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# Threestones to raise fourth healthcare real estate fund targeting €1b AUM

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Threestones Capital is on the verge of holding a first close of its fourth healthcare property investment fund after receiving strong interest from both existing and new institutional investors, managing partner Giovanni Perin told PropertyEU in an interview.

The boutique alternative investment manager focused on healthcare real estate aims to fully raise the fund known as Eurocare IV within the next 18 months, with a view to receiving up to €500 mln of equity commitments.

'We expect a first close of €50 to €80 mln in the next few months,' Perin said. 'We have already collected some money from a number of institutional investors, and we hope to be able to hold the final close later this year.'

With equity of €500 mln, the fund would be able to amass a €1 bn healthcare property portfolio over its investment life. Similarly to previous funds, Eurocare IV will mostly be targeting existing properties, but also on an ancillary basis will invest in pre-let developments and forward deals in Germany, Italy and Spain.

The fund will also look to expand into other attractive European markets, added Perin. 'We are looking to grow our portfolio in Spain where we currently only have six assets, and where we see significant investment opportunities. As the portfolio size grows, we may also open an affiliate office in the country to be closer to the assets.'

He continues: 'We will also continue to invest in Italy, where we currently have 20 properties. We moved into this market four years ago, at a time when not many people were prepared to invest in this asset class in the country. The market is strongly undersupplied in terms of stock provision but also, most of the existing stock is not fit-for-purpose. The entire assisted living apartment sector is virtually nonexistent. This creates tremendous opportunities for growth.'

The company, which was set up a decade ago by three partners, Perin together with Alessandro and Francesco Sparaco, has been focusing on healthcare real estate since the start.

'It was just after the financial crisis and it was difficult to invest,' Perin recalls. 'We were looking for a sector which was driven by long-term demographic trends and at the same time with a low correlation to the economy, the financial markets and the rest of the real estate sector, and displaying strong and predictable long term cash flows, and resilient to economic crisis.

Healthcare real estate seemed like a good fit, with long-term rental contracts of typically 20 years, good cash flow and strong demand. This has proven also to be valid during the current Covid pandemic, where the rents have so far been consistently paid. We also noticed that the market was very fragmented across Europe and characterized by relatively small deals. In particular, we identified a fantastic opportunity in Germany, the largest country in Europe with over 900,000 beds, where we invested very successfully most of the money raised. We recently identified an opportunity in the Southern European countries where the market is less mature, with fewer care home provisions and smaller facilities.'

The firm started with the launch of a small fund of €50 mln in 2010. 'Healthcare wasn't sexy at the time. It was complex and nobody wanted to do it.' Fast forward 10 years, Threestones has become one of the investment specialists for healthcare real estate with €2 bn of assets across Europe and affiliate offices in Germany and in Italy.

Typically, the firm's strategy is to buy individual/small portfolios of assets which are under-managed and often privately owned. The company makes a point of always securing a contract with a new and larger operator before buying the real estate asset. During the holding period, typically 3-5 years, Threestones would implement value add measures while continuing to collect rents and cash flows such as improving the quality of the facility and possibly raising the number of beds, with a view to selling the asset as a package to institutional investors. The strategy combines current cash flow and capital gain from value-add measures, allowing the funds to make regular distributions while crystalizing value at exit.

As such, the sector is attracting more and more institutional money due to its favorable risk-adjusted returns characteristics. The market does however remain very fragmented, said Perin.

'It remains difficult for institutional money to enter the market as large portfolio deals are very rare and command a premium value,' he noted. 'Yields however are higher than other property sectors and the sector continues to get more and more investor demand.'

Perin said the group got as many as 50 expressions of interest for the German healthcare property portfolio which was sold in January 2021. The level of bidding was 'unparalleled' and it led to the largest healthcare property deal in years. Threestones Capital sold the 27 properties to Swiss Life Asset Managers for

€425 mln, allowing its Gefcare fund to return the target performance of 13% net IRR to its investors.

Perin: 'The risk adjusted returns we have been able to secure are top of the range. The properties boast long-term, indexed leases and our funds are able to distribute cash and deliver a capital gain at the same time. Even though the healthcare real sector is still a very small portion of real estate, it has grown significantly in the last years and is set to increase further in the future as it continues to mature and more sizeable products come onto the market.'