

Cousins branch out from family biz, acquire senior living facilities

BY JAY GREENE

CRAIN'S DETROIT BUSINESS

Bradley Dubin, director of acquisitions and co-owner of Birmingham-based **Kandu Capital LLC**, wanted to do something different with his life than his grandfather, father and uncle did.

All of them were in the nursing home business for more than 40 years.



Dubin

Three years ago, Dubin and cousins Tony and Scott Kantor decided to tap family resources and start acquiring independent and assisted-living facilities, as well as care centers for those with Alzheimer's and dementia.

Since January, Kandu has acquired five senior housing facilities in Indiana, Ohio and South Carolina with 306 total units for \$10.75 million. "There is a shift toward assisted living from skilled nursing care," Dubin said. "It is more modern and less-expensive approach than skilled nursing care."

Experts predict a boom in the senior housing industry because the number of people age 65 and older will more than double to 87 million by 2030 from about 40 million today, according to the **U.S. Census Bureau**.

Southeast Michigan's population over age 65 also is expected to nearly double to 1.1 million, or 25 percent of the population, from 616,000, or 14 percent.

"We are looking very hard for deals in Michigan, but no deals have presented themselves yet," said Dubin, 34. "Because we use our own money, we are very selective. We are not into development. We are management and acquisition."

But another reason Kandu has purchased facilities outside of Michigan is that some states, including Indiana and Ohio, subsidize assisted-living care for people if they run out of money and qualify for Medicaid.

Prices for residents at assisted-living facilities can range from \$2,000 to \$3,000 per month, Dubin said. Skilled-nursing homes can range from \$5,000 to \$8,000 per month. About 70 percent of nursing home residents are on Medicaid.

"Most states, like Michigan, are private pay (for assisted living centers)," Dubin said. "Michigan doesn't have Medicaid funding rules that helps to keep census and occupancy up."

Mike Boudreau, director of transactional financial consulting with Bloomfield Hills-based **O'Keefe and Associates**, said occupancy rates for senior living facilities have been flat the past 18 months because of the downturn in the economy and housing market.

"When people retire, they sell their homes, tap into the equity and use cash to fund living in the centers," Boudreau said. "With the real estate market down, equity has dried up and slowed new customers in senior living centers."

Boudreau said companies like Kandu are finding bargains as some companies have overbuilt and find themselves in financial trouble.

For example, Kandu purchased

the five senior centers from bankrupt **Sunwest Management** in Salem, Ore., a company that grew to 350 senior centers in 10 years.

"Sunwest literally went on buying and were paying ridiculous prices," Dubin said. "They were over-leveraged, and then the credit markets got tight and the market collapsed."

For the five senior centers, Kandu paid \$35,000 per unit, which is significantly below replacement cost of about \$100,000, Dubin said. All the properties have positive cash flow. Some need capital improvements, he said.

Kandu paid cash for the South Carolina and Ohio facilities. It took

out a bank loan to purchase a portion of the \$4.5 million cost of the Indiana properties, Dubin said.

At **Trinity Senior Living Communities** in Livonia, Kelly Gasior, vice president of planning, marketing and public relations, said the 21 centers Trinity operates in Southeast Michigan have been upgrading steadily over the past several years.

Trinity Senior Living is part of Novi-based **Trinity Health**, which operates 12 hospitals in Michigan and 45 nationally.

"We are primed for growth and we are trying to be ready for it, but at the same time we are trying not to overbuild," Gasior said.

Gasior said Kandu's strategy of

growing slowly and investing in recently acquired properties to make them more appealing makes sense.

"We are interested in extending Trinity's health network and having assisted living near our hospitals (in Oakland, Macomb and Washtenaw counties)."

Dubin said Kandu also is adopting a network strategy but without hospitals and physician groups.

"We see seniors moving from independent living to assisted living and having an Alzheimer's-care facility nearby to provide a continuum of care," Dubin said.

Boudreau said health care organizations that take a networking approach stand a much better

chance of success than independent facilities.

"Systems will have a leg up in attracting new patients," he said. "It is almost like a feeder system, where you have (people) steering them toward the assisted-living center."

Kandu, which also operates satellite offices in Chicago and New York, employs nine people in its Birmingham office and about 1,400 at the five centers, Dubin said.

"We probably will add people in the next 12 months as we stabilize our operations," Dubin said. "After that point we plan to start aggressively looking for acquisitions."

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