

**Highlights**

- ▣ **2009 recap: vacancy is up, values slightly down, financing remains attractive**
- ▣ **Cap rates: Ontario struggling, Quebec and Western Canada remain flat**
- ▣ **Transactions: 2009 saw one of its worst years in over a decade**

**Seniors Housing-related economic indicators**

	Current	Spot rate	Previous	Spot rate	% change
S&P/TSX Index	11/30/09	11,447	08/30/09	10,868	↑ 5.33%
Unemployment rate	11/30/09	8.5%	08/30/09	8.7%	↓ 0.2%
Homes resales	10/30/09	45,818	10/30/08	31,599	↑ 45.0%
Average national price	10/31/09	\$341,079	10/30/08	<b>\$282,584</b>	↑ 20.7%

The positive trend of these indicators has contributed to increase overall consumer confidence, which in turn has brought more Seniors to either sell their home or simply move into a retirement residence. Back in early '09, potential residents' visits were strong across the country, but few Seniors were signing leases as their confidence level had eroded. We are currently seeing a reversal in this trend.

**Current Seniors' Demographics**

2010 will remain a year of little growth for the population aged between 75 and 84, with a 1.5% increase. This is explained by the arrival of the 1929-1935 cohort which was less in number, following the financial crash of the early '30s. That said, the Canadian population aged over 85 is currently growing at nearly 5% per year. The Seniors' population will experience accelerated growth starting in 2012, which will then double over the next 2 decades, leaping from 4.6 million to 9.1 million in 2031.

**Residential sales and Occupancy on Seniors Housing**

According to 2008-2009 CMHC data, Seniors Housing average occupancy rates in Alberta and B.C. have remained relatively stable at 94%. Quebec vacancy has slightly increased to 7.9%, mainly attributable to new development in the Gatineau region, which currently tops the charts with a 17% vacancy rate. Ontario's vacancy rate has increased to a record high 13%, mainly due to the weak manufacturing industry.

For the 3<sup>rd</sup> quarter of 2009, results from Chartwell Seniors Housing REIT, Amica Mature Lifestyles Inc. and Maestro Funds showed occupancy growth throughout Canada, mainly due to a rebound in residential sales.

**Capital markets for Seniors Housing / recent transactions**

*(As of December 11<sup>th</sup>)*

5-year Gov. of Canada Bonds: 2.54%  
Spread for CMHC-insured loans: 90 to 125 bps  
Spread for conventional loans: 300 to 400 bps

Capital markets have remained very cautious over the last year, where very few transactions have come to fruition. Cap rates have increased slightly overall, where Ontario was hit the most with an average cap rate increase of 50bps. According to most recent transactions, the average cap rates for Independent Living facilities are hovering in the 8%-9% range for quality assets, compared to a 7.25%-8.25% range two years ago. Consequently, Maestro Retirement Residences Fund IV recently acquired Scarlett Heights, a retirement residence located in Etobicoke, ON, comprised of 206 apartment-style suites. This state-of-art property, currently in lease-up, was purchased at an 8.25% cap rate upon stabilization.

As for public markets, Chartwell Seniors Housing REIT raised equity twice in the past 3 months. It first raised \$86.25MM in October, which was used to reduce debt and manage certain mezzanine financing defaults. A second equity raise of \$70M occurred in December to acquire the remaining 50% interest in both the Regency Care (1,385 long-term care units in Ontario) and the Meridian Care (1,057 IL suites in the U.S.) portfolios, for a total purchase price of \$196MM.

Finally, lending for Canadian Seniors Housing REIT space has remained strong. CMHC-insured loans remain available and currently trade at less than 100bps of 5-year Canada bonds (sub 4%). Conventional lending is slowly trickling back, but at levels far from the historical peak of '06-'07.