

Providers Properties and Performance - Episode 67 - V1

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SPEAKERS

Trisha Talbot, Mark Mullen

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- M** Mark Mullen 00:00
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- M** Mark Mullen 00:25
Because I think we build an ideal product. We just finished a big project and outside of Denver immediately adjacent to the hospital and now we have a program with our hospital to lease units to their medical personnel and then they can walk from our project right over to the hospital.
- T** Trisha Talbot 00:42
This is the Providers Properties and Performance podcast. The podcast that brings together leaders in healthcare and investment real estate to consider the possibilities and future at the intersection of practicing medicine, and healthcare real estate investment returns.



Trisha Talbot 00:57

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 01:25

Welcome to today's episode of the Providers Properties and Performance podcast where I interview Mark Mullen who's the Senior Vice President of Development at Klingbeil Capital Management. Klingbeil typically owns and operates and develops apartment complexes throughout the country. And he shares with us their story of getting into the medical office asset class for a short period of time starting with medical office condos and ending with a multi tenant medical office building that sold a couple years ago. So welcome, Mark, and I hope you enjoy his story.



Trisha Talbot 01:58

So welcome, Mark. And thank you for taking the time for this interview today. I appreciate it.



Mark Mullen 02:02

My pleasure is the least I could do for you and Kathleen,



Trisha Talbot 02:06

We very much appreciate it. So why don't you start by telling us a little bit about Klingbeil Capital Management?



Mark Mullen 02:11

Well, Klingbeil Capital Management has been in existence for a little over 60 years and was founded by Jim Klingbeil who's still very much involved on a day to day basis, and just a lot of fun to work with and an incredibly smart, really innovative real estate person and we got into the medical space when he and I sat down. And he added to the idea that we should go out and buy well located medical office buildings and put condominium maps

on them and then offer the individual suites to doctors and small 1031 investors who really had nowhere to go with their money. And that was very productive for I don't know, 8 or 10 assets and we started to realize that we had passed on a lot of medical buildings that had very good yields, investment yields, and that maybe we ought to get into the medical office investment business, which we did.

M

Mark Mullen 03:16

And our basic business plan was to buy, essentially on campus, although I use that term a little loosely, but basically adjacent to hospital campuses, because as you know, buying an on campus building involves a whole nother range of things that are largely out of the buyers control may want on campus, but you know, I might want Christmas every day, and I don't get it. So we went around and we we did do that. And then the Affordable Care Act, otherwise known as Obamacare came along. And we realized that in order to really survive in the business we were in, you had to have the hospital relationships, because the doctors and their practices were migrating to the hospital model. And that was really it.

M

Mark Mullen 04:01

And at that point, we realized, you know, we were competing against major medical REITs and other folks and we just didn't have any real competitive advantage. And that's when we decided to sort of get out of the medical office business and get back to multifamily, which is really what we do, which brought us really to you and Kathleen. And that's how we got acquainted. But that's the story.

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Trisha Talbot 04:26

Well, and as you mentioned, you primarily develop, own and operate apartment properties in several states across the country. So what attracted you to the medical asset class from the experience and what you typically do?

o

04:44

I think Jim saw that, obviously, the aging baby boomer phenomenon and the greater need for medical services and then he combined that with knowing that there's this huge market out there for people to offer For real estate professionals like us to offer investment vehicles to smaller investors, or 1031 exchanges. People who have saved between 1 million and 3 million dollars that they want to exchange on but those folks have a very, very difficult time finding assets to exchange into, there's just not a lot offered. And

that was the thinking. So as I said, we did I don't know, you know, eight or 10 of those. And they were very, very well received. But it was harder and harder to find medical buildings that would fit that bill.

T Trisha Talbot 05:37
And was that model more successful in some states than others?

M Mark Mullen 05:42
Oh, no question about it. We did, we did stuff in Chicago, and obviously in Arizona and California, and Arizona, California, much more receptive than Chicago, by way of example.

T Trisha Talbot 05:56
So you know, we met when you owned 7331 East Osborne, so this just for the listeners who may not be familiar with it. This is a I would call it a campus adjacent medical multi-tenant medical office building. It has about four floors, plenty of parking in downtown Scottsdale, which is, as you know, is a very low supply and high demand market, but especially a medical building being across from the hospital. And I'd say the medical office buildings other than hospital owned office buildings are more on the older side, one story, not a lot of parking. And so this was a unique asset in the market. So how did Klingbeil get introduced to it?

M Mark Mullen 06:41
We had a broker in the Phoenix market who had done some other transactions with that were akin to our condominium program and selling those were successful. And then when we migrated to this other model, although we did put a condo map on the Osborne building, we never had any intention in selling individual condos, and we didn't. And so we're introduced to that to local entrepreneurs and Phoenix acquired that.

M Mark Mullen 07:07
And I think at the time they had acquired it, it was in need of a shot in the arm in terms of capex and rejuvenating the tenancy. And they did a pretty good job of that. And we thought it was a great investment because it is adjacent to a thriving hospital. And, you know, Old Town Scottsdale is limited in terms of its development potential, and so on. So we were very happy with that investment. And then, of course, the Affordable Care Act

came along, and we did lose several of our major tenants who moved on to various campuses. And so that made it sort of difficult.

T

Trisha Talbot 07:44

Well and I would say, when we were looking at it too, you know, a lot of the physicians in there were not wanting to do, I would say long term leases, which I would qualify in medical as five years or longer. They were really, and some even were wanting to stay even month to month or do six months and one year. So you were overcoming this challenge with having all of these tenants really with a short term mindset and exactly correct, you know, when you were trying to, you know, you bought this asset, you, you know, you probably invested, you know, as you said, some CAPEX into it, and then, you know, you start talking to these tenants that take you by surprise.

M

Mark Mullen 08:24

you know, it was interesting, you know, you get with doctors, love them or hate them, whatever, however you think about it, you get attached to tenants. And so, you know, we have a lot of older doctors in there, and those male or female doesn't matter, the docs would say, Hey, you know, I don't really know what I'm going to be doing. But I enjoy practicing. I'd like to kind of hang around for another year or so do you mind if I just renew for a year?

M

Mark Mullen 08:49

And you're like, Well, you know, I'm not gonna kick out some doctor. I mean, sure, Fine, let's do we'll do 12 months doc, that's fine. And so then you get into that and it's sort of a lather, rinse, repeat and you find yourself four years out and the same doctor saying, Well, you know, I kind of like to hang around and, you know, kind of continue to work for a little while. I don't really know where I'm going to retire. So there was a lot of that.

T

Trisha Talbot 09:13

Yeah. Do you think that you guys would look at another medical office asset to add to your portfolio?

M

Mark Mullen 09:20

No, I think we're, we're essentially out of medical business but what I have seen and would love to try and do I know that hospital because we've done developments multifamily

developments immediately adjacent to hospitals. Hospitals have a real demand for what I would call short term housing for all the people that work at the hospital particularly the medical professionals and I would love it I think it would be great if we could team up with a hospital system to do multifamily because I think we build ideal product. We just finished a big project and outside of Denver immediately adjacent to the hospital and now we have a program with that hospital to lease units to their medical personnel, and then they can walk from our project right over to the hospital.

T

Trisha Talbot 10:06

Well, that sounds fascinating. And I, you guys seem to have a real, like unique community system going on, you have everything online, you go to your website and all of your tenants can access anything they want from there. So it seems like you guys really have that nailed down.

M

Mark Mullen 10:21

Yeah, I'd like to take great credit for that. But I think pretty standard in our neck of the woods.

T

Trisha Talbot 10:28

I don't know. I mean, obviously, the higher end stuff that you guys do, but you know, I don't know, I think that there's there's still a lot of inefficiencies, I guess, which, you know, creates opportunities for people that can, can do that. You know, if someone were to come up to you at a cocktail party, and you know, they haven't stepped into the medical office asset class before, what might be some words of wisdom you have for them?

M

Mark Mullen 10:51

Well, if they were in Phoenix, I'd say go hire Kathleen. And Trish, that's what I would say. flat out, I thought you guys did a great job of particularly managing expectations, and including ours, whether you want to hear it or not, we got the truth. And, you know, I think that helped us both sides get to a successful close.

T

Trisha Talbot 11:13

Well, I think also what location and you're obviously real estate 101, as everyone says, is super oversimplified, but location, location, location. And I think what we really wanted buyers looking at this asset to value is is the location of having a hospital adjacent

medical office building in downtown Scottsdale that's not on a ground lease and is multi-tenant as a vision for where it can go in the future because they can withstand it is being the new owner is you know, giving it a kind of a facelift.

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Trisha Talbot 11:49

But from a long term standpoint, any, you know, any investment in there will be returned, because you'll be able to attract some long term tenants and the demographics, and South Scottsdale aren't going anywhere, people are still moving here. People still need health care services. And the next I guess, major hospital, it would be up on Scottsdale Shea, which you know, is a good 20 minute drive with no traffic and with traffic, you know, it can be as long as traffic requires.

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Trisha Talbot 12:21

And then I would say the next hospital it would be Banner Good Sam. So you know, it really does cover a need in the market. And I think that's what we wanted to communicate and the story we wanted to convey is that, you know, this isn't while it might be an older medical office property, while you know, it may have some short term tenants, you have to look at the long term vision of what the property offers the market and somebody that can see that would value it accordingly.

M

Mark Mullen 12:51

Yeah, and I think James said to my buyer, I think he, I'm sure he's looking at this, we looked at it and you know, that asset had or has a parking field that could be developed. Of course, you'd have to solve for parking going forward. But I think you could put a multifamily developer there adjacent to the building, stall for the parking. And the two could sort of be coexistent and help one another.

M

Mark Mullen 13:20

We just at the time, were not really in the business of building structured parking with a mid or high rise there. So that was not, but we looked at that very carefully. And I do think there's a tremendous amount of value to be unlocked using that asset as an example.

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Trisha Talbot 13:38

Absolutely. I think it was a win win for everyone involved. And the next time you're down here probably be I think, I think his plans are 18 more months, but you can drive by and

take a look at it. He has some really good design renovations for it.

M

Mark Mullen 13:53

Yeah, I would. I would love to say we dubbed it the flying cheese wedge. But it's definitely it's an architecturally it's a very unique building really is.

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Trisha Talbot 14:05

It is it's very Frank Lloyd Wright esque for sure. So Mark, we're gonna get into the part of the interview where we get to know you a little bit. Before we do that, why don't you tell the listeners what you do at Klingbeil though, just so that they get an idea of what your day job is.

M

Mark Mullen 14:22

Yeah, well, my present iteration is, I'm the head of our Multifamily Development group. And we develop multifamily communities of say 150 units and above. Right now we are heavily focused in Denver, the Denver Metro area, but we've developed in Columbus and Washington DC and we just finished our third project in Denver proper, all those are leased up and we've got two more that are coming out of the ground. So those two the latest would be about a 520 unit so we've really gotten back to our roots.

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Trisha Talbot 15:05

Alright, so that will go into getting to know you. So what was your first job?

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Mark Mullen 15:11

My first job? That's a good question. Depends on how far you want to go back. I, you know, I, I had every odd job under the sun when I was a kid, because, you know, that's just how we grew up. And so that's, you name it, I did it. And then, of course, college and then I went on to law school and I was a practicing attorney for a while before I got into the real estate development side of the equation.

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Trisha Talbot 15:37

Were you a real estate attorney?



Mark Mullen 15:39

I was my career path could not be replicated. And I don't advise it. It was not planned. I did not plan my life, which is probably a shortcoming. But I went from being a corporate real estate type lawyer to being a prosecuting attorney to back to real estate and then migrated over to the business side.



Trisha Talbot 16:00

That's a great story for your career path.



Mark Mullen 16:05

I don't know I don't advise. I don't advise it. I do not advise it. Yes. Well, what's the adage life is what happens to you when you're making plans? Yeah, know, exactly.



Trisha Talbot 16:15

What do you think you'd be doing for a living, you know, if you were not in commercial real estate in some fashion?



Mark Mullen 16:22

I was a high school football coach for almost 10 years. And so I think about that a lot, I think I would probably be involved in some sort of a public service job, which allowed me the time to coach and maybe even teaching and coaching a lot of my close friends. So I quite enjoyed that. But just not kind of the way life unfolded for me.



Trisha Talbot 16:48

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



Mark Mullen 16:54

Well, my friends are bombarding me with scientific journals about COVID. Because they are, they are trying to decide whether the vaccine works, and how it works. And this and that. So and these are all guys I went to Catholic grammar school and high school with and so we've stayed tight ever since. And, like a sewing circle for God's sakes. But I spent too much time reading scientific journals. I also listened to podcasts by individual by the name of Bishop Robert Barron. He has a he has a whole podcast sort of thing called Word

on Fire, which I recommend anyway. And he covers all sorts of topics. So those are the two main things. And even though I'm too old, I have a nine year old son, and he is keeping me very busy. I have to remind him that Papa is breakable. So I'm not sure he gets the message.

T Trisha Talbot 17:52
Are you throwing the football with him?

M Mark Mullen 17:53
I am and he has football practice, his first one this weekend. Pretty much all he knows right now just jump on top of me. That's - they gotta teach them the finer, the finer points.

T Trisha Talbot 18:10
Yeah, that's good. What is one thing you do every day for healthy self care?

M Mark Mullen 18:16
I swim. So I'm not really a swimmer. I wouldn't call myself a swimmer but I swim for exercise. So that that's it and I try to swim every day.

T Trisha Talbot 18:27
That's great. Great exercise. In your opinion, are leaders born or are they trained?

M Mark Mullen 18:33
You know? That's a very, very interesting question. Because I've been watching my nine year old evolve, if you will, and I I really have not steered him. He is very opinionated, very, he wants to take charge of situations. Honestly, I don't know where he gets that. So I think probably there's a little bit of both you, you're either inclined that way and then you have to learn the finer points of how to do it. And I really do think there's some genetic component to it. I don't know what it is. But beyond that, you tell us how to teach it. So yeah.

T Trisha Talbot 19:11
Yeah, I think that's a great answer. Well, Mark, I really appreciate this interview. I

appreciate your time and and thank you.



Mark Mullen 19:19

Thank you to you and Kathleen.



Trisha Talbot 19:22

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.