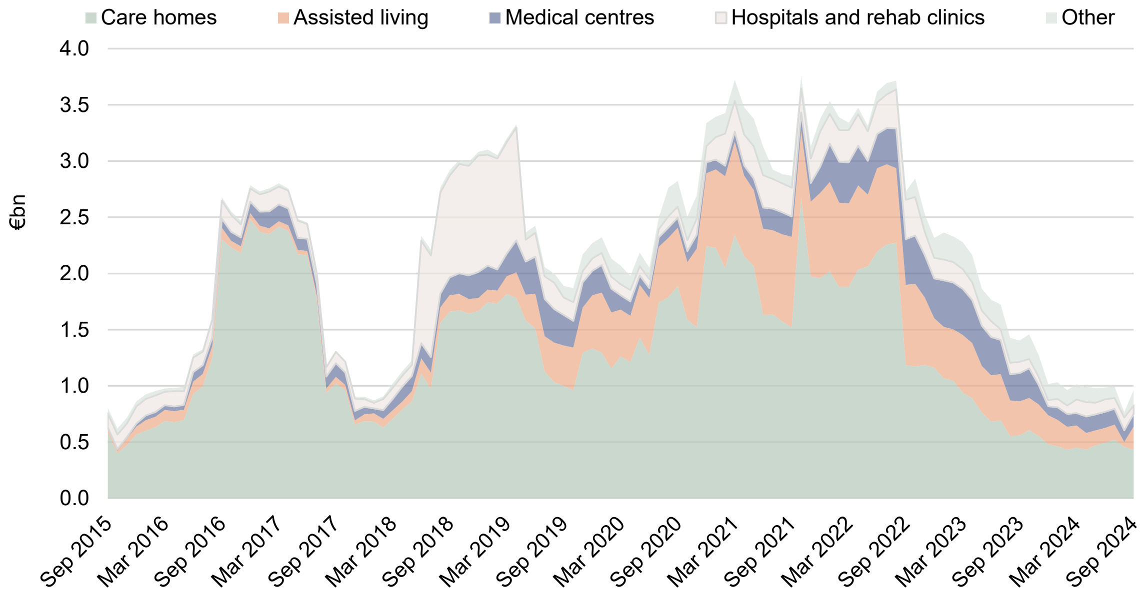
Germany Healthcare - October 2024

MARKET IN MINUTES

Savills Research

Healthcare Properties Germany

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



Investor confidence is slowly returning

In the first three quarters of the current year, healthcare properties worth €596m were traded in Germany (Graph 1). This was 48% less than in the same period of the previous year. With a transaction volume of just €130m, the third quarter was significantly weaker than the two previous quarters and was also the weakest quarter in terms of turnover in the last five years. An average of 13 transactions per quarter have taken place since the beginning of the year, which is even fewer than in the previous year, which was already characterised by low transaction volumes. Despite the below-average transaction figures to date, we have noticed more activity in recent months and expect the market to pick up in the final quarter. The fact that yields have been stable since the beginning of the year and care home operators are reporting success in negotiating higher investment cost rates is having a positive effect on current and pending transactions. However, the difficult situation of many healthcare providers remains a constraint, which continues to make risk-averse buyers in particular hesitant and has shifted demand towards medical centres and assisted living facilities, which are considered to be less risky.

The prime yield for care homes remained stable for the third time in a row and stood at 5.2% at the end of the 3rd quarter. The prime yield for assisted living facilities did not move either and remained at 4.5%.

Decline in forward deals, increase in insolvency sales

Overall, the investment market for healthcare properties has been predominantly small-scale this year. In the first three quarters of the year, there was only one transaction worth more than €50m. Forward transactions accounted for only 8% of the volume (five-year average: 21%). There was a noticeable increase in insolvency sales, which accounted for 17% of the transaction volume. In the case of single asset transactions, this figure was as high as 22% of the volume and one in four transactions. In comparison: last year, 11% of all single asset transactions were insolvency sales and the average for the previous five years was only 2%.

Fundamental growth prospects as a driver of demand on the investment market

In recent months, we have observed stronger demand from international investors. These players are targeting larger volumes in particular and are

FOCUS ON SELECTED FIGURES

8%

Only 8% of the transaction volume so far this year has been accounted for by forward-deals. The average for the past five years was 21 %. As construction costs are high and investors are reluctant to enter into forward transactions, among other things, a significantly lower volume of new construction must be expected in the coming years

€74m

Although medical centres are very popular among many investors, the transaction volume in the first three quarters was only around half as high as in the same period of the previous year at €74m. One obstacle continues to be the fact that only a few properties suitable for institutional buyers are on offer in the small-scale market active in bidding processes for larger portfolios. German fund managers, which were very active at the end of the last market cycle and significantly reduced their purchases in the wake of the interest rate turnaround, are also becoming more active again. Overall, many buyers are focusing on core-plus products because core properties are rarely available for sale and value-add approaches in the heavily regulated healthcare property market mean very high management costs.

The fundamental growth prospects of the healthcare property market remain the driver of demand. For example, the current care forecast from the Federal Statistical Office (Graph 2) shows a significant increase in the number of people in need of care over the next 25 years in its main variants. This will increase the demand for inpatient and outpatient care facilities, but also for other healthcare services. An ageing society will not only require more care properties, but also more medical centres and rehabilitation facilities. However, as construction activity is too low, supply will remain scarce and the existing stock should increase in value in the long term. In view of the fundamental need, healthcare properties are likely to become the focus not only of property investors but also increasingly of infrastructure investors, which could lead to rising demand on the investment market in the long term.

Insolvencies remain a negative factor

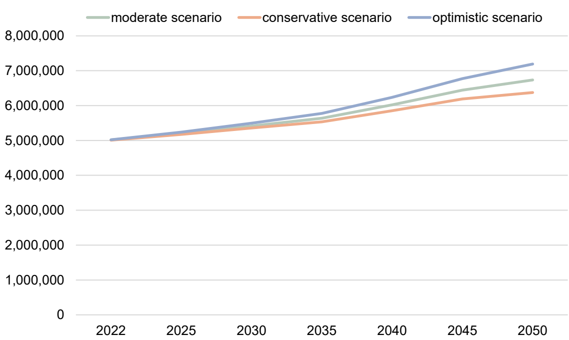
The long-term growth prospects on the occupier market are currently still facing major economic challenges for healthcare and care service providers. A lack of operator quality or the absence of contractually agreed obligations to provide information generally prevents transactions. Renegotiated and, as we were told, quite adequate investment cost rates come too late for some operators and the lack of specialised staff also remains an economic risk. As a result, the wave of insolvencies has not yet been broken. Overall, the number of insolvencies opened in the healthcare and social services sector remains at an extraordinarily high level (Graph 3). At least in the medium term, the higher investment costs will have a positive effect on the economic situation of care home operators, which is why we have already observed a slow return of investor confidence in this type of utilisation. However, in view of the already high personal contributions for care home places, the number of social welfare recipients in care homes is likely to continue to rise. Because in some federal states the investment costs are split between social welfare recipients and self-payers, new economic risks are looming for some operators and properties. More than ever, extensive expertise is required from investors in this segment.

Transaction volume likely to rise to over one billion euros

While many buyers are currently focussing on assisted living and medical centres, transaction volumes for both property types are being dampened by a lack of core and core-plus properties. Accordingly, care homes were once again the most liquid segment on the investment market with a volume share of 60%. As there are still some larger care home portfolios on the market, the volume share of care homes is likely to increase further by the end of the year. Overall, we expect the transaction volume to rise to just over one billion euros by the end of the year.

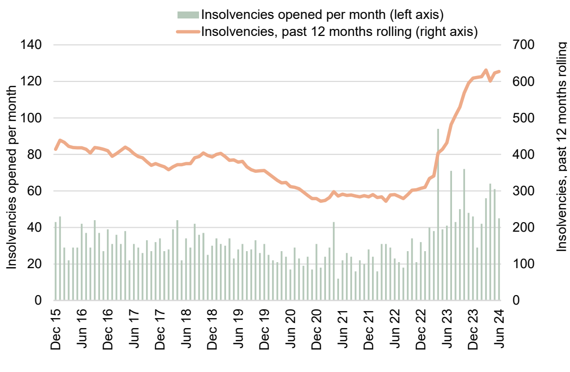
Download the charts and raw data here

Graph 2: Forecast of people in need of full inpatient care - Germany



Source: Federal Statistical Office / variants of the long-term care forecast used: V2 = moderate scenario; V5 = conservative scenario, V9 = optimistic scenario

Graph 3: Insolvencies opened in the healthcare and social services sector



Source: Federal Statistical Office

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