



Market Intelligence for Healthcare Real Estate Developers, Designers, Lenders, Contractors, Brokers, Investors and Executives™

Former CNL execs form new venture SERVANT HEALTHCARE GARNERS FUNDS TO INVEST IN MEDICAL R.E.

By Jessica Griffith

When Health Care Property Investors Inc. (NYSE: HCP) acquired CNL Retirement Properties Inc. last fall, three of CNL's executives took a look at the healthcare real estate market and made a decision to go out on their own.

COMPANY PROFILE

The choice meant leaving the country's largest healthcare real estate investment trust (REIT) in favor of an entrepreneurial venture within an existing real estate investment firm.

In May, the trio launched Orlando, Fla.-based Servant Healthcare Investments LLC.

As of earlier this fall, the healthcare division of Servant Investments had secured \$100 million in investment commitments, part of an active pipeline valued at \$300 million to \$400 million, says the new venture's CEO John Mark Ramsey, formerly senior VP of investments at CNL.

As noted, Servant Healthcare is a unit of Servant Investments, a firm started by two alumni of CNL's restaurant group: Robb Chapin and Rick Steinberger.

By joining a small, existing company, Mr. Ramsey and his partners gave themselves a springboard from which to leap into the healthcare capital market.



Scott Larche



Kevin Maddron



John Mark Ramsey

The focus of Servant Healthcare is to invest private equity funds from a network of high net-worth investors and institutional equity investors into targeted healthcare properties, both acquisitions and development.

"Obviously, the investors have an interest in investing in healthcare real estate.

"Rick and Robb had assembled a transaction team, a marketing team and an office infrastructure that gave us a leg up," says Scott Larche, VP of investments for Servant Healthcare and a former senior manager of healthcare analysis at CNL.

"We didn't have to go out and put all that together. That gave us the best of both worlds; we could be a small, nimble deal team with the ability to move quickly, but we have a strong bench there to help us close transactions, and that makes us even quicker."

Servant Investments was founded in 2005 and its core business is sale-leaseback transactions, primarily for restaurants and gas/convenience

stores. The company also invests money in joint ventures to develop industrial, retail and self-storage properties.

Mr. Chapin says he was looking to add a healthcare unit but needed to find the right people. He did not know Mr. Ramsey at CNL. But because he'd helped start CNL's retirement and healthcare REIT before moving to the company's restaurant REIT, he certainly knew of Mr. Ramsey's work.

A mutual friend connected the two men and Servant Healthcare arose from those conversations. In addition to Messrs. Ramsey and Larche, Kevin Maddron joined Servant Healthcare as chief financial officer and chief operating officer. Mr. Maddron had served as VP of asset management for CNL Retirement.

"They have long track records from both an operational and financial perspective," Mr. Chapin says. "Their wide range of industry relationships was absolutely key in allowing them to hit the ground running from Day One."

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Both sides of finance

Before joining CNL, Mr. Ramsey was principal and cofounder of Superior Residences Inc., an owner and operator of senior housing in the southeastern United States. In that role, he says he gained insight into how healthcare organizations function.

Having that in-depth knowledge of real estate from a true healthcare perspective, not just the bricks and mortar perspective, sets Servant Healthcare apart from its competitors, says Bill Hutchison, CEO and partner of The Cirrus Group LLC in Dallas.

He met Mr. Ramsey about three years ago, when CNL purchased a portfolio of medical buildings from Cirrus.

“The competitors for that portfolio would default back to pure bricks-and-sticks real estate,” Mr. Hutchison recalls.

“John Mark was willing to invest time to understand what we did. Healthcare is not based on location, location, location. You have to understand the kinds of doctors in the building, the types of care they provide, who their patients are and how they pay, etc.”

Health Care Property Investors, which purchased CNL Retirement Properties, continues to serve as Cirrus’ capital partner, but Mr. Hutchison says he brings deals to Servant Healthcare when and if HCP is not interested.

Cirrus is in negotiations with Servant Healthcare for a hospital development deal, but Mr. Hutchison did not provide further details.

“We understand how these businesses operate,” Mr. Ramsey says. “We have expertise in structuring and financing deals, but a lot of people have that. We’ve also dealt with resident families and resident situations. That helps us understand what our operating

partners are going through. What we see with our operators is a desire or hunger for someone to understand what they do.”

That is not meant to gloss over the team’s transaction expertise. Healthcare deals stacked up fast and furious at CNL. Between early 2004 and mid-2006, Mr. Ramsey’s group put together a \$1 billion portfolio of medical office buildings (MOBs), surgery centers and hospital properties.

He also led the investment of an additional \$3 billion in senior housing. HCP paid about \$5.3 billion for CNL Retirement Properties last year.

HCP offered the trio positions to remain with the merged firm, but Mr. Maddron says they wanted to work in a more flexible environment.

“We wanted the opportunity to create the culture and create a sustainable platform,” Mr. Ramsey says.

In a larger company, he and his partners could hold executive roles but not wield the same level of control. In addition, Servant Healthcare has the ability to work with small companies and to participate in smaller deals, something not always possible in a giant REIT.

Willing to go small

Mr. Larche, who helped CNL acquire \$1 billion in medical properties, says the market contains plenty of small but attractive deals that he could not introduce to CNL.

“The returns wouldn’t have steered the ship any,” he says. “Here, we can focus on some of the transactions we would have done if we had infinite time and resources.”

“A small organization tends not to be limited by policies that make sense in the big picture but may not make

sense for a single transaction,” adds Jim Moloney, managing partner for Cain Brothers in San Francisco.

One of the keys to Servant Healthcare’s success could end up being the company’s ability to rapidly develop creative financing structures, says Al Holbrook III, chairman of Solomon Senior Living Holdings in Alpharetta, Ga.

The partners have put together such structures in the past, says Mr. Holbrook, who worked with Messrs. Ramsey and Maddron at CNL after his company became a tenant in properties owned by CNL.

Mr. Holbrook recently engaged Servant Healthcare as a capital partner for a \$45 million continuing care retirement community (CCRC) that is under development in Acworth, Ga. Mr. Holbrook says the partners have the ability to quickly determine the financial viability of a project.

“John Mark is a problem solver,” Mr. Hutchison adds. “There are plenty of good employees at institutions who do a good job of overseeing assets and transactions, but they are box-checkers. John Mark is the polar opposite of a box-checker. He wants to find out why a box didn’t get checked. Is there a licensing issue? Is the property undercapitalized? If you have a sophisticated and complex project he is a good one to have on the team.”

Although existing investment firms have the benefit of long track records, Mr. Moloney says he is always pleased to see a new entrant.

“A lot of people in the capital market today are smart and have creative ideas,” he says. “We are never so confident that we wouldn’t think someone else’s ideas couldn’t be a little better. None of these companies are carbon copies of each other. Sometimes new capital doesn’t make sense for a situation but sometimes it does.”

Cutting deals

Servant Healthcare plans to invest in both new and existing properties. The current \$100 million in commitments is focused on development opportunities in the Midwest and Southeast, and these projects are evenly divided between senior housing and other medical facilities. Further details are not yet available.

Healthcare real estate is a rapidly growing market and it eventually could be the largest vertical within Servant Investments, Mr. Chapin says.

“We believe an investment rate between \$250 million and \$350 million per year would be sustainable,” he notes.

Several challenges await the partners as they delve further into healthcare deals. One significant difference between healthcare and other types of real estate is the regulatory environment, Mr. Maddron says.

“Healthcare is very heavily regulated in a way that, say, commercial office, is not,” he says. “Reimbursement rates can change overnight. This can make it more complex than other asset classes.”

For example, the Centers for Medicare and Medicaid Services (CMS) plans to phase in new reimbursement rates starting this fall and continuing for the next four years. The ever-changing reimbursement models can create opportunities, Mr. Ramsey says.

Investors want properties that deliver the best care in the most efficient manner possible, and a capital firm that understands the operations as well as the financial details can wield an

advantage in such a market.

On the development side, the cost of building new healthcare properties is higher than it was even a few years ago. Construction and labor costs account for some of the increase, and Mr. Maddron says changes in professional and disaster insurance create upward pressure on building and land acquisition costs.

Another factor is the recent shift in the credit market, Mr. Larche says.

“I’ve talked to lenders but I don’t think anyone has a crystal ball,” he says. “It has led to a tightening of credit standards and lending standards, and many lenders have less capacity than they thought they would for new deals. That makes them a lot choosier about new deals.”

Two factors help Servant Healthcare

negotiate a tight credit market. The partners built strong relationships with many lenders during their years at CNL. Also, Mr. Larche says the lending community is more educated about the healthcare industry than it was a few years ago and lenders are more sophisticated when choosing investments in that sector.

“It is a more challenging process to get financing done right now,” Mr. Ramsey says. “What is interesting is that along with this complex financial engineering, banks are looking more closely at equity with experience. One thing we think we bring to the table is by partnering with quality operators, we can dramatically change the presentation to a debt source. That circles back to our experience.” □

Jessica Griffith is a business writer and a frequent contributor to Healthcare Real Estate Insights™.



Servant Healthcare Investments LLC
Orlando, Fla.

STATS

- Employees: 8 professionals, with an additional 15 associates
- Founded: 2007
- Services provided: Capital solutions to healthcare, medical facility, and seniors housing developers and operators
- Product type: Medical office buildings, surgery centers, specialty and full-service hospitals, assisted and independent living facilities, continuing care retirement communities, and skilled nursing facilities

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