

KMF
SENIOR HOUSING INTELLIGENCE

Institutional Investors Pick Senior Housing as #1 Strategy for 2003

The results are in and Senior Housing was selected as the most compelling strategy for real estate investment in 2003. This was the result as indicated by the attendees of the recent REIP Conference held February 9th to 11th in Phoenix, AZ. The conference was attended by over 200 institutional real estate professionals, which included pension funds, foundations, insurance companies and investment advisors.

On February 11th, Geoffrey Dohrmann, Chairman of Institutional Real Estate, Inc., moderated a panel entitled “How to Successfully Invest in Real Estate: 5-minute Manager Trends Panel”. The panel consisted of 11 investment managers each making a five-minute presentation outlining an investment strategy that they believe would generate superior investment performance. The strategies included the four traditional property types plus senior housing, timber, international, REIT’s, CMBS, net lease and manufactured housing. The panel was done as an interactive quiz show format, like the game show “Jeopardy”, with questions from the moderator and audience that were selected at random. Voting by the audience was done after each of the three segments with overall vote tallied on a combined basis.

James Smith, Managing Principal, of KMF Senior Housing Investors presented the senior housing strategy. Mr. Smith pointed out the benefits of senior housing investment that include; strong demand drivers based on demographics and consumer penetration rates, improving supply-demand conditions, and diversification features due to low volatility and resistance to economic downturns. In addition, Mr. Smith pointed out that rent growth in professionally managed independent living properties has been 4 to 6%, therefore exceeding inflation by a significant margin. Current capitalization rates exceed those available in apartments by 150 to 200 basis points. Fixed rate financing with positive leverage is available on a long-term basis with very attractive rates.

The specific strategy recommended for institutional investors entering the field consists of:

- Invest in a portfolio of senior apartments and independent living assets with stabilized occupancy.
- Invest in several regions with multiple operator/managers.
- Leverage the assets 50 to 60% with fixed rate financing.
- Hold the properties six to ten years to benefit from cap rate compression.

A properly selected portfolio as outlined above, will generate low double-digit cash returns and total returns in the 15 to 18% range. KMF believes that senior housing investment represents the best risk adjusted real estate investment available in the current market and apparently the majority of the attendees at the recent REIP Conference agree.

Senior Housing News

Maravilla Senior Residence Sold - A pension investment fund, advised by KMF Senior Housing Investors, recently sold a 287-unit independent and assisted living community, located in suburban Chicago, to an entity affiliated with Horizon Bay Management.

Sunrise Acquires Marriott Assets - Sunrise Senior Living, announced on March 31st, it has completed the acquisition of all of the outstanding stock of Marriott International, Inc.'s (NYSE: MAR) wholly owned subsidiary, Marriott Senior Living Services, Inc., which owns and operates senior independent full-service and assisted living communities. The transaction adds 126 senior living communities with a resident capacity of more than 23,000 to the Sunrise operating portfolio.

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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