

CUSHMAN & WAKEFIELD

Nursing real estate market in Germany

Chances and challenges of a rising asset class

2020

Cushman & Wakefield
Health Care Real Estate

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PREFACE

A lot has changed since the 2018 issue of our market report on the subject of nursing care properties in Germany. In the further course of this report, we would like to provide you with an understanding of not only current market data, particularly based on the nursing care statistics for 2019, but also of new developments such as the introduction of the nursing care TÜV or the worsening shortage of skilled workers.

According to the ZIA spring report, 95% of all municipalities report a shortfall in the provision of assisted living - and the trend is intensifying. We are therefore all the more pleased to be able to present to you in this brochure, an expert interview with Dr. Matthias Faensen, chairman of the advisory board of advita Pflegedienst GmbH, leading provider of ambulatory care services and operator of ambulatory care housing facilities throughout Germany.
The German nursing care market is still enjoying unprecedented national and international public attention as a result of:

- Political controversy and election campaign issues
- Shortage of nursing staff and shortfalls in the supply of nursing care
- Politically-driven pushes towards outpatient and visiting treatment
  rather than inpatient nursing care
- Sixteen different federal-state-specific sets of laws and regulations; as well as
- The short and medium-term need for the construction of new buildings, yields and public welfare

Until not long ago, people talked about demographic shift as if it was just a theoretical phenomenon. However, theory has now become reality – Germany's population is ageing because of significant advances in medicine, with the proportion of the population who are very elderly constantly increasing. This shift brings with it an additional demand for care services due to the increased likelihood of becoming dependent on care with increasing age. According to projections by the Federal Institute for Population Research, the number of people requiring care will rise by a further 20% to 4.10 million by 2030 and by as much as 57% to 5.36 million by 2060, compared with 2017. This is a growth market with many challenges, but also many opportunities, as currently there is quite simply a lack of suitable care facilities.

Regardless of whether we are addressing (partially-) inpatient or outpatient nursing care services, without short, medium and long-term investments, a shortfall is inevitable. In order to guarantee a demand-oriented care landscape in Germany, massive investments in both real estate and eliminating the shortage of personnel is necessary. The public-sector institutions and the social security system are subject to financial constraints due to the decreasing number of contributors and the increasing number of recipients. The urgently required investments in sustainable, adequate and affordable care infrastructure can only tap into private capital if the potential investors have the reassurance of operating within a long-term, binding and reliable legal framework and the risk premium on the equity capital employed is in line with market rates.

There is movement in Germany's number one growth market, as shown by both the current politically (over-)motivated discussion and also by the consolidation of the still highly-fragmented operator market and the increasing interest of institutional and long-term (real estate) investors in this asset class. In 2019, prime yields for nursing real estate transactions undercut the previous year's mark by reaching 4.3%. To ensure that the nursing care market remains a competitive sector that can develop new creative and alternative care and living concepts and thus contribute to the dovetailing of outpatient and inpatient services, a much lower level of planned-economy regulatory intervention is required.

With this in mind, we hope our new nursing market report provides a thought-provoking read and that we provide you with some interesting insights.

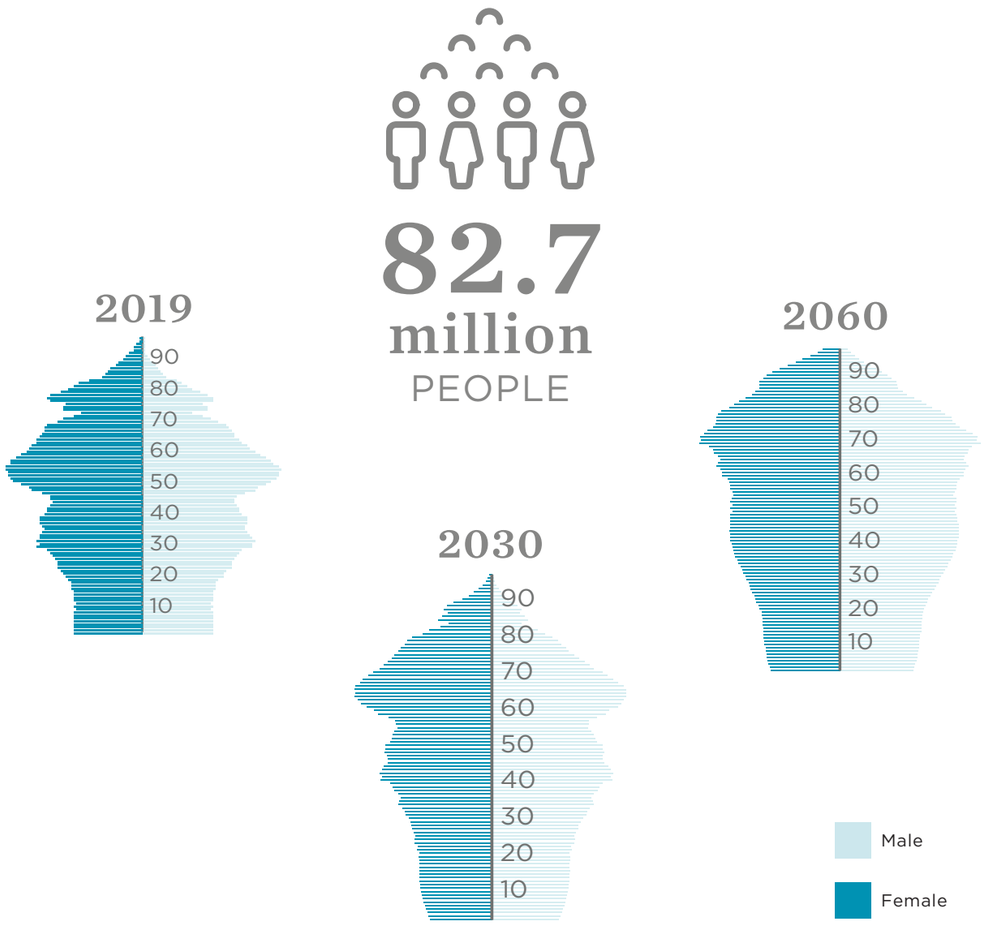


There is still movement in Germany's number one growth market!

01

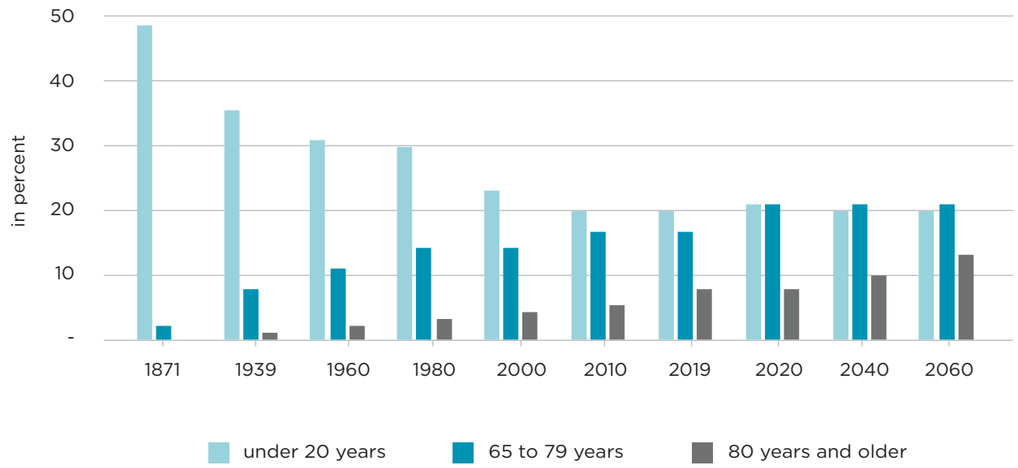
GERMANY'S DEMOGRAPHY IN TRANSITION





Federal Statistical Office (Destatis), Cushman & Wakefield

Age Group Proportions 1871 to 2060

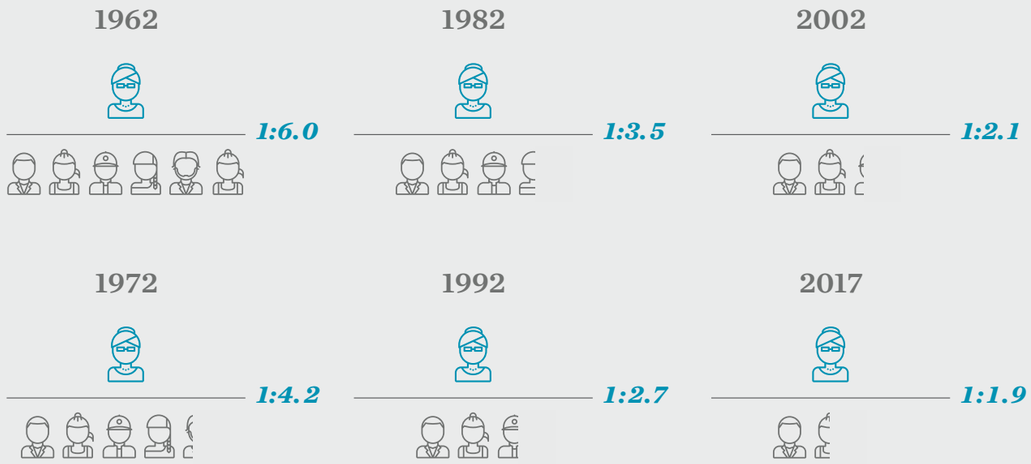


Federal Institute for Population Research (BiB), Cushman & Wakefield

Germany's population is ageing. This trend appears irreversible and poses great challenges for society, especially as the probability of an individual requiring care and inpatient admission increases with age. Life expectancy has been increasing for decades: for newborn boys, average life expectancy is now 78.3 years, while for girls it is 83.2 years. In 2060, an average life expectancy of 84.8 years is forecast for men and 88.8 years for women. This steady rise in life expectancy, coupled with low birth rates in recent decades, has contributed to a demographic shift whereby every fourth German citizen, out of some 20 million people, now belongs to the 60-plus generation. The trend is forecast to continue, accompanied by a corresponding increase in the demand for care facilities as the baby boomers of 1946-1967 now reached retirement age, and will therefore require nursing care in ten-to-fifteen years.

This development is accompanied by a further challenge: with the change in the proportion of the elderly in the population, the ratio of pension contributors to those drawing a pension has also changed drastically in recent years. In the 1960s there was a ratio of six to one, which means that for every pensioner there were six people contributing. By 2017, there were already only 1.9 contributors per pensioner. Due to the demographic shift it is assumed that this trend will continue and that pay-as-you-go contributions as a means of financing our pension system will encounter ever greater difficulties. Since 1. August 2018 state pension contributions have been at 18.6% in Germany. The pension authority, Deutsche Rentenversicherung, recently forecast that this rate will have to increase significantly, to as much as 19.3% by 2023 in order to ensure medium-term security for the state pension system.

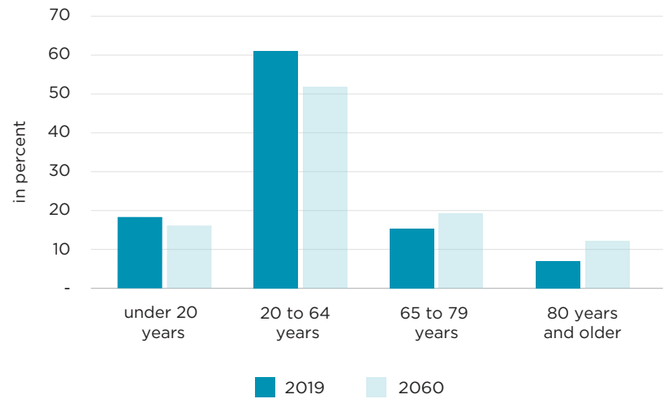
Ratio of State Pension Contributors to Pensioners (1962 to 2017)



Federal Institute for Population Research (BiB), Cushman & Wakefield

The shift in the age structure of the population is leading to the increasing importance of professional care services and care facilities. The rise in life expectancy is not the only contributor to the demographic shift, as previously mentioned a further factor is the relatively low birth rate. Despite a recent rise, Germany's birth rate is midfield among the EU member states. In addition, there is a change in the composition of households in Germany and a growing lack of familial care. The trend towards one- or two-person households is resulting in an increasing dependence on third parties. Added to this is the increasing flexibility in the choice of professional location. Increasingly, people are moving to cities far away from their origins because of their jobs. The long distances make it difficult for relatives to provide appropriate care. Furthermore, there is an enormous demand for age-appropriate, barrier-free housing. According to Terragon, at least 1.6 million barrier-free dwellings were lacking across Germany in 2017 - and the numbers are expected to increase up to 3 Mio. units until 2030, according to Haufe. The ZIA (Zentraler Immobilienausschuss, major economic association of the German real estate industry based in Berlin) in its spring report 2020 again assumes a supply shortfall in 95% of all municipalities throughout Germany - and the trend is rising!

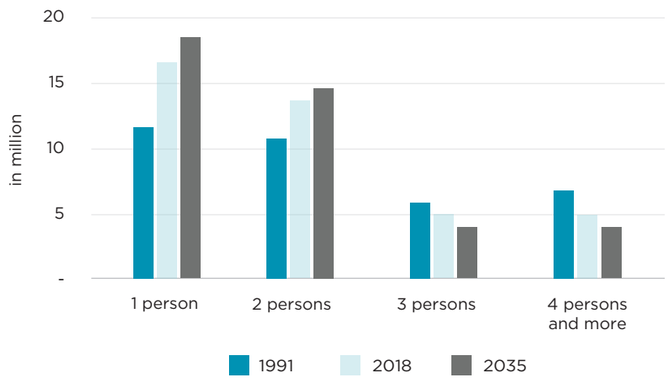
Population by Age Group



Federal Statistical Office (Destatis), Cushman & Wakefield

Although the ageing of the German population is a national phenomenon, some regional differentiation must also be made in this respect. The demographic shift is more advanced in the "new" federal states of the former German Democratic Republic (informally "East Germany") than in the "old" federal states of western and southern Germany. A sociodemographic analysis of the regions yields clear differences. The old-age dependency ratio, comparing the population aged over 65 to the population aged between 20 and 65, provides a suitable means of making the age structure regionally comparable.

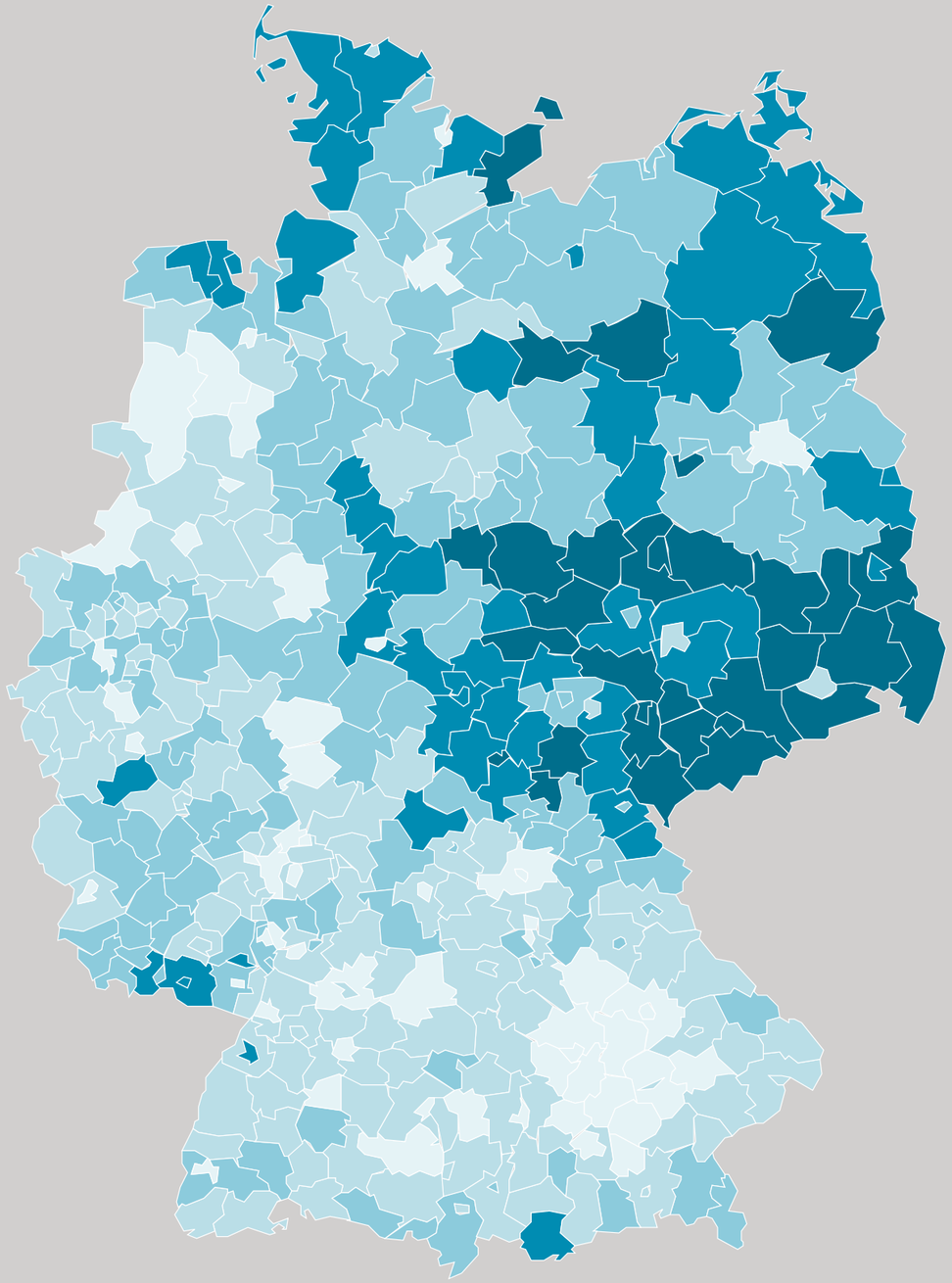
Household Size Trend 1991 to 2035



Federal Statistical Office (Destatis), Cushman & Wakefield

Over the next few years, the ageing of the population will continue and also become increasingly apparent in the "old" federal states. In addition, the populations of urban regions such as Munich and Hamburg are on average younger than those of rural regions. This results from the generally higher quality of life in structurally-strong urban regions than in rural and peripheral areas, and from the significantly higher availability of jobs and training places in the growing cities and inward-migration regions.

The Old-Age Ratio



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Percentage of persons over 65 years of age compared to those aged between 20 and 65 (2018)

- < 31.9
- > 31.9–36.9
- > 36.9–41.9
- > 41.9–47.9
- > 47.9



02

RISING DEMAND FOR CARE SERVICES

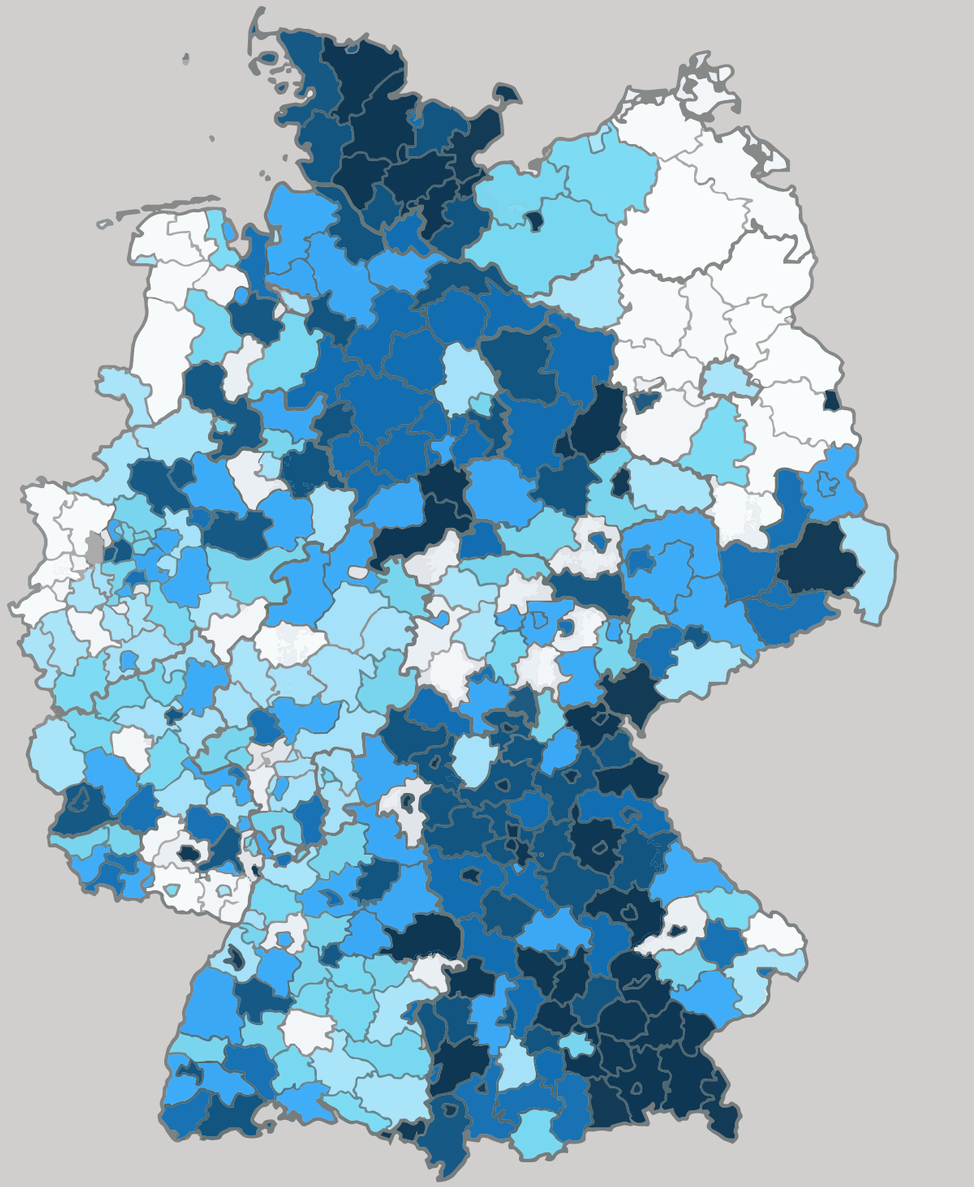
The reasons for the further increase in the need for care are complex:

- *The shift in the age structure of the population – due to increased life expectancy – means that the proportion of the population over 65 will continue to rise;*
- *In addition, however, the need for long-term care amongst the younger population groups is also increasing – the number of people under the age of 60 requiring long-term care increased by more than 67%, to just under 507,000 between 2001 and 2017;*
- *In addition, familial care is steadily decreasing as a consequence of children and grandchildren tending to move away, increased mobility at international level and the increase in the employment rate.*

Moreover, the likelihood that an individual will require care increases with age. At present, about 19% of those receiving assistance under the German Long-Term Care Insurance Act (SGB XI) are 65 or younger. For the over-90 group, this proportion rises to over 70%, of whom about half require round-the-clock care.

The number of people requiring care will increase by a further 20% to 4.10 million by 2030 from the level of 2017.In the short term, there will be a significant increase in the demand for nursing services and age-appropriate housing by 2030. The almost 14,500 nursing homes which currently exist, providing around 950,000 places, will no longer be sufficient in the future. The occupancy rate of inpatient care places in all nursing homes was approximately 93% in 2017. It can already be assumed that the average occupancy rate of all nursing homes in Germany will continue to rise further.

Ration of People in Need of Inpatient Care to all People in Need of Care (in %)



Source: Heger/Augurzky/Kolodziej/Krolop/Wuckel: "Pflegeheim Rating Report 2020", published by medhochzwei Verlag. ISBN 978-3-86216-576-6

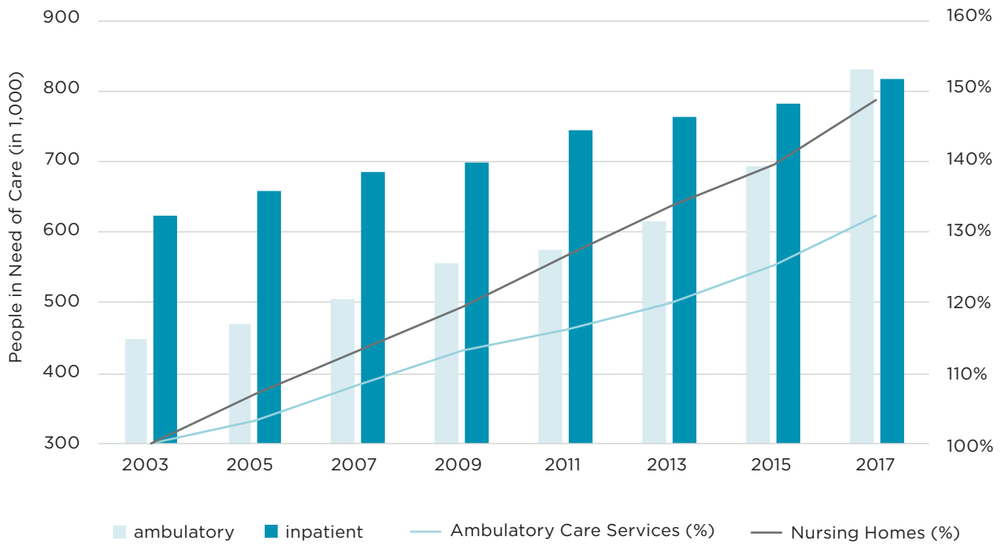
Senior Living

The demographic shift and the strong increase in care-dependent people emphasises the importance of the topic of age-appropriate living facilities. Senior housing in combination with ambulatory care and/or day care is not only attractive for operators. Everybody desires autonomy and this naturally also applies to people who require care. Senior housing aims to provide and sustain this freedom. According to questionnaire studies this form of dwelling is the most popular among German seniors. The care support statutes of the last four years provide increased financial support for visiting care service provision. A main advantage for the operator and property investor is also that senior housing does not fall within the scope of the legal statutes on nursing homes.

Between 2013 and 2017 the number of people receiving ambulatory care increased by 35% - inpatient only by some 7%. Moreover, for the first time the total number of people receiving ambulatory care exceeded the total of those receiving inpatient care in 2017. This proportion will continue to rise as a result of the politically-willed "mobilisation" of care services, as enforced by the laws strengthening nursing care. This will result in a further increase in demand for professional mobile care services in combination with some inpatient services and age appropriate residential facilities.

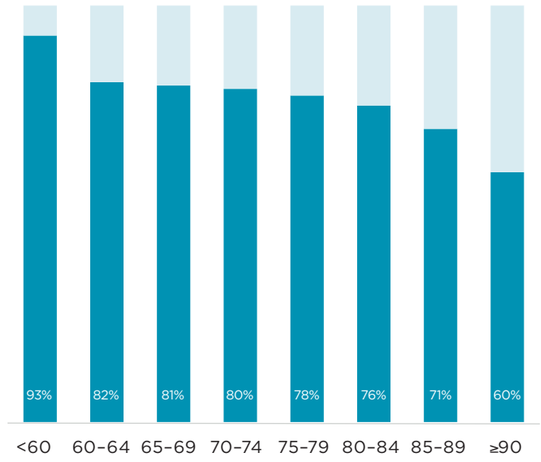


Development of People in Need of Care by Care Type and no. of Care Services

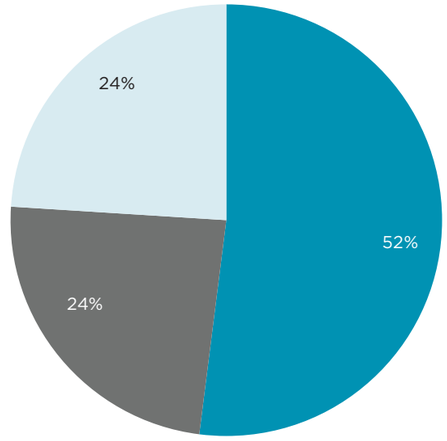


Statistisches Bundesamt

People in Need of Care by Care Type 2018



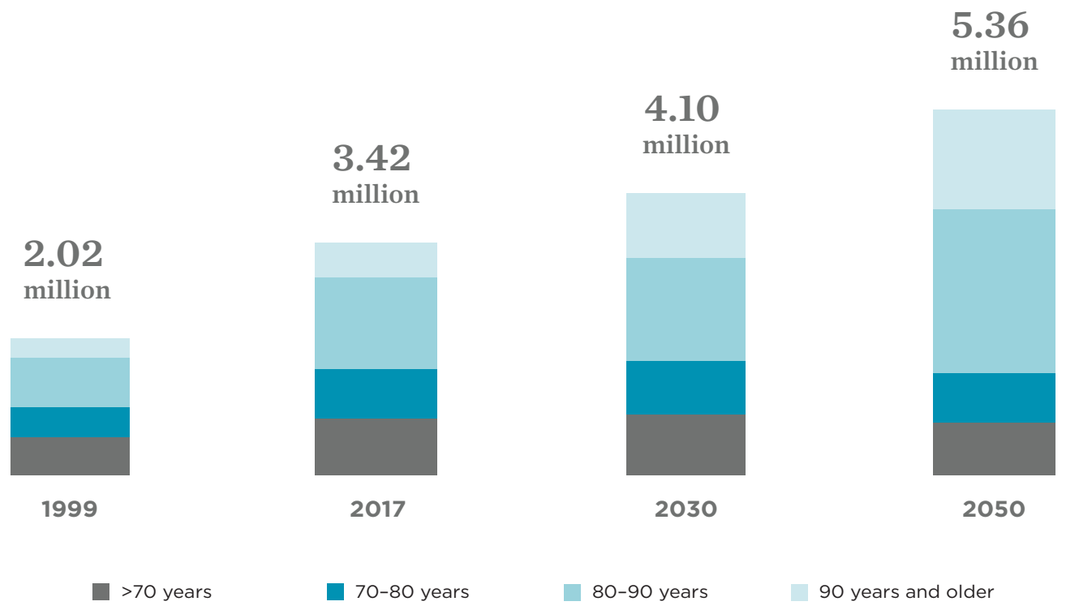
Riwis



Statistisches Bundesamt



Development of the Number of People Requiring Care (1999 to 2050)



Federal Statistical Office (Destatis), Federal Institute for Population Research (BiB), Cushman & Wakefield



03

ADVANCE OF MARKET CONSOLIDATION

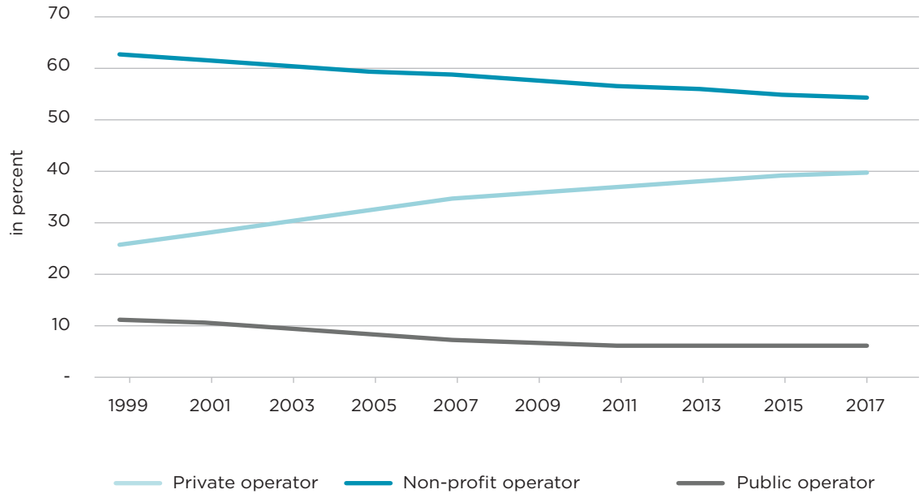


The operator market in Germany is characterised by its pronounced fragmentation on the one hand but, especially in the recent past, an increasing rate of consolidation on the other. This dynamic is largely driven by private capital from Germany and abroad, as well as by the expansion of large operator chains. In total, private operators account for almost 40% of the market in terms of inpatient care beds. This share has increased continuously since 1999. The privatization of the operator market in Germany is in full swing.

The consolidation of the market has recently been boosted by a large number of takeovers by investors and private operating companies from abroad, who have recognised the potential of the German care market for themselves. The year 2017 was one which saw significant company takeovers by foreign players, mostly from the private equity sector. Chequers Capital (France) took over EMVIA Living (formerly MK-Kliniken AG) with approx. 5,400 beds, Nordic Capital (USA) took over Alloheim with over 16,000 beds and Oaktree Capital (USA) took over Pflege & Wohnen with approx. 2,690 beds. Two French operators Korian and Orpea have also grown in Germany via company takeovers. In 2018, the Schönes Leben Group, a subsidiary of the Dutch private equity company Waterland, attracted attention with the takeover of Compassio with almost 3,000 beds and Pflege & Wohnen, with its approx. 2,690 beds changed hands again, as Deutsche Wohnen took it over from Oaktree. In 2019 the Italian healthcare company KOS took over the nursing home operator Charleston Group from EQT Infrastructure. The Charleston Group operates 47 senior-citizen and care centres with more than 4,000 care places as well as 6 outpatient care services and 5 day- care facilities.

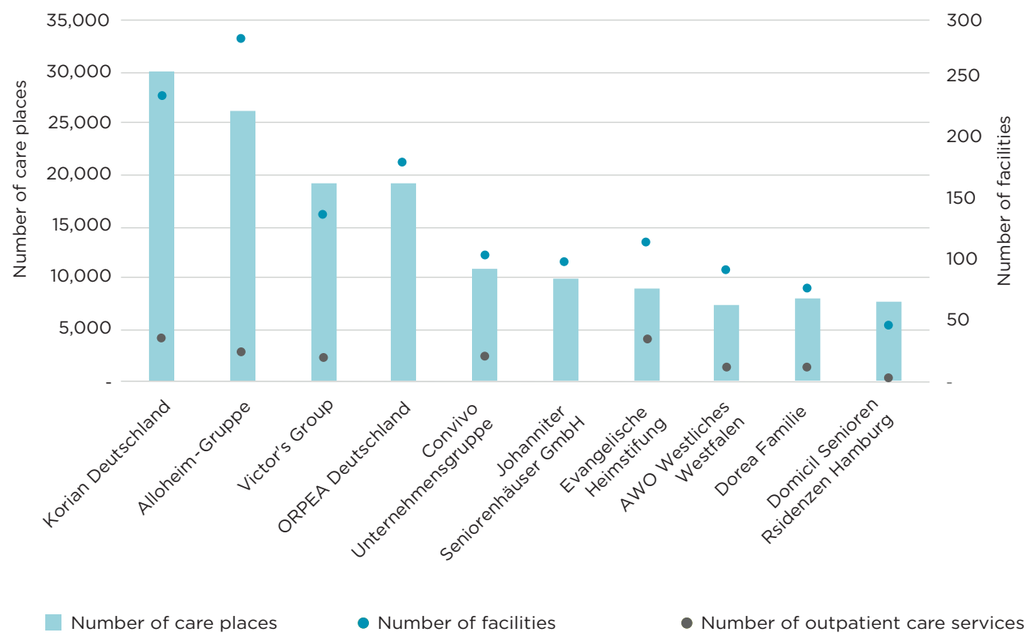
Private-sector oriented companies see opportunities in the small-scale character of the operator market, as regionally operating medium-sized companies in particular can make promising investment targets. The establishment of a profitable platform or operator chain is therefore still possible in Germany.

Proportion of Care Beds by Operator Type



Federal Statistical Office (Destatis), Cushman & Wakefield

Top 10 Operators Germany

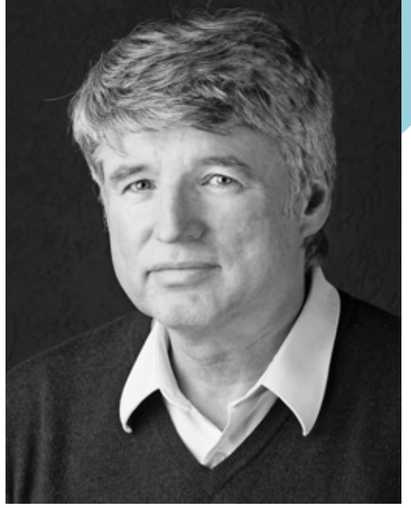


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04

EXPERT INTERVIEW



Dr. med. Dipl.-Psych. Matthias Faensen

Dr med. Dipl.-Psych. Matthias Faensen is Managing Director and Chairman of the advisory board of advita Pflegedienst GmbH, the leading operator of ambulant and visiting care services in Germany, as well as Managing Partner of Senioren-Wohnen Holding GmbH, which plans and develops advita's real estate.

Good evening Dr. Faensen. Thank you for taking the time to speak to us. When you look back on 2019, how was the year for you?

Good in every respect. advita was able to increase its turnover by 15% compared to the previous year. That is slightly less than we had planned, as we "only" opened five new advita Haus facilities. Three we had expected to open will now open in 2020. And Senioren-Wohnen Holding GmbH was able to send a strong signal to the nursing care market in March by selling 12 advita Haus properties to Primonial.

What do you intend by sending this strong signal?

We only created the advita Haus business model with assisted living as its core and the accompanying range of offers and services, such as day care and shared apartments, with the first advita Haus in Leipzig in 2008. This was by no means a matter of course at the time and many people did not understand, or even rejected, this alternative to the classic nursing home model. However, when advita was voted "Operator of the Year 2017", the strength of this concept was not just acknowledged by the expert public, but won accolades. In 2018 and 2019 imitators of our concept were awarded prizes, underlining that it has finally become mainstream. And now, in 2019, we went one step further and, with the sale of a package of advita Haus properties, we have also made this asset class socially acceptable in the nursing care property market.

Why was it initially difficult to bring the advita Haus concept to investors?

Because many real estate funds were restricted in their investment criteria to classic nursing care properties and could not even invest in a hybrid of residential and nursing care. The success of advita Haus in the market has caused a rethink and many funds have adapted their investment strategies accordingly. This is something that not only we, but also our competitors, who have adopted this concept, are experiencing.

Does it annoy you that others have copied it?

Not at all, quite the opposite. It was only when other operators, especially those from the welfare sector such as Caritas and Diakonie, built and commissioned exactly such facilities, whatever they called them, that the trend became established in the market. Today, hardly any operators still build classic nursing homes. In most cases, the outpatient and semi-inpatient care services are combined with the inpatient care services.

And what goals have you set yourself for 2020?

advita will grow even faster in 2020 than last year. This can be predicted fairly accurately, as we will be opening eight new advita Haus facilities.

Unless something else happens?

(laughs) Well, nobody's immune to surprises. But there are six new openings in the first half of the year, so we know exactly how much work has been done. That should work. But I would like to point out that corporate development is not just about new locations and the opening of new advita Haus properties, but means much more. advita is a services provider and is therefore developing in all areas: we are introducing digital nursing documentation; in return, every employee in the nursing division receives a tablet computer with which they can also handle all of their personal HR matters in the company online in future: download their pay slips, register for holidays, send sick leave notice. advita is investing over EUR 1 million in this alone. This year, the first nurses will go on their ambulant patient visits with electric vehicles. We have introduced company health insurance, as well as a model that enables employees to save up working hours for a sabbatical. Employees can buy an e-bike according to the 1% rule and ... and ... There's not enough time now to list everything we do to be innovative and attractive as a company.

You have to be attractive if you want to find employees at all.

That's very true. In a study of the most attractive employers, Focus Money ranked advita second in the social sector. This also means that employees know that they are working for a company that is respected and has a good reputation in the industry. This very much the case for advita. The advita brand is known and respected throughout Germany and is associated with the innovative advita Haus business model. The issue of the shortage of trained nursing staff, and of care personnel in general, has reached the consciousness of general public.

Do you see this as the greatest challenge in the care market?

Of course. Nursing care is a personal service. It stands and falls with the availability of people who want to devote themselves to this task. Finding them, getting them enthusiastic about the job and then retaining them in the profession is a central corporate task.

And how do you intend to master this task?

I have already said a few things. Many operational conditions that contribute to job and employer satisfaction play a role. But of course wages are also central. An enormous amount has happened in recent years that has hardly been noticed by the public. advita adopted a collective bargaining guideline, a kind of in-house collective agreement, at the end of 2014. At the beginning of 2015, the first salary increases were made on this basis, then on every 1st January. With this year's increase, we reached a cumulative salary increase of 36% in total.

Are you also looking for nursing staff abroad, something we read so much about?

No. Nursing care for the elderly consists of social communication. We cannot afford the effort to bring foreign nursing staff to the required language level. We train more than 100 young people, but we also train people who are already experienced in their profession. And we try to keep the nursing staff in their jobs or to reintegrate them into the profession after having a family.

What other challenges do you expect in 2020?

The increasing number of people needing long-term care requires investment in care services. Who will do this, if not the private nursing care companies? The local authorities cannot afford it, welfare is waiting for funding at state level. But our investments have to pay for themselves. We construct new buildings or refurbish existing buildings to such an extent that they are of such high quality that they are equivalent to new buildings. Of course, not everyone can afford a new apartment. Here, a nursing home allowance would have to support the less well-off so that they can also afford an apartment in an assisted living facility with complex services such as advita Haus.

This brings us back to real estate. What are your targets for 2020?

Would you believe me if I told you now that there are currently 32 advita Haus properties in operation, but that we have 33 more and three extension buildings under construction or in the approval process?

But you don't do all that yourself, with Senioren-Wohnen Holding GmbH?

No, not all, but 17 of the new properties and the three additional buildings are being built under our direction. But we have also started to carry out development projects in joint ventures with experienced partners from the real estate industry. This greatly increases our scope of action. And we continue to work with investors and developers who offer us interesting locations for rent. There we are not content to simply conclude a lease, but are partners in the planning process, making precise specifications on how the building should look and be equipped. This is a great help for the landlords and their planners.

And how does the future look?

We have established our business model of property development for an established, creditworthy and respected operator. I am looking forward to devoting myself to this together with our now-proven project development team in the coming years.



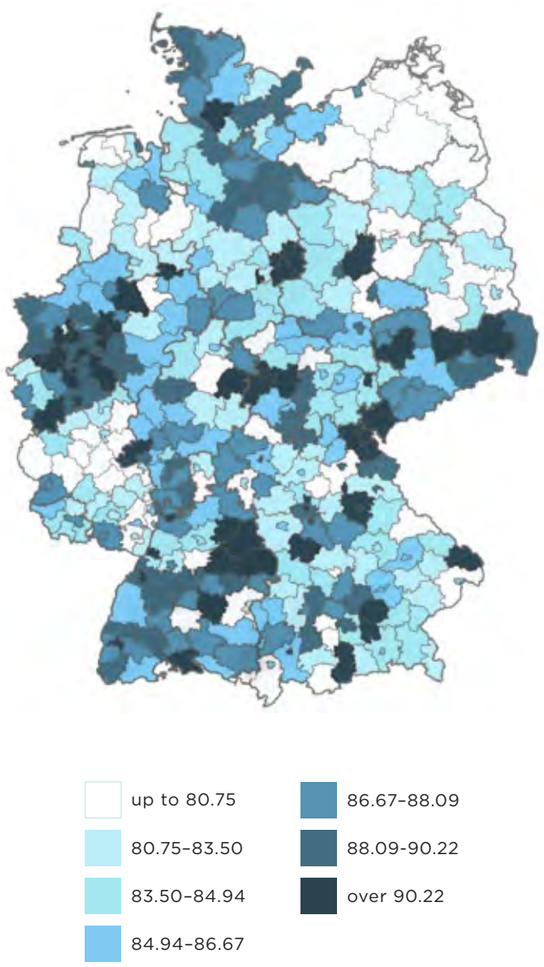
05

PERFORMANCE OF NURSING HOMES

Occupancy of Residential Nursing Homes (in %)

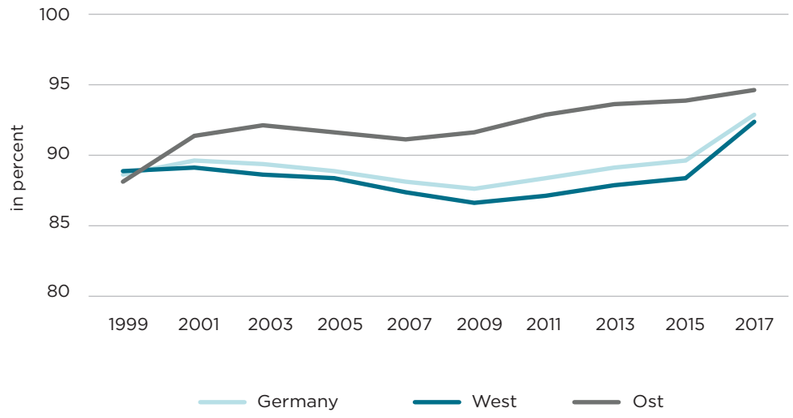
The occupancy rates of nursing homes vary not only by region, but also between operators. From a geographical perspective, nursing homes in eastern Germany in particular, as well as in parts of North Rhine-Westphalia and Baden-Wuerttemberg, for example, have above-average occupancy rates. The varying occupancy rates of private, public or non-profit operators, on the other hand, are mainly due to factors connected with reputation, but also to an extent, to the sometimes-lack of market penetration of predominantly-regional private operators. In addition, large non-profit or public-sector operators exploit synergy and coupling effects, as they are often also active in other health sectors, such as the hospital segment or outpatient medical care. This enables an early commitment to potential patients requiring inpatient care in the future.

The occupancy rates are almost certainly even higher than the figures indicate, as the data collection of the various states is not only carried out on a date-related basis, and only those persons requiring inpatient care are included who receive benefits under the long-term care insurance in accordance with SGB XI. Self-payers who do not receive SGB XI benefits and persons requiring care but without a care-level classification are not included. Care insurance forms only one of three revenue-relevant pillars for an operator. Further income is generated in the form of investment costs resulting from the construction and repair of buildings and from accommodation and meals. These cover all operating and catering costs and are borne by the residents themselves, unless social assistance is provided.



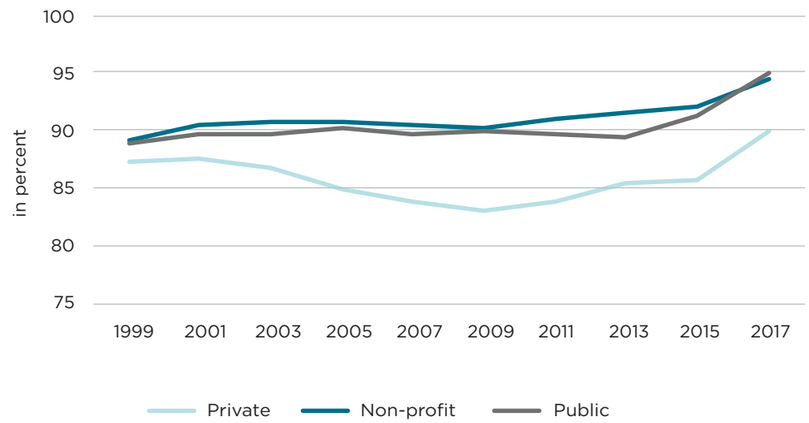
Source: Heger/Augurzky/Kolodziej/Krolop/Wuckel: "Pflegeheim Rating Report 2020", published by medhochzwei Verlag. ISBN 978-3-86216-576-6

Occupancy Rate by Location (in %)



Source: Heger/Augurzky/Kolodziej/Krolop/Wuckel: "Pflegeheim Rating Report 2020", published by medhochzwei Verlag. ISBN 978-3-86216-576-6

Occupancy Rate by Ownership (in %)



Source: Heger/Augurzky/Kolodziej/Krolop/Wuckel: "Pflegeheim Rating Report 2020", published by medhochzwei Verlag. ISBN 978-3-86216-576-6



06

SHORTFALLS IN SUPPLY

Today, demand already exceeds supply of (partly-) inpatient care places. Waiting lists for accommodating parents or other very elderly relatives in need of care are no longer a rarity in view of the high level of occupancy of care facilities.

Assuming constant proportions of care dependency and inpatient care rates for the near future, the construction of hundred thousands new care places by 2030 is imperative. In addition, a large number of existing nursing homes are themselves ageing and have correspondingly high maintenance backlogs. According to the ZIA position paper published autum 2017, the level of new investments and reinvestments necessary amounts to around €70 billion. In addition, there is a lack of sufficient alternative forms of housing appropriate for those requiring care, primarily barrier-free apartments in accordance with DIN 18040-2, which is required to foster the planned and necessary closer integration of outpatient and inpatient services for the benefit of those requiring care. Driven by demand and politically motivated, assisted living is increasingly moving into operators' sights. According to the ZIA Spring Report 2020, the stock currently consists of around 7,000 residential complexes with about 300,000 apartments - another 600 or so residential complexes are currently at the planning stage. In about 95% of all communities there is a supply shortfall - and the trend is rising!

In the course of the coming into effect of the "Pflegepersonal- Stärkungsgesetz" (Nursing Staff Strengthening Act) on 01.01.2019 and the newly established "Konzertierte Aktion Pflege" (Concerted Action Nursing), the current shortage of nursing staff is to be addressed. More staff, better training and better pay, as well as raising the status of care professionals in society, are just as essential as a reliable and sustainable economic and legislative background for investment in nursing homes.

Inpatient care

Outpatient care

Care personnel







07

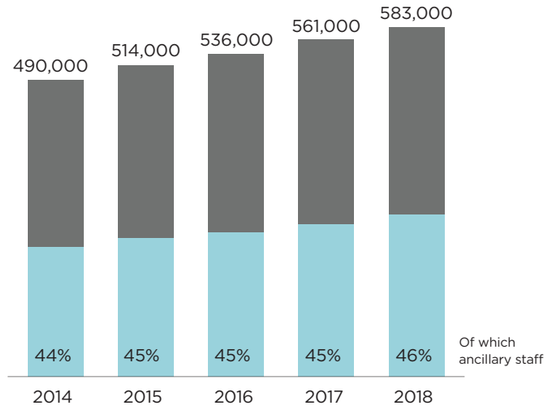
THE CARE SECTOR EMPLOYMENT MARKET – CHALLENGES AND OPPORTUNITIES

The Care Sector Employment Market – Challenges and Opportunities

The shortage of skilled workers is one of the central challenges facing the nursing sector. Demographic change, the increasing morbidity of the population, the decline in home care provided by relatives and the rise in the number of people suffering from dementia are leading to a growing need for skilled personnel and a disproportionate number of those in need of care and relative to the available nursing staff. With 1.6 million employees in nursing care for the sick and elderly in 2018, the industry recorded an increase of about 3% over the previous year. 583,000 of the employees worked in nursing care for the elderly and 1.1 million in nursing care for the sick. Almost half (46%) of all people employed in the care of the elderly worked as ancillary staff, which usually requires a shortened training period of 2 years or no training at all. Nevertheless, care assistants in geriatric care accounted for about two thirds (approx. 15,000) of the total increase from 2017 to 2018 and thus represent an important component in employment development of the care sector.

Number of Employees Contributing to Social Insurance Engaged in Nursing the Elderly

Germany, as at June of respective year



Bundesagentur für Arbeit, Cushman & Wakefield





The shortage of skilled workers in the care sector is made more acute by the sector's high rate of part-time work, its low retirement age and demographic change of employees in the workforce. For example, 57% of all nursing staff are in part-time employment and marginal employment is widespread. A demographic change within the sector is foreseeable, with 10% of all employees being over 60 years old and another 30% between 50 and 60 years old. In addition, the retirement age of carers is below the statutory retirement age.

Professional training and further education programmes play an important role in the effort to redress the shortage of skilled personnel, especially in the field of care for the elderly. For example, 25% of all training courses for geriatric nursing specialists in the 2017/2018 training year were in the form of continuing vocational training. Another reaction to the growing demand for nursing staff is a rapid increase in the number of employees working for temporary employment agencies. While 12,000 temporary workers were working in nursing care nationwide in 2014, this figure had already risen to 22,000 by 2018, and the number of temporary workers in nursing care for the elderly rose from 8,000 to 12,000 in the same period. Temporary employment agencies are also an attractive employer for nursing staff because of above-average wages and paid overtime. Nursing assistants are also an essential element in the fight against the shortage of skilled staff, particularly in the area of assisted living and outpatient nursing care. They are increasingly able to take on household tasks as well as support in everyday life, while tasks of a medical nature are performed by nursing staff.

As a result of the nursing care strengthening laws (PSG I-III), not only the situation of those in need of nursing care and their relatives has been improved, but also of people who work in nursing care. As a result of PSG I, additional funding of w1 billion per year was approved from January 2015 onwards to increase the number of care workers from 20,000 to 45,000. In PSG III, which came into force on 1 January 2017, one of the main emphases was on improving the nursing care situation at local authority level, including in the form of additional personnel and non-cash benefits.



08

NURSING CARE-TÜV

The New Nursing Care-TÜV

The evaluation procedure for testing the quality of nursing homes, which has prevailed for years, has been criticized for some time. Experts criticize the above-average rating of nursing facilities, which usually does not reflect the reality on site. The nationwide average rating with this grading system is 1.2. This shows that many of the more than 13,000 nursing homes in Germany regularly received top ratings, which limits the significance of the rating. With the introduction of the new nursing care TÜV starting with external audits of nursing homes from 1 November 2019, quality and defects will be assessed in a more differentiated manner.



The following five areas are included with different numbers of criteria:

Nursing care and medical care	Dealing with residents with dementia	Social care and everyday life	Housing, Catering, House Keeping and Hygiene	Survey of residents
35 Criteria	***10*** Criteria	***10*** Criteria	***9*** Criteria	***18*** Criteria

Each criterion can be evaluated on a scale from 0 to 10. A respective range evaluation and an overall evaluation are listed at the end. However, the quality of the nursing home is only assessed based on the first four areas. In the future, the new system will focus more on the quality of the consideration of the needs of those in need of care as well as the equipment and services offered by the nursing facilities. However, critics criticize TÜV's strong focus on administrative criteria. These criteria enable nursing homes that perform worse in terms of medical care quality to still receive a good overall rating. Furthermore, the new system provides for particularly poorly rated areas to be marked more clearly. Quality assurance and the documentation for the improvement of critical points are to take place by a half-yearly indication of the mechanisms. The Medical Service of Health Insurance (Medizinische Dienst der Krankenversicherung = MDK) also carries out independent quality control. All results are then to be published on the website of the health and nursing insurance funds. With the new care TÜV the authors hope for a better and more honest comparability of the nursing homes as well as an increase of the supply quality of the nursing homes by the higher responsibility of mechanisms and testing institutions in Germany.





09

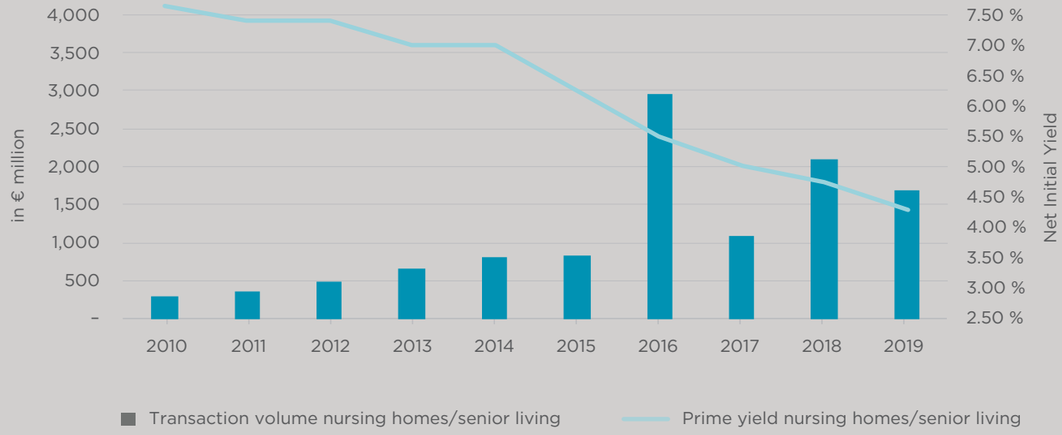
INVESTMENT MARKET NURSING CARE PROPERTIES



Preventing the impending undersupply of appropriate (residential) care facilities and averting an ongoing intensifying crisis in care is a macroeconomically important challenge, which is not achievable without private investments at adequate returns. Already, 43% of the approx. 14,500 inpatient nursing homes are operated by private providers - and the trend is still gaining strength despite the highly-fragmented market. In addition, investment in nursing homes is also dominated by listed real estate companies and institutional investors pursuing long-term investment strategies. Between 2013 and 2019, approximately €11.0 billion was invested in nursing homes and senior residence facilities throughout Germany. In 2019, approx. €1.7 billion, have been invested in this asset class. Prime yields for nursing homes reached approx. 4.3% in 2019. It should also be noted that there are increasing numbers of health care REITs and investment funds specializing in this asset class.

In order to the urgently required investment to be made available, and to remain available in future for the creation of new and innovative forms of facilities and residences appropriate to the needs of the growing numbers of people requiring care, a dismantling of regulatory barriers to invest is required. Statutory stipulations regarding the ratio of single rooms and the minimum size of care units, while strict, are not uniform across the sixteen German federal states, and are not helpful in the effort to rise to the massive challenge. In addition, in view of the continuing increases in construction costs and land prices, a market-appropriate indexation of the investment costs should also be taken into account over and above this. Long-term investors need planning security, not the restrictions of a planned economy.

Transaction Volume for Care and Senior Residence Property in Germany



Cushman & Wakefield

Due to the lack of market transparency, the legal challenges, regional variations, variations in operating lease terms and the importance of the specific operator, investment in nursing homes is extremely advice-intensive. Numerous value-enhancing or value-reducing factors may be hidden behind apparently lucrative investments. Specific know-how in this segment is indispensable in order to make sustainably profitable investments.



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