MARKET IN MINUTES
Savills Research

Healthcare Properties Germany

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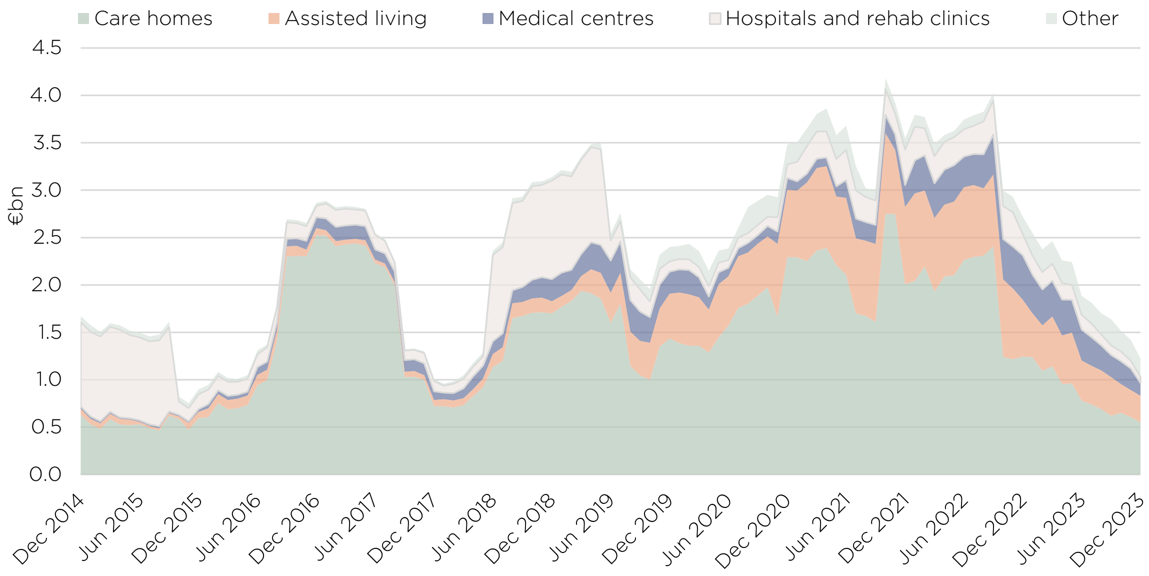
Graph 1: Transaction volume Germany (past 12 months rolling)



Source Savills

Mainly value-add properties on the market

Last year, healthcare properties worth €1.2bn were traded in Germany (Graph 1). The transaction volume was therefore 57% lower than in the previous year and 61% below the five-year average. The number of transactions was only around half as high as in 2022 (Graph 2). With a transaction volume of €157m, the 4th quarter was the weakest quarter in terms of turnover for more than six years. It is still the case that few landlords are willing to sell. The properties and portfolios that are for sale are again largely of a value-add nature and are encountering a thinned-out, predominantly risk-averse and highly selective buyer landscape. Transaction activity in the value-add segment is also manageable, as value-add strategies only pay off at very low purchase prices in view of the high modernisation and construction costs for older existing properties. However, only a few sellers have so far accepted such prices.

Search for buyers for larger portfolios particularly challenging

Over the course of the past year, there were no transactions in the three-digit million range and hardly any larger transactions overall. The search for buyers is currently particularly challenging for larger portfolios, as there are only a few investors who can handle large-volume transactions, which is also due to the banks' unwillingness to provide financing. To make matters worse, many available portfolios have heterogeneous property standards and different operator qualities. As most investors are very cautious, such constellations thin out the potential bidder field.

Prime yields are rising more slowly

In addition to the reticence of many investors, falling capital values have also contributed to the lower transaction volume. Since the start of the interest rate turnaround in spring 2022, the prime yield for care homes has risen by 130 basis points to 5.2% at the end of 2023. However, the rise in yields has recently slowed and amounted to just 10 basis points in the 4th quarter.

Volume declines for all types of use

Last year, all types of healthcare property recorded significant declines in transaction volumes, although the fundamentals are good for most types of use. The sharpest decline was recorded by medical centres – at around €133m, the transaction volume was 72% lower than in the previous year, which, however, saw a record volume. The transaction

FOCUS ON SELECTED FIGURES

€267m

Forward purchases of healthcare properties accounted for around €267m last year. This was 57% less than in the previous year. Assisted living facilities accounted for the majority of these forward purchases at almost €154m.

87%

Last year, 87% of the transaction volume was attributable to buyers from Germany, significantly more than the average of the previous five years (52%). Due to the challenges faced by operators and amendments to care home regulations by some Federal States, the sector has become more than ever a playing field for specialists and is correspondingly challenging for players without local expertise.

volume of care homes fell by 59% to €515m, while assisted living facilities recorded a decline of 53% to €283m. The significant volume declines in all types of use reflect the long period of difficult pricing on the investment market for healthcare properties. Demand for care homes in particular remains subdued – the persistently high risk of operator default is a key factor here. In contrast, demand for assisted living and medical centres is quite high, as many investors want to diversify their healthcare property portfolios. The main obstacle here is the lack of high-quality medical centres.

Insolvency risk for care home operators remains high

The occupier market for care homes was shaken by various major insolvencies last year and the economic situation of many operators remains tense. Further insolvencies are therefore to be expected in the current year. Last year, successor companies were quickly found for the majority of care homes affected by insolvencies. Should there now be further major insolvencies, it is likely to become more difficult to find successors, as many potential operators are still dealing with the previous takeovers. Investors are responding to this by demanding extensive reporting obligations from operators in order to recognise financial difficulties at an early stage. However, some investors are currently avoiding the segment altogether.

Medical centres as potential beneficiaries of the hospital reform

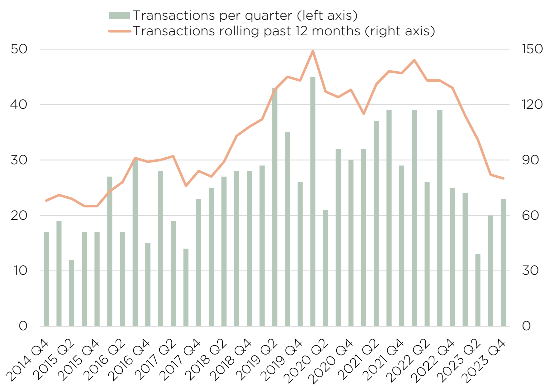
While the reluctance to invest in care homes can largely be explained by the challenges on the occupier market, demand for medical centres is being driven by positive prospects on the occupier market. The planned hospital reform is likely to lead to the closure of hospitals and a reduction in the range of services offered by many hospitals. Many investors assume that this will contribute to a strengthening of outpatient care and thus lead to an increase in occupier demand for medical centres. We have noticed that some investors are anticipating such a development and are already looking to secure corresponding properties.

No signs of an increase in investment activity yet

At the moment, we see no signs of an imminent recovery in the investment market for healthcare property. Although there is increasing activity among investors who have been largely inactive since the start of the interest rate turnaround, the majority of buyers will not be prepared to compromise on property and operator quality, meaning that the number of properties coming into question is likely to remain low. Sector specialists with many years of experience and asset management expertise will remain at an advantage. In the most liquid segment, care homes, the challenges faced by operators are likely to continue to inhibit transactions. Overall, we expect the transaction volume in 2024 to remain below the figures from 2018 to 2022.

Download the charts and raw data here

Graph 2: Number of transactions



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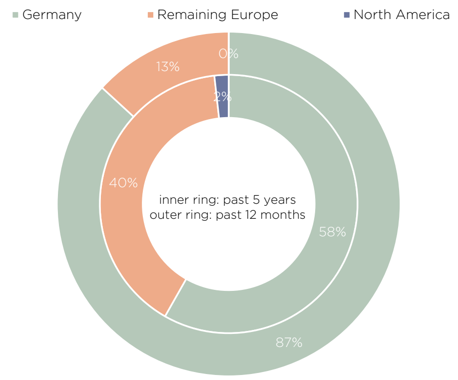
Graph 3: Transaction volume by origin of investor



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