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Ventas' Climb to Top  
of Seniors Housing,  
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# Winning Streak

## Debra Cafaro Leads Ventas' Climb to Top Of Seniors Housing, Healthcare REITs

By Paul Rosta

**W**hen Ventas Inc. chairman & CEO Debra Cafaro isn't busy running the most powerful seniors housing and healthcare REIT in the business, she is an enthusiastic sports fan. Given her love of competition, it is fitting that Ventas has piled up a stack of Hall of Fame-caliber statistics under her leadership. During the past decade, Ventas sported the best record of any publicly traded financial company in the United States, rewarding its shareholders with returns of more than 2,000 percent, according to a 2009 analysis by Morningstar Inc. and REIT Zone Publications L.L.C. Cafaro's strategy for much of that period has emphasized the acquisition of operating companies in seniors housing and medical office buildings.

Over the past seven years, Cafaro has pulled off seven major acquisitions, including three blockbusters valued at \$10 billion since July 2010. Those deals have brought the company's holdings to more than 1,300 seniors housing, skilled nursing and medical office assets in 47 states and two Canadian provinces.

Cafaro's feats in rescuing the company from extinction and then transforming it into a nearly \$23 billion enterprise rank among the most impressive in recent REIT history. "She's done an absolutely remarkable job," noted David Neithercut, president & CEO of Equity Residential and a longtime friend. Colleagues credit Cafaro with single-handedly leading the trend toward consolidation in healthcare real estate in recent years. In an indication of Cafaro's standing among her peers, she was tapped to serve as 2010 chairman of the National Association of Real Estate Investment Trusts, barely a decade after making a mid-career switch from law to real estate.

As the chief architect of Ventas' improbable surge, Cafaro is described by colleagues as bringing together an unusual combination of qualities: inexhaustible reserves of energy, mastery of detail, hard-nosed bargaining skills and an engaging, down-to-earth manner. "What I can't emphasize enough is the abundance of energy that she brings to all her activities," said Steven Weschler, NAREIT's president & CEO. "Debbie is an incredibly energetic, tough-minded, warm, engaging individual." Colleagues say that Cafaro demands a great deal of those who work for her and rewards good performance in equal measure. In addition, she has a knack for inspiring loyalty; the company's senior leadership has remained intact for the better part of a decade.

Cafaro describes Ventas as a kind of hybrid—part real estate, part finance and part seniors housing. Although Ventas is a prolific owner, its focus is investment rather than operations. "You can almost think of it as being a



private-equity investor in a public format,” she explained. Cafaro said she has striven to mix a conservative approach to the company’s balance sheet and an opportunistic approach to the market.

The first of the three most recent transactions to close emerged from a strategy to take advantage of the growth trajectory in the medical office building market, which Cafaro notes is on track to grow 30 percent over the next decade. In July 2010, Ventas completed the acquisition of Lillibridge Healthcare Services Inc., an operator with more than 25 years of experience. The deal expanded its medical office portfolio from 59 properties to 154.

Seniors housing is another happy hunting ground for investors, as Baby Boomers drive demand over the next couple of decades. Ventas’ \$3.1 billion acquisition of Atria Senior Living Group, the fourth-largest operator of assisted living facilities in the United States, added 118 properties to its portfolio. A high-growth, high-quality portfolio and strong management team made Atria a particularly attractive addition, Cafaro explained. Ventas projects that Atria will deliver in the neighborhood of \$186 million to \$196 million in net operating income annually. The properties will be managed by Atria Senior Living Inc., a new affiliate spun off from the property ownership business. Another plus: Atria’s revenue stream is derived from private consumer demand rather than from government reimbursement.

Though the impact of demographic trends appears to be inevitable, the future shape of the healthcare system itself is very much open to question. Reform legislation enacted by Congress last year remains a subject of uncertainty and even debate. Yet Cafaro is confident that the elements of the reform package are a net plus for healthcare real estate. “Healthcare reform will bring 32 million people in a more regular way,” she pointed out. “We think that increased demand will also benefit the medical office building business.”

During the past decade, Ventas has pursued a strategy that should stand it in good stead even if federal government reimbursement policy shows some ups and downs. Through a steady diversification of its portfolio, an estimated 70 percent of the company’s net operating income now flows from private sources rather than from the government.

As Ventas prepares for whatever changes Washington brings to healthcare, it seems clear that the company is far from done seeking out opportunities to expand. Cafaro contends that the circumstances are welcoming. She cites estimates that a scant 8 percent of the \$1 trillion healthcare and seniors housing sector is controlled by public companies. By contrast, public REITs own about 65 percent of the retail mall market.

To the process of acquiring healthcare real estate companies, Cafaro brings more than a decade of experience as a CEO combined with a 15-year legal career that offered an intimate knowledge of the legal nuances of mergers (see “A New Path” on opposite page). Colleagues cite her mastery of financial issues. “She knows the numbers cold. She gets it,” said Eric Gordon, a vice president with Waud Capital Partners L.L.C., a Chicago-based investment management firm. Gordon, who served as the firm’s manager of real estate investments from 2002 to 2006, got an

inside view of Cafaro’s abilities while handling analysis, due diligence and execution on several early mergers. “To go to a \$200 million REIT and say, ‘Let’s try to make a deal’ requires strategic thinking and the ability to execute,” Gordon explained.

Yet even after building up this track record, Cafaro insists that there is nothing routine about acquiring another company. “I think people really do not realize how difficult it is to get some of these transactions done,” she said.

Each of Ventas’ three most recently acquired companies brought unique challenges. For the \$381 million Lillibridge acquisition, the main challenge was the blending of a closely held, 25-year-old company with a public REIT. Successfully integrating the companies demanded a balance between preserving the qualities that made Lillibridge successful and uniting it with a publicly traded parent company, subjecting it to the scrutiny of the public markets.

By contrast, Ventas’ \$7.6 billion purchase of Nationwide Healthcare Properties was a public-to-public deal. NHP will add considerably to Ventas’ scale and diversification, expanding its holdings by more than 660 seniors housing, skilled nursing and medical office properties. Cafaro expects that the additional scale lent by NHP will provide another plus by boosting Ventas’ credit curve, thus driving down financing costs.

Cafaro’s account, however, underscores that the NHP deal was no less challenging than the Lillibridge acquisition. “Especially in a public-to-public merger, the stars really have to be aligned to get a deal done,” she noted. To begin with, she points to the deal’s lengthy gestation period. Cafaro and her top lieutenants spent about eight years becoming familiar with NHP and developing good relations with its leadership. Market conditions also had to favor the union, and Ventas and NHP principals had to strike the notoriously difficult balance of pricing the transaction so that NHP shareholders of the target company were confident that they would receive a premium for their stock while Ventas shareholders viewed the sale as accretive.

## Opening Doors

In 1997, Cafaro’s aptitude for handling difficult and complex legal cases led to an invitation to serve as president of Ambassador Apartments Inc., a Chicago-based REIT. No sooner did Cafaro step into her new role than she had to grapple with defaults on credit agreements, overstated earnings and other issues. Those challenges notwithstanding, it took less than a year for her to orchestrate the \$682 million sale of the company’s 52-property portfolio to Apartment Investment and Management Co. That brief tour of duty opened the door to the executive suite. As it turned out, the business challenge of a lifetime was waiting just around the corner.

In 1999, Cafaro was approached by Douglas Crocker, then CEO of Equity Residential Properties, about another executive opportunity in the residential real estate sector. Crocker, who was also on the board of a struggling assisted-living operating company called Ventas, asked Cafaro to consider becoming the company’s CEO. At the time, the company faced a perfect storm



## A New Path

Although Ventas Inc. CEO Debra Cafaro's place among leading REIT executives appears inevitable in retrospect, it actually stems from an unexpected mid-career change. From her youth, Cafaro's intended path was law rather than the executive suite. After earning a bachelor's degree in government from the University of Notre Dame and attending law school at the University of Chicago, she clerked for U.S. Court of Appeals Judge J. Dickson Phillips in 1982-83. She then spent more than a decade building a reputation for handling knotty corporate and financial transactions for blue-chip clients.

"I was a very happy practicing lawyer and had clients that I loved and enjoyed working with," she recalled. From 1988-92, she taught real estate transactions and finance as an adjunct professor at Northwestern University Law School.

In retrospect, there was at least one intriguing hint of Cafaro's future career direction. As a partner in the Chicago office of Barack Ferrazzano Kirschbaum Perlman & Nagelberg, Cafaro regularly worked with commercial real estate clients. During the mid-1990s, she advised Equity Residential on a bond sale. Her work on the difficult deal impressed Equity Residential's then-CFO, David Neithercut, who is now the company's CEO.

The turning point came in 1997, when she was approached to take the president's job at Ambassador Apartments Inc., a Chicago-based REIT. Despite Cafaro's reputation in financial and real estate circles, the offer came "really quite out of the blue," she recalled. While weighing the decision to leave her successful legal career for a move into uncharted territory, she received encouragement from confidantes like Neithercut that she calls "my consiglieri."

Given her focus, drive, thoughtfulness and strategic acumen, Neithercut noted, "She had the ability to make the transition from the legal side to the executive side."

of problems. The U.S. Department of Justice was seeking \$1 billion in Medicare fraud claims. A separate category of claims stemmed from a step taken by the company before Cafaro joined. In 1998, Ventas took the name and corporate structure of Vencor, its predecessor. The newly renamed company then spun off its operating functions into a new unit, which was branded with the old Vencor name and became Ventas' sole tenant.

Creditors claimed, however, that the spinoff amounted to a fraudulent transfer that Ventas was using as a means to avoid payment. By the time Cafaro came on board, in March 1999, the newly spun-off Vencor was close to bankruptcy, and the unit wound up filing for bankruptcy protection that September. On top of that, Cafaro also had to address the looming October 1999 maturity of a \$1 billion unsecured bank loan. As Neithercut summed it up: "They were under extreme duress."

Nevertheless, Cafaro found the challenge to be compelling, and took the job. At the outset, the assumption was that the exit strategy would ultimately involve selling the company. She started by systematically working to get the company onto more solid footing. The first steps, taken in 2000, included adopting REIT status and securing \$1 billion in debt financing. The following year, Cafaro restructured the company's debt and oversaw the restructuring of Vencor, which was recapitalized and rebranded Kindred Healthcare. Those first few years required every bit of Cafaro's dogged determination. "Our fight for our shareholders was us versus everybody else," she recalled. "It was our little band of Marines that had to fight off all those challenges and preserve equity value for our shareholders."

Over the next several years, the strategy shifted from rescue to recovery. Cafaro assembled an executive management team, completed the first stock offering and began to carry out the strategic plan. By 2003, strategic asset sales strengthened the quality of the company's portfolio and provided capital for future growth. Ventas' streak of acquisitions started in 2004 with the \$184 million deal for Wilmington, Del.-based ElderTrust, which added 18 healthcare and senior living assets to the portfolio, and the separate purchase of 15 independent and assisted living facilities leased to Brookdale Senior Living Inc. That proved to be the warm-up for Ventas' first large-scale deal: the \$1.2 billion merger with Provident Senior Living Trust in 2005. By mid-decade, dividends were tallying annual double-digit increases: 13 percent in 2003, 21 percent in 2004 and 11 percent in 2005.

During these early years, well before Ventas achieved its current scale, Cafaro sought to demonstrate that the company's market knowledge and professionalism were on a par with those of much larger companies. "We'd sit for hours before each earnings call, anticipating questions, deciding who would answer what questions, going over data.," Gordon recalled. He summed up Cafaro's reasoning: "If you can provide analysts with confidence that you know what you're doing, you'll get a premium for your shareholders."

Sure enough, Wall Street started to take notice. In 2006, Fitch Ratings gave the company's corporate credit an investment-grade rating for the first time. On the acquisition front, Ventas acquired a 67-asset, 16-state portfolio of senior living facilities from the Reichmann family of Canada. Those properties are leased to operator Senior Care Inc.

## The Next Level

For Ventas, 2007 was a watershed year. The company wrapped its largest merger to date: a \$2 billion acquisition of Sunrise Senior Living REIT that Cafaro describes as "transformational." The Toronto-based company added 79 high-quality properties to the portfolio. It provided diversification and marked a departure from earlier acquisitions:

Previously acquired companies supplied revenue streams in the form of fixed triple-net leases with a corporate tenant. By contrast, Sunrise's revenue comes through direct payments from some 7,000 residents. As a result, Ventas was able to reflect revenue from Sunrise directly on its balance sheet—a seemingly subtle difference that greatly boosted the company's clout in the capital markets.

As is true of most large mergers, some headaches accompanied the Sunrise acquisition. Ventas has successfully argued in federal court that a competing bid by HCP Inc. violated the ground rules of the auction for Sunrise and drove up the cost of the merger through fraudulent and misleading statements. The courts have affirmed an award of \$100 million in compensatory damages, and a follow-up jury trial over punitive damages is scheduled to begin in February 2012.

Seeing the steady deterioration of the capital markets, after the Sunrise acquisition closed, Cafaro swiftly launched the biggest follow-on equity offering ever undertaken by a REIT. That effort raised \$1.1 billion, and proceeds were used to replace short-term debt from the Sunrise acquisition. The company also sold assets owned by Kindred Healthcare, and used those proceeds to fund the balance of its acquisitions that year, including a \$150 million investment in medical office buildings.

Like most REIT executives, Cafaro responded to the 2008 economic slump by limiting acquisitions to \$300 million and strengthening Ventas' balance sheet. Among other measures, the company sold \$132 million worth of assets, raised \$400 million in equity to repay debt, expanded its revolving credit line from \$650 million to \$800 million, and repurchased \$176 million in corporate bonds at a discount. These steps led Standard & Poor's to rate the company's corporate bonds "investment grade."



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—Debra Cafaro

The strategy continued into 2009 as the capital markets struggled to right themselves. That year, the company raised \$312 million in equity, \$173 million in mortgage debt and \$169 million in debt capital from the public markets. Ventas took advantage of favorable interest rates to repurchase or retire \$521 million in debt. That trimmed its debt load to 28 percent of enterprise value, best among equity REITs. Ventas attained a pair of other milestones in 2009, making its first appearance on the S&P 500, as well as earning recognition as the top-performing financial company of the decade.

Cafaro's success at Ventas has made her sought after outside of real estate. Since 2007, she has served on the board of Weyerhaeuser Co., for which she chairs the finance and compensation committees. "She's a terrific board member," said company chairman Chuck Williamson. "She has a penchant for the numbers." Cafaro advised Weyerhaeuser on making the transition to REIT status, which the company elected to pursue and which became effective on Jan. 1 of this year. "She convinced a lot of us that REITs can grow," Williamson explained.

Besides Cafaro's authoritative knowledge of the real estate capital markets, she also brings a team-first approach to her board work. Though she had no direct prior experience in the forest products business, she worked hard to learn the industry. "Despite how energetic and quick she is, she's very respectful of management and other members of the board," Williamson explained. "It would be easy to be short when you have a lot on your plate, but she listens very well."

After years of watching Cafaro take on apparently intractable situations and turn them into unlikely wins, some colleagues suggest that her ability to lead a balanced life is no small factor in her success. "She enjoys life, despite all the stress of being a CEO," Williamson said. "She talks about her family a lot; she takes vacations."

For a while, Ventas' run of acquisitions limited the opportunities for reading, a favorite pastime, but Cafaro reports that she is finding a bit more time to hit the books. One recent favorite is *The Greater Journey*, an account by the historian David McCullough of American artists', writers' and scientists' sojourns in Paris. As compelling as it has been so far, Cafaro's own journey undoubtedly has some eventful stops ahead.

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