

Lucas: Welcome to Bridge the Gap podcast, this senior living podcast with Josh and Lucas. Josh, we are in Chicago, NIC fall 2019 and we are kicking off this conference, right? We have an incredible guest on the show today. We want to welcome Vikas Gupta. He's a senior vice president of acquisitions at Omega. Welcome to the program.

Vikas: Thank you guys. I'm excited to be here.

Lucas: So we had a conversation before you sat down and you know, you guys are at the top of the food chain here, right? There's a lot going on. And you said you're going to be in your suite all day in meetings and meetings and meetings. And so we've drug you out of there and brought you down to the river level here. Get you some, some daylight, you know, to open up your eyes today and get you started.

We want to know your background of how you got into this business. Clearly you've got a lot of skills on the business-side that you could have to, you know, you could have taken that to any vertical, but you've taken it here to seniors housing and we want to know why.

Vikas: Okay. I'm going to start with a really funny story. So my son just graduated from preschool and he had to say what he wanted to do when he got older and he's put up a sign and everyone's like, wow, your son wants to work in nursing homes like his dad. And I was like, wow, buddy, that's not exactly what dad does, but that's, that's nice that that's what you think he does.

And then it really made me start thinking of what our industry does. So with that aside, going back a couple steps. My background is of course, finance. Omega is a large healthcare reit. We're the fourth largest reit. We're kind of known as the nursing home reit. A lot of other reits focus in senior housing and you know, other medical office buildings. Omega is not a pure play nursing home reit, but a large, large component of what we do as nursing homes. I myself have been in the nursing home industry my entire career. I, when I graduated college I ended up at a bank named Capital Source, healthcare lender. They're, you know, doing financing for the nursing home industry. Capital Source formed a little reit of its own that eventually got sold to Omega and Omega as part of that brought over some very key and important people to join the Omega tier.

I moved over to Omega there about eight years ago. So my whole career has been in senior housing, skilled nursing, financing, which is 15 years. I've been doing it forever and I think I will be doing it forever. And I really enjoy it. You know, as you guys know, it's like, kind of, a niche financing industry. Lots of different people have gotten in and out of the space over the years. It's been fun to watch that happen.

But now at Omega, you know, we've gotten to the size that's, you know, and I'll go into a little bit about what I do at Omega, well, we help operators. We provide capital to operators to operate nursing homes across the country. And so one of my main jobs at Omega is I lead acquisitions. Also some of our divestitures and our portfolio matters as well. But you know what I'm going to be doing in that room all day is meeting with our operators, sitting in a room with them, talking about what's going on in their given markets and their given states, seeing if there's an opportunity for Omega, to buy a few more facilities for them to sell maybe one or two of their

buildings that doesn't make sense for them, to put them in another state that might make sense for them, to understand what's going on in the reimbursement of that state of this moment to see if we can help build them a new nursing home. All of these different things. And so, you know, again, even though a company like Omega isn't involved with the direct care of the residents, you know, I think it's all full circle with you know, what you guys are trying to promote and everything that we're just, you know, we're helping a population out there. Omega does it through the form of capital. So I just put a bunch of questions together in one, so.

Lucas: Yeah, that's a great overview.

Josh: That's super cool. So kind of a two-part question: being in the acquisition side of your business, what are you specifically targeting when you approach an acquisition for a nursing home or a senior living community as well as partnerships with the operators, with the management companies? What are you looking for in those partnerships and acquisitions?

Vikas: Great question. It comes down to really three key components: Good operator, good market and good real estate. So it's a combination of those three things and it's kind of kind of given away our underwriting secrets, but it's not brain surgery either. And I would say the most important is the operator. So Omega has 60 some nursing home operators for something around 900 nursing homes. Might, in probably half of those 60 are operators that I know want to grow and we want to grow with. So the first thing for me always is it's very easy for me to grow with those operators. So if one of those operators comes to me and goes, we think this is a good facility to buy in this market, that almost becomes a slam dunk. I don't have much that I have to think about.

Flip that. If I get a good piece of real estate, I can take that to one of my operators that I know knows that market and then it's a slam dunk that way as well. Then there's always the, you know, what we're trying to do, 60 operators today might be 80 next year and we have people out there trying to meet new operators and see what we can do with them. Then it's underwriting operators. Understanding what experience you have in this industry. What do you know about these markets? Why do you think you can do X, Y, Z with this building? And that takes a little bit more time and patience and you know, we're trying to do that. So it's coupling all three of those things.

And just touching on those other things, real estate I mean, I, you guys, you guys understand real estate probably better than I do. Nursing homes are old. The most of the nursing homes in this country are old; there's 15,000 nursing homes. Some of those are getting towards the end of their useful life. Some of them are not. Trying to understand which ones still have a life of 20 years. If it doesn't have something in 20 years in it, it's not worth me buying it or maybe me buying it and putting in some money into it to make it a nicer facility. So that's all kind of part of it as well.

And then most important, not most important, one more important factor is the market. I, even though nursing homes are indeed all across this country, some markets just don't have the demographics. So even though somebody might be selling me a facility in rural Kansas, that's a

great price. And the real estate's great. It just doesn't make sense cause I, it'll never fill up because there just aren't people there.

Josh: Sure. So talk to us a little bit, your perspective, maybe Omega's perspective or both if they're a little bit different, what is the growth trajectory, the opportunity compare and contrast a little bit between traditional, the skilled nursing, the nursing facilities and maybe what we classify as senior living, the assisted living memory care independent space because you guys are heavily entrenched in the nursing home space. Are you feeling very positive that there's still tons of opportunities out there? Are you guys looking to diversify more and mix your portfolio more? What are your all's opinions on that?

Vikas: So first it's a really good question and I think from a high level, there is growth. There's tons of growth for both. I mean, it kind of falls under the whole senior housing umbrella, but there's going to be growth in this market no matter what. I mean Omega has done some deep studies and demographics and where things are going. I think everybody knows this, we, we're, we're finally on the forefront of the baby boom, hating our industry in the nursing homes. With that said, the same thing that's going to happen in the assisted living space. So we see nothing but this happening, an increase happening in our industry across the board.

With that said, nursing, I mean, first Omega let me say this, Omega will always be a nursing home. A big component of what we do as nursing homes. We are diversifying. We look at senior housing opportunities. We actually have, you know, one of our largest investments is Maplewood, very well known, you know, investment that we're doing. High end assisted living and memory care. And you know, it never, we have a high rise going up in New York City. It will be open in March and it's exciting and there's nothing like it in New York City. So what we're doing is we're looking for opportunities.

Josh: Sure.

Vikas: So, you know, we'll keep expanding in the nursing home space. Yes. Will we probably keep adding more assisted living memory care independent to the, to the portfolio as well? Yes. I just think the way things are with the way we know nursing homes, we know the industry. I think just the largest component of what we do will continue to be nursing homes.

Josh: So let's unpack a little bit for our operator audience. We've got a very diverse audience out there, but let's unpack from your perspective, when you say good operator I think we have ideas on that, but talk to us about, you know, when you look at your portfolio year, did you say 60 operators?

Vikas: About.

Josh: What are some of the key characteristics that make up a great operator in today's growing complexity of the market?

Vikas: I'll tell you what, for me, and again, you get into this little bit of a game because there's national operators, they do a great job and then there's regional operators. And I'll expand a

little bit on the regional operators because I think that's a little bit more of what Omega is kind of gearing for nowadays; it makes a little more sense for us. Operators that know their given market, you know, maybe their size is around 50 buildings or so, and they're concentrated in two to three states at most because they just know those states inside out. You call them up, they know those cities, they know the reimbursement of those states. Well they know they know people in the government. Well they know you know, if you call them up and you tell them about a building, they know that building and they'll be like I've looked at that building a couple of years ago, I'm not interested.

There's something about that that makes a difference in the long run. Operators who can just, you know, just know their markets inside and out. And that's, that's one of the things that we find very strong. So Omega tends to focus on regional operators. With that said, we've done national deals before. And we probably will continue to do national deals. There's a couple of public operators, everybody knows that do a great job, Genesis, Insign are great examples of operators who are spreading their footprints out. But with that said, you know, some of the regional operators are the ones that have a capital need. So the marriage is pretty good between us and them.

And then we just noticed that in the long run it's so much easier to give an operator a facility in Pennsylvania if they are already an operator in Pennsylvania. So that is one of the best things we've done and Omega has done a lot of things such as we'll take a large portfolio, we'll buy it, and then we'll split it up amongst various regional operators because we just go Pennsylvania, for you Florida for you and Texas for you, because we don't need that Pennsylvania guy down there in Texas. It doesn't work for them. It doesn't seem to work in the long run for anybody.

Josh: That makes a lot of sense. We're hearing that. Another thing I'd like to ask your, you know, your feedback on is we hear a lot of talk about the aging inventory in senior living. And I'm sure it's the same in nursing facilities. And there's a lot of talk around repositioning those for the next generation of senior housing. Construction costs continue to just skyrocket and things like that. Is there any interest, do you see opportunity where that's going to be something Omega is very interested in, focused on more of these repositioning assets and you know, partnering with the right operators that understand how to do that? Maybe on the rebrand side, on the renovation side is what's that?

Vikas: It's a huge part of what we do. So Omega has its own construction development group, which is, it offers opportunities for operators to A: we can help you, we can meet and give you advice, we can put you in touch with GCs or developers. And then of course we are the financing component of it. So it all comes together.

But to answer your question, yes. As I said earlier, there's 15,000 nursing homes in this country. They're old, for the most part. Buildings need money put into them, be it to totally redo them, to replace them, to add another wing on, to expand them. A therapy gym and Omega is in 100% support of that, and that's, you know, where our money can really help operators out. It's like, let's buy you that nursing home. All right, and let's expand the gym there because that makes sense. Or let's buy this home with the thoughts that three years from now we'll do a replacement

facility because we know it's not going to work out, but it's a CON-state and the beds are valuable. So yes, the answer is very much a yes. And again, it's part of like what I'll be doing upstairs sitting in a room with operators and being like, this building isn't doing well, why not? And there'll be like, well, the physical plant is old and we'll be like, let's talk about that. Let's, what can we do with that physical plant?

Now I will never say that I'm a construction guru or anything like that. So that's why smarter guys like you guys deal with that stuff. But we'll say go, go talk to somebody and we'll put you in touch with somebody and let's find out what it'll cost. And you know what? Improving the physical plant is only going to improve the performance of that facility. I mean, I'll give you the prime example. You know, where does grandma, who has, you know, a broken hip want to go for rehab, she wants to go to the best looking nursing home near the hospital. Well, we don't have the best looking home by the hospital. Well maybe we can pick up that building, but let's see if we can get the best looking home and let's, let's do what we can to do that. And then, you know, we'll work with the operator and figure it out.

Josh: Yeah, I agree and Lucas, you're on the forefront of that. That's what you do for a day job is repositioning these assets from the construction side. And it's amazing the opportunity, you know, with this growing population at all the different opportunities there are for acquisition, for development, for repositioning. I'm sure you're seeing that in Texas.

Lucas: Well, I think that the industry to your point, Vikas, is that a part of the podcast's mission is to change the perception of how people think about aging and senior living, IE, skilled nursing. A lot of, if you were to pull people in the audience or just out here on the river walk and you said, what do you think about senior living? They may think of that dark nursing home from the 70s. That's probably what they conjure in their mind. Right? And I think that the opportunity to take these 15,000 or a number of them as people are aging into this space, acuties are going up particularly because maybe technology may have be keeping them at home longer than they should have because they may be should have gone to congregate care before then. They may have an acute accident, they're going into senior, excuse me, skilled nursing. The opportunity to transform those communities in America I think is a process that could also transform the way people think about the industry as a whole.

Vikas: I 100% agree with you. And you know what, sometimes it's as simple as lighting up a hallway, changing the flooring, which we've done across our portfolio. It's sometimes taking those, well, you know, the, these aren't even popular anymore. There used to be a concept of four beds in one room in nursing homes, decompressing those, making those semi-private rooms. And then, you know, it's, I keep, we keep using the 15,000 number for the fun of it.

Omega has built seven brand new buildings in Florida over the last three years. Beautiful buildings. You'd go into them and it'd be like, I mean, it looks like a, just a beautiful building with a theater and every, all the hospitality things are needed. But I think you're right. Unfortunately if you ask the average person out there, they're still gonna think of that dark dungeon nursing home where you don't want to go. And you know, it's going to take some time, unfortunately. And I think we'll get there. But I think one thing that will help us get there is we have this big

influx coming our way of people getting older. And, and I think in this process what's going to happen more and more people will be exposed to nursing homes. And I think at the same time our operators and you know reits and other owners will start, you know, putting more back into the buildings, which I think in time we'll just come. Everyone will see where this industry is going or the concept of what the inside of a nursing home will hopefully when we're sitting here together, five, six years from now it will be completely different.

Josh: Well, you know, I think another interesting thing to point out for our listeners that we, we have a growing audience of young people and middle-aged people that don't know anything about our industry, but what they think they know is maybe what your, your child said that it's the nursing home and they have this image in their mind of what that is and that the only career opportunity is working in there is like a caregiver or something. But you're living proof, a young guy, but yet tons of experience been doing this 15 years. So you came in early and you're, you're very much a part of the space but doing something in the financial realm.

And so a lot of these college graduates, surprisingly, are finding our show.

Vikas: That's cool.

Josh: And they're like senior living not heard of that or didn't know it was that, didn't know that it was that opportunity. So speak for just a minute to that college graduate or that high school student that's like I don't know what I want to do. I want something with a lot of runway. I want something with a lot of opportunity. I want something that feels a little bit mission. What would be your advice to them on considering something in senior living?

Vikas: I would say it's like I said earlier, it's like a, at least from my side, it's a niche in finance that non a lot of people do, and, you know, haven't had exposure to ever. Go work, you know, go listen to shows like this, see what's out there, go visit a nursing home and just realize that there's so many players involved with this. They are those caregivers. There are people who probably own the bricks and sticks. There was some landowner involved with this. There was some company that developed this for them. There are now 120 people in here that are, you know, 20 of them are here for rehab, the other hundred are here for a long-term basis. This might be the end of their life spot, whatever. But just realize what went into this. And there's so many different parts of that where you could get involved. And I, you know, you bring up a really cool point. You know, I, we try to hire people at Omega sometimes and I always go, well, I'd love to have someone with experience and nurse in this industry and I can't find it. But you know what though, we find people with just regular finance experience or, I mean, I'm making this really simple but really good at Excel in, you know, we're like, you know, let me, let us tell you what we do.

And you know, we're monitoring performance of operators, we're talking to operators, we're out there looking at real estate. We're out there. I mean Omega does cool stuff like we own care homes in the UK we're doing, you know, they come in the door, they learn about what we do, they come on and you know, upstairs in that room with me today I'll have two or three young

guys have been with Omega only one year and they're just soaking it all up and hopefully there'll be in this industry 15 years from now. You know what I mean?

Josh: It's very exciting.

Vikas: It's very exciting. And you know what they're the ones who are going to take it to the next level.

Josh: Well, and I was talking with a soon to be college graduate, very sharp young man this past week in my office that was looking at interning and he had just heard about this company that maybe had an internship opportunity and I was telling him about what we did. He's studying human resources. He's going to be going out. The college system, a major university system had never exposed him to the opportunities in human resources in senior living. And I'm sitting here thinking, think of the labor force and the personnel that is required in these communities to manage these. That's a huge component. Huge opportunity.

So you know, Lucas and I have talked about this, the us, you know, part of what we're doing is trying to educate and figure out how we get to these university systems. How do we get to these groups to educate them? Because the opportunity, even for human resources is mindblowing.

Vikas: It's unbelievable. I mean, one side story, just last summer I think I had a Wharton grad reach out to me. I'd be like, I want to learn more about nursing homes. I go, there's different parts of this. He goes, I want to learn what's going on inside a nursing home. You know, called one of my operators up in California and I go, this guy lives in your market. Can you, can you tour him or can you give them an internship? He interned there all summer, ended up getting a job with the company, works there today.

Josh: That's so cool.

Vikas: I mean, smart guy, Wharton MBA. Yeah. But you know, and he's probably a very, very key component there.

Lucas: That's incredible. A labor workforce. This is a topic that continues to resonate through the halls of this building. Even though that this is a big capital and a deal maker event, labor is now at the forefront because everybody knows that if we can't get the right labor to come in and work in this industry, the capital will change, the operators will change, everything will change. And I think you cannot bifurcate the fact that there also needs to be a culture change. How do we attract these Wharton MBAs? How do we attract just, just good young people that can come in and work these jobs? And we have baked into the cake a missional approach that's different. Josh, you've mentioned this many, many times that Chick-fil-A is so good on recruiting, but we're not selling chicken sandwiches. We are caring for the greatest generation and soon to be probably one of the largest demographic generations that we've seen in the boomers in the next six to 10 years. So we want to ring that message out there and, Vikas, it's been an incredible conversation with you, we appreciate your passion and your time here and, and wish you well

with all of your meetings and we hope they're very, very successful. Thank you everyone for listening to another great episode of Bridge the Gap.