

HEALTHCARE SEGMENTS KEY TRENDS AND FUNDAMENTALS

Beyond the ageing population trend, healthcare investment performances are heavily impacted by the ability of operators to manage the assets profitably. This edition of Living Thoughts discusses the relationships within the main healthcare segments between fundamentals, operators' profitability and ultimately real estate investment decisions.

SUPPLY / DEMAND BALANCE IS KEY FOR LTC PERFORMANCE

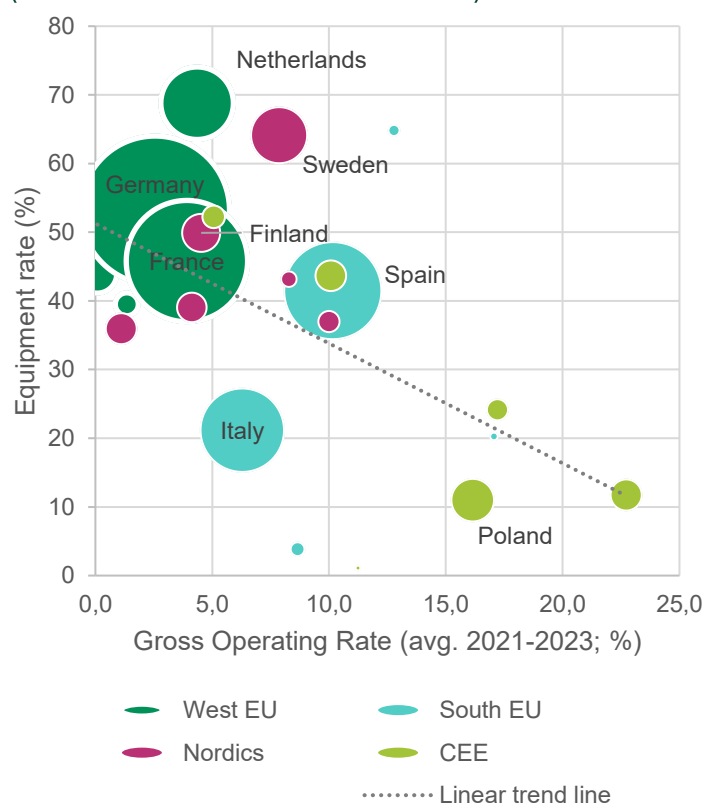
Healthcare real estate has established itself in Europe as an investment asset class in its own right over the last 15 years and sector performance were clearly linked to operators profitability. Investors mostly focused on long-term care (LTC) assets (e.g. nursing and care homes) and leveraged the increasing demand due to the ageing population. What appears to be relevant for LTC operators' performance is the supply/demand balance.

Figure 1 looks at the relationship between two market variables for LTC businesses: the latest available equipment rate of beds for population above 65 years old, as a proxy of the supply/demand balance, and the gross operating rate to reflect operators' profitability. The latter includes all enterprises operating as market producers which are typically private healthcare providers or publicly owned companies that operate commercially and potentially certain public health entities legally structured as enterprises, which obviously generates some bias when assessing a profitability indicator.

This analysis shows how countries in Southern and Central Eastern Europe, where the equipment rate is lower, recorded generally higher gross operating rates than in Western and Northern Europe where the equipment rates are greater. The favorable supply/demand balance supports higher occupancy and ultimately operators' performance. This is key to defining allocations within European healthcare strategies, as markets with better supply/demand balances may be more attractive when assessing from a macro point of view.

However, LTC operators' margins are on average thin, which means that their ability to run the business cost-efficiently is pivotal. Assessments of operational KPIs are therefore crucial during investment selection processes and ongoing asset management.

FIGURE 1: LTC GROSS OPERATING RATE ('21-'23 AVERAGE) AND EQUIPMENT RATE (BEDS EVERY '000s POPULATION ABOVE 65 YEARS OLD)



Source : Eurostat. Bubbles size: total beds per country
Note: gross operating rate is the ratio between gross operating surplus and gross turnover for all enterprises in each country

SHORT AND MEDIUM STAYS SEGMENT GROWTH

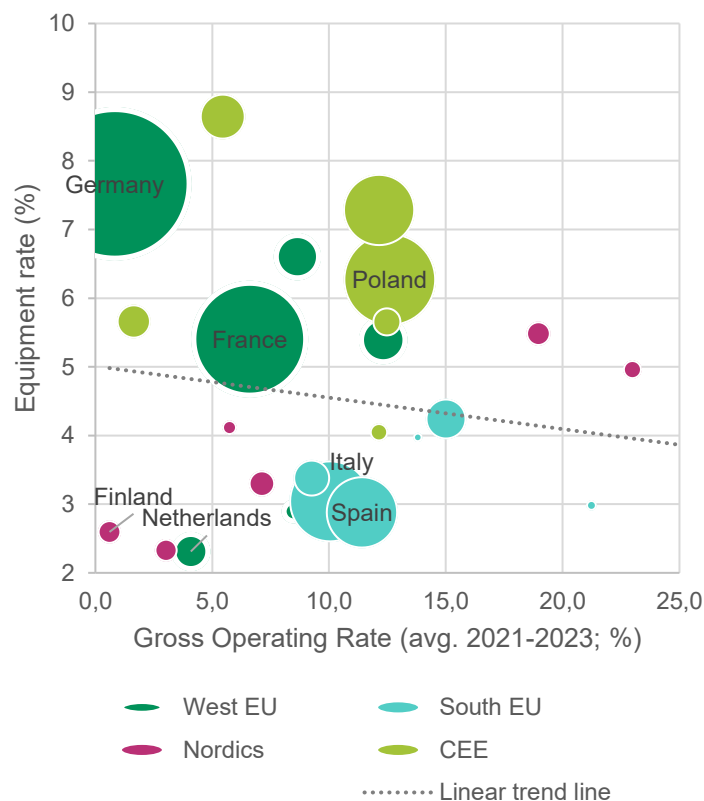
The healthcare sector has a growing array of investment options. In the first investment wave, up until around 2020, LTC assets were the main target, but investors are now increasingly pursuing private short and medium stays facilities (including general and specialised clinics or hospitals, somatic and mental care). The latter have accounted for c.40% of European healthcare transactions since 2020.

The relationship of short and medium stays healthcare activities to gross operating and equipment rates is slightly different to the LTC segment. Firstly, the operating rates of hospitals are on average higher; already a good reason for real estate investors to earmark part of their allocations to them.

Secondly, the equipment rate across Europe is more homogeneous in the short and medium stays sector than in LTC, while the operating rates are more spread out. This may be due to several factors.

Short and medium stays facilities may provide a broad range of services that do not necessarily require overnight stays, so their beds equipment rates may not be the best supply/demand indicator. Investors should therefore assess indicators tailored to the specific investment case. Moreover, LTC is mostly privately operated while hospitals are mostly public owned. The competitive landscape is different and the demand for private hospitals is greatly influenced by local out-of-pocket expense capacity.

FIGURE 2: HOSPITALS GROSS OPERATING RATE ('21-'23 AVERAGE) AND EQUIPMENT RATE (BEDS EVERY '000s POPULATION)



Source : Eurostat. Bubbles size: total beds per country
 Note: gross operating rate is the ratio between gross operating surplus and gross turnover for all enterprises in each country

INCREASING MATURITY OF THE HEALTHCARE SECTOR

The gradual growth of the healthcare real estate sector continues, despite the overall market slowdown of recent years. Investment in European healthcare is likely to reach its highest volume ever in 2025. This makes it unique among real estate sectors, as investment volumes for the rest are well below peak levels. This is due to the institutionalisation of the sector, which is gradually shifting from owner/occupancy to investor ownership.

This is increasing the market size and the possibility for investors to make considered investment decisions based on markets and segment trends. In the LTC segment, Southern Europe may be a good way to diversify from the larger European markets of Germany and France thanks to the favourable supply/demand balance. Furthermore, investing in the short and medium stays sector could provide an additional diversification layer as the segment responds to a more diversified set of macro indicators.

INVESTMENT MANAGEMENT



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