

Newsletter

Berlin, 23.11.2023

Dear Readers,

Hello and welcome to the first issue of our TSC Real Estate newsletter! Our newsletter provides regular insights and analysis of the market for senior living, healthcare and life science real estate. Long-term and fundamental trends, not least demographic change, increased awareness regarding personal health, and a growing and more specific need for healthcare, are creating new dynamics in the healthcare and life science markets. Particularly in the life science segment, i.e., the infrastructural supply of the healthcare segments, new answers to the question of how to feed around ten billion people in 2050 in a climate-friendly and resource-efficient manner are emerging in connection with real estate.

With our TSC Real Estate newsletter, we will address these and other topics, highlight the resulting prospects in the markets for senior living, healthcare and life science real estate and present opportunities for discussion. We hope you enjoy reading and look forward to your feedback.

Yours, Berthold Becker

Managing Director TSC Real Estate Germany GmbH

Editorial: Institutional investors value the strong fundamentals and long-term resilience of healthcare and life sciences

Health care and life science are attracting broad interest from many semi-professional and institutional investors - despite challenging market conditions and currently low transaction volumes in real estate. They recognise its ESG-potential and see advantages within asset class the real estate, especially as compared to other types of use. In addition to the sustainably strong fundamentals, low correlation with economic cycles, resilience and the strong and predictable long-term growth prospects are the key factors.

Becker's Talk



Berthold Becker, Managing Director, TSC Real Estate Germany GmbH

In this section, I share my view on the current market situation in the individual submarkets for discussion and look forward to your feedback. In our first newsletter, I will take a closer look at inpatient care: a market in which around 12,000 facilities in Germany provide around one million care places.

Inpatient care is bottoming out

Even if, regrettably, operators will continue to find themselves in difficulties in the short and medium term, I believe that the bottom seems to have been reached for operators of inpatient care facilities. This is because the core problem - the failure to reimburse the costs for staff, care, energy and real estate, which have risen significantly over the last two years - is slowly but noticeably improving.

From our ongoing and intensive discussions with many different operators throughout Germany, we have learnt that requests to adjust care rates and investment replacement costs are gradually being approved.

One of the leading care operators in Germany told us, for example, that around 70 per cent of all reimbursement applications had been approved in almost full by the end of September and that it was expected that the remaining 30 per cent would be approved in a similar way over the next three to four months.

Recovery of margins

EBITDA margins have moved from well below the single-digit range back into the five to seven per cent range, with a slight upward trend. The industry has good reason to hope that this trend will continue over the next one to two quarters. Growth plans are also gradually being tackled again from the first two quarters of 2024.

Interest groups and associations - both private operators as well as non-profit organisations - have initiated this development with massive efforts and various measures. For example, the operator mentioned above reports that several new hires have been employed solely for this purpose and are tasked with urging the authorities to process the applications submitted, answering any queries, providing missing documents at short notice and, in fact, very energetically sending reminders to the authorities involved in order to ultimately speed up the processing of the applications.

It goes without saying that this level of documentation and administration can only be managed by larger operators and those with corresponding capital reserves and liquidity, or even only with a great deal of personal effort.

Reimbursement difficulties of inpatient care operators are gradually being acknowledged in politics and administration

It should therefore be noted that the lack of reimbursements and resulting liquidity bottlenecks for operators seem to have been recognised by politicians and institutions. Another positive aspect is that the backlog at the respective state authorities caused by the huge number of requests for reimbursement from inpatient care operators over the past two years is gradually clearing up.

Two sides of development

The winners of the current development are those operators who have survived the current phase with sufficient liquidity. In addition, there are those who - equipped with liquidity and equity - are able to take advantage of opportunities that arise.

Those operators who have focussed on forced and, at least in part, unsustainable growth in recent years will lose out. Add those who were (also) heavily involved in property development as they, too, are affected by higher interest rates. Finally, small operators are among those most at risk, as they are generally not in a position to maintain the necessary liquidity to bridge the gap and to cope with the enormous increase in administrative and regulatory costs.

What needs to be done

In the area of inpatient care, several key issues have not yet been resolved or have only been resolved inadequately. For example, it remains to be seen how the proportion of self-payers vs. social welfare recipients will shift because of higher co-payments. Furthermore, we see too few new initiatives to address the structural lack of nursing staff. The Personnel Assessment Act (PeBeM), which came into force on July 1, 2023 and has a transitional period until the end of 2025, does not appear to offer any real solutions either.

I will soon be explaining in more detail the areas in which we see a particularly urgent need for action.

Conclusion

Although operators in the inpatient care sector continue to face challenges, we view the performance in recent months as positive overall. The inpatient care segment is and will remain an extremely sustainable, fundamentally very strong, predictable and socially very relevant investment segment

from a number of perspectives. Residential care therefore offers very promising prospects for certain groups of investors, not least those with a longer-term horizon and adequate capitalisation.

Deals



Maximilian Woiczikowsky, Team Lead Investment Management, TSC Real Estate Germany GmbH

There are also opportunities in the current market environment, as three examples from recent months show:

Ginkgo portfolio changes owners

One example of how transactions can be realised even in the current market environment is the purchase of the Ginkgo portfolio by one of our clients, which we supported and helped to close as part of a structured transaction process.

The prerequisite for this is that the seller and buyer speak a similar language in terms of value and price. Fortunately, this was the case here, although it was also part of our job to establish a common level of understanding to make this transaction possible.

"We are delighted that we were once again able to successfully initiate and finalise a structured transaction process across a portfolio for our clients. In addition to very good market access and high transaction security, we have the necessary speed and professionalism in the transaction process, which makes us a sought-after partner for both sellers and buyers", adds Maximilian Woiczikowsky, TSC's Team Lead Investment Management.

See here for more details on the transaction:

<https://de.linkedin.com/feed/update/urn:li:activity:7108068119830507521>

Klinik an der Weißenburg acquired for Luxembourg fund

Back in June, TSC Real Estate advised a Luxembourg fund on the acquisition of the "Klinik an der Weißenburg" in Thuringia - in our view a very interesting investment in the core-plus segment.

See here for more details on the transaction:

<https://de.linkedin.com/feed/update/urn:li:activity:7084494694738489344>

More deals

In October, PATRIZIA Deutschland announced the acquisition of three portfolio properties for the PATRIZIA Social Care Fund. The deal includes a total of 367 units and around 18,000 square metres of usable space. Seller is Cureus GmbH, a developer and portfolio holder specialising in inpatient care properties.

In our opinion, this transaction is also proof that transactions can be realised and are also possible in the current environment if the conditions are right as in this case which includes modern, ESG-compliant properties with a future-proof operator concept.

See here for more details on the transaction:

<https://de.linkedin.com/feed/update/urn:li:activity:7115702953549647872>

Prices for senior living real estate show increasing spread

In our view, this transaction and other bidding processes in which we are and have been involved currently appear to be confirming a pricing pattern, particularly for senior living real estate. Even though the transaction volume in this market segment is still relatively low, prices for TOP core investment properties, not least those with low energy consumption and high CO2 efficiency values, no longer appear to be falling or, despite high interest rates, are tending to rise again slightly. The prime yield in Q3/2023 was 5.1 per cent. In contrast, we believe that the gross initial yields of properties of more average quality are in the range of 6 per cent to 7 per cent, with yields likely to increase further. Prices for average properties and properties of below-average quality appear to be falling further. ESG-related topics are key factors that will continue to reduce prices in the medium term in our view.

The tendency for interest rates to stabilise - albeit at a higher level - therefore appears to be having a price-stabilising effect on high-quality and, above all, ESG-compatible investment properties. In contrast, for properties without ESG credentials, the costs required in the future have the potential to depress prices.

For investors, this means that with borrowing costs more than 4.75%, the use of debt only makes sense for buyers with a higher cost of capital. However, to match the required returns with a commensurate level of risk, purchase prices must be disproportionately lower than for investors with lower cost of capital and return requirements. JLL, for example, also seems to recognise this in its latest market report. Peter Tölzel from JLL notes that the yield spread for care homes is widening. "However, the differences in yields between the best and worse properties will continue to widen," says Tölzel. Currently, the price differences for care homes are already up to as much as seven annual rents, which is significantly more than two to three years ago. According to Tölzel the spread will widen further in the coming months.

Overall, the transaction market in Germany was characterised by restraint in the first three quarters of 2023. According to JLL, only 36 transactions with an average value of EUR 23 million were registered. In 2022, the average transaction volume was EUR 32 million. "Compared to previous years, there is a lack of large portfolio deals to drive the transaction volume," says Tölzel who is Team Leader Healthcare at Investment JLL Germany.

My personal conclusion: Further price corrections are to be expected for existing properties, while prices for TOP core properties have stabilised. This goes hand in hand with buying and entry opportunities in this sector.

Impressions from HealthCare Day 2023: medical care centres are the model of the future with high social relevance

PARAMOUNT PERSPECTIVES

360° HEALTH CARE &
LIFE SCIENCE REAL ESTATE
INVESTMENT AND MANAGEMENT

Entwicklungspotenziale von Gesundheitszentren



Frankfurt, 12. September 2023



My discussions at HealthCare Day 2023 in Frankfurt this autumn show that investors recognise the potential in the broader market for healthcare: More than ever before, this market segment is one of the strongest growth markets adding predictability as a further plus over the coming decades.

In my presentation, I discussed the development potential of modern medical care centres, the so-called MVZs in Germany: These can be summarised briefly: ➡ Today's medical centres and medical care centres (MVZ) are tomorrow's modern healthcare centres

➡ Going forward, health centres will be more than ever a central part of urban and regional settlement plans in general and healthcare provision in particular

➡ Modern health centres are locally integrated, comprehensive and complementary facilities, highly networked both organisationally and digitally, with a primary outpatient function, but also special and long-term care. Not only the treatment of diseases, but also the prevention and promotion of health play a central role in the concept.

➡ Throughout the investment cycle, health centres will be a demand-driven and high-potential investment niche more than ever before. For further information, follow this link:

<https://de.linkedin.com/feed/update/urn:li:activity:7107707611256348673>

Project developers' shift to medical services and large-scale laboratories: an interview with Andreas Schulten, bulwiengesa



Andreas Schulten, Chief Representative, bulwiengesa

As well as exchanging ideas with investors, we always engage in our dialogue with independent consultants. With Andreas Schulten of bulwiengesa, one of the largest independent consulting and analysis companies for the real estate industry in Germany, I discuss why healthcare and life science real estate is living up to its reputation as a resilient niche and why real estate will become even more involved in this market segment in the future.

Berthold Becker: From your asset class-independent perspective, how are supply and demand for property in the healthcare sector in Germany developing? Is the reputation as a crisis-resistant niche justified?

Andreas Schulten: In some presentations, I like to say that one asset class in Germany is as sure as the Amen in church: senior housing and senior living real estate. This is aimed at the demand resulting from the increasing ageing of German society. At bulwiengesa, we expect up to 1.4 million people in need of inpatient care by 2040.

Berthold Becker: What about life science properties? Corona has impressively emphasised the importance and crisis-proof business models of tenants in this segment.

Andreas Schulten: We are seeing many project developers and property developers withdrawing from the construction of new offices and flats. They are switching to medical services and large laboratories. The supply is undoubtedly growing. Alongside green energy, artificial intelligence and other areas of innovation, biomedicine is one of the biggest growth sectors in the foreseeable future. The question is

in which type of company the future employees will work. Are laboratories more likely to be rented? Or will research and therapy be in the hands of large corporations and clinic operators who own the buildings? To a large extent, this will also be politically driven. So there is certainly potential. But more as a niche product.

Berthold Becker: As an analyst and researcher, do you see more interest from developers and investors in these two asset classes?

Andreas Schulten: In my view, life science and healthcare properties have a lot in common with the traditional office property market.

Investors have always been looking for stable and lucrative rental income and operating models within this or at least a similar type of building - with a focus on creditworthiness. The number of real estate investors looking at these two asset classes, not least from the perspective of ESG criteria, is therefore inevitably growing in line with our social transformation.

EU 4 Health programme provides record sum of 9.4 billion euros

Finally, from an investor perspective, it is important to keep an eye on the extent to which capital flows from private and public donors are prioritising health. For example, the EU 4 Health Programme adopted by the European Commission for the years 2021 to 2027 has a budget of EUR 9.4 billion, which is larger than any previous EU health programme, as I recently explained in an article for Private Banking Magazine:

For further information, follow this link: <https://www.private-banking-magazin.de/rendite-assetklasse-corona-chancen-bei-healthcare-und/>

Would you like to find out more about the opportunities that the healthcare and life science real estate asset class can offer investors? Are you looking for advice on strategic and operational issues, planning a corporate succession, in need of concept development and operator search or raising capital for new investments?

Send me a note!

Sincerely, Berthold Becker