



Healthcare Property Report 2024 **Executive Summary**

The current state of health care real estate investment in Europe

EXECUTIVE SUMMARY

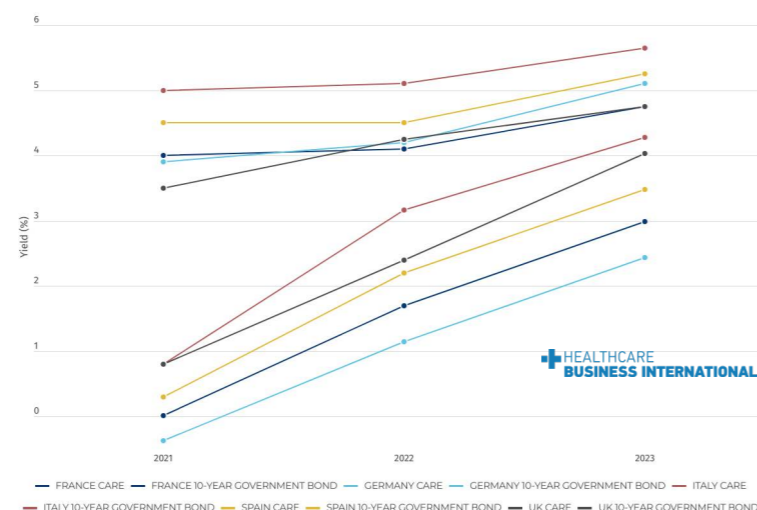
In early 2024, the long-term outlook for health care real estate investment in Europe appears promising, due to how essential health care services are, demographic shifts, stable government funding and inflation-backed leases. However, short-term challenges arise from rising interest rates, impacting debt leverage and cash flow for REITs.

Listed REITs face share price declines and struggle to raise capital, while non-listed funds deal with shareholder withdrawals, leading to property sales. Financial strains on health care operators add pressure, affecting investment appeal. Buyers currently benefit from oversupply, lowering property values and raising yields.

Some transaction activity persists for existing properties, but very little new build activity is taking place due to elevated construction costs combined with downwards pressure on valuations.

Despite short-term hurdles, investors anticipate deal activity will return once the market has stabilised, either in 2024 or 2025.

Care home yields have risen, but much less than bonds (data provided by Cushman & Wakefield):



Included in the complete HBI Healthcare Property Report 2024

THE CURRENT STATE OF HEALTH CARE REAL ESTATE INVESTMENT IN EUROPE

MAIN INVESTORS FULL TABLE

SECTOR OVERVIEW: ELDERLY CARE

COMPLETE CASE STUDY 1: HEALTHCARE ACTIVOS

COMPLETE CASE STUDY 2: TARGET FUND MANAGERS

SECTOR OVERVIEW: ACUTE CARE (HOSPITALS AND OUTPATIENT CLINICS)

COMPLETE CASE STUDY 3: NORTHWEST HEALTHCARE REIT

SECTOR OVERVIEW: PRIMARY CARE

COMPLETE CASE STUDY 4: ASSURA

THE INCREASING IMPORTANCE OF ESG

Delve deeper into the health care property sector with the complete HBI Healthcare Property Report 2024. Discover the latest trends, strategies, and trends shaping the industry by accessing the full report as an HBI Intelligence Member. To enquire about HBI membership email memberships@healthcarebusinessinternational.com



Healthcare Property Report 2024

HEALTHCARE BUSINESS INTERNATIONAL

Sector overview: Elderly care

Key points from the full HBI Healthcare Property Report 2024 include:

- Care homes dominate Europe's health care real estate investment landscape, accounting for 40-50% of total investment value in the past five years.
- Retirement villages and assisted living facilities have seen some investment but remain less significant, comprising less than 10% of total health care real estate investment in Europe.
- Real estate investment in care homes is favoured due to their integral role in residential elderly care, with approximately 55% of operators' EBITDAR typically spent on rent.
- The sale-and-leaseback trend has surged in Europe's for-profit elderly care sector, providing a steady stream of assets for real estate investors, especially in the UK, France, and Germany.
- The UK and Germany have seen higher investment volumes compared to France and Spain, primarily because of the dominance of pan-European operators who often own their own property in the latter.
- There is a growing need for investment in new care home facilities or renovation/expansion of existing ones to meet increasing demand driven by ageing populations.
- Regulatory changes post-Covid in Spain and increasing emphasis on ESG standards across Europe are making existing care home stocks obsolete, necessitating significant investment.
- Challenges include inflationary pressures, tightening regulations, and reputational risks, especially post-Orpea scandal, impacting profitability.
- Care home operators face competitive pressures and risks of patients being drawn away by new facilities, underscoring the importance of investing in the right location and operator.
- Despite a dip in investment volumes, there are still ample properties available for purchase, especially with elderly care giants like Orpea and Clariane selling off their real estate assets.

Sector overview: Acute care (hospitals and outpatient clinics)

Key points from the full HBI Healthcare Property Report 2024 include:

- Acute care sector ranks as the second most favoured healthcare vertical for real estate investors in Europe, making up 25-30% of investment volumes over the past five years.
- Investment volumes in acute care are lower annually compared to elderly care, due to fewer available hospitals and larger investment sizes, making them less liquid.
- Public or not-for-profit sector ownership of most European hospitals makes them unlikely to be available for sale, impacting investment volumes.
- Private acute hospitals experienced fluctuating investment volumes, with peaks in 2019 and 2020, followed by a decline in 2020/2021 as investable stock dwindled.
- The UK and France saw the highest investment activity in acute care over the past five years, with some activity also observed in Germany, the Netherlands, and Spain.
- Investing in hospitals requires greater operational and medical expertise compared to care homes, resulting in fewer real estate investment trusts (REITs) operating in this sector.
- Hospitals offer higher security compared to care homes due to higher capital expenditure costs and specialised medical requirements, making it difficult for competitors to enter the market.
- Few new hospital builds are occurring due to rising construction costs and decreasing valuations, leading to an ageing stock of existing facilities.
- The impact of Europe's ageing population on acute care needs is uncertain, with trends such as digitisation, and a move towards a more outpatient-focused and preventive model of health care delivery, which will impact the sector's real estate requirements.
- Privatisation of acute care facilities is likely to increase due to financial and operational pressures on public health systems, which could open up new investment opportunities for real estate investors.

CASE STUDY 1:

Healthcare Activos

- **Medium-sized European REIT with operations in Germany, Portugal and Belgium, as well as Spain (where it is headquartered)**
- **Soon to have a presence in Ireland, France and Italy**
- **Currently owns 65 properties in its ~€1bn portfolio, 12 of which are new builds still under construction**
- **Growing this portfolio through acquisitions as well as new builds**
- **About 70% of its portfolio is care homes; the remaining 30% includes hospitals, outpatient clinics, diagnostic centres, rehab clinics and psychiatric facilities**

Activos' approach to health care real estate investment is especially hands-on. Led by CEO Alberto Fernandez, the company's management team comprises former operators with in-depth knowledge of tenant operations.

Activos distinguishes itself by crafting comprehensive business plans for tenants, including staffing sheets and fully-costed profit and loss statements. Prioritizing long-term sustainability, the company meticulously evaluates the potential of each asset, focusing on fundamental aspects such as catchment area dynamics and building design adequacy.

Unlike many REITs, Activos eschews purchasing portfolios of assets, instead

making individual decisions for each acquisition. The company favours constructing properties from scratch, enabling precise location selection and tailored building design to ensure longevity and resilience.

Activos places a strong emphasis on efficient building design, particularly through "sectorisation," dividing accommodation into smaller living units to optimise care quality and economic efficiency. This approach allows for diversified care offerings within a single facility, catering to various needs from high-acuity elderly care to rehabilitation and mental health services.

Despite not being the fastest-growing or most profitable, Activos prioritizes safety and reliability, attributing its success to a deep understanding of operational intricacies and conservative rent policies. Throughout the challenges of COVID-19, Activos experienced zero defaults or late payments, underscoring its commitment to stability and resilience in the healthcare real estate market.



ALBERTO FERNANDEZ
CEO
Healthcare Activos

Join us for an exclusive live webinar featuring Alberto Fernandez, CEO of Healthcare Activos, as we delve into the dynamic landscape of healthcare property investment. Happening at 15:00 on Wednesday, March 6th, our webinar will focus on key topics including:

- The current slowdown in propco deal activity and new builds in Europe, and when investment volumes might return
- The dire state of much of the real estate in Europe's elderly care sector, and the need for updating/improving as well as expanding the existing stock
- The investment strategies of the panelists

Can't make it to the live webinar? Don't worry! If registered you can catch the recorded webinar to access all the insights at your convenience.



European Healthcare Property

A two part webinar series

How Can Real Estate Investors Improve Care?

📅 **March 6, 2024**

🕒 **15:00 - 16:00 (UK)**

Unlocking Opportunities in the Cure Sector

📅 **March 20, 2024**

🕒 **14:00 - 15:00 (UK)**

BOOK NOW



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