Not So Golden Years

Top tier senior housing adapts to troubled times.

By **David C. Longinotti**

Versailles in San Mateo

Traditionally, the Bay Area has been fertile ground for development and operation of high-quality senior-care communities. The region's robust economy has created a revolving pool of wealthy retiring workers who are potential residents of these communities. Proceeds from the sale of their appreciated homes have provided exactly the sort of capital needed to pay the price of admission, which can range from the $500,000's to more than $2 million a unit.

Plummeting property values have changed this equation, decreasing the pool of potential residents. Credit for new project construction and ongoing business operations is also a tremendous hurdle. But Bay Area developers and owners are responding to the challenge in a number of innovative ways.

In Foster City, Pacific Retirement Services, a nonprofit developer out of Medford, Ore., plans to develop a continuing care retirement community, or CCRC, within walking distance of City Hall. CCRCs are unique communities that sell condominiums, cooperative interests or lifelong occupancy rights to residents together with a commitment to provide continuing care for the length of their lives.

The $250 million project, known as Mirabella at San Francisco Bay, would be built on land leased from Foster City's Redevelopment Agency and is proposed to include approximately 350 independent living units, 36 assisted living units, 20 memory support units and 24 skilled nursing beds, as well as a mall, an affordable housing component and a 1.3-acre public plaza. City assistance for the undertaking, besides a long-term ground lease, is proposed to include more than $5 million for affordable housing and other incentives.

For Brian McLemore, vice president of PRS, much has changed since Foster City officials and PRS inked a term sheet for the project in December 2007.

"At PRS, we are taking step-by-step precautions in planning to assure the project we entitle is financially feasible given today's capital markets," McLemore said.

The city gave PRS additional time under an exclusive negotiating agreement, which has helped, he said. At the same time, knowing that it needs to reduce the units' ultimate price points, and that its financing costs are going to be higher than originally projected, PRS has gone back to its general contractor to try to make up some of the difference. The company is trying to identify ways to reduce construction costs, including a rethinking of the building types and construction materials.

PRS also is changing its approach to project financing. In the past, the company was able to issue variable-rate bonds with letter-of-credit enhancements for other Mirabella projects in Seattle and Portland, he said. But many of the banks that provided letters of credit are no longer in the business. Consequently, the developer is evaluating alternatives offered by lenders that have not traditionally done this kind of financing. They also are looking to the state of California as a potential credit guarantor.

In San Mateo, the 61-unit luxury condominium project known as the Versailles offers service-enhanced condominiums to adults 55 years and older. A five-star independent living project, the Versailles offers gourmet dining, weekly housekeeping and linen service, concierge service and move-in assistance as part of its amenities package. Unfortunately, construction of the project completed just as the housing market fell out. Undeterred, developer Bill Baner has extended his construction-loan financing and turned to the task of finding creative ways to sell out his project. "Right now, most potential buyers are sitting on the sidelines, so our challenge, like most other real estate developers', is to ignite buyer interest," Baner said. "Our community is hotel-grade quality, so we are using that strength to our advantage. We are also auctioning a limited number of units as a way to generate walk-in interest."

At the auction Baner intended to start bidding at a 40 percent discount from the original asking prices, which ranged from the high $600,000s to $2.25 million.

As might be expected, some well-appointed Bay Area CCRC's located in historically wealthy communities are feeling less impact from the current state of the economy and are in some instances thriving despite it. Classic Residence by Hyatt in Palo Alto, a 388-unit CCRC located next to Stanford University, opened to great acclaim in 2005 and is at or near full occupancy. In Marin County, Villa Marin, a 224-unit condominium CCRC remains a favorite choice of North Bay retirees and is also close to full occupancy.

Other communities are less than fully occupied for a variety of reasons, ranging from the price of buy-in, to the location of the community, to the amenities offered as compared to others. These communities face a variation of the same issue as the Versailles: How to overcome buyer hesitancy to maintain occupancy rates as residents depart. The problem is exacerbated by the fact that potential buyers are unable to sell their existing homes to fund their purchase. The solutions that are adopted include investing in common-area improvements, upgrading interiors and modifying occupancy terms and conditions in favor of residents. Communities also are accepting promissory notes at attractive rates for entrance fee payments that are secured by the existing homes of potential buyers, in essence providing a bridge loan to buyers to induce them to move in.

Despite the challenges posed by current economic conditions, the future of high-quality senior care communities in the Bay Area is bright. With the current age of the oldest baby boomer at only 64, and the Bay Area showing no signs of relinquishing its place as a region of business innovation and wealth creation, the long-term demographics are squarely in the developer's corner. The trick will be surviving this less-than-golden-age of our national economy. ■

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Contributors

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Manuel Fishman is a real estate lawyer and partner at the California-based law firm Buchalter Nemer, and he practices in their San Francisco office. His work focuses on representing real estate developers, owners and secured lenders in the acquisition, sale, leasing and financing of commercial properties. In addition, Fishman has an active practice in telecommunications and renewable/solar-energy rooftop and larger-scale installations. He is a board member and executive committee member of the California Building Owners and Managers Association and has been recognized as one of Bay Area Magazine's "Top Lawyers in the Bay Area." Fishman earned his law degree from Santa Clara University School of Law in 1982, graduating with highest honors. He holds a bachelor's degree from the State University of New York, College at Purchase.

Rob La Eace

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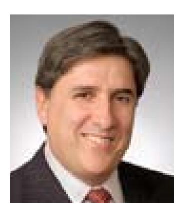
Responding to emergencies as a firefighter in a variety of uncertain situations and diverse neighborhoods taught Rob La Eace a lot about how people should be treated, not only during a crisis, but also in everyday problems. Today, these same skills are an asset to those who work with this San Francisco native in his career as a broker associate with McGuire Real Estate. The tools he puts to work as a firefighter are what makes the difference to the clients Rob works with as an agent. While it may help that Rob is the type of guy with a warm smile and a friendly attitude, his professionalism, organization and drive to succeed are what make him stand out in his career. Working in his fifth year in the industry, Rob is in touch with his clients' needs and with the city–putting a local's perspective to work.



David C. Longinotti

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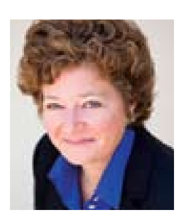
David C. Longinotti heads Hanson Bridgett LLP's Real Estate Practice Group. Longinotti offers particular expertise in complex real estate secured transactions and related debt and equity financing arrangements. He is also a LEED accredited professional who offers green building legal services to owners and developers in the areas of LEED project certification and related contract documentation, green building law compliance, and green leasing. Longinotti's recent credits include the sale lease back of a portfolio of over thirty senior care facilities, the consolidation of fourteen real estate investment partnerships and the reorganization of two divisions of a publicly traded company.



Lisa Zimmerman

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Lisa Zimmerman is founding principal at 7Story, a new San Francisco-based design and consulting firm that makes public spaces inspiring and engaging through story, art and experiential design. Understanding that relevant, meaningful engagement is vital to the success of all spaces—from corporate lobbies to public parks to transit stations—the firm develops a deep understanding of the stories, themes and images important to the users/community of a particular space and translates those elements into site-specific art, multimedia, exhibit and other engagement projects. 7Story works closely with architects, planners, building owners, public agencies and community organizations. Previous to founding 7Story, Zimmerman was marketing director for architecture innovator MK-Think and a marketing/communications consultant for 15 years specializing in public engagement. Clients included UCSF, San Francisco Unified School District, Marin County Free Library, Goodwill Industries and the Bay Area Discovery Museum.