

# SAGEWOOD HISTORY

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The Early Years: Facts & People

History Committee

10/1/2012

## Prologue

I remember when she asked me to go with her to visit Grandma again. Reluctantly, I agreed. But it hadn't changed. The nursing home looked more like a hospital, with a ward full of beds, and no privacy. And the ever-present odor of the aging. We didn't have much room to sit and visit. I hope Grandma was comfortable. I don't like to remember those visits.

Anon.

It's not like that anymore! The Sagewood story begins.

## **Sagewood - How It All Started**

In the 1970's, several women in Tempe AZ were interested in developing a retirement community. They contacted Life Care Services<sup>1</sup>, and ultimately Friendship Village in Tempe was opened in 1980. Life Care Services also was involved in the development and opening of Sierra Winds in Peoria AZ in 1989. Having a presence in the Valley of the Sun, the Marketing Research department of Life Care Services continued to monitor the demographics of the area.

In the 1980's, Mayo Clinic was looking to expand to the Southwest. Dr. Richard Hill (then Vice Chairman of the Board of Mayo Clinic, and now a Sagewood resident) directed the development of the Mayo Clinic on Shea Boulevard in Scottsdale, which opened in 1987. In the fall of 1998, Mayo opened the Mayo Clinic Hospital – Phoenix. Back at Mayo's Rochester MN headquarters, many staff members had family members or friends who retired to Charter House, a retirement facility operated by Mayo. Staff members, both in Rochester and in Phoenix, expressed interest in developing a retirement facility in the Phoenix area.

When the Classic Residence by Hyatt at Grayhawk (now Vi) opened in 1999, it caught the attention of the Marketing Research arm of Life Care Services. They analyzed the demographic data as to age and income/wealth of the northeast Phoenix/Scottsdale area and determined that this area would be a good place to develop a community. By this time, Life Care Services also was aware of the recently completed Mayo Clinic Hospital.

These various paths began to merge into a common interest. Dick Edwards, the executive director of Mayo's Charter House, was aware of the strong reputation of Life Care Services. In August, 2004, several top officers of Life Care Services (Ed Kenny, Joel Nelson, Kent Larson) traveled to Rochester for a get-acquainted meeting with Mayo's Bob Fleming (Chief Administrative Officer, and now a Sagewood resident) and Dick Edwards. There was a second meeting in Des Moines in July, 2005. These meetings were the genesis of the relationship between Sagewood and Mayo Clinic.

## **Acquiring the Land**

The parcel of land on which Sagewood now sits, part of the Desert Ridge Master Planned Community in Phoenix, was owned by the Arizona State Land Trust. When Arizona became a territory and later a state, parcels of land were granted to the state for the purpose of supporting schools. These lands are administered by the State Land Trust.

On October 16, 2001 the Scottsdale Bible Church filed an application with the Arizona State Land Trust to put this particular parcel of land up for auction. This applicant had to underwrite certain costs (reimbursable, if not the successful bidder) to prepare the appropriate documentation for the bidding process.

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<sup>1</sup> See Appendix A for a description of Life Care Services.

On September 3, 2004, the State Land Commission approved placing the land at auction. An Order to Authorize Sale was issued on December 29, 2004. The land, comprising 104.16 acres located southwest of the intersection of Tatum and Mayo Boulevards, had been appraised at \$35,000,000, which was to be the minimum bid. The auction was scheduled for April 21, 2005, but for some reason was continued to a later date.

The land auction was held on May 11, 2005. Life Care Services LLC was represented by Kent Larson accompanied by Chaz Smith, a real estate broker from NAI Horizon. The only other bidder registered for this parcel was Erickson Retirement Communities. Life Care Services was the successful bidder at a bid price of \$38,200,000, surpassing the other bidder by \$100,000. Various fees raised the price total to \$39,109,448.49. When land is sold by the State, title is transferred by the issuance of a Patent. The Patent Number for the Sagewood land is #53-106980.

Life Care Services immediately paid the fees and \$9,550,000 of the principal amount of the bid, leaving a balance of \$28,650,000. They then exercised the option to pay down this amount amortized over 25 years with quarterly payments, and interest related to LIBOR plus an increment. The remaining unpaid balance would become due in 7 years (May 11, 2012).

As Life Care Services began to organize itself to develop a retirement community, it joined with the Westminster Funds<sup>2</sup> to form a partnership called LCS Westminster Partnership IV LLP. The land acquired at auction was transferred to various associated entities:

June 8, 2005 – land transferred to Westminster Fund VI LP.

February 23, 2006 – Westminster Fund VI LP transferred the land to

LCS-Westminster IV LLP, which held the land in an entity called

Life care Services Desert Ridge Inc.

July 12, 2007 – LCS-Westminster Partnership IV LLP assigned the land to

Sagewood Land LLC

There was never any intent on the part of the developers to utilize the acreage closest to the Mayo/Tatum intersection because of the high traffic volume. After receiving calls from many interested parties, the developers sold the 22.42 acres (18.6 acres after road dedication) nearest that intersection to the Musical Instrument Museum in 2007 for \$14,400,000. State Land records show that the land was transferred on January 3, 2008.

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<sup>2</sup> See Appendix B for description of Westminster Funds.

## The Development Process

Having procured the land, Erik Gjullin of LCS Development (Des Moines) then set about the process of developing the project. A company familiar to LCS, the Weitz Company of Phoenix, Arizona, was engaged to provide construction services. Todd & Associates of Phoenix became the architect, and Studio Six5 of Austin, Texas was to provide the interior design.

In November 2005, a temporary office was opened on Scottsdale Road near Thunderbird Road and staffed by Residency Counselors Debbie Reynolds and Susie Stover. Early steps involved meeting with "focus groups" at a rented conference room near the temporary office to gauge interest, pricing, and apartment design. These participants were developed from a purchased mailing list targeting age and income. In light of the prior contact with Mayo Clinic management and the proximity to Mayo Clinic Hospital, some of the focus groups also were held at the hospital and involved Mayo staff.

In January 2006, Ellen Devine was hired as Marketing Director. To learn more about what the market would support, Ellen and the staff studied high-end homes, condominiums, and resorts to get a sense of quality and price points. By May 2006, the Marketing function had moved to the 20860 N. Tatum Boulevard office (Suite 260) just north of Loop 101. It included a Gila floor plan as a model. Marcia Wise was added as a Residency Counselor and Sue Holmes and Angela Turner were Marketing Assistants.

With help from the Zillner agency (skilled in marketing to seniors and often used by LCS), a 4-page questionnaire was mailed to a targeted list of potentially interested people. Thousands of the questionnaires were returned, and those that included the name of the respondent became the source of the initial Marketing effort.

Concurrent with the Marketing effort, other steps were being taken. At a meeting on November 16, 2005 the Phoenix City Council was asked to amend the Desert Ridge Specific Plan to allow 4-story buildings not to exceed 49 feet in height for the Sagewood parcel. (The previous limits were 3 stories and 40 feet.) This request was tabled, but on June 21, 2006 the Phoenix City Council did approve the zoning change.

During the summer of 2006, an "Application For Life Care Provider Permit" was being prepared for submission to the Department of Insurance for the State of Arizona. This application was submitted for approval on October 3, 2006. Until approved by the Department of Insurance, Sagewood was unable to take the "10% deposits" to reserve a residence. In the interim, beginning in June 2006, interested parties were asked to fill out a questionnaire which asked for the type and size of unit in which they had an interest, and to provide personal financial information. At the time, only nonspecific information was available as to the types, sizes, and pricing of residences. Those who made a deposit of \$1,000 were placed on a numbered "Priority List." The Priority List grew rapidly, reaching a peak of over 425 names by April 2007.

In June 2006 Stewart Ingram was hired as the first Executive Director of Sagewood. Mr. Ingram had started with Life Care Services after graduating from college. After 15 years, he left the

company to become the director of Classic Residence by Hyatt at Grayhawk in 1999, and then the Classic Residence in Palo Alto in 2004 before returning to Life Care Services at Sagewood.

Over the summer of 2006, the architectural design of Phase I of Sagewood was completed. Initially included were approximately 296 residences (240 apartment residences, 32 Villas, and 24 Casitas), as well as the Main Clubhouse, the HealthyLife Services Clubhouse, and the Health Center. The number of the various residences was modified over time; ultimately resulting in 238 apartments, 16 Villas, and 24 Casitas.

On November 22, 2006, approval of the Life Care Provider Permit was granted by the Arizona Department of Insurance. Thus Marketing was able to start working through the Priority List, sending certified letters to names in sequence. Calls were placed by the Marketing staff to schedule as many as 20 appointments per week with people on the List so that they could choose their specific residence and make a 10% deposit. This process took until May 2007, and as expected, many declined to move forward with a 10% deposit. Records show that 52 deposits had been taken by March 31, 2007, and the total was 90 by June 30. The following are people who ultimately moved into Sagewood and were either among the first ten on the Priority List or among the first ten who made 10% deposits, or both.

Dick & Barbara Hill	Jane Buffmire	Frank & Kathleen Nageotte
Dick Cleeremans & Sylvia Hadlock		Lauren & Vi Morin
Robert & Lolly Spencer	Bob & Julie Bullington	Betty Sisson & Bob Dixon
Jim & Mary Lorenz	John & Margo Cady	Bob & Jean Brooks
Ed & Joan Feddern	Joe & Audrie Garagiola	John & Jacque Weberg
John & Sandy White		

By the time Marketing had about completed working through the Priority List, advertising for Sagewood had begun to appear in local publications to attract more potential residents. The Marketing effort continued. The economy was roaring, the stock market was hitting new highs, and housing prices were booming.

### **Groundbreaking**

The ceremonial groundbreaking took place on October 16, 2007 at Horse Lovers Park overlooking the Sagewood construction site. This exciting event was attended by several hundred depositors and dignitaries. Stewart Ingram read a congratulatory letter from Phoenix Mayor Phil Gordon, and Phoenix City Councilwoman Peggy Neely was present. Life Care Services was represented by Ed Kenny, Kent Larson, and Dave Durden among others. Rob Lansing represented the Westminster Funds. Jim Anderson attended on behalf of Mayo Clinic. Dr. Richard and Mrs. Barbara Hill were recognized as the first depositors.

The Air Force Junior ROTC from Shadow Mountain High School presented the colors, a Native American invocation was given, and a sand artist created a beautiful, dynamic sand painting. The event was recorded and a DVD was developed and sent to the depositors.

The Marketing of Sagewood was going well. By September 30, 2007, 110 sales had been made, and that figure was 142 by year-end 2007. We were well on the way! And then----

### **The Crash**

The stock market was blazing. The S&P 500 Index reached 1,565 on October 9, 2007 but slipped to 1468 by year-end. The September 2008 collapse and bankruptcy of Lehman Brothers was considered the height of the financial crisis gripping the nation. On October 10, 2008, one year after the peak, the S&P 500 had dropped to 899. On March 6, 2009, the S&P 500 bottomed at 683, only 44 percent of its peak level. The Great Recession was in play.

Housing prices too became an issue. The housing "bubble" began in 2000 with prices rising much faster than the historic norm, reaching a peak in early 2006. From that point, there was a slow decline thorough mid-2007, and then the drop turned precipitous. In December 2008, the Case-Shiller home price index had its largest drop in history. The slide continued through 2009, and slowly declined over the next few years. It was not until 2012 that housing prices began to recover.

This economic environment had a significant impact on efforts to market Sagewood. Sales (defined as 10% deposits) kept rising during 2008, reaching a maximum of 194 (70% sold) on September 30. But the economy began to take its toll. Many who had made 10% deposits backed away from their commitments because they were unable to sell their homes. The sales figures began a decline, dropping to 140 by June 30, 2010, six months after the first Sagewood residents moved into their new homes.

### **The Response**

*(The following paragraphs in this section are based in part on notes from Phil Douglis after he interviewed Ellen Devine and Angela Turner of Marketing.)*

As Sagewood's Marketing staff watched its depositor base melt away, it faced a significant challenge – it had to find ways to deal with a negative situation in a positive, constructive manner. Working with their colleagues at Life Care Services, the Marketing department began offering incentives that provided economic support to the financially burdened depositors.

Marketing engaged the services of The Moving Station, a Chicago relocation company that provided assistance with selection of realtors and movers. Depositors who began using the services of Moving Station prior to September 1, 2009 to sell their homes were offered a \$10,000 credit toward their Monthly Service Fee after move-in. The credit dropped to \$7,000 if the home sale effort began between September 1 and November 1, 2009. Also offered was an

incentive of up to \$10,000 towards temporary housing and storage costs incurred prior to moving into Sagewood.

Arrangements were made with Elderlife Services to provide bridge loans, with Sagewood paying the interest for a year (the duration of the interest-free period changed from time to time). Marketing also offered an alternative package of incentives for those not choosing the loan option, such as discounts of up to six percent of the entrance fee for closing within 90 days, a \$5,000 design or moving package, and the services of a professional space organizer.

Despite the difficult times, the Marketing staff morale remained positive, largely because of how the staff regarded and worked with each other. Operating "as a family," ideas were freely exchanged and nurtured. The staff members bonded not only with each other but with depositors and potential depositors. Quarterly Resident Update Meetings (RUMs) at local hotels were started in the fall of 2007, keeping future residents apprised of the progress of the project, and at the same time helping future residents to become and remain acquainted with one another. Smaller "Block Parties" were held regularly at the Marketing Office, so people who had selected residences close to each other could meet.

Still the economic storm continued. Ellen Devine's most painful memory of the economic crash during Sagewood's formative years was the arrival of the mailman. He often carried letters from her clients, forced by the collapsing economy to cancel their arrangements with Sagewood. For Ellen, losing people who had become her friends as well as her customers was very similar to a grieving process – "full of anger, sadness, loss, and frustration."

Although the years of economic distress proved to be extremely difficult for Sagewood's Marketing Department, they met the challenge.

### **Construction and Financing**

The LCS Westminster Partnership IV LLP is organized for the purpose of owning and operating Sagewood. It is owned 15% by LCS Desert Ridge LLC and 85% by Westminster-LCS IV LLC. LCS Desert Ridge LLC is the general managing partner, and is a wholly owned subsidiary of Life Care Services Communities LLC, which in turn is a wholly owned subsidiary of Life Care Companies LLC.

Historically, Life Care Services would begin construction when about 65% of the units had been sold, as financing of the project was then readily obtainable. Typically, a project like Sagewood would be fully sold out in about 2 ½ years. With the poor economic environment, sales were much slower, and financing was delayed.

In spite of not having procured financing, the Partners began construction in March 2008. Financing was finally procured on November 21, 2008, and thought to be the last Continuing Care Retirement Community financing in the United States underwritten by conventional bank loans. The initial Construction Loan and Long-Term Debt financing totaled \$200,000,000 for the construction and development of Sagewood.



As one of the early steps of the construction process, a small "test" building was constructed to perfect various exterior features (e.g. paint, stone work, and railings). As part of the quality control of the project, contractors had to demonstrate acceptable performance on this building before being released to work on the main structures of Sagewood. Approximately \$500,000 was invested in this effort. The building still stands, visible from the entrance road, and likely will be used again in future phases of construction.

By the latter part of the summer of 2008, future residents were meeting individually with Diane Bird, Sagewood's Selection/Move-In Coordinator. Choices were being made as to carpet, tile, countertops, appliance colors, cabinetry, cabinetry hardware, ceiling fans, additional electrical outlets, and any other offered options desired by the residents. For residences not yet sold at that time, staff made the selections. This was a necessary step to allow ordering of materials in time for completion of the build-out of the residences.

As the construction work progressed, regular quarterly update meetings (RUMs) were held with future residents to apprise them of progress. Stewart Ingram would show self-made videos of the progress at those meetings. While not able to access the actual construction site, many residents drove into the Horse Lovers Park to gain a view of progress.

Recognizing that residents may desire to arrange for additional work when they moved into their new Sagewood residence, a Vendor Fair was held on October 28, 2009 at the Hilton Scottsdale Resort & Villas. Sagewood staff had invited selected vendors after determining that they met requirements for licensing, bonding, and insurance, and had a reputation for quality work. Among others, vendors specializing in window treatments, closets, cabinets, tile, flooring, and electrical work attended to offer their services.

As the opening of Sagewood approached, excitement was building. So was the staffing. By October 2009, Mr. Ingram had hired Dan DeVary (Director of Plant Operations), Greg Hanson (Director of Food & Beverages), Cathi Helman (Director of Human Resources), Greg Jewell (Director of Accounting), and Denise Reinhardt (Director of Administrative Services). Soon to follow was Iveta Delic (Director of Environmental Services), and Alexandra Reed, (Community Life Services). Hiring and training of the line staff was beginning. Amazingly, all early hires came by way of personal knowledge. There was never any advertising of job openings.

In December 2009, the Marketing Office and Administrative Offices were moved into space at Sagewood from the prior location at 20860 N. Tatum Boulevard. Moving of the large scale-model of the site was a real challenge.

### **Opening Day**

A Grand Opening Preview Cocktail Party was held at Sagewood on the afternoon of Thursday, January 7, 2010. **The official opening of Sagewood was on Monday, January 11, 2010.** Several residents already had completed the closing process and were able to move in immediately. Among the first to move in were:

Bob & Barb Alpers

Betty Sisson & Bob Dixon

Fred & Melba Foreman

David & Anita Forrest

Richard & Ann Funk

Barbara Gluth

Jon & Lenora Keller

Ed & Doris Larson

Janice Luke

Margaret McCormick

Dan & Evelyn Simon

Additional depositors had appointments to preview their residences followed by closing appointments. By the end of March 2010, a total of 58 units had been closed, rising to 89 by the end of June, and 126 by year-end 2010. By October of 2012, more than 280 residents occupied more than 180 residences at Sagewood.

This document was prepared by the:

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## **APPENDIX A**

### **Life Care Services**

*(The following information was obtained from the LCS web site.)*

"The company now known as *LCS* was established in 1971 as a subsidiary of The Weitz Company, a general contractor based in Des Moines, Iowa. The Weitz Company had spent a decade building retirement communities and recognized a need for a broad-based services organization to develop and manage senior living communities. The subsidiary was renamed *Life Care Services* in 1976. *Life Care Services* developed or built 31 new senior living communities across the United States during the 1970s and 1980s. By 1979, owners of the communities began contracting with *Life Care Services* for management services.

"Between 1979 and 1995, other companies joined the family of *Life Care Services*. In 1995, *Life Care Services* was spun off from The Weitz Company to become an employee-owned company. In 2010, *CRSA Holdings, Inc.* joined the family of companies, providing synergies and opportunities for both companies nationwide and internationally.

"In 2011, the parent company became *LCS*, the new identity for a family of companies dedicated to delivering exceptional, above-and-beyond products and services to America's senior population." The operating subsidiaries of *LCS* are:

*Life Care Services* – The nation's leading manager of senior living communities.

*LCS Development* – Designing and developing senior living communities.

*CRSA* – Specializes in the marketing, management, and financing of senior living communities.

*Health at Home* – Provides services tailored to meet individual client needs in the home.

*CPS* – A national procurement organization.

## **APPENDIX B**

### **The Westminster Funds**

*(The following information was obtained from the Westminster web site.)*

"The Westminster Funds are real estate investment partnerships for private investors and their foundations. Since 1996, the Westminster Funds have held steadfast to their founding mission of achieving better risk-adjusted returns at lower cost.

"Today, the Westminster Funds comprise eight commercial income-property investment Funds and two CCRC Funds for development and operation of CCRCs."

"The Westminster CCRC Funds invest primarily in new CCRC developments via the LCS-Westminster joint-venture with Life Care Services LLC."