CUSHMAN & WAKEFIELD

SURVEY 2024/2025

HEALTHCARE REAL ESTATE

BETWEEN A CAUTIOUS AND AN EXPANSIVE STRATEGY: HOW DO PLAYERS IN THE GERMAN HEALTHCARE PROPERTY MARKET ACT?

Better never settles

OUR SURVEY SHOWS THAT INSTITUTIONAL INVESTORS ARE CLEARLY FOCUSSING ON HEALTHCARE PROPERTIES. EVEN IF MANY WERE UNABLE TO FULFIL THEIR ACQUISITION TARGETS FOR 2024, THEY ARE CONFIDENT ABOUT 2025.

JAN-BASTIAN KNOD

HEAD OF HEALTHCARE ADVISORY
HEAD OF RESIDENTIAL INVESTMENT GERMANY

INHALT

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01 FOREWORD

GERMAN HEALTHCARE PROPERTIES ARE A KEY COMPONENT OF THE INVESTMENT STRATEGY AND DIVERSIFICATION OF MANY CAPITAL SOURCES.

The German property market has changed significantly over the last twelve months: Rapid increases in inflation and construction costs have abated, the ECB's key interest rate has stabilised, and the market expects further interest rate cuts in the short term. Nevertheless, property investors have still been reluctant to make new investments and are looking for secure investment opportunities with attractive returns. There has also been turbulence in the operator market: Rent payments have been deferred, and in some cases, operators have slipped into insolvency due to the sharp rise in costs and the subsequent refinancing of these costs.

However, a reversal of this trend in the operator market is already recognisable today and the demand for healthcare services is higher than ever. Inpatient care is facing a large surplus in demand and there is also a need for more capacity in the outpatient sector. Due to the long-term operator structure in the German healthcare property market, the segment offers secure long-term opportunities with a high level of crisis resilience, particularly for investors.

We previously conducted surveys in 2021 and 2023 among institutional investors and project developers active in the German healthcare property market, some of whom have specialised in it or expressed an interest. In 2024, we again surveyed 105 property investors, portfolio holders and project developers about their acquisition and sales targets for 2024 and their investment strategy for 2025: Is a stabilisation of prime yields in the healthcare property market discernible? For which property types is liquidity expected? And will forward deals (project sales before completion) be more attractive and once again possible?

Cushman & Wakefield has collected answers to these questions in the Healthcare Real Estate 2024/2025 Investor Survey and analysed the extent to which sentiment has changed since the prior reports. The survey combines responses from both domestic and international players to provide a comprehensive, representative picture of opinion. We would like to thank the participating companies and hope you enjoy reading this report.

JAN-BASTIAN KNOD
Head of Healthcare Advisory
Head of Residential Investment Germany

02

THE RESULTS AT A GLANCE

KEY STATEMENTS AND CONCLUSIONS FROM ALL RESPONSES

SEVEN INSIGHTS FROM 14 TOPICS

CAPITAL
Capital availability for the assisted living and medical centre / health centre segments is expected to be highest in 2025 – nursing homes are close behind

ATTRACTIVENESS
Healthcare properties remain the focus of institutional investors, family offices and project developers

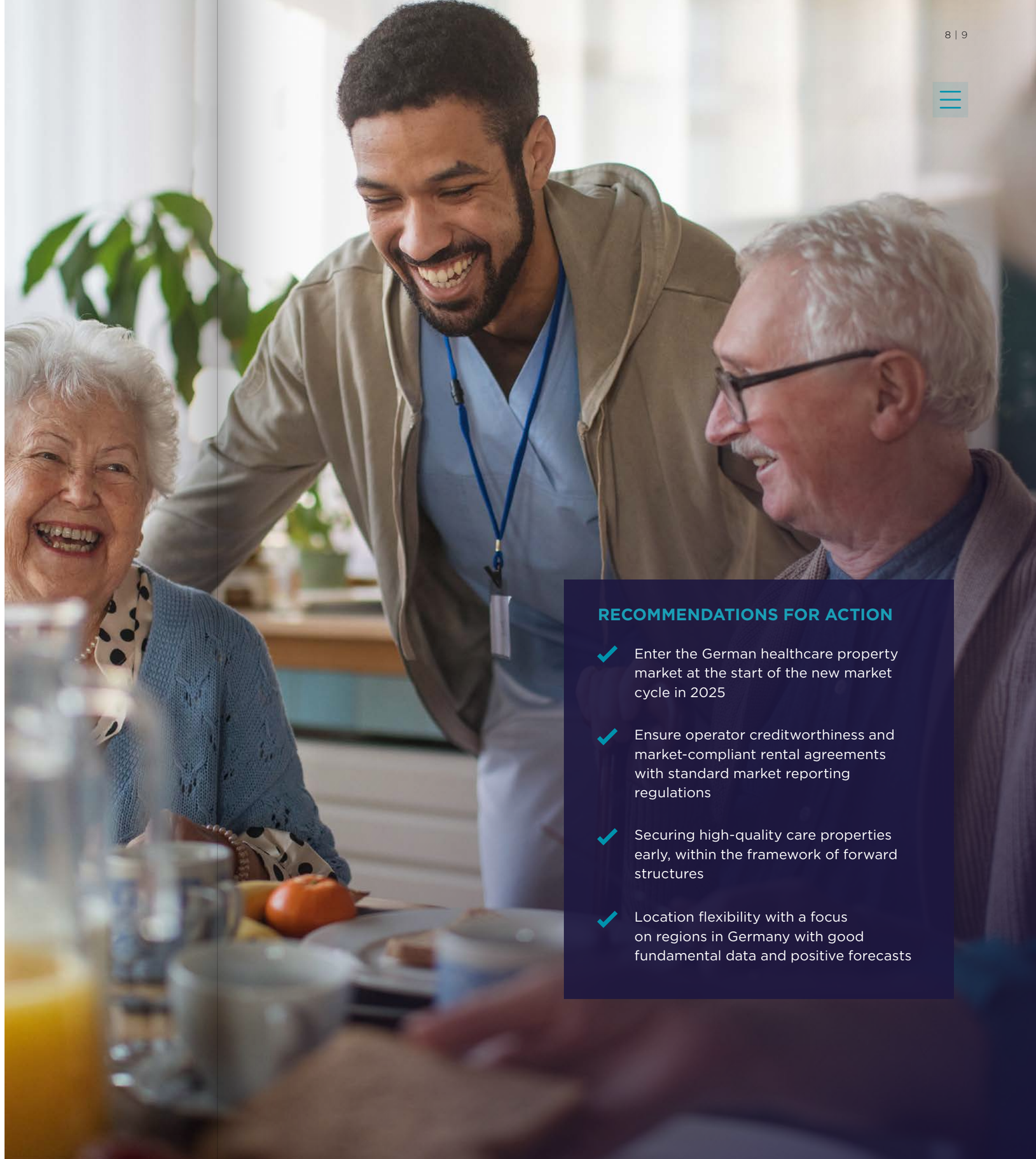
REGION & RISK
There is interest in healthcare properties in all regions across Germany, particularly in the core to value-add segment

TARGETS
Project developers and fund managers did not achieve their sales targets in 2024

GROWTH
Listed companies, private equity fund structures and family offices are as all potential buyers and want to expand

MARKET ENTRY
A further decline in construction activity is still expected – capital sources are equally working on the possibility of early project acquisition and extending the forward period

YIELD
Investors are divided on the future development of prime yields: there is an expected trend towards yield compression for (rehabilitation) clinics and medical centres / health centres and stable prime yields for assisted living and care homes



RECOMMENDATIONS FOR ACTION

- Enter the German healthcare property market at the start of the new market cycle in 2025
- Ensure operator creditworthiness and market-compliant rental agreements with standard market reporting regulations
- Securing high-quality care properties early, within the framework of forward structures
- Location flexibility with a focus on regions in Germany with good fundamental data and positive forecasts

03

MARKET PARTICIPANTS

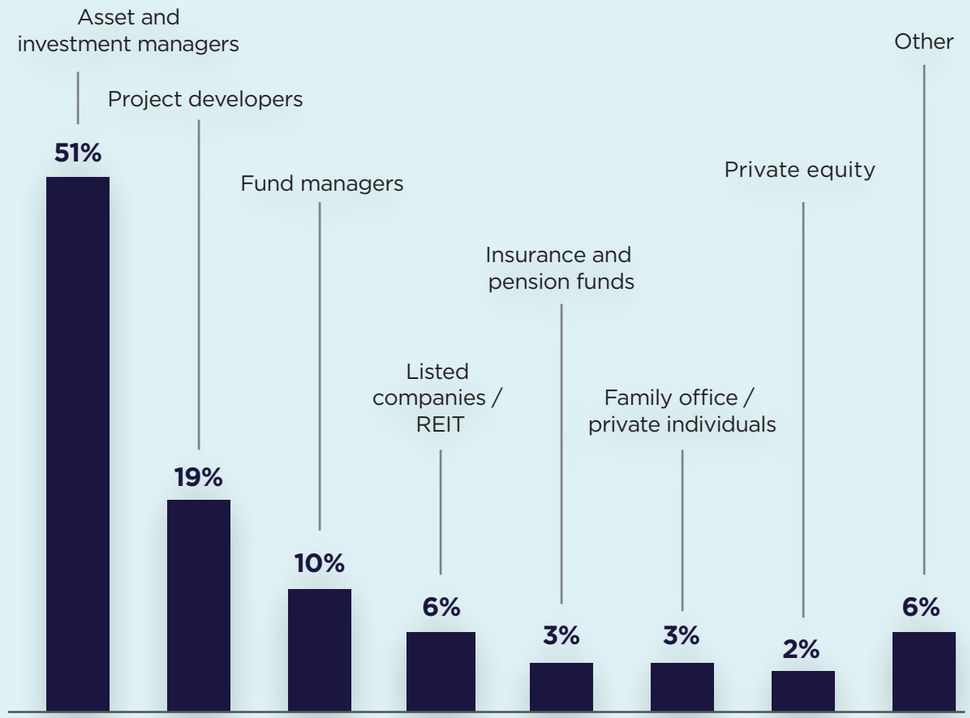
105 INVESTORS, PORTFOLIO HOLDERS AND PROJECT DEVELOPERS PROVIDE INSIGHTS

WHO IS ACTIVE IN THE MARKET?

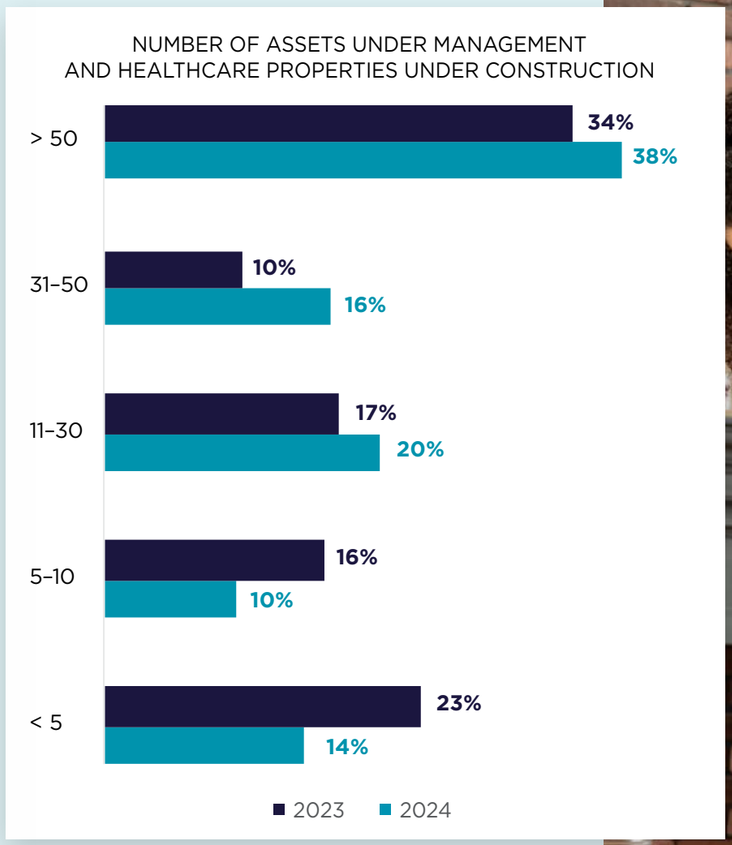
ASSET AND INVESTMENT MANAGERS CONTINUE TO DETERMINE MARKET DEVELOPMENTS IN 2024

A total of 105 market players active in the German healthcare property market took part in this survey. As in 2023, asset and investment managers make up the majority with 51 per cent. Project developers follow in second place with around 19 per cent, while the remaining 30 per cent consist of various types of investors and capital management agencies.

SURVEY PARTICIPANTS

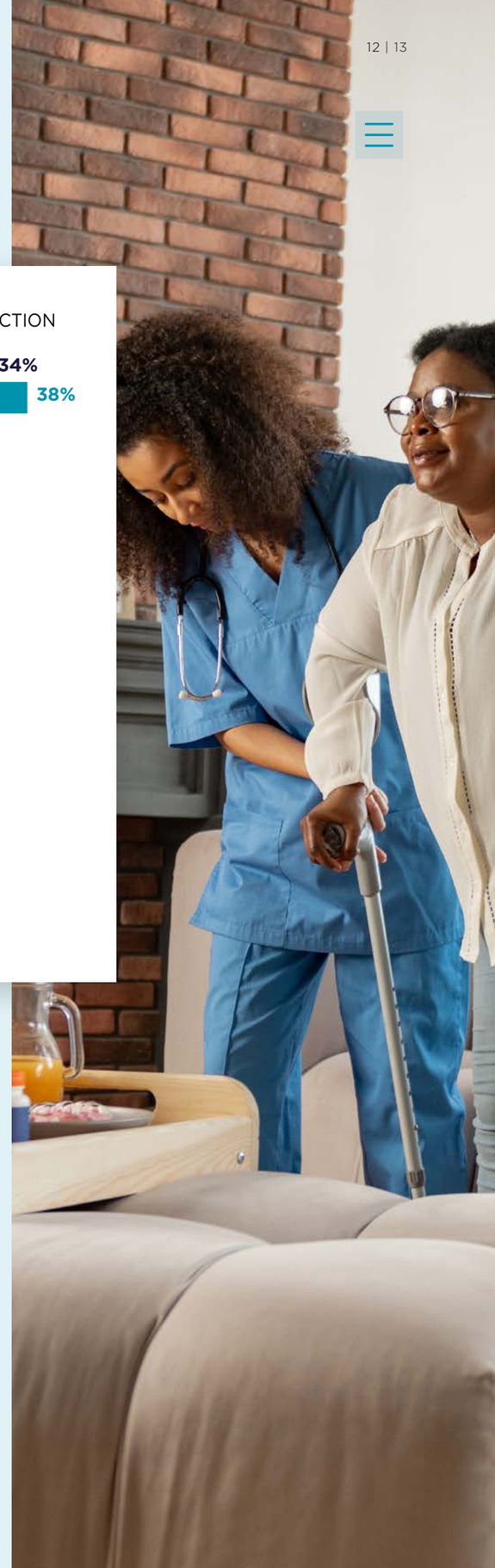


INVESTOR SIZE 2024 VS 2023



THE AVERAGE SIZE OF INVESTORS HAS INCREASED COMPARED TO THE PREVIOUS YEAR

Investors of various sizes are represented in the survey, measured by the number of assets under management or construction in healthcare properties. At 38 per cent, investors or project developers with more than 50 assets or projects account for the largest share. Investors with up to ten assets account for only 24 per cent. Compared to the 2023 survey, the average size of investors has increased significantly from up to 30 assets under management to 31 or more assets under management.



04

INVESTMENT FOCUS

HEALTHCARE PROPERTIES ARE IN DEMAND AMONG MANY INVESTORS – ECONOMICALLY STRONG AND LARGER CITIES ARE THE REGIONAL WINNERS

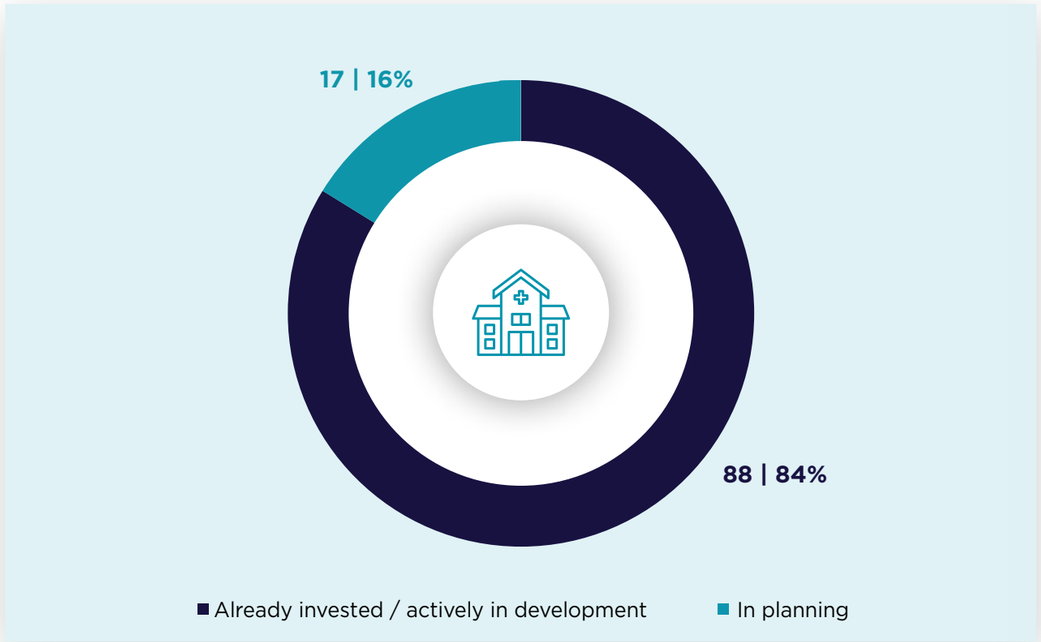
WHAT INVESTMENT STRATEGY DID INVESTORS PURSUE IN 2024?

COMMITMENT TO HEALTHCARE PROPERTY IS HIGH

Among the investors surveyed, 88 participants are involved in the German healthcare property market through investments or project developments – that is 84 per cent of the total and 12 per cent more than a year ago. 17 participants are currently working on entering the market or planning to do so.

Clearly, despite the challenges that have persisted for 18 months, the healthcare property market remains interesting for many investors. The year 2025 offers a good opportunity to enter the healthcare property market once the turbulence in the operator market has subsided and economic conditions have also improved.

ACTIVITY IN THE GERMAN HEALTHCARE PROPERTY MARKET



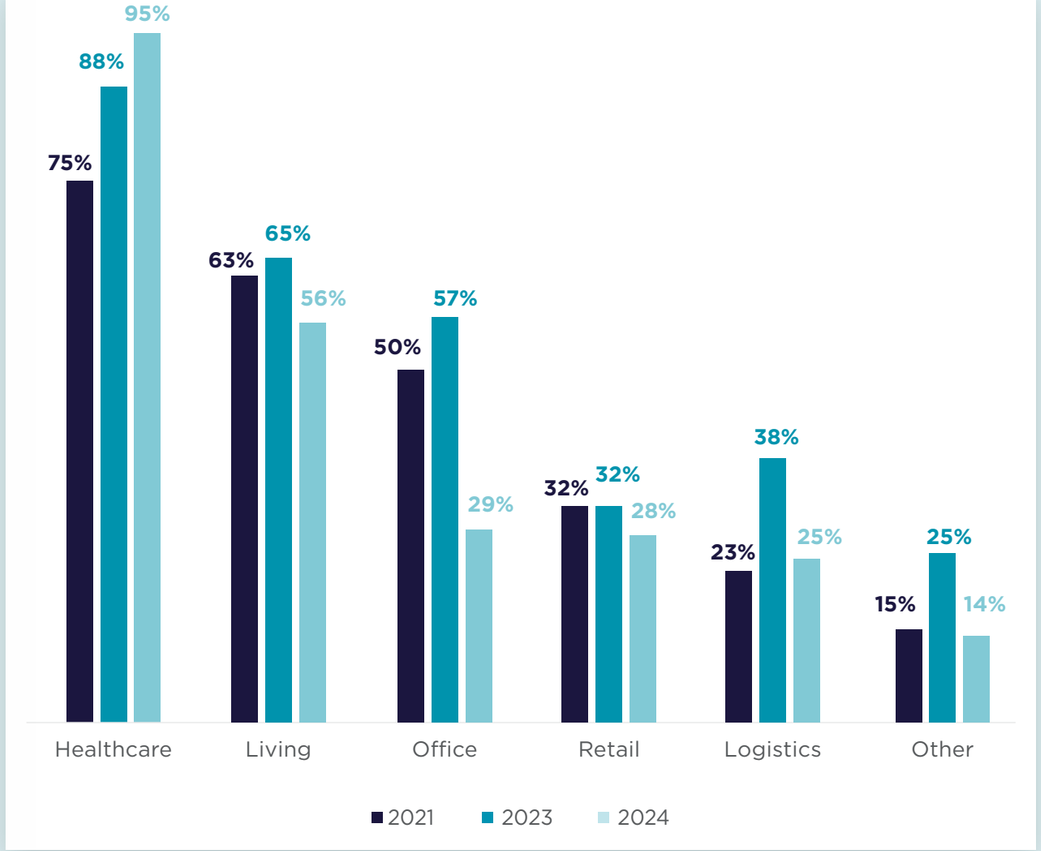
MOST PARTICIPANTS ARE DIVERSIFIED

The analysis shows that the participants pursue a diversified investment strategy and spread their investments across various asset classes. It is likely that investors who invest in healthcare properties also invest in residential properties as the senior living and outpatient care segments combine both asset classes.

Over 2021, 2023, and 2024, healthcare properties have continued to increase as a focus, but other asset classes also remain relevant. On average, investors are active in three different asset classes and look for corresponding diversification opportunities. Some investors have withdrawn from the office asset class. The healthcare property asset class itself is more of a niche but attracts a lot of attention due to the interesting investment opportunities for institutional capital.`

INVESTMENT FOCUS DIFFERENTIATED BY ASSET CLASS

(MULTIPLE ANSWERS POSSIBLE)



THE ROLE OF PROPERTY TYPE, REGION, AND RISK

INVESTMENT FOCUS BY PROPERTY TYPE AND REGION

(MULTIPLE ANSWERS POSSIBLE)

	A-CITIES (TOP 7)	B-CITIES	C-CITIES	D-CITIES	OTHER
BETREUTES WOHNEN	67%	67%	47%	29%	7%
PFLEGEHEIME (STAT. PFLEGE)	52%	52%	48%	31%	16%
ÄRZTEHÄUSER / MVZ	57%	56%	35%	20%	15%
(REHA)KLINIKEN	30%	26%	26%	15%	26%

A-cities: Major German centres of national and in some cases international importance
B-cities: Major cities of national and regional importance
C-cities: Important German cities with regional and limited national significance
D-cities: Small, regionally focussed locations with a central function for their immediate surroundings

A- AND B-CITIES ARE AHEAD

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INVESTMENT FOCUS DIFFERENTIATED BY ASSET CLASS

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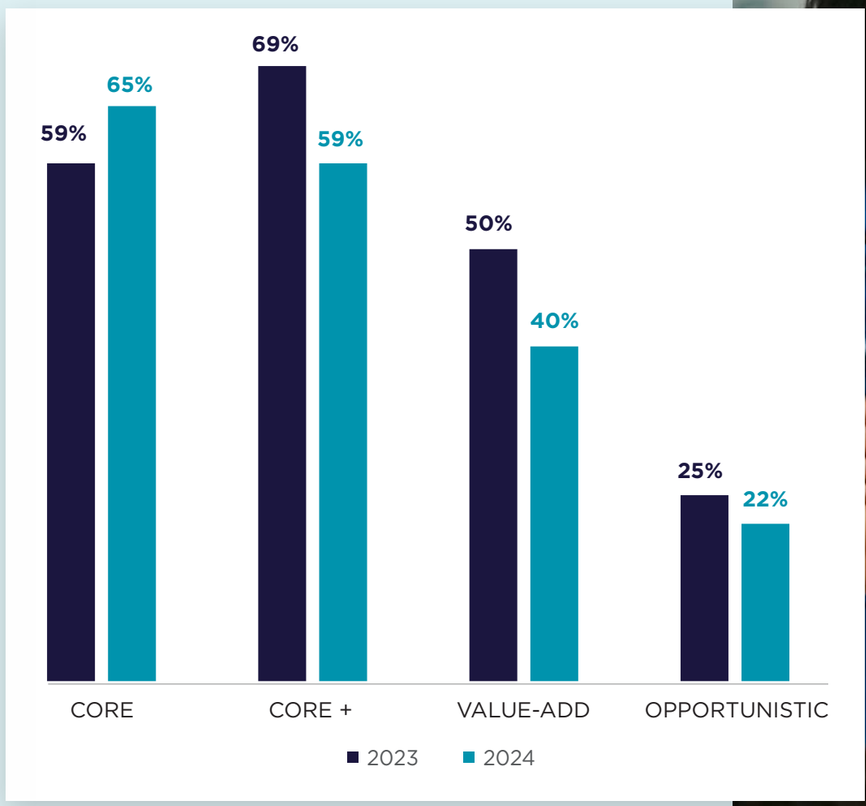


CORE PROPERTIES ARE IN PARTICULARLY HIGH DEMAND

The risk/return profile of investors in the healthcare property segment is as diversified as the investment focus across different asset classes. As in 2021 and 2023, investors primarily concentrate on core to value-add products. In contrast to other asset classes, however, there is a difference between location risk and asset quality risk on the one hand and operator risk on the other, which is a special feature of this asset class. For institutional investors and project developers of healthcare properties, proof of the operator's creditworthiness and insight into occupancy rates and key company data are therefore crucial.

05

INVESTMENT STRATEGY

THE MAJORITY OF PROJECT DEVELOPERS WILL NOT REACH THEIR SALES TARGETS IN 2024

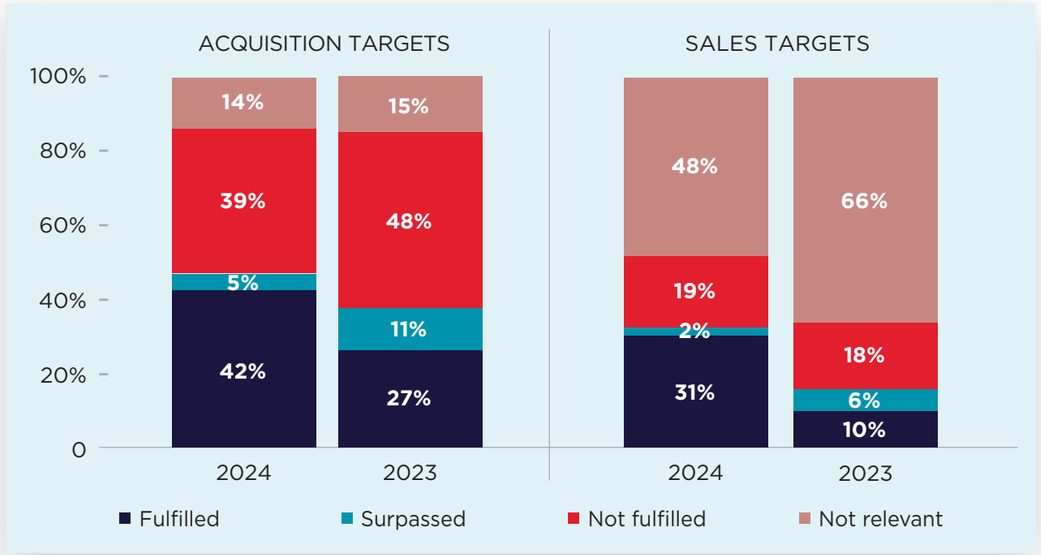
WILL 2024'S INVESTMENT STRATEGY BE FULFILLED?

ACQUISITION AND SALES TARGETS ARE MORE LIKELY TO BE REALISED THAN IN THE PREVIOUS YEAR

The results show that around 39 per cent of participating investors do not expect to meet their acquisition targets for 2024 at the time of the survey, while 14 per cent have no fixed targets. These expectations already reflect a more positive picture than the year before, when almost half of investors – 48 per cent – stated that they had not achieved their targets in the past twelve months. The same applies to sales targets: 33 per cent expect to meet or even exceed their targets for 2024, while around 19 per cent do not expect to meet them. As in the previous year, many investor groups have no sales targets (2024: 48 per cent, 2023: 66 per cent).

A look at the individual investor types shows that the majority of project developers, around one fifth of fund managers, and around 10 per cent of asset and investment managers do not meet their sales targets in 2024. The reason is that project developers are facing increased construction costs and, at the same time, risk-averse capital sources continue to be rather cautious. Fund managers, on the other hand, are sometimes forced to make sales to service liquidity outflows.

ACQUISITION AND SALES TARGETS 2024 VS 2023



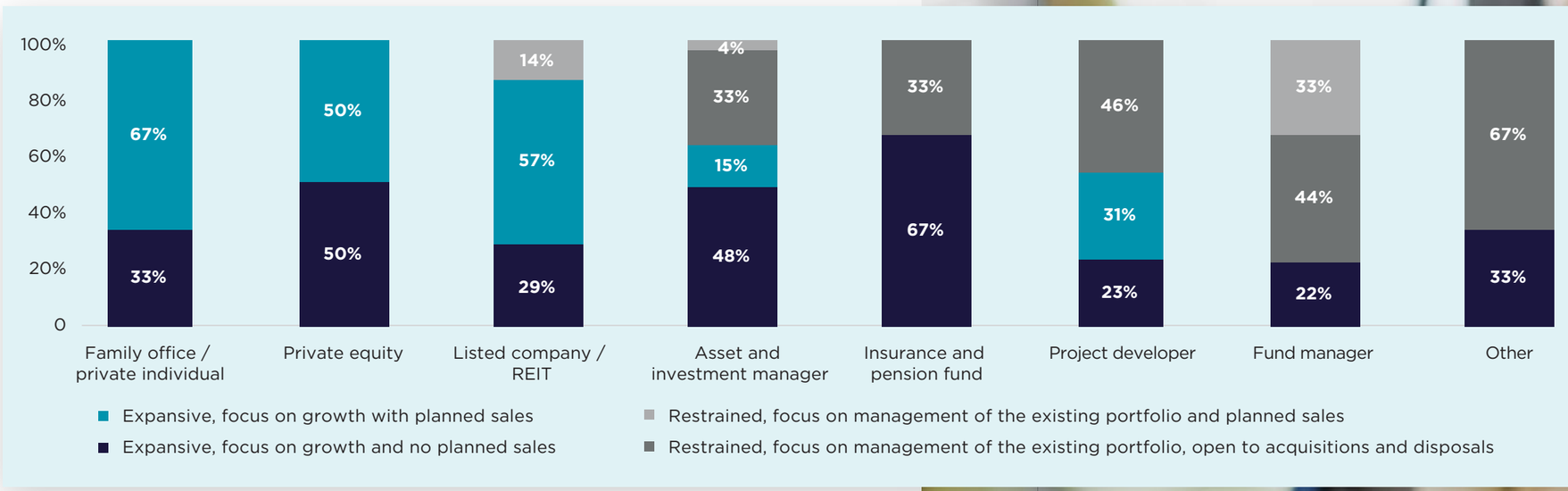
OUTLOOK AND EXPECTATIONS FOR 2025

THE MAJORITY OF INVESTOR GROUPS ARE OPTIMISTIC ABOUT 2025

The greater part of the asset and investment managers, private equity investors, family offices / private individuals and listed companies / REITS surveyed are pursuing an expansive investment strategy focusing on growth in 2025. These investors want to use the current market situation as an opportunity to invest in promising projects. Listed companies / REITS notably acted as sellers this year to create liquidity, but they are also now benefitting from the thawing debt capital market and see growth opportunities in 2025.

Project developers as well as insurance and pension funds are divided, with some planning growth without further sales for 2025, while others do not yet appear to want to grow rapidly again but, rather, want to focus on managing their existing portfolios. Insurance companies are typically far more optimistic compared to the previous year. At that time, all insurance and pension funds stated they were concentrating on managing the existing portfolio and were open to acquisitions and sales.

INVESTMENT STRATEGY FOR THE YEAR 2025



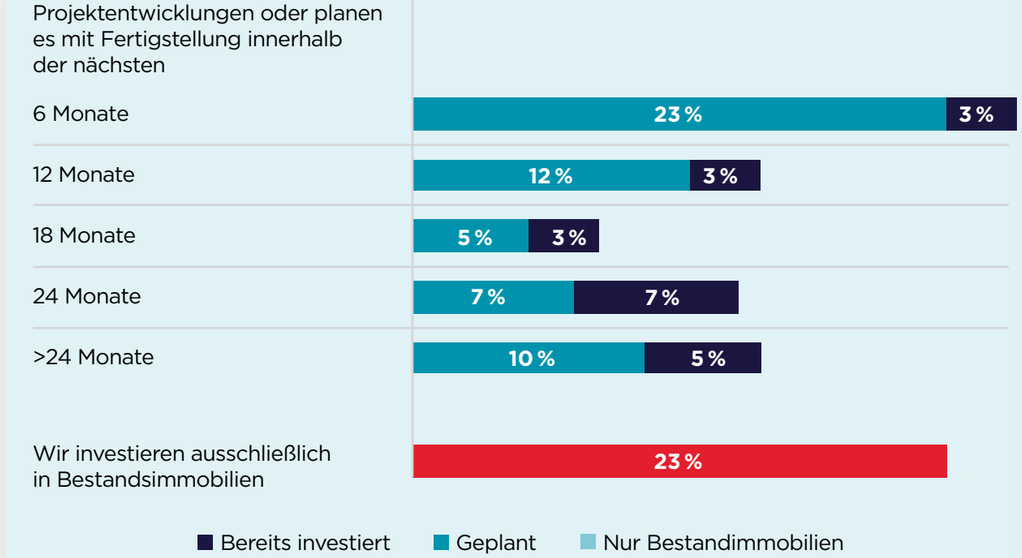
PROJECT DEVELOPMENTS REMAIN IMPORTANT IN THE STRATEGY

MOST RESPONDENTS INVEST IN PROJECT DEVELOPMENTS

At 57 per cent, more than half of the investors surveyed stated that they are investing in project developments or acquiring a project development as part of a forward structure. 20 per cent are currently adapting their investment strategy to be able to invest in project developments in the future. In 2023, 61 per cent were still investing in project developments, and 14 per cent planned to invest in them in the future.

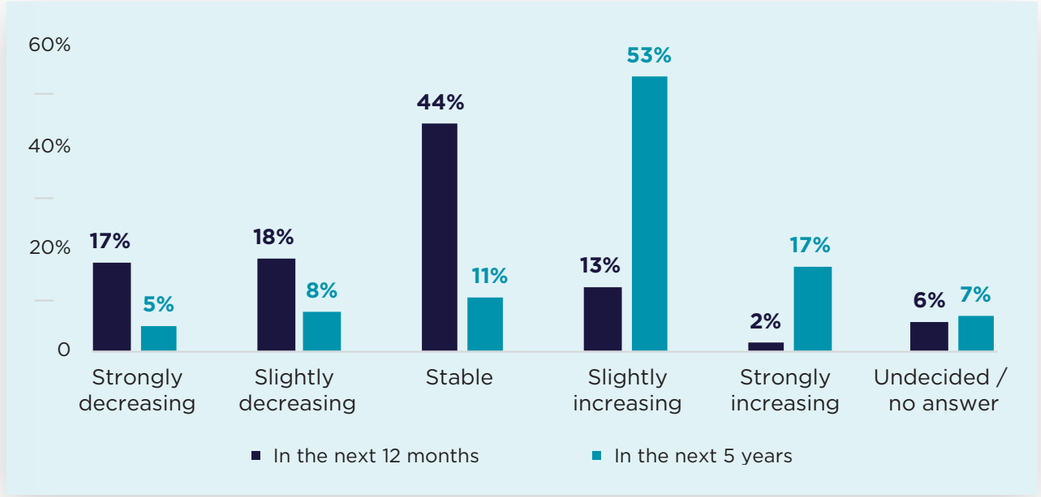
The proportion of those investing exclusively in existing buildings has remained roughly stable at between 18 and 25 per cent over the years since 2021, this year at 23 per cent. The shorter the outstanding completion period of project development, the greater the current willingness of investors to invest already. In the future, however, some would also like to be able to accomodate longer forward periods.

ERWARTETE BAUAKTIVITÄT BEI PFLEGEIMMOBILIEN



The respondents expect construction activity for care properties to remain the same or decline, at least in the short term. In the medium term, they expect it to increase slightly to meet the growing demand. In view of the low level of current construction activity, the strategy of securing projects at an early stage seems sensible, and thus simplifying financing for the project developer.

CONSTRUCTION ACTIVITY OF CARE PROPERTIES (CARE HOMES AND ASSISTED LIVING)



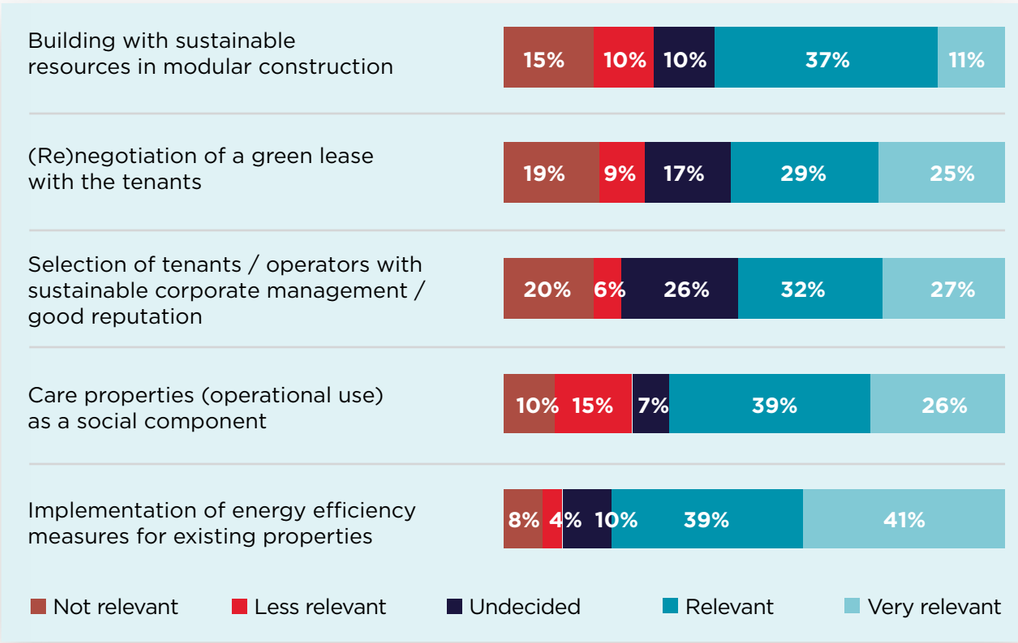
ESG CONTINUES TO GAIN IMPORTANCE IN THE INVESTMENT STRATEGY

RESPONDENTS RATE ENERGY EFFICIENCY AND THE SOCIAL COMPONENT OF CARE PROPERTIES AS HIGH

At 80 per cent, most respondents consider energy efficiency measures in existing properties to be relevant or even very relevant as part of their ESG investment strategy. The social component of care properties is also considered to be at least relevant by 65 per cent. This means that these two categories are still the key factors for investors pursuing an ESG investment strategy.

The importance of sustainable corporate management and a good reputation (governance) is emphasised by 59 per cent. The (re-)negotiation of a green lease is rated as relevant by a small majority of 54 per cent. Overall, the survey shows that all of the listed ESG criteria play an important role in their investment decisions.

ASSESSMENT OF THE MAIN MARKET RISKS



06

CAPITAL AVAILABILITY AND RETURN

CAPITAL AVAILABILITY IS RATED HIGHEST IN ASSISTED LIVING AND MEDICAL CENTRES / HEALTH CENTRES

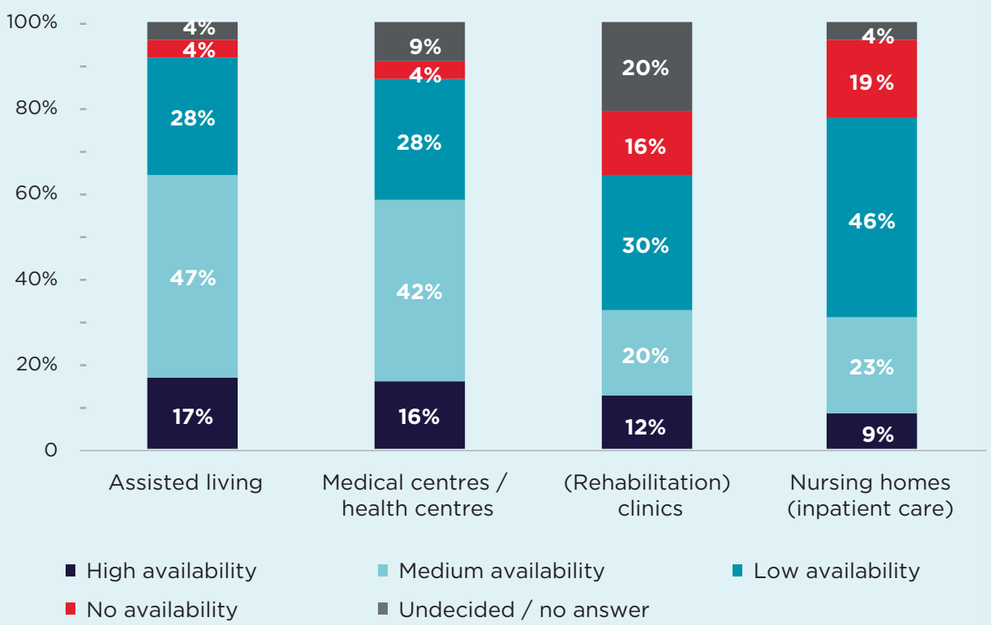
MIXED VIEW OF CAPITAL AVAILABILITY AND PRIME YIELDS

CAPITAL IS AVAILABLE, ESPECIALLY IN THE ASSISTED LIVING SEGMENT

The respondents assume the greatest availability of capital in the assisted living segment, followed by medical centres. Even (rehab) clinics are ahead of nursing homes with a medium to high availability of 32 per cent. In the last ten years, the care home asset class has accounted for the largest share of the investment volume in the overall healthcare property asset class.

Around 46 per cent see low capital availability for nursing homes, and 19 per cent see no availability in the next twelve months. This reflects the turbulence in the operator market for inpatient care facilities.

CAPITAL AVAILABILITY IN THE NEXT TWELVE MONTHS

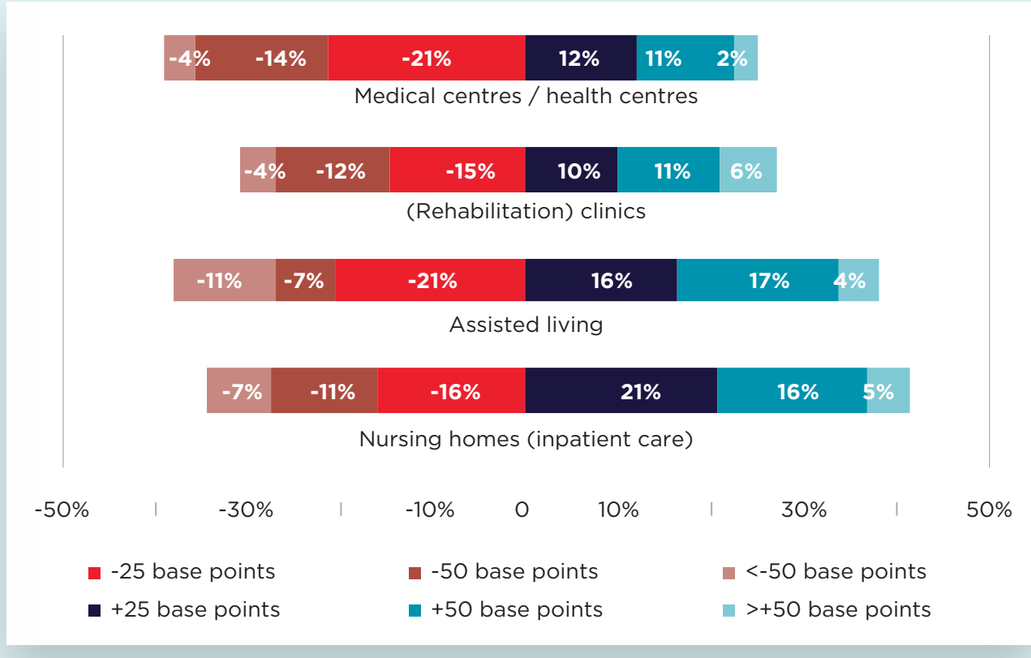


THERE IS DISAGREEMENT REGARDING THE DEVELOPMENT OF YIELDS

Investors have different views on the development of prime yields in the individual segments. The prime yields in the (rehabilitation) clinics and medical centres / health centres segments will tend to fall. Since Q3 2023, these have stood at 5.75 per cent and 4.75 per cent respectively. In the assisted living segment, respondents are divided on the direction in which the prime yield of currently around 4.5 per cent will move.

In the nursing homes segment, currently at 5.1 per cent, they expect a slight increase in the prime yield over the next twelve months. This disagreement regarding likely developments over the next twelve months is due to the continuing uncertainty in the market as to whether the new property cycle has already begun or whether the market is still in a state of flux.

ENTWICKLUNG DER SPITZENRENDITEN IN DEN NÄCHSTEN ZWÖLF MONATEN



07

RISKS AND DRIVERS

WHAT IS HOLDING BACK THE MARKET AND WHAT IS DRIVING IT FORWARD? THE SPECIFIC OPERATORS OF HEALTHCARE PROPERTIES ARE OF GREAT IMPORTANCE TO INVESTORS

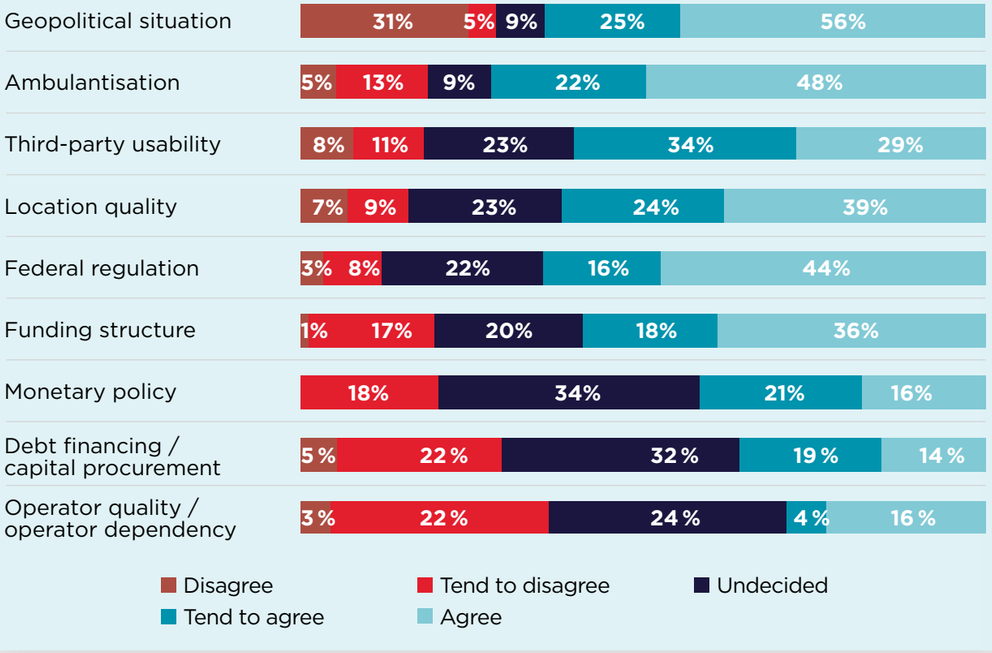
THE CRUX OF OPERATOR QUALITY AND CASHFLOW

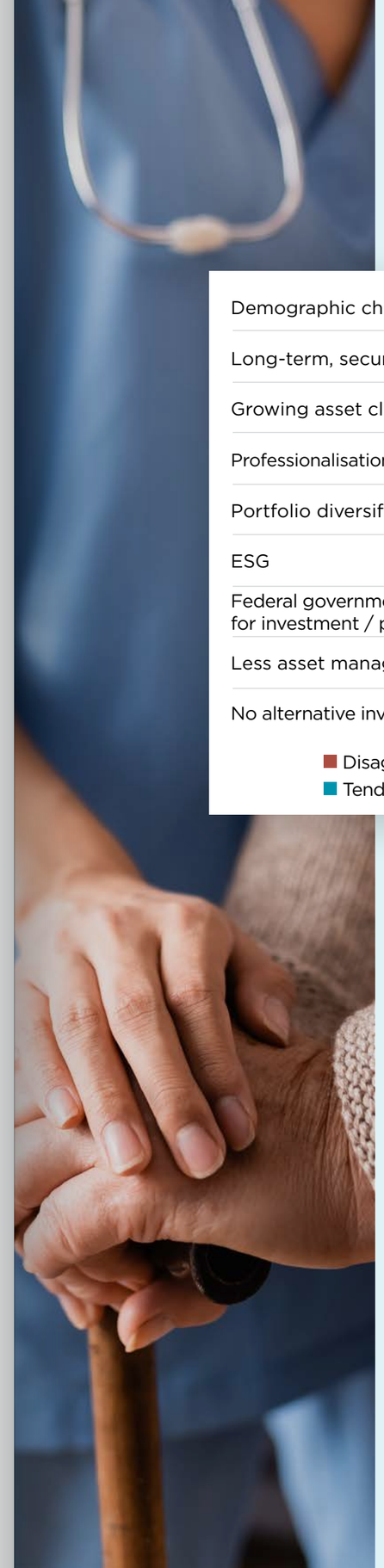
OPERATOR QUALITY AND DEPENDENCY ARE SEEN AS THE BIGGEST RISKS

Most respondents see operator dependency and operator quality as the greatest obstacles and risks when investing in healthcare properties - 81 per cent agree with this. Other factors are debt financing with 80 per cent approval, the ECB's monetary policy with 63 per cent and the refinancing structure with 60 per cent.

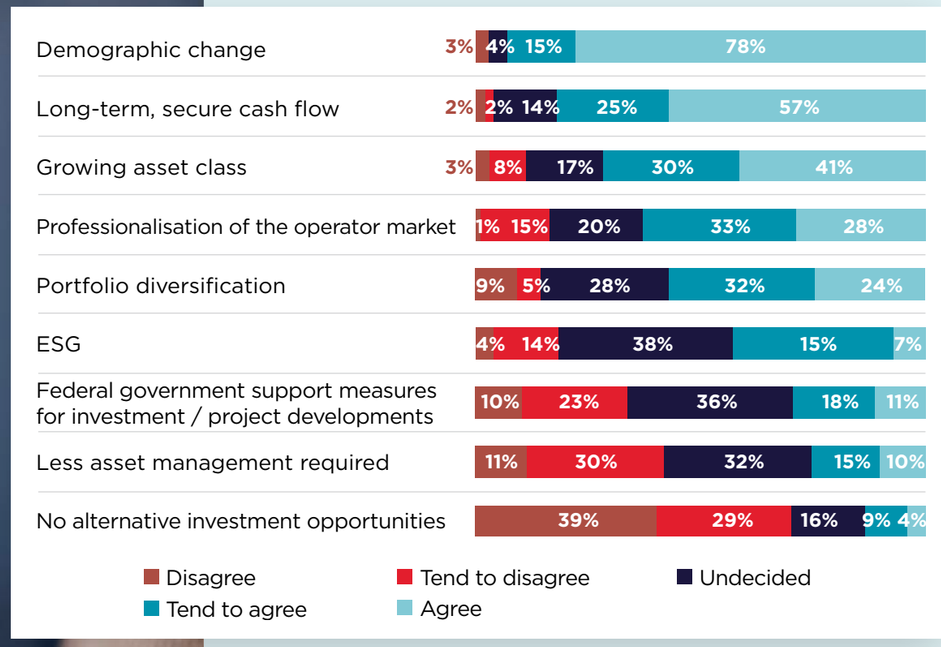
At 53 per cent, more than half of respondents see the geopolitical situation as less relevant, while 23 per cent are undecided. Almost a third do not have a clear perspective on the significance of the ongoing and politically desired ambulantisation of care, even though this shift from inpatient to outpatient care represents a significant contribution to managing demand in the care sector in various ways.

ASSESSMENT OF THE MAIN MARKET RISKS





ASSESSMENT OF THE MOST IMPORTANT DRIVERS



CASH FLOW AND DEMOGRAPHIC CHANGE ARE CONSIDERED THE STRONGEST DRIVERS

Investment in healthcare property is influenced by various factors at the same time. However, the respondents rate the degree of importance of each quite differently. As the main drivers, they see long-term and secure cash flow generation and demographic change. These two aspects were named by 82 per cent and 93 per cent of respondents respectively as drivers that substantially influence the sustainability of the investment. The professionalisation of the operator market and expected future growth in the healthcare property asset class also play an important role.

According to the respondents, there appear to be sufficient alternative investment opportunities, and the asset management costs for healthcare properties do not seem to be a direct driver for investments. The operator structures in this segment can certainly simplify the direct asset management task, but specific expertise is still required to fulfil this sufficiently well.

07
OUTLOOK

AN ENTRY INTO THE GERMAN HEALTHCARE PROPERTY MARKET IN 2025 SEEMS SENSIBLE IN ORDER TO PARTICIPATE IN THE BEGINNING OF THE NEW PROPERTY CYCLE AT AN EARLY STAGE

HEALTHCARE REAL ESTATE 2025

ASSET CLASS WITH LONG-TERM POTENTIAL

Given the ongoing uncertainty among institutional property investors regarding the timing of a possible turnaround in the ECB's interest rate policy and a stabilisation of the German healthcare property market, the German property investment market is still facing major challenges. Nevertheless, demand for healthcare property remains high due to its systemic relevance and crisis resilience.

In the short term, we expect ongoing caution in investment decisions as investors closely monitor inflation and interest rate developments. In the medium term, however, demographic trends and the increasing demand for care and healthcare services could lead to market stabilisation and growth. Indeed, the majority of respondents to this survey are preparing for new growth plans in 2025, which could mark the start of the new property cycle.

In the long term, we see great potential in the development of sustainable healthcare properties with innovative concepts. Investments in modern, energy-efficient facilities and the integration of digital healthcare solutions could offer decisive competitive advantages. An excess demand for healthcare services can already be seen and will further increase in the coming years due to the recent decline in the development of new healthcare properties.

In summary, the healthcare property asset class remains an attractive and future-proofed investment opportunity despite current challenges. Investors who are prepared to adapt to long-term trends and the specific risks of this segment can benefit from the many opportunities.

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CUSHMAN & WAKEFIELD

The healthcare real estate market at a click

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