CUSHMAN & WAKEFIELD

HEALTH REAL ESTATE

INVESTOR SURVEY 2022

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FOREWORD

Healthcare properties in Germany are in greater demand than ever before. The asset class has proven to be crisis-resilient and a safe investment possibility for investors, especially during the Covid-19 pandemic. The number of players in the German healthcare real estate market has grown steadily in recent years, and many are seeking access to the market. But what exactly are the drivers of the increasing investment activity in German healthcare real estate by domestic and foreign institutional real estate investors? What are the major barriers to, and drivers of, investment? What do market players expect from investments in healthcare real estate in the short, medium and long -terms?

With a transaction volume of over EUR3.7 billion in 2021, the healthcare asset class set a new record reflecting its relevance and the high demand from institutional investors. Compared to traditional residential real estate, healthcare properties also offer more attractive yields, although these have already compressed significantly due to increasing competition. Institutional investors who pursue a holistic investment approach are increasingly integrating healthcare properties into their investment strategy with a view to sustainability and ESG factors.

From nursing homes to assisted living and senior residences to rehabilitation clinics, medical centres and health centres - the Covid-19 pandemic has re-highlighted the systemic relevance of healthcare and care real estate to many real estate investors. But what risks could slow this positive development? What about operator dependency and refinancing structure?

Via an investor survey, Cushman & Wakefield has obtained answers to exactly these questions. The participants in this survey are active real estate investors, portfolio holders and property developers. We would like to thank the over 120 companies which took part in our survey. In addition to domestic investors, international investors are also represented, thus creating a comprehensive, representative opinion on the German healthcare real estate market.

Jan-Bastian Knod
Head of Healthcare Advisory

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TO THE SURVEY: Who are the investors?

HEALTH REAL ESTATE INVESTORS IN **GERMANY**

INVESTOR TYPES

55%	INVESTMENT- AND ASSETMANAGERS
17%	PROPERTY DEVELOPERS
7%	FAMILY OFFICES
6%	FUNDS MANAGERS
5%	PRIVATE EQUITY
4%	LISTED COMPANIES / REITS
3%	INSURANCE AND PENSION FUNDS
3%	OTHERS

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Investors

More than 120 players active in the German healthcare real estate market participated in this survey. Of these, more than half of them fall into the asset and investment manager category. The second largest group are property developers, at about 17 percent. It is striking that only about four percent of investors are listed companies or REITs, which is significantly lower than in our recent German residential real estate market investor survey.

INVESTOR SIZE*

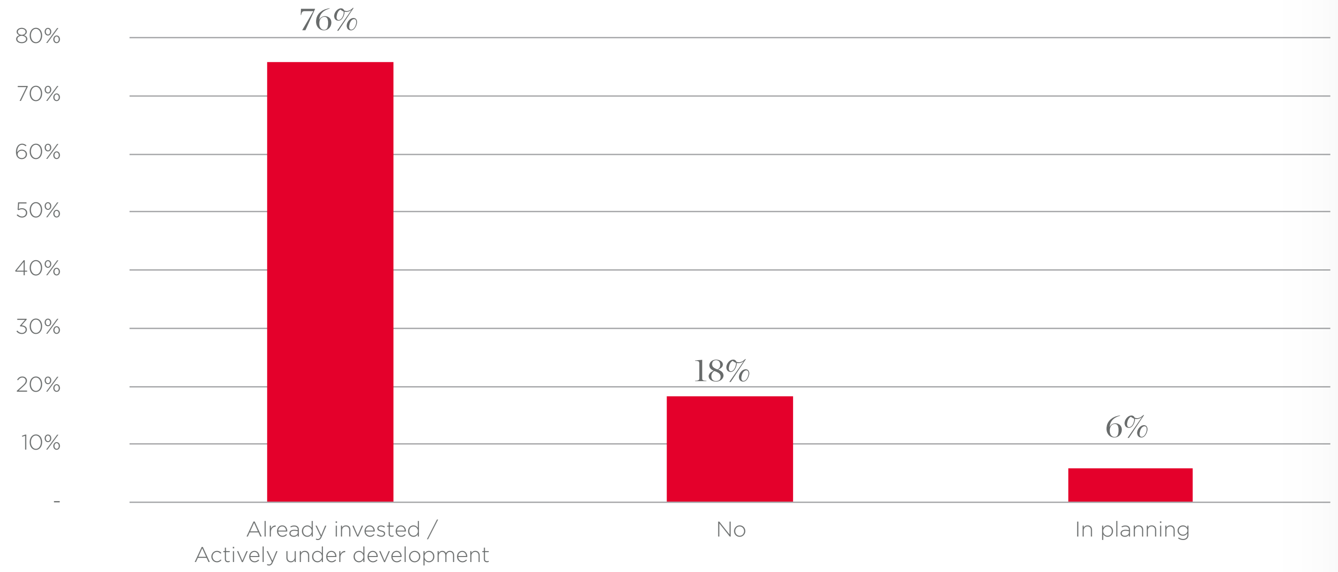
The participants in this survey show an extremely heterogeneous distribution in terms of the number of assets under management or active healthcare property development projects currently under construction. All investor groups were represented almost equally, with the exception of investors who hold between 31 and 50 properties in their portfolio or are developing a similar number.

> 50	32%
< 5	24%
11 TO 30	23%
5 TO 10	15%
31 TO 50	6%

*Number of assets under management / healthcare properties under construction

HEALTH REAL ESTATE INVESTORS IN **GERMANY**

ACTIVITY IN THE GERMAN HEALTHCARE REAL ESTATE MARKET



Among the investors surveyed, about 76 percent have previously invested in the German healthcare real estate market or are already developing healthcare properties.

Some stated that they were currently working on entering the market or do not yet having a fixed plan. It is therefore to be expected in the coming months, that the investor and developer landscape in the German healthcare real estate market will growing and further new players will establish themselves.

> Respondents expect the investor and developer landscape in the German healthcare real estate market to expand further

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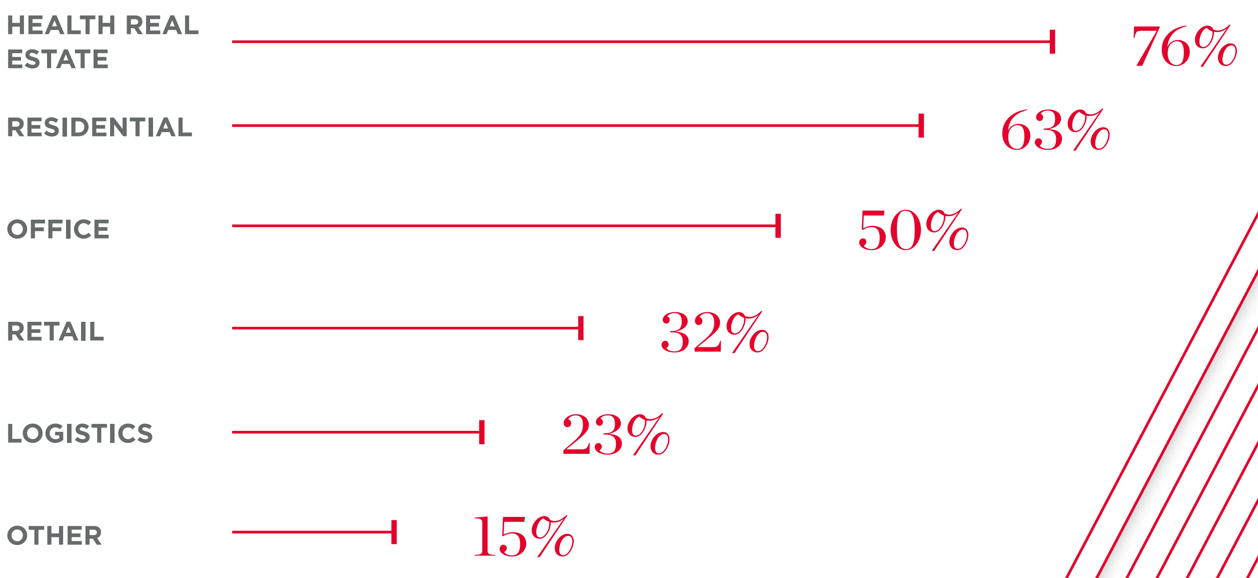
INVESTMENT FOCUS: What are investors betting on?

HEALTH REAL ESTATE INVESTORS IN **GERMANY**

INVESTMENT FOCUS BY ASSET CLASS



The participants in the survey do not rely on a pure-play strategy for their investments. Investors who invest in healthcare real estate are often also active in the area of residential real estate. Senior living and ambulant care combine both asset classes and are highly attractive. Some investors are involved in more than two asset classes and are thus broadly-positioned throughout the real estate market

INVESTMENT FOCUS BY PROPERTY TYPE

TYP	TOP 7 CITIES*	B-CITIES*	C-CITIES*	D-CITIES*
Nursing homes (inpatient care)	51%	60%	55%	42%
Assisted Living	60%	73%	66%	38%
Medical centres / health centres	34%	43%	32%	15%
(Rehabilitation) Clinics	24%	32%	29%	16%

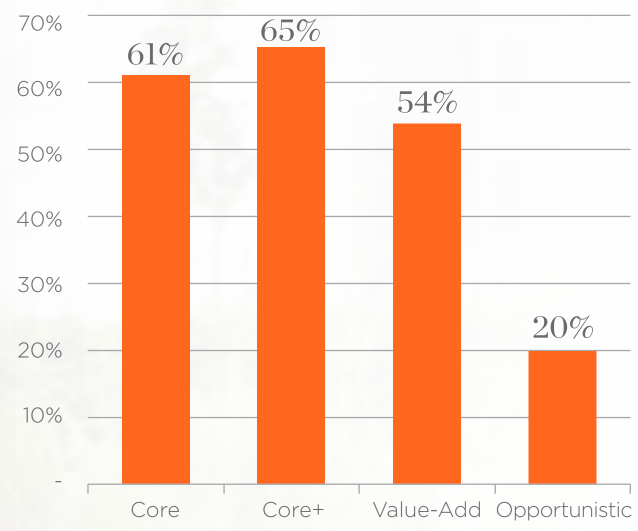
>70% 60% to 69% 50% to 59% 40% to 49% 30% to 39% 20% to 29% <20%

Is there a correlation between the various types of healthcare property and the geographical focus of investors? We have analysed the investment focus by property type and location. Nursing homes and assisted living are the most sought-after investment destinations. There is almost no discernible focus on the size and economic importance of the towns and cities. The growing interest of investors in medical centres or health centres and rehabilitation clinics also received a new boost in the context of the Covid-19 pandemic.

*Top 7 cities: Most important German centres with national and partly international significance
B-Cities: Cities of national and regional Importance
C-Cities: Important German towns and cities with regional and limited national importance
D-Cities: Small, regionally focused locations with a central function for their immediate surroundings

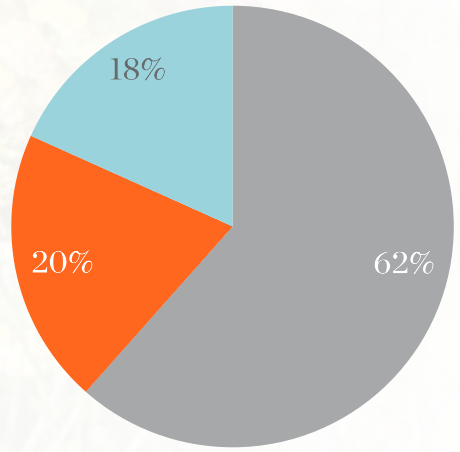
INVESTMENT FOCUS

INVESTMENT FOCUS BY RISK-RETURN PROFILE



The risk-return profiles of investors vary, although essentially the focus is on core to value-add product. Healthcare properties with a high risk profile in the opportunistic sector are less sought-after. Other factors include risks per location, asset and operator, which are not as pronounced for the other traditional asset classes. For this reason, institutional investors and healthcare property developers attach great importance to the operators' creditworthiness.

INVESTMENT FOCUS ON EXISTING PROPERTIES / DEVELOPMENT PROJECTS



- Yes, we invest in development projects
- We plan to invest in development projects in the future
- No, we only invest in existing properties

About two-thirds of the investors surveyed stated that they invest in development projects, or acquire development projects via a forward-deal structure. A further 20 percent are currently adjusting their investment strategy in order to be able to invest in development projects in future. Only 18 percent invest exclusively in existing properties. Development projects provide investors with the opportunity to secure properties at an early stage and thus circumvent the prevailing product shortage caused by the high level of demand.

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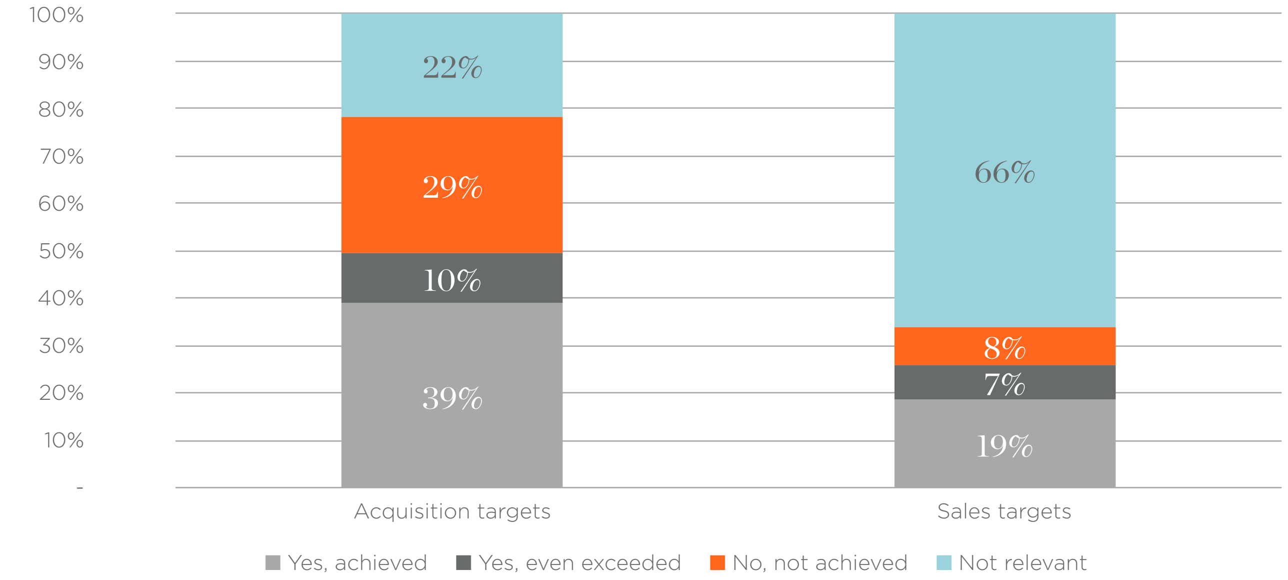
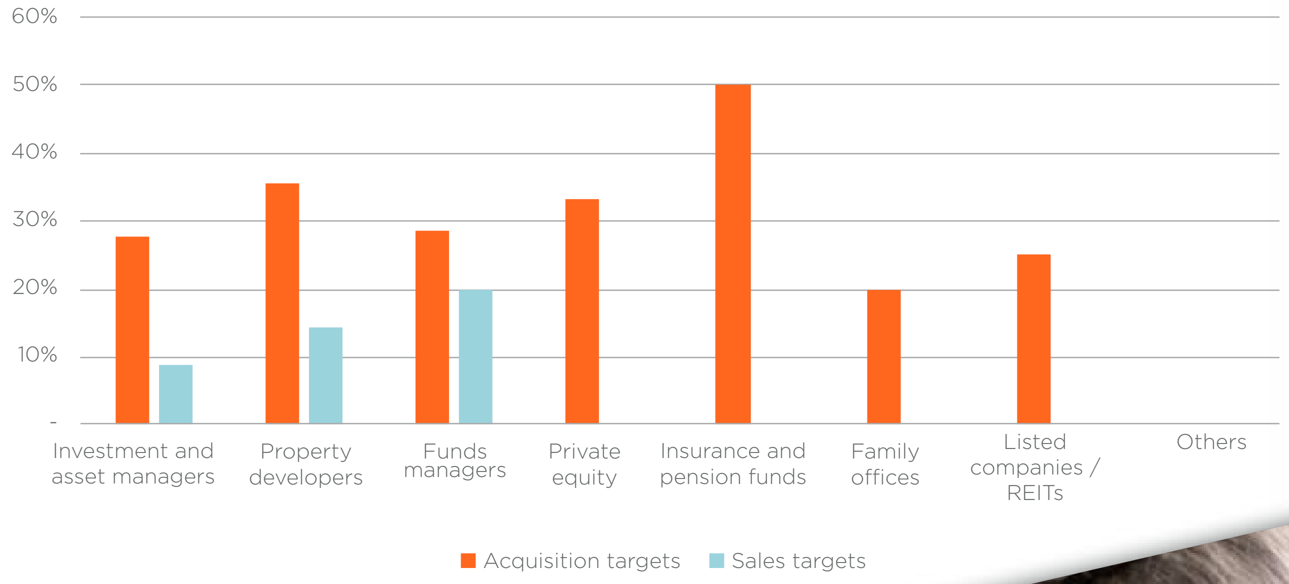
ACQUISITIONS AND SALES TARGETS: What has been achieved?

HEALTH REAL ESTATE INVESTORS IN **GERMANY**

Acquisition and sales targets for the last 12 months



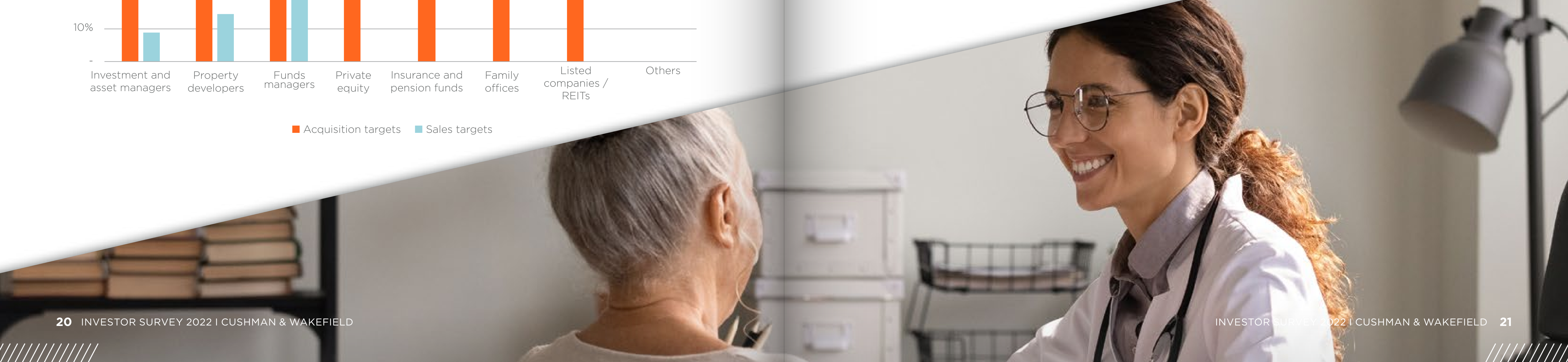
Investors who have not fulfilled their acquisition and sales targets



About 30 percent of investors did not meet their acquisition targets in the last twelve months, 22 percent have no fixed acquisition targets at all. About half of the investors surveyed have achieved or even exceeded their acquisition targets for the last twelve months. For about two-thirds of investors, sales targets are not relevant, resulting in a significantly competitive demand side.

With regard to the individual investor groups, it is apparent that insurance and pension funds in particular have missed their acquisition targets. However, these only make up a relatively small proportion of all respondents. Of particular note are asset and investment managers, of whom around 30 percent did not achieve their targets.

Quite a few investors – regardless of their size in terms of assets under management or properties under construction – fell short of their acquisition and sales targets. As more larger investors took part in this survey and over 15 percent of them did not achieve their acquisition targets, increasing investment pressure in the market is expected.



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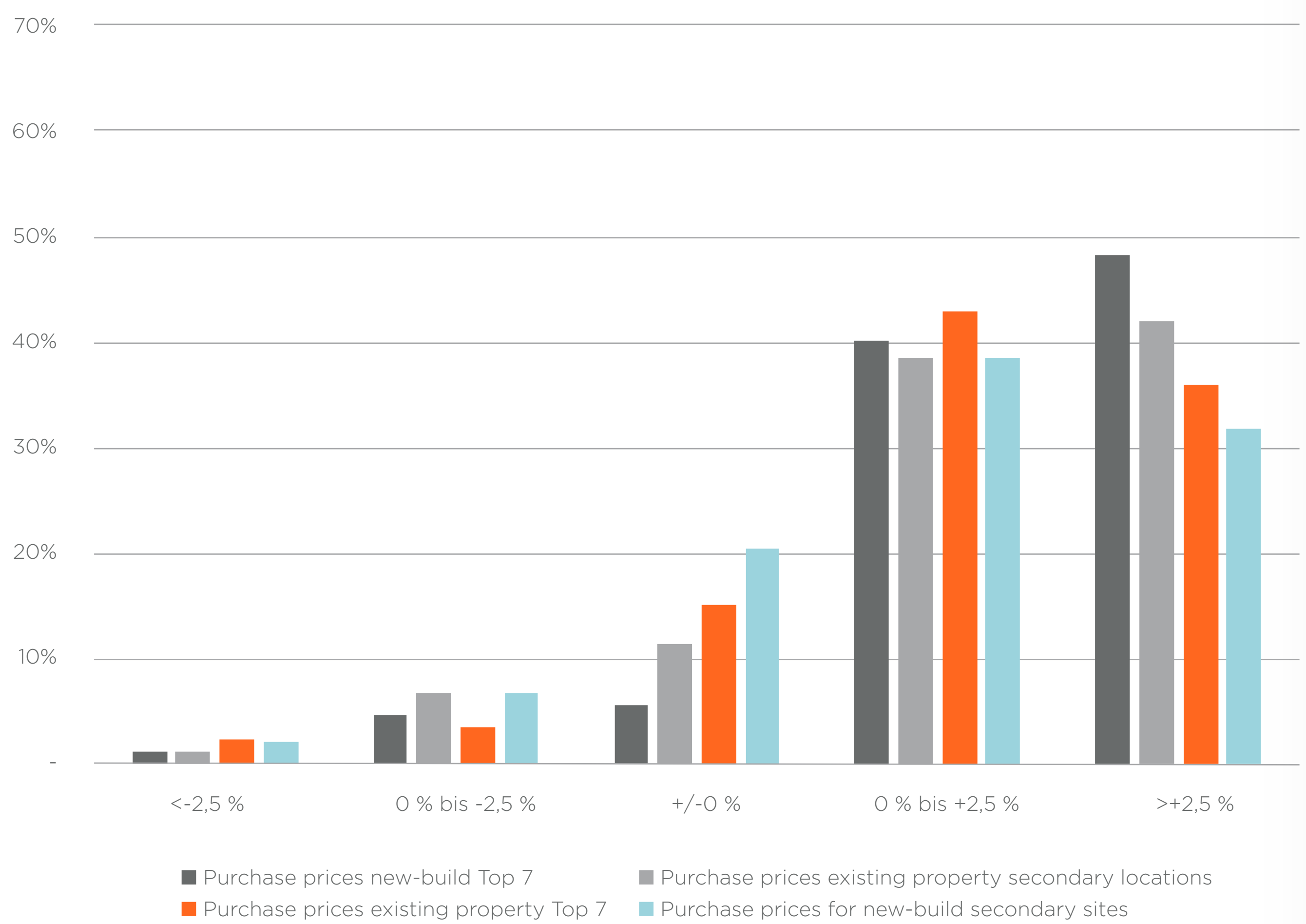
RENTAL AND INVESTMENT MARKET:

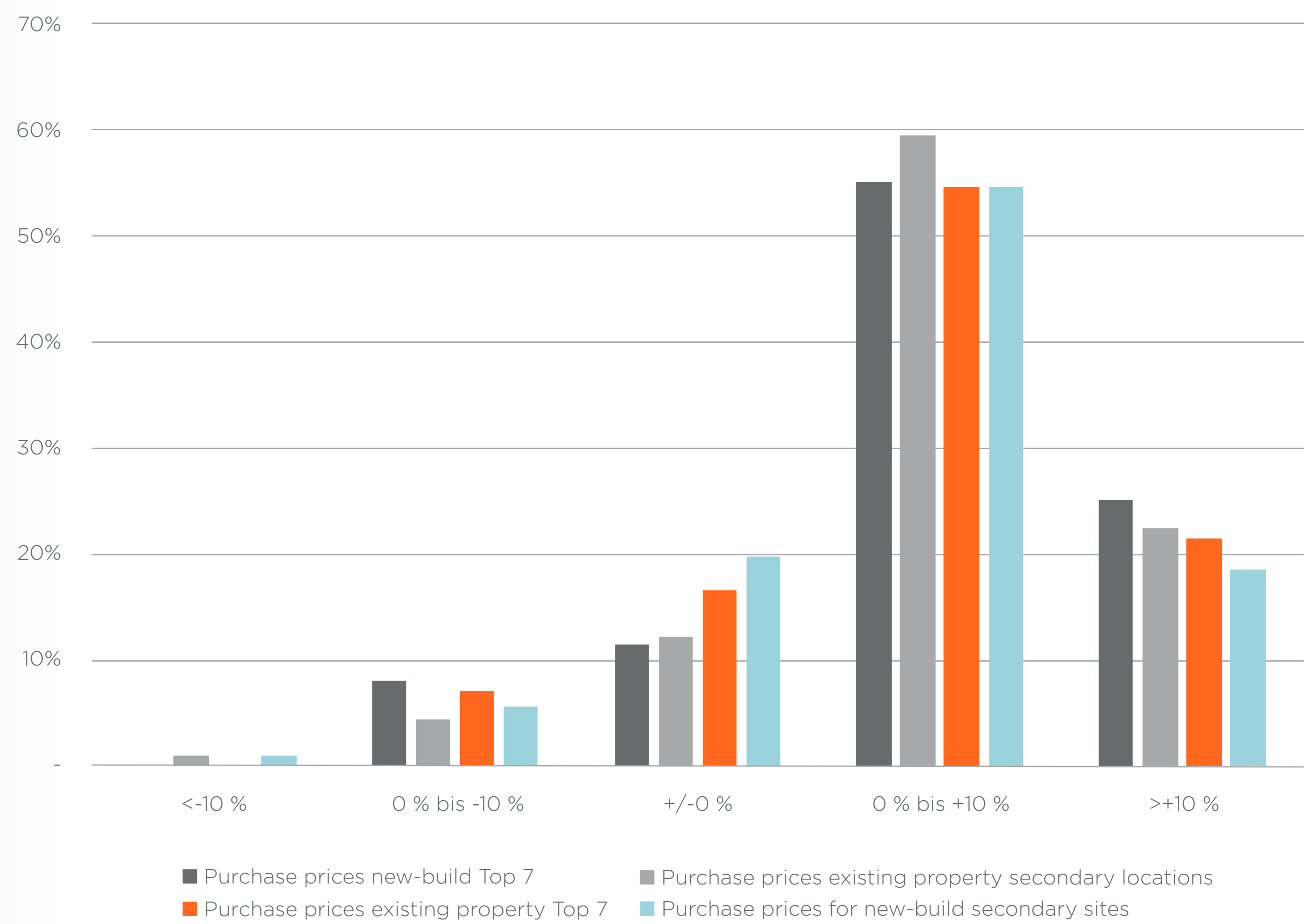
How is the asset class developing?

HEALTH REAL ESTATE INVESTORS IN **GERMANY**

DEVELOPMENT NEXT 12 MONTHS



DEVELOPMENT NEXT 5 YEARS



Investors expect positive purchase price development over the next 12 months. Regardless of building age or location, about 70 percent or more consistently expect an Increase in prices. This is especially true for new buildings in the top 7 cities. Here almost expect an increase of more than 2.5 percent in the near-term.

Looking ahead to the next five years, the investors surveyed expect a similarly pronounced increase: Across all segments, more than half expect a purchase price increase of between zero and ten percent. On average, one-fifth expect price appreciation of even more than ten percent. Only about five percent expect price depreciation

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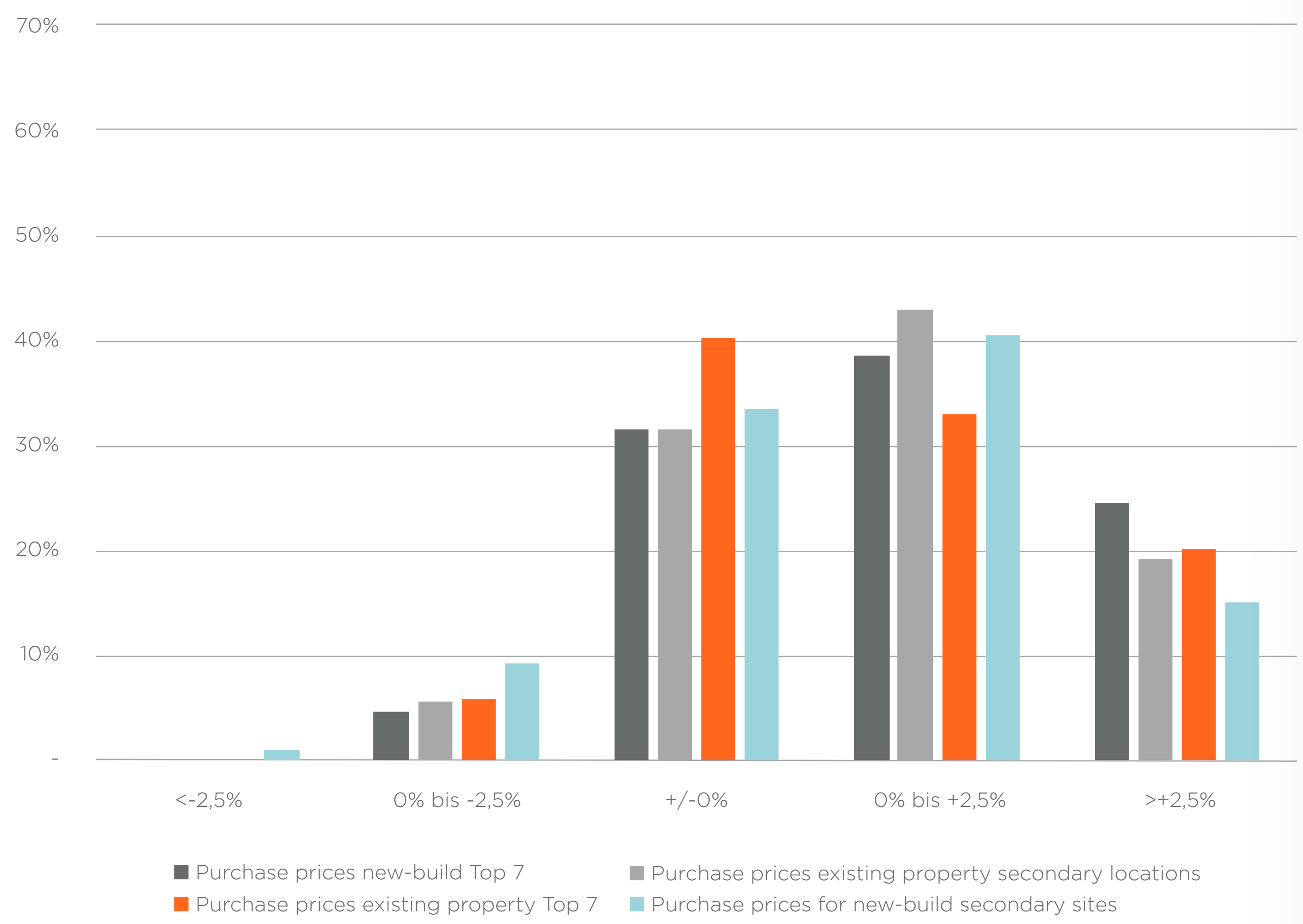
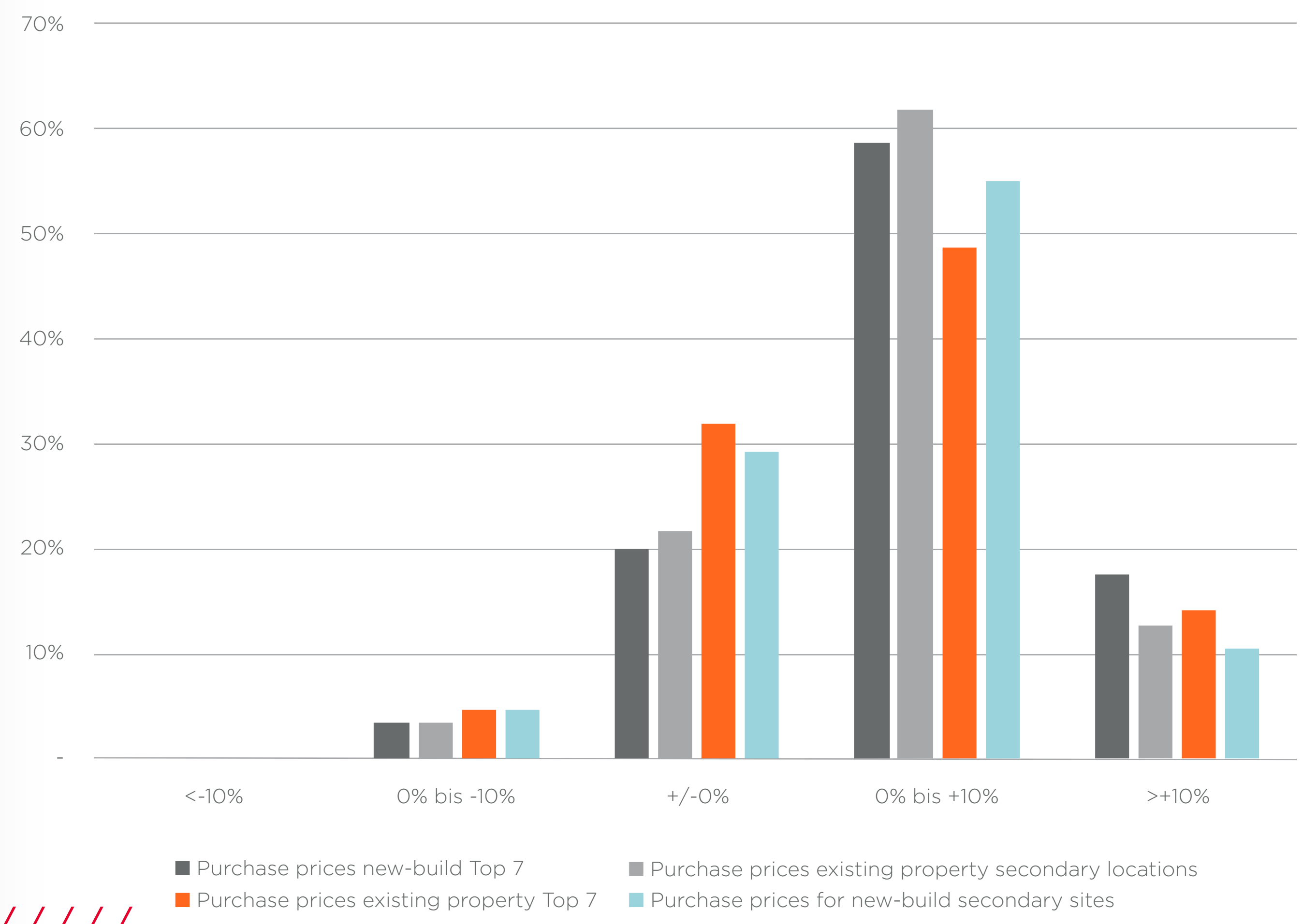
At least 70 percent of investors expect positive purchase price growth over the next five years

HEALTH REAL ESTATE INVESTORS IN **GERMANY**

DEVELOPMENT NEXT 12 MONTHS



DEVELOPMENT NEXT 5 YEARS



> The majority of investors expect rents to rise in the short and medium term

The majority of investors also expect rents to rise in the short and medium term. 40 percent expect an increase of between 0 and 2.5 percent in the next twelve months. About a third are looking ahead somewhat more cautiously and expect hardly any changes in the short term. For the next five years, a clear majority of about 50 to 60 percent expect an increase of between 0 and 10 percent. About 15 percent expect a still stronger increase in rents. Only a small proportion assume negative development.

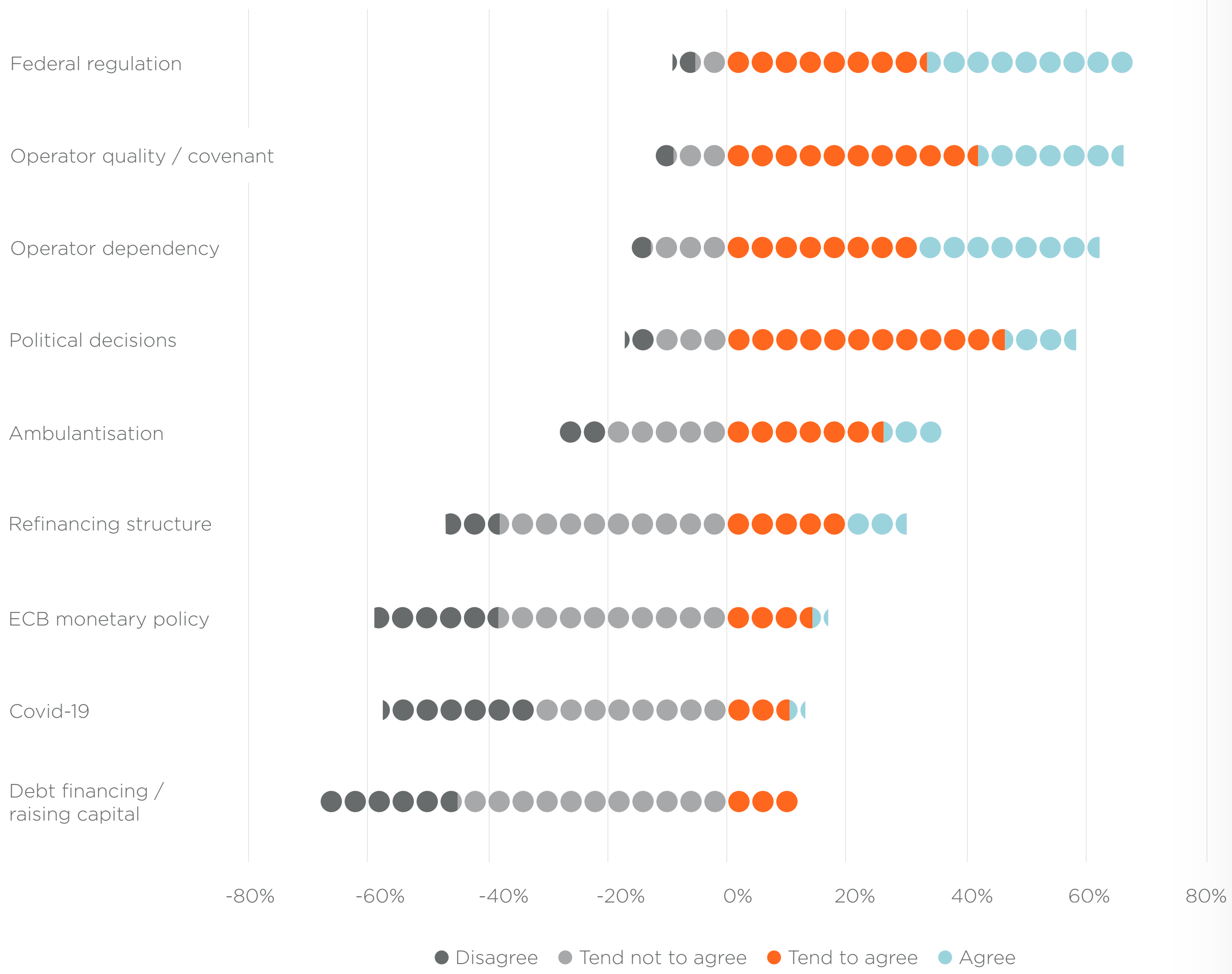
06

DRIVERS AND RISKS:

Which factors count?

HEALTH REAL ESTATE INVESTORS IN **GERMANY**

WHAT ARE THE BIGGEST BARRIERS AND RISKS TO INVESTMENT IN HEALTH REAL ESTATE?



The players in the German healthcare real estate market cite four core topics as the biggest obstacles and risks for investment in healthcare real estate. While the impact of Covid-19 plays more of a short-term role and raising capital is a low risk, it is federal regulations and policy decisions affecting the healthcare sector which are crucial for investors. The dependence of healthcare properties on the operators is basically a risk that investors have to bear. A high credit rating and service quality of the operators reduce the risk for investors and increase the attractiveness.

HEALTH REAL ESTATE INVESTORS IN **GERMANY**

WHAT ARE THE MAIN DRIVERS OF INVESTMENTS IN HEALTHCARE REAL ESTATE?

The demographic transition is seen by over 95 percent as a key driver of investment in German healthcare real estate. It is also significant that the asset class has now established itself in the market as a core investment product type which usually delivers long-term secured cash flows.

The majority of respondents deny that a lack of alternative investment opportunities is the reason for investing in care real estate. The lower effort in asset management is also not a salient reason. Almost half of the players see increasing levels of multimorbidity as a driver on the one hand, but also as an obstacle to further investment on the other. As a result, the demand for care services will continue to rise in the future, but the care landscape must also continue to adapt.

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