

Senior care – a strong long term opportunity

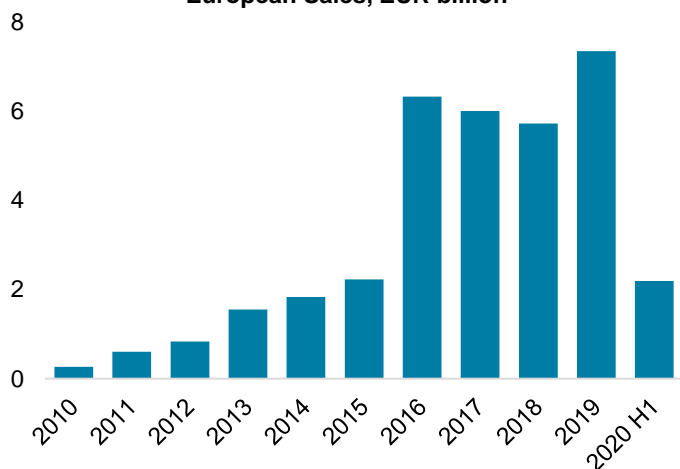
- The COVID-19 pandemic is having a major impact on senior care across Europe. We expect the sector to be impacted by weaker residents' demand, higher costs and a less dynamic investment market throughout 2020 and some of 2021.
- In the near term it's all about the ability to find an asset that is resilient to changes in regulations and has the capacity to manage crisis situations such as COVID-19. Fund manager's must negotiate an attractive entry price that compensates for the short-term weakness
- We remain positive in the long term. We believe the strong demand characteristics associated with an aging population have not changed. Moreover, the sector is expected to undergo a transformation in which the contribution of the private sector will increase. This has the potential to become a strong long-term opportunity underpinned by supportive fundamentals.
- Senior care is a strong buy for investors who want to add value-add elements to their portfolios.

The short-term view is far from rosy

- The sector is in the spotlight, especially care homes. The high mortality rate in recent months is raising several doubts about safety measures within the facilities.
- We expect the sector to be impacted by weaker residents' demand, higher costs and a less dynamic investment market throughout 2020 and to some extent in 2021.
- Safety standards need to be reviewed and enhanced. The risk of increased regulation is likely to add further cost pressures on the sector, both in terms of labour and operating expenses. Weaker demand for beds will also hit the income side.

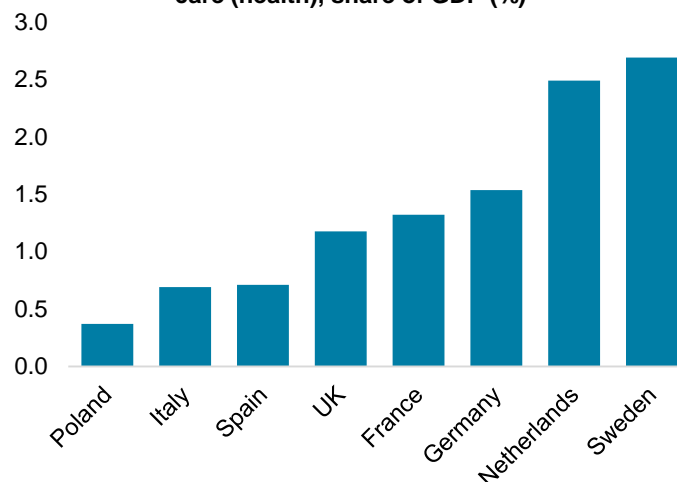
- Three factors are likely to lead to short-term lower occupancy rates: 1) fewer residents per facility due to COVID-19-related safety measures; 2) families prefer to have elderly relatives at home because it's considered safer; 3) given the difficulty around the economic situation (e.g. higher unemployment), some families may be deterred from accessing care facilities.
- From an investment perspective, the sector has grown a lot in recent years (chart 1). On average EUR 1.22 billion p.a. was invested between 2010 and 2015. This jumped to EUR 6.35 billion p.a. between 2016 and 2019. 2020 started well, but due to the COVID-19, transactions came to a standstill.

Chart 1: Senior Housing & Nursing Care European Sales, EUR billion



Sources: Savills IM, Real Capital Analytics (July 2020)

Chart 2: Government support for long-term care (health), share of GDP (%)



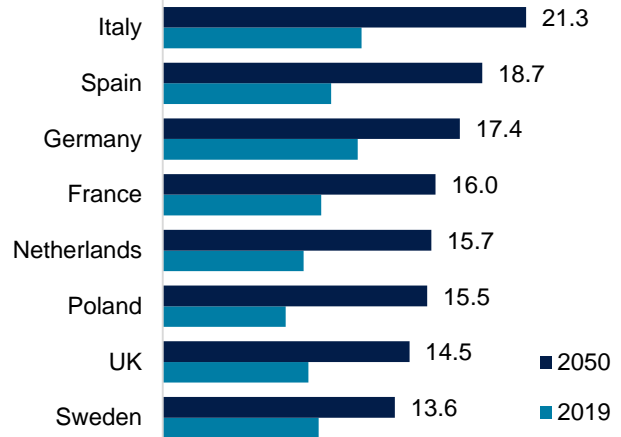
Sources: Savills IM, OECD (2018)

- Uncertainty regarding the impact of new regulatory measures and evolving management models on the industry will delay scheduled initiatives in the pipeline.
- Lenders are also more likely to be restrictive and cautious, adding to the investors difficulty of finding the right product at the right price to reflect the risk.

Despite the short-term uncertainty, the long-term fundamentals are strong

- Chart 2 shows the variation of government support for long-term health care as a percentage of GDP. Although this remains vital to provide continuity to the healthcare system, it is expected to decrease as a result of the pressure on public finances.
- To fill the gaps of the public sector, the private sector is likely to play a key role, thanks to its diversity, resources and enterprise. This could significantly improve the health coverage.
- Europe is a highly fragmented landscape. Consolidated operators with experience and economies of scale will have a competitive advantage, enabling them to endure better the new challenges in the long term and potentially exploiting the consolidation of the industry.
- Residents' demand and the investment market are expected to recover once there is some degree of certainty about the COVID-19 outlook.
- There is a substantial imbalance between demand and supply. The population is aging (chart 3); life expectancy has been steadily increasing for many years; “baby boomers” are entering retirement age and given their high income potential they expect a good quality of life. On the supply side, the provision of new developments is low on average. The number of beds is also low particularly in Poland and Italy (chart 4).
- However, if increased operating costs leads to higher costs for residents, demand may remain moderate in the medium term, especially if costs rise too much compared to the average pension income.
- Home (or informal) care will be more difficult. Families are becoming smaller limiting the ability for many of them to assist elderly relatives. Moreover the evolution of chronic diseases requires treatments in specialized centers with medically trained staff.
- A new generation of care facilities might arrive on the market, larger in size and with an enhanced range of services for residents. In this regard, the interest from investors in hospitals may decrease as generally they offer a good but standard service.
- Taking these trends into consideration, we believe that there are good arguments that the senior care market will provide good investment opportunities in the long-term. Due to higher operator risk, investing in senior care is a strong buy for investors who want to move up the risk curve and add value-add elements to their portfolios.

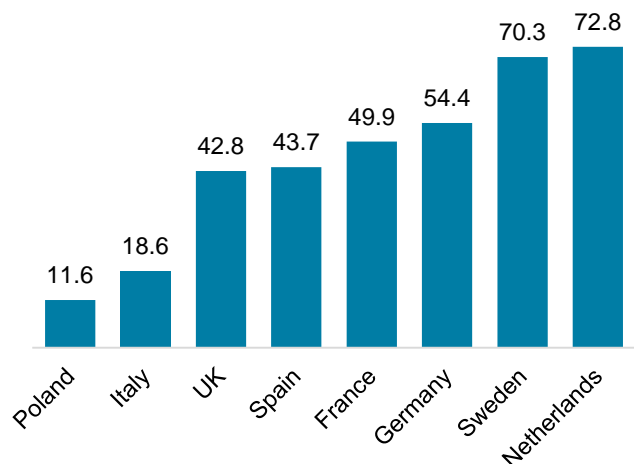
Chart 3: Proportion of 75+ population, as a % of total population



Sources: Savills IM, Oxford Economics (March 2020)

“There is a substantial imbalance between demand and supply.”

Chart 4: Beds in residential long-term care facilities per 1,000 population aged 65+



Sources: Savills IM, OECD (2018 or closest year)

An in-depth look at some key markets

FRANCE	
Type of property	Senior Housing
Locations	Paris / Greater Paris and top 10 cities (and surroundings)
Property pricing	EUR 15 - 50 million
Lease length	9 - 12 years
Prime NET initial yields	circa 4.00%+
Top buyers (SH)*	Caisse des Depots, AXA Group, Catella, La Francaise, BE Real IM
Top operators	Domitys, les Senioriales, les Hespérides, Résides Etudes, Cogedim Club, Ovelia

GERMANY	
Type of property	Senior Housing, Nursing Care
Locations	Highest demand in the large metropolitan areas and mid-sized regional centres. Above the average in the north-eastern States (Brandenburg, Mecklenburg-Vorpommern, Schleswig-Holstein) as well as in Baden-Württemberg
Property pricing	EUR 10 - 12 million
Lease length	15 - 25 years
Prime NET initial yields	circa 4.25%
Top buyers (SH,NC)*	Deutsche Wohnen SE, Aedifica, AviaRent Capital Management, Cofinimmo, Threestones Capital
Top operators	Korian Deutschland, Nordic Capital/Alloheim-Gruppe, Victor's Unternehmensgruppe, ORPEA Deutschland, Kursana Residenzen, Azurit-Hansa-Gruppe, Johanniter Seniorenhäuser (public), AWO Westliches Westfalen (public), Evangelische Heimstiftung (public), Domicil Senioren Residenzen Hamburg

ITALY	
Type of property	Senior Housing, Nursing Care
Locations	Primarily North Italy: Lombardy, Piedmont, Veneto; Tuscany, Lazio (Rome)
Property pricing	Nursing Care: EUR 10 - 25 million
Lease length	14 - 18 years
Prime NET initial yields	5.50% - 6.00%
Top buyers (NC)*	Threestones Capital, Caisse des Depots, Batipart, REAM SGR, Eurosic
Top operators	Depends on market. Nursing Homes: KOS, Korian, Orpea, Gruppo Gheron, Codess, Gruppo La Villa, Gruppo Zaffiro

An in-depth look at some key markets

NETHERLANDS	
Type of property	Nursing Care
Locations	Randstad area, Noord-Brabant area, east part of the Netherlands and cities up to 100,000 inhabitants
Property pricing	EUR 2 - 20 m
Lease length	20 years
Prime NET initial yields	5.50% - 6.00%
Top buyers (NC)*	Aedifica, Care Property Invest, Urban Interest, Rabobank Pensioenfonds, Amvest
Top operators	ANBO, AWBZ, Coordan, Cordeyn

SPAIN	
Type of property	Senior Housing, Nursing Care
Locations	Madrid, Barcelona, Mediterranean Coast (e.g. Malaga, Alicante, Balearics)
Property pricing	EUR 10 – 15 m
Lease length	10 - 20 years mandatory
Prime NET initial yields	circa 4.60%
Top buyers (SH & NC)*	Batipart, Healthcare Activos, Eurosic, Threestones Capital, Adriano Care
Top operators	DomusVi, Orpea, Vitalia, Ballezol, Amavir, Sanitas

UK	
Type of property	Nursing Care
Locations	Need for care homes is broadly evenly distributed across the country. Most attractive opportunities are in areas where residents are self-funded which includes the South East and East of England.
Property pricing	Average care home transaction size amongst domestic REITs was GBP 11 million in 2019.
Lease length	30 - 35 years
Prime NET initial yields**	3.50-4.00%
Top buyers (NC)*	Civitas Social Housing, Triple Point REIT, Alpha Real Capital, Aedifica, Elevation Advisors
Top operators	HC-One, Four Seasons, Barchester, Bupa, Care UK

Sources: Savills IM; * RCA (cumulative 2017- 2020 H1, acquisition volume EUR m, Senior Housing (SH) & Nursing Care (NC));

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