

HREI

Healthcare Real Estate Insights™

‘Just getting started’

**NexCore Group transitions to
its ‘next core’ of executive leadership**

Members of NexCore’s executive team gathered recently at their new headquarters space, now under construction in downtown Denver. They are (from left to right): Todd Varney, Robert Lawless, Jarrod Daddis, Greg Venn and Ed Christen.
Photo by Eric Lucero, courtesy of NexCore Group

As is the case with many successful companies, all of what NexCore Group LP has accomplished over the years, and continues to accomplish today, makes it somewhat difficult to remember when the company was just starting out and its new executives were wondering what the future would hold.

Back in those days, right around 2004, a number of professionals with the Neenan Company, a Denver-based design-build firm founded in the early 1970s by David Neenan, decided to do something the successful company had chosen not to do: become an at-risk developer of healthcare facilities on a national platform.

Doing so meant taking on all of the challenges and potential pitfalls that come with initiating development opportunities and having to land tenants to fill the spaces.

Their plan not only called for continuing to offer investment opportunities for physician-tenants as well as a stable of high-net-worth individuals, but also to tap into institutional capital partners for both developments and acquisitions in order to fund projects with the most-efficient capital possible.

Greg Venn and several others who had been doing design-build healthcare projects at the Neenan Company, including Peter Kloepfer, Bob Gross and 15 others, saw the potential for such a company and decided to take the risks head on.

One of their supporters turned out to be Mr. Neenan himself, who not only gave Mr. Venn and the group his blessing but challenged them to do so.

“David pushed me out of my comfort zone and said, ‘Okay you’re talking about starting a company, so go and do it to the best of your ability.’ At the same time, he offered to be an investor in our projects,” Mr. Venn recalls. “That was a great push and something I’ll always appreciate and never forget.”

As the company was in its earliest stages, one of the first tasks, naturally, was to come up with a name. So an outside consulting firm was working on some ideas.

But it was Gretchen Oswald, who is still with the company today, currently serving as information technology & office systems manager, who said something along the lines of, as Mr. Venn recalls, “You’re the core group of people, the next core of this new company, so why not call it ‘Next Core?’”

“We decided right then and there to use that name, dropping the ‘t’ and calling it NexCore,” Mr. Venn continues. “I think it could not be more appropriate then and now, because as we look to the future we have come up with a model, a sustainability plan if you will, to pass the leadership of the company on to that ‘next core’ of leaders.

“Who knows? Hopefully this current core will pass the company along to another core group, and so on. Our dream is for this company to be as much about helping to improve the healthcare landscape and to provide our clients with the facilities and tools they need to succeed but also about the sustainability and the continual building of a culture here at NexCore.”

It’s why, he adds, “our motto, even after 15 years, is ‘We are just getting started!’”

That is the case indeed, as NexCore Group LP’s original founders have, during the last five or six years, devised their aptly named sustainability plan, which has already resulted in a new management group’s transition into key leadership roles.

While Mr. Venn remains the CEO as well as a member of the board of directors, two of the other founders have retired. They are Mr. Kloepfer, who remains on the board and invests in various projects, and Mr. Gross.

Taking the leadership reigns and making most of the day-to-day decisions is a management team comprising Jarrod Daddis as president, Todd Varney as chief development officer, Robert Lawless as

chief financial officer and Ed Christen as chief investment officer.

As the name of the sustainability plan implies, it has already propelled NexCore to more growth and success than Mr. Venn says he ever envisioned.

“This new core of leaders has really added to the creativity of the deal structures and expanded and changed how they work with sources of capital,” Mr. Venn says.

“I fully acknowledge that many of the decisions being made by Jarrod (Daddis) and Todd (Varney) and the team are really improvements on what I was doing, what we had been doing.

“An example is how they have expanded the company into the senior living platform, something I would not have foreseen just a few years ago.”

Getting the ball got rolling

NexCore’s success is well documented.

Since its founding 15 years ago, the firm has developed and acquired more than 122 healthcare facilities in 27 states, has engaged in healthcare real estate (HRE) facility transactions totaling more than \$2.1 billion – many of them in partnerships with a variety of capital partners – and has managed more than 7.4 million square feet of healthcare space, including properties it has owned or those owned by third-party clients, including capital sources.

Today, the company manages 50-plus buildings with about 4.5 million square feet of space, more than 75 percent of which the company owns outright and/or through capital joint venture (JV) partnerships.

“We’re currently managing assets for five different capital partners,” says Mr. Lawless, the CFO.



NexCore worked with Summit Healthcare Regional Medical Center in Show Low, Ariz., to determine its needs and is developing an outpatient campus comprising a 102,331 square foot MOB pavilion (above), a 16,213 square foot ambulatory surgery center (ASC) and a 54,699 square foot administration building.

Rendering courtesy of NexCore Group

With all of the new work the company has garnered during its 15 years, NexCore has grown from 18 people in its original office in the Atrium Building in the heart of downtown Denver to 90 people in eight offices across the country.

Even so, Mr. Venn recalls those early days of forming of the company as being “exciting and nerve-wracking” at the same time.

“When you start your own company, a development company for that matter, you’re giving up that security of receiving a salary,” Mr. Venn says.

“From that point on, we would be dependent on the returns from our development and asset management company. We certainly believed we were going to succeed, as we had experience in healthcare real estate and saw a growing need for new and sophisticated outpatient facilities to help the health systems grow. We also believed there was a place in the market for a company that would partner with institutional capital.”

“Even so, at the time we didn’t have any sure-fire projects that were going to generate development revenue and, hopefully, profits.”

To get the ball rolling and generate funds, Mr. Venn and the other co-founders, Messrs. Kloepper and Gross, responded to a group of investors about purchasing an MOB portfolio that was owned by physicians as well as investors in certain Neenan Company healthcare facilities. The team orchestrated a complex \$125 million transaction involving the purchase of three buildings and four JV projects developed for hospital and physician tenants.

At about the same time, the fledgling company started to respond to development project requests for proposals (RFPs) initiated by hospital systems and physician groups. One of those came from Alexian Brothers Health System, which had initiated a \$400 million program to expand its services and facilities, for medical office building (MOB) projects in the Illinois cities of Elk Grove Village and Hoffman Estates.

As Mr. Venn recalls, NexCore came up with a solution to develop the facilities, which would have a combined 190,000 square feet and cost \$45 million, with a low cost of capital to help keep rents as low as possible while giving physician-tenants a chance to acquire ownership stakes in the buildings.

The company had the two MOBs designed and had started construction when it brought in its first institutional capital partner, San Francisco-based RREEF America II, which provided investment opportunities for a variety of capital sources, including pension funds.

Soon, the company landed a pair of separate fee-development projects, one for Elmhurst (Ill.) Memorial Healthcare, which needed an MOB, another for Bend Orthopedics in Oregon, which needed a surgery center.

More work followed, including the development of an MOB for Holy Family Hospital in Spokane, Wash.

“That’s when, I would say in looking back, that we kind of took off as our own company,” Mr. Venn says. “Not that it was easy or that we didn’t have to work for everything we got, but we did start getting business through referrals while still having to go out and compete for projects. We learned right away that in this business, where referrals are so important because health systems listen to what other systems have to say, that you have to prove yourself and the value you will bring to a client on every project, or you won’t last long.”

These days, NexCore's range of product types includes "MOBs, centers of excellence, specialized centers, medical fitness and wellness centers, micro-hospitals, senior living communities," says Mr. Daddis.

"We're also making acquisitions of these product types and doing it all over the country for different clients by lining up the most efficient capital to take care of those requests."

Growth during the downturn

NexCore's development workload remained quite steady after those initial projects, even during the dark days of the Great Recession.

While it didn't make any acquisitions for a couple of years, the company did, "during the downturn, make sure that we took care of every property we owned and recapitalized with new capital when most lenders didn't want to be in the market place," Mr. Venn notes. "It was actually that period of time that solidified our relationships in terms of how we take care of our properties."

As a result, NexCore started receiving requests to form partnerships with institutional capital sources, many of whom were starting to notice the strength of the HRE market, even during economic slowdowns.

"It was in 2009 that we started working with (Chicago-based) Heitman on a value-add fund," Mr. Venn says. "We did a recapitalization of one of our existing developments as well as set up a development plan with them. Because of that, we actually had some of our best growth during the recession."

The NexCore-Heitman partnership's first project was the development of a \$52 million, 182,000 square foot integrated MOB on the campus of the \$400 million replacement Silver Cross Hospital (SCH) campus in New Lenox, Ill., about 36 miles southwest of downtown Chicago. By the time 2013 rolled around, the partnership was in full swing and it made its largest

acquisition: the \$113.7 million purchase of a 13-building, 671,811 square foot MOB portfolio in California and Arizona heavily occupied by then San Francisco-based Dignity Health.

NexCore's success as a developer continued, and in 2016 the company delivered five MOBs with 397,900 square feet of space and was named as the national leader in the "projects completed" category in the inaugural "Outpatient HRE Development Survey" compiled by real estate research firm Revista in collaboration with Healthcare Real Estate Insights™.

The next year, in 2017, NexCore earned the top spot in the "projects started" category of the Revista developer survey, breaking ground on six projects with a total of 301,331 square feet.

Growing with capital partners

As noted, the company's earliest goals entailed not only becoming a full-service HRE company offering development, acquisitions, asset and property management services, but forming partnerships with institutional capital sources.

One of its first JV projects with RREEF America II came in early 2006: the \$24.8 million recapitalizing of the Dry Creek Medical Campus, an 11-acre ambulatory care center in Englewood, Colo.

The project represented the new way in which NexCore would fund its developments and operations, no longer relying mostly on high-net-worth individuals and family offices as investors.

More developments and acquisitions with and without RREEF followed in places such as Aurora and Colorado Springs, Colo.; Kansas City, Mo.; Knightdale, N.C.; and others.

More partnerships, acquisitions and recapitalizations followed. In fact, over the years the company has made well over \$1.3 billion worth of investments with and for Heitman, according to NexCore officials.

Included in its partnership with Heitman was the acquisition of the largest deal of 2018. In a JV partnership that has NexCore providing property and asset management services, the companies acquired the PHT Portfolio, a collection of 17 MOBs with 1.4 million square feet in seven states, for \$585 million.

NexCore's partnership with Heitman actually led to its partnership with another large, Chicago-based capital source, Harrison Street Real Estate Capital.

When the NexCore-Heitman partnership started to recycle some assets and some of the JV's development projects needed to be sold prior to stabilization, Harrison Street stepped in and sought partnerships with NexCore to acquire such facilities.

Those types of capital-partner structures have given NexCore more flexibility and capacity when acquiring properties and when putting together development deals. According to Mr. Lawless, the CFO, the company varies its funding structures and capital stacks depending on the needs of each client, be it for a development or acquisition.

"As we continue to grow and have the ability to do more product types and more volume, it's really important that we have the flexibility with our capital partners," he says.

"Developers are typically told by their capital partners what the structure will entail. We take a different approach because we understand what each project entails. We meet internally and determine the need of our clients or the residents of our senior living community, and then we go to the appropriate capital markets with the terms that we think is the most appropriate."

"We have become a company that capital partners have sought out to make acquisitions that they otherwise would not do on their own," adds CIO Mr. Christen. "In us, they see a partner that understands the product and that can add additional value to their investments, even investments for their core funds."



NexCore worked with Catholic Health Initiatives (CHI) to develop and own a 37,800 square foot replacement clinic in Council Bluffs, Iowa (above), which has become the prototype for a design the system can use for facilities ranging from about 20,000 square feet to 60,000 square feet. Rendering courtesy of NexCore Group

Its own design department

As NexCore continued to provide more and more services, product types and financial solutions for its clients, the company decided in 2015 to up its game even more.

That's when the company hired its own architect, Steve Christoff, formerly with Minneapolis-based HGA (Hammel, Green and Abrahamson Inc.), to be senior VP design innovation.

As part of the business development team, Mr. Christoff heads the company's in-house design group, which is able to provide its clients, or potential clients, with detailed drawings and concept plans for projects early on in the process. Outside architects then complete the final designs.

"This was a new tool in the way that we could collaborate with our clients and provide them with solutions," Mr. Daddis says, adding that having an architect on the team "enables NexCore to provide the same comprehensive healthcare real estate solutions it always has, but now with even greater expertise in the area of design – including campus master planning, programming, renovations, additions and new construction,"

A good example of where the design

team's work paid off for the company can be found in the rural, recreational hotbed of Show Low, Ariz. There, the company was able to show executives with Summit Healthcare Regional Medical Center – a client it landed not through an RFP but by studying the local healthcare market and building a relationship with the system's executives – what an outpatient project on its campus would look like prior to starting any work.

As NexCore worked with the health system to determine its needs and come up with potential designs, the project grew in scope from a single MOB to an outpatient campus comprising a 102,331 square foot MOB pavilion, a 16,213 square foot ambulatory surgery center (ASC) and a 54,699 square foot administration building.

Mr. Varney says NexCore's in-house design group led by Mr. Christoff was part of a team that worked closely with Summit Healthcare in helping it determine its needs, both for the present and the future, in developing a project that provides "great patient convenience while increasing physician capacity, streamlining workflows and improving efficiency."

The in-house design group is part of what Mr. Varney calls a "deep bench that allows us to serve both large and small clients in

large or small markets. It's really given us a foothold in a lot of markets where perhaps others might be focused on going after those types of projects."

Another NexCore client that has benefitted from NexCore's in-house design group as well as its deep bench is Catholic Health Initiatives (CHI), which has hospitals and clinics nationwide. In late 2017, CHI chose NexCore through an RFP process to develop and own a 37,800 square foot replacement clinic in Council Bluffs, Iowa.

Since then, NexCore has broken ground on or delivered five more projects in various markets for CHI. In doing so, NexCore has created what Mr. Varney calls a "scalable, prototype design that we designed and developed for the system that starts at about 20,000 square feet and can range up to 60,000 square feet."

NexCore recently broke ground on two projects for various CHI-affiliated systems, one in Winchester, Ky., and another in the Omaha-Council Bluffs area.

"Having this prototype available to CHI really provides an advantage in terms of cost efficiencies, speed-to-market, flexibility in design to anticipate future needs and being able to meet the needs of the hospital and its patients," Mr. Varney says.

New HQ reflects growth, culture

As noted earlier, NexCore's headquarters office, now totaling 17,000 square feet, has been in Denver's Atrium Building since its founding in 2004.

"When we decided to pursue this national platform in healthcare, we just stayed in the space we'd been in before (with Neenan Company) and have been in it now for 27 years – 15 years as NexCore – and we never really got a chance to design what we wanted, just adding on a little bit here and there and making it work," says Mr. Venn, who is leading the new headquarters project.

"But with all of what we have going on, with the growth of the company and the added services and capacities that we now have, such as senior living and our own design group, we feel this is the perfect time to move to a new space that reflects all of what we have become and will help us become in the future."

The company has signed a lease for a new space just a few blocks from its current offices. There, in about 26,000 square feet in the 16M Building at 16th and Market Streets, NexCore is building out its new space, which the executives say will help it grow and remain flexible for years to come.

"Our new space is all about alignment and how everyone will work together and have the chance to collaborate anytime they need to," says Mr. Venn, who has been heavily involved in the project. "We'll have 11 collaboration huddle spaces for people to meet. We'll have seven conference rooms that will be perfect for our professionals to get together and collaborate on every aspect of every

project. They'll be able to put pro formas, architectural drawings, maps and other aspects of any project up on the screen."

The future looks bright

Moving into the new space, Messrs. Venn and Daddis say, fits in perfectly with where the company is in its evolution and where it plans to go.

"The name of our plan to keep this company moving forward, the sustainability plan, speaks for itself," Mr. Daddis says. "Our new headquarters will help us sustain this company well into the future."

"What my partners and I are doing is building on the foundation that Greg and Peter and Bob Gross established," he adds. "We have a company built on collaboration, both within in the company and with our clients and residents in our senior living communities, the patients in our healthcare facilities and our capital partners."

The company's plans call for embarking on new endeavors as well as building on what it has done for 15 years. When it comes to acquisitions, the company is in the process of setting up what the officers call a "programmatic acquisitions program" with its investment partners.

The company also will continue to build its up-and-coming senior living business, which has delivered or is in the process of developing eight communities. The division is being led on the operations and integration side by Jim Parker and Ann Olson and on the development side by Hunter MacLeod.

As it looks for new opportunities in senior living, NexCore has completed a

raise of \$55 million from high-net-worth individuals, and its new Fund I will finance up to 16 senior living communities at a total of \$520 million in a variety of markets.

"We see our venture into senior living as not only addressing the demographic growth happening in our country but as adding value for many of the healthcare systems that we're working with on their healthcare business plans," says Mr. Daddis.

When it comes to developing healthcare facilities, Mr. Varney notes that while the company's pipeline of projects is currently robust, comprising nine MOB projects in various stages of development, it continues to build new relationships.

"I think one of the keys to our success throughout the years, as well as moving forward, is that while we are successful at doing business with bigger systems and clients in primary and secondary markets, we're also capable of providing solutions and finding successful projects in tertiary and quaternary markets," Mr. Daddis notes. "And I think that's because we are really focused on understanding what the business model is in all markets and determining how to bring value to the client and value to our investment partners."

Mr. Venn notes that when the company moves into its new space, all employees will be reminded of the company's motto every day. That's because, displayed in large lettering on the wall of the new headquarters' media room is the message: "We are just getting started!"

"It's something we believe to our core," says Mr. Varney. □



NexCore Group LLC

1621 18th St., Suite 250, Denver, CO 80202

303.244.0700 t ■ 303.244.0720 f ■ nexcoregroup.com