

KMF

SENIOR HOUSING INTELLIGENCE

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Stabilized Congregate Investments Continue To Outperform

Unlike the assisted living segment (which has many good opportunistic plays), the congregate segment (one type of independent living property) continues its excellent financial performance. Due to the consistent 4% increases in rent and the operating leverage available, stabilized properties continue to produce 5.5% to 7% increases in NOI for institutional quality properties.

These increases in rent continue to occur in spite of some softening in occupancy. This demand inelasticity was discussed at length in Volume One – Issue Three (www.KMFSeniorHousing.com) and in our opinion, makes these investments particularly compelling when coupled with the fact that they move differently than office, retail, industrial and multifamily investments.

We recently reviewed updated financial information from one of the top congregate operators in the field and the 2001 results were impressive. The NOI growth for stabilized properties was 7.75%. Over the last 5 years, it has averaged 7% per year.

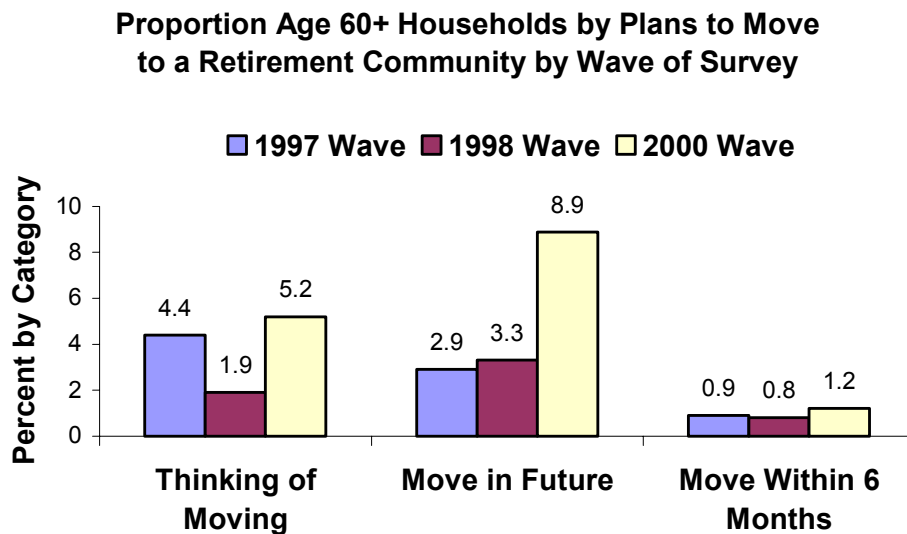
In addition, the best industry survey, which is entitled, “State of Seniors Housing 2001”, by the American Senior Housing Association, shows the median current return on investment (unleveraged) was 14.4% for congregate properties compared to 8.4% for assisted living properties.

Even more impressive was the upper quartile results. The upper quartile congregate property produced a 20.6% current return on investment (unleveraged) compared to 12.0% for assisted living. In fairness, the assisted living properties had not been operating as long as the congregate properties, but it still demonstrates the substantial cash flow available from growth in NOI of the “average” congregate property.

Moral of the story? Long term holders of congregate properties have experienced excellent investment performance.

Will The Demand For Senior Apartments And Congregate Properties Expand In The Next 3 – 5 Years?

In Volume Two - Issue One, we discussed the reasons why demand in these independent living sectors will continue to increase at yearly rates above the demographic growth rate. Basically, in areas of the country where they have been established longer, there is a much higher penetration or proportion of seniors living in these types of properties compared to the national average. The most recent issue of the National Housing Survey further supports this position of increasing demand, as there was a tripling of the number of senior households who’ve made the decision to move to a retirement community in the future. See chart below.



Source: NIC National Housing Survey

Investment Education News

- The National Investment Center for the Seniors Housing and Care Industries (“NIC”) has just released its 2002 Lender and Investor Survey (including a new feature on equity investor requirements). This is required reading for all financial and investment professionals within the field. For those of you actively studying this investment segment, we would be pleased to provide you with a complimentary copy.
- KMF Senior Housing Investors will host its third annual Senior Housing Investing Seminar on Saturday, February 8th at the Wyndham Buttes Resort in Phoenix, AZ. If you would like to attend this seminar, please contact us.

For further information regarding this newsletter 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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