

HEALTHCARE

WE MAKE A DIFFERENCE



**CUSHMAN &
WAKEFIELD**

**WHAT ARE INVESTORS' CURRENT THOUGHTS
ON HEALTHCARE REAL ESTATE?**

Survey 2023

REAL ESTATE

CONTENTS

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THE INVESTOR SURVEY SHOWS THAT MOST INVESTORS EXPECT PRICES TO FALL IN THE SHORT TERM, BUT THEY DIFFER REGARDING THE NEXT FIVE YEARS. THE MAIN FOCUS IS CURRENTLY ON THEIR OWN REAL ESTATE PORTFOLIOS; ENERGY-SAVING MEASURES ARE THE FIRST CHOICE FOR MANY IN ORDER TO SUSTAINABLY UPGRADE PROPERTIES.

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Head of Residential Investment Germany
Head of Healthcare Advisory

LIFE IS WHAT WE MAKE IT



FOREWORD

Current geopolitical events, the changed financing environment, the energy crisis and high inflation rates are currently spreading uncertainty in the German real estate investment market. Capital sources are looking for diversification opportunities, but are currently generally defensive in their investment behaviour and hesitant to make important decisions for the coming years.

In terms of fundamental values and megatrends that are relevant in the short and long term despite the current circumstances, the healthcare real estate asset class remains interesting as few others. Healthcare, both medical and nursing, is systemically relevant in Germany. Some institutional investors have been active in the German healthcare real estate market for some time, others are looking to enter. For diversification and for a long-term secure capital investment, the segment offers a broad range with high crisis resilience.

For this reason, we have again conducted a survey on the current mood of institutional investors and property developers who are active in the German healthcare real estate market or who have expressed interest in it. For this purpose, around 125 real estate investors, portfolio holders and developers were surveyed to find out what the drivers of the increasing investment activity are, what the investment obstacles are and what the market players expect from investments in healthcare real estate in the short, medium and long term.

Over the last few years, ever more real estate investors have come to understand the systemic relevance of this asset class, so that demand for nursing homes, senior residences for assisted living, rehabilitation clinics, health centres and medical care centres has risen sharply. But what risks are currently influencing the healthcare real estate market? What about operator dependency and refinancing structure in the current market environment?

Cushman & Wakefield collected answers to these questions with the Investor Survey Healthcare Real Estate 2023 and presents in this report to what extent the sentiment has changed since the last survey in 2021. The survey collected responses from both domestic and foreign investors, so that a comprehensive, representative picture of opinion can be depicted. We would like to thank the participating companies and hope you enjoy reading this report.

A stylized, handwritten signature in black ink.

Jan-Bastian Knod

Head of Residential Investment Germany
Head of Healthcare Advisory

IN SUMMARY

AN OVERVIEW OF THE KEY RESULTS



Nursing homes and senior assisted living residences continue to be of interest to investors



Investors are active across Germany, as long as fundamentals and forecasts are positive



Core to value-add product continues to prove very liquid



Interest in development projects remains high, three quarters of respondents invest or plan to invest in this asset class



Private equity and asset and investment managers are seeking further expansion opportunities



Investors do not expect a significant improvement in financing conditions in the next 12 months, but a much more attractive environment in the following 5 years



Investors expect falling purchase prices over the coming 12 months



Energy efficiency measures are top priority in ESG investment strategies

WE KNOW THE COMPLEX
HEALTHCARE REAL ESTATE
MARKET AND ADVISE
INVESTORS, OWNERS
AND OPERATORS WITH
COMPREHENSIVE EXPERTISE AND
A WIDE RANGE OF SERVICES.

Recommended course of action

The general uncertainty in the market, caused by geopolitical events, high inflation and changing financing conditions, is reflected in this investor survey. Investment in healthcare real estate can counteract these uncertainties, because the demand for care services, both outpatient and inpatient, is increasing in the long term in the context of demographic change. Supply is already scarce in many parts of Germany; single room quotas and further regulations will lead to a further decline in the number of available inpatient nursing beds in the future. The market for healthcare real estate also continues to be very liquid. Domestic and international capital sources are seeking further opportunities to invest, despite the changing financing environment.

WHO IS ACTIVE IN THE MARKET?

ASSET AND INVESTMENT MANAGERS ARE SETTING THE TONE

125 Investors

For this survey, a total of 125 participants in the German healthcare real estate market were interviewed. The majority of participants, 61 percent, are asset and investment managers. About 14 percent of the participants are property developers, while the remaining 25 percent comprises various other categories of investors.

61%
Asset and investment managers



6%
Private equity



14%
Property developers



6%
Stock market listed companies / REITS



6%
Family offices / private individuals



2%
Insurers and pension funds



3%
Fund managers



2%
Other



34 %

> 50

10 %

31 to 50

17 %

11 to 30

16 %

5 to 10

23 %

< 5

Number of assets under management / healthcare properties under construction

Investor size

Investors of various sizes, in terms of the number of assets under management or under construction, participated in the survey. In terms of size, the participants are heterogeneously distributed. Investors or property developers with more than fifty assets or projects account for the lion's share (34 percent). Investors with less than five assets comprise 23 percent of the total, and investors with five to ten properties about 16 percent.

Strong commitment to healthcare real estate

Activity in the German healthcare real estate market



76 %

Already invested /
actively developing
project(s)



18 %

No



6 %

in the planning

The results of our survey show that among the investors who participated, 76 percent are already involved in the German healthcare real estate market via investments or development projects. About 6 percent of the respondents stated that they are currently working on or planning to enter the market. Despite the current challenges, the healthcare real estate market is of interest to many investors, so that there is a decided willingness to invest and the corresponding investor and developer environment will continue to develop.

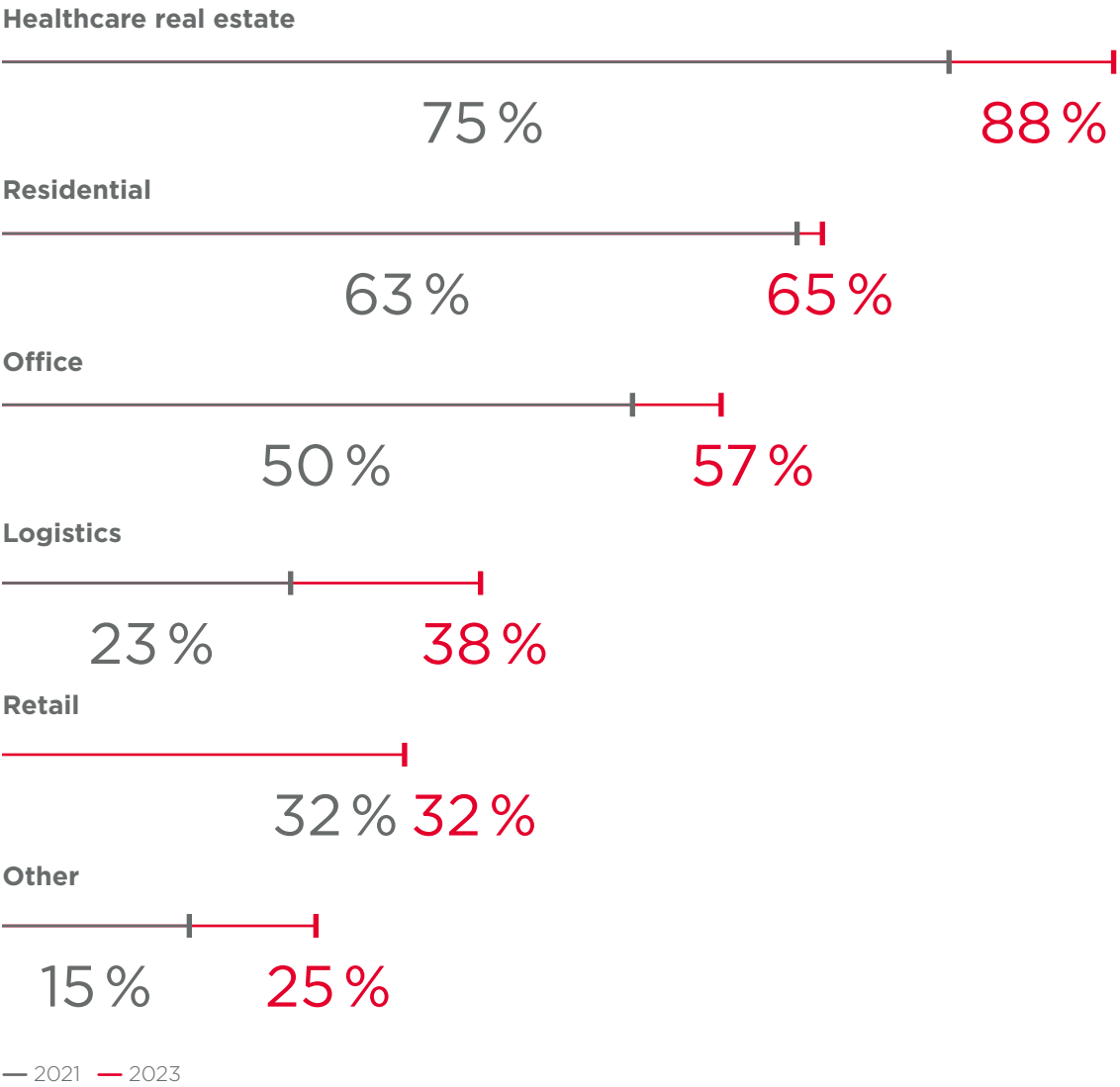


WHERE IS INVESTOR FOCUS IN 2023?



Investors increasingly seeking diversification

Investment focus differentiated by asset class



The survey results show that participants are pursuing investment diversification strategies and invest in various asset classes including healthcare and residential real estate. It stands to reason that investors who are invested in healthcare real estate also pursue a residential focus. This is mainly because the senior living and ambulatory care sectors link both asset classes. Compared to 2021,

the focus on healthcare real estate has increased further. Other asset classes are also in focus: while investors invested in an average of 2.5 asset classes in 2021, this figure rose to 3.0 in 2023. Investors' portfolios are thus increasingly diversified. The increased focus on diversification could be related to the risks and fluctuations of various asset classes that have recently become apparent.

Germany-wide investment strategy

Investment focus by property type

	TOP-7-CITIES*	B-CITIES*	C-CITIES*	D-CITIES*
Nursing homes (inpatient care)	49%	58%	55%	40%
Assisted living	60%	69%	57%	38%
Health centres / medical centres	42%	41%	30%	18%
Rehabilitation clinics	28%	31%	25%	18%

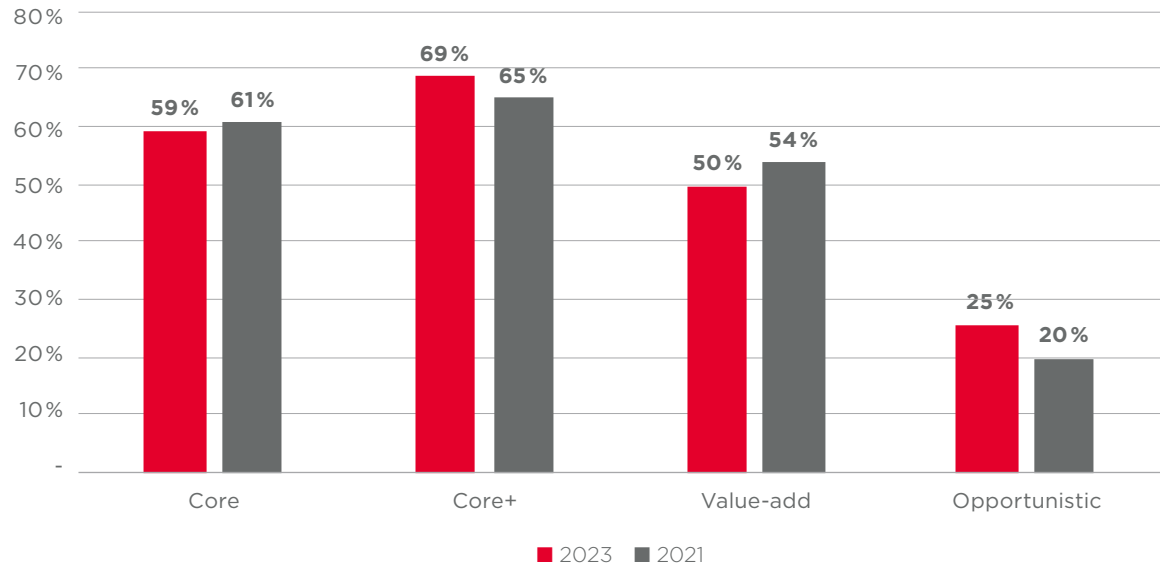
*A-cities: Most important German centres with national and partly international significance
B-cities: large cities of national and regional importance
C-locations: Important German towns with regional and limited national significance
D-locations: small, regionally focused locations with a central function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

With regard to investors’ geographical focus, we conducted an analysis by property type and location. This shows that investors are not focused on one particular type of healthcare property, but often invest in several property types. Nursing homes and assisted living are the most strongly represented investment targets, which reflects their high proportion of the investment market.

There is hardly any focus in terms of size and economic importance of the cities, which is due to the supra-regional systemic relevance of healthcare properties. Compared to 2021, however, it is apparent that investor interest in medical centres and rehabilitation clinics has become more concentrated on the top-7 cities.

Focus on Core and Value-add assets

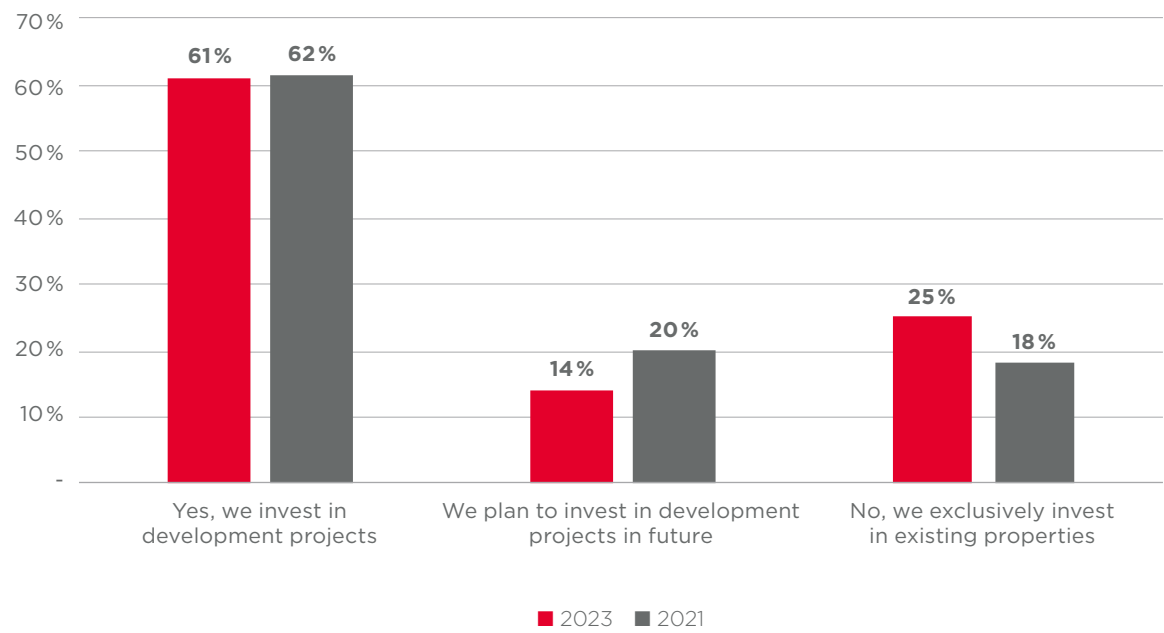
Investment focus by risk-return profile



The risk-return profile of investors in the healthcare real estate sector is just as diversified as their investment focus. Essentially, investors focus on core to value-add assets. However, there is a difference between location risk and the risk related to the quality of the assets on the one hand and operator risk on the other, which is not present in this form in other asset classes. Institutional investors in, and developers of, healthcare properties place particular emphasis on the creditworthiness of the operators.

Broad acceptance of development projects

Investment focus on existing property / development projects



The majority of the investors surveyed state that they invest in development projects or are acquiring a development project via a forward structure. A further 14 percent are currently adjusting their investment strategy in order to be able to invest in development projects in the future. However, the proportion of these has fallen by around 30 percent compared to 2021. At the same time, the proportion

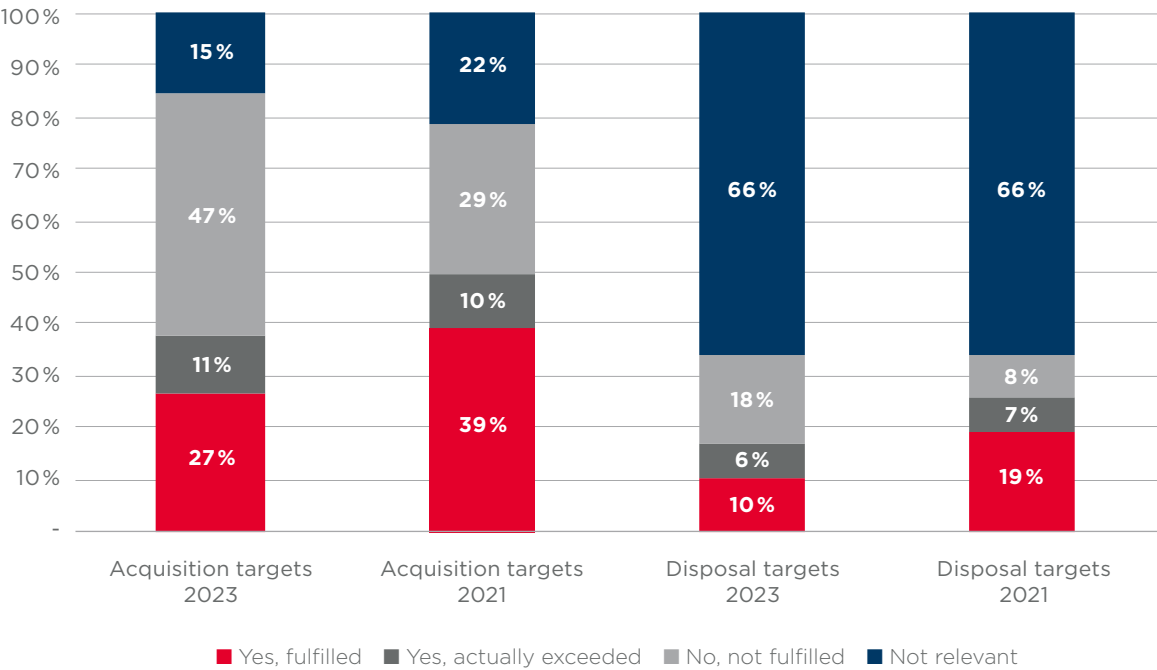
of respondents investing exclusively in existing buildings has increased. This change may be attributed to the current market situation and different price expectations. Nevertheless, development projects remain an attractive asset class for a large number of investors due to their ESG compliance.



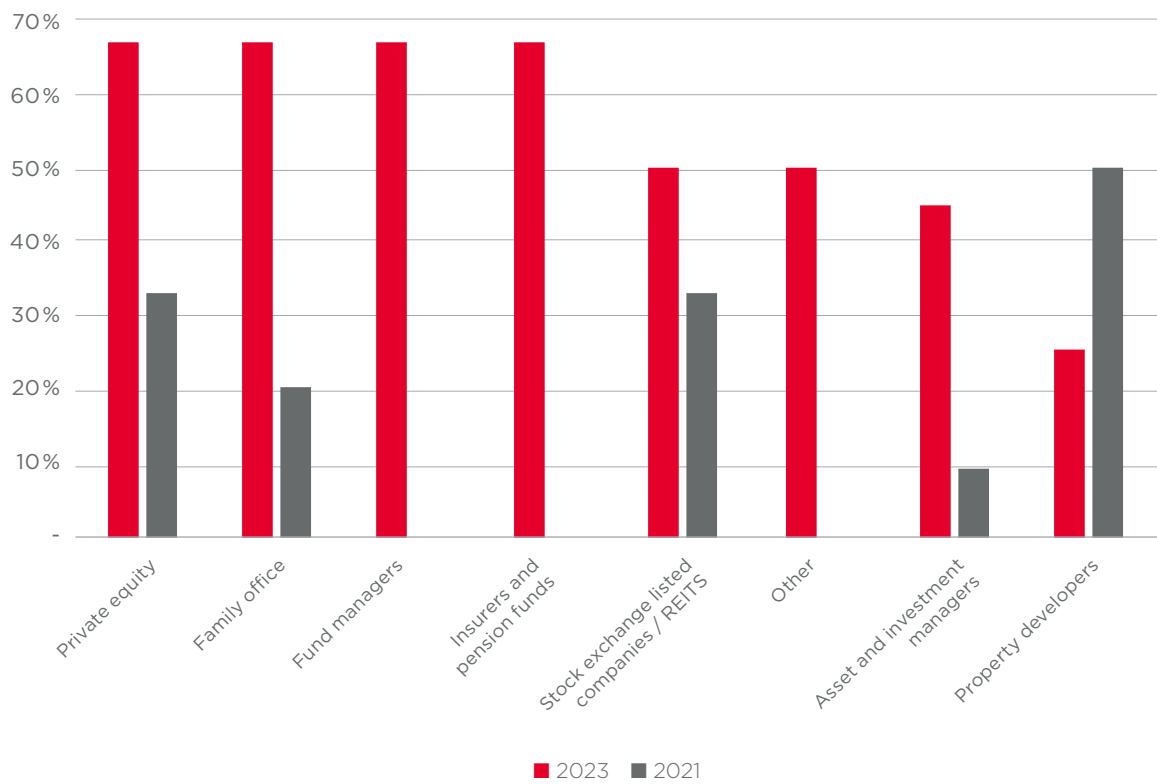
INVESTMENT TARGETS IN THE HEALTHCARE REAL ESTATE MARKET



Acquisition and disposal targets in the last 12 months



Investors who fell short of their targets



Investors struggling to achieve their acquisition targets

The survey results show that many investors have struggled to fulfil their acquisition targets over the past 12 months, with 15 percent having no firm targets at all. The proportion of investors who have not achieved their acquisition targets has increased by around 60 percent compared to 2021. Only 40 percent of respondents met or exceeded their targets, compared to 50 percent in 2021.

While sales targets were not relevant for most investors, the market remains hard due to the competitive demand side. The investment market has evolved from a seller's to a buyer's market.

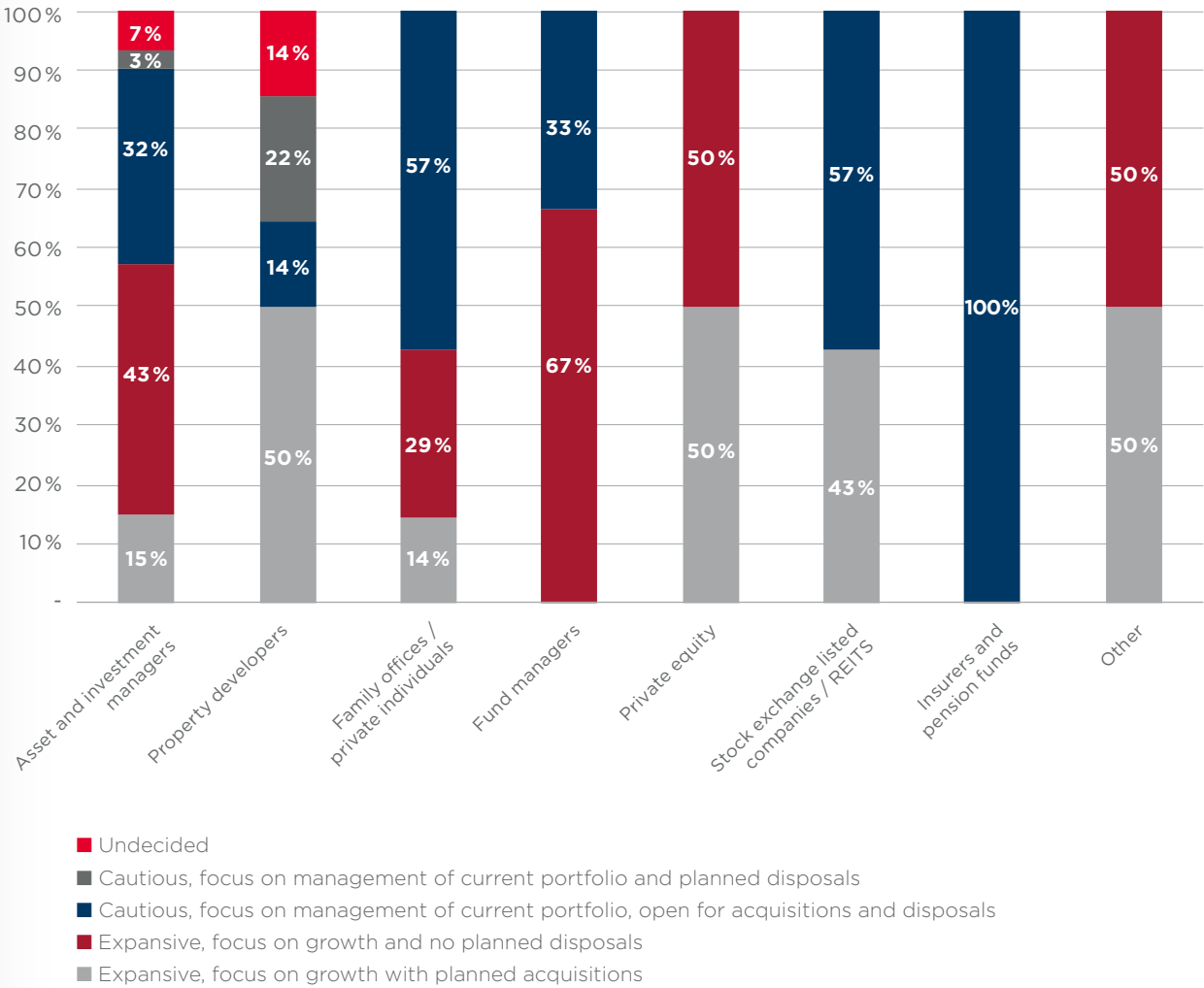
Looking at the various investor groups, it is clear that insurance companies, pension funds, fund managers and family offices in particular have faced challenges in achieving their targets. This is due to their tendency to be risk-averse and to different expectations regarding purchase prices. In comparison, property developers only missed their acquisition targets in about 25 percent of cases. It can be seen that

both investors with fewer than five assets and those with more than fifty assets were most often unsuccessful with regard to their acquisition and sales targets.

The high proportion of larger investors in this survey is relevant here, of whom around 30 percent failed to achieve their acquisition targets and 44 percent failed to achieve their sales targets. This underscores the result of a challenging investment market, which is particularly impacted by the changing financing environment, geopolitical tensions, inflation, increased operating costs and tighter ESG regulations.



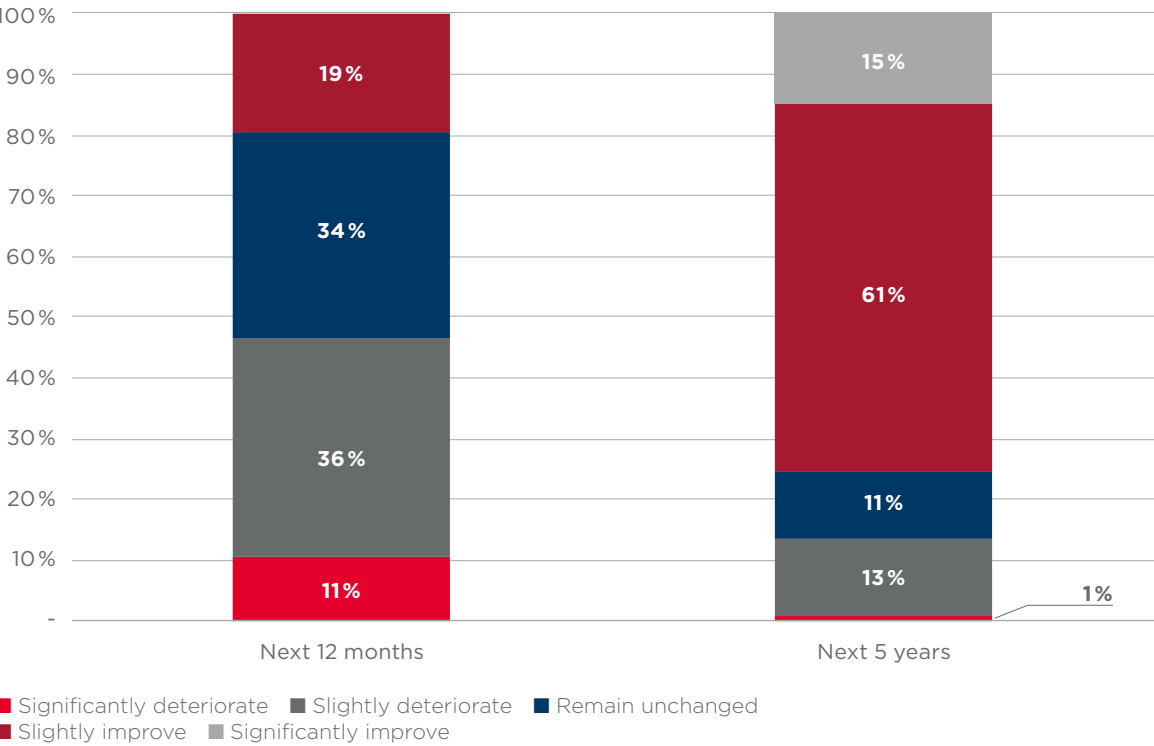
Investment strategy in the coming 12 months



The majority of the surveyed asset and investment managers, private equity investors and fund managers are pursuing an expansive investment strategy with a focus on growth, without planned sales. These investors want to use the current market situation as an opportunity to invest in promising projects. Property developers largely have an expansive investment strategy and plan to continue to sell assets or projects. Around 35 percent are cautious, focusing on their current projects and planning sales.

The family offices and private individuals surveyed mainly have an investment strategy that focuses on managing the existing portfolio. Nevertheless, they are also open to specific, well-considered purchases and sales. Insurance companies and pension funds, on the other hand, are concentrating exclusively on the management of their existing portfolios. Interestingly, stock-exchange-listed companies and REITs are now focused on managing their existing portfolios, whereas they were recently very active in the market as buyers.

How will the financing environment develop



The current financing environment is much more cautious than 12 months ago. The rapid rise in interest rates heralded by the ECB as a result of inflation rates well above the ECB's long-term target, the energy crisis and current geopolitical tensions are leading to more restrictive investment behaviour by equity and debt capital sources. The investors and property developers surveyed agree: the financing environment will continue

to deteriorate over the next 12 months, at best remaining the same. In the longer term, 61 percent expect a slight improvement and 15 percent even expect a significant improvement. This does not necessarily mean a lower interest rate environment, but rather a willingness to invest and movement in the investment market.



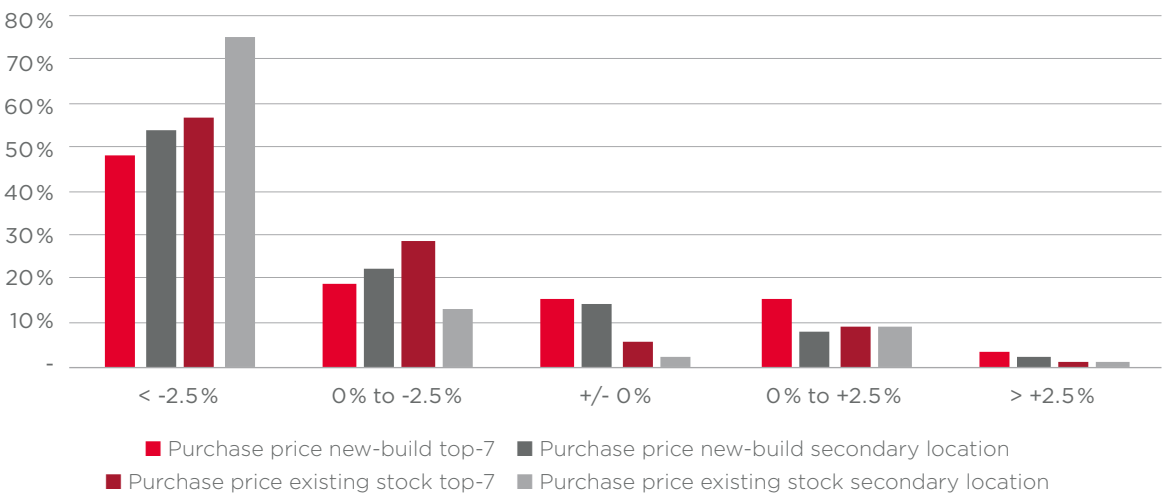
LETTING AND INVESTMENT MARKET

PURCHASE AND RENT PRICES IN THE HEALTHCARE REAL ESTATE MARKET



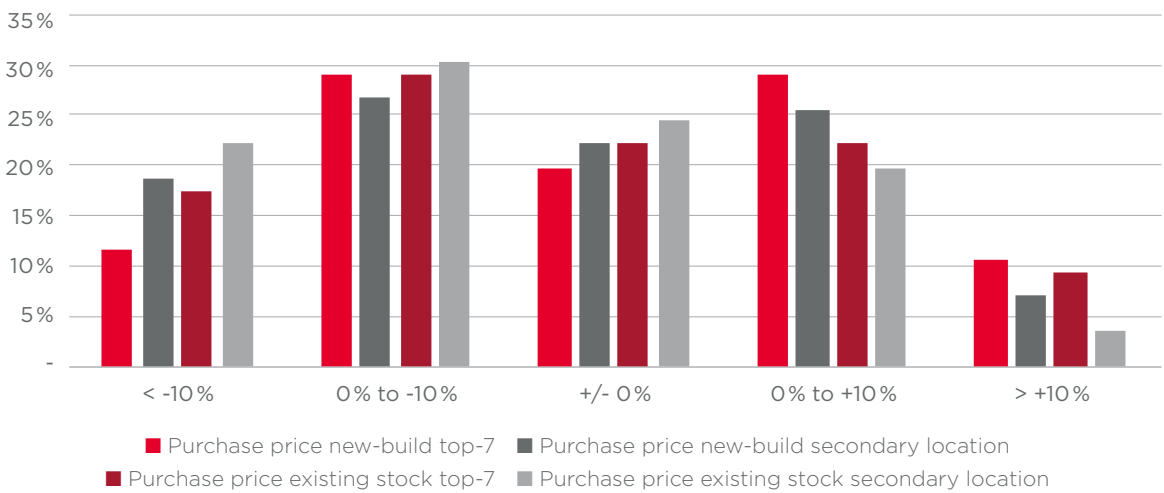
Majority expect falling purchase prices

Development over the next 12 months



The majority of respondents expect purchase prices to fall in the next 12 months, regardless of year of construction and location. For existing buildings in the top-7 locations, around 56 percent expect a decline of more than 2.5 percent. Overall, around 86 percent of respondents expect purchase prices for existing buildings to fall. In comparison, respondents are more positive about new buildings - around 29 percent do not expect prices to fall in this segment.

Development over the next 5 years

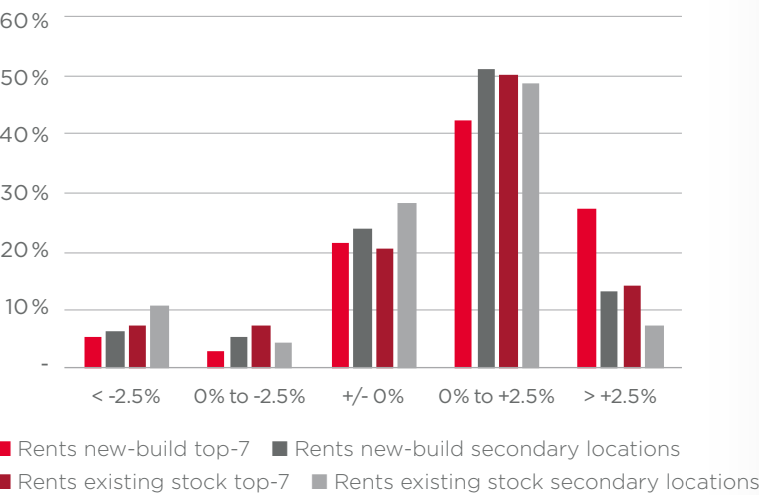


The respondents disagree on the development of purchase prices over the next 5 years. The prevailing sentiment is that prices will rise between 0 and 10 percent, remain the same or fall by the same amount. Only a small number expect a more extreme change in the price level.

Investors expect rents to rise

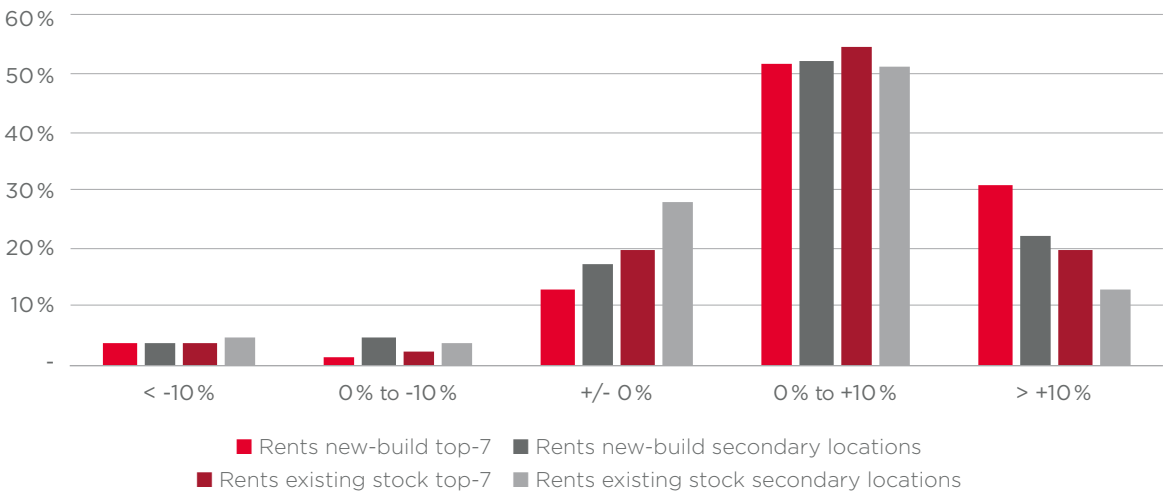


Development over the next 12 months



In the main, investors expect rents to increase in the near and medium term. About 40 percent forecast an increase of between 0 and 2.5 percent over the next 12 months, while about a third are more cautious and expect no change, at least in the short term. Only a small proportion of respondents expect rents to fall in the next 12 months.

Development over the next 5 years



A clear majority of investors expect rents to rise by 0 to 10 percent in the next 5 years. Around 21 percent expect an even greater increase. Only a minority of respondents expect rents to fall in the next 5 years and around 20 percent are undecided about the development of rents.

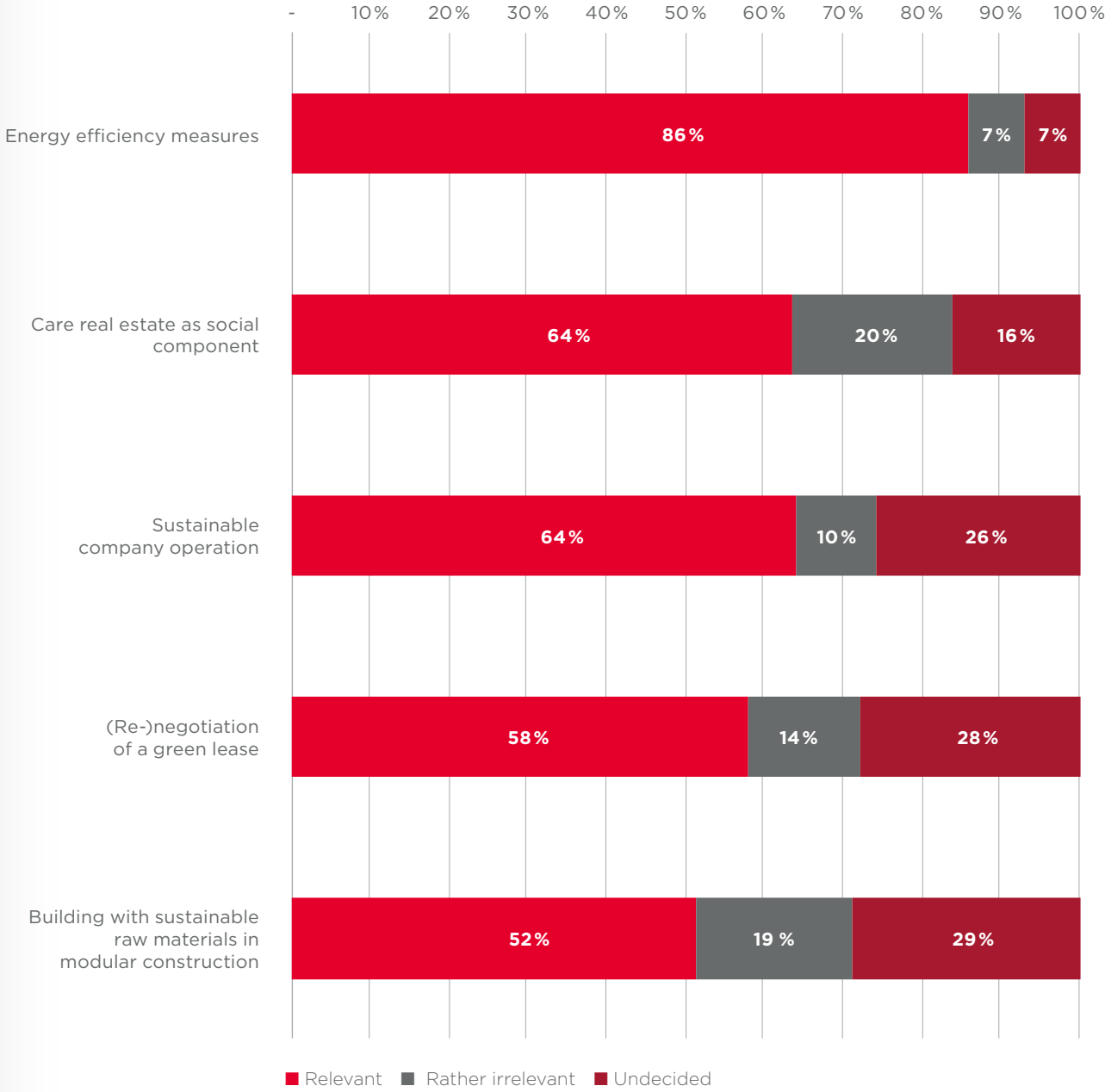


ESG

ARRIVED IN PRACTICE

Energy efficiency is ESG measure No.1

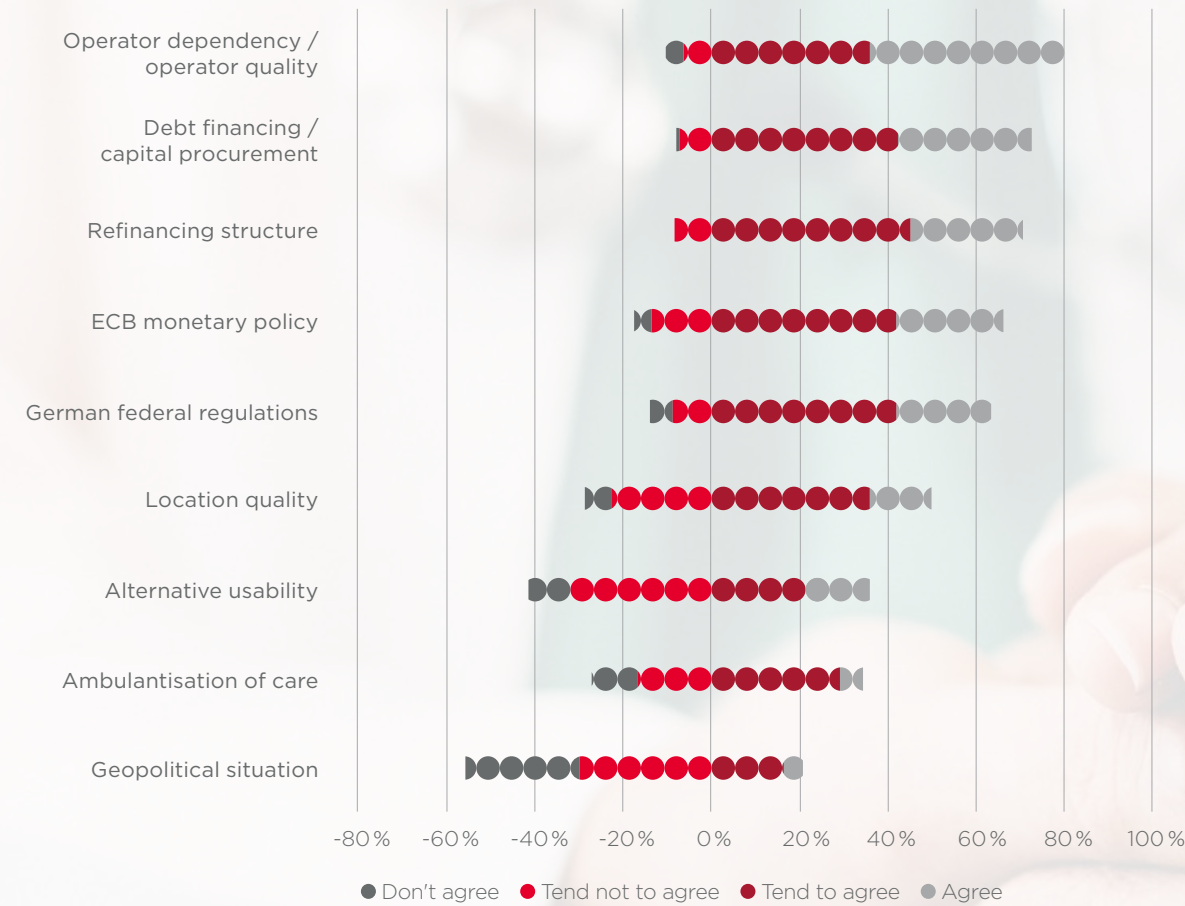
The majority of respondents, some 86 percent, consider the implementation of energy efficiency measures in existing properties to be relevant to their ESG investment strategy. The social component of care properties is also considered relevant by 64 percent. The importance of sustainable corporate management and good reputation (governance) is also emphasised by 64 percent. The (re-) negotiation of a green lease is rated as relevant by a narrow majority (58 percent). Overall, the survey shows that all the ESG criteria listed play an important role in the investment decisions of the respondents.



DRIVERS AND RISKS

WHAT ARE THE DRIVERS OF THE HEALTHCARE REAL ESTATE MARKET?

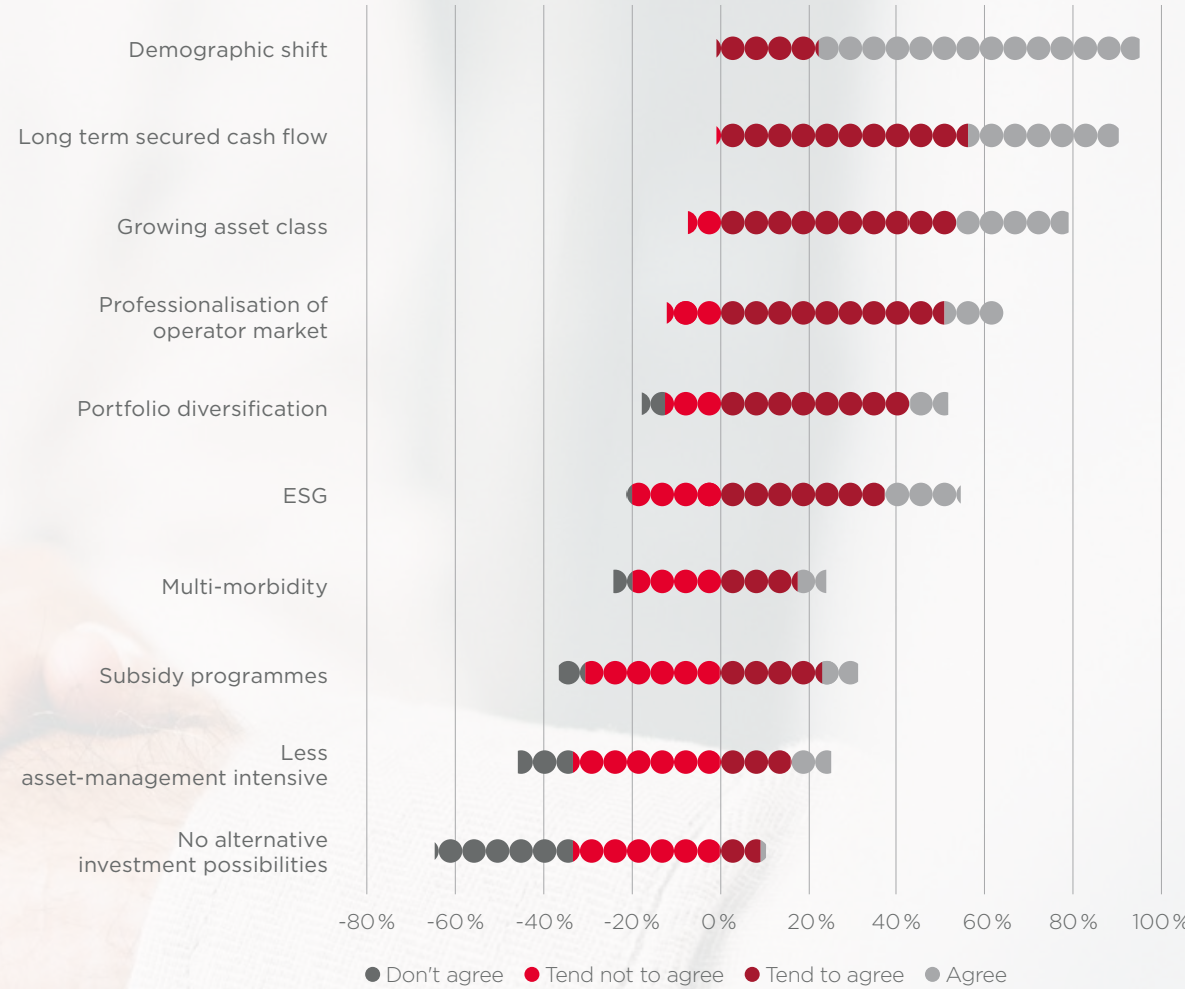
Operator dependency and quality are decisive



The majority of respondents see operator dependency and operator quality as the biggest obstacles / risks when investing in healthcare real estate - 80 percent of respondents agree. The refinancing structure is also an important factor, with 73 percent agreeing. Only 21 percent of investors rate the geopolitical situation as relevant. This may be related to the fact that demand for healthcare real estate will remain a structural concern in the

coming decades due to demographic trends. The majority of respondents (50 percent) agreed that location quality can be considered a medium factor on the scale. Only third-party usability and ambulantisation were considered less important. In general, investors seem to agree that operator quality and refinancing structure are the biggest hurdles to overcome when investing successfully in the healthcare real estate market.

Confidence in cash flow and the demographic shift



Investment in healthcare real estate is influenced by a variety of factors simultaneously, but their influence is classified in a differentiated manner by the respondents. The main drivers are long-term and secure cash flow generation and demographic change. These two aspects were named by 90 percent and 95 percent of the respondents as drivers that substantially influence the sustainability of the investment. In addition, the professionalisation of the operator market and increasing multi-morbidity play an important role, although opinions

on multi-morbidity are rather divided here. Federal support measures for investment and project developments as well as asset management intensity were rated as unimportant by a quarter of the respondents, while the growing importance of the asset class is seen as a positive factor for investment in healthcare real estate. ESG aspects and portfolio diversification also play a role for some investors. Finally, 65 percent of the respondents state that the lack of alternative investment opportunities is not really a significant driver of investment in healthcare real estate.

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The healthcare
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at a **click:**

