

**Victor McConnell** 00:00

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**Trisha Talbot** 00:41

This is the Providers Properties and Performance podcast. The podcast that brings together leaders in healthcare and investment real estate to consider the possibilities in future at the intersection of practicing medicine, and healthcare real estate investment returns.

**Trisha Talbot** 00:56

Welcome to the Providers Properties and Performance podcast. I am your host Trisha Talbot. As a healthcare real estate adviser 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** 01:24

Welcome to this week's episode of the Providers Properties and Performance podcast, where I'm interviewing Victor McConnell, Managing Director and Head of Real Estate Services with VMG Health. This is the second in a two part episode, where Victor and I discuss trends in the healthcare real estate industry and healthcare industry and last week's episode, where we discussed the valuation of health care properties not only involves the real estate component, but also the health care company that is using the property to operate its healthcare practice. So welcome, Victor. And I hope you enjoy the episode.

**Trisha Talbot** 02:01

So now we're gonna move into different trends. So I know private equity has gotten into buying. so used to be hospitals a lot were buying and consolidating practices, and they still are, but private equity is, as well, especially when it comes to vision. I mean, American vision partners, it's just gobbling up a bunch of ophthalmology brands, and then dermatology is another one. So do you think that this particular trend, and I don't think it has been affected by the pandemic, Maybe it has, you can let me know. But I mean, I think that this trend will continue. I think just trying to, some of these private practices, the operational side, they really just want to focus on serving patients, and then having kind of a parent company takeover the operational side is attractive. But do you think that this trend is something that's going to sustain?

**Victor McConnell 02:49**

In certainly the short and medium term, yes. I mean, there still is a lot of uninvested private equity capital. And just like the healthcare real estate sector, there's more that's willing or interested in investing in healthcare. So, you know, at its most basic, there's an arbitrage between buying an individual or group of practices, and then rolling them up into a platform, maybe the platform trades at that 10 or 12, or whatever multiple of the EBITDA and the individual or the group of practices that's being acquired by the platform, maybe it, I don't know, a six or an eight. And so that gap is what's really driving the profitability associated with that roll up strategy. It's more complicated than that. But that's the core of it.

**Victor McConnell 03:26**

And so that doesn't appear to be likely to change their questions about sustainability. You know, the generally speaking, you have physicians who are carving out a piece of their historical comp, in order to put a multiple on that in some cases. And then ideally, there's income repair the physician, the practice becomes more successful and so the physicians annual income then returns to kind of pre acquisition level. Obviously, if it doesn't, then that can be a challenge, because then you have a dynamic where physicians are, fast forward three or four years after the deal, they're doing the same volumes and making less income. They got the lump sum in the past, but so that's, I mean, that's a dynamic that we'll see how that plays out over the next five to 10 years.

**Victor McConnell 04:27**

I think that one trend of the pandemic has been that you have more physicians that are probably interested in selling their practice, and you're evaluating, do I want to go become an employee for the health system or do I want to go be part of a private equity platform company and those are kind of very different paths that dependent upon maybe where a physician sits in their career or a variety of other factors, they're going to lean one way or the other, but the trend of private equity acquiring practice entities is I don't think it's going away anytime soon.

**Trisha Talbot 05:01**

Do you think having, you know, in some cases, it was just four to six weeks of, you know, having elective surgeries be halted? Do you think that might have tipped some people on the scale of, you know, I don't want to deal with this, again, if it happens?

**Victor McConnell 05:15**

Well, you know, anytime you're a small business owner, or you're a physician or an individual or small group practice, and you have something like that, it drives home, I think some of the increased risk, there's can be increased reward, but there's also an increased risk with being in that position. So, I know in some markets, not all markets, I've heard hospitals say, oh, yeah, we've had a lot of physicians who is historically have not really been interested in a practice sale and who are now interested.

**Trisha Talbot 05:47**

Yeah, well, I'm gonna move on to cap rates. So, healthcare real estate is always across the board, they've always been attractive to investors. And as we know, there's more sophisticated investors that have a track record. And then there's some that get into it, because they have a conversation at a

cocktail party that they have to get into medical office properties and healthcare properties. But you know, it is a mission critical demand driven development and your cap rate compression is occurring, even though we have all of this variability in the market, or real estate dynamics you know, everything else. But do you see cap rate compression continuing or leveling out?

**Victor McConnell 06:26**

Well, I mean, pre pandemic, no one really thought that, you know, the primary index is that the 10 year T-note, the prime rate, and can the capital markets, indicators were going to go down. They did, because it was a response to the pandemic, and they've remained low. So as long as the cost of capital is as low as it is, the cost of capital can't really go any lower, that's going to place pressure on cap rates, and then all of the uninvested capital that exists, all the demand and investor markets, whether it's on the real estate side, or on the operational side, you combine those two things, you combine a lot of demand with very low cost of capital. Generally speaking, that's going to keep cap rates down. They can't really go any lower because the prime rate and the federal funds rate and those things can't go any lower. So the spread between those and cap rates, could I suppose compress a little bit, but it's hard to see to go materially lower.

**Trisha Talbot 07:27**

You answered my next question with regard to the capital market. So it's good. Yeah. So in general, you know, your outlook of healthcare real estate? I mean, do you see any one trend sort of predominating the market? And you know, in general, kind of where you see it heading over the next few years?

**Victor McConnell 07:44**

Well, I'd have to ask you, when you say it, what do you mean? I guess, I would push back at the idea of healthcare, real estate being monolithic, of course, like, as we've talked about, there's all these different, all these different slices of it. And they all have different, you know, different outlooks. I mean, generally, the things that probably anybody who listens to your podcast is aware of, you know, you have you have an aging population, you have more investors interested in healthcare real estate, you have a sector that kind of weather the pandemic and wasn't unaffected, but got through it better than most other sectors. All those things would make one optimistic if you were an owner or an investor in healthcare real estate, but again, it depends on where you sit in the kind of continuum of healthcare real estate properties, non answer to your question.

**Trisha Talbot 08:40**

That's a big question and to narrow it down. So I'll ask a question that we haven't touched on. So you know, both of us sort of read and listen to the same industry information. And one thing that I've heard healthcare companies say is, you know, give us something different in response to obviously, the severe acute Clinical Health Care Services, they need to be in a clinical environment but I think what may or may not happen with result of a pandemic is a focus on health and wellness, let's offer and community health, let's try to get ahead of any healthcare conditions or monitor them, or at least be aware of them, instead of having a pandemic say, Oh, you know, you're not healthy and you're going to be affected more.

**Trisha Talbot 09:28**

So, if they're more of a health and wellness environment, do you see those being you know, obviously, urgent cares have already been doing this being in more convenient locations. But for example, if there was like a mixed use development, where there was multifamily and retail and you know, maybe like a health and wellness clinic to go and get like annual physicals or you know, go and get some checkups that then get sent to your primary care physician, which may be in a different location, but, you know, it's convenient for the patient to get go in and do this. And, you know, with technology becoming more sophisticated people can do this, where they live, instead of having to go to either a campus or a clinic that may or may not be convenient. Do you see anything like that happening?

**Victor McConnell** 10:16

Well, I mean, convenient access to care. I think I agree 100%, that that's that that is a trend that will continue to accelerate. And what does that mean? It means both, you know, in the case of some care more remote or virtual care, it means more outpatient sites that are easy and easy out, the kind of larger question of health and wellness, I think, is part of I think about that, I guess, in the context of this long term, but very, very slow trend towards more value based care.

**Victor McConnell** 10:54

And when you have more health care providers who may also be insured, kind of the Kaiser model for, you know, cases where there's in theory and alignment, to drive down overall cost of care. And you think, like, you've seen a lot of investment in the behavioral health sector from, really from all sorts of different entities. Because if you can prove out and then financially incentivize treatment of say, a behavioral health condition, that results in less, less chronic episodes occurring afterwards, then you've reduced the overall system cost of care. So you know, if a, if a hospital is fully responsible for Canada patient life from cradle to grave, then it's not just about, you know, revenue associated with episodic fee for service care, it's about, hey, if I can treat this, if I can effectively treat this behavioral health episode, then there may not be the same requirement for some of these other types of care.

**Victor McConnell** 11:57

And I think that the system will continue to inch along towards that, as we're better able to kind of track and quantify the impact of, say, certain types of wellness care. And as the government continues to, to incrementally and gradually try to tie more reimbursement to value. So long answer to your question, but yes, I think that the wellness sector is certainly a high growth one that should probably continue to remain to.

**Trisha Talbot** 12:28

Well, Victor, thank you for all of that. So we'll go to some easy questions and get to know you. So what was your first job?

**Victor McConnell** 12:37

Probably, you know, mowing lawns as a kid is informal, first job, and then waiting tables, washing dishes at later ages.

**Trisha Talbot** 12:46

Builds character. What would you be doing for a living if you were not working in the healthcare real estate industry?

**Victor McConnell** 12:54

I don't know. I mean, I planned on this from early childhood. So I don't know I like I said earlier, I was a creative writing major and undergrad. So I'd probably be either trying to do that or maybe have failed and wound up doing something else being a, I don't know, an attorney, or I have no idea. All sorts of different things.

**Trisha Talbot** 13:17

Who are you reading or listening to right now for news information or inspiration?

**Victor McConnell** 13:22

Well, just yesterday, I finished a book called 'She Never Told Me About the Ocean' by a friend of mine, Elizabeth McKetta. It's a nice novel. And next in the queue, I have this book on my desk Wonderland by Robert McFarland, which is about the underworld, you know, from a literal perspective, what lies underneath the surface of the earth, and then also from a methodological and literary perspective as well.

**Trisha Talbot** 13:48

Oh, very interesting. What is one thing you do every day for healthy self care?

**Victor McConnell** 13:53

I do a lot of rock climbing. So I don't do that every day. But I try to climb when I can and try to stretch and do those sorts of things.

**Trisha Talbot** 14:03

What was your last rock climbing adventure?

**Victor McConnell** 14:06

I went bouldering yesterday up at a place called Guanella Pass in Colorado.

**Trisha Talbot** 14:12

Is Colorado a choice to live because they're able to pursue that?

**Victor McConnell** 14:17

Well, I lived out here many years ago and had a bad accident broke both legs actually in 2005. And that sent me back to Texas. That's a whole another story that led to me working in this industry, actually. And then I moved back out here four years ago to help open our Denver office.

**Trisha Talbot** 14:35

Okay, nice. Oh, so in your opinion, are leaders born or are they trained?

**Victor McConnell** 14:40

Can I say both? It's, you know, the nature nurture dichotomy, I think it's always both.

**Trisha Talbot** 14:47

Oh, great. Well, thank you, Victor. This has been a great interview. I appreciate your time.

**Victor McConnell** 14:51

I really enjoyed it. Thank you.

**Trisha Talbot** 14:55

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