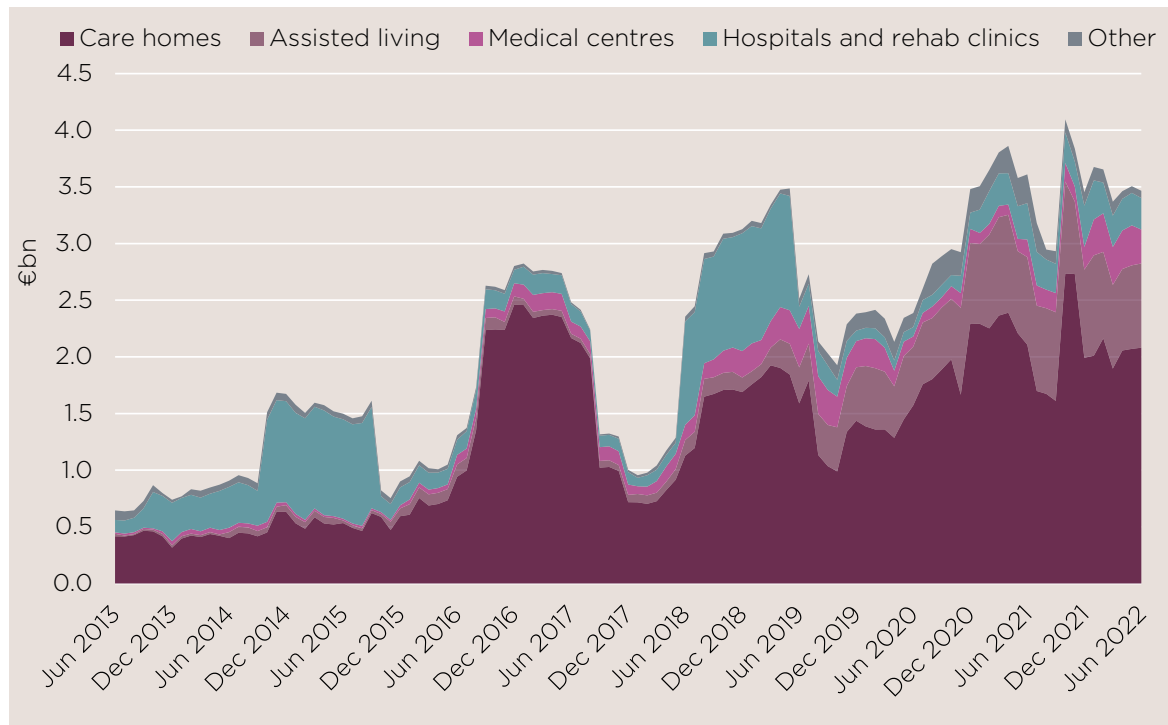


Healthcare Properties Germany



Graph 1: Transaction volume Germany (past 12 months rolling)



Source Savills

Stable thanks to additional capital

Text: Matti Schenk

More investors, stable yields and only a slightly below-average quarterly volume - the market for healthcare properties proved to be quite robust in the second quarter despite the initiated turnaround in interest rates.

In the second quarter of 2022, healthcare properties in Germany were traded for approx. €569m. This means that the transaction volume was around 15% below the quarterly average of the past five years. This means that the transaction volume in the year to date has totalled almost €1.3bn, which corresponds to the level of the same period last year. The transaction volume of the past twelve months amounted to around €3.5bn (Graph 1) and was 28% above the five-year average.

Nevertheless, the changed conditions on the financial markets also left their mark on the market for healthcare properties. With only 23 transactions recorded in the second quarter (Graph 2), the lowest value since the end of 2017 was registered.

48% of the half-year volume was accounted for by care homes

With a transaction volume of €619m or a volume share of 48%, care homes have been by far the property type with the highest volume on the investment market for healthcare

properties so far this year. Assisted living properties followed in second place with €347m or a 27% volume share. Third place was taken by medical centres with a volume of €184m and a share of approx. 14%.

Share of forward deals remains high

Although rising construction costs as well as material and personnel bottlenecks are leading to higher risks in many project developments, the turn to existing buildings on the investment market has not yet increased measurably. In both the first and second quarters, around one third of the transaction volume was accounted for by the purchase of project developments. On average over the past five years, this share was only 19%. The continued strong focus on project developments is likely to be explained by the lack of product in modern existing buildings.

Many first-time buyers still active

Investors from Germany were responsible for 58% of the transaction volume in the first half of the year. Their share was thus noticeably above the average of 48% of the past five years (Graph 3). While many investors who have been active for some time are from other European countries, more domestic investors have been entering the market in recent years. Overall, the number of first-time buyers in the market is extremely high. In the past two years, for example, around 60% of all buyers known by name were first-time

Focus on selected figures



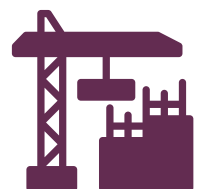
€90m

With a volume share of 8%, private equity funds were the third most active buyer group in H1-2022, investing around €90m, which is more than the total for the years 2009 to 2021.



€15.0m

In the first half of 2022, transactions of healthcare properties had a median volume of €15.0m. The five-year average was €9.8m.



One third

In the first half of 2022, around one third of the transaction volume was attributable to forward deals. The average for the past five years was only 19%.

buyers of German healthcare properties. In the first half of the current year, too, eight of a total of 23 active buyers were first-time buyers. The majority of first-time buyers were from Germany. Many of the first-time buyers are only at the beginning of building up their portfolios and will most likely stay in the market for a longer period of time. This means that even more capital is looking for investment opportunities. As suitable products are rare, there are still very intense bidding competitions.

Stable yield despite rise in interest rates

Because investment pressure is high among many investors and the number of investors has continued to grow, yields for prime properties have remained stable despite the rise in interest rates. The prime yield for nursing homes is thus unchanged at 3.9%. In particular, many full-equity investors are looking very intensively for high-quality healthcare properties with a creditworthy operator and are willing to pay competitive prices. The sector is also benefiting from the fact that yields are higher than in other types of use and thus the yield gap to government bonds continues to appear attractive.

Ambivalent signals from the occupier markets

While demand on the investment market is extraordinarily high, the occupier markets are sending out ambivalent signals. The long-term forecasts have been indicating growing demand in almost all property types for years. For example, several hundred thousand additional care beds will be needed in Germany and the demand for assisted living units will also grow. Demographic change will also increase the demand for medical care centres and clinics. There is also currently a clear undersupply of kindergartens in many regions. In the long term, investors can therefore expect high demand and steady rental income.

In the short term, however, many operators are facing major economic problems. Even before the pandemic began, for example, about one fifth of German nursing homes were in danger of insolvency. It is to be expected that the number of operators at risk of insolvency has increased due to the burdens during the pandemic - and will continue to increase due to the current higher inflation rate. Hospital operators are also under high pressure due to rising costs and the financial burdens caused by the pandemic. For the owners of healthcare properties, the economic challenges of many operators pose a growing risk with regard to the stability of rental income. Declining credit ratings of operators are therefore likely to further thin out the suitable supply for rather risk-averse investors.

Outlook: High demand meets low supply

While the number of products suitable for institutional investors tends to decrease, the number of active investors is likely to increase further. We are currently seeing more investors looking at entering the market. In the medium term, we also expect a stronger involvement of opportunistic players who, for example, target sale-and-leaseback transactions of operators under pressure or want to participate in a project development pipeline. This additional capital in the market should support the investment market overall. Current developments in the occupier market should sooner or later lead to more supply of non-core healthcare properties. Particularly for investors with access to operator competencies, opportunities could thus arise in the future. A very high level of bidding competition is still to be expected for absolute prime properties, so that we expect a further sideways movement in prime yields for the time being.

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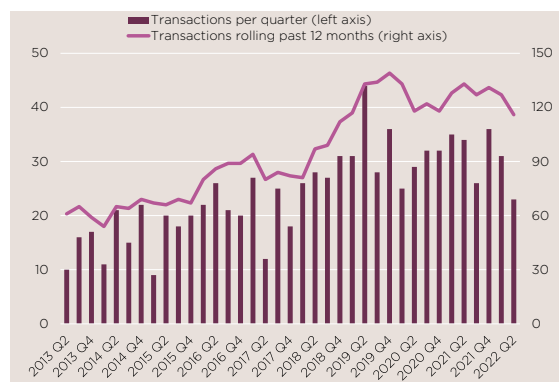
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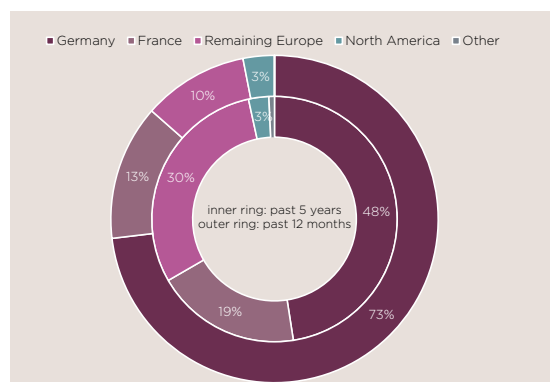
[Download the charts and raw data here](#) ↓

Graph 2: Number of transactions



Source Savills

Graph 3: Volume by origin of investor



Source Savills

