Lucas: Welcome to Bridge the Gap podcast, the senior living podcast with Josh and Lucas. And this is an exciting episode where we're bringing on more thought leadership here in our remote studios. We've got Josh and Knoxville and here I am at my studio in Dallas. Excited to bring on a guest today. We've got Steve Kennedy, he's with VIUM. Welcome to the program.

Steve: Yeah, thanks Lucas. Thanks Josh. I'm excited to be here.

Well, I'm glad that we were able to connect on LinkedIn. Your company has been in a couple of articles recently and you know, we're talking about what the market looks like today in this new phrase that we're constantly hearing which is just the new normal. I imagine if we'd had you on back in Q4 or even maybe January of this year Q1 we might've had a little bit of a different conversation, but given the outbreak of COVID-19 and how it is affecting and will affect commercial real estate in particular senior housing, we wanted to bring you on to talk about those things because we know you have a particular background in that. Before we dive into that topic, give our audience some of your background and tell us how that's led you into senior living.

Steve: Sure. So yeah, the company VIOM Capital- we're based out of Columbus, Ohio where I'm located. I was with a company called Lancaster Pollard, which is now part of Orex, for 18 years. And exited last August 1st, 2019. And, you know, background is my whole career has been in, in seniors housing and healthcare finance and really the full continuum of senior living from nursing homes to assisted living facilities, memory care facilities and independent living, as well as CCRCs, continuing care retirement communities, and finally, you know have done community hospital finance as well. And so that's my background. You know, grew up in Cincinnati, Ohio, just two hours down the street down, down I-71, went to undergrad at Denison university, a small school outside of Columbus, and then MBA at Ohio state. So Ohio through and through.

Lucas: Sounds like it. Well, how did all of those experiences you could have done, you know, retail you could have done, you know any other type of vertical, what led you into senior living?

Steve: Yeah, I wish I could say it was, it was really intentional, but you know, the reality is it was through an internship. I was an undergrad and happened to become our firm's second intern. And you know, I think the combination of real estate finance as well as just working on projects that have a real social impact. And then finally, you know, the private public partnerships in senior housing finance are, are really fundamental to the fabric of it. And so we'll probably get into that a little bit, but you know, it's just a nice balance of sort of social policy initiatives, but also really in some cases complicated finance. So, you know, it keeps you energized. So I think that's what drew me to it originally. And then you know, as you develop and in any lot of businesses, you develop sort of an expertise, especially in a niche that's sort of where your, your personal value is created. So it's been, it's been great to stay in this space and just see how it's evolved over the last 20 years.

Josh: Yeah, it's been a big evolvement and a lot going on right now. It's a, a great pivotal time in our industry and in our country and really in our world. Tell us a little bit about your strategy with the new platform. What are you guys hoping to accomplish?

Steve; Sure. I mean, you know, first and foremost, it's been, you know, we knew we were going to launch the company on April 1st due to a variety of reasons. So probably wasn't the most intelligent move by yours truly to launch on April fool's day. And then couple that with being in this unprecedented, you know, COVID-19-related climate. You know, it's obviously a unique time to start a company.

But, you know, I guess with that said, you know, we're first and foremost just truly empathetic and just thoughtful about all of our clients and the patients who are having to, you know, weather this and you know especially the frontline staff that are in there every day. I mean, full disclosure, you know, my dad is in a memory care facility. He was diagnosed with early onset dementia several years ago. And you know, it's given me such more of an appreciation of without those nurses and that whole team down in Cincinnati that's with him, you know, I don't know where we'd be and you couple that on, you know, my, my mom, her, her whole routine was go to lunch to see my dad, be with them all afternoon, have dinner, then go home. She hasn't been able to see my dad in three weeks. And you know, they've been married for 40 years and it's, you see those personal things that it just becomes really grounding and humbling.

And so I think as far as the business goes by capital, we're made up of, we're a good team. And we want to be very mindful of the environment we're in. With that said, we do have a unique opportunity to really help senior living facilities, owner operators given the platform that we have and, and the fact that we seem to be one of the only groups that it's still lending and there's opportunities, some really exciting opportunities to finance right now.

Josh: So I appreciate I didn't understand that background and the personal attributes that you have to the industry, I think that gives you a very unique perspective to be able to understand what the families are going through as well as the community. If you don't mind just a little bit on that because we've talked a lot with I would say the operator's point of view. And, and you're giving us a couple of unique today to be able to talk about the lender's point of view the, the financial side, but also maybe touch a little bit more on the family side. You gave us a little bit of insight to how that's impacted mom and dad.

Can you tell us a little bit more from a family's point of view of you know, the resident engagement and what you, what you've kind of seen and experienced of what the communities are, are attempting to do to try to keep them maybe connected, but also keep them safe and how is that playing into their kind of daily relationship and routines?

Steve: Yeah, I mean, we've seen them leverage technology. So you know, my dad's at a state where I don't think he, you know, he doesn't really recognize when we FaceTime him, what's going on. You know, he might take some comfort in hearing a voice that's familiar, but you know, to have, I mean, just this past Saturday morning, you know Casey, one of his nurses, you know, FaceTime's me and my dad's there, and you, that you think about the nurses that they're, you know, they're pulling long hours and they're really only there, especially with dementia residents, they're the only people that are there for those residents. And just yeah, so technology being leveraged.

And then, you know, outside of that it's, it's you know, the other personal anecdote I'll share is, you know, just seeing how friends and family, you know, kind of rally around others. It's been awesome. So I have one sibling, my brother, he's 13 months younger than me. He's in Cincinnati, he lives two minutes from my mom and he goes and he walks with mom every day. And that's something that, you know, they see each other a lot, but you know, they're six feet away from each other. And you know, their stands say, but it gives her something every day she looks forward to. And so I think the silver lining through this is you see just sort of the beautiful humanity of people in facilities but also people outside of facilities and so that's, yeah, that's been a silver lining, really nice takeaway as we've had to just kind of shed our regular schedules and adapt and see people step up.

Josh: Man, I, I love that and I appreciate you sharing that kind of personal perspective. Lucas and I've talked to so many different guests and regardless of the position or their perspective, those have been a couple of the theme patterns I would say of the silver lining as you mentioned of people actually coming together. Whether that be families the teams that are rallying in difficult times and really, really going above and beyond. And it's, it's really cool also to see the tools that are at disposal that maybe we haven't been leveraging as an industry to the full extent that we could. And we've talked about that. We think, you know, many of the lessons we've been forced to learn through this and how to implement smart technology and, and, and thinking outside of the box. As we're getting past all this there'll be some lessons positively that we can learn and carry forward that we think will make us better.

So to switch gears a little bit, putting on the professional hat, what do you, I mean, what are the minds of guys like you thinking right now as there's obviously so many changes going on and so many things have kind of come to an abrupt halt and everybody's kind of sitting on the sideline with their projects and their dollars it seems like, and you may you may contradict that and say, no, nobody's sitting on the sideline, we're moving forward with everything. But kind of give us the temperature of like the world where it stands right now and where you see as kind of going from a project standpoint and from financing over the next six months to a year.

Steve: Yeah. So my frame of reference and perspective will come from that lender perspective and you know, to set the stage, you know, what we do is we provide debt capital. So we provide in-effect loans and the way we originate those loans is either from our bank capital partner or we sell debt securities to raise that capital from the capital markets and then loan that that those proceeds to owner operators, whether it's a build a property to acquire a property to refinance or recapitalize a property or a group of properties. And so from that lens, you know, all lenders, no matter what kind of capital you're providing, including equity investors, you know, have probably the following observations. One is how is this going to affect individual properties that you're looking to finance or invest in? And then too, how has your capital availability, your capital plan going to be impacted by this?

And so on the first, what are the things we, we kind of look at right away. One is, you know is, are there cases of COVID in a facility? You know, that's a question now. It’s one of the first ones. You're, you're asking a second, what are the protocols that facilities are using and to best ensure that, you know, COVID cases do not pop up. And if they do, how are they contained? And then I think after you have a feeling of how the project and the owner operator are dealing with that, next thing you're looking at is how is last month, this month, the next few months going to impact their cashflow?

And so, you know a lender always looks at sort of a trailing 12, you'll hear that term. Trailing 12 months is just the last year of revenue, less expenses and then adding back some non-cash expenses, a term EBITDAR you'll hear thrown around earnings before, interest, depreciation, amortization and rent. And basically that's your cashflow that's available to pay debt service. Well, you can imagine you're trailing 12 in January of 2020. It's probably gonna look a lot different than your trailing 12 in June of 2020 because of this last 30 to 60 days and the next 30 to 60 days. And the reality is you're not, you're not moving in residents or patients at the velocity you were, if at all, because of restrictions of new people coming into the building. You're also, you know, you're unfortunately, you're dealing with death, which is, which is, which is a fact of life and a fact and senior living facilities, you're also dealing with increased expenses with, you know, you hear about the, the, the equipment and just, just products that, that are needed.

And then finally you're dealing with, you know, usually higher labor costs because you're having to pay over time and you're having to pay a little bit more money because of the risks that those frontline workers are taking. With all of that, guess what? Revenue's not increasing, right? Even if you have Medicaid, Medicare, and private pay, none of that's going up in an environment like that in this. In fact, you know, it's going to be harder for some people to pay those private pay rates. Especially if they're dependent on, you know, selling their home first and now their home value. You know, the market might not be as solid to sell a home. And so it's sort of all intermingled. But I go back to that T12, and when, so when you're a lender and if you're still providing capital like we are, what are we doing? You know, we're having to do our best to conservatively underwrite these deals to make sure that, you know, we're not unintentionally over leveraging a project that in a year from now we're going to say, well, we thought this would cover debt service at, you know, 1.5 times or two times coverage. Now it's not covering and now we're in a default situation. So, really being conservative and trying our best to estimate how has this project or group of projects going to look over the next 12 months?

Josh: That's a great explanation. And kind of helping our audience understand what you're thinking, does that mean, does that translate to longer deal lead times? A lot more kind of underwriting time, a lot more diligence that groups like yours are going to be doing to where it seemed like just a few months ago. I mean, these things were just turning so quickly and it was such a hot market. Does that mean everything's slower now? And when you're starting to look at an opportunity, it's going to be months and months now?

I don't think it's going to be a lot longer from a diligence perspective. The reality is there's going to be some new questions to ask, like I talked about with, you know, COVID there's going to be a little bit of a deeper dive into the last couple months of financials and, and trying to polish off your best expectation of what caseloads are gonna look like going forward. But I don't think those should really materially impact the financing timeframe for those lenders like us that are still lending. Guess what? We're seeing so much more volume and you know, it's a bit of sort of finance triage where you're saying, look here, there's 10 opportunities are that are in front of me today. You know, how can I quickly determine what are the, the three opportunities we're going to delve into and go for?

And that's when you start looking at the strength of the operator. How well capitalized are they, you know, are they, are they seeking reasonable financing terms with regards to leverage and being able to provide recourse or not? And so those are some of the things that come into mind. But, but besides the deal underwriting standpoint, there are, there are a lot of deals that are, that we're about to trade hands at a press pause, right? If you're selling a facility and you had a price expectation in February and you're buying a facility, you can understand a buyer saying, wait a second, that T12 that we just ran and put a cap rate on to try to determine the value of the property that's gonna look a little different. And therefore let's press pause. Let's see how this plays out. And so I think that from a deal time is what we're seeing in the markets is a lot of just uncertainty, not only in the capital stack or capital side of things, but if you're a buyer and you're going to be borrowing money or taking on investors or investing your own capital into a project, you want to make sure the return is going to be there. And you know, the enemy of investing is uncertainty and we're in an uncertain world right now.

Lucas: Let's talk specifically about distressed assets because I've seen and heard conversations recently about investors that are talking about, Hey, there may be a really big shift and change on pricing where the market has been, you know, challenging for people to buy because the price per unit or price per bed has been really, you know, it's been a sellers market that's what I've been hearing a lot of times. And then you also hear this other conversation about the private equity groups had been paying all this money and they're driving up prices and stuff like that. So what do you think the market's going to be like on the other side? Is there going to be a big shift in the, in the pricing for all of this, will people have an opportunity? Are there going to be a lot of exits here? Are our REITS going to exit big portfolios or, or are they going to jump in? I mean, there's a lot of questions here that I'd love to get your take on.

Steve: I don't think there's going to be a land shift of serious magnitude and price per unit and price per bed. There will be a shift. You know, it will decrease just based on the simple fact that there's less capital available. And we're seeing, you know, income impacted. And remember, you know, all senior housing and healthcare assets, they're not just real estate assets. They're really operating businesses. And that's really where the bulk of their value comes from. And so, those impacts to revenue and expenses drive value. And if your, if your margins are tighter, you know, your value's going to be going to be less.

But, I said not a landslide because I think what you see here is an economic environment that if you're not well capitalized, then you're over leveraged and you don't have scale. It's going to be harder to deal with this, right? And that's going to force your hand to, to sell in many cases. And so what, well capitalized experienced owner operators view is an opportunity and they view as an opportunity to, you know, purchase an asset at a more reasonable basis and you know, inject some cap ex and operating expertise and scale under those so that, that ultimately, you know, they can come out on the other side of this and, and, and benefit.

Now, I'll give you just an example, an anecdote that sort of helps illustrate that. A client of mine probably eight to nine years ago had a portfolio of probably 40 skilled nursing facilities and assisted living facilities in the Midwest. He elected to exit, you know, sold them off in a few different, a few different offerings and pivoted to a separate healthcare market- one that dealt with drug and alcohol rehab as well as a depression-related facilities. And he called me two weekends ago and he said, hey, I'm getting, I'm going to get back into school to the skilled nursing space. He's well capitalized. He knows how to operate, he can tap sort of his formal team. They loved working for him. But what he's seeing is he seeing opportunities with small portfolios that are over leveraged because somebody paid too much and they put too much debt on it and younger owner operators that sort of went all in and they're not going to win and he's going to be there and he's going to benefit from it. And good news is that's good for the patients and the residents because now they're going to have a more well capitalized owner operator that has the capital to put into these facilities and programming and, and so it's unfortunate for that entrepreneur that that went into the space. But you know, if you're an entrepreneur and you leverage yourself too quickly, too much, that's sort of the risk, the risk that you run.

Josh: It makes it a lot of sense. Steve. And so kind of a final question, we've touched on the value adds and a lot on the acquisition side. It's been very helpful. What do you say? I mean, development was super hot, new construction over the last, really for quite a while going into this. What would be the appetite for new construction and, and what's everybody thinking on that front?

Steve: Yeah, good news with new construction is, you know, you obviously have seen sort of a pause or at least a slow up in construction. So if you're bidding out a deal or a job right now, you know, you're likely going to get a little bit of a discount compared to what you were expecting from the GC and the subs and have the opportunity to work with sort of the top subs. So again, if you have capital, this actually can be sort of a sort of decent time to strike.

You know, the other positive I think for the market right now is it's no secret. I mean, there was quite the boom and a little bit of over supply and a lot of markets. And so what this does is it cools the jets on new supply coming on board. The demographics aren't changing, you know, so, so it kind of helps sort of the demand supply of units available. And so I, I hate to say it but, unanticipated correction like this probably gets us into a little bit more equilibrium.

But, no doubt development, you know, is going to be, you know, a lot slower over the next, at least six months until people can understand what the impact is. Because when you talk about underwriting a value of a deal, and you and I go back to my T12 I was talking about, that's all the more important, when you're doing projections on a facility that has nobody in it, it hasn't been built yet, right? You want to make sure you're underwriting margins that are appropriate and any lender wanting to lend to a new construction project, they're going to want to make sure some real equities in that deal. And they're not going to want to become as high levered on the capital stack as they were, you know, six months ago, 12 months ago because they need to make sure that developer owner operator has some real real skin in the game.

Josh: It makes a lot of sense. Well this has been great for I know for Lucas and myself as well as our audience and our listeners appreciate you taking time out of your schedule. I know you've got a million calls at your own from the home command center there. But appreciate you taking time for us today.

Steve: Thank you guys. It's been great to speak with you and, and love tuning into your podcast.

Lucas: Steve Kennedy, thank you so much. We appreciate that. Thanks for following along. And to all of our listeners out there, if you like what you heard today, we'd love to continue the conversation on our social channels. You can connect to us at btgvoice.com and get all of our episodes. Connect to all of our social media channels and you can also connect to us the hosts, Josh and Lucas, and our production team. Thank you everybody. We hope you have a great day and thanks for listening to Bridge the Gap.