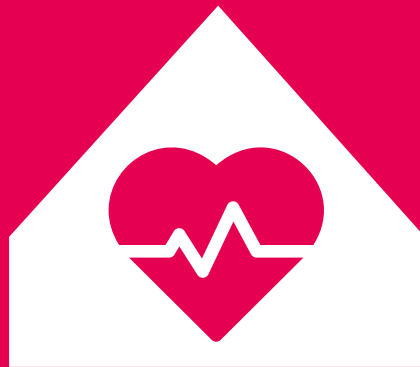




PRIMONIAL
REIM



HEALTHCARE REAL ESTATE IN A POST-COVID WORLD

JUNE 2021

3 INTRODUCTION

The new strategic function of healthcare real estate
What is healthcare real estate?

EUROPE AS AN AGEING SOCIETY

Demographic pressure: an underlying determinant of long-term demand for healthcare infrastructure

The senior population: a societal challenge for the next 20 years in Europe

Patient care: a diverse situation in Europe

6

15 THE COVID-19 TURNING POINT

The new post-Covid needs
Recuperative care needs
Psychological dependency
Dependency induced by neurological disorders

FINANCING ISSUES AND FUNDS AVAILABLE FOR INVESTMENT

The public health crisis has highlighted the importance of financing healthcare infrastructure

A significant gap between demand and public financing capacity

The indispensable relay of the private sector

Healthcare operators: a strong commitment to increasing their critical mass and internationalising

20

28 NEW HEALTHCARE REAL ESTATE INVESTMENT STRATEGIES

The European healthcare investment market
Towards an ESG impact benchmark for healthcare real estate
Our evaluation grid for healthcare infrastructure investment in Europe

CONCLUSION 34



Henry-Aurélien Natter, MRICS
Head of Research, Primonial REIM

THE NEW STRATEGIC FUNCTION OF HEALTHCARE REAL ESTATE

The ongoing pandemic crisis has highlighted the need to expand healthcare real estate infrastructure, including:

- Retirement homes and assisted-living senior housing;
- Nursing homes;
- Hospitals/clinics;
- Psychiatric institutions.

Society has become aware of the major role that the healthcare (treatment and infrastructure) sector might play in resolving crises.

Many weaknesses have also been revealed, however:

- Institutions must rethink their healthcare infrastructure models and massively invest to offer suitable solutions;
- As public supply is limited, governments will need to turn to private investors in healthcare real estate across Europe to meet future demand for new buildings and for the renovation of some ageing, and even obsolete, facilities.

These significant healthcare real estate infrastructure needs are driven over the long term by demographic factors:

- The general growth of the population, which will put pressure on healthcare systems;
- The rapid ageing of the population, which will result in people living longer in better

health, but will also leave senior citizens facing the development of the conditions that come with advanced old age.

The demographic pressures already at work are having an impact in many European countries, but forecasts suggest that **the pressure on healthcare systems will increase over the next 20 years**. Understanding the drivers of the demographic and real estate trends affecting healthcare infrastructure is therefore essential for building a Europe-wide long-term investment policy.

Investment in healthcare infrastructure is at the intersection of major social and environmental challenges:

- Reducing of the environmental footprint of real estate and increasing of the sustainability of buildings;
- Prevention and management of health issues;
- Inclusion of senior citizens in society, including the most dependent, in optimal care and safety conditions.

The social added value of these investments is coupled with an attractive and relatively reliable risk/return profile in current market conditions.

WHAT IS HEALTHCARE REAL ESTATE?

Healthcare real estate, which is vital to the community, comes in a variety of forms. It reflects the diversity of society's needs, but these assets are often economically linked, directly or indirectly, to public sector financing.

This generic category includes various types of assets, such as nursing homes, assisted-living senior housing and retirement housing, and hospitals, clinics and psychiatric care institutions. These formats vary between countries (see the table of terms used in Europe for healthcare real estate).

The continuing public health crisis is revealing the vital role played by healthcare infrastructure from both a human and an economic point of view.

From the state's perspective, there is a strategic value in investing in healthcare as a forward-looking sector so that it is not vulnerable when the next crisis arrives.

From the investor's perspective, healthcare real estate fulfils the dual function of providing societal benefits with regard to patient health,

while simultaneously offering resilient income streams that are less volatile than cyclical sectors correlated with the economy.

The aim of this report is to help readers to understand the advantages of investing in healthcare real estate in the post-Covid world, while reiterating the fundamentals that remain in place despite the crisis. The report is in four sections:

1/ Europe as an ageing society

2/ The Covid-19 turning point

3/ Financing issues and funds available for investment

4/ New healthcare real estate investment strategies.



TERMS USED IN EUROPE FOR HEALTHCARE REAL ESTATE

Healthcare and medico-social system	Generic term	Real estate	France	Germany	Italy	Spain	US/UK
Municipal structures	Surgeries	Surgeries, care homes/ healthcare centres	Cabinets, maisons/ centres de santé	Medizinisches Versorgungszentrum	Studio medico Centro medico	CS (centro de salud) /CAP (Centro de atención primaria) / Clínicas	healthcare center/ health center/ community health center
Medico-social establishments	Retirement homes	Nursing homes	EHPAD (Etablissement d'hébergement pour personnes âgées)	Pflegeeinrichtung	RSA(Residenza Sanitaria Assistenziale)	RSA(Residenza Sanitaria Assistenziale) Case di riposo	Nursing homes/ Home care
		Assisted-living senior housing	Résidences services seniors	Seniorenresidenz	Case di riposo	Residencias de personas mayores Casa de retiro	Assisted living Senior Housing
Hospital and out-patient establishments	Hospitals, clinics and treatment centres	Medical, surgery and obstetrics establishments (MCO)	Hôpitaux et cliniques MCO	Krankenhaus Klinik	Ospedali Cliniche	Hospitales Clínicas	Hospitals / Clinics
		Recuperative care establishments (SSR)	Cliniques de Soins de Suite et de Réadaptation (SSR)	Krankenhaus Klinik	Ospedali Cliniche	Hospitales Clínicas	Post-acute and rehabilitation hospitals / Clinics
		Psychiatric establishments (PSY)	Cliniques Psychiatrie (PSY)	Krankenhaus Klinik	Ospedali Cliniche	Hospitales Clínicas	Psychiatric hospitals Mental Health Clinics
Main regulations			MCO: sector regulated by the ARS (Regional Health Agency) Nursing homes: number of beds overseen by the ARS. Extensions are subject to authorisation by the ARS. Tripartite agreements are currently being replaced by multi-annual agreements on objectives and means.	MCO: important role played by the private sector. Dual financing system: real estate financed by the Länder and operation by the German Social Security Agency Nursing homes: not subject to authorisation but controlled through real estate investment costs (i Kost) set by the public authorities and invoiced as rent to residents. Quality is measured by the health insurance commission (MDK), which publishes objective reports and papers on the standard of nursing homes	MCO : need for authorisation/operating permit/accreditations Private hospitals are managed regionally and public hospitals nationally. Nursing homes: authorisations granted according to structural and organisational criteria Individual regions may have their own rules, which may be more or less restrictive than national standards	MCO : no coordinated national policy on the number of beds. Standards vary between regions. Nursing homes: operating authorisations are necessary but differ from one autonomous municipality to the next; Obligation to have a municipal licence, and additional authorisations required in some autonomous municipalities	

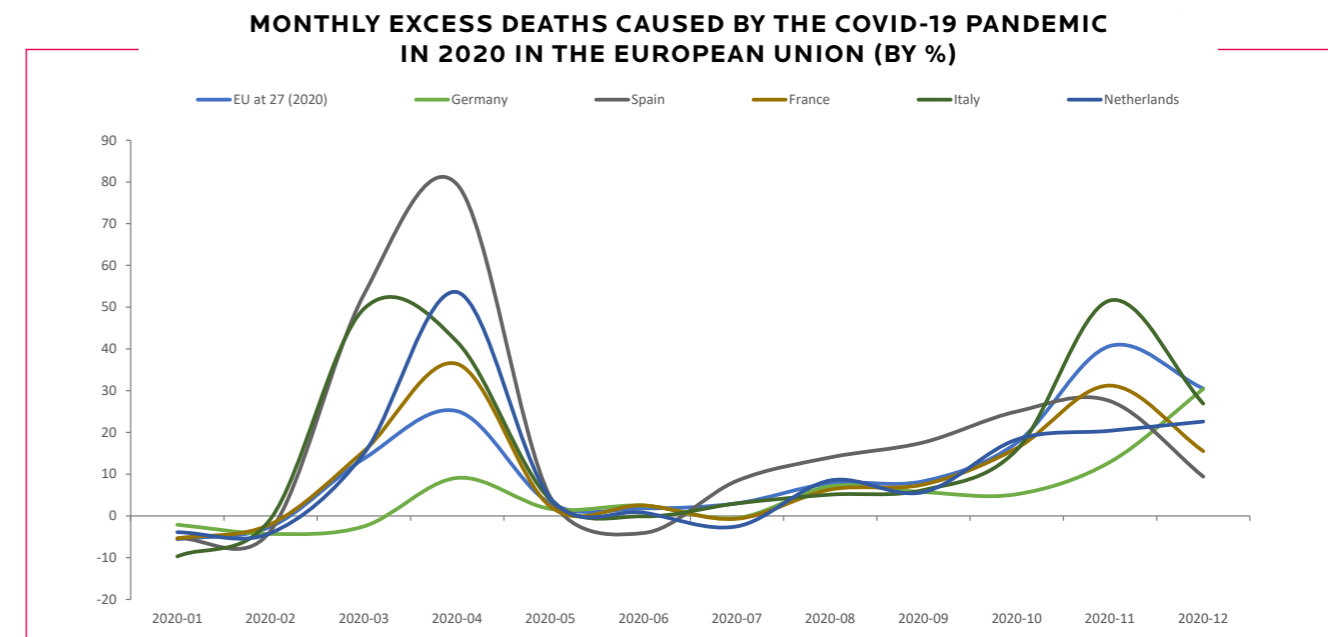


EUROPE AS AN AGEING SOCIETY

The age pyramid for European societies should become rectangular, as a large proportion of the population enters advanced old age and the working-age population shrinks, while bearing the majority of the economic burdens. This “ageing society”¹, the first of its kind, will host several generations at the same time. This will change how society is organised, and real estate will play a big part in this process.

This situation still stands despite the Covid-19 crisis, but the crisis is changing expectations. It currently seems that the public health crisis caused

excess deaths in 2020, according to the official European data. According to a report published by MedRxiv, covering twenty-six European countries, men have been hit harder overall in Poland, Sweden and Lithuania, while women have suffered a heavy toll in Spain. The public health measures taken by the authorities to limit the virus’s spread have also had a disastrous impact on the economy.



Definition: deaths in excess of the average mortality for 2016-2019 during the same periods
 Source(s): Primonial REIM Research & Strategy according to Eurostat

In the post-Covid world, investment policies will be influenced by the ability of nations to deal with new public health crises (pandemics, new diseases, etc.) and climate crises (global warming, flooding, storms, and so on) in order to protect the public.

Demographic pressure, the ageing of the population and new medical practices are factors in favour of an expansion of healthcare real estate, including retirement and nursing homes, psychiatric institutions and clinics.

The current crisis may have changed expectations and the uses made of healthcare real estate, but it has also boosted the trends that were already at work and will further develop in the post-Covid world:

- Nursing homes will focus on patient pathways and limit physical interaction to protect the health of all, for example having one patient per room;
- Clinics will increasingly be run on an outpatient basis due to technological developments. Agile structures are therefore likely to be preferred;
- Psychiatric establishments will need to take a multi-disciplinary approach to care that brings various specialties together within the same establishment in order to meet patients’ needs.

¹ JH Lorenzi, FX Albouy, A Villemeur, 2019, L’erreur de Faust – essai sur la société du vieillissement, Descartes & Cie

DEMOGRAPHIC PRESSURE: AN UNDERLYING DETERMINANT OF LONG-TERM DEMAND FOR HEALTHCARE INFRASTRUCTURE

Medical innovations have increased life expectancy, opening up new real estate perspectives and challenges.

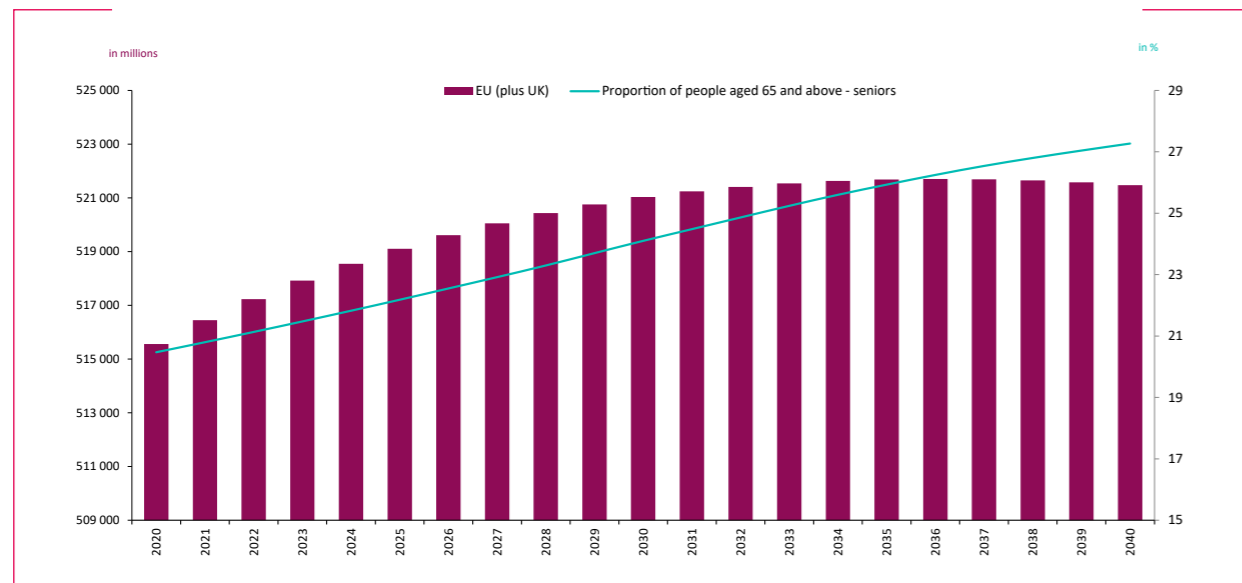
The population of the European Union (plus the United Kingdom) will increase from 515 million individuals in 2020 to more than 520 million in 2040. There will be far-reaching changes, with a sharp rise in over 65-year-olds from 20% of the population in 2020 to more than 27% in 2040. The shape of the age pyramid within the EU will therefore change considerably over the next 20 years as baby boomers gradually progress from the

early years of retirement to advanced old age. The number of under 15-year-olds and young people aged 15 to 24 will remain flat, the number of 25- to 64-year-olds will contract and there will be a surge in the senior population (65 to 85+ years of age).

Furthermore, by 2040 the population of France (70 million inhabitants) will become closer to the population of Germany (83 million). Italy (58 million) and Spain (50 million) will come in third and fourth place respectively for number of residents, within the euro zone. However, although the European Union's population is expected to increase, national populations should develop according to different trends. Whereas France, Spain, Belgium and the Netherlands will see their populations grow between 2020 and 2040, the numbers will stay almost the same in Germany and Finland, and Portugal, Italy and Greece will experience a slight fall in the number of their inhabitants.

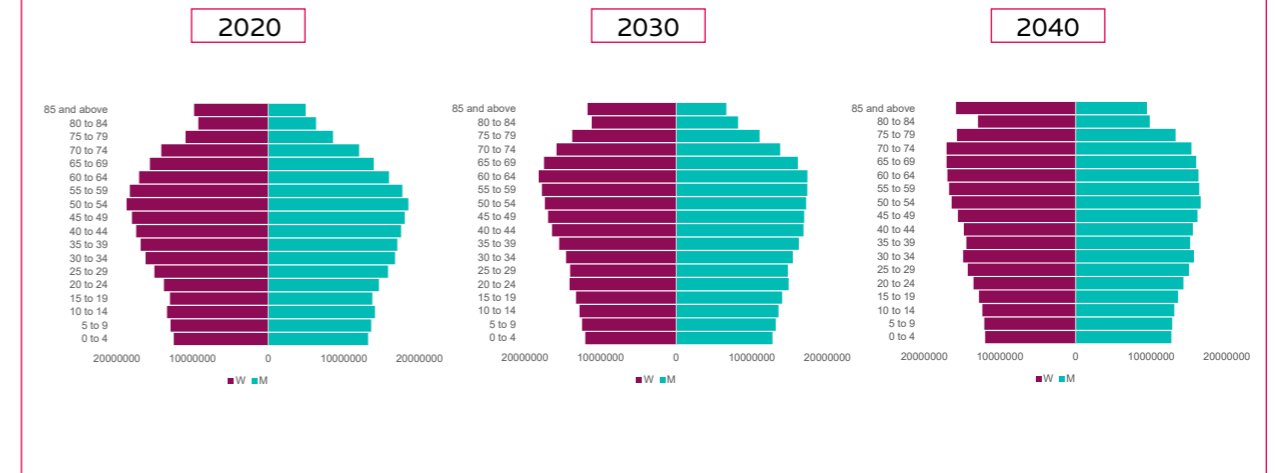
The healthcare implications of the above must be analysed to adopt an investment strategy for this period.

POPULATION OF THE EUROPEAN UNION (PLUS THE UK) FROM 2020 TO 2040



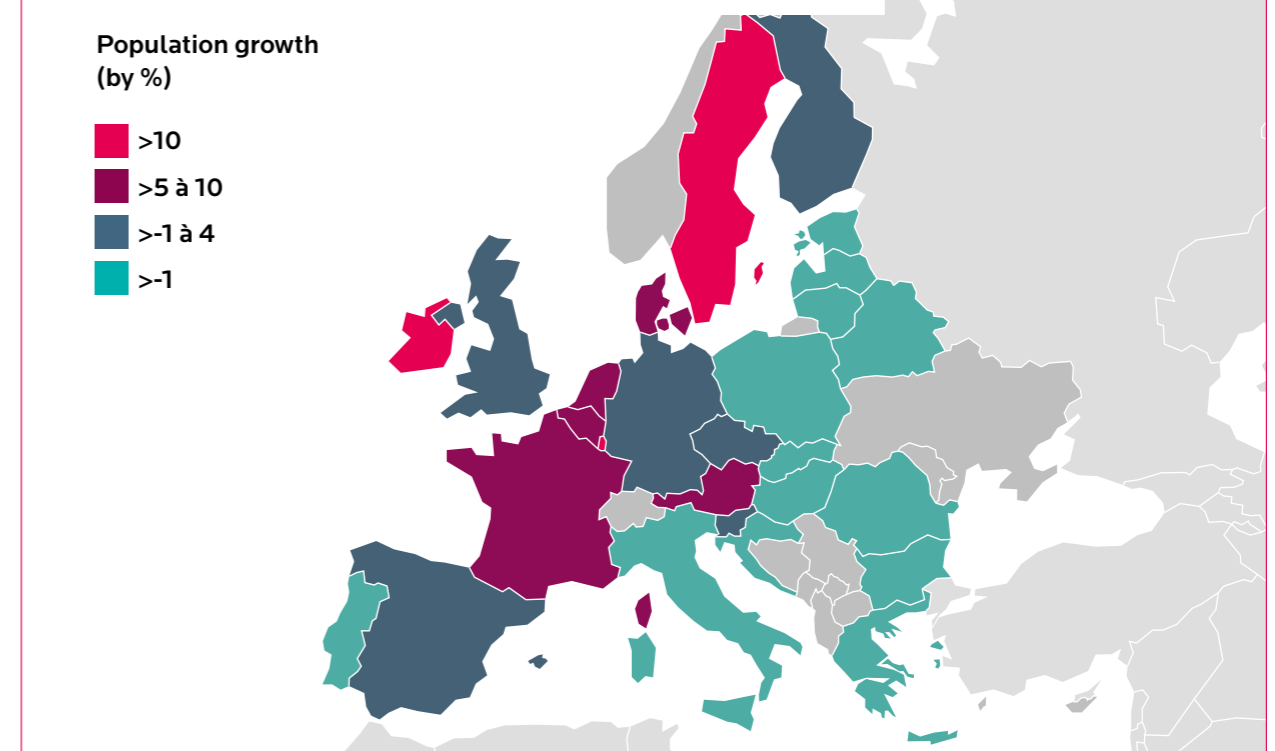
Source(s): Primonial REIM Research & Strategy according to the OECD

CHANGE IN THE AGE PYRAMID FOR THE EUROPEAN UNION (PLUS THE UK) FROM 2020 TO 2040



Source(s): Primonial REIM Research & Strategy according to the OECD

DEMOGRAPHIC TRENDS BY EUROPEAN UNION COUNTRY (PLUS THE UK) FROM 2020 TO 2040



Définition : forecast growth in the total population between 2020 and 2040.

Source(s): Primonial REIM Research & Strategy according to the OECD and Oxford Economics

THE SENIOR POPULATION: A SOCIETAL CHALLENGE FOR THE NEXT 20 YEARS IN EUROPE

Most demographers still agree that the public health crisis's effect on mortality should be temporary and is unlikely to change the demographic fundamentals for the senior population for the next 20 years.

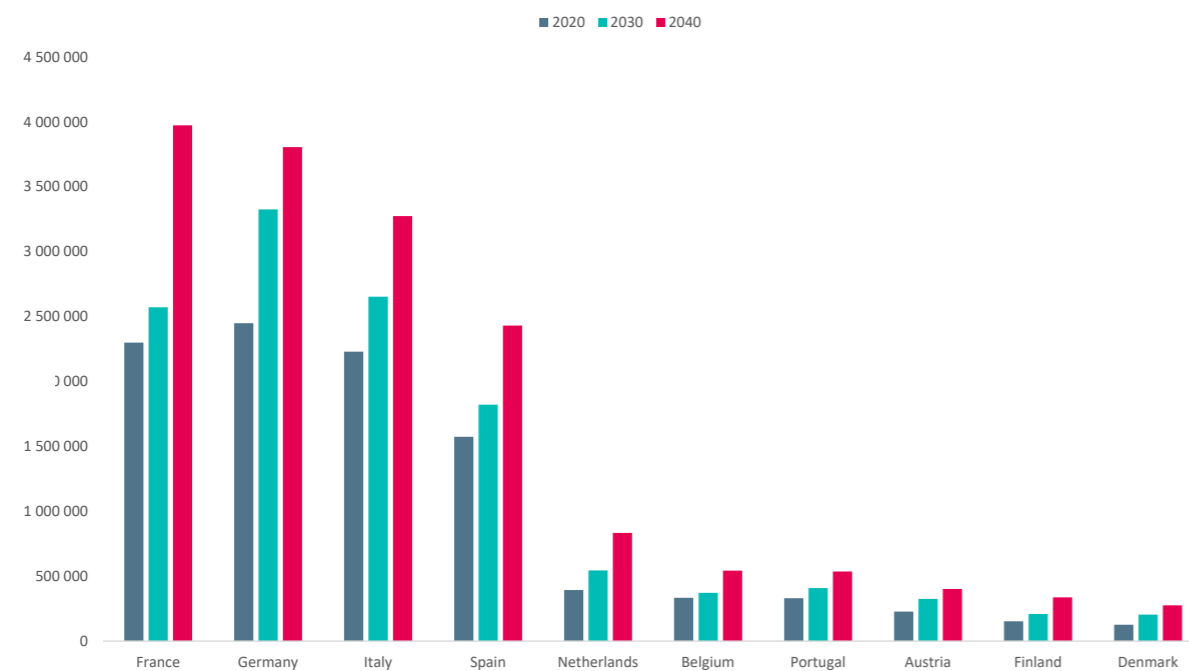
The number of people aged over 65 in the EU (plus the United Kingdom) will for instance rise from 105 million in 2020 to 142 million in 2040. The change in the dependency ratio highlights the transition towards an older demographic structure (+15bp across the EU + the UK), but the trends differ according to country.

The ageing of the population will therefore result in an increase in the number of dependent senior citizens. Assistance or medical care will be needed with the loss of autonomy, especially for people over 85-year-olds, which will rise from 15 million in 2020 to more than 25 million in 2040 in the European Union (plus the United Kingdom). The likelihood of dependency

in fact reaches a critical threshold at the age of 85.

Although Germany will have the largest population aged over 85 by 2030, it is interesting to note that France will gradually take over by 2040. Spain, Italy and the Netherlands follow close behind the euro zone's heavyweights, with strong growth in their population of over 85-year-olds, which will stand at between 1 and 3.5 million individuals in these countries by 2040.

DEMOGRAPHIC TRENDS IN THE NUMBER OF PEOPLE AGED OVER 85 IN THE EU FROM 2020 TO 2030 (BY NBR)



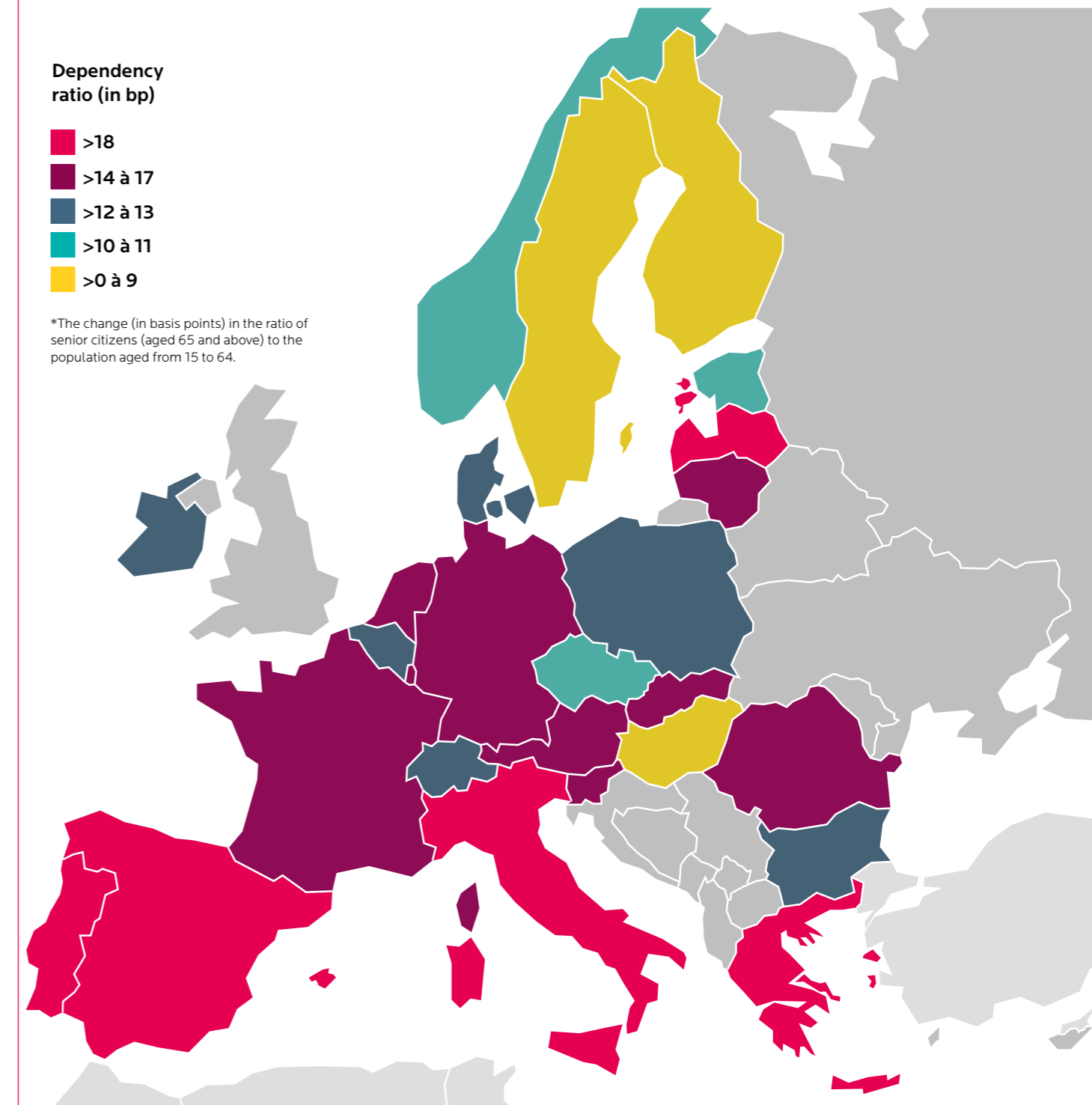
Source(s): Primonial REIM Research & Strategy according to the OECD

PROJECTION OF THE DEPENDENCY RATIO FOR SENIOR CITIZENS* FROM 2020 TO 2040

Dependency ratio (in bp)

- >18
- >14 à 17
- >12 à 13
- >10 à 11
- >0 à 9

*The change (in basis points) in the ratio of senior citizens (aged 65 and above) to the population aged from 15 to 64.



Source(s): Primonial REIM Research & Strategy according to the OECD

PATIENT CARE: A DIVERSE SITUATION IN EUROPE

The different age groups have different healthcare needs and therefore different financing requirements. There are also differences in the financing systems in Europe.

For seniors, family structure affects the care ratio more or less significantly depending on the country. This trend was also analysed in a Primonial REIM/BVA report² that reveals major disparities in forward-planning for old age in Europe. According to the survey conducted, cultural divides play an important role. The French, for example, look above all to themselves to take measures to support themselves during their old age, the Spanish rely primarily on their spouses and Italians prefer to be supported by their children.

Total healthcare spending per inhabitant has been rising for the past 20 years. The average healthcare spending within the European Union at 27 was €2,572 PPP (Purchasing Power Parities) in 2019. There are significant disparities, however, between both old-age pension amounts and healthcare

spending per inhabitant. The most generous benefits per inhabitant can be found in Western Europe, and the least generous in Eastern Europe. There is a high correlation between income and healthcare spending. This can be seen in the fact that the high-income European countries are usually the ones that spend the most on healthcare.

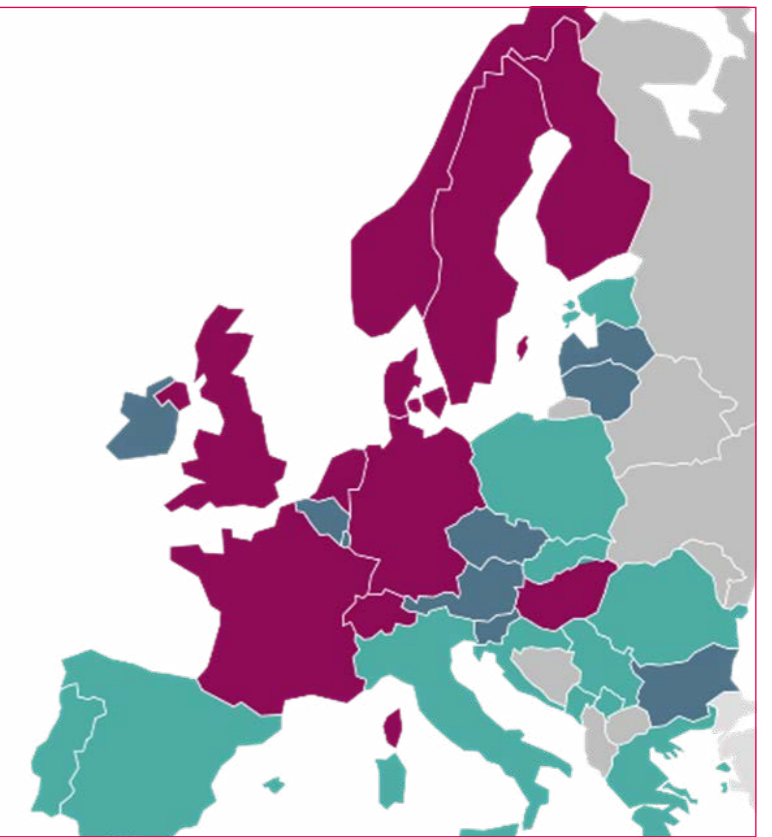
Note that institutional and social support for all patients has greatly increased across Europe during the Covid-19 crisis, with extra healthcare spending. For instance, **the European Union will invest €9.4 billion, in healthcare infrastructure particularly, making this the largest healthcare programme ever introduced by the EU from a financial viewpoint, and also marking a turning point in health policy in Europe, which could develop in scope in the coming years.**

²«Senior citizens' perceptions of advanced old-age». An internet survey of 4,000 senior citizens in France, Germany, Spain and Italy carried out by the Institut BVA from 17 July to 3 August 2018.

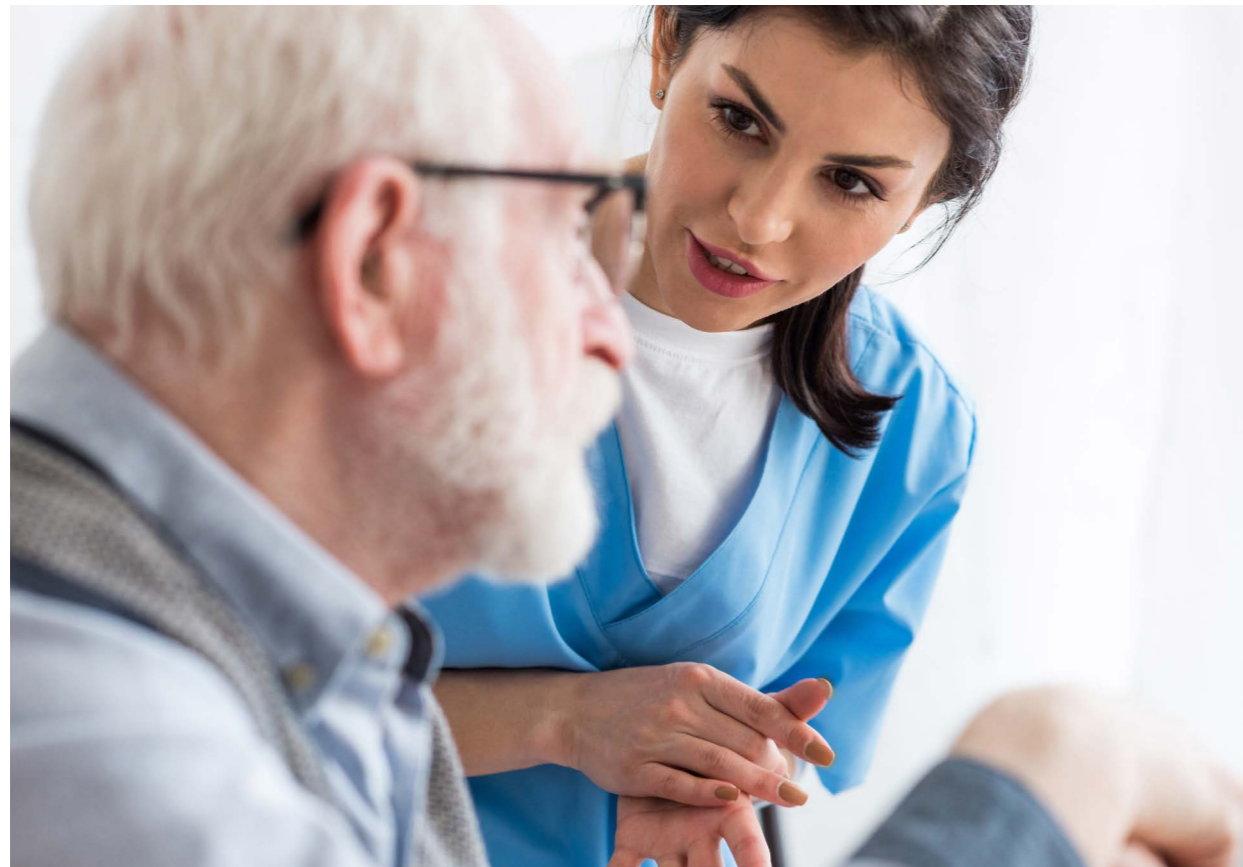
SENIOR CARE

Cohabitation of people aged over 65 with adults in the same household

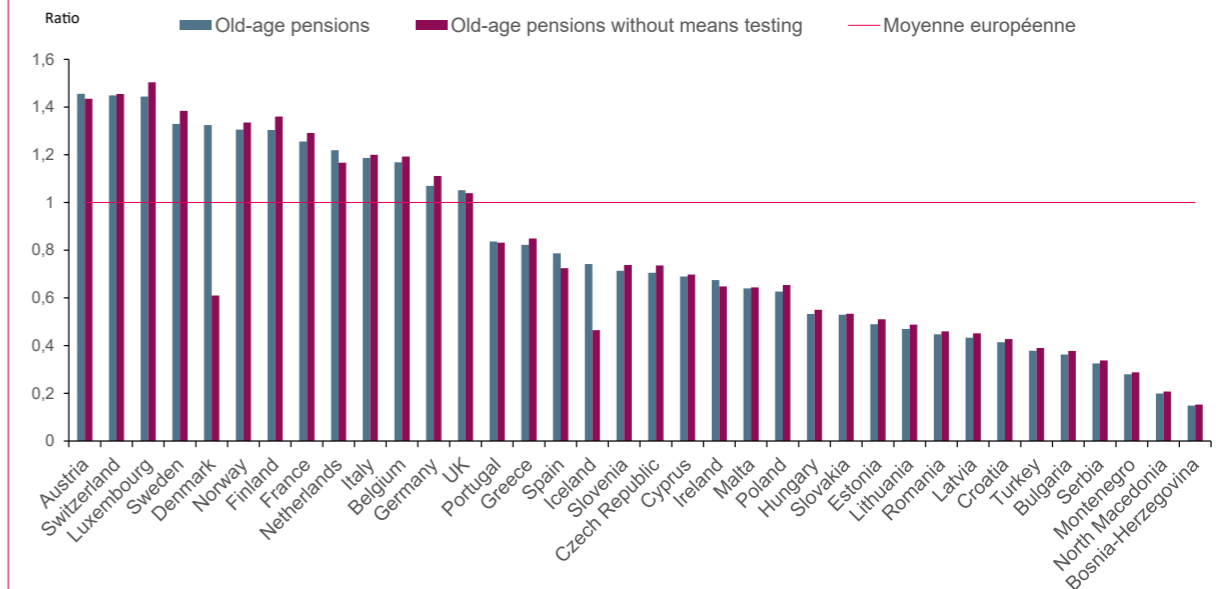
- Low
- Medium
- High



Source(s): Primonial REIM Research & Strategy according to Eurostat



OLD-AGE PENSION RATIO IN PURCHASING POWERING STANDARDS (EXPRESSED AS A PPS - PURCHASING POWER STANDARD - RATIO TO ELIMINATE THE DIFFERENCES IN PRICE LEVELS BETWEEN COUNTRIES)

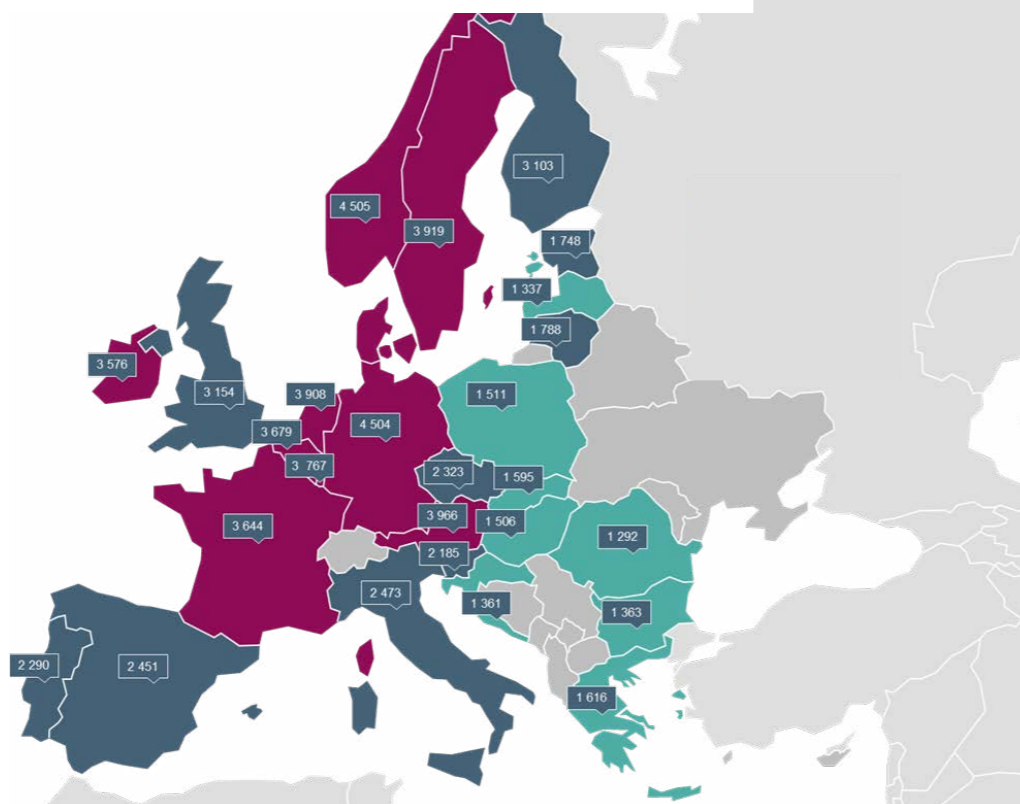


Source(s): Primonial REIM Research & Strategy according to Eurostat. Interpretation: given a European average of 1, the average level of old-age pensions is 1.4 in Austria.

ANNUAL HEALTHCARE SPENDING PER INHABITANT, 2019 (OR THE CLOSEST YEAR) IN EURO PPP (PURCHASING POWER PARITIES)

Key (in € PPP)

- >3 500
- 1 700 à 3 500
- 0-1 700



Source(s): Primonial REIM Research & Strategy according to Oxford Economics

ADDITIONAL HEALTHCARE SPENDING ANNOUNCED BY GOVERNMENTS TO COPE WITH THE COVID-19 CRISIS IN 2020, IN EURO MILLIONS

Country	Additional spending (in euro millions)	Additional spending per inhabitant in euro PPP	Date
Germany	26 790	302	19/09
Austria	579	55	6/05
Belgium	1 000	75	20/01
Spain	10 030	220	12/07
Finland	1 087	155	24/09
France	8 000	108	10/06
Greece	610	67	21/09
Ireland	1 800	274	12/05
Italy	6 312	101	17/03
Netherlands	800	39	24/04
Portugal	504	57	18/06

Source(s): Primonial REIM Research & Strategy according to Eurostat, the OECD and the WTO



THE COVID-19 TURNING POINT

THE NEW POST-COVID NEEDS

Thanks to technology, Covid-19 vaccines have been developed in record time, creating a lot of hope that treatments will be found for many other conditions. A new type of treatment, in the form of RNA Messenger vaccines, has been developed as a result of the public health crisis. Not only has this technology allowed the very fast production of an extremely effective vaccine, but it might also be viewed as a treatment breakthrough. Messenger RNA could be used to create therapeutic vaccines, for example, and in some cases act as a preventive treatment, against cancers or AIDS, or provide treatments for auto-immune or cardiac conditions.

Despite the symptoms developed by patients suffering from long Covid that must be treated (one patient in every three has been physically or psychologically affected), or the emergence of other new diseases in the coming years, there is a clear trend towards longer life expectancies thanks to technology and advances in research. **Longer life expectancies will go hand in hand with an in-**

crease in the number of physically and psychologically dependent people, however, and with the development of neurodegenerative diseases and forms of dementia such as Alzheimer's. The provision of patient care in dedicated infrastructure is vital for patients to get the treatment and support that they need. Aside from medical, surgery and obstetric needs (hospitals/clinics), we have identified three main families of care that require a specific infrastructure response:

- **Recuperative care needs;**
- **Psychological dependency;**
- **Dependency induced by neurological disorders.**

RECUPERATIVE CARE NEEDS

A varied range of patients require recuperative care. The main conditions that we have identified are as follows:

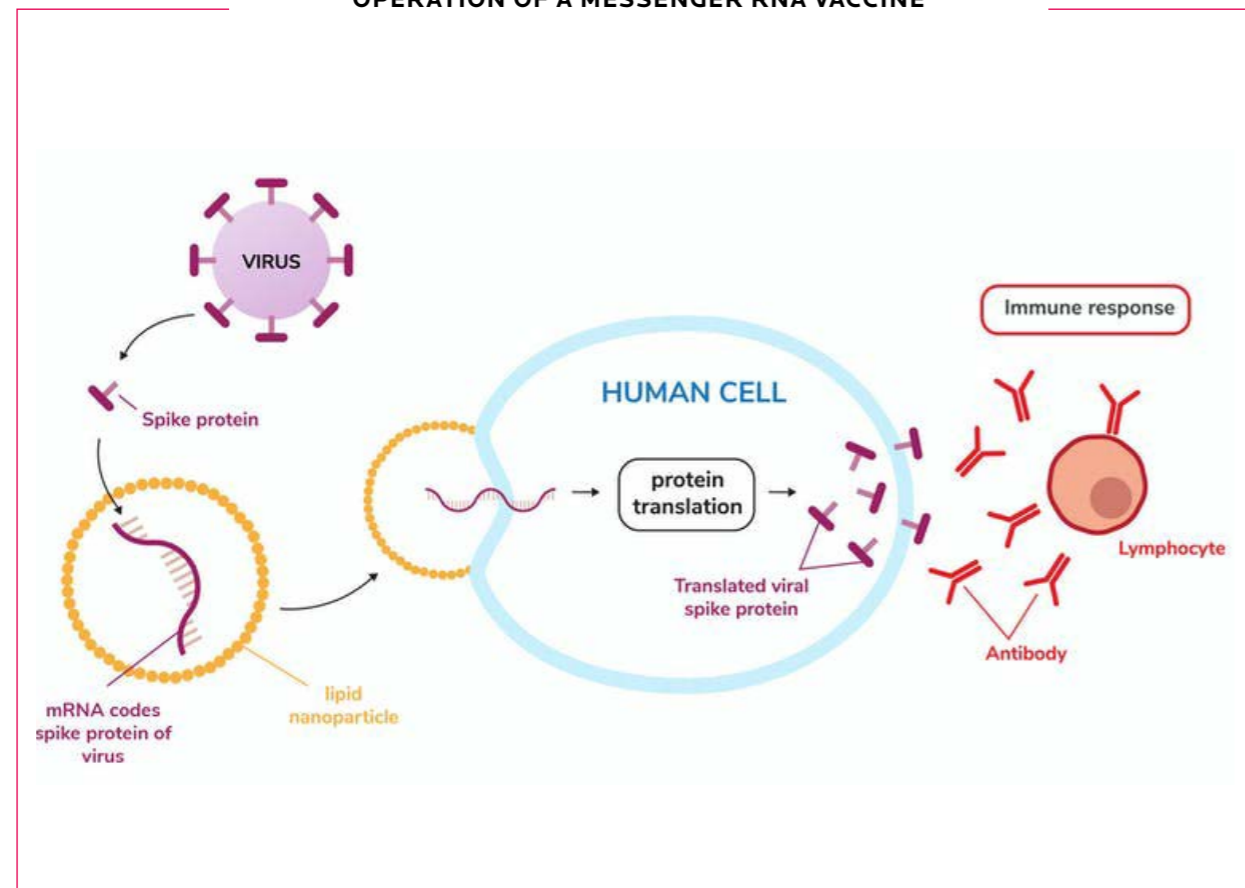
- **Musculoskeletal disorders:** patients needing care from a trauma, orthopaedic or rheumatology department. These departments manage debilitating musculoskeletal disorders that require intensive physiotherapy;
- **Nervous system disorders:** this refers to patients who have had strokes, are suffering from neurodegenerative disorders or painful or debilitating flare-ups, patients in a persistent vegetative state (PVS), and so on. Special units have been created for patients that are in a persistent vegetative state due to acute neurological damage and need constant high-level care as a result;
- **Cardio-vascular diseases:** this refers to patients with cardiac disorders, including

coronary artery disease, heart attacks and chronic heart failure. Cardiac rehabilitation is needed for patients to recover;

- **Haematology and oncology:** some patients whose state of health means that they can't immediately go home must be cared for in specialised units.



OPERATION OF A MESSENGER RNA VACCINE



Source(s): Trinset/iStock via Getty Images Plus

EXPECTED CANCER INCIDENCE AND MORTALITY IN EU COUNTRIES, 2020 (NUMBER PER 100,000 INHABITANTS)



Source(s): Primonial Research & Strategy according to the OECD

PSYCHOLOGICAL DEPENDENCY

There are different kinds of mental health conditions. These usually involve a combination of abnormal thoughts, perceptions, emotions, behaviour and relationships with others.

Mental disorders include: depression, bipolar disorder, schizophrenia and other psychoses, dementia, and developmental disorders, such as autism.

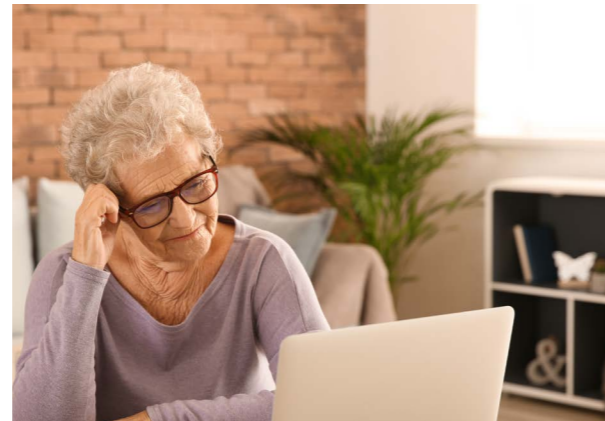
Access to healthcare and social services is vital for these patients to receive treatment and social support.

European healthcare systems must continually adapt to respond adequately to the difficulties posed by mental disorders. The gap between treatment demand and supply is therefore vast worldwide.

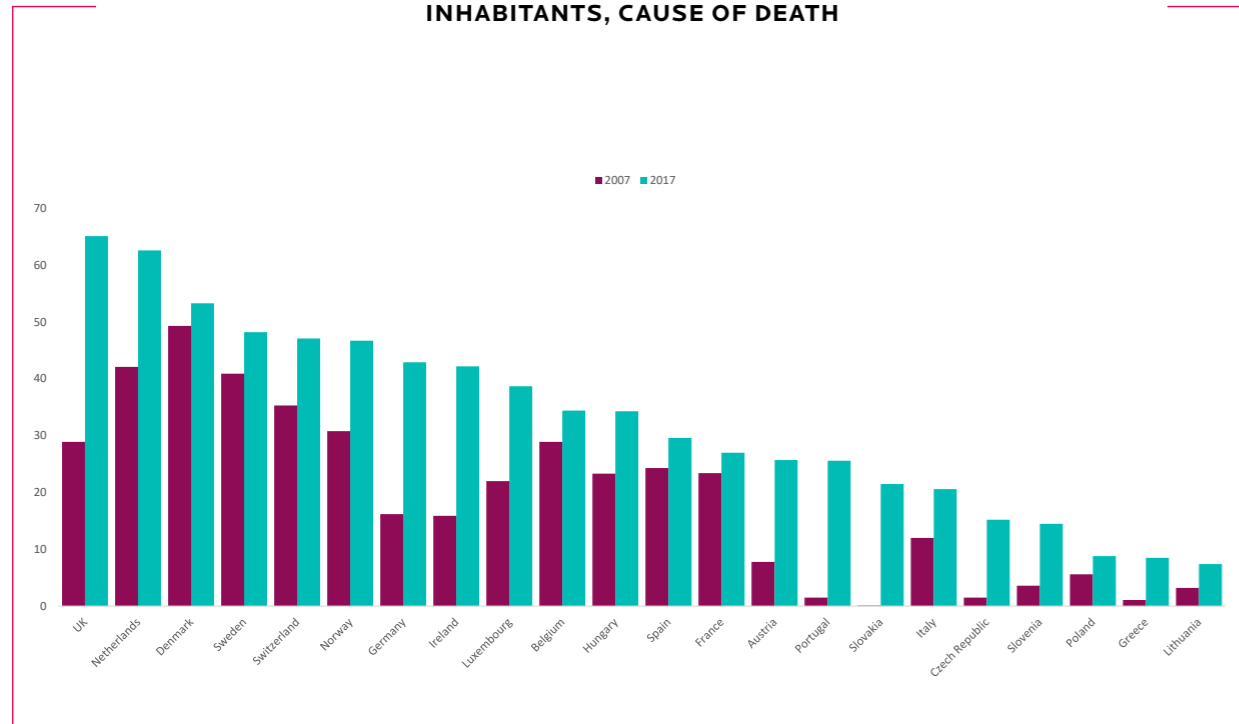
In addition to support from health services, people suffering from mental health conditions need social support and care.

Mental disorders are a growing problem, having a considerable impact on health and major consequences socially, in terms of human rights and economically across the globe.

Another aggravating factor is the poor standard of care for many of those receiving treatment.



MENTAL HEALTH AND BEHAVIOURAL DISORDERS, NUMBER OF CASES PER 100,000 INHABITANTS, CAUSE OF DEATH



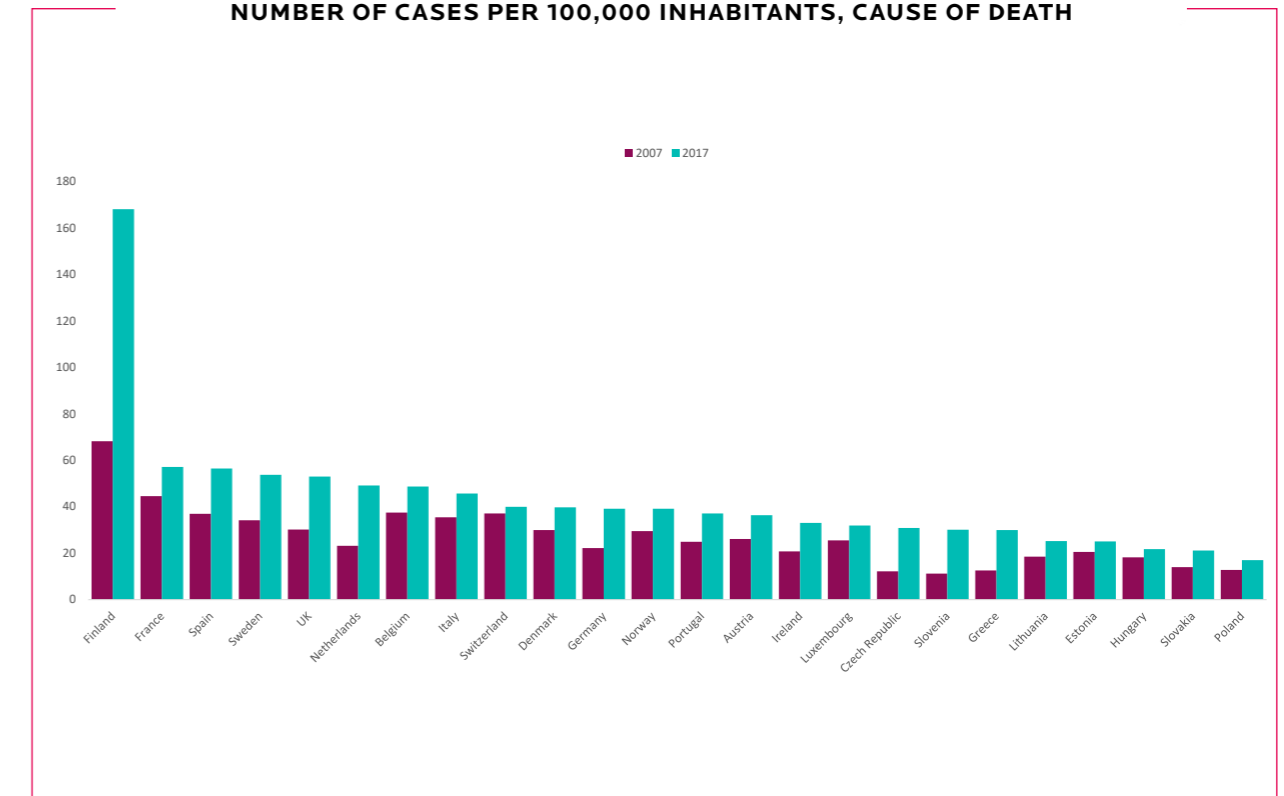
Source(s): Primonial REIM Research & Strategy according to OCDE

DEPENDENCY INDUCED BY NEUROLOGICAL DISORDERS.

According to a WHO³ report, around 50 million people are suffering from a dependency-related (neurodegenerative) condition worldwide. The share of over 60s suffering from a dependency-related condition is estimated at between 5% and 8%.

³According to a report published in 2017

NERVOUS SYSTEM DISORDERS (PARKINSON'S AND ALZHEIMER'S), NUMBER OF CASES PER 100,000 INHABITANTS, CAUSE OF DEATH



Source(s): Primonial REIM Research & Strategy according to the OECD



Alzheimer's disease is the most common form of dependency, accounting for 60% to 70% of cases. The number of new cases of dependency-related conditions per year is around 10 million. This number should rise to more than 80 million by 2030 and more than 150 million by 2050. This means that society should already be planning ahead to meet the challenges of an ageing population.



FINANCING ISSUES AND FUNDS AVAILABLE FOR INVESTMENT

THE PUBLIC HEALTH CRISIS HAS HIGHLIGHTED THE IMPORTANCE OF FINANCING HEALTHCARE INFRASTRUCTURE

With around 7% of GDP spent on healthcare (excluding optional insurance and the excess paid by households), the public finances of European countries are under pressure. This trend has been amplified by the immediate needs created by the current public health crisis. Demographic growth and the ageing of the population will also drive up healthcare and long-term care costs. Estimates suggest that long-term care costs in Europe could rise from less than 1.8% of GDP currently to between 3% and 5% by 2060, according to a report by the OECD.

This healthcare financing need will put a lot of pressure on public finances at a time when any leeway is tending to get smaller. Countries in Northern Europe already allocate a large share of their GDP to senior care, but Spain and Italy, where care is less often provided by nursing homes for cultural reasons, are currently experiencing major changes because of the ageing of their populations.

The challenge is therefore being able to provide a national health service that is well distributed locally so that essential services are kept as close as possible to the public while enlarging and improving facilities to accommodate future patients.

Public healthcare spending (excluding optional insurance and the excess payable by households) has increased by more than 90% over the last 20 years, reflecting the rise in healthcare service costs, an increase in chronic diseases and the ageing of the population. However, between 2008 and 2013, spending as a proportion of GDP tended to stagnate or fall in some countries, reflecting the economic consequences of the subprime crisis and the impact of fiscal austerity measures. Spending has risen since 2013.

A SIGNIFICANT GAP BETWEEN DEMAND AND PUBLIC FINANCING CAPACITY

Public and private healthcare real estate projects in Europe have access to different types of financial backing. The main sources of financing are:

- Public financing, e.g. from the state, national/regional public grants, European public grants through the ERDF and national pension funds;
- Bank financing through bank loans;
- Private financing through the investment of private savings (investment funds, etc.).

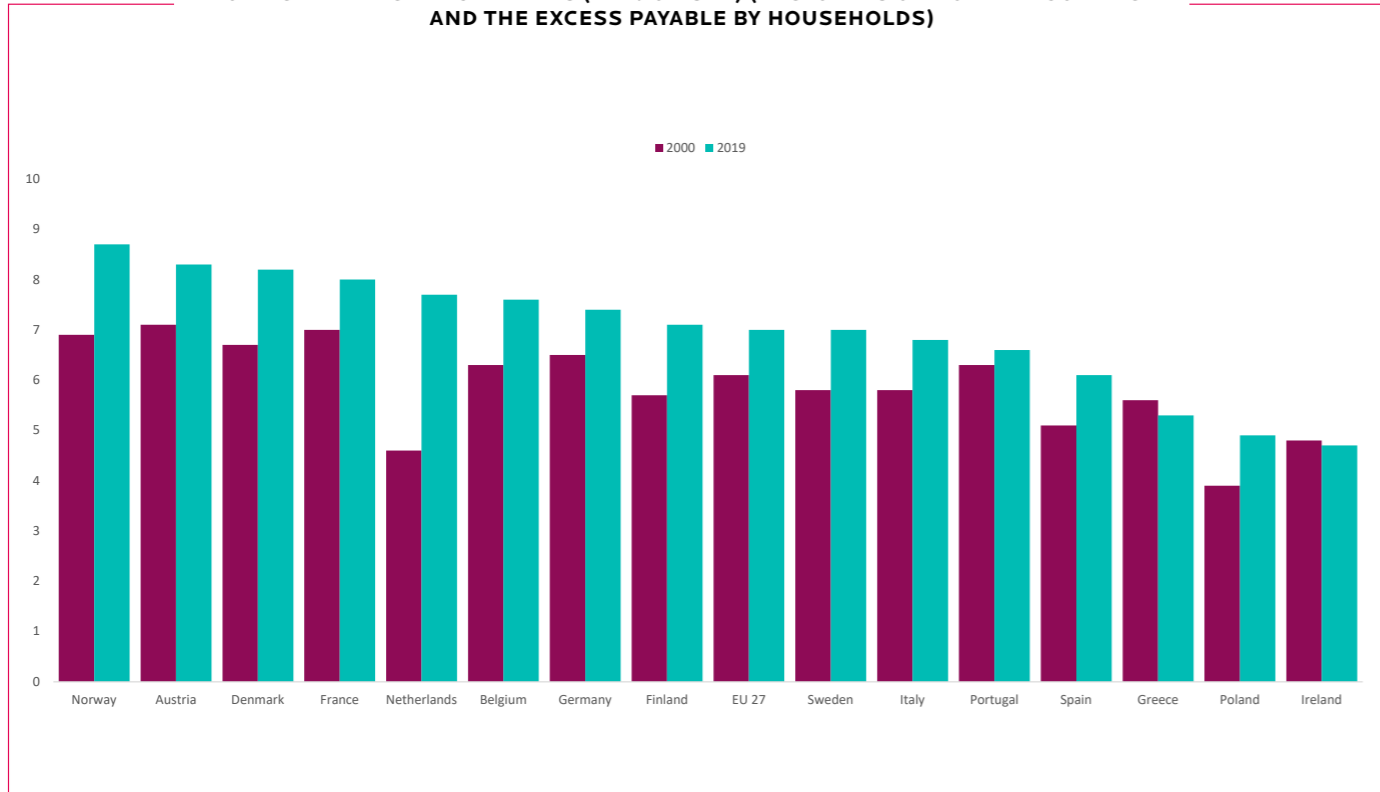
We believe that the financing needed for the renovation and construction of new nursing home beds will be between **€75 billion and €95 billion by 2030** for the main euro zone countries as a whole.

As a comparison, France's budget solely for the renovation of nursing homes was less than €200 million a year before the public health crisis, and has recently risen to €300 million a year, starting from 2021, for at least 5 years.

These figures clearly show the gap between society's needs and state financing capacity. The shortfall underlines **the urgency with which the investment of private resources in the construction/renovation of nursing home beds must be ramped up.**

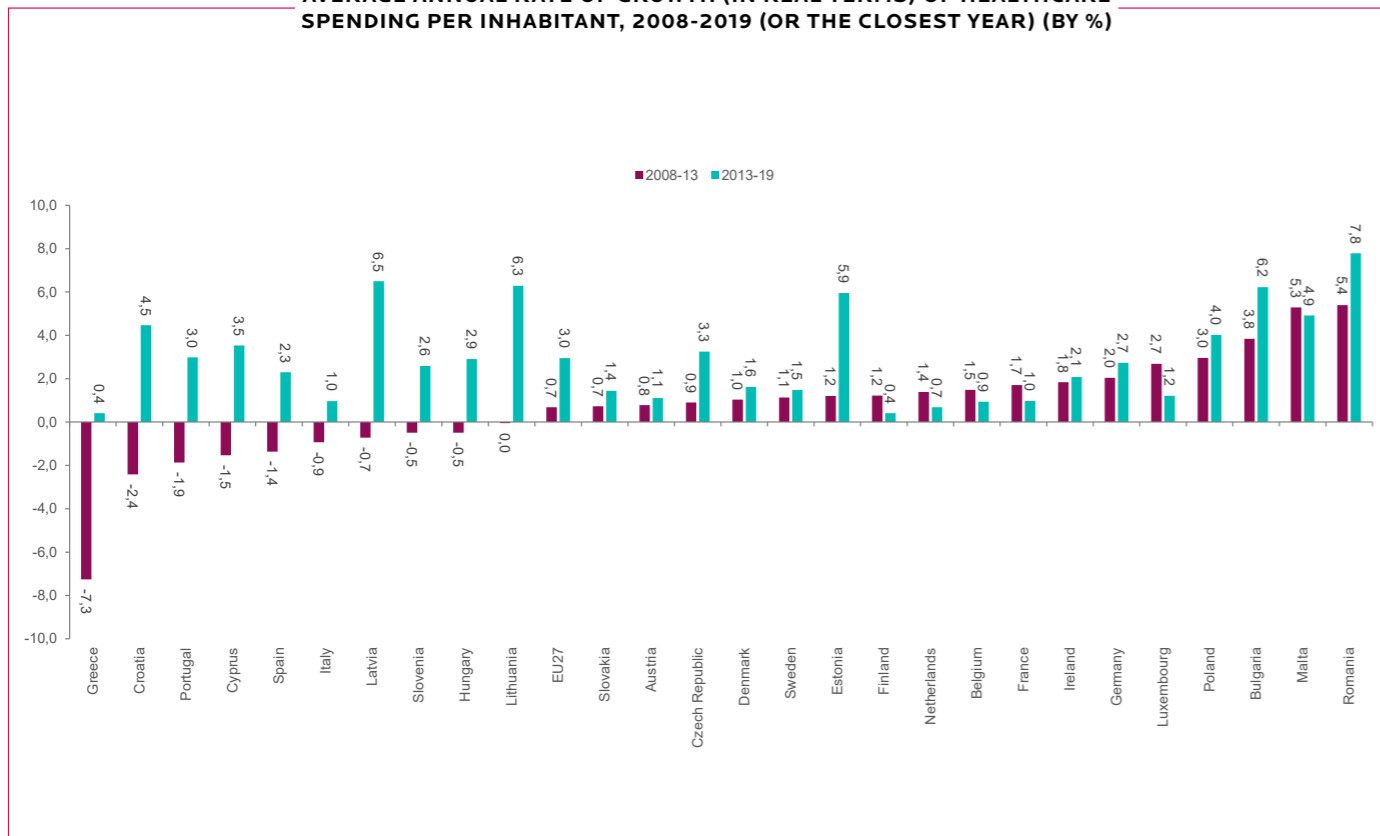
One of the new financing channels is unlisted real estate investment funds, which have taken off in recent years. This is one option for matching excess Covid savings with unmet needs.

PUBLIC HEALTHCARE SPENDING (BY % OF GDP) (EXCLUDING OPTIONAL INSURANCE AND THE EXCESS PAYABLE BY HOUSEHOLDS)



Source(s): Primonial REIM Research & Strategy according to OCDE

AVERAGE ANNUAL RATE OF GROWTH (IN REAL TERMS) OF HEALTHCARE SPENDING PER INHABITANT, 2008-2019 (OR THE CLOSEST YEAR) (BY %)



Source(s) : Primonial Research & Strategy according to Eurostat, the OECD and the WTO

THE ESSENTIAL RELAY OF THE PRIVATE SECTOR

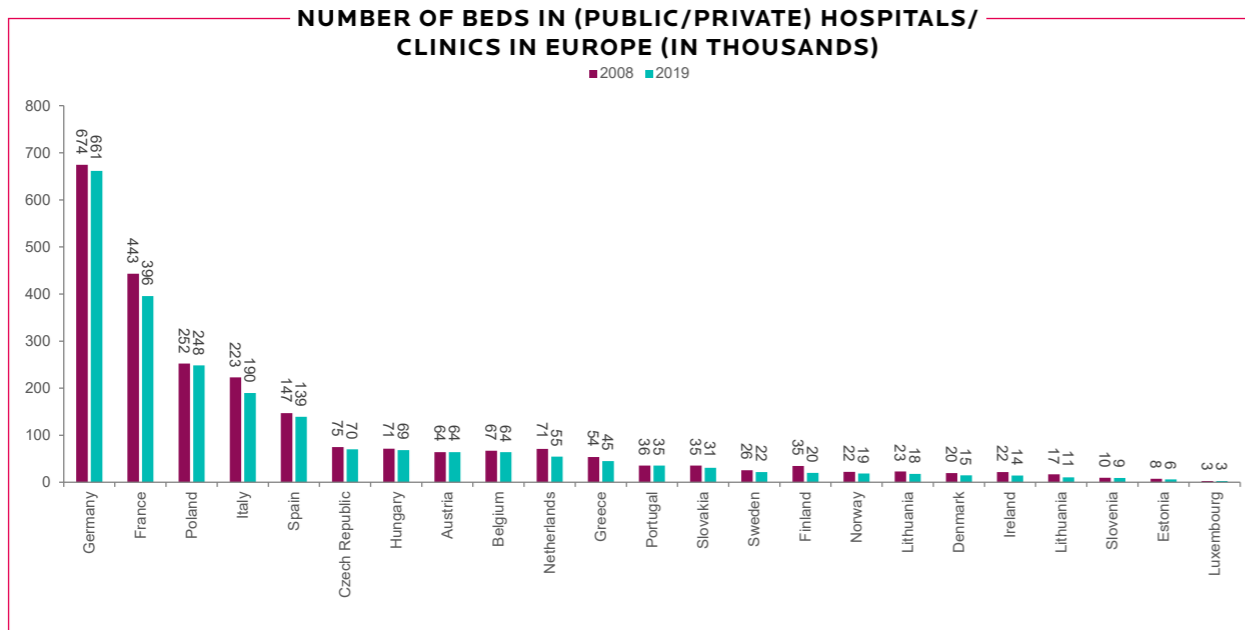
The regulations imposed by the public authorities play a major role in the care and financing available in European countries. The aim of the various regulatory bodies is to protect the public in terms of both treatments and healthcare infrastructure (construction, operation, etc.). The barriers to entry in the healthcare sector are therefore high, and there are also different standards in each country.

As healthcare demand grows due to the expanding and ageing population, the European healthcare system is coming up against the obsolescence of public and non-profit facilities (hospitals and nursing homes) and must take into account the financial constraints that it is obliged to manage. Nevertheless, the situation also offers private investors an opportunity to get involved, and speed up the delivery of modern products that are able to meet new needs, while investing in socially responsible assets.

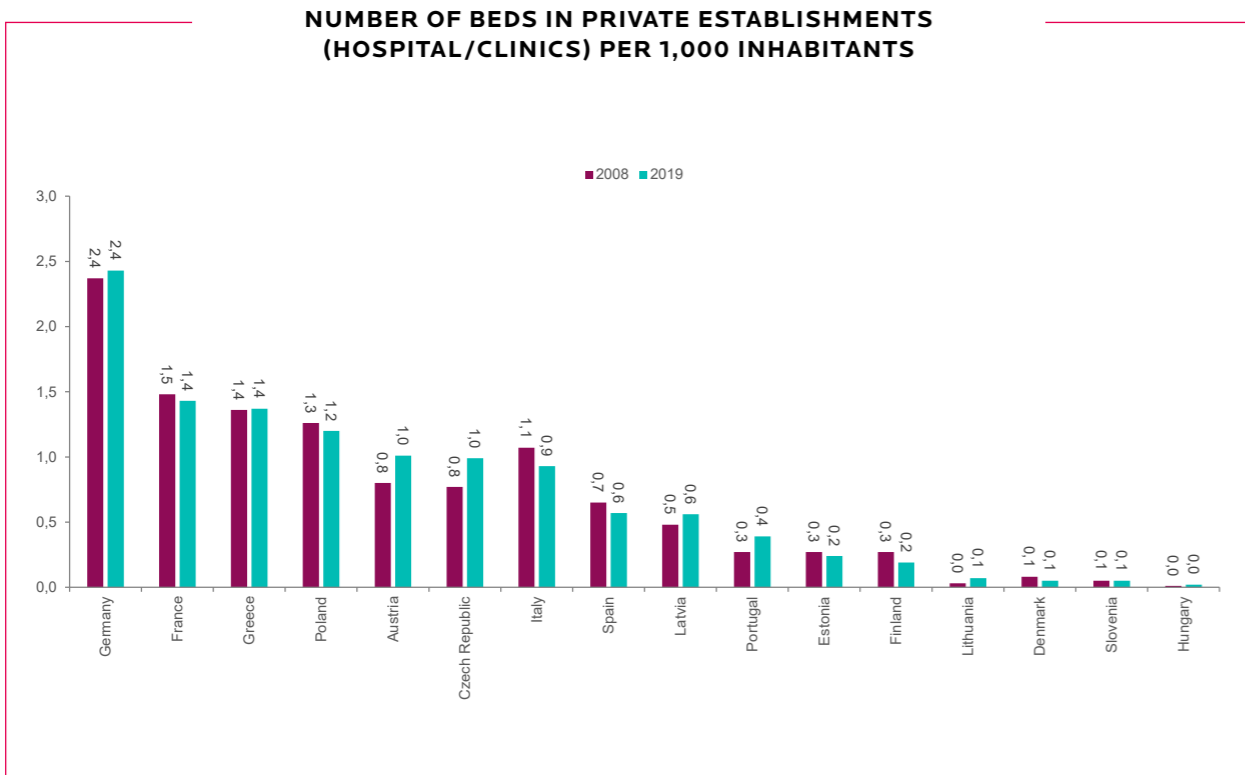
A large proportion of the healthcare available in Europe is under state control, particularly in the long-term (hospital) care sector, where between 60% and 90% of the beds available are state-controlled. The main countries analysed in Europe have a total of 2.2 million hospital beds. The hospital sector is seeing a change in its practices leading to a reduction in the number of places (beds) in favour of short-stay outpatient surgery and the streamlining of its coverage.

Private establishments therefore account for a total of 500,000 beds in the main European countries analysed. The number of beds is tending to increase in private establishments in most countries. These facilities provide MCO care, in other words medical, surgical and obstetric services, and SSR care (recuperative care). Private care operators have a strong presence in countries such as Germany, France, Austria and Italy.





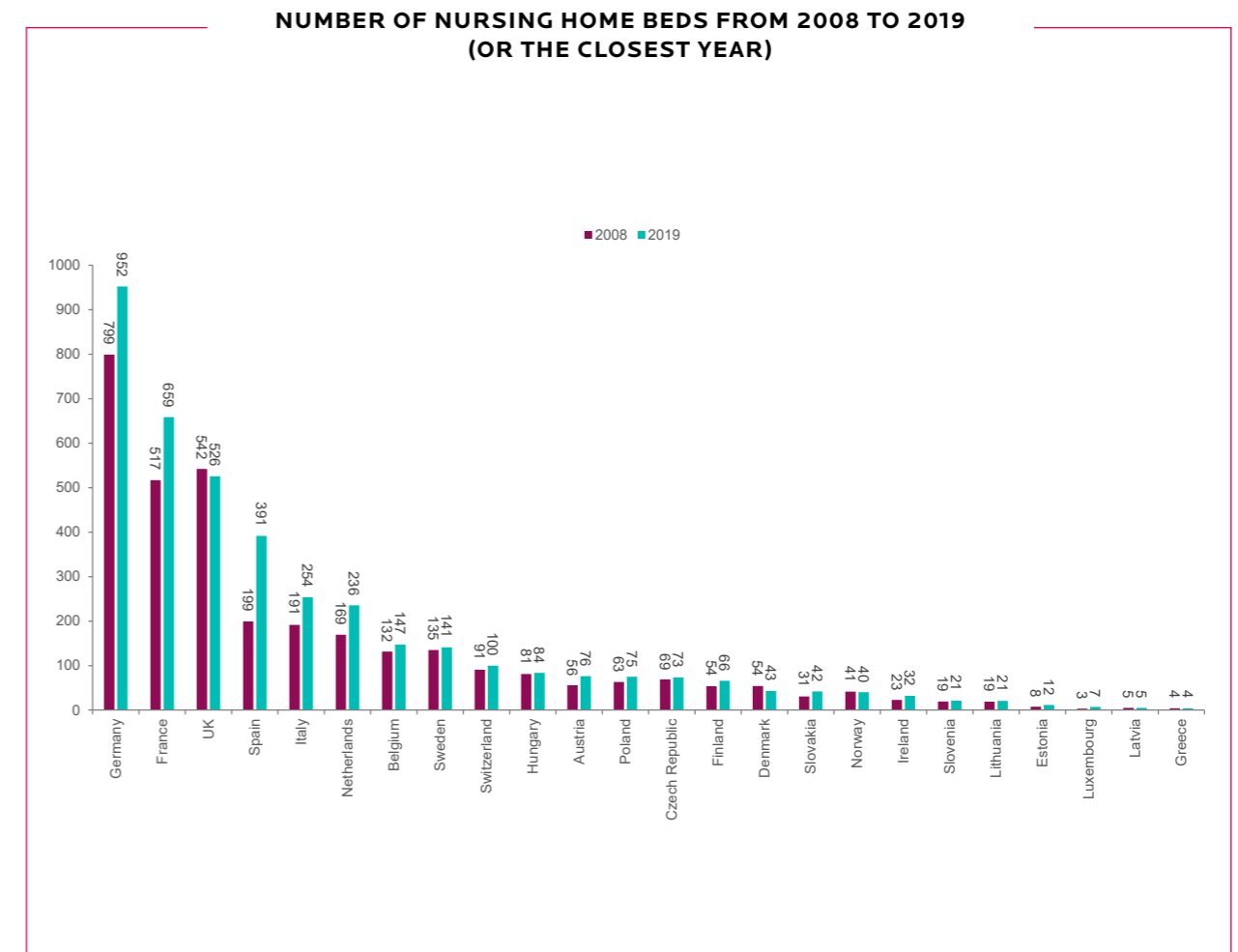
Source(s): Primonial Research and Strategy according to national statistics, Eurostat and the OECD



Source(s): Primonial Research and Strategy according to national statistics, Eurostat and the OECD

Public and non-profit players are also prominent in the nursing home sector, being responsible for between 60% and 90% of current beds depending on the market. The European Union (excluding the UK) has 3.5 million nursing home beds. However, the increase in the number of people aged over 80 is already having a noticeable impact on the availability rate, which has fallen over the last 10 years. Sector professionals estimate that the number of these facilities should grow to more than 4 million by 2030, to be able to meet demand in the coming years, resulting in the additional creation of around 500,000 new beds so that the new demand can be absorbed. This represents several billion euros of investments, but European countries are under significant fiscal

pressure; the private sector is already playing a major role that will develop over the next few years. 700,000 new beds were already created between 2008 and 2019 to meet growing demand. European nursing homes are also facing the problem of obsolescence, as nearly 400,000 beds have been identified as requiring renovation in the short term, in France and Germany alone.



Source(s): Primonial Research and Strategy according to national statistics, Eurostat and the OECD

HEALTHCARE OPERATORS: A STRONG COMMITMENT TO INCREASING THEIR CRITICAL MASS AND INTERNATIONALISING

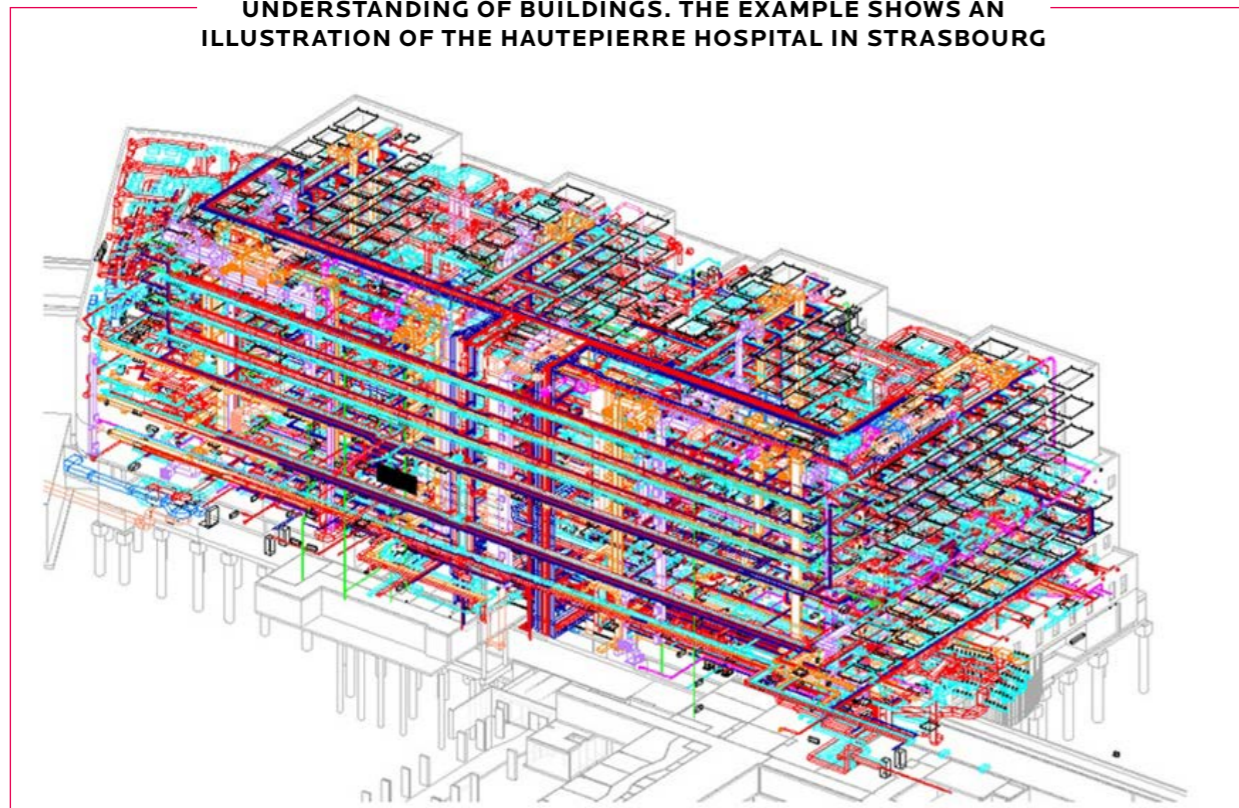
The current public health crisis has also revealed a number of insufficiencies and new trends for retirement homes, nursing homes and clinics/hospitals. The main weaknesses found are:

- A lack of space and facilities for telemedicine appointments,
- The inability for some establishments to effectively isolate infected people due to a lack of isolation rooms or dedicated private bathrooms.

The pandemic has therefore helped to accelerate the need for modularity and flexibility in order to quickly create airtight zones, for air conditioning, to

be able to produce 3D models of buildings to make it easier to understand the movement of people or air and be able to reorganise them/respond rapidly according to need, to control resource consumption, to manage logistics, and so on. **The new practices and needs highlighted in the design of future healthcare infrastructure will help to hasten the obsolescence of older facilities, so that even higher levels of investment will be required than in the past.**

BIM, A FORM OF DIGITAL MODELLING, OFFERS A 3-DIMENSIONAL UNDERSTANDING OF BUILDINGS. THE EXAMPLE SHOWS AN ILLUSTRATION OF THE HAUTEPIERRE HOSPITAL IN STRASBOURG



Source(s): Ingerop

The healthcare sector is highly regulated in Europe, for establishments such as hospitals, clinics and nursing homes. An administrative authorisation issued by the supervisory authority is usually required to operate this type of institution.

In France, for example, any project to create, convert or extend a healthcare or medico-social establishment requires such an administrative authorisation from the supervisory authorities. The number of new authorisations is also limited by the French public authorities. In Germany, the sector is indirectly supervised by the public authorities through standards and compliance with these standards.

The complex laws and strict standards to be adhered to are limiting the number of newcomers on the market, but on the other hand are prompting a significant pan-European consolidation of the healthcare sector. Markets such as France and Germany are considered to be quite far along in the consolidation process, whereas the Spanish and

Italian markets are viewed as still being fragmented, with substantial opportunities to be seized.

This pan-European consolidation strategy is allowing the largest operators to achieve economies of scale. Small operators are being bought by national leaders, which are often being taken over by international operators. The main European operators are French groups including Orpea, Korian, Ramsay Santé, and the German companies Fresenius Helios and Asklepios. Achieving critical mass internationally is important for operators as it makes them more financially stable and ensures greater operational efficiency. These are key criteria in risk assessments by investors.

MAIN OPERATORS IN EUROPE

Operator	Asklepios	Orpea	Korian	Sana Kliniken	Ramsay Santé	DomusVi	LNA Santé
Main business	Hospital/ Clinic	Nursing home	Nursing home	Hospital/ Clinic	Hospital/ Clinic	Nursing home	Nursing home
Revenue (€m) in 2020*	3 537	3 922	3 874	2 841	3 746	1 370	573
Number of beds*	27 000	112 000	89 000	11 240**	350***	436***	8 444

*Or the last year available/**Medical care beds/**Number of establishments

Source(s): Primonial REIM Research & Strategy according to the operator

NEW HEALTHCARE REAL ESTATE INVESTMENT STRATEGIES



THE EUROPEAN HEALTHCARE INVESTMENT MARKET

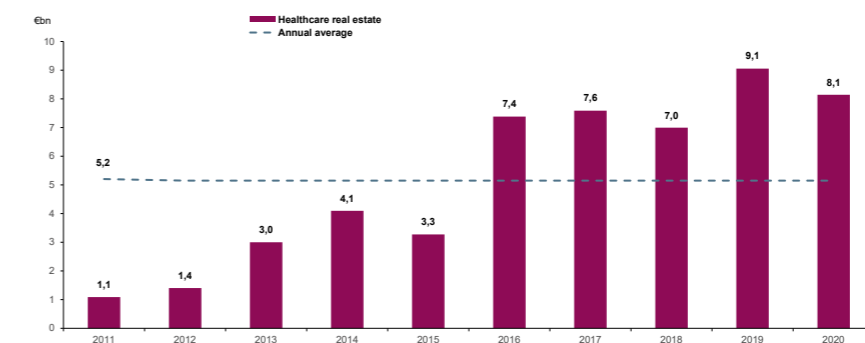
The European healthcare market has seen a sharp rise in the money flowing to retirement homes, nursing homes, clinics and care facilities, due to sector operators' high demand in line with their development. Over the last decade an average of €5.2 billion a year have therefore been invested. Whereas €2.5 billion were invested a year between 2011 and 2015, investors' strategies changed in 2016 as investments of close to €8 billion a year were made. In addition, despite the public health crisis, healthcare real estate achieved its second best year of the decade in 2020, after a record year in 2019.

Over the 2011-2020 period, €52 billion were invested in Europe, making healthcare an indispensable asset in investors' international diversification strategies. The principal European healthcare markets have been the UK, Germany, France, Sweden and the Netherlands.

Yields, which have been under pressure for a number of years, were continually squeezed during the last decade, and have held up very well during the public health crisis. The prime yield for retirement and nursing homes has stayed below the 4.5% threshold in Sweden, the UK, France, Germany and Belgium. In France and Germany, clinic yields have also been squeezed, falling from nearly 7% in 2011 to less than 5% in 2020.

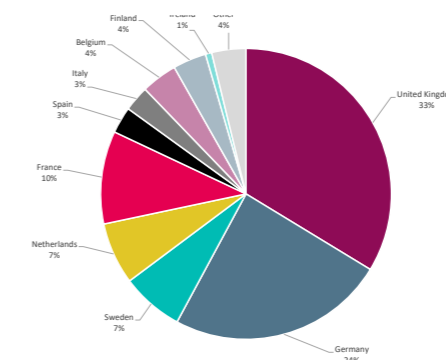
Note that healthcare's risk/return profile places it on the efficient frontier. This confirms the advantages of including this asset class in a portfolio, in order to achieve optimum diversification in terms of both volatility and the reducing of the portfolio's exposure to economic cycles.

VOLUME OF INVESTMENT IN HEALTHCARE REAL ESTATE IN EUROPE



Source(s): Primonial Research & Strategy according to RCA

BREAKDOWN OF INVESTMENT VOLUME IN HEALTHCARE REAL ESTATE IN EUROPE (2011-2020)



Source(s): Primonial Research & Strategy according to RCA

TOWARDS AN ESG IMPACT BENCHMARK FOR HEALTHCARE REAL ESTATE

Investors' appetite for socially responsible investments (SRI) has greatly increased in recent years.

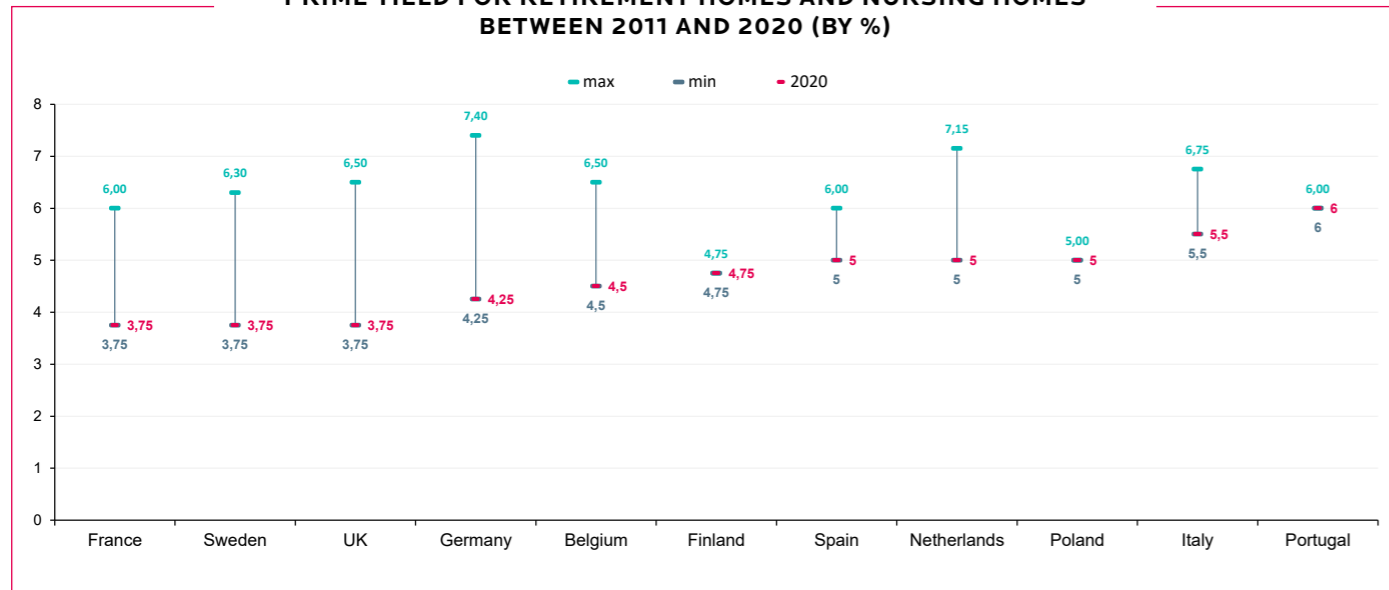
Investors are increasingly aware, however, of the benefits of going beyond solely "environmental" investment opportunities and also embracing investments with a "social" aspect that serve a purpose and are of value to society. This echoes a growing social and sustainable investment trend that asset managers are endeavouring to reflect in their strategic allocations.

To align with these objectives, investments must be made outside the traditional corporate real estate sectors (offices, shops and logistics) in social real estate, enabling investments that go beyond solely guaranteeing an attractive risk/return profile, and

a reliable long-term income stream, and offering opportunities driven by a clear intention to play a part in the resolving of social and environmental issues.

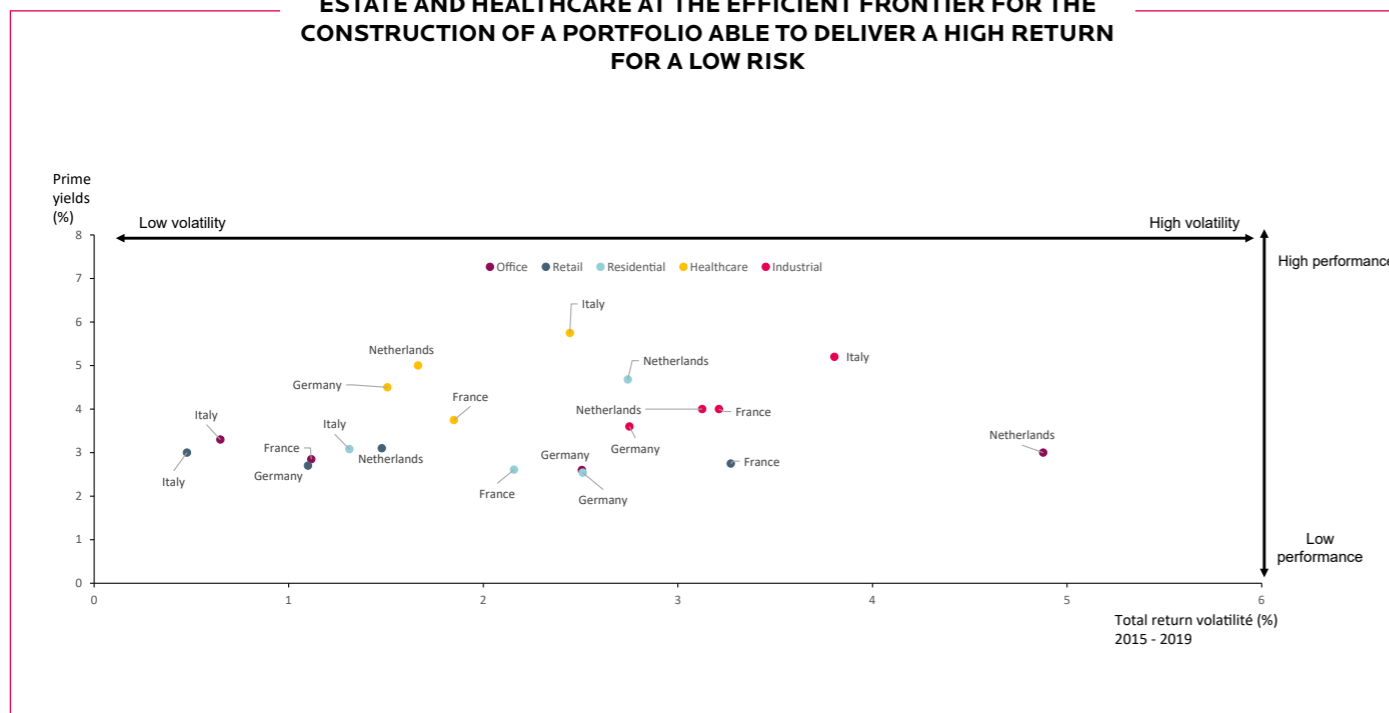
The Covid-19 crisis has made human capital and human health absolute priorities worldwide, creating an objective of providing capital in order to develop and improve healthcare solutions locally and increase the focus on both operator/tenant and patient/resident stakeholders.

PRIME YIELD FOR RETIREMENT HOMES AND NURSING HOMES BETWEEN 2011 AND 2020 (BY %)



Source(s): Primonial REIM Research & Strategy according to RCA, MSCI and CBRE

COMPARISON OF THE VOLATILITY OF EUROPEAN COMMERCIAL REAL ESTATE AND HEALTHCARE AT THE EFFICIENT FRONTIER FOR THE CONSTRUCTION OF A PORTFOLIO ABLE TO DELIVER A HIGH RETURN FOR A LOW RISK



Source(s): Primonial REIM Research & Strategy according to RCA, MSCI and CBRE

HEALTHCARE INFRASTRUCTURE: A SOCIALLY RESPONSIBLE INVESTMENT

Real estate	Impacts	Objectives	Actions
Healthcare infrastructure	<ul style="list-style-type: none"> Improvement of the quality of medical services Improvement of patient reception capacities Better access to specialised care and retirement housing Development of healthcare infrastructure at every local level 	<ul style="list-style-type: none"> Good health and well-being Reducing of inequality Sustainable cities Actions to reduce climate change 	<ul style="list-style-type: none"> Number of beds created Development/building up of individual rooms Sq. m per patient/resident ratio Well-being audit carried out by third-party organisations (score given particularly to nursing homes) Investment helping to improve the well-being of patients

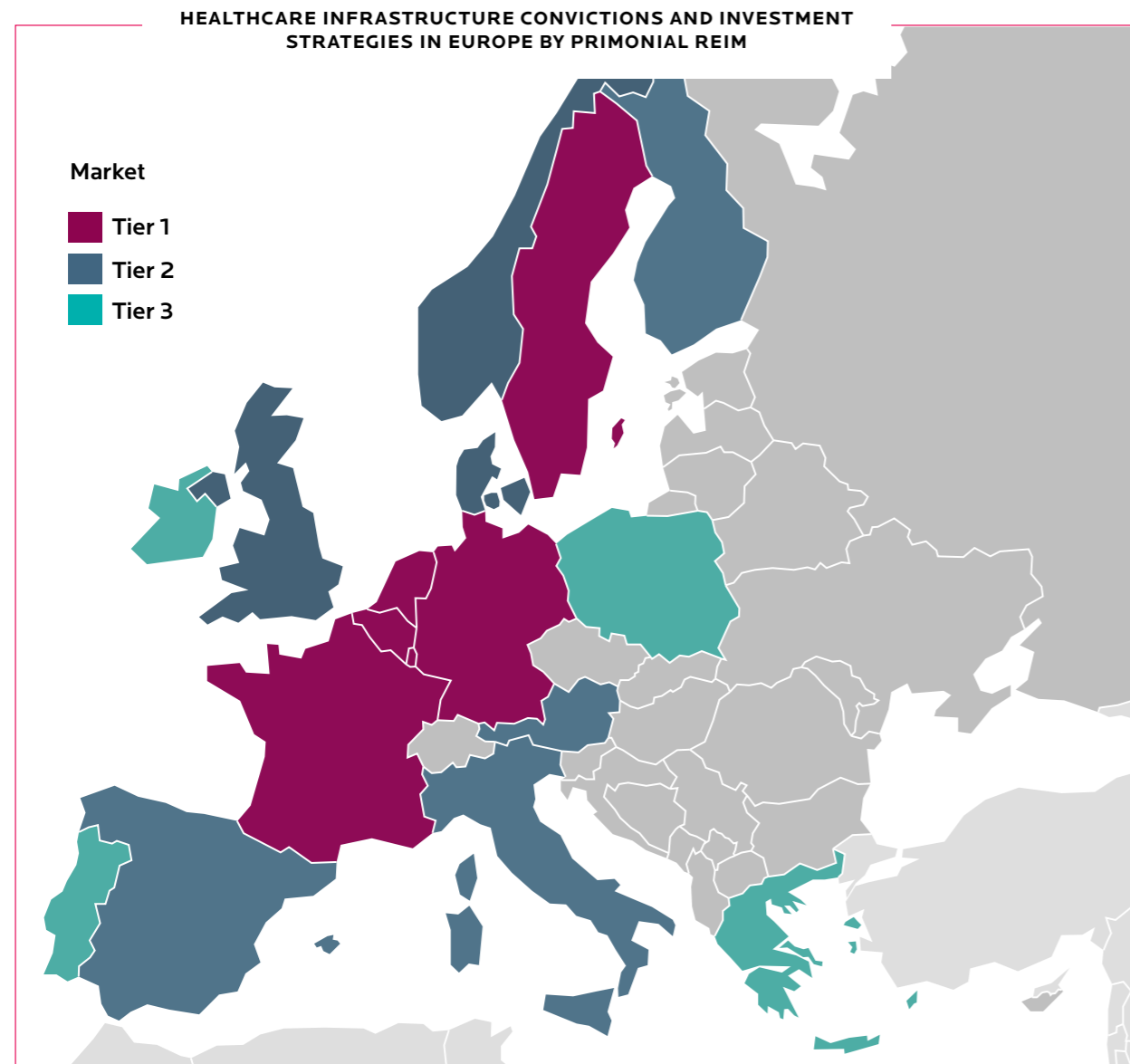
Source(s): Primonial REIM Research & Strategy

OUR EVALUATION GRID FOR HEALTHCARE INFRASTRUCTURE INVESTMENT IN EUROPE

We analysed various criteria (demographics, sociological factors, real estate, healthcare spending, bed availability ratios, etc.) to identify the most attractive healthcare infrastructure markets.

This allowed us to assign scores to the various markets analysed. The model identifies three main categories of markets. France, Germany, the Netherlands, Belgium and Sweden, for example, are the countries with the most reliable risk/return profile. These are Tier 1 markets.

Spain, northern Italy, Finland, Denmark, Norway and Austria are Tier 2 markets, with good risk/return profiles but not the same depth as the Tier 1 markets. Lastly, Portugal, Ireland, Greece and Poland, for example, are markets where opportunities will arise as the markets themselves develop. These are Tier 3 markets.

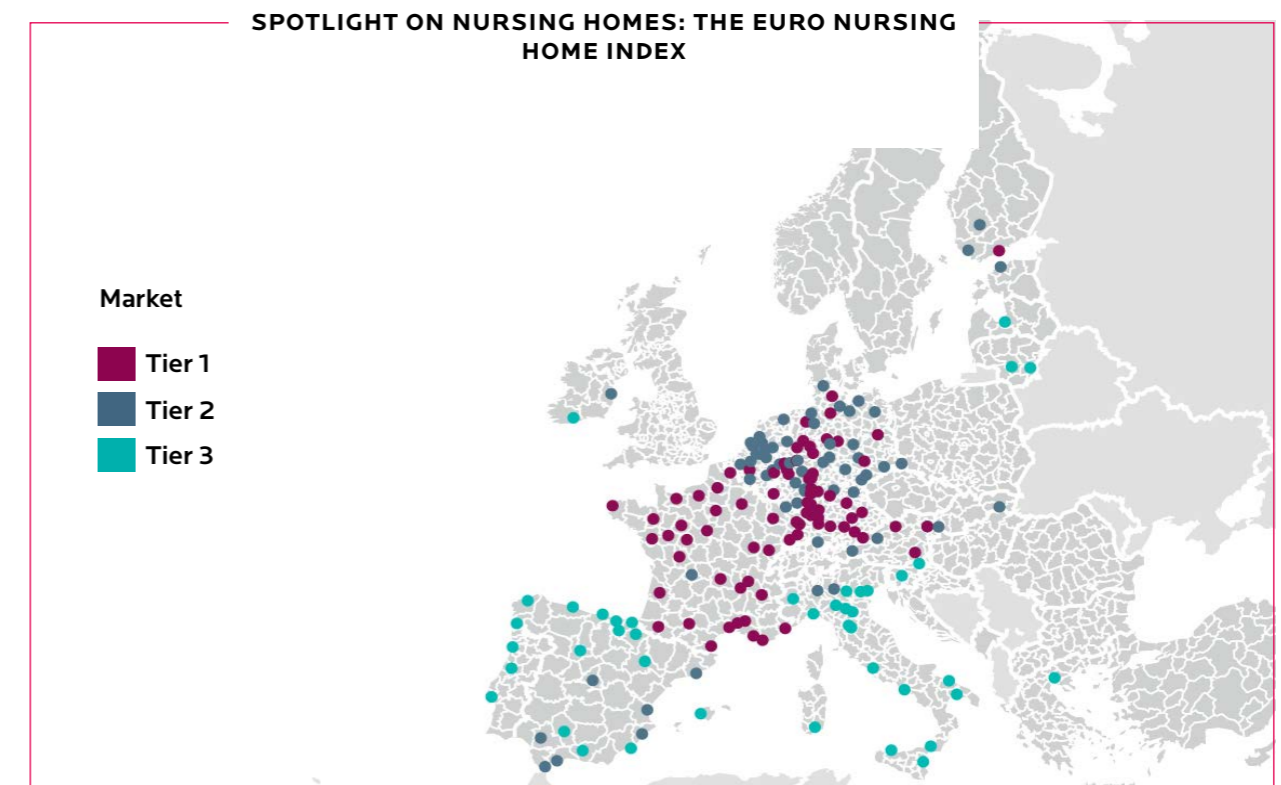


Source(s): Primonial REIM Research and Strategy

When it comes to healthcare infrastructure, and despite the many barriers to entry, real estate for seniors should be analysed in detail as there are considerable disparities across Europe. We have therefore developed a specific index for easier decision-making when applying an investment policy: **the Euro Nursing Home Index**. We analysed more than 120 zones in Europe at municipal/regional level. To understand the issues, challenges and appeal of each zone, Primonial REIM Research and Strategy developed a ranking system based on criteria specific to real estate for seniors, covering the demographics of the senior population, the sociological implications for society, purely real estate-related criteria, the senior population's income and bed availability ratios. A large majority of the Tier 1 markets, at regional level for the countries analysed, are in France, Germany

and Austria. The Tier 2 markets, which offer the possibility of a higher yield, are mainly located in the Benelux countries, in certain regions of Spain, and in northern Italy.

The market trends for healthcare infrastructure are positive, as demand will continue to grow over the next 20 years, and there will also be a need to renovate obsolete facilities and to increase the number of assets. This state of affairs means there is an urgent and substantial demand for investment. As public finances must be kept under control, private capital will have to be relied on to support the construction of the necessary healthcare infrastructure.



Source(s): Primonial REIM Research and Strategy

For healthcare infrastructure, we also recommend:

- Choosing international operators in countries where there is good healthcare coverage, or otherwise in regions where the senior population has high purchasing power;
- Checking the quality of buildings and that they are located in city centres or close to large conurbations to be sure of securing a return on capital when the assets are sold;
- Limiting exposure to poorly situated or badly designed buildings in zones where there are high climate risks (sudden flooding from rivers or the sea, droughts and heatwaves if the property isn't designed for them, etc.).

CONCLUSION

There is an historic opportunity to invest private capital in healthcare infrastructure, which both offers high risk-adjusted financial returns while guaranteeing a non-financial performance that very few real estate assets can boast. Healthcare real estate infrastructure plays a key social role within our societies. We have been able to see, for instance, that these socially responsible assets are not only resilient in terms of their performance, but have also played a prominent role during the Covid-19 public health crisis.

While financial returns can be measured by business sector or asset class so that comparisons can be made between them, the non-financial benefits of an investment are more complicated to assess in some situations and for some types of assets. Measuring a socially responsible investment may involve qualitative factors that are central to a given model of society, such as the good health and well-being of individuals, healthy living, or the fact of promoting well-being for all. Socially responsible investments therefore indirectly generate risk-adjusted returns.

The continuing demographic pressure and rapid ageing of the population are creating needs that make investment in healthcare infrastructure an absolute necessity. There is a real need for the renovation of existing facilities and for additional beds in healthcare establishments and nursing homes in order to cope with future demand, and this need represents several billion euros of investment.

The benefits in terms of socially responsible investing are tangible, moreover, as these investments are truly beneficial to society, and so allow investors to achieve the objectives set in their ESG and/or SRI strategies. In addition, the high resilience of healthcare infrastructure has been proven during the Covid-19 crisis. These assets have been able to offer a steady income stream and attractive yields, as the fundamentals of supply and demand are structural rather than cyclical, which is not the case for some asset classes.

For all these reasons, investing in healthcare infrastructure on a European scale is the best option, to both achieve a good distribution of risk across various markets, and guarantee a distribution of risk based on demographic trends, while making an investment that serves a purpose, is of value to society and will have a positive impact.



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The Research & Strategy Department's role is to formalise Primonial REIM's real estate investment strategies, based on continuous monitoring of the French and European markets. Although collective real estate accounts for a growing share of institutional portfolios and household savings, it is at the crossroads of financial (hierarchy of rates), economic (tenants' business models), demographic (the metropolisation phenomenon) and societal (changes in usage) factors. This is why a cross-cutting analysis is needed, which is also long term and therefore in keeping with the horizon of most real estate investors.

PRIMONIAL REAL ESTATE INVESTMENT MANAGEMENT

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