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Senior Centric

Colson Focuses on Middle-Class Active Adults

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By Les Shaver

One of the basic battles in American business is big versus small. Large chains come into an area and offer affordable prices but often have impersonal service. Small businesses may have higher prices but better customer service. So, what if one company could bridge this gap, enjoying building and buying efficiencies while offering the customer service of a mom-and-pop store? One senior housing executive in Salem, Ore., says he can do just that: Bill Colson, president and managing general partner of Colson & Colson Construction Co. and president and CEO of Holiday Retirement Corp.

On one hand, Colson's organization is a big company with properties across the United States and in Europe. It has fully integrated development, construction, ownership, and management arms and leverages efficiencies in building and buying. On the other, the management company, Holiday, is a small business that serves the middle class in small towns all over the country, relying on couples—actual moms and pops—to manage its facilities. And each property is owned by a small, single-purpose entity, usually controlled by Colson and investors who typically are board members and other Colson & Colson executives. The companies are driven by Colson's fierce desire to avoid outside interference, especially from the government.



Steven Bloch

Bill Colson President and managing general partner Colson & Colson Construction Co.

In Every Pond

Colson likes to say he is a "small frog in every pond." A map of Colson & Colson's locations illustrates his point: The company shies away from large metro areas, preferring to set up shop in such outposts as Oviedo, Fla.; Normal, Ill.; and Lodi, Calif. It even built two properties near Bentonville, Ark., home of Wal-Mart, which Colson finds amusing. "Some people call us the Wal-Mart of the senior housing industry because we go to small towns," he says.

It's possible to take the Wal-Mart comparison even further. About 60 percent of the company's residents come from the middle class; 20 percent are wealthy; and the rest are people whose income falls below the poverty line. The last number can be misleading, though. Colson won't do affordable housing because he doesn't want to work with the federal government. Also, in

many cases where income is below the poverty line, the residents are people whose family controls their assets and pays for their housing. Average rent is about \$1,700 per month.

"We aren't after the rich, and we aren't after the poor," Colson says. "We are after the middle American. We are after the person who has worked their whole life and has a little bit in savings and a little bit of Social Security."

Colson, age 62, can relate to many of his residents. He has spent more than 40 years building his real estate business. In that time, he has developed strong opinions on the government ("We have people controlling our lives who shouldn't be. The regulators drive me crazy."), REIT's ("A den of thieves."), and the medical profession ("The doctors in America have done a great job of doping us.").

He's equally blunt about his residents. Many of his customers (77 percent of which are women) probably don't want to be on a Colson & Colson property or any senior housing complex, for that matter, he says. They would much rather have stayed in their homes, but because of age-related problems, they ended up at one of the company's properties. "Very few people will say they want to live in a retirement home," he says. "Let's be honest, getting old is not fun. You see those brochures that say getting old is the best time of your life. Well, that's the worst lie in the world. Your functions and mind aren't as quick as they used to be. It's a very difficult time of life."

A Mom-and-Pop Operation

Knowing these realities, Colson & Colson designed a system that caters to each resident's around-the-clock needs. The company provides food service, linen service, weekly housekeeping, scheduled transportation, and laundry service. The company also has managers and assistant managers on duty around the clock. Residents have a pull cord in their rooms to summon managers.

The key component in the system: hiring two sets of couples to live in and manage each facility. In most of the properties, one couple serves as the manager and another as the assistant manager. One manager is always on the property and should be able to assist a resident within minutes if a problem arises. "When it works, it's the most wonderful management tool in the world," he says. "If your grandfather is in our building and you call at 8 at night, you won't get a dishwasher or cop [who monitors the building after the property managers leave at 5 p.m. for most senior communities]. You'll get an assistant manager or manager."

Most of the couples are in their 50s, and many don't have business, customer service, or property management backgrounds. But that's not a problem: Holiday will train them. "Typically, it's someone in their second career," Colson says. "The guy has done well, and the woman wants to do something for humanity. From teachers to truck drivers to Ph.D.'s, we have a talent level that's incredible."

But the couples' age can be a detriment. The company usually has these couples for 10 to 15 years, until they hit retirement age themselves. With the 18 to 20 properties Colson & Colson opens every year and the couples that don't work out, managers constantly have to be recruited. Then there is the issue of having four people—two married couples—running a property, which leaves plenty of room for disagreements and infighting. "The couples may hate each other," Colson says.

Still, Colson says he is content with how 93 percent of his properties are run. He blames poor hiring decisions for ones that aren't well run. "I don't think our [on-site] managers are hiring well," he says. "Sometimes, I think they have an opening, just get scared, and take someone without the best résumé." To help managers hire better, the company offers hiring seminars.

Serving the Customer

The man once dubbed "Budget Bill" when it came to food service now sends about 80 of the more than 300 Holiday chefs to the Culinary Institute of America each year. Marilyn Taylor, who came on board six years ago to handle food service operations, changed his attitude. "We had good food but no flair," Colson says. "I always thought plain old food worked, but that wasn't good enough. Food is now one of my passions. What makes a person happier than good food?"

While good food may be offered at each of Colson's properties, assisted-living services aren't. Until four years ago, the company had assisted-living wings in a few properties but didn't devote an entire facility to assisted living because Colson didn't want to deal with the associated regulations and potential higher workers' compensation bills.

Then in 2000, the company started XL Management, under director Randall Corwin, to take over its assisted-living services. Now Corwin and his staff run 16 assisted-living properties. Although Colson & Colson wants XL to grow, it wants to go slowly. "When we started this, we all agreed we wanted to do it the right way," Corwin says. "When you are dealing with seniors and health issues, you don't want to go too fast."

Coming from an acquisitions background, though, the brothers underestimated the time and sensitivity needed to deal with human capital, says Mark. "All of a sudden we were 400 people, with 400 stories, and 400 circumstances. It's been a very big challenge."

Construction Backbone

While Colson will push into the assisted-living market slowly, he doesn't approach construction the same way. He wants to build fast. That's why 10 years ago, Colson & Colson began having Hunt Builders in Calgary, Canada, prefabricate its frames, trusses, and floor joists. Hunt ships these parts—about 31 truckloads per typical property—to construction sites. This process helps the company put up a retirement home in about nine months, a month or two less than it would take most builders, estimates Dave Breedon, Colson & Colson director of construction. "It allows us to put a roof on the structure and get the trades through there much quicker than if we were waiting for the building to be framed," Colson says. "We get efficiencies with that."

Usually Colson & Colson Construction builds one wing of a building, followed by the center area and then the other wing. Once the frame goes up, electricians, plumbers, and drywall hangers go through each section. The company tries to use local subcontractors, but if they won't work for Colson & Colson's price, it will bring in its own people. "They control construction internally," says Richard Hubbard, a senior vice president with Wells Fargo, one of the company's biggest lenders. "They don't have a lot of cost overrun."

The company also gets efficiencies from its volume, purchasing HVAC products, plumbing fixtures, roofing materials, siding, and insulation in bulk. These efficiencies add up to as much as \$1 million in savings for each project, Colson says. But that's just a bonus for the company. "Our

buildings are a means to an end," Breedon says. "Our profit base isn't in construction. It's in managing the buildings."

Ownership Advantages

By understanding that profit comes with management, Colson shares a mindset with Sunrise Senior Living. But that's where the similarities end. Last year, Sunrise announced that it was selling most of the ownership in its properties and keeping its management contracts to help it court Wall Street. "This is where Mr. Klaassen [Paul Klaassen, founder, chairman, and CEO of Sunrise] and I disagree," he says. "If you don't own your asset, you don't have anything. You'd basically be a hotel contract. I don't want a hotel contract."

The corporate staff began to phone shop all of its properties to detect problems. After training, if on-site people still don't handle phone traffic properly, they are let go. "We've increased our traffic numbers just by virtue of capturing traffic that was already there. That's simple blocking and tackling," says Mark.

Colson does want the \$38 million per year he earns in equity through the amortization of long-term debt of his properties. "That's what I make that no one ever sees," he says. "If you have a leasehold, you won't have anything other than a management contract. That puts someone else in control of your business."

One reason Colson can keep control of his business is a loyal group of lenders that finance his properties with 20-year loans. In the past couple of years, these banks haven't even asked for a down payment. "They qualify for favorable terms and conditions because of their track record, financial strength, and expertise," says Mary Fling, a vice president with Bank of America.

But ownership does force Colson to deal with government. Owning buildings means paying property taxes. To handle this, Colson is armed with a department and consultants that handle tax issues. "We won't let the states cheat us on taxes," he says. "We have a giant tax bill, and we won't let it get out of hand."

Keeping Pace

In the next couple of years, Colson doesn't want to let building get out of hand either. Being fully integrated means that the company can only build as fast as the slowest department can go. In 2001, it found out exactly how fast this was when 27 new properties opened. "We opened a new building every 13 or 14 days," Colson says. "That's hard for the management company. It's hard to hire new people and fire up a new building that often."

At the time, Colson and his management team didn't want to push the company to that sort of growth and slowed down afterward. But as he thinks about it and looks at the baby boomers entering the senior market, he admits a faster pace may be something to consider. "By 2010, we may ratchet it up again," he says. "We may just have to kick the management company in the pants and do 30 to 40 new buildings per year."

Of course, Colson also says he may phase his own role out within five years. He jokes that he's been phasing himself out for the past 40 years, giving way to a strong team of managers that runs the day-to-day part of each section of the business. "If I die tomorrow, no cares," he says. "My

son and the others would take over." His son Barton already runs Holiday.

Despite these claims, it's hard to see him leaving the business he started just as a new group of middle-class seniors will need places to live. In five years, Colson most likely will still be in the office.



Most properties that Colson & Colson builds take about nine months to complete. They usually have two residential wings and a center area with dining rooms, activity rooms, and kitchens.

Month 1: The site work is completed, and footings are being poured on the first wing. The site utilities are ongoing.

Month 2: The slab is poured on the first wing, and the framing goes up. The foundations are proceeding on the center of the building and the second wing.

Month 3: The slab is poured in the core area and framing is in progress. The rough mechanical and electrical trades are working on the first wing.

Month 4: Framing is complete in the center of the building. The slab is complete on the second wing

Construction Time Line

and framing is in progress. The rough trades have completed their work in the first wing, and drywall is being hung there. The rough mechanical and electrical trades are working in the center of the building. The exterior siding is being hung.

Month 5: The framing is complete on the project. The finish trades are moving through the first wing, while the center area is being drywalled. The rough trades are moving through the second wing, and siding is still being hung.

Month 6: The finish trades have completed the first wing, and carpet is being put in. The drywall is completed in the center area, and finish trades are moving through. The second wing is being drywalled. Exterior siding continues to be hung, and the exterior site grading has started.

Month 7: The first wing is complete except for cleaning and punch list. The center area units are being carpeted. The drywall is complete in the second wing, and the finish trades are working there. Exterior site paving is in progress.

Month 8: The center area is almost complete, with the common areas being carpeted. The second wing is being carpeted and cleaned.

Month 9: Landscaping is progressing, and furniture, fixtures, and fittings are being installed. The building is substantially complete and ready to be occupied.

Colson & Colson at a Glance

- **Year Founded:** 1963
- **Location:** Salem, Ore.
- **2003 Revenue:** \$857 million
- **Number of Units Built in 2003:** 2,872
- **Number of Units in the Pipeline:** 1,480
- **Expected Growth in Units Within Five Years:** Approximately 7,400
- **Geographic Coverage:** North America and Europe
- **Revenue Streams:** Developer, manager, and owner of independent and assisted-living senior housing.
- **Number of Employees:** 4,395