



THE EUROPEAN CARE HOME REAL ESTATE MARKET



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DEMAND DRIVERS

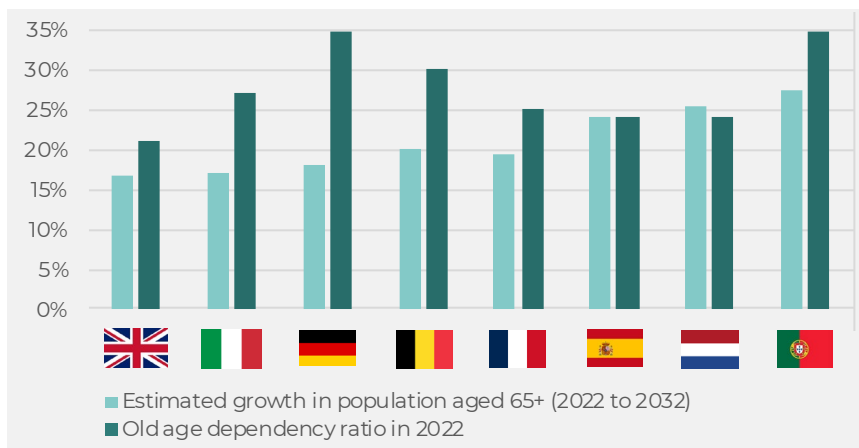
Over the next 10 years the elderly population is expected to increase by 17%

Governments allocate between 1 and 4% of their GDP on long-term care

Focus on dementia care and new reforms in the UK market

EUROPE'S AGEING POPULATION

The European population is getting older. Oxford Economics forecasts an average **20% growth in the population aged 65+** in the next 10 years, and this tendency goes hand and hand with a net increase, 26% on average, of the dependency ratio. This context creates and will continue to create a **strong demand** for elderly care facilities.



Source : Oxford Economics, 2022



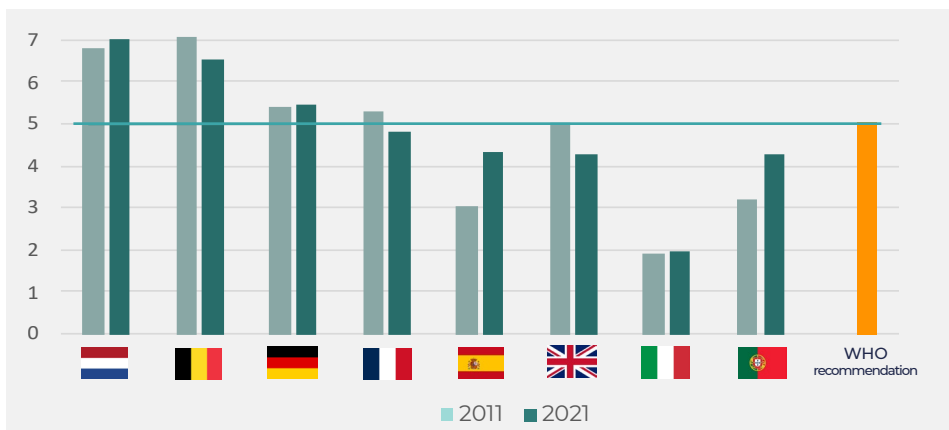
FOCUS: DEMENTIA CARE IN THE UK

In the UK, dementia clients accounted for 41% of the total independent sector market value.

The number of people with dementia in the general population is rising each year and a UK figure of 850,000 has recently been quoted by the Alzheimer's Society, with numbers set to rise to over 1 million by 2025 and 2 million by 2051. This makes dementia care by far the **largest « niche » market** within the broad older care grouping.

Laing Buisson's most recent surveys of UK care homes have found that the fee premiums paid for dementia compared with frail older residents are typically quite modest, amounting on average to about £15 per week for residential care and about £30 per week for nursing care.

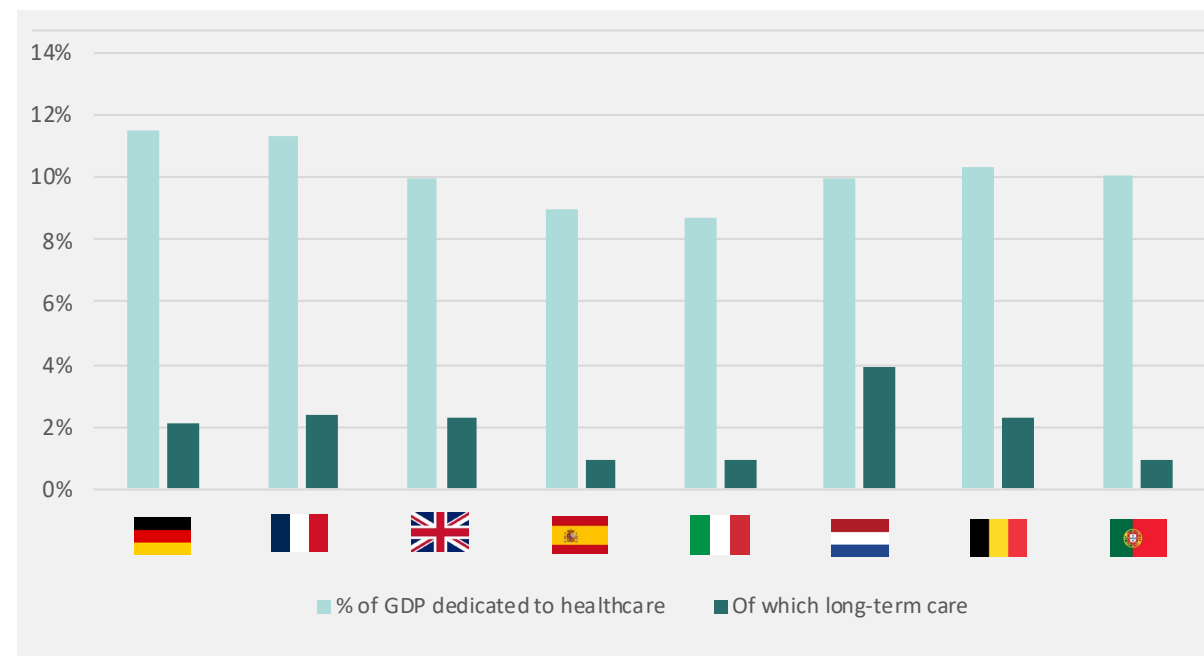
CARE HOME BED SUPPLY PER 100 PEOPLE AGED 65+



Source : OECD, 2021

The current supply of care home beds in Europe is overall **below the WHO recommendation of 5 beds per 100 people aged 65+**. For example, Italy is one of the most undersupplied markets whereas its elderly population is estimated to grow by 17% in the next 10 years.

PERCENTAGE OF GDP DEDICATED TO HEALTHCARE AND LONG-TERM CARE



Source : Eurostat, WHO, Eurofound, Patron Capital, Greenstreet, INSEE, Xerfi, 2021

Governments dedicate on average between 9% and 12% of their GDP to healthcare, and more specifically **between 1% and 4% on long-term care**, of which care homes belong.



FOCUS: EFFECT OF REFORMS ON BRITISH CARE HOMES CAPACITY

The capacity contraction of British care homes following the community care reforms in the 1990s is particularly surprising, more so since it took place at a time of population aging. The explanation is that income support funding (abolished for new applicants in 1993) had been available without any needs test whatsoever and had encouraged large numbers of older people to enter care homes who, under today's eligibility criteria, would never have been admitted at public expense. Over the next decade, local authorities made their eligibility criteria progressively tighter, leading to the massive shake-out of capacity.

Until **October 2023**, English local authorities were not supporting elder people having more than £ 23,250 worth of wealth (value of property being included, if owned) whereas with the **new reform**, people having until £ 100,000 worth of wealth will be entitled to receiving financing support to pay, they care home fees, on a sliding scale. Moreover, the cost of care to the resident (regardless of wealth and income) will be capped at £ 86,000 over its lifetime. This new reform is likely to lead to a capacity increase of care home beds in England in the coming years.

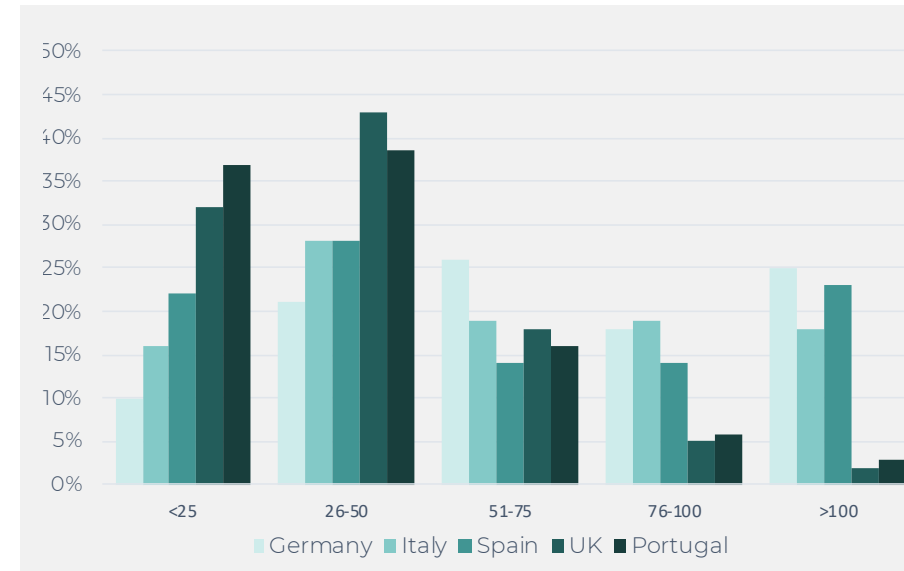
CARE HOME SUPPLY

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Care home characteristics vary greatly from one European country to another

Focus on the changing operational landscape of healthcare in the Italian market

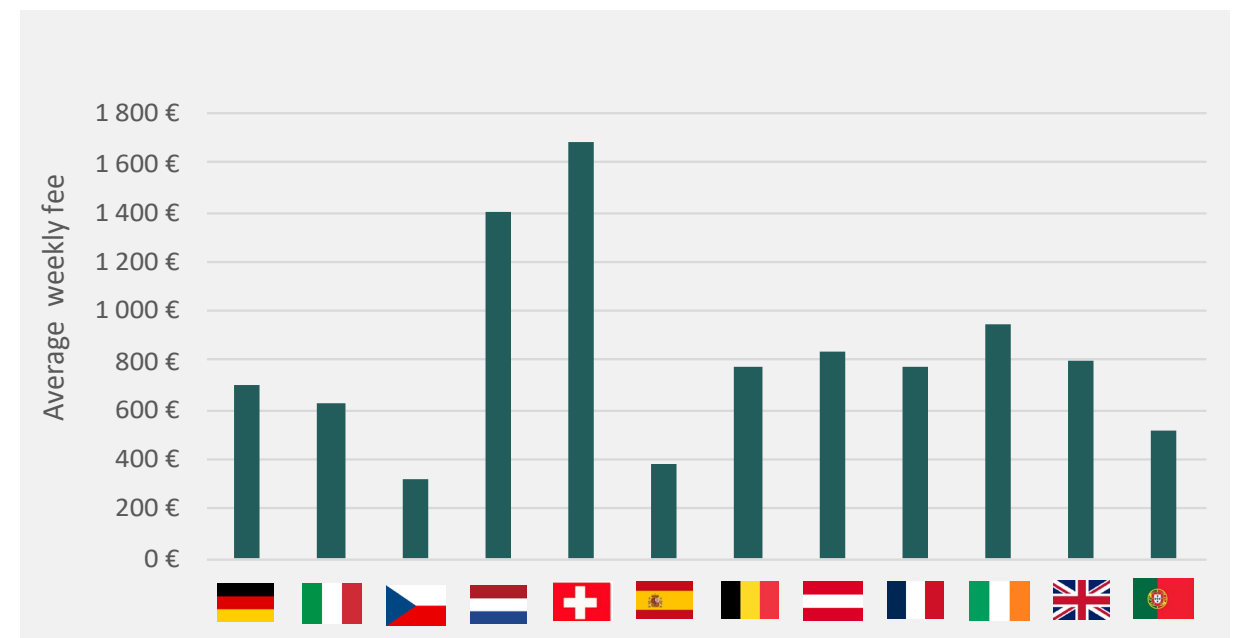
AVERAGE NUMBER OF BEDS PER STRUCTURE



Care home characteristics **vary greatly** from one European country to another. The UK is by far the market where the structures are the smallest (75% of its care homes having less than 50 beds) with many facilities that were not purpose-built, whereas 43% of the German care homes host more than 75 residents.

Source : CQC, Itccovid.org, Savills, 2020

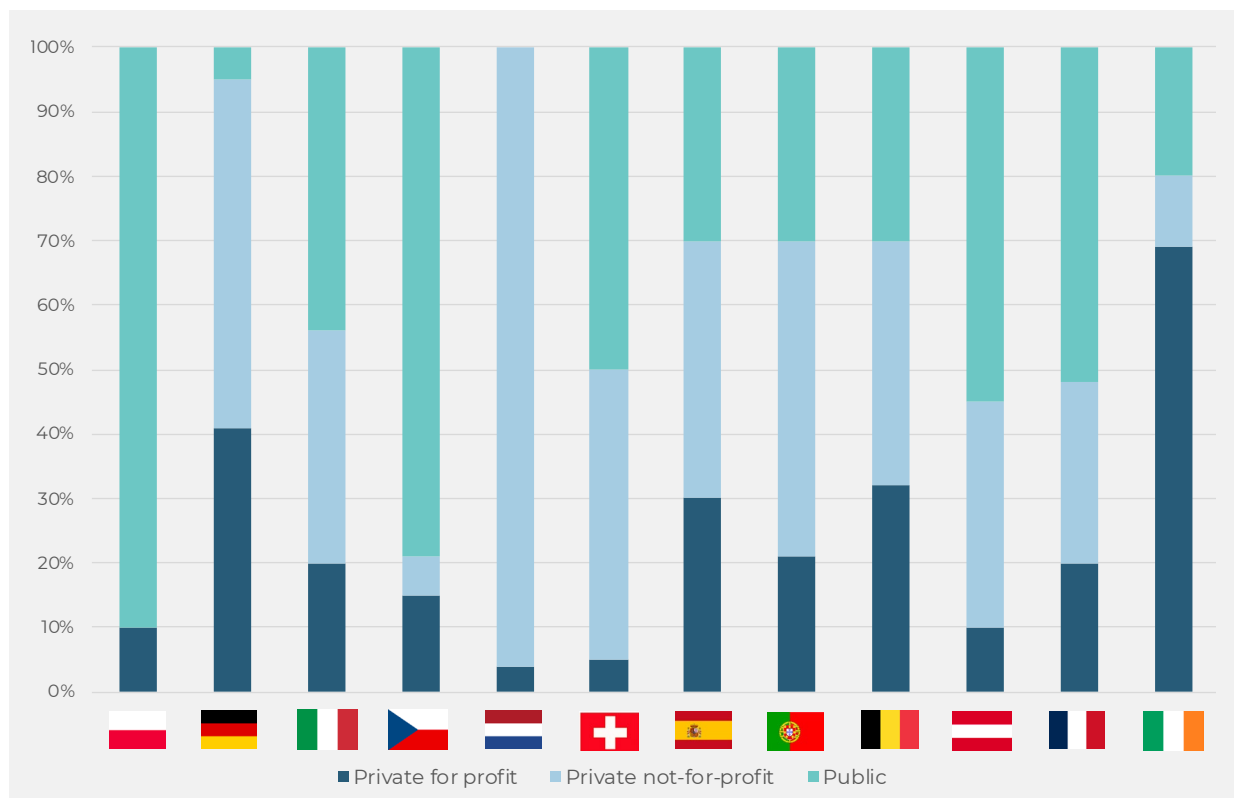
AVERAGE WEEKLY FEES IN CARE HOMES ACROSS EUROPE



Source : Orpea, Statista, 2021

The standard of living in the different European countries is reflected in the prices of nursing home places. Not surprisingly, Switzerland has the highest fees with on average 1,680 € per week, whereas in Czechia care homes charge a weekly average fee of 315 €.

PUBLIC AND PRIVATE OPERATOR'S MARKET SHARES



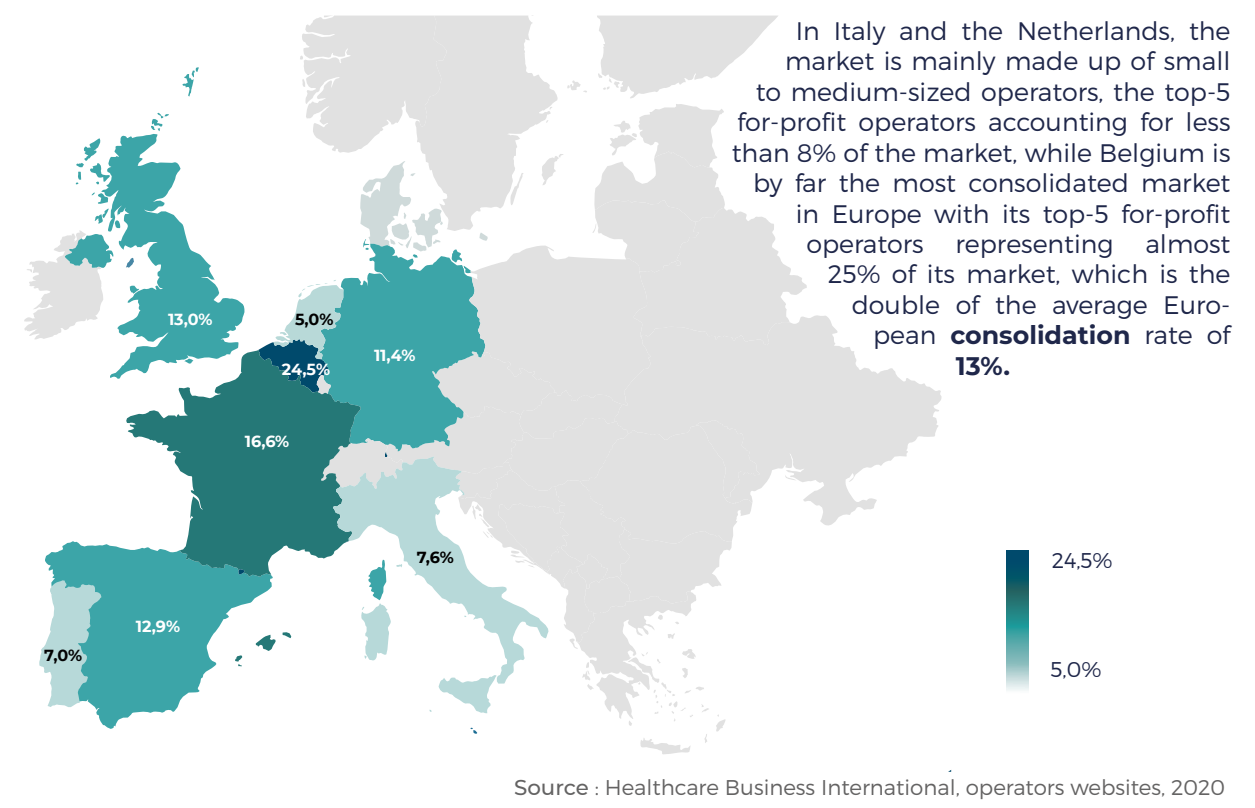
Source : Europe, Eurofound, Tomorrow's Guides, Green Street, Knight Frank, 2020

The market share made up of private operators vary substantially from one European country to another, depending on their economic policies and traditions. Healthcare to the elderly has historically been more public than private in Europe, but budget constraints

brought **more and more private operators** to this market. Private operators divide themselves into **private for-profit**, and **private not-for-profit**. At the far ends of the private/public spectrum stand respectively the UK and Poland, with private for-profit operators repre-

senting more than 80% of the market in the UK due to their historical favor of free-market solutions, while the Polish market dominated by 90% of public operators is a reflect of its past as a socialist country before the 90s.

MARKET SHARE OF TOP 5 FOR-PROFIT OPERATORS

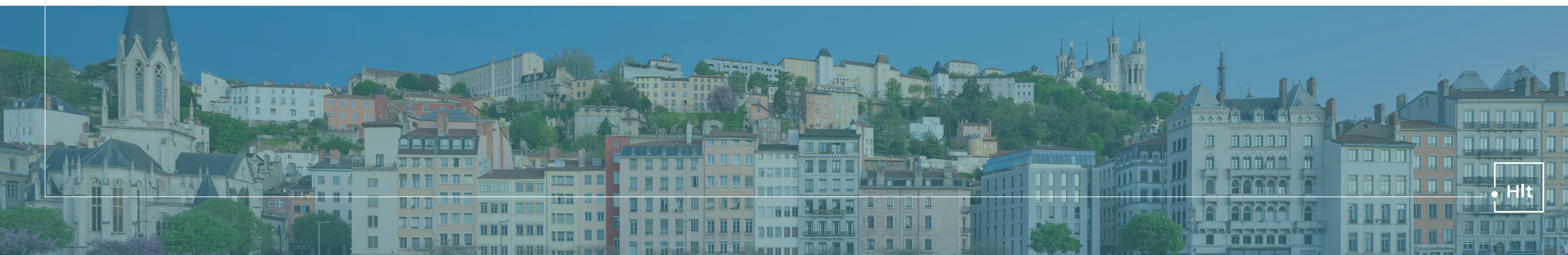


In Italy and the Netherlands, the market is mainly made up of small to medium-sized operators, the top-5 for-profit operators accounting for less than 8% of the market, while Belgium is by far the most consolidated market in Europe with its top-5 for-profit operators representing almost 25% of its market, which is the double of the average European **consolidation** rate of **13%**.

Source : Healthcare Business International, operators websites, 2020

FOCUS: SHIFT IN THE HEALTHCARE OPERATING SCENE

According to a Healthcare Business International study, most of the not-for-profit Italian operators, managed by old religious orders, are in poor financial condition. Simultaneously, the Italian government is in a process of withdrawing from the responsibility of operating care homes, and therefore many public operators and not-for-profit operators are leaving the market and selling out to **for-profit operators**, who are expected to **gain market share** and in the next years.



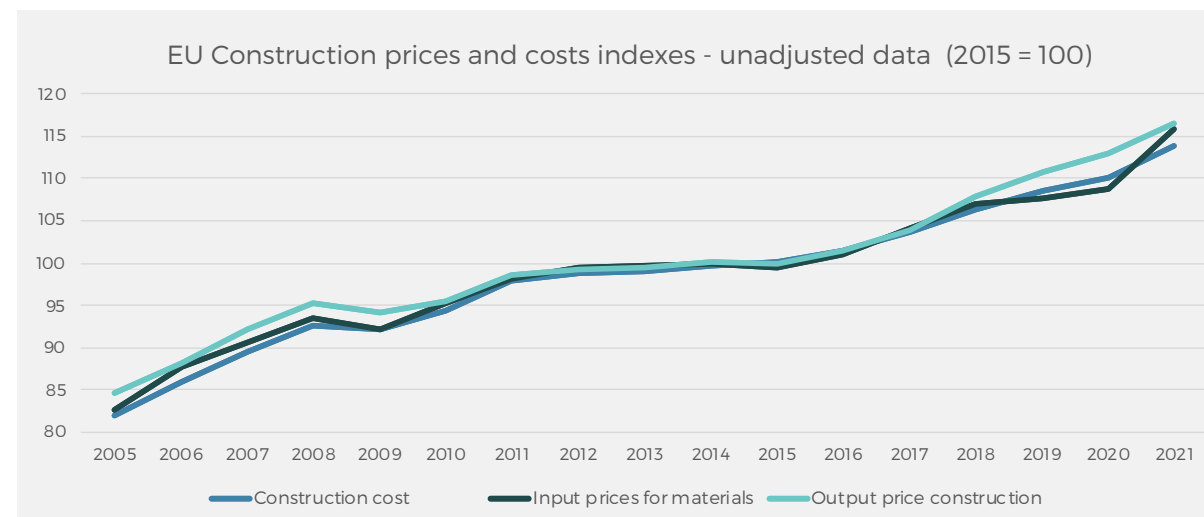
CONSTRUCTION, ESG CRITERIA AND FUTURE-PROOF ASSETS

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11 guidelines for future care homes

Focus on the latest requirements for elderly care facilities in the Spanish market

CONSTRUCTION PRICES AND COSTS

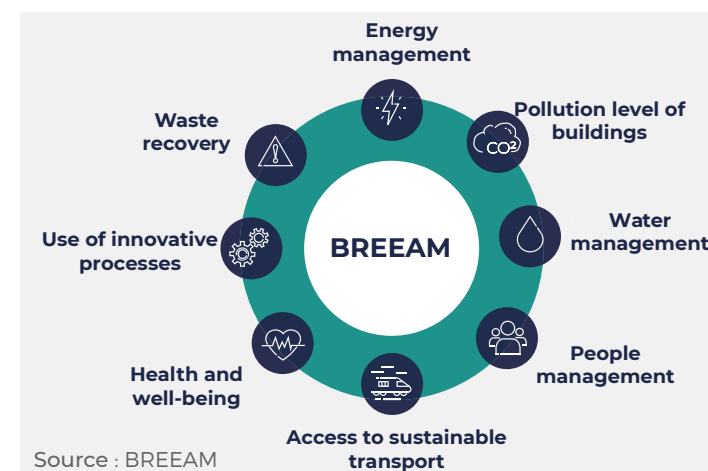


Source : Eurostat, 2021

The graph points out an **exponential increase** in construction costs and prices over the last 15 years. The analysis of the construction cost index between 2015 and 2021 shows an increase of 15%. The construction cost index (CCI) is a European Union (UE) business cycle indicator showing the trend in the cost for new residential buildings. Additionally, the input prices for materials and the output

price of construction as well as the construction costs are reaching their maximum in 2021 and 2022. The recovery of economic activity after the various lockdowns linked to the covid-19 health crisis and therefore the surge in demand that followed increased the prices of construction, which were then further exacerbated by the current geopolitical situation and the energy market.

ESG CRITERIA IN REAL ESTATE



Source : BREEAM

Real estate firms have an increasing responsibility in performing climate-risk due diligence, and above all need to comply with the current environmental recommendations and foresee the upcoming measures.

Investors and lenders are beginning to factor a company's ESG policies into their decision-making processes as they want to ensure the business is developing sustainable plans to combat the effects of climate change; reduce costs; attract tenants; create ways to support the community and properly set, monitor, and report on the company's goals as well as to comply with the upcoming laws.

For example, for the greenfield assets, investors are more and more asking for **ESG certifications** such as the **LEED** certification or the **BREEAM** certification. They are sometimes ready to pay a premium to have the building they are buying certificated.

FUTURE PROOF GUIDELINES

Institutions are gradually recommending a futureproofing of the care facilities to prepare resilient facilities for the future needs of the residents. Here are some points from the new **Care Inspectorate Guidelines** which is a scrutiny body which supports improvement, look at the quality of care in Scotland to ensure it meets high standards and support services to make positive changes where improvement is needed.



11 guidelines for future care homes:

- 1 No more than 60 residents in total** | A dining area for every 18 beds is imperative. This will facilitate the management of catering within the facility. It will also facilitate the movement of clients without putting a lot of effort and time into it.
- 2 Small group living : max 10 beds per group** | This type of system will allow visits to be made without access to the care home in the event of an outbreak. This will reduce the spread of viruses in the event of a pandemic and protect both visitors and elderly clients.
- 3 Dementia design features** | Specific floors by type of illness must be set up to better manage the clients' stay.
- 4 One dining area for each 18 beds** | This will facilitate the management of catering within the facility. It will also facilitate the movement of clients without putting a lot of effort and time into it.
- 5 Communal space at a ratio of 6m² per person** | Common areas such as dining rooms and activity rooms must meet these standards in order to provide high quality services in large enough spaces where clients will be happy and satisfied with their treatment
- 6 The kitchen must not be situated next to the laundry and dirty utility areas** | For sanitary and cleanliness reasons, the kitchen and dining areas should not be located near dirty utility areas and laundry rooms.
- 7 Bedroom patio doors must also have an opening window** | Bedroom patio doors must have an operable window for ventilation purposes.
- 8 Only single and double rooms in the facilities** | Triple and quadruple rooms are excluded from this transition to future proof because of the fragile privacy offered by these types of structures.
- 9 The number of single rooms has to be higher than the double ones** | Facilities must have more single rooms than double rooms in order to provide personalized, quality services. Privacy remains a very important element for the elderly.
- 10 En-suites to be wet floor and min 6m²** | The surface of the en-suites is very important to make the stay of the elderly more pleasant
- 11 One assisted bath per 10 beds** | An assisted bathroom is mandatory for every 10 beds so as not to clutter its use.

As well as for the ESG policies, investors are highly cautious about the future-proof aspect of the facilities, which makes part of their top investment criteria.



FUTURE PROOF



FOCUS: LATEST REQUIREMENTS FOR ELDERLY CARE FACILITIES

The Spanish Ministry of Social Rights and the autonomous communities approved in June 2022 the agreement that sets the **minimum requirements** to be met by dependency services and care homes in Spain.

Among the major requirements, there are:

The **prohibition of the construction of macro-centers** for the elderly: depending on where the facilities are built, the maximum number of beds is between 75 and 120, whereas the capacity was not capped before:

Part of **single rooms**:

- For the new buildings: 65%
- For the existing structures: at least 35%

Each service must be constituted as an **independent small unit not exceeding 15 residents**.

Some employers stated that the reform would result in a «significant reduction» in the supply of places «which is already at a critical point without being able to meet the waiting list and therefore jobs in the residences.»

For example, in the Canary Islands there are at least eight residences that exceed 120 places, the maximum limit foreseen by the Government for residences in Spain. According to a draft report published by El País, the agreements currently in force will continue until the autonomous regions approve a regulation to adapt to the new requirements, «which will be enforced within 12 months». The transition deadlines are still being worked out and, in addition, the negotiations have not been concluded as they are still in draft form.

However, there are some pioneer players who thought about the implementation of these future-proof recommendations that recently turned into legislation.

INVESTMENTS

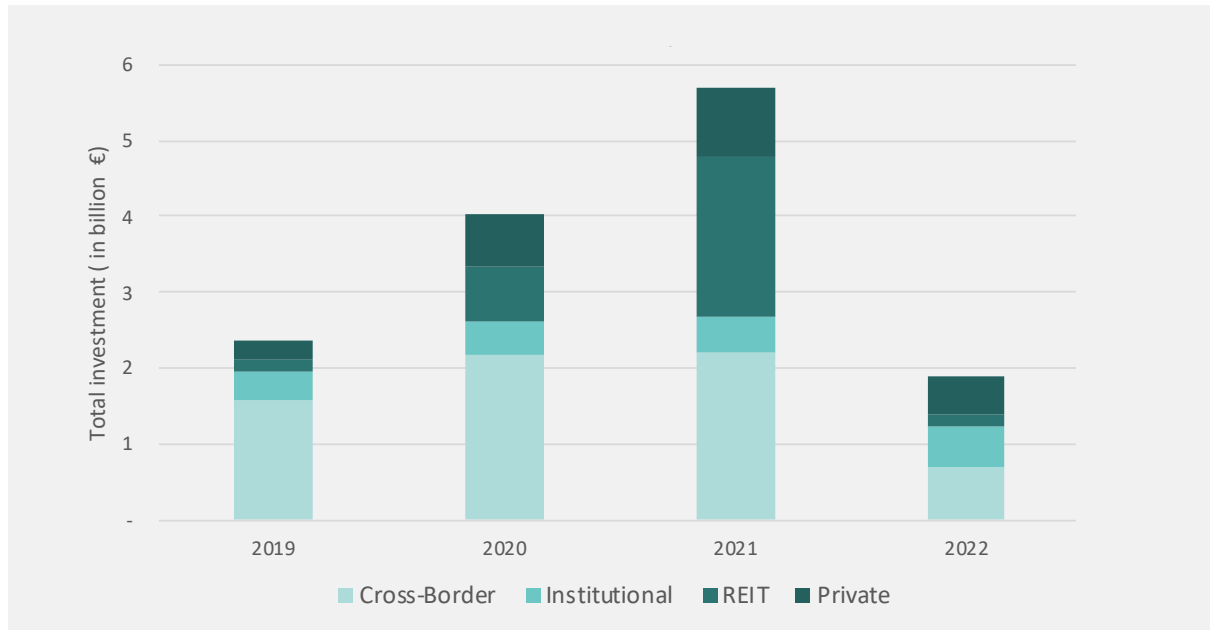
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Niche sector of elderly care investments is expanding

Investors are increasingly present in Europe in the healthcare sector

TOTAL INVESTMENT VOLUME IN EUROPEAN CARE HOMES

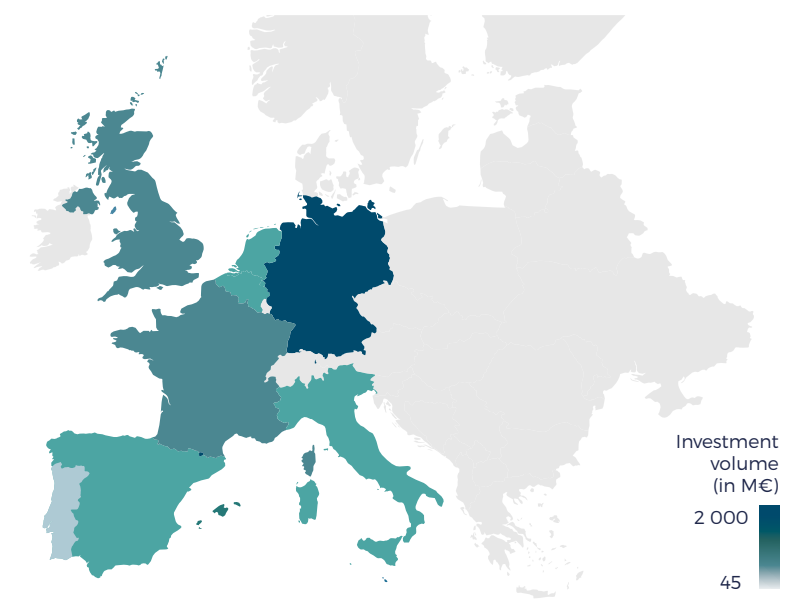
The niche sector of elderly care investment is taking momentum as investors get ever more interested in this **counter-cyclical market**, backed by **strong demand drivers**. And the appetite of investors for this category of assets is much likely to keep growing in the coming years. **Cross-border investors** represent the major providers of the amounts invested, but their share decreases over years, from 67% in 2019 to 39% in 2021.



Source : MSCI - RCA, 2022

AN ATTRACTIVE NICHE MARKET

Germany welcomed the biggest investment volume among the European countries in the last 2 years with a total amount of 2 billion € invested on its territory, 50% of it having been brought by cross-border investors. Cross-border investors realized 91% of the volume of acquisitions in Italy, while in Belgium it was national investors who realized more than 90% of the investments, thus reflecting the different investors' profiles throughout Europe.



Source : MSCI, ofx.com, 2022



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