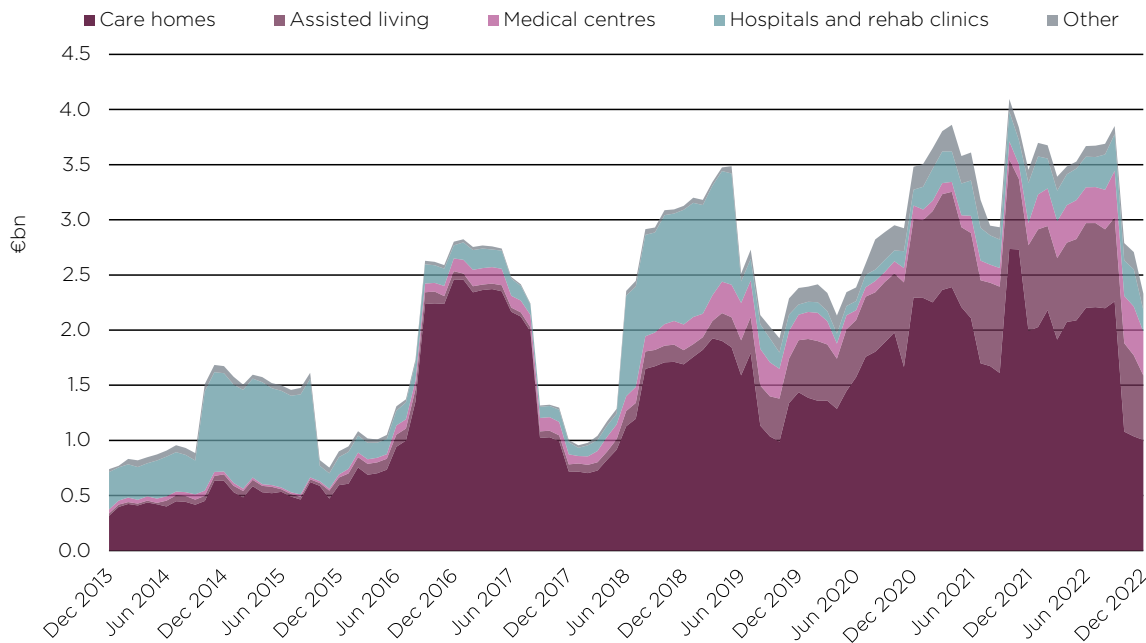


# Healthcare Properties Germany



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



Source Savills

## Core products scarcer than ever

In 2022, healthcare properties in Germany were traded for around €2.3bn (Graph 1). This means that the transaction volume was around one third below the result of the previous year. The five-year average was undercut by 13%. Especially the challenges in connection with inflation are currently in the focus of the players. On the one hand, the usually indexed leases are particularly attractive for investors in the current environment; on the other hand, many operators are already reaching the limits of their ability to pay. This makes renegotiations between operators and owners necessary, at the end of which there is often a cap or even a temporary suspension of indexation. In return, the operator undertakes, for example, to extend his lease early. In addition to such often difficult negotiations, issues such as staff shortages or the still too low investment cost rates are more topical than ever. At least in the case of care homes, the transaction processes are therefore becoming increasingly complex, which prevents some investors from becoming involved in the market or slows down processes considerably. But even the still active investors are currently acting very selectively and have increased their demands on property and operator quality. Many properties on offer do not meet these demands, so that supply and demand often do not match. The situation is further aggravated by the fact that there are still major differences between sellers and bidders in terms of prices. All this explains the currently subdued transaction activity on the market.

### Medical centres more popular amongst investors

Care homes were nevertheless the property type with the highest turnover last year, with a transaction volume of around €1.0bn or a volume share of 43%. Assisted living properties follow in second place with €585m or 25% volume share. Third place is taken by medical centres with a volume of €397m and a share of 17%. On average over the previous five years, assisted living facilities accounted for only 16% and medical centres for only 7% of the transaction volume. This means that the volume share of care homes has fallen in the last year. In view of the economic challenges in the care sector, care home operators are becoming the focus of acquisition audits. This requires a high level of detailed knowledge, so that the care home investment market is developing even more into a sector for specialists. Due to the increasing complexity of operator and property selection, some investors are increasingly looking for properties without such operator risk. This explains, among other things, why medical centres recorded a higher transaction volume than in the previous year.

### Fewer forward deals in the second half of the year

Due to transactions in the first half of the year, around 23% of the transaction volume in 2022 was accounted for by forward purchases. This is the second highest share recorded so far and is only one percentage point below the previous

### Focus on selected figures



#### €115m

Last year, kindergartens changed hands for around €115m. This is the highest volume ever recorded for this type of property.



#### 3

Operators or owner-occupiers sold properties for about €317m last year. They were thus the third most active seller group in terms of transaction volume.



#### €20.3m

The average transaction size last year was €20.3m. In 2020 and 2021 it was €27.2m and €26.2m, respectively.

year's figure. In the second half of the year, however, such transactions accounted for only 6% of the volume. This reflects the changed framework conditions in the form of higher construction and financing costs with a simultaneous decline in bidders' willingness to pay, which now make forward deals very challenging. Nevertheless, the purchase of properties under construction or in planning remains one of the few options for acquiring modern and high-quality properties, so that, according to our observations, investors are in principle prepared to enter into such transactions, at least if the project is completed within eight to twelve months. However, the challenges surrounding project developments mean that bids are now only submitted very selectively and, moreover, first-class operators are a prerequisite. The main obstacle to the successful sale of such core products remains the different price expectations of sellers and bidders.

### Listed companies significantly reduce their purchasing activity

Last year, the market was dominated by domestic investors, who were responsible for around 60% of the transaction volume (2021: 76%; five-year average: 48%). Buyers from France came second with a volume share of 13% and investors from Luxembourg third (8%). In terms of buyer types, open-ended special funds and other asset and fund managers together accounted for around 75% of the transaction volume. Listed property companies/REITs came a distant third with purchases for around €110m, which corresponds to a volume share of around 5%. This was their lowest purchase volume since 2012. In 2021, for example, they still accounted for €1.6bn or around 49% of the volume.

### Outlook 2023: Selective investors and value-add opportunities for specialists

We assume that most investors will continue to act very selectively in 2023. In principle, there is still an appetite for German healthcare properties, which is also reflected in the comparatively moderate increase in prime yields to date. For example, the prime yield for care homes rose by 20 basis points from 3.9% to 4.1% in the course of 2022.

Because transparency in yields remains low and the price expectations of buyers and sellers continue to diverge, the 4.1% prime yield should be interpreted as the midpoint of a range of 3.9% to 4.3%. While the upper end reflects bidders' bids, the lower end corresponds to owners' yield expectations. In general, products that meet the purchase criteria of risk-averse investors are rare. If all parameters of a property are right, some investors accept yields that are only slightly above the level before the interest rate turnaround began. Across the market, however, the willingness to pay has declined more sharply. In view of the challenges in the occupier market, many investors are likely to focus on the asset management of their portfolio in 2023. There are likely to be more opportunities for value-add investors, for example because owner financing is coming to an end or some operators are experiencing financial difficulties. However, in order to leverage value-add potential in care homes, comprehensive know-how and, ideally, cooperation with an operator willing to expand is required. Such strategies are therefore likely to be considered primarily for specialists with many years of experience. Risk-averse investors, meanwhile, are likely to focus even more on assisted living and medical centres in 2023 in order to escape the increased risks in the care home sector.

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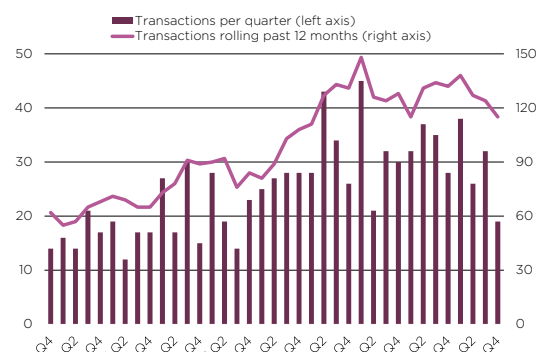
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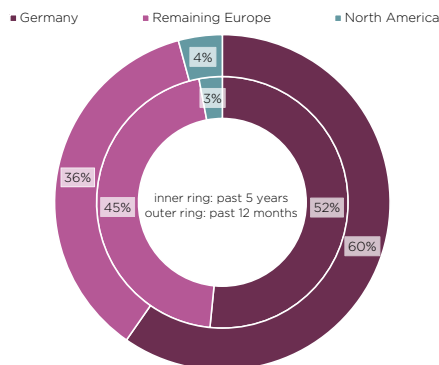
[Download the charts and raw data here](#) ↓

Graph 2: Number of transactions



Source Savills

Graph 3: Transaction volume by origin of investor



Source Savills

