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NURSING CARE REAL ESTATE

FROM NICHE PRODUCT TO INSTITUTIONAL
INVESTORS' FAVOURITE

REPORT | 2021

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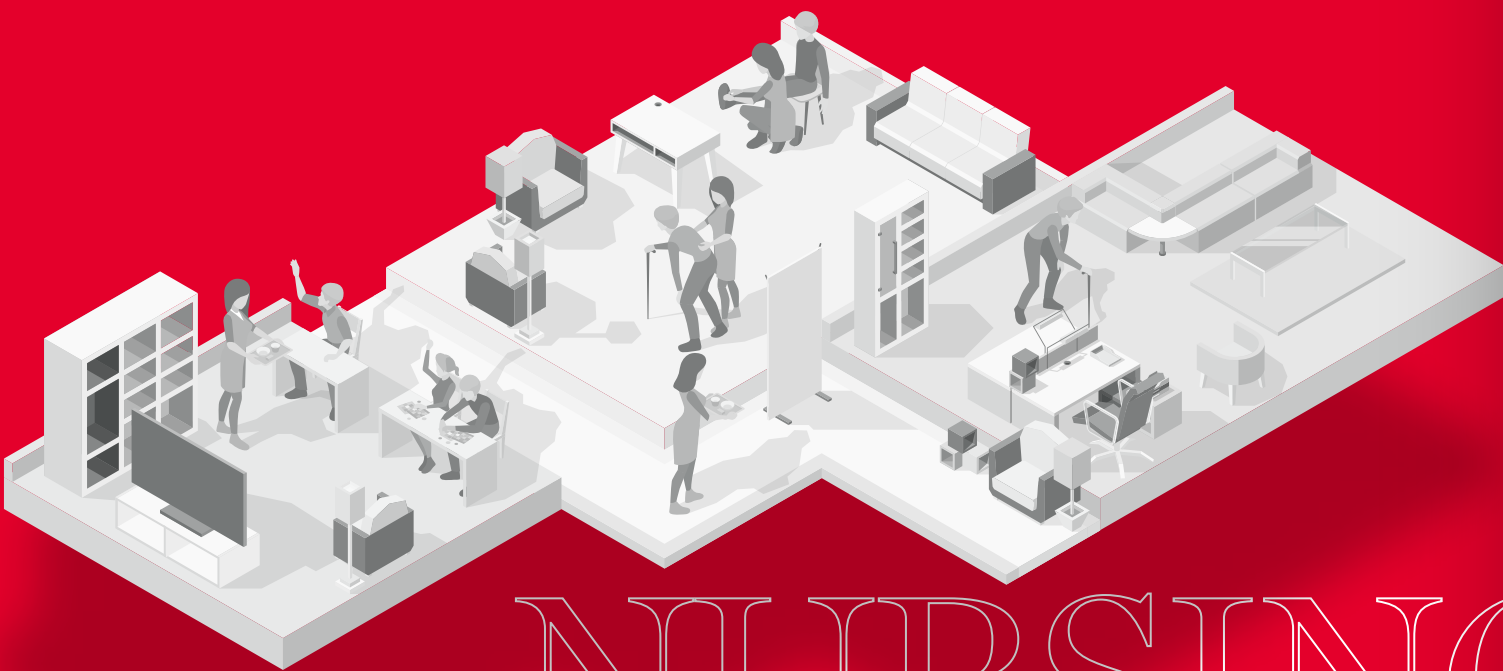
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NURSING
CARE
REAL ESTATE

FOREWORD

Applause for the care professions. The Covid-19 pandemic is once again bringing hospitals, nursing homes and the people who work and live in them, into focus. Although the political debates about salaries in these professions predate the advent of the pandemic, they are now once again addressing issues such as: What is good care worth? What should the care ratio look like? And, for us, also: What does this mean for real estate?

COVID-19 has changed Germany and the entire world. Since the beginning of 2020, we have been experiencing the economic and also the social consequences of the pandemic. It quickly became clear that the over-65 age groups have the highest mortality risk. Residents of care homes therefore require collective protection. In this report, we analyse the care sector, look at current market data and analyse the sector; also with the help of our new care barometer. In doing so, we also repeatedly take a look at the effects of the pandemic on the sector.

Additionally, which alternative forms of care and housing promote independence and self-determination in old age? Assisted living and care communities are gaining in popularity and have recorded rising market shares in recent years. And there is also a lot happening in intensive care. Learn more about ambulant intensive care at home and 24-hour care in special intensive care facilities.

With the Covid-19 pandemic, healthcare real estate is once again becoming a crisis-proof investment for investors. Care properties are Germany's number one growth market and have developed from being a niche product to being a favourite of many institutional investors in recent years. The Q3 2021 investment volume of 1.35 billion euros was limited only by the severe shortage of product. In 2020, the prime yield for care property transactions was undercut once again, reaching the 4.0 per cent mark. We expect further compression to the end of 2021.

Nursing care real estate has developed from being a niche product to being many institutional investors' most favoured asset class.

Read more about the emerging asset class in our interviews with Valérie Bensiek and Felix von Braun. Valérie Bensiek, Head of Asset Management Germany at French healthcare real estate investor Icade, is responsible for the expansion in Germany and describes the market here from the perspective of an international investor. Felix von Braun, CEO of DPF AG, talks to us about innovative assisted living concepts in the premium segment. We are also pleased to share with you an expert assessment of the market-leading property developer Cureus on the care property of the future.

We hope you enjoy reading this issue.



Jan-Bastian Knod

Partner, Head of Healthcare Advisory
Head of Residential Advisory
Capital Markets

NURSING CARE REAL ESTATE



02

NURSING CARE REAL ESTATE:

MARKET & OPERATORS

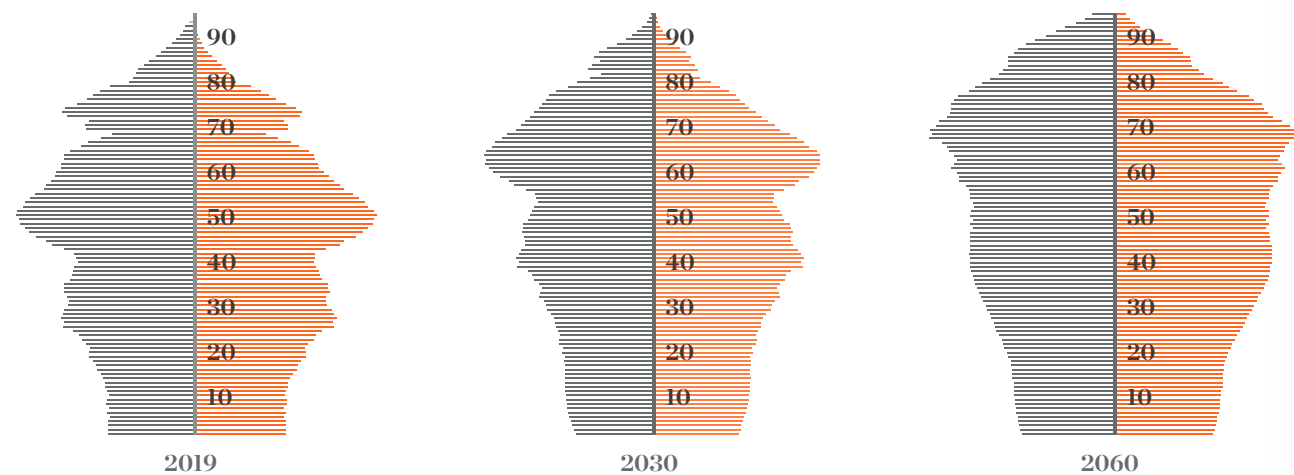
MARKET & OPERATORS

1. LIVE INDEPENDENTLY LONGER

The proportion of the population who are 60+ is growing. This means the demand for inpatient nursing homes and alternative forms of care in Germany is also growing. Almost 30 percent of the population was already over 60 by 2019; approximately 24.1 million German citizens. However, the baby boomers, who were born between 1946 and 1967 are only now reaching retirement age and will increase the demand for care services further over the next ten to fifteen years.



83.2 M. PEOPLE

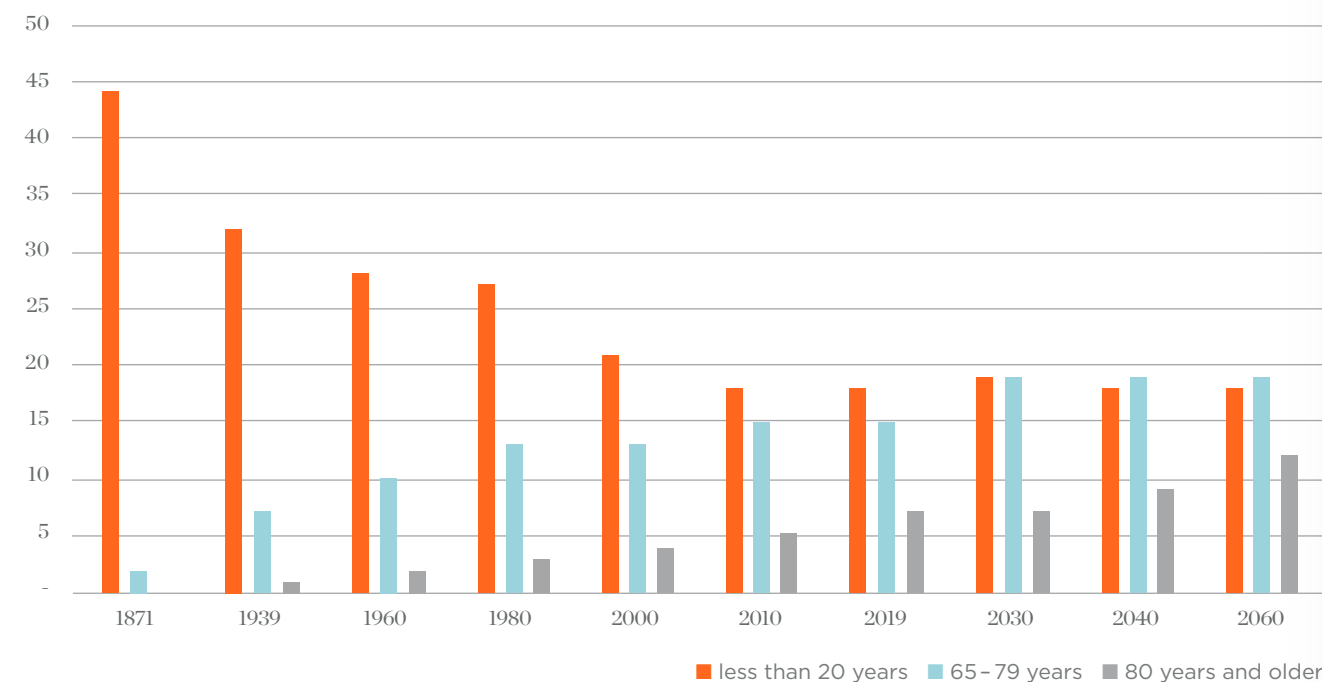


Source: Statistisches Bundesamt (Destatis), Cushman & Wakefield

THE DEMOGRAPHIC SHIFT IS HAVING A DRASTIC EFFECT ON THE PENSION SYSTEM.

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Age groups 1871 to 2060



Source: Statistisches Bundesamt (Destatis), Cushman & Wakefield

Pension bottleneck

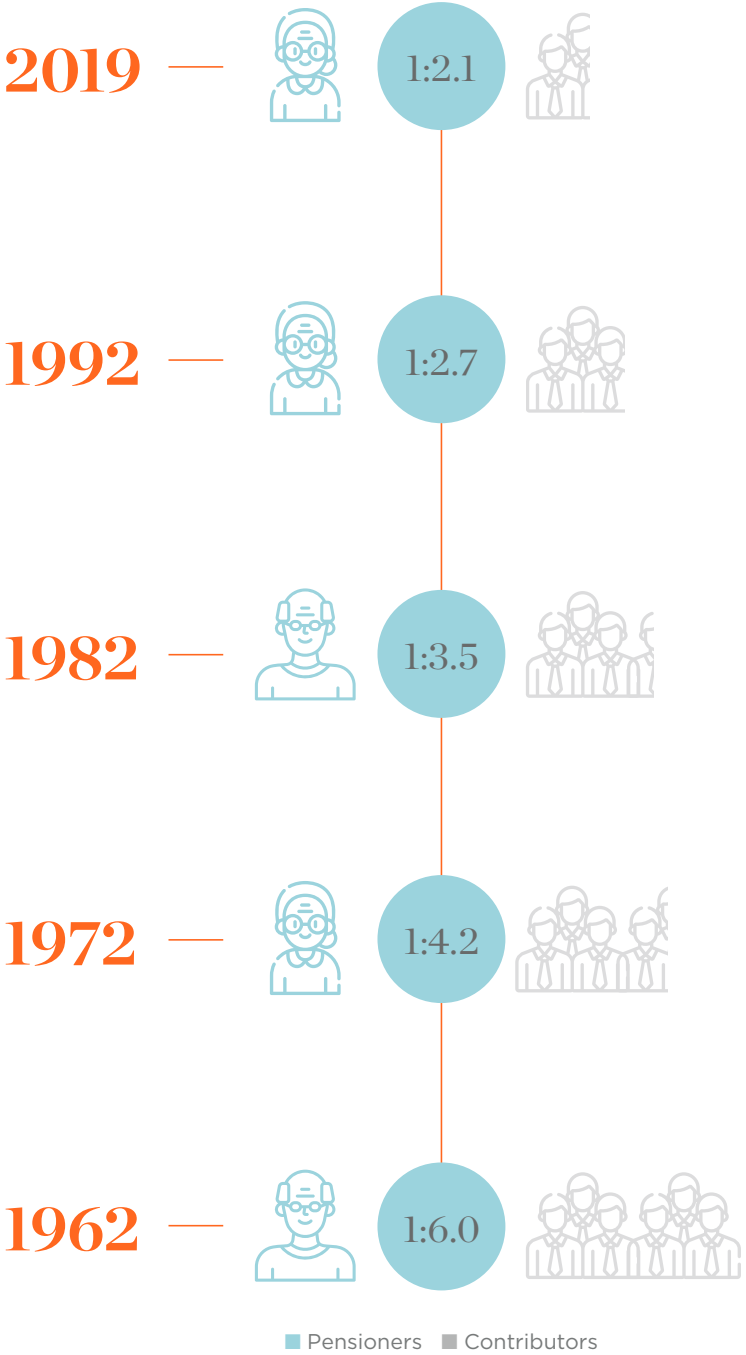
The demographic shift is having a drastic effect on the pension system. While the ratio of contributors to pensioners in 1960 was still six to one, by 2019 it had fallen to 2.1 to one. This trend will continue, putting the current pay-as-you-go model of financing our social security system on a weak footing. To counteract the impending bottleneck, a contribution rate of 18.6 per cent has been in effect since the beginning of 2018. Nevertheless, according to the German state-pension administrator, this figure must rise to 19.3 percent by 2023 in order to secure pensions in the medium term.

While the demographic shift is a nationwide phenomenon, there are regional differences, with a particularly pronounced inversion of the age pyramid in the „new“ federal states of the former East Germany. However the western and southern federal states will also follow suit in the coming years. There are also differences between rural regions and major cities: highly

urbanised regions such as Hamburg or Munich have a more youthful demographic structure than rural regions. The reasons for this are the higher quality of life and better employment and training opportunities in the cities and other regions which attract young people to move to them. Another rejuvenation effect: migration. Migrants from other countries are often younger than the average German population.



Ratio of contributors to number receiving a state pension (1962 to 2019)



Source: Bundesinstitut für Bevölkerungsforschung, Cushman & Wakefield

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Live **independently** longer

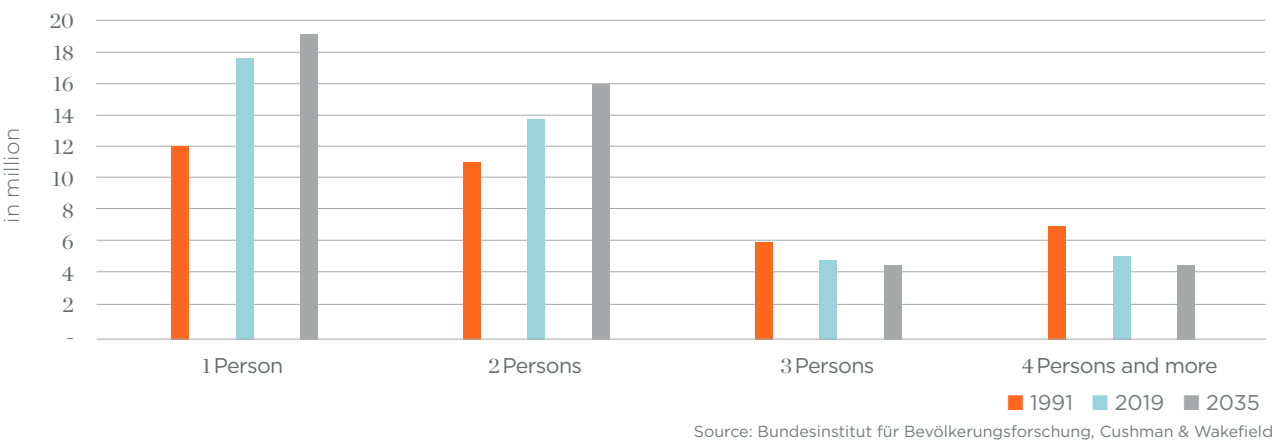
Care by family members continues to decline: the reason is single-generational smaller households. In addition, people are increasingly tending to move away from their regions of origin for career reasons. Older people are then often alone in the final years of their lives.

Increased life expectancy means that the proportion of the population over 65 is rising.

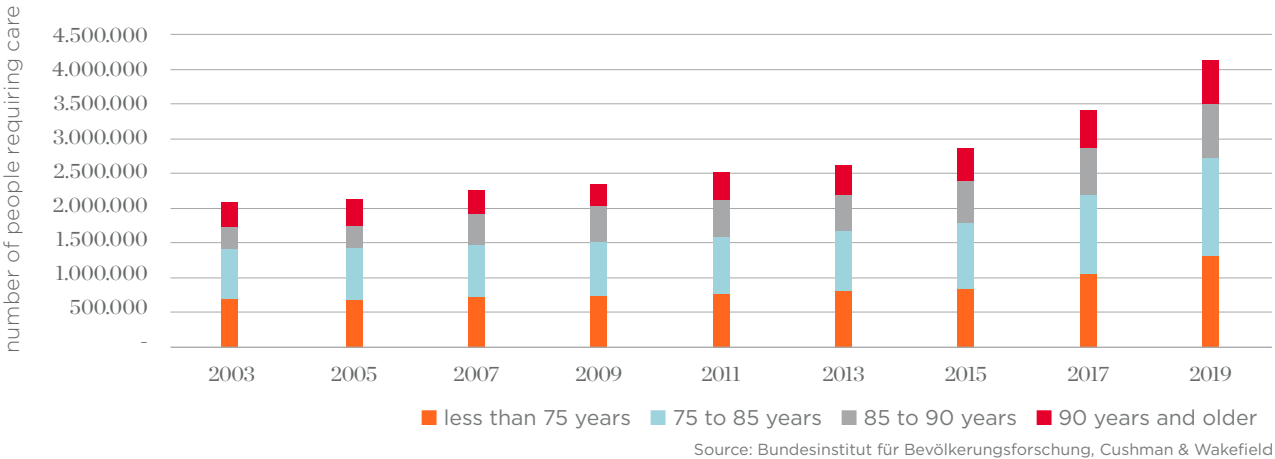
The proportion of the population requiring care is therefore also rising; between 2003 and 2019, by a full 99 percent.

This need is not only growing among the most elderly population cohorts. Among the under-75s, for example, the number of people requiring care increased by more than 71 percent to just under 1.32 million between 2003 and 2019.

1991 to 2035
Development of household size and numbers



2003 to 2019
Development of the number of people requiring care



“THE NUMBER OF ONE AND TWO-PERSON HOUSEHOLDS WILL **DRASTICALLY INCREASE BY 2035.** THIS WILL MAKE IT MORE DIFFICULT FOR RELATIVES TO PROVIDE CARE.

MARKET & OPERATORS

2. NURSING CARE REAL ESTATE INVESTMENT MARKET

In recent years, care homes have developed from being a niche product to becoming a highly-sought after asset class. While special investors dominated the market a few years ago, institutional investors have now also established themselves in this sector. They are seeking security, stability and the ability to plan, especially in the uncertain environment caused by Covid-19 - requirements that can be fulfilled by the long-term, value-secured leases of nursing care properties.

Thus, the transaction volume for nursing care properties in 2020 reached the record level of approximately 3.16 billion euros, which was only limited by the lack of product on the market. This figure was not only the highest of the last ten years, but also an increase of 88 percent compared to 2019. This extremely high transaction volume is due to the increased proportion of portfolio transactions - 78 percent in 2020. In the first three quarters of 2021 care real estate transaction volume was 1.35 billion euros. Prime yields have compressed by 48 per cent since 2010, to 4.0 per cent in the third quarter of 2021.

Existing properties in good locations, even if they have a maintenance backlog, are extremely attractive for investors. Development projects and forward deals are also of great interest to investors with a project planning horizon of up to 36 months and in recent years, classic core investors have indeed acquired such developments. But where is an investment worthwhile? The occupancy rate varies depending on the location and the owner. Socio-demographic data also influence demand. For example, parts of the „new“ federal states of former East Germany as well as North Rhine-Westphalia and Baden-Württemberg have above-average occupancy rates.

But the reputation and market penetration of the provider is also decisive: regional, private providers in particular have a hard time in contrast to the non-profit, public sector operators who have significantly higher occupancy rates. Synergy and coupling effects with other facilities in the health care segment, for example hospitals or services in ambulant medical care, sometimes bind those requiring care to a public sector operator at an early stage.

Development projects and forward deals are very attractive for investors. Even with a project planning horizon of up to 36 months.

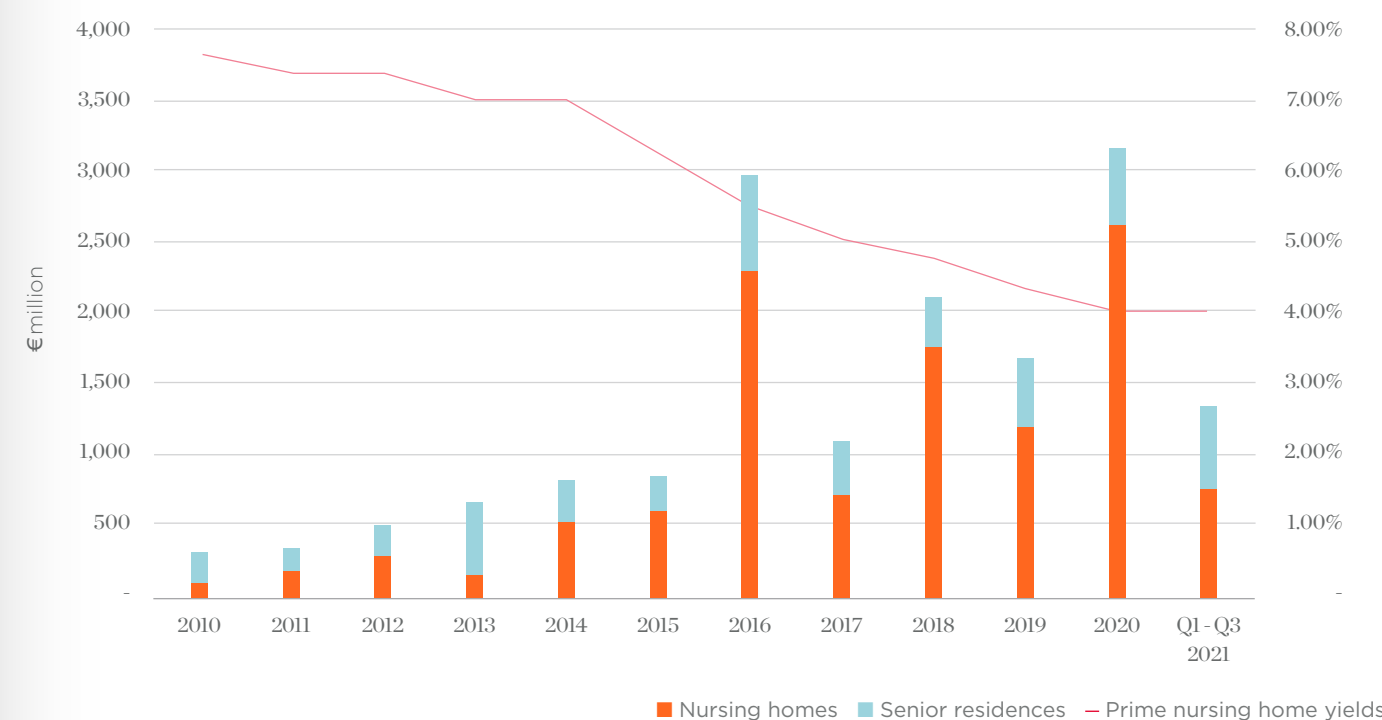


Although the operator market in Germany has undergone a degree of consolidation in recent years, it remains fragmented. The particular drivers of this dynamic market are private capital from Germany and abroad as well as expanding

large operator chains. Although non-profit operators dominated in 2019 with a market share of 54 per cent, private operators have recorded much more dynamic growth over the past 10 years.

2003 to Q3 2021

Transaction volumes and prime yields in nursing homes in Germany



MARKET & OPERATORS

3. EXPERT OPINION: ARE ESG CRITERIA IMPORTANT FOR NURSING CARE PROPERTIES?

Expert opinion

Ever more institutional real estate investors are striving for sustainable and efficient properties - especially with regard to ESG compliance. Find out from Christian Möhrke, Chief Operating Officer of Cureus GmbH, what the nursing care property of the future will look like from a structural perspective and what contribution Cureus is making to this development.

The indispensable basis for building sustainable nursing home capacity is, and remains, the economic viability of the properties. This already applies to the planning and construction phases: the new construction of a nursing home must be profitable, otherwise the required number of facilities will not be realised. At the same time, this fundamental economic aspect has a direct effect on the calculations of the operators, who have to pay higher rents in the event of higher construction costs. In the worst case, either too few facilities are built - or unsustainable care places are created as operation is not commercially viable. Without economic efficiency, no real sustainability can be achieved.

The Cureus system care home approach provides solution to this challenge. The term does not simply entail a modular uniform construction method, but the comprehensive standardisation of the building structures and the real estate management processes in the background. The result is technically mature real estate that is individually matched to its external surroundings and is consistently optimised to meet the operator's requirements. This forms the foundation for ecologically and socially

sustainable care place provision throughout the country, creates long-term, cost-efficient and ESG compliant product that combines fast completion times and large project capacities. Crucial building blocks for this are the permanent analysis and improvement of the system - right down to the precise optimisation of the care staff's walking routes - as well as fulfilment of the KfW 40 energy efficiency standards and conformity with the regulatory requirements of all federal states.

Characteristic of the Cureus principle is the critical examination of all areas where real improvements can be realised most effectively. Especially with regard to perfecting climate protection, improvements above a certain level of detail bring only minor efficiency gain increments while causing significant increases in construction costs. Also in terms of social sustainability, where the price and the quality of living and service should be in the foreground, a perfectly coordinated system certainly delivers a better overall result than a special uncompromisingly ecologically optimised product. System care home stands for sustainability with a sense of proportion, and not at any price.

The person

Christian Möhrke is Chief Operating Officer (COO) of Cureus GmbH and is responsible for the company's operational business. He has 20 years' professional and management experience in companies at home and abroad, 15 of which were in the fields of real estate development projects, construction and property management.



The Company

Cureus GmbH, with its operational headquarter in Hamburg, is a leading owner of nursing care properties in Germany, with more than 15 years' experience and a team of around 120 employees, developing and managing its own portfolio. With its system care home, Cureus has developed a new standard for inpatient care and serviced living properties, which can be implemented as a scalable solution regardless of location. Aligned with the current requirements of legisla-

tion as well as those of operators and residents, Cureus has, through its system care home, established new, uniform standards for quality. It thus offers a highly efficient product that combines higher economic efficiency at lower cost and with improved quality of living and service. www.cureus.de

Characteristic of the Cureus principle is **the critical look** at all those areas where real improvements can be implemented most effectively.

MARKET & OPERATORS

Market share non-profit operators



Market share public sector operators



Market share private operators



The privatisation of the operator market in Germany is in full swing.

The consolidation of the market has, in recent years, seen large numbers of takeovers by financial investors and private operating companies from abroad. 2017 and 2018 were chiefly characterised by company takeovers by foreign players, mostly from the private equity sector. Private companies see their opportunity in the still small-scale fragmented nature of the operator market. In particular, regionally operating, medium-sized companies can be promising investment targets for them. The prospect of building up a profitable platform or operator chain in Germany is therefore attractive.

Transactions

In 2019, among others, the Italian healthcare company KOS, acquired the Charleston Group nursing home operator from EQT Infrastructure. Charleston Group operates 47 senior and care centres with over 4,000 care places, as well as seven ambulant care services and four day-care facilities. The Covid-19 affected 2020 also saw a number of acquisitions in the inpatient care, assisted living and ambulant care services. At the beginning of 2020, the Alloheim Group took over the Mohring Group and the Vital Wohnen Group with a total of 16 inpatient care facilities and approximately 1,200 beds as well as offerings in the areas of assisted living, ambulant care and day care. Korian also acquired Qualivita Ag, with 13 nursing homes and 800 beds. In addition, via its acquisition of Deutsche Pflege und Wohnen, Argentum has been one of the top 30 operators since 2020.



4. INTERVIEW

Valérie Bensiek

Head of Asset Management Germany at Icade, a real estate investment company with a focus on healthcare portfolios. On the German care real estate market from the perspective of an international investor.



What makes the German market so attractive for you as a nursing care real estate investor?

First and foremost, the size of the market: Germany is the largest market for healthcare real estate in Europe in terms of transaction volume. Demographic trends and the current number of available nursing care places also mean that there is a gap that needs to be filled. These two aspects automatically create a lot of potential for us.

Also because the market is still young?

Exactly. The German market opened up for institutional investors relatively late. Ten years ago there were hardly any large transactions. In the last five years, sellers and buyers have become much more professional. This is also reflected in the transaction volume, the increasing number of portfolio transactions and the proportion of foreign investors. The last point is important for us: Germany is a market that is now used to working with foreign capital. French-speaking investors in particular have established themselves here and enjoy a good reputation.

Do foreign investors also appreciate the stability of the sector?

Very much so. The care system is professional and reliably financed by long-term care insurance and state aid. It is also interesting from an investor's point of view: In Germany, nursing properties generate long-term, stable income, as leases traditionally run for a very long time. In addition, the operator market has also become more professional, and consolidation

is continuing. Many operators realise that partnership with real estate investors is an attractive way to concentrate on their core business, care provision - a classic win-win situation.

What is the major challenge in building up a real estate portfolio in this asset class in Germany?

One of the biggest challenges at the moment is to find suitable investment opportunities on the market. This applies both to the quality of the properties - we cannot take any development risks ourselves - and to the price level. Yields have fallen sharply in the last year. The downward movement, which had already started before, was accelerated by the Coronavirus crisis. Many new players are entering the market for nursing care properties in search of safe investments. Competition has increased generally. It is also difficult to find portfolios of a certain size. Many transactions we are offered are for individual properties.

What is the problem in terms of quality?

The requirements of the various federal states' nursing home building regulations play a role here. Some nursing homes have yet to be brought up to date in terms of single room quotas or room sizes. And localisation also counts: In some regions it is becoming increasingly difficult to find qualified staff.

How do the market environment and the operator market differ in a European comparison?

On the one hand, the German market naturally scores with its size. As far as the market environment is concerned: the federal system brings with it a certain complexity - a significant difference from other countries that also poses challenges. For example, due to different requirements for the construction and quality of nursing homes. These particularities make it almost impossible to work this market remotely. Local presence is enormously crucial.

Does that scare off foreign investors?

No, not at all. The market is very international, with many highly professional players: asset managers, listed investors, private equity funds. In a large proportion of the transactions, the capital also comes from abroad. That is not always the case in other European countries.

What shapes the market on the operator side?

In contrast to other European countries, there are more private operators in Germany. This is a sign for consolidation and an attractive feature for us as investors. It is also interesting that two French operators are listed in the German top 5 - Korian and Orpea.

What are the most critical property-, location- and operator-specific aspects of an investment opportunity?

First and foremost for us is always the partnership approach. The operator, their strategy and market presence play a crucial role in the evaluation of investment opportunities. As far as the location is concerned, the demand in the catchment area is decisive - the competitive situation and the purchasing power. The quality of life of the residents is also important. A city centre location is not always beneficial: purchase prices for real estate are disproportionately high there, without the location offering an advantage for the residents. Sometimes it is even a disadvantage, for example due to high noise pollution. However, an area that is too rural without good links and amenities can also have a negative effect, whether through fewer visitors or lack of variety for residents who are still mobile, etc.

How did you perceive the Covid-19 impacted year 2020 and what are the opportunities and challenges of 2021?

2020 was a year of upheaval and uncertainty for everyone. However, thanks to the professionalism and reliability of our operators, our balance sheet is not negative. The year showed how important good relationships between investors and operators

are. And despite all the constraints, 2020 was a very productive year: we made further investments through our partnership with Orpea and built up our local presence in Germany. This makes us confident that we will also be successful in 2021.

Where are the hurdles?

The challenges outlined in building our portfolio will continue to intensify: Price- and competitive-pressure are not likely to let up. We are confident:

Icade has more to offer than „just“ capital: a long-term horizon for operators, support for growth and a clear focus on ESG issues.

In France, Icade is already one of the leading investors in healthcare real estate. Do you plan to further expand your market presence in Germany?

Yes, Germany is one of our most important target markets for investment. Our new growth plan is to invest 3 billion euros in Europe over the period 2021-2025. That's 600 million euros a year, of which a significant proportion (about 60%) will be outside France. In Germany, we want to further expand our portfolio and grow with our existing partners. But we also want to drive cooperation with new partners - operators and developers. At the same time, we are looking at emerging investment opportunities, off-market or via structured acquisition processes. We would like to further expand our local team and, among other things, add technical profiles to support us in renovations and other CapEx measures as well as investments in improved sustainability, with the aim of achieving building certifications (in accordance with DBNG, Bream, LEED etc.). Although we have so far invested exclusively in nursing homes in Germany, this year we are also open to another niche in the healthcare market: Acute care clinics, psychiatry and rehabilitation clinics.



03

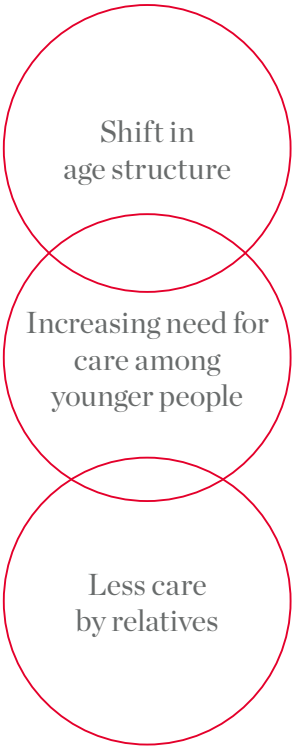
INPATIENT, AMBULANT OR HYBRID:

CARE FORMS IN TRAN- SITION

CARE FORMS IN TRANSITION

1. AMBULANT, INPATIENT OR FROM RELATIVES: HOW ARE CARE MODELS DEVELOPING?

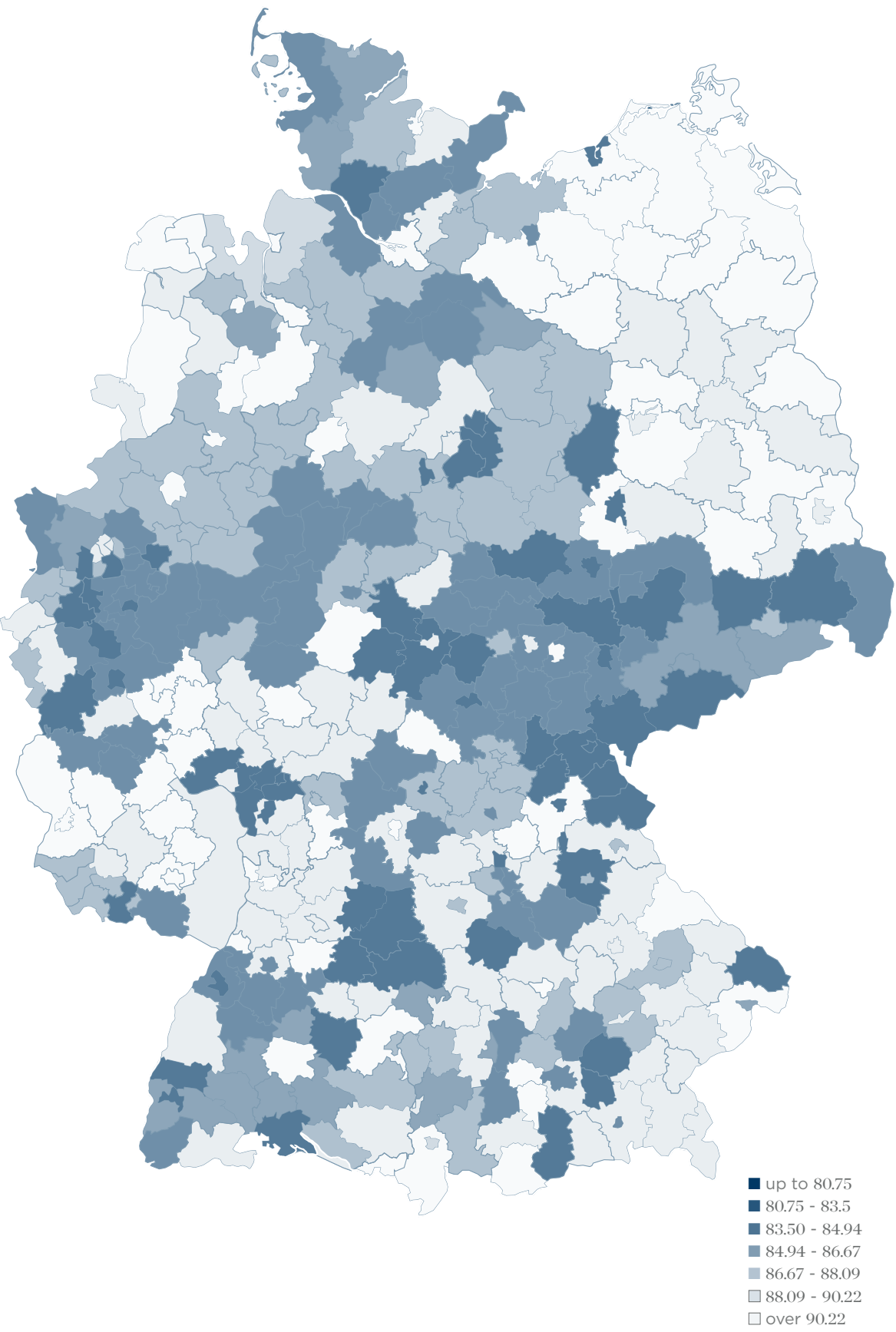
There are already long waiting lists for inpatient care in some places and the queue will become even longer in the future. A change in the legal situation in many federal states is exacerbating the bottleneck: Because nursing home residents have a right to privacy and a personal place of retreat, there is a mandatory single room quota in many federal states. For example, in North Rhine-Westphalia, the single room quota may not fall below the 80 percent mark for existing buildings since 1st of August, 2018. For new buildings, this increases to 100 percent. In Baden-Württemberg, a 100 percent single room quota applies in principle. Double rooms may only be offered at the express request of the residents. To regulate the resulting excess demand, there is one exception: rooms for short-term care which are larger than 22 square metres.



2003 by 2019 Development of people requiring care by type



Occupancy of inpatient care homes (in %) 2020



CARE FORMS IN TRANSITION

In order to still offer people the best possible care conditions in old age, politicians have promised better financial support for the sector via the „Care Strengthening Act“ - also for care provided by ambulant care services in people's own homes.

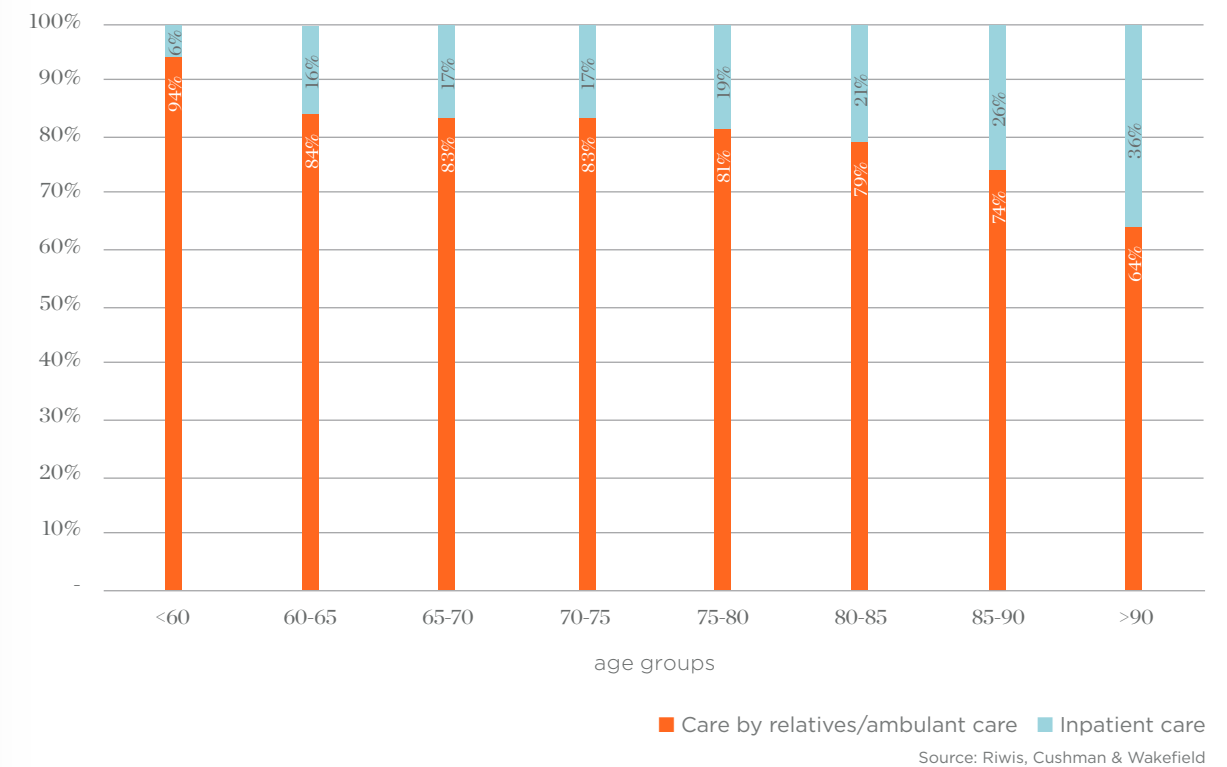
Ambulant care has already increased by 60 percent between 2013 and 2019. Inpatient care went up by only 7 percent. Ambulant care has overtaken inpatient stays since 2017. In 2019, there were more than 980,000 people receiving ambulant care in Germany and only just under 820,000 receiving inpatient care.

Despite this development: the number of inpatient care facilities has increased by 18 percent in the aforementioned period, but the number of ambulant care services has only increased by 15 percent. Professional ambulant care combined with outpatient care and age-appropriate living is therefore in demand as never before. A real opportunity for investors.



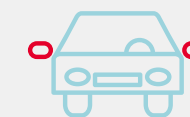
Ambulant care with day-care and age-appropriate living is in demand as never before. **A real opportunity for investors.**

Numbers of people requiring care by type of care 2019



54%

Care by relatives



25%

Ambulant care



21%

Inpatient care

Ambulant care services offer older people an alternative to a nursing home - often with greater independence. One hurdle is often the layout and equipment in people's own houses, which do not allow those in need of care to lead an independent life even with limited mobility. According to the Federal Statistical Office, only 15 percent of all homes of people aged 65 and older have barrier-free access - in fact, only 10 percent of all homes in Germany. But things are changing here: while only about 5 percent of buildings constructed before 1948 have barrier-free access, 44 percent of properties built in 2011 or later already do.

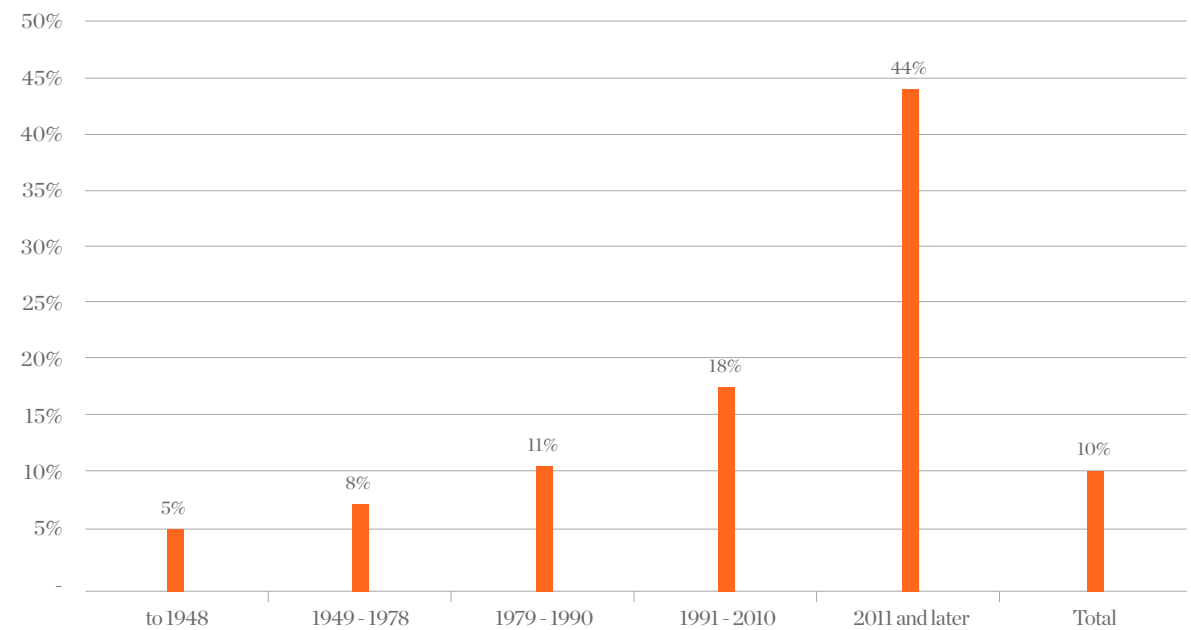
CARE FORMS IN TRANSITION

A look inside apartments shows even clearer deficits: Only two percent of all apartments in Germany were built with barrier-free interiors in 2018. However, the newer the apartment, the higher the rate. Only one percent of apartments built before 1948 are barrier-free, while a full 18 percent of those built in 2011 or later are. The gap between supply and demand continues to be huge: according to the Federal Statistical Office, only two percent of all apartments in Germany were barrier-free in 2018 - that's about 740,000 apartments. According to KfW Research, there will be a shortage of around two million more age-appropriate flats by 2035.

Investment in this segment is then a socially sensible and **equally profitable strategy.**

1948 to 2035

Flats with barrier-free access by year of construction

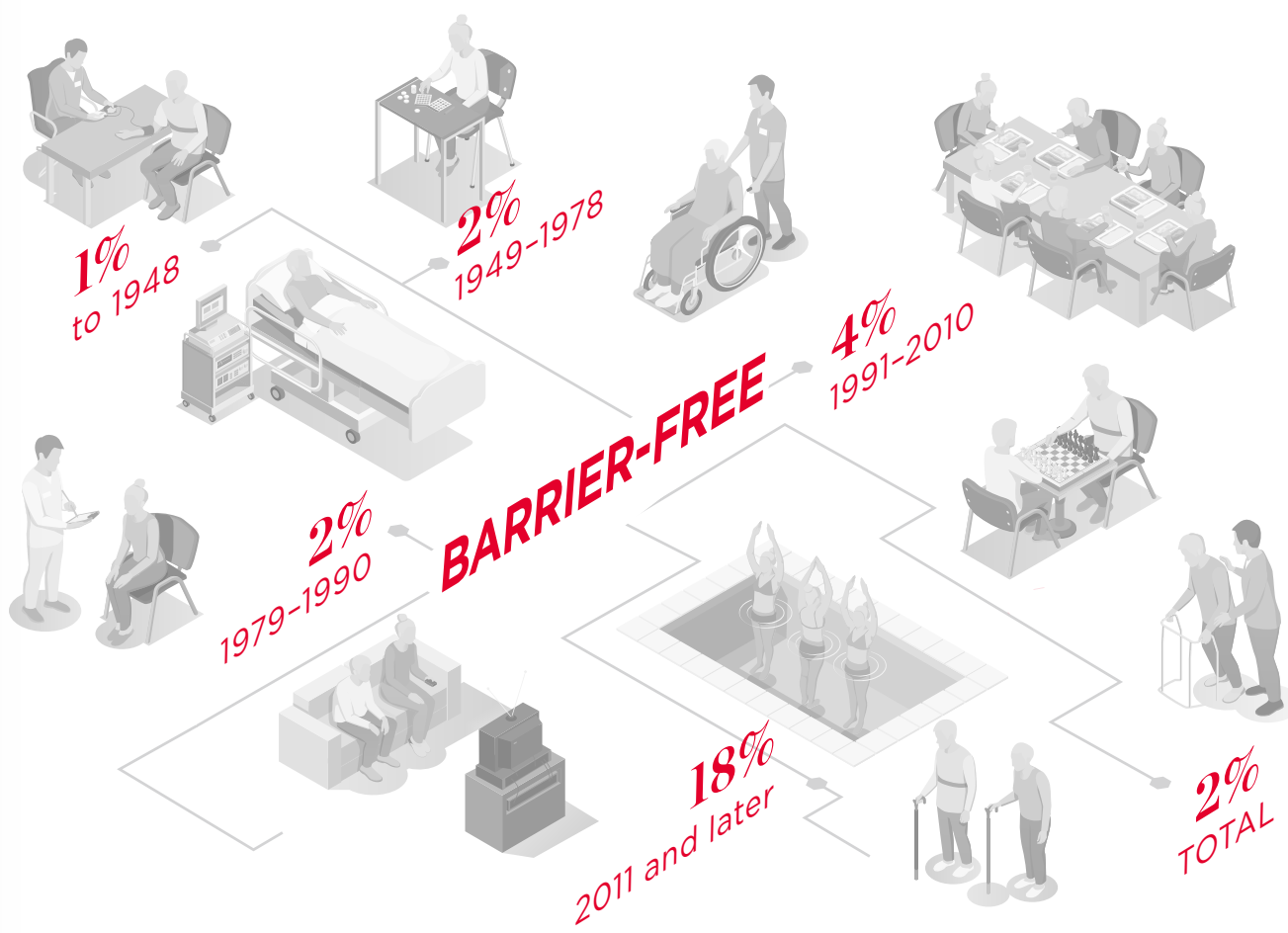


Source: Statistisches Bundesamt (Destatis), Cushman & Wakefield

Barrier-free living

Barrier-free living means: The flat is accessible without steps or raised thresholds. Hallways and doors are wide enough, the kitchen and bathroom provide space for people in wheelchairs or with walkers. The shower has level access.

Barrier-free flats by Year of Construction (in %)



CARE FORMS IN TRANSITION

2. ASSISTED LIVING: CARE THAT IS SCALABLE

Assisted living facilities are often connected to an ambulant care service or a nursing home, not only spatially but also operationally. In this way, care services can be increased or reduced as required. A transfer to the inpatient sector is then also possible without complications. People requiring care can move into the barrier-free flats alone or as a couple. In addition to a kitchenette, the residents usually have one or two rooms at their disposal, which they can furnish themselves. Depending on the care level, older people can live independently for longer with this concept and book nursing or domestic support at any time.

Quality standards

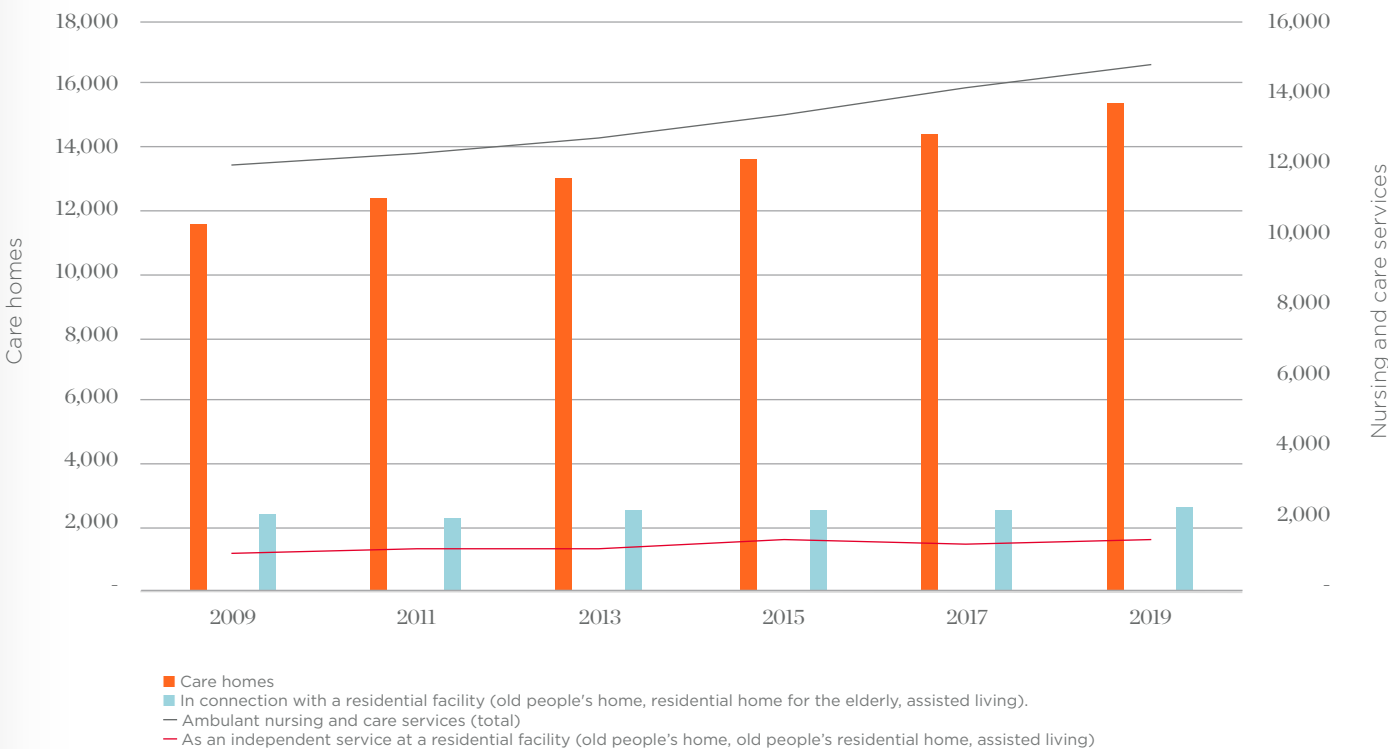
Assisted living is not a legally defined term; there are no nationwide building standards or building requirements for this segment. Nevertheless, state-specific standards have been established, such as the Baden-Württemberg quality seal for assisted living. One uniform standard however is DIN 77800, which since 2006 has defined all services and contract conditions in accordance with the „Quality requirements for providers of assisted living for older people“. For barrier-free living, DIN 18040 Part 2 applies as a constructional quality standard.

Between 2009 and 2019, the number of nursing homes with an affiliated residential facility rose by 12 percent from 2,380 to 2,657. The total number of nursing homes grew by 32 percent. This means that only about 17 percent of all nursing homes have an affiliated residential facility. Independent ambulant care services at residential facilities are therefore also being operated to a greater extent separately from inpatient care homes.



2009 to 2019

Development of nursing homes, nursing and care services and residential facilities

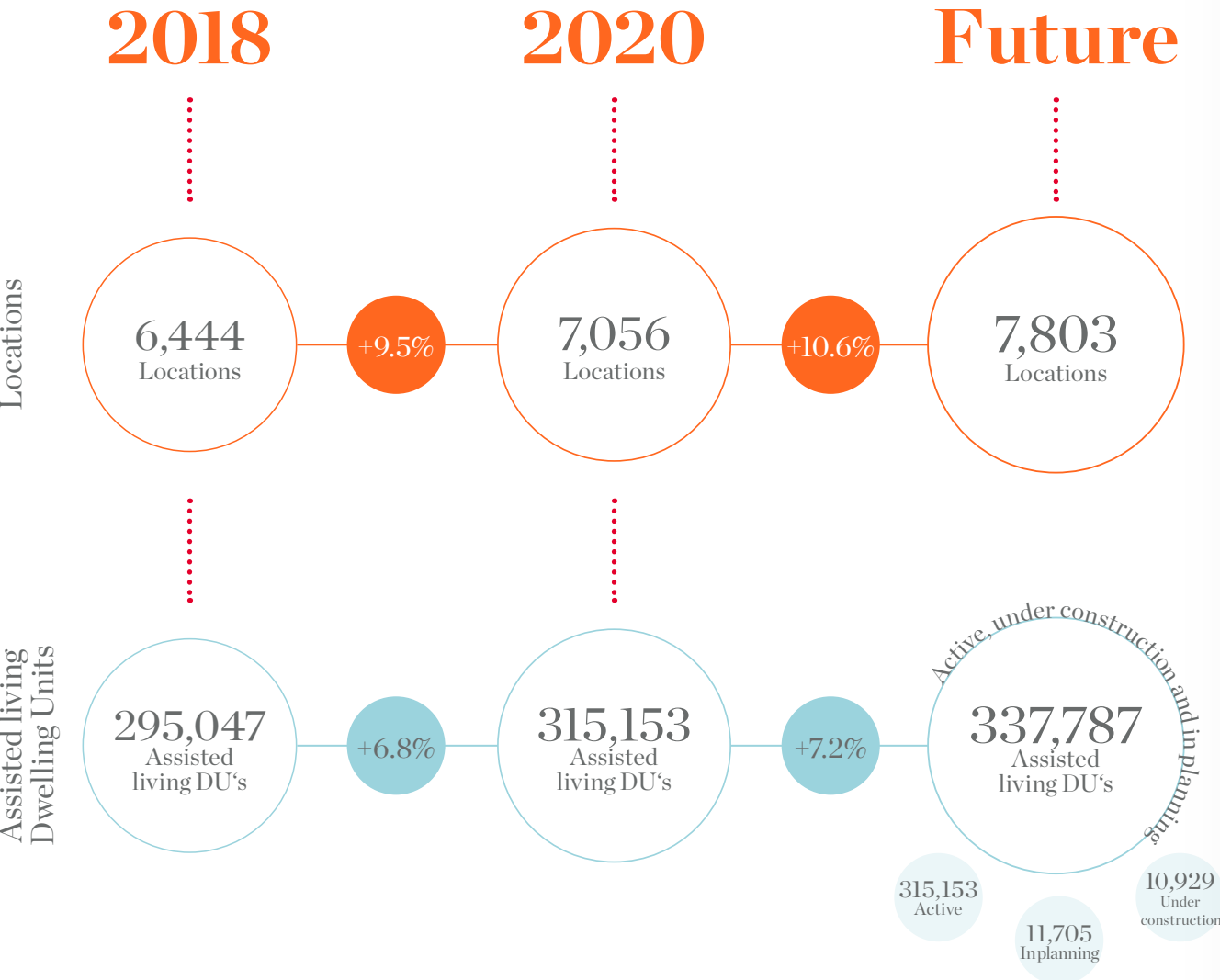


Source: Statistischen Bundesamt (Destatis); Cushman & Wakefield

CARE FORMS IN TRANSITION

The new construction pipeline for assisted living is filling up - with 340 projects under construction and a further 390 at the planning stage in 2020. Over 7,000 facilities are already in operation, providing about 315,000 units.

2018, 2020, Future
Development of assisted living



Source: Pflegemarkt.com; Cushman & Wakefield

“OVER 7,000 FACILITIES PROVIDING ABOUT 315,000 UNITS ARE IN OPERATION.”

CARE FORMS IN TRANSITION

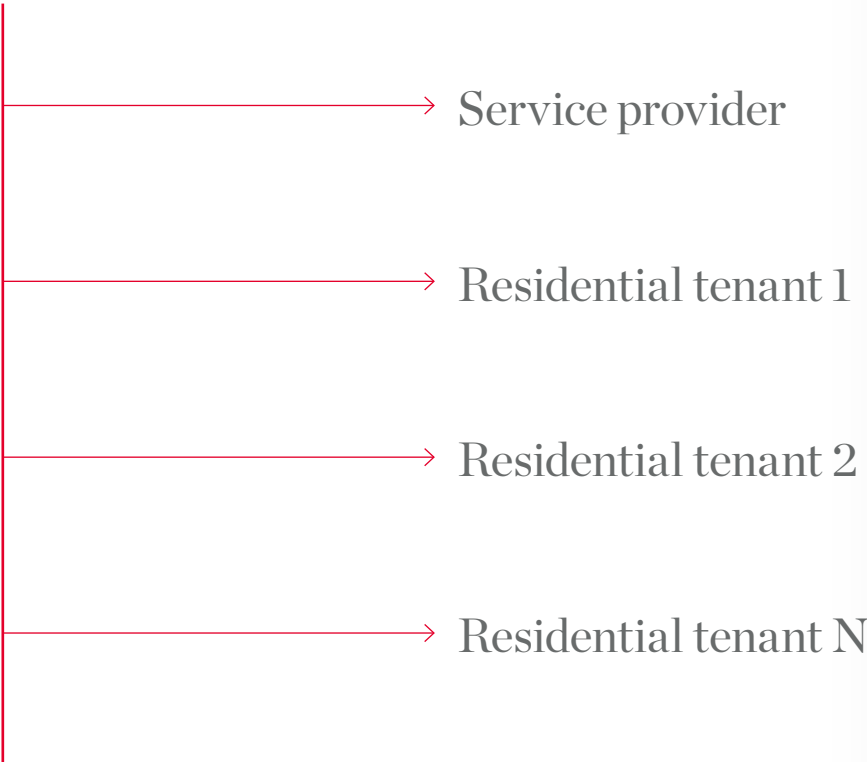
How do operators lease?

Operators of an assisted living facility usually conclude a lease or operator lease for up to 20 years with the owner of the property. A tenant-side renewal option of five or ten years gives them the possibility to extend beyond this period. The lease is often concluded double or triple net with an annual indexation of the rent by 80 to 100 per cent of the change in the consumer price index. For their part, the operator concludes sub-leases with the residents of the facility and the service providers - for example an ambulant care service.



Exemplary lease situation for assisted living with ambulant care provision

Operator of the assisted living facility



How do the residents rent?

The resident concludes an apartment lease with the operator of the facility. In addition, he or she signs a contract for care and support as well as additional housekeeping services. The costs vary depending on the size and equipment of the flat as well as the desired additional services. The latter can range from simple care services to semi-inpatient care services: cleaning of the flat, a laundry service, but also regular communal meals and group activities. The costs of apartment rental, a flat-rate care fee and the additional domestic services are borne by the resident himself/herself. In the event of nursing care requirements, the health insurer pays for the care service.

Assisted living is not subject to the same strict regulatory restrictions as care homes. Although home legislation is a matter for the individual federal states, assisted living does not fall under their aegis. The reason: the care contract is decoupled from the housing contract. Only if the individual care services were regulated in the tenancy agreement would the facility fall under the state-specific home legislation. And the Housing and Care Contract Act (WBVG) does not regulate the area of assisted living either. This regulatory gap offers operators and real estate investors an attractive advantage.

The number of facilities varies greatly from region to region: while North Rhine-Westphalia, Mecklenburg-Western Pomerania and Saxony have almost statewide coverage, many districts in Bavaria, Thuringia and Rhineland-Palatinate already have severe deficits. And the demand will continue to rise. In 2019, 95 percent of all municipalities already had a supply gap, which will continue to grow in the coming years. In the future, the structurally weak regions with a high level of emigration will be hit the hardest.

CARE FORMS IN TRANSITION

3. THE PREMIUM SEGMENT

A niche with growing demand: assisted living in the premium segment is characterised by good to very-good locations in attractive cities or scenic rural regions. The buildings and the spacious apartments are equipped to a high standard and exclusively designed. The service is similar to that of a five-star hotel with a 24/7 concierge service, sophisticated cuisine at the level of an exclusive restaurant, a „wellness“ area and an appealing programme of cultural events and activities. The market leader in this segment is the Berlin-based operator of Tertianum Premium Residences.

Assisted living in the premium segment is characterised by **very good locations in attractive cities or scenic rural rural regions.**



PREMIUM
SEGMENT

CARE FORMS IN TRANSITION

4. INTERVIEW

Felix von Braun

CEO DPF AG,

Operator of the premium brands Tertianum Premium Residences and „livree“ in the high-end assisted living segment. On innovative assisted living concepts in the premium segment.



What makes the care market and especially assisted living so interesting for operators, and also for institutional real estate investors?

Both areas, nursing care and assisted living, are growth markets that are not dependent on the economy. The needs are almost universal in Germany. We already see a large supply gap, which is likely to increase even more in the future due to the demographic shift - i.e. the ageing of society. Experts estimate the need for new construction in the care segment at 250,000 beds and in assisted living at 600,000 apartments. This corresponds to an investment requirement in the three-digit billion euro range on the real estate side in the next ten to 15 years.

Health care real estate is crisis-proof and independent of economic cycles and is therefore also in demand among institutional real estate investors. In 2020, for example, this market set new records for investment volume of more than three billion euros. The momentum continued in the first half of 2021 with a transaction volume of 920 million euros according to Cushman & Wakefield. Investors regard the classic care segment, i.e. inpatient care, as an asset class with still acceptable returns and long-term leases. On the other hand, operators are struggling with staff shortages and are subject to a wide variety of government regulations.

What is the advantage of assisted living?

Compared to nursing homes, it is mainly the lower regulatory requirements. On the one hand, this gives the operators more freedom of design. On the other

hand, the personnel requirements are lower than in the care sector. The length of stay in assisted living is about ten years - unlike in care homes - and the product usually addresses self-payers. Therefore, one can act more flexibly in terms of service and pricing. Assisted living has established itself as an asset class among investors and will experience greater demand in the coming years, as a sustainably stable investment.

What were your reasons for specialising in assisted living in the premium segment with DPF AG?

Quite simply because there is the least competition in this segment. This is also related to the development of society and the changing needs of senior citizens, something that many operators in our segment haven't yet understood. The way seniors want to live and grow old has changed completely over the years. People are not only getting older, they are also staying healthy and sprightly longer and have different requirements for living comfort, services and leisure activities. In 2014 we had the chance to buy Germany's only premium brand in the senior residence sector: Tertianum. In an affluent country like Germany, it was inconceivable to me and my team how sparse, up to then, the supply in the upscale senior residence sector was. We saw an excellent opportunity to further strengthen and then expand the Tertianum brand. Because the demand for upscale, age-appropriate forms of living is immense. Terragon, which has also been active in the market for high-quality senior and nursing homes for years, estimates the demand in the premium segment at

100,000 serviced apartments. However, we define the term premium differently and see the demand in the high-end premium segment at more like 30,000 apartments. But even that adds up to 120 to 150 facilities.

What distinguishes Tertianum from other operators in the premium segment?

Here I already have to correct the question, there is no other significant operator in the premium segment. This is undoubtedly a question of perspective. In the senior residence segment in the classical sense, there are of course competitors. These offer age-appropriate living forms with high quality services, cultural offerings, and ambulant or, if necessary, inpatient care. If we compare our segment with the hotel sector, take e.g. 3-star hotels from the 1960s in rural regions and the Mandarin Oriental in Munich. These are both starred hotels, but with different target groups. And we understand ourselves more as the Mandarin Oriental of premium residences, so to speak.

However, the necessary product differentiation has not yet really taken place, and we are still pioneers here by creating target-group-oriented products. These refer to the respective location and the requirements of our customer group. After all, seniors citizens are also evolving and completely new target groups are emerging that did not even exist ten years ago. Examples are the Silver Agers between 50 and 70 and Golden Agers between 70 and 80. For all of them, however, it is true that they want to actively participate in life for much longer and the topic of digitalisation is also becoming increasingly important. This is where we come in with innovative solutions, such as our concierge service and digitalised services, which are always geared to the customer and are constantly being improved and expanded.

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In your view, how has the German care landscape changed over the past ten years?

Overall, it can be said that individualised, strongly service-oriented and age-appropriate forms of living are ever-increasingly in demand. At the same time, the supply is still clearly lagging behind and there are sometimes long waiting lists for senior residences. In assisted living and in the area of premium residences, in addition to the increasing demand from customers, classic care company groups are also increasingly showing interest in entering the market.

Assisted living with optional services is also being given a boost by the policy of „ambulant before inpatient“. This has left its mark on the market. On the one hand, this is noticeable in the increasing professionalism of the operators. On the other hand, the interest of national and international real estate investors has increased significantly over recent years and there is considerable excess demand. This in turn leads to falling returns.

How does the shortage of skilled nursing staff affect your business? Do you sense any geographical differences here and how do you address this issue?

In general, the area in which we are active is less personnel-intensive than in the classic care segment. However, our broad range of services and the upscale service we provide also require the corresponding expertise and qualified staff. Recruiting qualified staff is not an easy task for us either. I must say, however, that we also do a lot to retain staff and recruit new professionals. One example is the #careback-Initiative at Tertianum Care, our innovative mobile care service. Here we offer our employees support services in everyday life, including a concierge service, a delivery service for grocery shopping and restaurant orders, as well as household help. In this way, we want to give our employees valuable time back for recreation or their own family, for example, and simply express our appreciation.

What potential does the market offer?

The potential is extraordinarily high due to the high demand and simultaneous lack of supply. In future, there will be an even broader differentiation of product, similar to what we have seen in commercial living accommodation - for example with hotel or

boarding concepts. We find this exciting and it holds opportunities for investors and operators. And at the same time it offers the ageing population the prospect of finding acceptable forms of housing in old age. But this is still a wide field that needs to be developed. Because at present there is not nearly enough acceptable supply.

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How did you perceive the Covid-19 year 2020? What was the impact on assisted living in the premium segment and on Tertianum in particular?

For us as an investor, but especially as an operator of senior residences, the past year was a challenge. We had to protect and support our residents and our staff as best as possible. We were busy with pandemic plans, procurement of protective overalls, masks and gloves. And of course our staff were unsettled. At the same time, we are very proud of our staff and grateful for their great commitment to always keeping the individual wishes of our residents in mind despite the additional measures. However, 2020 has also led to us upgrading digitally. On the one hand, this includes technologies such as the digital fall prevention app or solutions from the area of Ambient Assisted Living to increase comfort in our premium residences. But we have also further optimised our internal processes, brought forward software transitions and, for example, completely digitalised our incoming mail and filing.

In many sectors, the Covid-19 pandemic is acting as an accelerator for change. How will the market for assisted living develop post-pandemic? What are the opportunities, what are the challenges?

Yes, in many areas the crisis has acted as an accelerator, especially in digitalisation. The way people communicate with each other, now forced to do so via chats and video screens, will continue or become more established in this segment as well. And real estate investor interest will continue to intensify, as some other asset classes are no longer as attractive - such as the hotel and retail sectors. These have been particularly affected by the restrictions due to the Covid-19 pandemic and have come under pressure.

As not only tourists are staying away due to the travel restrictions, but also business travellers, trade fairs are cancelled and meetings are largely held virtually, business hotels continue to experience difficulties. And the long-suffering brick-and-mortar retail sector - with the exception of grocers - is also stumbling. Certainly, it makes sense to think about subsequent uses, whether these properties can be converted into assisted living, for example. But that cannot be determined in general terms; it depends on the individual property, the location and the structural condition etc.

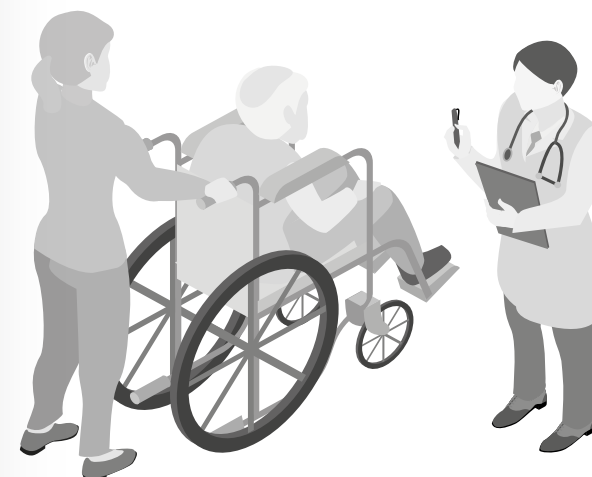
In addition to Tertianum, you have also developed the „livree“ brand. What makes livree so unique and what gap in the market does the concept fill?

Livree is a 3-star product in the assisted living or serviced living segment for the 65-plus generation. While we are mainly targeting the top-10 cities and metropolitan regions in Germany with Tertianum, we have broadened the regional focus for livree and are looking at towns with a population of 50,000 or more. In doing so, we are building on the experience of Tertianum: We want to combine our expertise from the premium segment on the one hand with

the service provision competence of our exclusive concierge service provider RAS on the other, and implement this in the livree residential product. And this at a price that a broader target group can afford. Services can be ordered „on-demand“ and our concierge takes care of all daily requirements. Supported by our communication app, residents can, if they wish, express their wishes or speak directly with the concierge. We incorporate care services as required and our trained specialist staff are available for topics relating to nursing, care, etc. We promote community, but also provide opportunities for private retreat - all of this at the technical and aesthetic level of the 21st century. In doing so, we never forget the target group to whom we are tailoring our range of products and services. We want to create a home in which we would also like to live. That is our aspiration.

Why don't you give us a little insight into your success story? How did you manage to establish Tertianum as the market leader for assisted living in the premium segment in Germany?

It can only be done with passion and a good team that pursues the same goal and has different strengths. And of course with diligence and attention to detail. But our many years of experience and expertise in the entire field of living in old age - also on the real estate and operator side - are also essential. In addition, we continuously monitor our market and customers from a variety of perspectives. The most important thing is the target customer and his or her needs. We are guided by these needs and continuously developing our products and services further.



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5. INTENSIVE CARE

The market is growing not only in elderly care, but also in the field of intensive care. For example, specialised residential care communities offer the best possible care to those in need of care with a similar clinical picture, degree of care requirement and needs via a clear focus. Intensive care forms such as these also include paediatric intensive care and phase F care. Intensive care facilities make up a significant part of the care landscape in Germany.

Intensive care

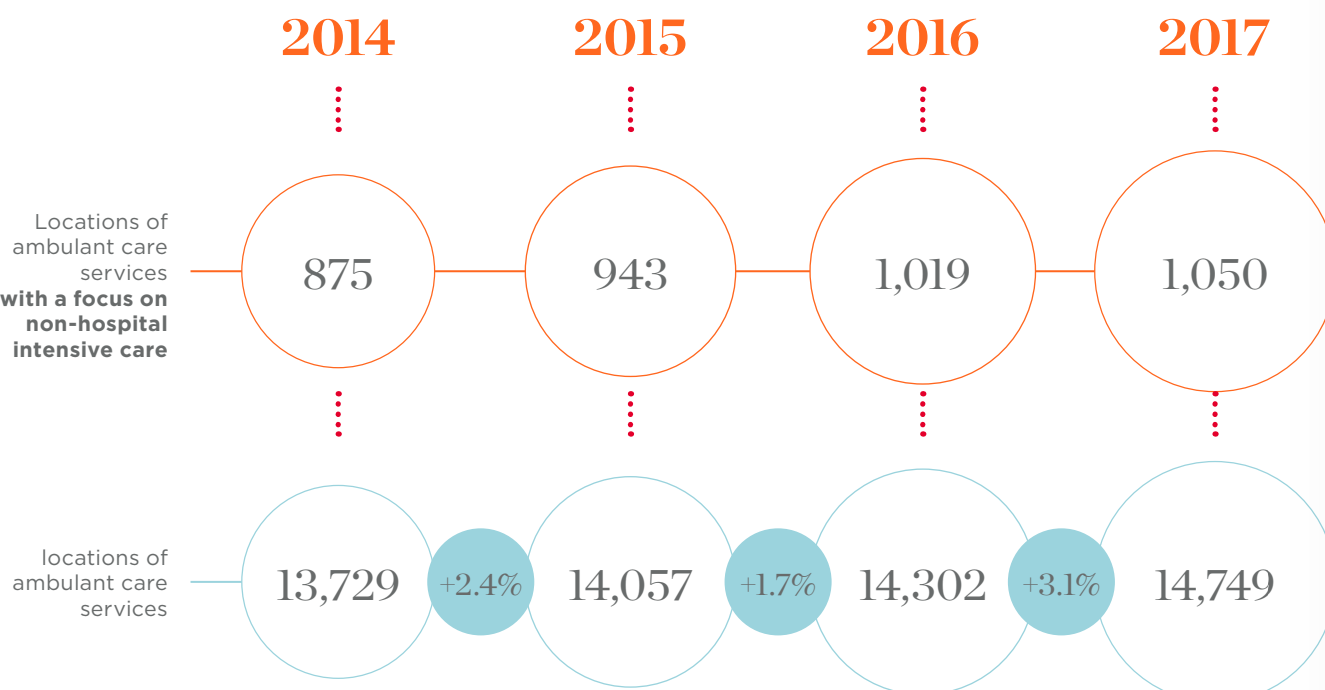
supports patients in the most severe need of care who are in a life-threatening situation or for whom a life-threatening situation is foreseeable. The patients often suffer from disorders of the internal organs or their functions, such as the cardiovascular system, the kidneys, the respiratory system or the central nervous system. They require round-the-clock care by nursing staff. Here, the care ratio is on average 5.2 carers per patient. The costs of intensive care are covered by the health insurance funds.

Children's intensive care

is specialised in respiratory and intensive care for children and adolescents. About 10 percent of all intensive care services in Germany focus on this area.

2014–2017

Development of the number of intensive care services nationwide



Source: bock.net, Cushman & Wakefield

Intensive care and ventilation residential community

care for several intensive care patients in groups of between three and 14 residents. The facilities are regulated differently depending on the federal state. In Bavaria, for example, no more than twelve people requiring care or assistance can live in an ambulant care community. The staffing ratio for this model, in contrast to care at home, is less than one to one care and is thus more economical. In total, there are about 970 intensive care communities in Germany. 95 per cent are run by private operators and only 5 per cent by non-profit operators

The market for non-hospital intensive care in Germany comprises more than 1,400 ambulant intensive care services.

Treatment care F or Phase F

cares for patients who, despite intensive rehabilitation measures, have severe mental and neurological disorders and can no longer live independently. These disorders range from permanent unconsciousness to persistent vegetative state to severe impairments of mental and physical functions. Often these patients are artificially fed, have permanent catheters or have a tracheotomy. If home care is not possible, long-term activating care provides support. However, there is currently no nationwide offer of such facilities in Germany.



04

THE C&W
**CARE
BAROMETER**

THE C&W CARE BAROMETER

There are over 15,000 care facilities, 4.1 million people in need of care and ever more facilities in the assisted living segment in Germany. And the numbers have risen rapidly in recent years. For investors, the asset class is thus interesting and also extremely safe. But in which of the 401 German districts does an investment or the operation of a care facility make the most sense? Which regions are particularly viable in the future?

The C&W Care Barometer compared the regional care markets. The result: Potsdam, Emsland and Osterholz are currently at the top of the list in terms of future viability. Socio-demographic, socio-economic factors, care statistics and forecast data all play a role in this analysis - for example, the age quotient, the regional purchasing power index, the available care places and household structures. Because all of these values in combination yield a good picture of how the demand for care places is developing and where there is undercapacity or overcapacity. And thus also which locations are worth investing in or where development projects could make sense.

The C&W Care Barometer compares regional care locations on the basis of solid data in the four core areas of demographics, economics, care statistics and forecast data. On a scale of zero to five - zero being the weakest and five the strongest value - the tool compares key variables using an algorithm. The rating then shows how sustainable a location is. All 401 districts in Germany were compared.

01

Demographics

Considers parameters on the population and age structure of the location - such as the old-age dependency ratio or the household structure.

02

Economics

Considers economic aspects such as the purchasing power index, centrality index and unemployment rate

03


Care statistics

Includes care-relevant key indicators such as the number of people requiring care, available care places, as well as the care staff in ambulant and inpatient care, and sets these in relation to local demand.

04

Prognosis data

Takes into account forecasts such as population growth, age groups, number of households, household structure and types of care.



05

SUMMARY & OUTLOOK

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Care homes are becoming increasingly popular with investors. The reasons for this are the high systemic relevance, ongoing operator professionalisation and strong demand due to demographic change. In addition, investors are increasingly seeking to strengthen the diversification of their portfolios via the acquisition of healthcare properties. Transaction volumes are reaching record levels for the asset class, not least due to extensive portfolio transactions. Particularly strong growth: scalable forms of care such as assisted living and first-class facilities in the premium segment. The market is being held back primarily by a severe lack of product. Investors should consider parameters such as demographics, economics, care indicators and forecasts when choosing a location.

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