

UK Healthcare Real Estate



UK healthcare real estate investment doubles

We often cite the ageing population as a driver for growth in the healthcare sector. As significant as the growing demand for healthcare services, however, is the growth in pension fund liabilities as the baby boomers retire.

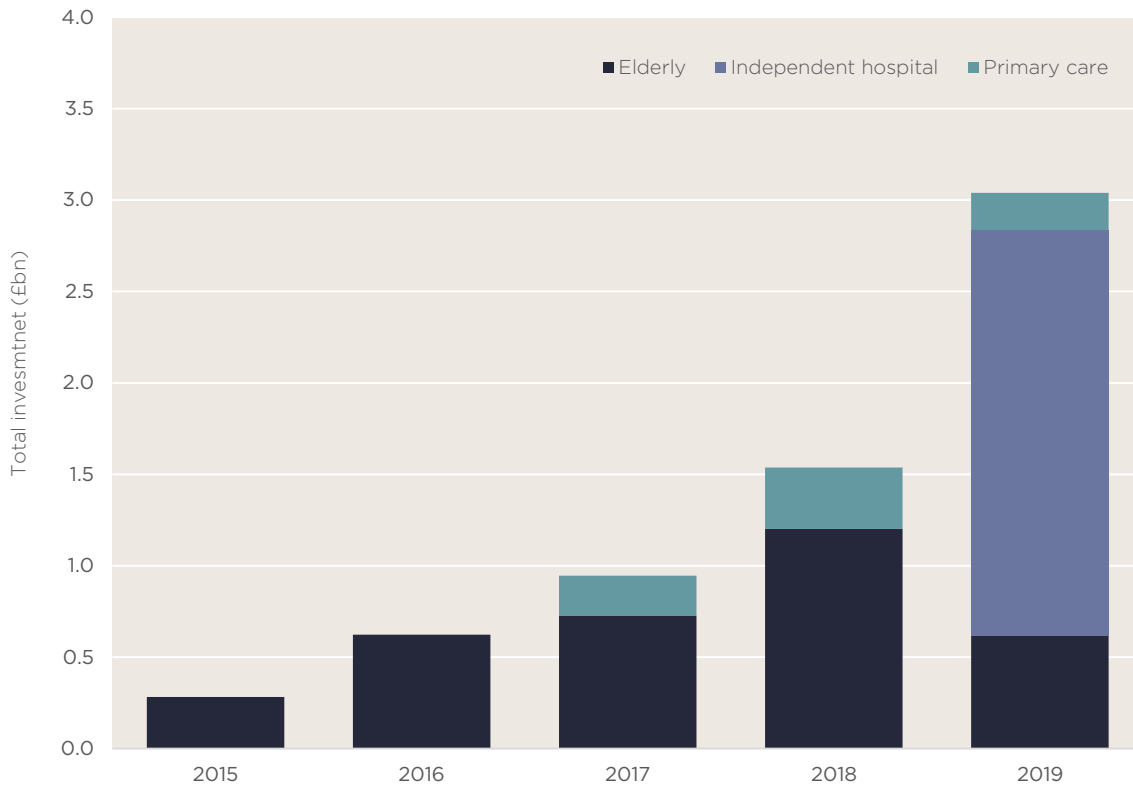
Real estate assets have traditionally provided a good, long-term annuity match. But changing occupier behaviour in retail and offices is leading to shorter leases, just as the need for long income is rising. Healthcare real estate continues to offer the longer term lease lengths and inflation-linked rents that pension funds find so attractive and is a key reason why the market is seeing increased interest from REITs and the emergence of specialist healthcare REITs.

This has driven demand from a broader range of investors in recent years, from opportunistic private equity funds to risk-averse pension providers.

Over the past year, investment into the UK healthcare real estate market has grown ever more international. 2019 saw capital from the US, Europe, the Middle East and Asia now competing with domestic money for buying opportunities.

In the following sections we look at what these macro trends mean for both transaction and investment volumes across the elderly care homes, independent hospitals and primary care sectors.

Total investment More than £3bn invested into healthcare in 2019



Source Savills Research using RCA

INDEPENDENT HOSPITALS SEE RECORD INVESTMENT

More than £3bn was invested into the UK healthcare real estate market in 2019, double the £1.5bn total in 2018. This was due to continued investment from UK-based institutional investors and REITs, attracted by long leases and indexed rental uplifts, alongside some very large 'mega deals' by overseas investors.

2019 saw the return of US REITs after a year of no activity in 2018 and less than £300m invested between 2015 and 2018. In four separate deals, US REITs invested more than £1.95bn, mostly into independent private hospitals. To put that in context, in the five year period between 2015 and 2019, UK

institutional investors and REITs combined invested just £1.5bn across more than 70 separate deals.

The biggest deal of 2019 saw Medical Properties Trust (MPT) acquire 30 private hospitals for £1.5bn, making it the largest real estate deal of the year. The deal was part of Circle Health's acquisition of BMI Healthcare, which comprised 54 hospitals in total.

MPT also paid £347m for 8 private hospitals from Secure Income REIT at a yield below 5%. The two deals combined mean MPT accounted for 61% of transaction volumes across all healthcare markets in 2019.

Snapshots



£1.5bn

The biggest UK real estate deal of the year, with MPT acquiring 30 private hospitals



72%

REITs made up nearly three quarters of elderly care home deals in 2019, up from 38% in 2018



£1.95bn

US REITs invested more than £1.95bn, mostly into independent private hospitals



61%

MPT accounted for over half of all UK healthcare real estate investment in 2019



£3bn

Total 2019 UK healthcare real estate investment was over £3bn, double that of 2018



Overseas investors becoming more active with a few mega deals



Deal volumes have stabilised over the past three years, averaging a deal a week

Biggest deals of the year Specialist US healthcare REIT makes big UK play

Category	Purchaser	Sale Price	No. Assets	Tenant	Purchaser Type	Purchaser Region
Independent Hospital	Medical Properties Trust	£1.5bn	30	Circle	REIT	US
Independent Hospital	Medical Properties Trust	£347m	8	Ramsay	REIT	US
Independent Hospital	Medco Holdings	£195m	1	Medical Services International Limited	Private Investor	Philippines
Elderly	Cindat/Omega Healthcare REIT	£176m	68	MMCG & HC-One	REIT/Private Equity	US/China
Elderly	Aviva	£120m	5	Anchor	Institutional Investor	UK

Source Savills Research using RCA

ELDERLY CARE HOMES

In comparison to the strong growth in private independent hospitals, investment in the elderly care home market saw transaction volumes nearly halve from £1.2bn in 2018 to £615m in 2019.

The number of deals, however, fell just 25% year on year, boosted by a flurry of UK REITs purchasing smaller lot sizes. The average deal size amongst domestic REITs was just £11m. In total, the elderly care home sector saw 3,600 beds and 59 care homes traded in 2019. 76% of deals were for new build as opposed to standing stock, up from 54% in 2017.

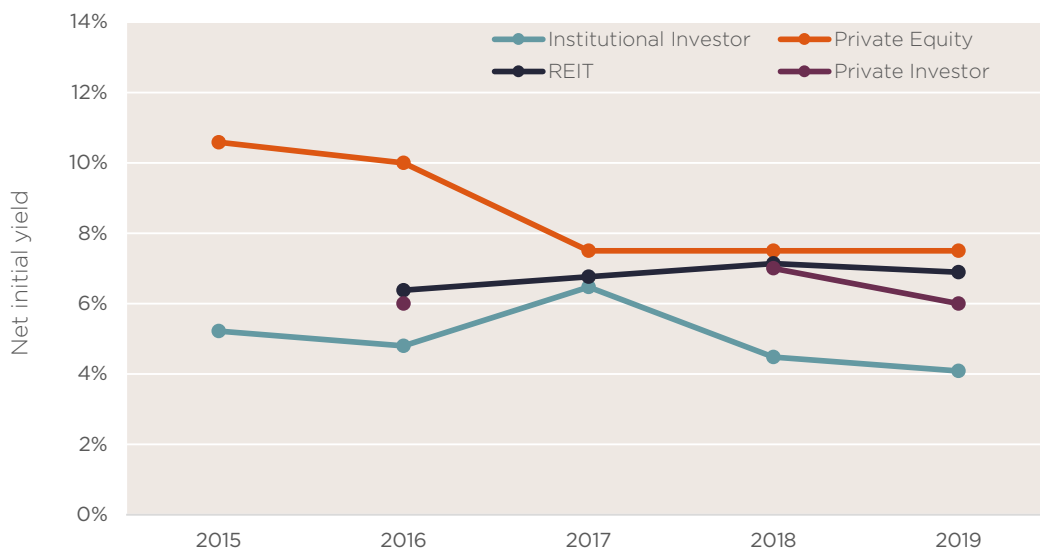
The largest care home deal in 2019 was the £176m paid by joint venture partners Cindat and Omega Healthcare Investors for a portfolio of 68 elderly care homes. This partnership of Chinese private

equity and a NYSE-listed healthcare specialist REIT demonstrates international capital's growing appetite for the UK healthcare market. The deal followed soon after Cindat paid £395m in 2018 for the other half of the portfolio.

Average yields across the elderly care home sector continued to fall across all buyer types in 2019, with institutional investors paying the lowest yields on average, 4.1% versus an overall average of 6.5%. The yield range has also narrowed in recent years with minimum and maximum yields last year of 3.4% and 7.7%, vs 4.0% and 12.0% respectively in 2017.

Private equity buyers tend to pay the highest yields, reflecting the greater risks and rewards on offer for turnaround opportunities.

Elderly care home yields Continue to fall with yield range also narrowing



Source Savills Research using RCA

PRIMARY CARE

The primary care market saw continued interest with 28 deals last year, following 33 and 24 deals in 2017 and 2018 respectively. Over the past three years more than £750m has been invested in primary care

facilities, with average deal size a little over £10m. Average yields within this sector have continued to harden, coming in from 5.2% in 2017, to 4.7% in 2018 and 4.6% last year.

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