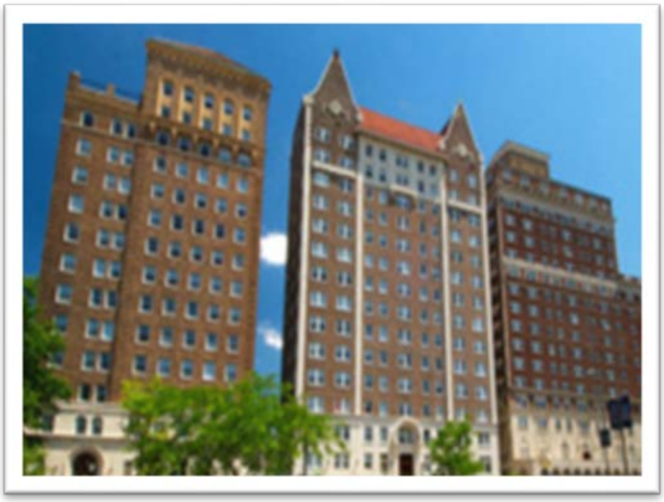


Investing in Alternative Asset Classes in the United States

Since 2007, Kayne Anderson Real Estate has invested in alternative asset classes, beginning with student housing at its founding and expanding into medical office and seniors housing in 2013. Today, the platform has three distinct strategies: opportunistic real estate, core real estate and real estate debt. All three strategies are focused on alternative asset classes in the United States, with a heavy focus on healthcare real estate (medical office and seniors housing).

Fundamentals of an Alternative Real Estate Strategy

There are several characteristics about alternative real estate and particularly the aforementioned target sectors that make for compelling investments. All three sectors have the following in common:

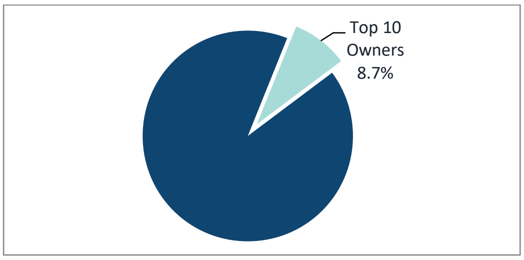
Strong demographic trends

- The fastest growing age segment of the U.S. population is the 85-100 year old age segment[1]
- The fastest growing age segment of the U.S. population in terms of household formation is the 65-74 year old age segment[2]
- In 15 years there will be more people not working in the U.S. than working due to age/demographics[3]
- It is estimated that 50% of the children born in the U.S. today in non-poverty stricken households will live to be at least 100 years old[4]
- The percentage of Americans utilizing some form of seniors housing has almost doubled over the past 15 years from 11% to almost 20%[5]
- Americans over 65 visit the doctor an average of 7 times per year, as compared with 2 times per year for those under 45[6]

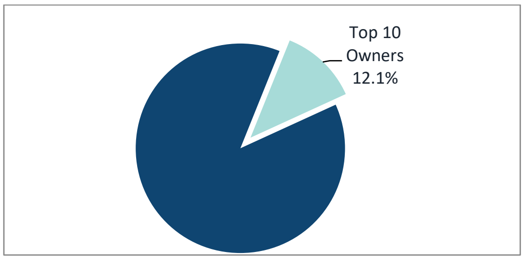
High degree of ownership fragmentation

Niche sectors are much more inefficient than traditional ones that have attracted institutional capital. They are highly fragmented sectors that often have small “mom and pop” owners who do not have institutional platforms that seek efficiencies to increase NOI and potential returns. However, recent interest in these sectors by institutional investors has increased the exit options and attention to these spaces.

Senior Housing Market (3.6 Million Units)



MOB Market (952 Million SF)



Operationally intensive
There is significant skill required in these niche sectors to keep occupancy rates high – operational capability is key. In senior housing, for instance, roughly 33% of a community turns over each year, so a qualified operator who understanding the importance of leads is a necessity to avoid anything other than frictional vacancy. In student housing, roughly 66% of the total occupancy turns over each academic year, so once again, a strong leasing strategy is critical to start the year at 100% occupancy. An owner-operator orientation and vertically integrated team enables maximization of every aspect of the operations and ultimately, contributes to a more successful investment.

Minimally Correlated to the Macro-Economy
All three sectors are minimally correlated to broader economic conditions and performed well in 2008.

- Senior housing occupancy dipped approximately 3% from 2007-2009, but has risen steadily since.[7]
- Medical office vacancy increased only 50 bps from 2007-2008, as compared to 150 bps for traditional office. From 2008-2009, MOB vacancy increased 120 bps, while traditional office vacancy went up 230 bps.[8]
- According to the National Center for Education Statistics (NCES), U.S. enrollment in post-secondary education grew by 4.7% in 2008 and 6.3% in 2009, the highest growth years since at least 1981.

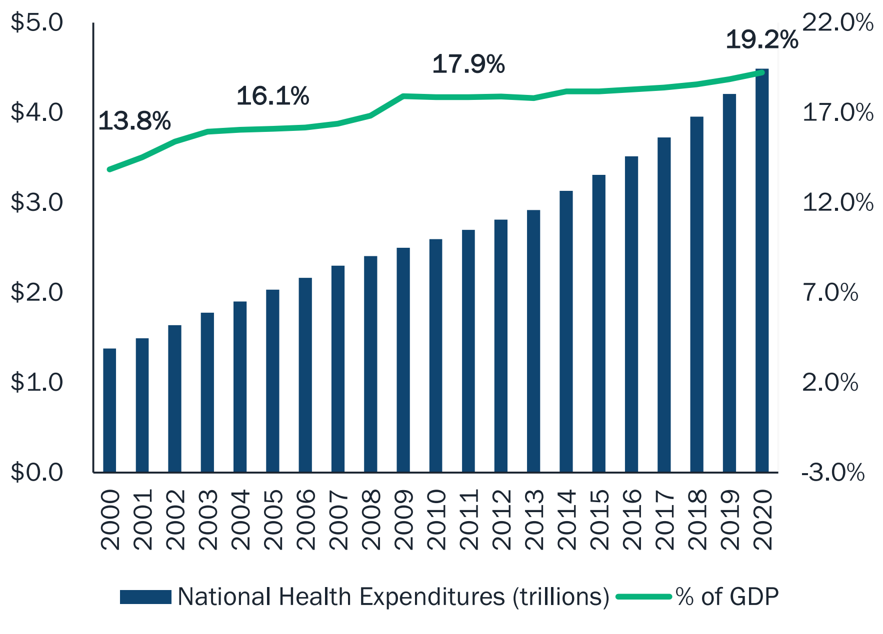
Seniors Housing
This sector is transitioning from a niche sector to a "traditional" asset class. The increased life expectancy and the ability to live with chronic conditions continues to drive demand for services., with a stronger and more consistent demand for assisted living and stable demand for independent living.

To accommodate the expanding needs of this population, developers are building higher end, amenity rich properties that offer a wider range of and higher quality of services, Throughout the last 25 years, there has been an increase in the quality and services offered in this sector, but new supply remains at a 25 year low due to limited financial availability and an often lengthy zoning and entitlement process. Focusing on private-pay seniors housing protects the investments from being subject to government reimbursements.

Medical Office

The changing delivery model of healthcare, which moves all non-acute procedures to outpatient and off-campus facilities, enables the investor to identify undermanaged, mismanaged, distressed or undercapitalised properties and unlock the value. By 2020 healthcare spending is projected to grow by 60% and account for more than 20% of US GDP.

U.S. Healthcare Costs - Annual Expenditures & % of GDP



Source: Centers for Medicare & Medicaid Services. "National Health Expenditure Projections 2011-2012."
Bureau of Labor Statistics.

There are high barriers to entry due to a closely knit group of participants that require a relationship based approach to leasing and development. A significant number of new medical office developments are on long term ground leases with the health systems. For some healthcare facilities such as acute care facilities, ambulatory surgery centres and other facilities with beds, 36 states require a Certificate of Need (CON) under which the owner must petition the state to demonstrate a need for services in the area. This can take 4-5 years in some states. Other barriers to entry include specialised build outs, including specific air filtration, plumbing and equipment requirements for imaging equipment. This leads to limited development of these buildings and therefore a limited supply.

High Retention Rates[8]

- More than 80% of medical-related tenants renew their leases vs. 60% in traditional office tenancy

  Medical tenants are "sticky" due to:
  - Significant tenant investment in office build-out (typically over $50/sf)
  - Location near established patient base and/or proximity to larger medical centers
  - Lease terms are generally 7 to 10 years vs. 3 to 5 years for traditional office tenants

Credit Worthy Tenancy[8]

- Medical tenants have incredibly low lease default rates (less than 1% bad debt)
- Many medical tenants are affiliated with larger health systems or healthcare companies

Recession Resistant

- Healthcare utilization rates are minimally correlated to macro-economic conditions
- MOB vacancy rates moved up modestly from 9.5% to 11.5% between 2008 and 2010, even with almost 50 million sf of new MOB supply delivered between 2006 and 2008[8]

The ability to source, finance, operate and strategically exit these investments can be a powerful advantage in the market. The arbitrage in these sectors is likely to diminish over time, but with the right investment manager who has access to capital and operational expertise, the next five to ten years are primed for outsized returns in these sectors.

Sources:
1. U.S. Census Bureau
2. Terner Center for Housing Innovation, U.C. Berkley
3. U.S. Census Bureau
4. The Lancet
5. American Senior Housing Association
6. Center for Disease Control, National Center for Health Statistics
7. American Senior Housing Association
8. CoStar

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