

IN THIS SPECIAL ISSUE:

**WHY INDEPENDENT LIVING PROPERTIES ARE A WORLD
APART FROM ASSISTED LIVING AND NURSING HOMES.
RETHINKING INITIAL PERCEPTIONS.**

In the last issue, we explained the four main segments of the Seniors Housing and Care Industry:

Segment A -Real Estate Only (Senior Apartments)

Segment B -Real Estate with Services (Congregate Properties)

Segment C -Real Estate with Services and Daily Living Care
(Assisted Living Properties)

Segment D -Real Estate with Services, Daily Living Care and Medical
Care (Nursing Homes)

There is also a fifth category, called Continuing Care Retirement Communities, which combines Congregate, Assisted Living and Nursing Units on one campus where the majority (usually 65% or more) of the units are congregate units.

Many within the Industry use the phrase “Independent Living” to describe properties in Segment A, Segment B and the congregate units in a continuing care retirement community.

A number of you reading this Newsletter have expressed a real interest in this investment opportunity, but want to better understand the distinctions and risk factors between each category.

There are additional risk factors due to the health care business element of Segments C & D, or specifically assisted living properties and nursing homes.

We are extremely selective in recommending investments in these categories primarily due to these risk factors and due to the negative demand/supply equilibrium in both of these categories.

All of the negative news that you may have heard in the press is focused exclusively on assisted living and nursing home companies.

While we are highly selective in investments in free-standing assisted living properties and nursing homes, we strongly recommend investments in independent living properties. So why are these properties different than assisted living and nursing homes?

There are 6 key reasons why independent living properties are different.

1. There is no Health Care

Unlike assisted living properties, which provide assistance with the activities of daily living care (bathing, dressing, supervision of medications), and nursing homes, which provide these same activities plus specific medical care for chronic health care conditions, independent living properties do not provide these services.

2. There is no Federal or State Regulation

Since independent living properties do not provide health care, they are not licensed nor are they subject to the Federal or State Laws and Regulations that govern nursing homes and assisted living properties (note that nursing homes have far more onerous regulations than assisted living properties do).

3. Revenues are all Private Pay – No Reimbursement Risk

In addition, all the revenues from independent living residents are private pay as opposed to nursing homes where about 75% of revenues are paid by Medicaid or Medicare and assisted living where about 5% is paid by Medicaid in the average property.

4. Residents Stay Longer – Lower Turnover

Unlike assisted living properties that currently average 60% per year turnover and nursing homes, which average close to 100% per year turnover, independent living properties average 33% per year turnover. Lower turnover translates into more stable revenues and net operating income.

5. Larger Potential Market

Unlike assisted living and nursing homes, which are a “need-driven” product where the main customer is the adult child “placing” mom or dad, independent living properties are “need-influenced” where the main customer is the senior individual or couple.

Currently, there are about twice as many independent living units in existence as there are assisted living. The independent living market is about equal in units to the nursing home industry.

However, the size of the assisted and nursing markets are limited to those who truly need these services, since few seniors want to be there. For independent living properties, the potential market is much larger since there are far more seniors who would like the meals, housekeeping, activities and outdoor maintenance provided in independent living properties. Our proprietary research has demonstrated that in many markets, the number of seniors choosing to live in independent living properties is greater than the number in assisted living and nursing homes. As seniors grow in awareness of independent living properties, they are much more likely to move to one. This phenomenon is now happening in many markets such as Minneapolis/St. Paul, and this phenomenon is much less pronounced in assisted living. For example, in the 2000 edition of the “National Housing Survey of Adults 60+” by the National Investment Center for the Senior Housing and Care Industries (“NIC”), those senior households “who’ve made the decision to move to an independent living or active adult community in the future” doubled from the 1998 Survey. Those senior households who’ve made the decision to move to these types of properties “within the next 6 months” increased 50% over the 1998 Survey.

6. Much Better Demand/Supply Equilibrium

As of March 31, 2001, the median occupancy rate for the professionally-managed segment of the assisted living segment was 86% for properties

open 2 years or longer. Professionally-managed nursing homes have a current median occupancy rate of an almost identical 86.5%.

In contrast, professionally-managed Independent Living properties have a significantly better national occupancy rate of 91%. With the recent decrease in construction of independent living properties, we expect the median occupancy rate in independent living to return to 93%-94%.

KMF Senior Housing Investors has a detailed, proprietary analysis of the growth in demand from observable increases in demographics and a proprietary analysis of increases in supply of independent living units that demonstrates that demand will continue to exceed supply into the future due to constraints on supply.

We would be pleased to share this analysis with you if you are interested in this investment opportunity.

Conclusion

Each segment within the Seniors Housing and Care Industry is significantly different than the others in that it has different customers, different drivers of success and different risk factors. In fact, they are so different that they can be referred to as separate industries. Therefore, to invest properly one must understand the particular segment in question.

We believe there is substantial, objective evidence that demonstrates that independent living properties have better investment fundamentals than office, industrial, retail and apartments. We'd like to prove it to you.

For further information on articles in this briefing or on any aspect of investing in senior housing, please contact Jim Smith at 312-993-7800 smith@kmfseniorhousing.com or visit our website <http://www.kmfseniorhousing.com>

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