle needs of extremely diverse market segments; from younger active

seniors who may simply desire to live among peers and desire freedom from maintaining a single-family home, to very frail seniors in need of housing with support and personal care services. Of late, there has been a resurgence of owner-occupied housing for seniors. The pie charts below show how Adult ownership housing is projected to grow significantly through 2007.

**DISTRIBUTION OF SENIOR HOUSING
7-COUNTY TWIN CITIES METRO AREA**

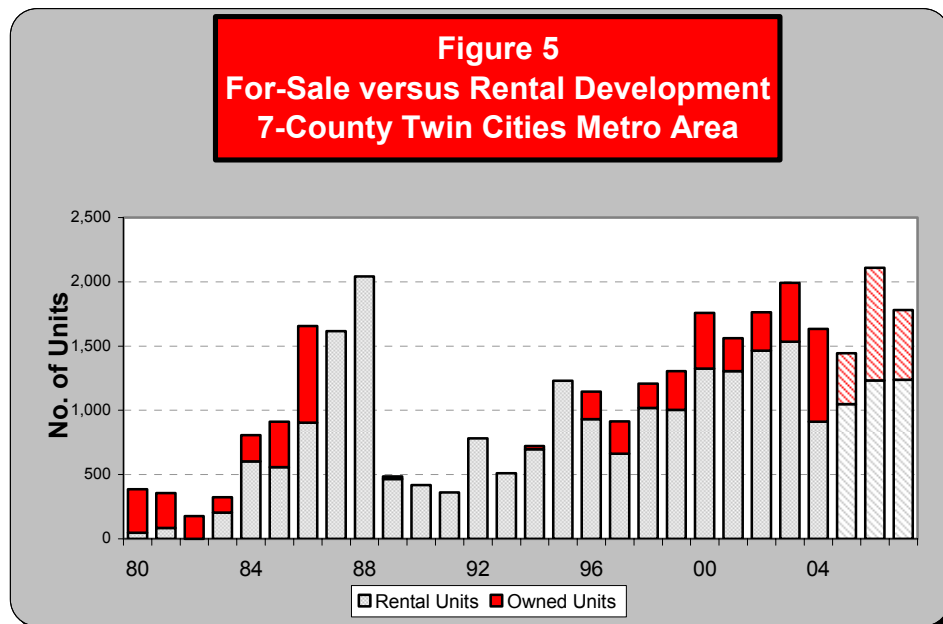


REVIVAL IN OWNER-OCCUPIED HOUSING

- **DEVELOPMENT OF OWNERSHIP SENIOR HOUSING HAS GONE FROM ZERO TEN YEARS AGO TO ALMOST 400 UNITS PER YEAR**

Although 81% of Metro Area senior units are rental, the development of senior ownership housing is strong and growing. The resurgence in cooperative and condominium housing, combined with the recent introduction of age-restricted townhome and detached villa communities are all creating more diverse options for today’s seniors.

As of the end of 2004, there were nearly 5,400 age-restricted owner-occupied housing units in the Twin Cities Metro comprising 19% of the Metro Area’s non-subsidized senior housing. This figure represents a significant increase since 1995, when 15% of the Metro senior units were owner-occupied. If all of the proposed for-sale senior product are built, we project owner-occupied housing would account for almost 22% of the Metro’s non-subsidized senior units by 2007. As Figure 5 shows, after nearly a decade of very little construction, development of owner-occupied senior housing has averaged about 350 new units each year since 1996. Based on projects in the development pipeline, we anticipate that number to grow to over 600 new units per year over the next several years.



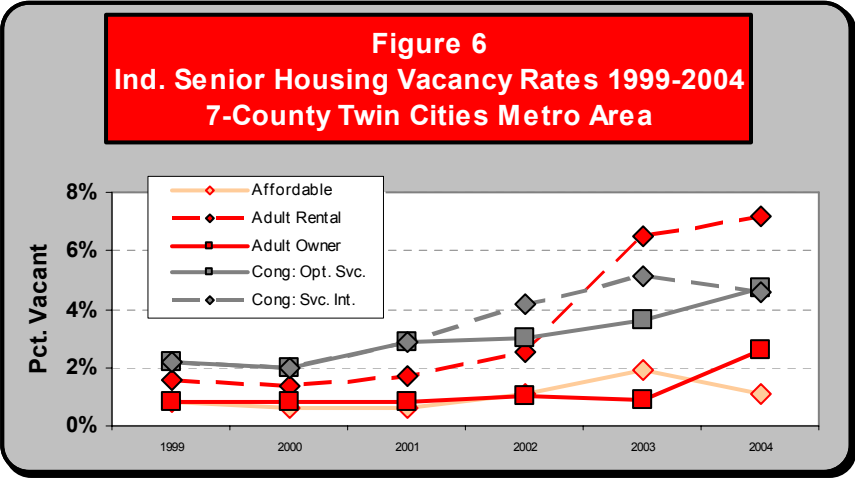
MARKET CONDITIONS BY PRODUCT TYPE

- **YOUNGER AND ACTIVE SENIORS PREFER OWNERSHIP PRODUCTS OVER RENTAL PRODUCTS**
- **MEMORY CARE HAS EXPERIENCED A DRAMATIC DROP IN VACANCY SINCE 2000**

Throughout the 1990s, the Twin Cities Metro Area’s senior projects saw substantial declines in their vacancy rates with the overall senior vacancy rate declining from nearly 9.0% in 1990 to 2.4% in 1999. In the early 1990s, the declining vacancies resulted from a slowdown in development of new units which allowed demand to “catch-up” with the large supply of mostly Congregate housing that was developed during the boom of the mid-to late 80s.

As development resumed in the mid-1990s, the diverse variety of housing product being introduced (Affordable, Adult [rental and ownership], Assisted Living and Memory Care) allowed the industry to tap into market segments that were previously underserved. The recent surge in senior housing development has resulted in increases in vacancy rates since the market’s nadir of 2.4% in 1999. Between 2000 and 2004, the overall senior housing vacancy rate in the Twin Cities Metro increased from 2.5% to 5.0%.

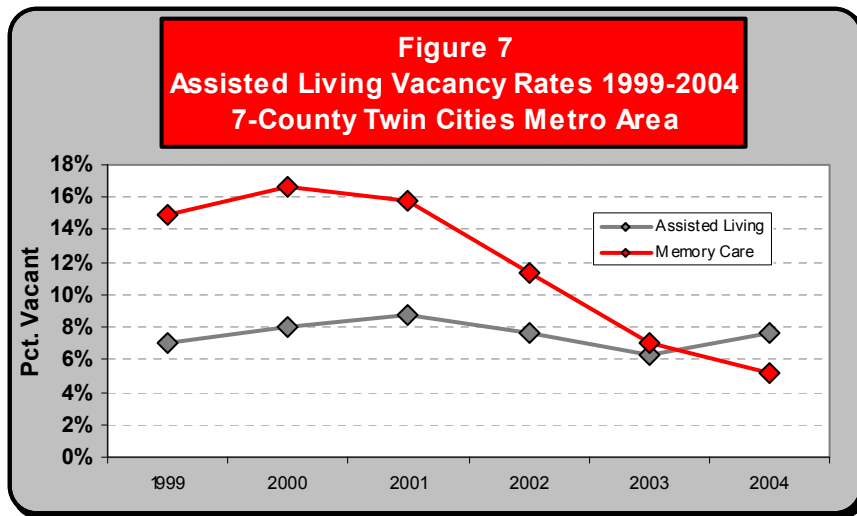
Despite the rise in vacancy rates over the last four years, the market for Affordable, Adult Owner, and to some extent Congregate senior product still remains strong Metro-wide, with vacancy rates below the industry equilibrium standard of 5%. Adult Rental product, however, has seen a sharp increase in vacancy rates since 2002, and now stands at 7.2%. (See Figure 6)



Although Ownership and Rental product tend to attract different market segments, there appears to be some overlap in the Adult category, where new ownership product, especially cooperatives, has seen the strongest growth and lowest vacancies, possibly contributing to the increased vacancies in the Adult Rental category.

MARKET CONDITIONS BY PRODUCT TYPE (cont'd)

Meanwhile, vacancy rates for Assisted Living and Memory Care housing in the Twin Cities Metro Area had a composite vacancy rate of 7.1% - slightly above the 7% vacancy rate that is considered equilibrium in Assisted Living housing. The Metro's traditional Assisted Living facilities are currently operating with a 7.6% vacancy rate, while Memory Care units are experiencing a 5.2% vacancy rate Metro-wide.



As indicated in Figure 7, the vacancy rate for Memory Care has dropped for the fourth year in a row, declining from 16.6% in 2000 to 5.2% in 2004. The dramatic decline in vacancy can be attributed to a slight slowdown in the construction of new units during this period, allowing for growing demand to absorb excess units, as well as increased awareness of the concept, which also contributes to demand.

Over the last several years, vacancy rates have increased each year for most of the independent senior product types. It is interesting to note, though, that as the vacancy rate for Congregate projects increased to its highest level since the mid 1990s, more than 50% of the Congregate facilities surveyed were at 98% occupancy or higher, and that 19% of the Congregate facilities account for 57% of the vacant units. Excluding such problem projects, the vacancy rate at the remaining Metro Area Congregate projects drops to 2.4%.

No such caveat, however, can explain the market condition for Market Rate Adult Rental projects. One-third of the facilities surveyed have a vacancy rate of 10% or higher, which we consider to be well above the industry equilibrium.

MARKET CONDITIONS BY PRODUCT TYPE (cont'd)

- **PRICING FOR SENIOR HOUSING VARIES GREATLY BY PRODUCT TYPE**
- **SERVICE-ORIENTED HOUSING PRODUCTS CAN COMMAND AS MUCH AS 3 TO 4 TIMES THE MONTHLY FEE OF HOUSING PRODUCTS WITHOUT SERVICES**

This is the first year Maxfield Research has reported on average monthly fees and unit prices for senior housing in the Twin Cities Metro Area. Figure 8 below displays the averages by unit type. As one can see from Figure 8, average prices rise dramatically as the more services are available to residents. The average monthly fee for a two-bedroom unit at a memory care facility in the Twin Cities is just over \$4,000 as of 4th Quarter 2004. On the other end of spectrum, the average monthly fee of a one-bedroom unit at the surveyed Adult Affordable projects is about \$600.

Figure 8
Average Monthly Fees and Purchase Prices
by Senior Housing Product Type, 4th Quarter 2004
7-County Twin Cities Metro Area

Unit Type	Adult Ownership			Rental					
	Condo/TH (Unit Price)*	Co-op		Adult Aff.	Adult Mkt. Rate	Cong. Opt. Svc.	Cong. Svc. Int.	Assisted Living	Memory Care
		Dwnpmt.	Mon. Fee						
Studio	--	--	--	--	--	\$686	\$1,326	\$2,002	\$3,727
1BR	\$89,341	\$55,662	\$693	\$609	\$860	\$968	\$1,466	\$2,643	\$3,829
1BR/d	\$131,769	\$48,953	\$828	\$816	\$969	\$1,309	\$1,596	\$2,107	--
2BR	\$180,086	\$65,742	\$956	\$783	\$1,144	\$1,383	\$2,075	\$3,268	\$4,003
3BR	\$237,300	\$117,219	\$1,304	\$875	\$1,426	\$1,399	\$2,090	--	--

* Condominiums and townhomes often have a monthly association fee that covers water, sewer, insurance, exterior maintenance, etc., which are services typically included in the monthly fee of other senior housing types.

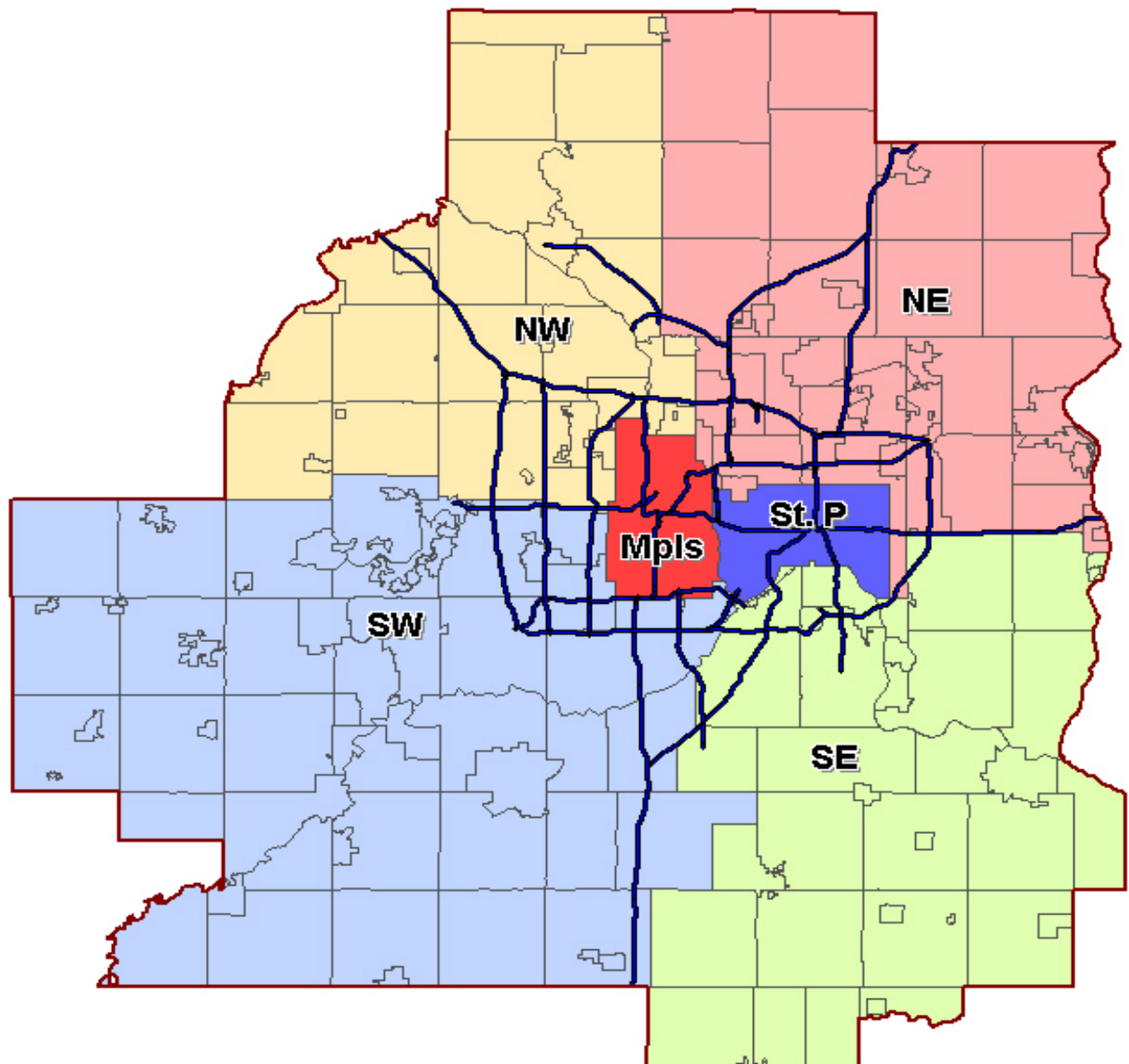
Note: Figures are based on quoted fees and prices and have not been adjusted for utilities or services.

Pricing of ownership product varies greatly as well, but mostly as a result of differences in unit types and sizes. The lower downpayment prices for Cooperatives as compared to the unit price of Condominiums is due to the fact that most cooperatives have a master mortgage in which the monthly fee covers resident’s share of the mortgage interest and principal.

GEOGRAPHIC DISTRIBUTION OF SENIOR HOUSING

For the purpose of this report Maxfield Research has divided the 7-County Metro Are into six quadrants; Minneapolis, St. Paul, the Northeast Metro, Northwest Metro, Southeast Metro and the Southwest Metro; shown on the map below.

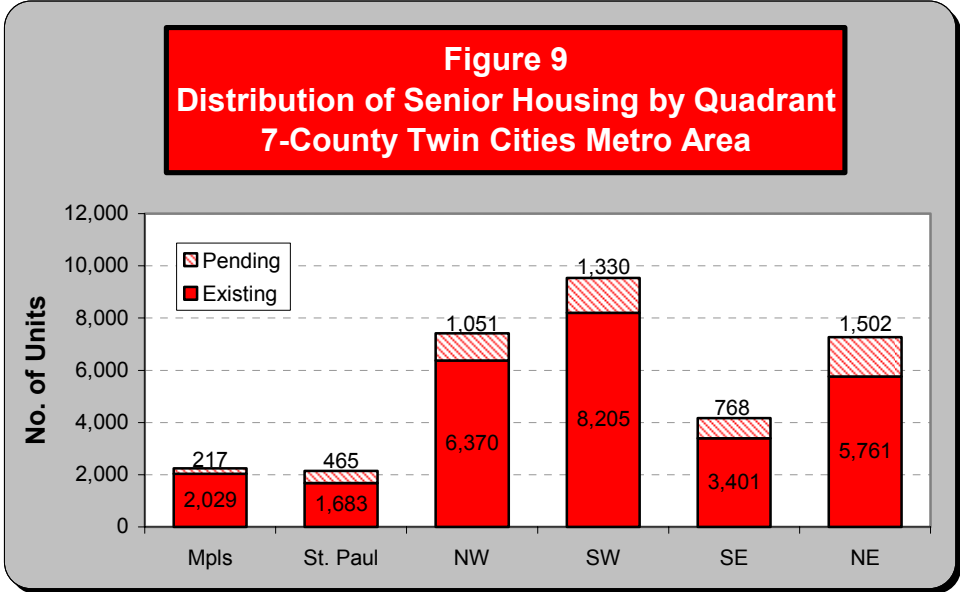
Twin Cities Quadrants



GEOGRAPHIC DISTRIBUTION OF SENIOR HOUSING (cont'd)

- **THE SOUTHWEST METRO HAS THE MOST EXISTING UNITS, BUT THE NORTHEAST METRO HAS THE MOST PENDING UNITS**
- **ADULT AFFORDABLE UNITS ARE CONCENTRATED IN THE NORTHEAST AND SOUTHEAST QUADRANTS, WHILE CONGREGATE UNITS ARE CONCENTRATED IN THE SOUTHWEST**
- **THE NORTHWEST QUADRANT HAS A LARGE PROPORTION OF ADULT RENTAL UNITS**

Clearly, the suburban quadrants have captured the majority of non-subsidized senior housing development to date. The Southwest Metro has, by far, the largest number of senior housing units (8,205 units) and comprises 30% of the Metro Area’s market-rate and affordable senior housing units. The Northwest quadrant has the second largest number of units (6,370 units), closely followed by the Northeast (5,761 units) each with between 21% and 23% of the Metro total, and then the Southeast (3,401 units) with 12%. Minneapolis (2,029 units) and St. Paul (1,683 units) account for 6% and 7% of the Metro Area’s non-subsidized senior units, respectively. Figure 9 shows the number of existing and pending senior housing units in each quadrant.



GEOGRAPHIC DISTRIBUTION OF SENIOR HOUSING (cont'd)

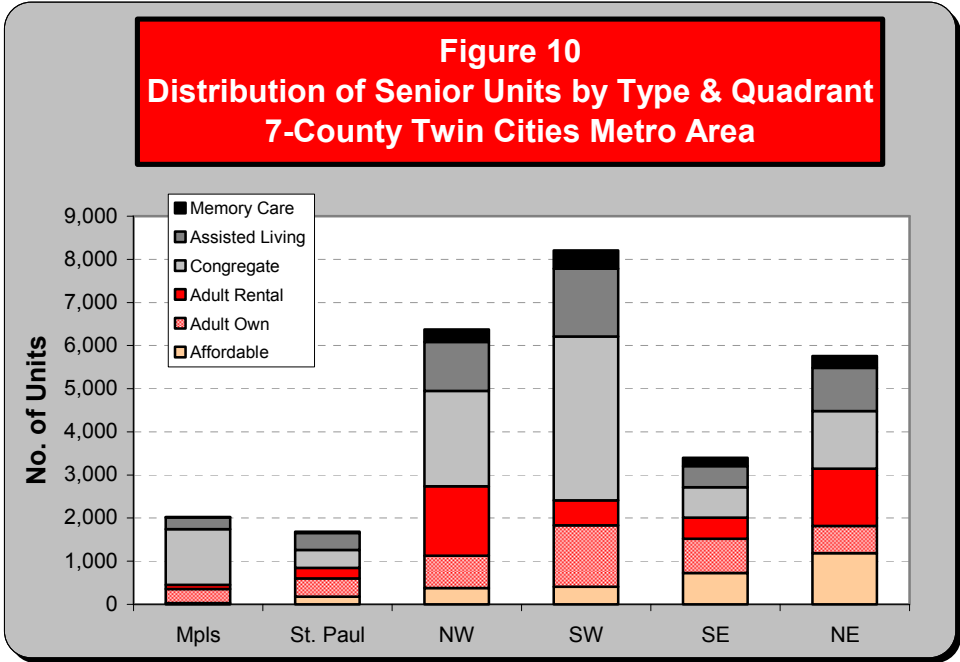


Figure 10 shows how Adult Rental projects have proliferated in the Northwest, where the units comprise 25% of the quadrant’s senior housing and 37% of the Metro Area’s Adult Rental units. Many of the units are found in older general-occupancy projects that have been converted to moderately-priced senior housing.

Congregate housing dominates in Minneapolis where it comprises nearly 65% of the City’s units and in the Southwest where it accounts for almost half of all senior housing units. Congregate projects comprise anywhere from one-fifth to one-third of the units in the remaining suburban quadrants and in St. Paul. Overall, nearly 40% of the Metro Area’s Congregate units are located in the Southwest Metro.

While Affordable Housing product accounts for only 11% of all units surveyed, it comprises 21% of the units in the Southeast and Northeast. Affordable units accounted for only 2% to 11% of the units in the remaining quadrants.

Assisted Living currently comprises between 14% (Minneapolis) and 23% (St. Paul) of the senior units in each quadrant, with the Southwest Metro accounting for one-third of the Metro Area’s Assisted Living units.

MARKET CONDITIONS BY QUADRANT

- **MARKET RATE ADULT RENTAL EXPERIENCING VACANCY RATES ABOVE EQUILIBRIUM IN ALL QUADRANTS, ESPECIALLY THE SOUTHEAST METRO**
- **THE MARKET FOR ADULT OWNERSHIP AND MEMORY CARE IS TIGHT IN ALL QUADRANTS**

Figure 11 shows vacancy rates by product type for each of the six markets examined. Overall vacancy rates ranged from 3.6% in the Southeast to 5.9% in the Northwest. The Affordable housing market continues to be tight across the Metro Area. The market for Adult Ownership product is once again strong throughout the Metro, with vacancy rates ranging from 0.5% in the Southeast Metro to 5.9% in the Northwest. It should be noted, though, that 29 of the 32 vacant units of Adult Ownership housing in the Northwest are located at one project in Andover. Disregarding that project, the Northwest vacancy rate drops to 0.7%.

Figure 11
Senior Vacancy Rates by Quadrant & Product Type*
7-County Twin Cities Metro Area

	Adult Affordable				Adult Ownership				Adult Rental				Congregate (Opt. Svc.)			
	Proj	Units	Vac.	Pct.	Proj	Units	Vac.	Pct.	Proj	Units	Vac.	Pct.	Proj	Units	Vac.	Pct.
Mpls.	1	22	0	0.0%	3	325	4	1.2%	1	53	9	17.0%	7	1,134	68	6.0%
NE	18	1,169	12	1.0%	5	459	7	1.5%	23	1,261	101	8.0%	11	918	15	1.6%
NW	9	376	4	1.1%	7	546	32	5.9%	20	1,605	91	5.7%	17	1,850	135	7.3%
SE	13	670	4	0.6%	10	639	3	0.5%	10	491	52	10.6%	4	415	12	2.9%
St.P	3	129	4	3.1%	6	400	14	3.5%	3	242	21	8.7%	2	171	5	2.9%
SW	7	350	6	1.7%	16	1,262	34	2.7%	9	574	29	5.1%	17	1,945	66	3.4%
Total	51	2,716	30	1.1%	47	3,631	94	2.6%	66	4,226	303	7.2%	58	6,433	301	4.7%
Avg Size	53				77				64				111			
	Congregate (Svc. Int.)				Assisted Living				Memory Care				Total			
	Proj	Units	Vac.	Pct.	Proj	Units	Vac.	Pct.	Proj	Units	Vac.	Pct.	Proj	Units	Vac.	Pct.
Mpls.	2	160	14	8.8%	5	238	16	6.7%	0	0	--	--	19	1,932	111	5.7%
NE	3	287	8	2.8%	14	1,003	55	5.5%	9	278	17	6.1%	83	5,375	215	4.0%
NW	3	362	11	3.0%	24	1,068	76	7.1%	11	271	8	3.0%	91	6,078	357	5.9%
SE	1	208	8	3.8%	9	460	19	4.1%	8	181	12	6.6%	55	3,064	110	3.6%
St.P	4	245	8	3.3%	4	393	38	9.7%	1	30	2	6.7%	23	1,610	92	5.7%
SW	9	1,683	85	5.1%	27	1,534	154	10.0%	19	408	22	5.4%	104	7,756	396	5.1%
Total	22	2,945	134	4.6%	83	4,696	358	7.6%	48	1,168	61	5.2%	375	25,815	1,281	5.0%
Avg Size	134				57				24				69			

* Does not include projects that opened in 2004 because most projects were experiencing initial absorption.

MARKET CONDITIONS BY QUADRANT (cont'd)

The Adult Rental market is above equilibrium in every quadrant with the Southeast Metro and Minneapolis markets having a vacancy rate above 10%. There are some indications that the cause for this is from two sources: 1) the ample supply of Affordable product, especially in the Northeast and Southeast quadrants, has captured price sensitive households who otherwise would consider market rate Adult Rental projects, and 2) ownership product, with its tax advantages and management controls, appeals to younger and healthy seniors, especially those of a generation reared on the benefits of homeownership.

Over the last two years, the Congregate market in the Twin Cities has softened but remains viable with vacancy rates ranging from 1.9% in the Northeast Metro to 6.6% in the Northwest Metro (where a significant number of vacant Congregate units are concentrated in one project). Excluding this project, the vacancy rate for the remaining Congregate units in the Northwest drops to 5.3%.

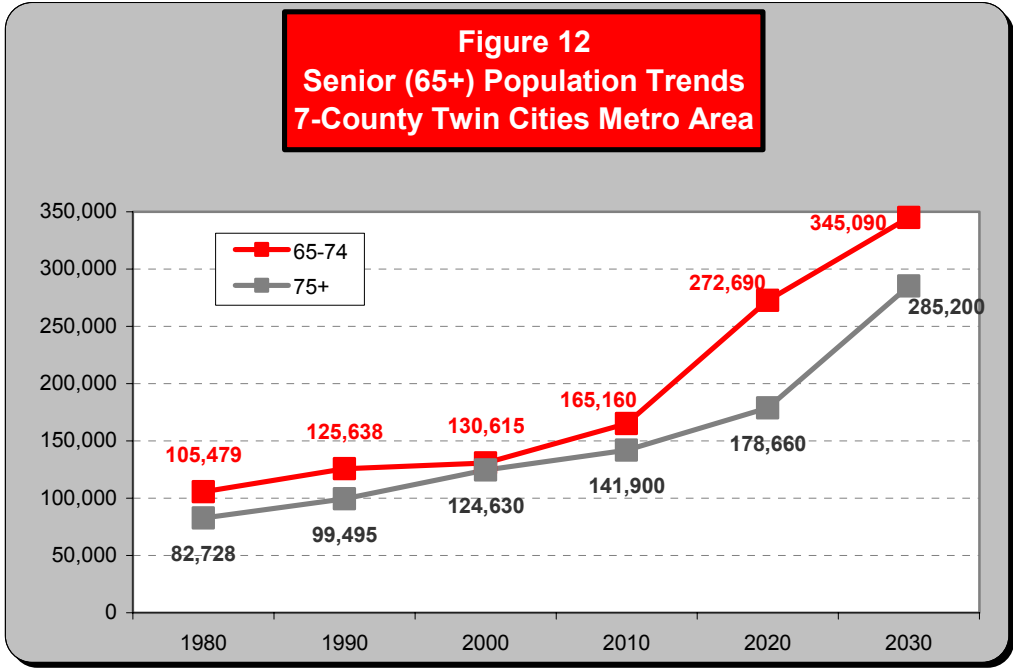
Assisted Living vacancy rates remain near equilibrium for four of the six submarkets with St. Paul and the Southwest Metro having vacancies somewhat above equilibrium at 9.7% and 10%, respectively. Again, certain problem projects can have a profound influence on submarkets. In the Southwest Metro, one project accounts for 49 of the 154 Assisted Living vacancies. Excluding this project from the analysis, the Southwest Metro vacancy rate drops to 7.2%.

Memory Care has become strong in all submarkets ranging from a 3.0% vacancy rate in the Northwest Metro to a 6.7% vacancy rate in St. Paul.

DEMOGRAPHIC FACTORS

- **THE NUMBER OF PERSONS AGE 65 AND OLDER IS PROJECTED TO NEARLY DOUBLE BETWEEN 2000 AND 2020**
- **PROJECTED GROWTH IN THE NEXT 15 YEARS WILL BE CONCENTRATED AMONG YOUNGER SENIORS (AGE 65-74), WHICH WILL FUEL DEMAND FOR NEW AMENITY-RICH PRODUCTS**

As of 2000, there were 255,000 persons age 65 and older and 124,630 persons age 75 and older in the Twin Cities Metro Area. It is projected that the Metro Area’s senior population will increase by 52,000 seniors (20%) between 2000 and 2010. Nearly two-thirds of this growth, however, will be among younger seniors (see Figure 12 below).



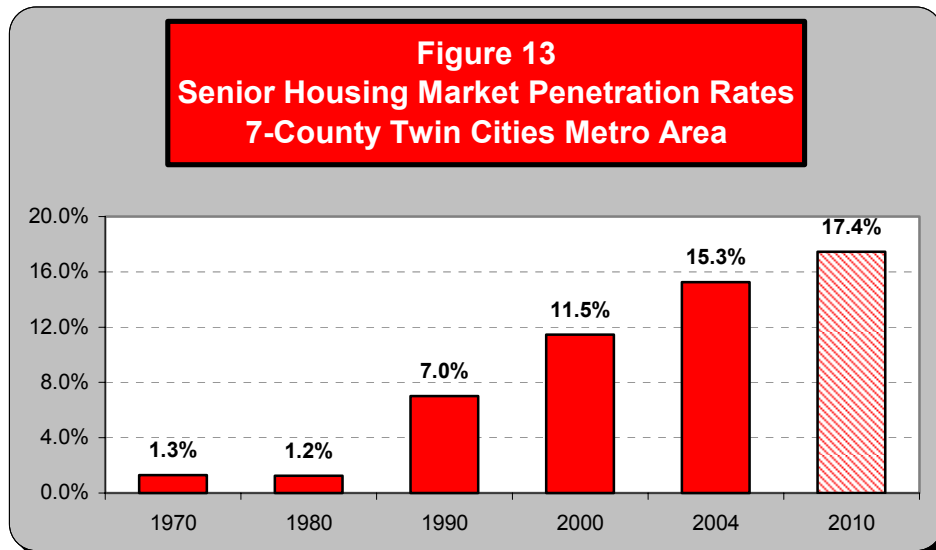
The aging baby boom population should ensure that demand for senior housing will continue to grow well into the first half of this century, with the Metro Area’s senior population expected to more than double in size over the next three decades. Growth in the senior population will begin to accelerate shortly after 2010 as the leading edge of the baby boom begins entering their mid-60s. Because the vast majority baby boomers surveyed indicate that they want to retire close to where they currently live, developers of large-scale (1,000+ units) active adult housing, who have primarily located their product in the Sun Belt, are beginning to push their concept into larger metro areas of the Northeast and Midwest. It is likely the Twin Cities will see such a development within the next three to five years.

DEMOGRAPHIC FACTORS (cont'd)

Between 2010 and 2020, the Metro Area senior population is projected to gain an additional 144,000 seniors, with expected increases of 107,500 persons (65%) age 65 to 75 and 37,000 persons (26%) age 75 and older. Demand for senior housing with services will escalate dramatically after 2020 with the aging of the baby boom into their late 70s. Between 2020 and 2030, the Metro Area’s senior population is projected to grow by 179,000 persons (40%) equating to 630,290 persons age 65 and older and 285,200 persons 75 and older by 2030.

The stronger growth in younger seniors, their obvious preference for ownership housing, and the expansion of homemaking and home health care services for the frail elderly should allow for-sale senior product to capture an increasing share of market demand over the next several decades. Meanwhile, growing market acceptance of senior housing when combined with appreciating home values and increased wealth of future seniors should translate to a steady growth in the number of frail seniors that can afford market rate Congregate and Assisted Living housing.

Between 1970 and 2000, the percent of Metro Area senior (65+) households residing in non-subsidized senior housing increased from roughly 1.3% to 11.5%, with much of this growth occurring between 1980 to 1990 when the percentage increased from 1.2% to 7.0% (see Figure 13).



If projected construction trends hold-up through the end of the decade, we anticipate 17% of all households age 65 and older will reside in a non-subsidized senior housing unit by 2010.

CONCLUSIONS

At present, the Twin Cities Metro Area's senior housing market remains strong with pent-up demand still existing for additional senior housing product, particularly, for Affordable and Adult Ownership senior housing. For market rate Adult Rental projects and Assisted Living in certain submarkets, however, we are paying close attention to indicators that suggest the market is approaching saturation. Barring overbuilding in the short-term, though, demand over the next two decades should remain strong for ownership products such as cooperatives, condominiums and townhomes, which are geared towards the active, independent lifestyles of recent retirees. While demand for more service-intensive senior housing may not see the same growth potential, life expectancies and seniors' incomes are increasing and greater awareness and acceptance of these housing options should equate to higher capture rates. Furthermore, the leading edge of the baby boom will begin entering their mid-70s shortly after 2020 and thus, additional Assisted Living and Memory Care housing will continue to be needed as the population continues to age and as the public becomes more familiar with these concepts and aware of their benefits.

Although some submarkets are being watched within certain product types, most submarkets will have growth potential for most, if not all, product types given the projected increases in the number of senior households. High occupancy rates and rapid absorption in owner-occupied housing indicates pent-up demand exists in nearly all markets with the potential to develop additional product throughout the Metro Area. While some submarkets could experience saturation in Assisted Living product over the short-term, we believe this will likely be temporary, as the demand for Assisted Living should continue to grow as the population ages. Assisted Living housing should remain strong in developments where a continuum of care exists and as the independent components feed into the more service-intensive components. Also, the increasingly competitive market will likely create a need to update older developments in response to the market's changing needs and preferences.

The greatest potential over the next two decades will be for developments that cater to the active lifestyles of aging baby boomers. New construction should satisfy much of the demand, but potential also exists to convert other housing developments to senior housing as the population ages. Older rental or condominium buildings with a majority of studio and one-bedroom units may be reconfigured to have larger one-bedroom or two-bedroom units and/or may need to reposition themselves by adding services to meet the needs of residents as they age in place. Also, the market for moderately-priced senior housing is substantial, particularly for core city neighborhoods as well as for Affordable product that would offer support and personal care services.

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