

Will Orpea scandal hit care home prices?

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Luxembourg-based REIT Threestones Capital has just acquired three nursing homes in Germany. HBI catches up with Threestones Capital co-founder, Giovanni Perin, and talks to Xavier Cheval, head of healthcare property at major European REIT Icade, to find out what impact the Orpea scandal is having on elderly care real estate as an asset class.

Click [here to read our cross national report on the nursing home sector](#) in HBI Intelligence.

The three nursing homes have 524 beds between them and are based in Berlin, Lütjenburg (Schleswig-Holstein) and Magdeburg (Sachsen-Anhalt). All three are operated by Vitanas Group and were bought under long-term lease agreements from German family investment office Upwind Holding GmbH.

Perin explains: “In total we have about €2bn invested in healthcare property, a significant amount of which is nursing homes and senior housing. We invest both in the purchase of existing properties and, to a lesser extent, in the refurbishment and construction of new properties. For example, in Italy we recently funded the conversion of a beautiful ancient monastery into a nursing home. We pride ourselves on the fact that we channel private money to a social cause – helping elderly people.”

The allegations of widespread malpractice in Europe’s largest elderly care group Orpea’s nursing homes that were published in France last week are creating ripples throughout the sector. Both Orpea and Korian have seen their share prices plummet. But what impact is this having on REITs?

Cheval: “We [Icade] work with several nursing home operators, including Orpea. We are looking at the situation with caution and concern and waiting for the government audit. At this stage it’s too early to estimate the impact on operators’ margins. However, it remains true that there is a clear and growing need for healthcare infrastructure. The population continues to age and the growth in the need for care is not going to stop. But we will likely see a demand for higher quality in the sector in the short term, as well as more regular government audits in the longer term.

“It’s difficult to say what will happen to Orpea at this stage. But at a micro level, it remains true that the Orpea assets we hold are very good quality.”

Perin echoes this sentiment: “I don’t think the Orpea scandal will have an impact on valuation, these are stable assets. There is an overall consensus that in Europe demand for elderly care will double in the next 30 years. Currently it is growing at around 5% per year. The market may evolve, with more alternatives such as assisted living and domiciliary care. But there is always going to be a need for nursing homes, for people with diseases like dementia or Alzheimers who require care and cannot live alone.”

Some may be surprised to learn that REITs such as Threestones and Icade, far from being passive investors, do actually have some role to play in ensuring the highest standards of care are maintained within the sector.

Cheval explains: “We are not an auditor but we do set quality criteria for the companies we invest in, on the operation side as well as the real estate side. We have been doing this for the past two years, and we will probably now make our requirements more stringent.”

Perin: “We also have requirements for the nursing homes we purchase, not just for the quality of the real estate, but also for the quality of care. We conduct due diligence before we purchase, looking at things like the size of the rooms, the level of care, the processes etc.. We work exclusively with major reputable groups.

“But once we’ve purchased a property, we can engage with operators, but, contractually, we can’t intervene in the operation,” Perin is quick to add.

Both Perin and Cheval believe that, on balance, the nursing home sector does a good job. “I’ve visited hundreds of nursing homes and I’ve seen that most nursing homes are well-managed, most of the market is doing its best,” says Perin. “The sector has also improved a lot over the past 15 years. Now they have a lot more tools and facilities.”

Cheval adds: “Nursing home operators in France are being very proactive in their response, they are asking the government to impose more controls. This is a matter of restoring confidence.”

Our Analysis: Even if the Orpea scandal doesn’t hit property valuations it is likely to have a chilling effect on M&A operator consolidation which has been driven in mainland Europe for a decade by the big French players.

We would welcome your thoughts on this story. Email your views to [Martin De Benito Gellner](#) or call 0207 183 3779.

