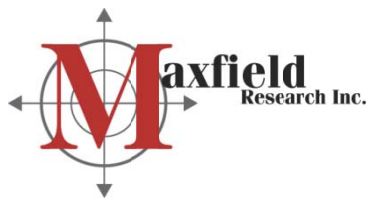
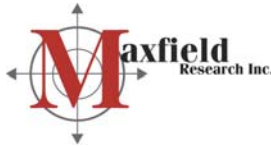


Senior Housing Update

2008



Pictures compliments of Ecumen Communities at Villages of North Branch, Lake Shore Duluth, and Parnly Lifepointes in Chisago City.



Dear Clients, Colleagues, and Friends,

MARCH 2009. Maxfield Research is pleased to present our *Senior Housing Update 2008* 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 ever evolving industry at a local level. The data can be utilized to discover opportunities as well as identify areas that may be considered to be temporarily saturated.

For more than 20 years, Maxfield Research has been compiling information on the local senior housing market through a 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 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 third and fourth quarters of 2008.

The survey is limited to "market-rate" and "affordable" senior developments and thus, excludes projects with a "deep" subsidy. This year's survey includes over 400 projects with nearly 29,000 units.

We hope you find the information in this report helpful. We 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,



Mary C. Bujold
President

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SENIOR HOUSING UPDATE 2008

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Disclaimer:

This report broadly assesses the market for senior housing in the Twin Cities as of the fourth quarter of 2008. 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.

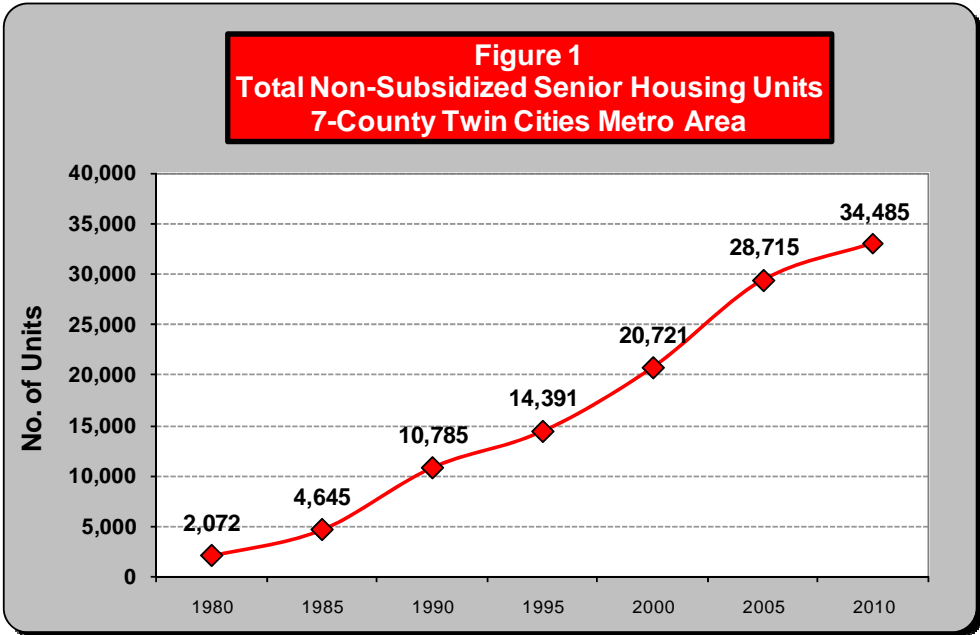
Acknowledgments:

Mary Bujold authored this report with special research assistance from Maxfield Research professional staff.

THE STATE OF THE SENIOR HOUSING MARKET

- **MARKET OPPORTUNITY REMAINS BUT CAUTION FOR SOME SUB-MARKETS AND PRODUCT TYPES**
- **HOUSING MARKET SLOWDOWN CREATES INDECISION FOR MANY SENIORS**

Although the senior housing market in the Twin Cities experienced a slowdown in new development coinciding with the overall housing slowdown, market penetration rates continued to climb. Continued absolute growth in the number of senior households and continued strong demand for service-intensive products resulted in a relatively stable market. The number of developments experiencing increased vacancies has grown, but the overall vacancy rate remains slightly below market equilibrium. As of year-end 2008, the number of non-subsidized senior housing units totaled just over 32,000. Projects in the pipeline projected to move forward would increase the supply to about 34,500 units by 2010 (see Figure 1 below) and to about 36,000 units by year-end 2011.

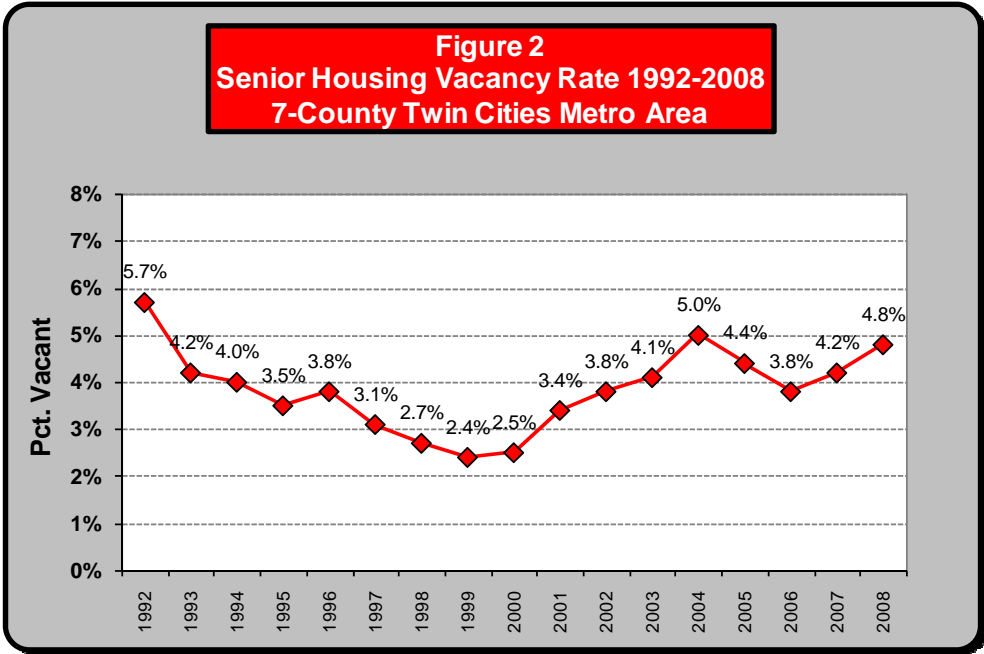


Developers of senior housing, for-profit and non-profit, continue to aggressively seek market opportunities. The result is a diverse product selection that rivals many of the nation’s larger metropolitan areas. Clearly, the Twin Cities is highly sophisticated in its offerings to the senior market. Older adult and senior households 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 increased overall market penetration rates in the Twin Cities beyond the previous industry standard of 15% of age and income-qualified households.

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

- **CONSTRUCTION HAS SLOWED, BUT VACANCIES HAVE INCREASED SLIGHTLY**
- **NEED-DRIVEN AND AFFORDABLE PRODUCTS PERFORMING BETTER THAN OTHER CATEGORIES**

Our survey indicates that the overall vacancy rate by the 4th Quarter of 2008 was 4.8%, a small increase over the previous year. This marked the second year in a row that the overall vacancy rate increased (see Figure 2 below). We attribute the increased vacancy rate to the slowdown in the housing market and some seniors’ reluctance to opt for an age-restricted option at this time.



The market for senior housing in the Twin Cities however, remains stable and in some segments vibrant. The industry is more competitive because of greater product diversity, including the ongoing development of campus-style projects where seniors may access multiple levels of service. A short-term decline in the number of 75- to 84-year old seniors over the next ten years indicates that demand for independent senior housing may experience a slight softening as this product niche will be marketing to the smaller Depression-era generation.

Conversely, ownership and independent rental products marketed to active and healthy households are expected to experience a surge as the baby boom generation makes decisions to exit their single-family homes for more lifestyle-based products. This exit however, has been delayed because of the current economic recession and the decline in home values.

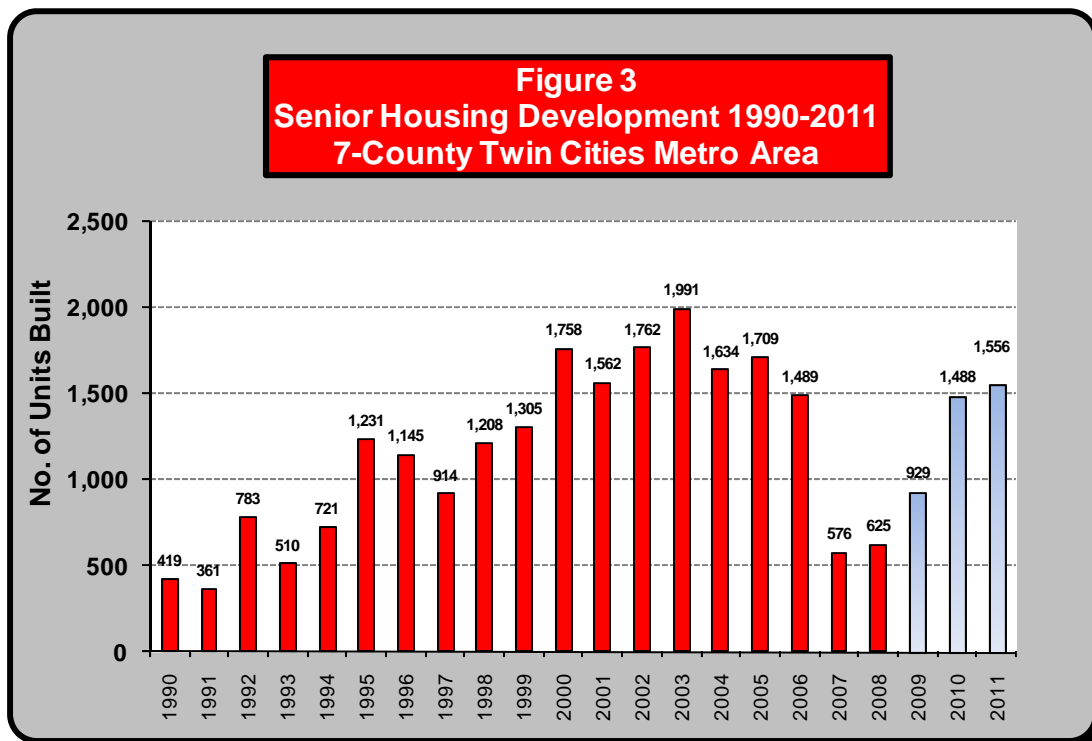
CONSTRUCTION TRENDS

- **CONSTRUCTION OF NEW UNITS SLOWED IN 2008; CONSTRUCTION NOT EXPECTED TO REBOUND SIGNIFICANTLY UNTIL 2010**
- **NEW DEVELOPMENT PROCEEDING WITH CAUTION**

During 2008, the Seven-County Twin Cities Metro Area added 625 new senior housing units, less than 50% of what was added during 2005 and only just slightly more than the 576 units added in 2007. Peak construction occurred in 2003 with the addition of 1,991 units. The decline is attributed to the overall slowdown in the housing market, tight credit markets and less active adult product being built. In general, market conditions for all senior properties remain stable with increases in vacancies for market rate few services products, ownership and rental and congregate housing.

As Figure 3 shows, the first half of the 2000s saw tremendous growth with an average of 1,740 new units added annually. New product on-line has dropped significantly in the past two years, and pending developments have slowed to about 4,000 units. However, the number of units coming to market over the next three years is likely to be 50% to 60% of the above total.

Fewer projects on line means that new developments should be able to achieve stabilized occupancy in a reasonable timeframe with less competition and less potential for market saturation.



DEFINITIONS OF SENIOR HOUSING SERVICE LEVELS

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 define **“Affordable”** senior housing as units targeting moderate-income households. These projects usually have ceilings on the income of residents and rental rates. Typically, these are set as affordable to households with incomes of up to 60% of the County median. Affordable projects contrast with deep-subsidy projects where rents are 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 or bond financing. Such projects can be free-standing developments but increasingly are located in a mixed income-building where market rate units are also present. The Affordable product offers few services unless the units are located within a Congregate building (independent living with optional services) where market rate units are also available.

ADULT MARKET RATE

The least service-intensive product, termed **“Adult”** projects, offers 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 often 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 congregating 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.)?

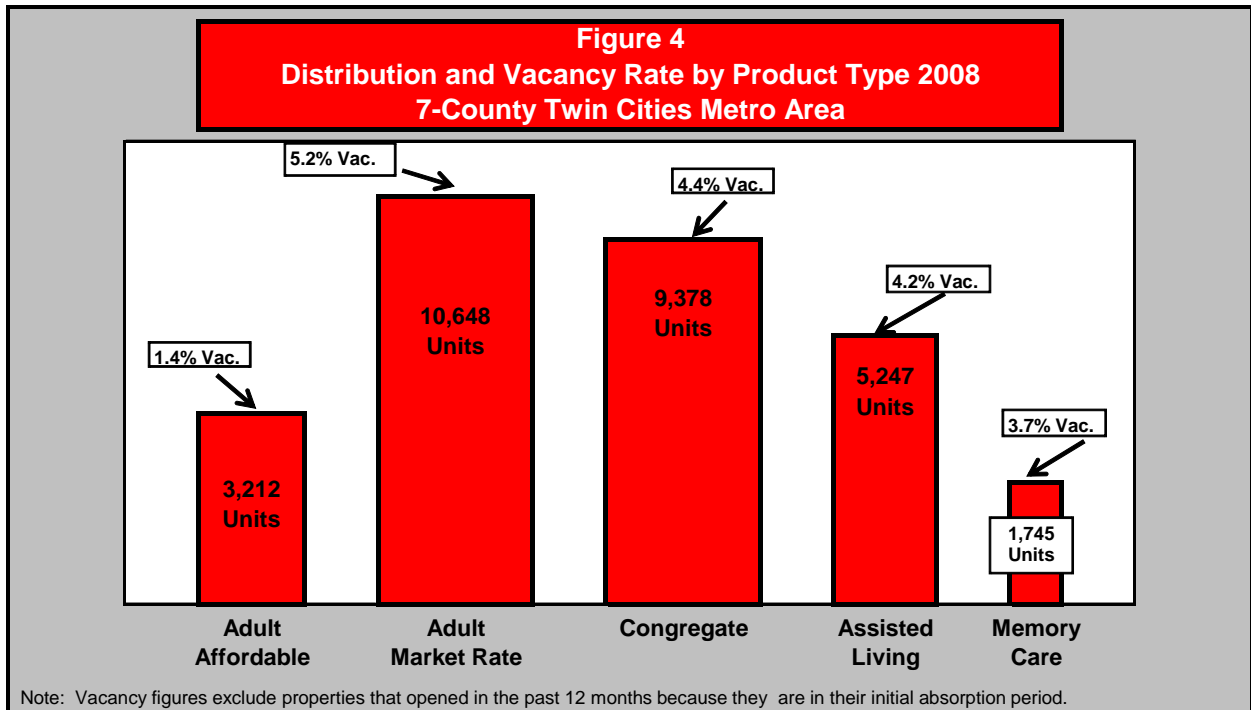
MEMORY CARE

“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 provided to respond to this population’s needs. While Memory Care facilities can be freestanding buildings, just as often, they are developed as a wing of a traditional Assisted Living facility.

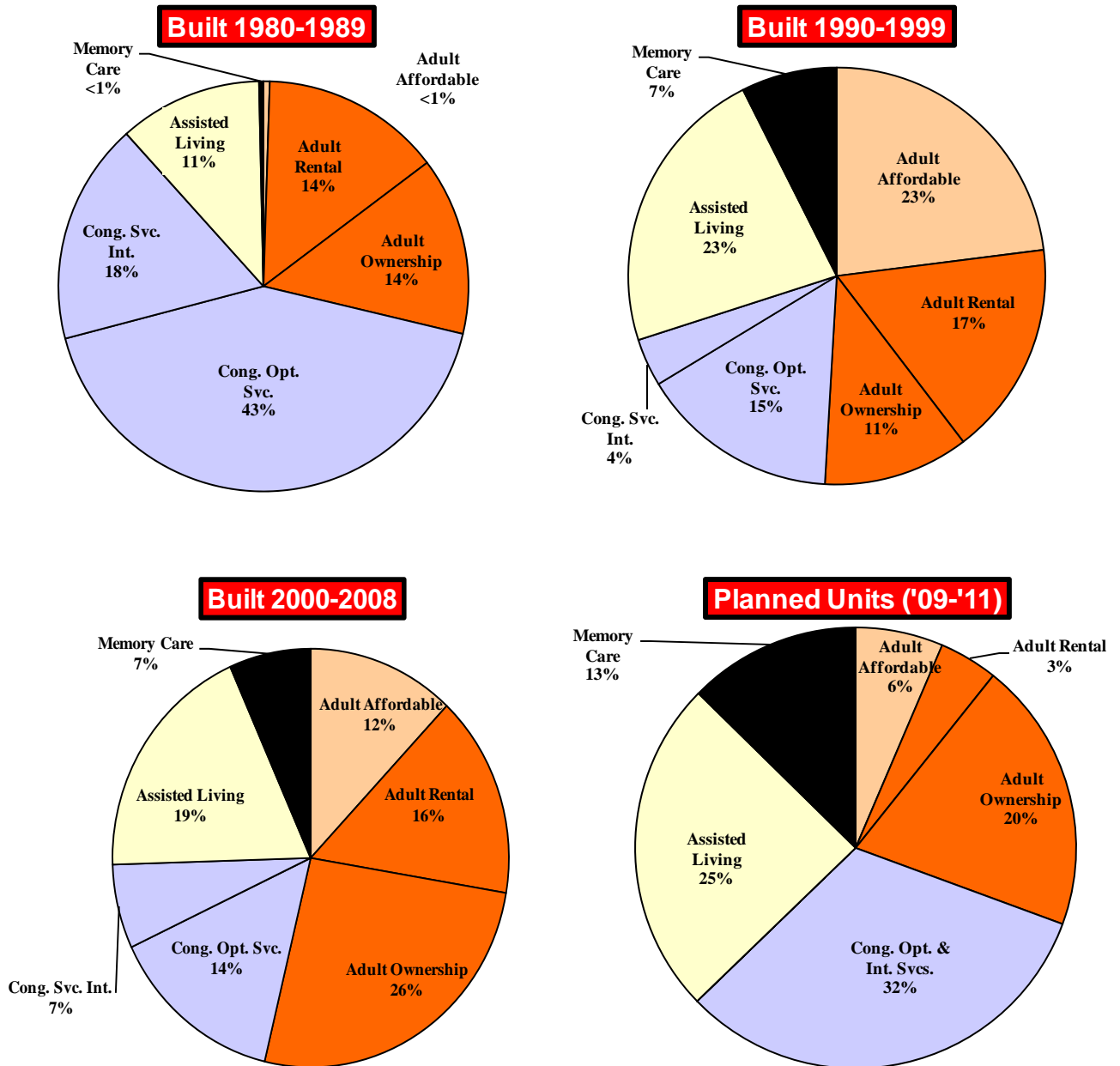
DISTRIBUTION OF PRODUCT TYPES

- **ADULT, MARKET RATE SURPASSES CONGREGATE IN SIZE, BUT NEW CAMPUS-STYLE PROJECTS MAY PUSH CONGREGATE BACK TO THE TOP OVER THE NEXT TWO YEARS**
- **ASSISTED LIVING AND MEMORY CARE CONTINUE TO PERFORM WELL DESPITE THE HOUSING SLOWDOWN**

Figure 4 below displays the relative size of the five different senior housing classifications and their associated vacancy rates [for projects built prior to 2008]. The figure shows that Adult Market Rate rental housing surpassed Congregate housing at 33% of all units while Congregate housing dropped to 29%. The figures also show that each category except Adult Market Rate product is currently experiencing vacancy rates below industry equilibrium standards, which are 2% for Affordable product, 5% for Adult Market Rate and Congregate product, and 7% for Assisted Living and Memory Care.



The Twin Cities senior housing market has evolved into a complete continuum of products designed to accommodate the lifestyle needs of extremely diverse market segments; from younger active seniors who desire to live among their peers and want freedom from maintaining a single-family home, to very frail seniors in need of housing with support and personal care services. Development of owner-occupied housing surged through mid-decade, responding to market demand and some market sensitivity to independent rental housing, but has slowed substantially as the general housing market also slowed. The pie charts below show how Adult ownership housing is projected to account for nearly half of all senior housing units built through the end of the decade.

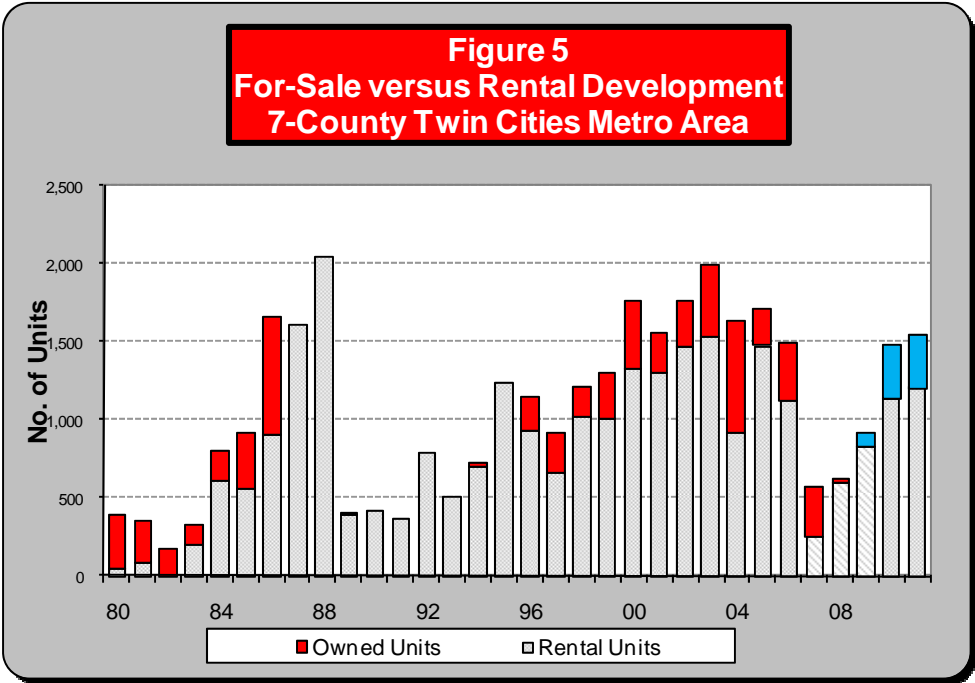


IMPACTS OF HOUSING MARKET SLOWDOWN

- **DEVELOPMENT OF SENIOR OWNERSHIP HOUSING DECLINES SIGNIFICANTLY WITH THE HOUSING MARKET SLOWDOWN**
- **DEVELOPMENT OF CONTINUUM OF CARE CAMPUSES INCREASES**

Nearly 80% of Metro Area senior units are rental, but during the housing surge, senior ownership housing increased dramatically. Although this product segment has waned recently, we are confident that demand for senior ownership product will increase with the strengthening of the overall housing market. Demand for limited-equity cooperatives that offer moderate entry share costs remain stable, allowing customers to conserve a portion of their assets and/or enable entry to the facility with lower home equity values. Diversity of ownership products is expected to continue as the baby boom ages and moves more fully into their senior years.

As development of ownership products has decreased, development of continuum of care campuses and freestanding assisted living and memory care housing increased. Most of the new product brought on-line in 2008 fell into the latter categories. While all developments have been experiencing slower traffic, service-intensive product still has fewer vacancies than independent product.

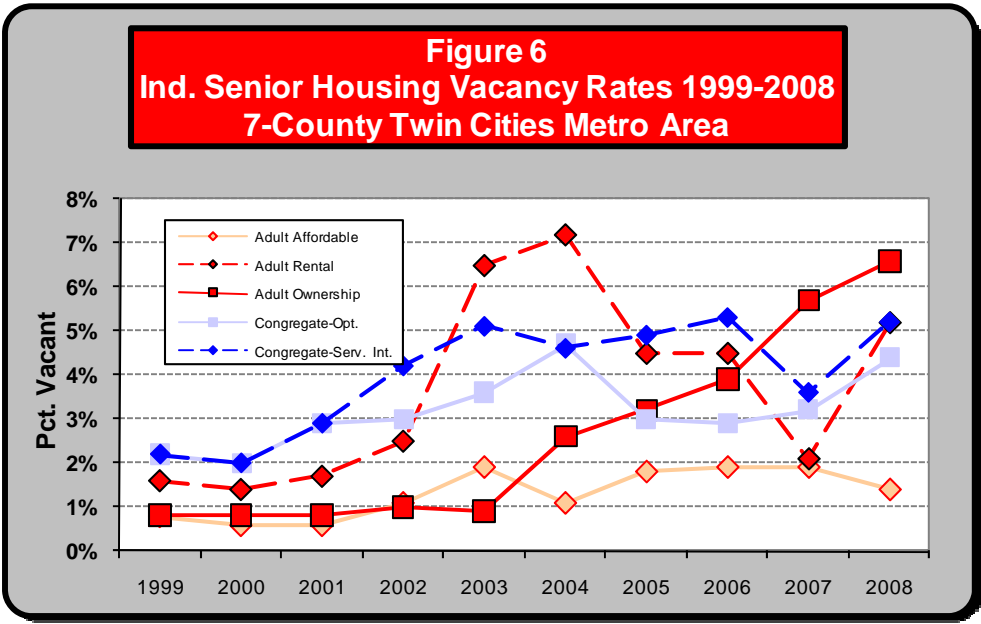


MARKET CONDITIONS BY PRODUCT TYPE

- **DEMAND FOR MEMORY CARE REMAINS STRONG**
- **SLIGHT INCREASE IN VACANCY RATES FOR ASSISTED LIVING HOUSING, BUT STILL BELOW MARKET EQUILIBRIUM**
- **SLOWDOWN IN CONSTRUCTION OF ALL SENIOR HOUSING PRODUCT EXPECTED TO KEEP MARKET IN BALANCE**

As shown on the graph below, all independent senior housing products have experienced increases in vacancies, attributed predominantly to the slowdown in the housing market. Independent seniors, concerned about the decline in their home values and much less concerned about the timing to complete a move, have caused a slower market to re-lease turnover units.

The diversity of product has also enabled seniors to better match their needs with existing senior housing. The wide variety of products available allows seniors to choose a purely independent living arrangement or one that provides a very high level of services. Some facilities provide services just short of nursing care.

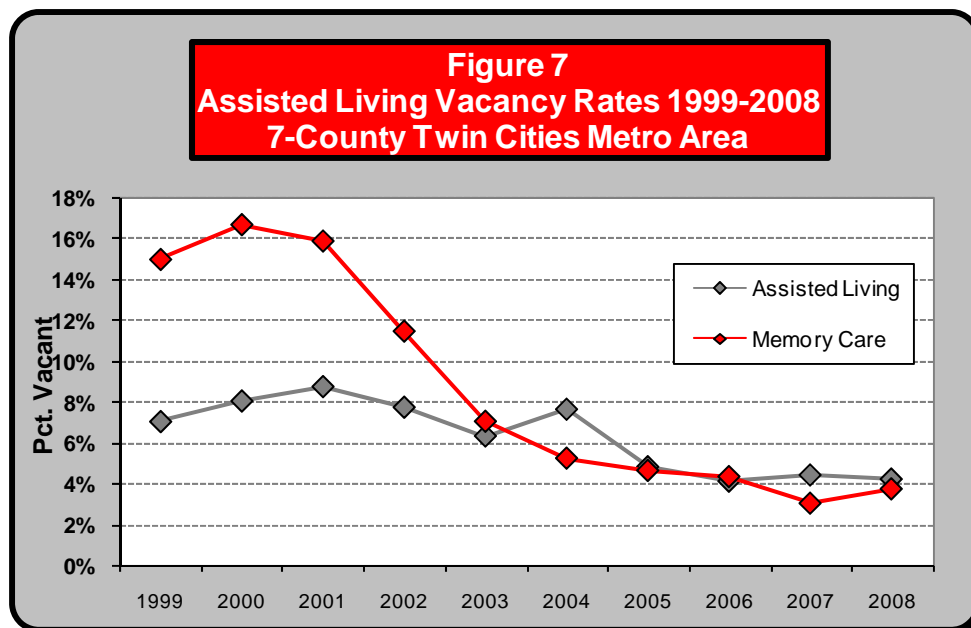


MARKET CONDITIONS BY PRODUCT TYPE (cont'd)

Despite the increase in vacancies overall, Adult Affordable Rentals experienced a slight decline in overall vacancies. (See Figure 6) The success of adult affordable rental developments, most sponsored by County Agencies provides high-quality housing options for seniors with moderate incomes. Low-income seniors are also being assisted through the development of senior units under the HUD 202 housing program. Many of these new facilities reflect unit designs and architecture that rival market rate projects.

Overall vacancy rates for Assisted Living and Memory Care housing in the Twin Cities Metro Area experienced slight increases between 2007 and 2008. These housing products however, each remain below the market equilibrium rate of 7.0%. The Metro’s traditional Assisted Living facilities are currently operating with a 4.2% vacancy rate, while Memory Care projects are experiencing a 3.7% vacancy rate Metro-wide. Congregate, Service-Intensive product is increasing in vacancy, primarily because most of this product is older in age and competes directly with today’s newer assisted living facilities.

As indicated in Figure 7, the vacancy rate for Memory Care increased in 2008, due to the significant amount of memory care product that has been brought on-line recently. Conversations with memory care providers in the market however, revealed that absorption remains consistent and demand strong in most submarkets. We expect that demand for assisted living and memory care will remain stable over the next few years. We caution however, that the proportion of seniors requiring these products remains a modest part of the overall senior housing spectrum.



MARKET CONDITIONS BY PRODUCT TYPE (cont'd)

- **PRICING INCREASED FOR ALL SENIOR HOUSING PRODUCT ACROSS THE SERVICE SPECTRUM**
- **COSTS FOR SERVICE-ENRICHED SENIOR HOUSING ROSE SUBSTANTIALLY AS HEALTH CARE COSTS INCREASE**

This is the third 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 shown on Figure 8, average prices rise dramatically as services increase to residents. Fees shown in Figure 8 exclude additional fees for higher service-care packages or individual service fees which will increase the monthly cost.

Monthly fees and unit prices increased modestly in 2008 for condos, affordable and market rate rental and congregate/optional services projects. The average increase for these product types was between 2% and 4%. Fees for congregate service-intensive projects increased on average by 10% with the greatest increases identified for the smallest and largest size units.

Pricing for assisted living and memory care increased the most, with increases of between 10% and 20% for some unit types. Because of the increased costs for providing health care services, we expect that price increases for assisted living and memory care will essentially lead the market. Continued increases at these levels are likely to result in reduced affordability for some seniors now and in the future. The overall strong increase in pricing among nearly all product types also suggests that the market remains healthy despite modest increases in vacancy rates.

Figure 8
Average Monthly Fees and Purchase Prices
by Senior Housing Product Type, 2008
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	--	--	--	\$598	\$874	\$802	\$1,706	\$2,643	\$4,461
1BR	\$116,291	\$63,685	\$669	\$669	\$840	\$1,182	\$1,657	\$2,976	\$4,458
1BR/Den	\$130,833	\$102,135	\$811	\$815	\$1,164	\$1,558	\$1,706	\$3,548	\$5,963
2BR	\$197,871	\$107,570	\$925	\$806	\$1,263	\$1,718	\$2,209	\$3,567	\$4,994
3BR	\$243,615	\$183,236	\$1,176	\$930	\$1,489	\$2,522	\$2,925	--	--

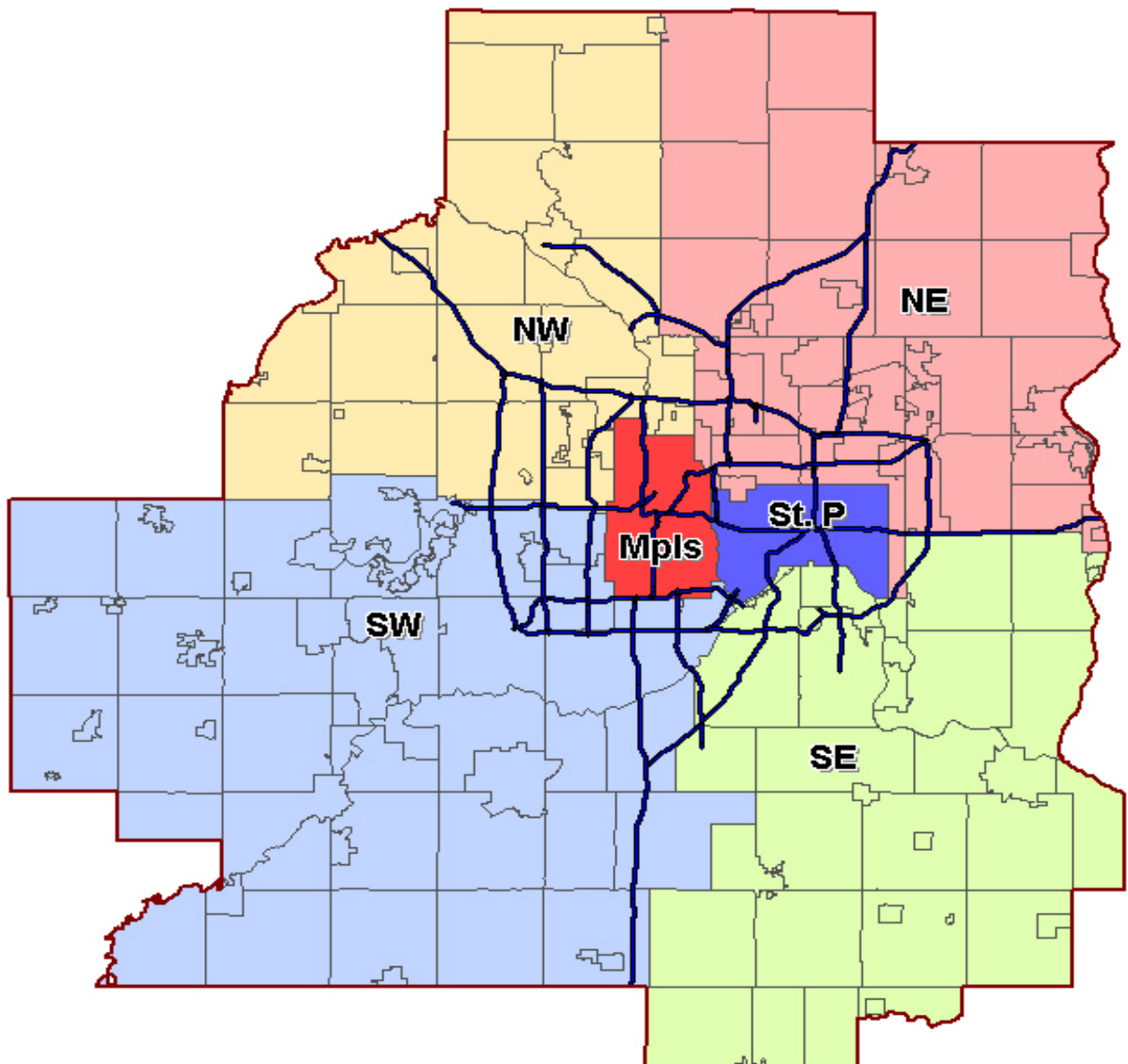
* Condominiums and townhomes often have a monthly association fee that covers water, sewer, insurance, exterior maintenance, etc., which are services typically included in the monthly fee of other senior housing types.

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

GEOGRAPHIC DISTRIBUTION OF SENIOR HOUSING

For the purpose of this report Maxfield Research divides the 7-County Metro Area into six sub-markets; Minneapolis, St. Paul, the Northeast Metro, Northwest Metro, Southeast Metro and the Southwest Metro; shown on the map below.

Twin Cities Quadrants

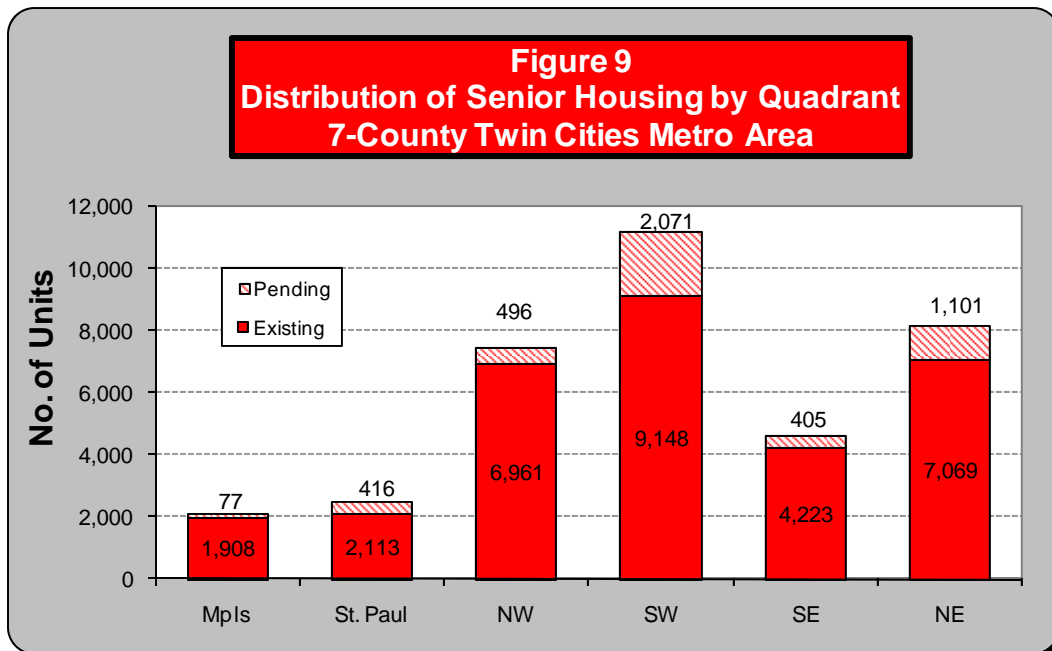


GEOGRAPHIC DISTRIBUTION OF SENIOR HOUSING (cont'd)

- **SOUTHWEST CURRENTLY HAS THE MOST UNITS PENDING**
- **MINNEAPOLIS LOSING MARKET SHARE TO OTHER SUBMARKETS AND TO ST. PAUL**
- **NEW PRODUCT ON-LINE IN 2008 WAS SPREAD SOMEWHAT EVENLY ACROSS THE SUBURBAN SUBMARKETS**

Clearly, the suburban quadrants have captured the majority of non-subsidized senior housing development to date and continue to do so. The Southwest Metro has, by far, the largest number of senior housing units (9,148 units) and comprises 29% of the Metro Area’s market-rate and affordable senior housing units. The Northeast quadrant has the second largest number of units (7,069 units), closely followed by the Northwest (6,961 units) each with about 22% of the Metro total, and then the Southeast (4,223 units) with 13%. St. Paul (2,113 units) and Minneapolis (1,908 units) each account for about 6% of the Metro Area’s non-subsidized senior units. Figure 9 shows the number of existing and pending senior housing units in each quadrant.

New senior housing development is expected to continue to center on suburban locations, and St. Paul has experienced more new senior housing development than has Minneapolis.



GEOGRAPHIC DISTRIBUTION OF SENIOR HOUSING (cont'd)

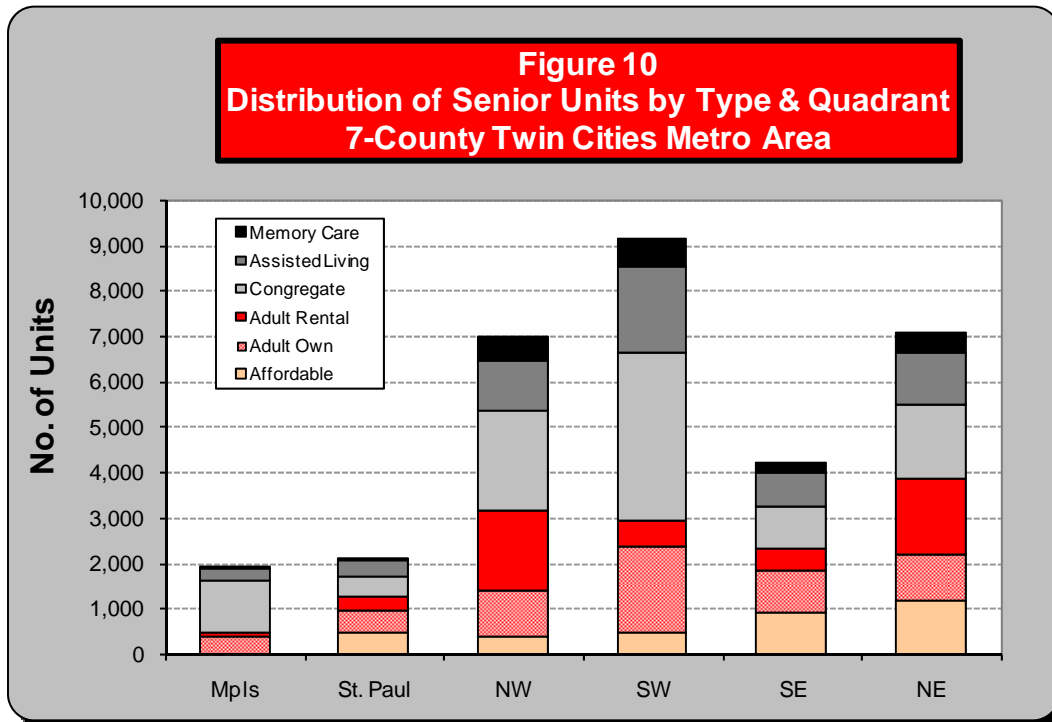


Figure 10 shows how Adult Rental projects have proliferated in the Northwest, where the units comprise 25% of the quadrant’s senior housing and 36% of the Metro Area’s Adult Rental units. Many of the units are found in older buildings that have been converted from general occupancy to moderately-priced senior housing.

Congregate housing dominates in Minneapolis where it comprises nearly 62% of the City’s units and in the Southwest where it accounts for 40% of that area’s 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, 32% of the Metro Area’s congregare units are located in the Southwest Metro.

While Affordable housing product accounts for only 10% of all units surveyed, it comprises 22% of the senior housing units in St. Paul and the Southeast and 16% of the senior housing units in the Northeast.

MARKET CONDITIONS BY QUADRANT

- **THE HOUSING SLOWDOWN RESULTS IN INCREASED VACANCIES AMONG ADULT OWNERSHIP AND ADULT RENTALS IN MOST SUB-MARKETS**
- **VACANCY RATES FOR CONGREGATE OPTIONAL SERVICES PRODUCT IMPROVES IN MOST SUBMARKETS**
- **ADULT AFFORDABLE RENTALS REMAIN VERY TIGHT**
- **THE MARKET FOR ASSISTED LIVING AND MEMORY CARE IS TIGHT IN MOST SUBMARKETS**

**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.	2	31	0	0.0%	3	325	8	2.5%	2	93	5	5.4%	8	1,055	88	8.3%
NE	22	1,150	25	2.2%	13	1,036	77	7.4%	31	1,489	53	3.6%	13	1,085	30	2.8%
NW	9	376	8	2.1%	16	988	59	6.0%	23	1,747	124	7.1%	20	1,624	85	5.2%
SE	17	729	5	0.7%	14	919	29	3.2%	10	470	34	7.2%	6	475	21	4.4%
St.P	7	467	5	1.1%	7	478	30	6.3%	5	327	9	2.8%	2	171	5	2.9%
<u>SW</u>	<u>10</u>	<u>460</u>	<u>7</u>	<u>1.5%</u>	<u>24</u>	<u>1,893</u>	<u>167</u>	<u>8.8%</u>	<u>11</u>	<u>540</u>	<u>17</u>	<u>3.1%</u>	<u>23</u>	<u>1,857</u>	<u>49</u>	<u>2.6%</u>
Total	67	3,213	50	1.6%	77	5,639	370	6.6%	82	4,666	242	5.2%	72	6,267	278	4.4%
Avg Size	48				73				57				87			
	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.	1	122	7	5.7%	7	360	13	3.6%	1	22	0	0.0%	24	2,008	121	6.0%
NE	5	465	37	8.0%	20	1,161	44	3.8%	18	422	12	2.8%	122	6,808	278	4.1%
NW	2	285	13	4.6%	28	1,143	49	4.3%	16	499	22	4.4%	114	6,662	360	5.4%
SE	2	414	4	1.0%	14	771	3	0.4%	12	235	1	0.4%	75	4,013	97	2.4%
St.P	4	245	3	1.2%	4	393	10	2.5%	1	29	8	27.6%	30	2,110	70	3.3%
<u>SW</u>	<u>11</u>	<u>1,626</u>	<u>95</u>	<u>5.8%</u>	<u>37</u>	<u>1,913</u>	<u>93</u>	<u>4.9%</u>	<u>30</u>	<u>621</u>	<u>22</u>	<u>3.5%</u>	<u>146</u>	<u>8,910</u>	<u>450</u>	<u>5.1%</u>
Total	25	3,157	159	5.0%	110	5,741	212	3.7%	78	1,828	65	3.6%	511	30,511	1,376	4.5%
Avg Size	126				52				23				60			

* Does not include projects that opened within the past 12 months because they are undergoing initial absorption.

MARKET CONDITIONS BY QUADRANT (cont'd)

Figure 11 shows vacancy rates by product type for each of the six markets examined. Overall vacancy rates ranged from 2.3% in the Southeast to 5.2% in the Minneapolis. The Affordable housing market continues to be very tight across the Metro Area. The market for Adult Ownership has softened, primarily because of the downturn in the housing market and a lowering of housing values.

The market for congregate projects with optional services remains moderately strong with vacancy rates ranging from a low of 1.8% in St. Paul to a high of 6.8% in Minneapolis. Most of the other submarkets have vacancy rates of between 2.0% and 3.8%. The high vacancy rate in Minneapolis represents a combination of older product and congregate ownership product which has experienced greater difficulty in attracting new residents at turnover due to soft housing market conditions.

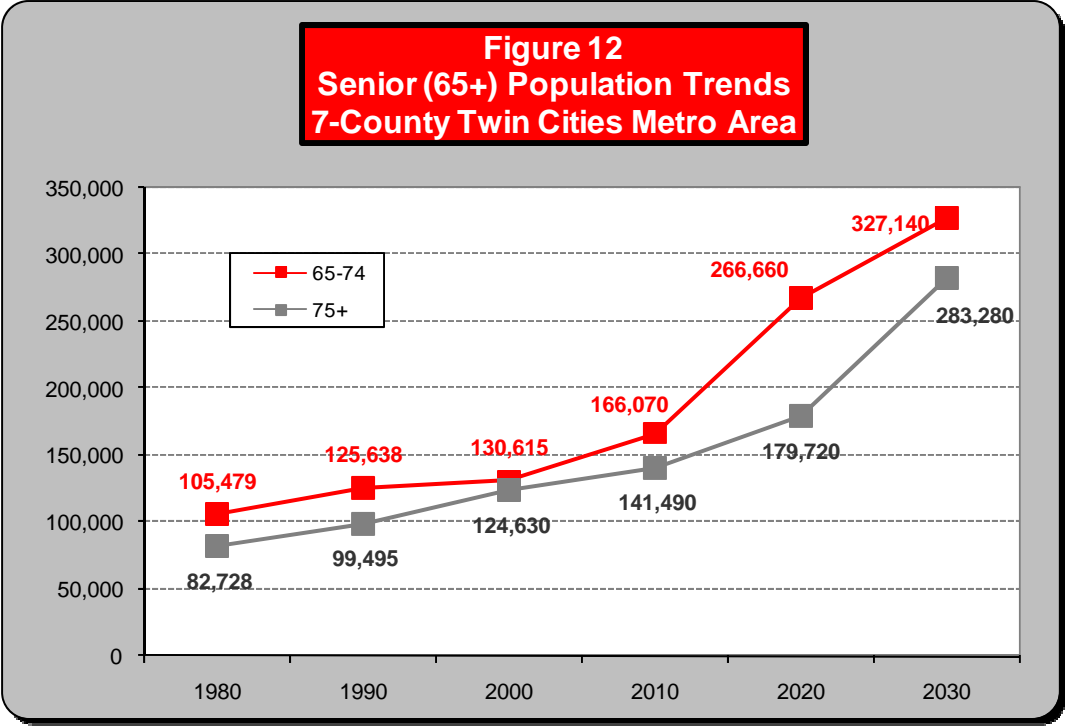
Assisted Living vacancy rates remain below market equilibrium for all six submarkets with Northwest Metro and Southwest Metro only submarkets with vacancy rates above 4% in this category.

Memory Care also remains strong in most submarkets ranging from 0.0% in Minneapolis to 29.6% in St. Paul, a temporary aberration. Other submarkets have vacancy rates ranging from 0.4% to 4.4%. Memory care housing has achieved the most significant gains in market acceptance and penetration over the past three years. However, we caution that memory care remains a much smaller market niche than the other product types and care must be exercised in the number of units developed in any one project.

DEMOGRAPHIC FACTORS

- **THE NUMBER OF PEOPLE AGE 65 AND OLDER IS PROJECTED TO NEARLY DOUBLE BETWEEN 2008 AND 2020**
- **PROJECTED GROWTH IN THE NEXT 12 YEARS WILL BE CONCENTRATED AMONG YOUNGER SENIORS (AGE 65-74), FUELING DEMAND FOR AMENITY-RICH PRODUCTS, BUT FEWER SERVICES**

As of 2000, there were 255,000 people age 65 and older and 124,630 persons age 75 and older in the Twin Cities Metro Area. The Metro Area’s senior population is projected to increase by 52,300 seniors (20%) by 2010 and by 138,820 seniors by 2020. Nearly two-thirds of this growth, however, will be among seniors age 65 to 74 (see Figure 12 below).



The aging baby boom population will 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 enters their mid-60s. Because the vast majority of baby boomers often indicate in surveys 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. Although large scale national developers have been eyeing the Twin Cities for such a development, the downturn in the market has delayed the development of this product, we estimate, for at least another five years.

DEMOGRAPHIC FACTORS (cont'd)

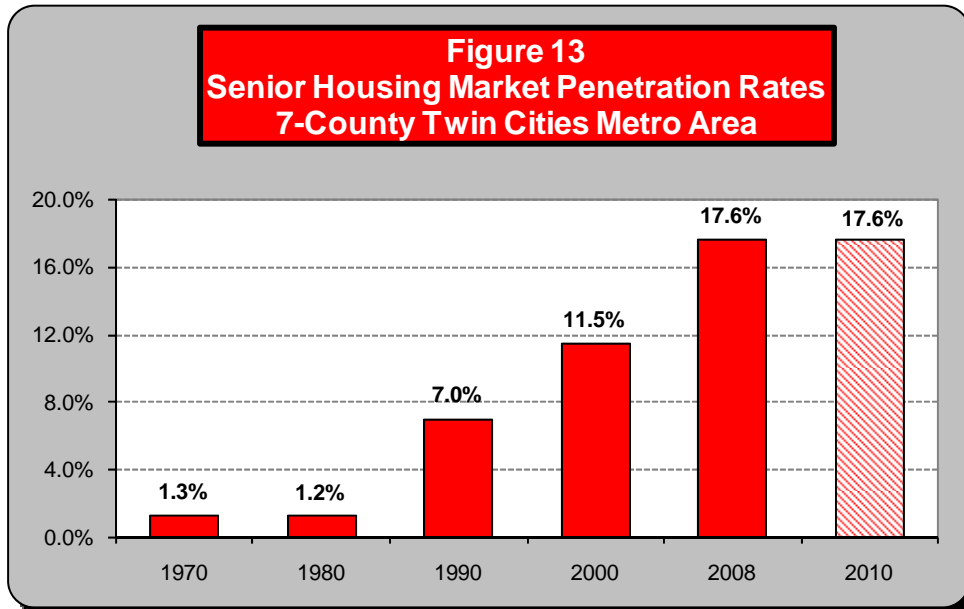
Between 2010 and 2020, the Metro Area senior population is projected to gain an additional 144,000 seniors, with expected increases of 107,500 persons (65%) age 65 to 75 and 37,000 persons (26%) age 75 and older. Between 2020 and 2030, the Metro Area's senior population is projected to grow by 179,000 persons (40%) equating to 630,290 persons age 65 and older and 283,280 people 75 and older by 2030.

Demand for senior housing with services is expected to escalate after 2020 with the aging of the baby boom into their late 70s. New advances in medical technology and a projection that baby boomers will be in better overall health at an advanced age may result in lower demand for assisted living services at this time and generally increased demand for developments that offer optional services.

The strong growth expected among young seniors between 2010 and 2020 is expected to increase the demand for active adult ownership housing, despite the current slump in this product category. Also, the return of baby boomers to the urban districts suggests that as this generation ages, there will be the potential to offer senior housing product in the two Downtowns, a market niche that has not yet been tested.

As the housing market recovers and seniors' homes once again begin to appreciate, we can expect a renewed interest in senior housing products across the spectrum. Baby boomers will continue to seek out options for their aging parents, further adding to the potential demand for senior housing in this market from boomers that will move their parents closer to them.

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).



Current development as of year-end 2008 shows that nearly 18% of all households age 65 and older will reside in a non-subsidized senior housing unit by 2010. This proportion demonstrates that senior housing in the Twin Cities Metro Area continues to receive strong market acceptance and has generally exceeded the limit previously contemplated at 15%. We attribute this strong acceptance to the ongoing variation in product offerings and consumer education of the benefits of these options.

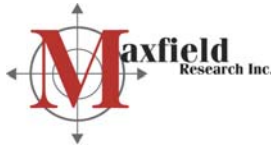
CONCLUSIONS

As of year-end 2008, the Twin Cities Metro Area’s senior housing market remains stable with pent-up demand still existing for additional senior housing product in various categories and submarkets. With the ongoing softness of the housing market, we expect that ownership products will continue to experience a challenging environment and resales of existing units are likely to have a modest decline in values.

Affordable housing is expected to remain tight for the foreseeable future due to the high level of demand and limited construction of these units in the marketplace.

Independent living products will experience increased vacancy rates in the short-term because of the depressed economy, but should stabilize as the housing market strengthens, sometime in 2011. Although a number of projects are pending, the tight credit markets may further restrict the number of developments that actually come on-line over the next two years, despite continued market demand.

Service-intensive senior housing options continue to achieve increased market penetration rates and have been affected minimally by the economic downturn. The need-driven aspects of assisted living and memory care continue to attract residents. Increasing life expectancies and se-



niors' incomes along with greater awareness and acceptance of these housing options have equated to higher capture rates.

Once the leading edge of the baby boom enters their mid-70s shortly after 2020, the demand for senior housing will increase substantially. However, the product types required to attract the highly mobile and innovative baby boomers are likely to be quite different from those that were acceptable to their parents. While baby boomers are more likely to have lived in multifamily housing products at several different times in their lives, they have recreated the market for housing in each stage of their lives. Their senior years are not likely to be different.

Short-term market saturation may exist for some product types in some submarkets until the overall housing market strengthens and traffic at senior developments increases.

The Continuum of Care concept has experienced strong acceptance in the Twin Cities market over the past few years. Projects offering a full continuum of care are, overall, experiencing continued high occupancies. We note that while the independent components of these properties may have seen some increase in vacancies, the assisted living and memory care components have generally remained full or very nearly full.

The tight credit markets will likely result in fewer developments coming to the market over the next two years. Although demand has waned slightly, a lower level of construction will provide new projects with more rapid absorption and existing projects with the opportunity to gain ground.

Pricing for independent product has remained relatively stable. Pricing for assisted living and memory care continues to increase. These costs however, remain substantially below the cost of nursing home care and the more attractive living environments will keep these developments as the preferred care option for many seniors indefinitely. The proliferation of product and the competitiveness of the market will require that older developments update their offerings in response to the market's changing needs and preferences.

The greatest potential over the next decade will be for developments that cater to the active lifestyles of aging baby boomers. New construction will likely satisfy much of the demand, but the potential exists to convert other housing developments to senior housing as the population ages. Older rental or condominium buildings may need to reconfigure their unit mix toward 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.

The market for moderately-priced senior housing remains substantial, particularly for core city neighborhoods and for Affordable product that offers support and personal care services. Although challenging to develop, this is an area with continued significant demand in the coming years.

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