

KMF **SENIOR HOUSING INTELLIGENCE**

In This Issue:

- **KMF Senior Housing Investors conference highlights**
Susan Hudson-Wilson and Steve Benjamin
- **Senior housing picked as #1 strategy for 2004 by REIP Conference Poll**
- **Senior housing news - recent transactions**

KMF Senior Housing Conference Highlights

KMF held its third annual senior housing conference February 7th in Phoenix, Arizona. The conference consisted of presentations by Susan Hudson-Wilson, founder and CEO of Property & Portfolio Research and Steve Benjamin, chief operating officer of Horizon Bay Senior Communities.

Ms. Hudson-Wilson presented findings from a proprietary report published by her firm, "The Investment Market for Senior Housing – an Investigation". Some of her key conclusions:

- Demand for senior housing is "good to go" both currently and over the foreseeable long term.
- Supply is ascertainable and is in balance in most but not all markets and categories.
- Demand is somewhat inelastic, which leads to above average rental growth and some cases in excess of the CPI.
- Key markets for investment include Los Angeles, Washington D.C., New York, Chicago and Detroit.

Copies of the PPR report are available to institutional investors on a complimentary basis by contacting KMF.

Mr. Benjamin explained the operating methodologies of a successful senior housing manager in today's market. Customer service, sales culture and corporate resources are extremely important for success in a challenging environment. After his presentation, attendees toured a Horizon Bay independent living community, The Heritage Palmeras in Sun City.

Institutional Investors Pick Senior Housing as #1 Strategy for 2004

The results are in and Senior Housing was selected as the most compelling strategy for real estate investment in 2004. This was the result as indicated by the attendees of the REIP Conference held February 8th to 10th in Phoenix, AZ. The conference was attended by over 250 institutional real estate professionals, which included pension funds, foundations, insurance companies and investment advisors.

On February 10th, Mike Miles, Managing Principal of Guggenheim Partners Real Estate, moderated a panel entitled “Interactive Roundtable on Specialty Investments”. The panel consisted of 13 investment managers each making a five-minute presentation outlining an investment strategy that they believe would generate superior risk adjusted investment performance. The strategies included senior housing, timber, hotels, manufactured housing, single-family housing, net lease, brownfields, timber, agriculture, real estate hedge funds, golf courses, CMBS, resorts and economically targeted investments.

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 benefits 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 9% cash returns and total returns in the 15% plus 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

CNL Acquires Horizon Bay Assets – CNL Retirement Properties, announced in February that it has completed the \$562 million acquisition of 20 communities managed by Horizon Bay Senior Communities and owned by the Whitehall Funds, an affiliate of Goldman Sachs. The portfolio consists of 2,649 independent living, 716 assisted living and 66 Alzheimer's units and 159 skilled nursing beds. The transaction equated to \$156,500 per unit. Horizon Bay will continue to operate and manage the communities.

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.kmfseiorhousing.com>.

Senior Housing Intelligence is published by
KMF Senior Housing Investors, L.L.C.
100 N. Riverside Plaza, Suite 2300, Chicago, IL 60606
312.993.7800