Kahr Notes

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"Kahr Notes" is an electronic newsletter from Kahr Real Estate Services LLC that carries interviews, news, and original research.

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In "Kahr Notes" this month:

1. Opening Shot

2. The Argus class hits the road. we're running it in New York City, Boston, and Atlanta!

3. Interview with C.J. Follini, principal at Noyack Medical Partners - a discussion of health care real estate opportunities

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1. Opening Shot

Welcome to another issue of Kahr Notes.

This month has been good for us over at Kahr Real Estate Services. there's a lot of business coming in, and it's all interesting work. I also had the opportunity to serve as a panelist at a Community Board meeting on the topic of inclusionary zoning (also known as "affordable housing"). It was a good experience to be one of the "experts"; even better was that the real experts on the panel didn't trounce me.

My Argus class continues to spread. I'm now offering it in Boston and Atlanta. Apparently, there's a world beyond New York City; why I wasn't told this as a child I'll never know. If you're in any of those three cities, you should definitely check it out. The Boston and Atlanta course are essentially the same as the course that I offer in New York City; the only difference is that the course will run over two days instead of 4 nights. You can read more about it at:

http://www.kahrrealestate.com/argustraining.shtml

I'm also looking for an interview subject for the next issue. If you know of someone that would be a good candidate (possibly yourself), let me know.

Regards,

Joshua Kahr
Editor/Publisher, Kahr Notes

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2. The Argus class hits the road. we're running it in New York City, Boston, and Atlanta!

I'm taking my Argus class on the road and offering it in Boston and Atlanta. This is a big step for us at Kahr Real Estate Services; we've done trainings in other cities before but offering a regular "open enrollment" class in other cities is a new thing for us.

If you've wanted to take the class, and you're closer to Boston or Atlanta than you are to New York, here's your chance. The dates for all three classes are:

Boston: 4/16 and 4/17 (Saturday and Sunday) from 9:00 AM - 5:00 PM
Atlanta: 4/29 and 4/30 (Friday and Saturday) from 9:00 AM - 5:00 PM
New York: 4/26, 5/3, 5/10, and 5/17 (Tuesday) from 6:00 PM - 9:00 PM

The fee is $550, and the material for all three classes is essentially the same.

All attendees will leave the class with both a good working knowledge of the software and the tools to master it. To ensure a quality experience, the class is capped to only 12 people. Everyone will receive a copy of my 175 page training manual. This manual is the product of over four years of teaching Argus at leading universities and corporations. It is the only manual of its kind and covers both the software and the important related financial issues. Think of it as a crash course in the only real estate finance you'll ever need to know.

Finally, for every colleague you refer that signs up for my class, I'll take $110 off the cost of you attending. There is no cap to this promotion; bring 5 people and you can take it for free. If you've already taken my class and can't use the discount, I'll write you a check for the same amount.

To sign up for any of the three classes or read more, go to:

http://www.kahrrealestate.com/argustraining.shtml

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3. Interview with C.J. Follini, principal at Noyack Medical Partners - a discussion of health care real estate opportunities

KN: Today I'm sitting here with C.J. Follini. C.J. is a principal at Noyack Medical Partners, a real estate investment firm with a unique niche - health care real estate.

CF: Thanks. It's good to be here.

KN: I always like to ask interview subjects a little bit about their background. Could you enlighten our readers with a little bit about how you ended up where you are?

CF: I studied econometrics at university and interned at a Boston real estate investment firm. After college I started a pipeline company using a patented process to perform trenchless pipe rehabilitation for the public sector. From '97 to 2000 I conceived and built the Gun For Hire Production Centers for the film industry in New York, Miami, Toronto, and Vancouver. My company won the 1998 Crain's Small Business Award for Gun For Hire. But throughout these years, I managed my family's real estate holdings in the tri-state area.

KN: Good. So, let's start with an easy one. What kinds of real estate are you looking to buy and why?

CF: We're looking to invest in medical office buildings, ambulatory surgery centers, hospital-adjacent parking structures and perform fee development for hospitals.

KN: What's your most recent purchase?

CF: Strangely enough, we ended up buying a medical property that strays from our investment profile. We just purchased a 23 acre former hospital campus including a 150,000 square foot decommissioned hospital in White Plains, New York.

KN: A hospital? Are you going to reopen it?

CF: No. We are still analyzing reuse opportunites. The potential uses are: assisted living, ambulatory care facilities, and doctors' offices.

We also plan to take advantage of the size of the site and build an undetermined number of age restricted housing on the property. We will be working with the White Plains officials to determine the final unit count.

KN: This sounds like a continuing care facility. Could you explain what a continuing care facility is for the reader?

CF: The idea of a continuing care facility or "CCRC" is that tenants move from one product type to another depending on their needs. At the most independent level is traditional housing but in an age restricted community. Then, as their mobility decreases and require moderate nursing care, they move into the assisted living facility Eventually, they would move to a nursing home once they required substantial medical care.

It is likely that the completed project will be similar to a CCRC but not identical in its offerings. We probably won't offer a nursing home on-site but rather in partnership with a nearby existing facility.

What's most interesting about this sort of product is that retirees who move into this sort of product in the Northeast tend to not be first time retirees. Commonly, they are early retirees who moved South, and then realized that they wanted to move back so they could be near the grandkids. Besides, 365 days of sun can get a little stale.

KN: That's funny. I guess paradise can get old after a while. Why did you choose not to build a nursing home?

CF: Nursing homes are highly regulated and are a complex specialty to master. We choose not to make the investment of time and capital to develop one. Besides, there are many experienced not-for-profits in that arena.

KN: OK. I understand what you buy, but why? How's the pricing on this sort of product type?

CF: The pricing for healthcare properties is more attractive relative to other assets. For example, whereas a residential property in a major urban area might trade at a 6% cap, medical office buildings are available for a 9% cap.

KN: That's impressive. So, why isn't everyone investing in it?

CF: It's a specialty market that requires unique client services. Health care professionals tend to be very demanding. Also, rents tend to stay in a tight range. While there is limited downside to the investment, the upside is not going to get your heart racing. The rent typically stays at a 10-15% premium over comparable normal office space but it's not going to go much higher. The demand for medical office space just tends to stay pretty level and is minimally affected by the economy. Another positive are historically low vacancy rates since doctors rarely move once they establish their practice.

KN: So if these properties are so stable, why would anyone sell?

CF: In many cases, the sellers are private owners that have estate issues that they need to clear up. They are long term holders who just have reached a certain point in life that selling makes more sense. Or more likely, doctor's groups and hospitals that need to monetize their real estate to focus on their core business

KN: Interesting. I assume that most of your capital is private. Are there any oddities in the financing for these properties?

CF: It is a bit harder to raise money for these properties because it's something of a niche. There is a need to educate the investor. Many people don't yet understand the metrics, including some of the institutional investors.

KN: It's funny. this situation reminds me of Sam Zell and mobile homes.

CF: In what way?

KN: Well, Sam Zell made an absolute killing by investing in mobile homes. He understood before anyone else that mobile homes were actually a better investment that traditional residential rentals. He predicted that zoning would work in his favor as communities did not want to let new projects be constructed. Also, he believed that mobile home renters were essentially a captive audience; after all, what were they going to trade down to?

Finally, when the market realized what he was talking about, the value of his portfolio grew significantly.

CF: That's basically what we're aiming for. The idea is to build a substantial portfolio of high quality assets in key demographic areas and eventually consider a sale. Most of the smaller properties, under $25 million each, are meaningless to the large institutional players as one-offs. However, if we buy enough of the smaller ones, we can do the heavy lifting for these investors and hopefully be rewarded with an attractive capitalization.

KN: I wish you luck. I think your business model makes sense; it's just of matter of how fast can you grow the entity, and how long it takes for the institutional markets to realize the opportunity.

CF: In the meantime, we can comfort ourselves with the fact that we're receiving good cash flow with minimal downside.

KN: Good point; there are worse things in life. Thanks again for agreeing to appear in Kahr Notes.

CF: Thank you.