

TWMM

FOCUS ON HEALTHCARE



SECTOR OVERVIEW

The Irish Real Estate Market continues to evolve, and Investors are watching occupiers needs closely to see where the patterns and demands are for all types of accommodation. Asset classes are no longer restricted to the traditional Office/Retail/Industrial Sectors and one of the impacts of Covid-19 has been a focus by Investors on what essential real estate is. Over the last decade we have seen strong international and domestic investment into the residential sector, and this is now seen as an important investment sector for most institutions. Investors are now looking to see what other new sectors may emerge. This note provides background research primarily on opportunities for nursing home investment in Ireland.



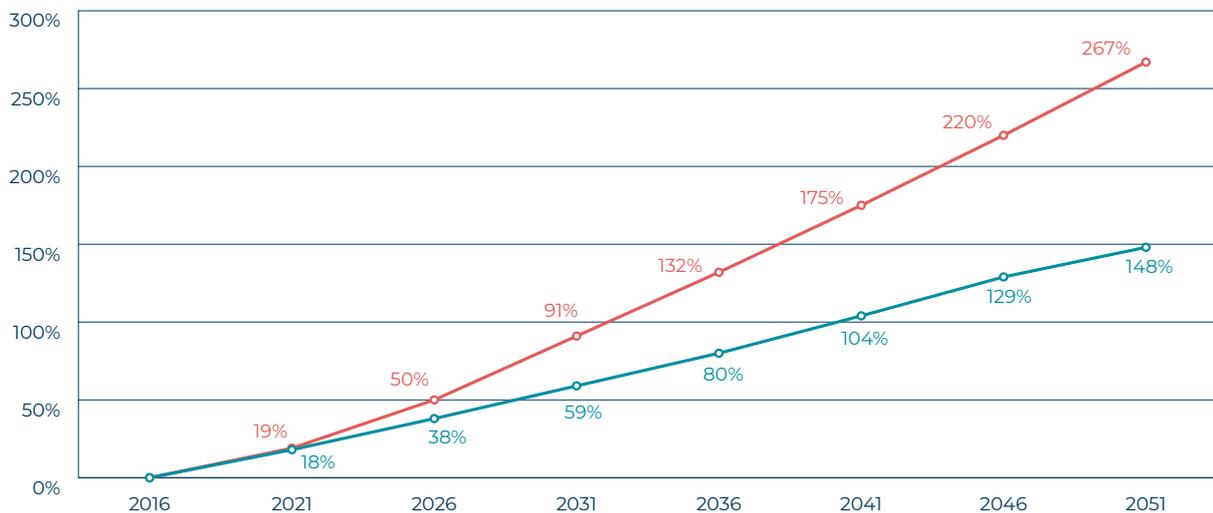
ECONOMIC BACKGROUND

Demographic Projections

Few things in the economy are certain. Investors are aware that Covid-19 has introduced a new layer of uncertainty into future investment prospects across a range of sectors and asset types. However, one thing is certain – the Irish population is ageing. This trend is inexorable. Irrespective of which population projections are used, the population of over 65s and more importantly over 80s will rise dramatically over the next thirty years. This creates a significant increase in potential demand for a range of services required by older people.

The CSO has made projections of the trajectory of the Irish population up to 2051 using the 2016 Census of Population – a 35-year horizon. Six sets of projections are made based on different assumptions. Using the projections towards the lower end of the scale, the graphs below show the projected growth in the older population (65+ and 80+) at 5 yearly intervals between 2016 – 2051.

Percentage growth of over 65s & over 80s 2016 – 2051



🎯 % Growth 65+

🎯 % Growth 80+

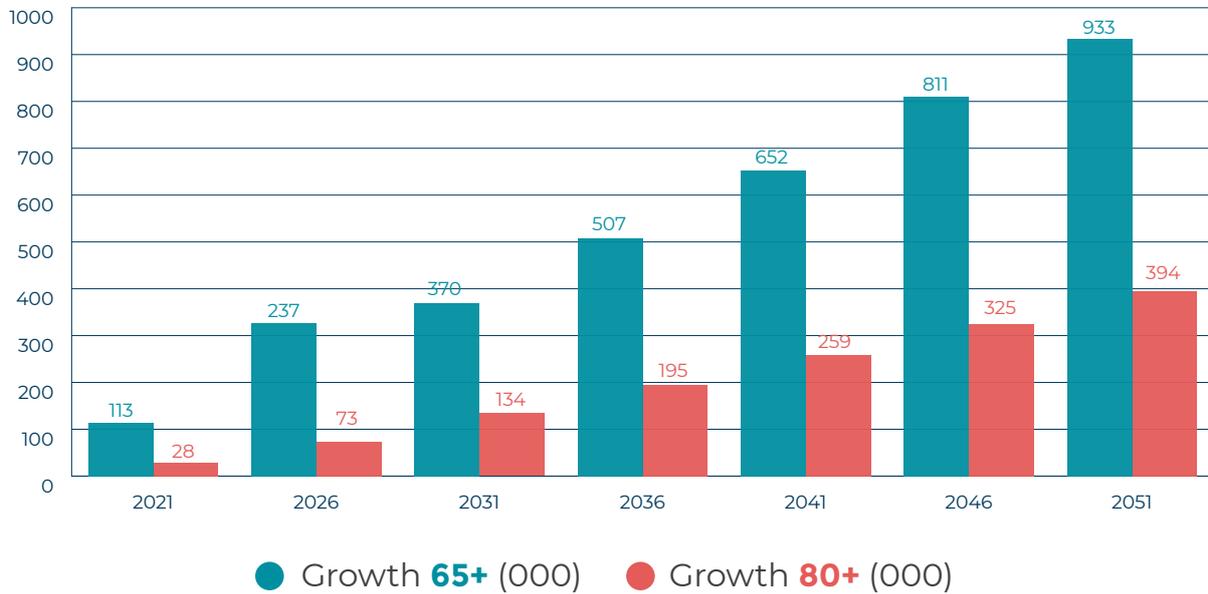
Source: TWM graphic from CSO data

The graph shows that for every 2 people aged 65 and over in 2016, there will be 5 people in 2051 and for every 2 people aged 80 and over in 2016, there will be more than 7 people in 2051.



GROWTH IN NUMBERS

Growth of over 65s and over 80s from 2016 base



Source: TWM graphic from CSO data

Looking at the number of people, the graphs show that there will be over 900,000 more people aged 65 plus and almost 400,000 more people aged 80 and over in 2051 compared to 2016.¹

It is estimated that close to 12% of the population aged 80-89 live in long term care (including nursing homes)². Assuming that approximately 10% of the elderly population live in nursing homes, and that this is sustained into the future, it suggests a potential increase in demand for nursing home accommodation of about 40,000 (80+ years old) by 2051. This may be a conservative estimate and does not include the 65-79 age cohort.

¹ Note that the above projections suggested a total national population of 4.992 million in 2021. The estimated population in 2021 is 5.012 million or about 20,000 higher than projected.

² See for example "Long-term health and social care", Maeve-Ann Wren in "Projecting the impact of demographic change on the demand for and delivery of health care in Ireland", Economic and Social Research Institute, Richard Layte (Ed.), October 2009, Economic and Social Research Institute.

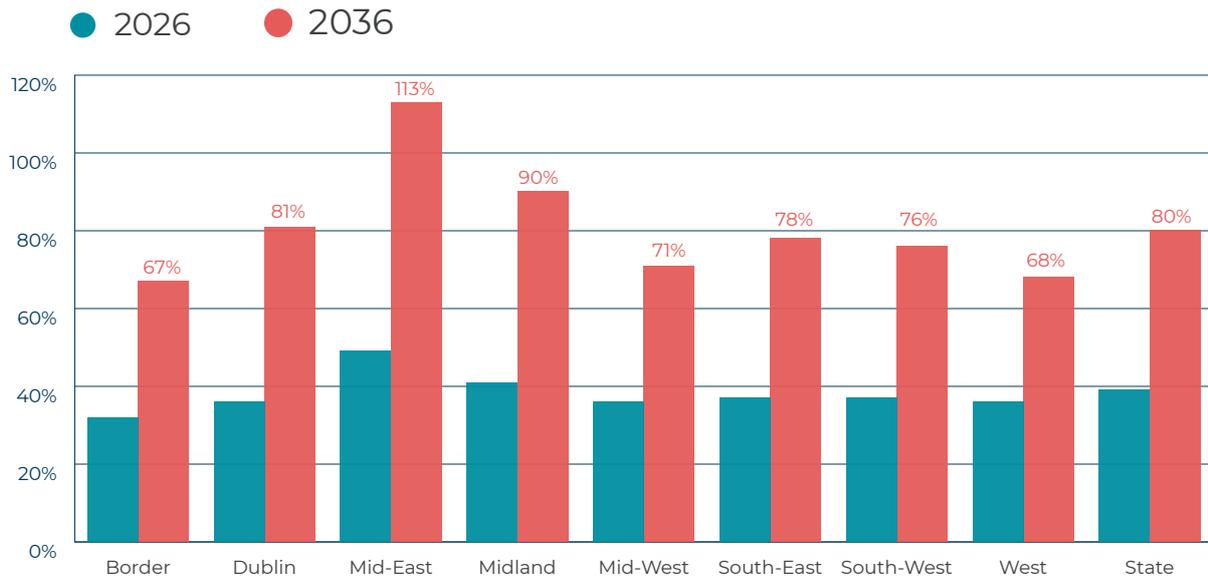


REGIONAL POPULATION GROWTH

There is significant variation in the older (65+) population growth by region. Projections are only available up to 2036. The overall state projection is the same as the national level projection above.

The graph below shows the projections for 2026 and 2036 based on a continuation of an inflow into Dublin from elsewhere in the country.

Growth of 65 years and older over 2016 base



Source: TWM graphic from CSO data

The lowest projected growth is in the Border and West regions at about two-thirds over the 2016 base.

The highest projected growth is in the Mid-East (counties surrounding Dublin) with a growth of 113% to 2036. This represents a more than doubling in the size of this cohort of the population in a twenty-year period.



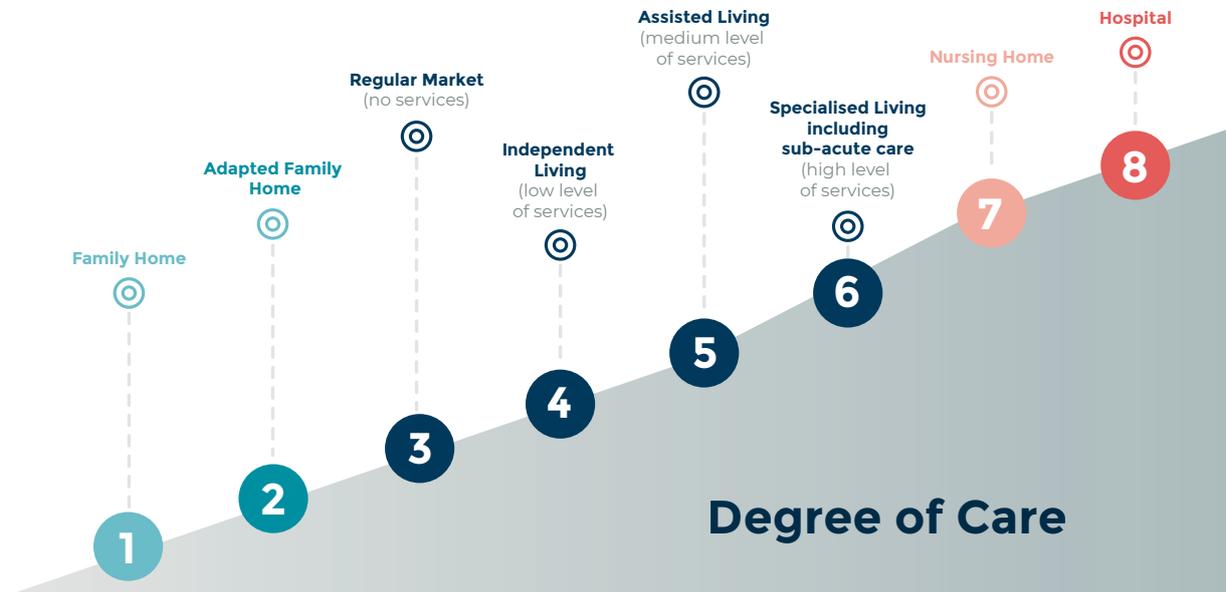
DEMOGRAPHIC SUMMARY

- ▶ Ageing of population is inexorable and (particularly the 'very old') is hardly affected by different assumptions so even if overall projections prove to be too high, the projections of the elderly population are likely to be very accurate. This is because the number of people of certain age groups on which the elderly population projections are based are already living in Ireland and are most unlikely to leave
- ▶ Elderly population will grow very significantly over the next 30 years
- ▶ Over 10% of the elderly population live in nursing homes giving a potential increase in demand of 40,000 by 2051
- ▶ The ageing of the population won't wait until 2051 it has started and will continue year-on-year
- ▶ The property opportunities are already becoming available and will intensify as the population ages



HEALTHCARE AND HOUSING OPTIONS

Government research has identified a spectrum of living options for elderly people which moves from independent living to full hospitalisation. It therefore straddles housing and healthcare policy.



Source: *Housing Options for Our Ageing Population*, Departments of Health and Housing, Planning & Local Government



EXCHEQUER COST

The cost to the Exchequer of housing and/or caring for the elderly cohort of the population will rise in line with the population growth. The State is currently examining different ways to meet this challenge. The cost of provision increases dramatically as an elderly person moves from stage 1 to stage 8, from effectively zero cost to an estimated €1,000 a day.

TWM believes that private investors can play a key role in the provision of housing and healthcare particularly at stages 5, 6 and 7. If properly incentivised, this will help reduce the overall cost to the state.

Stages 5 (Assisted Living) and 6 (Specialised Living) fall between independent living and nursing home care and may be desirable living arrangements for relatively able-bodied elderly people. These stages present further investment opportunities.

The accommodation requirements for our senior population will be a combination of low to high dependency care with a mix of independent living in supportive environments and fulltime care. Overall, our stock of public senior care residential facilities is dated with the potential to have more efficiencies to include labour costs. This is supported by privately operated, often family run nursing homes but again the stock is dated and struggling to respond to increasing standards and regulations. The Covid-19 experience resulted in increased costs as occupancy was reduced whilst overtime and PPE costs soared. This was reflected in the 2020 market with a number of notable transactions recorded with some long-time independent owners exiting the market.

Over the last five years in particular we have seen the change in investor appetite from traditional asset type investments towards the health care sector, with the sale and acquisition of Nursing Homes, with the following most notable transactions recorded despite the presence of the pandemic:



NOTABLE TRANSACTIONS

Nursing Home Portfolio	Transaction Date	Sales Price	Number of Beds	Value per bed	Purchaser	Nationality
Millbrook Manor, Saggart & St. Doolagh's, Balgriffin	Q3 2021	€36,500,000	160	€228,125	Aedifica*	Belgian
Acquisition of First Care Collection of nursing homes - Dublin North, Wicklow and Kildare	Q2 2021	Region of €100,000,000	550	€182,000	Orpea Group**	French
Birdhaven Care Home in Mallow	Q1 2021	€25,000,000	184	€135,870	Aedifica*	Belgian
Portfolio of 4 Nursing Homes	Q1 2021	€26,500,000	233	€113,733	Aedifica*	Belgian
Trinity Care Nursing Home Group	Q1 2021	€93,000,000	600	€155,000	Cofinimmo	Belgian
Elm Hall Nursing Home, Celbridge	Q1 2021	€10,000,000	60	€166,000	Carechoice	Irish

New Entrant Aedifica

*Aedifica have now entered the Irish market adding a seventh country to its portfolio. Birdhaven is operated by Virtue-Integrated Elder Care (a leading management and operating group within the Eldercare and Community Healthcare Sector and part of the Emera Group) and the sale represents a net initial yield of 5.5%. The nursing home is let on a 25-year triple net lease that is fully indexed to the consumer price index. Aedifica purchased the portfolio of 4 care homes for a net initial yield of approximately 5.5%. The four care homes included Waterford Care Home (64 beds), New Ross Care Home (62 beds), Bunclody Care Home (62 beds) and Killerig Care Home (45 beds). These four care homes were also operated by Virtue. Aedifica, in July 2021, purchased Millbrook Manor, Saggart, a 63-bed care home which has planning permission for a further 22 beds which has a completion date of Q3 2022. St. Doolagh's in Balgriffin will, upon completion, be a 97-bed facility and is also expected to be completed Q3 2022.

New Entrant Orpea Group

**Orpea Group entered the market here when purchasing TLC Nursing Home portfolio made up of 550 beds for €150m, and subsequently acquired Brindley Healthcare in two stages bringing their total number of beds to 1,961. A PropCo / OpCo transaction who in turn will lease the properties to Spanish based operator DomusVi.

Cardinal Capital Group

Interestingly too was Mowlam's acquisition by Cardinal Capital Group for a reported figure in excess of €50m. Mowlam was Ireland's largest Nursing Home operator.

Carechoice

Carechoice's purchase of Elm Hall Nursing home brings its total number of nursing homes to 13 and its number of beds to more than 1,200 long term residential care beds across Dublin, Kildare, Cork, Meath and Waterford.



PRIMARY CARE CENTRES

We have also seen changes in the Health sector and in particular changes in how care is offered to include the arrival of Primary Care Centres. The delivery of these Centres has gathered strong momentum in recent years with many national and international funds such as Axis Health Care Assets, Esmonde Developments Limited, Woodbine Primary Care Centre Limited, Primary Health Properties (PHP), and Townmore Construction developing and investing in Primary Care Centres nationwide.

Examples are the PHP completions of three facilities here during the first half of 2020 - at Rialto in Dublin, Bray in Co. Wicklow and Athy in Co. Kildare, with a total development cost of €48.3m.



FEASIBILITY

Despite the recent acquisitions the provision of adequate senior care facilities still remains far less certain. The 2016 Census and projections made from this, indicated that by 2051 25% of the population would be over 65. Assuming that utilisation rates (percentage of different age cohorts that require long-term care) are stable, this would suggest that up to 70,000 additional senior care beds by 2051 will be required to meet demand. Planning is needed at Government level for the changing work and living patterns of the growing population and in particular senior care needs. With the population growing at a rate of 1% per annum there is no doubt this is a real estate sector where demand will grow, and solutions and investment are required. Private investment funding is meeting some of these needs with plenty of activity in the construction of Primary Care Centres nationwide, often leased long-term to the HSE and private operators such as pharmacies, GP's, physiotherapists and psychologists. The current Government strategy appears to be a public/private approach that has evolved more by chance than design.

The current Nursing Home under-supply has driven multiples that investors are willing to pay for best-in-class homes, especially where the ratio of single bed en-suites is high. These are achieving an EBITDA multiple of up to 11/12 times with good nursing homes outside of Dublin achieving EBITDA multiples of up to 9/10 times. Nursing homes though with a low occupancy, weak bedroom mix and large capex requirements are achieving lower multiples. We have seen an increasing number of transactions in the PropCo / OpCo model of which sees one party bring their property management experience (Prop Co) and the second party brings its operational /healthcare expertise (Op Co) which ensures that the quality of residents' care is met.

We are seeing some operators who wish to grow their nursing home bed count realise that they will have to become involved in the development of new facilities in addition to the acquisition of existing properties. There have been some notable site sales in the last couple of months where sites have been sold with the benefit of planning permission for 150 beds in both the Dublin and provincial market.

There is still some concern about the feasibility of constructing nursing homes outside of the greater Dublin area with the cost to build per bed between €130,000 and €150,000 which is linked to the current HIQA requirements. The introduction of capital allowances for new nursing home buildings could be a first step by the state to assist at a time when there is an acknowledged shortage of nursing home beds and a concern about the state's capacity to deliver.



CONCLUSION

TWM believes that private investors can play a key role in the provision of housing and health care. If properly incentivised this will reduce the overall cost to the state.

Over the last number of years there has been a shift in investor focus towards the health care sector.

We have seen a significant number of new overseas entrants into the market acquiring Nursing Homes and Primary Health Care Centres.

Despite this increase in investment the estimated requirement for such accommodation is still unlikely to be met and indeed there is still some concern about the feasibility of constructing nursing homes.

A focused Government strategy is required to further encourage and back up private sector investment and to ensure adequate care is available to a rapidly growing older population cohort.



TWM HEALTHCARE EXPERTISE

At TWM, in carrying out valuations and investment analysis of nursing homes and in determining the EBITDA multiple to be applied, the financial statements are forensically analysed together with the various moving parts including the quality and age of the home, the bed profile, capex requirement, location, NTPF rate, development potential, wage cost as a % of turnover (which is typically between 55% to 65%), EBITDA margin and occupancy %.

Our healthcare expertise has seen, over the last 16 years, the nursing home market and indeed the Healthcare market evolve into a sought-after asset class. TWM are well recognised for having a wealth and depth of experience in the investment sector and for provision of strategic and professional advice on all types of property assets. This expertise transfers to the healthcare sector. TWM provides valuations and investment advisory services on behalf of investors, lending institutions and nursing home owners either individual or funds.

We have devised a checklist for potential nursing home operators / investors to examine the long-term viability of a nursing home and efficiencies of existing homes.



NURSING HOME INVESTMENT – CHECKLIST

- Projected elderly population in catchment area over medium/long term
- Current and projected life expectancy
- Average % of (elderly) population that use nursing home services
- Average length of stay in nursing homes
- Alternative elderly services currently (& planned) available likely impact on demand
- Surrounding Nursing Home competition
- Access to HSE services and the relationship with same
- Nursing Home reputation and HIQA report history
- Weekly Fair Deal rate and the potential for any increases with the NTPF
- Funding profile of residents
- Age profile of residents
- Occupancy history and potential to increase occupancy at the nursing home
- Dependency level
- Potential to increase revenue through the introduction of an Annual Social Charge
- Single and double bed ratio
- Capital and operating costs in particular staff costs
- Staff turnover
- Regulatory requirements - cost implications

Should you require any advice in relation to this sector please contact:

Eithne O’Neill, Director, TWM | eithne@twmproperty.ie 086 865 5139

Economic analysis provided by Stephen Walsh, Economic Consultant | stephen.walsh73@upcmail.ie

Sources

Central Statistics Office
Department of Health
Department of Housing, Planning and Local Government
Economic and Social Research Institute