

## Multifamily Market Commentary – July 2012

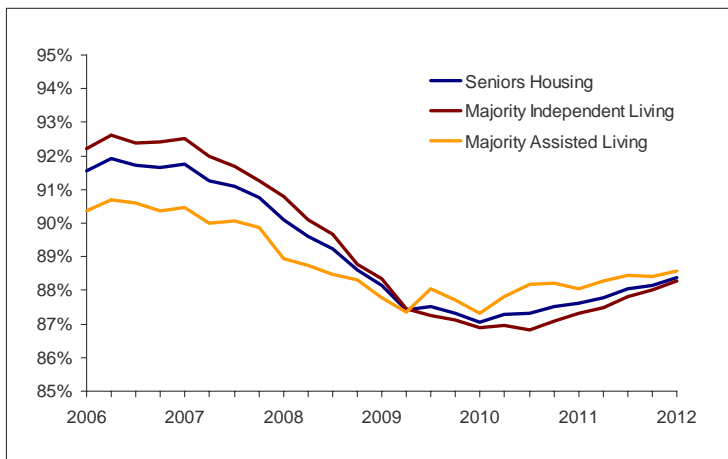
### Seniors Rental Housing Sector Outlook Steady

The U.S. seniors rental housing sector improved slightly during the second quarter of 2012, based on data from the National Investment Center (NIC) for the Seniors Housing & Care Industry, the leading industry provider of seniors housing data. Although the seniors rental housing sector – defined here as rental units located in independent living, assisted living, and memory care communities – is a relatively small segment of the overall multifamily sector, it is a viable housing and lifestyle choice for many of the nation’s senior population, aged 65 or older.

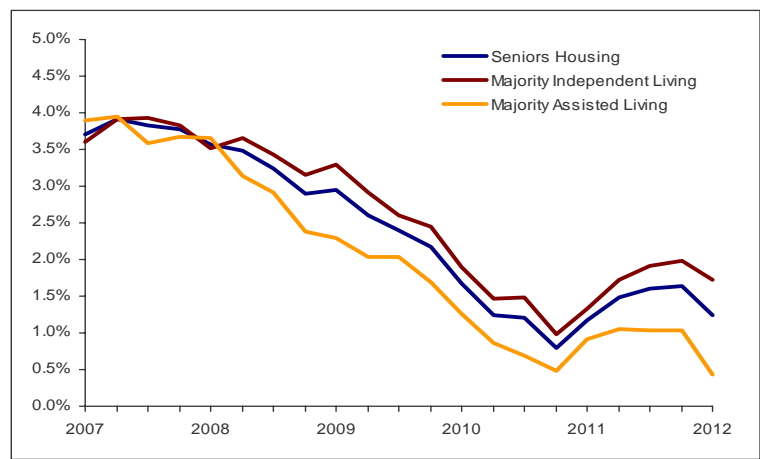
### Single-Family Sector Impacts Seniors Rental Housing

Seniors rental housing, like most of the U.S. housing sector, did not escape the Great Recession unscathed, as seen in the charts below. While it might appear to be a recession-proof property type, it is not. Indeed, widespread depressed single-family home prices have likely kept many senior homeowners – including those looking to downsize – in their homes. As the NIC data clearly show in the chart below left, seniors rental housing occupancy levels, while recently improving, remain below the peak levels seen during 2006-2007.

**Stabilized Occupancy Levels by Property Type**



**Year-over-Year Rent Growth by Property Type**



Source: NIC MAP Data & Analysis Services, data as of Q1 2012. (Includes entrance fee properties.)

### Modest Improvement in Early 2012

According to NIC data, occupancy levels in U.S. seniors rental housing have been rising modestly since the sector’s cyclical low of 87.0 percent in first quarter of 2010, reaching 88.6 percent in the second quarter of 2012. Likely driven by tenants’ actual need for assistance with activities of daily living (also referred to as ADLs), majority assisted living property occupancies have outperformed majority independent living property occupancies since the third quarter of 2009, by as much as 135 basis points, although majority independent living property occupancy levels also have been improving steadily since 2010.

NIC data reveal that seniors rental housing rent growth trends reversed direction sharply in 2011 after experiencing a steep decline in growth since 2007, as seen in the chart above right. Growth appears to have hit a trough at the end of 2010 prior to trending upward for most of 2011. Rent growth remains in positive territory and seniors rental housing rent growth showed a 1.9 percent year-over-year improvement in the second-quarter 2012.

It is worth noting that majority assisted living property rent growth was 1.3 percent, weaker than that of majority independent living properties. Because base level rents for majority independent living properties tend to be at a lower price point, rent growth has trended higher than majority assisted living properties, especially since the second quarter of 2008. Nevertheless, the difference between the two had never exceeded 100 basis points until the first quarter of 2012 when the gap widened to 121 basis points.

## Dwindling New Construction Helps Absorption

NIC data show that net absorption continued to outpace inventory growth for seniors rental housing during the second quarter of 2012, at a rate of 2.3 percent. Interestingly, net absorption for majority independent living properties increased 55 percent during all of 2011 compared to 2010, with 5,764 units compared to 2010's 3,727 units; net absorption for majority assisted living properties was down 12 percent in 2011 compared to 2010, representing 3,003 units compared to 3,430 units in 2010.

Q2 2012 <i>Top 31 metro areas</i>	Seniors Housing		
	Aggregate	Majority IL	Majority AL
<b>Occupancy</b>	88.6%	88.5%	88.7%
<b>YoY Rent Growth</b>	1.9%	2.2%	1.3%
<b>Quarterly Absorption</b>	2,579	1,166	1,412
<b>Quarterly Inventory Growth</b>	1,548	485	1,063
<b>Inventory</b>	513,225	325,485	187,740

*Source: NIC MAP Data & Analysis Services, data as of Q2 2012.  
(Includes entrance fee properties.)*

One possible reason for the larger nominal inventory level increases in majority independent living units may be that there are far more majority independent living units than majority assisted living units, as seen in the table above. As of the second quarter of 2012, the estimated seniors housing market size in the top 31 metro areas was 513,225 units, of which majority independent living accounted for 325,485 units, or 63 percent of the aggregate.

New seniors rental housing construction declined through much of 2011 after having remained roughly flat for the prior 12 months. Seniors rental housing construction was 10,767 new units in the second quarter of 2012, up 2.1 percent from the first quarter of 2012 and down 0.7 percent from the second quarter of 2011. Majority AL properties and Majority IL properties account for roughly half of the current units under construction.

## Outlook for Seniors Rental Housing Remains Steady Short-Term and Stable Long-Term

Occupancies are expected to continue to improve this year, as net absorption outpaces inventory growth. Rent growth's positive trend was interrupted in the first quarter of 2012, though many metro areas reported improvement. Looking ahead over the next 12-18 months, the seniors rental housing sector is expected to experience steady improvement and the long-term outlook for the sector remains stable.

*Note: For more information on NIC MAP® Data and Analysis Services, please visit [www.nicmap.org](http://www.nicmap.org) or call 410-267-0504.*

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