The Entrepreneurial Spirit of Seniors Housing:

Thoughts, Stories and Lessons on Leadership

EDITION IV

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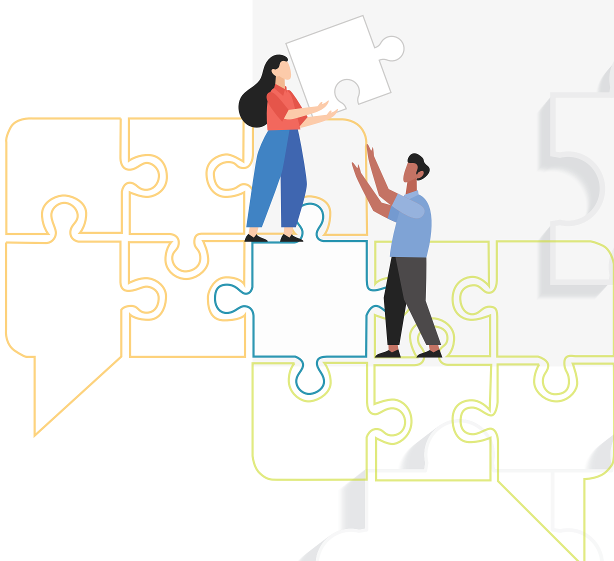


Introduction by David Schless

President / American Seniors Housing Association

Throughout the pages of T*he Entrepreneurial Spirit of Seniors Housing* series, with this now the fourth edition authored by Irving Levin's Steve Monroe, intimate profiles recognize the individuals who over the last 50 years or so were the founders and innovators in this burgeoning profession.

Steve gives a detailed, behind-the-scenes look at how their careers, driven by visionary conviction, set the course for communities today engaging residents so they can thrive by enjoying the highest level of independence and autonomy as they age in place.

These stories about our industry's pioneers provide perspective on how far we've come over a relatively short period of time and point out how the breakthroughs in delivering services, designing communities and financing growth offer insights and touchpoints on how we're evolving to serve the next generation of seniors.

I thank all those who have been featured throughout the four editions of *The Entrepreneurial Spirit of Seniors Housing* series for sharing their stories and outlooks to help those who will continue in their footsteps. These stories are gifts, passing on knowledge for the future generations who will continue senior living's proud tradition of serving older adults and their families.

CHAPTER 1

Dwayne J. Clark

Founder, CEO and Chairman
Áegis Living

Dwayne J. Clark is Founder, CEO and Chairman of Áegis Living (originally Áegis Assisted Living), which owns and operates 34 senior living communities in the western United States: Washington (19), California (14), and Nevada (1). Six more communities are under development (as of August 2021).

The family-owned, values-oriented company's 2,500+ employees care for more than 2,400 residents—more than 35,000 residents over the company's lifetime. Two communities—one in Fremont, California, and a second in Newcastle, Washington—are centered on a traditional Asian cultural environment. Staff members in those communities, branded Áegis Gardens®, are fluent in English, Mandarin, and Cantonese languages.

Clark has worked in the seniors housing industry for more than 35 years, first at Leisure Care and then at Sunrise Senior Living before starting Áegis Senior Living (with co-founder Bill Gallaher) in 1997. In 2004, the company name was changed to Áegis Living; in 2007, Gallaher was bought out. Over the years, Clark has been involved in the development, construction, and/or management of more than 200 seniors housing projects.

Áegis Living and Clark have both been widely recognized for providing excellent care and for creating a positive workplace. Included among their numerous honors and awards are: Top 50 Best Places to Work (2017) by Glassdoor, Best Assisted Living Design (2015) by Senior Housing News, Family Business Growth Award (2014) by Seattle Business Magazine, and Ernst & Young Entrepreneur of the Year Award (2007). Áegis Living was recently Certified™ as a great workplace by independent research firm Great Place to Work® (2021). Great Place to Work® and Fortune magazine have also honored Aegis Living as one of the 2021 Best Workplaces in Aging Services™.

Clark has been a member of ASHA for about 30 years and particularly appreciates the "great analytical data and advice" that the organization provides. He and his wife, Terese, are heavily involved in local philanthropy, cultural activities, and the arts in and around Seattle.

Humble beginnings

Pasco is a fairly small city located in the shadow of the Cascades in southeastern Washington State. Settlers were mostly fur and gold traders when Lewis and Clark passed through in 1805. The opening of the Grand Coulee Dam in 1941 brought irrigation to the desert-like area, allowing farming and food processing to become important industries in Pasco.Dwayne Clark was born in Pasco in 1958, the youngest of four siblings, and lived there until he was five years old. Shortly afterwards, his father "took off." By the time Dwayne was 10 years old, his three siblings were all married and out of the family home. Dwayne and his mother, Colleen, were left to fend for themselves.

Colleen Clark was an incredibly hard worker, often working two or three jobs to keep a roof over their heads. The lights or heat were often turned off for lack of payment. And during a two-week period when Dwayne was 16 years old, he and his mother ate nothing but soup made from potatoes "stolen" from a restaurant where she was a line cook. She vowed to pay for the potatoes as soon as she received her next paycheck. That experience became the inspiration for the Potato Soup Foundation—more on that below.

Those humble beginnings taught the young man the importance of work—hard work. At the age of seven, he worked alongside his mother at an airport restaurant, standing on a milk box so he could reach the dishwasher handle. He also gathered soda bottles and returned them for the nickel or two-cent deposit, mowed lawns, babysat, and did other odd jobs. When he had his own car, he raced it for money. He did whatever he could to help pay the household bills.

Public school was not a good match for Dwayne Clark. He got in a lot of trouble in high school—fighting, racing cars, skipping school.

On Colleen's "air of distinction"...

"My mom loved to buy new clothes, dress up, and get her hair done. She had great pride in herself, even though she was a struggling line cook trying to make ends meet. No one knew she was as poor as a church mouse!"

Sophomore year, he got all Fs—except in mythology, where he had a crush on the teacher and got an A in her class. Mrs. Clark took over the reins and enrolled Dwayne in DeSales High School, a private Catholic school in Walla Walla, where he lived with a family and repeated his sophomore year.

Dwayne's sophomore year GPA was 3.87 at DeSales, compared to 0.87 the year before. He was good in math and loved history. He was on the football, baseball, and track teams. He got involved in student government and became president of the junior class. He was on the debate team and chairman of the senior class trip. At the end of senior year, he was voted as the senior who did the most for the school. Summers, when he wasn't training for football, he worked in the wheat fields and pea fields, driving combines, driving trucks, and working in the canneries. Dwayne Clark had come a long way in a relatively short period of time.

After graduating from high school, Clark headed for college in Hawaii on a Presidential Scholarship, based on academics, athletics, and student involvement. He studied political science, with an eye toward law school. To augment his financial aid, he worked as a secretary in the college's Continuing Education Office and assisted the Director of Financial Aid.

Career choices

Other than a very brief stint (about 10 "awful" days) working in a steel fabrication plant, cutting 10-gauge steel on the night shift, Clark got a job with the Washington Department of Corrections. He thought that a year or two working there would be good preparation for law school. He actually was there for seven years—working his way up from correctional officer to shift commander supervising 200 people.

While working at the Department of Corrections, Clark's sister called and urged him to read a 400-page study,

On working in the correctional facility...
"When you work in a maximum-security prison, you learn about survival. You learn perspective. Every day, I thought I was going to be murdered—and nothing is as bad as that. You really see life and death flash right in front of you. I learned not to take myself too seriously, I learned to appreciate great cultures, and I learned that that job was not for me. "

called "The Graying of America." She was a member of an advisory board at Leisure Care at the time and insisted that the study could show him a path to a future career—notwithstanding Clark's plans to go back to school and study law.

So he read the study and learned about demographics, the rates at which people were aging, and the expected "boom" in the seniors housing industry. Convinced that it would, in fact, become a booming industry, Clark asked his sister to help him break into the field. His mother also thought it was a fantastic idea. It was a lot less dangerous than working at the Department of Corrections!

Introduction to seniors housing

Clark set up an interview at Leisure Care, initially done as a favor to his sister. But Clark wasn't looking for a brief "courtesy" interview. He wanted to apply for the position of general manager of Leisure Care's Idaho communities. And he wanted it to be "the best interview they'd had in 10 years." So Clark spent a month researching the company prior to the appointment, which made a huge impact.

On the Leisure Care interview...
"One of the vice presidents spent no more than 10 minutes with me, asking a few cursory questions. Right before he was about to shoo me out the door, I reached into my backpack and pulled out a three-ring binder that was about three inches thick, dropped it on the desk in front of him, and said, 'Now I'd like to talk with you about your company, where the aging industry is headed, and how I think I could contribute." We spent the next 90 minutes going over my manual. The following week Leisure Care made a job offer."

As it turned out, the Idaho job wasn't in the cards; however, Leisure Care did offer Clark a job as marketing director for the company's Colorado Springs location. If he did well there, the deal was to move him into the Manager Training Program in 6 to 12 months. But Clark was on a fast track. Just one month into the job in Colorado, he moved into the program with the expectation that he would become a manager in about 12 months. Two months later, he was named manager of a Leisure Care community in Great Falls, Montana.

And he loved it! Being CEO of a seniors housing building (not a company) sparked Clark's entrepreneurial talent. He loved the variety of work he was able to do during the course of a day—administering, marketing, maintaining, nursing care, etc.

The Montana property was struggling when Clark got involved, and he was able to turn it around in a year. As recognition for that success, he became a troubleshooter for the company, targeting properties in Idaho, California, Texas, and Washington State. After three years at Leisure Care, Clark became a regional director, then director of operations, and then vice president of operations. Clark loved working at Leisure Care. He admired the company and its owners. After six and a half years, though, he wanted something new. Sunrise Senior Living recruited him away.

Unlike Leisure Care, which had a very distinct brand and was very service-oriented, Sunrise was focused on high acuity—a nursing home alternative. Sunrise had 18-19 properties at the time and a huge growth plan. The company felt Clark could help them reach their goals—and he did. In less than a year as senior vice president of operations, marketing, and HR, Clark was promoted to executive vice president.

Clark worked in Virginia for a couple of years but convinced management that his talents were better served being back in Seattle, where he could grow a presence for Sunrise on the West Coast. In fact, he opened up new Sunrise locations from Chicago westward, growing the company's presence from two buildings to 28 in a short period of time.

In the end, though, Clark wasn't satisfied. He felt that seniors housing shouldn't be run by a public company. What he calls "super regional players" are better positioned to know their markets, their customers, their families, and the regulations. Once a company tries to span 30 states, it loses that familiarity with the marketplace.

Perhaps more importantly—and like most entrepreneurs—he wanted to do it on his own.

Áegis Living begins

Clark was in his mid-30s in July 1997, when he and Bill Gallaher co-founded Áegis Assisted Living. Clark took about six months to plan the venture and raise capital before leaving Sunrise, but the $10 million that he and Gallaher had in mind (a lot of money in 1996-97) turned out to be greatly insufficient. The two partners underestimated just how capital-intensive seniors housing was and the importance of cash flow when managing new properties. The fledgling company burned through its first $10 million in six-to-nine months—not the expected three years.

Two more rounds of financing yielded $12.5 million, but the company was $30,000 short on payroll just as the partners were about to refinance their first property. The only funds that weren't exhausted were Clark's son's college fund. After a heart-to-heart talk about the relative value of in-state tuition, Clark's son—who had just committed to going to UCLA— agreed to go instead to the University of Washington. That decision saved the company—and, happily, Clark's son has never felt bitter about the decision. In fact, the college switch may have helped him get a job with Microsoft after graduation due to connections he made at UW.

Meanwhile, after supervising hundreds of people at Sunrise and generating tens of millions of dollars in revenue, Clark was now sitting in a small office over a deli in Redmond, Washington, two staff members, and no communities. It was a little daunting and quite scary, but Clark recollects that it also provided a dose of humility.

One day, Clark's sister handed him a check for $112,852.63, her entire life savings. A social worker who had never made more than $40,000 in a year by 1996 and had been caring for their mother, who was developing Alzheimer's, his sister had closed out her 401K and IRA and refinanced her house. "This is all the money I have in the world," she said. And she insisted that Clark invest it in the new business.

"That was rocket fuel for me to not fail," Clark recalls. "The company was going to be successful no matter what!" As grateful as Clark was, he saw it as a huge financial risk. If the new company failed, his sister—who no longer had any retirement money, would be "done."

On the other hand, it became a huge motivation. While Clark had invested millions of dollars in projects before and slept well at night, this gift had an emotional aspect. In the end, of course, it worked out very well for both brother and sister. "She's happily retired now and traveling the world," Clark notes.

The Áegis plan from day one was to develop new properties, own the real estate, and manage the communities. In 1998, the company's first community opened in Pleasant Hill, California. A year later, Áegis built three communities in northern California: Fremont, Aptos, and Napa. And in 2000, the company opened six more communities in California and Nevada.

In 2004, Áegis Assisted Living embraced its new identity, Áegis Living. And in 2007, the company completed a leveraged buyout of Bill Gallaher and outside investors. At that point, Dwayne Clark became chairman of the board. The company has had more than 300 investors over the years—about 250 outside investors and 60 staff investors. Why so many? Clark always preferred having a stable of investors that he could control rather than having one major investor with a seat at the table and control over decisions.

On deciding to leave Sunrise…

"I had a very comfortable job at Sunrise. I had a very good salary for a young man. I had great stock options that would have set me up for retirement. And I gave all that up. It was a significant decision—not only for me but also for my family and the sacrifices they had to make."

Áegis Living's successful approach

Over the ensuing years, Áegis has become much more sophisticated. The current management team, for example, includes a former head of Nordstrom as Áegis' chief marketing officer and a former head of HR at Amazon as chief people officer.

Clark's best hires have been humble, passionate team players who are willing to give other people credit. They become ambassadors of the company, support and add to the company culture, and constantly strive for new ideas, new information, and new technologies. It doesn't matter whether their experience comes from the operations or finance side. Goal-oriented and fiscally aware, moving the company forward is the driving force. Lazy, self-interested people with large egos have no place at Áegis.

Clark also believes that the seniors housing industry recycles too much staff. He sees companies pilfer employees or chief executives, pay them 20% more, and think they've gotten a good deal—but they're not getting good value. For less money, they could hire people from outside the industry who are a lot smarter and have a lot more revenue management experience—if the companies were willing to put in the time and effort to train those people for the seniors housing industry. That's a strategy that Áegis follows, specifically in general manager positions.

Another Áegis strategy is to pay employees fairly. Seattle was the first U.S. city to raise the minimum wage to $15 per hour. Áegis, however, pays a minimum of $17 or $18 per hour plus a number of "soft" benefits, such as dollar food credit, gas cards, help with utilities...and the Potato Soup Foundation, which helps people in crisis situations (see below). The company also has a fast-track promotion strategy, where care managers have been promoted to medical technician, supervisor, department head, director of operations and general manager. "We have two vice presidents today that began as care managers," Clark says. "We have a great history of taking people from the ground up and growing them within our company." As a result, Áegis boasts the seniors housing industry's lowest turnover of care managers.

Also, Clark always looks for people who complement his own qualities rather than duplicate them. Clark tends to be a visionary, a cheerleader, a risk-taker. He's entrepreneurial and focuses on the big picture. The complementary people that he seeks are detail-oriented, analytical, and take their time making decisions.

On hiring...

"I have an expression that I call 'the making of the quilt.' What kind of patches can I add to the quilt so that the aggregate becomes really incredible? So we first look at how the person's background can make our quilt better. And we don't often hire from within the industry. Instead, we look for world experience, for people who have a passion for our industry and a passion for our culture. I can teach people a lot of technical things, but I can't teach passion. They either have it or they don't. And that's a really important aspect for us."

"It's hard to be a productive CEO without being a risk taker," he observes. "If you want to have a progressive company, you have to be a risk taker. When you sign up to be a CEO, you sign up to take risks. So I'm absolutely, 100%, a risk taker." That said, it's one thing to take a risk and buy three pieces of land. It's quite another thing to take a risk on how you care for an 85-year-old person. The way Clark aggressively runs his business and the way he prudently runs the care side are completely different approaches.

As an extension of that care approach, Clark encourages his executives to practice what he calls "management by vulnerability." Care managers who service residents every day do the "real" work in the industry, he likes to say, and often view senior executives as having been brought up with silver spoons in their mouths. Therefore, Clark feels it's vital for executives to relate personal stories from time to time in order for them to experience a little vulnerability and foster a closer relationship with line staff. For example, he frequently talks about his struggle with weight, having bad credit in his 20s, going through a bad divorce, and being poor without enough food to eat. As a result, "the boss" is no longer just a guy in an expensive suit with a fancy car and big salary. He becomes a real person.

Áegis built 20 communities before making its first acquisition in 2003. By mid-2021, the company had 34 operating communities in Washington State, California, and Nevada and six more in development. Áegis has built the overwhelming majority of its communities (about 85%) and has ownership in about 80% of the

portfolio that it currently operates. Notably, Áegis has never had a failed community since the company began in 1997.

Philanthropic activities

When Clark was 16 years old and his mother had to steal potatoes for them to have something to eat, she made her son promise that he would remember that experience when he grew up and help other people. So Clark began the Potato Soup Foundation in 2005 to help Áegis Living employees who were going through crises or dealing with emergencies.

At first, a few executives and Clark donated some money to the foundation. Now, Áegis employees can choose to contribute as little as 25 cents a paycheck—and more than 500 line staff members do contribute. That has created a nurturing community among the employees—people helping people. Outside donors can contribute, as well.

On the Potato Soup Foundation...
"The idea is that we help each other in times of crisis. The money goes to pay for funerals or for emergency dental work. We repaired a guy's car. We've gotten people out of domestic violence situations. We've paid for emergency surgery for people. We've paid for groceries. You name it, we've been able to do it. And I'm extremely proud about it."

On a more public side, Clark created the Queen Bee Café, a nonprofit café and crumpet shop dedicated to nurturing human connections. Currently, there are three Queen Bee Café locations in Seattle, Clyde Hill and the Kirkland. Each quarter, 100% of the profits of each café is donated to local charities, such as the YMCA, Boys & Girls Clubs, Gay Seattle Business Association Scholarship, and Bellevue Life Spring. Dozens of charities have benefited over the years. The name reflects Clark's admiration for his mother—the original Queen Bee—and her skills in the kitchen, her self-confidence, and her generosity.

Further, Clark is a member of Galileo Foundation, a private foundation of the Pope that works to put an end to child trafficking, child organ harvesting, and modern slavery worldwide. Then, through the D-ONE Foundation, Clark mentors some of the nation's top athletes about relationships, finances, credit, and social skills. He also worked with Rainier Scholars, a 12-year program that offers a pathway to college graduation for hard-working, low-income students of color.

On World Peace Weekend in 2017, Clark headed the March for Civility in Washington, D.C. The march was a nonpartisan effort to bring people of all backgrounds together in support of love, unity, equality, and justice. The rally included inspiring messages from public figures known nationally for their good works and for bringing people together. Clark's message was about inclusiveness, acceptance, embracing diversity, ending divisiveness, and uniting in peace—all traits of the Áegis Living culture. Nearly 100 Áegis Living employees joined in the march.

Also in 2017, Clark founded The Clark Family Legacy Foundation to care for the most vulnerable people in society, with a major focus on the elderly and children.

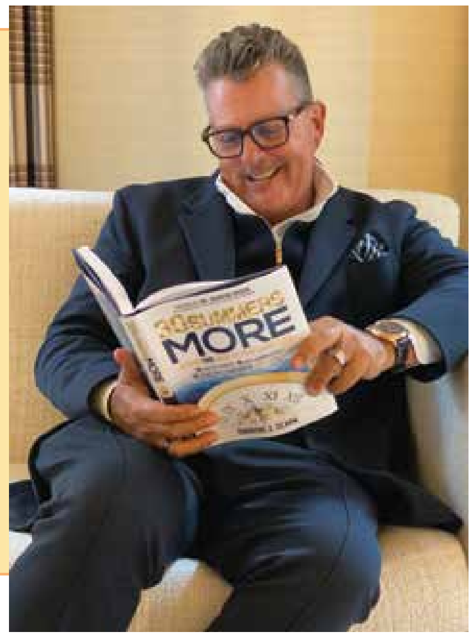
During the COVID-19 pandemic, Clark created an initiative, Seattle Seniors Strong, to support homebound seniors who were homeless or housing insecure. He, along with the Seattle Seniors Strong partners, raised more than $320,000 in just two months. In 2019, Áegis Living made its largest donation in company history - $1 million – to support Plymouth Housing, also an organization supporting those facing homelessness.

Writing and other creative ventures

As the calendar approached the end of the 20th century, Clark felt that the seniors housing industry wasn't doing a good job of hiring and training the people who care for residents. So he wrote a book on the subject. Clark's premise in *Help Wanted: Recruiting, Hiring & Retraining Exceptional Staff*, published in 2001, was that stabilizing the care staff would result in great outcomes. Áegis Living's success, which has always been based on maintaining the best culture throughout the company, served as the foundation of the principles that Clark laid out in that book.

It was a decade before he wrote his next book, *My Mother, My Son*, published in 2012. Subtitled "A true story of love, determination, and memories…lost," the book relates Clark's painful realization of his previously feisty mother's diagnosis of Alzheimer's disease, his initial denial about it, and the irony of him being a successful executive in the senior living industry and his mother becoming a resident in one of his memory care communities. The book also chronicles Clark's good times with his devoted mother, memories of their early struggles, and life lessons that he learned from her. *My Mother, My Son* is being produced into a major motion picture feature film.

***On writing* My Mother, My Son…**
"What was most valuable for me [in writing the book] was my vulnerability. I've talked to people—even doctors—who just won't believe that their mother or father has Alzheimer's. I see it every day. They say, 'Oh no, she's just confused, dehydrated, having an off day.' That's emblematic of what happens when a family member has a cognitive disability. Our default is to go into denial, and that's exactly what I did. But I'm not ashamed or embarrassed about that. I'm proud that I was able to write about it and bring it to the forefront."



Two years later, when many parents asked Clark how to help their young children understand what was happening to grandparents or great-grandparents suffering from Alzheimer's, Clark wrote *Saturdays With GG*, a children's book about how a pair of kids learn to cope with Grandma's illness as she becomes increasingly forgetful. In easily understandable language, the book explains to readers as young as three or four years old what is happening to Grandma (GG) and the cognitive changes that she goes through.

Clark's *A Big Life*, published in 2018, began as a legacy of advice that he wanted to share with his own grandchildren. He expected to take about a month to make a list for them, but it eventually took three years to put his thoughts together. "I wanted them to have a wide array of advice," he explains, "but the list kept changing. So it took that long to get it all on paper." Once the list was finished, he presented it to some CEO friends. They said they wished their grandfathers had done a similar book of wisdom to which they could turn. So the "list" was finally published as a book with a game component, where readers can roll dice, turn to a specific page or topic, and start a conversation about their lives. "People tell me that they learn things about their family that they never knew before, and it brings them closer," he says. "I'm very proud of that."

Clark's original plan for *30 Summers More*, his latest book published in 2019, was to chronicle the longevity behaviors and health aspects of the 60,000 residents for whom he has managed care in the Áegis Living communities. A year into the process, having had his own health crisis, Clark realized that the project should focus more on people his own age (55 years at the time) instead of the 80-year-olds in his care. Determined to find the best longevity practices to incorporate into his own life, he traveled the world, spoke with scientists, visited longevity centers, and even tried "weird" protocols on himself. In the end, the book relates a variety of new practices—not all of which are innovative but are fundamental things to do to live a good, healthy, long life. It was voted as the Top Health Book in 2019 by Indie Bookstores as well as being an Amazon Top Bestseller.

Clark finds writing to be therapeutic. He doesn't write to produce income. All profits from his books are donated to his Potato Soup Foundation and the Alzheimer's Association. "I really believe one of my purposes on this planet is to teach and educate," he says, "so I'm a big proponent of doing that in all of my books."

Meanwhile, in 2015, Clark and Sound Mental Health worked together to produce *Seven Ways to Get There*, a play that addressed the stigmatized subject of mental health, for a special theatrical production at the ACT Theatre in Seattle. Based on Clark's personal experience with group therapy—the play may be headed to Broadway.

True Productions, which Clark founded

as another creative outlet that ties company culture and values to "living artifacts," collaborates with writers, filmmakers, and playwrights on real-life stories that focus on themes of social change. True Productions has produced 13 documentaries, including films such as *Full Court: The Spencer Haywood Story*, *Gold Balls*, *Big Sonia*, *Thin Skin*, and more. Two current films in which Clark is involved are: *The Path to Freedom*, a story about a Civil War slave who escaped; and a movie about football player Michael Bennett, who played with the Seattle Seahawks in the 2013-17 seasons. Clark also partners with the Seattle International Film Festival by providing an annual $50,000 grant in support of Seattle documentary filmmakers.

Looking forward

The first baby boomers will turn 80 years old in 2026, and that will present a major change to the seniors housing industry. Alzheimer's is also experiencing a dominant rise and will likely become the #1 health care crisis in the nation over the next 10-15 years. The industry must position itself to face those two significant challenges. Yet, because the memory care supply and demand equation is so out of balance, Clark also sees an opportunity for seniors housing providers as the needs in that segment grow. He notes, for example, that 40,000-50,000 people move into Washington's King County (Seattle) each year; about 1% of that gross population requires some kind of seniors housing. That translates to a need for 500 new units per year. That's not happening, according to Clark, and the shortage will grow bigger and bigger each year.

Further, when the baby boomers hit the market, the challenges facing providers will become huge. On the other hand, he predicts that occupancy will rise, prices will increase, and cap rates will decline. Whether the industry as a whole is prepared for these challenges and the related opportunities, however, is of little consequence to Clark. He feels that each company must prepare in its own way.

On future challenges...

"I can only control what I can control. I can't control 50 other companies that operate in different states or have a different attitude about how to serve their employees. I love Áegis's position in the marketplace, and I think that's why we're one of the leaders in the country and in our sector."

Clark would like Áegis Living to double its size within the next 10 years and is actively seeking the best sites, planning the best buildings, and looking to fill them with the best staff. Currently, construction projects valued at more than $500 million in development. The company also continues to look throughout the West for one-off assets to buy and incorporate into the business. What about expanding to the East? Clark will never say "never," but he and his team know the idiosyncrasies, the legalities, and the issues affecting the 40 million people who live in California and Washington State. " We stick to our area, and that's why we've been so successful," he notes.

As for his own personal future, Clark has no ambition to retire in the next five or 10 years—although he does expect his role to change as the years go by. He has people in place—smart people—so that the company can carry on successfully as his role evolves.

And if/when that time comes, Dwayne Clark will have plenty to keep him busy—writing, producing films, traveling, and enjoying a fulfilling lifestyle with his wife, Terese, his two children and nine grandchildren. His son is vice president of new development and strategies for Áegis Living; his daughter directs all of the family's philanthropic ventures; and Terese is an "art entrepreneur." Through her company, T Street Art, she works with famous muralists to install socially worthy murals around the world. "She is the most important person in the world to me," Clark says, "and has been a marvelous addition to my life.

"I will always, always feel that this is a high-touch industry. I don't think we'll have robots taking care of Alzheimer's patients in the near future."

— Dwayne J. Clark

John C. Erickson

Founder, CEO & Chairman
Erickson Living

John C. Erickson, founder of Erickson Retirement Communities—now Erickson Living, is recognized for developing full-service CCRCs specifically targeted to "Middle America." After building and managing retirement housing units in Florida throughout the 1970s, Erickson converted an abandoned seminary in Maryland into his first CCRC for moderate-income adults—and the first of 23 similar developments built by Erickson Retirement Communities between 1983 and 2008. The company fell victim to the financial crisis of 2008, filed Chapter 11 bankruptcy in 2009, and re-emerged as Erickson Living, a subsidiary of Redwood Capital Investments. Today, Erickson Living serves more than 27,000 residents, in 20 communities, in 11 states, with about 14,000 employees.

John and Nancy Erickson are approaching 50 years of marriage and have four grown children—three sons and a daughter. Their second son, Craig, works for Erickson Living running Denver operations for a major community. Another son, Mark, oversaw construction of a senior housing project in China for Fortress Investment Group, the private equity company, and is now working on an independent senior housing project in Salt Lake City.

The Erickson Foundation, founded by John Erickson, is dedicated to the study and promotion of healthy and positive aging. Among its activities, the foundation funds research grants, sponsors a children's camp for at-risk children, and donated $5 million toward the formation of the Erickson School of Aging Studies at the University of Maryland, Baltimore County (UMBC).

One (very) big, happy family

It wasn't unusual in the 1940s and '50s for a family to have lots of children—often five or six kids—particularly those who practiced the Roman Catholic faith. The Erickson family of Chattanooga, Tennessee, however, broke a local record. Mrs. Erickson bore 14 healthy children—11 boys and three girls—within a 17-year period. The next-largest family in town had 13 children. John, one of the 14 siblings, grew up to become founder and CEO of Erickson Retirement Communities.

Back in 1943, when John Erickson was born, Chattanooga was an old steel town nestled in a smoke-filled valley. Foundries continuously pumped out steel parts…and smoke. Chattanooga was also the hometown of the Lupton family, founders of the Coca-Cola Bottling Company. The Luptons controlled the distribution (not the manufacturing) of the famous soft drink and generously provided a lot of money for improvements to the city. As a result, Chattanooga today is a beautiful town and the location of the University of Tennessee–Chattanooga.

Looking back, Erickson recalls that being one of 14 kids was "a little tribal." The family was the social structure, and everything was handed down—clothing, jobs, whatever—to the next youngest child. But despite having that many people under one roof, there were never any physical scraps. "We could verbally argue," says Erickson, "but we couldn't have physical fights. It would have been bedlam!"

Mrs. Erickson was the driving force in the family and always stressed the importance of a good education. She and her brother both went to college. He finished and ultimately became president of Ford Motor Company. She had to leave college after the first year because of the Depression and had to help support her family. As a result, she realized that education was the single most important item in your toolbox for life. Her kids were going to get a good education, whether they liked it or not!

On dinnertime...
"An interesting feature of a family with that many people was that we couldn't all eat at the same table. The big kids got to eat in the dining room; my parents and the little kids ate in the kitchen. So we older kids had our own environment in the dining room. We could set our own rules and talk about our own things—sort of like Lord of the Flies! When one of us went off to college, one of the little ones would graduate out of the kitchen—until enough of us were gone and my mother wasn't having any more children. The littlest ones never did get out of the kitchen—and still, to this day, complain about it!"

One day, John's sister was reading the *Guinness Book of World Records* and found that their family may have set a record: all 14 kids graduated from college. So she sent the statistics to the publisher and, sure enough, the Erickson family was pictured in subsequent editions for seven or eight years—known as "the family with the most college educations of any family in the world."

The children all took their mother seriously regarding the importance of education. Nine of the siblings also got graduate degrees and went on to become lawyers, accountants, Ph.D.s, doctors, and so forth. In fact, Harold—the eldest Erickson son whom John calls "super-smart"—set a precedent for his younger brothers and sisters. Harold received multiple scholarships, ultimately earned a Ph.D. in biophysics, and was a Duke University professor for years until his recent retirement. And when the youngest child, Carol, turned six and went off to grade school, Mrs. Erickson went back to college to finish her education and get a teaching certificate. She spent the next 16 years teaching African American students in an inner-city school in Chattanooga.

Mr. Erickson was a wholesale florist. He ran the Chattanooga division of a Nashville company and distributed flowers to the local retail stores. All of the Erickson kids worked in the shop, passing the jobs down from one to the other. As each child reached the sixth or seventh grade, he or she would sit in front of an old Burroughs bookkeeping machine and learn to process invoices and, each month, balance the books. Upon "graduating" from bookkeeping, they would go to the store and help with packing. And as each one turned 16 and got a driver's license, they would drive the truck to the airport each night to pick up the flowers and take them back to the store.

Mr. Erickson wasn't particularly ambitious, according to his son, but was hardworking, reliable, and worked seven days a week. He wanted a stable life but wasn't particularly interested in growing the business. Mild-mannered and fairly constant in demeanor, he was socially isolated. He never went out for a beer with friends, for example. But he did spend a lot of his time with his kids...in the shop.

In fact, Mr. Erickson had had a rather rough childhood. As a youngster living on the family farm in Iowa, he had a sudden attack of appendicitis. A doctor operated on the child on the kitchen table, which resulted in an infection that affected his eyesight and hearing. Embarrassed by having to wear glasses, he quit school in the sixth grade.

Relatively poor and with little formal education—but clearly educated in the "school of hard knocks"—Mr. Erickson knew how to hold things together. It was not an easy task, however, with such a large family. Clothes were mostly hand-me-downs, and all of the kids were enrolled in the Catholic school system—which charged a single price per family. "We nearly bankrupted the entire church," John Erickson quips. "That's the reason I send money to the group to this day."

Young John never really liked school. He found school boring and a number of the teachers just awful. Because of his Mom's influence, though, he knew he would have to make at least Bs. And for that, it turns out, he didn't have to work too hard. Only once did he make an A+—in chemistry, of all subjects—because the teacher was particularly inspiring. Overall, though, learning was easy to him.

Spreading his wings

An interesting occurrence at the age of 12 distinguished John from the rest of his family. He got to know a substitute secretary (named "Tommie") in the church office, helping her print bulletins on an old mimeograph machine, and she asked him to dinner at her lovely house in the suburbs. Tommie and her husband Bill had no children and took a liking to John. After visiting them several times over the next few months, John actually moved in—with his parents' permission—and lived permanently with the couple for years…until he got married. While that may seem odd in this day and age, it reflected the small-town attitude at the time. The Erickson's simply felt that John had a pretty good deal! Tommie's husband, Bill, ran barges and tugboats along the Tennessee River and did repair work in a big shipyard 20 miles south of Chattanooga. During his high school and college years, John had a summer job at the shipyard. Occasionally, he would invite his brothers to the house on a summer weekend to "ski boat" around the nearby lake—which probably bolstered their acceptance of their lucky brother's situation.

After graduating from high school, John entered St. Bernard's College, a Benedictine monastery in Cullman, Alabama. Going to a Catholic seminary was a "big thing" for the Erickson boys. It was considered a service commitment. John's older brother Frank also went to a seminary, became a priest for six or seven years, and then left the priesthood to marry and become a lawyer.

After four years at the seminary, John was assigned to Catholic University for his "graduate degree." Inspired by his mother's belief of education as a reforming tool, John earned a master's degree in education administration in 1967.

On becoming entrepreneurial…
"Catholic U. is where I learned that I'd rather start a business than do what I was told to do by somebody else. I had a job working the front-desk switchboard in the dorm for $2 an hour. I assigned other people to answer the phones, gave them $1.50 an hour, and kept the override. Then I started a pizza concession—and I got a refrigerator and started a beer concession. By my third year, I had a car and was running three businesses. That's when I decided to opt out of the religious life and go out on my own."

Sadly, once John was out of college, his "surrogate parents" began to have severe health issues. Bill developed early-onset Alzheimer's (called pre-senile dementia, at the time) at age 59 and began to deteriorate. John visited regularly—even after Bill entered a nursing home. Eventually, Tommie's health also started to slip, and she entered a 12-year period of advanced dementia. As sad as that all was, John was gratified to be able to be there for them.

After receiving his graduate degree in 1968—a time of full employment in the country, which was fortunate—John Erickson took a job with RCA Computer Systems, a major electronics company at the time, in Cherry Hill, New Jersey. He loved tinkering with machinery but had never even seen a computer, so RCA gave him a stack of programming books and instruction manuals to pore over for his first two months before starting classes. And he loved it. "I learned where every zero and one was on every computer and what made it work," he recalled. "I was having the time of my life!"

With two months of learning under his belt, he rose to the head of the class and helped the 30 other classmates work their way through the material. In the end, his was the highest achieving class of all, and RCA asked Erickson to remain as a teacher, which he did for two years. The following year, John met Nancy, a college recruit from Vanderbilt and a student in one of those classes, who eventually became his wife. In 1970, Erickson transferred from teaching to computer sales and marketing for RCA, but in San Francisco, living in a beautiful apartment with an even more beautiful view. His new life and job in San Francisco finally convinced Nancy that he was marriageable, and they made it official in March 1971.

Later in 1971, RCA decided to exit the mainframe computer business. IBM controlled the mainframe business at the time and was a ruthless competitor. The RCA business write-off—hundreds of millions of dollars—was the largest the country had ever experienced up to that time. Erickson decided it was time for him to get out of that business, too. He migrated to the real estate development and investment business, which was considered a good tax shelter. (Nominal income tax rates reached 70% at the time.)

Erickson and a partner, a former senior manager at RCA, developed active adult communities and made some acquisitions, the bulk of which were manufactured housing (mobile home) projects in Florida, and also in Texas, California, and one in Santa Fe, New Mexico. The partner, who handled the investment side out of California, wanted to expand further but Erickson, who handled the management side out of Florida with the rest of the team, was wary about the high risk of acquiring new properties. After six months of tension, Erickson walked away from the partnership.

On going off on his own…

"I was in my early 30s and finally said: I've got all the skill sets. I've done acquisitions, contracts, bank financing, marketing, sales, development of the new properties, building…the only thing I really haven't done a lot of was talking to the rich people…but I'll figure that out. So I gave the business to my partner and took only $300,000—which he finally paid after several years."

An opportunity appears

Around the same time, Erickson completed a single project—an office building—for a wealthy Florida woman who subsequently wanted to invest in something with some "social value." One idea was to create recreational programs for kids on National Forest Service land. In 1981, while in Washington, D.C. for an afternoon meeting with the Forest Service, Erickson stopped by Catholic University and ran into "Father Bob." In their conversation, Erickson learned that St. Charles College in Catonsville, Maryland, had been closed for years and was costing $100,000 a year just to keep the heat on.

After his meeting with the forestry people, Erickson skipped his flight home to Florida and drove to Catonsville. It was the middle of September, and the 100-acre campus was empty. He wandered through the buildings and admired the colonnaded architecture—and had a thought. He drove to nearby St. Mary's, which was the headquarters of the Sulpicians order who owned the St. Charles College and where his brother had attended seminary, and had a conversation with "Father Frasier"—who had been the prefect in Erickson's dorm at Catholic University.

The campus had been empty for four years, and the Sulpicians had a contract with a Section 8 builder to build government-subsidized housing. But local officials hadn't approved the plan over the previous two years. Erickson told Father Frasier that he'd like to put together a plan for a retirement community. So he went back to Florida, put together a plan, and shared the idea with some friends in the investment and building businesses. A couple of them were interested.

Returning to the seminary, to Father Frasier, Erickson said, "Here's what I'll do: You were going to sell this land for $1.5 million. I'll pay $2 million if I can put the plan together and would like an 18-month contract. I'll pay the $100,000 heating bill for the church every year, so you won't have any cost." Father Frazier thought it was a good deal, and the seminary signed the contract.

This was a pure bootstrap operation. Erickson put together a pro forma that said he'd raise $1.5 million to be used for architecture, drawing, zoning, presales… everything needed to get to the point of a launch. He would then need financing to cover the launch. He raised about $1 million from the investor friends and had done syndications before—but now he had a novel idea.

On his novel idea…

"My thinking was that Middle America would be willing to sell their home for $150,000, but they would want the proceeds to go to their family and kids. They're not going to give away that $150,000. So I came up with the refundable entrance fee."

It was 1982, and no one in the CCRC industry had yet come up with a refundable entrance fee. But Erickson also had a second great idea. Because he didn't know the cost of taking care of residents, he planned to use a fee-for-service model for the new community instead of an insurance model generally used by the CCRC industry. Basic services would be included, but residents would pay extra for everything that they needed above the basic service package.

Those two changes opened up the middle-income market but also broke the industry rules. As a result, Erickson got enormous "static" from existing players, particularly the Quakers and other nonprofits. They were furious about his "100% refundable" offer. At that point in 1982, what is now considered the Type A contract was the only one available. No one thought Erickson's fee-for-service and refundable entrance deposit contract, which we now know as Type C, would ever work. (The in-between Type B contract emerged over the following five years, as providers started merging programs.)

One other thing...in 1982, the government wouldn't rule on how to handle the entrance fee. If it had been a for-profit company, the deposit would be considered as either prepaid rent or all income. Or it could be considered participating equity and dilute the equity pool. Or it could be considered debt, with imputed interest.

So Erickson and "a sharp accountant in Florida" hammered out a lease-and-use agreement. Erickson would form a nonprofit that would sponsor the community. He would then lease the community to the nonprofit in exchange for the entrance deposits. As a nontaxable entity, the nonprofit didn't care about the accounting method. But Erickson did care. So that solved the accounting problem. The deposits were collected by the nonprofit and deposited into Erickson's development company. The nonprofit received 5% interest and Erickson charged 6% for the nonprofit to lease the land. So, Erickson received the use of the funds plus 1%.

On the nonprofit/for-profit scheme...

"I used this method over and over and over. The nonprofit got the community, and people were being cared for. I got the management company. In theory, it was a financial shell; indirectly, it was responsible to the residents. We put in place a community board that made sure that, as a developer, I was doing good management for the benefit of the residents. The board of directors included community leaders, ministers, lawyers, finance people...and that gave the scheme credibility. Plus, there was a gold and marble church which was the cornerstone building that also presented stability."

When Erickson sought financing—without a dime to his name and an overdrawn bank account—various banks, including Bank of Baltimore, were interested in his idea but wary of investing. They were all concerned that the project was too service oriented and that Erickson had no money. They weren't even sure what they were being asked to finance. Finding a guarantor looked like it might allay the Bank of Baltimore's hesitation, so Erickson approached Henry Knott, a wealthy man who had built thousands of housing units in the region just after the war and who was also a graduate of St. Charles School. Knott, whose office was actually in the boiler room of one of his apartment buildings, wasn't interested in getting involved but suggested that he visit Knott's son, Henry Joe, Jr., who was also building a lot of housing.

Erickson did meet with Knott, Jr. and offered him one-third interest in the partnership if he would guarantee the land purchase for the seminary to subordinate the property for a $5 million dollar construction loan. Knott, Jr. initially agreed but, as they approached the bank a few days later, tried to squeeze Erickson for 51% of the partnership. Erickson walked out of the deal and, in fact, became pretty angry about the turn of events.

Back in Florida, a friend linked up Erickson with the head of GEICO back in Maryland. Back north the following day, Erickson gave a presentation to Al Sparks, CFO of GEICO, and his finance team. Promised a decision by Friday, May 24—and feeling overly positive—Erickson sent out invitations to a groundbreaking dedication for the day before, Thursday, May 23. About 400 people attended, including local officials. Then nervousness set in...but GEICO did come through and guaranteed the land purchase that Erickson needed to start tearing down walls and building apartments. Erickson gave GEICO a one-third share of the financing partnership that he had offered to Henry Joe earlier that month.

The first CCRC is underway

St. Charles College was the oldest Catholic seminary in the United States. Founded by Bishop John Carroll—the first Catholic bishop of the United States and funded by his wealthy cousin Charles Carroll, the wealthiest signer of the Declaration of Independence—the seminary was built in 1838 on the Carroll estate, Doughoregan Manor in Ellicott City, and named for Charles Carroll. When the building burned to the ground in 1911, the campus was moved to its present location in Catonsville.

To create a continuous association with the local history, Erickson named his project Charlestown Retirement Community. It opened with 64 units in the first renovated college building. Later, 55 units were completed in a second building, followed by 110 units in the next, and so on. Erickson actually planned to scatter cottages throughout the rest of the land after the apartments were completed, but he found residents would have a much higher quality of life in the apartments instead of cottages.

On apartments vs. cottages…

"Once I met the first 250 people who lived in the apartments, I determined that none of those people would be better off in a cottage. They'd park their car, but they wouldn't come into the main building on a nasty, snowy day or in the heat of the summer. From cottages they would be reluctant to join the bridge club or commit to activities. So I erased all the cottages."

Erickson's first construction loan was for $5 million, which Erickson paid down each time the company received a deposit on an apartment. By the time the second building was completed, he had paid off the $2 million to the seminary for the land. GEICO's guarantee, which was only for the land, became unnecessary and was then gone. As the buildings were completed and the project(s) continued, the bank loan first increased to $11 million and then to $16 million by the time the community was finished.

This was a "bootstrap" method of financing: borrow money, build units, pay down the loan, borrow more, build more units, etc. In fact, demand grew so fast that the community was moving people into the first 64 units at a rate of about 13 per month. With each new building, it was accelerating. After those first three college renovation buildings sold out, Erickson constructed brand-new buildings on the land, almost all with six or seven stories and 110 to 120 units each.

In 1988, the fifth anniversary of the opening of Charlestown Retirement Community, Erickson invited his GEICO associates to join in celebrating the event. After the luncheon, Al Sparks, his GEICO contact, mentioned that the company benefited from an enormous amount of tax credits from their deal but no longer did noninsurance related transactions and wanted to exit it's one-third partnership interest. If Erickson would agree to adjust their tax allocation. GEICO would return the partnership interest and donate a half-million dollars to the community. A week later, the check arrived and Erickson put the money into three different funds to start new community programs.

By 1989, Charlestown Retirement Community had grown to 1,640 independent living units and 400 healthcare units, plus all of the associated dining and social activities. The land was maxed out in terms of adding more buildings, yet the community had a long waiting list. The Baltimore region needed more campuses, but the banks said "No!" The startup time was just too long for them and, in 1990, thoughts of a recession were in the air.

Next projects

Ford Motor Company owned the birth site of Henry Ford in Dearborn, Michigan, and wanted to do something with the property. A mutual friend introduced John Erickson to the head of Ford Land Development, who flew to the Charlestown community to see what might be developed on the Ford property. He was impressed.

Erickson proposed that, if Ford would put up the land, he would put up $1 million toward the project—but he would need Ford to help with the financing. Ford agreed, but all three of Ford's principal banks turned down the proposal to build a retirement community on the 40-acre property. In the end, Ford itself put up the $22 million that Erickson initially requested. (Before the project was finished, the financing requirement had grown to $50 million.)

Phase one of Henry Ford Village, located adjacent to Ford's Greenfield Village and various museums, included 280 units in two residential buildings, a community building, and other infrastructure such as roads. In the end, the community would comprise 850 independent living units and 200 healthcare beds. It filled up and did well. (Having begun as part of Erickson Retirement Communities, the community later separated and became independent with an outside operator.)

Oakcrest, a CCRC in Parkville, Maryland (northern Baltimore County), became Erickson's next project—all new construction—followed by a site in Virginia and another in New Jersey. The Erickson formula had begun to solidify. Then came Massachusetts, Illinois, Colorado, Texas, and Kansas—anywhere with a large city, a middle market, and no inversion between housing costs and building prices. (And that formula is still pretty true today, according to Erickson.)

John Erickson was able to prove his ability to dominate an entire market with a mega-campus even though the various sites had not yet been branded "Erickson Retirement Communities." That happened in the mid-1990s, after four or five communities were completed and the individual sites were consolidated into a single branded entity- Erickson Retirement.

Meanwhile, Erickson thought expanding healthcare would be "a big kicker" for the image of the campuses as a marketing ploy—but it never was. In fact, it could be a negative when trying to sell the fun side of retirement living. Adventure, excitement, social relationships... that's what retirees wanted. Having an onsite healthcare facility was, however, valuable to the operators of the community, particularly if several hundred residents needed to transition to care. So Erickson would usually add a healthcare component to the community in year three or four. Until then, residents with a major health failure or special need who had to move out received their refunds quickly, often waiving the resale requirement to receive a refund.

Economic downturns

Erickson's first experience with an economic downturn occurred just as Charlestown opened in December 1983. Interest rates were soaring at 22%, and mortgage rates had reached 16%. Yet people still wanted to take the next step in their lives. They sold their houses and moved into Charlestown. The next

On impressing the banks...

"After I started Henry Ford Village, which was financed by Ford, I went back to my local banks one more time—begging—and showed them the waiting list with almost two thousand people who had put up a $1,000 deposit. I said, 'You've already seen eight or nine years of history, so let me start a project in North Baltimore."

downturn in 1991 coincided with Erickson beginning his expansion. That recession had little effect on mortgage rates or housing and also had little effect on marketing at Erickson's projects.

When the dot-com bubble burst around 2001, people took a much-needed breath. They generally decided to "wait and see" for about six months before selling their home and moving into a retirement community. But that downturn mainly created huge stock market swings and affected equity values but didn't significantly impact housing values. So demand for retirement living continued at a steady pace.

Finally, in 2008, the Great Recession took a major toll on housing values. This recession was the first significant dip in the senior living market. New unit sales and resales slowed in many markets across the country.

On the Great Recession…

"Housing prices from 1983 to 2008 increased enough so that we could give everybody 100% of their money back and gain five, six, seven percent per year above those values—year after year after year after year after year. Until 2008…"

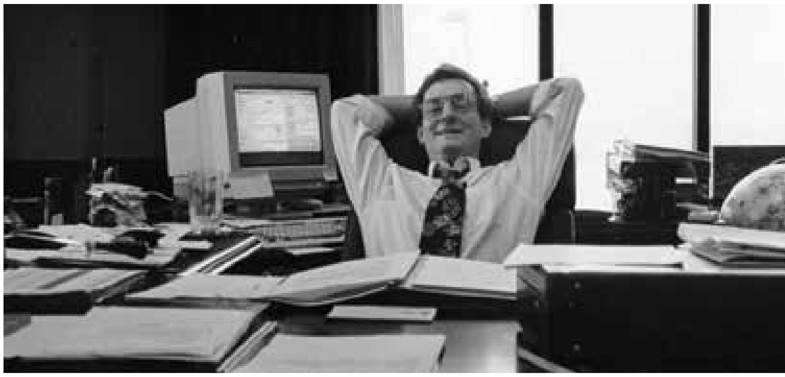
In 2008, the finance markets were being too generous, letting borrowers finance 100%, so Erickson Retirement Communities began to cut back on new development and consolidate current holdings. One campus was already under construction in Virginia, opening in October 2009 with 300 units—all presold. The housing market was depressed, of course, but the Great Recession mostly affected high-end homeowners. Erickson Retirement Communities were targeted to the middle market, so people considering a move weren't discouraged "any more than they were in 1983 at 16% interest rates," according to John Erickson. He was able to convince prospective residents that it wasn't worth hanging on for a potential 10% or 20% recovery in a nebulous housing market. The company also instituted programs and services to help incoming residents stage and sell their homes and move their belongings in order to make their transition easier.

Meanwhile, Erickson's commercial banks had agreed to short-term financing for the launch of projects but didn't want to provide financing after two or three years. John Erickson figured that he could get bank financing for three years and then bring in the bond companies to pick up the financing need for completion. And once the banks had been repaid by the bond funds, they would be interested in financing a new project. However, in 2008 the banks stopped lending altogether. At that point, Erickson Retirement Communities' outstanding debt, spread across 47 different banks, amounted to about $2.5 billion in development project financing for brand-new startups.

Chapter 11 bankruptcy

Erickson's deal with the lending banks for each project was that the company would make a monthly deposit of funds from new unit purchases and the bank would fund a monthly requisition for construction and operations.. In essence, it was a revolving loan. According to Erickson, the bankruptcy occurred because Mercantile Bank, the project bank for 20 years, was sold to PNC—a bank with no experience in senior housing financing.
PNC decided to keep all of the deposits from unit sales but refused to pay the monthly requisitions for construction costs, forcing Erickson Retirement Communities to use corporate cash (then about $200 million) or other corporate credit to pay contractors and operational costs. When corporate lenders saw the company using cash to pay the unfunded requisitions of projects, the banks began to fight with each other and demanded large paydowns each month from Erickson's cash reserves.

At the time, John Erickson was 65 years old and looking for a way to exit the business. He had been in conversations with Jim Davis of Redwood Capital Investments for about two years. Both men had also been in conversations with several banks during that time regarding ways to separate or restructure the various financing agreements to remove any cross-connections between individual project accounts. The banks refused the proposals, but Erickson and Davis continued to meet regularly and put together a plan.



Erickson Retirement Communities' corporate banks had a security interest in the cash reserves of the company. The banks filed a demand for PNC, which had all of Erickson's corporate cash on deposit, to turn over all $75 million in remaining cash to the corporate banks within 48 hours. While somewhat of a surprise, John Erickson and Jim Davis had prepared for such a day. They had already determined the best place to file for bankruptcy protection—the Southern District of Dallas, Texas, which was a business-friendly bankruptcy court, and where no local banks had relationships with Erickson. Everything was ready.

That afternoon, Erickson Retirement Communities filed for Chapter 11 bankruptcy protection. At an immediate hearing that same afternoon, the judge ruled that since no malfeasance, operational issues, fraud, or any similar thing had taken place—and Erickson Retirement Communities was a "healthcare company"—the company was entitled to its cash and the banks could "slug it out."

Erickson Retirement Communities held onto its $75 million in deposits, and Davis came in as the stalking horse bidder to shore up the credit and become the guarantor, if required, to keep the company going until he made a bid. The courts agreed with the plan, and Jim Davis's Redwood Capital Investments paid $365 million for the Erickson acquisition, and renamed the company Erickson Living.

Starting with John Erickson's initial Charlestown project in 1983, funding for the development of all subsequent projects flowed through a nonprofit structure for accounting purposes—a financial structure that Erickson Living continues to employ. The nonprofits currently have an aggregate cash position of about

$1.1 billion with zero refund liability, cash that is held by the nonprofit boards of the various communities, not by Erickson, as a 100% reserve fund that may be used for renovations, rebuilding, and to care for residents. That structure shielded residents from any issues from Erickson's 2009 bankruptcy. Residents were totally unaffected; in fact, move-ins continued during the entire bankruptcy proceedings. There was no loss of occupancy in the existing campuses, although fill-up in some new campuses was slower for a couple of years.

Back in 1983-84, when a huge amount of credit was available, anybody who wanted to put a deal together could get 110% bond financing. The problem was that often times only about 50% of the money went into the project, and 30% went into people's pockets, according to Erickson. Reserves were supposed to hold a deal together but when those projects used up their reserves they all had to be restructured and as expected all the founder money was never recovered. Erickson was determined NOT to be part of one of those "scams," so he always took all his capital at the back end, "which," he says, "is why I lost everything in the bankruptcy."

On reflection…

"I knew all along that the plague of all developers is that you can only roll the dice so many times before you get snake eyes. I thought that I was being a little expeditious but, in reality, should have been more attuned to the capital markets over funding in 2006, 2007 and 2008. My passion to get more housing to Middle America, however, inflated my idea of how far I could push the envelope. If I were to do it all over again, I clearly would have moderated our pace in those years."

The Erickson model

The original Erickson model was to build a few hundred units, fill them up, create a wait list, then build more units, fill them up, etc.—over and over again. John Erickson did that 23 times in his career. Few, if any, developers or providers have followed that model—despite Erickson sharing "every secret I had in hopes that we could find more people to do it."

Why weren't people interested in that model? According to Erickson, the development industry doesn't want the long term healthcare liability, and the healthcare industry doesn't have the capital development experience, and those two sides don't mix very well. Large hospital systems with both cash and capacity could easily jump into senior housing development but don't, because they don't have the operational experience. The operating people could do development at that level but don't want the long-term involvement. They want a quick turn—sell and get out. They don't realize that this business is "in perpetuity." People move in, pass on, the next people move in and take their place, and so on. "They don't consider that part," Erickson says.

The Erickson model also includes a privately licensed Erickson Advantage® plan available to all residents of Erickson Retirement Communities. How that came about is an interesting story:

Back in the 1980s, Charlestown enrolled about 800 residents into a Medicare Choice plan—later rebranded Medicare Advantage—in order to lower resident's supplemental premium to zero through managed care. At the time, Erickson had started their own Erickson Health Medical Group with its own doctors, including permanent geriatricians at each campus.

In the Medicare Choice plan, Erickson residents used 50% less hospital time than similar members living in the community, with a full service geriatric clinic at each campus, and Erickson then moved all resident data into Electronic Medical Records to better track utilization.

He then approached Medicare about the possibility of having his own Medicare Advantage plan just for Erickson residents. Medicare staff was skeptical and resisted because it opened the possibility of cherry picking members. However, given the vast amount of digital data that Erickson was collecting, Medicare eventually authorized a three-year demonstration project where Erickson could run his own healthcare plan and share data and outcomes with Medicare.

After years seeking the requisite permissions and approvals, the plan began in 2006 and ran until 2009. The results indicated Erickson Advantage members had 60% fewer hospital days than similar members of other Medicare Advantage programs. But Erickson also opened their medical clinics to all residents and those residents on fee-for-service Medicare had similar results with the Erickson Plan. Erickson subsidized the fee-for-service users, and since they were using the same doctors and clinics, they too had good results. Medicare used this finding and the fact that communities served mostly middle-income seniors as reasons to terminate the plan. John Erickson asked the Secretary of HHS to override the decision and got a one-year extension and was asked to get an Erickson Health Bill approved in Congress. Fortunately, this was the year Obamacare was being processed in Congress so timing was good.

On the Erickson Health Medical Group...
"A large-scale community has the ability to provide an aggregation of services that you can't get in small campuses, such as multiple dining operations. But being able to put together our own healthcare operation—run our own doctor group, offer primary care, keep electronic medical records, and create a healthcare system for the community—was clearly our biggest accomplishment."

By 2010, Erickson Living was operating in 12 states. The 24 senators and 40-50 House members representing those states agreed to insert a line in the Affordable Care Act saying that Erickson Health Medical Group would be given permanent operating status on January 1, 2011. Medicare immediately attacked that language and had it removed from the House bill, figuring that the House tends to dominate in the reconciliation process and the version without the language would prevail. The Senate version did include the Erickson provision.

Two weeks later, Ted Kennedy died, and a Republican took his position. The Democratic side of the Senate no longer had the majority to vote on a reconciliation bill, so the House had to accept the Senate bill "as is," which preserved the Erickson Health Plan approval. Today, Erickson Living-managed communities are the only CCRCs in the country authorized to offer their own private Medicare Advantage plan.

The future of senior housing

In John Erickson's opinion, the CCRC market has regressed in recent years. Providers have moved away from Middle America and, instead, have been migrating back to the high-end market—similar to the 1950s market, when the first cottage communities built on church land were targeted to the upper 10% of the market. In the years ahead, however, Erickson thinks Boomers will be fine in terms of their financial resources. They'll have housing equity and savings, but they won't have many choices if developers don't get serious about building more communities. That may not be a real issue for another 10 years, but building communities can sometimes take 10 years.

On ASHA...

"I can remember sitting on the stage [with others] at conferences. We'd let people ask anything, and everybody shared—even inside financial information. Alongside would be Bill Colson of Holiday, Paul Klaassen of Sunrise, Dan Baty of Emeritus. We shared whatever we could to grow the industry and respected each other in every degree. There was an attitude of creating excellence on everybody's part. ASHA was our 'collector unit' to share what we'd done and to encourage the industry in every way we could. We committed to grow the industry together."

Of course, wealthy people always have more choices; but unless another group of Erickson-style developers attack the middle market, elderly people in Middle America will just have to tough it out. Twenty-eight years have been added to the life span of Americans since the 1950s—generally non-productive years in terms of working at a job. For the first few of those additional years, "retirees" are happy to travel, play golf, take a cruise. But in the last 15 of those years, it's hard to create environments that sustain the concept of dignity for aging populations. Erickson Living continues to try to do just that.

On another novel (yet unfulfilled) idea...

"One thing I would liked to have done was to buy a 1,500-unit cruise ship and take residents on a cruise, for a month or two at a time, as part of their package. Cruise ships are relatively cheap—perhaps the cheapest high-end recreational value you can get in America—so it would absolutely be economical. It would be fitted out with full-time doctors on board, everyone's EMR records, and so forth. Why didn't I do it? I was stuck in a corner office, barely above water, trying to keep the capital markets together!"

It wasn't easy over the years being a pioneer in the for-profit CCRC business, both with the refundable entrance fee, the health insurance product, as well as the size of his communities. In those early years, spending time with other members of the American Seniors Housing Association was a big help.

So, what to build next is an open question for the future of seniors housing. Social-based housing, the Erickson model, is the only solution that Erickson himself could find and the one he would still recommend. It's the one he built over and over again, 23 times. "The social structure should be the standard, not the exception," according to Erickson. "But it's still the exception. A huge part of the senior living industry is still oriented toward the end-time crisis care—from assisted living on—and not on the 10 or 15 years before the crisis care is needed."

Another lasting endeavor

Back when he was in Florida, one of his early investors was a wealthy woman who wanted to invest in "good things," especially if they benefitted a group of people. One of those ideas was a camp for kids. Perhaps not forgetting that, about 15 years ago, John Erickson and the Department of Natural Resources built a state-of-the-art camp on the northern Chesapeake Bay. The Erickson Foundation contributed $40 million toward the project, and 11,000 school kids (6th graders) from across Maryland each spend a week there (Monday-Friday) during the school year. Another 15,000 kids come through for summer and weekend programs programs.

The NorthBay Camp is the environmental education for Maryland. Kids study the environment in their daily lessons, and in the evening they explore the parallels in their own lives. As they find invasive species in their outdoor study they discuss invasive activity in their lives such as drugs, early sex, dropping out of school, etc. The next day as they study filters in the environment such as oysters, wetlands, etc., that evening they explore filters in their lives such as parents, friends, mentors and teachers. The week takes the kids through a series of character-building decisions focused on how to make the best decisions for the rest of their lives. The decision to stay in school and use education to be the foundation of their best choices is at the core of the program. The program is funded through a combination of school budgets, Title I, state funding, and private funding, and it has become part of the school curriculum in many Maryland districts.

"We only get to pass through this world once which means we all have an opportunity to make a difference along the way. I feel good about being a pioneer in seniors housing and health care. It is such a rewarding and appreciative group to work with."

—John C. Erickson

Severine M. Petras-Wells

CEO & Co-Founder
Priority Life Care

Sevy Petras-Wells is CEO and founder of Priority Life Care, a family-owned seniors housing company based in Fort Wayne, Indiana, that operates communities offering independent living, assisted living, and memory-care services. "Lighting the way in senior care," the company's motto and marketing tagline, represents both the company's purpose with respect to independence and affordability and the passion of company leadership in terms of skills, experience, and enthusiasm. Since its inception in 2009 at the Petras family Thanksgiving dinner table, the company (originally called "Lamplight Communities") has focused on affordable seniors housing options. In 2010, the family opened its first community in Maple Heights, Ohio, with 19 residents.

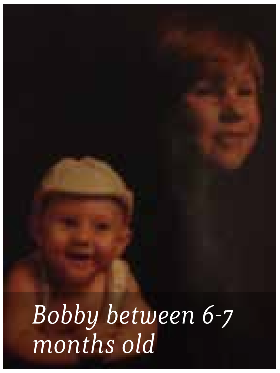
Petras-Wells majored in sociology in college but began her career in public finance, a combination that just happens to be an excellent background for success in the seniors housing business. She spent a decade—first in Cleveland and then in Chicago—structuring debt solutions for seniors housing and healthcare. With the collapse of the economy in 2008-09 and recognizing the demand for affordable seniors housing, she and her family (mother, brother, sister-in-law) built a platform focusing on providing an alternative to private-pay assisted living. Using her banking experience, Petras-Wells identified viable properties, prepared budgets, created turnaround plans, secured licensing, found lenders and investors, and structured debt for properties in geographic areas that, in particular, supported Medicaid waivers. Today, Priority Life Care operates 26 communities that serve more than 2,000 residents in Connecticut, Florida, Georgia, Indiana, Louisiana, Maryland, New Jersey, Pennsylvania, South Carolina, Texas, and Washington, D.C.

Sevy Petras-Wells earned her BA and MPA degrees at the University of Akron, and an honorary PhD from Tiffin University. She and her husband, Felipe Wells, have been married since 2015. They live in Palm City, Florida, with their two young children.

Smalltown, USA

It was March 1976 in Toronto, Ohio, a small town (population 5,000) on the banks of the Ohio River—six miles north of Steubenville, 30 miles west of Pittsburgh, Pennsylvania, and just across the river from the northern tip of West Virginia. School teachers in Toronto were on strike, which was fortunate for one 17-year-old high-school senior. Debbie Petras had married her 21-year-old boyfriend several months prior and was about to deliver their baby.

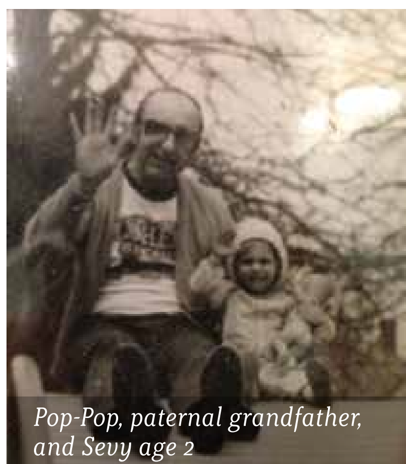
When the teachers' strike ended and classes resumed, the baby—whom they named Severine Marie—had been born. The baby's two grandmas took care of "Sevy" for six weeks or so, on alternate shifts, until her mother graduated from high school. Five years later, Sevy's brother Bobby was born.



Bobby between 6-7 months old

Having such young parents had a huge impact on the youngster as she was growing up—both pros and cons. With just 17 years between them, Sevy was more like her mother's best friend than her kid—and sometimes even offered advice regarding her younger brother. On the other hand, Sevy saw her mother "blossom" into a successful career—an opportunity that children with "older" parents don't necessarily have.

Bob Petras, Sr., also a native of Toronto (Ohio), met Debbie when he took some time off from college. Once they married and started a family, initially he didn't go back to school; instead, he worked at one of the local mills. Bob Sr. went to Marshall right out of high school to play football for the Thundering Herd in 1971 - the year after the tragic plane crash- he later transferred to Kent State. But ultimately completed his undergraduate at West Liberty University in 1987. All of his life, though, Bob Sr. has been an avid reader and a serious sports fan. He covered local sports for the local newspaper and would bring the kids to the various high-school games. They always had to stay until the bitter end, too, regardless of the score. "It can always change," he'd say. "And if you leave early, you'd miss it." Everything wasn't perfect, however.



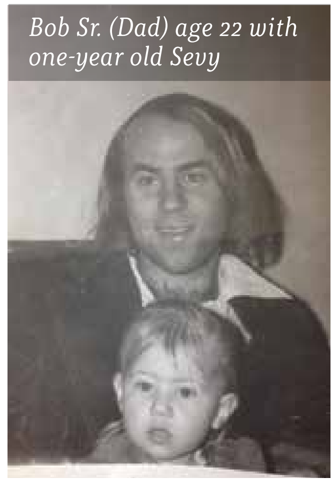
Pop-Pop, paternal grandfather, and Sevy age 2

Debbie (Mom), age 17, picture from her Senior Prom with Sevy, 2 months old. Bob Sr., age 21, was Debbie's date.

On lessons learned...

"Both my brother and I see our dad as being full of integrity and having an incredible work ethic: Work smarter, don't cut corners, keep your eyes on what lies ahead. One of the biggest lessons my father taught me, though, was the ability to utilize visualization on things that you want to come to fruition. Whenever we were practicing softball, for instance, he'd say you have to feel a connection with the ball, to envision the ball entering your glove or your bat making contact with the ball, or to understand what it would feel like to get a home run...more like a mind game than a physical perspective. And, of course, never give up!"

Debbie and Bob Petras divorced when Sevy was in third grade. It was a "civil" breakup. Being so young and going through the trials and tribulations of jobs, career changes, having young children, and being in a small town, they both realized they needed some space to figure out who they were and what they wanted...to spread their wings a little bit.



Bob Sr. (Dad) age 22 with one-year old Sevy

Most of Sevy's friends had dads who worked in the local mills and "stay-at-home moms." As a single mom, Debbie Petras landed a job as executive assistant to a business owner in a neighboring town. Having a mom with a career—who got dressed up for work, went to business meetings and dinners, and flew to Las Vegas and New York City for conferences—had a profound effect on Sevy and also on her girlfriends. She, and they, wanted those things, too. Debbie Petras was their role model; she proved that you could have both a family and a career.

On growing up in a small town...

"Everybody knows everybody in a small town, and I knew everybody growing up. Even if you went to the middle school or the public school, you still knew everybody. Your parents knew who their parents were and who their grandparents were. And while I may have resented that to some degree as I was growing up, it did seem like a kind of security blanket. But I never thought of myself as a big fish in a small pond."

School days

Sevy attended St. Francis of Assisi elementary school, a very small Catholic school in her hometown, from kindergarten through eighth grade. It was not only small but also a rather poor school. There were no buses—kids had to walk to school or their parents would drive them. Recess was in the parking lot, between the school and the church, and there was no cafeteria. Bag lunches were eaten in the basement of the church, except for "hot lunch day," which was typically hot ham and cheese on a bun.

Through all those years, she had only 10 to 11 kids in each class—and only three or four were boys. Everyone knew everyone else, which provided a sense of community, and everyone wore a uniform. Sevy played basketball, softball, and volleyball; she joined the cheerleading squad.

On becoming a cheerleader...

"I had been playing softball since I was in kindergarten and made the cheering squad in eighth grade. In high school, though, the cheering schedule coincided with softball practice. My dad insisted that I choose one. 'You've committed to two sports," he said, 'It's not fair to do either one halfway. You have to pick one.' I chose cheerleading—and my dad insisted that I explain to my softball coach and the team—all by myself—that I was going to quit. Obviously, the coach understood and it wasn't that big a deal for the team; but the fact that I had to do it myself, that my parents wouldn't do it for me, was the lesson."

St. Francis softball team-- Sevy, in the 8th grade, is bottom row, second from the right.

The Catholic Central Crusaders Royalette Team Sevy's sophomore year. Sevy is in the middle row, 1st from the left.

When Sevy was finishing up her sophomore year at Catholic Central High School, in Steubenville, Debbie Petras (now in her late 20s) took a job in her brother's multistate meat-selling business in Cleveland. Sevy was excited to move with her mom to "the big city," which turned out to be suburban Shaker Heights—close enough! She planned to attend Beaumont, an all-girls Catholic school in Shaker Heights, but they wouldn't admit her mid-semester. Instead, she enrolled in Shaker Heights High School, her first experience in public school. Bobby Jr. stayed with his dad to finish up the school year, as he was also playing sports.

The Shaker Heights public school was huge—1,100 in the sophomore class alone, more than the whole high school back in Toronto. The Shaker Heights school district also included part of inner-city Cleveland, so the school was quite diverse—another huge difference; her high school in Toronto had, maybe, two African American students.

Shaker Heights was also an affluent town. Kids got cars when they turned 16. Ice hockey, field hockey, soccer, and lacrosse were high-school sports, along with football, softball, and basketball. It was all "Friday Night Lights," and girls were cheerleaders. Just two or three hours away from Toronto, this was a completely different world.

You might say, the girl was a little "shellshocked." She had never gone to school with so many different ethnicities, religions, and cultures; had never worn "regular" school clothes; and had never had to walk through a metal detector to go to class. And even though racial separation clearly existed in many ways (e.g., who played football and who played lacrosse, who was in AP courses and who was in regular courses), this new, big school was a new and interesting experience.

For activities, instead of cheerleading, Sevy joined the high-school theater and improv groups, which she thought was the "coolest thing." In her junior year, she was in all AP classes and had become fully acclimated. Senior year, she took courses in astronomy—the school had its own planetarium—and sociology, which particularly caught on. "I thought I would have a career in theater, acting, or movies," she says, "but my teacher really sparked a passion for sociology and led me more and more into the academic world of social sciences."

1st Holy Communion, St. Francis Grade School. Sevy is bottom row third from the left.

On her religious upbringing...

"I would say that I had a unique approach to religion. My parents stressed that the Bible was a book that people believed but there's a lot of flexibility in the stories that we hear and lessons we learn. It was very important to my parents that we never judged other people or that we felt that our religion was right and theirs was wrong. I see Catholicism as a great tradition and find the rituals comforting; but I never saw it as 'this is how it has to be,' and it never shaped my opinions of others."

By the summer after her senior year in high school, Debbie and Bob Petras were back together—and still are.

Off to college

After graduating from high school, it was off to the University of Akron—close by and affordable but still a little eye-opening for this small-town girl. It was very large, very urban with city streets running right through the campus, and very much a commuter school. Many were older students returning to finish their studies. It was not the "traditional" college experience that the 18-year-old had anticipated—at least from a social standpoint. She wondered if she should transfer to Ohio State—but quickly realized that she would be more distracted there and probably focus less on her studies and more on her social life.

So, it wasn't long before she was happy at the university. It was close enough to home to go home on weekends (and get her laundry done) but still far enough away to be "on her own." She joined Kappa Kappa Gamma sorority, which helped with the social aspect, and studied abroad in France for one semester. It was the 1990s—before the ubiquitous use of cell phones, email, and the internet—so she was really on her own overseas. Living with a host family, she was submerged into the French culture—including speaking French. To this day, she remains grateful for that time in France, for the people she met, and the things she learned. "It opened my eyes in so many ways," she says. "It was a real growth experience."

Pre-estage at L'Universite Catholic de l'ouest Angers, France. Top Row first from left is Jill Record and 3rd from left is Sevy.

Sevy Petras majored in sociology at the University of Akron, an overlapping interest from high school. When she returned from France, the university offered her an internship to help with a Substance Abuse and Mental Health Services (SAMSA) project called Target Cities, which looked at the long-term effects of people convicted for drug use if they were put into rehab programs instead of going to jail. Would that actually decrease their changes of becoming repeat offenders?

After earning her bachelor of arts degree in sociology, with a minor in French, she became interested in pursuing advanced degrees and "saving the world." Her mentor on the Target Cities project suggested she continue her studies in public policy/public finance/ public administration at the university. Sevy Petras's intention was to go somewhere else for grad school; but she could roll right into the University of Akron program, it would be 100% paid for, and she would have an "awesome" research job at the same time with a $12 per hour wage. In fact, the university was about to turn the small Target Cities program into an actual institute for public policy and social studies—and she could be part of the team that put it together. So that's what she did.

The banking business

While working toward her master's degree (1997-99), part of Petras's internship involved a stint working at the Cuyahoga County Port Authority, not too far from Akron, which issued bonds to for-profit entities for economic development. A gentleman from Nat City Investments, part of National City Bank, was the presenter at one session that Petras attended. A week or so later, she ran into him, introduced herself, and peppered him with questions. He was working at the time but gave Petras his business card and suggested she set up an appointment to come by his office in downtown Cleveland. He also asked for her resume and set up meetings with the managing director and others at the firm. She had only about a month left in her master's program. "Rather me interviewing them, it turned into an interview for me to come work for them," she says.

It was 1999. Petras had completed her master's degree in public finance, and Nat City Investments offered her a job—a great opportunity with good pay. Never having even thought about a career in banking, she felt it was destiny when she walked into the majestic old bank in downtown Cleveland, with its high ceilings, marble floors, and mahogany walls with brass lettering. She took the job. She worked hard and worked long hours. She learned everything she could and made herself invaluable. And she got promoted.

> ***On an investment banking career…***
> "The world of business and finance was so different from what I thought I would be doing—a complete 180 degrees from a life of research. Never in my wildest dreams did I imagine ending up in a banking career."

In 2001, Petras was presented with the opportunity to help open Nat City's new public finance group in Chicago. She moved to Chicago and married an old college beau, who was heading for a new job in Chicago, as well. The marriage lasted less than a year. She wanted to focus on her career, and he wasn't particularly supportive. He wanted to live in the suburbs and start a family, and it was her dream to live in the big city. After the divorce, she did just that. She moved into a tiny apartment in Chicago with a friend and threw herself into her work.

In 2003, shortly after moving to Chicago, Petras left Nat City Investments for a job in the new public finance group of Fifth Third Securities. Actually, the person she was supporting at Nat City had moved there and brought Petras with him as his kind of "right-hand woman." Fifth Third, which was based in Cincinnati, had a local credit committee that was expanding its presence in Chicago. Petras thought that was advantageous. Being in the variable-rate market, which required letters of credit by the bank, she needed to be aligned with an aggressive, hungry bank that wanted to win deals in order to expand her own portfolio.

Quickly learning about—and servicing—various kinds of industries that were supported by letters of credit and bonds, Petras was soon promoted to associate vice president at Fifth Third Securities. She looked for opportunities for the bank to replace the letters of credit with variable-rate demand bonds, resetting the bond rates. She aligned with a couple of attorneys who could rewrite amendments to the bond documents without having to reissue the bonds. The bank would then issue a new letter of credit and also get a better rate for the customer's variable-rate demand bond. In turn, the bank would then get the customer's checking accounts and treasury management; Petras would get the bond piece. She started cherry-picking customers, responding to RFPs, and bringing in deals. The bank was thrilled. "It was a hell of a time," she recalls. But she wanted more.

Petras stayed at Fifth Third for about three years. She wanted to work for an actual Wall Street bank and yearned for a bigger life. She looked to challenge herself—once again.

Introduction to senior housing

Among her frequent calls from headhunters, one was to fill a job at Merrill Lynch Capital, specifically targeted to senior housing lending. After several interviews, Petras landed a position as a regional originator, focusing on smaller operators in the Midwest and East and working with the "dream team" of senior housing at the time. (Merrill was already working with some of the biggest operators in the industry.) It was 2006, the height of the banking industry, and the senior housing industry was booming.

On working at Merrill...
"It was such a different work environment and an area that I didn't really know much about. I knew how to structure the bond deal but didn't know much about underwriting the actual credit. So, again, it was a great opportunity for me to get involved in something unfamiliar, something that was uncomfortable for me, and learn. I was fortunate to have that opportunity."

Petras did some good deals, continued to learn a lot, and met some amazing people in the banking industry. One day, sitting in her cubicle in Merrill's Chicago office, poring over P&L statements to figure out the valuation of a skilled nursing facility in New York City, Petras was shocked at how much money the operators were making each year. It was the first time that she really understood the financial structure of the business—and it was an eyeopener.

At the time, Debbie Petras, her mother, was an administrator for a private-pay assisted living/memory care community in West Virginia, just across the Ohio River from Toronto. Petras called her and said, "We have to be in the skilled-nursing business! They're fully funded by the government. They're cash cows!"

Her mother's response: "No, we need to own a private-pay assisted living community. They print cash! It's crazy what people will pay to not be in a nursing home." Senior housing was a fascinating industry: two sides with completely different care levels and completely different payor sources.

In late 2007, the Great Recession hit, the markets collapsed, and lending dried up. Nothing was happening in terms of bank loans. Merrill Lynch Capital was sold to GE Capital. Petras and two others went to GE, but there was nothing to do there, either. It was a weird time; and in the summer of 2008, she and the others were laid off. Having to make new plans was actually a relief from being in limbo. Petras was young, single, and had already started to talk to people about other jobs. And she had a "parachute." Here was another opportunity to spread her wings. Meanwhile, she was training for an Ironman competition.


2012 Ironman, Louisville. Sevy has completed a total of five Ironman.

On being laid off from Merrill...
"It was the first time I had a summer off since I went to college and the first time that my brain had an opportunity to rest and reset. I was doing endurance training and took extremely long bike rides, extremely long runs, and extremely long swims where I couldn't be interrupted—or disrupted. I began to think about the need for affordable senior housing and to formulate the idea of starting a company."

It was fall 2008. Many people (or their adult children) no longer had the funds to pay for private-pay assisted living. Many seniors had lost some portion of their 401(k) savings and/or couldn't sell their homes. Their kids had lost their jobs or had just gotten out of college and couldn't find one. And baby boomers in need were soon to be reaching the market. It was a crisis, a "silver tsunami," and someone needed to come up with a solution. It was on those long training runs, swims, and bike rides that Petras had an epiphany: Medicaid assisted living. "I think we could do this," she said to her mother, while sitting at the kitchen table.

A new (family) enterprise

Bobby Petras was living in Indiana with his wife Brandie (a social worker, also from the Toronto/Steubenville area) and working as a "turnaround expert" for a regional cellphone company. He was tasked to go into the various stores, hire people, motivate them, set sales goals, and so forth. When the family was together for Thanksgiving, his sister set up a whiteboard with an organization chart and a plan for a startup called "Lamplight Communities." The objective was to become an affordable assisted living provider in an industry where no one was really doing what needed to be done. The opportunity was there. Everyone was excited—for the moment.


The T-town Cutters- Bobby, Sevy & Bob Sr. during the Indianapolis sprint Relay Triathlon in 2006. They finished in 3rd place.

Heading back home the following day, Bobby Petras and his wife were having second thoughts about quitting their jobs and taking such a chance. On the other hand, they were both in their 20s and admired his sister's professional success to date. (Shortly thereafter, Bobby's company was sold and his position was eliminated.)

Meanwhile, Sevy Petras had identified an old school in the Toronto/Steubenville area that could be purchased inexpensively and converted to senior living. The town fathers were excited about the possibility. When an article appeared in the local newspaper about it, though, Debbie Petras's employer—a small, regional operation with about seven buildings—wasn't at all happy about the daughter of their administrator possibly developing a brand-new, competing, assisted living community just across the river. Even though there was no mention of working with her daughter—and the "project" was years away from "possibly" happening—Debbie Petras's employer saw it as a conflict of interest and fired her.

Failure was not an option for either mother or daughter, so the wheels continued to turn. Running the numbers, Sevy Petras determined that an affordable community would need 100 or more units, which helped nail down potential sites. She flipped through her Rolodex and started contacting successful operators for their opinions and some free advice. That included Ben Klein, CEO and Founder of Platinum Health Care. He agreed with Petras's evaluations and predictions and had some experience with Medicaid waivers. Better still, he was willing to provide the financial backing for acquisitions. They began identifying properties and laying a plan.

Illinois, Florida, Wisconsin, and Oregon had already established Medicaid waiver programs for seniors who didn't need to be in

On affordable [Medicaid] assisted living...
"I knew that, in order to operate successfully, there were only a few buckets of expenses that we could control to be able to accept lower rates and still make a profit. The mortgage payment was the largest. So, we had to be able to buy buildings at the right price per unit and find the right state program—or help entice the state to enhance or expand its waiver program. I knew the demographics were there; it was a matter of finding the right state, the right area, and the right building."

a skilled nursing facility and could, instead, live in an apartment-like community setting. Ohio and Indiana were two additional states that had programs that were either small or getting started.The new Lamplight Communities operations team included Sevy Petras, her mother Debbie Petras (administrator), her brother Bobby Petras (administrator in Indiana), his wife Brandie Petras (marketing), and Jill Record (brand manager), whom Sevy Petras had met in France and who was her roommate in Chicago. It was a "boots-on-the-ground" operation, with Paresh Vpani, Ben Klein's CFO Platinum Health, handling the back office. No one was paid until their first project closed.


Left to right: Debbie (mom), Sevy, Bobby (brother) and Brandie Petras (sister-in-law) at Lamplight Communities first assisted living conference in Orlando.

Open for business

The school building in Toronto/Steubenville didn't pan out—the size and construction costs were difficult —but a chance call from the Cleveland office of Marcus & Millichap alerted the team to a converted hotel in Maple Heights, Ohio, that was on the market. A mom-and-pop independent living operation at the time, the building had five stories, 100 units, and 19 current residents. After inspecting the building and loving it, Lamplight Communities bought it for $2.4 million; the transaction closed on January 2, 2010.

In less than a year, the team completed $500,000 or so in renovations to the Maple Heights building, which included adding a full sprinkler system in order to qualify for an assisted living license and making the fifth floor ADA-compliant. The 19 residents were receiving Medicaid coverage for home health services, which they would lose if the building became fully licensed for assisted living. To avoid that, the new owners worked closely with the State of Ohio and Area on Aging to obtain a dual license for both Medicaid and assisted living—something that had never been done before in Ohio. Once all that was accomplished, Lamplight Communities refinanced the property for $6.5 million.

Continuing to seek out deals in the middle of the worst economic downturn since the 1930s, the team found its next property—a purpose-built community owned by Emeritus in Dayton, Ohio. The purchase price was $4.2 million and required about $250,000 to renovate and refresh what had been a mix of memory care, high-acuity, and assisted living services. Working again with the state and Area on Aging, Lamplight Communities licensed only about a quarter of the building for the Medicaid waiver program; the remaining levels were private pay. The tired old building previously dependent on private pay had never been more than 60% full; once renovated, and with its revised payment options, the building filled up within a year—and had a waiting list. Lamplight Communities refinanced the building for $6.5 million and, sometime later, sold it to Capital Senior Living for $11.4 million.

By 2015, Sevy Petras had become Sevy Petras-Wells—she met and married Felipe Wells in 2013—and Lamplight Communities was managing five communities located in Fort Wayne and Richmond, Indiana; Baltimore, Maryland; Peoria, Arizona; and West Allis (outside Milwaukee), Wisconsin. (The company's first two communities in Maple Heights and Dayton, Ohio, had been sold.) The management company had fully come into its own. Ben Klein, the investor, oversaw the back office. That was something Petras-Wells wanted to have a little more control over, especially with future growth in mind.

Not having a full line of sight into the ins and outs of the financial aspect—and it becoming clear that the investor was a short-term holder while Petras-Wells's team was in it for the long haul operationally, she felt it was time to go solo. Understanding that it was unlikely that Lamplight Communities would receive any distributions from the sales proceeds, as an alternative she asked for an option to buy some of the holdings outright. Her plan was to restart the platform, form a full and complete back office, and look for 100% financing (with a REIT being the only option).

On the reboot…
"It felt like starting again from scratch, except this time we had a lot of hands-on experience for what to do and what not to do. But we had no room for failure."

Priority Life Care

Priority Life Care was founded in 2016, with Petras-Wells and her mother, brother, sister-in-law, and Jill Record all reprising their same positions. Because she received no funds from the sale of buildings from Lamplight Communities to the new one, Petras-Wells had two choices: raise capital or find a short-term solution through a REIT. Fortunately, Priority Life Care got matched with CareTrust REIT and purchased three of the Lamplight Communities buildings—Fort Wayne, Baltimore, and West Allis—for a total cost of about $21 million.

In the meantime, Petras-Wells connected with a Canadian company that wanted to purchase Meadow Mills, a memory-care community in Connecticut, and was looking for a partner to handle operations. That became #4 for Priority Life Care. Then, Birchwood in Chicago was looking for a third-party operator for one of its buildings—and that became #5.

By 2016, Priority Life Care operated five buildings and, in 2017, added Iyvonne Byers to the team as CFO. Byers had previously been CFO at a small nonprofit assisted living/nursing home in Indiana. The new company also sought further partnerships and third-party management contracts—endeavors that presented an opportunity to work with others in the industry that would have been out of the question for Lamplight Communities.

On working with others…
"We pride ourselves on working well with others in the senior housing community vs. viewing everyone else as direct competition. Finding new acquisitions, for example, is not about the building's location; rather, it's all about the right deal, the price of the building, the renovations required, and whether the state has the Medicaid waiver in place. We evaluate the needs of potential residents and look for ways to be a solution and a resource in the community, sometimes as the Medicaid provider, or as the below-market private-pay option, or as the provider of higher acuity services. At times, that means working with other local providers."

A lot of opportunities have emerged over the last decade or so for Priority Life Care to manage operations for investors who don't want anything to do with that aspect, or for providers looking for outside people to help turn around older buildings. In the past, the capital markets always wanted the operator to have some skin in the game. Today's institutional investors prefer third-party management; if things don't work out, it's a lot easier to replace a third-party operator.

On third-party management…
"Switching from ownership [of buildings] to third-party management has been one of the most pivotal financial changes that we've made as a company. I was initially very hesitant, while my brother was very much in support. The turning point was when an industry colleague highlighted the fact that we could have a good, solid company and earn good payouts through third-party management without putting any of our own money into the venture."

In less than five years, 2016-2021, Priority Life Care had grown from the five owned buildings to 31 communities that are 100% third-party management operations with fairly long-term contracts. (None of the original Lamplight Communities are currently owned or operated by Priority Life Care.) "We found that we were paying less attention to the buildings we owned, because we had an obligation to the people who had hired us to take care of theirs," Petras-Wells explains. "We felt that we needed to either own buildings and operate them or be a third-party manager and operate them, but not both."


Sevy was recently given an honorary doctorate from Tiffin University, brother Bobby's alma mater.

Quite a few of Priority Life Care's current third-party management operations involve affordable assisted living and turnaround Medicaid buildings, along with several receivership deals; but the company has been focusing, as well, on brand-new, purpose-built, Low-Income Housing Tax Credit (LIHTC) buildings—including two recent openings in Indianapolis and Washington, D.C. LIHTC is typical for multifamily or age-restricted housing but fairly new for assisted living development in states with good Medicaid payment systems, like Indiana, where Priority Life Care has four LIHTC projects underway. The LIHTC project in Washington, D.C. was the first of its kind there, and one that the company is currently working on is one of the first of its kind in Florida. One more in Michigan and others in Pennsylvania are on the drawing board.

On LIHTC deals...

"Early on, when we [began Priority Life Care] and developers started approaching us about LIHTC deals, we were very much opposed to doing new developments—but I'm really glad that we took a chance on one and that we now have so many in the pipeline. They very much align with our mission of lighting the way in affordable senior care. I just wish we would have done some of them a bit sooner."

Left to right: Sevy, Scott Stewart, Melissa Russell

Operations and culture

While the corporate address of Priority Life Care is in Fort Wayne, Indiana, the company has never been based out of one building or one office. The "back office" is located in a building in Fort Wayne owned by Bobby Petras, who had unused space available in the building where he owns and operates a gym. Sevy Petras-Wells oversees Priority Life Care from her home in Jupiter, Florida, where she lives with her husband. Her mother and five additional employees work out of an office near her former home in Toronto, Ohio. And three regional people cover Florida, South Carolina, and Pennsylvania.

From a corporate perspective, Sevy has always considered it to be a plus, rather than a negative, that her team works out of different locations. "Our philosophy has always been that it's most important to have boots on the ground in the communities rather than having everybody standing around a water cooler in one location," she explains.

As a result, the company is very nimble and has been able to keep its overhead low by attracting (and affording) talent wherever they and the communities are located. "That, I think, is the huge direction that the world is heading into," she adds, "and we've kind of been on the forefront. Companies hire us because of our track record for operating buildings, getting them licensed, filling them, taking care of residents, and keeping staff happy. They shouldn't care where my office is or what it looks like."

Ensuring that the "corporate level" has an understanding of what happens at the "building level" is an important cultural aspect of operations at Priority Life Care. All of the company's upper management has either run buildings or run departments in buildings, but the cultural awareness of employees in the buildings themselves is equally important. For some positions, experience or licensing or certification is an uppermost consideration; but all staff members must have a sense of empathy and cooperation that can't necessarily be taught but must be either understood or learned.

Then again, many of the caregivers are part-time people working evenings and weekends, often untrained, and earning $10 or $11 an hour. It's a tough job, which not everybody can do for a long period of time or can do it at all. Showing those workers appreciation and providing the same kind of training that the day shift gets (when more of the leadership is on-site) is a perplexing management problem. So how can the industry attract good caregivers? How can management more easily train people on the things they need to learn in order to be hired and, for their own interest, obtain transferrable skills?

Petras-Wells has a possible solution. She has been working with the University of Tiffin in Tiffin, Ohio, on a virtual certification program that would offer certification for different positions in various departments of seniors housing communities. Based on a simple "interest" test, participants would select a certification course and, at the end, do a local internship in the position for which they became certified. The cost would be minimal—maybe $50 or so for certification—and the time period and internship would vary depending on the position.

Thus, the program would create a pipeline of new people coming into the industry—certified workers who are interested in the industry, interested in a particular career position, and have already been vetted and reviewed—and certified.

The hope is for the program to roll out in 2021. Petras-Wells's overarching goal is for the certification to become an industry standard for training—and that, once the program is underway, for ASHA and other associations to give it a "stamp of approval."

On ASHA...

"I love ASHA. I love going to ASHA's annual and semiannual meetings. I love to hear the speakers and to sit with colleagues and have organic conversations. Every time I attend, I make a new acquaintance. I also like the outings, which are a great way to reconnect with people. It's been really valuable. And I appreciate the information that ASHA puts out. I wouldn't mind being on the board, eventually, because I'd love to help more in our industry."

COVID-19

The COVID-19 pandemic has been one of the most challenging issues of our time, and combatting it has been something that all seniors housing operators have had to face head on. Residents of nursing facilities, for instance, were the first and most severely affected victims. Limiting activities and restricting visitations has been a difficult operational responsibility for providers and a frustration for residents, many of whom have limited time, and their family members alike.

On dealing with COVID...

"Our first line of defense was to immediately get our staff the proper PPE that they needed and put in place the best protocols and procedures for them to protect themselves and our residents. Then, a group of us—11 CEOs and COOs—got together on weekly conference calls to find out what others were doing and come up with best practices. That helped me stay on top of what was happening and what was current. We've all banded together to figure out how to protect our residents and our staff members."

When the news first broke about COVID deaths in the Seattle nursing home, Sevy was attending a major industry conference and immediately called the home office and told them to shut down all buildings to visitors. The staff thought she was nuts, but they did it, and then she started to source supplies of PPE to make sure the company was covered. Priority Life Care immediately shut down all of its buildings—no visitations at all—and sourced PPE. Temperature checks and antigen blood tests were done early and routinely on all residents and staff. Of the company's 31 buildings, only nine deaths directly attributable to COVID occurred in the earliest weeks of the pandemic. A few buildings had no COVID issues at all.

With the vaccines on board and being administered at an ever-increasing rate, outside visitation should resolve itself. Educating reluctant staff members about getting that protection, however, has become an issue. It's mind-boggling to think that anyone who has been working for more than a year—wearing PPE and being involved, first-hand, with all the sickness and death that has resulted from the disease—is not comfortable taking the vaccine. But that's the case in too many instances.

Looking ahead

While the focus has necessarily been on fighting the COVID disease, providers have been saddled with additional costs (e.g., PPE, testing, and other requirements) plus, in some states, an increased minimum wage. Yet, rates have not increased, and the margins are getting lower and lower. Will private-pay residents have to pay more to account for the shortfalls? Or will the government provide additional assistance so caregivers can be paid more?

Many seniors housing providers have experienced a decline in occupancy due to COVID, partly because some states didn't allow new residents to move in until the buildings were clear of the disease, but mostly because of consumer reluctance to move into a congregate setting. Fortunately, Priority Life Care was quick to respond to the pandemic and kept its occupancy fairly stable throughout 2020-21.

With the decline of the "COVID era" and as everyday life returns to some type of normalcy, the impact on occupancy should shift, as well—although it may be the end of 2021 or 2022 before providers begin to see any traction in their census, according to Petras-Wells. Unlike the situation in 2008-09, though, where everything came to a halt during the Great Recession, development has not stopped during this current crisis. Companies may not be trading buildings at the same rate until the pandemic stabilizes, but they're not

ASHA 2021 Mid-Year Meeting, Lake Tahoe, Sevy with Tyler Verdieck during an evening reception.

Sevy (pregnant 22 weeks with Wesley), Felipe and Wren (1 1/2 years).

stopping construction, she notes. They know that the demand is there—just a little slower. People still need the services, particularly assisted living and memory care where the physician often influences the move-in decision. For independent and active senior living options, people can hold out l longer.

At this point, Priority Life Care is equipped to manage up to 50 communities without having to change its structure. Beyond that, the company would have to add key staff members—not just additional regional or back-office people. With that additional support, however, "going to 75 or 100 buildings wouldn't be out of the question," according to Petras-Wells—as long as there's a need.

"And there is a need for affordable senior housing," she says. "Every 10 years or so, we have some economic challenge that further propagates the need for affordable seniors housing. Baby boomers are not like the Depression generation. They didn't save the same way or take care of themselves in the same way, and living in a nursing home shouldn't be the only option. They should have a choice as to where they spend their retirement days or their last years."

"It's not very often that a girl from a small town with a state education decides to shake up a male-dominated industry with her family in tow. But [seniors housing] is such a female, family-oriented business…so it seems to me that there should be more of 'me' out there leading our industry."

— Sevy Petras-Wells

Very well said, and we are sure there will be many more following in her footsteps.

Petras Wells family portrait: Felipe, Wren, Sevy and Wesley, who was born March 2nd, 2021

Tim Smick

Chairman & Managing Partner
Harbor Retirement Associates, LLC

Tim Smick is founder, chairman, and managing partner of Harbor Retirement Associates, LLC (HRA), a senior living development and management company based in Vero Beach, Florida. HRA, which focuses primarily on assisted living and memory care communities, currently operates 36 communities located in the two eastern time zones of the United States and is partnering on the development or acquisition of six additional communities. HRA manages approximately $100 million in revenue and more than $300 million in assets—and plans to double in size over the next few years. The company employs about 3,000 associates.

Smick's interest in senior care began in 1973, as an undergraduate at Wheaton College, Wheaton, Illinois, when his counselor pointed him in that direction based on standard vocational interest testing results. A Chicago-area hospital administrator, who was well aware of the rapid growth in the senior demographic, further opened Smick's eyes to the future leadership opportunities expected in long-term care. With a strong faith background—his father was a pastor—and a keen interest in wanting his life to make a difference in the lives of others, Smick has dedicated himself to serving seniors for the past 46 years (and counting) through knowledge and experience gained by working with some of the country's premier providers of senior care: Manor Care, PersonaCare, and Sunrise Senior Living.

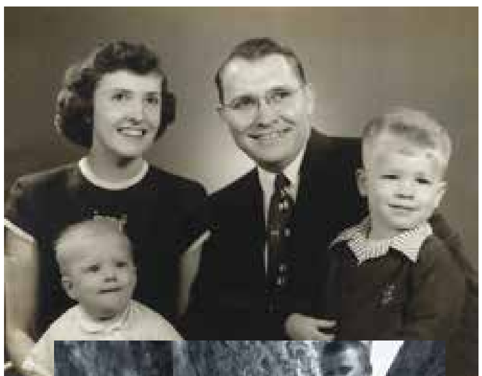
Tim Smick earned his bachelor of arts from Wheaton College. He and his wife, Bobbi, have been married since 1975 and have two daughters, Kim and Amy. Kim works with her dad as HRA's national director of operational transition.

The pastor's son

Ahh...the 1950s. The Korean Conflict was in high gear at the beginning of the decade, but World War II was securely in the rear-view mirror. Young couples moved to suburbia and started families. Boys played baseball, girls twirled batons, and Mom and Dad learned the mambo. "I Like Ike" defined politics, and "I Love Lucy" defined the new national pastime—television. Everybody loved Lucy, it turned out, and Elvis was about to appear on the scene. It was during this time of compliance, conformity, and pre-rebellion that Tim Smick was born in 1951, the eldest of four sons of Pete and Terry Smick.

Pete Smick was in high school in Baltimore, Maryland, when the country became involved in World War II. The school allowed boys to graduate early in order to enlist in the service, so Pete Smick did just that; he joined the U.S. Navy and served on a hospital ship during the war. And when Sailor Pete returned home, he took advantage of the G.I. Bill and enrolled in King's College in New Castle, Delaware.

It was at King's College that Pete Smick met and married Terry, the love of his life—and where he also sensed a calling to the ministry. Upon graduating from college, he began studies at Faith Theological Seminary in Wilmington, Delaware. Over a 35-year career, Reverend Smick was pastor of two Presbyterian churches: 17 years in Baltimore with a mainly blue-collar congregation, and 18 years in Wilmington with a more upscale "DuPont" congregation. And then he retired and took up painting.



Like most mothers in the '50s, Terry Smick focused on bringing up the couple's four boys. When Tim was two years old, his brother Dave was born. As an adult, Dave became a speechwriter in Washington, D.C. and, later, a highly successful international macroeconomic strategist. In 1956, a third brother, Dan, joined the family and, as an adult, started a faith organization in Boston that ministered to CEOs and business leaders; Dan has since passed away. And in 1963, Sam became the fourth brother; Sam's first love is music, and he records covers and play gigs in Delaware and nearby Philadelphia.

On his parents' love...

"One of the biggest gifts that my folks gave us as kids—and I think about this often—was the notion that they were crazy in love with each other. And that is a really great platform for self-confidence."

An educated move

Tim Smick grew up in the city of Baltimore. He and his brother, Dave, both qualified to attend Baltimore Polytechnic Institute (BPI), an engineering high school for boys. BPI was an hour's ride on the bus (with two transfers), but the school offered the best college prep program—and the best education—available in the city. The school was strong in math and sciences but, as Tim found out when he was in college, comparatively weak in the humanities. That said, he learned how to study hard at BPI and did well—"a solid B student," he notes.

Upon graduation from high school, Tim was all set to head off to his parents' alma mater. Instead, rather serendipitously, he enrolled in Wheaton College, a small school (2,100 students) 25 miles west of Chicago in Wheaton, Illinois. Why serendipitously? On a family trip to California sometime earlier, they drove through Wheaton. Tim saw the campus and thought that it was "nice-looking." He knew that it was a "Christian school" but didn't know much else about it. In any event, he put it on his list of five "possibles." Perhaps pushing his decision over the edge was an interest in really wanting to reinvent himself in college rather than joining his high-school pals at King's. And it turned out to be a smart move. His time at Wheaton significantly influenced his career direction.

On appreciating literature...

"I got a great education [at Wheaton]. When I was a freshman, I sat in a literature class, a required class, and was reading books and thought, 'Whoa! These guys are talking about what I've been thinking about, and they say it so powerfully. I'm going to be an English literature major.' And I loved it. And if I were doing it all over again, I would. It was just great."

In his junior year at Wheaton and now an English major, Tim Smick began to wonder what he would do with that degree. Some classmates were studying pre-law; others were doing journalism; still others were going into teaching. He wasn't interested in any of those careers. Becoming a little exasperated, Smick approached his counselor—who administered standard vocational interest and aptitude tests. Three weeks later, and based on his responses to hundreds of questions, the results indicated that Tim Smick's interests and aptitudes were most like people who became successful healthcare administrators. It was that specific! Thinking that vocation was an interesting combination of leadership and mission, he gave it some thought.

About four hours later, back in his dorm room, the phone rang. It was the counselor, explaining that he took it upon himself to set up five interviews for Tim with hospital administrators in Greater Chicago. The counselor advised Tim to cut class, wear something besides jeans (a real challenge!), borrow a car, and make the appointments—not to get a job but to talk about a career path.

The second interview was with the administrator of Rush Memorial Presbyterian Hospital in Chicago—in a large mahogany office with a silver-haired guy in a three-piece suit with his hands folded. Having just seen the movie, *The Graduate*, Tim was sure the administrator was going to say "Plastics." Instead, he said, "Long-term care." The conversation covered nursing homes and retirement communities; the demographics of the future; the fact that the industry was in its "embryonic" stages; and that, unlike acute care, the leadership cream will rise quickly to the top. And, the administrator said, if he were starting over, that's where he would be.

Tim had to work part-time every semester—in the school snack shop making milkshakes, catering, doing odd jobs for people. In his senior year, he took a job as an orderly at DuPage County Convalescent Home—and was ready to quit the first day. His romanticized expectation of the job—imagined like spending time with his healthy grandparents—was nothing like the reality. Rather, young Tim had responsibility for six gentlemen and had to face incontinency, drooling, dementia, and more. Yet he stuck it out. And on the third day, Tim recalled the advice of the Rush Memorial administrator and thought: "This is not being done particularly well. I could make a real difference here." Those words…I can make a difference… became foundational. Tim Smick was now clear about what he wanted to do when he graduated from Wheaton with his B.A. in English in 1973.

On Wheaton College…

"I recall attending a meeting in Frankfurt, Germany, and the then-president of Wheaton College was there. His wife asked me what role Wheaton had played in my success. I had three answers: 1) it taught me to think clearly and logically; 2) it taught me how to communicate in writing and orally, which are both valuable tools; and 3) it gave me the beginning constructs of a Christian worldview that helped me sort out all of the knowledge that I was accumulating throughout my life. I was 10 years into the workforce at the time. And as I look back, I would say that if you can get those three things from an undergraduate degree, you've gotten your money's worth."

Getting into the business

Now a college graduate, Smick was deliberate in trying to get a job in senior care and become an administrator. In order to be licensed, Maryland required a year's experience in all of the disciplines, 100 hours of classes at the University of Maryland, passing the licensing test, and a company willing to pay for all of that. But first, Smick took two semesters of accounting at the University of Delaware, because he realized the importance of having that background.

Meanwhile, the young man continued networking and interviewing. From Harrisburg to Philadelphia to southern New Jersey, all through Delaware and Maryland and northern Virginia…interview, interview, interview. It was awkward in the beginning, but Smick refined his presentations after doing so many interviews. He continued to knock on doors, trying to create a daisy chain, and made a lot of contacts; but couldn't come up with a job.

Finally, an acquaintance who sold a computer system to a nursing home chain—Medical Services Corporation (MSC, later, Meridian), based in Towson, Maryland—put Smick in touch with the organization's CFO. MSC had several projects under construction and took Smick on as an assistant administrator, gave him the 100 hours of university training, and the experience required for licensing. It took a year to get his license and become marketable.

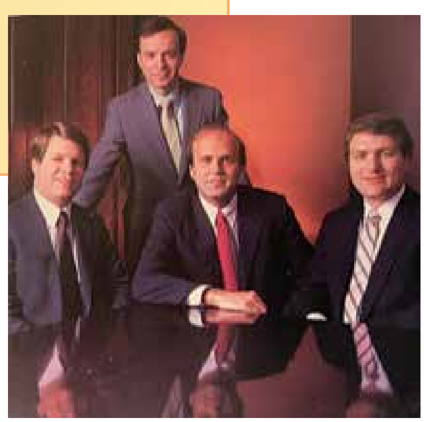
In 1974-75, the economy turned south, MSC stopped three projects that were under construction, and Smick's opportunities at the company dried up. Allied Health and Management was looking for an administrator for its 130-bed skilled nursing home, though, so Smick applied for—and got—that job. He performed so well that Allied asked him to manage all three of their nursing homes—the entire enterprise—and assist with plans to build a fourth facility and obtain the required Certificate of Need (CON). Smick was 27 years old.

It was around that time, too, that Tim Smick met his future wife, Bobbi. They met in April 1975, became engaged in July, and were married in December. A few years later, they adopted their two daughters.

Meanwhile, while making presentations to state offices in order to get Allied's CON, Smick was observed by some people from Manor Care. Next thing he knew, Manor Care was on the phone offering him a job as regional director for their Virginia, Maryland, and New Jersey region. Manor Care specifically wanted someone to manage three of their properties that were facing revocation of their licenses. Smick wasn't yet 30 years old.

On moving up fast...

"I joined [Manor Care] and was up to my neck in alligators. Everyone who reported to me was older except for one, and many were resentful that the company went outside to fill the position. I remember saying to my wife, who was helping me on my budgets (no computer in those days), 'I'm going to give this another six months. If I don't surface, I'll figure I'm an example of someone who was promoted too high, too fast, and call it a day. I'd be happy to do what I was doing before.' Six months went by, and I did surface—largely because I hired new people, including some of my mentors."



Bobbi Smick wasn't happy that her husband changed jobs, partly because she also worked at Allied Health and Management—as a social worker. At Manor Care, he did straighten out the difficulties for the three properties and, additionally, came to the attention of people who mattered in the state health department. He did well and became attracted to the private-pay world. Manor Care was the best in that business, which provided a great pedigree for Smick.

Within a year, "same store" Manor Care's net operating income in Smick's region improved by almost $8 million—mainly due to the operational turnaround of those three properties. At the same time, Smick learned that the chairman owned 46% of the company's shares, which were trading on the American Stock Exchange at a multiple of about eight and a half to nine times EBITDA.

Smick did the math and came to a conclusion: Improving the region's bottom line by $8 million, times a multiple of nine, times 46%…$33 million…"I've got to be an owner!"

The entrepreneurial bug

Lo and behold, the four nursing homes owned by Allied Health and Management, Smick's previous employer, came up for sale. Smick had learned a lot at Manor Care, which he knew he could apply to the Allied properties to significantly enhance their value, but he didn't know how to raise money. So he approached Jim Duncan, a fellow Wheaton graduate and non-practicing lawyer who was involved in real estate development and did know how to raise money. They put together a business plan and presented it to Allied, but the pair was way off in their pricing compared to interested public companies. In the end, National Housing Partnerships purchased Allied, paid too much for it, and within a year sold the four nursing homes to Meridian.

So that deal didn't work, but the entrepreneurial seed was firmly planted. Smick had been at Manor Care for three or four years and, much to his wife's chagrin ("She thought I was 'nuts."), he quit and joined Duncan and his partner in 1984. To get up to speed, Smick took several weeks of commercial real estate (CCIM) classes to learn about real estate, finance, taxes, and operations.

Now called Duncan, Smick & Burns, the firm approached the principals at Winthrop Financial in Boston to determine their interest in bankrolling a nursing home. The company had already dabbled in the nursing home business with mixed results. One of their investments—a brand-new, 300-bed nursing home in Coventry, Rhode Island—turned out to be a disaster. Some of their most-important investors were involved, and Winthrop Financial was paying out of its own pocket to fund that investment. So no, they weren't interested in delving any further into the nursing home business.

Smick had an idea. He called Winthrop Financial and suggested he "mystery shop" the nursing home and then present a business plan that could turn the facility around. "It won't cost you a cent," he told the bankers. "I just want you to review my business plan." Winthrop Financial agreed.

When Smick presented his business plan to the principals at Winthrop and their nursing home consultant, an accountant, they were all impressed. They gave Smick the opportunity to lease the struggling nursing home, which had already lost $800,000 but was full (mostly Medicaid). The facility needed working capital, which Smick obtained from Citizen's Bank, a small regional bank that made the best offer.

On taking risks...
"Whenever you think about entrepreneurship, it's about risk. But here's the way I look at taking risks: When I worked for public companies, I risked my job every day for things that were out of my control—politics, markets, etc. I'd rather bet my baby's blanket on a company where I have a lot of control. So I do take risks, calculated risks, and I've been right more often than not. Even if something should turn out bad, though, I'll work it out and not leave someone else holding the bag."

In one year, Smick was able to turn the Rhode Island nursing home's $800,000 shortfall into a $700,000 profit—a $1.5 million swing in one year. And that $700,000 went right into Duncan, Smick & McCormick's pocket. (Burns was replaced by McCormick shortly after Smick joined the firm.) They parlayed that success into their first acquisition, a $12 million deal in Stamford, Connecticut, that included Courtland Gardens, one of the earliest assisted living communities. The $400,000 deposit required for that deal was provided by a physician/inventor friend.

PersonaCare

That first deal in Stamford led to more and more deals, and Duncan, Smick & McCormick became PersonaCare. Within three or four years, the company bought seven or eight nursing homes—very weakly capitalized deals, according to Smick.

The savings & loan crisis came to a head in 1987-88, and lenders were not willing to renew PersonaCare's loans without additional equity. As a result, the company had to sell the majority interest in the company, losing control, but was able to acquire $25 million in equity from Warburg Pincus in New York. "It was the only capital I could come up with at the time, and it was a big number," says Smick. "But I needed it to continue to grow the company—and they [the venture capital firm] wanted to be able to exit in seven years."

PersonaCare did grow—to 13 nursing homes. That was a lucky number, too, because—with the exception of one assisted living community—less than 13% of the nursing home revenues were derived from Medicaid. Rather, they were very high private-pay operations.

By 1994, PersonaCare was providing sophisticated sub-acute care and critical-care nursing, not just the rehab side of long-term care. The organization concentrated on profitable diagnosis-related groups (DRGs) and on patients who were traditionally cared for in ICUs. Back then, ICU care cost about $2,100 a day; PersonaCare was able to provide it for $700. Managed care was growing simultaneously, and Smick and his associates were making "serious" money.

That was also the time for Warburg Pincus to exit, and PersonaCare wasn't large enough to go public. That threshold was triple the company's revenues. So PersonaCare was sold to TheraTx, a therapy company out of Atlanta, Georgia. As part of the deal, Smick stayed on a consultant for 18 months—mainly so he wouldn't compete and/or solicit business. "That's when I learned how to fly airplanes," he says. It was also a time for reflection.

On ASHA...
"When I first started my career in the nursing home business, governance was critically important because of reimbursement. When the Maryland legislature was in session (January through April), for instance, I spent one day a week lobbying alongside a nursing home lobbying group. I'm highly appreciative of what ASHA does, legislatively and otherwise. It's a little less critical when third-party reimbursement is not your lifeblood, but it's still very important, especially in these times."

The appeal of senior care

After considering involvement in other kinds of businesses, Smick concluded that nothing appealed to him as much as senior care. Around the same time, he was approached by Paul and Terry Klaassen of Sunrise Senior Living, who were about to take their company public but hadn't quite solidified its operations. They offered Smick the job of President and COO, with the responsibility of identifying best practices, codifying them, and ensuring that the right people were in the right slots. They convinced Smick to take the position, and the public offering was issued four months later.

On working for Sunrise...
"I wasn't there long, a little less than three years, because my deal with the board was just to make sure the operation could absorb the kind of volume that they were going to do—because one year after the public offering, I was opening a new community every 10-14 days. It was fun. The only competition was from guys like me in the nursing home business, and we were eating their lunch. On paper, it looked like a step backwards; but it wasn't. It was a great opportunity. And I'm really glad I did it."

Meanwhile, Smick was asked to join various boards of directors, which he found to be a relief from the day-to-day pressure of operations. So he spent a year or so doing that. One board meeting was held in Vero Beach, Florida, in mid-February. Bobbi Smick wasn't about to stay back home in the cold, and she accompanied him. They fell in love with Vero Beach, sold their home in Virginia, and moved to Florida. It was the year 2000.

Smick soon concluded that he was more energized by starting companies than by sitting on boards. In 2002, he decided to start Harbor Retirement Associates (HRA) with a partner who had been a consultant to CNL. At the time, coincidentally, CNL was looking to set up an "operational bench," a group to depend upon when CNL came across properties that had no operator.

HRA'S initial growth involved all CNL business—managing, developing, and/or leasing properties. Ten years later, in 2012, Smick bought out his partner. By then, HRA was leasing 14 or 15 properties, along with two that the company developed and partially owned (along with local investors).

Currently, HRA operates 36 properties (recently opting out of operating four original CNL properties). The two eastern time zones represent the company's operational footprint—and have since

On exponential growth...
"You can operate two or three communities out of your garage. You just need a patchwork of consultants. It's that fourth through 12th that's a no-mans-land, because you have to get serious about building your own infrastructure—and that's expensive. It requires a really heightened attention to cash flow to significantly invest in infrastructure and institutional quality."

the beginning—with several holdings in Florida. Six more properties are currently under construction, with a few more "in the hopper." Confluent Development, based in Denver, is one of the more prolific joint-venture partners with whom HRA has worked in recent years, co-developing seven or eight projects—so far.

The HRA development model is typically 100 to 120 units and mostly focused on assisted living and memory care—which is where the abundance of capital for development became available after the 2008 Great Recession. Less capital has been available for independent living projects. The communities focus on the upper quartile of the market—sometimes the upper decile—in locations with an overall growing and diverse economy, where the senior population is also growing substantially over the ensuing 10 years, and with a relatively high wealth factor.

Physical barriers, psychological barriers, and traffic patterns also go into development decisions with regard to locating a new community. "Seven out of 10 customers tell us they find out about our communities by driving by—despite the fortune that I spend on web optimization and advertising," notes Smick. "So drive-by is critical."

HRA is very capable on the acuity side but also creative with the hospitality aspects of its model, constantly modifying the program and being progressive—something the company's partners seem to appreciate. Developing new properties is a distinct advantage in terms of "playing" with the hospitality side. With older buildings, operators must accentuate their clinical expertise, according to Smick, and that makes it tough for them to compete.

'Hiring for heart'

When hiring great leaders—or anyone, for that matter—HRA looks for people who think of the work as more than a job. Smick calls it "hiring for heart." He looks for people at every level who, like him, want to do something with their lives that matters—people with a higher purpose, so to speak. Those who work with him at HRA feel "called" to their vocations. And if that seems loaded with spiritual overtones, it is—by design. All of the organization's core values, including its mission statement, are faith-informed. Training is important, of course, but training the wrong people never works out, according to Smick's experience. So his focus is on getting the right people from the start.

Hiring the right capital partner is also critical. "They'll swear that operations are most important," Smick says, "but when it comes to negotiating a deal, they talk about how the operator is interchangeable. Many [potential capital partners] see operators as a commodity and don't really appreciate the difference between one and another. They don't know how to distinguish the mediocre from the good, the better, or the best." As a result, developers have to be discerning.

Smick is proud to say that his company has been cited as a "Great Place to Work" in 2019—and an unprecedented 94 percent of his employees responded to the survey. That accomplishment is due to HRA's investment in its culture and by monitoring what's going on, paying attention to what they're doing, acknowledging what's being done right—and, of course, good training. And by providing a culture where employees can flourish, turnover at HRA is lower than average.

As important as "culture" is to senior living communities, a very small group of companies actually manage and invest in culture in a very specific and explicit way. Simply by appointing a chief culture officer is insufficient; rather, establishing and maintaining a corporate culture should be the job of the CEO.

Having happy workers also means having happy residents, as the front-line workers—industry-wide—often earn barely enough to live on. HRA's employees derive emotional paychecks along with their financial paychecks. Something as simple as having a best friend at work can increase a person's longevity on the job, for example, so promoting that and socially orchestrating it becomes a win for everyone. While finding a great labor force is critically important, along with training them well, showing appreciation for their work is just as important. Smick's maxim: Good people attract other good people. And if you respect your workers, they'll respect your residents.

On HRA's successful operating strategy...
"We're selling an experience, a hospitality-enriched experience. We never talk about real estate, square footage of the unit, etc. Instead, we tell stories that help the adult child or the senior themselves imagine themselves as a resident of our community. We pushed high acuity and liked that, because we could charge for it. Our ancillary charges, our level-of-care charges, were significant, but we made money on it. Part of my job was to bring clinical expertise to the table and put a competent team in place. This business is all about people. And if you can't find outstanding leaders, the business slows down. Also, we need a team that won't try to make it look and smell like a nursing home; it has to be private pay-oriented."

A peek at the future

The expectation is that boomers will be much more demanding than any of the customers that the senior housing industry has experienced to date, and providers who are able to accommodate the boomers will be the ones who "win," according to Smick. "Even when we offer two-bedroom units," he notes, "the extra bedrooms are not filled with people. They're filled with 'stuff.' People have an emotional attachment to their 'stuff' and, despite downsizing, downsizing, and downsizing, still have "stuff' that they want to keep and enjoy."

So size matters. Smick expects a lot of the current product to become obsolete for the middle two quartiles of the market and will, as a result, offer big discounts or even write-offs because they're overleveraged. On the other hand, providers who can meet the demands of the new generation of residents will be able to charge top dollar.

Many providers are increasingly using technology for various kinds of efficiencies within their communities, including for monitoring, but Smick has little interest in that—specifically, no interest in robots. "I often tell people that our success depends entirely on tens of thousands of transactions that happen every day—people laying hands on people," he explains. "If that goes well, we win; if it flops, we lose."

Smick has been in the business for 46 years and counting and is now semi-retired. He continues to own the majority of the shares of the company but in 2018 turned the President and CEO responsibilities to his rising star COO, Sarabeth Hanson. She is well-versed in the industry, knowledgeable about operations, and familiar with both the real estate and the finance sides of the business. People often comment on the success of this succession planning (which had been in place for a few years) and ask about what is the key to a successful succession plan. I reply, "make absolutely certain you have attracted the right successor."

"I have never lost sight of how blessed I am to be doing something that matters so much. I have also not lost sight of how much fun it is to co-labor with like-minded leaders devoted to caring for seniors."

— Tim Smick

Arnold Whitman

Founder & Chairman

Formation Capital

Arnold Whitman is chairman of Formation Capital, a private investment management firm focused on seniors housing, senior care, and post-acute and healthcare real estate investments. The company is based in Atlanta, Georgia.

Whitman founded Formation Capital in 1999 after spending 15 years in the seniors housing and care business. The company pursues high-quality healthcare real estate and operating companies in a sector that requires a unique skill set to manage the inherent real estate and operational complexity. Under Whitman's leadership, Formation Capital has executed more than $8 billion in transactions over the last two decades.

In addition, Whitman is a founding partner of Generator Ventures, which focuses on the intersection of innovation and aging, and a partner with Aging 2.0, a global platform and community for innovators, providers, distributors and investors focused on solutions for aging and seniors. He is a former board member and chairman emeritus of the National Investment Center for Seniors Housing and Care (NIC) and a current board member of ASHA, Genesis Healthcare, HC-One in the United Kingdom, Care Institute, Vynca and Chronic Care Management, Inc.

A Classic New England Childhood

Boston is frigid in the dead of winter—more so back in the 1950s. On one of those freezing Boston days—February 20, 1952, to be exact—Arnold Whitman was born to a dad who worked in the wool business, like his father before him, and a mom who, like most moms back then, was a homemaker. The family—which included the new baby's two-year-old sister, Noell—lived in the close-in suburb of Brookline..

Arnie with Dad (top) and mother (bottom)

A year later, the Whitmans moved to Holliston, a little farther away from the city; and two years after that, they bought a lovely house in the small town of Sherborn, still within the famed Route 128 corridor but a beautiful New England country setting with a neighborhood full of kids. Emily, Arnold's younger sister, was born in 1958.

The wool business was very good to Arnold's grandfather and, for a while, to Arnold's father. Massachusetts was a major textile-producing center in those days, so the family was relatively affluent—or at least very comfortable.

The Whitman's New England bloodline actually dates back to the 17th century, when their first English ancestors landed in what is now Whitman, Massachusetts. And not to be outdone, Arnold's mother's family, also rather well-to-do, descended from "blueblood stock" that included Boston Brahmins like the Cabots, Lodges, and Peabodys.

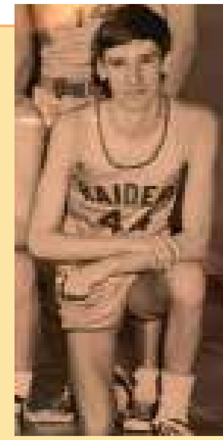
When synthetics came into the market after World War II, textile plants closed and the wool market in Massachusetts took a dive. Arnold's father switched fields and for the most part, was a college recruiter for several small schools in and around New England. He was on the road five days a week and home only on weekends.

Young Arnie lived in Sherborn through high school, spending most summer days hanging around a beautiful, crystal-clear, spring-fed lake called Farm Pond. His father started a sailing club there, which he called the Sherborn Yacht Club. "Commodore" Whitman ran the club and gave sailing lessons, but his son preferred swimming—competitive swimming for the Sherborn Swim Team. The team competed against much larger nearby towns—Needham, Wellesley, Newton, Framingham; yet, at just 12 years old, Arnie was undefeated in the backstroke and freestyle for the entire season.

Father and son were quite close. They both loved sports. Arnie played Little League baseball—and, like most young boys, collected baseball cards. The two were always playing catch in the yard. His dad also loved organizing games—like capture the flag and kick the can—for the neighborhood kids. Whitman remembers his dad as being incredibly personable and very caring, with a strong personality. "He just enjoyed life," he recalls.

On growing up in the 1950s…

"It was a real New England childhood in a small, intimate neighborhood with plenty of kids my age. If we weren't going to school, we'd go out and play until dark. It would be nothing to ride our bikes a mile or so to go to another kid's house. You don't realize how ideal it was until you look back and go, wow, that probably doesn't even exist anymore. I had a very positive childhood."



The Whitmans separated several times over the course of Arnie's childhood, although he was unaware much of the time because his dad traveled so much. When Arnie was 17, a junior in high school, his parents got divorced. Mrs. Whitman went to work. Now, as "the man of the household," Arnie had a lot more freedom—which was very appealing. He had a driver's license, after all.

Sports, sports, sports

In high school Arnie participated in three sports—cross-country, basketball, and track—and was captain of all three teams in his senior year. He ran a 4.34 mile, but basketball was his passion. He loved being in motion. He loved the stimulation, the energy of sports. And he especially loved winning.

The interest in basketball began when Coach Bill (Whitey) Davis convinced tall, lanky Arnie that he was "built for basketball" and should be a basketball player. Plus, Dover Sherborn High School's team was great!

On Coach Davis, mentor…

"Coach Davis was really tough. He'd work you really hard, but he always did it from a place of encouragement and with caring and love vs. fear and apprehension. He got so much out of me because of the confidence he instilled in me through encouragement. And that has served me well even to this day in terms of leadership, success, and the way I treat people. The word "encourage" has become my favorite word throughout my life, and I'm forever indebted to Coach Davis."

In his freshman year, Arnie was 6′ 2″ and skinny. By the fourth game of his sophomore year, he broke the school record in scoring. In another game, he stole the ball in the last few seconds of the game, scored, won the game and was carried off the court by his teammates. It was nothing short of heroic. Whitman was extraordinarily competitive and a really good shooter. He led the team in scoring his last three years, was all-league his sophomore, junior and senior years, was all-state in his senior year, and was named a top-10 player in Massachusetts. He continues to play competitively today and his team has won national and international tournaments in their age bracket. He never lost that competitive drive.

Arnie initially went to Northeastern University in Boston, on a full athletic scholarship, and played two years of varsity basketball. Early in his freshman year his appendix burst, so he had a late start. Despite this, he led the freshman team in scoring. Back then, freshmen could not play on a varsity team. Northeastern is a work-study school, so half the year is spent in class and the other half at a "relevant" job. Having a long history of both creative and theatrical people in his family, Whitman chose drama as his major—but the "work" part of his year was uninspiring, and basketball required nearly every other waking hour. After his freshman year, the varsity coach who recruited him left, and Arnie didn't like the new coach, and his high-school sweetheart broke his heart...all at once. So, the self-described "golden boy" quit basketball. He quit school. His dad was out of the picture. He was miserable, unhappy, and distraught. So, he packed his bags and headed for Colorado.

Go west, young man

Whitman enrolled at the University of Denver. At this point, though, he just wanted to have a good time. It was 1971, after all. He wasn't even sure he wanted to play basketball, despite the university being a Division I school.

Whitman chose psychology as his major, primarily because he loved working with kids, and chose music and philosophy as a double minor. He always had "a good voice" and sang in the choir growing up. In college, he took a course in piano. Actually, he was seeking something glamorous... like sports or entertainment, perhaps songwriting. Senior year, he "walked on" to the basketball team. Remember, Whitman was a star shooter. At captain's practices during the first two weeks of that year, he made 937 free throws out of 1,000. There was no way the coach didn't want Whitman on the team!

On playing basketball...

"My only regret about basketball is that there was no three-point line when I played, because I was a deadeye long-range shooter. I used to be criticized for taking such long shots. They were less important in those days, because they only counted for two points. But I could make them!"

Interesting tidbit: When the University of Denver basketball team was on the road, Whitman's travel roommate was Dave Adkins, better known as Sinbad, the comedian—a somewhat bizarre meeting of sports and entertainment!

For Whitman, the University of Denver lived up to its party-school reputation, full of rich kids from the East. He was from the East, too, but not rich—though he did have a knack for raising money. A college pal who did have money became a close friend. Whitman convinced his friend that the two of them should develop a music production company. The result: Conifer Productions, a small recording studio in Conifer, Colorado, with a goal of supporting local talent. The company didn't make a lot of money but produced enough income to support the two partners for about seven years.

In 1981, Whitman reassessed the high life he was living in Denver. He was almost 30 years old and struggling with personal issues. It was time for a change. So, he and his girlfriend at the time left Denver and moved to her hometown of Bethesda, Maryland.

Seeing the light

Determined to start over with a clean slate, Whitman went to work for Venture Resources, a Washington, D.C. business brokerage company that trained him how to read a balance sheet, read an income statement, and solicit small businesses (strip malls, restaurants, gas stations, convenience stores) for sale. The training was free; wages were commission-based; and the objective was to get listings in the D.C. metropolitan area in order to buy and sell small businesses.

Whitman quickly realized that the larger the business, the better the pay and began targeting hospitality as a specialty. He was working a client with some valuable hotel properties, which he wasn't looking to sell, and a couple of nursing homes. Whitman saw the irony in what his life had become: from aspiring to do something big and glamorous in the entertainment field to looking at nursing homes – one of the least glamorous businesses there is. "It was so far from anything I would have ever chosen to do in my life, ever," he recalls, "but it made me realize I needed to change who I was." It suddenly made sense; this could be an area to specialize in.

Whitman subsequently partnered with Colleen Fogarty, a colleague at Venture Resources, to create C. M. Fogarty Companies, a business brokerage firm focused on long-term care and specialty healthcare. He remained in Washington for about two years and then, continuing to work with the firm, moved back home to Boston.

> ### *On going back home...*
> "I left home at 18, a golden boy, a Division 1 Basketball recruit. Now, 32 years old, I found myself truly having to start over."

Whitman started studying the business and researching all of the nursing home and senior care providers in New England. He cold called Abe Gosman – an eventual legend – and secured a meeting with him in his office in the basement of one of his facilities, Newton Wellesley Nursing Home. An initial brokerage agreement quickly turned into an employment opportunity to help grow The Mediplex Group, the owner of six nursing homes and some specialty medical buildings. Gosman eventually became one of the best-known investors in the post-acute market, and at one point was the CEO of three separate New York Stock Exchange companies. His nickname became Midas, because everything he touched turned to gold.

After one year with Mediplex, Gosman had the vision to create a real estate investment trust and go public with MediTrust, which became the largest healthcare REIT in the country at the time. Whitman transitioned into the role of VP of Acquisitions at MediTrust.

Gosman gave him a shot, an opportunity, a real job. He became Whitman's mentor and helped not only guide his professional career but also support his recovery from personal issues. He cared. And that experience, that caring, changed Whitman's whole perspective toward life, the world, and his position in it. "I finally felt there was something there beyond just *me*," he says.

> ### *On the importance of caring...*
> "I found that—as a man, as a human being—I had to become someone who cares. And I discovered that caring and developing quality relationships with others is the key to success in life. And I also had a really good mentor!"

He remained close to Gosman over the next 30 years, and in the latter part of those years, their fortunes reversed dramatically. As Gosman fell on hard times, Whitman had success after success, and it was now Arnie's turn to see how he could help out his old friend and mentor. He was happy to do it. He went to see Gosman in his last days in a nursing facility, kissed him and thanked him for everything he had done for him. It was fitting that their first and last meetings were in a nursing facility, since both had become the largest owners of nursing facilities in the country. The teacher and his student.

On the right track

Whitman wanted a family. He met and married his (first) wife, and they had children. He had a job. He had a business. He got to travel and see the world. And he got to learn about a business and a vocation—the correlation between capital and care—that he found extraordinarily fulfilling and, to this day, considers tremendously important.

Capital and care seem to be opposite dynamics—one being self-centered and a little greedy and the other compassionate, kind, and unselfish. Finding it rather intriguing to be in a business that combined the two, Whitman focused on ways to integrate them into a complementary or aligned basis that would create value, both socially and economically.

Working for Gosman was singularly important for Whitman. He watched. He learned. He met people. He found deals. He built relationships. He learned how to utilize off-balance-sheet financing. He got his footing in the industry. And he became the "face" of MediTrust.

At the time, the nursing home industry was stigmatized, and no capital providers operated nationally other than a couple of REITs. Abe Gosman was the first lender to go big, to go "national," where others remained fairly small. There was HUD, there were regional banks, and REITs were a fairly new concept with benefits that few people understood. MediTrust was the first billion-dollar REIT, according to Whitman.

Eventually, deal after deal, Whitman had a vision that caused him to leave his job in 1993. Securitization was an emerging financing vehicle, a potential alternative method of financing that no one had taken into either senior care or health care. Whitman was ready to take a risk. He wrote a $100 million business plan and took it to some folks he knew at Healthcare Capital in Atlanta. And then he moved to Atlanta.

Healthcare Capital operated about 60 buildings and agreed to invest $5 million. The plan was to go to Wall Street and get a line of credit for $95 million to provide debt financing (a total of $100 million with the $5 million backup). The overall idea was to compete with the REITs using a different structure: leveraged debt, at a cheaper price, that allowed companies to keep their buildings.

It was an exciting time. Whitman and his partners were coming into the field with a new twist, a new angle, and were willing to put up cash. In the end, 10 banks wanted to participate. "It was like shooting fish in a barrel," Whitman recalls. "Everybody wanted to do it. It was so easy to raise the money."

So Whitman, his investors, and a minority partner started Health Care Capital Finance in 1993 with a $100 million line of credit—a big number at the time. The company was an originator and earned fees upon sale but didn't hold any liability. That helped enormously when the credit markets crashed in the late '90s.

While similar companies were in distress, Health Care Capital Finance was still making good money, was always profitable, and eventually partnered with South Trust Bank and Conti Financial Services to create PRN Mortgage Capital. The increased "fire power" resulting from the new partnership allowed the company's line of credit to increase to $300 million.

Simultaneously, Whitman began a couple of not-for-profit companies to make development deals using tax-exempt bonds. One of the companies was called Prime Care Properties. Another was called Care Institute, which did several Brighton Gardens deals for Marriott, its first client. Deutsche Bank was the lender.

And on a personal level, Whitman began running two marathons a year—46 in total—an accomplishment that became a very important element in his general stability.

Formation Capital, the grand beginning

As the millennium approached, and the market dried up, Formation Capital was created, initially by Whitman and his partner Steve Fishman to become an equity investor—but the firm didn't have any money to invest. Rather, the partners drove revenue through consulting and transaction fees, along with some M&A work. The company had an office in Atlanta with four or five analysts and underwriters.

> ***On getting through a tough time...***
> "I wanted to raise capital, but it was unrealistic. The markets had cracked and, from a personal perspective, my wife and I were divorcing. So, things were pretty challenging—it was a really, really, really tough time."

By mid-2001, Formation Capital had entered into an agreement to purchase the skilled nursing facilities owned and operated by Beverly Enterprises in Florida, a $165 million deal at 20 percent below reimbursable basis. UBS committed $120 million, Black Acre committed $40 million, and Formation Capital's group of investors, including Whitman, put up the rest of the equity.

The theory was to separate Beverly's real estate and operations into three entities: ownership of the real estate, a licensed operator lessee, and a management agreement to run the buildings. The goal was to manage risk for the real estate investors.

One thing that the partners couldn't insulate themselves from—nobody could—was the adverse effect of 9/11. Lenders and investors claimed the "material adverse change" clause and walked on the deal, and UBS reduced its commitment to $85 million. Beverly Enterprises was threatening to take Formation's hard deposit if the deal didn't close in 30 days. It was a nightmare. It was surreal. And it had turned ugly.

David Tibbles at Citibank came up with a structure to dramatically mitigate the risk around liability—which at the time was sucking up all the cash flow—by creating a cash sweep. His theory was that a buyer has almost two years before liabilities hit the balance sheet. So a fast-amortizing mezzanine piece would bring down the debt from $165 million to, say, $120 million. It was a brilliant structure, and it worked. Citibank put together all the financing and became an equity partner. They replaced the UBS $120 million first-mortgage debt and took the fast-amortizing mezzanine debt. And Formation Capital and its investors doubled their equity investment to $10 million. The Beverly Enterprises deal—49 skilled nursing facilities and four assisted living communities—closed in January 2002. The price came in at $26,900 per bed. And by the end of the two-year window, everyone had made a ton of money.

Another aspect of Formation Capital that Whitman developed in concert with the Beverly deal—and one that he felt differentiated the firm from others in the business, especially on the real estate side—was the early integration of a clinical underwriting team of people who understood the dynamics of the targeted business (its operations, reimbursement, regulatory issues, and liability issues) in order to mitigate or manage risk. Originally comprised of outside consultants, the team was brought in-house shortly after the Beverly deal closed. The concept continues at the firm to this day.

Next moves

More deals followed over the next couple of years: nursing facilities owned by Mariner Health Care ($86 million at $36,000 per bed) and Genesis Health Ventures, also in Florida, and Centennial Healthcare, which Formation Capital bought out of bankruptcy. These deals represented greater value—great prices in good markets—and proved even better each year, as changes in Medicare reimbursements caused the industry to reinvigorate itself through a transformation into sub-acute care.

But Whitman considers the Beverly Enterprises acquisition to be, by far, the company's best deal from an economic standpoint despite it being the most challenged entity. That deal also established immediate credibility for Formation Capital at a time when the entire industry was in tough shape. The newfound credibility opened interesting doors—among them, the royal family of Dubai became Formation Capital's first investment client in 2002. And each new deal improved the firm's reputation and increased its credibility. "We had a pretty good string of years," Whitman says. "Once we started to take off, things went extraordinarily well."

On buying in Florida...

"We felt like Florida was a great place to buy, but it was always too expensive. So our strategy was fairly simple: If we could overcome the liability cost that the public companies had, which we felt we could do in a private structure, we would be successful. With Beverly Enterprises, which was low-hanging fruit with the biggest liability, we were buying an asset pool at 20 percent below basis. And our timing was perfect!"

On the personal front...

"In 2002, I married Terri Lundberg, my closest friend in life, when she was working as a VP at the REIT Health Care Property Investors [now Healthpeak Properties]. She is a person with incredible insights, perspective, and stability—always encouraging and supportive. I have unbelievable respect for her as a human being and always use her as a resource."

REITs were returning to the acquisition market, but it was a while before they regained their momentum in the market. But when they did, they began quite a run. In the meantime, Formation Capital—operating as a sort of non-REIT REIT—was also on a run. In June 2006, for example, General Electric Co. agreed to buy six senior housing portfolios—186 nursing homes, 21,000 beds—from Formation Capital for $1.4 billion…in cash. Half of the properties were in Florida; the balance, in 20 other states. It became Formation Capital's, and Whitman's, signature transaction which put them on the map for good.

At the time, Formation Capital was considering going public as a Canadian REIT. The firm had done several deals in the Canadian markets and was considering creative ways of financing and delivering value. "We didn't have the lowest cost of capital," Whitman explains. "So we came up with the theory that a dollar of rent and a dollar of cash flow trade at significantly different multiples within the skilled nursing asset class. If we put cash flow dollars onto the real estate side and shared the upside with the operator, we'd pick up points in arbitrage and the operators would be incentivized to make more money—an alignment of interests."

On the "alignment of interests"…
"The basis on which I've built my entire life and career is something I learned in recovery: the alignment of interests. It means considering the interests of others to be equal to your own. I believe that philosophy to be the basis of the most successful relationships over the long term."

Full steam ahead

After the General Electric deal closed and just prior to the Great Recession, Formation Healthcare Group (FHG), a subsidiary of Formation Capital, bought up several mid-size and large companies, including Laurel Health for $200 million in 2006, Tandem Health (with JER Partners) for $620 million in 2006, and Genesis Health for $1.9 billion in 2007.

From a strategic point of view, Whitman and his partners believed that Medicare would continue to drive value around managed care, and that would create additional value for the industry. Emboldened by their successes, their reputation, and the ability (both money and manpower) to access transactions, the company was looking to become the largest investor in the space. That was the goal.

The most important element of investing in the senior care business is the quality of the company and the operating teams, and Whitman believed his team had the ability to understand—better than most—the terms of that profile.

On knowing the business…
"Being around the senior care business for so long, you start to get a 'feel' for it. I've been in so many nursing homes, I can walk in and tell in 10 minutes whether it's successful, whether it's making money, or whether it's going to be in trouble. There are certain markers, basic things, that help you to tell almost immediately: the morale, the people, the interaction, the vibe, the smell. It's not rocket science."

Formation Capital's portfolio became quite diversified over the years. In addition to the senior care facilities (nursing homes and assisted living), at one time the portfolio included a mobile X-ray lab company, a hospice and palliative care business, and group homes for developmentally disabled people. Many of these have been sold. The company also bought up a number of Sunrise Senior Living sites that have since flourished.

Going forward, Whitman believes the value is in pre-acute care. He would like to figure out how to utilize technology and integrate that with the delivery of services, whether in assisted living, memory care, skilled nursing, or even at home. "The real value proposition for senior care begins with the person that's just starting to struggle," he suggests. "Develop a relationship with that person, and you've got a customer for life and a lead generator for your other businesses."

A long view of the industry

Considering today's market conditions, Whitman is now looking at an approach that integrates innovation and technology into care in a way that also creates value. Towards that end, Formation Capital is partnering with Generations LLC (as FC-Generations LLC) to create a unique approach that aligns real estate, operations and technology to deliver innovative senior living and care through holistic programs and services and expanded community engagement. Quality of life equals reduction of healthcare costs. With the continued growth of MA plans and risk, who better to get engagement and trust to deliver value than the day-to-day providers of care and services.

On the impact of technology...
"Technology will have a huge impact on our industry. The ability to integrate information—for families, for patients, for caregivers—is huge. So to me, that field offers tremendous opportunity and new ways of delivering care."

Technology has been so important to Whitman that he is a co-founder and partner in Generator Ventures, which is an investment platform focused exclusively on the intersection of aging, senior care and technology, partnering with entrepreneurs who are leveraging technology to transform the aging experience. Part of the goal (and Whitman's goal) is to break down the walls of senior living and home and community-based care, and also be data driven.

But what's going to happen with the real estate side of senior care? What's going to happen to the capital markets? And who's going to operate the buildings? We're at the beginning of an enormous population boom of people who need care, and no one seems to be ready. The caregivers aren't ready. How do we keep people well and provide the support they need so they can remain at home?

Affordable seniors housing is where the opportunity lies in the senior housing world, according to Whitman. So perhaps creating a turnkey franchise model that integrates services, even daycare, with a feeling of community—a quality place where people want to live and at a middle-market price point that they can afford—is the way to go. But it takes a long time to build the communities.

The skilled nursing side reinvented itself as the rehabilitation business—mostly physical therapy and speech therapy—a development that single-handedly resurrected and ultimately saved the nursing home industry. The next generation of skilled nursing care is likely to be a hybrid, perhaps called "complex care." This could be an alternative setting to the hospital, but more cost effective.

On the "complex care" model...
"You look at the healthcare system and where the spends are, and there are so many inefficiencies. Why not provide more complex care? Why not behavioral care? Why not surgical recovery? To me, it makes perfect sense. And if you can build one and prove the model, you can get the capital to roll it out. The hard part is building a model for the middle market—one that works."

Whitman foresees that Medicare Advantage will drive much of these changes—how the elderly are managed and where they are serviced: skilled nursing care, assisted living, or at home— as the elderly population continues to grow. That will have a huge impact, he says.

That said, the vibrancy of youth may be a missing link. "We need a movement of youth in this business—fresh, innovative, fired-up talent to take leadership. Tech and innovation should help this," Whitman says. He's concerned that there aren't enough spirited young people with the passion to find solutions and, at the same time, the desire to help people. The industry needs to transition to the younger generation, who can utilize the lessons learned and embrace the opportunity—because the opportunity is huge. "We experienced it with the evolution of the American Seniors Housing Association," he says. "It needs to happen again—and the time is now."

On ASHA...
"When I think of ASHA, I think of David Schless, who is 'aces' in my book. I think extraordinarily highly of what he's done to represent senior housing leaders and the way he's handled himself professionally. To network with the best of the best, you go to ASHA to understand how operations are handled and the business in general. It's a class organization that has admirably represented the seniors housing industry."

In reflection

For the first few decades of its existence, Formation Capital established itself in the skilled nursing space—the knowledge, the underwriting, etc. That was mostly circumstantial, according to Whitman, and driven by the opportunities at the time. More recently, from a risk and cost-of-capital perspective, the company's growth has focused more on the real estate side of senior housing.

In 2013, for instance, Formation Capital acquired (and later sold) Sunwest properties for $400 million and Agape Management (in transition) for $153 million. Around the same time, the company purchased 50 percent of Frontier Management and then undertook about 15 independent living, assisted living, and memory care projects that were built from the ground up and are now run by various operators, including Atria, Brookdale, and Arbor.

In today's world and for the right opportunity, Formation Capital can be aggressive and competitive in the marketplace if it chooses, but Whitman has to see a value proposition—some proposition of additional value—whether that involves a change of management, the ability to add services or ancillaries, or the ability to redevelop a specific site. What they are really interested in, though, are opportunities presented as a result of fallout from the pandemic, especially those with new models of care and opportunities relating to senior living and home and community-based care integration. This time around, size will not matter as much as the opportunity and the potential for growth.

At this point, Formation Capital has narrowed down to an excellent team of 20 employees, the majority of whom are asset management people, working out of its Atlanta headquarters. For his part, Whitman loves the industry, loves senior care, loves what he's doing with venture capital, loves being involved on boards, loves being strategic, and loves putting people together and creating value…but he doesn't want to run a day-to-day business anymore. As a result, Formation Capital has been taking advantage of the strong capital and acquisition markets and has already divested several portfolios. It has not been easy on him, with his competitive spirit still alive and well. Afterall, he is still playing in basketball tournaments with his team, and winning, and still likes to run a marathon or two. His competitive nature helped propel quite a successful career.

On his career…

"It's been exciting. I've truly enjoyed it. You make decisions based on your perspective of risk and opportunity, and most importantly, people. Sometimes you're right, and sometimes you're wrong. I have no regrets about any of it."

Now in his seventh decade and having recently dealt with medical issues, it's hard to say what's next for Whitman. He still wants to improve the quality of life and health care for seniors. He takes time to enjoy his family. He looks forward to making a difference in people's lives and participating in one of the greatest opportunities in senior care that he believes will emerge over the next few years.

"One of the beauties of my career has been the good strong relationships that I've had with most of the leaders of most of the companies in the industry. I have been blessed."

—Arnie Whitman

About the Author | Stephen M. Monroe

Mr. Monroe is the managing editor and a partner at Irving Levin Associates, LLC. 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 managing 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.

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