OUTSIDE THE BOX: INVESTING IN NICHE STRATEGIES

Moderator: Bob O’Brien – Deloitte

Panelists:

• Bill Maggard – NexCore Group
• Michael Schwaab – Henderson Global Investors
• David Selznick – Kayne Anderson Capital Advisors, LLP
NexCore Group Overview

- Founded in 2004
- Plan, develop, acquire, and manage MOBs and other ambulatory facilities
- Recognized as one of the “Top Development Companies” in the US by *Modern Healthcare* since 2005
- 2.9 million SF of healthcare development and acquisition projects
- Headquartered in Denver, CO, with regional offices in Portland, OR, Chicago, IL, and Bethesda, MD
Medical Office Building Market Niche

- NexCore’s investment thesis based on assets’ connection to health system strategy

- Understand the symbiosis of physicians, hospitals, and real estate

- Long-term value of assets highly dependent on tenants’ business plans

- Size of the opportunity — $2 billion annual MOB sales transaction volume (10 year average)

- Size of typical transaction — $5 million to $20 million
Silver Cross Hospital Medical Services Building

On-Campus, 182,000 SF in New Lenox, IL

- Replacement hospital campus

- $59 million Medical Services Building
  - 68,000 SF of hospital outpatient services
  - 106,000 SF of physician office space

- Hospital business plan works only if we attract new physicians to campus without alienating existing medical staff

- Calibrated rents and varied lease incentives
Rex Knightdale MOB and Integrated Wellness Center

Off-Campus, 78,200 SF in Knightdale, NC

- Ambulatory network strategy to serve growing community and provide competitive bulwark

- Phase I — 63,600 SF MOB with hospital services
  Phase II — 14,600 SF Wellness Center

- Wellness Center was pivotal in attracting key orthopedic surgery group

- Wellness Center is averaging 10,000 visits per month

- Since the Wellness Center opened in June 2012, urgent care volume has increased 15%
Henderson Global Investors

Multi-asset manager with international expertise

- Managing investments since 1934
- $106.7bn AUM worldwide
  - Equities: $57.6bn
  - Fixed Income: $27.3bn
  - Property (direct): $20.4bn
  - Private Capital: $1.5bn
- $20.4bn in property assets globally
  - 19% of Henderson AUM
  - ~555 property investments in 19 countries
  - 200 dedicated property staff in 15 offices globally
- $2.6bn in US property AUM
  - 26 dedicated property staff with an average of 25 years of experience
  - Core, value-add and opportunistic strategies
  - Focused on housing with 20,000+ apartment units
  - Entrepreneurial culture, boutique structure

AUM as of 12/31/12; property securities included in equities. Employees as of 9/30/12.
Case Study – Having Key Relationships

California Workforce Housing Fund

- Separate account mandate on behalf of large US public fund client
- JV through Henderson’s Manager of Partners program; partner was a private developer in California with unique relationships across 60 municipalities and a $1bn pipeline
- Strategy focused on urban, in-fill workforce housing development in California coastal communities
- $155m client equity invested in 42 assets providing working capital and mezzanine loans for development projects
- Last asset disposed in 2009; account generated total gross IRR of 16.2% for our client
- $200m equity + profit returned to client
Case Study – Unique Financing Capabilities

Value-add Workforce Housing Apartment Fund

- Value-add repositioning strategy with mixed-income profile
- Financed with tax-exempt municipal bonds
  - New set-aside requirements will be 20% at 50% AMI
  - 15% of principal loan balance to be reinvested in building improvements
- Significant cap-ex budget
  - $10,000/unit upgrades with $125 rent premiums
  - Knock-down of existing clubhouse
- Surplus Bonds for exit collateralized with cash
- Going in cap rate ~6.3%
- Going in cost of debt ~1.3%
- Strong cash on cash with mid-teen IRR @ 65% LTV
Case Study – Property Operations Matter

Purpose-Built Student Housing

- Separate account client mandate to invest in student housing
- Student housing developer/owner was underwritten and rejected as a potential programmatic partner through Henderson’s MOP process
  - Inability to scale operations outside of core market
- Developer then built outside of core market in 2003 and needed recapitalization by 2005
- Henderson acquired the asset, structuring the investment with risk mitigating conditions to address concerns
  - Subordinated the partner’s equity to back-end performance hurdles
  - Secured the ability to remove partner from property operations
- Within 12 months, partner failed to meet performance targets and Henderson replaced them with a specialist operator
- Operations were turned around and 20 months later Henderson sold the asset for a 24.1% net return
WHAT SETS KAREA APART?

STRATEGY:
- Focused investment in off-campus student housing
- Strategic locations at targeted public universities with 15,000+ students
- $30 to $150 million target deal sizes
- Strong cash yield with appropriate risk adjusted returns

EXECUTION:
- Seasoned team with broad real estate knowledge and sector experience
- Strategic relationships with reputable owner/operators for solid pipeline
- Extensive network of property managers, operating partners, owners and investors
- Proactive penetration of markets targeted based on proprietary research and analysis

KAYNE ANDERSON HIGHLIGHTS
- #1 buyer of student housing assets in 2010, 2011 and #2 buyer in 2012
- Seller of largest privately held student housing portfolio in history
- 3rd largest U.S. student housing owner (Funds I and II combined, prior to portfolio sale)
  - 26,200 beds (prior to sale)
  - 14,600 currently - estimated 30,000+ by YE 2013
- Top 10 Emerging Private Equity Real Estate Firms Around the Globe according to Private Equity Real Estate (December 2012)
- Chosen as one of only 15 Select Sponsor Borrowers by Freddie Mac (only Student Housing designee)
- KAREP I fully invested as of January 2011
- KAREP II closed at $575 million (oversubscribed) on 10/14/2011 and is fully committed
- KAREP III scheduled to close May 31, 2013 at $750 million (oversubscribed)
STUDENT HOUSING OVERVIEW

STRONG DEMAND GROWTH

- Enrollment growth rate accelerated over the past decade, with 13% increase projected from 2009 through 2020
- Full-time enrollment growing at faster rate than part-time
- Relative affordability of public vs. private education, prompting higher college participation by high school graduates
- Soaring community enrollment feeding 4-year transfers
- Increase in bachelor degree time frames from 4 to 5 years (only 29% graduate within 4 years)
- Accelerating female and foreign student enrollment

INVESTMENT HIGHLIGHTS

- Acquired September 30, 2011
- Increased rents over 20% in first year through rate increases and floor/view premiums
- Sold November 30, 2012
- Occupancy¹ = 99%

PROPERTY (161 units – 475 beds)

- Unit types vary from 1, 2 and 4 bedrooms (one bed/one bath ratio) – each unit furnished with W/Ds
- Only LEED Platinum Certified student housing complex in U.S.
- Community with salt water pool and spa, fitness center, tanning beds, activity room and covered parking with bike storage
- Built 2011

UNIVERSITY OF SOUTHERN CALIFORNIA

- Over 33,000 full-time students, with historical growth rates between 4-6%
- Enrollment at USC has been increasing steadily with graduate student enrollment increasing at a faster rate than undergraduate student enrollment
- USC is among the most prestigious and desirable private universities on the west coast and is ranked the 23rd “Best National University” (U.S. News & World Report, 2012)

¹ 2013-2013 academic year.
INVESTMENT HIGHLIGHTS

- Acquired through Forward purchase contract in February 2011 that closed in September 2011 at below market cost basis.
- Sold November 30, 2012
- Occupancy\(^1\) = 99%

PROPERTY (382 units – 1290 beds)

- Unit types vary from 1 to 5 bedrooms (one bed/one bath ratio) – each unit furnished with W/Ds
- Cottage style community with clubhouse, pool, fitness center with a yoga/pilates studio, game room with pool tables, computer lab, sand volleyball court, tennis court, dog park and a grill area with picnic tables
- Built 2011

LOUISIANA STATE UNIVERSITY

- Over 26,000 full-time students, with a historical growth rate of 1.3% over the past 15 years
- LSU projects a full-time enrollment of 30,000 by 2015
- For the third straight year, LSU was ranked in the first tier for “Best National Universities” (U.S. News & World Report, 2011) and both its business and law school are nationally recognized

\(^1\) 2012-2013 academic year.