

Newsletter

Berlin, 26.11.2024

Dear Readers,

Welcome to another issue of our TSC Real Estate Newsletter!

We look forward to once again presenting you with exciting insights and current developments from the senior living & care, healthcare and healthcare infrastructure real estate sectors.

Despite the ongoing challenges affecting many parts of the property sector, there are unmistakable signs of movement in the market, which is fundamentally a positive sign. Our focus remains clear: the identification of opportunities that also enable stable and sustainable returns in the long term.

In this issue, we analyse the latest developments, with a particular focus on the renewed and growing role of international investors. We take a look at the robust fundamentals in the care and assisted living segments as well as outpatient medical care and show why these asset classes in particular remain more attractive than ever for investors. We also inform you about significant transactions, such as our successful advice on the acquisition of the Katharinenhof care portfolio, as well as our newly formed joint venture, "The Healthcare Experts Group", whose mission is to shape and implement the future of healthcare.

In light of current events, we will also examine the latest political developments surrounding the break-up of the government coalition. Our focus is on the hospital reform (KHVVG) that has already been passed by the Bundestag and its likelihood of implementation and impact.

We hope that you will also be able to take away many valuable ideas from this issue.

Yours, Berthold Becker

Managing Director TSC Real Estate Germany GmbH

Beckers Talk: The changing market - seizing opportunities



Berthold Becker, Managing Director, TSC Real Estate GmbH

The German property market is still largely characterised by restraint, particularly among institutional investors. Uncertainties in the global economic environment and a general reluctance to invest have led many players to adopt a wait-and-see approach. But if you take a closer look, you will realise that it is precisely in these times that great opportunities arise for strategic investors.

International investors from the Anglo-Saxon region, the USA and Asia in particular, who tend to be more risk-averse, are increasingly active in Europe and in the German market. These investors, who focus on a long-term perspective, have continued to recognise Germany as a stable and reliable investment location. With its position as Europe's largest economy and its leading role in the healthcare sector, as well as its demographic development and corresponding fundamental data, Germany continues to offer excellent conditions for sustainable investments in this segment.

While German investors are currently still taking a wait-and-see approach, foreign players are seizing the opportunity to get in early. They are focussing on asset classes with long-term earnings potential, such as inpatient care, senior and assisted living and rehabilitation facilities - properties that impress with their stable cash flows and resilience to economic fluctuations. These segments also score highly thanks to their predictable growth forecasts and the increasing social need for senior-friendly living and high-quality medical care.

Even if there are still uncertainties in some areas - the sustainable financing of the pension system, inpatient care or the hospital reform that has now been passed are the most prominent examples - there is a clear trend: the willingness to invest is returning.

More and more players are recognising that the healthcare and senior citizens' property sector in particular is one of the most resilient and promising areas for the future. This is all the more confirmed by the reduction in interest rates, the continued favourable entry prices for stable and long-term let existing properties and the resulting very interesting, largely inflation-proof property yields. These are now also very competitive with those on the international liquid capital markets. It therefore remains

exciting with an upward trend - we are convinced that this market will regain significant momentum in the coming months and beyond.

Conclusion: The German market may still appear frozen in parts at present, and German institutional investors in particular are acting cautiously, but confidence in its long-term strength, particularly in the care, senior living and healthcare sectors, remains unbroken. Foreign investors are increasingly recognising this potential, especially against the backdrop of existing uncertainties in other asset classes, and are taking the opportunity to invest early - a clear indication of the robustness and attractiveness of the German real estate market and, in particular, the German healthcare real estate sector.

Focus on individual sectors

1. Outpatient Care - a Future Market with Great Opportunities

Medical care - especially in the inpatient sector - in Germany is in the midst of a period of upheaval. This is also affecting outpatient care to such an extent that care tasks will have to shift there more than ever before. Both in terms of quality of care and cost efficiency – the paradigms of "outpatient over inpatient" and "prevention has priority over care and illness" are increasingly coming into focus, which is increasing the demand for corresponding outpatient care properties.

However, modern outpatient health and care centres that are conceptually forward-looking, functionally flexible, organisationally and digitally equipped and networked are still in short supply. There is already a substantial undersupply in the outpatient sector and even more so in the future. For institutional investors in particular, this offers an attractive opportunity to benefit from the positive market trends.

At the same time, the question of the availability of suitable products arises. Outpatient care properties are needed but are not available in sufficient numbers and often not in an adequate and sustainable form.

The modern healthcare property will emerge and must emerge in close connection with the restructuring of the inpatient care sector. This transformation process of the inpatient care landscape often precedes the development of outpatient care properties. Before a specific project development can be considered and carried out, medical care concepts - initially independent of property - must first be restructured and developed in municipalities and communities. Only successively or subsequently can the focus be on where and how (outpatient) healthcare - closely interlinked with inpatient full-service and acute hospitals - can take place.

We are addressing this overall process with our newly founded joint venture "The Healthcare Experts Group". With our in-depth expertise and a strong partner network, we want to support this transformation process and drive forward the development of modern, sustainable healthcare centres and – above all – improve medical care.

With such properties and centres, we are not only creating urgently needed healthcare infrastructure, but also promoting an integrated, preventative and modern healthcare concept - also in combination with e-health and telemedicine aspects - that is geared towards the needs of an ageing society with higher and specific medical care requirements. These centres offer doctors, therapists and other healthcare professionals and ancillary providers a flexible and efficient working environment and thus contribute to the sustainable improvement of healthcare.

2. Inpatient Care - Stability and Growth

The market for inpatient care has consistently proven to be one of the most robust and stable segments in the healthcare property sector. Despite the burdens of increased staff costs, the rapid rise in operating, care and property costs due to inflation and the simultaneous significant time lag in refinancing adjustments, the sector and the care segment have demonstrated impressive resilience. Compared to other asset classes, such as office or retail, the risk associated with care property has proven to be below average, while rental income has remained very stable. Many operators were able to significantly improve their margins again over the course of the second and third quarters of 2024 - we are currently seeing EBITDA margins of 5 to 8% and peaks of over 10% in some cases, with further positive development.

In addition, further demand is emerging alongside traditional long-term care for the elderly. Due to the cost pressure in the area of inpatient medical care, i.e. in traditional acute and full-service hospitals, the length of stay of patients is becoming ever shorter. Patients are often discharged immediately after an operation as soon as they no longer need to occupy an inpatient hospital bed. At the same time, however, older patients in particular, cannot yet be reintegrated into traditional nursing care for the elderly. This is precisely where a demand segment for short-term care with appropriate access to medical care arises, ideally in the immediate vicinity of the inpatient hospital unit.

The great interest in inpatient care properties remains robust - increasingly also among institutional investors. Inpatient care remains very popular as it offers predictable and stable returns. The long-term growth prospects are intact and demographic change ensures that the demand for care places will continue to rise. The biggest challenge in the care sector is and remains the availability of staff, which can only be overcome with a concerted effort on the part of both operators and politicians, not least by further reducing the relevant regulatory requirements.

3. Assisted Living - the Underestimated Growth Market

Service living or assisted living is becoming increasingly important, as it represents an important supplement and, in some cases, a substitute for inpatient care. This segment offers senior citizens a self-determined life with simultaneous access to support services - an alternative that is increasingly in demand.

But there are challenges here too: The supply of assisted living properties in Germany remains limited and development projects are rare. The vast majority of existing units are owned by municipal and non-profit organisations, while the private sector only holds a small share (approx. 3.6 %). The existing supply is predominantly in the sometimes very high-priced segment, which is ultimately due to the high production and operating costs.

However, we see great potential and sustained demand in the serviced living and assisted living segment. We assume that - as soon as the capital market and property market stabilise further and, not least, construction can be carried out more efficiently and quickly - there will be significant momentum in this segment and more projects will be implemented again. Furthermore, we see a clear trend in this segment towards types of contracts between property owners and operators that share both risks and opportunities in the operational phase.

In the medium and long term, we expect the assisted living segment to develop into one of the most dynamic growth markets in the healthcare sector.

Successful Advice on the Purchase and Letting of the Katharinenhof Care Portfolio



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A recent example that demonstrates the willingness of international investors to invest in the health and care segment backed by TSC's expertise and market penetration, is the successful advice provided to Civitas European Social Infrastructure Fund SCSp on the acquisition of the Katharinenhof care portfolio. This extensive transaction, which involved a purchase price volume of more than 300 million euros, included the acquisition of 26 care properties by Civitas and 27 care facilities by Alloheim, which was also involved in this transaction through TSC Real Estate. The facilities are located in the federal states of Berlin, Hamburg, Lower Saxony, Thuringia, Saxony and Brandenburg.

In addition to deal creation for and with the buyer, TSC Real Estate managed the transaction process and prepared the commercial due diligence. This transaction is a prime example of how international investors continue to have great confidence in the German care market. "Such a complex transaction process requires not only in-depth expertise and market penetration, but also the ability to successfully coordinate different interests," says Maximilian Woiczikowsky, Director Investment Management at TSC Real Estate. "We are proud to have acted as a leading advisor in this process and to have once again supported the entry of international capital into the German care market."

The care facilities are located in strategically important locations, particularly in Berlin and Hamburg. These central locations make the portfolio particularly attractive for long-term investments, as they not only guarantee high demand but also strong rental stability. More than 85% of the rental income comes from these two regions, which emphasises the economic security of the portfolio.

Alloheim, the largest care operator in Germany in terms of the number of facilities, has concluded long-term rental agreements for 25 years. Together with Civitas, Alloheim is planning a comprehensive Capex programme to modernise the facilities, which also includes energy savings and further ESG measures in accordance with a climate roadmap to be established. This emphasises the focus on sustainability and long-term value retention.

Upon closing of the transaction, TSC will also take over the ongoing management of the properties.

Joint Venture "The Healthcare Experts Group" - New Approaches to Healthcare



Joint Venture "The Healthcare Experts Group" - New Approaches to Healthcare

With the founding of "The Healthcare Experts Group", TSC and its partners are setting new standards in the development of modern healthcare concepts and properties. This joint venture combines specialised and complementary expertise from various sectors to meet the urgent need for modern, flexible healthcare centres. The new company is aimed at municipalities and districts, healthcare companies, investors and other owners, project developers, sponsors and operators.

The focus here is on the goal of actively supporting and managing the transition from inpatient clinics to more outpatient care structures. Modern health centres are not just places of medical care, but an integral part of urban and inner-city life and health promotion. With a clear focus on prevention, general medical and long-term therapeutic care, comprehensive networking, functional flexibility and quality of stay, they offer attractive long-term prospects not only for doctors and patients, but also for investors.

The challenge is to find suitable locations and - especially in the current capital market - to integrate capital into the development process at an early stage. Here too, TSC Real Estate contributes its entire market and planning expertise to create innovative and sustainable property solutions and attractive property investment solutions, particularly for institutional capital. With the joint venture "The Healthcare Experts Group" (THE Group® for short) and the specific and complementary expertise bundled in it, we want to map the entire transformation process with our partners in future - starting with the restructuring of existing inpatient clinic structures, the redesign of care structures with an outpatient focus, the conversion and redevelopment of suitable properties and their construction through to integration into a suitable institutional investment product.

There is a great need for such centres and we see it as our responsibility to play a key role in shaping this process and, not least, to help implement it. With The Healthcare Experts Group (THE Group®) joint venture, we are laying the foundations for the better healthcare of tomorrow.

Medical Care between Hospital Reform and Undersupply



Prof. Dr. Christian Höftberger, Healthcare entrepreneur

Question: What challenges are currently facing the German healthcare system in terms of its fundamental structures?

Prof. Dr Christian Höftberger: The question touches on the cornerstones of our healthcare system - so let me expand a little. Put simply, German healthcare suffers from the following systemic deficits:

Since the time of Chancellor Otto von Bismarck (i.e. for almost 140 years), we have had two very separate and distinct "sectors" of healthcare in Germany, namely the outpatient part, which is organised independently by registered doctors through associations of statutory health insurance physicians, and the inpatient sector, the hospitals. Both sectors are strictly separate from each other. Bismarck lived in an era characterised by strong population growth. In the period from 1871, the population of the German Reich increased from 41 million to 56 million around 1900, so it is not surprising that the system he conceived in its basic pillars is not compatible with the current demographic development since the turn of the millennium - birth deficit, excess deaths and increasing life expectancy. In addition, there have been other structural changes in recent decades, which I will only mention in brief: medical progress, outpatient care and digitalisation.

Since coronavirus, all service providers have suffered from a drop in demand. Patients are evaluating their illness differently and are no longer visiting inpatient care facilities as frequently and willingly as before coronavirus. This is leading to lower capacity utilisation and, in fact, at least the same level of (maintenance) costs. This is another reason why the economic situation of many service providers is poor, with four out of five clinics in the red in 2024, many of them for the umpteenth time.

Finally, there is a shortage of skilled labour and a lack of full funding. The deficits and therefore the need for reorganisation are increasing. Not all services can be provided with fewer skilled staff, which further reduces revenue. This leads to a decline in the attractiveness of many existing service providers,

both on the labour market and from an investor perspective. Together, the three strands have a toxic effect.

Question: Where does the high demand for outpatient care properties come from and can it be quantified?

Prof. Dr. Christian Höftberger: Thus, outpatient care requirements are increasing for several reasons: Medicine is evolving. More and more procedures can be performed on an outpatient basis. Whereas hospital management used to ask whether a procedure could be performed on an outpatient basis, today the question often arises as to whether a procedure needs to be performed on an inpatient basis. This is because resources are scarce and must be reserved for those patients who are seriously ill and require inpatient care. Politicians are promoting the process of outpatient treatment because, in essence, "less effort for treatment" means "more cost efficiency". Outpatient treatment is faster, costs less money and ties up fewer resources.

If existing inpatient service providers switch their range of services to outpatient treatment, they will need outpatient structures. You cannot simply use an inpatient structure, e.g. a clinic, as an outpatient healthcare centre without making changes. This is because routing, logistics, parking facilities and other framework conditions must be significantly different in order to make ends meet with the significantly lower outpatient remuneration. Outpatient surgery centres, intervention centres and day care facilities are therefore creating new, growing demand for outpatient structures. Unfortunately, it is not possible to put a precise figure on this, but in terms of the size of the healthcare sector in Germany, I am talking from my own experience about a huge market worth billions.

Question: How could a promising solution approach be designed?

Prof. Dr. Christian Höftberger: The possible solutions lie primarily in analysing the local supply structures and creating tailor-made offers for the players in the (outpatient) healthcare industry: which of the current contract doctors could imagine relocating their practice to a new healthcare property, what vacant seats are there, how can these seats be filled and is there an employment option for prospective doctors who - at least at the beginning of their career - usually do not want to be self-employed. If these needs are properly assessed and the property is developed from within - i.e. in line with the needs of the region - and in line with the needs of doctors and other stakeholders, then this is a highly interesting asset class because there are solvent, stable tenancies. This is also due to the fact that the attractiveness of a medical and healthcare centre with many providers - therapy, pharmacy, medical supply stores, other services and many different medical specialities - is higher for all parties involved than the existing structures. Incidentally, this often also applies to our hospital structures, which are simply not designed for this high number of outpatients.

Question: What do modern utility properties look like? Are there different concepts?

Prof. Dr. Christian Höftberger: Modern healthcare properties are diverse and colourful, providing a high quality environment backed up by digital tools and workflows. If possible, they cover all the specialisms that the respective region, e.g. the district or a city or municipality, needs.

This creates attractive jobs, short distances between the players in a medical system based on the division of labour and increases patient satisfaction with their treatment and care. Because many

doctors work under one roof, help and care is offered on all days of the week, from early to late and in many places even on Saturdays, which is particularly attractive for working people. The more such services there are, the less there will be a lack of an inpatient clinical structure, which is now likely to change anyway as a result of the Hospital Care Improvement Act (KHVVVG).

Question: Are only properties needed or are consolidating structures also important?

Prof. Dr Christian Höftberger: Yes, that's a good and important point. Healthcare needs to be organised and thought about in regions: digital, outpatient, inpatient and rehabilitative or nursing and therapeutic. The gears of the individual service providers must mesh well and work together. It fits in well with this if new services, such as short-term care or a "patient hotel structure", are also established in hospital structures that are no longer needed. We always cite Pohlheim, a municipality in central Hesse with around 20,000 inhabitants in its catchment area, as a prime example. There are five medical and health centres flanked by a retirement home and two supermarkets on a former paddock. The centre is called "Neue Mitte" and cooperates closely with the nearby Asklepios Clinic Lich. This has worked extremely well for more than ten years - in some cases with doctors working on an outpatient and inpatient basis - and has led to the creation of one of the largest German rectal centres with the highest possible certifications and an excellent reputation, which can be operated successfully. Such projects also please politicians and authorities, because this is the only way to fulfil the common interest in providing healthcare in a cost-effective way.

Berthold Becker featured in Germany's "Immobilienzeitung"

In an exclusive interview with Immobilienzeitung our Managing Director Berthold Becker talks about the opportunities and challenges in the healthcare property market. He talks about the role of international investors and the long-term importance of sustainable healthcare property in Germany.

Read the full interview to find out more: <https://www.iz.de/unternehmen/news/-joint-venture-the-healthcare-expertswill-mehr-als-aerztehaeuser-2000028510>

The investment opportunities in the healthcare, health care infrastructure and life science sectors are diverse and associated with high potential as well as stable and sustainable returns. The latest transactions are evidence of investor interest. With our many years of relevant experience and a broad network, we can help you capitalise on the best opportunities. Feel free to contact us - we look forward to hearing from you!

Yours, Berthold Becker

Managing Director TSC Real Estate Germany GmbH