MAY 2021

SHHA

Senior Housing & Healthcare Association

Headlines:

Aedifica buys care homes in Germany, eyes €1bn portfolio

Investors shift more focus on senior housing and healthcare

EQT makes €300m splash in Italy

Galliard plans UK senior housing growth

Healthcare volumes defy the crisis

realasset MEDIA

Real estate needs to unite on healthcare

Ron van Bloois
Chair, Senior Housing & Healthcare Association

The pandemic shows us how important our healthcare system – both cure and care – is for society and vulnerable target groups. Especially for middle age people with multiple syndromes, people with disabilities and seniors.

Independent studies have shown significant excess mortality in the +75 cohort and (logically) in long-term nursing homes. State-of-the-art nursing homes should be more flexible, technically smart and resilient to major healthcare threats. Alongside this, the built environment and social infrastructure for seniors can mitigate loneliness, pressure on healthcare workers and improve quality of life (such as self-dependence, self-esteem and a useful daily routine).

> **'Challenges in senior housing require close cooperation within the real estate value chain.'**

This underlines the importance of senior housing and healthcare real estate from an asset class perspective, both in mature and emerging real estate markets. The Senior Housing & Healthcare Association has been established to create alignment between operators, banks, investors and stakeholders, including local governments.

We are faced with extensive challenges caused by outdated existing stock, changing consumer/user demand and climate targets related to the Paris Agreement. This requires close cooperation within the real estate value chain.

Are we willing to share knowledge cross-border and across parties, create long-term value, work inclusively on cities/areas and develop more user-centred buildings? It should be a no-brainer, but will take leadership and connecting power to execute. I am positive about the purpose-driven attitude of parties in the field of senior housing and healthcare. So I call the real estate industry to action to unite and cooperate in a future-proof direction.

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A CGI of the new senior housing development by EQT and Arco Lavori

EQT makes €300m splash in Italy

EQT Real Estate, the property arm of the Stockholm-based private equity company, is continuing its buying spree with a €300 million investment in senior care homes in northern Italy.

It is EQT's first direct investment in Italy, made through a joint venture with Italian developer Arco Lavori to create a portfolio of affordable, purpose-built grade-A senior care homes. Five sites have been identified in the Lombardy and Emilia Romagna regions, that will provide a total of more than 1,000 beds. The first two homes will be delivered by late 2022 and the in 2023.

"In addition to the initial five sites, we are evaluating a growing pipeline of projects, mainly in northern Italy, to build a large-scale, resilient and downside-protected portfolio," said Alessio Lucentini, MD, investment adviser and head of Italy at EQT.

Demand is expected to increase in Italy and the market is undersupplied. The population aged 75 and above is forecast to rise from the current 11.5% to 14% in the next decade.

Galliard forms partnership for UK senior housing expansion

London property developer Galliard Homes is expanding into the senior housing sector in the UK, which it described as "significantly undersupplied".

The group has partnered with retirement specialist Probitas Developments and developer O'Shea to deliver a £40 million six-acre retirement village near Henley-on-Thames and it plans to develop more senior housing in locations in outer London and southern England.

The first development, in Lower Shiplake, will deliver an assisted living community of 65 homes which will comprise one- and two-bedroom apartments, cottages and penthouse-style homes. Construction will start later this year and homes will be available to buy in 2022.

The partnership's next projects could be bigger and provide up to 150 new homes, as well as amenities and care services. Locations could include Tunbridge Wells, Bournemouth, York, Worthing and Brighton.

Stephen Conway (above), executive chairman of Galliard Homes, said: "Our partnership aims to help solve the significant undersupply of purpose-built premium retirement accommodation in the UK, with just 1% of the UK's population living in designated retirement villages, compared to 17% of Americans and 13% of Australians."

The UK retirement population is set to double by 2050, he added.

Aedifica eyes €1bn portfolio value after acquiring 19 care homes in Germany

Brussels and Amsterdam-listed healthcare property specialist Aedifica has continued its expansion drive with the acquisition of an operational portfolio of 19 care homes in Germany for €245 million.

Following the deal, Aedifica CEO Stefaan Gielens said he expected its portfolio to pass the €1 billion mark this year.

The portfolio, bought in close cooperation with operator Azurit Group, includes 19 care homes in 17 municipalities across seven German states: Bavaria, Hesse, Lower Saxony, North Rhine-Westphalia, Rhineland-Palatinate, Saxony and Thuringia.

The homes, built between the 1990s and 2017, accommodate a maximum of 2,243 residents and include 2,222 units for seniors requiring continuous care and 21 independent living units.

"This landmark transaction is Aedifica's largest acquisition of operational care homes in Germany and underlines the importance of the German market, delivering sustainable growth to Aedifica," said Heinz Beekmann, Aedifica Germany country manager. "Thanks to this acquisition, we have also expanded our collaboration with the Azurit Group, an established German care operator with a proven operating model."

Azurit Group already operates five Aedifica sites. The latest homes are let on new irrevocable 25-year double-net leases and the initial gross yield is about 5%.

The deal follows Aedifica's completion of a €459 million capital increase in October 2020, the largest in the history of the Belgian RREC (Belgian REITs) sector.

BUYING SPREE

Since the capital raise, the company has acquired property worth €697 million, including assets in Belgium, Finland, the Netherlands, the UK, Ireland and Germany.

Among the most recent of these acquisitions is the €8 million deal for two elderly care residences in operation in Oss and Dordrecht in the Netherlands. Both sites are operated by Zorghaven Groep.

In February 2021, Aedifica announced its debut acquisition in Ireland, which it followed in March with the announcement of the purchase of a further four homes in the country for €26.5 million.

The latest Irish properties comprise 233 rooms for elderly people requiring continuous care operated by the Emera Group. Aedifica's portfolio in Ireland now stands at about €50 million.

Also in March the firm acquired two care home schemes in UK towns Corby and Wellingborough for a total investment of about £25 million (€29 million).

The homes will have capacity for 132 residents and will produce a net initial yield of about 5.5%.

Aedifica's debut scheme in Ireland is in Bridhaven

In brief...

Care Property Invest finishes part one of Utrecht project

Care Property Invest has completed the first part of its Villa Wulperhorst project in Zeist, near Utrecht, Netherlands, to be operated by Valuas Zorggroep. The project, which is a conversion of the former home of Dutch piano virtuoso Wibi Soerjadi, will provide 13 units. The second phase will be completed in Q2 2021.

The deal follows Care Property Invest's acquisition of a home for elderly people with intensive care needs at Ouderkerk aan de Amstel, which will provide 32 care apartments.

Cofinimmo acquires five sites in Belgium in €103m deal

Cofinimmo has acquired five healthcare sites in Belgium in a contribution-in-kind deal worth about €103 million, the property company's third such deal in as many years.

Each of the latest assets is let on an index linked, 27-year triple-net lease. The initial gross yield is approximately 4.5%. The sites have a combined area of 25,400 sq m and 484 beds and are located in the Brussels and Liège areas.

Cofinimmo has acquired the properties from their Belgian operator Care Ion.

Korian ups Spanish exposure with mental health firm buy

European care services group Korian is acquiring ITA Mental Health, Spain's third largest firm in the mental health sector. The business is being bought from Magnum Capital, subject to authorisation.

ITA Mental Health has 39 facilities across Spain. It specialises in behavioural, personality and eating disorders, addictions, neurodevelopment and general psychiatry.

Korian is now the third largest player in the mental health sector in both Spain and France, having bought French company Inicea at the end of 2020.

Investors shift more focus on senior housing and healthcare

Niche sector gains ground as core investments lose their appeal, reports **Nicol Dynes**

The pandemic has renewed investors' interest in senior housing, which remains a relatively small sector where even a slight shift in allocations from big investors can have a huge impact.

"There was momentum behind the sector even before the crisis, but it was seen as niche and less accessible to investors," says Frédéric Dib, president of French operator Mozaic Asset Management. "Now investors have doubts over retail and offices and need to find alternatives, so we are seeing a lot of interest in senior housing from Europe but also from the Middle East."

"For the last 25 years we had only seen specialised competitors in the sector," agrees Philip De Monie, investment manager, Belgium and Spain, at Belgium-based investment manager Care Property Invest. "Now we see different types of competitors like insurance companies, pension funds and family offices, all looking for long-term stable cash flows and good returns for their investors."

Situations vary in Europe, so the strategy must fit the market. Even neighbouring countries can be very different, for example the Netherlands does not have enough senior housing, while in Belgium there is an oversupply of senior living infrastructure that has led to high vacancy rates.

"In the Netherlands there is huge demand and not enough supply, the waiting lists are long and more building is needed," says Evelien van Veen, director of Van Veen Architecten. "We've seen big growth in investor demand because it's a very stable investment: the young move on, but the elderly tend to stay in the apartments for a very long time."

In Benelux consolidation has already happened, while a country like Spain still has many family businesses. But the health crisis is leading to change in the sector, says De Monie: "We're seeing consolidation in the Spanish market, which is being accelerated by the pandemic and by regulation. This will boost professionalism and quality of service in the industry."

STABLE RETURNS

Across Europe, capital is attracted to the sector by the need to diversify and the prospect of stable returns and also by the positive social impact of the investment.

"Purpose-driven investments are in demand and senior housing & healthcare fit the bill," says Ron van Bloois, chair of the Senior Housing & Healthcare Association. "Pension funds are increasingly aware of their contribution to society, but investors in general also like asset classes that are not correlated to economic cycles."

Senior housing is evolving and becoming more flexible and customer-centric. "The trend is to make senior housing more homely and with less of an institutional feel," says van Veen. "There's a new generation of elderly people who want to belong to a community and don't want to live in a soulless, institutionalised environment."

It is a positive trend that should be encouraged, she adds: "I'm designing the developments with the future residents, who are active and want working spaces and shared kitchens as well as leisure and entertainment areas."

The demand for variety and flexibility is increasing, as residents want spaces that improve their wellbeing, including gardens and outside spaces. The pandemic has accelerated these trends.

'In the **Netherlands there is huge demand** and not enough supply, the **waiting lists are long** and more building is needed.'

Evelien Van Veen, Van Veen Architecten

'The pandemic has **accelerated the shift** to smaller units.'

Frederick Dib, Mozaic

"There can be no one-scheme-fits-all like before – variety is key now," says Anja Dirks, architect and owner of Studio ID+. "Real estate is not just bricks and mortar. Senior housing must be user-centric and designed from the inside out. Research-driven design and thoughtful layouts can make a big difference to people's lives."

In urban settings senior housing residents want to feel part of the community and mix with other generations. "Healthcare is very varied now," says van Bloois. "In cities senior living is being mixed with primary care facilities, creating inclusive neighbourhoods and mixing old and young."

CHANGE OF SCALE

The demand for a more homely feel and personalised services also means a change of scale, as large institutional homes are seen as relics. "The nursing home with 150-200 beds is no longer viable, the pandemic has accelerated the shift to smaller units," says Mozaic's Dib.

Investors, who are increasingly interested in the senior living and healthcare sectors, are coming on board too. "Investors used to be uninterested in smaller assets, but the health emergency has changed that and they are more open-minded now," adds Dib.

The trend towards smaller sizes is better for the end user, but it must be balanced with the need for critical mass. "The customer-focused trend is positive, but a balance must be found with profitability, otherwise operators won't be willing to enter the market," says De Monie.

Solutions can be found, says Dib: "The idea is to keep personalised service and the cocooning aspect, but pool management and facilities in the buildings, thereby lowering marginal costs." ●

Healthcare volumes defy the crisis

Healthcare has been the standout sector that has outperformed in a year of crisis.

"In a challenging year healthcare volumes have continued to grow as institutional grade stock comes to the market," says Stephen Miles, executive director, head of operational real estate, Continental Europe, at CBRE.

Such growing interest from institutional investors, along with the growing supply/demand imbalance, has led to pressure on prime yields, which have compressed from 6.9% in 2013 to 4.5% now, although they are still at a premium to prime offices.

"We've seen an expansion of the investor universe as the attractiveness of the sector is recognised," says Miles. "But institutional investors require institutional quality assets and trusted operators and have strict selection criteria."

They prefer recently developed, purpose-built accommodation that is compliant with environmental standards, with good quality communal areas. They also opt for resilient locations, with a focus on urban locations with good transport links.

As far as leases are concerned, investors generally prefer triple-net leases, where all property taxes, maintenance, insurance and capex are borne by the lessee; agreements with a duration of at least 12 years; and index-linked rents.

"There is a perception of investment risk in this sector, so the operator's track record is the most important criterion," says Miles. "Operator excellence is key."

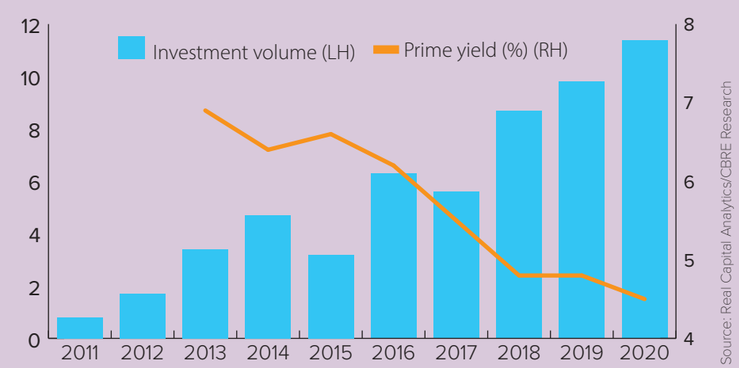
CBRE recently conducted a healthcare market sentiment survey, asking investors, developers, operators and lenders active in the sector about the impact of Covid-19 on their business and their expectations going forward. The results are clear: 92% of investors said they will maintain or increase their allocation to the sector and 88% agreed that demand will continue to rise and will lead to stable or higher prices.

The developers' survey revealed that 60% had not changed their strategy because of the pandemic, while nearly half (48%) expect to work on more projects in 2021.

"We're seeing increased activity by specialist developers, as operators focus on existing assets," says Miles. "Most operators have seen at least a 5% fall in occupancy rates, but they believe that confidence will return and that it will take less than two years to return to pre-coronavirus occupancy levels."

Lenders are also showing confidence, with 72% saying they are interested in increasing their level of exposure to the healthcare sector, 93% willing to lend to retirement living and 100% willing to lend to elderly care.

European healthcare volumes (€bn) and prime yields 2011-20



Senior Housing and Healthcare Association

The Senior Housing & Healthcare Association is a new initiative to help drive forward the Senior Housing and Healthcare Real Estate sector within Europe. The association brings together leaders within the industry, from both the operator and investor side, to share insights with the wider market, help create research, data, benchmarks and encourage best practice and investment in this important and growing sector.

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