European Nursing Homes Report

Spring 2019

**Overview of the European
Nursing Homes Market**

Summary

European context

Demographic evolution

Dependency ratio

- The dependency ratio (the number of people aged over 65 / the population aged 15-64) in the European Union was at 28.8% in 2015. It is forecasted to increase to 39.1% by 2030 and 50% by 2050.

- European countries with the highest ratios are Italy and Germany with 33.7% and 32% respectively in 2015.

- The most important increase among European countries is expected to happen in Spain with the dependency ratio increasing from 27.9% in 2015 to 62.1% by 2050.

Dependency ratio

Source: Eurostat ■2015 ■2030 ■2050
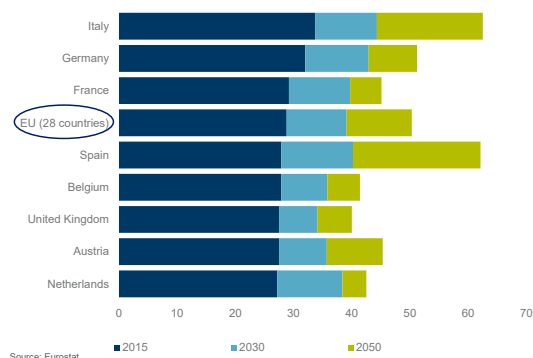
Population over 80

- Between 2015 and 2030, the 80+ year old population will grow by 40% in the European Union, increasing from 26.7 million inhabitants in 2015 to more than 37.6 million by 2030.

- In absolute figures, Germany (+ 1,798,000 inhabitants), the UK (+ 1,591,000 inhabitants), France (+ 1,444,000 inhabitants) and Italy (+ 1,365,000 inhabitants) will present the biggest upward movement.

- By 2080, the population aged over 80 years and above will have multiplied by 2.5 in Europe. The Nordics will witness the strongest increase, close to 4x higher than in 2015.

Growth of the 80+ (Base = 100 in 2015)

— UE-28 — Western Europe — CEE — Southern Europe — Nordics

Source: Eurostat
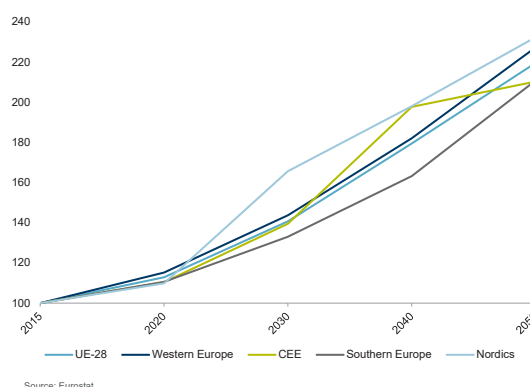
Nursing home landscape

- The equipment rate represents the number of beds / 80 and over population. It varies from 6% in Poland to 25% in Belgium.

- The ageing of the European population will require a large increase of the number of beds in almost every country.

- By 2030, more than 500,000 beds will be needed, in addition to the needed redevelopment of existing (and obsolete) ones across the region.

- European countries, where traditional family structures still prevail, are expected to meet a growing demand both from investors and operators, seeking respectively lower yields and higher operating figures than in more mature markets.

Number of beds (in 000s) and equipment rate, 2017

■ # Beds ● Equipment rate

Sources: Eurostat, Operators websites
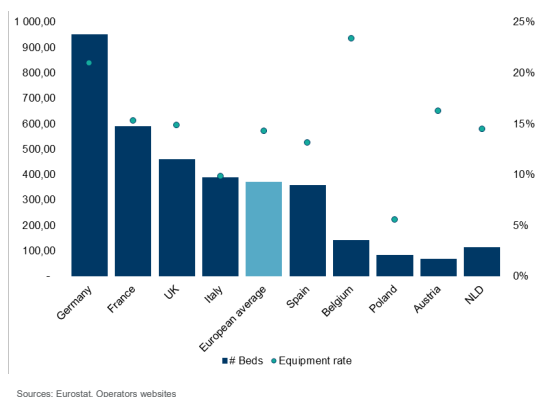
Types of Operator

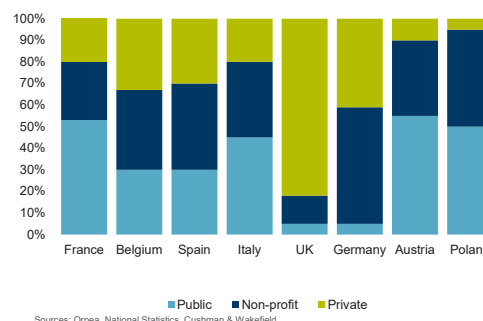Nursing home management can be split between different types of Operators: Public, Non-Profit or Private.

The share of those operators in the local markets often depends on the existing public regulations:

- Licensed: Operators are required to gain prior approval from local authorities before they can build, open or operate a new care home. E.g. Belgium, France & Italy.

- Free market: Operators can develop care homes largely without interference from local and national governments. E.g. Germany, Spain or the UK.

- Outsourced: local authorities outsource operational responsibility to private companies, which hold long term contracts. E.g. Finland, Norway and Sweden.

- The two markets with the most private operators are the United Kingdom and Germany, both of which are free markets.

With a growing part of the European population becoming elderly and needing nursing homes, the financing question increases in importance. In this context, we expect to see a decline in public/ non-profit rates of operators in some countries where they are still high, namely Italy, France and to some extent in Belgium and Spain. This trend will help the private operators in healthcare to grow in market shares.

Supported in their development by shareholders and corporate investment funds, but limited by their growth in the domestic market, major healthcare and social welfare providers have started exporting their expertise. They have seen considerable development in Eastern and Southern Europe. Major French operators in this sector, ready to export their models, doubled their foreign acquisitions in 2018. Beyond the borders of Europe, Asia - and more specifically China - and Southern America represent vast areas that are still under developed in this field. In the long term, cultural specifics aside, these two continents could represent new opportunities for healthcare and social welfare operators.

Nursing home beds by type of operator (2018)

Sources: Orpea, National Statistics, Cushman & Wakefield

Examples of international expansion by healthcare and social welfare operators

Sources: Operator websites, Cushman & Wakefield

Investment volume

Across France and Europe, questions are being raised on issues regarding ageing populations and the involvement of private specialist establishments in public healthcare. The development of operator activity in both F&R and healthcare and social welfare has naturally led investors to take positions beyond their national boundaries, negotiating local requirements in terms of health legislation and how costs are managed. These asset and locational diversification strategies also give breathing room to investors who are crammed into their domestic market. In just a few years, the European healthcare real estate market observed an acquisition volume increase from €4 to €5 billion. According to our initial estimates, these figures could stand at over €6 billion in 2018.

Most of the healthcare real estate investment volume is distributed across the United Kingdom and Germany, where the combined asset disposals stood at €2 billion in 2018. Next in line are those with more modest volumes from €100 to €500 million in Scandinavia and Southern Europe. It is also worth noting the transactions carried out in Ireland, a country that is increasingly attracting investor interest.

The disposals of large healthcare asset portfolios between operators and investors are still one of the main sources of opportunity in the European healthcare real estate market. These transactions accounted for around 69% of European investment volumes in 2018. These deals run alongside a few transactions between investors which, although still in the minority, are growing in the market.
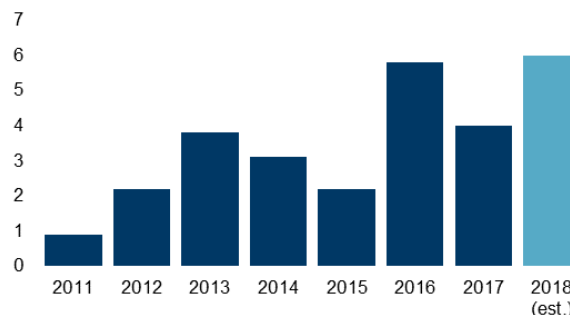
Prime yields

A benchmark of the evolution of the yields for the nursing home market across European countries has to be regarded with attention since major differences exist. Indeed, we observe significant differences regarding the lease duration, the type of the lease (double net or triple net for example) and the indexation of the rents.

All these elements have an impact on the yield, which makes comparisons somewhat less relevant.
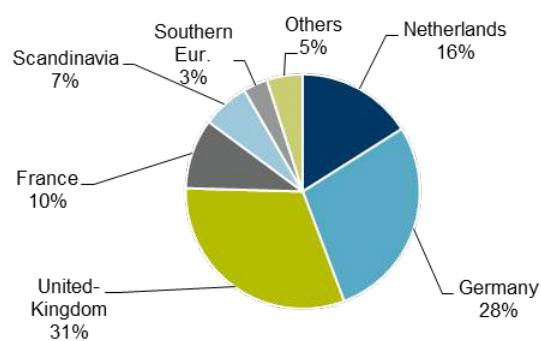
The most aggressive prime yields are to be found in France, where yields for nursing homes are expected to reach as low as 4.00% in 2018. We see yields at 4.50% in the UK and from 4.75% - 4.90% in Belgium, Germany and Spain.

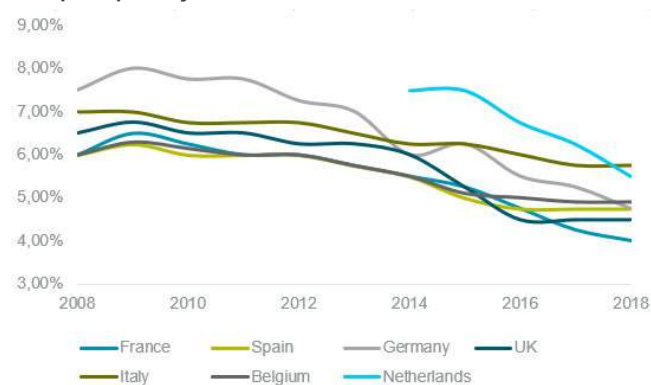**Investment volume in healthcare real estate, € billion**

Sources: RCA, Cushman & Wakefield.

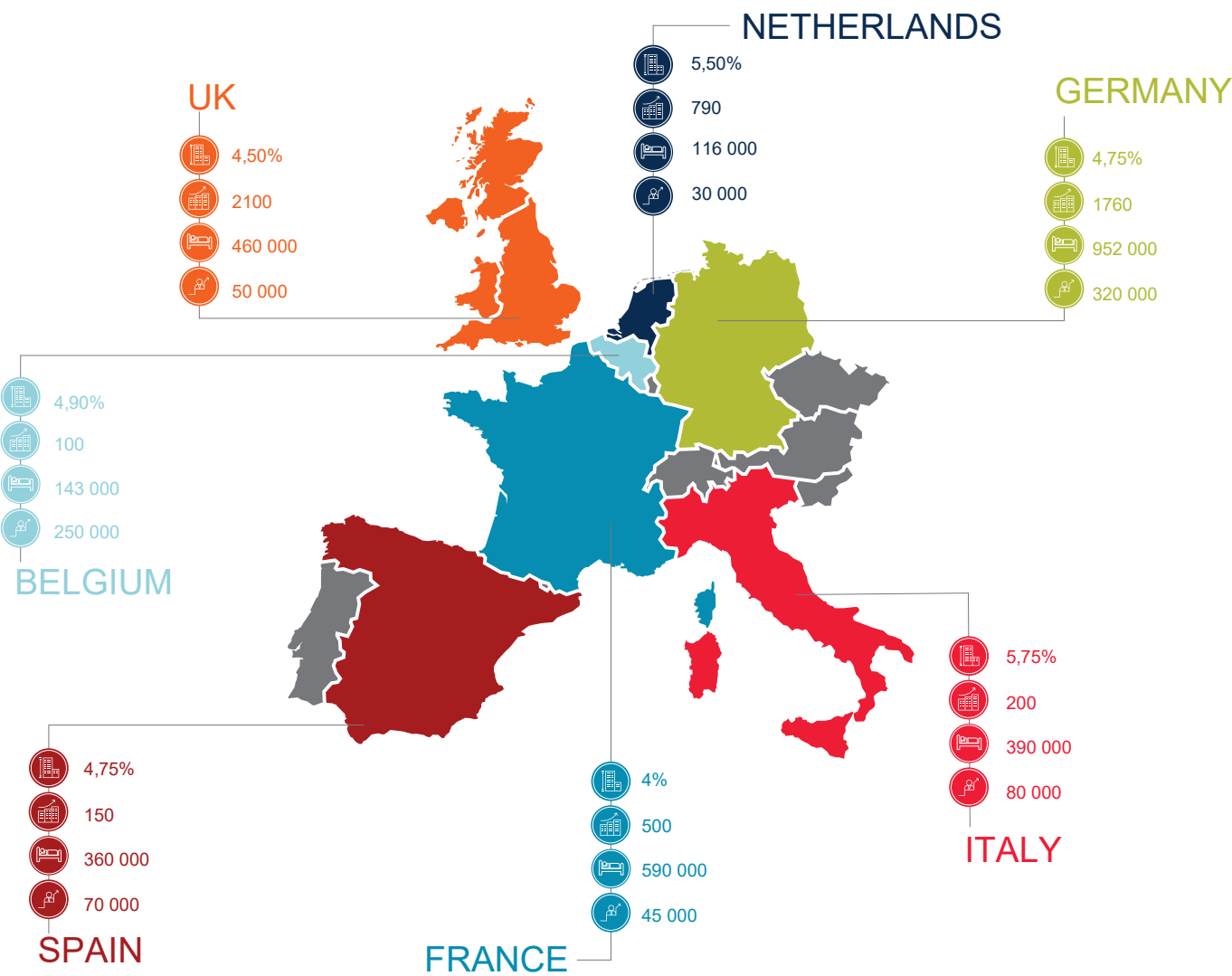**Healthcare real estate investment volume in Europe in 2018**

Sources: RCA, Cushman & Wakefield.

European prime yields in the care home sector

Source: Cushman & Wakefield

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WAKEFIELD

Principaux indicateurs européens

NETHERLANDS
- 5,50%
- 790
- 116 000
- 30 000

GERMANY
- 4,75%
- 1760
- 952 000
- 320 000

UK
- 4,50%
- 2100
- 460 000
- 50 000

BELGIUM
- 4,90%
- 100
- 143 000
- 250 000

SPAIN
- 4,75%
- 150
- 360 000
- 70 000

FRANCE
- 4%
- 500
- 590 000
- 45 000

ITALY
- 5,75%
- 200
- 390 000
- 80 000

KPIS 2018
- Prime Yield
- Total Invest Volume in M€
- Number of Beds
- Forecast Number of Beds (2030)

France

Demographic evolution

Dependency Ratio

- The dependency ratio in France was **at 33.9% in 2015** and is forecasted to increase to **52.1% by 2040**.
- In 2015, the dependency ratio in Ile-de-France (Greater Paris Region) was significantly lower than in the rest of the country (21%), whereas Limousin was by far the highest (41%).
- Currently, France's dependency ratio is slightly above the European average and is expected to fall just below the EU28 average in 2040.
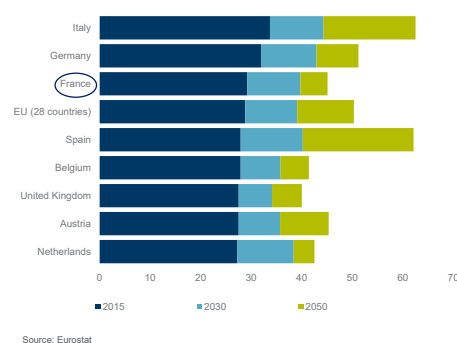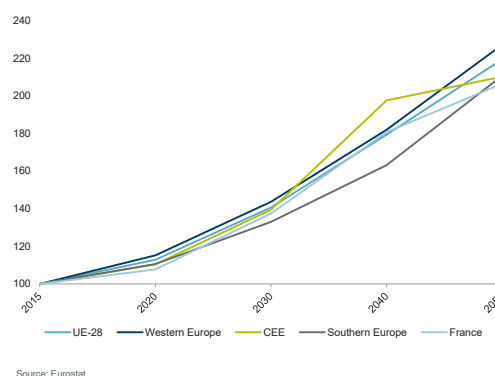
Population over 80

- In 2015, **18.4%** of the French population was **over 65**. This figure is forecasted to rise to **25.2% by 2040**.
- The **over 80 group** represents 5.8% of the French population, this share is expected to grow and reach **9.3% by 2040**.
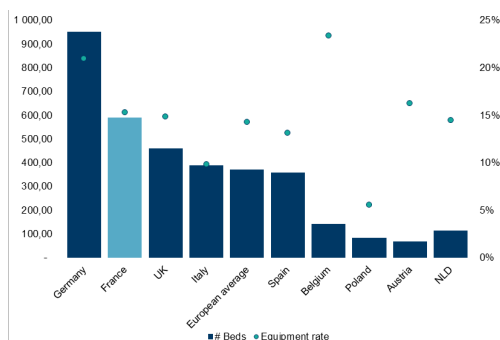- Average life expectancy in France in 2014 was 82.8 years.

Nursing home landscape

- The equipment rate represents the number of beds over the population aged over 80. It stands at 17% in France.
- France is expected to need 45,000 more beds by 2030 and 130,000 units by 2050.
- In France the timing of this growth will be mainly determined by the legal framework: very few authorisations to open new nursing homes have been delivered since 2012, apart from extensions, however it should be noted that the legal framework is likely to change over the next few years.

Dependency ratio

Source: Eurostat

Growth of the 80+ (Base = 100 in 2015)

Source: Eurostat

Number of beds (in 000s) and equipment rate, 2018

Sources: Eurostat, Operators websites

Types of Operator

In France, operators are required to gain prior approval from local authorities before they can build, open or operate a new nursing home. Operator's typology can be split as follows:

- Public actors dominate the nursing home market in France, managing around 50% of the total beds, with an average price/bed/day of around €51.
- Non-profit operators manage around 25% of the total beds, with an average price/bed/day of €60.
- Private commercial operators manage around 30% of the total beds, with the higher average price/bed/day of €75.
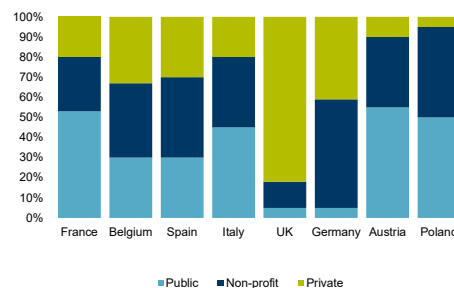
Main Operators

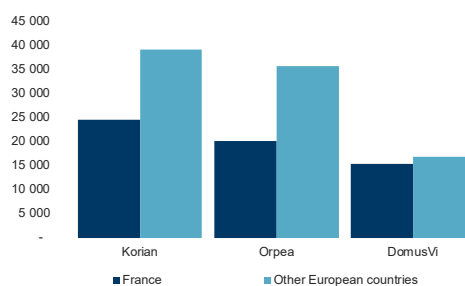- The French private commercial providers can be divided into two categories:
  - large groups with more than 15,000 beds,
  - smaller groups mainly owned by their founders.
- In 2018, **5 private providers** (Korian, Orpea, DomusVi, Colisée & Domidep) were **managing more than 5,000 beds**. A dozen providers were managing between 1,000 and 5,000 beds, creating a concentration dynamic.
- We also note that the 3 largest operators manage more beds in other European countries than in France. This illustrates the increasing appetite of those actors for developing their activities abroad, driven by the lack of new domestic opportunities to boost their activity in their domestic market.

Market Trends

- Concentrated market: the **3 main actors** currently manage **more than half of the privately-operated beds.**
- The number of beds managed by those 3 operators increased by 50% over the last 10 years, reflecting an important number of acquisitions and mergers.
- The **growth rate is now easing off** mainly because of:
  - the limited number of government authorizations,
  - the lack of investment opportunities (mature market).
- French operators do not only expand within the European market; China and South America appear to be the new target markets.

Care home beds by type of Operator

Sources: Orpea, National Statistics, Cushman & Wakefield

Main private French Operators (# beds)

Sources: Operators web sites, Le Mensuel des Maisons de Retraite

**Evolution in number of beds of the 3 largest Operators in France in 000s of beds**
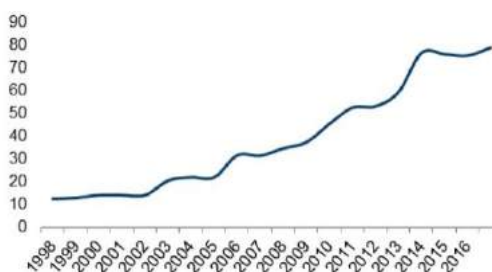
Sources: Operators web sites, Cushman & Wakefield

Investment volume

- In 2018 almost €500M was invested in nursing homes on the French market.

- This volume, which is the highest ever transacted in the last 10 years, was driven by two transactions: the sale of 8 assets by GDP Vendome to AXA IM for almost €250M and the sale & lease-back by RESIDALYA to ICADE SANTE of 14 assets for €189M.

- The number of investment partnerships between developers & operators should increase in the future. These partnerships ensure developer's early access to new assets in an ultra-competitive environment and guarantee some support for operators in their expansion projects and property searches.

Investment volume in healthcare real estate by type of asset, € million
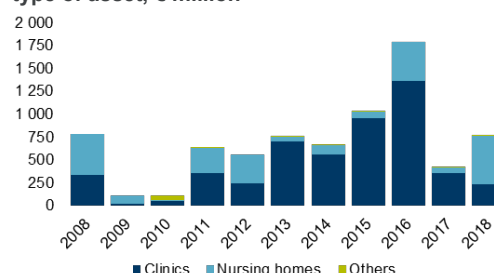
Main actors

- In only 3 to 4 years, the landscape of investors has considerably changed and broadened. The purchase of the GECIMED and HORUS portfolios, mainly allocated as nursing homes (EHPAD), enabled PRIMONIAL REIM to rise to the second position of healthcare real estate investors, with an asset portfolio valued at €1.9bn.

- A historic property company within the sector and leader in the current market, ICADE SANTE has a portfolio worth over €4.5bn as at December 2018. By becoming closer to KORIAN in 2017, ICADE SANTE entered the nursing home market from which it was previously absent. ICADE SANTE consolidated its leading position with the RESIDALYA acquisition (see above).

- The development of international operators, in cooperation with French investors, may create a true expansion dynamic. Indeed, recent acquisitions confirm this trend by highlighting new French investment vehicles allocated in particular to European healthcare real estate.

**Share of the patrimony (in number of assets) between main investors**
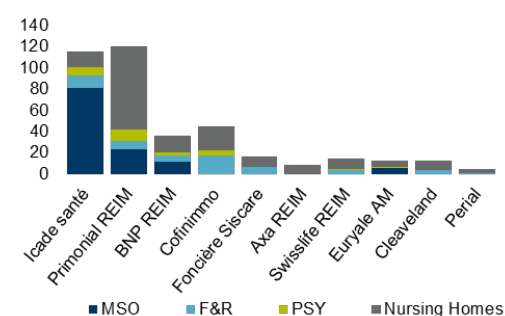
Sources: Websites operators, Cushman & Wakefield

Yields

- Investors clearly see the multiple advantages of healthcare real estate; an asset class backed by a certain and legible demographic reality that enables them to diversify their portfolios, long-term leases with guaranteed rents and yields that remain attractive despite the current low-rate context.

- Yield compression is indeed generalizing to healthcare assets which are becoming rarer because of growing investor interest. Prime asset yields are positioned at 4.00% for EHPAD nursing homes.

Prime yields in the healthcare sector (outside Paris)
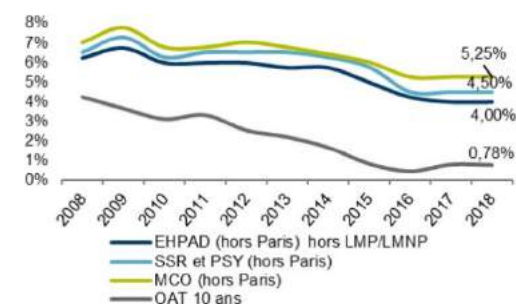

Source : Cushman & Wakefield

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Spain

Demographic evolution

Dependency Ratio

- The dependency ratio in Spain was **at 27.9% in 2015** and is forecasted to increase to **54% by 2040**.

- In 2015, the dependency ratio in the Canary and Balearic Islands was significantly lower than the rest of the country (43%), whereas Castilla y León had by far the highest (60.1%).

- Currently, Spain's dependency ratio is slightly below the European average, however in 2040, it is expected to increase just over the EU28 average and is forecasted to have the second highest old-age dependency ratio of any European country by 2050.
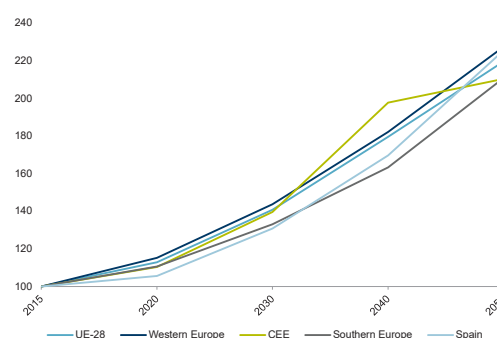
Dependency ratio

Sources: Eurostat
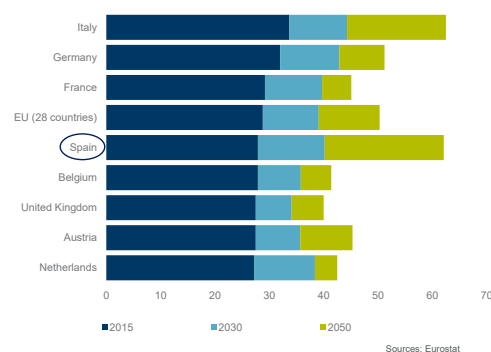
Population over 80

- In 2018, **19%** of the Spanish population was **over 65**. This figure is forecasted to rise to **31.1% by 2040**.

- **6.2%** of people in Spain were over 80 in 2018 This demographic is expected to increase to **10.3% by 2040**.

- The average life expectancy in Spain in 2018 was **84** years old.

Growth of the 80+ (Base = 100 in 2015)

Source: Eurostat

Nursing home landscape

- The equipment rate represents the number of beds over the population aged 80 and above. It stands at 14% in Spain.

- The equipment rate in Spain is close to the European average but varies between regions, with much lower equipment rates in the South than in the Madrid and Barcelona regions.

- Spain is expected to need 70,000 more beds until 2030, and more than 150,000 by 2050, driven by the changes in family structures and the ageing of the population.

Number of beds (in 000s) and equipment rate

Sources: Eurostat, Operators websites
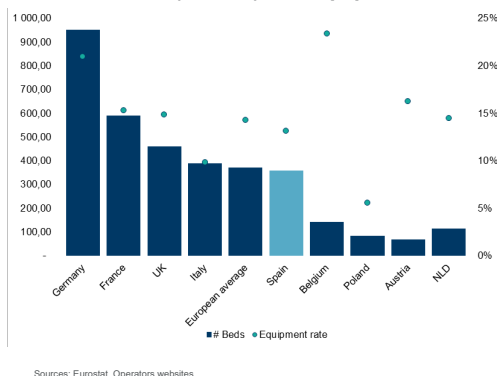
Types of Operator

In Spain, organized mainly as a free market, Operators are split as follows:

- Public Operators manage 27% of the total stock.
- Private non-profit providers manage the largest share of total beds, with approximately 43% of the stock.
- Private commercial providers operate 30% of the total beds.

**Care home beds by type of Operator**
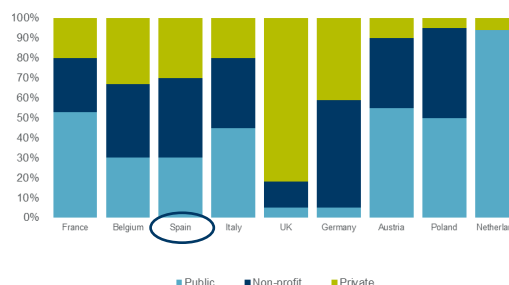
Sources: Orpea, National Statistics, Cushman & Wakefield

Main Operators

- **DomusVI**: 141 properties with more than 24,000 beds following the Geriatros and SARquavitae acquisitions. Furthermore, DomusVI acquired the group Gerovida in 2018 and has a project with 4 more properties and 426 beds in Spain in the pipeline.
- **Orpea** Ibérica: 52 properties with more than 8,000 beds.
- **Intercentros Ballesol**: 48 properties with more than 7,000 beds and 6 properties with 698 beds in the pipeline.
- **Amavir (Maisons de Famille)**: 43 properties with 6,399 beds.
- **Sanitas Residential**: 46 properties with 6,196 beds.

- In 2018, only **7 private operators** were **managing more than 5,000 beds.**
- In 2018, there was a total of 5,147 properties and 362,426 beds managed by **2,030 private operators**. Note that 33.17% of the future projects for new property openings will be executed by private operators.
- We also note that the 2 largest operators, DomusVI and Orpea are now French companies, relegating the first Spanish operator to 3rd place (Grupo Ballesol) and reflecting the rising appetite of French operators for the Spanish market.

Main private Spanish Operators (# beds)
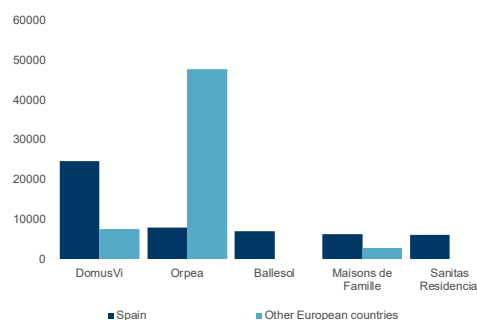
Sources: Operators websites, PlantaDoce

Market Trends

- A high number of transactions took place over 2018. The trend for 2019 is to continue with a high number of transactions and to improve the visibility of the market for external investors.
- Over the course of 2018, most of the top operators like Domusvi and Orpea have implemented an international expansion strategy. Domusvi expanded its market share to South America and Portugal; this activity is carried out by the Spanish matrix of the company.
- 2018 saw the arrival of Spain on the European nursing homes leaderboard: Korian acquired 7 assets in the Malaga region which represents 1,233 beds.
- The centres with more than 100 beds in Spain represent 23,45% of the total market. Most of these centres are managed by private operators.

Investment volume

- Investment activity in 2018 was higher than in previous periods with acquisitions and mergers being the dominant activities in the market. We estimate that around €150M of care home real estate was traded in 2018 based on RCA data (this excludes the acquisition of Gerovida by DomusVi).
- The number of partnerships between investors and operators could increase in the future, leading to further increases in investment volumes.

Main investors

- The Spanish market is not as developed as the French or German markets. The real estate component is most often still owned by the operators. However, we are now observing an externalization of the real estate component; several portfolios have been recently bought by investment funds.
- In only 3 years, the landscape of investors has considerably broadened and changed. The good health of the Spanish economy is reflected by the high number of operations signed during 2018. Most of these operations were carried out by top operators such as DomusVi or Orpea.
- Armonea, the leading Belgian operator of nursing homes is developing an ambitious expansion project. This has placed the operator amongst the ten largest operators in terms of number of beds, with a total of 4,500.
- 2018 opened with the sale by La Saleta of 6 nursing homes (800 beds and a global surface of 21,500 sq m) to Primonial REIM. The agreement was signed for €35M. It must be noted that the La Saleta group was bought a few months earlier by Armonea, the leading Belgian operator for nursing homes.
- 2018 also saw the arrival of Spain on to the European nursing home leaderboard: Korian acquired 7 assets in the Malaga region which represents 1,233 beds.

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Italy

Demographic evolution

Dependency Ratio

- The dependency ratio in Italy was **at 33.7% in 2015** and is forecasted to increase to **62.5% by 2050**.
- Italy's dependency ratio is well above the European average; it will be 10 points above the European average by 2050.

Dependency ratio

Sources: Orpea, National Statistics, Cushman & Wakefield

Population over 80

- In 2018, **21.5%** of the Italian population was **over 65**.
- **6.67%** of people in Italy were over 80 in 2018; this demographic is expected to increase to **10.5% by 2040**.
- As the 80+ population has already grown substantially over the last few years, demographic perspectives do not show, for this part of the population, an increase as large as observed in the rest of the CEE countries.
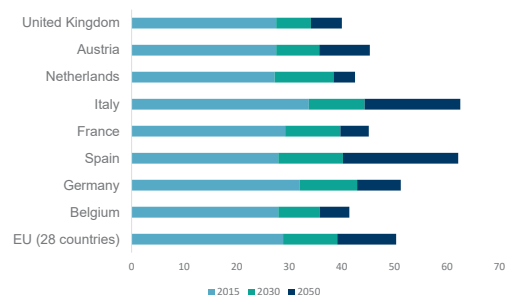- Average life expectancy in Italy as at 2018 is **84** years.

**Growth of the 80+
Base = 100 in 2015**
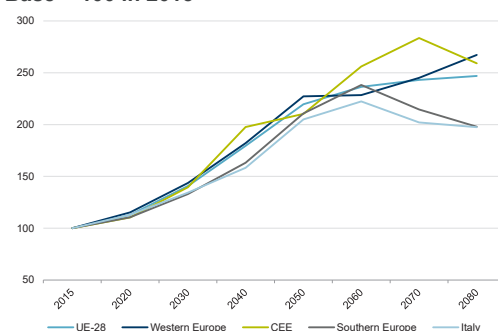
Source: Eurostat

Nursing home landscape

- The equipment rate represents the number of beds over the population aged 80 and above. It stands at 11% in Italy.
- The equipment rate needed depends on the family structure and considers the diversity of the countries as well as the ageing rate and growth.
- Italy sits close to the European average and is expected to need 80,000 more beds by 2030; there are important discrepancies between regions since a large part of the current 390,000 bed supply is in northern regions.

Number of beds (in 000s) and equipment rate
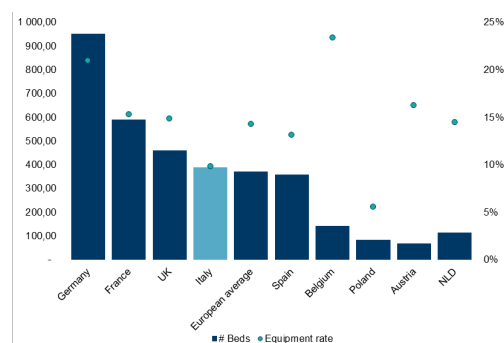
Source: Eurostat

Types of Operator

- Public Operators.
  Operate 45% of the total beds.
- Private commercial providers.
  Operate approximately 20% of the total beds.
- Private non-profit providers.
  Operate approximately 35% of the total beds.

Care home beds by type of operator
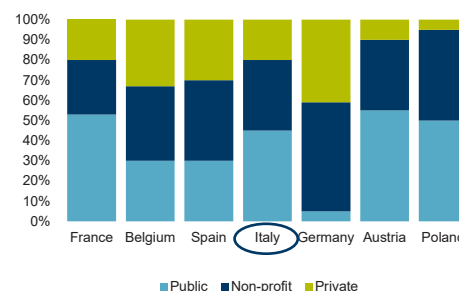
Main actors

Accounting for around 15,000 beds, the top four private operators are:

- **Korian** (Segesta) – 44 nursing homes with over 5,600 beds,
- **KOS** – Operates over 48 nursing homes in Italy with around 5,500 beds. Contrary to its competitors which are active in Italy and throughout Europe, KOS is the only major player that operates exclusively within the domestic market,
- **La Villa** (Maisons de Famille)– ~2,000 beds spread over 21 nursing homes,
- **Orpea** (Casa Mia) – 16 nursing homes with over 1,800 beds.

Main Italian operators (# beds)
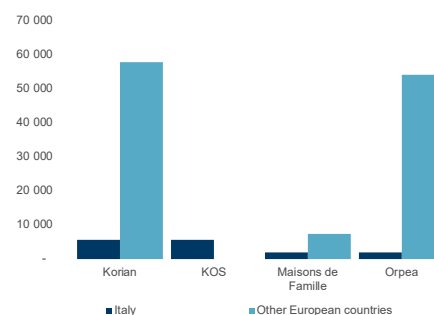
Market Trends

- The privately-operated market in Italy is rather fragmented, with a high number of individual regional Operators.
- In Italy, healthcare policies are decided upon at a regional level; care is free in Lombardy and Venetia. However this is not the case in the other Italian regions.
- The largest private Operators in Italy are international companies; French operators such as Maisons de Famille, Orpea and Korian are all present on this market.
- The main domestic Operator is KOS, a healthcare group headquartered in Milan which also operates rehabilitation centers and hospitals.
- By 2020, the rather low equipment rate, especially in southern Italy, is expected to attract both foreign and domestic operators who will be interested in the strong operating figures.

Investment volume

- Investors in Italy are mainly focused on high-quality assets in good locations (especially in the northern regions) that benefit from good tenants and long lease agreements.
- In 2018 the nursing home investment volume in Italy is expected to reach over €200M.
- The investment volume was driven by one main deal, the acquisition by ICADE SANTE of 7 nursing homes, yet to be built, for a total of €112M. The nursing homes will be in the Piemonte, Veneto and Lombardy regions and are expected to be delivered between 2020 and 2021, for a total of 1,020 beds. They will not be operated by the French operator but rather by the local operator, Gruppo Gheron.

Main actors

- Aside from ICADE SANTE, the investment market in 2018 was largely dominated by local investors, including InvestiRE of which the Spazio Sanita fund now reaches more than 2,000 beds.
- Most of the market activity is concentrated in the north of the country on lots ranging from €10 to €50M, mostly dealt between local investors.

Date	Buyer	Seller	Assets	Location	Price (€M)	NIY
2018	ICADE SANTE	NA	Portfolio (7 assets, c. 1,020 beds)	Multiregional	112	NA
2018	InvestiRE	Sereni Orizzonti	Portfolio (3 assets, c. 260 beds)	Multiregional	NA	NA
2018	leading institutional investor	NA	Portfolio (6 assets in Venice, Milan, Turin and Ancona)	Multiregional	NA	NA
2017	Primonial REIM	Candia Srl	Casa di Cura Le Terrazze - (185 beds)	Cunardo	NA	NA
2017	AXA	Gruppo Technit	Portfolio (5 assets, c. 1,200 beds)	Multiregional	278	NA
2017	InvestiRE	Undisclosed Vendor	RSA Lazio and Emilia	Multiregional	35	NA

Source: Cushman & Wakefield

Yields

- Considering the asset type, (revenue security, long term leases, condition, structure, and location), we can compare healthcare yields to retail and office yields.
- High quality nursing homes (in terms of the building and the services offered), located near to or in urban centers that are considered 'prime,' are expected to reach gross yields around 5.75%, marking a slight decrease compared to 2017 levels.
- Prime assets continue to attract more and more foreign investors. They are drawn to the low equipment rate of the country and bet on decreasing yields that are expected to reach sub 5,75% levels in 2019.
- For secondary assets, yields could rise to 7.00%-9.00% depending on the property.

Prime care homes yield
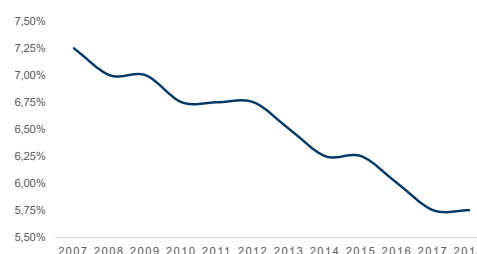
Source: Cushman & Wakefield

Germany

Demographic evolution

Dependency Ratio

- The dependency ratio in Germany was **at 32% in 2015** and is forecasted to increase to **51% by 2050**.

- The German dependency ratio is one of the highest in Europe with one person of 65+ for every three-working people. Currently, Germany's dependency ratio is slightly above the European average; in 2050 it is expected to still be above the EU28 average.

- Germany is one of the European countries facing the most challenging demographic changes.

Dependency ratio
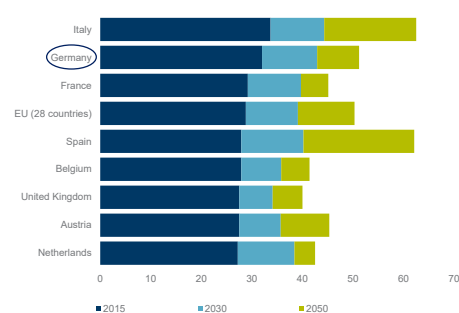
Source: Eurostat

Population over 80

- The number of working people is expected to decrease steadily **from 2020 onward**; **from 54 million to 45 million** within twenty years. Over the same period, the elderly population is expected to grow to a degree unseen elsewhere in Europe.

- With **21.1%** of its population **over 65**, Germany reaches the highest proportion of elderly people in Europe.

Growth of the 80+ (Base = 100 in 2015)
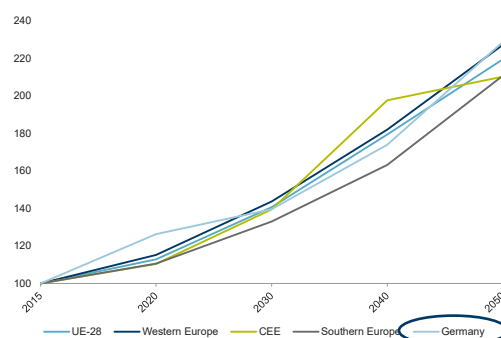
Source: Eurostat

Nursing home landscape

- The equipment rate represents the number of beds over the population aged 80 and above. It stands at 18% in Germany.

- Germany appears as one of the most mature nursing homes markets in Europe: it benefits from the second highest equipment rate in Europe, from the highest number of establishments and from a very stable funding system.

- Nursing homes in Germany are still regulated regionally; this has prevented a high degree of market consolidation by limiting until now the access of foreign investors.

Number of beds (in 000s) and equipment rate
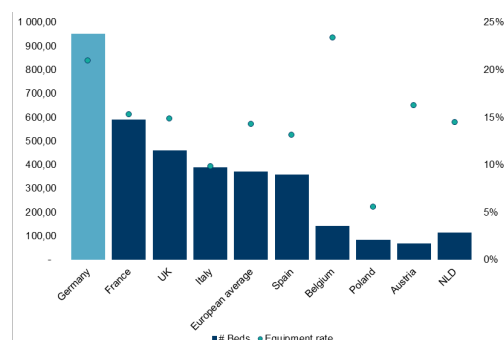
Sources: Eurostat, Operators websites

Types of Operator

In Germany, private care and rehabilitation facilities are operated by public, non-profit or private organizations:

- Public operators manage 5% of the total beds, which is the lowest rate in the nursing home landscape in Europe.
- Private non-profit providers operate 53% of the total beds.
- **Private commercial providers operate 42% of the total beds,** the second highest share in Europe after the UK.

Care home beds by type of Operator
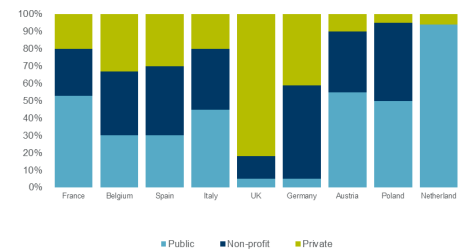
Sources: Orpea, National Statistics, Cushman & Wakefield

Main Operators

- According to the German Federal Statistical Office, there is a total of 952,367 care beds in 14,480 facilities (+6.5% compared to Dec-2015) in Germany.
- **The five largest Operators** account for only 10% of all **beds provided**, whereas the remainder of the market is very fragmented. Those five Operators provide 26% of all private beds, while the German care home market remains fundamentally a regionally based industry.
- Since 2015, Korian is the largest nursing home provider in Germany, with 234 facilities and 30,320 beds.

Main private Operators in Germany (# beds)
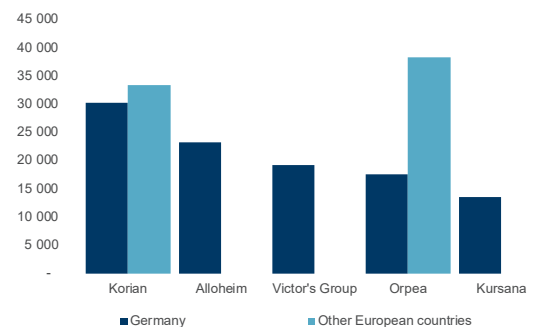
Sources: Cushman & Wakefield, Operators websites, Care Invest

Market Trends

- While around 3.4 million people required care in 2018 (19.4% more than two years ago), this figure is likely to increase by around 18 percent to over 4 million by 2023. However, the level of demand already exceeds the supply of residential, inpatient and semi-residential care places. Waiting lists for accommodation for parents or elderly relatives requiring care are becoming the norm yet nursing homes are already operating at full capacity.

- Assuming the proportion of elderly people requiring care remains stable, the construction of at least 320,000 new care places is imperative by 2030. In addition, many existing nursing homes are ageing themselves and require high maintenance works. The investment required to build new facilities and to modernize existing ones amounts to around €70bn. In addition, there is a lack of appropriate alternative forms of housing for those requiring care, especially barrier-free housing in accordance with DIN 18040-2 regulations. This type of housing, adapted for unrestricted wheelchair use, enables the desired close integration during visitation. It also facilitates outpatient and inpatient services to the benefit of those requiring care.

  More staff, better training and better pay, as well as raising the status of care professionals in society, are just as essential as a reliable and sustainable economic and legislative background for private investments in nursing homes.

Care homes forecast in Germany until 2030

Source: Cushman & Wakefield, Philips GmbH & Institute for Healthcare Business (hcb)
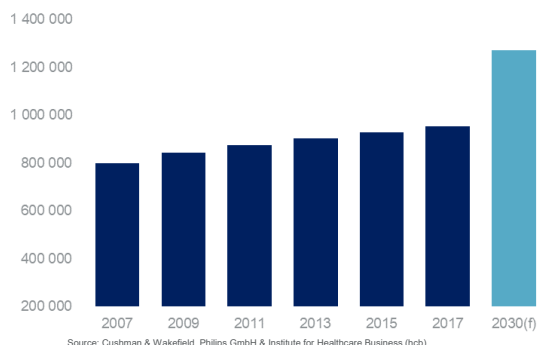
Investment volume

- German investment in nursing homes is dominated by listed real estate companies and institutional investors pursuing long-term investment strategies.

- Between 2013 and 2017, more than €6.3bn was invested in nursing homes and senior residence facilities throughout Germany. In 2018, transaction volume in this sector increased by 63% year-on-year to €1.76bn. This is the second highest investment volume after the record year of 2016 which was mainly dominated by large portfolio sales.

- It should also be noted that there are increasing numbers of health care REITs, Real Estate Investment Trusts, and investment funds specializing in this asset class.

Investment volume in nursing home real estate assets (€M)

Source: Cushman & Wakefield, RCA
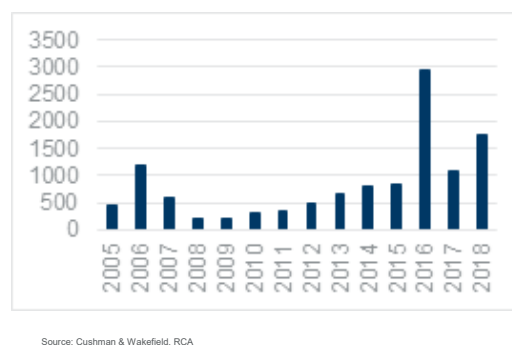
Main investors

- 2018 was dominated by some larger portfolio transactions. Deutsche Wohnen bought a 30 nursing homes for a combined total of €680M, adding a further 4,600 care places to its existing portfolio. Thirteen of the nursing facilities are situated in the Hamburg city area and were acquired from US investor Oaktree. To manage the facilities, Deutsche Wohnen also bought a minority interest in Pflegen & Wohnen Hamburg GmbH. The other 17 facilities are located across the country and are fully let to well-known operators under long leases.

- Furthermore, Deutsche Wohnen bought seven senior centers and care facilities owned by Vivaplan GmbH of Regensburg for €65M. The properties are located in Obertraubling, Parsberg, Mitterteich, Vilseck, Seubersdorf, and Breitenbrunn (Bavaria), and Plauen (Saxony). Smaller lot sizes were invested during 2017 by German investment funds specializing in this asset class with a regional/local investment focus, such as INP Holding AG, Patrizia, Immac Group, Capital Bay, etc. This market fragmentation is attracting international investors to Germany.

- In addition to the increasing interest from German institutional investors, Belgian investors such as REIT-type vehicles like Cofinimmo and Aedifica and insurance-backed institutional investors like AG Real Estate are particularly drawn to the German market. French investment managers and family offices like Primonial or DOREA are also expanding their investment footprint with strategic acquisitions across Germany.

Recent deals

Main investment transactions in Germany (2018)

Portfolio	Properties	Beds	Price in M€	Yield	OpCo / PropCo	Buyer	Seller	Year
Senior Housing Portfolio	30	4,600	680	n/a	OpCo/PropCo	Deutsche Wohnen AG	Pflege & Wohnen / SHI Management	Q3 2018
RevCap Semnior Housing	17	1,477	172	5.50% (cap rate)	PropCo	Cofinimmo	Revcap	Q2 2018
Healthcare Portfolio	7	n/a	130	4.30% (NIY)	PropCo	AG Insurance SA (35%)	SHI Management	Q2 2018
Together	7	650	64	5.00% (cap rate)	PropCo	Deutsche Wohnen AG	VivaPlan	Q2 2018
Cura Satana Portfolio	9	604	45	n/a	PropCo	Dorea	Cura Sana	Q4 2018
BestCare Portfolio	5	n/a	39	n/a	PropCo	Primonial REIM (SCPI Primovie)	n/a	Q2 2018
Aedifica Senior Housing	4	465	39	6.00% (gross)	PropCo	Aedifica	n/a	Q2 2018
Bad Sachsa Senior Housing Portfolio	4	221	19	7.00% (gross)	PropCo	Aedifica	n/a	Q4 2018

Source: Cushman & Wakefield

Yields

- Prime yields (net) compressed further in 2018 to 4.75% – a decrease of 25 base points compared to YE 2017 – due to the high demand from institutional investors and the lack of suitable, newly built investment product.

- This level of yield is the lowest ever recorded for care homes but is still significantly higher than the yields of the main asset categories. Offices for example, have an average prime yield of 2.94% across the five major German investment markets, in line with other European countries.

- It can be expected that new domestic and foreign market participants will increasingly seek established investment niches. The demand from institutional investors for well-positioned care homes is unceasingly high, while new development activity in this asset class is far too low. The resulting lack of supply puts pressure on yields; first class-core property yields will remain strong while net initial yields will be further compressed.

Prime care homes yield
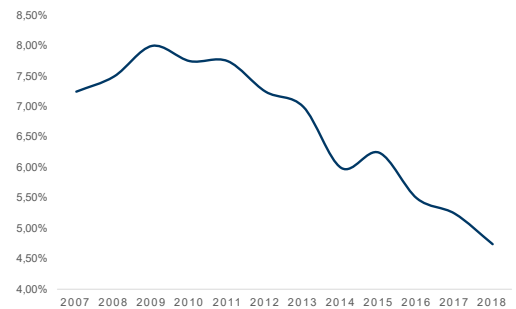

Source: Cushman & Wakefield

Belgium

Demographic evolution

Dependency Ratio

- The dependency ratio (Inhabitants over 65 / Inhabitants between 15-64 years of age) in Belgium was at 27.9% in 2015 and is forecasted to increase to 41.4% by 2050.

- In comparison to other European countries Belgium's dependency ratio is currently just below the EU28 average. It is forecasted to be one of the lowest dependency ratios by 2050.

- Like in other European countries, the dependency ratio is lower in the capital city than in the rest of the country. The dependency ratio in the Brussels-Capital Region is only 19%.
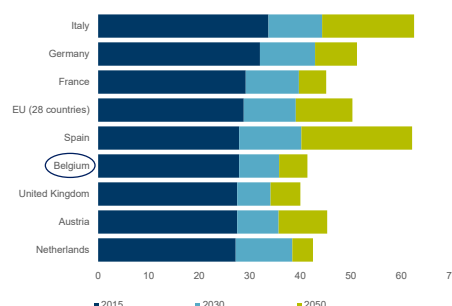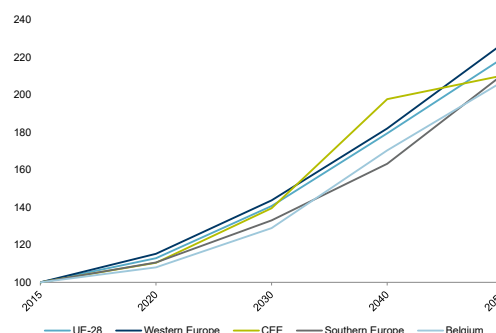
Population over 80

- In 2015, 17.9% of the Belgian population was over 65, and this figure is forecasted to rise to 22.5% by 2040.

- 5.4% of people in Belgium were over 80 in 2015; this age group is also expected to increase to 7.5% by 2040.

- Average life expectancy in Belgium in 2016 was 84.1 years and should slightly increase in the coming years.

Nursing home landscape

- In Belgium, since 2000, we have observed a constant increase in the total number of beds to reach around 148,000 beds in 2018.

- Flanders presents the lowest equipment rate with 116 beds per 1,000 inhabitants of 75+ compared to Brussels (189) and Wallonia (158). Average for Belgium is around 135.

- The growth rate has been relatively stable, increasing by around 1% per year between 2003 and 2012. From 2013 onward, growth has been slightly more substantial. In absolute figures, it represents a yearly increase of around 2,400 beds while the annual needs are estimated to be between 3,000 and 3,500 beds.

Dependency ratio

Sources: Eurostat

Growth of the 80+ (Base = 100 in 2015)

Sources: Eurostat

Belgium # Beds (in 000s, LHS) and annual growth (%, RHS)
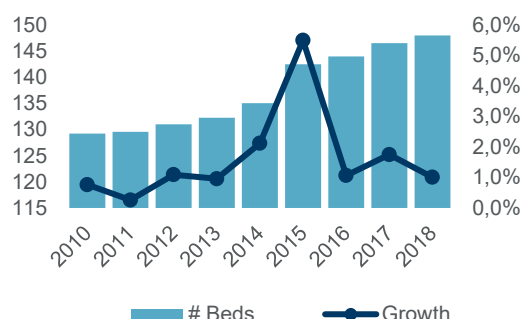
Source: INAMI up to 2013, Korian Medica for 2014, 2015 and 2016

Types of Operator

- Public Operators manage 30% of the total beds. On average they manage the largest nursing homes (around 105 beds per nursing home).
- Private non-profit providers operate 37% of the total beds. This type of operator dominates the market in Flanders (over 50% of the beds).
- Private commercial providers operate 33% of the total beds. This type of operator is predominant in the Brussels region where it makes up over 60% of the market (in terms of no. of beds)
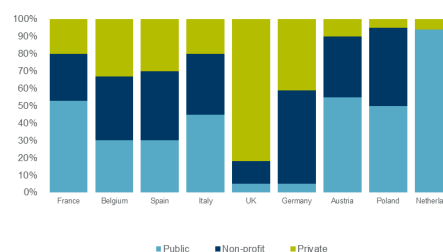
Care home beds by type of Operators

Sources: Orpea, National Statistics, Cushman & Wakefield

Main Operators

- **Armonea**: In 2015, the Belgian company Armonea acquired the care home operator Soprim@. Cumulatively, they now operate 9 000 beds. They operate around 85 nursing homes throughout Belgium. Moreover, in July 2016, Armonea acquired two operators abroad: La Saleta in Spain (32 nursing homes) and DPUW in Germany (approximately 17 nursing homes).
- **Orpea:** The French group has more than 7,000 beds present in 60 homes in Belgium.
- **Korian:** Since the 2013 merger with Medica, Korian has enlarged its geographical coverage to include Belgium, which now accounts for around 11% of their total beds (over 7 000 beds).

Main private Operators in Belgium (# beds)
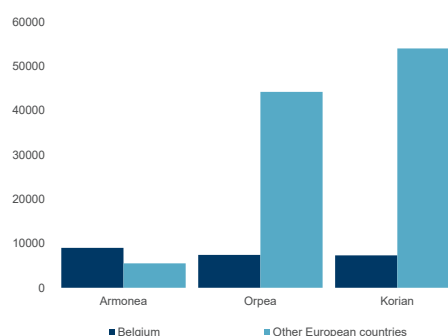
Sources: Cushman & Wakefield, Operators websites

Market Trends

- In Belgium, private operators manage around 32% of the total number of beds which represents around 45,000 units.
- As witnessed in Europe, we observe a trend towards an expansion and consolidation of the private sector in the Belgian nursing homes landscape.
- In Belgium, the three largest private operators managed a total of around 25,000 beds in 2017.
- This represents around 20% of the total number of existing beds.
- Compared to 2012, the three largest operators increased the number of beds by more than 7,500 beds, mainly due to mergers and acquisitions.
- Local Operators like Armonea have started developing and operating abroad with acquisitions to experience faster growth. This trend is like the one we have seen in past years, mainly in France.

Main private Operators in Belgium, number of beds (in 000s)
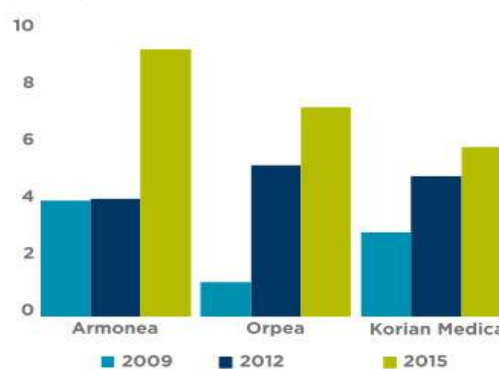
Source: various

Investment volume

- The invested volumes for 2017 and 2018 in nursing homes stand at around €100M per year. However, the market lacks transparency and invested volumes should be higher (around €250M on a yearly basis).

- The security offered by this type of investment and the appetite for a more diversified portfolio, combined with positive aspects such as long-term and indexed cash flows (based on long-term lease contracts) an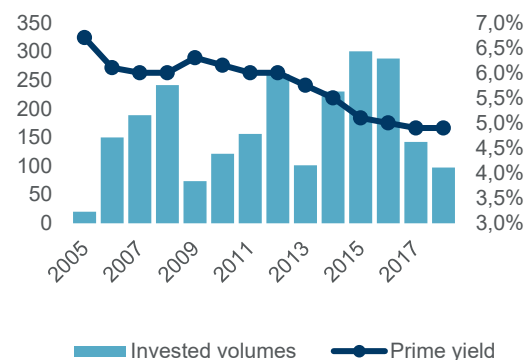d limited capex for operational buildings (due to the triple net leases) make investments in this sector very attractive.

- Assuming a need of 3,500 beds per year, the nursing home market should record investment volumes between €450M and €525M per year.
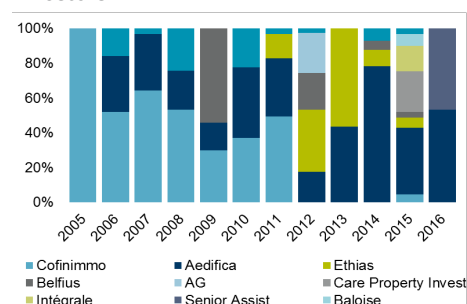
Main investors

- Care Property Invest and Aedifica were the most active purchasers in 2018 on the Belgium market, continuing their domination since 2016.

- Some insurance companies such as Generali, Belfius, Federales Assurances or Ethias purchased nursing homes over the past few years without communicating the amounts and/or yields recorded. They are therefore not included in the main investor amounts.

Investment volume in nursing home real estate assets in Belgium (€M)

Share of the invested volumes between main investors

Sources: Cushman & Wakefield, RCA

Recent deals

Main investment transactions in Belgium nursing homes (2018)

Investor	Property Name	City / Region	Number of beds	Price (€M)	NIY
Aedifica	Portfolio of 2 nursing homes	Multi-region	235	35	+/- 5%
Aedifica	Hof van Schoten	Schoten	101	18	+/- 5%
Care Property Invest	Ter Meeuwen	Meeuwen-Gruitrode	81	14.8	NC
Care Property Invest	't Neerhof	Brakel	108	14.8	NC
Care Property Invest	De Anjers	Balen	62	11.1	NC

Yields

- Following the strong compression observed these last years, combined with growing involvement of institutional investors and the low level of interest rates, prime yields stabilised in 2018 and now stand at around 4.90%. Stabilization at this low level is also expected in 2019, following the monetary policy of the ECB.

- This level of yield is the lowest ever recorded for healthcare assets.

Netherlands

Demographic evolution

Dependency ratio

- The dependency ratio (inhabitants over 65 / inhabitants between 15-64 years of age) in the Netherlands is currently at 29.5% and is forecasted to increase to 45.3% by 2040.

- The Dutch dependency ratio is currently well below the European average and is expected to be below the EU28 average in 2040 as well.

Dependency ratio

Sources: Eurostat
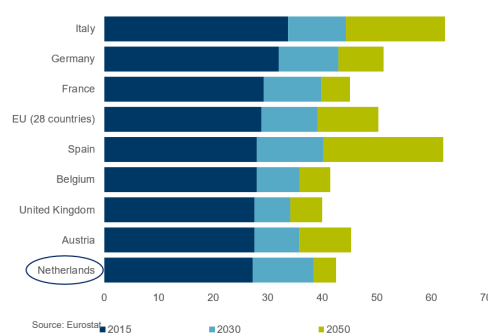
Population over 80

- Currently, 19.2% of the Dutch population is over 65 years old. This figure is expected to increase to 26.1% by 2040. Furthermore, 4.6% of the population is currently over 80 years old. This demographic is also expected to rise to 8.7% by 2040.

- In 2017 the average life expectancy in the Netherlands was 81.7 years. It is expected that the average life expectancy in 2040 will be 86 years.

  In 2017 the average life expectancy in the Netherlands was 81.7 years. It is expected that the average life expectancy in 2040 will be 86 years.

Growth of the 80+ (Base = 100 in 2015)

Sources: Eurostat
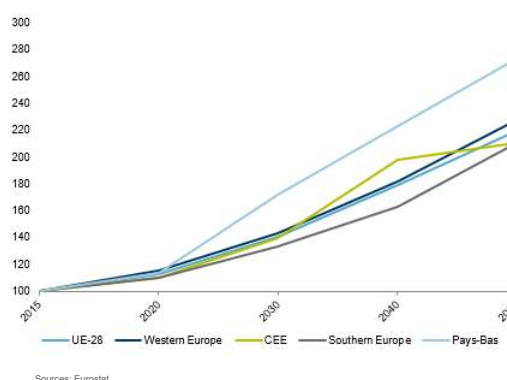
Nursing home landscape

- The equipment rate (the number of beds / the population aged 80 and above) in the Netherlands stands at approximately 15%.

- It is expected that more than 30,000 additional beds will be needed by 2030. This number is in addition to the required redevelopment of existing (and obsolete) homes across the country.

- The government provision for elderly care in the Netherlands has been under pressure from 2013 to 2017. This is due to cutbacks and government policy that aims to change the funding system and advocates for in-home care for the elderly with less specialized needs.

Number of beds (in 000s) and equipment rate, 2018

Sources: Eurostat
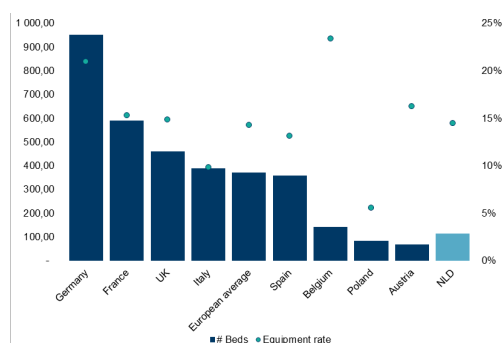
Types of Operator

- In the wake of the privatization of the Dutch market for elderly care and recent government policy, the number of privatized homes is on the rise. Although still relatively small compared to the public sector, the privatized sector has grown exponentially over the last years.

- Public operators manage approximately 94% of the total capacity of roughly 116.000 beds. On average they manage larger homes (around 60 beds per home).

- Private operators manage the remaining 6% of the total capacity. On average they manage smaller homes (around 20 beds per home).

Care home beds by type of Operator

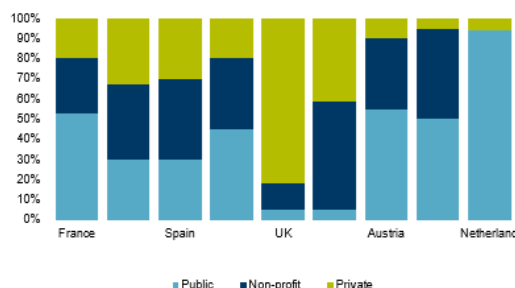Sources: Orpea, National Statistics, Cushman & Wakefield

Main Operators

- Traditionally, the elderly care sector was operated by approximately 400 public operators, each servicing their own local working area. Because of the large number of public operators dispersed geographically and demographically, there is no distinct market leader.

- Since the privatization and government prompted changes in funding of elderly care, private operators have entered the market with a predominately national focus for mid- and high-end concepts. In recent years however, more operators are developing low-end concepts as well.

- Currently, the approximately 350 privatized homes are operated by 85 commercial operators. Although the number of commercial operators remains quite constant, the number of homes is on the rise. As seen in other countries, we also expect to see operator consolidation in the Netherlands.

- At the moment, approximately 10 domestic, commercial operators are actively expanding their portfolios. The biggest operators currently operate up to 40 properties.

Market Trends

- The financial results of Dutch public operators remain under pressure. Nonetheless, overall yields for the sector are up over recent years. This is mainly due to increased volume agreements, arranged by the government.

- Demographic evolution will require public operators to revitalize their existing capacity and expand with new homes. (Foreign) investors may provide the necessary financial means to do so, when traditional ways of financing by covered loans prove insufficient.

- Although they still account for a small part of total capacity, larger private operators are quickly gaining market shares. They achieve this primarily through opening completely new locations. Private operators are focused on small scale residences versus large scale facilities; they are prioritizing better qualified staff in greater numbers to achieve the overall result of quality over quantity.

- In the coming years, private pan-European operators are expected to enter and expand the Dutch market for privatized elderly homes.

CUSHMAN &
WAKEFIELD

Investment volume

- Investment activity in the healthcare sector in the Netherlands has grown rapidly since 2015 and reached its highest level in 2018 with a total transaction volume of €790M, an increase of more than 34% compared to 2017.

- The security offered by investments in real estate for elderly care and the appetite for a more diversified portfolio, combined with positive aspects such as long-term indexed cash flows (based on long-term lease contracts) and limited capex (due to the triple net leases) make these kinds of investments attractive.

- It is expected that the total investment volume will increase in coming years. However, the constrained availability of investment grade real estate is crucial for the outcome of total investment volumes.

- The investment market for elderly care homes has been polarized for some time. High quality assets are benefitting from excess demand, while predominantly inefficient and/or dated homes at the opposite end of the spectrum have suffered from flat or falling prices.

Investment volume in healthcare real estate in Netherlands

Investment Volume Nursing Homes NLD
2014-2018, in mio EUR
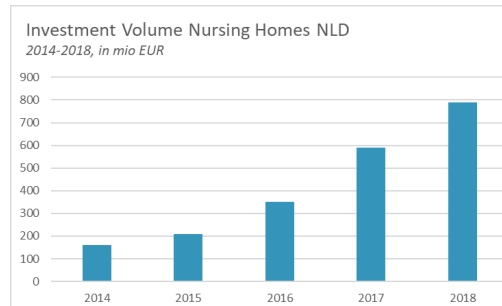
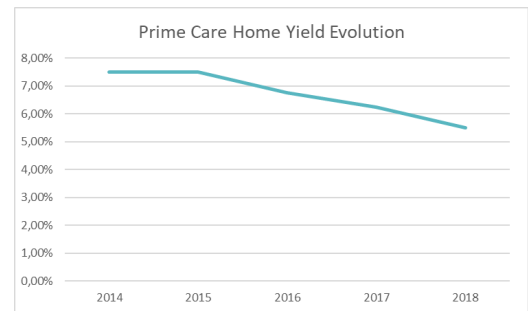Source: Cushman & Wakefield

Main investors

- Traditionally, Dutch elderly care homes were owned by public operators and housing corporations. These investors and owner-/occupiers seldom sold their real estate; therefore, transactions were and are still scarce.

- Due to the current interest of (foreign) investors, the real estate market for healthcare started to develop and mature. Although the market is not as developed as in other European countries, an externalization of real estate to investment funds is clearly visible.

- This creates opportunities for sale and leaseback-transactions with operators to finance their growth strategy and/or to solve troubled financial operations. Average investment size per location varies from <€10M for private care residences and >€10M for public nursing homes.

- Foreign investors like Belgian Aedifica and Cofinimmo were once again among the most active purchasers in 2018 on the Dutch market, following their domination in 2016 and 2017.

- Dutch investors like pension funds Syntrus Achmea and Bouwinvest and investment funds like Holland Immo Group and Sectie5 picked up the pace in 2017 and 2018 as well.

Main investment transactions in the Netherlands in 2018:

Investor	Seller	Assets	City / Region	Price (€M)	NIY
Heitman	Bonita Group	Woonlandschap Leyhoeve (423 beds)	Groningen	82	NA
Holland Immo Group	Zorgcentrum Het Zand	Portfolio (4 assets, 396 beds)	Overijssel	56	~ 5,75%
Aedifica	ECR	Portfolio (3 assets, 254 beds)	Multiregional	45	~ 6.00%
Bouwinvest	Stichting Inovium	Veenstaete (152 beds)	Kortenhoef	27,6	~ 5,25%
Aedifica	RW Capital I B.V.	Portfolio (2 assets, 107 beds)	Smakt & Velp	16	~ 6.00%

Yields

- Following the growing involvement of foreign investors and the low level of interest rates, prime yields for elderly care homes continued to compress throughout 2017 and 2018.

- Currently, prime yields stand around 5.50% for newly delivered buildings with tenants with a proven track record and long term (20 years) contracts.

- Discounts are considered when an investment poses reduced risk compared to a prime investment-profile, for example for contracts with rent levels below market level. Discounts are also considered when an investment poses increased risk, for example for contracts shorter than 20 years.

- Under current market conditions, yields are expected to compress even further in the months and years to come.

Prime Care Home Yield Evolution
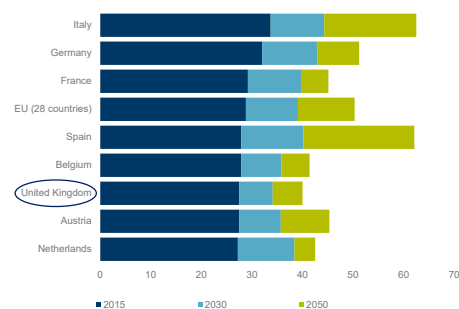
Source: Cushman & Wakefield

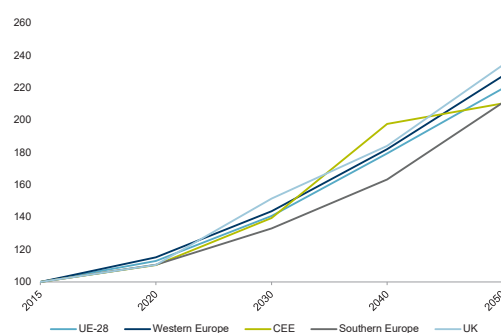# UNITED KINGDOM

Demographic Evolution

Dependency Ratio

▪ The dependency ratio in the UK was at 27.4% in 2015 and it is forecasted to increase to 40% by 2050.

▪ In 2015, the dependency ratio was only 12% in London; this is significantly lower than the country's average.

▪ In comparison to other European countries the UK has a reasonably low dependency ratio. It is currently below the EU28 average and is also forecasted below the average for 2040.

Dependency ratio

Source: Eurostat

Population over 80

▪ The UK is projected to have more people than France by 2030 (UK: 70.47 million vs FRA: 70.40 million). By 2047 it is expected to have the largest population in the EU.

▪ In 2015, 17.7% of the UK population was over 65; this figure is forecasted to rise to 23.3% by 2040.

▪ 4.7% of people in the UK were over 80 in 2015. This demographic is also expected to increase to 7.6% by 2040, one of the highest levels in Europe.
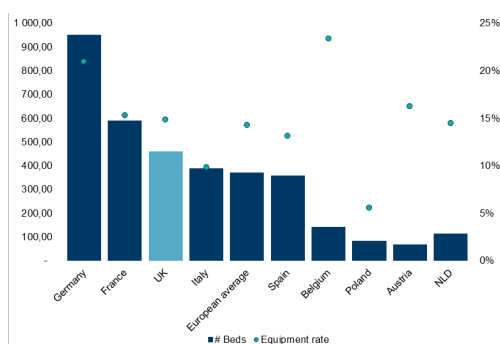
Growth of the 80+ (Base = 100 in 2015)

Source: Eurostat

Nursing home landscape

▪ The equipment rate represents the number of beds / populations aged 80 and above. It varies from 6% in Poland to 25% in Belgium and stands at 15% in the UK.

▪ Residential elder care in the UK has effectively been partially privatised since the 1980s, driven by the lower cost of independent sector homes compared to the public sector. This in turn is mainly due to the lower costs of labour in the independent sector.

▪ The independent sector has grown significantly over the last 25 years, with voluntary and public sector providers reducing in number. Local authorities, however, remain the largest single source of funding for older people in private residential settings.
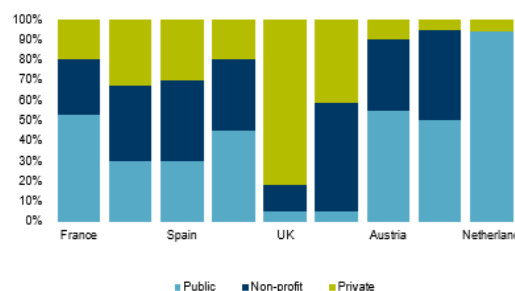
Number of beds (in 000s) and equipment rate

Sources: Eurostat, Operators websites

Care home beds by type of Operator

Sources: Orpea, National Statistics, Cushman & Wakefield

Types of Operator

- Public Operators in the UK operate 5% of the total beds, the lowest share in Europe along with Germany.
- **In contrast, private commercial providers manage 82% of the total beds which is by far the highest ratio in Europe.**
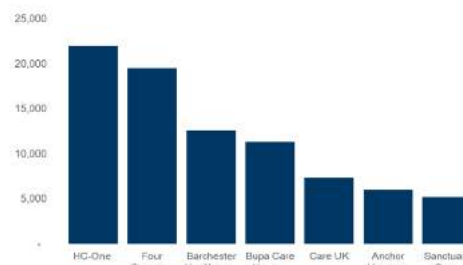- Private non-profit providers operate 13% of the total beds.

Main private Operators in the UK (# beds)

Source: LaingBuisson

Main Operators

- **HC-One Ltd:** with almost 22,000 beds, HC-One became the largest provider of care home beds in the UK after its recent acquisition of 122 care homes from Bupa. It is currently owned by the PE firms Formation Capital and Safanad.
- **Four Seasons Health Care ("FSHC")** has almost 20,000 beds. The organisation is owned by Terra Firma.
- **Barchester Healthcare:** with almost 12,800 beds, Barchester is planning on opening 600 more every year to expand its portfolio.
- **Bupa** is still one of the largest UK providers, with more than 11,000 beds.
- **Care UK** has over 7,000 beds spread over 100-plus residential care homes in the UK. Currently owned by Bridgepoint.
- **Anchor Hanover** is a not-for-profit organisation that manages over 6,000 care beds across 121 homes.
- **Sanctuary Care** has 5,200 beds across 100 homes and is also a not-for-profit organisation.

Market Trends

- The UK care home market is mainly operated by private commercial providers, representing more than 80% of total beds. Within this figure, most of the residents' funding comes from public sources, primarily local authorities.
- The elderly care home industry remains a dispersed industry in the UK. The top 25 corporate Operators represent only about 30% of bed stock.
- The for-profit market has grown from 338,000 beds in 2007 to 376,000 in 2017, and although the growth has stalled since 2015 (nationally, 6,000 beds deregistered in 2016 and 3,000 new beds were built which means a net loss of 3,000 beds) it is expected to need 50,000 more beds by 2030.
- Many Operators continue to have appetite for development, although this is focused on the private pay market. As a result, a high proportion of new build care home development is in South-Eastern England, while the economic rationale for new buildings in less affluent areas remains challenging.

Nursing Home Investment Volume

- The volume of investment for nursing and residential care homes in 2017 reached over £1.8bn, which was significantly higher than the previous year, with a volume around £400M.
- The care home market has been polarised for some time, with high quality assets benefitting from excess demand, while those at the opposite end have suffered from flat or falling prices.

Main Investors

- Historically US REITs and investment firms have been active in the high-end care home subsector - examples include LaSalle IM and BlackRock. Other US REITs (Ventas, Griffin American Healthcare and Omega Healthcare) have also completed purchases involving Operators of mid-grade care.
- UK REITs have also entered the UK care home market in recent years. Impact REIT (established 2017) owns some 60 care homes and continues to expand. Target REIT are also heavily involved in care home investment, currently managing a portfolio of c.50 care homes.
- Other buyer pools recently present in the UK care home market include operator/developers (both regional and national) and three classes of investors: private equity firms, mainstream asset managers and UK specialist investors. On the operator/developer side, HC-One, Caring Homes, Advinia, Country Court Care, Acadia, Primelife and Runwood have recently carried out acquisitions. Carlyle, Lone Star and Alchemy are examples of recent private equity care home buyers.
- Also of note are specialist investors such as Octopus Healthcare Investments and Alpha Real Capital, who compete for care home opportunities with main stream asset managers like LaSalle IM and other previously stated actors.
- Investor demand for groups with a robust business model is generally good, as existing management can normally be bolstered and leveraged to assist roll outs with new funding.
- The two key trends from the perspective of operator/developers are the restructuring and targeting of privately funded fees, the latter particularly in terms of new developments.

Recent Deals

Investor	Property Name	City / Region	Number of beds	Price (€M)	NIY
Triple Point Social Housing REIT	190 units via 3 transactions	All over UK		46	NA
Civitas Social Housing	Portfolio of 57 properties	Scotland	~ 1,500	132	NA
LaSalle Investment Management	Bracknell and Basingstoke	Southern England	147	37	~ 4.80%
Triple Point REIT	Portfolio of 11 properties	Midlands / North of England	~ 330	29.4	NA
Ropemaker Properties	Sidcup Care Home	Sidcup, Kent	80	17.43	~ 4.50%
AEW UK Long Lease REIT	Prime Life Care Homes	UK centre (Brough, Solihull)	~ 150	13.4	~ 6.10%
LXi REIT	Priory Care Home	Leeds	75	9.6	6.30%

Sources: RCA, Cushman & Wakefield

Prime Yields (2008 – 2018)

Yields

- The prime care home disposals typically attract numerous bidders and have achieved 4.5% initial yields.
- In 2019, yields reaching as low as 4.25% can be expected, while softer initial yields between 6.00% and 7.00% are to be expected for mid-market care home assets.
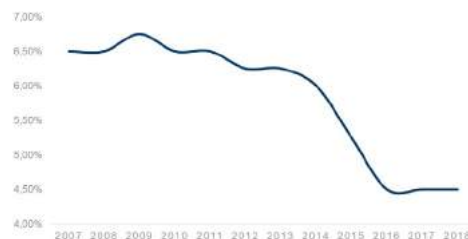
Source: Cushman & Wakefield

DEFINITIONS

Dependency ratio: measure showing the number of dependents 65 years old and above, over the total population between the ages of 15 and 64. It is also referred to as the "total dependency ratio."

Nursing home (EHPAD): in French referred to as *Etablissement d'Hébergement pour Personnes Agées Dépendantes* or EHPAD. Includes nursing and residential care.

Authorised beds and places: describe the beds and places for which the establishment has an administrative authorisation.

Equipment rate: ratio describing the total number of nursing homes beds over the total population aged 80 and above.

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