

Spotlight Nursing homes market Germany 2016

August 2016



Market in Minutes

Consolidation of nursing home operators on the increase – market growth continues

■ The market for nursing homes remains a growth market with 300,000 more beds required by 2030. However, the market is fragmented and the number of operators will consolidate further over the coming years.

■ French provider Korian has significantly expanded its market leadership with 3.1% of care places in Germany. The second and third largest providers, Pro Seniore and Alloheim, have market shares of 1.6% and 1.5%, respectively.

■ Surprisingly, the nursing homes of large private operators are often less well occupied than those of non-profit and church-based providers. The leader in this respect is Die Johanniter with 96.2% occupancy on the date of MdK inspection.

■ The investment market for care home properties registered a transaction volume of some €750m in the first half of 2016, which is more than in the whole of the previous year. The total by the end of the year is expected to significantly exceed €1bn.

„We will see many further acquisitions over the coming years and the nursing home landscape will look significantly different from today in 2030.“
Sebastian Deppe, Managing Director D&S Healthcare

The market currently comprises approximately 800,000 care beds

According to information from the German Federal Statistical Office, there are currently approximately 800,000 care beds in more than 13,000 facilities in Germany. Based upon demographic trends, the majority of market experts assume that approximately 300,000 additional beds will be required in Germany by 2030. This will require enormous capital investment.

Further consolidation expected going forward

Consolidation of operators in the German nursing home market continues. In 2015, France's Korian Group became the largest nursing home provider in Germany with almost 230 facilities and approximately 25,000 beds, overtaking previous market leader Pro Seniore.

However, while new leader Korian has 228 facilities the 20th largest operator has just 25, illustrating that the market as a whole is very fragmented. In other countries, such as England or the USA, the reverse is true with the majority of available beds owned by just a few operators or chains of operators.

The average size of cities in which providers operate also varies widely. Evangelische Heimstiftung operates its around 90 facilities, based largely in Baden-Württemberg, in cities with an average population size of 60,000. Meanwhile, Vitanas and Domicil, who

operate a combined total of more than 100 facilities, position themselves in cities with an average of more than a million inhabitants. According to projections, more than 50% of cities served by the 20 operators will witness a decline in population by 2030, while less than half of the cities will see population growth. However, it is evident that some of the top 20 providers operate in a higher number of cities where the population is expected to increase.

Occupancy is above 90% for many operators

There are also differences in terms of occupancy levels. Just one of the top 10 operators has more than 95% occupancy, while a further four have occupancy levels above 90%. Occupancy among the remaining operators ranges down as far as 81%. However, these figures should be treated with caution. Since occupancy figures for nursing homes are not published, they are only approximate. The number of beds per facility and the number of residents cared for, on the other hand, are known as of the date of inspection by the Medical Review Board of the Statutory Health Insurance Funds (MdK). Dividing this number of residents by the number of beds in a property produces an occupancy figure as of the inspection date. It is notable that these figures look similar over the years for many providers.

Fall in prices and non-routine inspections

There are some interesting figures in relation to non-routine inspections. The MdK performs routine inspections of all German nursing homes every year. This inspection includes an assessment of the quality of care at the facility and the report concludes with grading of the nursing home on various aspects. However, if there are grounds for inspection in the meantime (such as an increased number of complaints from residents or relatives, etc.) the MdK can perform non-routine inspections on such grounds. A total of 1,430 MdK inspections have been performed in facilities of the top 20 operators (as of March 2016). The average proportion of non-routine inspections is 6.4%. Seven operators have higher proportions than this, with the highest exceeding 13%. The decrease in prices is also interesting. For a care level II care place, fees payable by residents (self-pay residents after deduction of all reimbursements from nursing care funds) range between €1,080 per month (average for a smaller operator in the federal states created from the former East Germany) and €2,320 per month (average of the most expensive operator among the top 20). The largest differences are seen in salaries (e.g. collective wage agreements) and building subsidies.

TABLE 1

Top 10 Nursing homes operators in Germany*

	Operator	Number of facilities	Number of beds	Market share	Occupancy**
1	Korian	228	24,775	3.1%	86.8%
2	Pro Seniore	97	13,101	1.6%	81.1%
3	Alloheim	124	12,169	1.5%	88.3%
4	Orpea / Silver Care	129	10,979	1.4%	91.6%
5	Kursana	96	9,241	1.2%	91.0%
6	Die Johanniter	91	7,847	1.0%	96.2%
7	Vitanas	58	7,582	0.9%	88.8%
8	AWO Westf.	61	7,216	0.9%	91.6%
9	Ev. Heimstiftung	87	7,062	0.9%	86.7%
10	Azurit	76	7,031	0.9%	83.7%

Source: D&S Healthcare / * as at March 2016 ** at day of MdK inspection; for more information about data collection and methodology please see <http://careatlas.de/top20-betreiberstudie/>

„For owners of care home properties, occupancy and operator quality are crucial.“ Marcus Lemli, CEO Savills Germany, Head of Investment Europe

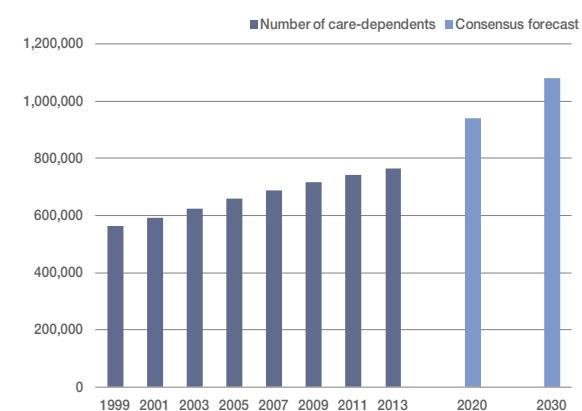
Transaction volume of €750 million

In the investment market, nursing homes represent a niche market that accounts for an average of 1 to 3% of the overall commercial transaction volume. The annual transaction volume over the last five years has averaged almost €420m. Against this background, 2016 can already be considered an exceptional year with nursing homes changing hands for more than €750m in the first half of the year. This figure already exceeds the totals for the previous two years and it appears feasible that the annual total could match or even exceed the previous record volume of some €1.2bn in 2006. The 4.2% share of the overall transaction volume is already the highest proportion ever recorded in Germany. While almost a third of the transaction volume in 2015 was attributable to properties in the top seven markets, these only accounted for around 7% of volume in the first half of the year. This is explained by transaction activity increasingly shifting to smaller cities. Accordingly, more than 27% of volume was attributable to cities outside of the A-D cities (based upon Bulwiengesa classifications). The attractiveness of German care home properties is also reflected in

the composition of investors. Foreign purchasers accounted for 60% of the transaction volume in the first half of the year, led by purchasers from France (31%), Belgium (16%) and Luxembourg (9%). Fund managers, asset managers and open-ended special funds have represented the largest purchaser groups over the last two and a half years. Owner-occupiers also play a significant role, accounting for almost 16% of the transaction volume. The largest investors of recent years include Primonial, AviaRent, Charlston Holding, Even Capital and Patrizia. Going forward, we expect investors to become even more active in the nursing home sector owing to demographic changes.

GRAPH 1

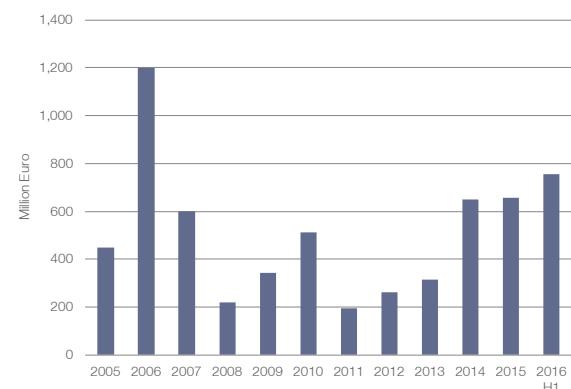
Forecast of care-dependents Further 300,000 beds needed in medium-term



Source: D&S Healthcare

GRAPH 2

Transaction volume New record volume may be reached in 2016

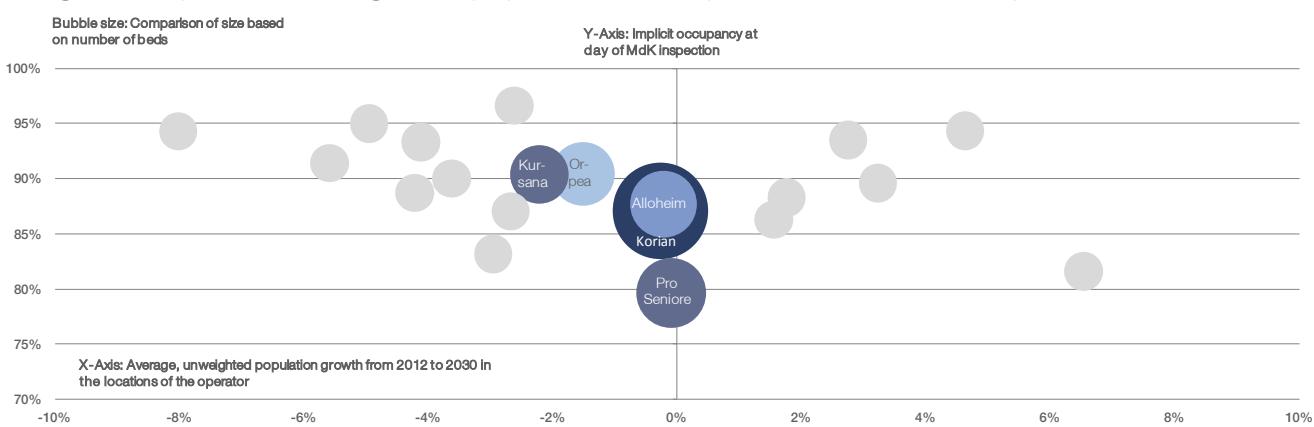


Source: Savills

GRAPH 3

Occupancy and population growth of selected operators

Heterogeneous picture with regard to population development of locations of operators

Source: D&S Healthcare; for more information about data collection and methodology please see <http://careatlas.de/top20-betreiberstudie/>

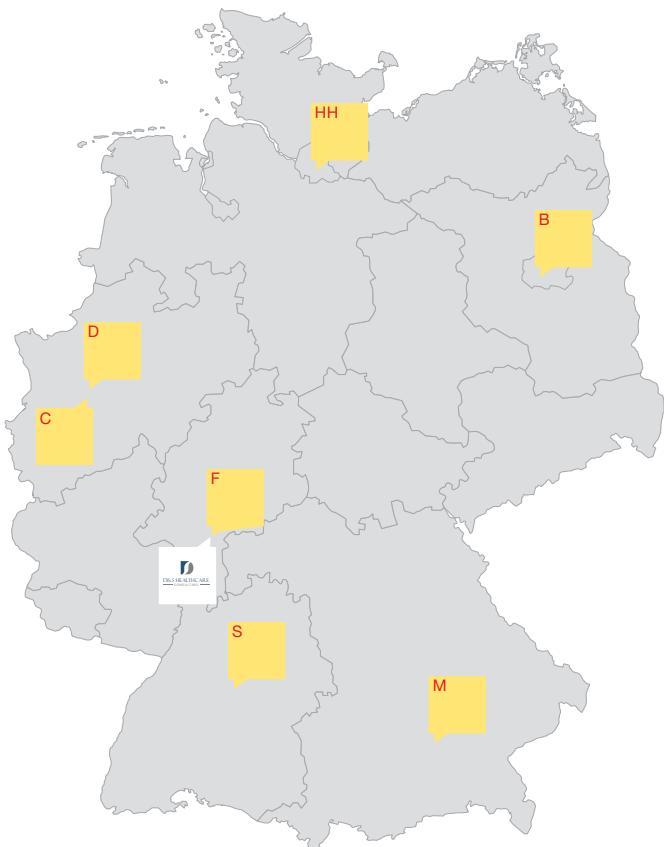
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