

Managing healthcare fundamentals and future performance

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Over the past decade, the European healthcare sector has become increasingly popular among institutional investors' portfolio allocations given its rational, property fundamentals and social impacts in line with the United Nations Sustainable Development Goals. The sector has accounted for 3% of total investment volumes on average in Europe since 2016 compared to less than 1% since 2007. Being more defensive than other cyclical commercial sectors, the healthcare sector has been a meaningful diversifier in property portfolios. With traditional indexed long-term leases and large occupation rates, the sector has gained traction over the past few years, pressuring yields to historic lows. However, healthcare is seen at a crossroad with some operators' business models being more vulnerable to increasing service charges and structural changes related to ageing itself: as a result, some schemes have experienced a strong value fall while others have been more resilient. Investors' strong track record, social commitments with a high ability to provide adequate supply will continue to deliver sustainable income streams over time.

Swiss Life Asset Managers has been active in healthcare real estate since 2006. Our investment strategy has been primarily focused on nursing homes, medical office buildings, after care and new submarkets such as rehabilitation- and psychiatric clinics to diversify our portfolio. Over time, senior housing has been included in our investment strategy given a rising need to support well-being of seniors as part of the spectrum of the healthcare sector.

Different shades of the silver demographics

Demographic shifts will shape demand for real estate; for the healthcare sector, this includes an ageing population. In the EU, the share of people aged 65 and over is set to increase by 2050 to 25%, according to the United Nations. As an example, the population in Germany, France, Spain, and Italy accounts for 57% of the EU population, while just considering those over the age of 65, this share rises to 60%. This is more significant for the eldest group, aged 80 and over: by 2050, they will comprise 14% of the entire population in Italy, almost 12% in Germany and 11% in both France and Spain. However, there are cross-country differences in ageing related to risk factors, diseases, and mental health issues (such as dementia) generating distinct care needs and a wide range of real estate products and services to match these demands.

Innovation to optimise welfare

In many cases, digital solutions maximise productivity and thus empower the care staff community, which is key to retain workforce. Digital solutions through gamification and a wide range of activities can also stimulate cognition and social awareness. The knowledge of the MedTech ecosystem in Europe is therefore essential to provide the right cultural solution for both patients and care workers. Going forward, Artificial Intelligence through machine learning, is set to offer bespoke prevention policy to every patient. The quality and outcome of care related to patient safety, medical effectiveness and patient wellbeing can be monitored and assessed through such digital solutions which will enable organisational productivity and care workers to focus more on psycho-social, heightened, and complex patient needs.

Health capacities and regulation equations

Healthcare and long-term care expenditures and financing are highly different across Europe, apart cultural differences: overall healthcare represents approximately 9.0% GDP in Italy compared to 12.7% in Germany (12.1% in France, 11.3% in both the UK and Switzerland and 10.4% in Spain), quite a disparity. Long-term care beds per 1 000 citizens are around 54 in Germany, 48 in France, 44 in Spain, 22 in Italy and 62 in Switzerland. In the meantime, more than 9% of 80-year-old people stay in such long-term care facilities in Germany, compared to 15% in Switzerland and 6% in Spain¹. Analysing structural drivers behind these features as a combination of pension system characteristics, standards of living and regulation planning are crucial to secure income streams over the long-term.

Operators and minimising concentration risk

Healthcare has been increasingly competitive over the past few years with large operators deploying quickly across key markets while emerging outsiders were taking stage with new business models. Swiss Life Asset Managers has always favoured a case-by-case methodology at local level, as financial and social affordability metrics are not exactly homogenous across markets. As such, our pan-European investment strategy avoids concentration risks related to a specific brand, while favouring sustainable operating models for all stakeholders. Selection of operators is essential to match demand from small to large units across the healthcare sector.

Risk and transparency

In the current environment, operators and investors are increasingly working together to enhance welfare of all stakeholders. Operators are expected to be transparent by providing information related to residents or patients to all stakeholders, including families. Such transparency is a virtuous circle as it enhances trust and, confidence, whilst minimising reputational

risks among all parties. As the healthcare sector is heavily regulated with the potential for a significant impact on operations, transparency also facilitates the establishment of meaningful long-term partnerships.

Social responsibility of all

Assets must adapt to the people they accommodate overtime rather than the other way round. Such smart and flexible assets must be a place to for patients and care givers to live, rather than just a place for residents to receive care. As such, operators need to explore new management and planning methods given resource constraints and employment laws. Finally, assets must be anchored to their environment, meaning residents, operators, and investors should share the same goal of living, managing, and holding sustainable assets, and work towards minimising their carbon footprint. Labels, appropriate KPIs and digital property technology should enable these stakeholders to accurately monitor building's development along its sustainability pathway. Swiss Life Asset Managers has diligently works with all its partners to nurture innovative solutions, to enhance well-ageing, to foster its social impact while securing positive performance, with a genuine understanding of the operational business beyond the pure real estate.

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FOOTNOTES:

1 OECD Data.