

TIME TO CARE - NURSING HOMES PROPERTY EMERGING AS AN ASSET CLASS

Over the last years, healthcare property investment has grown to become an “asset class” on its own. The industry now commands increased expertise and specialisation in order to deliver sustainable performance. Threestones Capital has emerged over the years as one of the leading European investors in healthcare properties specialised in nursing homes.

Recently, the Luxembourg-based alternative investment fund manager acquired its fifteenth nursing home in Germany for GEFCARE REAL ESTATE FUND, its third real estate investment vehicle investing in nursing homes in Germany.

With this transaction, the leading private equity healthcare real estate company has invested more than €400m in the sector representing more than 50 assets and 4,000 beds. Threestones plans to invest through its fund TSC Fund SCA SICAV-SIF at least €100m this year and a further €600m over the next 3 years across Europe with its recently launched 4th investment vehicle EUROCARE REAL ESTATE FUND targeting €0.8-1bn in senior living investments.

Germany is the largest market in Europe for the care of the elderly, with nearly 900,000 beds in approximately 13,000 nursing homes (a third of the total European market). Recent studies show that additional 2,550 new facilities with 100 beds each will be required by 2030 in order to cope with the demographic change and, in particular, the ageing ‘baby boomers’. ‘In the early 90s German authorities identified the costs that will result from this situation and created a long-term care insurance system’, says Giovanni Perin, managing partner at Threestones Capital.

The German long-term care insurance (or ‘Pflegeversicherung’) is funded by a mandatory insurance contribution deducted from wages. The care insurance generally covers almost half of their costs, which range between €2,000 and €3,500 per month. The allowance received by the residents is the same whether the nursing home is operated by a public or a private operator across Germany. ‘The long-term care system will certainly continue to evolve’, says Giovanni Perin, ‘however, the recent change in legislation has to be seen as a considerable improvement, especially as the growing number of dementia patients now receive more support from the care insurance than under the old system’.

Threestones Capital invests most of its funds in Germany though substantial amounts are also allocated to other European countries such as Italy and Spain. Driven by demographic change the European nursing homes sector grows at an annual rate of 5%. Nonetheless the sector can still be qualified as highly



Giovanni Perin
Managing Partner

fragmented with single transactions amounting to €8-15m and the number of quality portfolios available on the market remains very limited. Threestones strategy consists of creating a high-quality homogeneous portfolio of nursing homes properties and divest it after a period of 5-8 years to institutional investors.

Last year, Threestones successfully sold a portfolio of 14 nursing homes to an institutional investor for €140m. The deal is considered to be ‘one of the most important and most successful transactions in the sector ever’, says Giovanni Perin, who has more than 10 years of experience in the European healthcare market. The company realised a net return for its investors corresponding to a 1.6x multiple of invested equity (equal to a Net IRR of 14%). The performance was achieved by a unique combination of recurring cash flow and capital appreciation. Basically, ‘two-third of the return stems from cash flow generated by the rents, which makes the investment very attractive from a reward-risk perspective’, says Giovanni Perin.

The sector increasingly attracts large institutional investors due to its anti-cyclical nature, strong cash flow, very low correlation with markets and resilience to economic shocks. In particular pension funds and insurance companies have discovered the healthcare real estate as safe haven that allows them to diversify their assets while providing a secure income. In 2016, transaction volume in this sector in Germany alone amounted to more than €3bn vs an estimated €300m in 2010 (volume multiplied by 10

in 6 years!). ‘Portfolio deals accounted for most of last year’s transaction volume’ confirms Giovanni Perin.

Threestones does not operate nursing homes but acquires only the properties which are rented out to top tier national or international nursing homes operators with long-term lease agreements (typically 20-25 years). The long-term inflation-linked leases with leading operators ensure a high level of predictability of cash flows and very low performance volatility over the holding period.

The sector is currently marked by consolidation experiencing a wave of national and pan-European cross-border M&A transactions. Thanks to its deep knowledge of the market and its key players, Threestones Capital typically positions itself as the real estate partner of choice for M&A transactions involving operators willing to sell both the operating company and the care property. ‘Threestones will not only take over the nursing home, but also structure the deal together with a major operator that is willing to sign a long-term lease’, comments Giovanni Perin.

With more than a decade of experience in the European healthcare real estate industry Threestones allows investors to take advantage of synergetic effects that only a fully verticalised group can offer. The company’s commitment to its investors goes beyond mere investing and asset management, as it is also entrusted with the property management of the nursing homes acquired by its investment vehicles. ‘Wearing many hats might be seen by some of our colleagues as laborious and onerous, nonetheless it gives us a unique understanding of the industry dynamics and the credibility with market participants we need to get privileged and proprietary access to deal flow’, stresses Mr Perin.

Given the current market dynamics, Threestones does also see strong value creation opportunities in developing new properties and restructuring existing ones.

The strong performance of Threestones Capital’s investment vehicles, the increasing appetite of institutional investors for nursing homes portfolios and the ongoing consolidation of the operator market show that healthcare property investments have become part of the mainstream investment landscape.