The Entrepreneurial Spirit of Seniors Housing:

Thoughts, Stories and Lessons on Leadership

EDITION III

Cost $125.00

Table of Contents

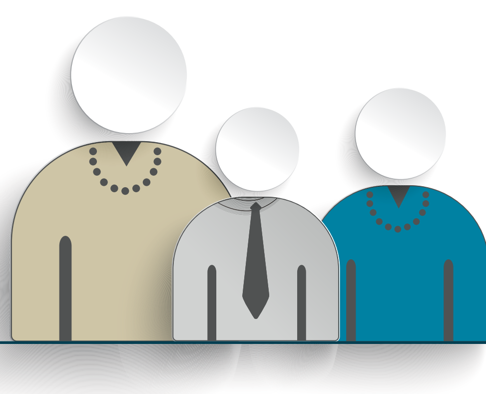
Introduction
by David Schless

President, American Seniors Housing Association

It is truly an honor to present this Third Edition of *The Entrepreneurial Spirit of Seniors Housing*, featuring the professional and life stories of six distinguished leaders in our profession: Tom Grape, Michael Grust, Lynne Katzmann, Chuck and Karen Lytle, and Loren Shook.

Like its two predecessors, this edition offers candid insights from an assemblage of well-respected entrepreneurs and continues ASHA's proud tradition of information-sharing that dates back to our founding in the early 1990s.

The first edition of *The Entrepreneurial Spirit of Seniors Housing* began with a chapter about William E. Colson, one of our industry's true pioneers and a founder of the American Seniors Housing Association. With each of his subsequent 14 chapters,



author Steve Monroe continues to help us weave together the history of the senior living profession.

I thank all of the individuals who are featured in *The Entrepreneurial Spirit of Seniors Housing* for their willingness to share their stories and perspectives with others who are destined to continue in their footsteps, helping to further refine the way in which we house and care for older adults in the U.S. and across the globe.

CHAPTER 1

Thomas H. Grape

Chairman and Chief Executive Officer

Benchmark Senior Living

"Doing senior living right" was the vision and motivating factor for Thomas H. Grape, chairman and CEO of Benchmark Senior Living, when he founded the company on January 1, 1997. Today, Benchmark is a leading provider of senior living services in the Northeast, with a total of 54 communities (in mid-2016) operating in Massachusetts (27), Connecticut (17), New Hampshire (4), Rhode Island (3), Vermont (1), Maine (1), and Pennsylvania (1). The various communities provide independent living, assisted living, memory care, skilled nursing, and/or respite care; three are CCRCs (Edgehill in Stamford, CT; The Commons in Lincoln, MA; and Wellington at Hershey's Mill in West Chester, PA). Benchmark is based in Waltham, Massachusetts.

Dedicated to providing personalized service to seniors throughout his home state and beyond—and intrigued by the entrepreneurial possibilities that senior services (particularly assisted living) offered—Tom Grape became involved in seniors housing in 1986 when he joined Spaulding & Slye to head up a new joint venture to develop CCRCs. Four years later, he joined ADS Senior Living (now ADS/MultiCare), a nursing home company. At the time, Massachusetts had no assisted living communities. While at ADS, he worked with the Massachusetts Legislature to create the assisted living category of senior care in that state. Bringing the concept of assisted living to Massachusetts is one of the hallmarks of Grape's career.

A member of ASHA "from the beginning," Grape is currently a member of ASHA's Executive Board. He is former chairman of the Assisted Living Federation of America (now Argentum) and founder of Mass-ALFA, its Massachusetts affiliate, as well as a member of the founding board of the Connecticut Assisted Living Foundation and a former member of the Owner/Operator Advisory Groups and the Strategic Planning Committee for National Investment Center (NIC) for Seniors Housing & Care.

A recipient of the first Mass-ALFA Leadership award, Grape also received a 2003 Entrepreneur of the Year award from Ernst & Young for real estate/hospitality in the New England region. He earned his Bachelor of Science degree from Ithaca College and currently is chairman of the college's board of trustees. He is vice-chair of Newton-Wellesley Hospital and, having been chair for five years, is a member of the board of Meadowbrook School of Weston (Mass.), an independent K-8 school where his two daughters have been students. Grape is also an active member of Trinity Church at Copley Square in Boston.

A New England upbringing

Thomas H. Grape was born on September 11, 1958, in Baltimore, Maryland. Just nine months later, the Grape family moved to Fairfield, Connecticut, where the youngest of four children spent his entire childhood and where his parents lived the rest of their lives. The elder Mr. Grape spent his entire career working for Exxon—starting on a tanker and then working successively at the company's Lago oil refinery in Aruba, then in Philadelphia, Baltimore, and finally New York City. It was a corporate relocation, then, that brought the family to Connecticut in 1959. (Only incidentally, Fairfield was the hometown of Oliver Burr Jennings, one of the founders of Standard Oil of which Exxon is a direct descendent.)

December 1966

Tom Grape's parents actually met and married in Aruba, and his eldest sister was born there in 1942. A second sister was born in 1948 and a brother in 1952. With four kids spanning 16 years in age, Mrs. Grape had her hands full. She was what we now call a "Stay-at-Home Mom"; back in the day, she was a "housewife" or just plain "Mom."

Mrs. Grape was also an active volunteer: chair of the town's Board of Recreation, head of the PTA, founder of the Save Our Sports campaign when the town wanted to cut funding…a real force in town, according to her son. During Tom's sophomore year in high school, she worked in his school as a career counselor, advising students on college choices and so forth.

On his "stay-at-home" mother…

"In a different generation, she would have been a CEO or something. She had charisma, presence, and a very dynamic personality. My friends actually nicknamed her 'the tiger'—in a loving way."

Tom grew up almost as an only child. His earliest memory of his oldest sister was when she was in college. His brother, who was closest in age but still six years older, went away to boarding school in the ninth grade. Tom, however, went through the Fairfield public schools, graduating from Roger Ludlowe High School in 1976. He loved playing tennis and made the high-school team but opted instead for baseball. He was the pitcher, #22—also the number of his hero, Jim Palmer of the Baltimore Orioles—and was undefeated in his high-school baseball career.

May 1970

A self-described baseball fanatic, Grape was a rabid Orioles fan—not because he was born in Baltimore but, rather, because his first World Series memory was the 1966 Orioles-Dodgers series. The Orioles also played in the 1969, 1970, and 1971 series, so being a loyal fan wasn't difficult. Meanwhile, living on the outskirts of the New York Metropolitan Area, all his friends were Yankees fans. (As an adult living on the outskirts of Boston, he has become a Red Sox fan. It's likely all his local friends and neighbors are, too.)

About Fairfield…

"I loved Fairfield. It was a great little town, and I had a great childhood there. I used to ride my bike all over the place and hung out at the beach a lot. I loved it."

Off to Ithaca...and then Cincinnati

While Grape was a "pretty good" baseball player in high school, he was not considered a "superstar" and, therefore, wasn't destined for fame and fortune in that field. In his last high-school game, in fact, he threw out his shoulder and never pitched again. Nevertheless, Ithaca College was, at the time, a very good Division III baseball school. Grape submitted an early-decision application and was accepted. It was his only college application. While he did look at other schools, Ithaca was the only college he wanted to attend.

About choosing Ithaca…

"Ithaca was far enough from home to make it inconvenient for my family to drop in all the time. My brother went to Trinity, and I saw how often my parents would visit. I wanted to be farther away. So Ithaca was far enough, I wanted to go to a baseball school, and I wanted an undergraduate business program. Ithaca met all of those conditions. Plus, I just really liked the school."

Grape was "dead clear" that he wanted to study marketing, but Ithaca didn't offer a marketing major at that time. Instead, students could major in "Planned Studies," which allowed them to design an individualized major with faculty approval. Grape put together his marketing major through that program. Three years after he graduated, Ithaca College offered a full marketing major.

Grape flourished during his four years at Ithaca. He did well academically, and his leadership abilities blossomed. He was involved in student government (vice president in sophomore year and student body president in junior year) and a dorm adviser in his last three years. He founded the Marketing Club, which still exists today. He was the college's first peer career counselor, a program that also still exists. And he was on the college's search committees for provost and head of activities.

On extracurricular activities…

"College just sort of clicked, and I think I was influenced by my mother's community involvement as I was growing up. I've always been unusually active in things outside of school, Benchmark, and other things since—and have really enjoyed it and gotten good at it. It has always been an important part of my life."

For two of his summer breaks, Grape had internships at General Electric. One summer he worked in a large office in Bridgeport, Connecticut in GE's housewares division (since sold off), which made clocks and small appliances, and then moved to the Fairfield headquarters office where he helped the corporate consulting division set up conferences; the second summer involved sales analysis for the apparatus distribution and sales division, which sold electrical/industrial equipment.

Upon graduation from Ithaca in 1980, GE offered Grape a job and the opportunity to earn a fully paid MBA—but Procter & Gamble also offered him a brand marketing position in Cincinnati. For a new college graduate with a marketing degree, P&G was Mecca. So, while he loved GE, Grape chose P&G and was assigned to the company's biggest brand: Pampers. So the assignment was a coup—even if Grape's buddies found it amusing and teased him relentlessly.

For four and a half years, Grape worked on P&G's Pampers account, then on Bounty—another of the company's bigger brands—and then again on Pampers.

About working at P&G…

"P&G's a great company, and I loved the role of brand manager. I really had a ball in Cincinnati. But it became clear to me that the big company thing—watching market share go up or down by a tenth of a percent in an enormous business—didn't feel tangible to me. I wanted to feel that I had more influence or impact."

April 1983

Attracted to real estate

Around year three at P&G, Grape began to explore whether he might find a similar role in a less gigantic enterprise. Serendipitously, while browsing in a Cincinnati bookstore, he picked up a book about careers in real estate. He honed in on "real estate developer," which seemed somewhat similar to the job of brand manager (i.e., quarterbacking a team) and also "kind of cool" to the young man.

Grape sought contacts in the field and eventually spoke with a Dallas real estate developer who offered a job in a marketing position—which was not the point. Why would he leave P&G for another marketing position? He didn't want to go into real estate to do marketing; he wanted to go into real estate to do real estate. So he said, "No thanks."

A second developer, Spaulding & Slye, normally hired MBAs and weren't particularly interested in a young man who had spent his brief career-to-date marketing Pampers. But that didn't stop Grape. Late one afternoon, he called Bill Whelan, Spaulding & Slye's head of development, who happened to pick up the phone. Grape asked for 15 minutes of his time, and Whelan agreed.

At that meeting, Grape clearly laid out his objective—which was to convince Whelan to hire him in project management—and explained that brand management is really the same as project management. After 14 minutes and 30 seconds, Whelan brought in a colleague from an adjacent office for further discussion. The result: a job offer in real estate development in the company's Washington, D.C. office. Grape began to learn how to build office buildings.

After two and a half years in Washington, Grape was offered a job in Spaulding & Slye's Boston headquarters to head up a new joint venture to develop CCRCs. The company felt Grape's combined marketing and development experience was a unique benefit. While he had never been in a retirement community, Grape knew the demographic. He knew that it was a growing market. Plus, the idea of living in Boston appealed to him. So the young man, just 26 years old, jumped at the opportunity.

As it turned out, the venture didn't work out. Spaulding & Slye's responsibility was to provide the development expertise and some of the capital. Grape spent about two years and a fair amount of money on sites around the country, but no actual development had begun. Spaulding & Slye deemed the operating partner to be not a good choice and pulled the plug; however, Grape continued working with Spaulding & Slye for another two years.

In 1989, Grape and a partner started The Senior Group to develop CCRCs. They had backing from a primary investor, but it was a recession year. Within 12 months, The Senior Group ran out of money and closed shop. He was just 31 years old. Grape then joined National Development, which was headquartered in Pittsburgh but had a Boston office. National Development had eight "old-style" assisted living communities, more like nursing homes, in Pittsburgh, Washington, D.C., and Florida—but none in Boston. In fact, there were no assisted living communities in Massachusetts at that time. National Development wanted Grape to move to Pittsburgh, which he declined.

Grape then worked with a local (Boston) provider, which had a dozen or so nursing homes and a very good reputation, to start a new entity to develop assisted living in Massachusetts. That was in late 1991, and the new venture was called ADS Senior Housing. The hurdle, of course, was that Massachusetts did not recognize assisted living as a category of senior care.

Grape helped write the legislation that created the assisted living category in Massachusetts, and the governor signed the bill in January 1995. Between 1994 and 1996, ADS Senior Housing built 14 communities, including the first purpose-built assisted living community in the commonwealth. Nevertheless, the principal of ADS decided to sell out to The MultiCare Companies, a skilled nursing chain, in 1996. By this time, Grape had also founded the Massachusetts affiliate of ALFA (now Argentum).

December 1985 ground breaking

On the ADS sale…

"Here we were, just cranking up, and ADS had great communities. We were ahead of the pack. We were in some good markets. It was exactly the wrong time to be selling the assisted living business."

Grape did not accept the offer to remain with ADS and its new parent company. Instead, once the sale was finalized, he started Benchmark Senior Living on the very next day: January 1, 1997. It turned out to be a good decision in many ways, especially since a few years later MultiCare itself was sold, and that buyer eventually filed for bankruptcy protection.

Enter Benchmark Senior Living

Grape had made a little money while at ADS and had a significant track record building successful assisted living communities. So he rented a small office space, wrote a business plan, and began what would become a thriving senior housing organization. His first goal was to become solvent.

With that goal in mind, Grape convinced AEW Capital Management—also headquartered in Boston—to invest an initial $25 million in an equity line, with an option for additional funding, for the startup. The principals at AEW were well aware of Grape's accomplishments in the region. The investment team knew all about the communities that he developed—they could walk into the buildings and experience the atmosphere firsthand. Plus, no other developers were involved in assisted living at the time. So if the PE firm wanted to venture into this sector, Grape was a visible member of the community and his Benchmark Senior Living offered an opportunity. As a result of the AEW investment, Benchmark became one of the first seniors housing companies to receive institutional-quality Opportunity Fund capital.

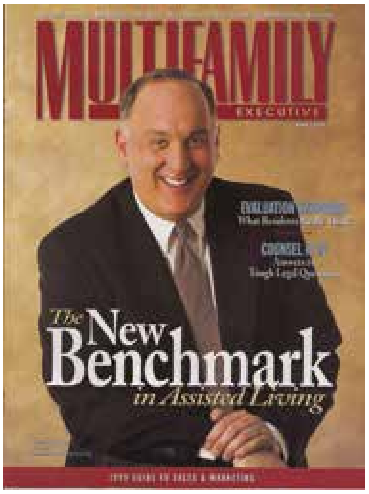
Grape's grand plan for Benchmark was always to build a portfolio of assisted living communities in the Northeast, through both development and acquisitions, and then to own and operate those communities. In financing discussions over the years, including initially with AEW, investors suggested that Benchmark use the funding to develop and acquire properties, make them successful, then sell the business for a profit. That was exactly what Grape did not want to do. He really did not want to sell the management side of the business along with the real estate, but some investors did. Based on his ADS experience, where everything he had worked on—and for—had been sold out from under him, Grape wanted to maintain operational control. Therefore, he separated Benchmark's real estate and management operations into separate entities. It turned out to be a smart decision.

On defining Benchmark …

"Real estate requires a lot of capital. I didn't have much capital, but I wanted to control the management function. So I suggested that we do a joint venture on the real estate side, and I would fund the management company—a smart and absolutely critical decision at the time that has served us very well over the years. If Benchmark had become a combined entity, subsequent deals that we accomplished would have been either impossible or much more difficult. Every time an investor wanted to recap, I'd be out of business."

Early on, Grape also recognized the advantage of being actively networked in the industry. He joined ASHA in the organization's earliest days and later served on its board. Over the years, he has found ASHA to be a great networking venue, its reports to be useful, and its lobbying efforts to be helpful. Grape describes ASHA as "a good player at the table."

Grape also set up an advisory board of high-level, high-quality executives. Most have continued as members of the board "for the entire ride," some have invested in various deals, and all receive a small stipend for their participation. Even though Grape personally owns and controls the company—and the board is strictly advisory—there have been a few times when, Grape admits, "the board saved me from myself." He finds the advice "absolutely invaluable" and recommends that anyone starting a company set up such a board.



All real estate in the Benchmark portfolio is a joint venture with various investors. Through the separate management company, Benchmark manages each property that the company has either developed or acquired and wholly owns all management contracts. Grape indicates that separating the two entities in this manner has proven to be his most significant, most impactful financial decision for the company.

Focus on development, then acquisitions

In the beginning, Benchmark focused mainly on development with eight separate projects combined with three acquisitions. With AEW funding, he developed a project on Cape Cod. That first development project involved land and a half-built nursing home in Centerville, Massachusetts, that the company bought in February 1998 and opened six months later in August. Benchmark still owns and operates that property, now a tremendously successful all-memory-care community called Harbor Point. In fact, that property enjoyed 100% occupancy for 15 years, since it had no state-of-the-art assisted living or all-memory-care competition on Cape Cod.

Initially, the company acquired The Arbors in Shelburne, Vermont; Blenheim-Newport in Middletown, Rhode Island; and, from ADS, The Falls at Cordingly Dam in Newton, Massachusetts (which Grape built during his tenure there). A fourth acquisition, a companion property to The Arbors, was a small property in Vermont that Benchmark immediately sold off.

In 2001, Benchmark acquired The Crossings portfolio, which comprised eight properties, for $57.2 million; those properties are still in the Benchmark portfolio. As a result, the company quickly went from operating five properties to 13 in a matter of months—and opened four or five development deals. It was a very stressful time.

Then in 2003, Benchmark closed two more acquisition deals. The first involved the leasehold interest of four former ADS properties that were spun off by successive owners. After the MultiCare buyout of ADS in 1996, various entities acquired the 14 communities that Grape built during his ADS tenure. Benchmark has since acquired about two-thirds of those communities, including the four in this 2003 deal.

The second acquisition in 2003 involved one of the last properties that Carematrix had built in Ridgefield, Connecticut. Benchmark bought that property from Bank of America for 25 cents on the dollar—a total home run, according to Grape. The Ridgefield community was added to The Crossings portfolio.

On busy 2003…

"We did the four properties (the leasehold interest) with AEW in a second venture and acquired the Ridgefield community with funding—actually Harvard endowment money—with CharlesBank [later Bay North]. We had three separate ventures with two different investors going at one time."

In 2004, Benchmark was looking for an exit strategy in its relationship with AEW and came across Kuwait Finance House (KFH), which bought out both AEW portfolios: the first acquisition and the leasehold interest venture.

Then in 2005, Benchmark acquired three portfolios: nine properties from Village Communities in Connecticut, Rhode Island and Massachusetts for about $155 million; five Athena communities in Connecticut for $77.5 million; and, from Atrium, five communities in Massachusetts and Connecticut. So in the course of a year, Benchmark added 19 communities to its portfolio. All were joint ventures with Greenfield Partners, an Opportunity Fund that also includes Harvard endowment money as part of its funds. The geographic pattern was solidifying.

Also in 2005, Benchmark recapitalized the CharlesBank/Bay North investment in The Crossings portfolio. Intercontinental bought out CharlesBank/Bay North. So now Benchmark was coordinating three venture partners: Greenfield had 19 communities; Kuwait Finance House had 15 communities; and Intercontinental had nine communities.

L to R: Alli Downs, Debbie Laycock and Tom Grape

On the 2005 acquisition overload…

"It wasn't our plan to acquire 19 communities in a concentrated period of time, but we were building a company. I'd been courting all three of those companies for years and knew the owners of all of them. Sometimes, things just happen when they happen…not when you'd like them to happen. If I could have scripted it, I would have spread them out more. Fortunately, we had strong financial backing all along the way and obviously worked very hard to avoid irresponsible risks."

By 2006, Benchmark sought longer-term financing for its stabilized communities. Opportunity Fund financing was all short-term, which contributed to the treadmill that Grape found himself on with so many acquisitions in a short period of time. While Benchmark hadn't lost a property and was always able to find replacement capital, Grape was basically relying on his reputation, his good performance, and his good luck finding strong new partners.

At the suggestion of one of Benchmark's board members, Grape met with GPT Group, an Australian REIT that had done little business in the United States and certainly no seniors housing deals. Nevertheless, the Australians liked Benchmark and liked Grape. They were decisive and moved quickly to buy out the 19-property Greenfield Partners venture and, shortly afterwards, the 15 KFH properties. Both deals provided investors with an IRR of 40% to 50%, and Grape was able to participate in those returns as well. Basically, it was an offshore RIDEA deal that was structured identically to domestic REIT RIDEA deals today.

Actually, RIDEA made a huge impact on Benchmark's success. Until that option became available, there was a lack of alignment between the capital markets and developers, like Benchmark, looking to build a long-term operation by accumulating assets. Short-term capital worked for real estate investors looking for a quick profit, but the RIDEA structure allowed Benchmark to align its two financial strategies: stabilized assets could be placed in a RIDEA joint venture for the long term; short-term capital partners could fund the company's development or turnaround deals.

Benchmark continued to seek opportunities, acquiring a single property in Danvers, Massachusetts, in 2008. Meanwhile, the GPT venture continued to move along smoothly—until the Great Recession of 2008-2010 threw a monkey wrench into the world economy. GPT had a German multifamily investment that almost took the company down, and equity analysts were insistent that GPT shed all of its offshore investments and focus only on those in Australia.

Fortunately—or perhaps presciently—Grape had negotiated a lockout clause in Benchmark's initial deal with GPT, which prevented the partner from exiting from its investment for the first five years. As a result, Benchmark retained control over any new negotiations within the lockout period. GPT reacted by continually lowering its price.


Tom Grape at an ASHA event

In the end, Grape searched for long-term capital for the 34 assets in the GPT portfolio and, in August 2010, began talking with Health Care REIT (now Welltower), as well as other REITs, about another possible RIDEA deal. Even though the lockout period with GPT had only a short time left to run, GPT wanted/needed to extricate itself from the venture. Based on Grape's counsel, collaboration, and recommendation—that Health Care REIT was a credible group that could execute the deal, that the offer was a credible number given the market, and that this is the group that Benchmark preferred—GPT struck a deal with Health Care REIT in March 2011. It was the start of a growing and important relationship for Benchmark, which has now totaled about $1.79 billion in assets in three different RIDEA partnerships covering 47 properties with 3,961 units, with Benchmark retaining a 5% share ownership in each partnership.

Later that year, Benchmark acquired Edgehill, a very high-end CCRC in Stamford, Connecticut, in another joint venture with KFH. Edgehill had been owned by a local not-for-profit hospital, which had tried to sell the community at the height of the Great Recession, but the not-for-profit buyer at the time was unable to obtain the necessary debt financing when the capital markets dried up. It was Benchmark's first foray into the entrance-fee CCRC market.

On CCRC operations…
"We had a fair amount of independent living—not a huge percentage—and always wanted to be in the CCRC space. I always thought we'd be a good CCRC operator but viewed it as a selective strategy. We weren't going to develop five CCRCs! We've had three phenomenal opportunities: Edgehill in Stamford, Connecticut; The Commons in Lincoln, Massachusetts; and Wellington at Hershey's Mill in West Chester, Pennsylvania. I think CCRCs have a bright future."

In 2012, Benchmark began its first development deal since undertaking the company's initial development venture on Cape Cod in 1998. Acquisition prices were soaring, and the industry hadn't seen much new development in what continued to be a sputtering economy. So Grape geared up Benchmark's development machine and built Bedford Falls, an assisted living community in Bedford, New Hampshire.

The following year, Benchmark acquired two communities—Robbins Brook in Acton and Forge Hill in Franklin, both in Massachusetts—from AEW with Welltower as the venture partner, and acquired The Commons in Lincoln, Benchmark's second CCRC, with Bay North as the venture partner.

The Commons had built 168 independent living units, which were only about 25% occupied. Marketed as an entrance-fee CCRC, few were buying in because it wasn't really a CCRC since it hadn't yet built out the rest of the community. The developer had invested $115 million into The Commons, and Benchmark bought it out of bankruptcy for a mere $30 million. "All we did was promise to build the assisted living/memory care and SNF," explained Grape. "And we did."

The revitalized and expanded "Benchmark Senior Living at The Commons in Lincoln" opened in early 2016 with a new $35 million building and all but five units of independent living filled. So far, all things point to the community being a phenomenal success. When it is completely filled and stabilized, Grape plans to flip the property to a new owner but continue Benchmark's management role. "It's a great market, and the community will be a very financially successful property," he says.

October 2013 | Professional Achievement Award | Ithaca, NY

Projects in the Pipeline

By mid-2016, Benchmark had completed the expansion project at The Commons in Lincoln and reopened the property; an expansion at Edgehill, its first CCRC, was continuing; and several other new projects were underway. An assisted living/memory care property in Woburn, Massachusetts, opened in September 2016; a similar property in nearby Norwood, Massachusetts, opened in January 2017.

By year-end 2016, Benchmark had broken ground on an assisted living/memory care community in Grape's hometown of Fairfield, Connecticut; on two similar projects on Long Island, which will be Benchmark's first foray in New York State; and on a project in North Attleboro, Massachusetts, the company's first moderately-priced model. Grape expects to have four additional starts in 2017.

On managing risk…
"We look at our markets very, very carefully, and we're very cautious about the capital that we put into predevelopment. We watch that like a hawk. If we ever have to pull the plug on a deal or on multiple deals, we know exactly—to the dime—what we've committed."

For several of its current development deals, Benchmark has been working with Och-Ziff Capital Management, which apparently likes working with a development partner that builds and fills the projects. Once the properties get to stabilization, Och-Ziff will expect to sell.

"That's the program," according to Grape. They're 90/10 or 80/20 partnerships. The partner gets a development profit, and then the property is put into a long-term deal that allows Benchmark to periodically take money off the table. If the property is successful, and most have been, then the built-in leverage allows Benchmark to make a huge return on its equity investment.

On Benchmark's financing strategy…

"People ask why don't we put in more equity, and I don't know why we would. We put in five or 10 percent equity and get 40 or 50 percent of the profits and 30, 40, 50 percent IRRs. The leverage we get is much better than if we owned 100 percent. Owning it long-term? That's a different allocation of capital."

Grape continues to be on the lookout for acquisitions, as well, although prices are high at the moment. If you're a good operator—like Benchmark—you can still make a lot of money on high-priced properties if it's a good deal. In Grape's mind, "not all things that are priced high are expensive."

CCRCs continue to be of interest, though Grape doesn't expect to become a CCRC company, per se. He characterizes Edgehill and The Commons as extraordinary opportunities—and he'd love to find a couple of others like that in the Northeast, as Benchmark will continue to focus on that region.

On Benchmark's growth…

"From the beginning, we've always said that we wanted to be in the Northeast—from Boston to Washington. We're constantly approached about going to the Southeast or Midwest, but we've been very disciplined about staying in the Northeast. We don't want a one-off in New Jersey or Delaware or somewhere. We want to find, either through acquisition or (preferably) through development, a concentration of several good assets in a particular market. That's a long-term proposition, of course, but a close geographic cluster allows the properties to be covered by the same management people."

The management side

At the beginning, Grape hired some operating people—including some with whom he had worked at ADS—to get the startup going. A couple of years later, he hired a handful of experienced operations experts to manage growth over the subsequent decade. In 2005, the management company crossed the bridge to profitability and has been able to fund itself comfortably ever since.

At the outset, though, Grape undercapitalized the management company—and that was a real source of stress for the first six or seven years. He regularly wondered how the company would meet payroll the following week. Peter Small, CEO of Spaulding & Slye when Grape worked there, was one of Benchmark's first investors, an angel investor who is still on Benchmark's board today. When Grape would run out of money for the management company, he'd call Small—who would write a check…every time. And Grape paid him back…every time. Small has done quite well on his Benchmark investments, according to Grape, who also notes that the company would not be around today had it not been for Peter Small regularly funding the gaps in those early years. "He was our savior," Grape says.

As Benchmark grew, it continued to be stronger on the sales side and less so on the operations side—until April 2009, when Grape hired Stephanie Handelson to provide the strong operations expertise that Benchmark required. Handelson, formerly with Sunrise Senior Living, had a reputation for terrific operating results and brought a great level of energy and personality to Benchmark. Handelson eventually became president and COO of the company, managing day-to-day operations while Grape focused on strategy. She had been a "transformative figure," but after seven impactful years, she left the company to pursue other interests.

On hiring good people…

"We look for people who are about the culture; people who have the right kind of values, character, and integrity; people who will do the right thing for the company, for the residents, and for the associates—yet also have the business acumen to make good decisions. We want people who bring heart to what they do, who demonstrate a caring, nurturing, giving personality. It's not just a job for them. It's a calling and a love for what they do."

Rather than have a big party when Benchmark reached its 10th anniversary in 2006, Grape thought the company should find a way to thank its frontline associates. So he set up the One Company Fund, a 501(c) 3 charity to which associates who experience a crisis in their lives could submit a confidential grant application for up to $5,000. This can be a health crisis, a financial crisis or something else. A committee of associates reviews the applications and approves the grants; management is not involved. The grantee does not have to pay back the money. Benchmark sponsors golf tournaments and each of its communities sponsors bake sales, car washes, and so forth, with all proceeds going to the One Company Fund. In 10 years, those efforts have raised $3 million for the fund and made grants of $2 million or more. If you want a healthy cry, ask Grape for some of the thank-you letters written by recipients of funds from the One Company Fund. For some of them, it literally saved their lives.

March 2017 - BSL Gala

On leadership…
"There are a few different ways to show leadership. You show it to your staff by comporting yourself according to the values by which you lead. You show leadership by how you spend your time and by being clear about where you want the company to go. And you show leadership by how you make decisions and how you treat people. Basically, you lead by example, by showing direction, and by honestly demonstrating your values."

In the depths of the Great Recession (2008-10), many industry providers were feeling great stress and cutting staff—or were trying to cut costs using approaches such as changing the requirements to qualify for employee benefits. At Benchmark, the basic view was that the burden should not fall on the staff, that they should not take the hit. Rather, senior executives did not take a bonus for that year and other staff members deferred their bonuses from March to June.

That very minor change helped cash flow, got the company through the difficult period, and earned management (Grape, in particular) credibility and appreciation for that attitude and approach. Also as a result of that approach, Benchmark suffered far less than other companies in the industry. Benchmark's overall occupancy rate did go down from about 92%/93% to 88%/89% or so during the recession, but the company was never in jeopardy of going out of business.

It is the company's , and Grape's, focus on culture and the well-being of the employees, that may be why Benchmark Senior Living has been named one of the Best Places To Work by The Boston Globe for 10 years, and has been in the top 5 among the "extra-large" employers. That consistent recognition by the staff at Benchmark is quite an achievement, and a testament to management's focus on its employees.

Future of the industry

The demands of the seniors housing customer are changing significantly, and that will only accelerate, according to Grape, who also points out that the health-care landscape is also changing dramatically.

On the future of assisted living…
"Assisted living can and should find a way to integrate into the new health-care delivery system. Generally, hospitals don't know what we are or whom we can serve. We can be a lower-cost setting for a lot of people. But right now, the level of understanding about assisted living—by doctors, hospitals, and networks—is very poor. I think that will change. I think they'll figure it out once bundled payments really take hold. And I think that presents a great opportunity for assisted living operators. And that is where future development may focus."

Senior housing operators must be nimble, engaged, and unafraid as they embrace the changes that are certain to occur at an increasingly aggressive pace. Anyone who thinks the future of the industry will be more of the same is in danger of being left behind. Baby boomers have turned everything on its head, according to Grape. Therefore, the products and services have to change significantly.

On the future of seniors housing…

"I think the industry has to get rid of the word 'senior.' In their later years, Baby Boomers will want the same array of choices that they've enjoyed throughout their lives. They're not going to want to move into a two- or three-story building on a five-acre lot in the suburbs. They're going to want a choice of urban, rural, mixed-use, intergenerational...and they'll want the full array of services 24/7. They'll want to be able to pay for it—not just a rental. Baby Boomers have had this approach to everything that they've ever touched. They'll want it the way they want it, when they want it, and how they want it. They won't want it to feel like 'seniors housing,' and the industry will have to respond to that."

Wage issues perennially affect every industry but especially in today's economy. Seniors housing, in particular, employs a high number of low-paid, low-educated people who, at the same time, have a very close working relationship with the customer and the customer's family. Balancing that scenario is a crucial responsibility of management—and one that is unlikely to lessen or go away.

Benchmark's approach is to ensure that each frontline employee is knowledgeable about the company's purpose, understands the importance of his or her job in fulfilling that purpose, and is motivated to do the job well and in a caring and nurturing way. In turn, the company respects its employees, treats them fairly, and compensates them competitively. Grape is poised for the minimum wage to reach $15 by 2020, as all of the major hospitals in the Boston area are already on that path. "That's definitely happening," he says.

Finally, it's incumbent on any CEO to have at least an emergency or a contingent succession plan, which Benchmark does have. However, devising a long-term succession plan—despite its importance—is proving hard for Grape. It's an "active conversation" as he approaches his 60s, but a "brilliant solution" has not come forth—yet.

Grape believes his successor will need to be quite different from himself—a professional manager who could take the company to its next stages rather than an entrepreneur. It requires a different set of skills, a different set of strengths, and a different kind of personality. The person will need to be thoughtful about periods of change and uncertainty while also having the ability to continue the care-giving connections with residents and reinforce the company's values and purpose among the associates. "So I'm working on it," he says, "but it's a hard project."

"Little old Benchmark…we're doing okay!" Now that is an understatement.

CHAPTER 2

Michael S. Grust

President and Chief Executive Officer

Senior Resource Group, LLC
SRG Senior Living Communities

Michael S. Grust is co-founder, president, and CEO of Senior Resource Group, LLC (SRG), which develops, owns, and operates independent living, assisted living, Alzheimer's/dementia care, and in-home care communities under the SRG Senior Living Communities brand.

SRG began in 1988, when Michael Grust and Martin Fenton purchased La Vida Del Mar, a boutique retirement complex in Solana Beach, California. The two partners reconfigured the property and repositioned it as a luxury, full-service senior living community. SRG, headquartered in Solana Beach, currently owns and operates 32 senior living communities throughout the United States, including in Arizona (7), California (20), Florida (1), Georgia (1), Oregon (2) and Washington (1). The company has become one of the leading providers of distinctive senior living in the United States and is the first senior housing provider in the nation to earn across-the-board three-year accreditation by the Commission on Accreditation of Rehabilitation Facilities (CARF).

Prior to co-founding SRG, Michael Grust served as vice president of The Christiana Companies, a Chicago-based home building company, where he directed the development of the company's master-planned retirement communities. He began his career at Kaufman and Broad (now KB Home), where he managed a division and learned the fine points of homebuilding and the overall residential real estate market.

Michael Grust has been a member of the American Seniors Housing Association (ASHA) since its inception and is Vice Chairman of the organization (2016-2017). He earned a bachelor's degree in economics from the University of Illinois.

Chicago "born and bred"

It was on a military base in Augusta, Georgia—while his father was completing his ROTC obligation as a lawyer in the military tribunal—that Michael Grust was born in 1955. Because his roots are far deeper in Chicago than anywhere else, though, he actually considers himself a "born and bred" Chicagoan.

Michael Grust's mother is a native of Chicago (his father, not too far away from Chicago in Racine, Wisconsin). His maternal grandfather was also born and raised in Chicago—on the city's south side in a rough-and-tumble neighborhood where people pretty much had to fend for themselves. And the 11 siblings in his grandfather's family apparently did. One became a physician, and Grandpa put himself through the Chicago Art Institute and, for years, owned and operated a large graphic arts firm on Michigan Avenue.

Once the three-year military obligation was done, including a brief stint at Fort Hood in Texas after the Georgia posting, the Grusts hightailed it back to "the windy city." The family—now with a second son three years younger than Michael—settled on the north side of the city in East Rogers Park, later moving to West Rogers Park bordering Evanston. Rather than practicing law, Grust's father became an executive at Chicago Title Insurance Co., retiring after 40 years of service. His mother stayed at home to raise the children.

Growing up, the two youngsters had a typical brotherly relationship—fairly competitive, particularly in sports. Playing basketball, for example, they both "played for blood." Even as adults, the competitive juices start to flow during one-on-one games at holiday get-togethers. That said, their personalities were always quite different: Michael being a little more creative, more right-brained; his brother, more technical, more left-brained. As a result, their lives took different trajectories—but each brother was well educated. Both graduated from the University of Illinois; the younger brother went on to earn a master's degree in computer science from University of Southern California. Their father was a stickler for a good education.

L to R: Jack Grust (Father), Don Grust (Brother) and Michael Grust, in 1974

On his parents…

"On a lot of levels, my father was a very thoughtful and intellectual counterpart to my mother. He was soft-spoken and not nearly as aggressive or dynamic; my mother is still a feisty lady, a real fireball with strong opinions. Innately, she gave me a lot of my fire-and-brimstone approach to life. We're both Type A personalities."

The boys attended public school, and Michael had a successful high-school football career—earning particular fame as a linebacker. He was captain of the team, which played for the city championship in Chicago's Soldiers Field. He was on the all-city team for two years, earning lots of awards and accolades. He had a passion for football and was fortunate in having some really great coaches. A self-described "overachiever in football," he worked extremely hard on conditioning and lifting—things that weren't so common back then. He was driven.

Despite the awards and accolades, Grust's father was more critical than complimentary, but he was supportive. The teenager always sought his father's praise, but the household was definitely not a "rah-rah" environment. So many decades later, Michael Grust still recalls moments when his father couldn't fully compliment his stellar performance on the field. It still bothers him.

Academically, young Grust liked science, especially biology, and did well in math. He never had a hard time with his studies, but football really defined his high-school years. He just loved the game. After graduating in 1973, he headed off to Drake University in Des Moines, Iowa, on a football scholarship. It was the right size and level from a competitive standpoint for him.

Drake University was in the Missouri Valley Conference and had some tough competition on the football field. That attracted Grust. Everything went well until sophomore year, when the head coach was "kicked upstairs" and the program began to fall apart. A major hand injury became the tipping point. So, at the beginning of spring workouts for the following (junior) year, Grust called the University of Illinois football coach—who inferred that he would love to have Grust "walk on" in the coming season. That coach had previously contacted him while Grust was still in high school. After two years at Drake, Grust transferred to the University of Illinois.

The appeal of homebuilding

In the summer of 1977, after graduating from Illinois, Grust joined the management trainee program at Kaufman & Broad, a residential homebuilding company operating out of Holbrook, just north of Chicago. It was a huge operation; the company built 1,500 houses a year in Chicago alone. (In 2001, Kaufman & Broad changed its name to KB Home, headquartered in Los Angeles.)

1983 Moss Creek Plantation | Hilton Head Island, SC

Grust loved homebuilding. He loved thinking about architecture, about designs and concepts. And the Kaufman & Broad training program involved him in everything from sweeping out units on job sites to calculating goals for the estimating department. He excelled, both quickly and across the board.

Rather fortuitously for Grust, his immediate supervisor on a job had a heart attack. Tasked with holding the job together, Grust rallied the workers, explained that he needed their help in order to follow through, and the job became a collaborative exercise with a successful outcome. In recognition of that achievement, he was promoted to superintendent. He was not a professional engineer. He had no construction management background. And he was only 22 years old. But he had an instinctive ability to lead, to communicate, and to develop relationships.

On leadership…

"I think being a leader was always in my DNA. I've always found myself in position to become the captain of the team."

Based on that initial success and his proven leadership qualities—and after only 18 months with the company—Kaufman & Broad asked Grust to operate a new region which he did and did well. In 1979, however, the company decided to shut down its entire eastern division and concentrate on projects in California, France, and Canada. The 24-year-old Grust, now with the company only two years, was relocated to the Los Angeles headquarters as part of the corporate team. He worked on a variety of assignments: instruction, firming up standard operating procedures, compliance, auditing production, sales and marketing, and more. It was a tough environment with a lot of pressure but incredible exposure for the young man. Getting experience working for a publicly-owned company also proved to be great for his professional background.

On those early days at Kaufman & Broad…

"I learned a lot about a lot of things, both real estate-related and development-related. Working with architects in the corporate office, I had a lot of exposure to design. And I started to realize that I had good instincts relative to building communities, managing people, and marrying design and concepts."

A vice president of Santa Monica-based The Christiana Companies, who was formerly with Kaufman & Broad in Chicago, began courting Grust in the early 1980s. Eventually, Grust interviewed with Martin Fenton, chairman at the time, and Fenton made Grust an offer that he couldn't refuse. So he left Kaufman & Broad and moved to San Diego to run multiple residential communities for what was already a very large division of The Christiana Companies.

Cypress Court at Mesa | Mesa, Arizona | L to R: Michael Grust, Jay Hicks and Martin Fenton

Moving right along

After a year working for The Christiana Companies in San Diego, Grust—who was now married—was relocated to Hilton Head, South Carolina, to turn around a master-planned community owned by Northwestern Mutual Life Insurance Company (with whom The Christiana Companies had an important financial relationship). The community was on 1,062 acres and had two 18-hole golf courses and its own sewage treatment plant…and the business was upside down. The community needed to be reorganized to become profitable. It needed a building program.

The assignment was to last for two years, but became five. This was in the formative days of Hilton Head development, and Grust was running all the development and construction, the two golf courses and golf course maintenance, the sewage treatment plant…everything but the accounting. It wasn't easy for a young Yankee, and figuring out how best to manage everything took time—and effort. And he quickly became Vice President of Development.

Grust's natural leadership instincts kicked in, and he re-mastered the entire business plan, the entire community. He came up with a vision for a variety of product types and discovered that he really enjoyed that creative side. He created townhomes and a custom home program and was in charge of everything from engineering through marketing. He had to deal with state regulators and environmental agencies. And at night, he played basketball in a men's league in Bluffton, South Carolina. Basketball became his new sports outlet and continues to be his sports passion.

After a while, though, Grust found the Hilton Head world to be rather artificial, even claustrophobic, and the summer heat and humidity almost unbearable. Yet it was a great experience overall to have the creative juices flowing, to accomplish great executions, and to turn the project around for Northwestern. The experience was definitely a home run. He knew nothing about golf courses, nothing about sewage treatment, but he needed a vision to turn around a troubled property. He also learned it was really an operating community.

And one observation became quite clear: Hilton Head attracted a lot of active retirees, wealthy people from northern cities who built custom homes on the island and were experiencing a new, clubby, social concept in "retirement living."

On returning to California…

"I handed over the keys [to the Hilton Head property] to somebody else, and I came back to California. I'd done my tour of duty and, frankly, was much better for it on so many levels. And I knew I was a lot more valuable to the company."

A lot of innovation was occurring in the Southern California homebuilding world in the 1980s, and Grust was given two assignments:

1) In Venice Beach, an eclectic Los Angeles neighborhood, a troubled townhouse project didn't have a single presale. The sales and marketing team weren't accurately reading the market. Grust completely threw out the business plan, repositioned the product to appeal to the Hollywood set (rather than Orange County elites), tore out all the furniture from the models, and restyled the look to be more hip. The new marketing scheme was hugely successful, and Builder Magazine recognized the community as "project of the year."

On the Venice assignment…

"It was an opportunity to do what I love to do, and that's to create—not just to triage but also to take some risks. That's always appealed to me."

2) Almost simultaneously, Grust was given responsibility for completing the design of a bankrupt "piece of dirt" in Rancho Bernardo and getting it entitled. A local developer had planned a senior housing project but couldn't get it off the ground, so to speak. It was a full campus and a great location. Grust had no experience building that kind of project—nor had his company—and they needed to find an operator. Ultimately, under Grust's leadership, the project was built and sold to The Forum Group. It became the Remington Club. Not only was the project a successful undertaking, the senior living business model thoroughly intrigued Grust. He became fascinated with the seniors housing model: hospitality, real estate, care. It was his Ah-ha moment.

On the Rancho Bernardo project…

"It was like, wow, this thing is kind of like a hotel with residential elements and lifestyle elements at the same time. I certainly love building things. But after a while, building a single-family house became a 'been there, done that' kind of thing. This project sparked my interest in the senior housing business, for sure."

The senior living attraction

In the late 1980s, when The Christiana Companies was about to be taken over by an outside group, Grust and Fenton both quit without being quite sure of their next step(s). Senior housing seemed like a good idea, and they considered single-family homebuilding in places like Palm Springs. So they leased some space, sketched out some business plans, considered which direction to take, looked at a variety of development opportunities, and finally came together as Fenton Partners.

Around that same time, a local developer had built a 105-unit community in Solana Beach, California—La Vida Del Mar. The developer, who had partnered with a gerontologist with the goal of creating a wonderful residential environment where seniors would live a prescribed lifestyle, was having a hard time finishing the building and didn't know how to pre-sell it. According to Grust, it was a disaster—but became an advantageous investment opportunity for Fenton Partners—thus becoming the new company's first project. Fenton Partners became 49 percent partners in La Vida Del Mar.

L to R: Michael Grust and Martin Fenton, Senior Resource Group Co-Founders

On getting up to speed in seniors housing…

"I immediately became de facto executive director, head of development, everything, and started reading voraciously: Who's who in market research? How do I find out how to position this project? What does this project want to be? How do I make this investment work? I found Maria Dwight [founder, president, and CEO of Gerontological Services, Inc.], and we worked out a blueprint. We surveyed the marketplace, got feedback, and started to build relationships with potential customers."

Tapping resources from his market-rate housing experience, Grust then put together an expensive, rather glamorous brochure targeted to a high-end market. The brochure actually intimidated potential customers, who instinctively thought, "I can't afford to live here." It was at that point that Grust realized that senior housing was a unique product—quite different from homebuilding and the general real-estate market—and that he really needed to listen to those in the market in order to really understand it. He built industry relationships, took on consulting assignments, and worked for banks as a receiver on troubled senior housing projects. In the process, he gained both an understanding of and an enormous reverence for the complexity of the seniors housing business.

On the complexity of the business…
"It's health care. It's hospitality. It's real estate. It's a pretty complex management model. And to be a great developer in this business, I needed to know how communities operate. How could I direct an architect or even have a seat at the table if I didn't understand the back of the house…and the front of the house."


SRG Executive Team July 2005 | L to R: Tim Fox, Martin Fenton, Michael Grust (M),Kayda Johnson, and Wick Peterson

As executive director of La Vida Del Mar, Grust began to understand the fears and concerns of his customers, the solutions expected by their adult children, and the nuances of the operation—not the least of which was the importance of the dining experience from both sociological and quality-of-life standpoints. For Grust, it became education by immersion.

Senior Resource Group founded (1988)

Fenton Partners—Martin Fenton and Michael Grust—founded Senior Resource Group, LLC (SRG) in 1988, with Fenton focusing on finding land/acquisitions and building relationships and Grust focusing on innovative designs, architectural solutions, and innovative environments. La Vida Del Mar eventually became wholly owned and operated by SRG and, with a nearly 48 percent margin, continues to this day to be one of the company's best-performing properties. Many employees have worked there for 15 or 20 years. [Fenton retired in 2005 and no longer has an active role in the company but still visits the office from time to time.]

SRG's second opportunity was a senior community under construction in Wilsonville, Oregon—a diversification project undertaken by Portland General, the local utility company. It was an extraordinarily "gilded" independent living project—overdesigned, overbuilt, and very expensive—in a master-planned golf-course community called Charbonneau. Portland General sought an operator for the new community. And because the development had become so expensive, the new project—despite being a rental community—required an entrance fee.

Grust flew to Portland and made a presentation that stressed the importance of adding a health-care component in order to justify the entrance-fee requirement. His recommendation was to mimic some form of a continuum (something less than a CCRC model) through the accrual of home healthcare hours that the resident could save for "a rainy day." He recognized how important home healthcare was, not just hospitality, and that to be successful, you really needed in-house clinical expertise.

On senior living as a business…
"I don't think most folks really recognize the complexity of managing a senior living community—or the senior living business in general: health care, hospitality, real estate… it's all three."

SRG won the bid to run the Portland property, which was still under construction, and Grust set up a sales trailer and put together a sales team. While he had some experience with the La Vida Del Mar property, the sales and marketing undertaking was not Grust's forte. Adding a lot of energy and hard work to his natural instincts, however, the project opened successfully—180 units in the first phase—and was soon stabilized. About five years later after stabilization, Grust convinced Northwestern Mutual Life Insurance Co.—with whom both he and Fenton had maintained a good relationship over the years—to purchase the Wilsonville community from Portland General. At the time, the price tag was the only thing precluding SRG from buying the community for itself. SRG also started to be hired as the receiver on several properties. Northwestern eventually became a small minority investor in SRG and held a board position.

SRG continued to manage the Oregon community for Northwestern Mutual and convinced the insurance company to develop 84 assisted living and dementia units in a second construction phase. Today, SRG operates the 180 independent living units as SpringRidge at Charbonneau and the 84 assisted living and memory care units as SpringRidge Court. The communities are now co-owned by SRG, Welltower, and PSP Investments, a large Canadian pension fund.

Building capital

Development was SRG's strategic intention, but the company lacked the required capital in the early 1990s to fulfill that goal. To build capital in 1992-93, SRG managed a number of foreclosed properties in California and Arizona that were among the Resolution Trust Corporation deals. It also managed some retirement communities for a REIT out of Nebraska. Not only did those assignments add funds to SRG's coffers, the partners were building non-monetary capital. They were gaining valuable experience.

On those 'little side jobs'…

"We started making a living by doing all sorts of assignments. We had multiple contracts and managed retirement communities for many, many years, becoming more and more comfortable with them and learning how to manage them on other folks' nickel. I was building a management team."

It was in 1998, though, that the SRG partners decided to raise money in earnest. Starting with some high-net-worth connections in San Diego, SRG relatively quickly raised $16 million. That allowed the company to start buying land, get things entitled, and close deals. By 2000, the partners had started designing projects, paying predevelopment costs, building a team…and paying bills.

Fenton and Grust soon realized that they needed to borrow a meaningful amount of dollars. Two more communities—La Vida Real in Rancho San Diego and Maravilla in Santa Barbara—were entitled, and those were major projects. The Village at Sherman Oaks was under construction. And there were more. Further, current investors wanted some indication of an exit strategy. SRG was looking to raise $60 million, and that meant going to New York…Wall Street, big-time!

It was during that effort that Grust stumbled upon Starwood. It was good chemistry, and Starwood saw the idea of replicating its hospitality model in the seniors housing world as an appealing opportunity. A deal was cut, and Starwood became a 70 percent partner, a controlling partner, of SRG.

L to R: Larry Cohen (Capital Senior Living Corporation) and Michael Grust at an ASHA meeting

On the Starwood deal…

"I wasn't fearful [about losing control]. We had a board, and I liked all the board members. Essentially, Starwood provided the equity that we required to finance our development deals. And we maintained a tremendous amount of autonomy."

During the Starwood partnership years (2000-2005), SRG brought two communities out of bankruptcy and made acquisitions that were big, complex, or both. The entitlement journeys were arduous, but Starwood was there as SRG's partner and backer of credit—a capital strategy that helped SRG succeed in taking its business to the next level.

By 2005, however, Starwood was looking to monetize its investment in SRG and figure out the best exit strategy. Starwood executives wanted to hold on to ownership, having SRG become Starwood's own "retirement management company," but Fenton and Grust wanted to control their own destiny going forward. In fact, their individual relationships with Starwood were based only on an employment contract, so the two partners were prepared to depart and start a new company if that was the only logical way forward. (In 2004, Starwood's Tim Fox joined SRG and helped negotiate the separation.)

In the end, and as the discussions accelerated, the breakup of Starwood and SRG became a basic management buyout (MBO) scenario. Post-MBO, Starwood's share of the business was quadruple its initial investment, while SRG's share was sufficient for it to continue as a healthy business. The two entities actually continued a working relationship through 2014, when the sale of a building in Los Angeles was finalized.

Bringing Starwood into the equation was, perhaps, SRG's most important financial decision since inception, according to Grust. The relationship gave SRG its financial heft and was the catalyst for the trajectory that the company is on to this day.

SRG post-Starwood

Following the MBO with Starwood, Martin Fenton pretty much retired and no longer retained an ownership piece of SRG's management company. Tim Fox, executive vice president responsible for strategic growth, became a partner. Wick Peterson had already been brought on as CFO and then later became a partner. Michael Grust continued as controlling partner.

In November 2005, SRG recapitalized with PSP, the Canadian pension fund, as a partner. Over the next year or two, they sought opportunities, entitled some land, and closed on eight communities. When the bottom fell out of the economy in 2008, however, things got "a little choppy," according to Grust, and "all bets were off."

On navigating the recession…

"We had some development sites that were ready to go—actually, some are just coming out of the ground now. We all had to take a pause for a couple of years, but we hunkered down and weathered the storm. Now, from our capital partner perspective, we have to grow differently. We're focused on net operating income rather than occupancy. And we've converted a lot of units to assisted living and licensed them in order to fill units and manage turnover."

Grust recognized that the company would have to hunker down and operate as efficiently as possible. The industry as a whole would have to deal with a more needs-driven population, and that required preparation. And while SRG survived the recession "very nicely," growth was put on hold.

By 2010, SRG was back in the market, buying two communities in Arizona from Leisure Care. These were more typical properties for SRG. But prior to these acquisitions, the company entered into an agreement with Lone Star to manage a group of properties that the private equity firm had purchased in 2009 from troubled Sunwest Management. SRG's partner, PSP Investments, thought it was a great opportunity for Lone Star but would require at least a five-year hold to turn things around. These 45 communities with 3,554 units were in 11 different states, most of which SRG had no existing operations. They were of a significantly lower quality than what SRG had managed in the past, but SRG management decided that the management contract made sense on two levels. One, it would provide a new source of cash flow. And two, it would provide an opportunity for management to diversify into a different asset class, including those with Medicaid-funded residents. Affordable seniors housing was not on many providers' radar at the time, and management thought it might be the right time to explore different financial models.

L to R: Michael Grust, Allison Holland (Jones Lang LaSalle) and Wick Peterson at an ASHA Fall Board Reception in Washington, D.C.

Until now, SRG had only operated communities that were 100% private pay with mostly high monthly rates. Since this was a different market for them, they set up a separate internal team to manage these properties, many of which needed significant repairs and had damaged reputations with the local regulatory authorities. Grust told Lone Star this had to be a five-year turnaround because of all the problems. Unfortunately, Lone Star decided to rush it, and after 22 months, SRG was replaced as manager, with Lone Star picking four different companies to take over. The unfortunate part of the ordeal was that SRG did expand to deal with the 45 new properties under management. The fortunate aspect, however, was that management learned they were better off "sticking to their knitting," which is the high end of the market. Lesson learned.

SRG currently owns/operates 32 properties in six states, which jumped with a new management contract with financial partner Welltower in 2016 when the REIT bought a large portfolio and asked SRG to manage 11 of the properties in California. In addition, the company has a couple of smaller deals in process in Northern California—mainly new assisted living and dementia units—where local developers are seeking an infusion of capital. A large new project in Austin, Texas, with 235 units—independent living, assisted living, and some memory care—is also underway. And similar projects are going forward at SpringRidge in Oregon, where an 11-story tower will be built.

Adjacent to the Naples, Florida, and Northridge, California, communities, SRG plans to build some "meaningful" post-acute units, some dementia units, and a few more assisted living units. The focus for these projects will be on hospitals rather than hospitality and on short-term stays for post-acute patients rather than on long-term care for residents. Besides filling an obvious need, these projects will also serve a marketing function, exposing new prospects to SRG's senior housing product(s).


ASHA Leadership 2014 | L to R: Grust, John Rijos, Ray Lewis, David Schless, Larry Cohen and David Freshwater

In 2014, SRG recapitalized once again, this time with Cadim, a real-estate subsidiary of another Canadian pension fund called Caisse de Depot et Placement du Quebec. Cadim became a partner but eventually exited from the investment. Enter Welltower, which invested in SRG for 47 percent ownership, essentially taking out Cadim's position, which accounts for the odd percentage. So far, the only outright purchase made within the SRG-PSP-Welltower relationship has been The Piedmont at Buckhead community in Atlanta, purchased in 2014.

On SRG's financial bona fides…

"We're blessed. We've got a great pedigree and a great track record. I think we have an easy time attracting capital now. We get to pick the bank that lends us money on the construction side. We've got people fighting for our deals. And that's because we've delivered—not just because all these buildings are National Association of Home Builders (NAHB) "Projects of the Year," but also because the banks have had great outcomes. We are passionate and committed to operations."

And retirement communities are not all that SRG is doing. The company started a home assistance business called InTouch at Home that offers residents non-medical, in-home personalized assistance services. These services are also available outside of the SRG communities, which can be great for marketing. And when residents do move in, management has really worked on trying to get the staff and residents connected with each other, calling the approach SynRGy. The collaboration between residents and staff not only helps residents (and their families) become more connected, but helps the staff members feel they are part of a community, a family.

Future of the industry

Like his colleagues in the senior living/senior housing business, Grust recognizes major issues that will affect the industry in the coming five or ten years. Affordability, for example, is a serious concern—both for businesses and for consumers. If wages or other costs increase significantly, services may have to be trimmed—or the resident will have to pay more per month—and that will likely result in lower occupancy levels. That said, retaining good employees is a lot less expensive than hiring new ones. You have to sell the company culture to employees, as well as to prospective customers.

On hiring people…

"I'd rather promote from within whenever possible. But when we do look for people, I look for those with a passion for serving the customer and who recognize how exciting it can be to really make a difference in the lives that we serve. This truly is a rewarding business on so many different levels, and it takes a certain kind of person to be involved. I want our employees to understand why they're doing things and how impactful their interactions with our customers can be. We live with them 24 hours a day. I can't think of a business that's more unique."

Scale is another concern. Grust considers senior living to be a largely local or regional business. And while he doesn't presume to be able to divine an optimum size for a senior living/senior housing organization in terms of its number of communities or facilities or even units, he does feel that the huge size of some "empires" may ultimately lead to their demise. "It's physically impossible to stay in touch with the business when you have more than a thousand buildings," he says. "It just is."

On creating great communities…

"Creative buildings can be great buildings, but it's not about adding scale for the sake of scale. It's about space with a purpose. Our greatest competitor is the home, so I demand that [our buildings] include all the icons of home. Nobody wants to eat in a big dining hall, for example. The library should be interactive, and there should be places for chance meetings. Those are all design elements, but you still have to create the programmatic elements that engage the residents. They can't just sit."

The success or failure of the senior living/senior housing business will be borne out of its ability to engage with the market, deliver on a promise based on its reputation, fill the building(s), and then sustain that population. All of SRG's eligible communities are accredited by CARF International (the Commission on Accreditation of Rehabilitation Facilities), which is an independent organization that sets high standards for care and service.

Grust recognizes that SRG is not for "everyman," and that the company needs only a "whisker-thin" piece of the population to be successful. SRG seeks markets that have barriers to entry—underserved, high cost, or otherwise unattractive to the competition. The Village at Sherman Oaks in Sherman Oaks, California, for example, is in a location that was underserved, and the property has no "high-end" finishes; but the community is consistently almost 100 percent occupied due to its location, programming, and SRG's overall reputation in the industry. They knocked down the existing building, built 250 new units and filled it in five months. It took a lot of work to convince the banks of their vision for the property, but it paid off for everyone. "Once you've covered the fundamentals," Grust advises, "just make sure that you build something that's the right size or right price for the market."

On ASHA…

"I've been a member since the beginning, about 24 or 25 years now, and I love the intellectual stimulation that ASHA provides—all of the research projects and the curiosity about how we can learn more about how to better serve our customer, how we can truly make a difference in the lives that we serve, and how to create environments where people can thrive. That takes a certain desire to listen, to learn, and to do better—and ASHA represents that commitment. ASHA pushes in a lot of different areas and really understands the underpinnings of this business, a business that's still being invented in a lot of ways. It's a fascinating journey that we're on."

SRG continues to be an exciting business that provides Grust with an opportunity to touch lives in a creative, inventive way. He is driven by the idea of giving people who live in a communal setting a good reason to be excited about getting up in the morning and having a good day. Being a "catalyst for quality of life" is his self-described "ultimate dream." It has not always been easy, and there has been some blocking and tackling along the way, but he sleeps well at night knowing that he provides a quality product. Operations don't keep him up at night; it is his triplet daughters, now teenagers! But that is another story.

Grust Family Photo 2016

"I'm fortunate to be doing something that I really love."
—Michael Grust

CHAPTER 3

Lynne S. Katzmann, PhD

Founder, President & CEO

Juniper Communities

Lynne S. Katzmann is president and CEO of Juniper Communities, which she founded in 1988 as a series of private investment partnerships. Based in Bloomfield, New Jersey, the company invests in, acquires, develops, and manages senior living and long-term care communities. Juniper is one of the largest woman-founded, woman-owned, and woman-led businesses among the top 40 national seniors housing companies.

Juniper acquired its first two communities—skilled nursing facilities—in 1990; by 1993, it had purchased five more. When assisted living began to evolve in the mid-1990s, Katzmann began to focus on the design and development of purpose-built assisted living communities and specialized memory-care facilities. The company's current portfolio includes 22 communities—independent living, assisted living, skilled nursing and rehabilitative care, memory care, and long-term behavioral health care. More than 1,500 Juniper employees care for some 1,800 residents in Colorado, Florida, New Jersey, and Pennsylvania.

Katzmann has worked in the health-care industry, in both the public and private sectors and in both the United States and Europe, since she was 24 years old. Today, in addition to leading Juniper, she is a board member of several for-profit and nonprofit organizations, including Senior Care Centers of Dallas, ElderCare Alliance of San Francisco, ArtsConnection of New York City, Partners for Health, Tufts Medical School, Lexicon AI, and the Social Venture Network (based in San Francisco). Katzmann joined the Executive Board of ASHA in 2015 and is a member of its public policy committee. She has a PhD in economics.

Safe landing in New York City

Lynne Katzmann first saw the light of day in a Quonset hut in Fort Huachuca, just south of Tucson, Arizona, and north of Nogales, Mexico. It was July 6, 1956—two days after her father was discharged from the Army. Fred Katzmann had been drafted during the Korean Conflict and, as a trained engineer, was part of a group of technical people with special clearance to work on military intelligence and rocketry, according to his daughter.

When their child was just six weeks old, the Katzmanns sold their tiny house and headed back east to New York City. The family lived there for a year, with Fred Katzmann's parents, while awaiting a new house to be built in New Jersey.

Fred Katzmann was an extremely smart, technical individual and a very interesting man. He was born in Germany, in a town just south of Berlin, in 1929—an only child, which was not uncommon. The world was very difficult, particularly for Jews, at that point in time. It was the height of the Weimar Republic, the start of the Depression, and Hitler was coming into power. What was about to happen in Germany was becoming very clear.

Fred Katzmann's father was an accountant and decorated veteran of World War I, his mother, an only child of two adoring parents. The elder Mr. Katzmann didn't think of himself as a Jew; he considered himself a German. When the Gestapo came and took his boss, Mr. Katzmann marched down to the Gestapo, so the story goes, and said, "You can't do this!" The Gestapo said the equivalent of "Oh yeah?" and took him, too. He was put in a concentration camp.

On the Katzmanns coming to America…

"Two weeks after being sent to a concentration camp, my grandfather returned home, beaten and with his head shaved. My grandmother took one look and said, in no uncertain terms, 'We're leaving Germany!' He was reluctant, finding it hard to believe that this could happen in his own country, but my grandmother repeated, "I'm taking our son, and we're leaving."

The Katzmanns left Germany in 1939—all three of them. With about $10 in their pockets and some bits of furniture, they sailed across the Atlantic to New York. A relative took the family in and provided a much-needed affidavit, which was required to enter the United States.

Lynne Katzmann's mother was also born in Germany, farther south than her father, in 1932. Katzmann's maternal great grandmother was a very outgoing, lovely individual, and always was very hospitable when relatives from America wanted to come and stay at her home. So when the family needed an affidavit to get out of Germany, she wrote to the relatives and asked for help. The relatives agreed to help obtain the affidavit. The deal was that Lynne's grandparents and their 6-year-old daughter, Lynne Katzmann's mother, were not to contact the relatives once they arrived in New York. They would be on their own. In 1938, the little family also left Germany and sailed for New York with their belongings and a tiny amount of cash.

One grandfather sold coffee and the other sold salami, door-to-door. Both grandmothers cleaned houses until they could find other jobs. The two families lived down the block from each other, one at 2 Arden Street and the other at 60 Arden Street in the Inwood section of Upper Manhattan, north of the George Washington Bridge.

On her grandmother, the entrepreneur…

"My grandmother came from a very poor family. She and her sisters had no money for a dowry, so they started their own fur shop [in Germany] in the 1920s. My grandmother was independent—an entrepreneur—and an extraordinary woman, at least by my memory of her. She just made things happen. So she was a furrier. My grandfather essentially got the business, which was the dowry, when they married. Once in New York, they opened a fur shop, first in their apartment, and then on Dyckman Street, where they sold, repaired, and stored fur coats. They worked together in that shop for all the years of their lives, and I spent a lot of time there as a child."

Being an "immigrant kid" provided a major influence on Lynne's life. Learning to do a lot with a little, work hard, find solutions to challenging problems – all made her who she is today. It was unusual for a woman (her grandmother) to have a business in the 1920s, and she became a role model for the young Lynne. And later on her father had his own business, so you could say entrepreneurship was in her blood.

Even though Lynne Katzmann's parents lived on the same street, they first met at a party when they were young adults. Fred Katzmann asked her to marry him when he left for the Army, where he was stationed in Arizona. They married in January of 1955 and settled on Apache Street in Fort Huachuca, Arizona.

Settled in Jersey

Lynne Katzmann grew up in Cedar Grove, New Jersey, where her mother, Laurie, still resides. In the 1960s, Cedar Grove was partly a blue collar/middle class town and partly young professionals with college degrees; many were immigrants who had moved to the suburbs. The Katzmann children all went to public schools.

Fred Katzmann was a graduate of the prestigious Brooklyn Technical High School and earned his engineering degree from City College and received his Master's from Stevens Institute of Technology. Extraordinarily smart, very accomplished, and an intellectual with a great love of history, he worked for Dr. DuMont of Fairchild DuMont in the mid-1960s and later ran the test-equipment division of Monsanto. After that, he purchased Ballantine Laboratories from Singer and ran it until he retired. All of these companies were located in northern New Jersey. He was a scientist, an inventor with multiple patents, and a very likable gentleman—but opinionated, which caused some people in local politics, in which he worked for more than two decades, to find him difficult, according to his daughter.

Laurie Katzmann, Lynne's mother, graduated from Hunter College High School and then earned a degree in speech pathology from Brooklyn College and an MA from New York University. She taught for a while but didn't work much outside the home until later in life, coming to work at Juniper in 1990. Rather, she was smitten by the theater, playing the lead in several community and regional theater productions. Laurie and her daughters loved to sing and dance together in their living room. As a result, the youngsters knew the words to many Broadway shows!

Lynne Katzmann is the eldest of three siblings—all girls. Growing up, she was always considered the "hard head or toughest" of the three—independent, tough outside, but "mush" inside—and very much like her dad. Debbie, her younger sister by 2½ years, was quite the opposite. She is now an occupational therapist in the Chicago area, married with four children. Lynne and Debbie both earned bachelor's degrees from Tufts University.

Stephanie, the youngest of the three sisters, has a personality more like their mother. Six years younger than Debbie, Stephanie also lives outside Chicago with her husband and children. She graduated from Emory University, earned her MBA, and recently went back to school (Duke) to become a life coach. She now has her own business, Enable U.

Fred Katzmann traveled constantly when the girls were growing up. Monsanto had locations all over the world, and Laurie would travel with him on many of his business trips. As the girls grew a little older, they would go too. And family vacations usually involved travel, first around the country and then the world. He loved travelling and seeing new things. Perhaps that had an impact on Lynne's decisions after college.

On life with father…
"My father wasn't around a lot. And when he was around, he was a workaholic. He loved his work. His world was his work. We were important, but it was clear that his work was his passion."

School days

In high school, Lynne Katzmann was most interested in social sciences and languages. Girl's high-school sports were barely recognized in those years, but the girls enjoyed skiing. Each winter, the family would go to Vermont for a week, and the girls were enrolled in ski school—which they didn't mind at all, because the Austrian ski instructors were "really hot!" Otherwise, Lynne Katzmann was most involved in the band, orchestra and high school theater productions. She played several instruments: piccolo, flute, tenor sax…even the tuba!

On summer "work"…
"When I was in high school, my father had us all work at his company; but I didn't want a summer job. I worked hard and played hard [during the school year], and in the summer I just wanted to 'veg.' Sometimes, I'd get a bunch of books and almost not leave the house for three or four weeks. I just read and read and read and read. I just needed to regroup."

After graduating from high school in Cedar Grove, Lynne Katzmann headed for Tufts University, located just north of Boston. Again, social sciences and languages interested her most. Much to her father's chagrin, she neither liked nor did well in science—although she did do well in what would today be considered a rather primitive computer-programming course (i.e., learning to key in punch cards). At Tufts, she was on the ski team ("a joke"), played in the jazz band and marching band (which she particularly enjoyed), and was the student representative to the board of trustees (on the curriculum committee).

On student activism…
"In my first year, I started a campaign to make Tufts more diverse. At the time, it was all white except for a few foreign students. I put up signs, but the pre-med kids on my floor would rip them down. They were afraid they might not get into med school if they were associated with me. I kid you not. And that is one of my defining memories of Tufts."

In just three years, she earned a double degree in sociology, along with individual study that compared German and French language, literature, and history between 1848 and 1871—"a very interesting period," which she still references today when speaking to groups. She also studied Jungian psychology, art history, and Russian—and graduated with Tufts' class of 1977. No one did that much course work and graduated in three years. But something in her was saying she wanted to prove she could do things differently, which she has pretty much done most of her life. It didn't hurt that she found college easy, did well, and loved it all. And now she is on the Board of Advisors for Tufts Medical School.

Off to Europe

Deciding that she needed more experience abroad, Katzmann applied to the London School of Economics and was accepted into its master's degree program in (the equivalent of) public administration—a topic that, it turned out, didn't appeal to her at all. Her advisor suggested she speak to the head of the department, Brian Abel-Smith. He was very involved in international health policy work and in the World Health Organization (WHO) and a follower of Richard Titmuss, much known for his liberal approach to social policy in England and Europe. Abel-Smith had recently written a book called *Value for Money in Health Services*.

Katzmann read the book before meeting with Abel-Smith and explained what she considered the book's faults. After listening carefully, he smiled and asked her to work with him toward a doctorate in health policy. She agreed, hoping to do a study of Tanzania's Ujamaa villages, which are community health centers, and look at the applicability of community development on health and wellbeing. And because of all of Abel-Smith's connections, she would be working with the Flying Doctors—a "very cool" idea, indeed.

In preparation, Katzmann spent the summer studying tropical medicine and hygiene at Ross Institute of Tropical Hygiene at the University of London. In the meantime, Mozambique and Tanzania went to war. With the borders closed, traveling to Tanzania was no longer possible. Her adviser suggested that, as an alternative, she go to Berlin. So instead of tropical hygiene, her dissertation topic became the German Sickness Insurance system between 1883 and 1911. The topic fit quite nicely with her Tufts senior thesis on French and German language, literature, and history from 1848 to 1871.

Berlin in the late 1970s was a divided city. Katzmann enrolled in the Free University of Berlin, which was in a part of West Berlin called Dahlem, with the German equivalent of a Fulbright grant. To do her primary research, she traveled back and forth through Checkpoint Charlie nearly every day because the papers of Rudolf Virchow, the first German clinician and an active politician, were kept in the archives of the Charity Hospital in East Berlin.

In hindsight, it seems remarkable that she would return to live and study in the country that kicked her family out just 40 years earlier. Her mother was apprehensive about the move to Germany, but her father thought it was great. To think that just one generation later she could work there and be supported by the German government had been unthinkable when her family settled in the U.S. But Lynne was never afraid to take chances.

Once her research was done, Katzmann left Berlin and returned to England to continue her writing—but then became bored. She decided she needed to stop being a student and returned to the United States…to Portland, Oregon.

On Brian Abel-Smith…

"I needed a break [from my dissertation]. I wrote a first draft, Brian read it and told me what I needed to do to finish, and then I just let it hang out there—for almost 15 years, as it turned out. Brian just kept working with me. He was such a fine teacher. He taught me how to write…how to think. He was the best mentor one could ever have in that situation." [She ultimately got her PhD in 1992.]

Northwest Passage

It was 1981, and Katzmann took a road trip across the country to Oregon, where a friend from her original master's program in England lived with his wife. A friend introduced Katzmann to Tom Higgins, the chief of staff to the county executive of Multomah County (where Portland is located) who had earlier worked in the Carter Administration and was very astute. Higgins hired Katzmann as part of a team of four people, including their mutual friend and two other women, tasked with helping put together a state health plan for Oregon. The plan that the team developed was published in 1982.

Katzmann was the last person to remain on the team and, as such, did all the related public relations work for the plan. Essentially, the plan called for enrolling people who were medically needy (between 133 and 138 percent of the federal poverty level) into managed care rather than a fee-for-service health plan—similar to the expanded Medicaid program under today's Affordable Care Act. Katzmann was just 25 years old at the time. And despite being called "an airplane with lead wings" by the Oregon Medical Association, most of the proposal that she promoted was ultimately implemented.

In the winter of 1982, Katzmann joined a group of older women who had started Health Choice, a not-for-profit that participated in a demonstration project to enroll Medicare beneficiaries into managed-care plans. Not long thereafter, through a local health advocate, Lynne met J. Matthew Davidson, who was about Katzmann's age and had come to Oregon from New York to visit his father. Davidson was a trained geologist and had just gone to work for his grandfather's company, JMK Associates. One of its large holdings was a company called Metrocare, Inc.

At a dinner party, Katzmann got into a conversation with Davidson about her work. When he realized that she knew something about health care, the two hit it off. They had lunch the next day; three weeks later, she was in New York City helping Davidson run Metrocare.

On moving back to New York…

"I realized that Metrocare could improve its bottom line if it had fewer Medicaid patients in its nursing homes, and I knew something about managed care. So we got Metrocare into managed care and did a joint venture with Baxter Travenol. But that's how I got back to New York. I liked Portland, but it was very rainy—and I like sun. So I was happy. Metropolitan New York was my home. My family was here."

Metrocare owned and operated several nursing homes (SNFs) that were run by an executive team of accountants in St. Petersburg, Florida. It was Katzmann's and Davidson's job to turn the company around, which they did in a rather short period of time—doubling the value of the company. Katzmann, now 29 years old, was running a company with 875 employees, a $20 million budget (roughly $60 million in today's dollars), and SNFs in New Jersey and California, and retirement communities in Florida. In addition, she and Davidson put together a joint venture in Puerto Rico with Baxter Travenol, then the island's largest employer. The result was Puerto Rico's largest health plan, which Metrocare eventually sold to Baxter Travenol. Ultimately, Metrocare was sold to a Pittsburgh-based company and became MeritCare.

Juniper gets underway

Once Metrocare was sold, Katzmann met David Glickstein, a boutique investment banker. The two decided to start their own company, which they called Juniper Partners. She put together a business plan, and they raised a small amount of money. The original idea was to put together a $100 million capital fund; but it was 1988, and the senior care industry was in the midst of a major credit crunch. It was not the right time to put together a fund, particularly for anyone with limited experience raising investor cash. In the end, though, they were successful raising $440,000 from a handful of young entrepreneurs and investors who were interested in socially responsible investing.

After about a year, Glickstein opted out, and Katzmann changed her strategy. She decided to find existing properties—thinking that people would be more interested in investing if they knew what they were investing in—and found two troubled nursing facilities that Horizon Healthcare wanted to divest, one outside of Boston, Massachusetts, and another in Bloomfield, Connecticut, just outside of Hartford. She went back to Juniper's original investors, wrote a private placement memorandum, and successfully raised about $1 million.

Few sources were lending money to the industry at the time, certainly not on terms that Juniper needed to make its deal work, but Katzmann persevered and eventually got money from Lloyds Bank in New York with a letter of credit from Health Care Services Group—which agreed to provide the letter of credit in exchange for Juniper Properties LP agreeing to use its services in the two properties. The total price of the two properties was about $4 million.

On the financial advantage of being values-driven…

"I met with a young woman at Bank of Boston, who asked why we wanted to buy the two troubled nursing homes. 'Essentially, I want to make the world a better place,' I said. 'And if we buy low, we can improve operations, put the property in better hands, improve the wellbeing of the people who live there, and eventually make money for our investors.' She had no money to lend; but I knew right then that if she did have the money, I would have gotten it. That was a powerful lesson: Tell people what you believe in. If you're values-driven…you will appeal to people who will invest in you because of that."

With little to do after hiring managers to operate the two nursing homes—except to collect rent—Katzmann looked for more properties to acquire. In 1992-93, she decided to sell the original two properties to one of the managers, make a distribution to Juniper's investors, liquidate the partnership, and then encourage the initial investors to reinvest in new acquisitions. Juniper Partners LP II, a new entity, was then able to purchase three low-cost properties in Maine from Hillhaven Corporation and, in turn, lease them to Sandy River Group, a local provider group.

Juniper paid $2.2 million in cash for the three Maine properties, refinanced them, and pulled out some cash to purchase additional low-cost properties—a strategy that Katzmann used to build her company and one that she continues to follow today. At the same time, Juniper started generating internal capital by doing management deals rather than triple net leases, as in the initial acquisitions. A management contract involves more risk than a triple net lease, but having the right outside management can improve operations.

Over the years, Juniper has raised capital four times: the initial $440,000 to start the business; the $1 million to purchase the two properties from Horizon; a third time in the mid-1990s to help develop communities in Chatham, New Jersey, and in the Denver Metro area; and lastly in 2001-02 to buy some properties in Pennsylvania and buy back some Colorado properties. The total raised over the 14 years was $11 million from approximately 70 investors (about 50 still active) and re-investors. Juniper has not raised any capital since 2002. That is remarkable.

One of Juniper's original small investors encouraged Katzmann to see the incredible work that psychology students in Colorado were doing with elders. She eventually did visit and was totally amazed by the students, from all walks of life, who were becoming incredible caregivers. It all had to do with a "mindfulness process," which was based on an article by Victoria Fitch, called "The Psychological Tasks of Aging" (*Naropa Institute Journal of Psychology*, 1985), about how to relate to old people as their minds change in old age.

Upon experiencing that novel approach, Katzmann bought three buildings in Colorado to use as internship sites. The first properties were nursing facilities in Lamar and Monte Vista in 1994, followed in 1995 by Spearly Center, which serves the chronically mentally ill in Denver.

In late 1995, Juniper began the development of memory-care communities in Aurora and Louisville, Colorado. The company had the land for six possible buildings but never proceeded with further developments in Colorado and eventually sold the land. More recently, Juniper sold the SNFs in Lamar and Monte Vista but continues to own Spearly Center and the two memory-care facilities in the Denver area.

On Juniper's memory-care model…
"The small-house model that we built [in the mid-1990s]—four little houses connected by an interior area used for shared staff and activities—was way ahead of its time. And it's still, to this day, the best memory-care model that I've seen."

Juniper's growth

Juniper made a number of acquisitions, primarily in New Jersey and Pennsylvania, between 2001 and the Great Recession of 2008. One such purchase involved two new, purpose-built properties in New Jersey—Sterling House and Clare Bridge—in 2003. Juniper acquired them from Alterra, which was having problems filling and operating the two communities. Juniper beat out all of the competition by paying all cash—no financing conditions. In 2012, Juniper sold those two properties as part of a $99.1 million sale-leaseback deal that included a total of six properties—three assisted living properties (202 total units) and three memory-care facilities (136 total units)—in New Jersey (3), Pennsylvania (1), and Colorado (2), along with $5.1 million in debt financing on the Pennsylvania community. Juniper still operates those facilities under a lease arrangement.

Katzmann never stops looking for good opportunities, although there was a long hiatus in acquisitions after the recession hit in 2008. No one at Juniper was laid off because of the economic downturn, however, and no one seemed actively nervous about the possibility that they would be out of work. Some of the employees who had worked with Juniper the longest believed that Katzmann would somehow "pull a rabbit out of a hat." Nevertheless, it was a very stressful time that no one wants to relive.

In 2014, Juniper purchased its first CCRC—now called Juniper Village at Brookline—in State College, Pennsylvania, for $35.5 million. At the time, the community was in good financial shape but it did need attention. It had no electronic health record system, for example, and management needed an overhaul. Having been a family-run operation over the years, the stated values meshed well with Juniper's. The business was employee- and resident-centered, but it was also highly structured in terms of accountability. Juniper, on the other hand, operates through a decentralized decision-making structure, whereby people down the line are empowered to manage a budget, approve expenditures, and so forth. The integrated employees in the new acquisition were somewhat stymied by their new responsibilities, including basic decision making and computerized record keeping, so the transition was more complicated than expected.

More recently, in December 2016, Juniper purchased a 279-unit entrance-fee community in Bucks County, Pennsylvania, for $13.65 million. The building is old, but the market is reasonably good. Juniper is investing an additional $9 million in renovations: a new entryway, a new deck overlooking the Neshaminy River, new dining venues, an updated auditorium, a new pool and updated wellness center, etc.

L to R: Alice Katz (Vinca Group), Mark Hemingway (LTC Properties), and Lynne Katzmann

On growth…

"We don't grow for the sake of growth. [The target] has to be in a relatively decent area with sufficient volume. We look to create hubs with 300 to 400 people in each, and we look in one of the four states where we currently operate, but primarily New Jersey and Pennsylvania. The building must be purpose-built, and it has to be at a price point that we think we can add value to. We bid a fair amount on properties, but we don't overpay. So sometimes we win, sometimes we don't. We typically win properties where somebody's looking for a legacy fit."

The company accumulates a lot of cash each year from operations and also by refinancing existing properties to pull out cash, which it then uses for new acquisitions and to distribute returns to investors ($3.8 million distributed in 2017). That is why they haven't had to raise outside equity since 2002. That is not to say, however, that they do not have any relationships with capital providers. LTC Properties is the one REIT where Juniper has had a strong relationship, having sold a few properties to LTC Properties and leased them back. In 2016 Katzmann took her son, Andrew, on a trip to California during his senior year in college, and then visited the LTC Properties office. He was so impressed with what and who he saw, he applied for a job and got it.

Staffing and culture issues

The labor shortage for low-level jobs in the senior housing/health-care industry is a huge issue, one that will impact every operator's bottom line—and value—and one that doesn't appear to be going away anytime soon. Home-care agencies, hospitals, and new competitors all draw from the same labor market. And even though Juniper has raised its minimum wage to $14-15/hour, that hasn't made a significant difference. Hospitals are already paying competitive wages for the same group of workers.

Caregiver jobs are hard, in many cases there are physical requirements, and there just aren't enough people interested in that kind of work to go around. Technology may solve some issues—e.g., reducing the heavy lifting required by some jobs—but regulations may not keep pace. How operators deal with those gaps will require creative thinking to meet the needs of both the workers and those in their care. Some of the strategies that Juniper is considering or already implementing include:

1) Creating alternate benefit programs, such as paying a mileage rate to drivers who choose to carpool, sort of like an internal, in-house Uber,

2) Presenting workers with a daily bag of either cooked food or pre-cooked ingredients, acknowledging that a lot of workers (mainly women) with families don't have time when they go home to prepare a good meal, which is Juniper's version of Blue Apron; and

3) Working with Juniper's affiliated primary-care providers to offer employees company-paid, on-site, urgent-care services. Think of the reduction in missed hours when you can see a doctor on site.

In 2015 Juniper started promoting its goal of paying everyone at least $15 per hour by 2020. It became known as $15x'20, and Katzmann hopes that it will catch on with other providers. It all has to do with her philosophy of "doing well by doing good," and doing the right thing. Whether its Juniper's in-house Uber, on-site urgent care or food for her family's employees, all of them are the right thing to do for her staff, and anything that helps minimize staff turnover and makes for a happier work environment, will make Juniper a better company.

According to Katzmann, at the community and corporate management levels, the industry as a whole has gone from needing tacticians to requiring people who can be both strategists and tacticians. Directors and staff members must be able to be flexible and welcome change, or at least work with change. They need to embrace technology, understand how that technology works, and think about how technology can play a bigger role in the community. Further, staff members working in assisted living communities, in particular, must understand how to create an engaging environment and support personal choice, particularly since Boomers expecting that approach are now the "buyers."

Juniper strives to keep turnover among community-based leaders below 15 percent per year, and stays pretty close to that benchmark. At the corporate level, there's very little staff turnover. The average tenure of Juniper's seven-member leadership team is about 15 years.

On the Juniper "culture"…

"In large part, we're about 'doing well by doing good.' Our financial strategy enables us to buy properties so that we can focus on operations and build services that enhance the wellbeing of the people we serve and the people who do the serving, meaning the staff. What you need in people changes over time. We look for people who can build one-to-one relationships. 'Rule followers' were all right in the past. That's not what we're looking for now."

We couldn't talk about Juniper's culture without mentioning that Katzmann has become a fan of the Burning Man Festival in Nevada's Black Rock Desert. In fact, in 2016 she brought her octogenarian mother along for the celebration, and both survived the sand and heat. It was so successful, they plan to go again in 2018. It's part of Katzmann's goal to get out in front of the curve, do what others are not doing, and show that older people can do cool things too. Lynne always tries to think outside the box, and then act on it, striving for innovation that will help her employees and company do a better job. Burning Man is a "disruptor" sort of a festival and she wants her staff to always think about innovation and not being afraid to be different.

Benefiting under the ACA

Starting around 2002, Juniper began collecting operating metrics—about 60 key indicators per property for marketing, clinical, risk management, and accounting. When the Affordable Care Act (ACA) came into effect around 10 years later, the financial incentives for providers shifted from volume to value, and readmission penalties changed the way providers worked together. Specifically, they (skilled nursing facilities) were required to move to electronic health records (EHR) by 2013 in order to maintain and share data.

With that in mind, Juniper signed up with PointClickCare (PCC) and implemented an integrated EHR system—finance, marketing, clinical, risk management—for all of its buildings. By the end of 2013, the entire company was on an electronic operating platform—"one of the smartest moves we ever made," says Katzmann.

Informed by all of the accumulated data that was now accessible electronically, Juniper developed an efficient care-transitions program. By simply pushing a few buttons, the patient's medical records, progress notes, ADT (admission, discharge, transfer) records, and financial records were instantly available. Because the

EHR systems couldn't yet talk to one another, however, the real-time patient information had to be delivered by hand to doctors and hospitals. Nevertheless, Juniper's ability to put together patient information that quickly was impressive to acute-care providers. That, in and of itself, gave Juniper a leg up in terms of referrals.

In addition, Juniper integrated its rehabilitation programs by moving them onsite rather than having therapists come in and out as needed. About 30 percent of the assisted living resident population requires therapy at any point in time, for example, so always having rehab available in the buildings keeps people healthier and thereby results in reduced hospitalization and readmission rates. It also extends the length of stay in the Juniper facilities.

Next, Juniper decided to electronically integrate patient pharmacy and lab needs, implementing that effort through Omnicare (at the time, the only vendor to integrate with PointClickCare). Having electronic pharmacy and lab records removes the likelihood of errors and a lot of the administrative burden those errors would create.

The missing piece became onsite primary care—the real link between acute and post-acute care. Having an onsite primary-care system—a "house doctor" (or nurse practitioner or physician's assistant backed up by a doctor) under contract and either on the premises or on call—improves the professionalism of the in-house team and enables early intervention to help prevent people from getting sick and/or requiring acute care.

On dealing with the change from volume to value…

"If we put our heads in the sand and don't deal with change and value-based care now—start talking to people in Washington—we may not have a say in shaping the inevitable changes coming our way. And we want to have a say. With all that may be wrong with the Affordable Care Act, there's a lot that's right. Evidence-based care and a strong emphasis on prevention rather than curative intervention are two good examples. The IMPACT [Improving Medicare Post-Acute Care, 2014] Act and MACRA [Medicare Access and CHIP Reauthorization, 2015] Act, both supported on a bipartisan basis, are extensions of value-based care—first into the skilled nursing facility world and now into the physician service world. We have to keep people healthy."

Katzmann joined ASHA in 2015 and got involved right away on the public policy committee, where she hopes to have major impact. She likes ASHA because it's not as big as other organizations and the people are very open. "ASHA is about operators, and it's just seniors housing, which is our sweet spot."

Contemplating the future

What's the wave of the future? Katzmann believes it is independent living with services. Further, she doubts that standalone assisted living as we know it now will be around 15 years from now. Today, with large units and all of the concierge type amenities, assisted living providers can attract healthy seniors with a lot of money. In five years (if they live that long), those residents will be less healthy and won't want to move out. Then those providers are faced with a regulatory issue, a licensure issue.

The bigger problem, however, is accommodating the middle-income population. If the government could provide a public subsidy sufficient to purchase private long-term health insurance, the cost to the government would be affected in two ways: 1) a reduction or delay in Medicaid spend-down; and 2) a reduction in costs related to the inappropriate or inefficient utilization of high-cost health-care services.

Juniper's own research indicates that the way to serve the highest-need, highest-cost population—the 5 percent who use 50 percent of the resources—is to provide housing with supportive services. Adding clinical services that manage chronic illness to assisted living—where residents already benefit from proper nutrition, medication administration, transportation, and a safe environment—results in the best outcomes and addresses a huge societal problem.

Juniper has developed an integrated-care model designed to help the company manage its future. That doesn't mean the operating model is different; rather, it means that Juniper is bringing in additional services, using real data for determining the cost of its care, and eventually looking at taking some risk—such as mutually establishing quality targets with individual hospitals and health-care systems (e.g., low readmissions, low ER use…whatever metrics or criteria they're trying to improve) and, when those targets are met, Juniper receives a bonus, a quality incentive, at the end of the year. That's Juniper's "next step," because Katzmann thinks the company is giving away much of the profitability that it creates for hospitals and health-care systems." She's already in talks with one system.

On Juniper and her legacy…

"Our world is changing…we have to keep innovating, and we have to make sure we understand where the market's heading. Juniper is in a good place right now. We're able to innovate in very cool ways. And for me, there's nothing better. My big goal when I started Juniper was to make enough money to raise my son—the light of my life—and hopefully not work the entire time he was growing up. That didn't happen—and probably that's for the best. But the other big thing that I wanted to do was to create a model that would serve to influence public policy, and I think we've done some of that. That's my legacy. And for me, that's good."

Katzmann is proud that she is one of the few woman-owned and woman-founded companies in seniors housing, and to this day she credits her entrepreneurial grandmother for that. But it amazes her that more women have not followed the same path in seniors housing. After all, most of the customers are women, and most of the employees are women. It seems like a natural fit, and it sure was for her.

Today, Lynne Katzmann owns about 82 percent of Juniper Partners Inc. and 93 percent of Juniper Management, which means she controls the various Juniper communities. That came about because she always wanted to "do well by doing good," innovate, and be a thought leader who employed the creative use of capital so she could do things her way, like any good entrepreneur. That was one smart business strategy, executed by a "Jersey" girl who made her parents proud.

L to R: Lynne and son Andrew Katzmann

"Buy low, improve operations, refinance to pull out cash, and reinvest. That's essentially our capital strategy. And if we can do that, we will be able to 'do good' for our residents and staff. And then let the innovation flow!"
—Lynne Katzmann

CHAPTER 4

Charles S. Lytle, President
Karen E. Lytle, Chairman

Lytle Enterprises

Charles S. (Chuck) Lytle is president and Karen E. Lytle, his wife, is chairman of Lytle Enterprises, a privately held, family-owned, senior housing business based in Bellevue, Washington. In 1976, Chuck Lytle founded Lytle Enterprises as a real-estate development company focused on retirement communities and Leisure Care as its management entity. Lytle Enterprises sold Leisure Care in 2003, but Leisure Care continues to manage the Lytle-owned communities. The portfolio currently includes 19 retirement communities—over 3,000 units—located in Arizona, California, Idaho, Missouri, New Mexico, Oregon, and Washington.

Trained and licensed as a civil engineer, Chuck Lytle has been involved in senior housing development since 1967, when—almost as a whim—he joined the medical real estate affiliate of Seattle-based Safeco Insurance, Inc., specializing in nursing home construction management. Leveraging that development experience, his good reputation with a local bank, and just $2,500 cash, Chuck began Lytle Enterprises in 1976 with the purchase of a retirement community in Grants Pass, Oregon. Six months after that, he became lessee on a project in Bellevue, Washington, and simultaneously began repurposing an apartment building in Colorado Springs that ultimately became Winslow Court.

Chuck and Karen Lytle married in 1981, and she joined Leisure Care as vice president of its Retirement Community Division. Karen spearheaded Leisure Care's growth, improved operations, and became its president and COO in 1997 and chairman in 1998. She worked in banking prior to joining Leisure Care.

Over the years, Chuck Lytle has served on the boards of senior housing organizations, community hospitals, and health maintenance organizations; as chairman of Swedish Medical Center Foundation and its Swedish Cancer Advisory Council; and as president of the Washington State Special Olympics, among other regional nonprofit organizations in the Puget Sound area. Karen Lytle has also served on several regional boards and organizations and was recognized as one of the most influential women in Washington State in 2005 as recipient of the Women of Influence Award from Puget Sound Business Journal.

Rising Up

On December 7, 1940—precisely one year before the attack on Pearl Harbor shocked the nation and eventually changed the world—Charles S. Lytle was born in St. Louis, Missouri. The second of three children, his first sister was two years older; another sister came along six years later. The family moved to Southern California when Chuck was two years old and later to Northern California.

The family drifted a lot in those days, as the father moved from job to job, drank too much, and, according to his son, was generally angry about life. The children were never in any one school district for more than two years. As a result, young Chuck was a shy kid—and leaned more on his mother (a kind person whom people loved) and his grandfather (who lived nearby and pitched in when times were tough) as role models.

The youngster did well in school and played on four sports teams—football, basketball, swimming, and track ("It was a small high school!") and graduated as an A student in his last two years of school.

That led Chuck to the University of Arizona, in Tucson, where he earned an engineering degree…with straight As in his major. For three of those undergraduate years, in fact, he taught a physics lab—a position the university usually reserved for a graduate student. For three of his college summers, he worked on a survey crew for a civil engineering firm.

While World War II was in the rear-view mirror when Chuck Lytle was in college, Vietnam was beginning to percolate. And, of course, young men were subject to the draft. So like many male college students at the time, Chuck joined the ROTC program. That required him to "pay back" the program after graduation with two years of active service but ensured that he would enter as an officer, a lieutenant, rather than be drafted as a private. And because the Vietnam War hadn't ramped up to its eventual magnitude, Chuck felt fortunate to remain stateside—at Fort Ord, California—throughout his service.

On growing up without means…

"It seemed like my parents were always out of money. We never had very much, which was, I think, one of the motivations for getting into business for myself. I didn't want to be broke." -Chuck Lytle

Working man

After fulfilling his Army service, Chuck was hired by Boyle Engineering in Santa Ana, California, as a civil engineer. Two years into that job, on a fishing trip to Washington State, he met Gene Lynn, owner of real-estate development company Careage, Inc. The two men clicked. And by the end of the fishing trip, Lynn offered Lytle a job at his company, which developed nursing homes and leased them to third parties. Within two weeks, Chuck had sold his house in Santa Ana and moved to Bellevue, Washington.

Lytle knew absolutely nothing about nursing home construction when he began work at Careage, but he was a quick learner. In the end, he managed about 15 projects, both in the office and working in the field with foremen and their crews. Lynn was responsible for leasing the finished projects.

After two years with Careage, Lytle was asked to move to the Midwest and open a new division. At about the same time, Careage's partnership with Safecare, a division of Seattle-based Safeco Insurance Company, fell apart. As part of the dissolution of the partnership, Safeco (Safecare) hired Lytle—and a "very happy relationship" began. It was 1968. Lytle was 28 years old by this time and married with four kids.

During his eight-year tenure at Safecare, the company built eight acute-care hospitals and a number of nursing homes—some 57 projects in all in 18 states. Lytle was often working 60 hours a week, as it was a rather stiff learning curve for the young engineer. While he had some construction background—he knew how to hire architects and contractors and build projects—he had never leased a project nor secured the financing. Now he was tasked with a lot of relationship building—particularly with lenders.

While at Safecare, Lytle's grandfather had a couple of strokes and needed outside help. The family looked into nursing homes and tried home health care, but neither option worked out for them. "There just has to be something in between," Lytle thought.

So in 1976, Chuck Lytle left Safecare, where he was earning $34,000 a year, and—with a good idea, $2,500 in cash, and the good relationships he had fostered over the previous eight years— started his own company, Lytle Enterprises.

On that leap of faith…

"Boy, if one of our kids came to me and said that's what they were going to do, I'd counsel them to think hard about their decision. It was the stupidest thing in the world, and I could have failed so easily. I was running a major company and had total autonomy. At Safecare, we built, in today's dollars, a billion-and-a-half dollars' worth of projects and never lost a dime of income. I think a big part of it, though, was that I really wanted to start something on my own. Being rich was less important to me than having financial security." -Chuck Lytle

Entrepreneur

Chuck Lytle expected to mirror his experience at Safecare by owning, not operating, the projects in which Lytle Enterprises would become involved. The new company's first opportunity was the purchase of a project in Grants Pass, near Medford in central Oregon, for $35,000 down—which Lytle secured with a bank loan. The operation, an old nursing home "converted" to a retirement community, was losing about $7,500 a month at the time.

Lytle agreed to operate the building for two months—with considerable autonomy—prior to closing the deal. During that brief period, he turned the business around by specifically focusing on the management style. Despite the fact that nearly all departments had extra staff, he promised the workers that they would all have fulfilling jobs under the new management, jobs that would make them proud. Nevertheless, 11 people quit—the precise number Lytle had hoped would leave.

By closing, the project's cash flow had gone from several thousand dollars in the red per month to $5,000 in the black—a big step up from what Lytle had been earning at Safeco—and occupancy skyrocketed from 70 percent to 100 percent. Renovations and remodeling were underway, including adding new showers (most of which had previously been "down the hall"). He purchased the adjacent lot and built a 24-unit apartment addition with full studios and one-bedroom units.

On financing his first project…

"I had a relationship with a bank that, in the past, had loaned Safeco quite a bit of money for various projects. So the bankers knew and trusted me and offered to finance my first project, providing $100,000 of working capital. All the bankers wanted to know was what I was buying, then they told me how much they'd lend. It was all about our relationship, absolutely." -Chuck Lytle

That first project was an unlicensed retirement community—independent living—although "assisted living," which had yet to become an industry term, was definitely being provided. At the time, it was called "personal care."

Within six months, Lytle Enterprises began two more projects. The first was on a site in Bellevue, Washington, purchased with his old mentor, Gene Lynn. Since Lytle Enterprises wasn't in a position to fully finance the project, Lynn put up the equity as a joint venture—intending to split once he got his money back—but the final deal with the intended lessee didn't work out. In the end, Lynn's Careage Corporation ended up owning the building, and Lytle Enterprises became the lessee.

At the same time, Lytle—who had been a board member of Colorado Springs Hospital in Colorado Springs, Colorado—found a site in that city that appealed to him. It was an old, 120-unit apartment house used by the Air Force during the War. Small, with one-bedroom and two-bedroom apartments, it was built in a "spokes" pattern. Lytle saw the opportunity to create a community by building a dining room and other amenities in the middle. As with the Bellevue project, Lytle leased the building from Lynn. That building became Winslow Court—named that, Lytle explained, because it was a slow, slow road to the eventual win.

The company ran out of money on the Colorado Springs project. The other two projects were making money but not enough to cover the losses in Colorado—and Careage was breathing down Lytle's neck for payment. Lytle ultimately found a new partner through an old Safeco contact, and that joint venture purchased the buildings from Careage. It was a big financial crisis for Lytle's new enterprise, but a bad outcome was avoided thanks again to the financing relationships that he had cultivated at Safeco.

Over time, Lytle Enterprises bought three more skilled nursing facilities. The company was struggling, but the three new facilities—which did very well—provided the cash flow required to keep everything else going. Lytle Enterprises, however, still consisted of only Chuck Lytle and a part-time accountant.

Another life change

In mid-summer 1980, four years after striking out on his own, Chuck Lytle and his wife were in the process of divorce. He had attended a business meeting in Northern California and, on the flight back to Seattle on Friday, July 18, met a lovely young woman who had been at a conference at Santa Clara University. As if fate were pulling the strings, they had both missed earlier flights. Sitting across from each other, they talked all the way home. And, as it turned out, she was also in the midst of a divorce.

The next day, Saturday, July 19, was her birthday. He didn't call. The following evening, July 20, she called him. They went out together on Monday, July 21, moved in together in January, and married that May.

On meeting Chuck…

"We were both going through divorces at the time we met, so it wasn't like we were disrupting another marriage or anything. And I really believe things happen for a reason. Being 35, having been married for 17 years, and having two children, my opportunities for meeting people weren't great. And I wasn't the type to hang out in bars. So when I met Chuck, he was just a fun person and seemed very nice." -Karen Lytle

Karen Lytle was born July 19, 1944, in St. Thomas, Ontario, Canada, where her father was stationed in the Canadian Air Force. When Karen was six weeks old, her grandmother took her on a cross-country train ride to the family home in Vancouver, British Columbia. Karen's parents followed later, by car. Six years after that, the family (now including Karen's younger sister) moved to Seattle, where a job opportunity awaited—which, along with a sponsor, was all it took at the time for Canadians to immigrate into the United States. And since her parents eventually became U.S. citizens, their children upon reaching age 18 could either remain Canadian citizens or automatically become U.S. citizens—which they did.

On Vancouver…

"Vancouver is a beautiful city. All of my relatives lived there, and those that are left are still in the area. We went back frequently. We spent Christmas...I remember packing up the car with Christmas presents, and we'd go up to Vancouver and stay with my grandparents. Even in later years, when Chuck and I were enjoying a lot of boating, we would go into Vancouver and spend time." -Karen Lytle

In the meantime, the family grew by two more children. Karen was the eldest, her first sister was three years younger, a second sister came along 10 years later, and then a brother two years after that. "The age spread made it almost like having two families," Karen would recall, "but it kept our parents very young and active."

With such a large separation between the two sets of children, the elder daughters were expected to take on a lot of the responsibility—mainly babysitting—despite the fact that the younger pair had a nanny—"always a crotchety old lady," according to Karen. Her father, who worked as a representative for a publishing house based in New York, traveled a lot. He was gone almost every week, Monday through Thursday, and worked in a small home office on Fridays. The kids were told not to bother him until after 4 pm, when he finished his paperwork.

That said, Karen felt close to her dad. She considered him her mentor and an overall amazing person, "a really cool person," who worked hard to provide a good life for his family. They were a middle-class family with not a lot of extra money but did enjoy a very nice life.

Karen graduated from Shoreline High School in Seattle, a member of the Honor Society, and then enrolled at the University of Washington. As a commuter, she missed out on much of "college life" and the social connections that resident students enjoy. For that reason, plus the fact that the required courses became quite boring to her, she left college after three semesters and got married at age 19 to a fellow she had met when he was a lifeguard at the beach where the family went in the summertime. The marriage lasted 17 years and bore two sons before husband and wife simply grew apart and eventually divorced.

On marrying so young…
"My parents didn't seem to mind. College was important, but it didn't have the same importance at that time, especially for a female, that it does in today's world." -Karen Lytle

Building the enterprise

Just a couple of months after Chuck and Karen Lytle married, Karen joined the company—its first full-time employee—while also managing a blended family that included six active kids, some of whom lived with the other parent. That was a pretty bold move for the newlyweds, but one that worked out quite well.

On family life …
"We had all these kids and, in the early years, couldn't afford to fly on a vacation. But we were really into skiing, so we'd go to Whistler in Vancouver, B.C., because we could drive there. We also found that we had more fun if we let our kids bring friends. So we would borrow a 15-passenger van from our property in Bellevue that had the name on it, Washington Court Retirement Community, to take all these kids skiing. They were embarrassed, but it was what we could afford to do." -Karen Lytle

Karen had a lot of pent-up energy and drive and liked a challenge, and Chuck needed her help. As a "detail" person, she immediately became very active in operations despite knowing zero about it. She was basically self-taught, relying on her gut feelings, intuition, what felt right, what made sense, what she would like the place to be if her parents were there, how she'd like the staff to be—including, of course, the financial component. Actually, it took about a year for the couple to sort out each other's real talents, strengths, and preferences. Meanwhile, they listened to and learned from all of their general managers (not a large group in the beginning), whom they brought together for the first of what have become annual management conferences.

Married couples don't often work well together, but harmony was apparent in this case. From the beginning, they agreed to move on something, like buying a property, only if they both agreed. An issue cropped up only a few times. Karen trusted Chuck implicitly, but he was also more of a risk taker. She usually needed just a little more time to come to what was often the same conclusion. In the end, they usually ended up making the deal.

On working together…
"While we had stress, as in any job, we could go home and talk, vent, or brainstorm. That sometimes created problems at the office, though, as some of our people felt they were being left out of conversations. So we had to be careful about how much of that we did or shared…and make sure that we did more of the discussion in the office with everyone involved. Working together is just so much fun. And we don't have to worry about each other's competence." -Karen Lytle

By 1988, Lytle Enterprises had acquired five more properties and seven third-party management contracts, including four Shearson Lehman-owned properties located in Southern California. Two of the Shearson Lehman properties were brand-new but with small apartments; one was a converted high-rise hotel on the beach in Santa Monica; and the fourth, the least desirable, was a converted two-story apartment house in Van Nuys. The Shearson Lehman contracts were seen by the current management of the four properties as very much a "hostile takeover," in that they did not realize that change was coming. And the changeover for all four occurred on the same day.

Lytle's whole team—at that point 25 or 30 employees—went to Los Angeles and set up a "war room" in a hotel suite. The team had to go to the properties on a strict time schedule to lock down files and records. Assignments were set up in 15-minute intervals. Everyone knew where they should be and what they should do. And despite Lytle never having done such an exercise before, it all ran smoothly. The management contract lasted eight years, at which point Shearson Lehman sold the assets.

On that "hostile takeover"...

"It was high energy, exciting, and maybe a bit scary. The third-party aspect of taking on those contracts was a major shift in what we were doing and how we were otherwise expanding the business. The scariest part, of course, was proving to Shearson Lehman that we could do the job!" -Karen Lytle

Growing, growing, growing...

After the initial stint in the nursing facility business, Lytle Enterprises owned real estate that was primarily focused on large, independent living retirement communities. Assisted living still represents only about 30 percent of its operations, and none of Lytle's owned properties include memory care.

The growth spurt in the 1980s presented Lytle Enterprises with an opportunity to increase corporate staff, improve operations, and cover costs. It also provided enough "bulk" to enable Leisure Care to become a formidable entity in the industry by filling holes in its management team with experts in assisted living management. Experts from the home office also went into the field to beef up areas such as dietary departments; they helped plan menus, for example, and switch meal services from cafeteria-style to sit-down dining.

L to R: Karen Lytle, Chuck Lytle and daughter, Jill Lytle Ashton

Jill Lytle Ashton, their daughter, joined the company in 1992. She was the only one of the next generation to have a strong desire to work in the family business—the other children made successful careers for themselves in various other fields (and often entrepreneurial). The plan was for Jill to learn the business from the ground up, so her first assignment was at an owned property in Arcadia, California, where she lived on site for about a year. When Jill returned to the corporate office, she was exposed to many different aspects of the business. Like her dad, Jill's forte is numbers and financing, buying and selling, and overseeing management.

Over a 10-year period beginning in 1998, Lytle Enterprises bought or developed 19 communities in six states, all in the western third of the country. Communications was one reason for concentrating on Western states, as a two- or three-hour time gap made real-time business conversations difficult. Plus, in the early years, the couple still had young children and didn't want to travel more than a few hours (by air) from home.

But that was then. When Lytle Enterprises sold off the Leisure Care management entity in 2003, things changed. Because Leisure Care was doing the majority of the traveling, distances no longer mattered to Chuck and Karen Lytle. So when an opportunity came up near St. Louis, they bought in. An example was Fairwinds–River's Edge, in St. Charles, Missouri, which continues to be a Lytle Enterprises-owned property.

Managing and letting go

Personality, energy, flexibility, basic business skills, people skills, quick thinking…those are the characteristics that the Lytles look for when interviewing potential staff members. And when seeking top-line executives, they particularly look for someone with hospitality experience.

Gut reactions, however, also play a big part. When an opening came up for general manager of a Lytle-managed property in Salt Lake City, Utah, a current manager—Ken Madsen, who had managed properties for the Lytles for about 10 years at that point and whom the Lytles "adored"—suggested they interview his 26-year-old son, Dan, who lived in Salt Lake City. Karen Lytle interviewed the young man the next day and was completely impressed. She hired him on the spot despite his having no industry experience. Dan Madsen went on to become president of Leisure Care and, in 2003, purchased the entity from the Lytles.

Dan Madsen, of Leisure Care, testifying on behalf of ASHA before the U.S. Senate in 2003

As is the case for most entrepreneurs, the Lytles took their lumps on some investments. In 2003, Lytle Enterprises took major financial hits on three projects. Two were in Mesa, Arizona, where the company lost about $20 million. The investors lost about $1.3 million and Lytle Enterprises lost the rest. The third project, a foreclosed hotel that had been unfinished for several years, was in Prescott, Arizona—a gorgeous piece of property about eight miles outside of town that the Lytles bought for a song but ultimately lost several million on it.

Those losses, however, were not the catalyst for selling Leisure Care. The Lytles, then ages 60 and 56, simply decided they wanted to still own "something" but to work less and not drive themselves so hard. The management side wasn't making money—in fact, it was losing money—so selling it to Madsen made sense. The Lytles felt confident that with Madsen, the company would carry on in good hands. The turnover took about a year to complete, and Madsen was thrilled to finally have his own company.

At the same time, the public continued to be a bit confused about who owned what. Bankers and investors, in particular, mistakenly thought Leisure Care was a property owner. It was important, therefore, to clearly define the two entities: Lytle Enterprises, property ownership; and Leisure Care, a separately owned management company.

On letting go of Leisure Care…

"We gave it a lot of thought, and it took a while to come to terms with it. It wasn't a tough negotiation; we just had to get our heads around whether we really wanted to do it. So we did. And boy, I don't think we've ever made a better decision. Letting go was surprisingly easy. It was like getting off a treadmill that you could never turn off." -Karen Lytle

The biggest disappointment

Lytle Enterprises had sold a lot of projects over the years in an effort to upgrade its portfolio. All but one of those sales involved older properties or converted apartment houses. But when they lost The Bellettini—a retirement community built in a prime location in Bellevue, Washington, on undeveloped land that Lytle purchased for $7.1 million—it was truly heartbreaking. The Bellettini was intended to be Chuck and Karen's "dream" development.

The original estimated price tag for the development was about $56 million; by the end, construction overruns bloated the cost to about $68 million. The building inspector for the City of Bellevue (true to his reputation) dragged his feet on the inspections, adding $2 million and 14 months to the project. Lytle Enterprises was on the hook for a major portion of the debt. While the project had a pool of investors, Lytle Enterprises owned 53 percent.

The construction delays also caused The Bellettini's opening date to coincide with the Great Recession of 2008-2009, so the units filled very slowly. At the same time, Lytle had several other projects underway, and all but two of those banks wanted their debt (about $8-9 million) repaid.

Lytle sought an equity partner for The Bellettini in order to satisfy the lending bank, which demanded a payment on the construction loan. The term was up on the loan, and the bank wouldn't extend it unless they got a $10 million payment—and no other banks were lending to anyone at the time. The economic tailspin that the entire nation was experiencing during the economic fallout brought other financing opportunities to nearly zero.

On the Great Recession…

"We've gotten really conservative [as a result of the Recession]. Early on, we were leveraged to the hilt—probably 75 to 80 percent—and that's how we grew. We'd buy a project, fix it, refinance it, and then take that money to do the next one. Now our company is less than 50 percent leveraged, and we like it that way. If another recession hit today, we'd just say, 'We are okay!'" -Chuck Lytle

WESTliving advanced the necessary equity and became a partner. There was a put-call on the partnership, however, and WESTliving eventually bought out Lytle Enterprises.

Lytle Enterprises hasn't built any new projects since then, partly due to the desire to "clean up" all lines of credit and partly to pare down inventory. Interest rates remained low, so buyers were in the market. Selling the older projects made sense. And it made cash available for acquisitions, which the Lytles are actively seeking and now prefer over new development projects—although new development possibilities are never really off the table.

On possibly going public…

"Leisure Care was our baby. We were doing well. At the time, we were the third-largest privately-owned provider in the industry. Did we want to risk losing control? Did we want to change our philosophy and our belief system? Being entrepreneurial, we backed off from taking venture capital or going public and instead decided to continue operating the business the way we'd always done it. That was the best financial decision we ever made." -Chuck Lytle

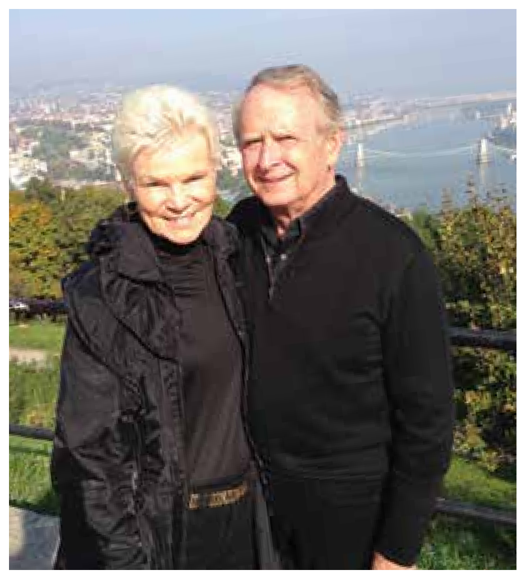
Life in review

Chuck and Karen Lytle, who both came from modest backgrounds, feel fortunate that they've had—in their own words—"an amazing life and amazing success." Every day, they feel grateful for what they've accomplished, for what they've achieved. As a result, they have become very involved in philanthropic work in the Puget Sound area and beyond.

Chuck, for example, has been on the board of trustees of the Swedish Hospital, in Seattle, and has been involved with Swedish for more than two decades. He particularly enjoys that involvement because of the opportunity to learn "fascinating stuff from a medical standpoint" from "brilliant" people on the board.

Karen has put her heart and soul into the homeowners' association at a residential community in Lake Chelan, in central Washington, where they own a couple of condos. And she is involved in other projects, such as Seniors Making Art, in the Seattle-Bellevue area, where the Lytles spend most of the year. Four of their grown children live in the Seattle area; the others are in California.

The Lytles continue to be very involved in the business, which has become considerably simplified from the earlier days. Lytle Enterprises still owns the real estate, about half of that in partnership with others—although the Lytles are gradually buying out some of those partners. The home office has seven staff members, and Leisure Care continues to manage operations for all of the communities. The Lytles are very pleased with the performance of Dan Madsen and his team.



On consumer expectations…

"Baby boomers and those who follow are used to a lot more services than the 90-year-olds in retirement communities today. Boomers look at the quality of the food. They want more sophistication and more services. They want staff members who say 'hello' every morning and know each resident by name. These things are the norm for boomers, a way of life, but have always been considered "extras" by the Depression-era generation." -Chuck Lytle

Karen continues to oversee all of the remodeling and capital expenditures for the Lytle Enterprises communities, although she no longer gets involved in the day-to-day budgets. Rather, she interacts with Jill Ashton, who is senior vice president of the company and is responsible for managing finances and investments.

The Lytles were early members of ASHA and fondly remember the original days sitting around a table with some of the other industry pioneers. And as ASHA grew, they were frequent presenters at the annual meetings, sharing what they had learned while building up a large company.

Together, Chuck and Karen Lytle feel fortunate to be in a position to take care of their residents and their staff. That is much more important to them than trying to expand the company by, say, 20 projects in a year. In terms of the growth of Lytle Enterprises, Chuck Lytle is very comfortable saying, "We will continue with modest growth as long as we can provide quality services."

"Our office is the happiest place in the world!"
— Chuck Lytle

"We have an amazing life, and we're very grateful for it."
— Karen Lytle

CHAPTER 5

Loren B. Shook

Co-Founder & CEO

Silverado

Loren Shook is the co-founder and CEO of Silverado, one of the preeminent and innovative providers of Alzheimer's and memory care in the country, as well as home care and hospice. He co-founded the company with Stephen Winner and the late Jim Smith in 1996 and it has grown to more than 56 memory care communities, hospice and home care sites across eight states.

Mr. Shook is a frequent speaker at state, national and international events and has received a number of awards, including Mission Hospital Foundation's Vision Award in 2011, Southern California's 55+ Housing Council's Person of the Year Award in 2012, the Innovation award in 2017 from SeniorServ, and the Innovation Leadership and Service Award at the 2012 Boomer Business Summit. He is a past winner of the Ernst & Young Entrepreneur of the Year Award in health care (Orange County and Arizona), the George G. Glenner Family Centers' Sterling Legend Award, and was an Age Well Captain's Ball Honoree.

Prior to founding Silverado, he served as President, Chief Operating Officer and board member of Community Psychiatric Centers (formerly listed on the NYSE). He is or has been on the board of directors of several organizations, including Covenant Health Network (St. Joseph/Hoag Health System), University of Southern California Davis School of Gerontology Board of Councilors, University of Maryland Baltimore Campus – Erickson School of Aging Studies, Chair of California Assisted Living Association, and Chair of The Alzheimer's Association (Orange County chapter). He is also on the Executive Board of the American Seniors Housing Association and serves as Chairman of the Board of Argentum.

In 2010, he co-authored "The Silverado Story: A Memory-Care Culture Where Love is Greater than Fear," as well as a newly expanded edition, "New Possibilities in Memory Care," released in 2017. He also authored a chapter in the book entitled "Culture Change in Elder Care."

To say that caring for people can be traced back to Loren Shook's first "formal" job would be an understatement, just as it would be to say he learned the value of hard work at a young age. Loren was born in Iowa but before his first birthday his family moved to Washington. He was the younger (by four years) of two adopted sons, and when they moved to Washington, they lived on a 20-acre farm in Duvall, where his father raised chickens, some rabbits and other animals. Duvall was east of Seattle and definitely "country," although now it is considered to be more of a yuppie town.


Loren as a boy.

The real reason for the move to Washington was family, as Loren's Uncle Bernard (his mother's brother) owned and managed a private psychiatric hospital, Fairfax Hospital, in Kirkland. His mother started working there as a nurse's aide while his father, with the help of his two boys, made a go of chicken farming. It was a tough business, but Loren learned a lot about hard work, fixing things, responsibility, and, above all, that he did not want to be a chicken farmer.

When he was five, the family moved into a 600 square foot cottage on the grounds of Fairfax Hospital. His father gave up the chicken farm but worked on a contract basis for the feed company using vacant buildings on farms in the area for the next 10 years or so while his mother continued working in the hospital. This move onto the grounds of the hospital was probably the most influential aspect of young Loren's life, as at a very young age he watched the comings and goings of all sorts of patients with all sorts of problems. But his father still worked the chicken business, and took the boys along on weekends, holidays and summers. Some of these chicken "farms" had 10,000 chickens at a time, while others had 30,000 to 40,000. From the age of four, the boys would load wheelbarrows with the chicken feed and fill the feeders around the chicken houses, which could be 300 to 400 feet long. It was not all work, however, as they would play some games, including racing in trolleys, pulling themselves along the track down the length of the building, and jumping off the roof of the building onto the large piles of sawdust. Since he was much younger, Loren usually came in last.

Loren tried a little bit of everything when it came to athletics, including baseball, football and basketball, and his father did take the time to coach and umpire many of his teams and games, but it wasn't until high school that he started to run track, with a specialty in the quarter mile and mile relay. Academics were problematic, at least until his junior year of high school. His parents did not attend college and never really emphasized school work. Hard work, yes, but just not in the classroom. But by his junior year he started to think about the next step, college, and that he had better pay a bit more attention to homework and his grades.

When Loren was 15, his father became ill and left the chicken business for good to work full time as a maintenance man at Fairfax Hospital. So, it was also at 15 that Loren's jobs changed from helping out with the chickens to helping out at the hospital. After school, on weekends and holidays, he worked as a groundskeeper, janitor, did odd jobs when needed, and often relieved nurses on their lunch break in the hospital. From age 15 to 22, he was on call 24/7 to help restrain unruly psychiatric patients, with his father and uncle of course. At the time, Fairfax Hospital took the most challenging patients from around the Pacific Northwest - all the way to Alaska - including long-term care dementia patients that skilled nursing facilities could not handle. Some of these patients stayed for 10 or 20 years. He was able to see and experience a lot of things that most kids never saw, and for him it became regular, but also most likely planted a deep seed in his mind. When he was seven years old, he was riding his bike around the property one day, and saw an old man walk out of the hospital unit into an enclosed area.

On experiencing the psychiatric business….

"So, it's February, the rain is coming down, it's 42 degrees with a little bit of wind, and this old guy comes out in his shirt sleeves and pants, not dressed for that weather. And behind him, a nurse in a white nursing uniform came trotting along, put a coat on him, put a hat on him, and he could stay outside. He could experience the outdoors. It wasn't locked from that unit to prevent him from going outside, so he had control of his environment. And that's what we do today, we give people control and reduce a lot of demand for medications as a result."

Because of the chickens and his mother's work, the family rarely took any time off, except during deer hunting season when they would take a weekend off with some uncles and go hunting in eastern Washington. They only took a "real" vacation once when he was seven, and that was to go back to Iowa to visit family, stopping at Yellowstone National Park on the way. Otherwise, weekends, holidays and summers were spent working, often eight to 12-hour days, with Sunday morning at church where his father and mother served.

But it wasn't all chickens and hospital work. His Uncle Bernard owned a cattle ranch near the Canadian border, called Glacier View Ranch, which was managed by his Uncle Donald. Loren spent three summers up there, working for $1.00 per hour plus room and board. But it was long and hard work, and the "board" part of the equation became quite expensive for his aunt and uncle since Loren was still a growing boy. A typical breakfast might include a half pound of ham, six eggs and half a loaf of bread. He was a growing boy and burned up a lot of calories doing ranch work. It was a great experience all around.

His Uncle Bernard would drive him back and forth for the two-hour drive between the ranch and the hospital, and they always got to talking about business, Loren's future. It was during one of these drives that his uncle asked Loren if he wanted to be a hospital administrator. At the time, he wanted to be a rancher, but found out he would need about $300,000 of capital to start one, and at $1.00 per hour, that was not going to happen. The funny thing was, at age 15 or 16, he didn't really know what a hospital administrator was, even though that was exactly what his Uncle Bernard was.

When working up at the ranch, it was so secluded in a valley that there was really no television reception, so young Loren would read his uncle's agricultural economics magazines, which gave him his first taste of the financial aspects of business. One summer, his Uncle Donald told Loren he would get a bonus, but would have to choose between $500 cash or a Black Angus heifer. He chose the Angus, got first place in a 4-H competition at the state fair with it, bred it and by the time he went to college had three more. A wise business decision. As Loren grew up, and developed a better understanding of the world around him, he started thinking about his future. He figured he wanted to do something in health care, but knew he did not want to be a doctor. It was after one of those car ride conversations with Uncle Bernard that the light turned on.

On looking to the future….

"I wanted some complexity to the business and I wanted some variety. Hospital Administration, you've got the medical staff aspect, you've got the business aspect and you've got a major personnel issue along with all the medical components. So that was pretty interesting to me. That's when I was a junior in high school, and I said that's what I am going to do with my career."

As it turned out, when he was 18 his aunt and uncle thought he might eventually take over the hospital from them. But when Loren was a junior in college they sold the hospital to Community Psychiatric Centers (CPC), which was a publicly traded company with six hospitals. Loren finally started to work on his academics late in high school, and after graduation, enrolled in Shoreline Community College while still living at home in that small cottage on the hospital campus, and still working weekends and holidays at the hospital and always on call for an emergency. Since he decided he wanted to be a hospital administrator, Loren started looking into which schools offered a program in that area. The University of Washington was one of them, and the program was in the Graduate School of Public Health. So, Loren transferred to University of Washington's business school for his last two years of college.

Life in college was not easy. While attending Shoreline Community College, Loren was working about 15 to 20 hours a week, but when he transferred to Washington, the hours increased to 35-40 hours a week, and he was still taking 15 to 18 credits a semester. That left little time for much fun, even football games, so he vowed that after college, when he had some money in his pocket, he would get season tickets. He majored in finance and minored in organizational behavior, both of which were helpful for a future career in health care, and he had one finance professor who was particularly influential on him.

While in college and continuing to work at his aunt and uncle's psychiatric hospital, one of his jobs was to drive two executives of the company that purchased the hospital, Bob Green (CPC's chairman) and Jim Conte (the CEO), back and forth to the airport. At the time, CPC owned just six hospitals, and when the executives would visit Fairfax Hospital, they often stayed in the guest bedroom. It was very folksy. On these drives to the airport, they kept asking Loren what he was studying, what his plans were after college. It was basically a series of informal interviews, and they told him to give them a call when he graduated. He did, and he started in the company's small training program for administrators in Rosemead, California.

Loren was not like other trainees. He was young, at just 22, and he had more hands on experience than anyone else, having spent hours providing care, washing dishes, doing laundry, maintenance and even working the night shift. He knew the guts of the business. One immediate problem was that the vice president in charge of the hospitals, which had now grown to more than 10, didn't think a 22-year old "kid" should be an administrator. He wanted to "blow up" Loren's chances of being an administrator and have him demoted to be a purchasing agent. The other trainee was someone with a Master's in Hospital Administration and many years of experience. It was the experienced trainee, however, who was gone within a few weeks, not Loren.

The first hospital Loren was assigned to was Belmont Hills Psychiatric Center in the City of Belmont on the San Francisco Peninsula. It was one of CPC's first hospitals and it was set on 17 acres. It was a 52-bed hospital at the time, and one of the first things he had to do was cut staffing. That was not an easy task for a 22-year old who was being paid an LPN's salary. But no one knew his age and he looked much older and always had a commanding presence, mostly due to his confidence, experience and height. The hospital had socialized programs for adolescent and adult patients suffering from substance abuse, schizophrenia, manic depression and other illnesses. They even had a contract with United Airlines for pilots with substance abuse problems. The interesting aspect of the Belmont Hills hospital is that many years later, it became Silverado Belmont Hills. He must have had fond memories of the site.

After Belmont Hills, Loren moved up to Portland, Oregon to run CPC's Cedar Hills Hospital, which was bigger and a bit more complicated, so it was a natural stepping stone. A year later, he was transferred to an even larger hospital in Walnut Creek, California. It was located next to John Muir Hospital, an acute care hospital, and in his 18 months there, the psychiatric facility became profitable with a growing census. In the meantime, back at Fairfax Hospital in Washington, where much of his family still worked, problems had taken their toll. That became his next stop.

Fairfax Hospital had grown from 50 beds to 133 beds and was CPC's largest hospital in its growing portfolio. Loren's aunt and uncle had left about two years prior, but his mother was still the food service supervisor and his father was director of maintenance, with other relatives having various other jobs. The hospital census, however, had dropped to 26, the medical staff was leaving, the SEIU won a unionization vote and was negotiating a contract with management, and the 28-bed skilled nursing unit was about to lose its license. It was a disaster. It was weird because many of the nurses on their staff knew him when he was four feet tall, and some former local classmates were working there as well, and now he was running the hospital.

On returning to the family business….

"So how do you relate to your mom and dad? Do you call them mom and dad in a department meeting? I did not feel it was the right thing to do, so it was really odd calling them Cleo and Kathleen in a meeting. It just felt totally weird. But I said, I think we need to have a professional decorum."

The unionization of his former family facility was a bit of a shock to Loren, but so was the rigidness of the union. It seemed they wanted to fight for the sake of fighting, whether it made sense or not. Loren used his legal coursework and arbitration training from college, but when he hit a negotiating impasse, and the union threatened to strike, he finally hired a labor lawyer. The union had threatened an unfair labor practice charge against the hospital, so Loren filed one against the union negotiator. The new president of the union was from California and didn't realize that you had to give a two-week notice to strike a hospital in Washington. Loren won that battle, but it didn't end there.

Two years into the contract, Loren did not believe wages were keeping up with inflation, and he wanted to give his employees a 5% wage increase across the board. The union rep said great, they would reopen the contract for negotiation. The response was no.

Learning the hard knocks of negotiating….

"We're not opening negotiations. We've got another year on the contract. I'm just going to give them a raise. He said, 'you can't do that, it's a violation of the contract.' I said, 'really, I can't give my own staff a raise? I'll tell you what. I'm going to tell the staff I want to give them a 5% raise but you won't let me.' He just didn't know what to think about that."

While at Fairfax Hospital, Loren got involved with development for CPC, developing a hospital in Boise, Idaho and competing against four national hospital companies for a new development in Reno, Nevada (he did not get this one). Subsequently, he moved to San Francisco to become vice president of the Northwest Division but kept on the development track. At this point, because he was having better success than others in the country, management asked him to become senior vice president in charge of all development for the company and take it nationally.

He then moved to the corporate headquarters in Santa Ana, California, and operations in some of the hospitals were not doing very well, so he was asked to be executive vice president of operations and development, and he joined the board of the company, which was publicly traded on the New York Stock Exchange. Years later census and profits were on the decline as managed care companies reduced lengths of stay from 21 days to 10 days and sometimes even lower. They just didn't want to pay for behavioral care. At this point management was changing at CPC. One of the founders had left and they were trying to get into other businesses. Finally, after about 20 years, Loren decided it was time to leave.

One of the major things he regards as an accomplishment at CPC is what Loren calls "dual diagnosis treatment." If you have a chemically-dependent person, an alcoholic, who also has a need to take a psychiatric drug like lithium because they are a manic depressive, the more social focused program coming from the Alcoholics Anonymous (AA) philosophy might say get rid of all drugs, follow the AA tenets and you will be fine. But then the person will go into an acute manic depression episode because they need the medications. So, CPC combined the two, putting AA tenets into their programs at the hospitals but letting patients stay on needed medications. And it worked. He calls this "ideation," and it is one of his strengths, being able to see two different disassociated things and fitting them together so that they work. He is doing this at Silverado today.

So the psychiatric industry was in tumult, changes were occurring at CPC, and, even though Loren had become the president, he decided it was time to move on. He resigned in 1993, but took with him one big thing that co-founder Jim Conte had taught him when Loren was presented with a way to double profits on a joint ventured laboratory business line.

Loren at an ASHA meeting.

On learning a fundamental principal….

"What Jim had taught me is that you don't do anything that isn't creating value for the patient. I said, how is this creating value for the patient? Yes, I see how we're making money. It doesn't sound ethical, but you tell me it's legal and in fact our outside counsel says its legal, but it isn't creating any value for the patient. So, I said we are not doing it."

After leaving CPC, Loren started a business in Puerto Rico with some former CPC executives, an intensive outpatient partial hospitalization company. Part of the premise was giving the payers clinical outcome results, and the first contract was with Blue Cross in Puerto Rico. It was a huge success, and a year later they had just two clinical failures, a success rate that was unheard of for psychiatric and chemical dependent patients. They had visions of taking the concept across Puerto Rico and then into the mainland U.S. In addition, they would also win a contract to serve the mental health needs of 250,000 lives in Ponce, Puerto Rico, but they were then sued by First Hospital Corp., tying the project up in a prolonged court battle. The trouble was managed care in the U.S. did not care about clinical results at that time, so there was not a U.S. market for the Partial Hospitalization and Intensive Outpatient service. The contract in Ponce was not worth the court battle. It was an obstacle they were not going to overcome, so they sold the business to CPC, which already had operations in Puerto Rico. It was a good lesson learned about starting a business from scratch, and the experience probably helped Loren when he set out to start Silverado. But assisted living had not even been on his radar.

Getting Started

So, in 1995, a colleague in his consulting business asked Loren, "What about assisted living?" Loren had been in the psychiatric hospital business his entire career, and assisted living was not yet in his vocabulary. They went to see a few six-bed facilities in California, and his response was "just shoot me if I ever go into one of these." Then they went to a few assisted living communities specializing in dementia, and these were the "best of the best" and they were 100% full. Finally they then went to the nursing facility where these residents went when they needed higher levels of care, but he wouldn't put his own mother in it. It was a turning point in his career.

On making the decision….

"I'm a Christian; I prayed about it, and I just had this feeling I should start an assisted living company specializing in dementia. It was a powerfully strong feeling."

Loren was attracted to the social model which created a warm and inviting environment you want to live in, but realized that people with dementia typically have many medical/caregiving needs that require the services of knowledgeable and trained people like nurses and social workers, in addition to caregivers.

He went to a conference in Colorado Springs and talked with Paul Klaassen, the founder of Sunrise Senior Living. Loren started talking about the idea he was forming for an innovative assisted living company having licensed nurses on staff 24/7, medical directors on staff, all things that represented a healthcare model within the social model setting of assisted living when a hospitality model was more in vogue at the time. Many providers did not want to provide health care at the time, and all the regulatory issues that came with it. But Loren believed you couldn't take care of the elderly as they age in place without full healthcare services. This was especially true with Alzheimer's care. But everyone stopped him at nurses, as they believed their assisted living communities would just turn into "lousy" nursing facilities.

Loren hooked up with Jim Smith, who he worked with at Community Psychiatric Centers, and who became his co-founder and CFO at Silverado. They went to a University of California-San Diego research symposium on Alzheimer's and other forms of dementia, and that was when they first heard Steve Winner speak. He was running two skilled nursing facilities specializing in dementia, and had won the Governor's award for the top nursing facilities in California. He had a passion, was creative and was doing things others wouldn't dream of. Loren said, "here is a guy who gets it."

The two of them then went mystery shopping at Winner's two facilities and at the end, said they wanted him to join them with their new company, to be called Silverado Senior Living. The next step was finding equity, and they went to the firm of Riordan, Lewis & Haden. Richard Riordan was Mayor of Los Angeles at the time and not active in the firm, and Pat Haden was a former USC and NFL quarterback and then a sports announcer. Chris Lewis and Pat Haden met with Jim and Loren to provide advice on other private equity firms that were interested in Silverado. They made it clear they were not interested in a startup! Then Loren got a call back. It turned out that Chris Lewis' father-in-law had Parkinson's and was in "the best dementia place in L.A.," which at the time was a nursing facility. They knew they could provide better care, different care, but they didn't have a building yet. The private equity firm decided to do something they had never done before, and that was to invest in the assisted living start-up.

They then formed Silverado Senior Living in October of 1996. The trio started looking at properties, and after a "set-up" where they found out they were essentially

L to R Silverado Founders: The late Jim Smith, Steve Winner and Loren Shook the stalking horse bidder for a property to set a market value for the administrator to buy it, they went to see a "wretched place" in Escondido, California. It was next to a trailer park, it was a "nursing home type" building that had been in and out of bankruptcy twice.

On his first property….

"It's about five acres, 104 beds, it's got 20 miserable souls in it on SSI. Every other light is turned out. The staff appear to be beaten souls. They will not make eye contact with you. And nobody in the medical world would refer anybody there because it is a terrible place."

So, they signed a contract to lease it with a fixed purchase option, to which the seller added an extra $500,000 after a deal had been agreed to. They were basically handed the keys and left to run it. The first night when dinner was served to the residents, it was a bed of lettuce with a scoop of cottage cheese on it. That was certainly not to code, so they went down the street to a McDonald's and brought back bags of hamburgers and fries, and the smell just lifted the residents' eyes and spirits, as it was apparently the tastiest thing they had eaten in weeks. This was June of 1997, and the menu was just the first thing that had to be changed.

It took about a year and a half to complete all the renovations and stabilize the census, but it was not easy. The landlord/seller did not want them to remove the nurse's stations, but the contract allowed them to do anything that was not structural. It got so bad that the landlord threatened to take them to court, but soon realized it was not a battle worth fighting. Silverado, through Winner's connections, immediately had a geriatric fellow from the University of California-San Diego on site, something that was crucial if they were going to be part of the cure for Alzheimer's one day. Upon founding the company, they all agreed to commit to partner with teaching research centers wherever they developed a community.

They implemented having pets on site, and children too. It was all part of the program that was developed in the business plan Loren had been working on for the two years before they actually formed the company and had their first building. At first, competitors did not take them seriously, because they had two residents to a room, no showers in the rooms, charged more than a private room at the best CCRC dementia unit in the area, and it was that "wretched" nursing facility they remembered. No longer. It became all about atmosphere, programming and quality of life. The innovations continued, as they would not physically restrain residents knowing the risks and problems involved. However, most of the professionals and families saw the use of restraints as a necessary safety step for residents at risk of falling.

In another example, they did not provide gastric tubes as part of end-of-life care, which was common elsewhere. Current medical science clearly stated that when a person is at the end of life, part of the natural process is your brain telling your body to eat less, drink less. Your body releases endorphins and other things that are natural painkillers. If you disrupt that natural process, such as with an unnecessary tube feeding, it can result in bloating and discomfort. They were trying to change the way of taking care of the elderly with various kinds of dementia, and at first it was at odds with established practice. But that didn't matter. The status quo must change.

It was at Silverado's first community that they started to implement some of the care protocols that exist today. Just because someone couldn't walk or feed themselves didn't mean they didn't want to. One of their early residents was a very large physically fit man who came from a hospital where his wife was told he would never walk again. They also told her that because of his behaviors, he would have to go to a nursing facility where he would be restrained for the remainder of his life. He had late-stage Alzheimer's, a bad hip infection, couldn't talk, and every time a nurse came to assist him, he would physically lash out, sending some of them to the ER. The man's wife called Steve Winner and asked for help. He moved into the Silverado community, and a big black lab named Asher, that was the first pet in the residence, was assigned to him. They bonded, and within weeks the hip infection was gone, he was up and walking around and became the unofficial greeter, even though he still couldn't talk.

Meanwhile, some of the faculty at the University of California-San Diego heard through their geriatric fellows and one of their chairs of medicine that this little assisted living company that no one had heard of named Silverado Senior Living was getting late stage dementia residents to start walking and eating independently again even though they had long ago stopped walking and eating independently. The faculty thought that it was impossible due to the scientific fact that about one-third of the brain tissue for someone with Alzheimer's Disease is gone at the end of life.

In their discussions, this became a subject of rigorous debate, especially with the chair that knew it was happening. So, he posed the challenge to Dr. Thal, Chair of Neurology, and the other chairs of the medical school to come to Silverado in Escondido for a half-day care conference led by Steve Winner and Loren Shook. Dr. Thal was sure he was going to prove to the other chairs that he was right that this claim could not be true. Seeing people who couldn't walk, walk again, and who couldn't feed themselves, eating without assistance, was impressive, to say the least. The head of neurology turned to Steve and Loren and basically said, "I don't know how you're doing it. No one in the world is doing this. But keep it up." And they did.

L to R Silverado Founders and Investment Partner: The late Jim Smith, Steve Winner, Loren Shook and Chris Lewis

Building The Company

Trading on the success of their first community, Silverado then went on to purchase several additional buildings, some of which were in a similar or even worse physical state. Prior to that, in 1997 Silverado had started its relationship with Health Care REIT (now Welltower) and its CEO at the time, George Chapman. There was a closed 1960s vintage nursing facility in Azusa, California that was converted to a psychiatric hospital in the 1970s. Loren referred to it as a "train wreck." They bought it, invested a few million dollars to gut it and change it, and while it was under renovation, Loren took George on one of his visits to Silverado to Escondido to show him what they were accomplishing, then showed him the work in progress at Azusa, and finally stopped in Alhambra and showed him a rundown 1920s house that had distinctive period architectural features. Loren told George that they wanted to buy and renovate it into a 28-bed Alzheimer's community.

All Loren remembers is Chapman shaking his head and saying, "No, I can't see it." It really was not the type of property that his REIT was used to buying and leasing to an operator. However, he did manage to get out four words – "but I'll finance it" – and Loren got in his car and left before he could change his mind. That 1920s style residential home, The Huntington, was recently expanded to 64 beds and has been quite a success. As it turned out, that was the start of a long relationship between Silverado and Welltower, which now owns 27 Silverado communities in a RIDEA structure.

Silverado then opened the Azusa, California community, acquired another former psychiatric hospital, and bought a struggling 82-bed dementia community in Costa Mesa. They bought a 130-bed psychiatric hospital in Salt Lake City that Loren had previously developed when at CPC. This was followed by another psychiatric hospital in Encinitas that he had also developed while with CPC. Why all these psychiatric hospitals? By this time, the psych industry was struggling, so Silverado was able to acquire some expensive real estate at a fraction of its replacement value. This allowed the young company to renovate the buildings to fit with their care models in markets that they liked and were underserved with quality Alzheimer's care, and to sell off excess land and medical office buildings, raising much-needed cash to further grow Silverado.

One large acquisition for Silverado came in 2001 when Health Care Property Investors approached Silverado about four memory care communities in Houston, Texas that the REIT acquired by way of a larger acquisition. Texas was a big geographic leap of faith for the company at the time. An industry shakeout was in process, and there were several properties in the Houston market that were struggling. These four were losing money on a combined basis, and after some "mystery shopping," they realized they were very poorly run, were half empty and had very low monthly rates. Silverado negotiated a short-term lease with a buy-out option with the REIT, plus a million-dollar loan to fix the buildings. Silverado filled them, bought out the REIT and financed the acquisition with Fannie Mae in what was believed to be the first memory care financing the agency had ever done.

Programming and Care

The model of care has been the hallmark of Silverado. In addition to the programming, culture and philosophy of care, having enough of the right staff is essential. The company averages about one full-time equivalent employee per resident day, which is much higher than the industry average and closer to what you see in skilled nursing facilities. For Loren, however, it is all about quality of life and exceptional clinical outcomes and not cost. Providing a quality service is going to be expensive, and it is expensive to be able to transform the lives of people so they can walk or eat independently again.

On staffing and culture….

"So, you come into an environment where we have created a culture of passionate people delivering state-of-the-art care to individuals with memory-impairing diseases. Everyone's engaged in facilitating a normalcy of life for the residents who are again experiencing a quality of life they had lost, and you don't typically find that elsewhere. That's an attraction we give people."

To complement its own caregiving, in 2004 Silverado started its own hospice program, primarily because their nurses said they really needed to have their own program. They got better clinical outcomes with their own hospice program because they didn't have to argue with someone else on encouraging the resident to stay engaged in the programming, as well as managing the levels of medications for pain control and other matters. Most hospices just control the pain by giving higher and higher doses of medication, forgetting about the fact that the person then can't communicate with their family, and they often don't need that much pain medication. Or they don't use alternatives, such as the Silverado Essential Oils Program, which often reduces the need for medications. Silverado believes that the quality of life for its residents is very important, but so is the quality of death that people have. Today, that hospice and home care business has grown to more than $75 million in revenues.

One of Loren's pet peeves is programming and design. Many investors and lenders do not really understand the complexity of taking care of people with complicated memory-impairing diseases. Before investing in the real estate, he always recommends that they invest in a geriatric care manager or some other expert in the field to go with them on their due diligence visits to make sure they ask the right questions, including some of the basics of the programming. He is always amazed when good answers are not forthcoming. And when he is in a meeting with architects, he asks, "What was the program you were designing this building for?" And they would shake their heads with the sort of look, "No one asked me that before."

Silverado is now a company that operates 36 communities, with five more currently in development. Size has not been a thing that has concerned Loren. Rather, it is all about systems and programming. If you can have 600 properties and do all those things well, great. But he wants to grow by about three to four communities a year. The reason they don't grow any faster is that they have to build the leadership team at each community to implement the Silverado model of care, and keep the quality where it is supposed to be. "We just are not able to do that any faster."

Silverado St. Charles Groundbreaking

On other companies growing too quickly

"My biggest concern is that I don't want other companies to grow too fast, beyond their capability, such that it may result in a systemic breakdown in operational quality, which can lead to bad press and over regulation adversely affecting the whole industry."

Management

Hiring people in the senior care business has never been easy, but the first thing Loren looks for is character, because the character of a person is something that can't be changed. The second is energy, because Silverado is not going to give them the energy required to do the

L to R: Mike Stephens, Tom Croal and Loren Shook

job. Finally, they look at what their purpose in life is, their values, are their values aligned with Silverado's and then do they have the core competencies? "They don't have to be the same, identical values, but they have to be aligned with ours."

Succession is always an issue at a growing, privately-owned company, and it is not something that Loren has avoided. In fact, they have started the process of looking for a successor, but that is not an easy task. He knows it's good for the company, and he knows he has a lot of talent in-house. Some day he will move from the President role, then the CEO role, before retiring some years in the future. His partner, Steve Winner, has already retired; however, everyone follows a different path. But it is hard to replace a pioneer in the Alzheimer's care business, especially one who bucked the status quo and accomplished what he was told was "impossible."

Shook believes his major financial decision was that first equity investment as a start up from Riordan, Lewis & Haden (RLH). Without that initial confidence in the management team, who knows what would have happened. And they kept on investing. After the first RIDEA transaction with Welltower in January 2011, RLH reinvested multiples of what they initially invested even after taking much of their money off the table. The second major financial decision was obviously the RIDEA partnership with Welltower, which has grown to more than $500 million of investments by the REIT. The partnership has remained strong even with the change in leadership at Welltower to Tom DeRosa.

That joint venture relationship with Welltower was originally never in the cards because the RIDEA laws were relatively new. Loren and his team had actually planned to take the company public, with everything organized to go down the path for an IPO. But given what has happened in the public markets for senior living companies, he believes he made the right decision, for the company, the staff, the residents and himself personally. Selling out to another company is always possible, but he just doesn't think another company would be as programmatically consistent as he is. Besides, he entered the business for a purpose, not the money.

Management decisions, especially early on, can have a monumental impact on a company. One of the most challenging decisions over the years was deciding not to do something, whether it was going too far east early in the company's development, or not buying a terrific piece of real estate just because it was a good real estate deal. Whether it was luck or gut feel, it was those decisions not to act that Loren believes were crucial.

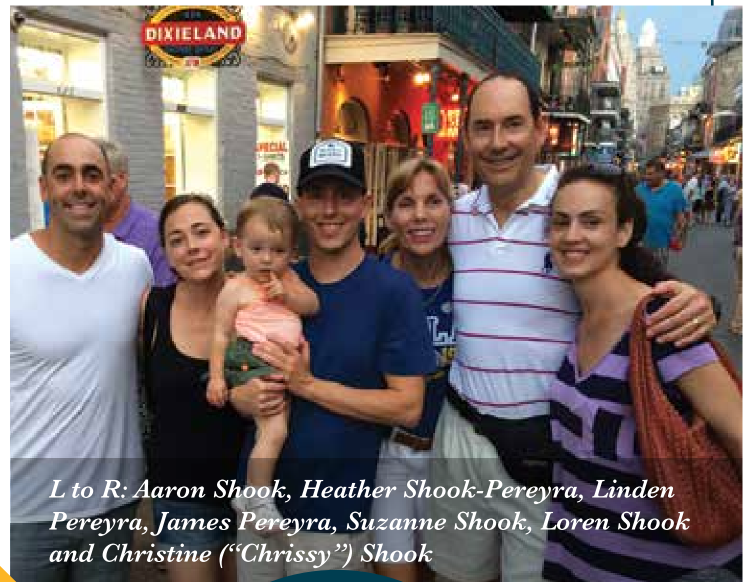
Good decisions, however, are never made in a vacuum. Loren has been a member of ASHA for years, and in the formative years of Silverado, he remembers sitting around the table with fellow company founders like Granger Cobb and Dwayne Clark, both of whom had West Coast-based companies. He likes to laugh about the roundtable debates at ASHA meetings on valuation and what kind of discount a property should have if there were two residents in a room, which was common in Silverado's Alzheimer's communities, as opposed to private rooms. He would ask, "Would you rather make 20% of $10,000 a month, or 30% on $2,500?" That answer was obvious to Loren, and always will be.

Suzanne and Loren Shook at an Alzheimer's Association Event

It is obvious that Loren's passion comes from his childhood at the family psychiatric hospital, but that and his first career in the psychiatric hospital business really gave him the passion to want to make people's lives better.

"Changing people's lives is what it is all about. If we can get someone to ambulate, to feed themselves, when others said it was impossible, well, that is enough for me. That is a good day's work."

- Loren Shook



L to R: Aaron Shook, Heather Shook-Pereyra, Linden Pereyra, James Pereyra, Suzanne Shook, Loren Shook and Christine ("Chrissy") Shook

About the Author | Stephen M. Monroe

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 30 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.

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.

The SeniorCare Investor

Irving Levin Associates, Inc.
268 1/2 Main Ave.
Norwalk, CT 06851
Phone 203.846.6800
Fax 203.846.8300
levinassociates.com

AMERICAN SENIORS HOUSING ASSOCIATION

Living Longer Better

5225 Wisconsin Avenue, NW
Suite 502 Washington, DC 20015
Phone: 202.237.0900
Fax 202.237.1616
seniorshousing.org