PROMISING PARTNERSHIP IN DUTCH HEALTHCARE REAL ESTATE

CONTENT

Larisa Maastricht was awarded with the city architecture prize from the municipality of Maastricht: the Victor Stuers award.

EXPERTS IN PUBLIC REAL ESTATE
COMPANY PROFILE

OUR CORE BUSINESS

- High-end consultancy
- Risk-bearing project management (general contractor) issuing guarantees related to quality, budget, and planning
- Development of healthcare real estate

FACTS AND FIGURES HEVO

- The leading consultancy, risk-bearing project management and development companies in public real estate in the Netherlands
- As stated in its mission HEVO is focused on creating and providing sustainable solutions for real estate and housing. We have an expertise centre with certified BREEAM and GPR experts and assessors
- Track Record: 35 years
- Number of staff employed by HEVO: approximately 70 employees
- Annual turnover: approximately € 50 million

HEVO IS PART OF

TBI

TBI HOLDINGS

- Number of staff employed by TBI Holdings: approximately 6.000 employees
- Consolidated annual turnover: approximately € 1.3 billion
- One of the largest Dutch general contractors

ADDED VALUE OF HEVO

In the past 35 years, HEVO gained extensive knowledge and experience in Dutch healthcare real estate and properties. From the beginning, HEVO has assisted healthcare operators in developing their initiatives into viable business cases in order to successfully pitch them to a suitable bank, housing association or investor. We have deployed this knowledge of the Dutch healthcare (investment) market, properties and operators for (potential) investors.

HEVO assesses propositions through a multicriteria-review of the operator, property and financial aspects. This ensures a well balanced impression of the opportunities and risks for the investor (e.g.):

- Operator risks: core-business and market position (tenant risk), management (political risk) and ratio's (EBITDA, DSCR, solvability).
- Property risks: short and long term market (vacancy risk), competitive construction and costs (maintenance risk) and alternative use (sales/exit risk).
- Financial risks: returns, realistic income/cash flow (financial risk) and yields (direct and indirect).

Subsequent to the consultancy work, HEVO can accept risk-bearing project management, issuing guarantees relating to quality, budget and planning, and we develop on a turnkey base (for example: private care homes with individual rents or masterlease contracts). This gives security to both the healthcare operator and the financial party. As a risk partner, we also share their interests. We agree on performance in advance and we deliver. These guarantees can be extended to the post-commissioning phase. This requires a high degree of entrepreneurship. But we feel comfortable in this situation/role, based on decades of experience and our skilled professionals.

We are committed to giving independent and assured information - based on a confidentiality statement. Our goal is to achieve a future-proof Dutch healthcare(property)sector by enabling the creation of well balanced deals between healthcare operators and financial parties, resulting in satisfied stakeholders (including the users). The targets are: smarter buildings, happy users, lower failure costs, more competitive rent and higher return on investment.

CONSULTANCY:

- Strategy
- Investment policy
- Corporate Real Estate Management
- Risk analysis
- Sustainability labeling (including GPR, BREEAM)
- Local market information (target groups: supply and demand)
- Due diligence (technical and operator risk)
- Contractual issues

RISK-BEARING PROJECT MANAGEMENT/DEVELOPMENT

- Design and Build
- Turnkey development
- Maintain (strategic maintenance/asset management)

INVESTMENT OPPORTUNITIES

PIPELINE

We have a continuous pipeline in cure and care with potential investments from property level (range from €5-30 million) till portfolio level (>€100 million)

OPPORTUNITIES IN CURE AND CARE

CURE

- Hospitals
- Private clinics
- Healthcare centers

CARE

- Private care homes
- Public care homes
- Mental care
- Disabled care

PROPERTY LEVEL (RANGE FROM 5 TO 30 MILLION)

POINTS OF INTEREST

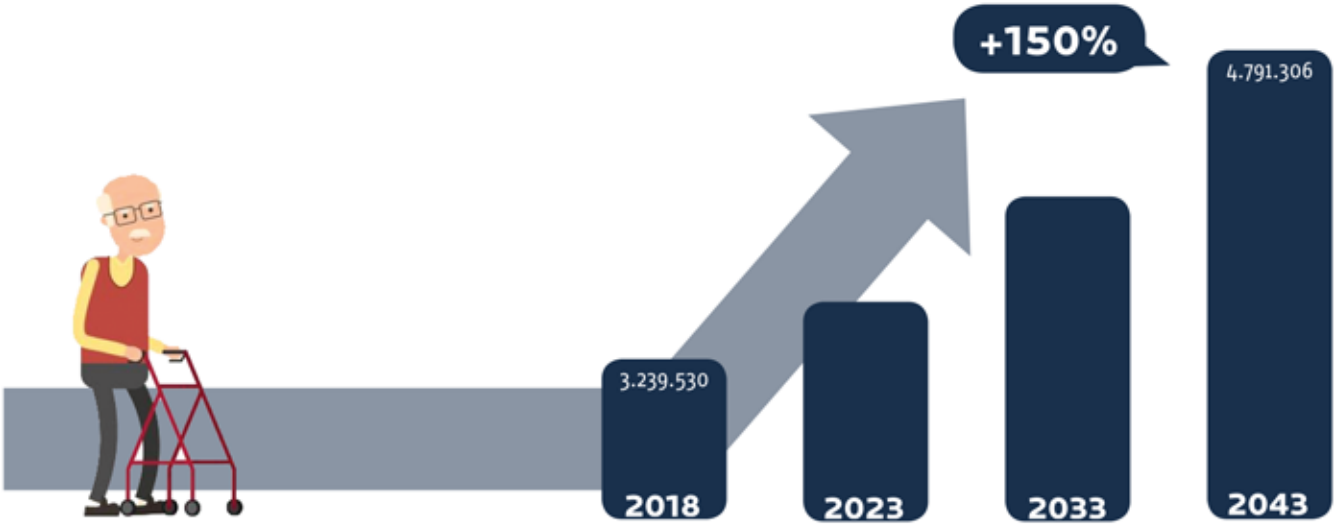
- Long-term lease contracts (>15 years)
- Gross initial yield
- Low vacancy risk
- Financial position healthcare operator
- Target group is a growth market
- Rental levels
- Alternative use
- Property value

PORTFOLIO LEVEL (> 100 MILLION)

- Several large care groups:
  - Annual turnover: € 250 - € 500 mln.
  - Solvency ratio: 30 - 45%
- Reconsideration of portfolio financing:
  - 20-30 properties
  - Annual financing requirement of € 100 mln.
  - Bank Funding or portfolio mix with investor
- Strategic consideration assets / real estate
- Early exploration with investors is desired

INTRODUCTION TO DUTCH HEALTHCARE REAL ESTATE*

The Dutch healthcare sector is in a transitional phase with regard to real estate and is a growing market because of demografic characteristics and change in legislation. The total amount of investments in 2018 is expected to rise up to 1,5 billion. Consumer (healthcare) demand is changing, risks are shifting, alliances change and new players - especially investors - are making their entrance. The real estate task is complex and difficult to grasp for many administrators and supervisors in health care. Cooperation between health care institutions and investors is making slow progress, in spite of the opportunities for both parties. Further investigation of this promising partnership is necessary.



CHANGE IN THE DUTCH HEALTHCARE SECTOR REQUIRES COOPERATION BETWEEN HEALTHCARE INSTITUTIONS AND INVESTORS

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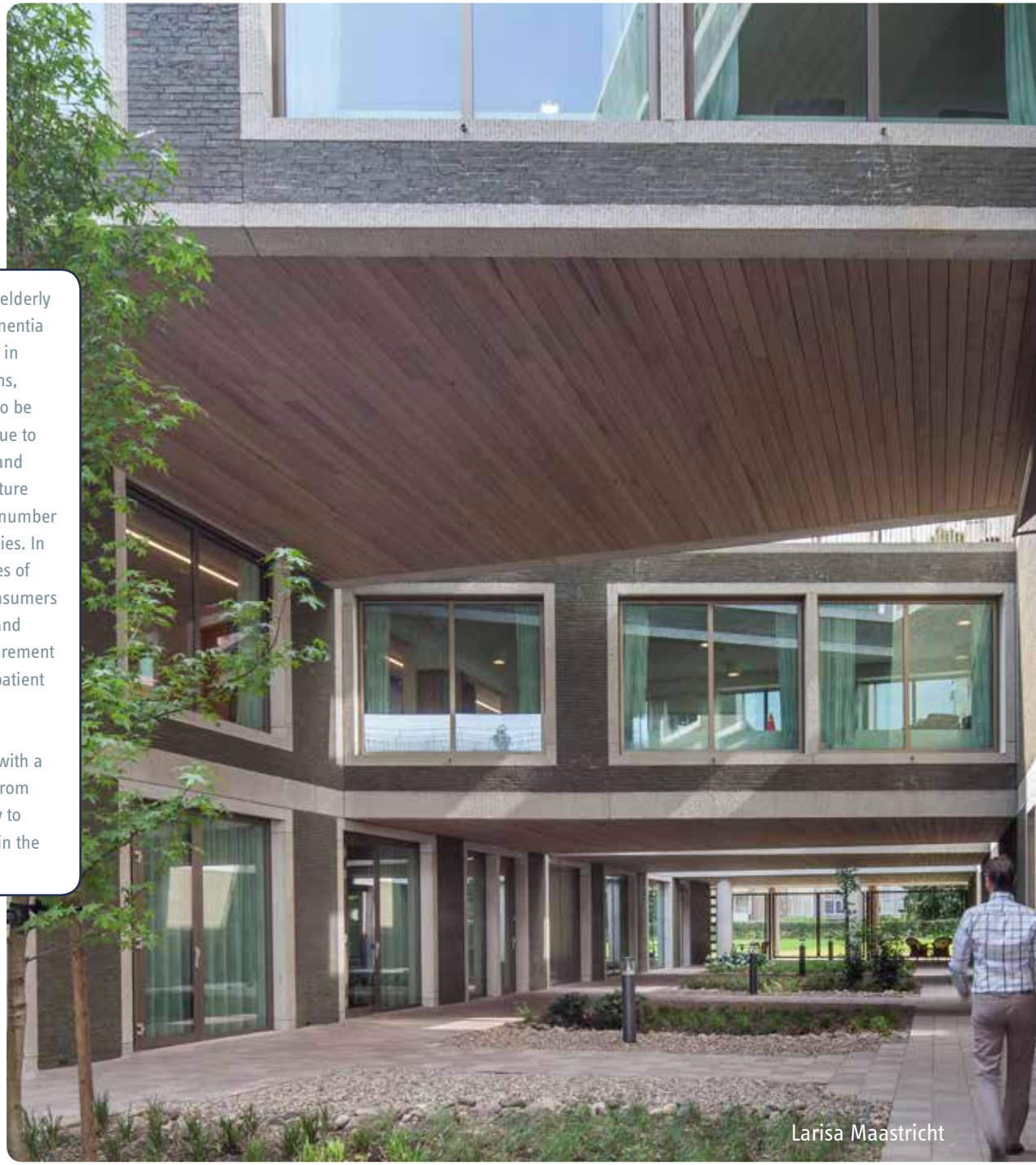
Author: Ron van Bloois - Head of Healthcare at HEVO - Guest lecturer at Amsterdam School of Real Estate

Amsterdam School of Real Estate

MARKET CONTEXT

From now until 2040, the health care sector will grow considerably in size. The number of the elderly will increase from 3.2 million to 4.8 million in 2040, as well as doubling of the number of dementia patients and the developments in medical technology. In spite of this growth, every sub-sector in health care has its own challenges. Within the curative market (generally the first line provisions, independent treatment centres, short term mental health care and hospitals) the focus needs to be on realising small scale provisions close to the consumer, as well as large scale renovations. Due to the trend toward outpatient care the care institutions (long-term geriatric care, disability care and mental health care) are primarily faced with the challenge of making their existing portfolio future proof through transformation and demolition and new construction. The strong growth in the number of people over the age of 65 will lead to increased demand for suitable residential (care) facilities. In terms of typology alone, these facilities look different to the large-scale care and nursing homes of the past. The introduction of 'separation of residence and care' is a response to the wish of consumers to live at home longer, with care on call. If it is necessary for them to live in a more protected and clustered environment, consumers will prefer small-scale residential facilities. If the care requirement is too intensive to be able to continue to live independently, there will still be a need for an inpatient setting.

Healthcare institutions generally have a lot of technically and functionally outdated property - with a high residual book value - which needs to be adapted to the changing demand. The demand from the health care sector therefore consists of refinancing of current contracts on existing property to new arrangements for (demolition and) new construction projects. The current developments in the financial world only continue to tighten the money supply.


Larisa Maastricht

BANKS AND HOUSING ASSOCIATIONS

In the time of the Netherlands Board for health care Institutions (Bouwcollege) and the construction regime for health care institutions, compensation of the capital expenses (interest and write-down costs of investments in buildings and land) was guaranteed through subsequent calculation, regardless of the care provided. Health care institutions automatically went to the banks for financing requests. The risk profile to have real estate on the balance sheet was zero. Some health care institutions also leased residential units from housing associations on the basis of long-term lease contracts.

The possibilities for additional real estate financing by banks is limited as a result of legislation (Basel III/Solvency II), the current loan portfolio and the increased risk profile for health care institutions. Furthermore, the conditions for financing have become less attractive in view of the contribution of more private capital, shorter loans and higher interest rates. The lessor's fee that is charged to housing associations means that housing associations do not necessarily want to take on the financing for health care real estate. Following new dutch legalisation, housing associations invest less in healthcare real estate.

REAL ESTATE: A THORNY ISSUE

Health care administrators and supervisors are confronted with the market developments above, and are trying to guide their organisations through this transitional process. Providing adequate real estate is currently a thorny issue. Real estate has become a distinguishing asset in a competitive market in which the client has freedom of choice. Subsequently, real estate has become a core activity of health care and service providers and since several years, realise and operate in cooperation with third parties. The risks that are associated with owning one's own property have become much greater due to performance-based funding, the corresponding vacancy risk, and the wishes of a changing target group.

Supervisors are increasingly asking themselves whether the health care institution can bear the responsibility for its own real estate from an organisational, administrative and strategic viewpoint. Administrators have to deal with existing outdated property and are exploring the possibilities of new construction projects, but are noticing that banks and housing associations have become more cautious. This means that new sources of financing are needed to make enough funds available for the real estate needs in health care.

HEALTHCARE PROPERTY FUND AS A REAL ALTERNATIVE

As alternatives to traditional bank financing, Diepstraten & Schweitzer (2012) described three alternative forms of financing. The first alternative is the 'social impact bond'. This is a form of debt capital in which the returns are dependent on the realisation of a previously defined social goal. As a second alternative, health care institutions have the option of using Alternext to issue bonds or shares. These two alternatives are only supplementary to bank credit.

The third and only full replacement for bank financing and the housing association is long-term cooperation with a health care property fund (further called: fund). In this case, the health care institution leases the property from the fund. The fund's capital is provided by private or institutional investors (for example insurance companies and pension funds). The fund is professionally managed by an asset/fund manager and the capital provider is periodically informed about the status, performance and transactions. Depending on the fund and what is desired, the health care institution can also participate in the fund itself. The health care institution does not run any financing risk with a fund, is able to build flexibility into its property portfolio, retains more liquid assets to spend on primary health care tasks, and certain costs (especially exterior maintenance) are borne by the lessor. Suitable agreements can be made in the lease contract about the cooperation, demarcation of costs, control, responsibilities and the exit options for both parties.

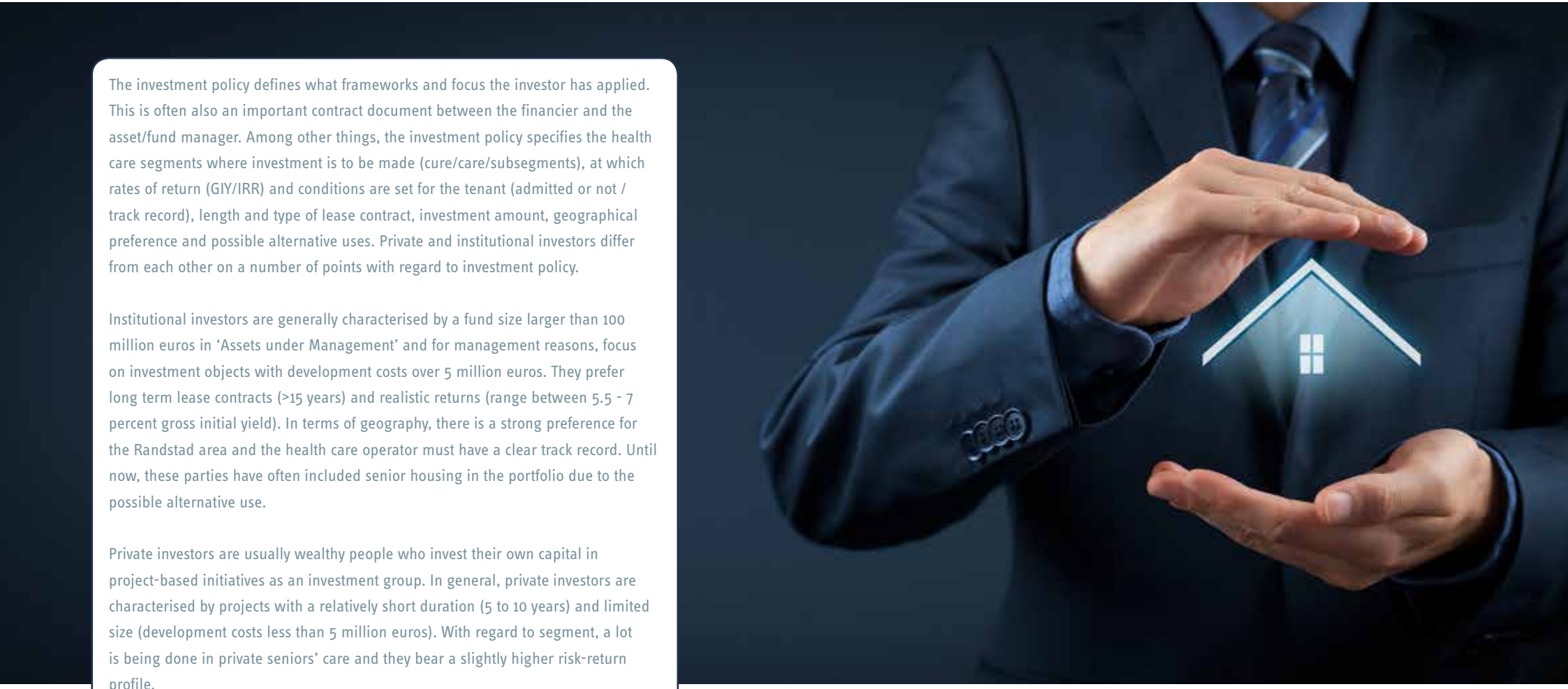
That a fund can be a sound alternative to bank financing has already been demonstrated in other countries. The United States has stock exchange listed real estate trusts such as Health Care REIT (NYSE and member of S&P 500), and the property fund Cofinimmo operates in Belgium (Euronext: COFB and BEL20-index). The latter has also cautiously begun to expand into the Netherlands. Dutch players include Syntrus Achmea, Bouwinvest and Amvest. A new player in healthcare real estate is the institutional Apollo Zorgvastgoedfonds. This fund distinguishes itself through the focus on cure (from first line to independent treatment centres) and care (with a focus on intensive, inpatient care)*.

*Present investors in Dutch Healthcare RE	app. AUM H1 2018 in € million
Aedifica (Euronext: AED)	€ 222
Cofinimmo (Euronext: COFB and BEL20-index)	€ 166
Syntrus Achmea Real Estate and Finance	€ 379
Apollo Zorgvastgoedfonds	€ 80
Bouwinvest Dutch Institutional Healthcare Fund	€ 300
And:	
AMVEST Living & Care Fund, Carestone Property, HCRE Healthcare, Cortese Healthcare	

The investment policy defines what frameworks and focus the investor has applied. This is often also an important contract document between the financier and the asset/fund manager. Among other things, the investment policy specifies the health care segments where investment is to be made (cure/care/subsegments), at which rates of return (GIY/IRR) and conditions are set for the tenant (admitted or not / track record), length and type of lease contract, investment amount, geographical preference and possible alternative uses. Private and institutional investors differ from each other on a number of points with regard to investment policy.

Institutional investors are generally characterised by a fund size larger than 100 million euros in 'Assets under Management' and for management reasons, focus on investment objects with development costs over 5 million euros. They prefer long term lease contracts (>15 years) and realistic returns (range between 5.5 - 7 percent gross initial yield). In terms of geography, there is a strong preference for the Randstad area and the health care operator must have a clear track record. Until now, these parties have often included senior housing in the portfolio due to the possible alternative use.

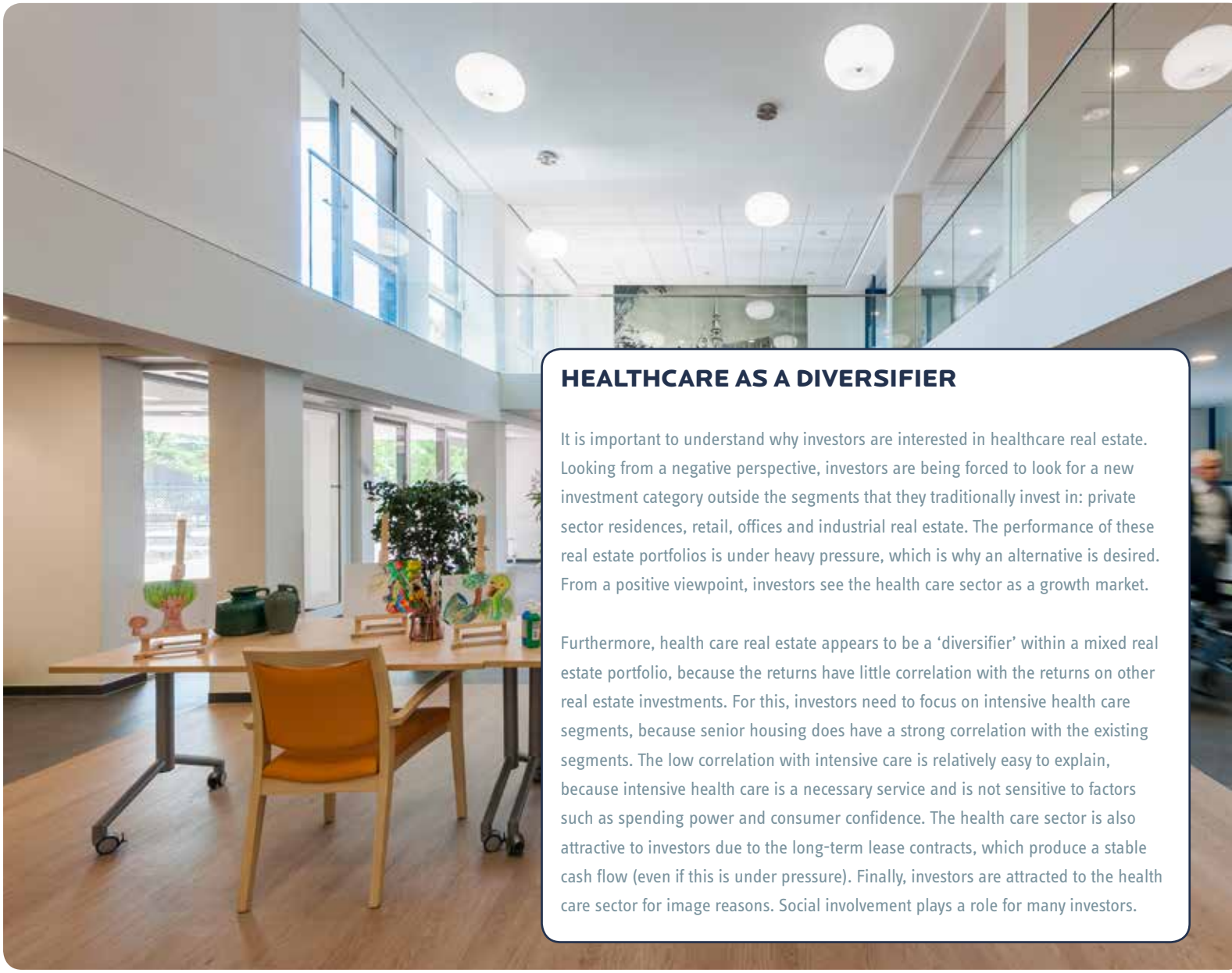
Private investors are usually wealthy people who invest their own capital in project-based initiatives as an investment group. In general, private investors are characterised by projects with a relatively short duration (5 to 10 years) and limited size (development costs less than 5 million euros). With regard to segment, a lot is being done in private seniors' care and they bear a slightly higher risk-return profile.



UNFAMILIARITY AND RESISTANCE ON BOTH SIDES

In contrast to Belgium, France, and Germany, there is still a lot of unnecessary resistance and distrust between healthcare institutions and investors in the Netherlands. Since several years investors are active in the Dutch healthcare market and the number of investors is growing. Still both the Dutch care institutions and the investors have to get more used to a partnership. Their mutual unfamiliarity is a major reason for this. The healthcare sector still sees investors as the last resort and generally has a negative, profit and yield-driven idea of them. Administrators and supervisors are still convinced that it is necessary to own property to be able to provide good, high-quality care and to be able to operate strategically. They tend to prefer the banking solution of the past.

Investors lack detailed knowledge about the healthcare sector and its specific target groups. As a result of this, there is a high chance that they estimate the risks incorrectly. Investors require well-defined business cases from healthcare institutions, which are based on efficient healthcare and real estate management and thorough analysis of the market and competition. This basic information, which is essential for investors, is sometimes still lacking in new construction or reconstruction initiatives, as is a sound risk analysis. Furthermore, there needs to be trust in a government with a clear course.



HEALTHCARE AS A DIVERSIFIER

It is important to understand why investors are interested in healthcare real estate. Looking from a negative perspective, investors are being forced to look for a new investment category outside the segments that they traditionally invest in: private sector residences, retail, offices and industrial real estate. The performance of these real estate portfolios is under heavy pressure, which is why an alternative is desired. From a positive viewpoint, investors see the health care sector as a growth market.

Furthermore, health care real estate appears to be a ‘diversifier’ within a mixed real estate portfolio, because the returns have little correlation with the returns on other real estate investments. For this, investors need to focus on intensive health care segments, because senior housing does have a strong correlation with the existing segments. The low correlation with intensive care is relatively easy to explain, because intensive health care is a necessary service and is not sensitive to factors such as spending power and consumer confidence. The health care sector is also attractive to investors due to the long-term lease contracts, which produce a stable cash flow (even if this is under pressure). Finally, investors are attracted to the health care sector for image reasons. Social involvement plays a role for many investors.

COOPERATION OFFERS FUTURE PROSPECTS

The largest challenges for the healthcare institutions lie in the existing real estate portfolios, their own structure and corresponding way of working. It is important that healthcare institutions transform gradually on the basis of a strategic real estate policy, at the level of both the object and the organisation. There are also opportunities to earn money in cooperation with investors by operating property intelligently through strategic maintenance and management. This does imply that healthcare institutions will need to adapt their own facility and real estate structure toward a hybrid model.

Investors will have to understand that they have to expand their scope with regard to regional approach, type of care providers, and healthcare segments. Using knowledge from the healthcare sector, asset managers must be able to provide their financiers with sound information. Alternative use of real estate may not play a prominent role in this, given that this is a theoretical model. There may be other sureties that can be built in between healthcare and the investor. Furthermore, investors must feel a sense of shared responsibility to find a solution for the existing real estate in cooperation with healthcare institutions and their existing stakeholders (banks and/or housing associations, municipalities). This is actually important for the entire society in order to obtain and to maintain a healthy healthcare (real estate) sector.

Due to the separation of residence and care, the greatest challenge in the market lies in the ‘new’ product-market combination of small-scale, clustered residential facilities with care on call (ZZP 1-4) in the low and middle rental segment. This is subject to individual lease contracts, healthcare institutions only provide care, and housing associations cannot or do not want to own the buildings. Does the investor take this on, and under what conditions?

Cooperation will be the magic word!

A SELECTION FROM OUR PORTFOLIO

ELISABETHSDAEL - BOXTEL
PROPERTY VALUE € 13.600.000

RUIJSCHENBERGH - GEMERT
PROPERTY VALUE € 19.000.000

WISSEHAEGE - EINDHOVEN
PROPERTY VALUE € 41.000.000

NOORDERBRUG - GRONINGEN
PROPERTY VALUE € 16.600.000

MAGNOLIA - VUGHT
PROPERTY VALUE € 16.900.000

SCHAKENBOSCH - LEIDSCHENDAM
PROPERTY VALUE € 17.350.000

ARTILLERIE - DELFT
PROPERTY VALUE € 17.600.000

WESTENHAGE - ZWOLLE
PROPERTY VALUE € 18.000.000

LARISA - MAASTRICHT
PROPERTY VALUE € 11.500.000

BEUKELOORD - MEERSSEN
PROPERTY VALUE € 5.300.000

RENDANT - PORTFOLIO
PROPERTY VALUE € 40.000.000

QUARIJN - DOORN
UNDER CONSTRUCTION

CONTACTS
LET'S GET ACQUAINTED AND EXPLORE THE POSSIBILITIES

Ron van Bloois BBE MSc RE
Head of Healthcare Division

M +31 (0)6 53 69 53 36
T +31 (0)73 6 409 409
ron.bloois@hevo.nl
Statenlaan 8
P.O.box 70501
5201 CB 's-Hertogenbosch
The Netherlands

René Lolkema MSc MRE
Senior Consultant/Developer

M +31 (0)6 22 43 19 67
T +31 (0)73 6 409 409
rene.lolkema@hevo.nl
Statenlaan 8
P.O.box 70501
5201 CB 's-Hertogenbosch
The Netherlands

Lesley Tax
Office manager

M +31 (0)6 51 14 82 94
T +31 (0)73 6 409 409
lesley.tax@hevo.nl
Statenlaan 8
P.O.box 70501
5201 CB 's-Hertogenbosch
The Netherlands

T: +31 (0)73 6 409 409
E: INFO@HEVO.NL

POST ADDRESS
P.O.BOX 70501
5201 CB 'S-HERTOGENBOSCH
THE NETHERLANDS

VISITING ADDRESS
STATENLAAN 8
5223 LA 'S-HERTOGENBOSCH
THE NETHERLANDS