The Entrepreneurial Spirit of Seniors Housing:

Thoughts, Stories and Lessons on Leadership

Edition I

The SeniorCare Investor

American Seniors Housing Association

Cost $125.00

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Introduction

by David Schless

Washington, DC
September 2012

It is my distinct privilege to present the first edition of 'The Entrepreneurial Spirit of Seniors Housing' — a composite of personal reflections from five distinguished leaders in seniors housing: Bill Colson, Paul Klaassen, Bill Sheriff, Steven Vick, and Patricia Will. It is my sincere hope that this publication will be the first in a series to help preserve the rich history of our profession and offer invaluable insights and inspiration to the future entrepreneurs of our industry.

The genesis of this publication began several years ago when Steve Monroe, longtime editor of The SeniorCare Investor, flew to Seattle to interview Bill Colson in the weeks prior to his passing. Steve and I both held Bill in the highest regard and we spoke often of doing "something" with this special interview as well as multiple interviews Steve had conducted with Paul Klaassen. Subsequent interviews Steve conducted in 2012 with Bill Sheriff, Steven Vick, and Patricia Will round out the content in this inaugural edition.

Steve did a masterful job, in my opinion, capturing the essence of these industry leaders, who provide candid and varying opinions about leadership in this dynamic industry. As you read this publication, you will be reminded of the diversity of seniors housing, but will notice a common thread that runs through all of these great stories – an unwavering commitment and passion to provide the highest quality housing and services to seniors and their families.

Chapter 1
William E. Colson

William E. Colson (1941 – 2007)
Founder, Holiday Retirement Corporation

William E. Colson was the founder of **Holiday Retirement Corporation** (HRC), co-founder of **Colson & Colson**, the development and construction arm of HRC, and a founding father of the **American Seniors Housing Association**. From its start in 1971 until the sale of the company in 2007, Holiday grew to be the largest owner and operator of retirement communities in the world, with extensive operations in the United States, Canada, the United Kingdom, France and other countries.

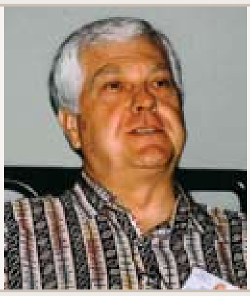
Before starting Holiday, Colson was in the construction business with his father, Hugh Colson, and also owned a portfolio of skilled nursing facilities. While many of the developers and providers targeted the higher-end market for seniors housing, Colson basically stuck to his roots and wanted a place where that middle class senior could retire in comfort with three good meals a day with hands-on service. He liked to keep it simple, and his humble approach to business, and to life in general, served him well.

In 2006, he and his partners decided to sell the company, taking advantage of the strong market and turning, by some estimates, over 150 employees and investors into millionaires when the sale closed. But money was the last thing on Colson's mind, and it was not something he thought much about, other than giving it away. I was very fortunate to be able to sit down with Bill at his home a few months before he passed away, and hear first-hand about his life in the seniors housing business and how he grew HRC to be the largest seniors housing company in the world, although it would never be something he would brag about. I think at times he had to pinch himself. Thought of by many as the "father of retirement housing," you just knew it was a phrase that would embarrass him.

I think at times he had to pinch himself. Thought of by many as the "father of retirement housing," you just knew it was a phrase that would embarrass him.

A business is born...almost by accident

Bill Colson and his father Hugh got their start in business together when, in the early 1960's they were running a farm together. Sure, they were building a few "little" things at the time in Salem, Oregon, as Colson the elder was a carpenter by trade. But his son, just 22 years old, started looking around and noticed that there were "these guys in town who weren't a heck of a lot smarter than we are, so why don't we build duplexes, triplexes, just be a little brazen? I think we can do what is being done by these other guys as well or better, let's try that." And with that decision, as they say, the rest was history, but the two of them had no idea where that fateful decision would lead them and the entire seniors housing industry decades later.



"I think we can do what is being done by these other guys as well or better, let's try that."

By the late 1960s, the Colsons came into contact with two key people: Carl Campbell, an accountant by trade, who was providing seed capital to almost a dozen different nursing facility builders and operators up and down the West Coast, and Ron Roderick, whose father had been in business with Campbell and owned some nursing facilities with him. Roderick had just converted a hotel in Shelton, Washington to retirement living, and he was building another retirement community. Together with Campbell and Roderick, plus three other investors, they formed a company called **Retirement Development Corporation**, or Redevco, which then built more than 20 retirement communities from Albuquerque, New Mexico to Arizona, California and Oregon. But by this time Colson & Colson had been formed, and father and son were building for themselves and for Redevco, building their first one on their own in 1970. Campbell had shown him the financial statement for one of his 47-unit communities, and when Colson saw it was making $5,000 a month net (this was 40 years ago), he was "very quickly in tune with that" and knew it was a business he could do well in.

By this time, both Campbell and the Colsons were realizing that building "retirement homes" was one thing, and they knew how to build, but managing them was quite another. They knew that in order to survive they had to have a better handle on the management side of the business. In 1971 they formed **Holiday Management Company** to handle the operations of the growing retirement community business, which then became Holiday Retirement Corporation in 1987 with 31 communities under management. But at the same time, Colson had also become involved in the nursing home business, growing that portfolio to 27 facilities, while Campbell had his nursing facilities under a different company, **Campbell Homes**. And it was with the nursing home business that Colson eventually met who would become his close friend and business partner, Dan Baty. It was the nursing home business that taught Colson about food costs and cost controls in general. "Carl Campbell was a Scotsman, he was tighter than the bark on a tree, and I learned a lot of things from these guys who were in the nursing home business. Roderick too, and he had about 40 of them." At some early ASHA meetings, when a dozen or so owners and executives were sitting around talking about the business, everyone seemed to focus on how to increase their monthly rates. For Colson, increasing rates was not what he wanted to do. His approach was to "squeeze the lettuce vendor" and leave his residents alone.

In one of Colson's favorite stories during that time, he was flying around Texas with Irving Levin in his Piper Navajo, looking at nursing facilities, and they flew into a terrible thunderstorm and had to make an emergency landing. The only landing strip nearby was at LBJ's ranch, and when they radioed ahead, the Secret Service, in no uncertain terms, told them they could not land there. Well, Colson's pilot landed anyway, and even though guns were not drawn, the agents running out to the plane were not happy to see them. He ended up buying that 182-bed nursing home he was flying to see.

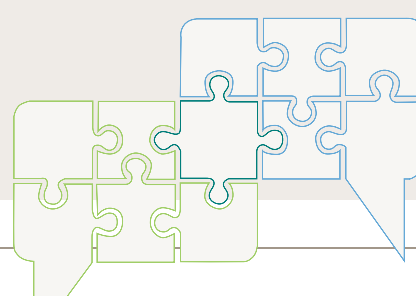
Growing the Wal-Mart of seniors housing

Other than the fact that he was a builder, Colson found it difficult to grow by acquisition in the early days because there really was not enough product available on the market, or at least properties that he thought would work. His first acquisition, however, was a little unusual. He paid $500,000 for a building in Washington, with $3,000 down. "We had to jump on a plane in San Francisco, fly to Portland, jump in my little Corvette and drive up to Washington. They had a health food business on the side of this thing. I sold the inventory for $3,000, raced around the corner and put it down on the business to buy it, and that was my first acquisition. Was that weird?" Yes, that was weird, but that was entrepreneurial Bill Colson.

Early on Colson decided he wanted to develop his retirement communities in non-major metro markets. "We didn't have any money, so I had to work the perimeter." And while he didn't know it at the time, he was following a similar strategy that Sam Walton was when he began his retail empire, going to smaller markets where "the customer wanted quality at the lowest possible price, guaranteed satisfaction and friendly service." As Colson once said, "We just want to be a small frog in everyone's pond. We just want to be at the party." But money was tight, and during the 1970s and 1980s Colson went through a few difficult periods. It really wasn't until 1995 that he would call himself "quasi-successful," and that was a few years after his only significant U.S. acquisition.

While the Great Recession is the most recent economic, real estate and banking crisis to hit the country, nearly 20 years earlier there was a similar banking crisis, but this one involved the savings and loan industry, and it basically put the S&Ls out of business. The **Resolution Trust Corporation** (RTC) was created by the federal government to take over many savings banks and their loan portfolios, many of which were in default, and to dispose of them in as orderly a manner as possible. By 1990, Holiday had about 65 to 70 retirement communities under management, but with the overbuilding in the late 1980s and the tight money that followed the savings and loan crisis, new development was just not very popular. Opportunity, however, just seemed to present itself to Colson. The RTC put up for sale a portfolio of mortgages secured by 27 retirement properties, and Colson wanted them. A few of the borrowers paid Holiday off, but in most cases deals were negotiated, usually by Colson's partner and close friend Norm Brenden, to let the borrowers off the hook in exchange for the keys to the communities, which was Colson's goal all along.

Holiday won the bid for the portfolio, and while the $101 million price tag today would hardly be headline news, it was one of the largest acquisitions ever completed back then, and it certainly put Holiday Retirement Corporation on the map. And best of all, Holiday put just $27 million down and the rest was financed by the government. Under terms of the agreement, if Holiday repaid the government early, the net purchase price was reduced, and they were able to do that. The transaction, according to Colson, "was a fluke of life, and we paid about $85 million, net, for that portfolio." Part of that discount was shared with **Nomura Securities,** which financed the deal for Colson. Fluke or no fluke, it may have been the most profitable transaction Colson ever completed, until the big one 16 years later. Colson and his management team worked with the operators in those buildings, and in all but three cases, ended up gaining control of the communities and adding them to the Holiday portfolio.



Colson was worried about the overbuilding, about liquidity, because he had been building long enough he had seen the good times and the bad times, but up until the mid-1990s, mostly tight times. And because of his learning curve in the skilled nursing business, he was acutely aware of cost management, something that many of the "new breed" did not have an appreciation for. "What if they don't come? I've got a lender that lent me money and I've got to pay that money back. And that just frightened me." But he always paid his loans back, and his focus on costs, and keeping them as low as possible so he could deliver a product that was affordable to the middle class, led him down a uniquely different path than others in the seniors housing business.

On the tough times about to hit…

"That bunch hadn't been through tough times and the few who had, they didn't care because the money was easy and they were just going to build their way out of it. I kept saying, 'this is crazy'."

It was about this time that Holiday Retirement Corporation joined the **American Seniors Housing Association**, even though he really didn't think associations were worth his time or money. But Colson's involvement was critical to ASHA's early success, and he supported ASHA's efforts to convince other companies to provide some of their data that became the basis of the annual State of Seniors Housing Report. People definitely noticed that he joined and was an active participant, and that certainly helped to influence others to join.

Going vertical

One of the aspects of building the Holiday communities that made the company unique, and that allowed management to target a lower price point than others with a similar quality building, was the fact that Holiday kept its construction costs as low as possible. Having your own construction firm (Colson & Colson) didn't hurt, but it was the relationship that Colson started with **Hunt Builders** in Canada that really changed the way they went about building out their communities, the timing and what it cost. Colson ran into Hunt on a "job" up in Canada, and "he was the greatest thing that ever happened to us for construction. He made us think about our processes."

The result of this new relationship was that Holiday entered into contracts with Hunt Builders to prefabricate frames, trusses and floor joists, which would then be shipped down to Holiday's construction sites. This had the effect of knocking up to eight weeks off the construction time, not to mention the cost savings. Combined with bulk purchases of other materials, the total savings per development project ended up being a million dollars and more. By reducing design errors through repetition, they were able to reduce the need for contingencies in the build-out process. And because they operated what they built, Holiday had constant feedback from the field. "The construction business is really a tough business. People think that a restaurant might be tough, but we could run a thousand restaurants against one construction project, and that's pretty ballsy to say because the food business isn't any panacea."

Colson often wondered why others did not follow suit, especially those that were active developers of seniors housing properties. He thought it made the most sense for **Sunrise Senior Living**, but he acknowledged that "we are so different in our approach to it." That said, Holiday did begin to upgrade its communities, and "if you took one of our buildings and set it aside one of his buildings (Paul Klaassen), they're totally different. But when you really look at it, we've added enough stuff to it that they're pretty nice. So we've 'upscaled' them to bring our rents up, and we've done that, not to the point where he is, but we've slipped in right beneath him."

On the construction side of the business…

"I still think the best thing we do is our construction. That'll tick everyone off in the management company, but I think that we have that down now. It's not perfect, but boy it's a good operation."

If there has ever been an understatement, that certainly qualifies as a major one.

Accessing Capital

One of the reasons why Holiday Retirement built its communities in smaller towns, at least in the beginning, was because they could not afford the more expensive land in some of the more primary markets. Colson didn't know the "big lenders" back then, but he knew a lot of the medium-size lenders and they would take him on. "Maybe I'd get a $1.8 million loan where someone else would get a $3.8 million loan. I could afford to get in there and buy ground and come off the bottom instead of coming down through the top."

Owning the real estate was always very important to Colson, and he never understood why REIT financing was so popular. In the early days, he once referred to REITs as a "den of thieves," but hoped that those in the REIT business, many of whom he considered to be his friends, would forgive him for that "horrible comment" he once made. It should be remembered at the time that financing was not available to everyone, and REITs certainly filled a financing void. That said, he really believed that when "you 100% finance something in a sale/leaseback structure, that's a bad deal for most developers because you're going to use the money up and you're not going to have any money left over. And if you did this type of 100% financing, what happens when you get in trouble?" Some may call it old fashioned, others may call it Bill Colson being Bill Colson, but no one will say he made a mistake by sticking with his guns and owning his real estate, all of it, until the end.

Construction financing was one part of the equation, but he also needed equity in order to get those developments off the ground. He was well known for "spreading the wealth," so to speak, with many investors, and he credits his friend and partner Dan Baty with that (more on that relationship later). Referring to Baty, "he knew everyone in this city that had any money, and there's a lot of money here, and he just went out and panhandled Seattle, Washington, and he did a good job, and I've gotten to know quite a few of the people who invested with us and I think they're relatively happy." Once again, an understatement from humble Bill Colson.

Those days of small banks and "panhandling" for equity were gone by the late 1990s. Soon, even the largest banks were offering Holiday Retirement 100% debt financing for its development projects, which Colson thought was "pretty weird." They still took on equity partners for some projects, because "we had a lot of people we owed from the previous dark ages, we cleansed that." One of the largest lenders in the country once told him that "you'll never get 100% financing out of me," but he also succumbed and did 100% debt financing.

By the mid-1990s, raising equity one deal at a time went by the wayside for most seniors housing developers and providers, particularly those with ambitions for high growth. Wall Street beckoned, at least the investment bankers did, and raising equity in large slugs, even if you did not know where the money was going to be used, seemed to be the way to go. By the end of 1996 more than 30 companies in the seniors housing and care business had completed their initial public stock offerings (IPOs). At the time, most, if not all of these companies, were smaller than Holiday Retirement, with smaller development pipelines, and with much less experience managing and developing any kind of seniors housing.

For Colson, going public was never an option, not even an itch, mostly because unlike the other companies, by the 1990s he didn't need to go public for funding, but they did. As he said, "Wow, we were really rolling in 1995." One of the CEOs of a recently minted public company approached Colson at the time and asked, "I don't know what's wrong with you, why are you so stupid?" His wife, Bonnie, was sitting next to him and leaned over and said, "He doesn't know how dumb you are." She had grown used to other people telling her husband all the things he should be doing. The only thing she told him what to do was with regard to decorating and furnishing Holiday's communities, something she was responsible for during the growth of the company. They were truly a team.

Dan Baty, his friend and partner, "drove me crazy about going public," since he had already taken his much smaller company, **Emeritus Assisted Living**, public. Several years later, Baty admitted to Colson that not going public was the smartest thing he didn't do.

A unique relationship with Dan Baty

Dan Baty had a unique relationship with Bill Colson, and other than his wife Bonnie, it is possible that Baty knew him better than anyone else. Their friendship and business partnership, which were so intertwined that it is impossible to separate them out, spanned more than 30 years. After leaving the **Hillhaven Corporation** around 1985, but before starting Emeritus, Baty became chairman of Holiday Retirement Corporation in 1987. The inside joke was that Baty was the only one with the authority to fire Colson, something that obviously would never happen. But the two of them met by chance on one fateful night in Reno, Nevada in the early 1970s when they were both vying for a certificate of need for a nursing home in Carson City.

In Colson's own words, "You wouldn't believe what a sleazebag he was there {laughing as he said it}. About midway through the night he was sitting in front of me with his feet up over the chair in front of him. He's just a 'bad guy' and so he turned around and looked at me and said, 'I don't know why you're staying here. I'm going to get this.' And I said, 'No, I don't think you will.' As it started getting a little further along Baty leaned back over and said, 'I think we're going to get home-towned.' And so we did." The two of them started talking and found out they both owned nursing homes, but when Colson told Baty he had just opened a 70-unit "retirement home" in Reno, Baty wanted to go see. So they drove up to take a look, and Baty told him "I want to do this. I don't like nursing homes. I want to come up and see you sometime." A few weeks later, "there he was on my doorstep. When Dan says that to you, he shows up."

Colson then showed him what he was building, including a new property in Medford and one in Corvallis, Oregon. They "jousted" around a bit until Colson told him he needed money. Baty invested in the next two projects, including one in Napa, California (perhaps related to Baty's interest in vineyards). Sometime later, Baty flew down to see Colson again and announced, "I'm going to be your partner." Perhaps still a little skeptical, Colson asked him how much money he could raise. "I'll arrange it," was the response, and so the partnership, and strong bond and friendship, began, and all because they lost out on a skilled nursing certificate of need in Nevada.

In Colson's mind, Baty was the global, big picture guy in the relationship, while Colson was more into details. And while they went to each other for advice, they didn't always listen. When Baty took his company, Emeritus, public in 1995, Colson said he had some advice for him, which was not to do it. And what advice did Baty give in return? "Shove it." Such was the dynamics of their relationship, but it worked, and it probably worked better than any other combination in the business.

Colson would be the first one to admit he never could have done everything he accomplished without the people around him. In addition to Baty and people like Pat Kennedy and Jim Huddart, Norm Brenden was a key partner and friend. "Norm's rule" was that Colson and Baty could not travel together without him being along; either one of them was trouble enough, but together, total chaos. So someone had to reign in and manage that chaos of ideas, and that was part of Brenden's job.

Going international...in a big way

Fate, such as asking his father to go into business with him at age 22, as well as running into Dan Baty at a CON auction almost 10 years after that, and perhaps a little luck, certainly had a larger than life impact on Colson and his growing business. Not many people were aware of it, but Holiday Retirement (and its affiliates) was the largest retirement housing operator outside of the United States. It all started with a phone call from one of Colson's partners, whose grandfather was the mayor of Lethbridge, in Alberta, Canada. "Why don't we go build in Canada?" he asked. Colson thought he was absolutely crazy, but conceded that "it's been incredible. If there was more of Canada to build in, we'd build in each part of it. It's been an incredible success story."

On Canada...

"I think it really helped our company. More fun to do business there, you know the stupid lawyers, you know they're much more kind and gentle and it's just a wonderful place to do this. I really, really like Canada. It was just sitting there waiting."

After Canada, Colson looked into expanding in France first, but instead entered the UK market. In 1995 they purchased **Peverel Ltd**, which managed approximately 17,000 units, and over the next 12 years it grew to 120,000 units, mostly by acquiring other management companies. While there were some residential units in that total, most were apartments for seniors with limited services. The expansion into France was quite different, as Holiday owned most of the real estate and developed primarily assisted living and Alzheimer's communities. The portfolio in France grew to about 35 buildings with 3,600 units, through both acquisition and development. Holiday had become the third largest seniors housing company in France when they sold the portfolio in 2003.

With operating success in the UK and France, Holiday also looked into expanding into other countries, such as Spain, Italy, Belgium and Germany. But the Far East was the next stop, and one that Colson perhaps wished he had avoided. While seniors housing in China has recently become popular for American providers and developers, Colson was way ahead of his time by opening a retirement community in Shanghai in 1998. China was much less business friendly back then, but the demographics were still noticeably significant. It did not leave a very fond memory, and he referred to the China property as his only "unsuccess" in the business. That is a remarkable achievement for someone who built hundreds of communities on three continents. But he didn't think the business was too terribly different in any culture.

On caring for the elderly...

"The customers like their tea flavored, heated differently. But we've not found anything different in caring for a senior in China or in Tuscaloosa, Alabama."

Colson was always surprised that more investors and providers did not expand outside the U.S. He thought people should be able to look at Paul Klaassen and say, "Okay, I can do that," after Sunrise met with success in the UK. Perhaps it was the difficulties Sunrise had in Germany that gave some would-be internationalists reason to pause. But Colson had another reason, thinking people were looking at the international market and wondering, "Can I get a return quick enough to make Wall Street happy? Probably not. The public market problem." Yet another reason why he was happy never to have gone the IPO route.

Seniors housing...the Holiday way

Holiday Retirement Corporation has been in the seniors housing business longer than any major company, and what is somewhat unique is that from the time it got its start in the 1960s until the day the company was sold, the business model never really changed. Colson said his son, Bart (who worked in the company with him), "gets blown away by this," and once told him, "None of them get it, do they? I just can't believe it. I hear this and I hear that, but look what we do and look what we've done." And that really gets to the heart of it: the Colsons stuck to their knitting, delivering a service, a lifestyle and a choice at a reasonable price to people who were happy to be there. And food. That seemed to be a pet peeve of Colson. "If somebody wants something for dinner, give it to them. Don't say I only have this or that. We don't do that. And that fits into our choice-driven model." But Colson always liked to say he didn't want to offer a Cadillac, just a Chevy or Buick.

Colson had sometimes thought about creating a "high-end" Holiday division, but he just didn't need it. If someone could tell him more reasons why to do it than not to do it, he might have been swayed. But that never happened. The average Holiday Retirement community had an interesting mix, according to Colson. "Twenty percent are below the poverty line, and they're happy to be there and maybe their kids are kicking in $500 a month. We cut lots of deals. Twenty percent are rich and quiet and don't want to pay for all the fancy bells and whistles and would rather live in our building and eat good food, get good service. The remaining sixty percent are the ones who have always been there, like the retired school teacher."

On live-in managers...

"You've got a man and a wife who have to get along together, and you've got another man and a wife who have to get along together, and you've got four of them who have to get along together. But it's so perfect only an idiot wouldn't run one of these businesses that way. I can't even dream about not doing that."

As far as service is concerned, one of the very unique aspects of the Holiday business model was the concept of live-in managers, something no other retirement housing manager employed, at least not on the scale that Holiday did. There were reasons for that. Holiday communities had two couples who resided in the communities and ran the day-to-day operations. That is similar to having two CEOs at a company, but because there were actually four people, as they always tried to get couples, it was like having four CEOs in one building. The reason for two couples was to give one couple the weekend or nights off, and they did need to take vacations. The other reason was training, as the "junior" couple was the assistant manager. And some of these couples were not too far in age from many of the residents, so it could get interesting. The residents, at 2:00 a.m., liked the fact that a manager, or assistant manager answered the phone when there was a problem, and "not the dog pound guy or someone walking in off the street, and it's a wonderful thing to know that you've got real people in there running that business at night." But it was difficult to manage.

His son Bart agrees. His father would ask him, "Is it horrible?" And he would say it's just worse than you can believe. "Would you run it any other way?" And his response was, "I would never consider it."

When people refer to "aging in place," they do not usually mean people working as a manager at a retirement community and then moving in as a resident. But that does happen at Holiday from time to time. "My most wonderful manager in the whole group came in one of the earlier buildings in Eugene, Oregon that was built in 1971. We opened it New Year's Day in 1971. She ended up living in our building and she was treated the same way she had treated people. It was so incredibly neat. I went and did her eulogy, it was just incredible. When I finished I said, I can't believe this woman got to do the Circle of Life in our building, and be treated the same way she treated people – it was incredible."

When Holiday was on the market for sale in late 2006, some of the buyers were looking at the portfolio with a change in the model, renting the two manager units out to receive more income and then hiring an executive director in the more traditional manner. Colson was aware this was going on, and thought that pretty much all the buyers were doing this. Would this change the culture too much? "If you kept the same managers, possibly it wouldn't. But I suspect that it would." What they would lose is what was known within the company as the "Holiday Touch," which many employees thought was the heart and soul of the company.

A time to sell...A time to say good-bye

It is doubtful that Bill Colson had ever really thought about selling his company. It was not a business to him; it was his life, his passion, his love. One son, Bart, was actively running it, another son, Brad, had assumed responsibility for over 30,000 acres of timberland and a family-owned cattle ranch in eastern Oregon. Holiday was a family business, father and son, and then father and son again. Colson never thought about what he would have done if he had not teamed up with his father at age 22. "His temperament and mine worked perfectly together. We never had an argument, and we just had a perfect working environment." The last business decision that the two talked about together was one evening in 2001, and his father's health was not so great either. Colson said to his father, "Well, I'm sorry it took this long to get this sucker to make this kind of money. It's sort of a shame." When you're old, you can't do the things that you would have been able to do when you were younger. "I'll never forget the look he gave me, and then he simply said, "Better late than never."" For Colson, that was what it was all about. "I mean, here you're family, and then to be able to go back around and get another family member and get Bart in there…"

By 2006, with the seniors housing market in overdrive, the management team had to consider a sale of the company. Bonnie, his wife of 43 years, played devil's advocate. "She wants me to quit the whole 43 years, and then I tell her I think it's sold. She says, 'Are you insane? What else would you do?' That was sort of tongue-in-cheek." And as for Baty? "I think he was real happy for the sale. He likes the elongation of the sale." And sadly, Colson's cancer returned late in 2006, and perhaps it was also with a sixth sense that he believed it was time to sell.

As the sales process went into high gear, Colson was "totally shocked" by the valuation and the bids that started to come in. His bankers said that on a perfect day you might get there, but deep down inside, he never believed them. At approximately $6.6 billion, it was the highest-priced sale ever in the industry, but that had never been his goal. Even a few months after the sale closed, he said "I'm still sitting here amazed right now." At least one of the bidders didn't believe the numbers they were given. She told the banker representing Holiday, Gray Hampton of **Bank of America**, that the numbers were too good. "How could they be this good, and all the other numbers I look at are all worse?" Colson ran a tight ship, and a few dollars saved here, a food vendor squeezed there, went a long way to keep costs down. Blame his nursing home experience, but it kept his residents happy, and that was what he wanted.

One thing that surprised him about the sale was the impact on his son Bart. He knew Bart didn't want to sell the company, he just wanted his father to "keep this sucker running." He never cried, never moaned that they had made a terrible mistake. But a few months after the sale, father and son were walking down the street in Scottsdale, Arizona and Bart looked at his father and said, "I think I don't have a job, dad. Do you realize my whole life you guys were just jamming work down my throat? I've always worked." All Bill Colson could say was, "Oh, I'm embarrassed to think that I took that away from you too. That's a shame." Father and son, father and son.

As fate would have it, that didn't end up happening. Within a year of closing the sale of Holiday, the housing market was in a free-fall, the financial industry was in a shambles and no one seemed to want to take the risk of opening and owning newly-built retirement communities, especially since they weren't need-driven. When **Fortress Investment Group** purchased Holiday, part of the attraction, and certainly one reason for the high price, were the 10 to 15 new communities they expected to add to the portfolio that would continue to be developed and add to the cash flow. Fortress also had the opportunity to buy the construction and development companies, but for various reasons decided not to. Instead, the former Holiday principals agreed to give Fortress the option to be a 50-50 partner on the new retirement community developments, and the management contract when they exercised that option. Because of the economic downturn, they chose not to exercise their option on these new communities, but the former key executives at Holiday were more than happy to keep them. So Bart ended up doing the same thing he was doing before, joining Pat Kennedy, Norm Brenden and others, along with brother Brad, at **Hawthorn Retirement Group**. And that group is continuing the same philosophy and style that they learned working with Colson, often asking themselves when confronting a problem, "What would Bill do?" Nothing would have made Bill Colson happier.

Can anyone imagine on that day in 1963, when at age 22 Bill Colson turned to his father and asked him to go into business together, what would have happened if dad had said "no, it was too risky"? Thankfully, we will never know, and we are all better off for it.

Chapter 2
Paul J. Klaassen

Paul J. Klaassen
Co-Founder and
[Non-Executive] Chairman of the Board
Sunrise Senior Living, Inc.

Paul J. Klaassen and his wife, Teresa (Terry) Klaassen, founded Sunrise Senior Living in 1981. Their vision, loosely based on his observations of the Dutch approach to long-term care, inspired a new model for senior living in the United States—a resident-centered approach that offered options for care and services tailored to an individual's needs and a physical environment that emphasized quality of life. From their first "alternative care" community in Northern Virginia, where the Klaassens cared for residents themselves, Sunrise has become a mega-provider—a public company with more than 300 communities throughout the United States, Canada, and the United Kingdom. That did not happen without some bumps in the road; in particular, its ambitious growth strategy went awry just as the housing market and economy exploded in 2008. Barely escaping bankruptcy in 2009, Sunrise sold off assets and cut expenses, trimming its $636 million debt by nearly 60% in just over a year. Today, Sunrise has stabilized and is in an excellent competitive position to capitalize on the growing senior market. In August 2012, it announced a sale of the company to Health Care REIT, which is expected to close in 2013. Klaassen served as CEO and chairman of the board of Sunrise from inception until 2008, becoming non-executive chairman of the board in November 2008.

Their vision...inspired a new model for senior living in the United States - a resident-centered approach that offered options for care and services tailored to an individual's needs and a physical environment that emphasized quality of life.

Shaping a new philosophy, a new model

In the spring of 1981, two years after graduation from Georgetown University's School of Foreign Service, Paul Klaassen was a speechwriter at the U.S. Chamber of Commerce; his wife was working for Radio Free Europe (Radio Liberty). They commuted to their jobs in Washington, D.C., from their town house in Arlington, Virginia…but they wanted more. They wanted to do something significant. They wanted to create something that would leave a mark… something that would have significance to a person or a consumer…something that wouldn't be forgotten in 15 minutes. That ruled out about 80% of the jobs that made up the U.S. economy.

On speechwriting...

"The downside of writing speeches is that, at the end of every year, you haven't really created anything but a lot of hot air."

The young couple considered education, spiritual activities, and health care—ultimately recognizing that elder care was an area in glaring need of attention. As members of a college singing group, they would perform for residents in senior communities and nursing homes. That exposure to the 1980-81 version of senior living—seeing those facilities from the inside—made an impact. And for Klaassen, the huge reliance on putting people in nursing homes for long-term stays, as well as the facilities themselves, were a stark contrast to his boyhood observations of the type of care that his grandmothers received in his native Holland—care we now recognize as "assisted living."

Paul and Terry Klaassen used to help out twice a week as Red Cross volunteers in a nursing facility a half-block from their town house. That experience not only drew them to their life's work but also gave them insight in what not to do in terms of caring for people. While the people working in skilled nursing facilities generally have big hearts and are drawn to elder care in order to make a difference in people's lives, they were stuck in a flawed, institutional model that, unfortunately, has such an impact on quality of life, according to Klaassen.

In May 1981, Oakton Nursing Home, an old, boarded-up, 36-bed "rest home" in Northern Virginia, came on the market. It had been built in the 1950s and sat on a beautiful piece of land in Fairfax County. The property had been vacant for several years, and the owners had since died. Although the building had flaws, the original house was big with a large addition attached.

The Klaassens decided to buy the property and open an alternative—a better alternative—private-pay nursing home. To avoid the hassle of rules and approvals required to qualify for Medicaid or Medicare reimbursements, they limited it to private-pay residents. In the summer of 1981, they sold their town house for a cash gain of $16,000, borrowed $20,000 from some friends, and purchased the rundown nursing home property for $325,000 (negotiated down from $500,000). At the time, interest rates were 17%. Klaassen asked the bank for 14% owner financing and got it, along with an astonishing six-month interim period prior to closing in order to renovate the building and an additional five months before the first payment was due—at which time the new nursing home also had to be full (20 residents). From the bank's perspective, the worst scenario if the deal didn't work out would be that it would have a renovated building!

Unable to afford contractors, the Klaassens and their friends (who also provided overnight accommodations for the couple during the transition) laid floors, changed lighting fixtures, hung wallpaper, painted signs…and, most importantly, started marketing.

Prior to opening their "new model" version, the couple worked for free as CNAs at a nearby nursing home. They worked all the different shifts and learned a lot. They learned that the care provided in a typical skilled nursing facility is not medically complex except for a very few truly sub-acute residents who are there for short-term care (which is still true today, 30 years later, he maintains) and overcame their fear that caring for residents required you to be a doctor.

On marketing and assisted living...

"We bought mailing lists from the DMV and marketed to over-65-year-olds, which was a huge mistake. Seniors don't self-admit into assisted living. We had people driving up looking for condos with golf courses. We quickly realized that we needed to market ourselves as the residential alternative to a nursing home (since there was no 'assisted living' at the time). Once we advertised in the nursing home section of the Yellow Pages, two or three people responded–and wanted to move in before we were even ready."

On providing care...

"The Dutch have a phrase: "Care with your hands behind your back," which means don't do everything for a person who needs just a bit of assistance. That's important."

Teresa (Terry) Klaassen
Co-Founder
Sunrise Senior Living, Inc.

Sunrise #1 - Open for business

Sunrise of Oakton, the first **Sunrise Retirement Home** (later **Sunrise Assisted Living** and then **Sunrise Senior Living**), opened in Fairfax, Virginia, on December 4, 1981, as a 20-room "community" with two residents and a staff of about five employees—mostly people that the Klaassens knew from their church and its youth group. It was licensed as a "home for adults," a licensure level dating back to the 1920s in Virginia for "rest homes," the predecessors to nursing homes. The license amounted to about 100 pages of regulations—items such as how many ounces of yellow and green vegetables must be provided per day.

The first two residents—and the Klaassens—moved into Oakton on closing day; five months later, when the first mortgage payment became due, the home was full. The Klaassens "woefully undercharged" for the 24-hour care provided to the first residents, who were very frail and would have otherwise gone to nursing homes. Half had some type of memory-care need, many were incontinent, and most needed assistance with bathing and dressing, but providing that personalized care was exactly that type of fulfillment that led the couple to embark on their mission in the first place.

Sunrise at Oakton was a new kind of "nursing home"—an alternative senior community. The accommodations were not big or fancy, but the rooms were carpeted and resembled a hotel suite rather than a nursing home unit. It was a completely different environment with a completely new philosophy of care. In fact, those two attributes—a residential environment and a person-centered (non-institutionalized) philosophy—are what has made assisted living a different model of long-term care.

Bathing assistance is a big part of long-term care, and Klaassen felt the tub rooms in most nursing homes were dreadful… even inhumane. Typically, they had fluorescent lights, skimpy towels, showers separated by curtains, and various lifts and other kinds of bathing apparatus. If residents had any dignity before the bathing process began, they certainly had none left at the end. Caregivers didn't like it either. Therefore, private bathrooms with at least a shower in every room were an important amenity in the new model. A "bathtique," where people who needed assistance could be bathed, had attractive wallpaper, colored towels, wicker furniture, background music, and soft lighting, was what they delivered.

Klaassen wrote out rules for bathing assistance, which ultimately became the Principles of Service for the Sunrise model. The first rule was choice…what time of day would they like to bathe and would they like assistance. Most nursing homes give baths around 3 pm, which is convenient for the staff—but most people want to bathe early in the morning or late in the evening. And actually, orienting staff hours and shifts around what the residents prefer is really not such a radical idea.

In a very short time, Sunrise had a dozen residents and a dozen staff members, including a care manager and two assistant managers. The seniors loved teenagers and kids, so the Klaassens hired a number of college and high-school kids for evening duty. Overall, it was a wonderful environment. The care was good, the staff was great, the residents were happy—it was a very exciting period for the two entrepreneurs, who were very involved, very hands-on, and 100% committed to what turned out to be a fledgling industry. The home was "open" 24 hours a day, and they had lots to handle—pill dispensing, personal care, and overall management. Meals, however, were catered, but only for the first six months until they could afford the necessary kitchen equipment. At that point, they installed a commercial kitchen and all meals were prepared on site.

To market Sunrise at Oakton, Klaassen connected with hospital social workers and discharge planners, pastors at church meetings, home health-care and hospice providers…anyone in a referral situation. When it got to a point where patients were being discharged from the hospital and needed more care than they could get at home, Sunrise became the recommendation. Rates ranged from $30-$40 per day—a surprisingly affordable alternative to a nursing home.

On rates...

"In the beginning (1981), we thought we had to be better in terms of our environment and that our rates had to be cheaper. I don't make that claim today. I think we just have to be better."

By the end of April 1982, within five months of opening, Sunrise was profitable, in that it was covering expenses. Klaassen and his wife actually didn't take a salary for several years. They had free room and board while living in the home itself for about a year, and he did some freelance speechwriting to help make ends meet. When their daughter was born in 1983, the family moved about 100 feet away to the original house on the property—a 150-year-old building that had been uninhabited for many years—and lived there for 15 years.

During that period, Sunrise of Oakton expanded to a 50-resident community by adding a large wing, pitched roof, and new entrance. It eventually became the Sunrise corporate headquarters, with a staff of 26 people, until 1994. In 2006, it closed and a new Sunrise mansion was built a few blocks away, which happens to be about five miles from the current Sunrise headquarters. Four years later the building was torn down and the land was sold, since by then it was more valuable as a townhouse development.

Sunrise #2

Mrs. Belle Winecoop ran one of the very first nursing homes in Leesburg, Virginia, just 15 miles from Sunrise at Oakton. A matriarch in the industry, she ran a beautiful, historic, 30-bed "rest home" for about 40 years. Now, 80-something years old, she was still running the home—though, having suffered a stroke, from a wheelchair. She recognized the nice job the Klaassens had done nearby and contacted the young couple in 1982. It was a deal they couldn't refuse—she not only sold them the property, she also financed it for them.

The Klaassens went to work, applying the same resident-centered philosophy to this second nursing home. They closed the facility to remove the "institutional" edges and then licensed it as a "home for adults." Six months later, in the summer of 1983, the second Sunrise Retirement Home of Leesburg opened. This property also had a separate three-story mansion, where Mrs. Winecoop had lived. And using the same formula as for the first building, Sunrise at Leesburg eventually became a 45-resident community.

Unable to be in two places at once, an executive director was hired to run the Leesburg community. With everything ready to go, including the state license and a couple of residents, she requested a copy of the training manual. And while Klaassen had very firm ideas about the Principles of Service, he hadn't thought to write them down. Even more so, he never expected (nor wanted) anyone in a crisis situation to have to pick up a three-ring binder to figure out how to respond.

But with a new manager coming on board, he did need to lay out his foundational beliefs, the key issues, and principles of service for Sunrise Retirement Homes. So over a weekend, he came up with the Sunrise Principles of Service, six principles based on "the foundational belief in the sacred value of human life."

Sunrise Principles of Service

- *Preserving Dignity*
- *Nurturing the Spirit*
- *Celebrating Individuality*
- *Enabling Freedom of Choice*
- *Encouraging Independence*
- *Involving Family and Friends*

While Sunrise today provides all kinds of management and staff training opportunities through its Sunrise University program, those original six principles that Klaassen put together one weekend remain the core values that affect everything from the way a Sunrise building is designed to the way Sunrise staff members assist with meals or schedule a bath. And in today's Sunrise training sessions, reference is always made to the ways that staff can transfer those Principles of Service into action and, conversely, how certain actions reflect the Principles of Service.

On freedom of choice...

"Choices are essential to quality of life. When you take away someone's choice, ultimately it becomes a prison. The ability to make choices is probably the most important principle."

Sunrise #3

An architecturally beautiful, historic (1860) finishing school for girls in Warrenton, Virginia, which had nothing to do with senior living, became the third Sunrise project. It was a big building but had been cut up into small apartments and was a firetrap. It needed sprinkler systems, an elevator…overall, a million-dollar renovation.

Construction financing was difficult in 1984, and it took Klaassen about a year to raise enough money for the necessary renovations. Fortunately, he was able to have the property designated a historic landmark, which allowed him to sell the tax credits to a wealthy investor—18-20% of the $1.5 million financing—and which became the equity for the loan from a local bank.

Sunrise Retirement Home at Warrenton opened in 1984 as a 40-resident community and, like the previous two, did very well. Now, Klaassen had three full communities in Northern Virginia, but he realized from his travels that people elsewhere also were desperately seeking an alternative to nursing homes. As the only game in town, nursing homes had been successful. But by the 1980s, people needed—wanted—something different. In its small way, Sunrise was fulfilling that need in its neck of the woods.

On the new need...

"We filled all of our buildings right away. We were doing memory care. We were doing hospice/end-of-life care. We were doing full ADL care. This was a residential alternative, both physically and philosophically. It gave people choice, involved their family, and was a different approach to privacy. People responded to it."

After the third building, the Klaassens said "never again" to rehabilitating historic buildings, which were fascinating but hard to do. Everything was in the wrong place. That's when the pair went to the drawing board and scribbled and sketched for half a year, until the façade and basic floor plan for the first Sunrise "mansion" was just right. They specifically chose to work with architects who had never worked on senior living projects—particularly the X-shaped nursing homes that were being built everywhere at the time.

Limiting the size...

Seniors needing an assisted living environment can become easily overwhelmed in large facilities, in big dining rooms, and by too much noise, commotion and activity. So it's important to limit the building size. Even a 110-unit Sunrise mansion typically will have 60 units of assisted living, a 20-unit neighborhood for mildly cognitively impaired residents, with their own dining room and common space, and a 30-unit memory care neighborhood that may have two dining rooms. That scaling is as true today as it was 25 years ago.

Growth 1985-1995

By 1985, Sunrise had three properties up and running and about 100 employees in total. Terry Klaassen was running the Oakton community, and hired executive directors ran the other two. The three properties were in close proximity, so the Sunrise "management" got together at the Klaassen's kitchen table for weekly staff meetings.

All the financial activities (payroll, invoices, collections, payments, etc.) were handled by an accountant from the office in Klaassen's garage. That accomplished two things: centralized accounting systems kept any financial headaches out of the individual communities, and those running the operations were free to put their entire focus on the care of the residents and their families.

Klaassen knew they were on to something, but to grow, he needed to have a reproducible model. A three-story, shingled "mansion," designed to be built on a one-acre site anywhere in the country, became the prototype for the next four Sunrise communities—all in northern Virginia, all hugely successful, and all still operating today.

The first investors in the new model were friends, one of whom actually mortgaged his house to participate for an equity share of the property. It was the first time Sunrise had given up any equity. And in 1986, construction began on the building that changed everything.

Sunrise #4 was located on a high point in North Arlington, Virginia. It was a mansion with beautiful turrets. It was gorgeous. It was reproducible. It was one of the first buildings of that size built purposely as a nursing home alternative; others were all houses or board-and-care conversions.

On the first mansion...

"When the first mansion was framed, Terry and I went there one night and climbed up to the roof. It was wintertime, and we could see the Washington Monument and the Capitol dome in the distance–four or five miles away. And I knew right then…this is absolutely going to work."

That first mansion, a 67-resident community, opened in January 1987 and filled within 90 days—nearly one new resident per day moved in. Virtually all the big nursing home providers were anxious to see this new model—one wanted to buy the building before it even opened. In the first two years, Sunrise gave nearly 500 tours to other providers, real estate developers, international visitors, journalists, and possible investors. *Provider* magazine did a cover story on Sunrise, and prophetically pronounced the model as the future of the nursing home industry.

Sunrise immediately started looking for land for a half-dozen additional communities based on the prototype. Each new community required time to go through the zoning process (about 18 months), raise construction and equity capital, develop the building, and grow the staff—all natural constraints on new development. It was a slow process. Executive-directors-in-training were installed in each of the existing communities to learn the ropes while awaiting assignment to a new building.

At that time (1987), Klaassen was just 30 years old. He lived in the house adjacent to the Oakton community with his wife and daughter. The corporate office was still in the garage (no overhead). Sunrise had a corporate staff of 10 people, which soon increased to 25; but it wasn't until 1993 that Sunrise outgrew the garage office and moved to Circle Towers, its first corporate headquarters.

Financing for buildings through Sunrise #8 was done through **Maryland National Bank** (eventually purchased by **Bank of America**), which provided construction loans that flipped to permanent debt. And to be sure enough capital was available to complete construction, the entire loans were funded on the day construction began. Otherwise, any remaining loan balance would disappear if the lending bank failed during the construction period. At the time (1990-91), the credit markets were experiencing tough times, and banks were failing.

By 1993, the Sunrise operation comprised 20 communities—all limited partnerships—and Klaassen and his wife owned 100% of the management company. It was at that time, too, that **General Electric** (GE) decided to move into the senior living field and made a deal with Sunrise—basically, a loan—worth nearly $100 million. At that point, all existing Sunrise partnerships were dissolved, and the Sunrise real estate and management company became one entity with a new name: Sunrise Assisted Living.

The GE transaction was a simple debt deal; GE earned interest but had no ownership stake in Sunrise. A subsequent round of private equity in 1994 was massively oversubscribed. And a year later, Klaassen decided to sell 20-25% of the company to three handpicked groups: **Frontenac, Allstate Insurance,** and **Sprout Group**. Sunrise realized about $20 million from that group.

There was no market for an IPO in 1994, but Klaassen fully expected Sunrise to go public when it started to make some money—perhaps in five years (late 1998 or 1999). In the meantime, he started ramping up with the money raised from GE and the three investors. He added four or five more development officers and increased development from two communities per year to 12 or 15 per year—a huge change, he would readily admit. And he and Terry, still living rent-free on the Sunrise #1 (Oakton) property, were taking almost no salary out of the company—yet personally guaranteeing every deal.

On selling shares of Sunrise...

"We retained massive interest in Sunrise and were able to pick the most passionate people [as investors] who understood the business– who, when they toured, actually touched some of the old ladies. They 'got' the business. A number of folks gave us great terms but just flunked as human beings."

Suddenly going from building two communities per year to 15 per year, the couple realized that they were either going to get really good at it or fail miserably. For a while, they were literally opening a new Sunrise community every two weeks—but they had a system in place for the rollout, including the training program, the marketing, the metrics, even a script for the grand opening. They may not have had much experience, but they certainly (and luckily) had discipline.

Defining an industry

From 1981 to 1991, Sunrise's annual revenues grew from zero to $10 million—a big jump. From 1991 to 1995, when the reproducible prototype was available but before the Sunrise IPO, annual revenues grew from $10 million to nearly $40 million—a huge jump. Yet the design and the Principles of Service—what really makes Sunrise tick—changed very little over the decades.

On the company's success...

"What really makes quality private-pay senior living work is not that complicated. It's not some secret strategy. Frankly, we're just darn lucky that the competitors are so bad."

Assisted living actually became an industry sector in 1990, but there was still some confusion about what actually constituted assisted living. Not-for-profits had begun to add assisted living units but hadn't systematically rethought or changed their approach to long-term care. They weren't willing to say that the practice of putting elderly people in skilled nursing beds best-suited for rehab, sub-acute, or short-term care wasn't the best way to provide long-term care, and many failed.

Board-and-care providers also weren't organized as a group. So in 1990, Klaassen telephoned the "major" (but not necessarily large) assisted living providers and asked them to join him in starting what ultimately became ALFA. Of the 20 people he called, 19 said "yes." And while that resulted in some gelling of terms, few providers were able to put the old paradigm behind them and grasp the fact that assisted living was not merely a niche in a continuum. Rather, it was a radically different approach to long-term senior care. It was about destroying ageism and not institutionalizing people. It was about bringing care to people and letting them choose how much and what kind of care they wanted. Choice, personalized services…these were radical concepts for health care.

By 1997, however, there was widespread recognition that assisted living was a new long-term care model. And by that time, too, some of the large providers were building memory care units and accepting people who were incontinent, which they hadn't done in the past. Finally recognizing that part of their purpose was to keep people out of nursing homes marked a major change in senior care.

The IPO

From 1991 to 1993, 11 nursing home companies and one assisted living provider went public. From 1994 to 1996, five more assisted living providers had gone public—all smaller than Sunrise at the time but with ambitious development ideas.

Klaassen wasn't moved by that activity. He thought those IPOs were premature. He wanted Sunrise to capitalize on its industry-leading position and not lose the ability to define assisted living. Sunrise had plenty of money and a plan to develop 20 communities a year for the next several years. He didn't plan to take the company public until 1998-99—if then. Instead, the IPO occurred two years earlier.

Starting in 1995-96, the Yellow Pages included an assisted living section for the first time. Industry conferences were attracting a thousand attendees, and capital was clearly flowing into the sector. Klaassen realized then that Sunrise had better go public if it wanted to continue to define pure-play assisted living. That was in 1996.

On considering an IPO...

"We had founded ALFA. We had been involved in public policy. We were the only pure-play assisted living company. All the others were either real estate, health care, or hotel companies–or nursing homes. And we wanted to continue to define the term. Our slogan at the time: Changing the Way America Ages."

Sunrise was a private company for 15 years prior to the IPO, and Klaassen learned pretty quickly that running a public company is "just not as much fun"—especially in today's world. But public companies get noticed. They influence an industry, a sector, more than a private company can, which tipped the scales for him. So he went into the IPO with his eyes open. That said, little changed with regard to the Sunrise mission, culture, or day-to-day activities within the communities. Being private or public had zero impact on the employees or residents, he maintained.

On going public...

"Today, you can raise pools of capital without going public. We make a lot of money for third parties, and shareholders receive only part of it. There's more efficient capital available for assisted living than IPO capital, but that was not true in 1996."

Issues and blips

As CEO of a public company, Klaassen experienced a handful of controversies. Following a big earnings miss (about 60% below estimates) in October 1999, for example, the stock price of this "darling of the market" plunged from $53 to $9.25 per share, which was half the original IPO price. Klaassen suggested that "pure momentum craziness" took the stock to $53, and an overreaction brought it down so low. Momentum traders with lots of money and no knowledge of the industry—or of the company—made big bets on the IPO, causing massive run ups. Then, health-care news that was clearly unrelated to Sunrise and had zero impact on the company (e.g., reduced Medicare reimbursements, when Sunrise was all private pay) nevertheless would push the price down. There were times, for example, when the stock price was about $20 and the company had a better balance sheet and income statement than when the stock price was above $50.

Around that same time (1999-2000), Sunrise began selling off stabilized properties in the sale/manage-back structure that proved very successful for the company as a means to raise growth capital and book profits on its developments. But investors and others questioned whether profits from the sales were covering up operating income shortfalls from those properties. "No," according to Klaassen. Companies of all kinds are in the business of buying businesses and selling them, he maintained. Also, the Sunrise management contract on the properties it had sold was long-term (30+ years). And Sunrise kept building more communities. Klaassen argues that hospitality equity analysts would have understood this contract-management business in a heartbeat, but some traditional long-term care industry analysts didn't like it.

Meanwhile, competitors were going bankrupt. Debt loads were taking them down. It was a bloodbath. A lot of firms that should never have gone public now had to choose whether to privatize or liquidate. No one was bullish on assisted living from 2000 to 2002, during what Klaassen calls "the wilderness years" and until the dot. com meltdown grabbed the spotlight. Sunrise was the only assisted living company still building post-1999. And by 2008, the company was serving 50,000 residents in more than 440 communities around the world.

On continued development...

"We never considered stopping development. We never considered not growing. A public company has to be a growing company, or you get out of the business. Our cheapest equity was our own equity. We were selling communities on a regular pace—10 or 15 a year—but were building 15 a year. A lot of people 'got it' and became shareholders during that time."

The Marriott deal

The purchase of **Marriott Senior Living** in 2003 was a watershed event in the history of Sunrise. Until then, Sunrise was basically a standalone assisted living company based on a prototype model, although it did have a half-dozen independent living projects and was managing some nursing homes for third-party owners. With the Marriott purchase, however, the company began to operate CCRCs and assisted living communities with a dedicated skilled nursing or Alzheimer's component. That was a significant change.

Klaassen and Bill Marriott had been personal friends for years, and acquisition by one or the other parties was a frequent topic of discussion. Marriott had toured the mansion prototype (Sunrise #4) when it was brand-new and liked it. Conversely, Klaassen and his wife based a lot of what they did with Sunrise on Marriott's approach to business. So a synergy definitely existed.

The Marriott properties, of course, had no resemblance to the Sunrise prototype in terms of their architectural design; 60 of them were CCRCs. None of that mattered to Klaassen, as long as the buildings were quality, purpose-built environments where he'd want his own mother to live. The Marriott properties met that test. The service quality and price points also were good, which was an important consideration.

On the Marriott purchase...

"I knew it would be a great acquisition. The properties were purpose-built, professionally run and managed, and big. Big is better when it comes to the management-contract business model. Because fixed costs are about the same, it means bigger revenues per box and a much better management fee. As a possible target, there was none better than Marriott."

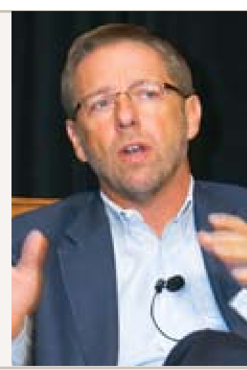
Adding memory care units and providing more hands-on services would easily fix some of the flaws that Klaassen saw in the Marriott model. The biggest flaw—one that, to his mind, continues to be the biggest flaw in all of elder care to this day—was Marriott's insistence on physically moving people with certain conditions from assisted living to the nursing wing. Some people had been in skilled nursing for eight or nine years. That doesn't happen today. The very first week after the Marriott purchase, Klaassen visited the 12 biggest, high-end CCRCs and discovered (to his delight) that residents resisted moving through the continuum—and had the law on their side.

Changing to Sunrise's resident-empowered philosophy would take time—more time than Klaassen had hoped—because the 126 communities didn't just share a clear "Marriott culture." They each had their own culture—126 different cultures! They were providing care in different types of settings. Some offered hospice, and others didn't. Executive directors had different backgrounds and levels of experience. But the primary difference: Who is empowered to make decisions?

In the traditional CCRC model with three, four, or more levels of care, people theoretically get pushed through the continuum. In Sunrise's resident-centered model, the resident decides where to receive the services. Often that decision is based on the level of frailty when the decision is made and which services match up with the particular care needs, but there could be three, four, or more different venues for providing those services, including Sunrise At Home. Unlike in the traditional CCRC (continuum) model, the resident-centered model has no single solution for each situation.

On resident-centered services...

"It's more than semantics. It's a different way of thinking about providing services. You lay out the alternatives. You lay out the advantages of one choice over another, and oftentimes they're financial. You can break a leg and stay in assisted living, bringing in rehab every day and paying privately, at a cost of about $8,000 a month. Or you can go to a Medicare bed in the skilled nursing facility for free. Some people will still pay the eight grand simply because they hate the thought of being in a nursing facility."



In the several years since converting from "continuum thinking" to the resident-centered model, Klaassen has yet to meet a senior who wants to be "continuumed." They like the idea of being empowered.

Taking out fluorescent lights, putting in carpeting, redoing the baths and spa rooms, and other changes made the Marriott properties better, friendlier environments. And in the several years since converting from "continuum thinking" to the resident-centered model, Klaassen has yet to meet a senior who wants to be "continuumed." They like the idea of being empowered.

Accounting restatement

A setback that bedeviled Sunrise for two years—and, for Klaassen, the most difficult period of his career—was the required restatement of financial statements for the years ending 2003 through 2005, primarily to adjust the accounting treatment related to prior sales of real estate. The cumulative impact of the restatement reduced "reported" net income for the years 1996 through 2005 by $173 million. Much of it had to do with changing the timing of when and how transactions were recorded, moving them from one earlier period to another later period, which would also increase future reported earnings. But other than the millions spent on lawyers and accountants, the actual impact on cash was quite minimal.

The announcement was made in May 2006, and sorting it out took much longer than expected. The implication that the company "did something wrong" was both very frustrating and personally painful for Klaassen, who never expected this type of allegation to be directed his way. He was a self-proclaimed "white-hat guy"— at one time, he intended to be a pastor—and now he had to tell people that the financial statements that they had relied on were, in fact, in error.

Ultimately, and importantly for Klaassen, the findings showed no inappropriate action by Klaassen, and no stock option backdating or insider trading. And oddly enough, when the restatement was completed in March 2008, the stock price was higher than it was two years earlier, when the problem was announced.

Skilled nursing vs. assisted living

Due to geographic monopolies and a veritable lack of innovation and alternatives, skilled nursing facilities unfortunately became the de facto long-term care setting in the United States. In the 1990s (and earlier), doctors routinely advised children of elderly patients to institutionalize their parents (mostly their mothers) in a nursing home. Those children, the Silent Generation, were inclined to follow the doctor's recommendation and paid very expensive nursing home rates to do so. It appears that the Boomers—the children of the Silent Generation—are much more willing to try other options for their parents.

In today's senior care world, most care has become portable and can be provided virtually anywhere. A traditional skilled nursing facility is not the only place that can (or should be allowed to) provide nursing services. In fact, skilled nursing facilities aren't designed for long-term stays. The physical setting—two beds, 42 inches apart and separated by a curtain—is not a long-term environment. Today's assisted living communities, on the other hand, often provide about the same amount of care per hour as the nursing home—which is why many people recognize assisted living as the 21st-century model for senior care.

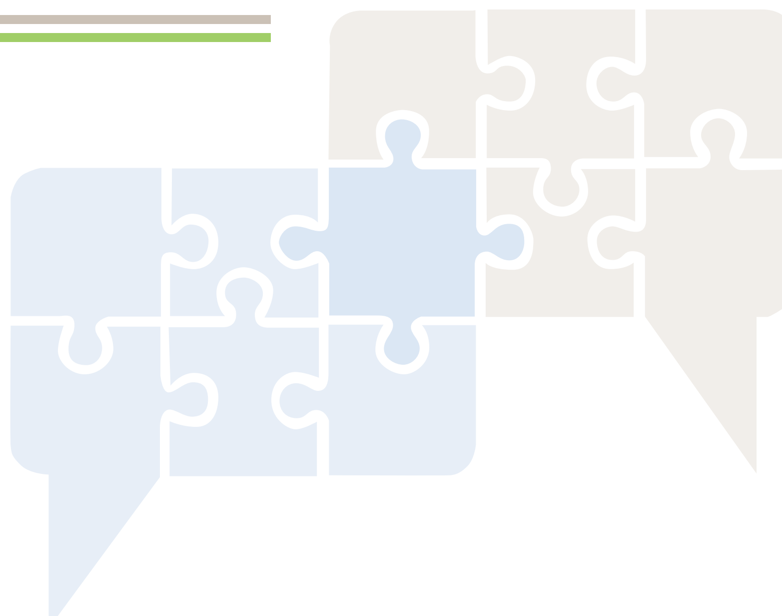
Sunrise communities never were licensed skilled nursing facilities and, therefore, were unable to participate in Medicaid and Medicare. That said, Klaassen expects the reimbursement wall will come crashing down in the next decade—"for good or for bad." Operationally, the only other drawback of being unlicensed was the inability to access public financing though, clearly, a large enough private-pay world existed to populate the Sunrise communities.

But it's hard to drive change through several hundred communities—certainly harder than it was when Sunrise comprised only a handful of properties. Klaassen's lingering frustration about the time it has taken for people to grasp the resident-centered approach is that some elderly people could have had a better last year to their life sooner.

On Sunrise's success...

"We've done what we've said we'd do, people can see our buildings, and millions of people have experienced Sunrise. The product works."

In November of 2008, the board of directors of Sunrise appointed Mark Ordan as CEO of the company, and Klaassen remained as chairman of the board. Not having day-to-day responsibility for operations these past several years has allowed him to serve the company and the broad assisted living industry as "spokesman-in-chief," looking at the bigger picture for Sunrise as well as for the industry. In addition to working with Sunrise, he has also been traveling to other countries, delivering his message on "resident-centered services" for the elderly and choice. It is a message that he has successfully delivered for more than 30 years, and hopefully will continue to do so for another 30 years.



Chapter 3
W.E. "Bill" Sheriff

W.E. "Bill" Sheriff
CEO
Brookdale Senior Living

W.E. (Bill) Sheriff joined Brookdale Senior Living as co-CEO in July 2006 through the merger of American Retirement Corporation (ARC) with Brookdale. He had served as chairman and CEO of ARC from April 1984 until the time of the merger. Sheriff was recruited to ARC by the founders of the company, Jack Massey and Dr. Thomas Frist, Sr., whose long-range goal was to create a leader in the retirement living industry.

From 1973-1984, prior to entering the seniors housing field, Sheriff served in a number of management positions with Ryder System, Inc., including President and CEO of its Truckstops of America division. He joined Ryder when his family-owned businesses merged with Ryder. Under Sheriff's leadership, his division at Ryder became the nation's largest owned and operated chain of full-service truck stops.

The early days...truckin' in New Mexico

As a young man, Bill Sheriff wanted to get involved in higher math…perhaps go to grad school to really focus on the subject. For the young lad who grew up working for his dad in the family-owned truck stop in Las Cruces, New Mexico—a business that his grandfather started during World War II—math was a "comfort zone." Later, as an undergraduate at New Mexico State University (also in Las Cruces), Sheriff would major in math, take most of his electives in math, and receive his bachelor of science in math. He loved math.

Perhaps it was the discipline of mathematics that gave young Sheriff the aptitude to drive a service truck when he was only 11 years old and an 18-wheeler (but just around the fuel lot) by the age of 14. And even though his early behind-the-wheel activity (some might call it precociousness) resulted in a few scrapes, the father and the grandfather were focused on preparing young Sheriff for a future in the business—working every position, becoming the relief shift manager, working weekends during school and full-time in the summer. They weren't afraid to put him in positions where he could make mistakes—and learn from them. Later, when it really mattered, Sheriff knew the business well.

On math and seniors housing...

"Certainly math does provide a basis for logic, problem solving, thinking…it's a good discipline…it did help me."

As Sheriff was about to enter his last semester in college, and just before he was going to tell his father about his plans for post-graduate studies in math, his father was fatally injured in an automobile accident. The 22-year-old took over the family business after graduation and—due, he would say, to the "incredible focus" of his father and the "incredible loyalty" of the employees—grew the business over the next nine years to include several new locations and a number of ancillary services, from wrecker services to diesel, refrigeration and electrical repairs.

"You have to adjust and learn," he would later observe. Because of the loyal team that his dad had developed, the business enjoyed a tremendous reputation. Also, the interstate highway system was evolving, and oil companies were offering almost 100% financing. So the business did well.

Then, Ryder System emerged as a competitor. It launched a new truck stop division, with plans to build a network of truck stops across the country. In 1973, while considering acquisitions in additional locations, Ryder made Sheriff an offer he felt he couldn't refuse. They bought out his family business but, as part of the deal, hired him and many of his loyal employees to build out the first corporately managed chain of truck stops in the United States. It wouldn't be the last time he sold a company to a larger competitor, and then took over.

Moving on with Ryder in Miami

Shortly after joining Ryder, Sheriff moved from New Mexico to Miami, where he headed Ryder's truck stop division from 1975 to 1984. During that period, as the interstate highway system was maturing, the truck stop industry was growing at a 17% compounded growth rate—and Ryder also created the largest non-oil company credit card business. As planned, Ryder's truck stop division grew to become the largest chain of corporate-owned and -operated truck stops in the country, while the vast majority of competitors continued to be run as entrepreneurial "mom-and-pop" businesses. (Today, three chain operations dominate what has become a consolidated truck stop industry.)

At Ryder, Sheriff took the platform that he perfected for the family truck stop business—the entrepreneurial approach and ethical aspect learned from his father—into the Ryder environment—very much a typical, tough, "survival of the fittest" corporate environment. But Miami, it soon became apparent, was not a very good location for a truck stop headquarters. Studies confirmed that a more central location near the density center of the interstate highway system was a more logical choice. So in 1975, Sheriff moved to Nashville and started to build a Ryder team there, not knowing how fateful a decision that was.

About nine years later, Sohio acquired Ryder's truck stop business with the intent to move the business to Cleveland. The day it was announced in the local papers, which also disclosed that Sheriff would be staying in Nashville, was the day he received his first call that introduced him to seniors housing. He was recruited by Jack Massey, a well-known local venture capitalist, and Dr. Thomas Frist, Sr. (father of U. S. Senator Bill Frist), co-founders of Hospital Corporation of America and the Nashville-based American Retirement Corporation (ARC)—which acquired National Retirement Corporation in 1992 and, in 2006, was merged into Brookdale Senior Living for $1.2 billion in cash plus assumption of debt.

Hello Nashville...and seniors housing

"What in the world did I know about seniors housing," was Sheriff's first reaction when approached by Massey and Frist. Unwilling to take "no" for an answer, they took Sheriff on a trip to Michigan to visit some retirement centers—specifically, Burcham Hills in East Lansing, the very first seniors housing community in which Sheriff had ever set foot.

While a seemingly unlikely comparison, Sheriff actually did recognize some interesting parallels between operating truck stops—at least in the early years—and seniors housing: the multiple business disciplines, including food, lodging and service, the various profit centers, 24/7/365 operations, and financial communications service bases.

When he ultimately joined ARC as CEO in 1984, ARC managed more than a dozen not-for-profit communities, owned one, which supported all the others from a cash-flow standpoint, and had a couple of development projects that were also problem situations. In addition, there were contract assignments, which included some crisis management, along with a trustee arrangement in one situation that was a turnaround attempt to avoid bankruptcy.

ARC's vision was to build, operate, and own for-profit entry-fee communities; in fact, its Williamsburg Landing in Virginia, one of the development projects, was where the 100% refundable entry-fee model was introduced. Sheriff was brought on board as CEO of ARC on April 1 (April Fool's Day), 1984—the day after financing was secured for the Williamsburg Landing project—to put together a viable business plan. Construction started on Sheriff's first day at ARC.

A few years earlier, in 1980, Metropolitan Life Insurance Co. became an investor in ARC. At the time, medical science was turning the actuarial morbidity tables upside down, and the financial structure of lifecare communities didn't allow much adjustment. That was the first real challenge to the concept, and people wanted to pronounce it dead or not viable. Well, Massey and Frist felt strongly that the concept was right; but the inability to properly manage the actuarial part—or that perception—was a major risk factor (the Achilles' heel) of the concept.

On Dr. Thomas Frist, Sr., co-founder of ARC...

"An incredible, incredible individual… he probably had no stronger passion than his passion for seniors."

Therefore, Williamsburg Landing was selected as the project to specifically separate out the insurance component from the rest of the structure. In 1982, as a pilot project with Met Life, the community was pre-marketed as a 100% refundable entry-fee community; a long-term care insurance product would eventually marry up with the concept to become lifecare.

Working with Met Life to create the group long-term care insurance product was an unfinished piece of the lifecare concept that Sheriff inherited upon joining ARC and became one of his first assignments. (That group long-term care insurance product was also Met Life's motivation to invest in ARC.) At the time, long-term care insurance was a novel concept. ARC, through its Burcham Hills community, had five years of data (although in a rental setting) in terms of designing an assisted living benefit into that product. And in the end, working with Met Life and the resident leadership at Williamsburg Landing on the pricing and benefit levels, the first group long-term care insurance policy in the country launched in Virginia in October 1985.

So, as the long-term care perspective emerged around 1986-87, individual long-term care insurance policies also began to materialize—but prospective residents were balking at paying twice for a similar benefit. The community needed to come up with a plan to accommodate those people…and, with very little disagreement, the 100% entry-fee refund model was born.

Learning the ropes at ARC

When Sheriff walked in the door at ARC in 1984, designs for freestanding assisted living communities—something that Dr. Frist totally embraced—were on the table. The board and management, however, had varying perspectives on when and how to move forward. And Sheriff, at that point, knew little or nothing about senior living.

In the 1980s, when medical advances were prolonging life and people were acknowledging the aging of America, the then-current management of ARC told their incoming CEO that "the market isn't there yet" and that "the world is getting ahead of itself." Elsewhere, people with broader—or longer—views couldn't build senior living communities fast enough. Looking back at the demographics during that period, there was, in fact, acceleration in the growth of the senior market; but there was no wealth, no affordability. It wasn't until the 1990s that a large group of seniors with pension incomes began to turn 75.

So while there definitely was a need and a demand for assisted living in those days—even if the ARC board and its management didn't believe it—the regulatory risk and the fact that there was no public policy framework for enabling assisted living were the issues at the time. Sheriff tried to understand these issues by assiduously studying ARC's retirement communities and seeking answers to some key questions: What was the critical mass element? What was the first threshold of efficiency? How many units must we build—40 or 240? How will we provide additional services? What are the issues of the health-care services element? What happens to people when they can't remain in assisted living but aren't eligible for a nursing home? How will we support the health-care services department? And more…

By 1997, Wall Street was throwing money at the assisted living world... In the end, ARC went public.

A determination was made to bring together a group of investors (before tax laws changed) in a limited partnership investment deal and concentrate on building a number of assisted living facilities in a single market: Houston. Designs were drawn, plans were made, and the first site was cleared. Then, around January of 1986, the oil industry—and the investor financing—collapsed. Despite the perceived need and demand, all activity on the Houston assisted living development project was curtailed…permanently, as it turned out, when the Texas economy foundered and the realities of congregate-care overbuilding began to emerge—and, for Sheriff, sink in.

Always on the lookout for opportunities—and believing that the 1990s would be the "golden decade of seniors" in terms of income qualification—ARC began tracking Forum Group, Inc. and the challenges it was facing. ARC acquired two Forum Group assets in April of 1992 and experienced huge success in terms of returns to investors. Sheriff would have liked to purchase more of Forum's communities, which were large rental CCRCs, but the following year The Hampstead Group acquired Forum. After a relatively short holding period, Hampstead sold it to Marriott International for $320 million plus the assumption of debt and merged it into its Marriott Senior Living subsidiary, which was subsequently sold to Sunrise Senior Living. And partly because of the success with the Forum communities, and seeing the investment interest in seniors housing in March of 1995, ARC rolled up its various partnership groups and the original C-Corporation into a single limited partnership entity, which eventually led to the company's initial public offering (IPO) in May of 1997.

By 1997, Wall Street was throwing money at the assisted living world. The drumbeat—the expectation—was that assisted living would dominate the industry. On the other hand, that might cause a repeat of what happened with the overbuilding of congregant care a decade earlier and perhaps even on a larger scale. The question for ARC, then, was whether to build or not to build assisted living and, further, whether to go public in order to position itself to take advantage of the opportunity presented by assisted living. In the end, ARC went public.

Looking back on that time period, while going public was not necessarily a mistake, selling nearly $140 million in five-year convertible debentures six months after the IPO was, according to Sheriff. This was a "heady" period in the early part of the life cycle of assisted living, and all the talk was growth, growth and more growth, and there was no shortage of cash to back up that talk. Convertible debenture issues usually have 10 year or 15 year (or longer) maturities, but for a growth company the assumption always is that the stock price will continue to rise, and when it passes the strike, or convert, price, the company can force the conversion of the debentures into equity and the debt gets wiped off the balance sheet. In those heady times, and despite some warnings to management about the short maturity, management sort of forgot the cardinal rule of converts, that they are, in fact, debt that has to be paid if the stock price doesn't rise. And with a short maturity, management didn't give itself time to weather any future storms which could take its share price down. They never considered that the convertible debentures could possibly take the company down. It was a mistake that Sheriff would never make again.

With the five-year maturity approaching several years later, and the industry in trouble, Sheriff and his management team had few options. ACR's share price had plunged to $0.96 per share, so the debentures were never going to convert to equity, and the "debt" had to be paid off in just a few months. The leading option at the time was a proposal from a private equity group that basically would have taken control of the company with their investment. When they were about to finalize the details, the investor group presented Sheriff with a re-trade, at a lower value. At the time, ARC also had a proposal from Health Care Property Investors (HCP) on the table, which would leave ARC pretty much as it was. The representative from the private equity group turned to Sheriff and said, "Bill, your numbers are your numbers. If you believe in your numbers, you shouldn't take our deal. You should take his (Ken Roath, then CEO of HCP)." Well, he believed in his numbers, and he always had, and the rest is history.

The primary learning from that episode became Sheriff's first principle of business—don't run out of cash. The fact that management was honest and straightforward with everyone involved was also of utmost importance. The more difficult and more challenging the situation, the more critical it is to tell people the truth. In the end, senior managers who were with ARC in the late 1980s and through the near insolvency of 2002 were still with the corporation in 2011. By keeping ARC intact for the next several years, Sheriff and his management team were able to continue growing revenues and cash flow, until by July 2006 they were able to sell the company to Brookdale Senior Living for $33.00 per share which, by the way, was 37.5% higher than that conversion price.

On business rule #1...

"Don't run out of money."

Little did Sheriff know that his steely resolve, honesty and belief in his numbers back in 2002 would serve him well when the next big financial panic hit. When on September 15, 2008, the venerable Lehman Brothers investment firm announced that it was seeking bankruptcy protection, Sheriff had that sinking feeling that they might be in for another gut-wrenching round of financial decision-making. But he pretty much had his same management team from ARC, now joined with the Brookdale team, and he knew what to do—conserve cash and figure out ways to deal with his debt, one maturity at a time.

Sheriff sat his team down and basically said, "Folks, our world is changing. We have to take action now. We don't know how bad it's going to be. We don't know how deep it's going to be. But we can survive and we can overcome if it's a mistake in taking strength of action we're going to take. We can overcome that. What we can't overcome is if we don't take it and the worst happens." Back in his Ryder System days, one of his mentors, Les Barnes, gave him some advice. He told Sheriff that you can't expect to be right more than two-thirds of the time. That means you're right twice as many times as you're wrong. But the art of business is to accept and understand that. Therefore, "on every major decision you're making, if you knew it was the one that was going to be wrong, you wouldn't do it. But accept the fact that it might be wrong, and what is the consequence if it is wrong? Will it sink the battleship?"

As far back as 2004, the ARC board members had become concerned about the housing bubble, its likely impact, and possible outcomes. It was one of the driving reasons for selling ARC to Brookdale. When the Great Recession hit, there was a call to action put to the entire organization. There was no flexibility to sell off any assets, which were tangled up in lease structures that couldn't be unraveled or debt maturities without takeout options. Every effort was made to protect and preserve every element of cash and to tackle the cost structures—including leaning on several friends. But everyone understood. No one squawked. And it actually became a very galvanizing period for the organization. And as events unfolded, the organization strengthened and the fortunes turned. While a quite different situation, the convertible debt experience years earlier had given Sheriff and his dedicated, confident, strong team the capability to deal with the whole financial world freezing up.

On business rule #2...

"Before making a major decision, think what happens if it ends up being the wrong decision, and whether it can sink your company. If it could, then figure out an alternative."

On his colleagues...

"There's not a single success that I've ever had that didn't come through other people's achievements."

The seniors housing career path

While Sheriff, the math major, was skilled in numbers, he grew up in operations. Therefore, that has always been his "bias." While you certainly need to know the numbers in the seniors housing business, another fundamental is that the world isn't always rational. The answers aren't always in the numbers.

Seniors housing is a people-intensive business. It's not that Brookdale, for example, employs 45,000 people or serves some 60,000 residents; rather, it's the depth and the length of time and the way in which the business serves people. A love for the senior living business—in both structure and style—is critical for those in management. How strongly are they oriented to caring for people? Are they able to develop a passion for the business? Do they understand that their success derives from other people? And are they committed to embracing that? In this business, those in management must be results-driven. They have to be smart. They may come from either operations or finance, but for Sheriff, the real test has always been how well people truly connect with the essence of the business. And that means connecting with people.

On the senior living business...

"Going home every night knowing that you've made a meaningful difference in people's lives–and, at the same time, knowing that an incredible amount of trust is placed in you–oh gosh, there can't be a better one."

The truck stop business was a great business, according to Sheriff. Like seniors housing, it also serves people and, in his experience, was always based on culture—again, like seniors housing. In fact, "culture" was one of the core strategies built into—and articulated in—his first strategic plan.

The foundation of leadership is respect and trust that must be built upon an absolutely solid commitment to high ideals and a core set of values and beliefs. Trust is the most significant element that the senior customer seeks, whether consciously or unconsciously, in order to deal with all the apprehensions, the unknowns, and the health issues that accompany aging. How well the person is served is the core of the resident/provider relationship and the basis of each individual's outcome.

If there is a secret to how all Brookdale (or ARC) communities are brought together into one large organization, which sometimes can be perceived as a "three-ring circus," it's all based on identifying what they all have in common. And the common thread is the good people who are intensely committed to the seniors housing business. Most acquisitions or mergers that fail do so because of culture. At Ryder System, Sheriff stepped into a very aggressive, "survival of the fittest" culture, and one of his mentors gave him a book by Thomas Watson, the former CEO of IBM. His core beliefs set the stage for the IBM culture, and IBM's culture-driven business model was crucial to the success of that company. "If you talk about work and whatever else, that's probably the one thing he was all about. He was about culture." This obviously had a long-lasting impact on Sheriff.

On senior care workers...

"This field attracts a lot of people who have a natural passion for wanting to serve seniors. And if they can get comfortable with the core values and beliefs of honesty, integrity, trust, compassion and commitment to the elderly, then they are going to embrace that as an organization and we can then deal with any difficulties, setbacks, conflicts or rivalries that may come along."

On growing the business...

"We want to be the best. And we want to grow. But if we don't excel on the people part of the equation, we won't succeed at what we need to be."

Especially with seniors housing transactions, it's critical for the integration to be culture-driven in order to win the hearts of those affected by the change, get them comfortable, and help them understand the challenges that must be faced and the changes that must be made. Whether the acquisition involves 15 or 50 properties or even a single asset, change is stressful for everyone involved. So to ensure success, it's always important to demonstrate respect and appreciation for the other party's culture and to take the time to identify the cultural commonalities that all the players share. That's absolutely the core of a successful transaction.

And when dealing with public relations, an organization certainly has to be very selective in the wording of its communications. Spokespeople must be careful when responding to interview questions. Sheriff's advice, based on his long experience as a top executive (and sometimes on the "hot seat"), is to have presence and to be truthful. Don't evade questions. Don't try to spin. And don't try to deny ownership of the issue. If there's bad news, get it out there. If it's going to get ugly, get it out early—and don't put it out in increments. Don't ever give the impression that you're trying to avoid accountability or responsibility. This served him well during the financial market meltdown in 2007 and 2008.

And now Brookdale

When ARC merged with Brookdale in 2006, it was announced that Sheriff would manage the company as co-CEO and Brookdale's incumbent CEO, Mark Schulte, would handle the company's investor relations and public communications as his sole responsibilities. In 2008, co-CEO Schulte stepped aside, though he remains on the board, and Sheriff became CEO of the company.

What kind of business is this?

"When I walked in the door at ARC, one of my first questions was: Is this a real estate business or a health-care service business? That same question persists today. The answer is: it's both. At Brookdale, we want to be the leading provider of health and wellness solutions within the senior living industry. We think that the majority of our peers, over time, will learn that they need to be adept and skilled at those solutions, too."

Also on the day of the merger, Sheriff was charged with the responsibility of preparing a successor to himself within two or three years—a timeframe that all but evaporated. While succession is ultimately a board decision, Sheriff feels that CEOs should address succession planning—developing a successor—on the day they first open their office door. When assessing candidates, start with high integrity, an ability to really connect with people, and a passion for serving those people. The person should be results-driven and be able to demonstrate that with examples.

CEOs may come from a range of disciplines (not solely operations), but they share certain basic skill sets, along with sound judgment. Particularly when someone comes from a discipline other than operations, they should be well-prepared and tested in positions and situations where judgment is required, according to Sheriff. Those capabilities are far easier to recognize in people within the company, as management has a chance to work with them, see how they think and process information, and observe when and how they make judgment calls.

This will help his successor in dealing with the CCRC model and all the various challenges to the model that have come up with the housing crisis and the financial distress of so many other CCRC providers.

CCRCs within the Brookdale portfolio are not just surviving, they have seen a rebound as confidence has returned in the market. The issue of financing structures that put at risk the people you're most trying to serve is just wrong, according to Sheriff. He foresees an opportunity for someone to put together a strong, rational structure that clearly says to prospective consumers that their money is not at risk. Insisting on financial structures that put people at risk in terms of the vagaries of the housing market on the day a new project opens is a tragedy. Strong organizations, even in today's economy, can present themselves without any financial cloud hanging over the project. And that is what Sheriff has been working toward.

On the CCRC model...

"The CCRC is an incredible model. It's an incredible teaching tool for what happens at various stages of aging. And though it has been pronounced dead three times, I do think it will survive."

Brookdale has a strong platform but a rather complicated business model with many different elements. Some view as a weakness its breadth or spectrum of ancillary products and services (such as health-care support services), which were brought into the various communities several years ago, but that's not the case—as the company has proven over the last 25 years. The learning curve can be pretty steep when people come on board; nevertheless, they feel good about what they do for a living and usually sleep well when they go home at night.

As time goes on, Sheriff expects Brookdale's audience will increasingly be seniors with multiple chronic conditions and physical limitations. He views the idea that younger seniors will move in once the economy recovers as pretty much of a pipe dream. Further, the whole health-care field will have to become very adept at how they interface, coordinate, and collaborate. Brookdale appears to be in a good place in terms of avoidable hospital readmissions, but where will assisted living fit in?

The opportunity going forward should be enormous, but great minds are still working on finding the answers. They're concerned about reimbursements, about federal and state regulations, about coordination, about costs in different settings and for different conditions, about who should be doing what…and there's little available data. To some, the whole subject appears to be a black hole. But stepping back and taking a look at what is fundamentally happening in aging, the future need for health care among the aging population, and the amount of interfacing with health-care providers at all levels, seniors housing providers such as Brookdale have a tremendous opportunity.

Bill Sheriff, day two...

"Senior living has been my life for 28 years, starting with little ARC in 1984 and ultimately becoming the CEO of Brookdale, the largest seniors housing company in the world. Certainly, I have to be excited about accomplishing that. But part of my job is to be able to have a day two, and that will be a different mountain. I built the largest truck stop chain, and I built a platform that people have followed–people who are better than I was and smarter than I am. And the next guy will be better and smarter than I am, by far."

One thing that Sheriff learned from his experience in the truck stop business, as both an observer and a participant in the "big evil empire" that swallowed up all the mom 'n' pop businesses and created a huge national chain, was the need for a national association. But if one large member—such as Brookdale—tries to dominate an association, it will destroy the group's effectiveness within the industry.

Brookdale is, by far, the largest player in the American Seniors Housing Association and has tried to act responsibly with regard to financial, legal, and other types of support, according to Sheriff. At the same time, he recognizes that Brookdale must tread cautiously so that smaller operators don't perceive its participation as heavy-handed and, as a result, feel that they're losing their voice or influence.

The last word...

"We've made some remarkable changes and accomplished a lot, and so many people are responsible for that. At the end of the day, all you can ask is: Did you leave the world a better place? Hopefully, you've made a difference."

He already has.

Chapter 4
Steven Vick

Steven Vick
Co-Founder and CEO
Signature Senior Living

Steven Vick is the co-founder and CEO of **Signature Senior Living** (SSL), which plans to develop and operate multiple assisted living and memory care communities in Texas. The first of those communities, **Willow Bend Assisted Living & Memory Care** in Denton, opened in fall 2011; **Rosewood Assisted Living & Memory Care**, in Flower Mound, will open in fall 2012. SSL, which is based in Irving, Texas, is in the process of selecting and acquiring additional sites throughout the state of Texas. The company previously developed 12 communities in Texas and sold the operations to Capital Senior Living in 2010.

Prior to co-founding SSL, Vick was president and CEO of **Assisted Living Concepts**, which operated 177 residences in 14 states until its sale to **Extendicare** in January 2005. Previously, in 1991, he co-founded **Sterling House Corporation,** which built more than 100 assisted living residences throughout the United States. In 1997, Sterling House Corporation merged with **Alterra Healthcare Corporation**, and the consolidated companies represented one of the largest assisted living companies in the country. He was COO of Alterra from 1997 to 2001 and president from 2001 until his departure in 2002, when he joined Assisted Living Concepts.

Vick serves on the Board of Directors of the **American Seniors Housing Association** (ASHA) and is a past Chairman of the Board of the **Assisted Living Federation of America** (ALFA).

The early days - starting in Central America

A Southern Californian by birth, Vick spent his formative years in Central America. His father, an aeronautics engineer who loved to fly, took an assignment as a missionary bush pilot out of a tiny airport serving all of Honduras and parts of Nicaragua. The family (Vick Sr., his wife, and four kids, including three-month old Steven) packed up and headed for Mexico, Costa Rica, and ultimately Honduras, where they all lived for the next 10 years. The Pan-American Highway had been built by that time, but traveling from extremely remote areas to town took days, as the villagers had to trek through the thick jungle and along steep mountain paths to get there. Air service cut the trip to a couple of hours.

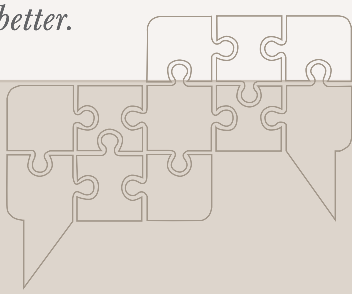
While his dad was 100 miles away, helping the local people chop down trees to carve out primitive runways, young Steven grew up in a tiny, nondenominational missionary community with four pilots, a doctor, and a dentist. His early schooling was in an English-speaking boarding school; of course, he also learned to speak Spanish.

When the oldest siblings turned high-school age, the family moved to Wichita, Kansas, where Vick Sr. got a job with Beechcraft. Following graduation from Derby High School, a public school in Wichita, young Vick enrolled at Wichita State University, where he studied accounting and earned his BBA. During summer vacations, he worked on ranches in Kansas or the Dakotas—"100 hours a week working cows, working fences, or working the farm for $2 an hour plus room and board."

Vick had developed a bad back and his doctor had suggested an indoor job would be better for him, and his grandmother said, "Well, your grandfather was a CPA and he did really well." So, Vick's first job remotely related to senior care occurred when his older brother's CPA, who had nursing-home clients, was seeking an assistant. He hired Vick—then an accounting student—and, when the practice was later sold to another small partnership, Vick became "the health-care guy."

On bookkeeping...

"I enjoyed doing the books…it was very exciting to look at the revenue and the expenses and make sure the balance sheet lined up–and then figure out how they could make it better.



Still, Vick got tired of working for people who were grateful 11 months of the year but unhappy each April when faced with their tax bill. Pondering his future, he concluded that he wanted to be "an integral part of a small team doing dynamic things." That objective turned into an accounting stint at a construction company that built high-end residential homes (and had 14 sets of books in a pre-computerized world and made a lot of money for its owner). It was here that he met his future business partner, Tim Buchanan. This was followed by work as a CFO at a commercial construction company. It was at that point that Vick determined he needed to get his CPA—which he ultimately did. But it was during his stint with the high-end home developer that he learned how a developer could run out of money with excessive development projects, something that would shape his business strategy for years to come.

Discovering "residential assisted living"

After several short-lived jobs at a shipping container company, another residential homebuilder, and other small enterprises in and around Jacksonville, Florida, Vick got a call from Brian Warren, the son of one of his ex-clients. Warren had a 120-bed nursing home in Kansas with a lot of elderly residents that really didn't need to be in a nursing home. They were frail, but not sick. Warren wanted to get into something that he called "residential assisted living." It was 1990.

Vick loved the idea. After six years of working on nursing home audits, he was familiar with the 1960s-style facilities that were still common well into the 1980s, where old people in wheelchairs spent each day lined up in rows on tiled floors and under fluorescent lights. So he quit his job in Florida, moved "home" to Wichita with his wife and kids, and contacted Tim Buchanan, who now owned a construction company. Buchanan gave Vick a job as his CFO, with the idea that Buchanan, Warren, and Vick would follow through on Warren's idea. The plan they had in mind was that Buchanan would build the assisted living communities, Warren would run them, and Vick would raise the money and do the accounting.

Meanwhile, six months passed, and Warren had gotten together with two other nursing home operators, who together decided that they didn't want or need "a builder and a bean counter" to join the team. So Vick and Buchanan decided to move ahead on their own. They devised a business plan and settled on a name for the new enterprise—Sterling House. It was a name Vick's wife came up with after traveling through the Sterling Farms development in Wichita.

Sterling House – the model, the enterprise

Buchanan sketched out the first Sterling House—the layout and floor plan—with five or six different room styles, all fitted with kitchenettes and private showers. Vick did the pro forma and determined that they needed $100,000 worth of equity to get financing, half of which they borrowed from Vick's father (in return for 5% of the company). The first Sterling House building opened nine months later (September 1991) in Augusta, Kansas, with 21 units and about 50% occupancy at the opening. Fill up took another nine months. This first community was originally planned to be 26 units, but was scaled back at the last minute. The next five buildings (Wichita, Abilene, Bethany, Junction City, Derby), however, each had 26 units. McPherson, also in Kansas, was the seventh and had 33 units.

The Sterling House model was designed, built, and conceived by these two partners who had a lot of drive but little experience in senior housing design, development, or operations. Market penetration analysis wasn't refined, and the number of units in the first property (21) and the rents (initially $1,100 to $1,500 per month) were determined solely by the number they believed they could fill, prove the concept and make a little money….and cover the mortgage payment.

On selecting community size...

"I do a pro forma from the bottom up. The operating costs for labor and food and so forth are approximately 60%, the market rate is set, and I wanted a 15% return. So that determines how many units to build."

On Sterling House, the name...

"It's a metaphor. It's the currency. It's gray. It's old. It's sturdy and stout. It's absolute. It's Sterling House."

Vick and Buchanan did consult with Keren Brown Wilson and her husband, Michael DeShane, the couple credited with designing the first assisted living model in Oregon. Whereas most developers were focused on building larger communities, Wilson and DeShane were having success with a 25-unit community, with several more under construction. Wilson was eventually invited to become part of the Vick-Buchanan team, as president of Sterling House Management Company, and was given a small ownership interest in the company. She remained in that position until August 1994, when she took her little company, now called Assisted Living Concepts, public. It caused a temporary problem with Vick and Buchanan, who could have stopped her IPO because of her interest in and management responsibilities for Sterling House, even though they were not competing directly against each other. So with her IPO Brown Wilson also had to surrender her interest in Sterling House.

Assisted Living Concepts went public with just a handful of small assisted living communities based on a partial-Medicaid model. Vick and Buchanan watched the success of that IPO, and the money that Wall Street was providing young assisted living companies, and decided that public equity was a better route for their expansion plans than raising money from doctors and other investors. So a year after Assisted Living Concepts went public, Sterling House took the IPO plunge with 14 owned or leased properties and nine others that were managed or franchised—considerably larger than ALC at the time of its IPO.

Going public...never about "big"

Sterling House Corporation became a public company in 1995 and decided to concentrate on "corridor properties"—that is, building sites in towns along both sides of the I-35 corridor between Wichita and San Antonio, Texas. The partners perused the map of Kansas and targeted every town with a population of more than 5,000 that had a full nursing home. They did the same in Oklahoma, which had a similar number of towns with more than 5,000 people—and nursing homes in Oklahoma at the time were deplorable.

While there was a passion for the assisted living industry and desire to grow their own business, the growth was never about being "big," according to Vick. As a numbers guy, starting at the bottom, he knew about the cost of capital and never wanted the company's debt to amount to more than 25-30% of revenue. His focus was always on how to earn enough to make the monthly payments required to pay back the amount borrowed for the project and liquidate some of the personal guarantees.

So it was just that simple—and never about being "big." Fresh capital from various investors did, however, allow the company to grow rather dramatically. Sterling House was opening a building a month in Kansas, then in Oklahoma, and then leapfrogging into Texas, hoping to get to 150 or 180 buildings in three years. The Oklahoma communities, which all had 33 units, filled up in 60-90 days. The company also expanded into Florida and Ohio, as well as Colorado and Nebraska, through franchise agreements. By summer 1997, Sterling House had built more than 100 assisted living residences throughout the United States—with more on the drawing board.

On measuring success...

"For me, the focus was never on the money. It was always about what would happen if things went upside down. If we could get a 15-17% return, make a difference in a person's life, why should we not be happy with that? To this day, I stand by that."

On growth...

"People asked if we'd ever get to 50 buildings, which was more than I could comprehend. We were going to build more, but we didn't know where the money would come from. We were turning over rocks–talking to church friends, investment bankers, asking cities for housing revenue bonds–but no one really knew what an assisted living residence was. It was a term that very few people knew."

A merger of equals...perhaps

So by 1997, with more than 100 residences opened and dozens more under construction and development, the future looked a little scary for Vick and Buchanan. Another company, Wisconsin-based **Alternative Living Services** (ALS), had gone public the year before and was primed to grow even faster than Sterling House. One thing led to another, and the two companies agreed to merge. The combined company, later renamed **Alterra Healthcare Corporation**, created the largest assisted living company in the country at the time. The consolidated company had more than 200 residences in 20 states, with about 75 under construction and another 100 in development. Eventually, it would grow to 450 residences in more than 25 states. Vick served as COO from 1997-2001 and president from 2001-2002. Tim Buchanan, his initial partner in Sterling House, eventually chose not to continue with the merged company, perhaps seeing something that he was not comfortable with.

While Sterling House and ALS were approximately equal in size in terms of the number of residences either already in operation or under development—the backrooms were quite different. Sterling House had very specific policies, staffing levels, procedures…it had metrics for everything; ALS didn't. Also, all of Sterling House's 104 residences at the time were in operation, but ALS had opened just 15 or so of its 100-plus buildings—which were, basically, an amalgamation of three companies merged or projects developed by third parties. Then, according to Vick, a team created to formulate best practices for the consolidated company threw everything related to Sterling House "under the bus."

Why? Wall Street wanted to see earnings. In the late 1990s, investors were infatuated with the nursing home/assisted living sector. Industry analysts predicted soaring revenues for ALS, even though it was operating at a loss at the time. Vick, the CPA, had operated Sterling House with almost fanatical attention to the financial details; unfortunately, that was not the case at ALS.

Nevertheless, ALS gave Wall Street the earnings it sought. The company was building new residences hand over fist—reportedly, at one point in time a new building opened every 56 hours! The problem with opening up that many communities at once is that it creates a tremendous lag on earnings and cash flow.

Eventually, this timing difference began to squeeze those faster growing companies, causing a backlash among the investor community. As a result, the market concluded that assisted living was overbuilt and that these companies could not continue at the same pace of development. The boom rather quickly went bust—and ALS, by then called Alterra, was losing $5 million each month. Its stock price sank from a high of about $33 per share to about 10 cents per share. Unfortunately for Vick, when he merged his Sterling House into ALS, he left almost all his equity on the table in the form of ALS shares. For him, it wasn't about the money, but more the mission, and he loved the business and its prospects.

Very quickly during his tenure at ALS, Vick realized that things had to change there, but he was not in charge and reported to the CEO, Bill Lasky. He wanted to fire several people at headquarters, but Lasky would not let that happen. Eventually, it was Lasky who lost his job.

In February 2001, with the company as much as $2 billion in debt to dozens of bank groups, Vick became president of Alterra. Confident that the company's core assets were good—at that point, having nearly 500 residences in 28 states under five different brands—he assured the horde of bankers that the ship could be righted. He staffed the company with brand-new people. And, within just nine months, the company broke even—from a loss of $5 million per month to breakeven—which was a masterful achievement.

Despite the cleaned-up finances, Vick's assurances to bankers and analysts that his team could keep the company solvent, and his faith in the assisted living concept, Alterra was simply opening too many buildings. Fill-up took too long and consumed too much cash, and the company's obligations to its investors were horrifically huge…and growing. Credit dried up. It was October 2001 and, for Vick, the beginning of the end at Alterra. It was one of the worst days in his life, when Vick had a meeting of all employees at Alterra's headquarters to introduce the company's new restructuring officer, Pat Kennedy. It was then that Ken Yaeger came over to him, because he had a death look about him, and said, "I was talking to your Boss this morning, and he has work for you," and handed Vick a note which had a verse from the Bible. After that meeting, Vick discovered that the board at Assisted Living Concepts, which had gone through its own bankruptcy and restructuring, wanted him to lead the company post-bankruptcy. The "Boss" had a plan for him after all.

When the occasion presents itself for Vick to revisit a Sterling House property today, now operated by **Brookdale Senior Living**, he is pleased to see that they are full, providing quality care and life-nurturing activities—and making money. Looking back, his only regret is that the growth strategy at Alterra (a new residence opening each week) wasn't slower and with a more controlled use of debt.

The ALC years

Vick was passionate about assisted living. He enjoyed the business side of it and especially liked making a difference. In February 2002, Vick escaped the maelstrom that Alterra had become by joining **Assisted Living Concepts** (ALC). Like Alterra, ALC was going through a restructuring process—in ALC's case, a 90-day plan. ALC operated 185 residences, about 39 units each, in 14 states. It was losing $200,000 a month and had $2 million in the bank post-bankruptcy—but also had to pay $2 million due to a lender. Vick was brought in to turn the company around and make it profitable.

Vick created a 100-day plan for ALC. He had taken Alterra's loss from $5 million to breakeven in nine months, so how hard could it be to take down ALC's $200,000 per month loss—particularly since ALC had stabilized buildings? Like scuba diving—another of Vick's passions—you create a plan, plan your dive, and dive your plan.

So Vick implemented a plan for ALC. First, he fired everyone he considered incompetent or not service oriented to the field—which included just about everyone in management. He then moved the company headquarters from Portland, Oregon, to Dallas, where 40 ALC residences were already located (in Texas) and where the time zone wouldn't present issues when trying to communicate with people located elsewhere around the country. He brought all 185 executive directors to the corporate office, and had this to say to them:

On the value of planning...

"As a kid, flying with my father over the jungles of Honduras, you would rather be on the ground wanting to be up in the air than being up in the air wanting to be on the ground. It was always my job to find a safe place to land. If the engine went out, we would have only a few minutes to land. Once, when headed to the capital and a storm rolled in, we landed between cars on the Pan-American Highway."

On culture change...

"Some of you are good, some of you are bad, but the company has never made a dime, and the consistency stinks. And we have to fix it, and we have 30 days to fix it. And all I need from you is to go home and be passionate about the industry. That's why you're here. And I want you to charge for the level of care you're providing today because you're providing it, but you're not charging for it."

At that same meeting, his opening speaker was Keren Brown Wilson, because he wanted to tie in the mission, that this wasn't all about the margin, but no margin, no mission. That was fairly bold, since she had recently lost her job as CEO of the company, but it was well received. He stressed to both management and staff the importance of mission and margin in equal parts—and accountability and responsibility, also in equal parts. He changed the billing process from monthly to daily—billing residents $80 a day rather than $2,400 a month—which resulted in five days (nearly $3 million) of added revenue per annum. And he allowed each community to manage its own billings and collections. In just 120 days from when Vick implemented these changes, ALC turned its $200,000 monthly loss into a positive cash flow.

Generally speaking, caregivers are mostly concerned about mission, and financial people are always concerned about margin. Vick, however, understood the impact of caregivers (and the mission) on the financial health of the organization (the margin). Easily put, caregivers lay out the clothes, brush the teeth, give baths, and do the hair and nails for residents who, in turn, pay the company $3,000, $4,000 or $5,000 a month. These experiences also allow caregivers to assess a new employee rather quickly—often in minutes—so Vick added caregivers to the hiring and orientation process.

On valuing employees...

"Our strongest asset is our employees. And the employee closest to the customer is the hardest working person in the group. That employee has the most information about how to make the resident satisfied."

Each ALC employee went through an evaluation process and was rated as A, B, or C. The A's got promoted and raises; the B's entered a career ladder; the C's…well, the C's were paid little and were lucky to keep their jobs. Salaries also reflected rent prices; if the rents increased 5%, everyone's salary increased 3%. Rent increases (again, at a daily rate) were implemented in February, a short month. Employee raises then kicked in on May 1.

On his pro forma...

"Quality care is nonnegotiable. The way my pro forma works is to get $2,750 [per unit per month] at 90% occupancy. Those are the only two metrics I care about. If I get those two, assuming great quality of care, everything else is golden."

Vick referred to ALC's 4,000 employees as "partners" and invoked them to help raise the occupancy level of their communities from the current high 70%/low 80% average up to 90%—and to do it fast. If they succeeded, he promised to give each one a "partnership bonus"—$50 for each month that occupancy in their community reached 90%, paid on the 15th of the following month (a strategy he borrowed from another company).

Because the "owners" of ALC showed little interest in the "mission" aspect of assisted living, Vick offered to buy them out in 2003 and in 2004. Instead, they said they preferred to own the assets and lease them back to Vick, who felt through his experience that the price they had in mind wouldn't work for the model. Subsequently, the board unanimously approved putting the company up for auction.

Soon after, a little later in 2004, ALC did go through the auction process and was eventually sold to Extendicare. At the shareholder's meeting following the sale (which closed at $18.50 per share), Vick was informed that his services—and those of the top-notch team that he had put together over the three years in which he had steered the company and made it solvent—were no longer needed. Knowing that a severance agreement was in place guaranteeing a year's salary in case of termination, he (and his team) offered to work for free for a year to help grow the business. "We're passionate about this business, and we want to stay." The response was: "No, you can leave right now." And he did. And it was a very short-sighted decision by the new owners.

The very next day, Vick met with some associates to talk about a business plan to create a new company. It was a plan that they privately had in the works for some time—"options," he would explain. He had made sure he had a safe landing strip, the importance of which he learned as a boy when flying with his dad in Honduras.

On contingency plans...

"If you don't have enough air to get through the tunnel, you run out of air."

Signature becomes a reality

With a year's severance paid by Extendicare, a business plan in motion, and no non-compete agreement in effect, Vick hit the ground running when he left ALC. Within six months, he and his new partners had shovels in the ground building eight of 10 residences that they commissioned—residences based on the Sterling House model but "supersized" with memory care. The new company was called Signature Senior Living.

Vick knows he could not have accomplished much of what he did without key people around him, and one of them was Linda Martin, whom he hired while at Alterra and who helped him turn both Alterra and Assisted Living Concepts around. And she partnered with him on this next venture.

About Linda Martin...

"A lot of the credit for ALC was due to her passion, her determination and her hard work, going to the buildings. At ALC, I created the grassroots and meetings and going out and seeing two bad buildings, two good buildings and that kind of stuff. But the execution of the day to day was from her."

Having overseen the development of 500 residences in his career up to that point, Vick was familiar with all the towns where ALC and Sterling House had built communities. He had no trouble finding sites, but there was a cost parameter. For each of the first 10 buildings, he needed four acres and could spend only $500,000 for the land to make the math work. That was the CPA in him. He wanted the buildings to be close to residential neighborhoods and close to a hospital, if possible.

The first of the 10 residences was built in Paris, Texas, where Vick had once built a Sterling House and, later, managed an ALC residence. This new project was a 60-bed community (52 units) that filled up within 62 days. The plan was to build the 10 communities and then sell them for $20 million in five years. They actually sold for $25 million, which was split among the team.

Vick's other partner, and a company he had done much financing business with before and which would have financed his acquisition of Assisted Living Concepts, was **Health Care REIT**. The REIT provided all the construction financing for Signature's Texas build-out and then leased the finished product back to Signature. The level of trust between Vick and Health Care REIT's management was unusual, and it worked.

With a 20-year career that started by co-founding Sterling House—a great idea that resulted in more than 100 successful assisted living residences—and then spearheading Alterra's recovery from a $5 million per month loss to breakeven within months—and subsequently bringing ALC up from the dust after it had filed for bankruptcy protection—this new venture did not seem like it would be a big challenge to Vick. And after the sale of the leased properties to Capital Senior Living in 2010 (it ended up growing to 12 properties), Vick is at it again, building maybe two new communities a year, in Texas again, and with Health Care REIT providing the financing. His first "new" building in Denton opened in late 2011, and the second one in late 2012. As they say, "if it ain't broke, don't fix it."

But one thing that was "broke," and something that always bothered the CPA in Vick, was the software that was available for his assisted living communities. True, there were software programs for accounting, and even some for patient care, but there wasn't a product in the market that could tell him, in real time, everything, including lead tracking, food costs, and who was about to hit overtime in which community. He wanted one software package that could do it all. And since one didn't exist, he created it (with a lot of help from his associates), and the company's name is **Right Click**. Currently, nearly 200 communities around the country are using it, and that is expected to grow.

From experience comes wisdom

Over the span of two decades, Vick has been president or CEO of three public companies and has co-founded two private companies—all in the assisted living arena. During his tenure in those companies and from people he has met along the way, Vick has learned a great deal. He has tried to make a positive impact on senior living—assisted living, in particular—by putting the things he learned into practice.

Starting back in 1991, Vick's philosophy and approach was about needs and never about lifestyle. He wanted to create a residential environment in which services would continue to provide the "heavy lifting" for the remainder of each resident's life. If a resident needed palliative care, it would be available through home-health or hospice services arranged by (but not provided by) the assisted-living provider. If a resident died in the community, Vick considered that a successful aging in place.

Unfortunately, many states have a problem with this concept of consumer choice, and it got him in trouble in Michigan once, which threatened to pull his licenses if he didn't transfer residents out of his assisted living communities who became too infirmed. He surreptitiously funded a lawsuit filed by the husband of one of his residents who had promised his wife not to put her in a nursing facility. Ultimately, this resulted in the Choice Act in Michigan, that says as long as the family, their physician and the operator agree on a plan of care and the location, no state agency can remove you. That is something Vick is still proud of.

Managing people is always the hardest part of operating any company. Solid systems and processes, great communication, and effective discipline are all crucial. Recruiting, training, orientation, and coaching are also critical. If a bad person trains a new person, you'll simply get another bad person.

Streamlining procedures is also key. There's too much bureaucracy, according to Vick. Why can an $8/hour cook order thousands of dollars worth of food with a phone call, but four or five levels of bureaucracy need to approve a few thousand dollars worth of new carpeting?

So what makes Steven Vick tick? He is obviously a Type-A personality, but according to him it is more than that. "Stubborn. Probably just a perseverance spirit. I enjoy adventure. Obviously, a great wife, faith in God. So, just the work ethic, trying to make a difference, make a difference helping people."

Vick has also been a very active industry participant over the past 20-plus years, learning from others and at the same time trying to help those who might learn from his experience. He has been an active member of the American Seniors Housing Association (ASHA) for many years.

On ASHA...

"ASHA is special to me. I've always liked that it is a small, intimate group and have enjoyed rubbing shoulders with some of the big players in the industry. When we get together for regional meetings, we talk about the business and how to make it better, about food costs, about whether one model works better than another, about the cool stuff that others are doing. The discussion is frank. It's honest. It's off the record."

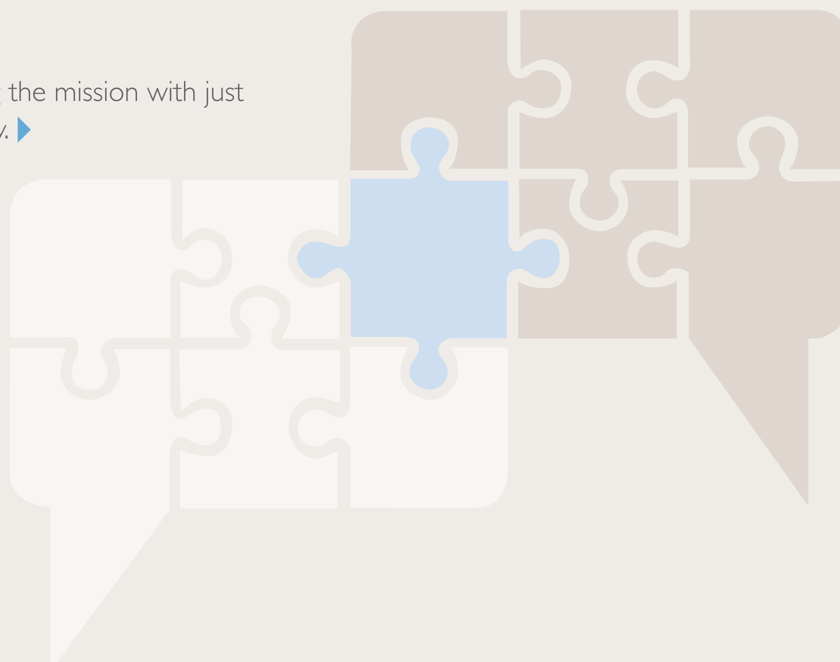
Finally, don't make a promise that you can't deliver. Vick has always told his employees, "If you made a promise and need help, raise your hand. We'll get you help." Often a minor expenditure can prevent a mishap, an accident, a lawsuit, even a death and the huge costs that might result from those events.

For those climbing the management ladder in today's assisted-living world, Vick's advice is to determine their specific niche, mission, and core competency. What makes them different from all their competitors? What are they best able to provide? Then, figure out how to make it happen—always focusing on equal parts mission and margin.

And Steven Vick will be there, providing the mission with just enough margin to keep everyone happy.

On the future...

"We're going to have lots and lots and lots of old people, so we need more solutions, more options, more entrepreneurs."



Chapter 5
Patricia G. Will

Patricia G. Will
Co-founder, President, and CEO
Belmont Village Senior Living

Patricia G. Will is the co-founder and CEO of **Belmont Village, LP,** a fully integrated developer, owner, and operator of seniors housing that is marketed under the name **Belmont Village Senior Living**. A privately held corporation headquartered in Houston, Texas, it provides independent living, assisted living, memory care services, and dementia care to elderly residents. The company now has more than 20 communities located in seven states.

Before founding Belmont Village in 1997 with the mission of being a leading developer and operator of assisted living communities, Will worked in real estate and health care for more than 15 years. She is Chairman Emeritus of the **American Seniors Housing Association** (ASHA) and on the Board of Directors and the Public Policy Committee of the **California Assisted Living Association** (CALA).

The early days...a practical foundation

As an undergraduate at **Reed College** in Portland, Oregon, Will was a French major—an admittedly far cry from seniors housing. After working for three years after college—and realizing that opportunities for a liberal arts major from a "wonderful but little known" Western school were very limiting, Will decided to go to business school. She and her husband simultaneously applied to, got accepted by, and attended **Harvard Business School**, where they each earned an MBA. At the time, she admittedly didn't know a debit from a credit or how to read a financial statement. And she certainly hadn't thought much about Leadership ("with a capital L"). So she later would describe the experience at Harvard as "life-changing."

While several individuals with whom she worked fostered Will's growth as her career progressed over the years, her mother's influence was—and, as a vibrant 80-year-old today, continues to be—huge. Employed full-time through Will's "growing-up years"—uncommon at the time—her mother founded a wholesale tourism company in New York and eventually opened one in Houston. She was her daughter's inspiration and became her mentor and, ultimately, her model. The mother instilled in her daughter the notion that she could be whomever she wanted to be, that she could run a business, and that she could sit in a room with a bunch of guys and do the same things that they could do.

On her mentor...

"[My mom] had a lot of friends–women in their 80s and 90s today–who were in executive positions in New York… and also were mavericks."

And like her mother, Will worked through the "growing-up years" of her two sons, both of whom are now out of college and successfully employed. And while those years weren't easy…looking back, certainly there were moments of "incredible stress and tension and balancing"…she wouldn't have had it any other way.

A passion for real estate development

Upon receiving her MBA, Will still wasn't sure which direction to take. She only knew what she *didn't* want to do. She didn't want to work for a large company. She didn't want to be a Wall Street financier. She didn't want to be a consultant. But she did like to structure deals and think about products and markets. And she could count. Most of all, she was a "quintessential generalist."

Real estate appeared to have all the elements that appealed to Will. It had an element of finance but also a large selling aspect. So she became a real estate developer—an unusual direction to take back then for someone immediately out of Harvard Business School.

Then the financial crisis of the 1980s occurred—"a trifecta," as she described it, of rock-bottom petroleum prices, the crash of the Dow, and the recapture tax under the Reagan tax reforms. It occurred to Will that she should be developing real estate with a purpose as opposed to commoditized real estate deals. As a junior partner in a real estate development company, she was fortunate to be able to start a practice in medical real estate—large-scale medical office buildings, hospital campuses, ambulatory care centers, women's health-care centers, etc.—which she managed for several years and which her partner in that venture continues to manage today.

It occurred to Will that she should be developing real estate with a purpose as opposed to commoditized real estate deals.

It was during that period, in the early 1990s, that Will became interested in seniors housing—specifically memory care—because of a family situation. When her mother-in-law developed what today would be diagnosed as early-stage dementia, the family became consumed with the travails associated with trying to figure out a venue for her care—mostly caregivers in the home but also the hospital care, psychiatric care, and everything else that the people tried in those days to help those dealing with dementia. Will would be developing medical real estate projects by day and, at home in the evening, would pore over the 30 or more possible placements that the hospital discharge planner had faxed to her. They were all skilled nursing homes.

At that time, **Brighton Gardens** was the only assisted living community in Houston. It had been built in the late 1980s by **Marriott Senior Living** but didn't offer dementia care. Local nursing homes really didn't offer dementia care either. They were "willing to try it" but had long waiting lists. Will was horrified, and the wheels in her head began to turn. She became interested in senior care…in seniors housing; specifically, she became passionate about memory care.

Getting involved in seniors housing

Will was able to learn about seniors housing by studying the models of several already established and successful providers (Marriott Senior Living and **Sunrise Senior Living**, for example). The logical route to take would have been to do more of the same; however, her decisions while developing the Belmont Village properties, despite knowing little or nothing about senior care at the time, were quite deliberate. She and her partners decided to concentrate on building assisted living communities. They took several years to examine the existing models, the best markets to enter and why, what the buildings should be (or not be), how fast to build, what the capital structure should be, and ultimately how to build an operating company. It was a very deliberative process, and the time spent proved valuable.

By 1994, Will had begun looking at the space where she and her partners would later build Belmont Village. During 1995 and 1996, the project had become an after-hours pastime for herself and some good friends who ran **Security Capital Group**, a capital provider that backed real estate development companies, for whom she had consulted some years prior. They all agreed that the "space" had business potential and began to look at it together. Was there a basis to enter the seniors housing market? As an acquisition? A startup? A de novo development company?

The development vs. operations...

"We knew enough to know that we could make good assets, good [seniors housing] communities, site them, and entitle them. But the business of bringing them to life, which is really the entire business, is something that we recognized, as we got further into it, was terribly important."

Will had locked up the site—which was a mile from the **Texas Medical Center**, ensuring very good demographics—well before Security Capital Group actually made its commitment. Years later, when Security Capital Group's research department in Chicago came up with demand algorithms, Will was pleased to learn that Belmont Village's zip code was, in fact, in the top 3% for good seniors housing sites.

The group decided to proceed with developing the property and, basically, had the advantage of time. As experienced real estate developers and as assisted living was coming to the fore, they had taken a hard look at the advent of regulation. Will, with the perspective of a medical developer, understood issues such as life safety and emergency evacuation. Security Capital Group viewed the project from the perspective of quality hotel construction. Together, they were willing to gamble on the fact that states would not allow frail elderly seniors with acuity to live in typical multifamily construction—multistory, wood-frame buildings. Rather, they would require those communities to be built of concrete or steel. That was the decision point. And while it was very forward thinking—particularly for a group of partners with no experience in the seniors housing business—it was still a guess.

On the partnership...

"I had a great gift in partnering with Security Capital Group in that they had already begun the process, in many other asset classes, of doing joint-venture equity deals with institutional (pension fund) investors. The notion of building and owning for a very long time in successive joint ventures was ingrained as a business model. That was part of our thought process from very early on."

Belmont Village opened in 1998. Sadly, Will's mother-in-law didn't make it into the first community, but the story has a somewhat sweet ending in that her father-in-law outlived his wife by a very long time. When he was 87, as Will's family (including him) was about to leave on a family vacation, he became ill. While it wasn't serious, the rest of the family wanted to cancel their vacation plans to stay home with him. Instead, he suggested a respite stay at Belmont Village for a couple of weeks. And when the family returned from vacation, he didn't want to move out!

For years, Will's father-in-law had accompanied her to Belmont Village from time to time, where she recalled he was a "hot commodity with the ladies"—a single man who could dance! And while he always thought the community was "nice for old people," he was willing to move in on a short-term basis when the need arose. And literally two weeks later, he became a resident and stayed there for the next five and a half years—the rest of his life. That allowed Will to view the business through the prism of a customer, a family member, and the head of the company—all totally different perspectives.

Build one - no, four - communities

Before completing the construction of Belmont Village's first building, Bill Sanders, the leader of Security Capital Group at the time, said, "I want you to build three more." He knew Will would get the Houston project to "work," but he wanted to test its geography and sustainability. That meant building additional communities elsewhere.

Three sites comparable to the Houston site were found in Southern markets. The second building project, which was the same size (155 units) as Belmont Village in Houston, was **Green Hills** in Nashville, Tennessee. The third and fourth buildings—**St. Matthews** in Louisville, Kentucky, and near the border of Germantown in Memphis, Tennessee—were each 120 units. The development and marketing times in the South were almost as quick as Houston despite the fact that, unlike Houston, the Southern sites all had zoning considerations.

With 155 assisted living units, the initial Belmont Village project was considered very big at the time. That prompted Bill Marriott, whose **Marriott Corporation** did a lot of business with Security Capital Group's hotel industry partner, to call Bill Sanders and say, "You'd better get rid of that blonde who's building that big building for assisted living. She's never going to fill it."

To Will, that was a dare. The building may have been twice the customary size at the time, and three more buildings—also larger than the average assisted living community at the time—were under construction in other cities before the first one opened in Houston. But her notion was that if the depth of demand were there, if the projects were in major markets, if the economies associated with building more units around very robust common areas were there, together with having great leadership at the points of service—then all that, while totally unproven, was promising.

Unsure of whether they were actually right or wrong, the group moved right along. Yet it was stressful for several reasons: No one involved had done this type of project before; a fair amount of development was happening simultaneously; and the communities under development were twice as large as the assisted living industry norm.

On unit size...

"We all knew how to do multifamily construction, but we didn't know much about the seniors housing product. We didn't know what the seniors would want. At that time, the industry was building studios and throwing the money into the care, thinking: Who needs the real estate? Mom can live in 300 square feet."

The construction phase...baptism by fire

Will describes those initial four seniors housing development projects as a "kamikaze mission," with each building presenting a huge—yet different—challenge. While the construction part always progressed well, a lot of lessons were learned along the way.

Belmont Village in Houston, the first project, opened in 1998 and took two years to fill. The plans included 155 typical-for-the-time small units, but during the course of construction, a full-scale model of two studios (one slightly bigger with a separate sitting area) was built to generate feedback from prospective customers. The salesperson responsible for showing the model reported that people really like the unit. When asked which unit, she said that they really wanted both!

Because the building was steel construction, without load-bearing walls between the units, the group was able to convert 15-20% of the building into larger units before ever opening the doors. And that became a hallmark. While an owner can't tell what type of common areas residents will want in the future or what size units they'll want, robust steel and concrete construction (rather than wood-frame buildings) provides a lot of flexibility in addition to increased life safety and less wear and tear. Despite the premium cost associated with that type of construction, the inherent flexibility allows the owner to easily convert units and give customers exactly what they want.

On building design...

"We built the way we built, because we wanted buildings that were timeless…I think about the houses with the slanted roofs that everyone built in the '70s and how nobody wanted them in the '80s and '90s."

While the seniors housing product is difficult to explain, it's necessary to have a basis to compete. The next three projects—in Nashville, Louisville, and Memphis—got no bounce from the Houston community's brand. Although the partners had great resources and plenty of capital, Security Capital Group was simply not a household name. It was like "selling out of the back of a truck," Will would recall.

In addition, Nashville (which took two and a half years to fill) turned out to be a nearly impossible location for hiring employees. Seeking a lower cost business environment, Dell Computer had just opened a facility in Nashville—in effect, turning the area into the next darling of technology and scooping up all available workers. As a result, fast-food restaurants were offering $10.25 an hour to attract part-time help.

On the other hand, the 120-unit community in Memphis—the fourth project—took just 11 months from start to fill-up, setting a record it held for many years. For all four projects, however, the developers grossly underestimated the difficulties involved in going live—staffing, retention, and everything associated with assimilating so many people so quickly. Launching a new building is the most important part of the process and requires due care, and doing three openings in such short order was especially daunting (and not recommended).

So four seniors housing communities were under construction simultaneously, by a group of partners who had never operated one and with planned openings that were timed very closely to one another. Since the collective expertise of the partners was real estate development and capital financing, they planned to acquire an operating company to bring the new communities to life; however, the search for operators during the construction period resulted in candidates that were either unavailable or didn't meet the group's criteria. So…the partners decided to build their own operating company from scratch. Security Capital Group and the partners backing the project invested a very substantial amount of capital into building a de novo operating company that, in reality, had a lot of overhead and no customers.

On presiding over an operating company...

"I would never have guessed that I'd preside over an operating company of this girth–or any operating company–because that really wasn't the plan."

And then #5, #6, and so on

By the end of summer 1999, it occurred to Will and her partners that being in four distinct markets, even in the same region, presented problems—staff redundancy, for example. If the chef in Nashville didn't come in one morning, they couldn't just fill in with the chef in Memphis. The communities were not close by. With that in mind, a search began for larger markets with not only a perfect site and a substantial population of seniors with enough wealth to become customers, but also markets where they could take advantage of scale. That led them to both Chicagoland in Illinois and San Diego, California. Security Capital Group companies had a very established development and operating presence in those locations, which helped the partners fine-tune their expertise, borrow office space, find employees, and find and entitle very precious land in what were very difficult real estate markets.

So project #5 began in Carrol Stream, Illinois, just west of Chicago; project #6 was a 170-unit building in San Diego that was also the company's first that included independent living (50 units). Additional projects were added in or near those markets in the ensuing years, with starts and stops depending on the ownership and the flips and changes in the capital markets.

While the San Diego model of having independent living, assisted living, and memory care all under one roof and fully licensed did not become a prototype, Belmont Village prefers to include independent living if it can get the density and fully license all buildings, so that a resident who needs, say, a daily insulin injection can get assistance right in the unit. That model was replicated in Los Angeles in 2009, in a second San Diego community, and currently at **Turtle Creek** in Dallas.

The General Electric years

In 2002, when Belmont Village was about five years old and with very little in terms of stable assets, **General Electric Company** (GE) acquired Security Capital Group. And since Security Capital Group held all the equity of Belmont Village, it became part of the deal.

No one at GE wanted Belmont Village, but it was a young company, and Will didn't want to lose it. She was fearful that GE would just pull the plug. So she approached the leadership of the real estate division of GE Capital and offered to buy the company at book value. When that didn't fly, she offered to pay "a multiple of book value."

The 10 people in the room couldn't have been less interested in the "little, ragtag seniors housing company" and were ready to sign off on the deal when the leader took a couple of people aside, had a short discussion, and came back with a "no deal." GE would hold onto it and try to better understand the business. Years later, that same person conceded to Will that he had instructed "his guys" to get in there and find out what she's got, because it must be worth something. That experience was a hard, but valuable, lesson for Will. Her eagerness to buy back the company by focusing on, "Let me take you out of your misery," was a big mistake. Had she bought the company at the time, it would have been the deal of a lifetime.

In any event, Belmont Village continued to do very well—both as a part of GE and later, when the partners ultimately bought it back at the end of 2007. The five years under the GE umbrella (which was longer than most other Security Capital Group acquired companies lasted at GE) gave the Belmont Village entrepreneurs a certain discipline and institutional professionalism that is axiomatic in the business world but doesn't come naturally to small companies in any industry, but particularly in seniors housing. So while Will and the others felt they were "withering" in the corporate environment, they were doing Sarbanes-Oxley before most people knew how to pronounce it, they enjoyed premier-quality training and development, and their back-office reporting was very robust.

The economic crash

When the capital markets crashed in 2008, the group had the benefit of having GE as a partner. The Belmont partners had never halted development during prior recessions—in fact, had negotiated them very well. GE honored its commitments to continue the developments that had begun in 2007 and early 2008.

After that, the partners committed their own capital to predevelopment on what they construed to be very good projects that were, if anything, underpriced because of the recession. Since most people were running away from real estate, recognizing the very long lead times associated with siting and predevelopment, that approach was rather gutsy. It wasn't at all clear that the equity or the debt would be available when they were ready to start or at the end of the last extension of the contract to purchase land.

Will characterizes that period as "probably the greatest period of innovation that Belmont has ever seen from an operating perspective." The company decided to keep intact not only its development capability but also its whole operating organization and act as if it were growing. No one was laid off. Instead, they were asked to focus on innovation, high-touch program rollouts, concepts, and pilot programs.

On the recession...

"If we hadn't been constrained, we would have done more. We made a conscious decision to keep our development and investment capability intact. There was a big cost associated with doing that, but it is a big advantage today. I think we're a much better operator today than we were at the start of the recession."

It became evident, too, that the seniors housing industry is not a bad place to be when the economy tanks. People still have needs, and enough can afford it. Belmont's rental models in largely affluent markets have held up well. While not exactly recession-proof, seniors housing has been comparatively resistant to the economic downturn.

Slow and steady growth

Taking risks is an inherent part of leadership. Being a risk taker must not be confused, though, with the discipline required at the operating level in order for a business to be successful. Leaders must be careful about how their actions will affect their people. Just because the leader thinks an idea or a market appears to be a good opportunity and would love to "take the ride," consideration must always be given to what it would do to the operations people tasked to make it work.

On being a risk taker...

"In a leadership role, you have to be a risk taker. You have to decide. You have to make bets. And if you bet wrong, you have to figure out how to make it right."

By 2012, Belmont Village would have 21 operating communities and three under development. In the beginning, the growth was fast and furious, the first four communities being built virtually simultaneously. Then there were "fits and starts" due to fluctuations in the capital markets. Will and her group were not willing to dedicate themselves to the management-for-a-fee business that many other providers pursued at that point. Rather, they based Belmont's growth on access to the capital required to develop whole buildings; so while growth continued, it did so at a much slower pace than before.

For Belmont, it's all about long-term value creation, where the management company is integral to the real estate. As owners of both the real estate and the management operation, the business can accrue plenty of value to the investors—and to the owners themselves—without having it become an "arms race." And while scale is good to a point, Belmont Village is in no hurry to develop more and more communities until it chokes.

On managing growth...

"You get a pop every time you recapitalize the real estate, and that's plenty good enough without having to do 500 of these."

While some providers have had success with much larger enterprises (and some have had failures), the Belmont Village group is in a somewhat different business to the extent that it is in both the real estate business and the operating business. So it takes a very long time to find and entitle difficult sites and a long time to build and tenant them.

Since Belmont Village opened its first community in 1997, the market has demanded larger units, different amenities, and different service capabilities. New building plans have reflected those customer preferences, and existing buildings have been retrofitted to the standards of the brand-new ones. The size of the new buildings in terms of the number of units has not changed dramatically—as few as 140 units and as many as 200, compared to 120 to 155 units in the first four projects. And while Belmont prefers the independent living/assisted living/memory care model, as long as it makes sense—sufficient market density and a competitive need—the company also continues to build freestanding assisted living/memory care buildings with 140 to 150 units.

On competition...

"In Houston, our first building is up the street from a 450-unit independent living community. We were never tempted to build independent living units in that building. First and foremost, we look at the market; if it makes sense to include independent living, we do it. And when we do, that's most successful for us."

The gender gap

Being a woman in the real estate development business was—and still is—tough. Few women are even attracted to it. Will's first boss was a rough-and-tumble Texan who also happened to be a brilliant entrepreneur and a political kingmaker. It was a relationship that took her through her first 10 years in development. She worked through two pregnancies running big development jobs (e.g., office buildings, medical buildings, multifamily projects), but she was still considered a "girl." As if that weren't enough, she was a girl from the Northeast. Otherwise, she was perfect for the job. She was persistent. And despite some of the unpleasant comments directed her way, her feelings were never hurt. She loved what she did.

On being a woman real estate developer...

"I got my ass whipped by somebody with no sense of political correctness but a great sense of how to get things done and how to foster businesses, and with a great appreciation for people who could do things. I was scared of him. He was very tough, very, very tough. But I persevered. It actually turned out to be a great learning environment."

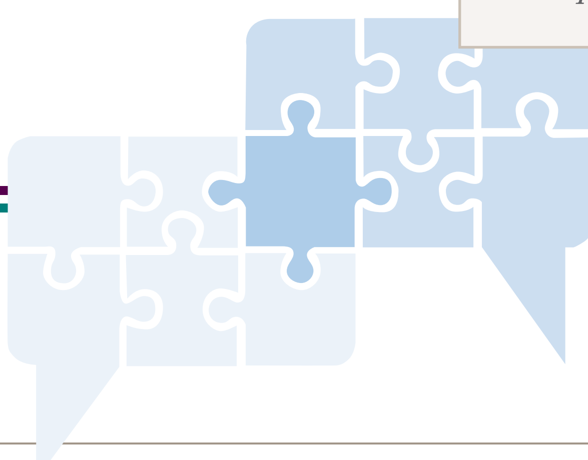
While there are too few women leaders in nearly every industry, Will believes that it's less hard for women to be successful in seniors housing. After all, the customers served—whether prospective residents, family members, or other decision makers—are invariably women. And the employees are, by and large, female with all the workplace needs and concerns of any female: single parents, childcare, hours that accommodate picking up the kid. Not that men don't do a great job, but having a female mindset and viewpoint can be a competitive advantage in the seniors housing industry.

When hiring people, especially at the corporate level, the characteristics that Will seeks are intelligence, integrity, drive, passion, and compassion. She likes people who are adaptable and "terribly smart." She apparently has chosen well, because most of her senior-level people are the same leadership group that has been on board since the beginning—through the entrepreneurial period, the GE period, and another five years after that. And the bench has been there, as well.

The characteristic that all those people share is a passion for the seniors housing business. Real estate developers can develop anything anywhere, but people working in seniors housing development have become smitten by purpose. They can switch roles from operations to real estate, from finance to operations. That type of adaptability can provide the individual with a holistic, very satisfying business experience.

On staffing...

"I like renaissance people who don't have very narrow roles, even at the senior level. You can switch them around. That's very valuable in a company our size."



Looking ahead...caring for the next generation(s)

From the consumer's vantage point, the seniors housing business has an identity problem. It's complicated, which is one reason why market penetration continues to be relatively low. People don't understand the acronyms (CCRC, AL, IL, ALZ). They don't understand the various ways to buy the product. The pricing is very complicated, making it tough for people to compare what they're getting and what it costs. The industry needs to become far more transparent and simple to understand if it wants to enjoy a greater penetration of what will undoubtedly be a huge market within a very few years.

On ASHA...

"While many brands existed back when I was getting into the seniors housing industry, it was still very much an industry in formation. Most people didn't quite understand what it was all about. The idea of participating in an association such as the ***American Seniors Housing Association*** *and joining with colleagues to create an identity for the industry and to affect public policy–and also to learn from colleagues–was attractive."*

It behooves the leadership in senior care communities to be as involved in the efforts of their state industry associations as they are in national associations in order to enhance the industry and advocate for its success, according to Will. The quality and effectiveness of state associations varies from state to state. California, for example, is better equipped than most others and every bit as professional within the state as ASHA is on the national level. As a result, any problems with state regulators in what is a highly regulated state usually get solved to everyone's satisfaction — elsewhere, not so much.

Often, executive directors have the job of advocacy at the state level. And while dedicated and strong individuals, they usually aren't focusing on public policy and its implications. Senior management may agree, for example, that it is okay to advocate for more inspections at a higher cost in order to maintain standards as an industry, but will the executive director believe that it is okay to vote for that?

Therefore, senior management of national companies should become more involved in state-level advocacy groups. Their experience crosses state lines, so they understand best practices and how those efforts have worked elsewhere. That's a valuable perspective to bring to the table and one that's difficult for people at the executive director level, or even at a regional level, to do.

So what will the next generation want? When Will lays awake at night and thinks about what her community will be like when she moves in, she doesn't think it will be all that different from what it is today. The populations will be somewhat different—more men. And the issues about how to pay for it will be greater, because the Baby Boomers are not savers. But the market will be much greater.

On Baby Boomers...

"We will not be able to satisfy the needs of the next generation of seniors by simply making the same kind of product that we're making today and deliver it at a price point where [Baby Boomers] at the middle-class level will be able to embrace it–because we don't save our money."

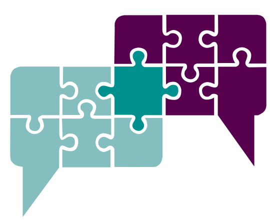
Perhaps seniors housing owners will have to expand overseas, where costs are lower. The next generation may be able to afford a Belmont Village on a beach in Mexico, for example. On the margin, the community may look a little different, but the product itself and the needs that it satisfies—social, cognitive, physical, individual—will probably be much the same.

Universities, on the other hand, are an untapped resource for the seniors housing industry. They generally have an incredible knowledge base with respect to seniors—from nutrition through cognition and all manner of items in between. And the academics are delighted when a provider takes an interest in their research—or wants to sponsor their research as a partner. In turn, they bring a thought process to the seniors housing business and to the communities that can be challenging and is very often the source of innovation.

On partnering with universities...

"We've got projects going on right now with five different universities. We're not unique in that regard; many others in our industry do that. And then there are a bunch that don't…and I don't know why."

Will began her career as a real estate developer—a good real estate developer, a very visual real estate developer. She could conceive of a place that she wanted to build, picture what it should be, and visualize how to construct it. So, as much as Will loves real estate development, it's the high-touch part of the seniors housing business and the ways it is evolving that now captures her. She spends more time driving the operating side of business, thinking about the next generation of communities, and devising ways to revamp existing communities to facilitate today's operations. Today, that's what keeps her "wheels spinning."



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Mr. Monroe is the managing editor and a partner at Irving Levin Associates, Inc. Established in 1948, Irving Levin Associates is a research and publishing firm that specializes in the seniors housing and health care investment markets, with several newsletters and acquisition reports.

Mr. Monroe has been with the company for more than 25 years and has published numerous articles dealing with various aspects of investing in the health care and seniors housing arena. In addition, he is the editor of The SeniorCare Investor, a monthly newsletter which has won numerous editorial awards, and The Senior Care Acquisition Report, an annual study of acquisition trends in the seniors housing and care market, as well as the executive editor of Senior Living Business interactive.

Prior to joining the company, Mr. Monroe was an executive at the investment banking firm Kidder, Peabody & Co. in New York City, where he completed a variety of public equity, bond and merger and acquisition transactions. He received his MBA in Finance from Columbia University in 1981 and graduated magna cum laude and Phi Beta Kappa from the University of Vermont in 1977.

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