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Healthcare real estate: growing maturity

▼ 5.6 million
Number of medicine, surgery and obstetric stays in 2021

▼ 974
Number of private clinics 2021

▶ 4.0%
EHPAD yield 2021

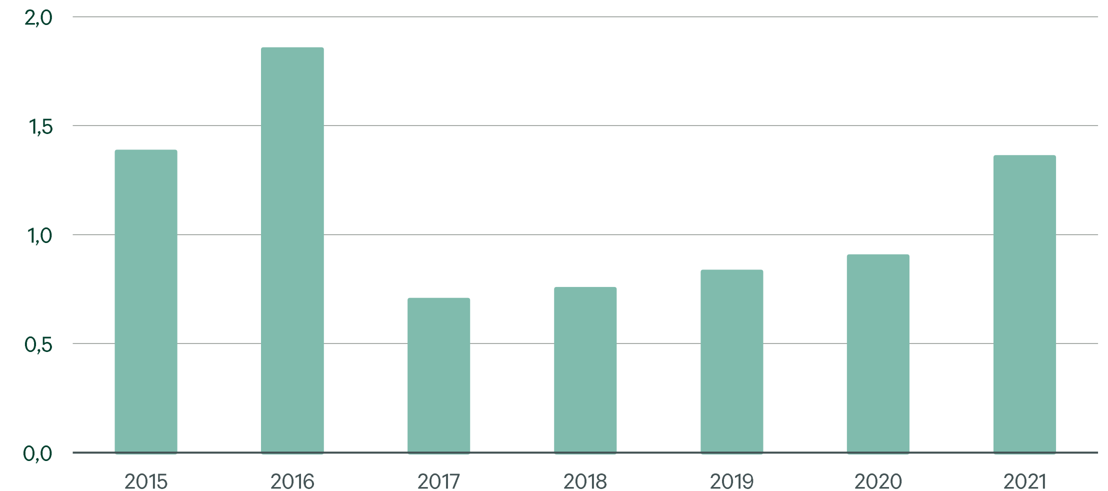
▲ €1.4 billion
Investments 2021

Note: The arrows indicate annual variations

KEY POINTS

- The public sector still dominates in France. It is well regulated by the Ministry of Health (set pricing for medical services) and Regional Health Agencies (capacity quotas).
- This model is evolving in response to multiple socio-demographic challenges, and in favour of transparency, given increasingly stringent CSR requirements.
- A strong market: 1.4 billion invested in 2021 with attractive yields.
- CSR is becoming a major issue: occupants' well-being and buildings' environmental impact are key concerns for investors and operators.

FIGURE 1: Healthcare real estate investment volume in France



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Investment in healthcare real estate

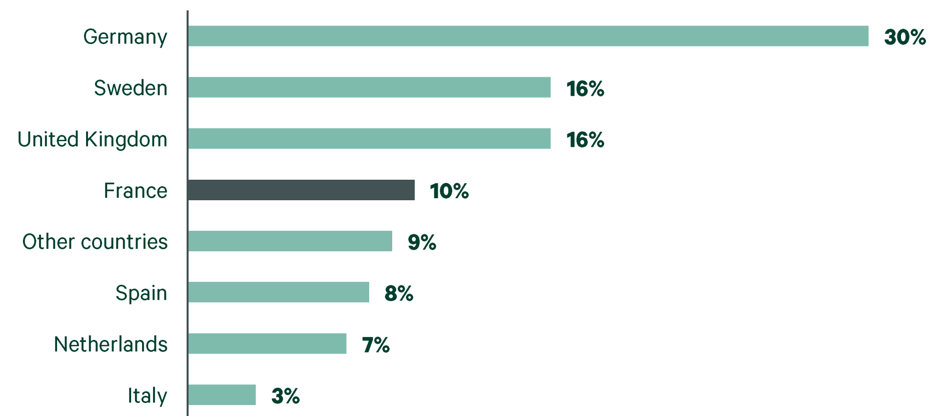
Although healthcare real estate remains a specialist market, it has continued to consolidate and become more professional in recent years, as shown by the increased investment. At the European level, 2021 investment totalled €12.6 bn, i.e., a 1.4% y-o-y increase. Germany remains the market leader in terms of volume, with a total investment of €3.7 bn. It is followed by the UK and Sweden, with €2.1bn invested in each country.

€1.4 billion were invested in France in 2021, representing 10% of the total European volume, and placing France 4th behind Germany, the UK and Sweden. Hospitals accounted for 57% of transaction volume, and nursing homes 43%. Unlike other assets, the Covid-19 crisis has strengthened investor interest by highlighting the strong fundamentals that underpin this market. 2021 also witnessed the development of medical and wellness centres that bring together multiple specialities.

The French market remains concentrated around a few specialised property companies and asset managers, led by Icade Santé and Primonial. These are followed by Cofinimmo (Belgian property company), Euryale (SCPI Pierval Santé) and BNP. These traditional players continue to expand their portfolios both in France and abroad. Thanks to its high occupancy rates, secure rent and recurring cash flows, healthcare real estate appeals to investors and remains a safe haven asset given the current context of a global pandemic and a generalised interest among investors in alternative assets.

As with other real estate assets, healthcare real estate investors and operators are increasingly focusing on energy use when making their investment decisions, in the context of sustainable development CSR policies. For example, Icade Santé's 2021 annual report progress indicators include a target to reduce carbon emissions in France by 37% between 2019 and 2030.

FIGURE 2: 2021 healthcare real estate investment volume in Europe by country



Source: CBRE Research, Q4 2021

FIGURE 3: *Prime** yield by type of asset

	Q1 2022
Residential Paris	2.20%
Residential Regions	3.20%
Purpose built student accommodation Paris Region	3.50%
Purpose built student accommodation Other Regions	4.00%
Senior living residences Paris Region	3.50%
Senior living residences Other Regions	4.00%
Secondary senior living residences	4.25%
MCO Clinics	4.70%
PSY/SSR Clinics	4.25-4.50%
EHPAD	4.00%

*High quality assets, leased at market conditions
Table drafted on the basis of expert opinion (Capital Markets Valuation, Studies and Research), given that there is no systematic referencing for each category
Source: CBRE Research, Q1 2022

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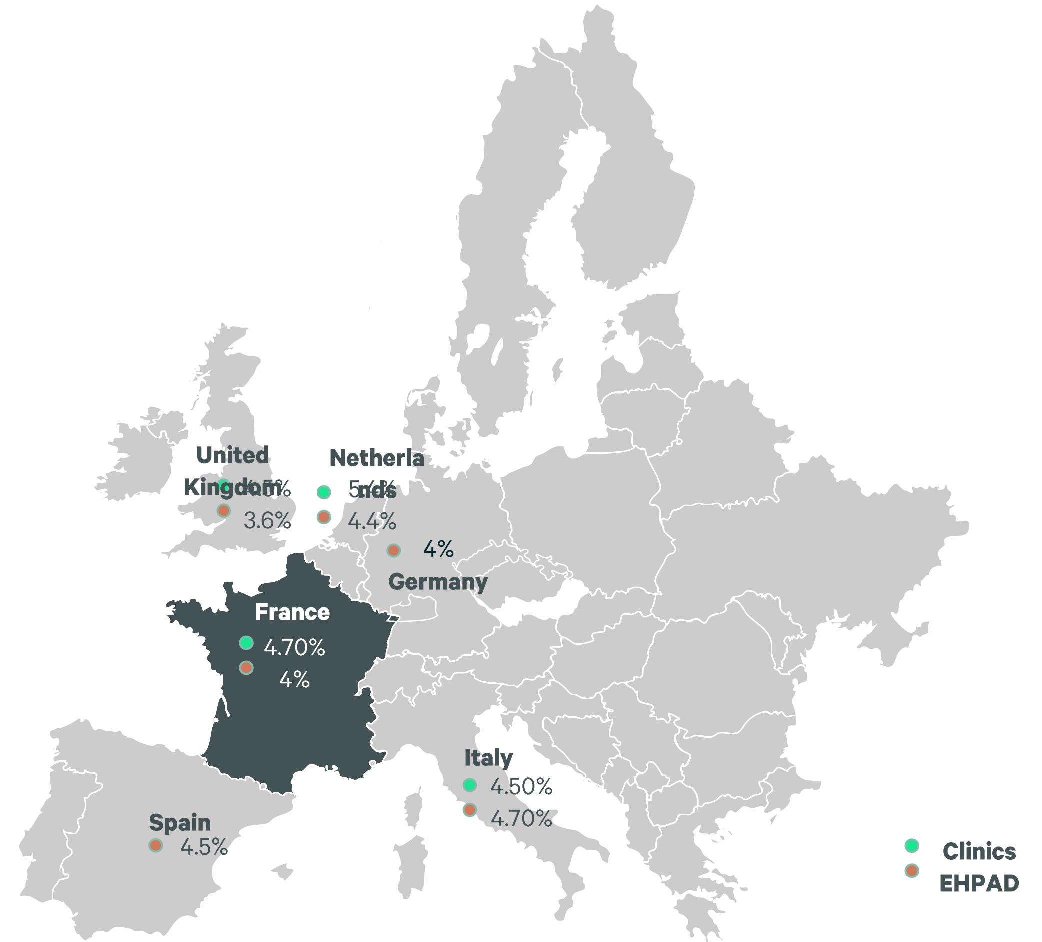
Given the current context and following the trend observed in other European countries, yields remain attractive compared to other asset classes: 4% for EHPAD (excluding Paris), 4.70% for MCO clinics, and 4.25% to 4.50% for PSY/SSR clinics.

An evolving market

Public-private mix

The French hospital system is a combination of public hospitals, not-for-profit private hospitals, and a private sector that includes commercial companies (private for-profit hospitals which complement the public and not-for-profit entities). In 2020, the French hospital sector had 2,983 facilities, providing 386,835 inpatient beds and 80,089 short-stay beds. There are 1,342 public hospitals, 974 private clinics and 667 not-for-profit entities. Due to the ageing population and the growing number of patients suffering from chronic conditions, the number of hospital admissions is rising. Nearly 13 million patients receive outpatient, short-term or medium-term care per year. Over the past decade, the structure of healthcare services has evolved: inpatient hospitalisation capacity has continued to fall (from 468,000 to almost 387,000) combined with a significant increase in the number of short-stay hospitalisation places (from 50,000 in 2003 to almost 80,100 in 2020). This is a direct outcome of the government's emphasis on outpatient care. In 2020, public health facilities accounted for 61% of all beds in France, private not-for-profit 22% and private clinics 33%.

FIGURE 4: Prime yield by country



Source: CBRE Research, Q1 2022

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Strictly regulated

In France, the healthcare sector is strictly regulated. The Ministry of Health determines the rates for medical procedures, which are revised annually. Since 2005, a single rate system (T2A) applies to all medicine, surgery, and obstetrics procedures (Médecine, Chirurgie, Obstétrique, MCO). The system is currently being extended to fields that are not currently covered: psychiatric as well as follow-up and rehabilitative care. Allocations for residential care homes (EHPAD) are determined on the basis of three criteria: medical care (paid by health insurance), dependency (primarily financed by the departments) and accommodation (paid by resident). The new method used to calculate the medical care allocation was reformed in 2021 and allows EHPADs to receive additional funds in order to expand their healthcare teams.

Operators therefore have no margin for manoeuvre in terms of rates for medical services. Facilities therefore require authorisations issued by the Regional Health Agency (Agence Régionale de Santé, ARS) to create beds and spaces in a given region. Successive reforms of the health system have consequently led to a concentration of commercial clinics and EHPADs. Also, in order to maintain their margins, medical-social sector entities have expanded internationally.

A partnership model

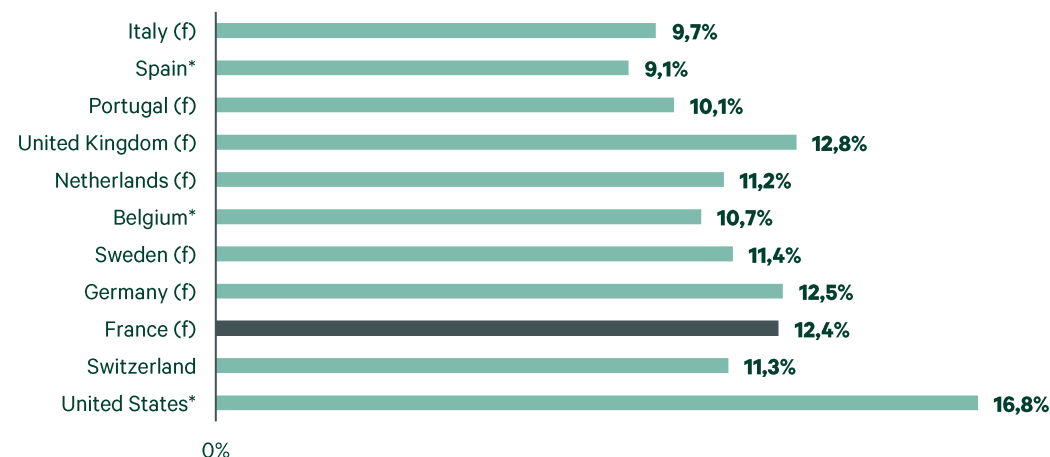
Commercial clinics are partnerships or joint stock companies within which practitioners run their private practice. Since 2014, there has been a significant consolidation of private hospitals and large national groups have emerged. In the 1990s, most private clinics were owned by practitioners who had either taken over an existing practice or founded their own. Over time, independent doctors were replaced in the share capital of these groups by external entities, predominantly private equity funds. As a result of these successive phases of mergers/acquisitions, nearly 40% of private French clinics are now owned by the top three national companies: Ramsay Santé, Elsan and Vivalto Santé.

FIGURE 5: Reference healthcare real estate investment transactions

Location	Type	Buyer	Seller	Amount	Transaction date
Portfolio	EHPAD	Primonial	Colisée	€317m	Q4 2021
Nîmes (30)/Ales (30)	MCO	Primonial	Elsan	€126m	Q4 2021
Grenoble (38)	MCO	ICADE	-	€51m	Q4 2021
Portfolio	SSR/EHPAD	ICADE	-	€47m	Q2 2021
Portfolio	EHPAD	Cofinimo	Domus Vi	€44m	Q4 2021
Lyon (69)	Health centre	La Française	-	€28m	Q4 2021
Olivet (45)	SSR	ICADE	ORPEA	€28m	Q2 2021
Dijon (21)	EHPAD	CDC Habitat	Adim Lyon	€27m	Q1 2021
C2S Portfolio	MCO/SSR	Primonial	Elsan	€252m	Q2 2021

Source: CBRE Research, Q4 2021, Annual and quarterly SCPI reports

FIGURE 6: Current health expenditure in % of GDP



*2019 data; (f) forecast
Source: OECD, 2021

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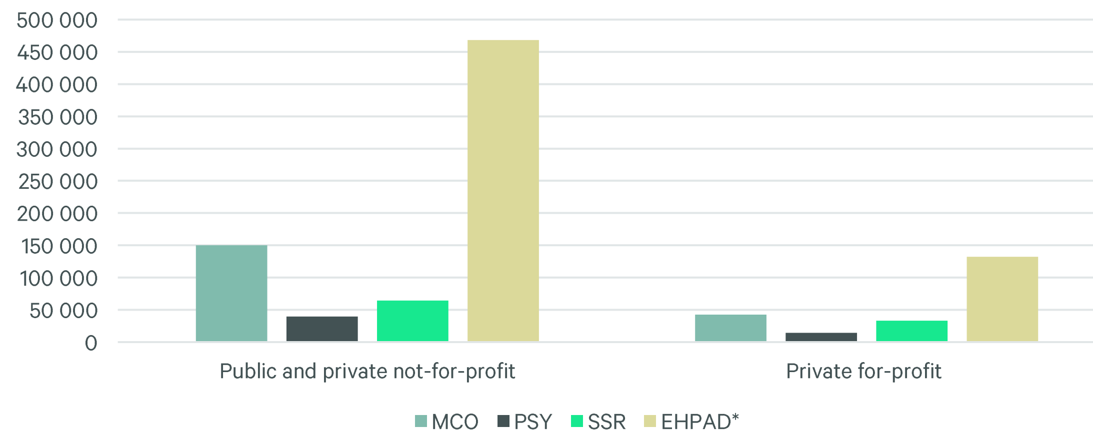
Most private clinic and EHPAD operators are progressively selling their real estate in order to improve finances and generate the cash flow required for their professional growth. Fortunately, investor demand for this type of asset is strong, particularly for recent facilities operated by industry leaders. The relationship between investors and operators is based on an essential partnership. Healthcare real estate is having to adapt to changes in medical advancements, both in the short-term (adapting to the current health climate) and long-term (extensions, restructuring, etc.). The leases governing the contractual relationship between owners and operators of EHPADs and clinics are usually 9-12 year fixed-term leases. The operator holds the authorisations required to exercise as healthcare providers in the facility, and their departure may require the building be converted to a different use. The building owner will be particularly interested in the operator's solvency. To limit risk, some operators have opted for exclusive operating agreements for a given period, such as Icade Santé. Rent is determined on the basis of the services provided by the healthcare facility, and generally indexed on the basis of the commercial lease index for short- and medium-term stay clinics. Operators' EHPAD leases are indexed on the basis of the lease reference index and the rates determined by the State.

At the same time, EHPAD operators determine rates upon entry to the residence, after which they are governed by legislative decree. The French healthcare system is currently facing a severe shortage of healthcare professionals. The challenge for private clinics as well as EHPADs is to attract medical personnel, particularly doctors and surgeons. To do so, clinics focus on improving working conditions by investing in state of the art medical equipment and top of the range fit outs for operating theatres.

Operators are also incorporating other criteria in their location strategy (also subject to ARS authorisations): catchment area, availability of healthcare professionals, average incomes and population density of the area in question. Unlike other asset categories, investors are not necessarily prioritising city centre locations, but are instead focusing on the criteria specified above. Building quality and flexibility, operator reputation and reliability, and finally catchment area are all considered important.

FIGURE 7: Inpatient hospital bed capacity in 2019



*EHPA survey, DRESS, 2019, 2015 data
Source: DREES, SAE 2021

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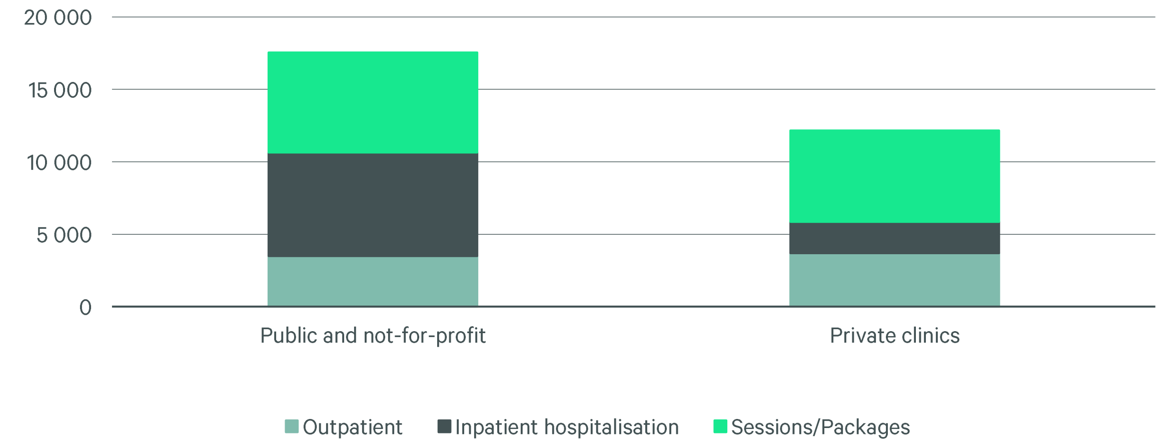
Short-term care - MCO clinics

Short-term MCO services, which include general medicine, surgery, obstetrics are the most common medical services. In 2020, 5.6 million MCO patients were treated at private clinics versus 10.9 million at public and private not-for-profit facilities. 4.4 million patients were hospitalised in private clinics (versus 7.2 million in public facilities). Most medical procedures are outpatient surgery and other less invasive procedures which represent 48.1% and 30.5% of all patient visits, respectively, as well as 56.6% and 17.6% of economic volume. Obstetrics, whose rates are increasingly disproportionate to services rendered and therefore operating at a deficit, represent only a minor share of private facility care.

The growth of private MCO clinic turnover is based on two contrasting requirements: increasing the volume of services rendered, and decreasing the average length of stay. The national objective of achieving 70% of surgeries as outpatient procedures by 2022 allows operators to focus on a common objective: supporting the growth of outpatient networks. From 2013-2018, the number of MCO beds rose from 13,387 to 14,232. And although public authorities determine the rates for medical procedures, private clinics can determine their rates for additional services (private room, television, linens, etc.). Additional services (hairdresser, flower delivery, personalised meals) allow private operators to increase their margins. At the same time, in order to differentiate from other healthcare facilities, private clinics are striving to increase their appeal by investing in cutting edge equipment (MRI, scanners, surgical robots, etc.) and their digital strategies.

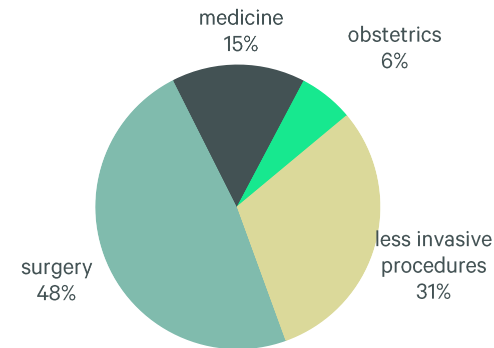
In terms of M&A, 2021 continued to be an active year with Vivalto Santé's capital restructuring and Wren House's investment in Almaviva. The sector continues to consolidate, with the takeover of C2S by Elsan, Dracy Santé, HPL, Clinique du Sport in Bordeaux by Vivalto Santé and Floréal, Maymard and Casamance by Almaviva.

FIGURE 8: Number of medicine, surgery and obstetric stays



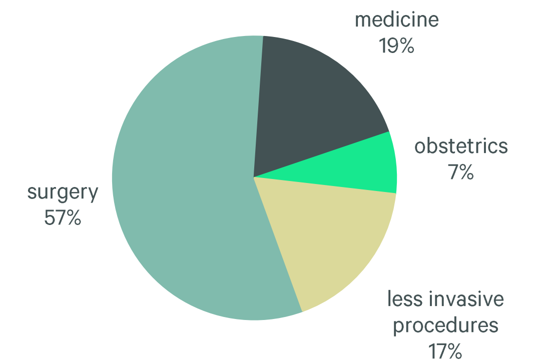
Source: ATIH, 2020 data

FIGURE 9: Private MCO clinic procedures by number of patients treated



Source: ATIH, 2020 data

FIGURE 10: Private MCO clinic procedures by economic volume



Source: ATIH, 2020 data

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Medium-term stay

Private medium-stay clinics are benefiting from the same trends as short-stay facilities: robust demand, a decrease in the number of beds for inpatient hospitalisation combined with an increase in beds for short-stay hospitalisation, highly regulated pricing, etc.

In order to increase turnover, managers are free to develop and set the prices of ancillary services, which are essential to compensate for the downward trend in rates for medical services. Medium-term facilities are increasingly whetting the appetite of investors, MCO clinic operators and residential care home operators interested in diversification, both in terms of pre- and post-procedure services.

Psychiatric clinics

The "psychiatry" (PSY) sector treats patients suffering from psychiatric problems. The private psychiatric clinic market includes all private practice psychiatric care facilities. Despite sustained demand, the number of beds in France has fallen and public funding is being progressively reduced. Most psychiatric care is provided by public facilities, which represent 74% of all psychiatric care capacity including inpatient, short-stay and almost all outpatient services. In 2019, 153 private mental health clinics were operating in France, with a capacity of 14,076 beds. The trend in this segment is also towards concentration. 3 major players share the market: Ramsey Générale de Santé (with 30 psychiatric clinics); Clinea (a subsidiary of the Orpea group with 38 psychiatric clinics); and Korian (30 clinics).

Investors appreciate the fact that psychiatric buildings are necessarily smaller than those of MCO clinics. Having been urgently reorganised in the wake of the coronavirus pandemic, psychiatric care is more modular and easily adapted to social distancing measures than other healthcare services.

Follow-up and rehabilitation clinics

Follow-up and rehabilitation clinics (Soins de Suite et Réadaptation, SSR) focus on preventing or reducing patient injury and incapacitation in order to promote patient recovery and reintegration. An SSR clinic therefore provides continuity of care between hospitals and clinics.

In 2019, the SSR market had 29,316 beds in 343 private clinics.. Given the ageing population and growing number of people likely to require follow-up care, the SSR market will remain squarely in the sights of investors and operators for the foreseeable future. The private sector's share of beds is smaller than that of the public sector (33% inpatient beds; 35% short-stay beds). The average duration of a patient's stay is decreasing (32 days on average in 2019, versus 36 in 2016). Private clinics also tend to treat younger patients (average age of 68, versus 71 in the public sector). This halves the number of carers needed per bed compared with the public sector. At the same time, the rise of outpatient services has almost saturated SSR clinic capacity.

3 major types of companies share the private SSR clinic market: dependent care specialists such as Orpéa, Korian and LNA Santé that operate SSR clinics, residential care homes and, in some cases, PSY clinics; short-term care specialists who have developed a downstream SSR capacity in order to optimise transfers and minimise their own clinics being filled to capacity (Ramsay Générale de Santé, Elsan); and independent networks.

FIGURE 11: Main Short- and Medium-term Clinic Operators

Group/Name	Turnover (In €m)	Number of clinics
Ramsay Générale de Santé	4,023 (June 2021)	155 (69 MCO+56 PSY/SSR)
Elsan	2,200 (2020)	137 (104 MCO+33 PSY/SSR)
Vivalto Santé	896 (2021)	~50
Almaviva	550 (2021)	41
Groupe Saint-Gatien	375 (2019)	18
C2S*	300 (2020)	17

*Acquired by Elsan early 2021
SourceL websites of groups cited, January 2022

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Long-term stay - EHPAD

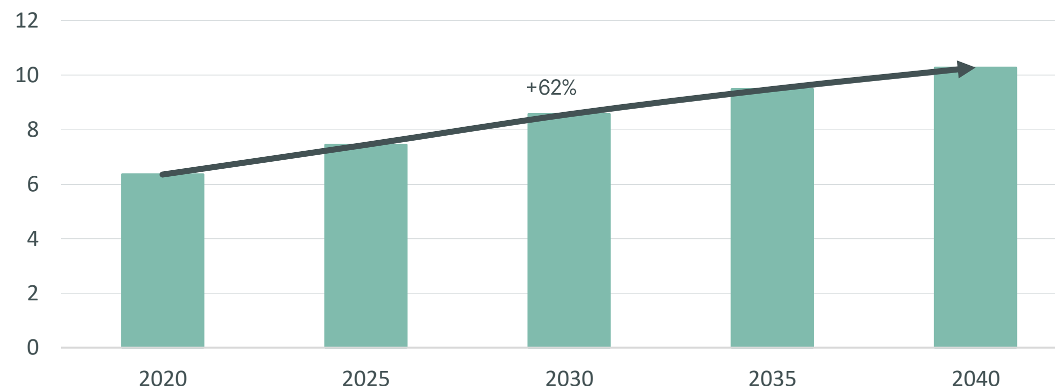
Residential care homes for dependent seniors (EHPAD) include medical-social facilities (nursing homes or independent living residence with nursing assistance) and long-term care units, which accommodate dependent persons at end-of-life stages. Demand for accommodation will be particularly strong in the long-term, given the increased number of dependent seniors. On average, EHPAD supply is 1 place for every 10 people aged over 75, i.e. 589,419 beds in 2020, of which approximately 20% are in the private sector.

EHPADs have three sources of income: revenue from accommodation charges (65% of income on average, according to YCC); the budget allocation for residents' healthcare needs (25%); and the funding provided for dependent residents (10%). Private EHPAD rates are noticeably higher than their public or private not-for-profit counterparts: in 2020, the average rate was €2,880 per month for permanent accommodation in a single room.

As a result of socio-demographic changes, operators are changing their services. Dependent persons are moving into EHPADs increasingly later, with an average age of entry of 88. The average stay has consequently fallen to 18 months. Culturally, seniors remain resistant to moving into an EHPAD. Hotel services (high quality dining, large common areas, outdoor access etc.) are increasingly prioritised by families. Also, double rooms have become completely obsolete, as couples are no longer moving in together. This is a European trend, accelerated by the health crisis and the need for social distancing measures: single rooms are the norm.

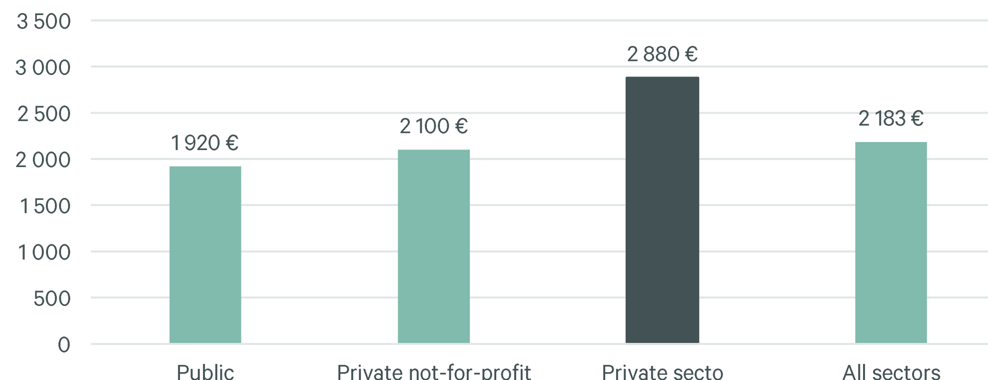
To increase revenue, EHPAD operators are focusing on expanding their portfolio of facilities. Following in the footsteps of private clinics, the sector is increasingly consolidating. This is part of the industry's growing internationalisation, as the whole of Europe is facing the effects of an ageing population. In Belgium, private French groups account for nearly one fourth of the market. Korian and Orpea are also omnipresent in Germany and DomusVi dominates the Spanish market. The sector is becoming more unified, with annual turnovers of approximately €4 billion for leading groups.

FIGURE 12: Evolution forecast of +75 population



In millions of people
Source: INSEE, November 2021

FIGURE 13: 2021 average monthly price for a single room in permanent accommodation, by EHPAD status



Source: Overview of EHPADs 2021, Uni Santé 2021 study, CBRE analysis.

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The health system in the face of the health crisis and socio-economic developments

Public and private healthcare facilities have both played a central role in the pandemic response. Given the current context, the French government is using various short- and medium-term mechanisms, as well as some long-term policy changes, in order to support a sector that has suffered and is experiencing a radical transformation as it faces a demographic upheaval. In the short term, the system had to adapt to new Covid-19 protocols, highlighting the need for rapid institutional change.

At the same time, in order to cope with the numerous cancellations of medical procedures, healthcare facilities (public and private) have benefited from financing guarantees, ensuring that they do not face financial peril. The national health insurance expenditure target (Objectif National des Dépenses de l'Assurance Maladie, ONDAM) was revised upwards in 2021 to €238.8 billion, i.e. €228.8 billion excluding crisis-related expenditure. In 2022, ONDAM is expected to grow by 3.8% to €231.9 billion, excluding crisis-related expenditure.

The crisis has also highlighted the need for long-term healthcare reforms which must focus on caring for the ageing and general well-being of the population. Operators will therefore have to ensure a quality of care. The State is planning to spend €1.4 billion p.a. to raise the healthcare workers' salaries under the Ségur healthcare plan.

Current events have also highlighted the importance of well-being in medical-social institutions. This will play an important role in the current model's evolution towards greater transparency and institutional assessment. To increase operational transparency, the government has announced tighter controls on EHPADs, which will have to publish an annual list of 10 indicators (staffing levels, staff turnover, absenteeism, etc.). This should encourage investors to pay more attention to ESG criteria when choosing operators. At the same time, increased quality of care within EHPADs should help with staff recruitment. This indicates that there is a need to develop training and employment in this sector.

Today, in France and throughout Europe, residential care home operations and the position of their residents are being reconsidered in order to better respond to societal evolutions. The government has created a fifth social security branch dedicated to the risk of dependence. In 2022, €400 million of the social security budget will be allocated to the dependent elderly.

In addition to increasing the salaries of more than 1.5 million healthcare and EHPAD professionals, the Ségur investment plan allocates €1.5 billion to EHPADs with the aim of transforming their operating model. Of the €2 billion earmarked for digital health development, €600 million will be reserved for EHPADs.

FIGURE 14: Main EHPAD operators

Group/Name	Number of facilities France	Number of beds France	Number of facilities International	Number of beds International
Korian	298	24,960	414	48,741
Orpea	226	19,922	424	46,803
DomusVi	225	18,205	166	20,971
Colisée	97	7,634	140	16,950
Domidep	101	6,741	20	1,829
Emera	45	4,057	27	3,453
LNA Santé	45	4,631	4	555
Vivalto Vie	19	1,250	41	4,004

Source: Mensuel des Maisons de Retraite, January 2022

Acronyms

ARS: Regional health agency
EHPAD: Residential care home
MCO: Medicine, surgery, obstetrics
PSY: Psychiatric clinic
SSR: Follow-up and rehabilitation care
T2A: Rate per procedure

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Contact information

Maria Silvia BARROS

Research Consultant
+33 (0) 1 53 64 33 69
ms.barros@cbre.fr

Sabine Echalier

Director - Research
+33 (0) 1 53 64 37 04
sabine.echalier@cbre.fr

Pierre-Edouard Boudot

Executive Director - Research
+33 (0) 1 53 64 36 86
pe.boudot@cbre.fr

Aurélie BASNIER

Deputy Director
Valuation
+33 (0) 6 73 00 64 18
aurelie.basnier@cbre.fr

Sébastien Lorrain

Senior Director
Capital Markets, Residential and Health
+33 (0) 1 53 64 34 22
sebastien.lorrain@cbre.fr

Jos TROMP

Head of Research Continental Europe and Data Intelligence
Global Head of Data Intelligence
Tel: +31 20 626 26 91
jos.tromp@cbre.com

LinkedIn
/company/cbrefrance

Twitter
/CBREFrance

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