

Healthcare Real Estate Investments, an International Comparison

Dutch healthcare is a relatively new real estate investment segment with a couple of specialist real estate funds. Until recently no performance timeseries were available and therefore such series couldn't be used in the investment process. In certain other markets, healthcare real estate investments are more mature and have grown significantly in the past 15 years, although the type of investments held by investors does vary a lot by market. In certain markets the focus has been on cure, while in other markets including the Netherlands the focus has been more on the care segment. From an ESG perspective there might also be growing interest due to the potential social impact of healthcare investments. Generally, returns have been relatively stable compared to other property types and healthcare returns have been very similar in European markets in recent years.

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INTRODUCTION

This research provides insights on the evolution of the healthcare real estate investment market in the Netherlands and makes international comparisons. The research compares investment activity and investment returns across markets and within markets by comparing to the all-sector and residential returns. Finally, the research will focus on the drivers of the returns in the Netherlands. Beyond the financial performance, social impact might be an additional driver for investing in healthcare. In this article the social impact is only highlighted as an additional consideration, but no detailed research has been carried out on that in this article. Given that healthcare is a relatively heterogeneous investment segment, details are provided on the underlying sample as well.

Healthcare a heterogeneous real estate segment

Healthcare has evolved as a real estate investment category, but in the Netherlands, it is still often considered as a niche investment segment. Other owners of healthcare properties — like healthcare providers but also social housing organizations — have more experience within this sector, but not necessarily from the perspective of a long-term investment. Real estate investments in the healthcare sector could comprise of a variety of different building types and could be divided into cure and care (Van Elp, 2014). However, even within the cure segment there could be a variety of different assets ranging from doctors' consulting rooms to hospitals. Care is often associated with senior housing but could include other types of healthcare properties like physical and learning disability homes. Healthcare shouldn't

To determine MSCI Property Indexes, MSCI assembles a set of comparable information on real estate portfolios, which are compiled to meet the needs of a broad range of investment purposes. This data is primarily provided on a voluntary basis by or on behalf of institutional private real estate investors and managers. MSCI Property Indexes measure the performance of markets by calculating and aggregating the performance of individual properties. The data for the MSCI property indexes are property valuations, and where available, property transacted prices, as well as capital flows, income revenue flows and irrecoverable operating expenditure. The property indexes are rules-based. More information on the index methodology could be found on the MSCI website: www.msci.com/real-estate-methodology.

be confused with age-restricted housing, which caters for the elderly but without round-the-clock care and support and typically without common dining facilities.

Healthcare investment activity in the Netherlands

Healthcare has been a relatively new segment within real estate investment portfolios in the Netherlands. The trend of investment volumes of seniors housing (care and nursing homes excluding other healthcare facilities) in the past decade is shown in figure (1), based on MSCI transaction volume data. In the period to 2015 there were hardly any transactions with an annual transaction volume of approximately USD 100 million a year. The investment volume has increased to a level of over USD 400 million from 2016 onwards. The transaction volume has become approximately 2.5% of total Dutch transaction volume. The 2.5% is similar to the global share of seniors housing in the total transaction volume. Cofinimmo and Aedifica, both Belgium-listed companies, were among the first investors in this segment. Several Dutch institutional investors, including Syntrus Achmea, Bouwinvest, Amvest and Holland Immo

Group, also started investing and created unlisted real estate funds dedicated to this segment.

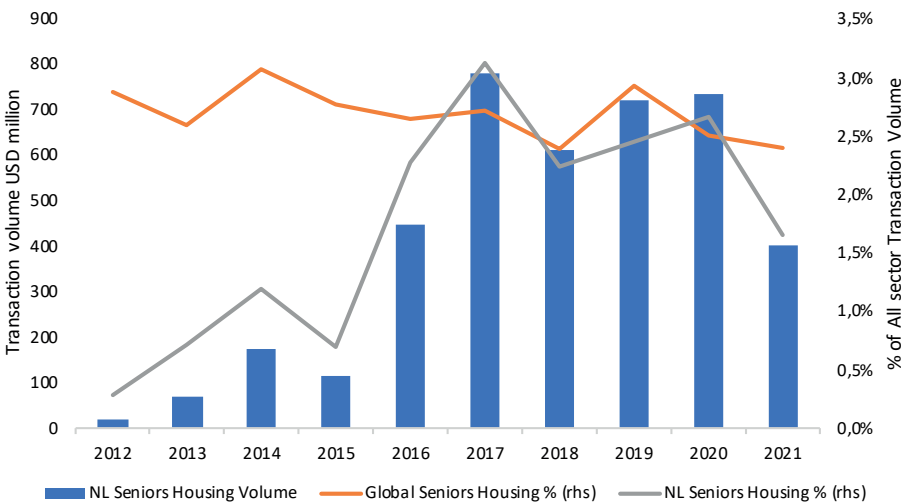
Figure (1) shows that the global seniors housing transaction volume has been relatively stable at approximately 2.5% of the total transaction volume. The global average annual seniors housing transaction volume between 2012 and 2021 was around USD 20 billion of which half was recorded in the U.S. The U.S. is the most established seniors housing investment market. However, in several other European markets the transaction volumes in the past decade have been around this global level, like in Germany, the U.K., France and Sweden. In Belgium the transaction volume has been noticeably higher, representing around 6% of the total national transaction volume.

HEALTHCARE INVESTMENTS AROUND THE GLOBE

US listed healthcare performance

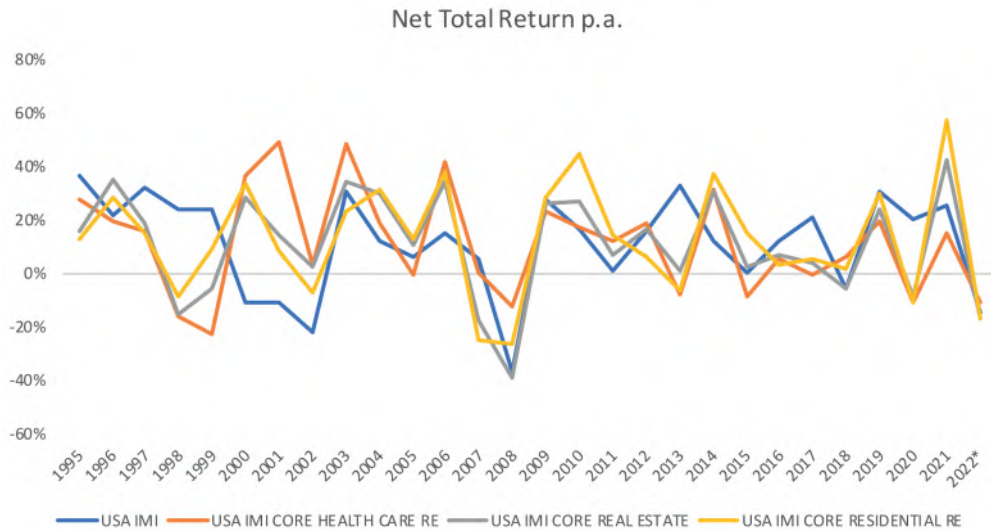
Healthcare REITs own a large portion of the seniors housing sector and other healthcare segments in the U.S., with several REITs even having portfolios of over USD 10 billion. The growth of healthcare REITs

FIGURE 1 ► SENIORS HOUSING INVESTMENT IN THE NETHERLANDS AND INTERNATIONAL COMPARISON (2012-2021)



Source: MSCI

FIGURE 2 ▶ TOTAL RETURN INDEX SERIES FOR LISTED HEALTHCARE REAL ESTATE COMPANIES IN THE US (1995-2022*)



* Year to 9 September 2022 Source: MSCI

started in the 1980s and 1990s, when government austerity and rising healthcare costs led some sale-and-leaseback transactions in order to generate cash (Batt, 2022). The healthcare investment by REIT in the 1990s focused on medical office buildings as healthcare providers were facing financial pressures to sell and lease back some of their buildings to generate funds to reinvest in their core businesses. Still, most healthcare REITs own seniors housing, but there are some REITs that also specialize in other healthcare segments, such as Healthcare Realty Trust.

Given the size of healthcare investments by healthcare REITs in the U.S., a comparison has been made between the performance of listed healthcare real estate companies and other listed companies. The comparison in figure (2) shows that listed healthcare real estate outperformed in certain periods, particularly in crisis periods like the Dotcom Bubble in 2000 and 2001 and during the financial crisis of 2008. In those periods they outperformed compared to other real estate sectors, but also to the wider stock market (USA

IMI). However, during the Covid crisis the sector suffered like other real estate sectors in 2020, and in 2021 it even underperformed other real estate sectors.

Beyond the performance for individual years, the long-term performance characteristics can be compared. Healthcare did outperform the wider listed U.S. real estate market, however it underperformed against residential companies (see table (1)). Listed real estate in general did have a higher risk (based on the standard deviation) compared to the wider U.S. stock market, but healthcare did show a slightly lower risk compared to the real estate sector. When looking into the correlation (based on 1-year returns), listed real estate did show a diversifier with a correlation of 0.48 to the wider stock market. The correlation of 0.15 between listed healthcare and the overall stock market seems to be low and therefore could have been a good diversifier within a wider equity portfolio. This is similar to earlier studies like Slotboom (2018). Slotboom also compared the correlation with bonds and showed a slightly

TABLE 1 ► TOTAL RETURN INDEX SERIES FOR LISTED HEALTHCARE REAL ESTATE IN THE US (1995-2022*)

	USA IMI	USA IMI CORE HEALTH CARE RE	USA IMI CORE REAL ESTATE	USA IMI CORE RESIDENTIAL RE
Annualized return	9.7%	9.6%	8.9%	10.5%
Standard deviation	18.4%	19.5%	19.8%	21.0%
Correlation				
USA IMI		0.15	0.48	0.40
USA IMI CORE HEALTH CARE RE	0.15		0.77	0.62
USA IMI CORE REAL ESTATE	0.48	0.77		0.92
USA IMI CORE RESIDENTIAL RE	0.40	0.62	0.92	

* Year to 9 September 2022 Source: MSCI

higher correlation between healthcare (0.06) compared to the aggregated real estate sector (0.00) and the overall stock market (-0.10).

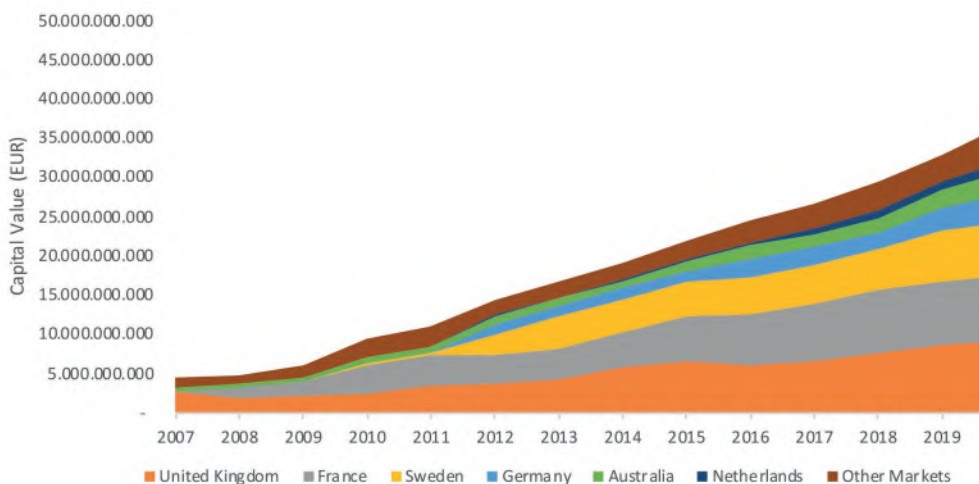
DIRECT HEALTHCARE INVESTMENTS AROUND THE GLOBE

MSCI records private healthcare direct property performance as part of the wider property indexes and analytics services. Those assets comprise different types of healthcare investments including nursing homes, care homes and other healthcare investments based on the MSCI Property Indexes Methodology (MSCI, 2022). The other healthcare investments include hospitals, GP surgeries,

dentist surgeries, medical centers, specialist treatment, physical and learning disability homes, mental health hospitals, ambulance stations and other healthcare, but doesn't include medical offices which are part of the office sector.

The geographical composition of healthcare assets in the MSCI Global Annual Property Index is shown in figure (3). The overall composition has increased noticeably between 2007 (EUR 4.6 billion) and 2021 (EUR 44 billion). Three markets (the U.K., France and Sweden) account for over half of the global sample within each market, a size between EUR 5 and 10 billion in 2021. The Netherlands sample

FIGURE 3 ► HEALTHCARE SAMPLE WEIGHT WITHIN THE MSCI GLOBAL ANNUAL PROPERTY INDEX



Source: MSCI

with EUR 1.4 billion is relatively small compared to the other markets. The healthcare segment weight in the overall index composition differs in these countries from 2% in the Netherlands to 8% in Sweden. For the U.K., Sweden and Germany the weights are all approximately 4.5%. Several markets will be analyzed separately in this research, with the exception of Germany and Sweden where the performance time series are relatively short.

Direct healthcare investments around the globe - UK

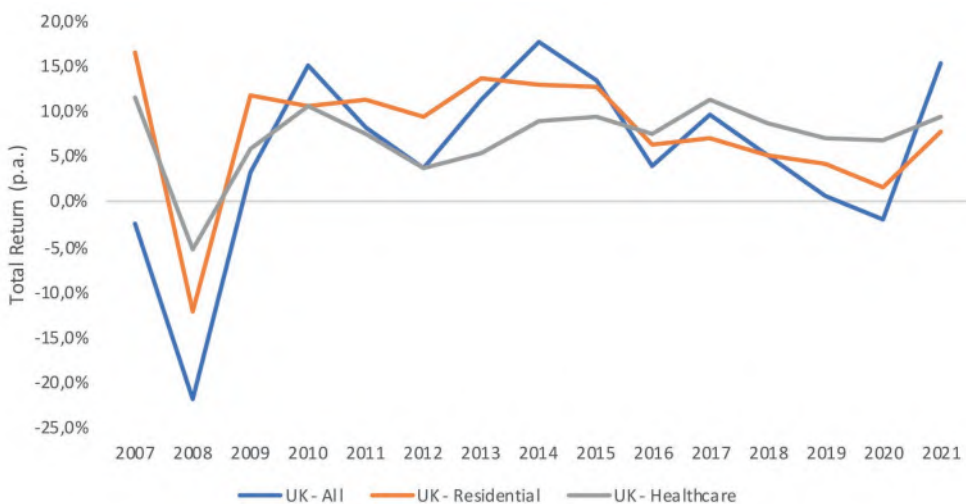
The U.K. healthcare properties comprise a sample of both primary properties, leased principally to Primary Care Trusts and GP surgeries, as well as secondary assets including nursing homes, care homes, specialist treatment centers and hospitals. The primary healthcare segment had a weight of 60% at the end of 2021 while the other 40% was within the secondary properties. In recent years healthcare assets have outperformed compared to the wider property index, as shown in figure (4). However, in periods of relatively strong performance for the wider index, healthcare underperformed. The risk (4.1%) over the full period, measured by the standard deviation of

total returns, was much lower compared to the wider market (9.8%). The relatively stable returns during the financial crises were the main reason for the long-term outperformance. The stable returns in the market might be related to long-term leases and the direct and indirect government involvement in the primary healthcare segment.

Direct healthcare investments around the globe - France

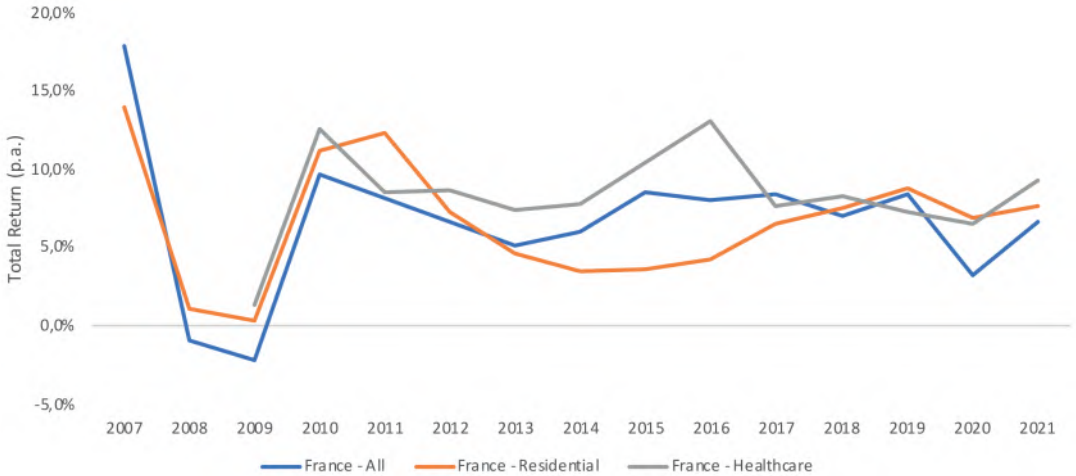
In France, healthcare properties comprise a sample of hospitals, clinics, mental health hospitals, physical and learning disability homes, medicalized and non-medicalized nursing homes (classified between short, medium and long stays). In the past two years, healthcare assets (see figure (5)) have outperformed compared to the wider property index, similar to the residential sector. In the period of 2012 to 2017, the healthcare sector did show a strong performance, which contributed to the longer-term outperformance. In that period the cumulative outperformance against the wider index was 12% and even 27% compared to residential. A key driver for that outperformance was the higher income return for those assets; the capital growth was very similar. The average income return for healthcare assets

FIGURE 4 ► HEALTHCARE RETURNS WITHIN THE MSCI UK ANNUAL PROPERTY INDEX



Source: MSCI

FIGURE 5 ► HEALTHCARE RETURNS WITHIN THE MSCI FRANCE ANNUAL PROPERTY INDEX



Source: MSCI

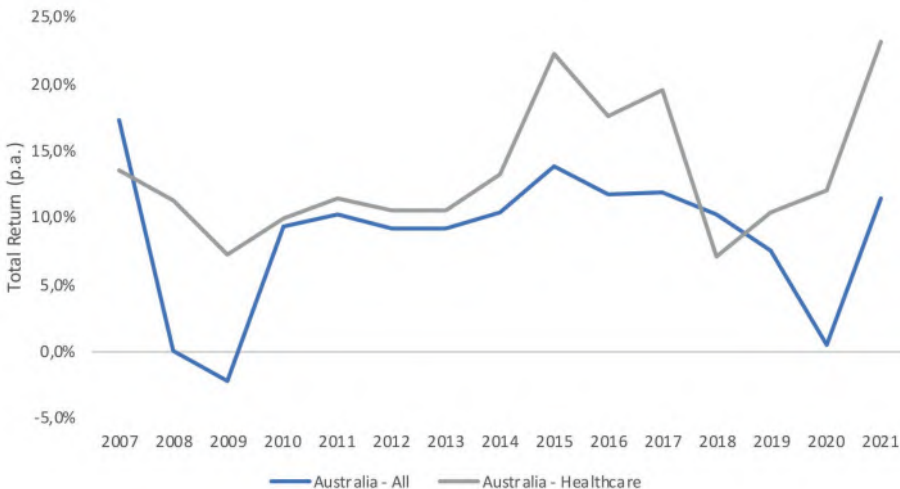
in the period 2009 to 2021 was 6.3% compared to residential (2.6%) and all sectors (4.5%). The income return remained relatively high compared to the wider market in 2021.

Direct healthcare investments around the globe - Australia

Australian healthcare properties comprise a sample of hospitals, medical centers and other

healthcare. The hospitals had a weight of around 75% at the end of 2021 while the medical centers had a weight or around 12%. Throughout the history, healthcare assets (see figure (6)) have outperformed against the wider property index. Residential investments have traditionally not been considered as an investment category by institutional investors in Australia and therefore no comparison can be made with that sector.

FIGURE 6 ► HEALTHCARE RETURNS WITHIN THE MSCI AUSTRALIA ANNUAL PROPERTY INDEX



Source: MSCI

Healthcare assets have outperformed, with an average total return of 13.2% compared to the wider index of 8.6%. The driver of this outperformance has been partly the average higher income return of 7.7%, compared to an all-sector income return of 6.2%. However, the main driver was the yield shift. The average annual difference in income return was 1.5% for the full period, however that was initially 2.5% in 2007 but down to 0.4% in 2021.

DIRECT HEALTHCARE INVESTMENT IN THE NETHERLANDS

Healthcare properties in the Netherlands comprise a sample of care (nursing care and care homes) and cure properties (other healthcare). The care segment had a weight of around 90% at the end of 2021, while the cure properties had a weight of around 10%. In the wider healthcare market, the split seems to be more balanced. Van Elp (2012) indicated that the overall market size for both segments would account for 50% (27 million square meters care and cure properties), that includes properties owned by care institutions, social housing organizations and real estate investors. CBRE (2022) provides insights on the ownership of care homes and highlights that only 4.1% of the nursing and care homes in the

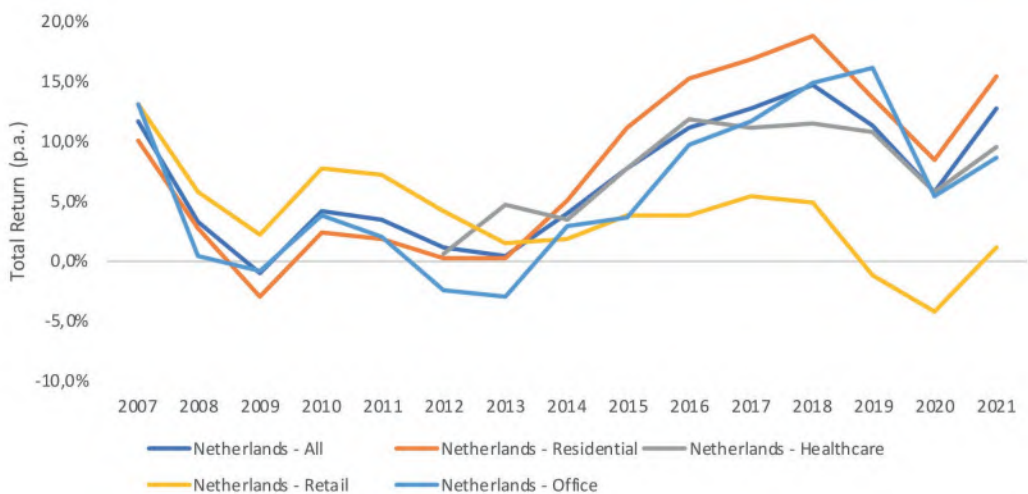
Netherlands are owned by institutional real estate investors.

The performance series of the healthcare assets in the Netherlands (see figure (7)) hasn't got such a long history as the other markets. The returns for healthcare have been relatively aligned with the wider market and have underperformed residential investments. However, healthcare returns outperformed retail sectors in recent years and the returns have been more aligned with the returns for offices. The income returns for healthcare assets were 4.2% in 2021, compared to an all-sector income return of 3.3%. A more detailed analysis specific to the drivers of the performance of Dutch healthcare properties is included later in this article.

Comparison of healthcare properties with other European countries

A European comparison is shown in table (2). The table highlights that the Dutch market is still relatively small compared to European healthcare real estate investment portfolios, as measured by MSCI. Dutch healthcare properties did have a low average capital value of EUR 9.0 million in 2021, which is below the average capital value of the

FIGURE 7 ► HEALTHCARE RETURNS WITHIN THE MSCI NETHERLANDS ANNUAL PROPERTY INDEX



Source: MSCI

TABLE 2 ► EUROPEAN COMPARISON OF HEALTHCARE PROPERTIES SAMPLE AND RETURNS

Country	Healthcare sample (EUR m)	Average Asset Size (EUR m)	Weight cure	Weight Care	Average total return (2013-2021)	Healthcare Income return 2021
UK	10,454	7.3	68%	32%	8.2%	5.4%
France	9,855	27.1	77%	23%	8.6%	5.4%
Germany	4,210	16.4	25%	75%	7.5%	5.5%
Sweden	8,914	9.5	26%	74%	9.1%	3.7%
Netherlands	1,434	9.0	14%	86%	8.4%	4.2%
Italy	922	23.9	77%	23%	-	5.0%

Source: MSCI Europe Annual Property Index

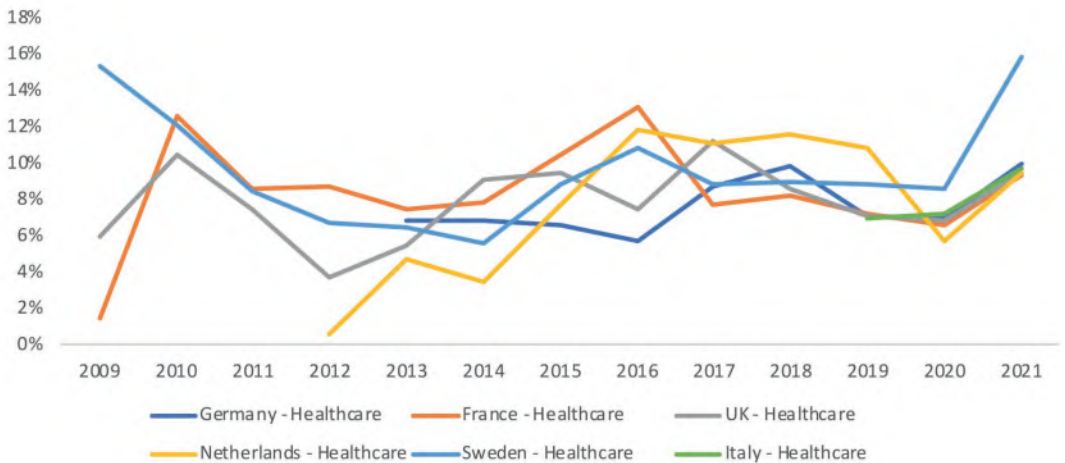
wider MSCI Netherlands Property Index for which the average capital value was EUR 20 million. The average value within the wider MSCI European Property Index was EUR 24 million, so for several other markets, healthcare properties had relatively low average capital values as well.

When comparing the composition of healthcare investment there is a clear difference in markets where portfolios in certain markets are more focused to the care segment (nursing homes and care homes) and other markets are more linked to cure (other healthcare). In this regard, the Dutch market seems to be more similar to Germany and Sweden.

When considering the above composition differences, you would expect to see relatively large differences in the performance across European markets. Initially the returns seem to differ considerably between countries prior to 2018, as shown in figure (8). However, the returns have been very similar in 2020 and 2021 except for Sweden in both years. The returns were also similar in 2018 and 2019 except for the Netherlands in both years and Sweden in 2019.

Some similarities might be related to the fact that in many markets the rental agreements are directly or indirectly with governments. Also, the contracts in most markets might be relatively long, and

FIGURE 8 ► HEALTHCARE RETURNS BY COUNTRY IN THE MSCI EUROPE ANNUAL PROPERTY INDEX



Source: MSCI

therefore more like bond investments. However, with such long-term contracts there is the risk of inflation, but also the creditworthiness of tenants is important. In the Netherlands we have seen in the past some instances of healthcare providers going bankrupt.

Drivers of healthcare performance in the Netherlands

Only the total return trends have been shown and compared so far. However, it is also important to understand the drivers of the total return. Figure (9) shows the drivers of the return in the Netherlands. Not surprisingly, the income return (net operating income) did have the largest contribution to the total return but has decreased over the last couple of years from 6.4% in 2017 to 4.6% in 2021 at standing investment level². This is a trend we have also seen in the wider MSCI Netherlands Annual Property Index in which over the same period the income return decreased from 4.8% to 3.5%.

The decomposition of the capital growth of standing investments in figure (9) shows the underlying drivers by isolating the separate effects of changes in income, investments and valuation impact as outlined in the MSCI Property Indexes Methodology (MSCI, 2022). The income impact is based on the changes of the market rent and the valuation yield is based on the reversionary yield shift (market rent as a percentage of capital value).

The yield impact did have the largest contribution to the capital growth with an annualized 3.5% impact over the past five years. When comparing this to the other main investment sectors in the Netherlands, the yield impact was modest for the healthcare segment. The market rent did see an increase of 1.1% annually over the past five years, which was lower than for the other sectors, except for retail for which the market rental growth was negative. The market rental growth of 1.1% was below inflation of 2.2% (based on the CPI source from the CBS) for the same period. The relatively high reversionary yields and corresponding high income return might be an indication that investors are less positive about the future market rental growth expectation or more capital expenditure would be required when comparing healthcare to the residential sector.

A potential driver for future performance could become the energy efficiency of buildings and the associated climate transition risk for reducing energy usage and GHG emissions. For healthcare properties, energy use is relatively high compared to other sectors because properties, particularly in the care sectors, are being used 24 hours a day (Gupta Strategist, 2019). The majority (59% of the stock) of the current intramural (care) building stock, including properties owned by healthcare operators, were built before 1990 (TNO, 2019). Those properties potentially would require major

FIGURE 9 ► DRIVERS OF THE HEALTHCARE INVESTMENT RETURNS IN THE MSCI NETHERLANDS ANNUAL PROPERTY INDEX



Source: MSCI

TABLE 3 ▶ COMPOSITION OF MSCI NETHERLANDS ANNUAL PROPERTY INDEX BY EPC CATEGORY (DEC-2021)

	EPC A and better	EPC B	EPC C and worse	Unknown EPC
All	31%	16%	16%	37%
Healthcare	35%	12%	3%	50%
Residential	32%	24%	24%	21%

Source: MSCI

refurbishments or new construction to meet requirements for the energy transition or moving to buildings which are more energy efficient in the case of leased properties. The current composition of the MSCI Netherlands Property Index, as shown on table (3), seems to have a larger weight of more efficient buildings also for healthcare properties. However, for a large portion of the properties the Energy Performance Certificates (EPC) is not available within MSCI's databases. That real estate investors own relatively energy efficient buildings is also confirmed by CBRE (2022) by an average energy label of A. Social housing organizations own on average a B label and care institutions on average a C label.

In addition to the financial performance, social impact might be another considerations to invest in healthcare real estate (Teuben, 2021). In certain instances, investing in healthcare real estate could be expected to generate positive social impact, drawing on the UN Principles for Responsible Investing's "Impact Investing Market Map." (PRI, 2018). Quantifying social impact itself would be difficult and therefore is not considered in this research. Some healthcare properties within social property segments have little-to-no social impact, while some properties within more traditional property sectors could have significant social impact. This might be an additional consideration to invest in healthcare investments.

CONCLUSION

The healthcare sector has grown considerably in the past decade in the Netherlands but also in other European and global markets, and it has become a more mature real estate investment segment. Recent healthcare transaction

volumes in the Netherlands have a similar share of the total market as in other markets. The segment could grow because of demand from investors for social impact investments as well as the financial performance. In several markets we have seen that the type of healthcare investments varies and depends on the changes in the healthcare sector itself. Efficiency and demand for new facilities have driven healthcare investment in the past. An additional driver could become the demand for more energy-efficient buildings and associated investments as well. In the Netherlands, performance time series are available with a history of 10 years. Therefore, these series can be used for investment decisions and detailed analyses on the performance, including analyzing the drivers of performance. Like in many other markets, income return has been relatively high but has fallen, in line with the wider real estate investment market. A key driver of capital growth was the yield shift, which was also the driver of the decline in income return. At a European level, the returns were relatively similar in recent years although the composition of the type of healthcare investments by country might differ considerably. The Dutch healthcare sector shows more similarities to Germany and Sweden with a focus on the care segment, while in other markets like the U.K., Australia, France and Italy, the focus has been more on the cure segment. Based on longer time series in several markets, the total return was relatively stable compared to other real estate sectors. Additional considerations for investing in real estate might be ESG factors, in particular when considering the potential social impact of healthcare properties.

ABOUT THE AUTHOR

Bert Teuben is an executive director of real estate research at MSCI, a leading provider of critical decision support tools and services for the global investment community .

FOOTNOTES

- 1 The MSCI USA Investable Market Index (IMI) is designed to measure the performance of the large, mid and small cap segments of the US market.
- 2 The returns on standing investments are based solely on directly owned standing investments in completed and lettable properties and exclude any full or part transaction activity.

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