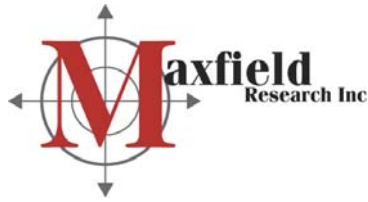




*Senior  
Housing  
...Update  
2004*



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## *Foreword*

Maxfield Research is pleased to present our *Senior Housing Market Update for 2004*.

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 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 2003.

The survey is limited to "market-rate" and "affordable" senior developments and thus, excludes projects with a "deep" subsidy. As in the past, the survey includes only "established" projects – those that have been open for occupancy for at least 12 months or have reached stabilized occupancy (95% for independent living and 93% for Assisted Living). This year's survey includes just over 350 individual projects with 23,389 units.

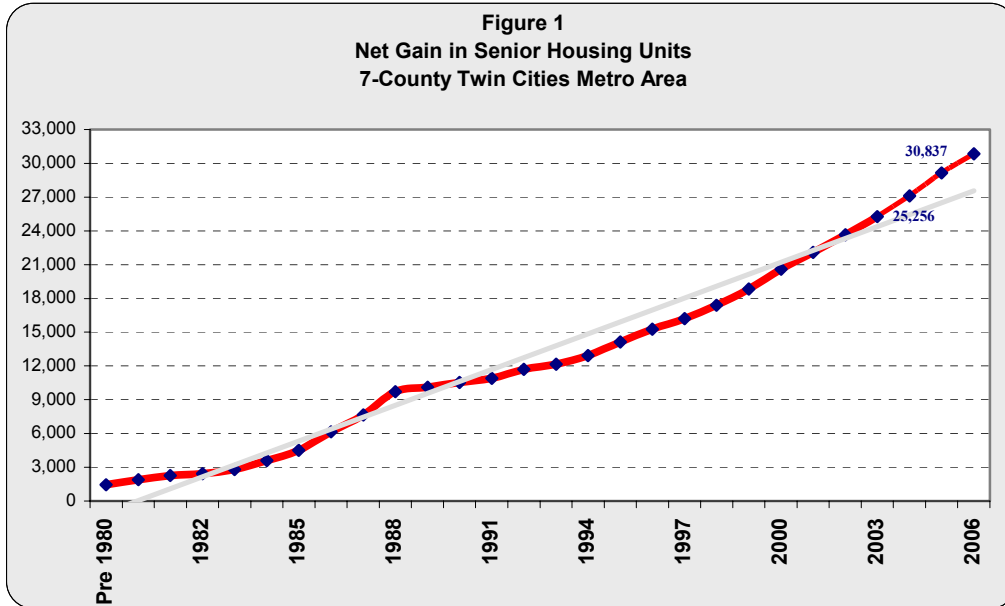
We hope you find the information in this report helpful. I would like to personally thank all of the property managers and owners that have responded to the survey now and in years past, for without the information they provide this report would not be possible.

Sincerely,

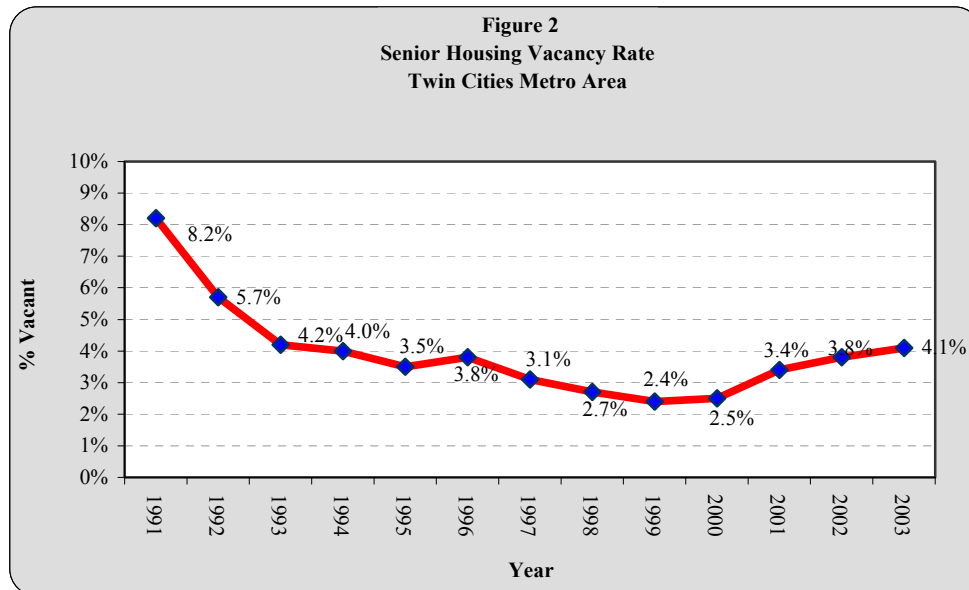
A handwritten signature in black ink that reads 'Jay M. Demma'. The signature is fluid and cursive, with a long horizontal line extending from the end.

Jay M. Demma  
Senior Research Analyst  
Maxfield Research Inc.

**The State of the Senior Housing Market:** Growing acceptance of senior housing along with absolute growth in senior households has contributed to remarkable growth in the industry since 2000. The number of non-subsidized senior housing units now exceeds 25,000. Barring any major market downturns, projects currently in the development pipeline could push the total to nearly 31,000 units by the end of 2006 (see Figure 1 below).



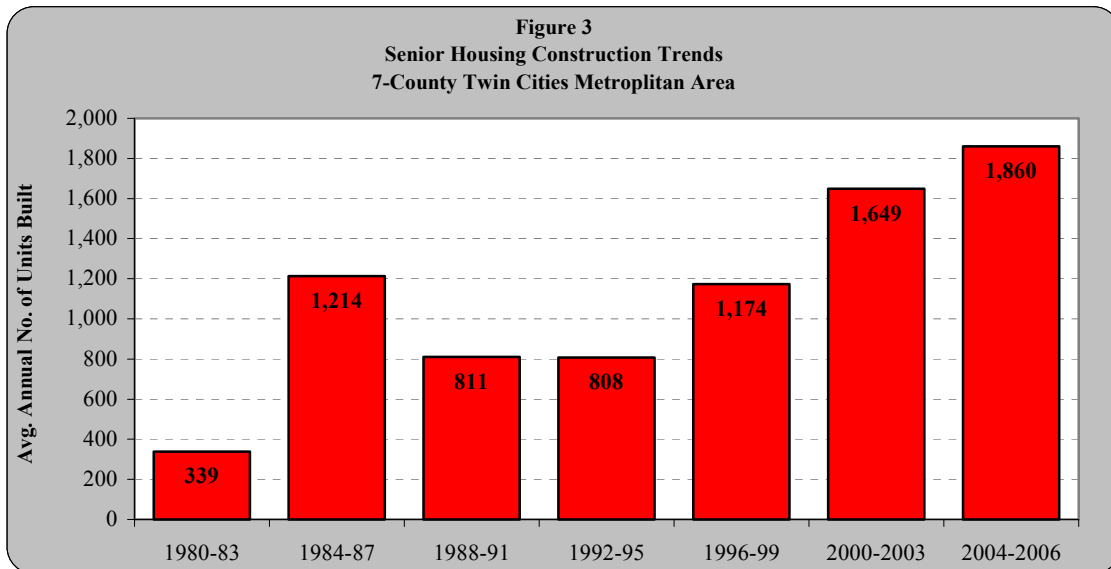
Our 2003 survey indicates that the overall vacancy rate as of the 4<sup>th</sup> Quarter 2003 was 4.1%, a slight increase over the previous year. This marked the fourth year in a row that the overall vacancy rate has increased. It is now the highest it has been since 1993 (see Figure 2 below).



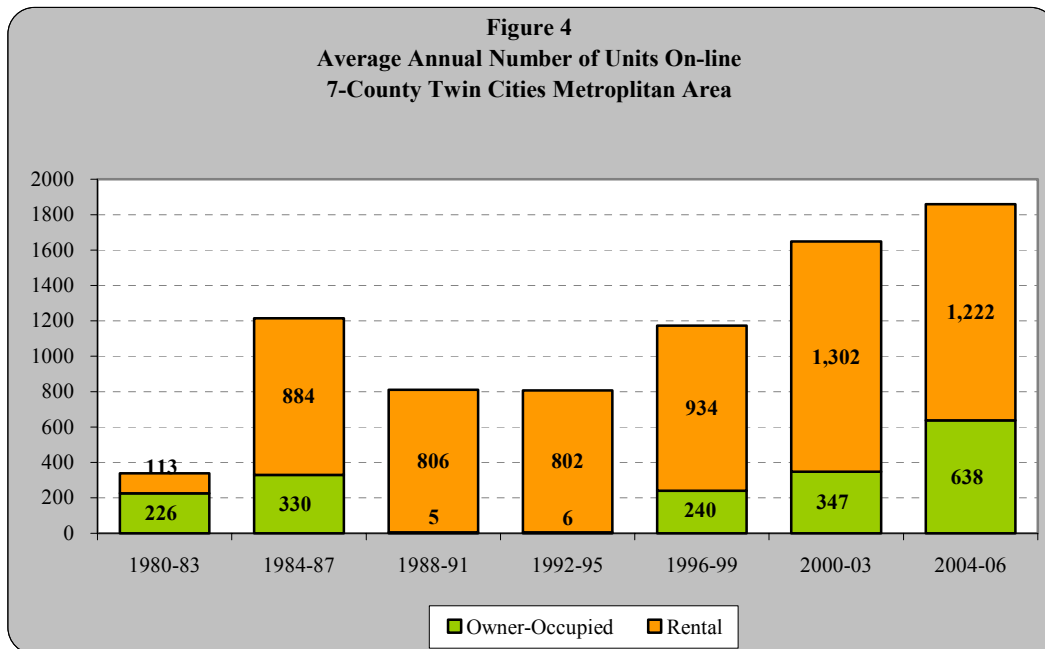
While the market for senior housing in the Twin Cities still remains relatively strong and we have yet to reach widespread market saturation, the industry is definitely becoming increasingly competitive and we believe that increasing vacancy rates will appear in future surveys. Current demographic trends would tend to indicate that growth in demand for senior housing will wane somewhat over the short-term as most senior housing will be marketing to a smaller Depression-era generation. Based on the significant number of developments currently planned to come on-line over the next several years and the entry of inexperienced senior housing developers into the market will push vacancy rates upward from their current levels over the short-term. 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:** During 2003, the Seven-County Twin Cities Metro Area saw the addition of 1,605 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 2004. Still, the number of units added during 2003 was the second most added in a single year, since 1988 when a record 2,065 units came on-line, and shows a continuing acceleration in the amount of senior housing product being developed.

As Figure 3 below shows, between 2000 and 2003, the Metro Area saw an average of nearly 1,650 senior housing units come on-line. This compares to an average of just over 800 units annually during the period 1988 to 1995, and the 1,200 units per year built between 1996 and 1999. The level of construction over the last several years is well beyond any previous construction levels; even during the first of the Metro Area’s senior housing booms, when an average of nearly 1,200 units were added each year between 1984 and 1987. The number of market-rate/affordable senior housing units currently in the planning process could produce an additional 1,860 senior housing units annually in the Twin Cities Metro Area over the next three years.



While senior housing development during the 1980s concentrated on “Congregate” rental 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, after nearly a decade of very little construction. Between 1996 and 2003, 2,348 units of owner-occupied senior housing were built accounting for an average of 290 per year or just over 20% of the senior housing units built in the Metro Area. As Figure 4 below shows, owner-occupied senior housing is projected to grow significantly with at least an additional 1,900 units planned through 2006, translating to an average of nearly 640 units per year. Between 2004 and 2006, we estimate that owner-occupied senior housing will account for about 35% of the senior units built in the Metro Area, which will begin to serve a relatively untapped market.



**Types 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.

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.

**“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-inclusive). 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.

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.).

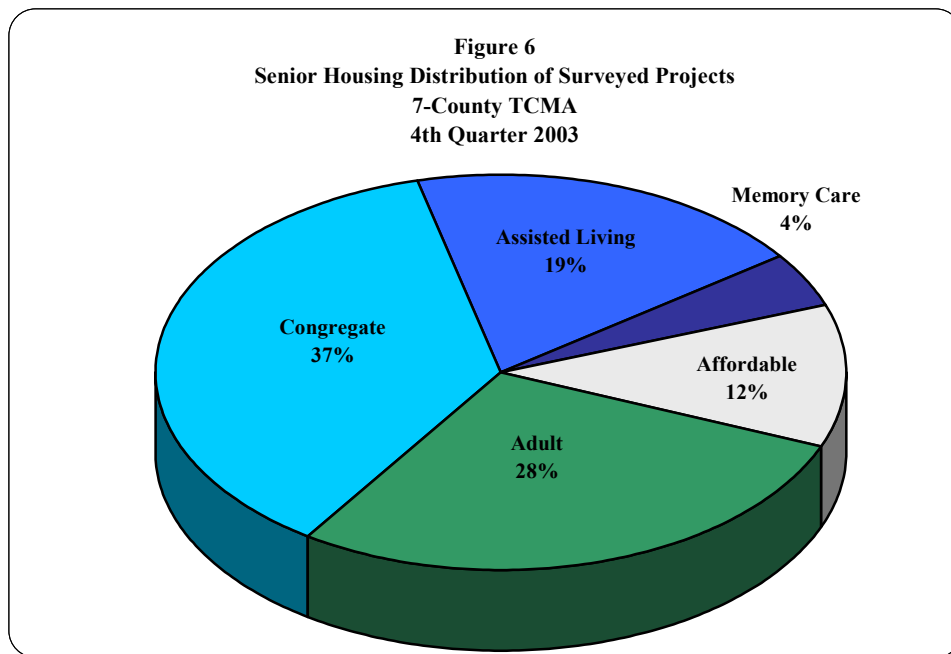
**“Memory Care”** housing is a specialized Assisted Living product specifically designed and programmed for persons afflicted with Alzheimer’s disease or other dementias. These facilities include all of the same services as traditional Assisted Living, additional safety through secured-access doors and/or 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.

We have defined **“Affordable”** senior housing as units targeting modest income households. The projects 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 are in contrast to deeply subsidized projects where rents are typically based on a sliding scale (generally 30 percent of adjusted household income) and are geared towards very-low income seniors. Affordable Housing usually receives some type of shallow subsidy, and is usually financed with Tax Increment Financing, Tax-Credit Financing or through a special County/City sponsored tax-levy. They 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.

Of the 398 senior projects inventoried as of 4<sup>th</sup> Quarter of 2003, 58 projects had 2,922 Affordable units. Another 113 projects, with a total of 7,025 units were classified as market-rate Adult projects. Although Adult projects are more numerous, the Metro Area’s 92 Congregate projects and their 9,195 units account for the largest share of the actual housing units, due to their larger average project size. A total of 86 Assisted Living facilities with 4,721 units were also identified as were 49 Memory Care facilities containing 1,090 units. The average Affordable development consists of 50 units; Adult projects average 62 units in size, Congregate projects - 100 units, Assisted Living - 55 units, and Memory Care facilities - 22 units.

Figures 5 and 6 below show the current distribution of senior units among the various product categories as surveyed during 4<sup>th</sup> Quarter 2003. Congregate projects currently account for 37% of the Metro Area’s senior units, followed by Adult projects which account for 28% of all units and Assisted Living which comprise 19% (of which 4% are Memory Care) of all units. Affordable units account for 12% of the non-subsidized senior housing units within the Twin Cities Metro Area, a figure that has been steadily declining since the mid-1990s (when they accounted for 15% of all units), as market rate housing has dominated and tax credits are no longer available for financing senior housing in the State of Minnesota.

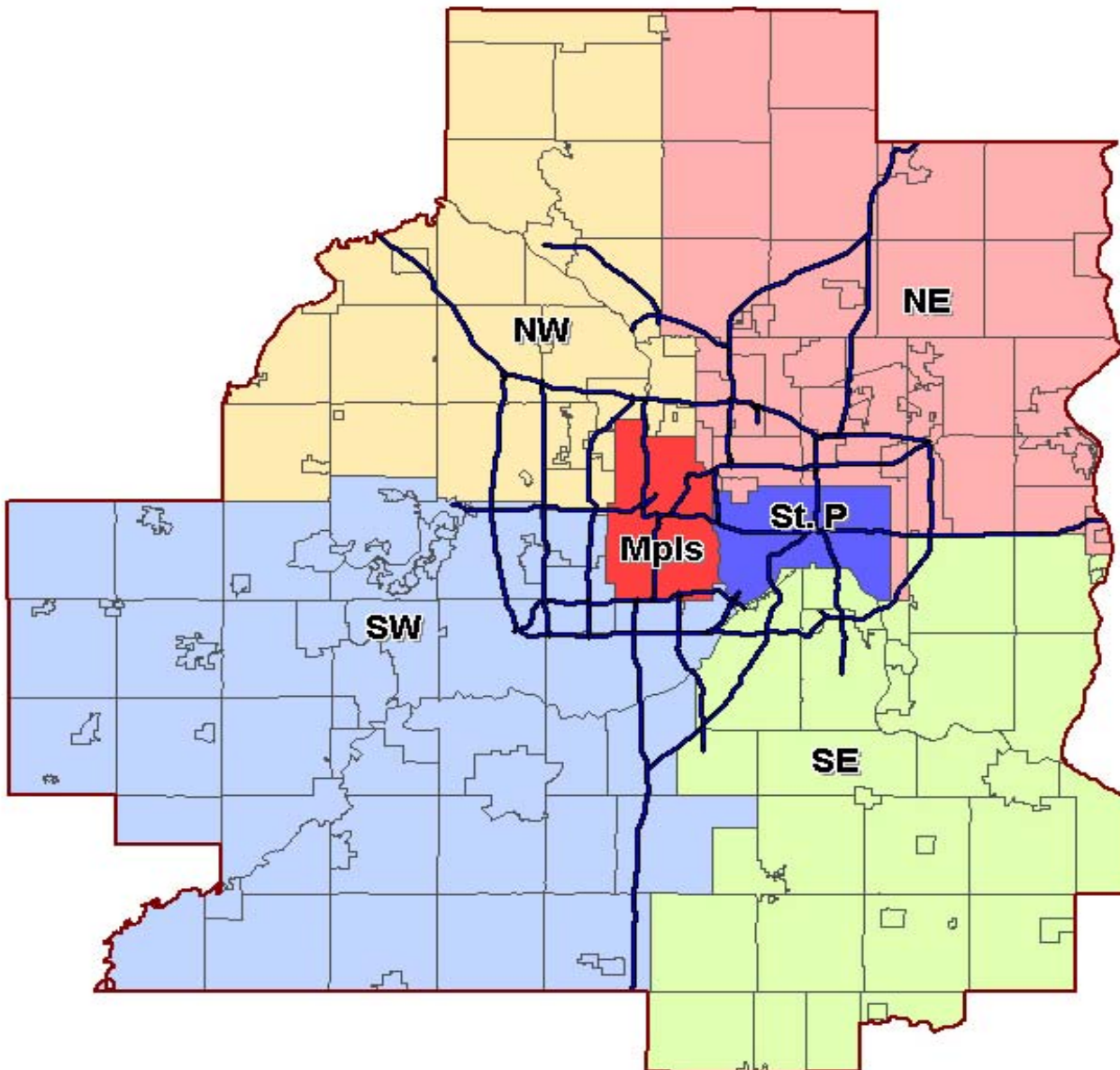
Figure 5 NON-SUBSIDIZED SENIOR HOUSING IN THE 7-COUNTY TWIN CITIES METRO AREA 4th Quarter 2003						
	Affordable	Adult	Congregate	Assisted living	Memory Care	Total
Projects	58	113	92	86	49	398
Units	2,922	7,025	9,195	4,721	1,090	24,953
Avg. Size	50	62	100	55	22	63



**Geographic Distribution of Senior Housing:** For the purpose of this report Maxfield Research has divided the 7-County Metro Area into six quadrants; Minneapolis, St. Paul, the

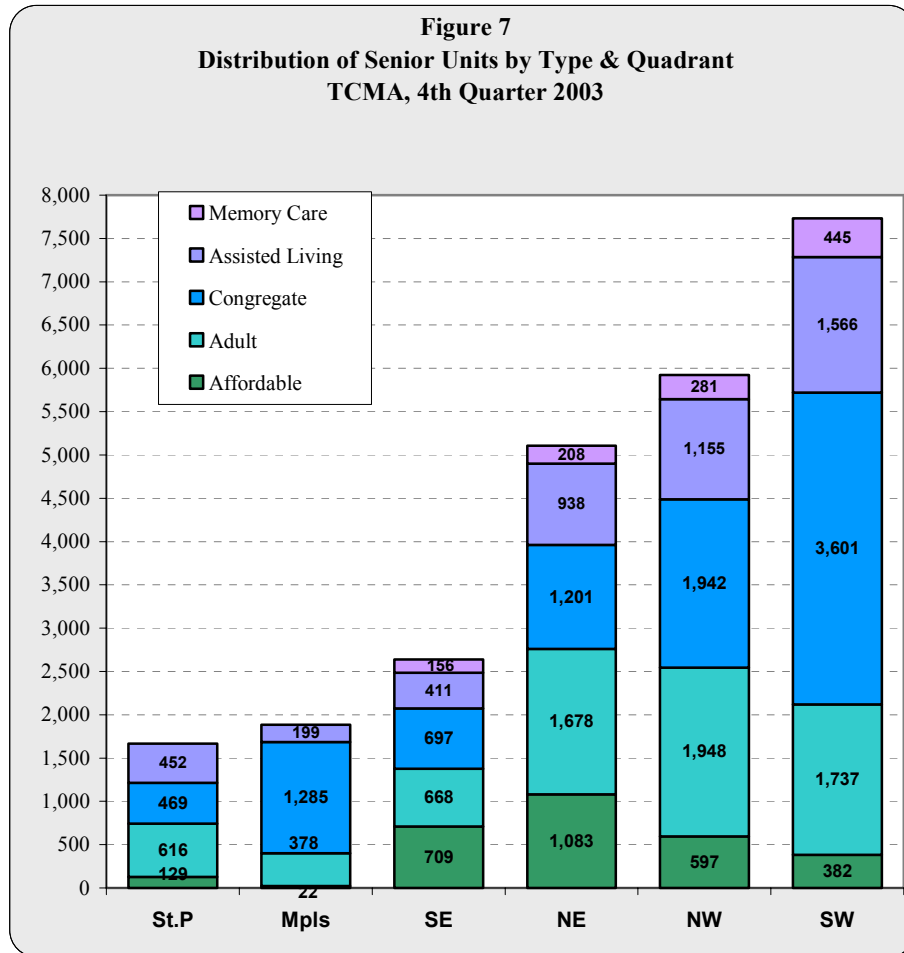
Northeast Metro, Northwest Metro, Southeast Metro and the Southwest Metro; shown on the map below.

## **Twin Cities Quadrants**



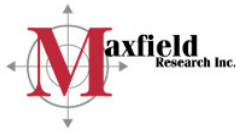
The Southwest Metro has, by far, the largest number of senior housing units (7,731 units) and comprises 31% of the Metro Area’s market-rate and affordable senior housing units. The Northwest quadrant has the second largest number of units (5,923 units), closely followed by the Northeast (5,108 units) each with between 20% and 24% of the Metro total, and then the Southeast (2,641 units) with 11%. Minneapolis (1,884 units) and St. Paul (1,666 units) account for 8% and 7% of the Metro Area’s non-subsidized senior units, respectively.

Figure 7 shows the number of senior housing units in each quadrant broken out by the product type.



Adult projects have proliferated in the Northwest, where the 1,948 units comprise 33% of the quadrant’s senior housing and 28% of the Metro Area’s Adult units. Many of the units are found in older general-occupancy projects that have been converted to moderately-priced senior housing. Market rate Adult housing accounted for 37% of the units in St. Paul but only 20% in the City of Minneapolis.

Congregate housing dominates in Minneapolis where it comprises nearly 70% 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-quarter 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.

Assisted Living currently comprises between 11% (Minneapolis) and 27% (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.

Memory Care housing is concentrated in the suburban markets where it comprises 4% to 6% of the senior units in each quadrant. The Southwest quadrant accounts for the largest share (41%) of the Metro Area's Memory Care units. Memory Care Assisted Living accounted for less than 1% of the units in the two core Cities.

While Affordable Housing product accounts for only 12% of all units surveyed, it comprises 27% of the units in the Southeast and 21% in the Northeast. Affordable units accounted for only 2% to 10% of the units in the remaining quadrants.

The concentration of Affordable units in the Southeast is the result of a special tax-levy imposed by Dakota County. The Dakota County Community Development Authority (DCCDA) has been and continues to be active in developing senior housing. Since 1990, the DCCDA has built 14 projects with 784 units (745 affordable and 39 market-rate). Of these, 545 units are located in the Southeast Metro (with projects in Apple Valley, Eagan, Inver Grove Heights, Mendota Heights, Rosemount, South St. Paul and West St. Paul) and 239 units in the Southwest Metro (Burnsville and Lakeville). The projects have been extremely successful, having maintained full occupancy with significant waiting lists.

The large number of Affordable units in the Northeast Metro is primarily the result of a concentration of tax-credit-financed cottage-style housing product. This product has been extremely successful, capitalizing on the large moderate-income market found in the Northeast suburbs as well as attracting residents from surrounding neighborhoods in St. Paul. Unlike adjacent states however, the Minnesota Housing Finance Agency, which administers tax credits, has significantly reduced the use of this financing for senior housing development choosing to focus the program on family housing.

The development of Affordable senior housing has also been sponsored by several municipalities including Blaine (*Blaine Court* and *Clover Leaf Court*), Champlin (*Mill Pond Gables*), Eagan (*O'Leary Manor*), Maple Grove (*Woodland Mounds*) and Plymouth (*Plymouth Towne Square*).

**Market Conditions/Vacancy Rate Trends:** 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.

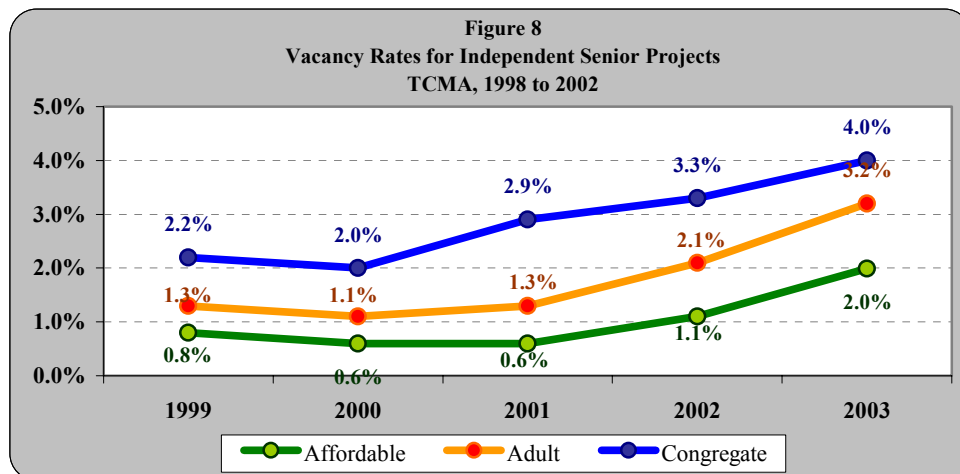
As development resumed in the mid-1990s, the diverse variety of housing product being introduced (Adult [rental and ownership], Assisted Living and Memory Care) allowed the industry to tap into market segments that were previously underserved. The recent surge in senior housing development has resulted in modest increases in vacancy rates since the market's nadir of 2.4% in 1999. Between 2000 and 2003, the overall senior housing vacancy rate in Twin Cities Metro increased from 2.5% to 4.1%.

Despite the modest rise in vacancy rates over the last three years, the market for Affordable as well as independent senior product (Adult and Congregate) still remains strong Metro-wide, with vacancy rates below the industry equilibrium standard of 5%. As of 4th Quarter 2003, only 2.0% of the Affordable units were vacant, 3.2% of the market-rate Adult product was reported vacant as were 4.0% of the Metro Area's Congregate units.

Meanwhile, vacancy rates for Assisted Living/Memory Care housing in the Metro had a composite vacancy rate of 6.5% - slightly below the 7% vacancy rate that is considered equilibrium in Assisted Living housing. The Metro's traditional Assisted Living facilities are currently operating with a 6.3% vacancy rate, while Memory Care units are experiencing a 7.0% vacancy rate Metro-wide.

Over the last two years, vacancy rates increased slightly across all independent senior product types, while both Assisted Living and Memory Care units saw declines. It is interesting to note that although the vacancy rate for Congregate projects increased to its highest level in five years, more than 40% of the Congregate facilities surveyed were at 99% or 100% occupied, and that 22% of the vacant Congregate units were located in only five struggling projects. Exclude these five projects, and the vacancy rate at the remaining Metro Area Congregate projects drops to 3.6%.

Figure 8 displays Metro Area vacancy rates for independent senior product for 1999 through 2003, while Table 9 shows vacancy trends for Assisted Living housing in the Metro Area over the last five years.



Typically a vacancy rate of 5% is considered equilibrium for independent senior housing. Vacancy rates well below this figure indicate that the demand for independent housing product continues to surpass the supply.

Due to high turnover rates in Assisted Living housing (anywhere from 35% to 50% per year) and the need for adequate consumer choice, a vacancy rate of at least is 7% is considered healthy in the Assisted Living industry. Nationally, Assisted Living housing has seen vacancy rates stabilize at around 10% over the past several years while the local market fared better than the nation, with vacancy rates for traditional Assisted Living hovering between 7% and 9%.

While vacancy statistics are not available for Memory Care Assisted Living nationally, in the Twin Cities Metro, they have dropped substantially over the last two years and are currently at their lowest rate in the last five years. The substantial vacancies over the past five years can be attributed to the large number of Memory Care units that have been developed during the late 1990s (particularly in 1998 and 1999 when 463 units came on-line) and declined the last three years representing the slow and steady absorption of these units.

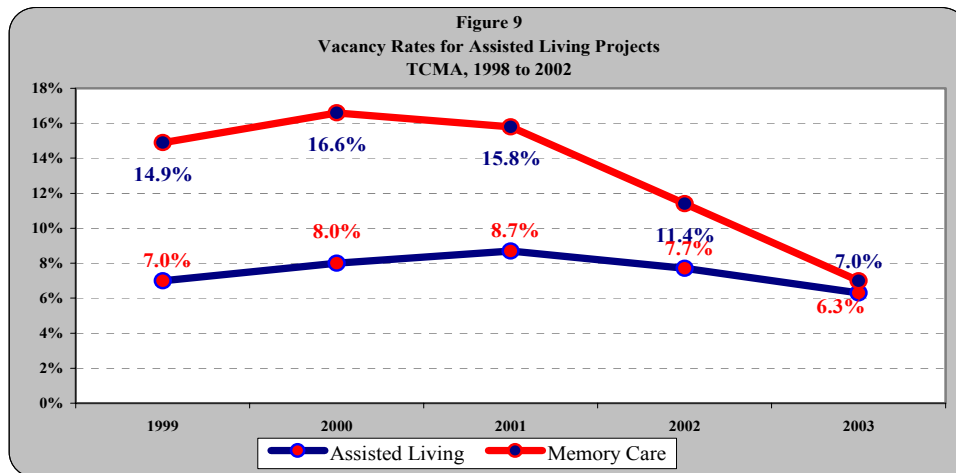
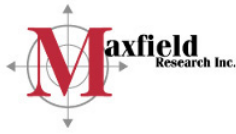


Figure 10 on the next page shows vacancy rates by product type for each of the six markets examined. Overall vacancy rates ranged from 3.2% in the Northeast and 3.6% in the Southwest Metro to 6.4% in St. Paul. The Northwest Metro reported an overall vacancy rate of 4.3% while the Southeast reported a 5.3% vacancy rate.

The Affordable housing market continues to be tight across the Metro Area, except in Minneapolis and St. Paul where there are currently only 22 and 41 units of Affordable senior housing, respectively. The remaining submarkets reported vacancy rates of between 0.9% and 3.7%. The market for Adult product was once again strong throughout the Metro, with vacancy rates ranging from 2.3% in the Northeast Metro and St. Paul to 5.6% in Minneapolis.

Over the last two years, the Congregate market in the Twin Cities has softened but remains viable with vacancy rates ranging from 3.2% in the Northeast Metro to 7.9% in the Southeast Metro (where the majority of vacant Congregate units are concentrated in one project).



Excluding this project, the vacancy rate for the remaining Congregate units in the Northeast drops to only 4.3%. Congregate projects in the Northwest have a vacancy rate of 3.3%, while the vacancy rate remains below 4% in the Southwest Metro.

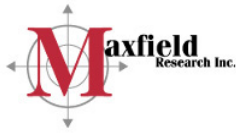
Contrary to the independent living market, vacancy rates for Assisted Living housing in the Metro Area declined from 7.7% to 6.3% over the last 12 months, while the vacancy rate for Memory Care housing declined from 11.4% to 7.0%.

Figure 10  
SENIOR VACANCY RATES BY QUADRANT & PRODUCT TYPE  
TCMA - 2003

	Adult Affordable				Adult Market Rate				Congregate			
	Proj	Units	Vac.	%	Proj	Units	Vac.	%	Proj	Units	Vac.	%
Mpls.	1	22	0	0.0%	4	378	21	5.6%	11	1,285	54	4.2%
NE	21	1,004	17	1.7%	33	1,678	39	2.3%	15	1,201	38	3.2%
NW	10	597	22	3.7%	24	1,871	68	3.6%	19	1,793	59	3.3%
SE	13	649	6	0.9%	15	550	22	4.0%	7	697	55	7.9%
St.P	2	41	0	0.0%	7	557	13	2.3%	6	397	25	6.3%
SW	7	339	8	2.4%	23	1,607	47	2.9%	29	3,421	125	3.7%
Total	54	2,652	53	2.0%	106	6,641	210	3.2%	87	8,794	356	4.0%
Avg Size		49				63				101		

	Assisted Living				Memory Care				Total			
	Proj	Units	Vac.	%	Proj	Units	Vac.	%	Proj	Units	Vac.	%
Mpls.	5	199	11	5.5%	0	0	0	0.0%	21	1,884	86	4.6%
NE	13	938	63	6.7%	9	208	5	2.4%	91	5,029	162	3.2%
NW	24	1,089	69	6.3%	9	243	20	8.2%	86	5,593	238	4.3%
SE	8	345	25	7.2%	6	138	19	13.8%	49	2,379	127	5.3%
St.P	5	396	51	12.9%	0	0	0	0.0%	20	1,391	89	6.4%
SW	23	1,369	55	4.0%	19	377	24	6.4%	101	7,113	259	3.6%
Total	78	4,336	274	6.3%	43	966	68	7.0%	368	23,389	961	4.1%
Avg Size		56				22				64		

Over the last several years, a significant share of Metro Area's Assisted Living and Memory Care vacancies are located within a handful of underperforming projects which has inflated the Metro Area's overall Assisted Living vacancy rate. These developments at one time accounted for 30% of the Assisted Living and Memory Care vacancies despite the fact that they comprise only 18% of the total number of units. These developments are characterized by free-standing (not part of a continuum of care campus) Assisted Living/Memory Care facilities, are chains owned by large national senior housing developers, and have smaller than average units (in many cases suite-style units versus apartment-style).



Even so, Assisted Living vacancies were found to be more widely distributed this year compared to previous years. Moreover, the median vacancy rate of the Metro's Assisted Living projects decreased from 5.0% in 2002 to 3.4% in 2003.

It is important to note that the survey only included "established" developments (those that have been open for 12 months), and a significant number of new developments, accounting for nearly 1,500 units of senior housing, were in their initial lease-up period at the time of the survey and could impact occupancy levels among some neighboring established developments over the short-term.

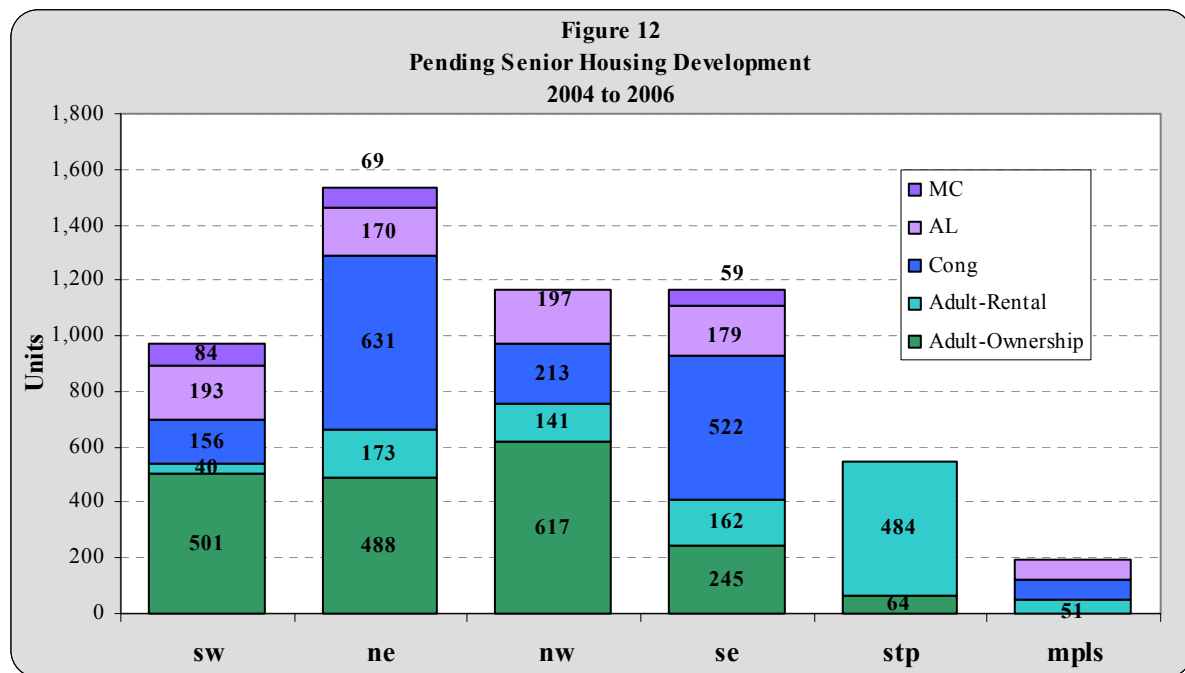
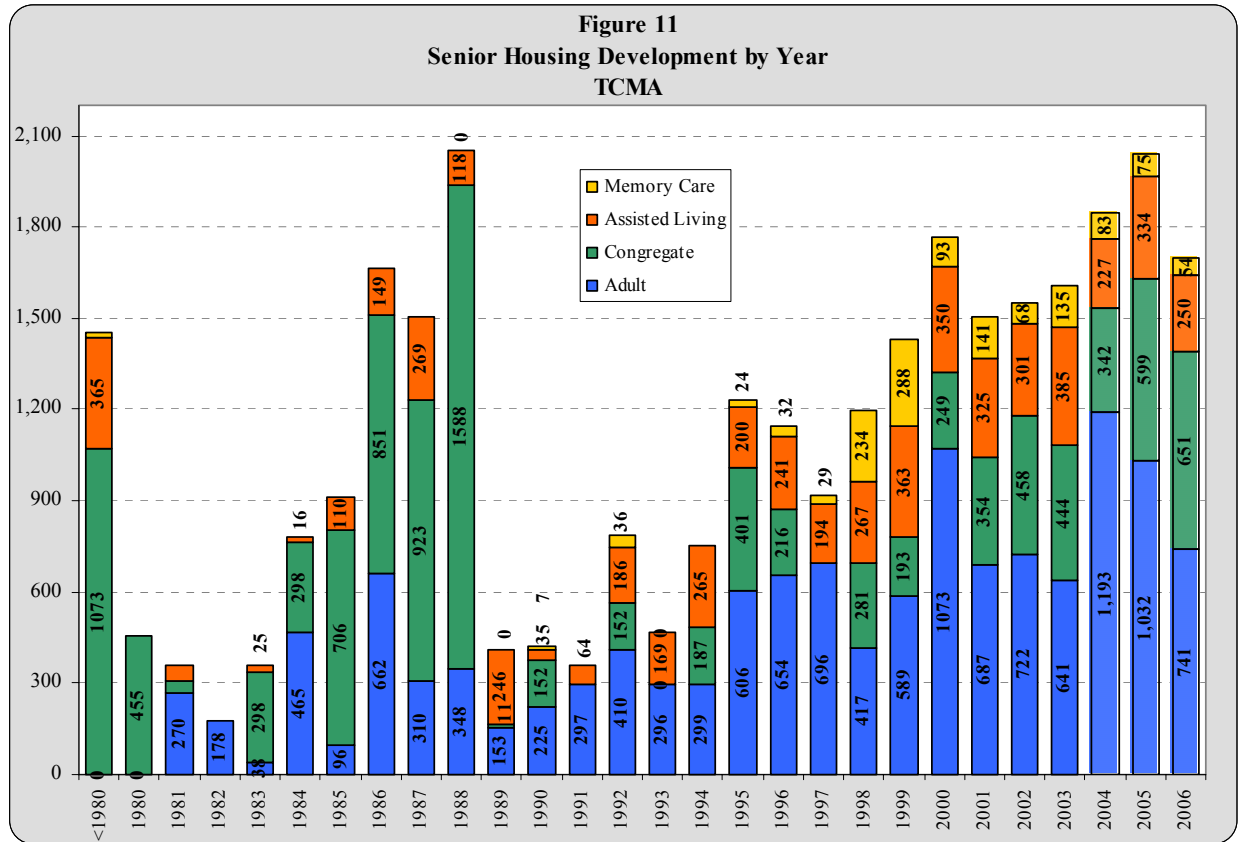
**Increasing Product Diversification:** Contributing to the expansion and success of the local senior housing market is the ever-increasing variety of product available in today's market. As Figure 11 on the following page shows, senior housing construction in the 1980s was dominated by Congregate housing. This lack of product differentiation played an important part in the senior housing market's downturn during the end of that decade. During much of the 1990s, development was concentrated at opposite ends of the service continuum with greater numbers of Adult and Assisted Living product being constructed.

Since 2000, the development of Adult and Assisted Living housing has been as strong as ever. The development of Congregate housing, however, has also rebounded. Between 1990 and 1994, there was an average of 98 Congregate units built in the Metro Area annually. Between 1995 and 1999, the number of Congregate units built averaged 218 units. Furthermore, it is projected that between 2000 and 2006, an average of 442 Congregate units will be added each year. Adult housing however, has seen the most dramatic acceleration. During the first half of 90s, the Metro Area saw an average of 305 Adult units open each year. The second half of the 1990s saw approximately 592 new Adult units annually, and between 2000 and 2006, it is estimated that nearly 870 Adult units will come to market. In comparison, an average 152 units of Assisted Living and Memory Care housing were brought on line during the early 1990s. During the late 1990s, the market saw the addition of nearly 374 Assisted Living units annually; while an average of nearly 400 Assisted Living units are expected each year between 2000 and 2006.

From 2004 through 2006, we have projected that an additional 5,600 units of non-subsidized senior housing could potentially come on-line in the Twin Cities Metro Area. The Northeast Metro is likely to see the largest increase with 1,531 units planned (27% of the total), followed by the Northwest (1,168 units, 21%), Southeast (1,167 units, 21%) and the Southwest (974 units, or 17%). The remaining 14% of the proposed senior units are expected to be located in the Metro's urban core, with 548 units proposed in St. Paul (10% of the total), and only 193 units in Minneapolis (4%). Figure 12 on the following page shows the distribution of pending senior housing units by type and location.

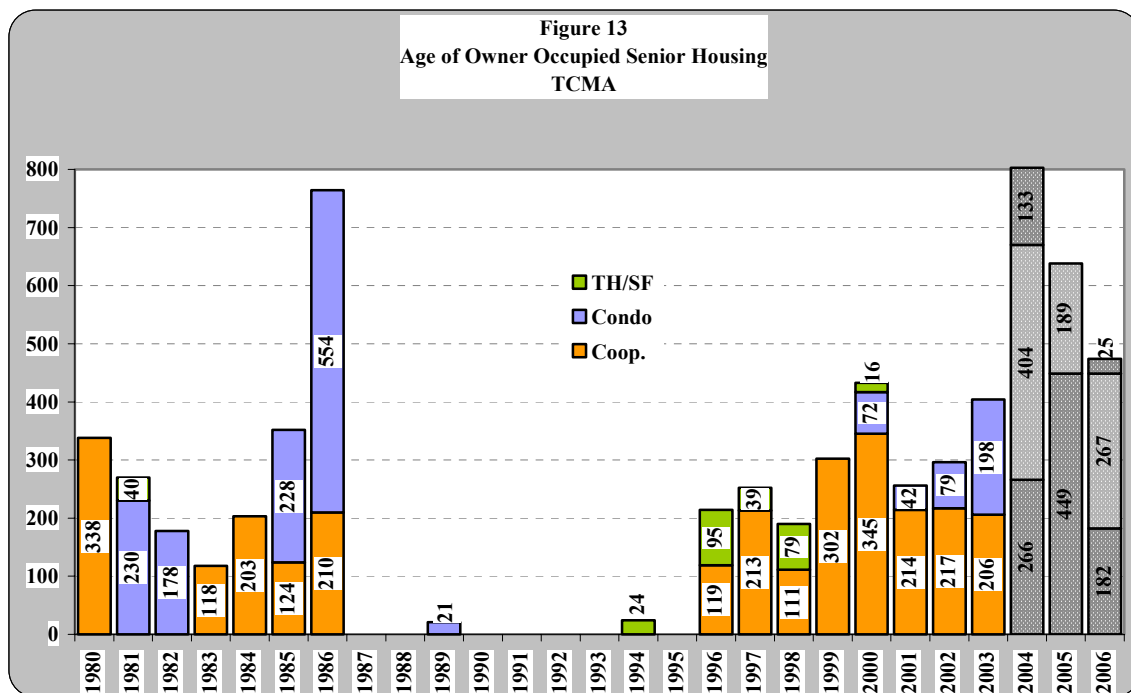
From 2004 through 2006, Adult housing, particularly owner-occupied, will lead the boom in the Southwest and Northwest Metro, while in the Southeast, congregate housing will dominate. Development in the Northeast is expected to consist of roughly equal numbers of Adult and Congregate. Meanwhile Assisted Living (Traditional and Memory Care) housing will be

consistent throughout the suburban submarkets. St. Paul is expected to only see Adult housing developed while in Minneapolis, only a modest number of rental units are currently planned.

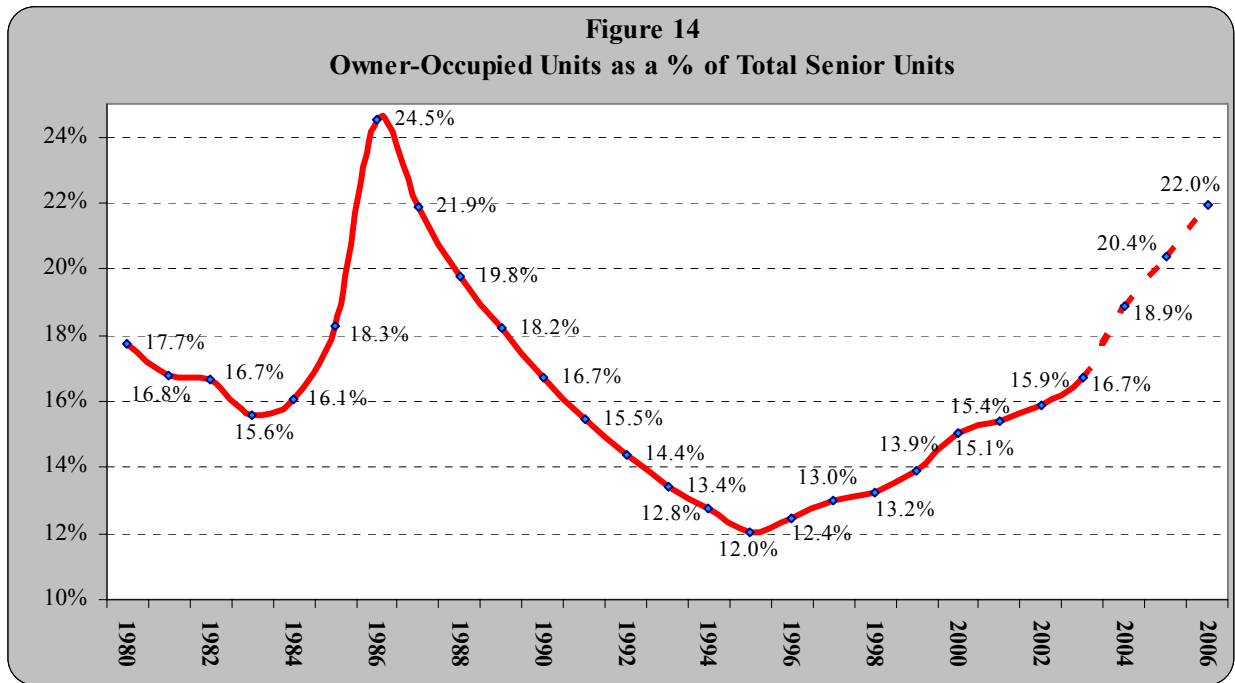


**Revival in Owner-Occupied Housing:** Although 84% of Metro Area senior units are rental, the development of senior ownership housing is strong and growing. The resurgence in cooperative and condominium housing, combined with the recent introduction of age-restricted townhome and detached villa communities are all creating more diverse options for today’s seniors.

As of the end of 2003, there were just over 4,600 age-restricted owner-occupied housing units in the Twin Cities Metro comprising nearly 17% of the Metro Area’s non-subsidized senior housing. This figure represents a significant increase since 1995, when 12% 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 2006 (see Figures 13 and 14).



Cooperative housing product with a total of 2,720 units in the Metro Area comprises just over 10% of the Metro’s non-subsidized senior units and accounts for nearly 60% of the Metro’s owner-occupied units. Another 1,602 units are in senior condominium buildings and 293 units consist of either townhomes or detached villas. Overall, for-sale housing had a vacancy rate of 1%. The low vacancy rates in owner-occupied housing product are aided by the build-to-demand character and pre-sale requirements of these projects. Owner-occupied housing typically is designed and marketed toward younger active seniors. Only about 15% of the owner-occupied senior housing units in the Twin Cities are in projects where support services are provided.

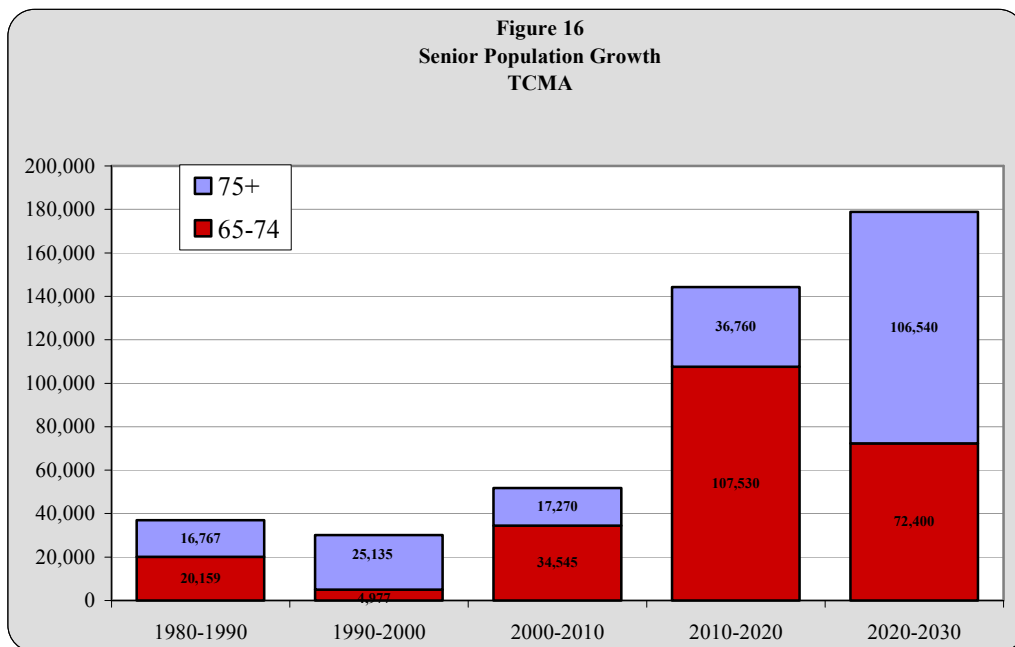
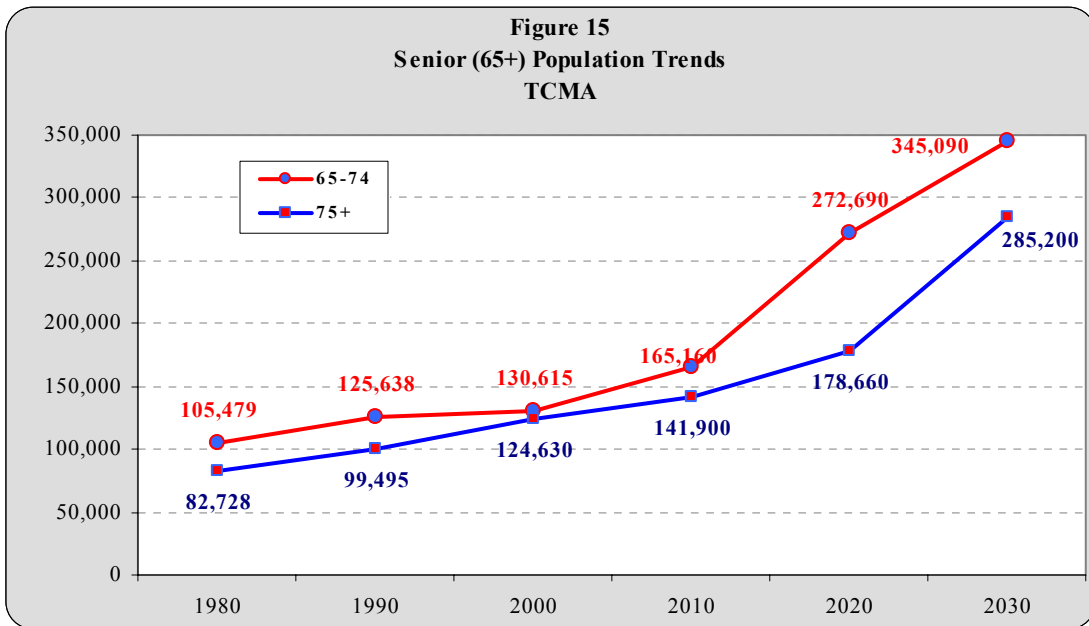


**Demographics/Demand Factors:** As of 2000, there are 255,000 persons age 65 and older and 124,630 persons age 75 and older in the Twin Cities Metro Area. This represented an increase of just over 30,112 seniors (13%) from 1990. This growth in seniors was about 20% less than what the Metro Area experienced during the 1980s (an increase of 36,926 persons). Despite less growth, there was a dramatic increase in the acceptance of senior housing product. The lagging growth during the 1990s can be attributed to a stabilizing of birth rates during the Great Depression of the 1930s. The impact of the Depression-era generation can be clearly seen in the modest growth in the number of younger seniors (persons age 65 to 74) during the last decade. Between 1990 and 2000, the number of younger seniors in the Metro Area increased by only about 5,000 persons (4%), while the Metro Area older senior (age 75+) base -- the primary market for most types of senior housing—gained 25,000 persons (25%). Over the course of the current decade, the aging of the Depression-era generation will have a moderating effect on growth among older seniors. Over the short-term, the Metro’s senior population will steadily increase with a projected increase of 52,000 seniors (20%) between 2000 and 2010. Nearly two-thirds of this growth, however, will be among younger seniors.

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.

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 (see Figures 15 and 16 below).



The recent release of the 2000 Census data has shed new light on several factors that will impact the demand potential for senior housing both in the short- and long-term.

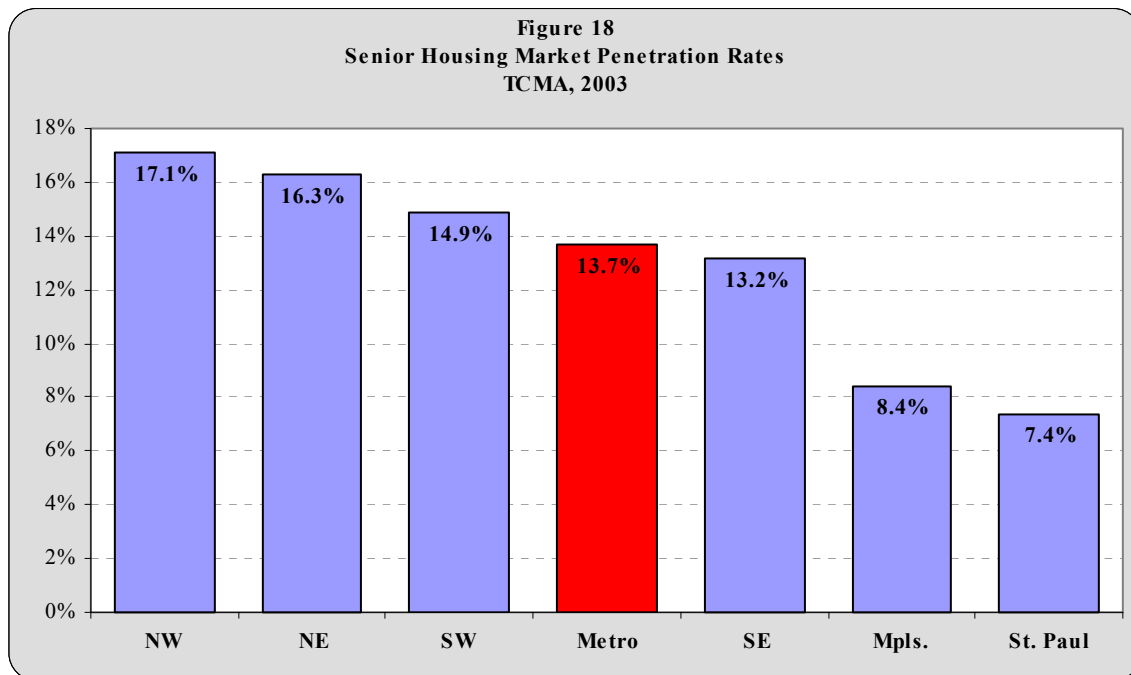
Interestingly, despite the fact that nearly 8,000 senior rental units were built in the Metro Area during the 1990s, the number of households headed by persons age 65 and older that rented their housing increased by only 620 (3%). In contrast, the number of senior homeowners increased by nearly 27,000 households (22%). For households age 65 to 74, there was a reported net loss of nearly 2,400 renters (a 14% reduction in renters), while the number of older senior households (75+) that rented their housing increased by 3,000 households (12%). Between 1990 and 2000, the homeownership rate for the Metro's older seniors (75+) increased from 60% to 66% of all households, while for younger seniors, homeownership rates increased from 78% to 82%.

<b>FIGURE 17 SENIOR HOUSEHOLD TENURE METRO AREA 1990 &amp; 2000</b>										
	<b>Age 65-74</b>					<b>Age 75+</b>				
	<b>Total</b>	<b>Own</b>		<b>Rent</b>		<b>Total</b>	<b>Own</b>		<b>Rent</b>	
		<b>No.</b>	<b>Pct.</b>	<b>No.</b>	<b>Pct.</b>		<b>No.</b>	<b>Pct.</b>	<b>No.</b>	<b>Pct.</b>
<b>2000</b>										
<b>Metro Total</b>	<b>82,521</b>	<b>68,030</b>	<b>82.4</b>	<b>14,491</b>	<b>17.6</b>	<b>80,909</b>	<b>53,673</b>	<b>66.3</b>	<b>27,236</b>	<b>33.7</b>
Minneapolis	10,103	7,011	69.4	3,092	30.6	12,719	8,806	69.2	3,913	30.8
St. Paul	8,603	5,983	69.5	2,620	30.5	10,707	6,765	63.2	3,942	36.8
Rem. of Metro	63,815	55,036	86.2	8,779	13.8	57,483	38,102	66.3	19,381	33.7
<b>1990</b>										
<b>Metro Total</b>	<b>75,165</b>	<b>58,297</b>	<b>77.6</b>	<b>16,868</b>	<b>22.4</b>	<b>60,784</b>	<b>36,547</b>	<b>60.1</b>	<b>24,237</b>	<b>39.9</b>
Minneapolis	15,493	10,918	70.5	4,575	29.5	16,378	10,042	61.3	6,336	38.7
St. Paul	12,307	8,607	69.9	3,700	30.1	12,673	7,341	57.9	5,332	42.1
Rem. of Metro	47,365	38,772	81.9	8,593	18.1	31,733	19,164	60.4	12,569	39.6
<b>CHANGE 1990 to 2000 (Pct. change)</b>										
<b>Metro Total</b>	<b>7,356</b>	<b>9,733</b>	<b>16.7</b>	<b>-2,377</b>	<b>-14.1</b>	<b>20,125</b>	<b>17,126</b>	<b>46.9</b>	<b>2,999</b>	<b>12.4</b>
Minneapolis	-5,390	-3,907	-35.8	-1,483	-32.4	-3,659	-1,236	-12.3	-2,423	-38.2
St. Paul	-3,704	-2,624	-30.5	-1,080	-29.2	-1,966	-576	-7.8	-1,390	-26.1
Rem. of Metro	16,450	16,264	41.9	186	2.2	25,750	18,938	98.8	6,812	54.2
Sources: U. S. Census Bureau, Maxfield Research Inc.										

This homeownership trend will impact demand for senior housing over the course of the next two decades. 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 1990 and 2003, the percent of Metro Area senior households residing in non-subsidized senior housing more than doubled, from roughly 6.4% to 13.7%. The market saturation rates (the ratio of Affordable and market-rate senior housing units over the total number of senior households) in the Metro Area, range from 7.4% in St. Paul to 17.1% in the Northwest Metro. Figures 18 and 19 show a comparison of the market penetration rates in the various Metro Area quadrants.



Comparing the supply of non-subsidized senior housing units to the number of senior households at various different income levels shows that the current supply of Affordable and market rate senior housing units in the Metro Area would house 16.5% of all Metro Area senior households with incomes of \$15,000 or more. When comparing the number of market rate units to the number of senior households with incomes of \$25,000 or more, these market rate units could house 18.7% of this market segment. Figure 19 on the following page presents market penetration rates based on income levels for each of the Metro Area quadrants.

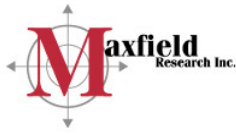
**FIGURE 19**  
**SENIOR HOUSING MARKET PENETRATION RATES**  
**TWIN CITIES METRO AREA**  
**2003**

	Income Distribution of Households Age 65+						Aff & MR units	% of all HHs 65+	HHs 65+ Inc. \$15k+	% HHs 65+ Inc. \$15K+	HHs 65+ Inc. \$25k+	MR units	% HHs 65+ Inc \$25K+
	<\$15K	\$15-24K	\$25-34K	\$35-49K	\$50K+	Tot. 65+							
Mpls.	5,559 24.9%	4,694 21.0%	3,060 13.7%	3,224 14.4%	5,833 26.1%	22,370 100.0%	1,884	8.4%	16,811	11.2%	12,117	1,862	15.4%
NE	4,364 14.1%	5,643 18.2%	4,860 15.7%	5,526 17.9%	10,538 34.1%	30,931 100.0%	5,029	16.3%	26,567	18.9%	20,924	4,025	19.2%
NW	4,762 14.6%	6,206 19.0%	5,141 15.8%	5,989 18.4%	10,530 32.3%	32,628 100.0%	5,593	17.1%	27,866	20.1%	21,660	4,996	23.1%
St. Paul	4,602 24.6%	3,635 19.4%	2,927 15.6%	2,719 14.5%	4,838 25.8%	18,721 100.0%	1,391	7.4%	14,119	9.9%	10,484	1,350	12.9%
SE	2,474 13.7%	2,976 16.5%	2,925 16.2%	3,333 18.5%	6,350 35.2%	18,058 100.0%	2,379	13.2%	15,584	15.3%	12,608	1,730	13.7%
SW	6,677 14.0%	7,714 16.1%	7,023 14.7%	8,344 17.5%	18,023 37.7%	47,781 100.0%	7,113	14.9%	41,104	17.3%	33,390	6,774	20.3%
Metro	28,439 16.7%	30,869 18.1%	25,937 15.2%	29,136 17.1%	56,114 32.9%	170,494 100.0%	23,389	13.7%	142,055	16.5%	111,186	20,737	18.7%

	Income Distribution of Households Age 75+						Aff & MR units	% of all HHs 75+	HHs 75+ Inc. \$15k+	% HHs 75+ Inc. \$15K+	HHs 75+ Inc. \$25k+	MR units	% HHs 75+ Inc \$25K+
	<\$15K	\$15-24K	\$25-34	\$35K+	\$50K+	Tot. 75+							
Mpls.	3,512 27.2%	3,209 24.8%	1,889 14.6%	1,656 12.8%	2,656 20.6%	12,922 100.0%	1,884	14.6%	9,410	20.0%	6,201	1,862	30.0%
NE	2,949 19.6%	3,621 24.1%	2,376 15.8%	2,286 15.2%	3,791 25.2%	15,023 100.0%	5,029	33.5%	12,074	41.7%	8,453	4,025	47.6%
NW	3,181 20.8%	3,698 24.2%	2,555 16.7%	2,594 16.9%	3,284 21.4%	15,312 100.0%	5,593	36.5%	12,131	46.1%	8,433	4,996	59.2%
St. Paul	2,930 27.1%	2,369 21.9%	1,699 15.7%	1,431 13.3%	2,364 21.9%	10,793 100.0%	1,391	12.9%	7,863	17.7%	5,494	1,350	24.6%
SE	1,689 20.8%	1,783 21.9%	1,359 16.7%	1,329 16.3%	1,972 24.2%	8,132 100.0%	2,379	29.3%	6,443	36.9%	4,660	1,730	37.1%
SW	4,710 18.7%	4,920 19.5%	4,183 16.6%	4,225 16.8%	7,161 28.4%	25,199 100.0%	7,113	28.2%	20,489	34.7%	15,569	6,774	43.5%
Metro	18,972 21.7%	19,601 22.4%	14,062 16.1%	13,522 15.5%	21,229 24.3%	87,386 100.0%	23,389	26.8%	68,414	34.2%	48,813	20,737	42.5%

**Conclusions:** At present, the Twin Cities Metro Area’s senior housing market remains strong and pent-up demand still exists for additional senior housing product, particularly, for affordable and independent senior housing. Demand over the next two decades will be particularly strong for ownership products such as cooperative, 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.

Most sub-markets will have high growth potential with increasing numbers of senior households. High occupancy rates and rapid absorption in independent 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.