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Capital Bay: There's no place like (care) homes

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Capital Bay, a Berlin-based investment management company, sees substantial opportunity in the acquisition of private care homes, a burgeoning segment of Germany's healthcare real estate market. The company, formed just two years ago, wants to expand its 21-strong care home portfolio to more than 100 properties. "We started in [care homes] from the very get-go as a niche play, and we niched it further by targeting private operators," Capital Bay CEO George Salden told Property Investor Europe.

The company settled on private care homes because there's less competition from the institutional investors who are boosting their healthcare and senior living portfolios due to ageing populations. The trend, which is being seen throughout Europe, has led to a number of high-profile deals that include Primonial REIM's 2016 acquisition of the 8,600-bed Panacea portfolio for €994m.



This trend has also meant significant price appreciation for healthcare related assets. Indeed, prices for German healthcare assets rose by 26% from 2012 and 2016, according to data from Terranus, a healthcare property specialist. Yields have also tightened as larger players have taken advantage of lower capital costs or found new ways to drive value such as bringing operations in-house.

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George Salden, CEO of Capital Bay (photo: Capital Bay)

The private care home market is harder to navigate than more transparent corporate and semi-institutional businesses, Salden said. Acquisitions can be difficult to source and due diligence is challenging if a seller isn't used to a traditional sales process, he added.

Because Capital Bay is a healthcare specialist, the firm has formed a joint venture with operator Curata Care to oversee its existing portfolio. "People have to understand this business has nothing to do with real estate, and everything to do with the operations," Salden said. The two parties work in tandem, with Capital Bay handling the real estate aspects and Curata reviewing operations.

An experienced operator can assess what's needed to sustain the operations and avoid regulatory issues. "The biggest problem is that you cannot come to this sector with a one-size-fits-all investment profile for the market," Salden said. "Each state has its own set of rules and laws, which means you have to look at each home individually."

A case in point is the state of North Rhine-Westphalia, which has changed patient quota regulations so that care homes are mostly made up of single rooms. This has meant that many landlords are saddled with properties offering a high proportion of double rooms that need to be converted into single rooms. Investors will not only lose income from a lower number of beds available, but also must outlay the capex for the conversions, Salden noted.

Understanding an operator's internal cash flow is also essential — something that Salden knows first-hand. In a previous career, Salden acquired healthcare assets on a long-term lease from a Bavaria-based charity. When the charity went into bankruptcy, Salden learned that the internal cash flows on the properties had been overstated and this led to a number of defaults. "You have to look [at] how sustainable the cashflow is – and [if] the operator underneath [is] profitable enough to pay the rent long-term," he said.

Risks aside, Capital Bay believes it's got a good shot at delivering a solid product at a reasonable price for the average German. Salden sees opportunities in branding their homes with a consistent product across its portfolio and taking a collaborative approach between the owner and operator, similar to what happens in the hotel sector.

Capital Bay prefers to acquire new properties rather than completing ground-up development because of regulatory barriers to new care homes. The company, however, isn't interested in just aggregating older nursing homes and running them as they are — the company is keen to revamp them for the future.

"We want to fully digitalise the homes eventually, we want to appify the entire nursing home, such as the way you book additional services, so it's a full digital experience in the future," Salden said. Founded in 2016, Capital Bay is an alternative investment manager for real estate and owns €1.76bn of assets. [pie](#)

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