



BUSINESS

FINANCIAL NEWS AND GROWTH STRATEGIES FOR PROVIDERS AND SUPPLIERS IN THE NOT-FOR-PROFIT SECTOR

IN THIS ISSUE

Tough Economy Spurs Affiliation Discussions

Whether a smaller site looks to affiliate with a larger one or two similar sites want to create a "system," we explore the benefits and ramifications from the legal, banker, and provider points of view. Given the current economic and capital markets environment, we may see more affiliation discussions.

See page 1



Christian Living Communities Keeps Growing

The Greenwood Village, Colorado, multi-facility organization is able to keep up its forward motion because of its effective strategic plan and a phased development approach.

See page 1



Q & A With Ken Curnes

The VP of Planning & Development at GlynnDevins Advertising Agency talks about how CCRCs can market their empty units in today's economy.

See page 2



Recent Financing Activity...

See page 3



Acquisition Market

Two planned sales of CCRCs fell apart last year, but one is back on the market with a looming bid deadline. Plus, a few sales closed last month with not-for-profit sellers, with another expected soon.

See page 12

TOUGH ECONOMY SPURS AFFILIATION DISCUSSIONS *A Smart Idea For You? Experts Explore Benefits and Ramifications*

In legal terms, an affiliation is simply a partnership of two or more parties. For senior living providers, an affiliation could involve a smaller, single-site organization partnering with a larger, multi-facility organization. Or it might involve two single-site organizations that create a third parent entity to govern both partners through a common board of directors. In either case, each affiliate remains intact.

Discussions about affiliations are ramping up in the current economic environment, according to Kathryn Brod, Senior Vice President and Director of Senior Living Research at **Ziegler Capital Markets**. Single-site organizations, in particular, are facing increasing market risk. Housing

markets in some areas are challenged, maintaining occupancy is difficult, and plans to issue bonds to finance a repositioning are on hold due to the capital markets situation. "That becomes the final straw," she observed. "Then, they start talking." Multi-facility organizations generally have a more diversified market risk and more elasticity to deal with multiple issues, so more often it's the single-site organization that starts the discussion.

"A small, single-site entity can hold on for a very long time," added Jeff Petty, CEO at **Wesley Enhanced Living**, which was actually created years ago by affiliating a number of small not-for-profit organizations that
...continued on page 6

CHRISTIAN LIVING COMMUNITIES KEEPS GROWING *The Key: Strategic Planning And A Phased Development Approach*

On January 30, **Christian Living Communities (CLC)** in Greenwood Village, Colorado, celebrated the grand opening of **The Suites at Holly Creek**, the Phase II expansion of its **Holly Creek Community** in nearby Centennial. Within two weeks, CLC approached the investment community with \$30 million in tax-exempt bonds for Phase II of the revitalization of its **Clermont Park** facility. How is CLC managing its aggressive forward motion in these tough economic times? The organization adopted an effective long-term strategic plan five

years ago, which it revisits and renews each year, and has implemented a phased approach to some of its major development projects.

Back in 2004, the first iteration of CLC's five-year strategic plan comprised seven action items. Upon review each year since, new priorities have replaced items that have been completed or have changed. Priorities in the current plan include: 1) revitalize Clermont Park, its affordable community formerly called **University**
...continued on page 9

CLC, continued from page 1...

Hills; 2) leverage information technology and client technology to optimize mission delivery; 3) create a new “green field” community; 4) expand and innovate home-care services in response to market demand; 5) reposition the health-care-heavy **Johnson Center** as a CCRC by increasing the number of independent living units; 6) endeavor to become an employer of choice (which has just replaced the “complete the Holly Creek Phase II expansion” item); and 7) grow fundraising efforts.

“The Clermont Park project is ongoing,” said Russ DenBraber, CLC’s President & CEO. “It was action item #1 at the inception of our five-year plan in 2004 and continues to be action item #1 today. It is scheduled to be complete in 2011. We continue to evaluate options for a new ‘green-field’ community and may want to do that sometime in the next five years but probably not this year. And that decision actually has less to do with the economy than with how full our plate is in the short term.”

Moving along at Holly Creek

While January marked the grand opening of The Suites at Holly Creek—a health-care center with 28 assisted living, 12 memory support, and 24 skilled nursing units that comprised part of Phase II of the Holly Creek Community expansion—residential move-ins associated with the Phase II project actually began last summer. “We opened on August 1 with 84 new independent living units,” explained DenBraber, “and filled 53 of those units in the first two months.”

The fill-up chart that accompanied the feasibility study that supports the bonds for that project called for 18 move-ins by the end of September, then three per month after that. So even though move-ins have slowed down to one or two per month as people struggle to sell their homes, Holly Creek is significantly ahead of projection. “We still have 18 depositors who are actively trying to sell their homes so they can move into the few empty apartments still available at Holly Creek,” DenBraber reported happily, “and the health center is filling quite rapidly.”

“We continue to work with prospective residents,” he continued, “and are willing to take some extraordinary measures to help them move in. For example, we’ve taken a couple of six-month promissory notes in lieu of the entry fee. People often have the resources to pay the entry fee without selling their home but would prefer not to cash out a portion of their portfolio. This plan allows them to move

in and start experiencing the community; but if the house still hasn’t sold in six months, then they need to cash in some assets.”

Holly Creek’s resort-style community now contains 262 apartment homes. (Phase I of the development created 114 independent living apartments.) The community operated without on-site assisted living or skilled nursing while construction was underway from 2005 through November 2008, with residents either leveraging home-care services to remain in their residential apartments or relocating to one of CLC’s other communities if they needed those services.

Clermont Park’s phased approach

The phased approach to the Clermont Park revitalization was devised in consultation with **Greystone Communities**. After determining that its original (1972) nursing home building was seriously outdated and needed to be replaced, CLC searched for years for a new site on which to build a whole new CCRC, relocate its health-care services into a brand-new building, and then tear down the original nursing home and replace it with a satellite campus of additional affordable housing. After several attempts to secure a new site reached a dead end, Greystone was hired to come up with a development plan to renovate the original community within its existing lot lines while allowing health-care operations to continue. The result was a three-phased plan.

“First, we had to create vacant units and start moving people around,” said DenBraber. “While that sounds simple, it’s very difficult to accomplish. Basically, that’s how we spent the whole first year.” Vacant units were created by not accepting any new residents during that year in order to free up the 32 empty apartments located on the second floor of the five-story community building.

“When we got to the point where we had 32 empty apartments,” he added, “only 18 were on the second floor. We told the remaining residents on that floor that they would have to move to another apartment on a different floor of the same building by January/February 2008.” To make it more palatable, the apartments to which those residents would be relocated were significantly renovated and upgraded—to the tune of about \$18,000 per apartment. An effort was made to place the residents in apartments with the same view and the same hours of sunlight to which they were accustomed. The second floor was then gutted and revitalized as new assisted living units.

“On March 2, we will move people who are currently in our existing assisted living facility into this newly created one,” DenBraber said. That will comprise 32 assisted living and memory support apartments.

“Then we will move about half of the people out of the nursing home and into the existing assisted living facility,” he continued. “By the second week of March, we intend to issue notice to proceed to the contractor to start the next phase, which involves tearing down half of the nursing home and replacing it with a brand-new, two-story, architecturally appropriate, residential-style skilled nursing building.” The \$30 million bond offering that CLC took to market early this month will support this second phase of the project.

The final phase will move the people in the part of the old nursing home that wasn’t torn down in the second phase, along with those temporarily residing in the old assisted living building, into the brand-new nursing home. Then, the remaining structures on that side of the campus (including the remaining half of the old nursing home) will be demolished and replaced by an additional 71 apartments of residential living apartments.

DenBraber admits that taking a phased approach didn’t necessarily result in cost savings. Rather, it was driven by CLC’s desire to continue to offer health care on the site during the construction period. “From a mission standpoint, we feel that we are contributing an important service to the community,” he said. “We also feel a lot of loyalty to our staff. If we had gone out of the nursing home business on the site for a period of two or three years, we would have disconnected both our mission and our staff.”

In the interim, Clermont Park will operate at a slightly reduced census — 72 skilled nursing beds instead of 94 — but the plan was very carefully crafted to take care of the current independent living and assisted living residents as their needs change, as well as to move in new people directly from the community.

In addition, the opening of the new Suites at Holly Creek health-care center overlaid the renovations at Clermont Park, so staff members weren’t affected in terms of losing their employment. Actually, when the whole plan was announced in May 2007, DenBraber made a commitment to the staff that no one would lose a job simply because of the renovation project or a change in inventory. “And we’ve made good on that promise,” he said.

Facing the capital markets

CLC undertook some very intensive financial modeling starting in mid-2006, when the Clermont Park revitalization plan was identified, to show that the project was both mission-compatible and financially feasible. That activity was not beyond what the organization has historically done, but CLC was “a sort of agglomerate of several 501c(3) organizations,” according to DenBraber. In late 2006, those separate organizations were merged into an obligated group so that the healthy financial position of the Johnson Center and the filled-up Phase I portion of Holly Creek could be leveraged against the reduced census at Clermont Park.

“On a stand-alone basis, there was no way that Clermont Park could afford to take on \$60 million in debt—the total price tag for the three phases of that community’s revitalization project—over the course of four or five years,” DenBraber said. “With the strength of its various parts, however, the organization as a whole could do that. We offer that financial strength to bondholders as collateral and combine all the operating results for the covenant tests against days cash on hand, debt service coverage, cash to debt, etc.”

For this month’s \$30 million tax-exempt bond issue, as structured by **Ziegler Capital Markets**, CLC anticipates a significantly higher interest rate than historic levels. The intention is to look for a relatively short call feature on the bonds, so they can be refunded in the not-too-distant future — perhaps within a three- to-five-year window — and then refinanced at a more historic interest rate.

Despite the difficult economy and tight capital markets, DenBraber can feel confident (and does) that the bond offering will proceed smoothly. “CLC is a good organization with multiple projects and experienced leadership,” according to its banker, “and our investor community knows them.” Having those attributes is absolutely key when approaching the market at this point in time. □

FREE ADDITIONAL COPIES OF *SENIOR LIVING BUSINESS*

Paid subscribers may request additional copies of *Senior Living Business* for staff or board members at no extra charge. To sign up, please call Karen Pujol at (800) 248-1668 or e-mail your request to customerservice@levinassociates.com.