

## Interview: Carlos Fernández de Araoz, partner and head of senior housing at Azora

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Spanish real-estate investor Azora created a listed healthcare investment arm, Adriano Care, this summer. The REIT has just acquired its first assets and plans to invest €250m in Spanish senior residential care. We speak to Azora's head of senior housing, Carlos Fernández de Araoz, about the market, business strategy and future plans for Adriano.

"We believe senior housing is going to be one of our key segments for the next five years, mainly in the property arena," says Fernández de Araoz.



Adriano Care recently bought six nursing home facilities and a site in Madrid for €76m, its first investment as part of a €250m fund which the company will deploy entirely in the Spanish nursing home sector. Company strategy is not to look for the best triple net lease contracts, but to renovate and restructure where necessary.

"We are a value-added investor, which means we are interested in fixed and variable rents allowing us to capture the upside of the business," he adds. As for the Spanish market, he sees plenty of potential.

"We've evaluated a total €400m of potential investment in residential care, but there is a good €10bn asset base to go after in Spain. We believe the country has an annual investment need of around €2bn per annum in terms of building new homes. So in our view there is plenty to be done."

Adriano Care is looking at opportunities where EBITDAR margins are around 25% and above. When it comes to yields, Fernández de Araoz is more optimistic than competitors Aedifica and Healthcare Activos, who put levels at around 5-6%.

"Yields depend on the location, the operator, the type of contract, whether it needs renovation, etc. So it's always difficult to compare levels. But I would say you can invest a couple €100m within a 6-6.5% bracket. That said there are some situations that would go between 5.5-6% and very few exceptions in the 5-5.5%.

“That doesn’t mean that tomorrow, big players won’t make an investment at 5.15%, but it doesn’t mean it’s representative of the market. You have to understand the context of the deal and the rationale of the buyer.

“There are rumours that one of the larger groups recently sold a portfolio of 20 assets to a group of investors at a low yield, for example, but this is a portfolio sale where all contracts are well organised and the assets fully renovated. These types of deals are the exception.”

Healthcare Activos is Adriano’s main competitor, though Cofinimmo recently entered the market and we hear Aedifica might look into Spain after entering the Nordics. Large operators are also competitors. Orpea, which has a large presence in Spain, looks to own half of its property.

Adriano Care plans to expand into other segments as well and is even looking beyond Spanish borders.

“We tend to favour more of a care-light product, so we are looking at opportunities in assisted living and have a couple of offers on the table now. But we are also looking into creating a vehicle that would invest in the development of nursing homes – Adriano invests mainly in operating assets.

“From a geographical point of view, we are already starting to think about what team and structure to put together in order to invest at a European level. There are opportunities in Italy for the brave guys, and opportunities in Northern Europe for the more conservative guys. We are interested in both.

“We are analysing opportunities in Portugal as it’s a market we know well. But we are also looking very strongly at Italy, the Netherlands and Germany. It could be that in 24 months we start to play the European game.”