

Buyouts Spur Wave of New Ventures, Opportunities

By Jane Adler

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Fortunate to have sold their seniors housing companies at the top of the market, some industry executives aren't ready to retire just yet. In some cases they are starting new ventures, positioning themselves to capitalize on the next big round of corporate buyouts — whenever that may occur.

"Seniors housing has been on a tear," notes Bruce Gibson, a broker at CB Richard Ellis in Miami. The recent M&A activity, he says, has left behind a crop of hands-on entrepreneurs looking for opportunities.

Take, for example, David Freshwater. In 2005, he sold his company, the Fountains, for \$500 million to Sunrise Senior Living (NYSE: SRZ) in McLean, Va. "The timing was right," says Freshwater. Most of the profits went to majority shareholder George B. Kaiser, a billionaire investor, who urged the sale. But Freshwater walked away with enough to start his own venture, investing about \$6 million to establish the Freshwater Group.

"I didn't feel like I was finished yet," recalls Freshwater, from his office in Tucson. "I still want to fulfill my vision to create the best retirement community option out there."

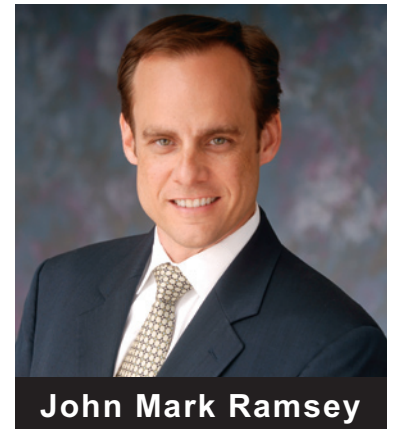
To make that happen, Freshwater has two equity sources: BayNorth Capital Partners, of Boston, and Freemont Realty Capital, of San Francisco. Freshwater and his backers have completed four deals so far.

The focus is to reposition underperforming properties. For example, a \$45 million renovation and expansion is under way at the Watermark at 3030 Park, a community in Connecticut's Fairfield County.

The expansion features a performing arts auditorium, and a well-being center with a fitness facility. Two new dining venues are also being added along with a new rehab and nursing center. Unleveraged returns are expected in the 14% to 15% range.

Freshwater also plans to launch a new chain of assisted living and dementia care buildings based loosely on the prototype developed by Dr. William Thomas, a renowned advocate for change in long-term care facilities.

Freshwater describes himself as both an operator and an investor, and he only invests in ventures in which he has some control over management. His



John Mark Ramsey

buildings are run by Watermark Properties, headed by Freshwater's brother-in-law, David Barnes. "We're tied at the hip," notes Freshwater.

By the time Wall Street makes its next push into seniors housing, sometime around 2015 by Freshwater's estimate, he'll have a portfolio of high-quality assets. "That's when we plan to exit."

Another new start-up is Servant Healthcare Investments, led by John Mark Ramsey, an entrepreneur with an operations background. He was a key executive at CNL Retirement Properties when it was sold in October 2006 for \$5.3 billion to HealthCare Property Investors.

Last May, Ramsey, along with several other former CNL executives, opened Orlando-based Servant Healthcare. It invests in seniors housing, along with medical office facilities. The firm's capital partner is Servant Investments, a private equity firm that had been seeking a healthcare platform.

"I never considered another industry," says Ramsey. "We saw great opportunities." On the development side, Ramsey expects total returns over three to seven years in the 18% to 22% range. For stabilized properties, targeted returns are 10% to 17%. Before CNL, Ramsey co-founded Superior Residences, an owner and operator of assisted living and Alzheimer's care buildings. "We approach the business from an operator's perspective," says Ramsey. "The commodity we trade is real estate, but the underlying business is (resident) care."

That orientation appears to be opening doors. "The reception from potential clients has been overwhelming — more than we anticipated," says Ramsey.

Already, Servant has committed \$140 million to deals. The first one, a small acquisition, should close by early January. Ramsey won't give any particulars, but he says the remainder of the transactions focus on new developments.

Besides having a strong knowledge of operations, Ramsey says his new firm has the flexibility to structure the types of deals that cause big institutional investors to shy away.

Servant also will provide capital to cover any shortfall in reserves until building occupancy is stabilized. "Our capital is geared toward opportunistic returns."