Press release

European healthcare real estate in 2016

Record transaction volume

Results of the Your Care Consult study

- **Volume of transactions up 10% to record 6.7 billion euros**
- **A sector boosted by record volume in France and Germany, despite decrease in the UK market**
- **A sector fueled by pan-European acquisition strategy of both leading nursing home operators and healthcare real estate investors**
- **Outlook for 2017: investment volume down to 5 billion euros and cap rates going down**

- Annual analysis of real estate acquisitions and disposals by private operators and specialist real estate investors in the European healthcare real estate sector
- Eight countries covered: France, Germany, the United Kingdom, Belgium, Netherlands, Italy, Spain and Portugal[1].

Paris, March 14th 2017 - Your Care Consult, a financial and real-estate investment advisor with a focus on healthcare, today announced the results of its annual study of the European healthcare real estate markets.

Stéphane Pichon, Managing Partner at Your Care Consult, commented:

"Against a backdrop of historically low interest rates, the search for secure returns via long leases once again boosted investment in the European healthcare real estate in 2016, with the investment volume reaching a record 6.7 billion euros, up 10% compared with 2015, thanks to several "unique" secondary deals in both France and Germany with cap rates significantly down. A real pan-European market is being formed helped by the acquisition strategies of many European nursing homes operators and real estate investors. Due to this

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[1] First year including Netherlands and Portugal

unfavorable base-line, Your Care Consult expects the investment volume to be down to 5 billion euros in 2017 with cap rates still decreasing."

Continued growth in transaction volumes in Europe: +10% in 2016

The highly dynamic healthcare real estate market has enjoyed strong growth in investment volumes since 2014 and is characterised not just by a globalising trend in investments by nursing home operators (mostly primary transactions), but also by geographical diversification by healthcare-focused real estate investors, which are now investing in several European countries and sell assets to each other (secondary deals). **European insurance companies are also becoming increasingly active, revealing ambitions to invest in healthcare real estate**.

In 2016, European investors mostly favoured the markets of Germany (+100%, a record year), France (+50%, also a record year) and the Netherlands (+30%) while activity was subdued in the UK (-60%). Belgium was stable. No notable transactions in Italy (market down almost 50%) nor Spain or Portugal that remained less favoured by investors.[2]

Specialised asset managers, notably Belgian & French, went on a large acquisition spree outside their borders. An increasing number of funds, previously limited to invest in their home market, now have a pan-European investment mandate. As far as US investors are concerned, they continued to be less active in Europe.

Sale-and-leaseback deals: an underlying trend

Sale-and-leaseback transactions enable healthcare services companies (operators of clinics and nursing homes) to dispose of their real estate in order to improve their balance sheets and free up cash for development. Unlike bank loans, where both the interest and the capital must be repaid, these agreements simply require healthcare companies to pay rent during the term of the lease.

With interest rates historically low, investors are taking a close interest in healthcare real estate, especially recent facilities operated by sector leaders with high occupancy rates, secure rental income and recurrent cash flow. Moreover, the lack of dynamism in the office rental market of Continental Europe and the fact that supply is more limited than demand for traditional asset classes (offices/retail/hotels/logistics) is impacting the strategies of real estate companies, who are now turning towards alternative assets, notably in healthcare real estate.

Contrary to the general trend towards real estate sale-and-leaseback deals, some leading operators prefer to take advantage of low refinancing rates in order to increase their real estate ownership by acquiring the facilities (especially in Germany) that they previously operated as tenants. Also, new accounting rules that should compel operators to burden their balance sheets with the amount of future rent obligations could undermine the interest of sale-lease-back transactions.

5 billion euros of investment expected in 2017 with cap rates still on a downward trend but that should stabilize by year-end

With a record number and volume of secondary deals, ie transactions between real estate investors esp. in Germany and France, 2016 should mark the peak of the cycle for the European healthcare real estate market. Volume is expected to decrease to 5 billion euros in 2017 with cap rates that should further decrease in the early part of the year but stabilize by year end.

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[2] Detailed results by country on page 4 of the document (Note to Editor)

2017 outlook by country

France: strong competition between investors and scarcity of investment targets

A real potential for property investment outside the nursing homes segment, mostly sold to individual investors through fractionized sales and particularly in the financing of new and existing hospital facilities. However, the lack of large transactions should reduce the investment volume below 1 Billion euros. Due to strong competition between acquirers and the scarcity of investment targets, average cap rates are expected to come down again in the early part of the year.

Germany: investment potential but decreasing cap rates

Germany shows potential for real estate investment in nursing homes, re-education and psychiatric facilities and medical office buildings but less large secondary deals are expected, which should lower the market to around 1 Billion euros in 2017. Cap rates also expected on a downward trend.

United Kingdom: investment volume should increase

After a subdued 2016, hampered by Brexit, investment volume should amount to around 1 Billion euros with overall stabilized cap rates.

Belgium: a solid market

The Belgian nursing home property market is expected to grow with opportunities also arising in the hospital segment, particularly in the reconstruction and renovation of hospital facilities dating from the 1970s. An investment volume expected to exceed 300 million euros with a slight decrease in cap rates.

Netherlands: private sector is developing, real estate transactions should follow suit

Private operators are starting to emerge with high operating margins due to significant public reimbursement and high household purchasing power whose contribution to healthcare remains modest. Nonprofit sector must also modernize its real estate stock. Real estate investors should back up this momentum with investment volume expected to increase up to 500 million euros, with decreasing cap rates.

Italy: potential for transaction volumes to rise

There is strong potential in the hospital and nursing home segments with the number of sellers and investors expected to increase, notably from other European countries. Structuring solutions have been implemented to avoid the loss of VAT on rents, which could boost the market up to 300 million euros.

Spain: growth potential to materialize in nursing homes

On one hand, there is potential in Spain for investment in the nursing home segment, whose leader has announced early 2017 a €120M transaction, notably thanks to a strong appetite by French & European investors. On the other hand, the hospital segment looks frozen as its leader could not conduct a sale-and-leaseback transaction because of unresolved VAT leakage on rents, which undermines the economics of real estate transactions. An investment volume expected to reach 300 million euros with slightly decreasing cap rates.

Portugal: a market that could wake up

A market with interesting hospital covenants that should benefit from the renewed investor interest for Southern Europe exposure.

About Your Care Consult: www.yourcare.eu

Founded in October 2009 by Stéphane Pichon, Your Care Consult is a financial and real estate investment advisor specialised in the healthcare sector. Having advised on more than €5bn of transactions at the end of 2016, Your Care Consult provides strategic, technological, real-estate and financial advice to healthcare services companies (operators of clinics, long-term care homes, laboratories, health centres, etc.) as well as to financial and real-estate investors. Your Care Consult has offices in Paris, Berlin, Milan and Brussels.

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NOTE TO THE EDITOR

Additional analysis of European healthcare real estate market
Results of 2016 study by country

France: record volume of transactions of €1.8bn, up 60%, with a good balance between lease duration and cap rates in the private hospital segment

- Healthcare real estate represented 6% of the overall real estate investment market (valued at €31bn) in 2016.
- Secondary market has reached its peak with two record transactions totalling €1,7Bn.
- Fractionising real estate sales involving nursing homes ("EHPAD") do not generate attractive returns for institutional investors.
- The hospital sector has been using sale-and-leaseback transactions since 2006, exceeding the €1bn mark in 2016. It now favours outpatient treatment and requires significant investment to modernise its facilities.
- Leases average 12 years and returns are attractive in the acute MSO[3], rehabilitation and psychiatry (6%) segment, despite some slight erosion of cap rates.

Germany: also an exceptional year with transaction volumes doubling to €3bn, driven by large secondary transactions, long leases and attractive returns in nursing homes, rehabilitation & psychiatric facilities and medical office buildings

- Healthcare real estate represented 6% of the overall real estate investment market (valued at €53bn) in 2016.
- A vibrant secondary market, notably with the ~€1Bn disposal of the leading investor.
- Operators systematically use sale-and-leaseback transactions in the nursing home segment (annual investment volume skyrocketed to over €2,5BN), but they tend to retain their properties in the hospital segment (construction work initially funded by public subsidies).
- In medical office buildings, operators are increasingly turning to sale-and-leaseback deals.
- Numerous domestic and international real estate investors are active in the market and the fractionising sale of nursing home real estate is developing.
- Long leases (25 years) could be shortened in nursing homes under the influence of the French operators. Cap rates are attractive (~6.25% on average) but on an accelerating downtrend.

United Kingdom: transaction volumes at £0.85bn, down a staggering 60%, with long leases and low cap rates (especially in London)

- Healthcare real estate represented 2% of the overall real estate investment market (valued at €45bn, significantly down) in 2016.
- Sale-and-leaseback deals are systematically used for nursing homes, hospitals and medical office buildings.
- Capital structures show high levels of debt.
- UK investors are dominating the market again with US investors less active despite a £250M secondary transaction.

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[3] MSO = medical, surgical and obstetrics clinics

- Leases are long (25 years) and capital rates are still decreasing (~5% on average), especially in new medical centres and the London market. There are sharp disparities by asset segment (well located, designed and rent "super-prime" vs less attractive "tier 2") and regions and returns are generally on a downward trend.

Belgium: stable transaction volumes €300M characterised by very long leases and low returns

- Healthcare real estate represented 8% of the overall real estate investment market (valued at €3.7bn) in 2016.
- Nursing home operators often use sale-and-leaseback arrangements.
- Clinics and hospital facilities have historically financed their activities with debt but they are now becoming more open to sale-and-leaseback deals. Several hospital reconstruction projects are underway, each one worth several hundred million euros.
- The market is composed of around ten real estate investors and Belgian insurance companies investing in nursing home facilities.
- Leases are very long (27 to 36 years) and could be shortened under the influence of French operators while returns are low (5%) and still declining.

Netherlands: an investment volume up by 30% to €450M

- Healthcare real estate represented 3% of the overall real estate investment market (valued at €13.5bn) in 2016.
- Mostly investors from Benelux are active today.
- Leases can range from 10 to 20 years with cap rates around 6,5% and on a downward trend.

Italy: a market worth €150M down 46% as no large transaction took place, despite the removal of obstacles to sale-and-leaseback transactions

- International investors are moving in, alongside domestic real estate investors and banks that are awarding mortgage loans.
- Long leases (15-20 years) are now possible and VAT leakages can be avoided with the right stucturing.
- Due to a very fragmented market, it is still difficult to identifiy portofolios with significant size, with cap rates on average between 6 and 7%.

Spain: a market in which transactions did not materialize in 2016, due to obstacles to sale lease back in acute

- Operators traditionally finance their transactions from borrowing although there are more sale-and-leaseback projects.
- Foreign investors step in to compensate the shortage of local investors
- Acute leader could not complete its sale and lease back project due to unresolved VAT leakage on rent payment
- Leases are very long (30-35 years) with some assets held under leaseholds granted by municipalities.

Portugal: a market still in its infancy

- Few transactions took place in 2016.