Savills World Research
Healthcare

Spotlight
European care home investment

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BECOMING PART OF THE MAINSTREAM

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Spotlight
European care home investment market

A growing niche

The care home investment volume since the beginning of the year reached approximately €2.6bn. This is 60% higher than during the same period last year. This is notably thanks to high levels of investment achieved in France €878m and Germany €870m during the first half of the year, followed by the UK €244m, Finland €218m, the Netherlands €175m and Sweden €116m.

The care home investment market really emerged in 2012 when the European investment volume increased threefold. The 4-year annual average volume recorded prior to 2012 is €315m and the 4-year annual average volume recorded starting from 2012 is €2.8bn. In the past 12 months, strong activity in the care home sector was mainly due to externalisation strategies from operators and consolidation of large portfolios between active investors in care homes.

In line with other type of properties, the share of cross border investment dropped from 65% in 2014 to 42% last year and only 24% so far this year. However, the share of investment from listed property funds increased significantly from 5% last year to 36% since January. In 2013 the first UK healthcare property real estate investment trust was launched (Target Healthcare REIT). In 2014 Cofinimmo (Belgian REIT) started specialising in healthcare, and Aedifica, also a Belgian REIT was created.

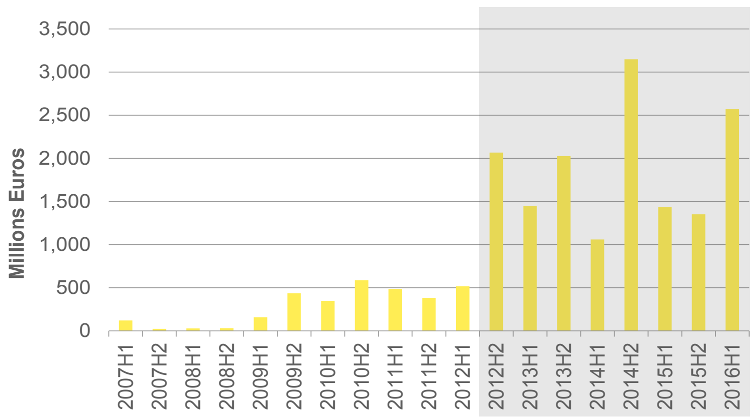
Strong activity since the beginning of the year suggests that investment volume for the full year is likely to reach a record high, given the deal already closed since august or in the pipeline. We expect the care home annual investment volume could reach €5.5bn in Europe. In Germany, given the number of deals recently signed or in the pipeline, we believe the annual volume will exceed €3bn. In France we believe that the investment volume could reach €1.3bn by the end of the year, in the UK approximately €1bn in spite of a slow start to the year. In Sweden we expect the end-year volume to reach an equivalent of €250m.

Becoming a mainstream

Some may say the rise of alternative assets is cyclical, it is indeed as any other asset types, however it is slowly

GRAPH 1

European care home investment volume A jump of 60% compared to H1 2015



Source: Savills, RCA

SUMMARY

Silver investment is booming

- European care home investment volumes reached approximately €2.6bn during the first half of 2016, which is 60% higher than the same period in 2015.
- The highest levels of activity recorded during 2016 H1 were France (€878m), Germany (€870m), the UK (€244m), Finland (€218m), the Netherlands (€175) and Sweden (€116m).
- This increased appetite from investors has had an inevitable downward pressure on prime care home yields in Europe, which currently range between 4.4% and 7.5% depending on country, location and quality of asset.
- Care homes and more generally alternative assets are becoming a mainstream. Over the past 15 years investment allocations outside the traditional commercial sectors (office, retail, industrial) have been increasing by 25% yoy on average.
- The sector itself really emerged as an asset class in 2012 when we saw European investment volumes triple.
- In the past five years new operators were created and new concepts emerged and the sector has undergone major M&A.

"Care homes provide an opportunity to generate greater diversification whilst still avoiding fierce competition for competitively priced traditional asset classes." Lydia Brissy, Savills European Research becoming part of the mainstream. Over the past 15 years investment allocations outside the traditional commercial sectors (office, retail, industrial) have been increasing by 25% yoy on average.

Care homes have become popular in recent years for various reasons. It is a way to provide greater diversification while avoiding fierce competition for highly priced traditional assets. The less cyclical nature of this specialist property is also appealing to investors, particularly in a volatile market. But most importantly investor interest is fuelled by the long term income stream and the future demographic trends that support the growth of the sector. The ageing population in Europe and the profile and affluence level of the ageing 'baby boomers' means that there is a need for more and better healthcare facilities, which will offer a wide spectrum of services and support.

The yield curve moves in

Increased appetite from investors for care homes has put downward pressure on prime yields over the past years. It remains competitive compared to residential units, or traditional commercial properties. On average the difference between care home yields and other type of assets range between 36 bps (with shopping centres) and 163bps (with high street).

The prime care home yield currently range between 4.4% and 7.5% depending on the country, location and quality of assets. The growing competition for care home assets will continue to put pressure on prices.

“We have seen a surge in transaction levels as a result of externalisation strategies from operators and consolidation of large portfolios between active investors.” Colin Rees-Smith, Savills healthcare director

TABLE 1

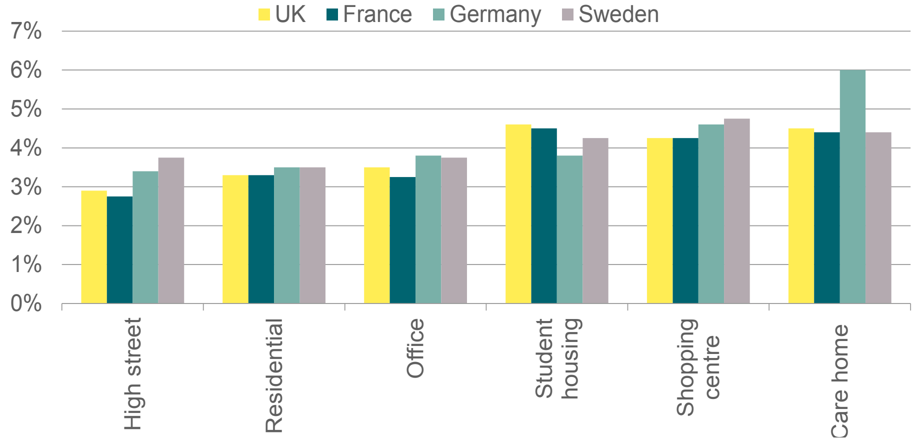
Major investment deals The number of portfolio deals increased significantly

Country	Property	Location	Units	Price (€m)	Buyer	Seller
France	Gecimed Portfolio	Nationwide	NA	NA	Primonial	Gecimed (Gecina)
France	Portfolio	Nationwide	NA	301.0	Primonial	Fonciere des Murs
Germany	Pegasus Portfolio	Nationwide	4,132	421.0	Deutsche Wohen AG	Berlinovo
Finland	Portfolio of 27 care homes	Nationwide	NA	155.0	Special Investment Fund eQ Care (AIF)	Northern Horizon Healthcare I Fund
Germany	TSC Senior housing	Nationwide	1,727	138.0	AG Real Estate JV BNP Paribas	NA

Source: Savills

GRAPH 2

Prime yields Care home yields are hardening but they still offer competitive prices compared to traditionnal assets



Source: Savills

Strong fundamentals

By 2025 more than 20% of Europeans will be 65 or over and the number of people aged 85 years or over is projected to rise from 14 million to 19 million by 2020 and to 40 million by 2050. The ageing population is a global trend which is affecting the old continent first.

Whilst the total European population will increase by 2% between 2015 and 2030, the elderly population (above 80 years old) will grow faster; by 38% in the same period of time. Germany, Italy, Greece and Portugal are, and will continue to be, well ahead in terms of ageing population. In 2030 the share of their respective population above 80 will be above 8% whereas the EU28 average will be at 7.2%.

Not only is the number of 80 years old set to double in the next 20 years, but the average life expectancy beyond retirement age is also increasing rapidly. On average European citizens live 85.3 years, they will live 91.8 years in 2060.

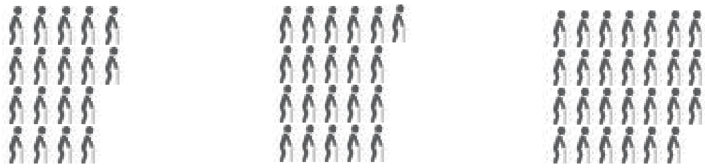
Approximately 14% of the total expenditure across Europe is spent on Healthcare. Switzerland (22%), the Netherlands (21%), Germany (19%), Sweden (17%) and Norway (17%) dedicate the biggest share of their total expenditure to healthcare. And only slightly above 1% of the total European GDP is spent on long term nursing care (LTNC). Countries that allocate the biggest share of their GDP to LTNC are the Netherlands (2.95%), Norway (2.57%), Denmark (2.55%), Belgium (2.44%) and Switzerland (2.30%).

On average in the EU there are approximately 46 beds in residential long-term care facilities per 1 000 population aged 65 years old and over. The top 5 best equipped countries are Belgium (71.2), Luxembourg (70.8), Sweden (66.2), the Netherlands (65.5) and Finland (59.7).

Based on analysis of the varying demographics across Europe, the total expenditure on healthcare across the continent and existing provisions for residential long-term care, the top five countries for investors to consider moving forward are the Netherlands, Germany, Denmark, Finland and France. These five countries have the most aging population, limited number of long-term care beds in institutions compared to their elderly population and the highest percentage of LTC expenditure.

AGEING EUROPEAN POPULATION

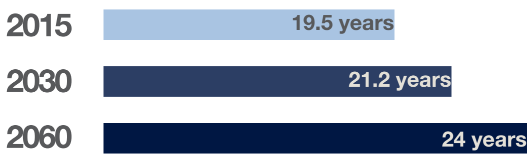
Population aged above 80 years old



26.9 million | 37.3 million | 61.7 million

2015 | 2030 | 2060

Life expectancy at 65 years old



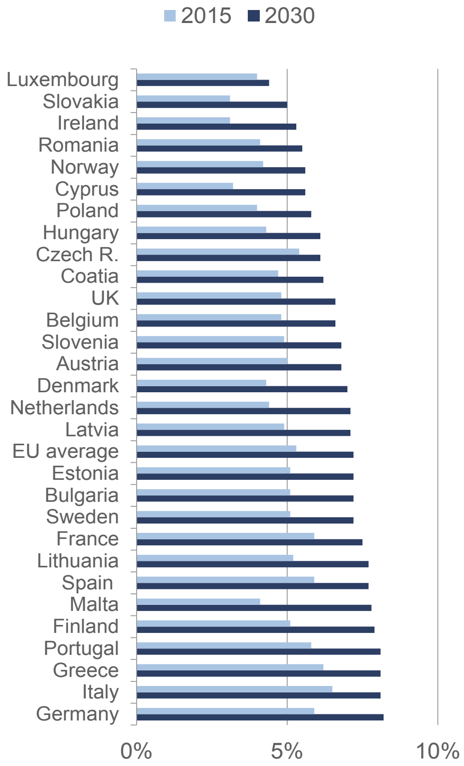
1%

of GDP is spent on long term nursing care on average across Europe

Source: European Commission

GRAPH 4

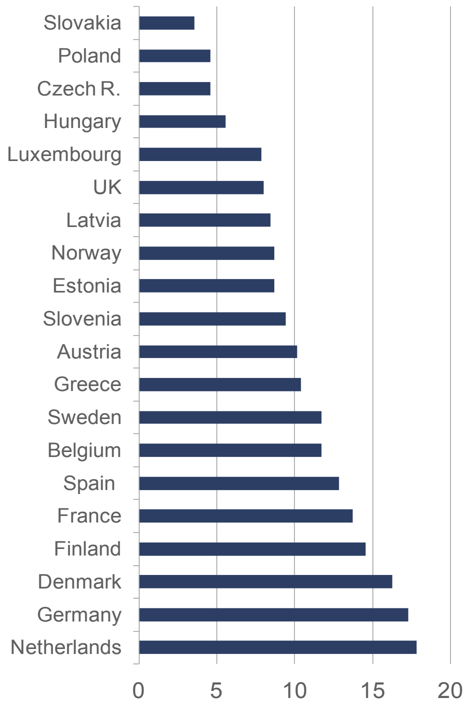
% of population aged over 80



Source: European Commission

GRAPH 5

Fundamentals* ranking



Source: Savills/* elderly population, LTC bed and LTC expenditure

M&A amongst operators

Demographic changes have triggered lots of interest for the sector, not only from investors. Over the past five years, new operators were created and new concepts emerged and the sector has undergone major M&A actvity. In 2014, Korian and Medica merged and became one of the major market players in Europe, running 50,194 beds in total. Korian is the biggest operator in France and in Germany. Since 2014, Orpéa, a French operator, also bought foreign operators in order to expand its presence abroad, Senevita in Switzerland (21 care homes and 2,293 beds), Silver Care in Germany (61 units and 5,963 beds), SeneCura in Austria (52 sites and 3,936 beds), MEDI System in Poland (704 beds) and Sanyres which enabled Orpéa to double their bed count in Spain.

"Over the past two years, French operators significantly expanded abroad through M&A." Lydia Brissy, Savills Europan Research

TABLE 2

Major operators

Operator	Total number of beds	Operating countries
Korian	50,192	France, Germany, Italy, Belgium
Orpéa	34,952	France, Germany, Spain, Switzer-land, Austria and Poland
Domusvi	21,692	France, Spain
Pro Seniore	13,101	Germany
Attendo Care	12,649	Sweden, Finland, Denmark and Norway

Source: Savills

COUNTRY DETAILS

GERMANY

In the investment market, nursing homes represent a niche market that accounts for an average of 1 to 3% of the overall commercial transaction volume. The annual transaction volume over the last five years has averaged almost €420m. Against this background, 2016 can already be considered an exceptional year with nursing homes changing hands for more than €585m in the first half of the year. This figure already exceeds the totals for the previous two years and it is now certain that the annual will reach a new high. Given the number of deals recently signed or in the pipeline, we believe the annual volume will exceed €3bn. The 4.2% share of the overall transaction volume is already the highest proportion ever recorded in Germany. While almost a third of the transaction volume in 2015 was attributable to properties in the top seven markets, these only accounted for around 7% of volume in the first half of the year. This is explained by transaction activity increasingly shifting to smaller cities. Accordingly, more than 27% of the volume was attributable to cities outside of the A-D cities (based upon Bulwiengesa classifications).

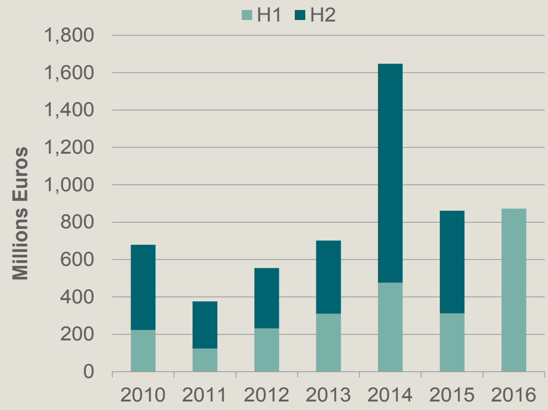
The attractiveness of German care home properties is also reflected in the composition of investors. Foreign purchasers accounted for 60% of the transaction volume in the first half of the year, led by purchasers from France (31%), Belgium (16%) and Luxembourg (9%). Fund managers, asset managers and open-ended special funds have represented the largest purchaser groups over the last two and a half years. Owner-occupiers also play a significant role, accounting for almost 16% of the transaction volume. The largest investors of recent years include Primonial, AviaRent, Charlston Holding, Even Capital and Patrizia. Going forward, we expect investors to become even more active in the nursing home sector owing to demographic changes.

FINLAND

Increase in demand for care and social services properties has provided new opportunities for investors. Several property funds investing in care homes and health care have been established. The care property investment market value has risen to over €1bn. Total investments in care properties in 2015 were approx. €350m and their share of the total transaction volume was just over 6%. As a result of exceptionally high demand, prices have increased rapidly. Prime yields currently stand at 5.8% and lower yields have been recorded. The vast majority of the private owned properties in the care sector are leased to private operators, which typically offer their services to municipalities. Operating a care home requires a license. The premises must be approved by the authorities and comply with strict technical requirements, which vary according to intended use of the property. These needs also set certain requirements for property developers and investors. Investments in care homes are cash flow focused. Annual returns range by investor from about 6% to 10%. Increase in demand for care home premises enables stable cash flows. Well located properties with long

GRAPH 6

Investment volume in Germany* New record volume may be reached in 2016



Source: Savills / *All kinds of social welfare properties including hursing homes.

"Consolidation of care home operators is multiplying in Germany and we expect to see further acquisitions over the coming years." Matthias Pink, Savills Germany Research leases and financially solid tenants are sought after targets. Special investment funds market long, typically 15-year leases, and stable rental income. Double-net and triple-net leases are commonly applied in care homes. Special Fund eQ Care is the largest player owning over 120 properties and the value of the portfolio is approximately €455m.

FRANCE

If care home investment remains a niche market, representing approximately 1% of the total investment turnover in France, it has grown rapidly over the past five years. The annual transaction volume over the last five years has averaged almost €170m. With that in mind, 2016 started on the forefront since the investment volume accumulated in H1 already reached €877m. This is five times the average annual transaction volume recorded over the past five years. Such a jump is mainly due to two large deals, the largest being the sale of Gecimed, the Healthcare portfolio of Gecina and the second largest is the sale of the Fonciere des Régions portfolio, both acquired by Primonial. Thus, Primonial strongly reinforced its presence in the care home market and became the leader in terms of care home ownership, followed by Confinimmo and BNP. If the investment market was initially impelled by sale and lease back transactions, now it is increasingly driven by sales between investors, notably consolidation of large portfolios between active investors, witnessing the growing maturity of the market. Nevertheless, sale and lease back from operators remains the main source of opportunity especially since development activity in the sector recently slowed down. Although interest from cross borders investors is growing, mainly coming from Europe, activity in the French care home market is mainly fuelled by domestic investors. This is even more true for operators who are all French. Over the past three years they extended their presence abroad trough M&A. The top three European operators in terms of number of beds are French, namely Korian, Orpéa and Domusvi. The three have a presence in neighbouring countries and they have revealed their intention to continue expanding across Europe. Against this backdrop, we expect more M&A in the coming years. We also believe the consolidation within the French market will strengthen. Growing appetite from investors for care home has put downward pressure on yields. The prime care homes yield currently stands at 4.4%. We expect it will harden further in the next 12 months. We believe the care home investment volume will reach €1.3bn by the end of the year.

NETHERLANDS

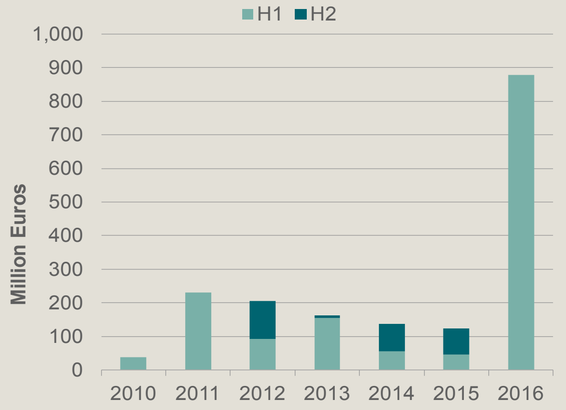
As investor demand for the traditional investment markets (offices, industrial and retail) is high and yields low, it has not been surprising to see more and more investors looking at alternatives. Among these alternatives are the care homes, an interesting category taking the growth of the demand side, the people over 70 years of age, into account. Within this category most of the investment activity is focused on extramural care, where occupants pay for the accommodation themselves. Major investors in this segment are Aedifica and Cofinimmo, both from Belgium, Catella from Sweden and Dutch investors/ funds Syntrus Achmea, Habion, Amvest and Bouwinvest. Due to the pressure on the Dutch healthcare market, yield compression has taken place. For intramural healthcare facilities, gross yields have dropped from approximately 6.5%-7% (in 2014) to approximately 6%-6.25% in 2016. These transactions include mostly private healthcare facilities, which can be found in the bigger cities. For the lightest form of care homes, where care is available but not compulsory, risks are limited and yields are logically very close to those of regular housing. The main challenge in the Netherlands at the moment is to find good investment opportunities. Most healthcare institutions are not eager enough to sell their real estate to an investor. In addition, supply of investment opportunities is also rather limited within the Dutch market. Currently, only prime deals take place within the Netherlands. We expect, as a result of the increasing professionalisation of healthcare institutions, supply of healthcare real estate will increase in the upcoming years.

SPAIN

Alternative assets are becoming more relevant in the investment market because investors do not find as many competitors as in other segments and they can get higher yields than in other submarkets. The care homes segment is one of the alternative products with larger potential in the commercial segment. The ageing population in Spain on one hand and Spain's capacity to attract retired population from other countries, mainly those from northern Europe, guarantees a high and increasing level of demand. This situation has caught the interest of international groups to get into the market. Domestic companies lead the Spanish market, although they have different profiles. Some of the main

GRAPH 7

Investment volume in France Already reached a high



Source: Savills

> "In Finland, the vast majority of the private owned properties in the care sector are leased to private operators, which typically offer their services to municipalities." Irma Jokinen, Realia Finland Research

> "As a result of increasing professionalisation of healthcare institutions we expect supply of healthcare investment opportunities to increase further in upcoming years." Jeroen Jansen, Savills Netherlands Research

> "Spain has also witnessed some M&A activity, the most recent is the acquisition of Sanyres by the French operator, Orpéa, which thus became the major operator." Gema de la Fente, Savills Spain Research

players, SARquavitae, Geriatros and Vitalia, whose owners come from venture capital companies, others are under the umbrella of insurance companies, such as Ballesol (Santalucía), Sanitas Residencial or Caser Residencial. Other companies are under banks and finance companies notably AMMA or Sanyres, and finally there are also property developers in the fields (Clece, owned by ACS). The country has also witnessed some M&A activity, the most recent is the acquisition of Sanyres by the French operator, Orpéa, which thus became the major operator in Spain. Yet, similar to the student housing segment, the care home market is very fragmented, operating companies are numerous and small. Additionally, church has an important presence in the market. According to data published by CSIC (Spanish national research council), the market has 5,300 centres with close to 360,000 beds, and the private institutions account for 72% of all beds, but it is common that a private company manages public assets under administrative concession of all levels of public administration (local, province or regional).

SWEDEN

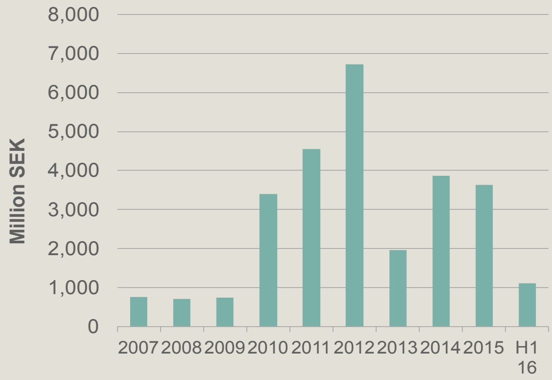
The Public Properties segment, of which nursing homes is part of, has been perceived an assets class of its own on the Swedish property market since the early 2000's. The interest for public assets and investment volumes increased rapidly in the years following the 2008 financial crisis as institutional investors started targeting investments with a lower risk profile compared to the traditional commercial segments. Transaction volumes of public properties typically represent 8-12% of the total transaction volume. Investor interest for nursing homes is very strong at the moment, but demand far outstrips supply. The turnover for nursing homes amounted to SEK1.2bn in H1 2016 compared to SEK1.6bn in H1 2015. The transaction volume is expected to grow significantly during the last quarter as it is the most transaction intense period during the year. The shortage of supply on the market has led to yield hardening where prime yields for nursing homes are in the 4.0–4.5% range. The market for public properties is still heavily dominated by domestic investors. The shortage of willing sellers has led Swedish investors to buy assets abroad instead, and Swedish buyers have been active in Norway, Finland and Germany and are currently eyeing other European markets. One risk for the public segment is that the government is considering putting a limit on profits for private companies that operate within sectors where income comes from the government or the municipalities such as privately operated schools and pre-schools, nursing homes and healthcare. A profit limit could lead to a decreased interest from privately owned tenant operating in the Public asset segment.

UK

Investment into the Healthcare market continues to be a success with yields achieving unprecedented levels with care homes with fixed review uplifts and in excess of 30 years unexpired achieving yields of circa 4.50%. REIT's, institutions, pension funds and insurance companies are seeking to diversify their portfolios and there are limited opportunities of long term secure income. The healthcare sector, particularly nursing and care homes, has become increasingly popular for overseas investors and recent years have seen substantial investment from typically the United States, Asia and Europe. The appeal of UK healthcare assets which has driven US investors such as Ventas, HCP and Health Care REIT (now known as Welltower) since 2012 looks set to continue, even in the face of the Fed increasing base rate in the US, as the bridge between the US cost of funds at around 2% and the opportunity to invest in UK healthcare assets at 5%-7% it is still a compelling return. Following the Brexit vote, Healthcare has also been seen as a 'safe haven' by some investors and therefore the quasi Government backed income is also an attractive proposition in uncertain times within some of the strongly priced commercial investment markets. We foresee increased supply of overseas investors from the US, central Europe and Asia re-entering the market with the pound being relatively weak against the dollar and euro. Competition for land to develop new sites for care homes will no doubt intensify, notably with the residential market. As the NHS continues to be under pressure, further rationalisation of its property portfolio will occur. There is a real opportunity here for developers to work with or buy NHS land as part of their disposal programme, which can be developed to build new care centres.

GRAPH 8

Investment volume in Sweden H1 2016 is in line with last year



Source: Savills

> "The shortage of willing sellers has led Swedish investors to buy assets abroad. Swedish buyers have been active in Norway, Finland and Germany and are eyeing other European markets as well." Peter Wiman, Savills Sweden Research

OUTLOOK

Short term prospects are bright, affordability will be key in the long term

We believe the care home segment will further increase its share in the real estate investment market in 2016 and beyond. Institutional investors still have a weight of money which they need to place and investment opportunities in the traditional property sectors are becoming rare and competitively priced. Since property investment is currently mostly income-return driven we believe an increasing number of investors will seek assets with potential for long term income growth such as care homes.

Care homes is also an option for investors to diversify their portfolio. Its non-cyclical nature helps create a balanced portfolio.

The long term trend in demographic support the appeal of the sector. Population ageing will continue to increase demand on health and long-term care systems in the years ahead. On average in the EU there are approximately 46 beds in residential long-term care facilities per 1 000 population aged 65 years old and over. The shortage of supply against increasing demand offers good investment opportunities.

Amid tight budget constraints, the challenge in the long term will be to preserve access to high-quality care for the whole elderly population at an affordable cost. In 2060 there will be two workers for one pensioner against four workers for one pensioner today. High level of indebtedness of some European governments, rapidly growing healthcare prices and government pensions which are rapidly becoming bare mean that elderly people will increasingly have to rely on out of pocket money to be able to afford a place in a care home.

Savills teams

Please contact us for further information

Craig Woollam
Head of Healthcare
+44 207 409 9966
cwoollam@savills.com

Colin Rees Smith
Healthcare Director
+44 207 409 5996
crsmith@savills.com

Lydia Brissy
European Research
+33 1 44 51 73 88
lbrissy@savills.com

Matthias Pink
Research Germany
+49 30 726 165 134
mpimk@savills.de

Peter Wiman
Research Sweden
+46 8 545 85 462
pwiman@savills.se

Jeroen Jansen
Research Netherlands
+31 20 3012094
j.jansen@savills.nl

Gema de la fuente
Research Spain
+34 91 310 10 16
gfuente@savills.es

Irma Jokinen
Research Finland
+358 20 780 3760
irma.jokinen@realia.fi