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Cultivating Innovation to Develop, Manage and Invest in Healthcare Properties with Ben Ochs, CEO of Anchor Health Properties - Part (1 of 2)

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| Ben Ochs: | 00:00 | We align the right capital solution with the needs and profile of that investment. And I think that that's really served us well and really helps set us apart. Sometimes that's our great partnership with the Carlile Group and other institutional private equity. Other times that's a JV with a REIT. Other times, candidly that's a fee for service development opportunity. Sometimes we've had physician groups who've come to us and said that they are looking for a developer and they want the developer to be a part of the deal. And we've said it actually is in your best interest, and we can help arrange this for you, if you get a hundred percent loan to cost financing, depending on their historical operating performance. And we've been successful in doing that. |
| Trisha Talbot: | 00:51 | This is the Provider's Properties and Performance Podcast, the podcast that brings together leaders in health care and investment real estate to consider the possibilities and future at the intersection of practicing medicine and healthcare real estate investment returns. Welcome to the Providers, Properties and Performance Podcast. I am your host Trisha Talbot. As a Healthcare Real Estate Advisor to providers and investors, the best solutions occur when the two collaborate together as partners in delivering better patient care. Providers can deliver care to their patients when and where they need it. And investors realize the returns to build and manage facilities. We explore changes in medicine and wellness, the future of healthcare and using real estate as a strategic and financial tool. |
| Trisha Talbot: | 01:33 | In the next two weeks of episodes, I interviewed Ben Ochs, Chief Executive Officer of Anchor Health Properties. In this episode, Ben provides the background of the company and the story behind a couple of recent projects and what Anchor Health looks for in an opportunity and where. Next week, Ben discusses how Anchor addressed the pandemic effects with its tenants, how healthcare companies are designing future spaces with flexibility in mind and how practices use their healthcare real estate to elevate their brands and become patient-centric. |

Trisha Talbot: [02:01] Well Ben, welcome to the Provider's Properties and Performance Podcast.

Ben Ochs: [02:05] Thanks for having me.

Trisha Talbot: [02:06] I always like to start with a background on the company history and how it got started. And I know Anchor has a good history and it transitioned from retail to medical some years ago.

Ben Ochs: [02:17] Sure. It's a great story and one that I love telling. It really starts with my career, when I started in healthcare real estate in 2006. I was working for a small private developer who is exclusively devoted to healthcare real estate after a stint, working for a small consulting company in Charlottesville, Virginia, where I'm still based today. And for many years it was just him and me and a part-time bookkeeper. So I literally learned all aspects of the business from the ground up. I immediately knew when I started in the business that healthcare real estate was my calling and I loved everything about it. I was a double major in finance and management in undergrad, and so raw skills that could be applied to healthcare real estate, but really had to learn most things on the street. And I started out as a property manager for about 250,000 feet of medical office space while also learning the development business with multiple medical office buildings in an ASC that I oversaw from a design and construction standpoint.

Ben Ochs: [03:26] And over those years, I became a certified property manager through the Institute of Real Estate Management and became a licensed real estate sales person. And then eventually a licensed principal broker in the state of Virginia. So coming from a developer background and seeing health system consolidation and physician practices being acquired as well. And this was around the time that the affordable care act was getting passed. There was a lot happening in healthcare then. I saw how the decision makers for new developers and in general, real estate decisions were being made by the director of real estate or the CFO at the corporate health system level, rather than at the local hospital. The traditional developer model of having a strong relationship at the local level was quickly shifting to one that was being determined by operational scale. And one that I think requires demonstrated expertise across regions and being able to also provide a low cost of capital. Gone were the days at that time of 8% rent constants on non-competitive MOB developments.

Ben Ochs: [04:42] So the industry was changing significantly. In 2013, the developer that I worked for retired alongside a large portfolio sale to CNL Financial. And I, immediately sought to start growing the business. Particularly I was trying to build some scale in our management platform. And in 2014, I was approached by a healthcare investment bank called H2C about an opportunity to acquire Anchor Health Properties. I hadn't been looking to acquire another company, but this opportunity became more compelling as it presented an opportunity for scale within a larger geographic region. And there was a good development pipeline with it as well. Anchor had been in business over 30 years, historically it had been focused on retail. And the two co-founders Lou Sachs and Paula Crowley made a strategic shift in the industry downturn, coming out of the savings and loan crisis in the late eighties to healthcare. And I think that that really caught on in the market region that they were operating in, in and around the greater Philadelphia MSA.

Ben Ochs: 05:58

And so they were looking to retire within the coming years and they needed to recap the company. That is part of that exercise. Well, I didn't have much of a balance sheet at the time. And so I partnered with Chestnut Real Estate, who was a growing real estate, private equity firm based in Chattanooga, Tennessee to help fund the acquisition of the real estate, while I focused on acquiring operations. And then in 2015, we closed on the transaction and merged the two companies. And we had a healthcare real estate management business and a healthcare real estate development business. Just before closing, we were approached by the Carlile Group regarding their interest in investing in the medical office building sector. And normally when you think about real estate, private equity, you think about short-term folds and more of an opportunistic mentality. But they had determined that they had a large group of investors interested in a core plus, open-ended fund that was focused on demographic-driven sectors, such as medical office, active adult multifamily, manufactured housing, et cetera, rather than the more cyclical and GDP-correlated sectors such as office, hotel and retail.

Ben Ochs: 07:18

So we advanced that conversation and six months later, six months after I closed the Anchor acquisition and merger, we became known internally as Anchor 2.0 for a while. Then six months later, James Schmid who had been running acquisitions of medical office for CNL Financial and who was the group that purchased the portfolio that I referenced was sold in 2013, came over to Anchor to help launch our investments in acquisition service line. And so if you've read the book Good to Great, Jim Collins talks about the flywheel starting to spin when all the right elements of a business come together. And I think that we've been really fortunate that all our service lines are all quite complimentary to each other. And that flywheel is now spinning at Anchor. So our primary service lines are healthcare real estate management, healthcare real estate development, and then healthcare real estate investment in acquisition. And so that combination has been really good.

Trisha Talbot: 08:24 So when you first came over and put all of these things together, you were focused on development and acquisitions?

Ben Ochs: 08:34 Development and management.

Trisha Talbot: 08:34 Management. So then, since then you've built it into property management acquisitions, and even sounds like you do some raising of capital for some groups that might need it.

Ben Ochs: 08:47 Yeah. I think we're particularly adept at bringing the right capital solution to each transaction. And I think that's one that's unique about us as a private employee owned company, is that rather than having capital that has to fit a certain box, when we come across opportunities that are interesting to us and transactions that we believe in, we align the right capital solution with the needs and profile of that investment. And I think that that's really served us well and really helps set us apart. Sometimes that's our great partnership with the Carlile Group and other institutional private equity. Other times that's a JV with a REIT. Other times, candidly that's a fee for service development opportunity. Sometimes we've had physician groups who've come to us and said that they are looking for a developer and they want the developer to be a part of the deal. And we've said it actually is in your best interest, and we can help arrange this for you, if you get a hundred percent loan to cost financing, depending on their historical operating performance. And we've been successful in doing that. So yeah, absolutely. We can help with capital raising. And again, I think we're particularly adept at finding the right solution for each operator.

Trisha Talbot: 10:16 I'm going to come back to that in a second. You mentioned in there that you got into healthcare real estate and stayed in it because you felt a calling. Do you mind sharing that? Because I think that those of us that are in this space and that are committed to it, we do tend to stay long-term. But what you just explained of seeing the vision of putting all that together into one company that can serve the healthcare providers, I think takes some uniqueness and I think it all stems from the fact that you felt a calling to do this.

Ben Ochs: 10:50 Yeah, absolutely. So I think when you look at healthcare real estate, one of the things that I love about it is that there are so many great things that are happening with every transaction. In the business, generally, you can earn a good living as a business owner and someone who's growing the company, we're creating good, well-paying jobs. We are also a part of facilitating healthcare services in our communities. We're allowing our development team to create something out of nothing and to do so in a cost efficient yet aesthetically attractive manner. We have the ability for our asset and property management teams, as well as our building engineering teams to ensure that our properties are cared for and well-maintained, attractive and presenting a positive image in the community and also for the health system or their providers. We're focused on the patient experience and making sure that we're minimizing things like trip hazards and that signage is good, and that it's not a stressful exercise getting from the parking lot into eventually see the doctor.

Ben Ochs: [12:04] And then even from an investments perspective, the ability to generate a good return for investors is great. And it's not just some wealthy investor that you've never heard of, but instead, lots of times, if you look at the makeup of who's investing in healthcare real estate, it's pension funds, it's retirement accounts and so forth. And so, very likely there are multiple people that maybe we don't know of directly, but at some point down the line are benefiting from an investment within healthcare real estate. So particularly folks who are on fixed income, health care real estate, I think can be a tremendous investment given the amount of cashflow that can be generated from a real estate investment while also still getting some capital appreciation. So those are some of the things that I love about it.

Trisha Talbot: [13:02] Well, and with the size of both industries, and I'm going to jump around here from what I had originally planned, just because I want to kind of bounce off of what you said. I think as we move through this pandemic, I feel that a lot of companies like yourself, as you're saying, in a nutshell, what you're saying is you can partner with these healthcare companies and you can provide a variety of services, whatever they need, if they can manage the facility, and you build it, JV it, you can offer them a partnership in their healthcare facility in a variety of ways, depending on what they want. And I think we all see this with large healthcare companies and small, and it doesn't matter, the problem is still the same, when the healthcare company tries to own and operate its real estate, it takes away something from operating its healthcare company and partnering with somebody that has an expertise and can provide services to support that healthcare company, being able to still see some value from its real estate, but take the headache off of them and partner together so that they can focus on serving their patients, which I feel, there's going to be a lot coming out of this pandemic, but some is going to be 'how do you care for patients when and where they need it and how do you serve different communities, different demographics?'

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| Trisha Talbot: | 14:28 | Because as we all know, hospitals have a pretty low profit margin and then having some sort of financial partner in the facilities could help improve the game for everybody. So do you feel like Anchor can be a part of this future vision? |
| Ben Ochs: | 14:42 | Yeah, absolutely. Good, good question. I think that there's a lot in there to unpack. |
| Trisha Talbot: | 14:49 | Yeah, to unpack. Definitely. |
| Ben Ochs: | 14:49 | Health systems. I think there's times in places where it makes the most sense for them and also for physicians and other providers to own their own real estate. And then there's times and places where it makes sense for them to partner with another firm. Sometimes that's a financial decision. Sometimes that's a strategic decision. I will note that often when health systems and physician groups own their own real estate, one of the things you come across the most is a lack of keeping up with the capital investment that's necessary to make sure that buildings are kept up to the standard that somebody who's incentivized by their own capital, a traditional real estate investor, or a developer, in the same way that they would be focused on doing that to make sure that they're attracting and retaining tendency. And so I think particularly with our management platform, that we can add tremendous value. And generally I would say our buildings are kept up better than the way that providers do so. But again, there's always right time and place and strategic initiative for whether or not it makes sense for them to own or lease. And again, I think that we can bring the right capital solutions alongside those strategic decisions to really make sure that they're getting the right outcome. |
| Trisha Talbot: | 16:25 | Right. When you're a healthcare company and you have a hundred dollars and you have to spend it and you have a great physician that you want to attract or piece of equipment that you need to invest in, and then you need to replace an air conditioner. Which one do you think they want to do first? |
| Ben Ochs: | 16:40 | That's it, that's exactly right. And they're always competing capital initiatives and there's always too little capital in order to fund them all. And another thing that we often see is maybe there ultimately is an allocation towards something, but even getting those funds deployed can take a long time and they may never get deployed if they run into an operational issue and have |

to put a pause on capital spending as we've seen really throughout the pandemic, as well.

Trisha Talbot: [17:13] Well, I have a couple of properties I wanted to have you touch on. So you have a new development, which is a new behavioral health hospital attached to a hospital, correct. It's part of a regular hospital in Cleveland.

Ben Ochs: [17:27] Yes. So we're working with Metro Health and that's a new firm relationship this year. We're very excited about our partnership with them. And it's a new behavioral health hospital and it's going to be constructed on their Cleveland Heights campus. And it's going to be combined with some of the other services on site that they're not going to have to duplicate just because some of those services are already on campus. So we're able to get some savings in the total project budget there. Taking a step back. We went through pretty significant exercise with them evaluating multiple different options, trying to figure out what location was best and trying to make sure that we could bring it in line with the target budget to make the numbers work. And so ultimately we settled on this location. We're all very excited about it.

Ben Ochs: [18:25] It's Anchor's first behavioral health hospital that we're developing. And we are doing it in a fee-for-service manner. We also had previously offered some structured finance solutions that I think were very attractive to them. We were able to bring their bond rating up for that project, essentially to an A minus rating from, I think they were triple B minus, maybe they were triple B. And that's a significant move. That really lowered the total cost of capital for them, had they pursued the structured finance solution that we offered. But ultimately they were able to find another internal mechanism to finance the transaction. We're very excited about the behavioral health hospital and it is off to the races.

Trisha Talbot: [19:18] I think it's unique that it's attached to the hospital. Typically they're their own separate facilities.

Ben Ochs: [19:24] Yeah. And again, I think we're able to benefit by making sure that we're not having to duplicate certain service lines. And so it really makes a lot of sense for them.

Trisha Talbot: [19:33] And then there's another property. I don't know if you want to talk to it, but I read about it yesterday that you guys actually got an award for a redeveloped. You did a repurpose and renovation on UC Davis Roseville. So tell me about that. Because I think that redevelopment and renovation of either existing medical facilities or other buildings into medical facilities is on the horizon. It always has been, but I see it more in the future.

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| Ben Ochs: | [20:00]() | Sure. That's the Roseville Clinic with UC Davis just outside of Sacramento, California, and it's a 52,000 square-foot redevelopment. It's former corporate office park and really in that area there are very few places to build and so health systems, as they determined that they needed to be in that market, UC Davis, in this case identified that location and knew that they wanted to pursue installing a clinic in that building. And it's one of the four buildings on that site and we have a number of other health systems in that location, too. So they're all very competitive with each other as you might imagine. And it's a great project. I will tell you, the conversion from commercial office to clinical is a lot more expensive than folks who are outside the industry really imagine and traditional office space core and shell is not constructed with the same standards that a medical office requires. And so you've got to go into it with a healthy budget. And I think, thankfully in this case, UC Davis was well aware of that, but it's a fun project. And one of the many, I think commercial to medical conversions that we've seen and we'll continue to see over time. |
| Trisha Talbot: | [21:28]() | You think that was more of a, they liked the location and it wasn't necessarily redeveloping it as much as in California, sometimes trying to find locations for big buildings is challenging, but that the location made a ton of sense. And so instead of building a new building, it was easier just to try to repurpose something that was there, even if you had to redo a lot of it. |
| Ben Ochs: | [21:50]() | Yes. I think the location of this facility and also that block of space combined with the timeframe that they needed in order to get the facility opened. |
| Trisha Talbot: | [22:04]() | Yeah. |
| Ben Ochs: | [22:04]() | And as you noted, building in California, it can be a very difficult process. So when you look at all of those things combined, it made a lot of sense and we're thrilled that they're there and it's a great result. |
| Trisha Talbot: | [22:17]() | So we've talked about two projects in two different parts of the country. So do you guys have a focus geographically or do you more look at opportunities? |
| Ben Ochs: | [22:24]() | Yeah. Good question. So generally we're very active in coastal markets and then across the Sunbelt. We historically have done |

very little in the Midwest. And I think that most of our focus going forward will continue to be again in the coastal markets, as well as across the Sunbelt. Generally, that's where we already have scale and access to opportunity. We're familiar with those markets and I think our investments are doing well there. So there are also some tax and growth concerns that I think we're all seeing in some of the States particularly exacerbated now by COVID. We're seeing it a lot more. Those are things that we're also aware of and paying attention to.

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| Trisha Talbot: | 23:18 | Absolutely. So when Anchor Health considers an opportunity, what is it looking for? |
| Ben Ochs: | 23:23 | Yeah, good question. So I think it begins with a supply and demand analysis within the market alongside evaluating the availability for future supply of healthcare real estate in that location. We are often looking for health system anchored buildings. Sometimes they can be physician anchored if the location is critical to their operations and it's also great real estate. We're generally a core and core plus oriented investor. We will do light value add. And then most of our development is what you would call it, build to suit development. Very little, if any speculative leasing. That's basically an opportunity that we'll evaluate. And then it really becomes trying to understand the story, looking at the ecosystem internally within the facility and understanding what's going on across referral patterns amongst the tendency, particularly if it's a multi-tenant building. We also want to understand that health care is going to be delivered in that building regardless of who the provider is down the road, and that the healthcare will continue to be facilitated through that location really for decades to come. |
| Ben Ochs: | 24:45 | I talked a little bit before about bringing the right capital solution to each opportunity. Again, I firmly believe that not every deal fits in the same box and some transactions you've got to look at a little bit differently and, you can see a potential outcome with a certain type of capital profile. And again, I think we're pretty good at doing that as well. But we try to remain disciplined and focused on markets that we know and like, and as I've talked about, coastal and Sunbelt are generating most of our attention. |
| Trisha Talbot: | 25:26 | I'm grateful for you tuning in to the Providers, Properties and Performance Podcast. If you enjoyed it, please subscribe, rate, review, and share the podcast with others. As a disclaimer, this podcast is intended for educational and entertainment purposes only, and not intended for specific real estate investment advice. |