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Socially secured

An innovative real asset transaction backed by German care homes is currently in the private placement phase. Dubbed German Care Homes Fund, the vehicle aims to provide attractive returns at low risk, given that it is indirectly secured by the German social security system.

Three structural variations are currently under consideration: a SICAV-SIF vehicle, a JV holding or a securitisation under Luxembourg law. The target volume is €330m, with a maturity of 10 years. The anticipated capital structure – comprising 60%-70% of senior debt (financed by loans from German banks and a German Schuldschein), 22%-30% of mezzanine debt and 8%-10% of equity – has respective yields/IRRs of low single-digits in anticipation of the low swap rate in Germany, 8%-10% and 13%-15%.

Under the securitisation format, the mezz and equity tranches would be combined to form a 30%-40% mezz piece, with an embedded kicker provided by the equity pushing returns up to potentially double-digits. Private ratings of both debt layers are available if required by investors.

The vehicle is designed to appeal to pension funds, insurance companies and private debt and equity, with investor commitments expected this quarter. A choice of legal structures is being offered in order to maximise flexibility during the placement phase.

“The process allows us to discover where we can raise the most money. Ultimately, we will choose the most appropriate structure, depending on investor demand,” explains Oliver Fochler, managing partner of Stone Mountain Capital on behalf of Cepheus Capital Partners, which has structured the transaction.

The fund will be managed by Health Care Germany Invest, the directors of which have over 40 years of combined experience in investing in commercial real estate and managed over €920m of assets. The manager has already sourced a €360m pipeline of property for the fund.

The portfolio is expected to comprise 31 care homes, managed by 18 different operators under 20- or 25-year double net lease contracts indexed for inflation. On average 30% of the care home residents are subsidised by the German social security system; the remaining ‘self-payers’ would be covered by German social security if they were no longer able to afford the care.

“The lease cashflow of the transaction is therefore indirectly secured by the German government,” Fochler notes. “The potential returns on offer are attractive, given the low risk.”

The deal also features a maintenance deposit of 5% of the operators’ yearly lease cashflows for the roof and façade of the underlying buildings. If the maintenance deposit isn’t used during the life of the investment, it is available to be paid out at maturity as additional yield. Fochler says that historically only a low percentage of such maintenance deposits have been used.

He concludes: “Funding on the senior side is getting cheaper by the day as German bund yields decline, enhancing the attractiveness of the deal further, based on additional yield/IRR for mezzanine and equity.”

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