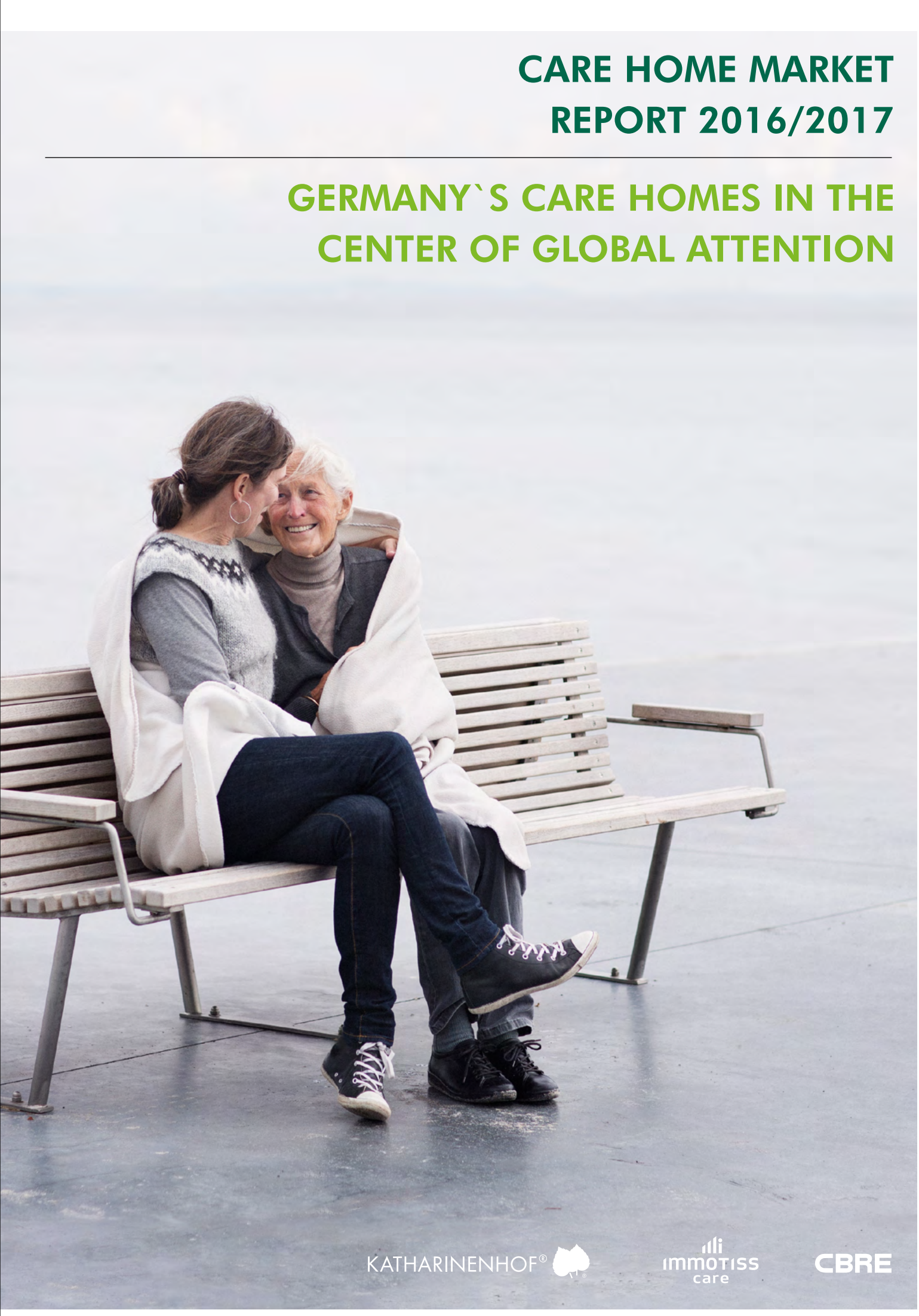
CARE HOME MARKET REPORT 2016/2017

GERMANY`S CARE HOMES IN THE CENTER OF GLOBAL ATTENTION



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Interview with Prof. Dr. Boris Augurzky
The market for professional care services – and also for care property – is gaining increasing importance in an aging society. There is a demonstrable lack of future-oriented care facilities that are in line with the market. For one thing, the federal government is trying to promote its "outpatient before inpatient" directive, with corresponding financial incentives. On the other hand, however, it is ignoring the fact that, in coming years, high levels of investment in new facilities and for adapting existing homes will be needed, in order to be able to satisfy the increasing and changing demand.

14 **Legislative basis**
Sixteen federal states, sixteen different care home statutes and regulations – these present a difficult planning and financing environment for investors and operators and call for a broad range of expertise. Furthermore, with the coming into force of the *Pflegestärkungsgesetz* [care support act] II on 01.01.2017, the legal basis will change, with direct effects on the viability and value of existing properties.

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With a transaction volume of circa €3 billion 2016 was a record year fot the healthcare investment market. Institutional investors in particular are increasingly discovering the care property asset class. They are committing to the search for an adequate return from this highly specialised and very complex niche investment. The progressive aging of the population is one of the major value drivers, ensuring that this investment class will enjoy sustainable demand.

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Regardless of market cycles, care homes are among the most difficult properties to finance in the loan market. However, the general upswing in the real estate market and the increased competition for new business between the banks are relaxing the market somewhat. Company takeovers, forecast requirements for new development and the revitalisation of existing properties provide the banks with a varied field of activity, albeit only after in-depth analysis of the location, property and operator.

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According to surveys, very few people want to move into a care home in their old age. But what alternatives are available for pensioners – whether active or in need of care – in Germany? Over the last few years, in addition to sheltered housing, residential and retirement homes, "new" types of housing, such as shared apartments for outpatients, and serviced apartments with integrated partly inpatient facilities, have evolved. These could be seen as alternatives to the traditional care home. However, the strict regulation of refinancing and the continuing strict division between outpatient and inpatient are inhibiting possible new and creative provision for everyone.

26 **Operational market**
The operational market in Germany, although still small-scale, is dominated by increasing consolidation and concentration. The market has a degree of dynamism, primarily resulting from foreign care home operators and financial investors. This is necessary to meet the additional demands for investment and the added professionalisation of care services.

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Care homes – attractive niche investment between growth market and high density of regulation

"Private capital does not want to operate in a planned economy straightjacket but rather to invest in creative and alternative types of housing that embody the needs and market demands of persons in need of care."

Dear reader,
The market for professional care services here in Germany is a growth business. In an ageing society, the data alone speaks volumes. For example, since the end of 1999, the number of people in need of care has risen by 30% to the latest figure of 2.63 million. By 2030, another million people will be added to this total, despite – or perhaps because of – medico-technical advances. In setting the primacy of "outpatient before inpatient", the legislature is trying to cope with this growth – largely due to demographic progression – by strengthening care at home by relatives or ambulant care services, in order to absorb the responsibilities of the care insurance system. In doing so, however, it is underestimating the total social costs of family care, particularly if the care-giving relatives are themselves subject to physical and psychological stresses and/or loss of income because of the difficulty of reconciling the provision of care with their occupations. The solution could be in an adequate supply of professional care, appropriate to the requirements of those that need it, provided by well-educated and motivated expert staff in attractive residential and care accommodation. Both of these aspects are currently in short supply.

Private capital is necessary to create a sustainable and innovative provision, as the public providers and the social insurance system are reaching their financial limits, at the latest when the number of contributors is no longer adequate to shoulder the expenditure burden. Private capital will only be made available if, firstly, it can operate in a legal framework that is reliable and sustainable, and secondly, provided that the risk premium is covered by returns. And: Private capital does not want to operate in a planned economy straightjacket but rather to provide, on the open market, new, creative and alternative types of housing and care for those in need of it, blurring the distinctions between outpatient and inpatient, in order better to deal with individual demands.

However, the federal legislature, with its 16 different care home statutes, has created an investment-inhibiting density of regulations, rather than paving the way for the urgently needed investment in new and existing facilities. Our model calculations indicate that, by 2030, over €55 billion will be required to expand the provision of care beds in order to cope with future market demand. The property transactions and takeovers of operators, sometimes running into billions, in the recent past should accordingly be understood as signalling the correct course to be set by the politicians. Long-term oriented institutional (real estate) investors from Germany and ever increasingly from abroad are now discovering the German care market and its growth potential. What is necessary are more market, competition, standards and above all transparency-oriented measures, and fewer regulatory interventions. Then private capital can contribute to the provision of innovative concepts, in harmony with changing and demand-driven requirements. The interviews with acknowledged experts from the academic, investment and banking fields and the operator segment show how this could succeed and the challenges that need to be overcome.

We would like to take this opportunity to express our thanks to Prof. Dr. Boris Augurzky, Stefaan Gielens, Alfred Zinke and Bernd Rothe for kindly agreeing to be interviewed and for sharing their views of the market and valuable comments with us.

We hope that you find our latest care property report interesting, informative and stimulating reading.

Frankfurt/Oberursel/Berlin, January 2017

Dr. Jan Linsin
Senior Director / CBRE GmbH

Jochen Zeeh
Managing Director / immoTISS care GmbH

Dr. Jochen Schellenberg
Managing Director / KATHARINENHOF® SENIORENWOHN- UND PFLEGEANLAGE BETRIEBS-GMBH

Executive Summary

Knowledge and data-based decision-making criteria for the care property market

The transaction volume in the care property sector set a new record in 2016: circa €3 billion of assets changed hands. Even so, demand greatly exceeded the available supply of marketable investment properties. Domestic and foreign investors, seeking niche investments generating returns commensurate with the level of risk, are ever increasingly demanding detailed market data and expert opinions. The second edition of our care homes report is intended to advance the detailed appraisal of this special market begun in 2012 and to provide a knowledge-based tool to aid decision-making on potential investments in this alternative niche.

The market for professional care services is evolving as a growth market in Europe's aging industrialised countries. This applies in particular to Germany, because of the irreversible demographic trend of our society. The latest official care statistics, as well as the investment transactions recorded for care properties and the dynamic activity in the field of corporate takeovers of care home operators, impressively demonstrate this trend.

For example, according to the latest care statistics at the end of 2013, 2.63 million people throughout Germany were in need of care as defined in the Pflegeversicherungsgesetz [care insurance act](SGB XI). This equates to around 3.3% of the entire population. Compared with the end of 2011, as a result of the ongoing demographic change, the number of persons in need of care had risen by around 125,000, representing a 5% increase. This means that the number of people in need of care has risen by 30% since the end of 1999. The likelihood of requiring future care strongly correlates with age and the consequential higher rate of prevalence of multimorbid illnesses. Accordingly, the overwhelming majority (93%) of the recipients of benefit are 65 years old or more. The number of people in need of care will continue to increase until 2030, by more than a million according to current estimates.

Ensuing from the political priority of "outpatient before inpatient", the majority of those in need of care are primarily looked after in their home environment by ambulatory care staff and/or by relatives. According to the latest figures, over 764,000 people were being cared for as inpatients, an increase of almost 3% since the end of 2011. Compared with 1999, the number of people being cared for in fully inpatient facilities had increased by 35%, i.e. 5 percentage points more than the general trend outlined above.

This trend will continue. The increasing severity of illness and/or the rising level of need for care often result in overloading family carers, who are no longer able to cope with the increasing physical and psychological stresses. In addition, domestic care close to the family will become increasingly difficult, as the children of persons in need of care often live a long distance away, have their own professional or family commitments and therefore are not able or willing to provide care – or simply because they have no children. This means, however, that the increasing demand for care services by professional providers with qualified specialist staff in attractive residential and care facilities must be catered for. The care services provided must also be more closely geared to the desires and needs of the persons in need of care, so that consumers can combine care services individually. This implies turning away from the strict separation of outpatient and inpatient care and towards improved interlinking of both services. The transitions would then be fluid and the challenges ensuing from the increasing numbers of people in need of care could be at least partly absorbed by an even wider range of creative and alternative forms of care and living arrangements.

The precondition for the provision of care facilities capable of coping with the market and demand is a more reliable legislative framework, free from the misguided planned economies of the federal states. The private capital that is urgently required would then be available to provide the basis for sustainable long-term operation. This is the only way that a close alliance between the public sector and the private economy can overcome the challenges of an aging society, even more so because, by 2030, over €55 billion Euro of investment in new construction and replacements will be required for care facilities that are viable and in line with market requirements.

It is apparent, however, that it is precisely because of Germany's federal structure that the influential legal and current and future supply and demand factors differ considerably from one another. In this care property report, with a state-specific overview of the market for inpatient care facilities, we aim to present investors, developers and also operators with detailed information, from a real estate perspective, from our extensive databases. We hope thereby to provide for increased transparency and to create a sound basis for informed decision-making.

Key developments and trends in the care property market

General market environment

"The strict separation between outpatient and inpatient care is outdated."

Interview with Prof. Dr. Boris Augurzky

Divison chief Health Economics at RWI in Essen

How can academic research support the practical/political level of the care sector?
By means of analyses and forecasts, academic research contributes to a better understanding of the care market and the situation of people in need of care and their relatives. This enables us to assist at practical and political levels by providing evidence-based information. For example, in the Nursing Home Rating Report, jointly compiled every two years by RWI, hcb and Philips, we forecast the future requirements for care at local level and investigate both how many additional staff and the level of investment that may be required for new care beds. We also analyse the commercial situation of the care homes in detail and investigate the factors that influence it.
Taking a different perspective can often help. For instance, in Germany the principle of "ambulatory rather than inpatient" applies because, in the opinion of the social care insurers, care at home is the cheapest. However, academic analyses show that the emotional and physical strain associated with caring for a relative can mean that the health of the person being cared for often suffers. There is also the continuing difficulty of reconciling care-giving with an occupation. The consequence is that carers often suffer lower incomes or poorer career opportunities resulting from taking time off work. Therefore, the total costs to society of family care are mostly underestimated.

Prof. Dr. Boris Augurzky

Prof. Dr. Boris Augurzky is divison chief Health Economics at RWI in Essen. Additionally, since 2007 he is managing partner of the Institute for Health Care Business GmbH (hcb) and since 2014 scientific executive director of Stiftung Münch.

What challenges do the academics see in relation to the demographic changes and the care market?
Because of the continually increasing numbers of people in need of care, the demographic changes are creating major challenges for the care market. While the number of contributors to the social security system declines and ever fewer young people will be available as junior staff, there will be an increasing number of people that have to be cared for. More and more frequently this will have to be supplied by professional care providers, because the children of the people in need of care often live far away, or have their own career or family commitments and are therefore unable or unwilling to provide care – or because they don't have any children. In the future, this will require larger numbers of specialist staff. The growing demand will also necessitate increased investment. Public capital alone will not be enough: private capital will also be necessary, in order to satisfy the growing demand. However, private capital will only be forthcoming if it can earn interest commensurate with the risk involved. Otherwise, investors will switch to alternative investment opportunities. The politicians would be well advised to make further use of this potential and not to discourage investment by making too many regulatory stipulations, particularly at federal state level. As the government cannot resist this trend for ever, the care market definitely offers long-term opportunities for investors. Another factor is that the greater demand could result in more specialised provision for differing care situations. The supply can be better oriented to the wants and needs of the people in need of care.

How would you assess the quality of care in German care homes, compared with European care standards?
In terms of the ratio of numbers of care beds to population 65 years old and older, Germany is well above average by European comparison. The average occupancy rate in homes for fully inpatient care throughout Germany is only around 90%. Although there are considerable regional variations in occupancy rates, generally there are no waiting lists and people in need of care often have a free choice of care homes. This freedom of choice guarantees an important minimum quality level, as in the long term, poor-quality homes will not be able to survive in the market. In contrast, international comparison of the more detailed aspects of the care quality, such as the quality reviews of medical services compiled by the health insurers [Krankenkassen], is difficult because each country has different assessment procedures.

How do you rate the federal legislation in Germany? A blessing or a curse for the care sector?
The differing legislation in the care home statutes of the 16 federal states is the bane of the care market. Since the states took over responsibility for care home legislation a few years ago, an inconsistent, regionally heterogeneous statutory environment has developed. Some of the advantages of the large, uniform market throughout Germany have been lost. Bureaucratic costs have risen for providers that are active at national level.

A kind of regulatory competition between the states has also set in. By increasing regulatory restrictions, the state politicians are supposedly trying to benefit their electorates. However, the more restrictive the regulatory conditions that affect the market players on the operation of homes or their structural amenities and provision of staff, the more expensive is investment in new and existing facilities becomes. Some investors might therefore pull out of federal states with heavy regulations, so the supply of care beds there would be reduced. In consequence, there could be rationing or price increases in inpatient care in the federal states with a high density of regulation. However, this would increase the costs for the people in need of care and their relatives, as well as the social security system. In the long term, therefore, the pendulum could swing back in the direction of lighter regulation.

Shortage of specialist staff and increasing demands. What measures will ensure the quality of care in the future?
Care is staff-intensive. In order to guarantee the increasing need for specialist staff, the existing care workers must be retained and new staff attracted. Apart from higher wages – which might ensue as a result of the competition for the inadequate numbers of specialist staff – soft factors such as a smaller amount of bureaucracy, a good management culture, greater social esteem for the profession and improved career opportunities play an important part. In addition, the firms have already begun to increase their provision of training. For instance, the number of trainees has recently started to rise again.
We also need to be open to innovations in the care sector. Staff savings, particularly in the nursing and non-nursing areas and in monitoring, are possible by introducing supporting technology and nursing aids. However, nursing robots don't have to be regarded as the devil's work. This question is being intensively pursued in Japan, where the aging of the population is already much further advanced than in Germany and there is a lack of young people to carry out the care. Only technology could close the gap between supply and demand there.

How does the care home of the future look (keyword: interlocking ambulatory and inpatient care concepts)?
The strict separation between outpatient and inpatient care is outdated. This is evident in, among other things, the varied offers of short-term and part-time care, ambulatory apartment sharing and sheltered housing. The key point is that the care on offer is adapted to the wishes and needs of the people in need of care, and that the care services can be individually combined. For this, the politicians should not dictate what must be provided, but rather the supply should develop in accordance with the preferences of the consumers and the possibilities of supply.

The increasing shortages of care staff mean that smart technologies as well as nursing robots will play an ever more important role. Smart technologies, in particular, enable care at home to continue for longer. Despite this, however, as the demand for care services will increase so sharply, the provision of both inpatient care and sheltered housing must be further expanded.

Prof. Augurzky, thank you very much for this conversation.

Germany is running the risk of a shortage of up-to-date care facilities

By 2030, demographic changes will lead to a substantial increase in the number of people in need of care.

The market for professional care services – and for care property – is ever-increasingly gaining importance in our ageing society. The demographic change is already evident in Germany, inter alia by a shift in the age structure and an increasing number of people in need of care. This trend results in continually increasing demand for care services. Even though the majority of persons in need of care in Germany are looked after as outpatients and, by giving appropriate financial incentives, the federal government is promoting its "outpatient before inpatient" directive, the demand for inpatient care beds is still increasing, in line with the rising numbers of persons in need of care.

Despite the high levels of immigration, the demographic change will continue to have noticeable effects on our society in coming years. Considerably increasing numbers of people in need of care can therefore be expected. In the course of time, this trend will mean, however, that the number of available care beds is no longer sufficient to meet future demand. Germany is therefore running the risk of a shortage of up-to-date care facilities. For this reason, in coming years considerable investment will be necessary in the construction of new care beds and the adaptation of existing facilities that no longer comply with market expectations. This is the prerequisite for being able to maintain the existing quantitative supply of care beds, to take into account the amended statutory regulations and the changing requirements of the residents(!), and to provide additional beds to cater for the expected demand.

Care dependency in Germany – initial situation

At the end of 2013, according to the latest care statistics from the federal and state statistics offices, 2.63 million people were in need of care, as defined in the *Pflegeversicherungsgesetz* [care insurance act] (SGB XI) throughout Germany. This equates to around 3.3% of the whole population. Compared with the end of 2011, the ongoing demographic change had resulted in the number of persons in need of care rising by around 125,000, a 5% increase. This means that the number of people in need of care had risen by 30% since the end of 1999. The likelihood of needing care strongly correlates with age. Consequently, the overwhelming majority (93%) of the recipients of benefit are people who are 65 years old or more.[1]

Effects of the demographic change

By 2030, the population of Germany will decline slightly from its current 82.2 million to a forecast 80.9 million[2]. In the course of the continuing demographic change and, in particular, the ageing of the "baby boomers", the average age of the population and the proportion of the total population in the older age groups will both increase. As a result, the age structure of the population will continue to undergo changes over time. At present, it can be assumed that, by 2030, over 28% of the population will be over 65 years old and around one in three will be over 60. In comparison: at the end of 2015 only just over 20% were 65 years old or more.

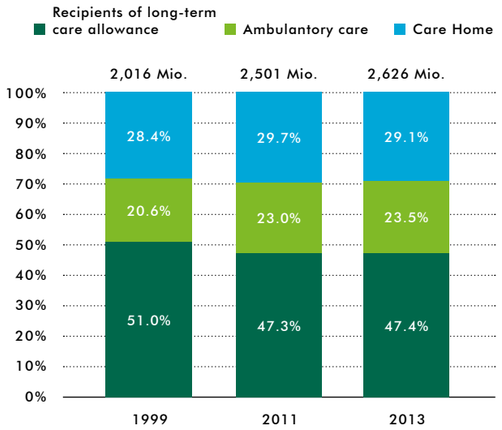
The prevalence – and the frequency – of illness escalate with increasing age, bringing the increased probability of the multiple morbidity[3] that often leads to the need for care. On top of the increasing proportions in the older age groups over the course of time, this will lead to a rising number of persons in need of care. The diseases to which people become considerably more susceptible with increasing age include, in particular, dementia. As the symptoms of this disease require special support and care of the persons affected, which mostly cannot be provided on an outpatient basis in the domestic environment, the progressive ageing of the population will lead to considerable growth in the numbers of people suffering with dementia[4], together with the associated care requirements. Currently, an overall increase of over a million, to more than 3.6 million people in need of care, can be assumed by 2030.

Profile of the beneficiaries of care

However, the demand for inpatient care beds is also a consequence of the age structure of the persons in need of care. The increasing significance of the numbers in the older age groups, which will continue due to the advancing demographic change in the next few years, is particularly evident in the hospitalisation rates[5] of the persons in need of care in the individual age brackets. In 2013, the federal average hospitalisation rate of persons over 65 years old who were in need of care was around 33%. It can therefore be assumed that, despite medical and therapeutic advances, demand for inpatient care beds will increase with the progressive shifting of the age structure and the consequential increase in hospitalisation rates.

Apart from age, the severity of the need for care also plays a decisive role in the demand for inpatient care beds. Based on the official care statistics for 2013, 56.1% of those in need of care were ascribed to *Pflegestufe* [care level] I. 32% of the persons in need of care were allocated to *Pflegestufe* [care level] II and 11.9% to *Pflegestufe* III.

Number of people in need of care and distribution by type of care services



Source: Federal Statistical Office, CBRE Research/ITC, 2016.

Inpatient care and care at home

Care services can be provided at home or as an inpatient, although in Germany the types of care can be further differentiated. In the case of domestic care, a differentiation is made depending on whether the care is provided by the recipient's family members or by an ambulant care service. For inpatient care, a distinction is made between full inpatient care, which includes short-term and permanent care, and part-time care, including day-care and night-time care.

In Germany at present, the majority of those in need of care fall in the area of domestic care by ambulant care services and/or by the benefit recipient's relatives. At the reporting date for the latest care statistics, the end of 2013, around 1.86 million (71%) of the persons in need of care were being looked after in the domestic environment by family members and/or ambulant care services, while just over 764,000 people were in receipt of inpatient care.

In mid-2016, there were around 11,300 inpatient care facilities[6] in Germany, together providing over 889,000 available full-time inpatient care beds.[7] 56% of the beds are provided by independent non-profit organisations. Private providers account for 39% of the beds, while public-sector institutions provide only 6%.

Occupancy of full-time inpatient care

Since 2011, the average occupancy rate of care homes, which had declined between 2003 and 2009, has been increasing again. According to the official care statistics, at the end of 2013 there were around 764,400 persons in receipt of full-time inpatient care, of whom around 743,400 were in permanent care and just over 21,000 in temporary care. 89.0% of the 858,800 full-time inpatient beds were occupied (2.4 percentage points more than in 2009). Including persons with dementia not ascribed to a Pflegestufe [care level], this increases to as much as 90.4%. Since then, the federal average occupancy rate may have risen to 91.0%.[8]

Changing needs for inpatient care

By 2030, the progress of demographic change will lead to a substantial increase in the number of people in need of care. As a result, the demand for professional care and therefore for (full-time) inpatient care beds will increase further. The increasing occupancy rate in the older age groups will present a major challenge. This is because it is not just the probability of needing care that increases disproportionately with age: the likelihood of requiring inpatient care also rises. With these anticipated trends, it can therefore be assumed that over 340,000 additional care beds will be required by 2030.[9]

On top of this, it will be necessary to replace around 210,000 care beds in existing facilities that are no longer marketable. Assuming that the capital required for providing a new care bed is around €100,000 (in 2016 prices), investments totalling over €55 billion will be necessary by 2030. Because of the ever-decreasing public investment in the maintenance and construction of care facilities, private investment is increasingly required in order to expand the supply of care beds to meet future demands.

1. Not including persons in need of care at *Pflegestufe* 0 and those paying for themselves.
2. See: Federal Statistics Office, Population Forecast – based on the alternative calculation: Continuity with heavier inward migration, Wiesbaden 2016.
3. Multiple morbidity refers to the existence of multiple illnesses (mostly chronic diseases such as diabetes, arthritis, cardiac failure or osteoporosis) in a single patient.
4. See: Federal Health Ministry, http://www.bmg.bund.de/themen/pflege/demenz/infos-zu-den-krankheiten.html.
5. The hospitalisation rate refers to the proportion of persons in need of care who are (must be) full-time inpatients.
6. Not including single temporary, day-care or overnight care facilities.
7. See: ITC Pflegeheimdatenbank Trasenix, incorporating references to publicly available sources, as at August 2016, all figures rounded.
8. Based on the occupancy figures in the mid-2016 MDK report.
9. See CBRE/ITC Care Homes Report 2012/2013, p. 22.

A fragmented regulatory situation due to different care home laws and regulations

Legal framework

On 01.09.2006 the reform of federalism came into force, transferring the legislative competence for care homes to the 16 state legislatures. Formerly federal laws and regulations governed the entire legal system for care homes.

Legal situation after the transfer of competence to the federal states

State governments had to draft new statutory regulations in the wake of the federalism reform as legislative competence for public welfare regulations had been transferred from the federal government to state governments after Article 74 1 No.7 of the Basic Law had been repealed. As a result states are now responsible for regulatory laws for care homes, commonly referred to as Heimordnungsrecht, while the responsibility for civil law aspects remained with the federal government. The states have exercised the newly acquired competence and obligations to different extends and reformulated the regulatory statutes governing care homes. The federal government had amended the laws for the conclusion of contracts between care home operators and residents (Heimvertragsrecht) in the Housing and Care Contract Act (Wohn- und Betreuungsvertragsgesetz, WBVG) that came into force on 01.10.2009.

The transfer of legislative competence for the regulatory laws to state level roused controversial debate at the time. Critics particularly stressed that a fragmented regulatory situation might result in disintegrated living standard across Germany and create a difficult planning and funding environment for investors and operators.

16 different care home laws and regulations

Since 01.09.2006 the states have the legislative competence to introduce new regulatory care home laws and regulate the minimum requirements for care facilities. After the last federal state, Thuringia, adopted its own Care Homes Act in June 2014, all 16 states now have their own care home legislation, some of which has already been amended.

Overall, the state legislatures have progressed in the last four years. Apart from Bremen, Hesse, Lower Saxony, Saarland, Saxony-Anhalt and Thuringia, where the Federal Minimum Building Standards for Care Homes (Heimmindestbauverordnung) still apply, most states have introduced their own regulations for minimum building standards.

In the past investors and home operators could gear themselves to the Federal Care Home Act (Bundesheimgesetz) and the Federal Minimum Standards for Care Homes as consistent legal sources throughout Germany. Now, however, when making investment decisions they must take into account the care home laws and minimum building standards regulations in each state. The volume of regulations that have to be observed has therefore increased many times over.

The spectrum of the individual state care home legislation and regulations extends from being extensively oriented on the original federal provisions to entirely new approaches.

In some states existing facilities may only rely on existing use regulations to a limited extent, although in some cases generous transition periods and opportunities for exemption have been granted. Other federal states, however, have granted full existing use rights to all existing facilities that were planned, completed or under construction before the relevant state minimum standards were adopted. Particularly state regulations in Bavaria, Baden-Württemberg and North Rhine-Westphalia are having drastic effects for operators and investors, as even existing facilities are required to comply with new state legislation. Exemptions and reliefs are issued only on a restrictive basis.

Increasing structural requirements

An overview of the individual state regulations shows that there is a general trend: the structural requirements for care homes are continuing to increase. The interests of the individual home residents are coming to the fore. Single rooms are already the norm in seven of the 16 federal states. Double rooms are increasingly the exception or are even being phased out. The requirements for the minimum sizes of residents' rooms and common areas are also rising. Minimum standards for sanitary facilities are already prescribed in most state regulations. In a few federal states, for example, so-called "tandem" bathrooms, accessible from two residents' rooms, are unwelcome. Overall, this means that the residents' needs for comfort and convenience must be taken into account.

In addition to individual comfort and convenience, there is an emerging trend towards ensuring accessibility for disabled persons (Barrierefreiheit). For example, some federal states are now demanding that the DIN 18040-2 standard be implemented in care facilities.

As well as qualitative provisions, some federal states have made regulations under which the maximum bed capacity is restricted. Since the new statutory regulations became effective adaptation works to existing facilities have already been observed, particularly as regards compliance with the proportion of single rooms.

In North Rhine-Westphalia and Baden-Württemberg the number of available care beds has decreased as a result. New development is necessary to offset the reduction in the medium term. In Bavaria, the requirement for disabled access in accordance with DIN 18040-2 means that almost all older facilities have to apply for (partial) exemptions, application for which had to be made by the end of August 2016.

Under the Care Facility Promotion Act (GEPA) in North Rhine-Westphalia limit the rate chargeable on investment costs (Investitionsfolgekostensatz) can be limited. This limitation applies to existing as well as new care facilities.

Excursus – Pflegestärkungsgesetz II (PSG II)

The government intends to improve, step by step, the situation of people in need of care, relatives providing care and care staff by introducing Care Support Acts (Pflegestärkungsgesetze, PSG). The First Care Support Act (PSG I), which came into force on 01.01.2015, inter alia, had increased the amount of benefits receivable from the statutory care insurance (Pflegeversicherung). PSG II, which came into force on 01.01.2016, extends the entitlement of dementia patients and sets out additional money for in-patient care services.

The primary objective of PSG II was to establish a new definition of an individuals' need for care (Pflegebedürftigkeit). Previously, care needs were assessed purely on bodily infirmity, providing no satisfactory solution for persons suffering with purely geriatric psychiatric symptoms. From 01.01.2017, the current division into three care levels (Pflegestufen) will be replaced by a classification of the need for care in five degrees of care (Pflegegrade).

The care sector is sceptical about some parts of the new PSG II legislation. In particular there is concern that the implementation of federal regulations in the states may not adequately compensate for the occupancy and utilisation risks.

Summary

Care and care home laws have a direct effect on the profitability of existing homes if new requirements have to be implemented, which command a reduction in the number of beds, and therefore establish a different basis for rent payment.

Overview of state care home lwas

	STATUTORY POSITION	STATE CARE HOME LAW	STATE MINIMUM BUILDING STANDARDS	REGULATIONS CONCERNING	LIMITING THE NUMBER OF CARE BEDS IN EACH FACILITY	MINIMUM PROPORTION OF SINGLE ROOMS	MINIMUM SIZE OF BEDROOMS	MINIMUM SIZE OF COMMON AREAS	MAXIMUM SIZE OF RESIDENTIAL GROUPS	MINIMUM STANDARD FOR INDIVIDUAL BATHROOMS	THERAPEUTIC BATH
Federal States							●	●			●
Baden-Württemberg		●	●		●	●	●	●	●	●	●
Bavaria		●	●			●	●	●		●	●
Berlin		●	●			●	●			●	●
Brandenburg		●	●				●	●			●
Bremen		●					●	●			●
Hamburg		●	●			●	●		●	●	●
Hesse		●					●	●			●
Mecklenburg-Western Pomerania		●	●				●	●			●
Lower Saxony		●					●	●			●
North Rine-Westphalia		●	●		●	●	●	●	●	●	●
Rhineland-Palatinate		●	●				●	●		●	●
Saarland		●					●	●			●
Saxony		●	●				●	●			●
Saxony-Anhalt		●					●	●			●
Schleswig-Holstein		●	●			●	●			●	●
Thuringia		●					●	●			●

Source: CBRE Research/ITC, 2016.

Investment market

"Compared to many other European markets German care homes are too often ‘black boxes’."

Interview with Stefaan Gielens

Chief Executive Officer, Aedifica

To what extent is the federal legislation a problem for investors (e.g. in North Rhine-Westphalia)?
Changes in legislation are inherent to the operating business; they occur and will keep occurring in every country that has to deal with the challenge of ageing as well as the challenge of reducing public spending (or at least keep public spending at acceptable levels). We believe that any real estate investor that is focusing on senior housing (and health care real estate in general) continuously needs to incorporate this phenomenon in his investment decision process. So if you cannot stand the heat, get out of the kitchen ... so to speak.

However, what might become disruptive is when changes in legislation lead to lasting uncertainty because this will eventually lead to an investment stop (or at least will slow down investment). In this respect it is rather worrying to hear sometimes people in the operating business complain that “nobody knows how to calculate an I-cost” in North Rhine-Westphalia.

What are the problems and challenges of arranging a contract with care home operators?
In our experience we feel that the German market faces two challenges: On the one side the absence of clear market standards and common business practices for lease agreements between professional real estate investors and care home operators make every negotiation of a lease contract a time consuming experience with uncertain outcome, and on the other side the lack of transparency of German care home operators about the operational and financial KPI at the care home level; compared to many other European markets German care homes are too often ‘black boxes’.

How interesting is the option of separation of care homes according to the German Condominium Act (Wohnungseigentumsgesetz, WEG)?
It is obvious that the separation of care homes allows real estate developers (and/or operators of care homes if they develop themselves the homes) to sell at higher prices and to make more profit on the real estate. We have to admit that this leads to fierce competition: professional long term real estate investors integrate their know how on long term risks in their pricing decisions and hence are often not willing to accept the same price levels as those offered by private investors. The real question here is however whether the separation of care homes will in the long run lead to problems for the operators/tenants when the building reaches a certain age and needs renovation or even a complete makeover of the original concept (e.g. if in a new future concept the number of rooms in a building needs to be reduced)?

To what extend has the shortage of qualified personnel an effect on the investment decision of care homes?
The shortage of qualified personnel is a problem that many European countries are facing. In our experience it has had up until now no real impact on real estate investment decisions. Very often the real debate is however between operators and (local) governments: are politicians willing to adapt staffing requirements for care homes (without reducing the quality of care but allowing more efficient use of available skilled personnel)?

Which criteria or requirements does the “perfect care home” provide?
Newly built building, integrating most recent care concepts and technology, combining larger scale (of preferably around 100 units) with the look and feel of small scale housing:
- less than 20% double bed rooms (the closer to 100% single bed rooms the better);
- location in the center of the local community (building should be well integrated in the local community);
- location with potential for future extension of the building or offering potential to adapt the building in the future (thus allowing to integrate future new care and/or housing concepts);
- good operator (both financially as in terms of quality of care);
- long term lease of 20 to 25 years
- good indexation clause (hard to find in Germany);
- preferably triple net or at least well defined double net;
- transparent reporting of financial and operational KPI by the operator and, most important of all;
- a realistic rent (no over-rent, acceptable rent/EBITDAR ratio).

Which regional preferences are there noticeable in Germany from your perspective and why?
We have no regional preferences: our investment strategy and policy allow us to invest all over Germany.

What would be an appropriate investment volume and purchasing price for a property and per care bed?
We are actively looking at single asset deals (€ 5 million and more) and medium sized portfolios (up to € 100 million). We are also interested in bigger portfolios (€ 100 million and more), but in today’s market the price expectations for these bigger portfolios often tend to imply very high (even too high?) portfolio premiums in our view.

Not very keen on specifying prices for a property and per bed (because very depending on specific case related aspects): in general, assuming single bed rooms and good quality buildings/recent buildings, prices should be around € 100,000 per care bed.

Mr. Gielens, thank you very much for this conversation.

Stefaan Gielens
Chief Executive Officer, Aedifica

Aedifica is positioned as a leading Belgian listed company investing in healthcare real estate in Europe, in particular in senior housing.

2016: a year of superlatives, due to large-scale portfolio acquisitions

The "care property" asset class is becoming increasingly established. The transaction volume reached a record level in 2016, demonstrating the noticeably increased interest in this alternative real estate asset class by both domestic and international investors.

These are primarily institutional investors, who are seeking an adequate return on this highly specialised and – particularly in Germany, because of its very pronounced market regulation at federal state level – very complex niche investment.

From the investors' perspective, there is a whole range of factors in favour of an investment in health and care properties. Particularly in the ageing societies of western Europe, the irreversible demographic trends ensure a robust dynamism in the demand for care services. Because of its fundamental factors as a growth market, this applies to the care market in Germany in particular, not least because the number of people in need of care is expected to increase by around 1 million, to over 3.6 million. At the same time, many modern care homes do not comply with the statutory requirements.

What is more, the private and independent non-profit operating organisations in particular are reporting increasing occupancy rates in their homes. The sector faces further consolidation by private providers, which will therefore result in increasing competition and further professionalization of the market. Correspondingly, the operational results have further improved. According to the RWI, in 2013 the average risk of default, in terms of operator insolvency, was less than 1%.[1]

Institutional real estate investors are showing increased interest in long-term commitment to the German care market as an asset class, because of its relative immunity to cyclical factors and the "state guaranteed" cash flows from the usually very long (and, positive for investors, mostly double-net) leases for 20 years or more, with a single-tenant structure.

Large transactions dominate the investment market in 2015/16

Since the market bottomed out in 2008, the volume of transactions in care property and retirement homes in Germany has steadily grown, reaching around €834 million by the end of 2015. In 2015, the market was primarily dominated by portfolio transactions involving investors from North America and Scandinavia. However, a handful of German investors also hedged their bets by acquiring a stake in the growth market for care properties. Transactions in the form of package deals accounted for almost two thirds of the total transaction volume in 2015.

Boosted by two megadeals, the transaction volume in the German care property market reached a new record of around €3 billion in 2016 – one and a half times the previous record of €1.2 billion, set in 2006. Compared with the 2015 transaction volume, the new record represents a year-on-year increase of some 255%. Portfolio transactions accounted for 87% of the volume in 2016. The current heavy demand for existing portfolios has lately resulted in a portfolio premium being paid for large portfolios.

Two major transactions dominated the 2016 investment year. Following a strong first half-year, in which over €900 million was invested in care properties in Germany, in the third quarter France's Primonial REIM acquired a nursing home portfolio comprising 68 nursing homes from Even Capital, contributed a considerable share of almost €1 billion to the overall transaction volume. Beside that Deutsche Wohnen acquired the Pegasus portfolio, with 28 care facilities, from Berlinovo Immobilien Gesellschaft mbH, at a price of €420.5 million. The Pegasus portfolio was sold by CBRE in the framework of a structured tender process.

Overall, the care homes asset class (including retirement homes) accounted for over 6% of the total transaction volume in the commercial property market in 2016. To date, however, less than 2% has been invested in the niche market for care home properties.

Foreign investors placed almost €1.8 billion in the first nine months, accounting for 61% of the investment turnover. Following the market entry of Primonial REIM, French investors now have a 46% market share, with Belgian investors holding around 9%.

The current transaction volume in the care property market is undeniably exceptional. Nevertheless, it demonstrates the level of interest and confidence from international institutional investors – the market for care properties has come of age.

Higher returns than traditional real estate investment classes ensure increased interest from investors

Compared to traditional property investment classes, the prime yields on modern care homes – currently 5.5% – are a good 190 basis points higher than those on first-class office or retail properties in the major investment centres. The yield margin over the hotel asset class is currently 100 basis points.

Investors are becoming increasingly interested in alternative investment opportunities for their real estate allocation. Operator-run properties are coming into focus, as is shown by the very high transaction volume in these areas. In particular, institutional investors such as insurance companies and pension funds are becoming increasingly committed to care and age-appropriate properties. However, in comparison to traditional core commercial properties like offices and retail buildings, they want to achieve higher risk-adjusted yields. Not least because of the maturing of the operator-run market following further consolidation, the care market is being assessed considerably more positively than in the past.

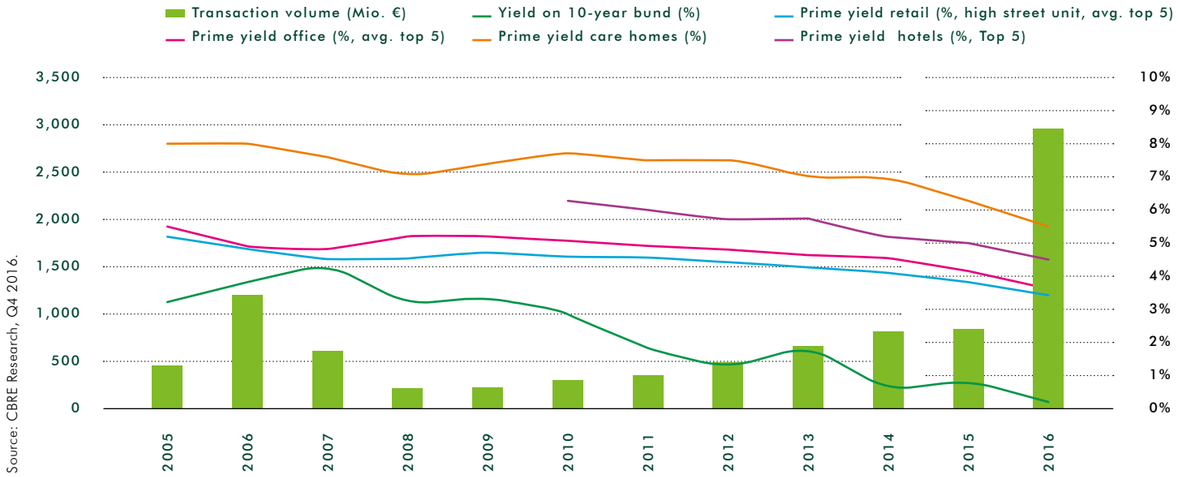
Germany's care home market

Facts-checking from an investor's point of view

- Limited alternative use capacity, but alternative operator capacity
- Opaque niche market
- Operatos' image vitally important
- Long-term leases and quais state- guaranteed cash flows
- Relatively high risk-adjusted returns
- High-yielding investment
- Availability of qualified specialists
- Market regulations and political impact
- Growth market due to demographics
- Low construction activity
- Relatively independent of economic cycles
- Partly high modernization expenses

Investment transaction volume in the German care properties market – record investment volume in 2016, normalisation from 2017

incl. senior residences



Source: CBRE Research, Q4 2016.

Forecast: record investment volume in 2016, normalisation from 2017

There is little pressure on property owners to sell. Most operators are more likely to buy back properties rather than entering into new sale and leaseback deals. It can therefore be assumed that the record transaction volume in 2016 is unlikely to be matched in the next few years. Rather, a degree of normalisation in the dynamics of transactions can be anticipated, although, at around €1 billion p.a., this will still be quite considerable. It can be expected that new domestic and foreign market participants will increasingly seek established investment niches. The demand from institutional investors for well-positioned care properties is unceasingly high, while new development activity in this asset class is far too low. The result is a clear shortage of supply of properties, so that the pressure on yields, particularly on first-class core properties, will remain strong and net initial yields will be further compressed.

1. RWI/hcb/Philips Pflegeheim Rating Report 2015, p. 86.

Financing environment

"The federal legislation has hampered the financing of care homes overall."

Interview with Alfred Zinke

Head of Department Institutional Clients, The Bank im Bistum Essen (BIB)

Have the banks' requirements for (re) financing care facilities changed in the last three years? If so, how? (more restrictive?)
Because of Federal legislation, cross subsidisation, e.g. from the proceeds of individual service charges, has ceased. The value of the property significantly depends on the occupancy rate and the expertise of the operator. Questions regarding the management and marketing experience of the operating companies and the persons involved are increasingly important. Solitary facilities will find it hard to retain their position in the market in the long term.

What aspects do the banks consider most important in financing care homes?
The operator's creditworthiness and experience, the market environment and functionality of the building, and its location. Care homes integrated in residential areas take precedence over remote, peripheral locations. Sheltered housing units in the surroundings improve the value of the location. Day-care and short-term care provision in the property are important elements in assessing its value. Use concepts that go beyond run-of-the-mill care, such integrating people suffering from dementia, are a significant component of the decision-making.

How large – broadly speaking – is the difference in interest rates between an office property and a care home, if both were let on long leases?
If there is a difference in interest rate, this is primarily because of the better adaptability of the office property. The level of security, for example the amount of equity put in, also has a significant influence on the interest rate. Collateral of up to 60% of the mortgage lending value enables the financing bank to obtain a valuer's confirmation of a loan on real estate (Realkreditausweis). This benefit reduces the interest rate payable by the client.

Are you currently receiving more inquiries for financing care facilities because of the increasing volume of transactions?
The number of inquiries is increasing, although this trend is dominated by larger-volume transactions. Often a number of facilities are offered, and/or are the subject of a request for financing, in one transaction. Increasingly, the operating companies are splitting from the properties and offering them to investors.

What effect does federal legislation have on the (re-) financing of care homes? Are there regions in which you would fundamentally decline to provide financing?
The federal legislation has hampered the financing of care homes overall. It is not directly discouraged but, because of the current legal situation, financing in North Rhine-Westphalia has become more challenging. For financing in rural areas, increased attention has to be paid to grouping and networking to improve synergies and/or in order to avoid solitary facilities.

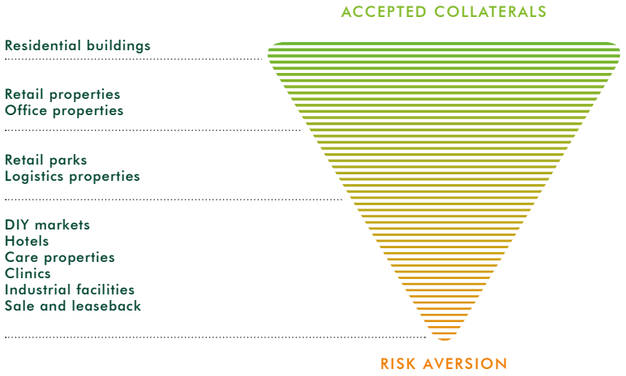
Mr. Zinke, thank you very much for this conversation.

Alfred Zinke
Head of Department Institutional Clients

The BANK IM BISTUM ESSEN (BIB) is an ethical-oriented cooperative Bank for the churches, social economy, foundations, help organizations and all the people who share the vision of a peaceful and fair world

Credit commitments calls for expert know-how

The Banks' business interests



Source: CBRE Research/ITC, 2016.

Regardless of market cycles, care homes are among the most difficult properties to finance in the loan market. However, the general recovery of the property market and the major competition for new business between the banks has caused a slight relaxation in the market. With increased attention from French operators and investors, there is growing interest in financing from France. In the second half of 2015, for example, Société Générale refinanced a portfolio to the tune of over €545 million and then involved a consortium.

Loan properties are analysed in detail

Hitherto, the financiers have shown very little interest, because of the statistically high proportion of non-performing loans on health properties; the risk associated with operator-run properties; and the necessary specialisation of bank staff, together with the small lot sizes and wider diversification of the customer base. The positive side of this risk aversion is that there has been very little development activity in recent years, so that the market is reasonably well balanced. Apart from requiring a high equity injection, the banks are thoroughly examining the quality of the operator and carrying out detailed investigations of the sustainability both of the operation and the forecast rental income. Rents in excess of the investment costs paid by the client are usually entirely excluded from consideration. Often specialised consultants are called in for the risks resulting from the regulations in North Rhine-Westphalia, Baden-Württemberg and Bavaria.

Consolidation and higher occupancy rates improve creditworthiness

However, the conservative financing environment, consolidation in the operators' market and increasing occupancy rates have substantially changed the quality of the market for care investments over the last few years. Transparency, the tenants' creditworthiness and the landlords' bargaining power have all improved. The operators' expansion plans, combined with the limited development pipeline, have made company takeovers easier.

The latest care home rating report by RWI shows very clear trends that could lead the way for financing and investment decision-making in coming years. Whereas the occupancy of the homes is increasing almost in step with the general profitability of the operators, there are considerable differences between the operators and the homes they run. For example, the most profitable 10% of operators with large homes are registering EBITDARs of 27%, while homes with 40 or fewer care beds average only around 21%. The operators among the 10% with the lowest profitability are generating profits of around 4.2% on large care homes and 3.6% on smaller facilities.

There is a clear gradation of profitability among the operator segments. 83% of private operators, for example are working at a profit, while only 81% of the charities and 77% of the local authority operators are breaking even or better.

To that extent, the key to growth or sustainability can be boiled down to large private operators with larger homes. If, for example, the requirements for reducing the numbers of double rooms and/or substantial conversion costs were implemented in North Rhine-Westphalia, initially the smaller local operators – often independent non-profit and local authorities – could be affected. In the medium term, this could strengthen the market share of the larger private operators. For many reasons, the trend towards consolidation might therefore continue.

Type of Housing for People in Need of Care

"Providers in the care market should be allowed to differentiate themselves more widely, creating a supply to cater for all needs and budgets."

Interview with operator Bernd Rothe

CEO, cosiq GmbH

What do you expect from PSG II and the introduction of the new "degrees of care"?
In principle, the new classification under PSG II can be assessed positively: the new concept for care needs at last takes into account all dimensions of care, i.e. physiological as well as psychological impairments. The question will no longer be how often assistance is necessary, but rather how independent the resident still is.

However, PSG II doesn't just change the three care levels (Pflegestufen) into five degrees of care (Pflegegrade): the whole system of appraisal, assessment, staff allocation and refinancing will be significantly changed. In the next year, therefore, I still expect a few surprises that, so far, cannot be foreseen or prepared for. PSG II will have a powerful influence on the profitability of care homes. Many market players are still not sure whether this will be positive or negative, or the extent to which they will be affected. This will primarily depend on the transitional regulations and the concern that, from the start of 2017, newly accepted and assessed residents might be classed lower than before, resulting in reduced payments. Specifically, the transitional phase could mean an exceptional boom for the care sector. However, that could gradually turn around if new residents were mostly to be classified too low.

Has this remedied the inherent error in the care insurance (Pflegeversicherung)?
It remedies the neglect of the steadily increasing number of dementia cases, so to that extent the main and frequently criticised problem has been rectified. It's not yet possible to estimate the extent to which the emphasis on dependence due to psychological impairments might lead to those needing care while not suffering from such problems being assessed too low. However, this could certainly happen. The function of the care insurance, to provide partial cover with considerable co-payments has not been changed. On the contrary, the care insurance funding is expressly provided for financing care, support and treatment, while hotel services and refinancing rents are the resident's responsibility.

It also means that the system of the negotiated unit price for each resident in a particular home remains. In other words, the negotiated care rates put a constraint on operators, who can only raise prices within the cost that of a typical market provision in accordance with the funding organisation's concepts. This means that the quality and the care services will continue to be regulated by the funders and the politicians, and that the supply can often bear little relation to demand. Interestingly, the operator is always criticised if they implement the staff requirements exactly as laid down by the supervisory authority. For instance, if they only deploy one caregiver at night in living quarters with 30 people.

Bernd Rothe
CEO, cosiq GmbH

Cosiq GmbH, Berlin, was founded in early 2016 by Bernd Rothe. The focus is on the development and operation of innovative, high-quality residential and care concepts. The key areas are integrated models, specialist care facilities and alternative housing forms.

What are the consequences of that?
Primarily, no one wants to go into a nursing home if they don't have to, i.e. the move is avoided as long as possible. This means that new residents are often very ill when they arrive.

With its massive promotion of outpatient and day care services, the policy has made it easier and more affordable to stay longer in one's own home or in a retirement apartment with disabled access. Although in some cases a move can therefore be delayed, very few alternatives to the care home have been created.

What has to happen for care homes / alternatives to meet more of the demands or desires of their clients?
Providers in the care market should be allowed to differentiate themselves more widely, creating a supply to cater for all needs and budgets. In doing so, regulation of a minimum quality of care should not be abandoned, by this means negating the politicians' standard argument that only rich people can afford good care. On the contrary, the more private funds that flow into facilities, the better less well-off people can be subsidised.

Moreover, the separation into an outpatient and inpatient market should be abandoned. Persons in need of care should have the opportunity to decide freely when and what offers they want to take up. Up to now, operators have only had the opportunity to opt for the inpatient straightjacket, or to create a direct payment model that, at best, would be only partially refinanced by the care insurance. A smooth transition from outpatient to inpatient care is totally impossible.

And what alternatives would arise from this?
Firstly, there would be a general diversification of supply. This means that residential, assisted living and care facilities for all requirements would come into being. These would range from standard or budget care homes to luxury homes, as in the hotel sector. Secondly, the institutionalised care home framework would no longer be necessary, so that in principle all types of homes with flexible service concepts, that could function as outpatient and inpatient, would be created. These could also cater for particular medical conditions, different forms of communal living and small-scale intergenerational models, e.g. in a district. The existing business management logic of unit prices, and the management shortcomings in the care homes, simply do not allow this.

How do the alternatives to care homes look? Can assisted living really be an alternative?
In addition to the standard inpatient nursing homes, with remuneration agreements, there are a few exclusive inpatient housing facilities for self-paying residents that have more freedom and more ability to differentiate. The care insurance system often only pays only 80% of the normal allowances for these, while care assistance is not paid at all.

The most common alternative is still assisted living, for which there are very different service concepts. In the base case, this comprises a "barrier-free" apartment with service or concierge staff member, who is only there to contact service providers. Although the disabled accessibility means that persons in need of care can get along better than in their own home, this alternative is for people without much need for assistance. At the top end, there are assisted living apartments, often connected to nursing homes, and providing a full service, with ambulatory care, restaurant and housekeeping services on site. These are often supplemented by day care, occupational and medical or rehabilitative services. In such facilities, only people with severe dementia or those most in need of care have to move to the nursing home. Most with other medical conditions can be looked after and provided with care in their apartments. These are therefore a true alternative to the care home for the majority of people in need of care. However, the prerequisite is that, not only must there be apartments adjoining a nursing home, but also that the services must actually be provided on site, particularly as the nursing home staff are not allowed to tend to the residents of the apartments.

So called outpatient joint households of care-dependent senior citizens (ambulant betreute Wohngemeinschaften) are another alternative that has become more established in recent years, primarily for dementia sufferers. Up to twelve elderly people live in a shared housing unit (flat or house) with common areas, outpatient services and, in most cases, one or more staff on site to provide housekeeping and care assistance. As this type of care is not subject to the rigid regulations governing inpatient homes, it can be more flexibly managed. For example, there are no staffing ratios like those in homes. The opportunities for withdrawal are naturally limited.

For accounting purposes, upscale residential housing for senior citizens (Wohnstift, Seniorenresidenzen) are often regarded as outpatient facilities, i.e. one lives there independently in a rented apartment. If care is needed, the in-house outpatient service visits the resident in his or her apartment. A very few homes also have an inpatient care department, into which those in need of considerable care can move. Apart from this, many of these facilities provide all the amenities that would be found in a hotel, with their own restaurant, dry cleaning and laundry services and cultural activities. In homes that are more expensive there may even be a swimming pool and spa. Depending on the severity of the requirement for care, however, residents of retirement homes without a nursing ward must also move out eventually, if they can no longer be cared for on an outpatient basis.

A more recent alternative to a nursing home is a combined solution of outpatient care in the apartment, complemented by inpatient day care. Those in need of care live there independently – particularly in the evenings and overnight – in their own apartment, while they spend the day being cared for in a day care facility. This variant was brought about by the political desire for ambulant or at most day care, and is therefore increasingly better funded. It is very suitable for persons in need of (dementia) care, provided that relatives are able to ensure that the organisation of transport, evening and night care runs smoothly. In other words, this is not a true alternative to the care home.

"Clients will choose the care services that best meet their expectations and requirements."

What happens if I can no longer stay in my apartment, but do not want or need to go into a nursing home just yet?

As a rule, in the absence of alternatives, those in need of care must stay at home and try to cope in their apartment. In the First Care Support Act (Pflegestärkungsgesetz, PSG I), the policymakers have provided incentives for this by paying grants for conversion work in private homes. However, in most cases the appropriate services, such as uncomplicated commercial household help, care in the normal daily routine and caretaker services, are not available in the neighbourhood. Assisted living that is only organised by external service providers also cannot help at this stage, as they are not on site and cannot be called in every time help is required.

In cities and regional centres there are often alternatives to care homes, such as those already described. However, in small rural communities and most towns with populations under 50,000 there are few alternatives on offer; mostly there are none. Here in Germany there is a major backlog, which could certainly be dealt with more quickly by changes to the regulatory and refinancing system, particularly for inpatient care, than it can under the current situation.

How do you see the German care landscape in the future?

The volume of regulation will not diminish with PSG II and III, quite the opposite. Just the new assessment and grading procedure, that assigns the classification in six relevant modules with 65 points of assessment, each of which can have four different characteristics, will be a real challenge for the employees on site and for the supervisory authority.

The majority of care facilities will certainly focus even more strongly on the challenges brought by increasing dementia. There will also be increased specialisation in certain diseases. In contrast, the reduced rates for the lower care grades I and II introduced by the legislature will result in the majority being provided with outpatient care. The combination of outpatient and day care will also replace inpatient beds.

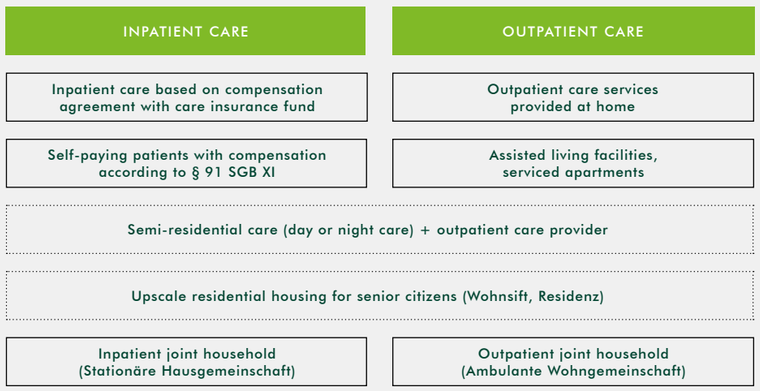
Considering the developments in the last ten years, it doesn't appear that this policy will open up the market. As regards the single-class system or division into outpatient or inpatient, nothing will change as long as the current funding system by the care insurance and the assistance for nursing care remains affordable. A sharper recession could change this. However, the system will cease to function, at the latest when the so-called baby boomers have to be cared for.

Notwithstanding this, the client will choose the care services that best meet their expectations and requirements. Living in one's own four walls is the first priority, which is why there will be a boom in the necessary household services and the provision of innovative care and support, even from a technological aspect, that enable staying at home as long as possible. However, even in the care facilities and residential homes, the desire for more quality and comfort will lead to an increase in corresponding provision and might give renewed impetus to e.g. direct payment facilities. Eventually, a gap will open up for the entire age cohort. While there will be considerably larger numbers of affluent senior citizens, who can afford more security and comfort, on the other hand increasing assistance with nursing care will be needed from local authorities, if e.g. the disrupted career paths in the new federal states result in poverty in old age.

One thing applies to each type of accommodation: Comfort, security and quality are paramount and should be as high as possible, regardless of the residents' ability to pay. This should be implemented in the framework of the statutory provisions and funding opportunities. There are many good examples of this in the market. These can serve as models and should encourage others to get involved.

Mr. Rothe, thank you very much for this conversation.

Type of Housing for Care-Dependent People – Alternatives to Inpatient Care Services



Source: cosiq GmbH, CBRE Research/ITC, 2016.

TYPE OF HOUSING FACILITIES	Statutory Basis	Description – Form of Organisation	Targeted Group of Residents	Conceptual / Building's Design	Marktet Volume	Quality, Pricing
Inpatient Nursing Home	§ 72 SGB XI §§ 84–88 SGB XI Home Care Acts of the federal states, Housing and Care Contract Act	Community housing facility daily routine, boarding and services centrally organised	Care-dependent & security oriented people, who cannot live independently any longer	Resident rooms with ensuite bathrooms, sufficient common areas, compliant with state minimum building standards for nursing homeswith state minimum building standards for nursing homes	Approx. 11,500 facilities	Regulated average price according to staff structure and nursing charges
Exclusive Inpatient Housing for Self-Players	§ 72 SGB XI § 94 SGB XI Home Care Acts of the federal states	Community housing facility daily routine, boarding and services centrally organised	Care-dependent & security oriented people, who cannot live independently any longer		Approx. 200-300 facilities	Independent pricing ⟶ higher quality in services
Inpatient Joint Household (Stationäre Hausgemeinschaft)	§ 72 SGB XI §§ 84–88 SGB XI Home Care Acts of the federal states	Community housing facility, daily routine as „at home", boarding and services decentralized	Care-dependent mobile people, who cannot live independently any longer	Small-scale housing facility with a limited number of rooms arranged around one central common area	Approx. 200 facilities	Regulated average price according to staff structure and nursing charges
Outpatient Joint Household (Ambulante Wohngemeinschaft)	§ 72 SGB XI, §§ 132, 132a SGB V §§ 36, 38a SGB XI §§ 37, 38 SGB V Home Care Acts of the federal states	Community housing facility, daily routine as „at home", care takers organise boarding and services	Care-dependent people, who cannot live independently any longer; people with dementia	Small-scale housing facility with a limited number of rooms arranged around one central common area	Approx. 3,000 facilities	Market prices for apartments; prices for outpatient nursing according to regulated standards
Outpatient Care at Home & Day Care	§ 72 SGB XI, §§ 132, 132a SGB V §§ 41, 84–88 SGB XI; 37, 38 SGB V	Staying at home during the night – day care in a community housing facility during the day	Care-dependent people with a certain degree of mobility	Day care room for activities, meals and therapeutic services	Approx. 50,000 care-dependent people	Day care regulated by staff structure and nursind charges
Assisted Living, Service Living	Law of Tenancy, WBVG § 36 SGB XI	At home, self-determined daily routine	Mobile senior citizens with a low or moderate need of care	Accessible apartment	Approx. 250,000 apartments	Market prices for apartments; prices for outpatient nursing according to regulated standards
Upscale Residential Housing for Senior Citizens (Wohnstift, Residenz)	Law of Tenancy, WBVG § 36 SGB XI Home Care Acts of the federal states	Individual apartments, self-determined daily routine community activities on demand, boarding and services centrally organised	Mobile and care-dependent senior citizens who need assistance with a high service quality	Accessible apartment, restaurant, common areas	Approx. 200-300 facilities	Hotel-like categories

Source: cosiq GmbH; CBRE Research/ITC, 2016.

Operational market

Between small-scale and increasing consolidation and concentration

The transparency on Germany's care property market is low compared internationally due to fragmented legislation on state level. The demographic development, the compartmentalised market structure and the lack of modern care properties in Germany are increasingly attracting foreign care companies to the country.

In respect of the operational structure, the care market in Germany is undergoing a very dynamic process of change. Although independent non-profit organisations have so far dominated the care home sector, private providers are gradually expanding their share of the inpatient care market, in part by major takeovers. As the public sector is increasingly withdrawing from financing care, the private providers will continue to increase in importance.

Private operators' market share reaches 40% mark

Accordingly, there has been a steady rise in the proportion of care beds provided by private operators since the official care statistics were first compiled in 1999. By the end of 2013, this had increased to over 38% of the available care beds. Taking into account the major takeovers of operators by private care groups in 2015/16 and increased development activity by private care home operators, by now the private providers' market share may have shifted close to the 40% mark. Conversely, the proportion of inpatient care beds provided by independent non-profit operators has further decreased to its current ca. 56%. Public sector providers, with an around 6% market share, play only a subordinate role, on a declining trend.

The distribution of care provision varies between the federal states, sometimes considerably. In Bavaria, Baden-Württemberg, the Saarland and North Rhine-Westphalia, the private operators have less than a 30% market share, while in Schleswig-Holstein, Lower Saxony, Hamburg and Hesse they have a significant presence, with market share ranging between 45 and 56%.

Against the background of the forecast demographic trends, considerable additional investment is needed to satisfy the accompanying further increases in demand for inpatient care services. This will not only require new care facilities to be created but also mean that the already existing but ageing care facilities will have to be adapted to new statutory conditions and customer requirements. It is clear that the independent non-profit and public providers will not be able to handle this high capital requirement on their own. More private capital is necessary in order to cope with the ever-increasing challenges in the German care market.

Operator consolidation still increasing

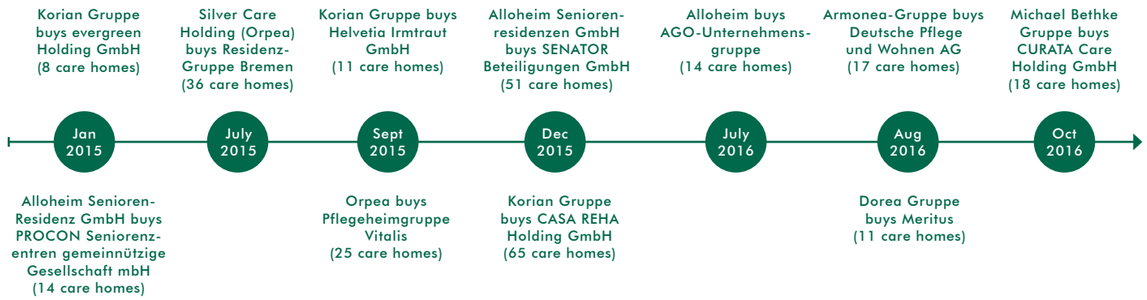
Foreign private-sector operators and financial investors are the primary driving forces in the German care market. They have considerable financial resources for investment in future-oriented growth. The heavily fragmented market structure offers good opportunities for this. There are many operators with only small numbers of care homes – mostly concentrated in one town or a particular region – for whom there is increasing competition as targets for takeover.

At present, the largest operator in the German care market is foreign: the French Korian Group, which operates more than 224 care facilities providing around 28,700 care beds. Two other foreign companies are among the five largest care home operators in Germany, the Alloheim Group, which belongs to US financial investor Carlyle, and the French ORPEA care group. Overall, however, the top 5 operators only have an around 11% market share, with the entire top 10 only accounting for around 15%. The fragmentation of the German care market is attracting foreign care groups to Germany. With their professional structures and correspondingly critical company sizes, they are progressively entering the German market.

Despite the prevailing lack of market transparency and the major challenges created by the differing statutory conditions at federal state level, the German care market is highly attractive, in particular for foreign investors and operators. The factors that, in the eyes of the foreign companies, make a pan-European or international expansion strategy necessary, with particular focus on Germany, include (i) the increasing demand for support and care services resulting from the demographic trend, (ii) the strong and stable economic power of Europe's largest health care market, and (iii) above all, their saturated home markets.

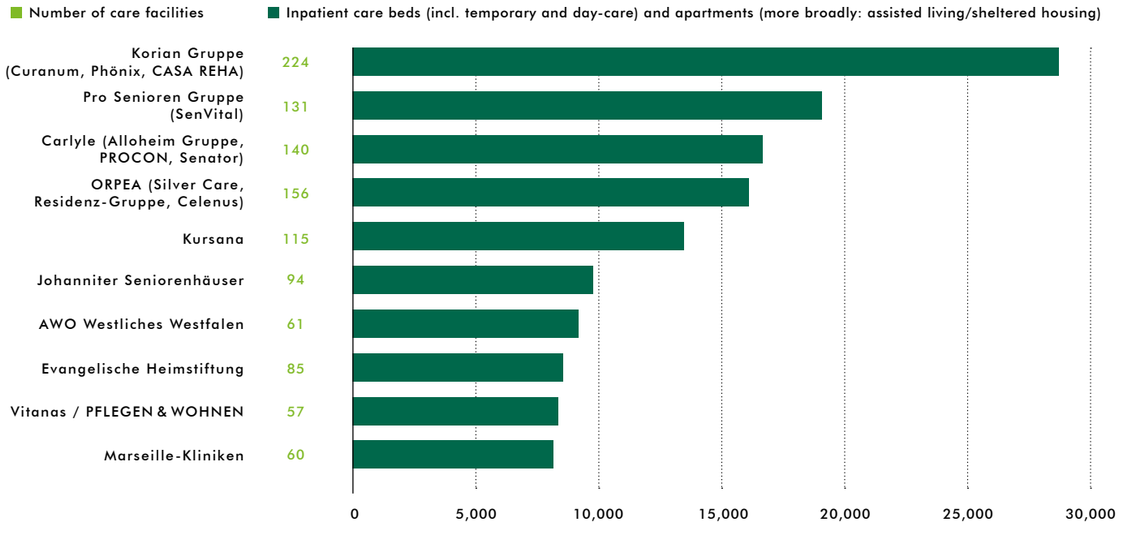
Acquisitions of operating companies in Germany 2015/2016

Market fundamentals attract European market leaders



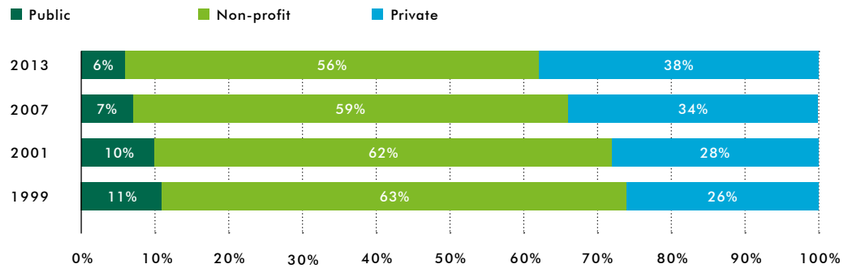
Source: CARE INVEST, Vincentz Network Hanover (Februar 2016); CBRE Research/ITC

The ten largest care home operators by numbers of care beds* 2016



Source: CARE INVEST, Vincentz Network Hanover (February 2016); CBRE Research/ITC

Trend of operational structure by type of provider of inpatient care beds in Germany



Source: Federal Statistical Office (Destatis), CBRE Research/ITC

Key facts and figures on the care home market

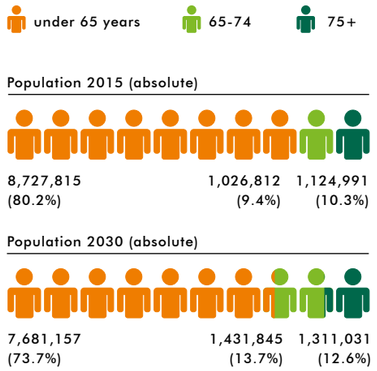
Baden-Württemberg

Baden-Württemberg is Germany's third most populous federal state and has the most restrictive regulations regarding the ratio of single rooms. By 2019, both new and existing buildings must have 100% single rooms.

Taking into account the current high occupancy ratio (91%) in Baden-Württemberg, stringent enforcement of this specification would lead to a shortage of care beds: care facilities with high proportions of double rooms would have to reduce their bed capacities drastically.

Discretionary-driven guidelines have already been adopted as a transparent aid to interpretation for the home supervisory authority. Nevertheless, in the future the practical application of these guidelines may give rise to tension, in order that the federal state does not become subject to capacity bottlenecks in inpatient care.

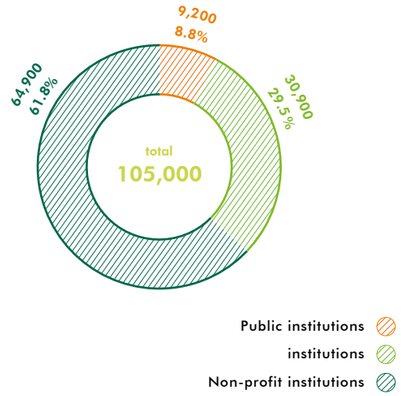
Population



Source: Federal Statistical Office, Riwis.

Available Places

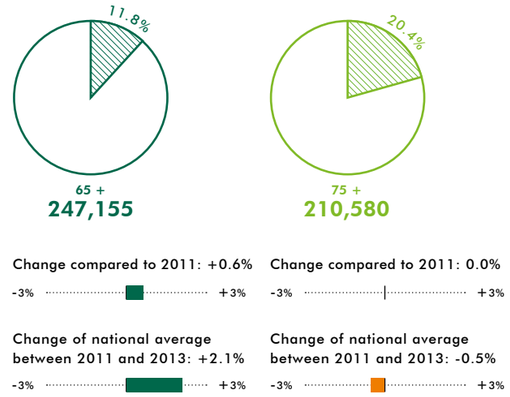
2016



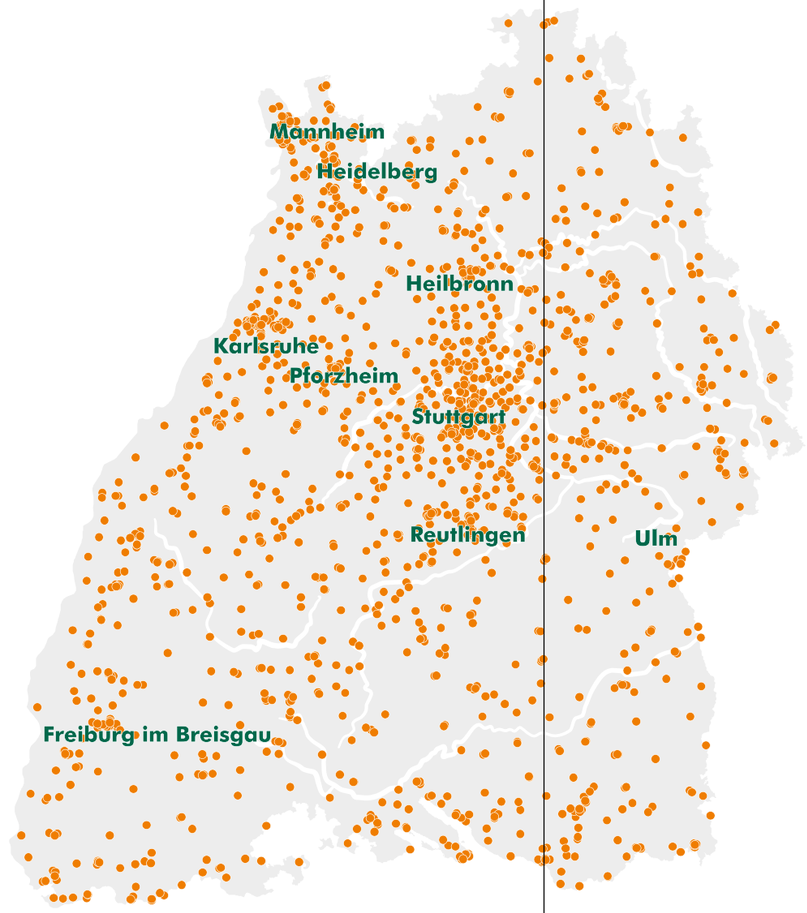
Source: Trasenix (ITC), referring to public sources, registered on August 2referring to public sources, registered on August 2016; *except solitary short-term nursing-day care and night care facilities; own calculation.

Care-Dependent Seniors

2013 / Share of Seniors among age group 65+ and 75+



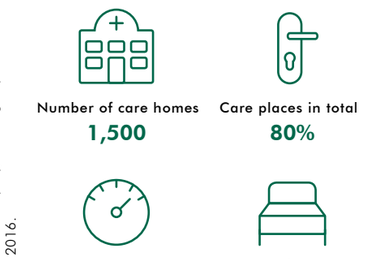
Source: Federal Health Monitoring, Federal Statistical Office.



Full inpatient Care Homes*

2016

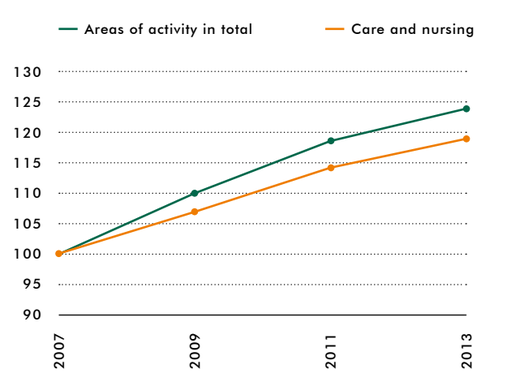
*except solitary short-term nursing- day care and night care facilities



Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Employees in Care Homes Index

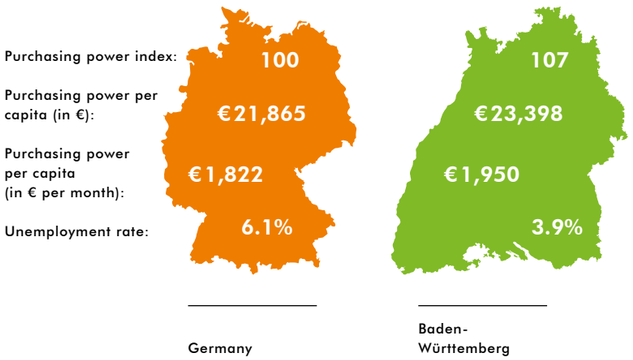
in 1,000



Source: Federal Health Monitoring.

Purchasing Power

2015

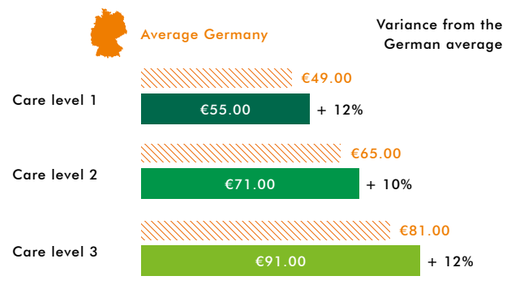


Source: Riwis, MB Research, Federal Employment Agency.

Remuneration for full inpatient care in care homes**

2016 / Average per capita per day in €

**General care in fully inpatient care homes (except care rates for special care)



Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Bavaria

Bavaria, the largest and second most populous federal state, is one of the pioneers in the consistent implementation of disabled accessibility in accordance with DIN 18040-2. One reason for this could be to change the historically low occupancy rates of care homes in Bavaria by more attractive layout design.

Bavaria has one of the strongest economy of all the federal states. Despite its low unemployment and good provision of care facilities, with its rural structures and traditionally dominantly Christian population it has the highest density of care in the family environment.

The care market in Bavaria is dominated by ecclesiastical and independent non-profit providers, although the largest private care home operators are based in the federal state.

Population

under 65 years | 65-74 | 75+

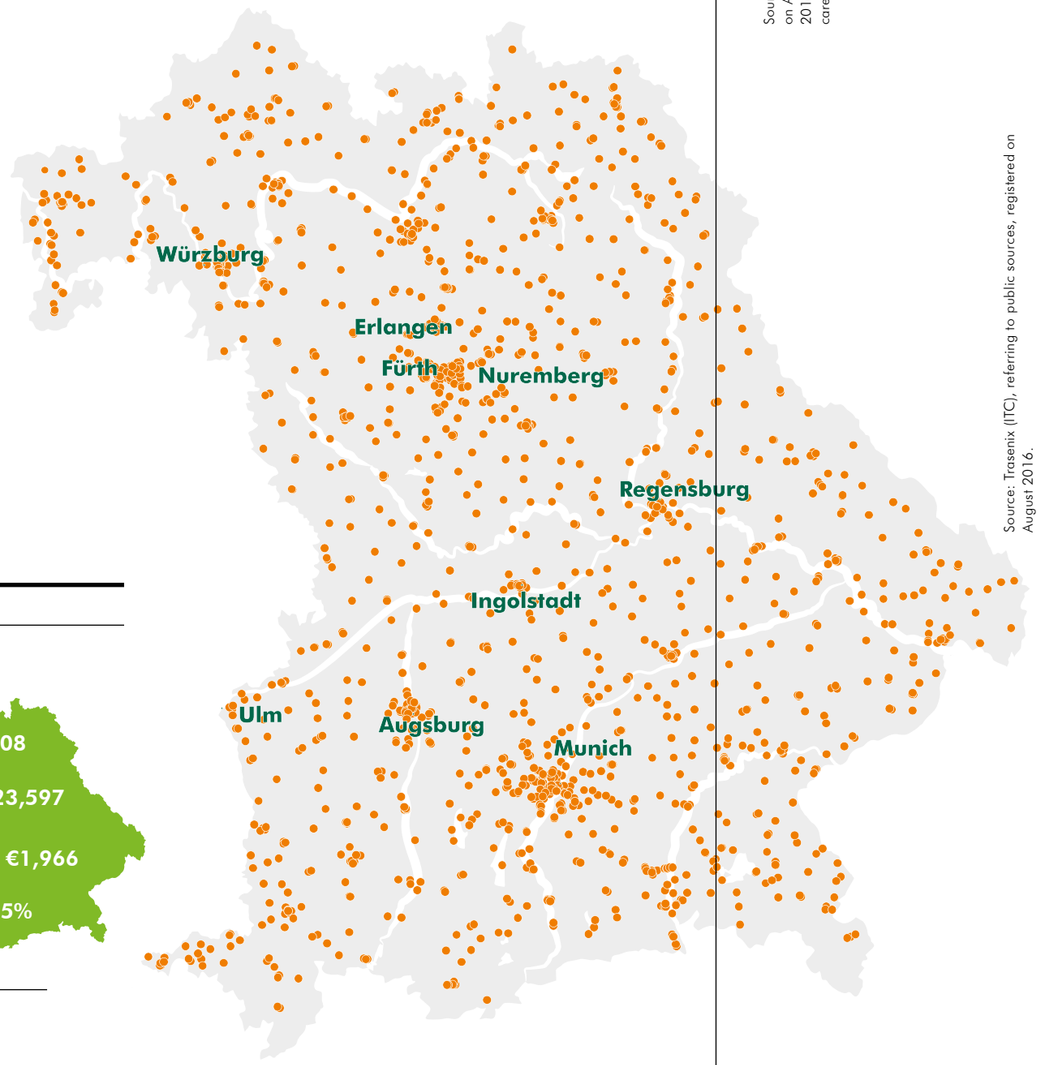
Population 2015 (absolute)

10,272,178 (80.0%) | 1,255,268 (9.8%) | 1,316,068 (10.2%)

Population 2030 (absolute)

9,316,548 (73.8%) | 1,732,232 (13.7%) | 1,579,484 (12.5%)

Source: Federal Statistical Office, Riwis.



Purchasing Power

2015

	Germany	Bavaria
Purchasing power index:	100	108
Purchasing power per capita (in €):	€21,865	€23,597
Purchasing power per capita (in € per month):	€1,822	€1,966
Unemployment rate:	6.1%	3.5%

Source: Riwis, MB Research, Federal Employment Agency.

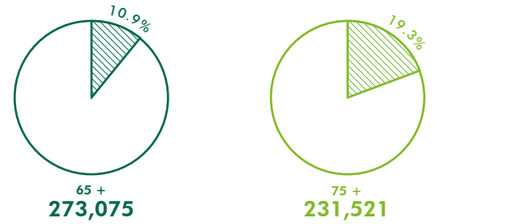
Available Places

2016

Source: Trasenix (ITC), referring to public sources, registered on August 2referring to public sources, registered on August 2016; *except solitary short-term nursing-day care and night care facilities; own calculation.

Care-Dependent Seniors

2013 / Share of Seniors among age group 65+ and 75+



Change compared to 2011: -0.3%

-3% +3%

Change of national average between 2011 and 2013: +2.1%

-3% +3%

Change compared to 2011: -1.4%

-3% +3%

Change of national average between 2011 and 2013: -0.5%

-3% +3%

Source: Federal Health Monitoring, Federal Statistical Office.

Full inpatient Care Homes*

2016

*except solitary short-term nursing- day care and night care facilities

Number of care homes: 1,550

Care places in total: 70%

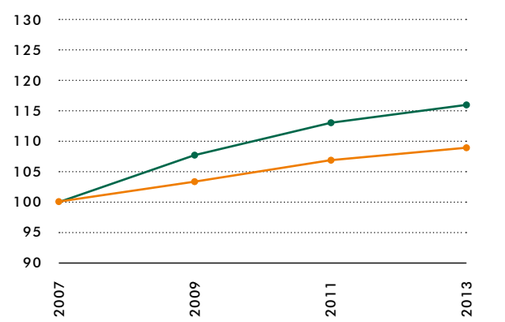
Capacity (in%): 91%

Proportion of single rooms: 130,000

Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Employees in Care Homes Index

in 1,000

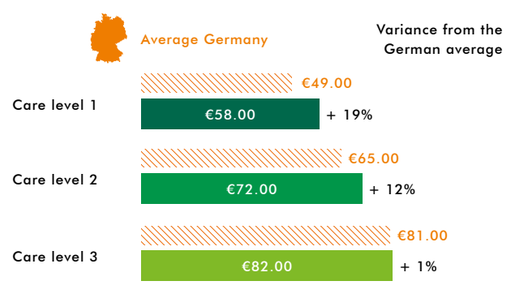


Source: Federal Health Monitoring.

Remuneration for full inpatient care in care homes**

2016 / Average per capita per day in €

**General care in fully inpatient care homes (except care rates for special care)



Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Berlin

The city state of Berlin, which has a population of around 3.5 million, is the most densely populated federal state and, after Munich, it has a leading position among the largest and most attractive cities.

As in other major cities, the proportion of over 65-year-olds in the total population is relatively low at 19.3%. The good medical infrastructure is characteristic, as is the rapid accessibility of care-related facilities and ambulant care services.

However, there is a relatively wide gap between the high costs of professional care and the available financial resources in Berlin. The amount of care provided by relatives is correspondingly high, notwithstanding the trends that are typical of city life, including the increasing proportion of single-person households.

Population

under 65 years | 65-74 | 75+

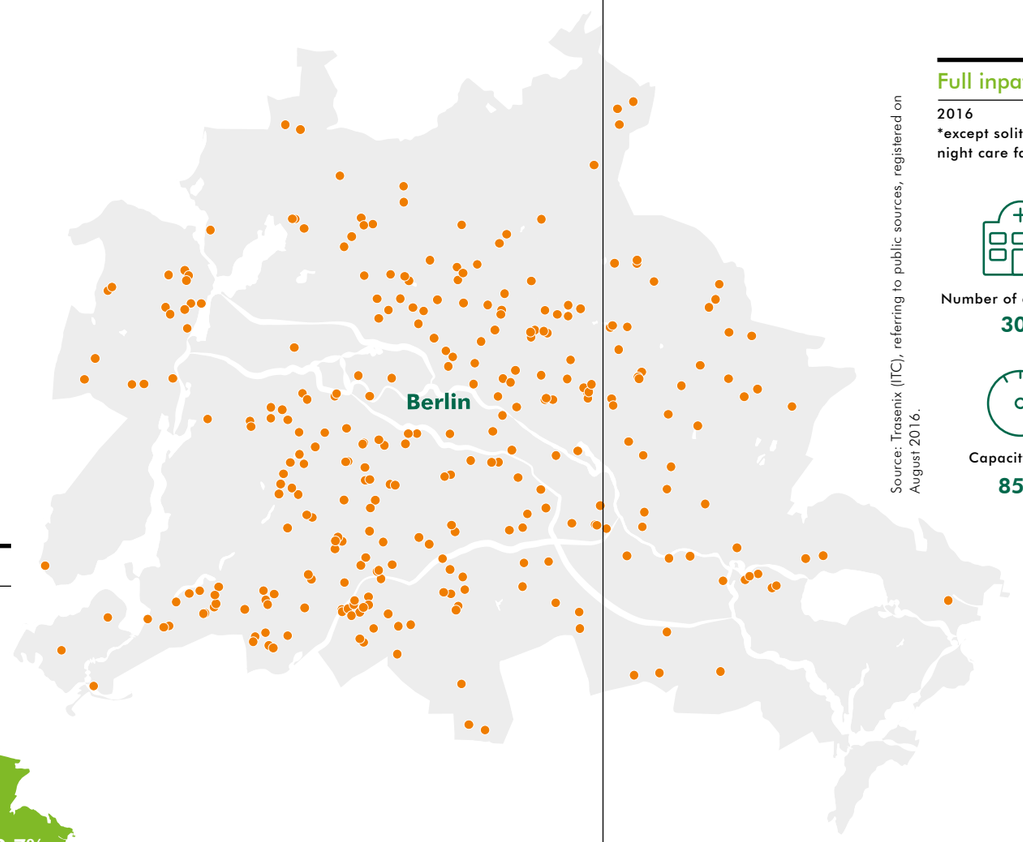
Population 2015 (absolute)

under 65 years	65-74	75+
2,841,896 (80.7%)	347,491 (9.9%)	330,644 (9.4%)

Population 2030 (absolute)

under 65 years	65-74	75+
2,632,418 (77.2%)	401,668 (11.8%)	377,600 (11.1%)

Source: Federal Statistical Office, Riwis.



Purchasing Power

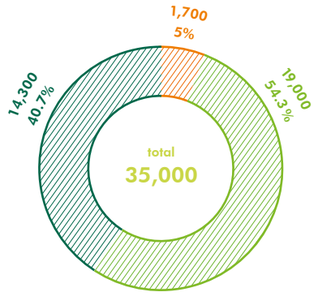
2015

	Germany	Berlin
Purchasing power index:	100	93
Purchasing power per capita (in €):	€21,865	€20,303
Purchasing power per capita (in € per month):	€1,822	€1,692
Unemployment rate:	6.1%	9.7%

Source: Riwis, MB Research, Federal Employment Agency.

Available Places

2016

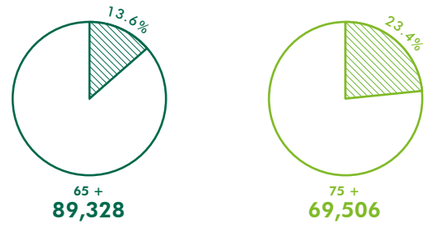


Public institutions
institutions
Non-profit institutions

Source: Trasenix (ITC), referring to public sources, registered on August 2referring to public sources, registered on August 2016; *except solitary short-term nursing-day care and night care facilities; own calculation.

Care-Dependent Seniors

2013 / Share of Seniors among age group 65+ and 75+



Change compared to 2011: +0.2%
-3% +3%

Change compared to 2011: -1.3%
-3% +3%

Change of national average between 2011 and 2013: +2.1%
-3% +3%

Change of national average between 2011 and 2013: -0.5%
-3% +3%

Source: Federal Health Monitoring, Federal Statistical Office.

Full inpatient Care Homes*

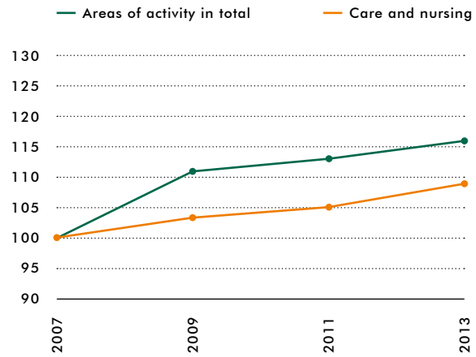
2016
*except solitary short-term nursing- day care and night care facilities

Number of care homes	Care places in total
300	75%
Capacity (in%)	**Proportion of single rooms**
85%	35,000

Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Employees in Care Homes Index

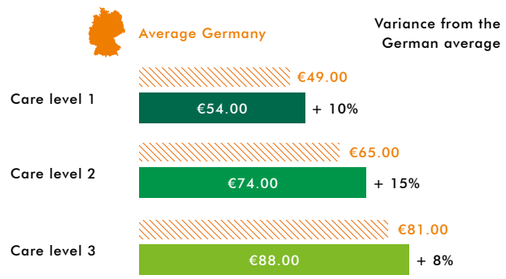
in 1,000



Source: Federal Health Monitoring.

Remuneration for full inpatient care in care homes**

2016 / Average per capita per day in €
**General care in fully inpatient care homes (except care rates for special care)



Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Brandenburg

In 2015, Brandenburg had around 2.5 million residents, 23.3% of whom were older than 65 years. More than half this age cohort were older than 75.

Brandenburg is among the federal states where the demographic change will have the strongest effects. When the last of the baby boomers retire in the coming 15 years, an increase in the proportion of over 65-year-olds, to 37.5%, can be expected.

The care market in Brandenburg benefits from the dynamic growth in Berlin, which is increasing young families' interest in moving to the surrounding areas. The accompanying influx by their parent generation is creating demand for modern, up-to-date facilities and is therefore prompting many new developments in the areas directly adjoining the Berlin periphery. The low costs of care go together with relatively high financial resources for professional care. By comparison with other federal states, this enables longer inpatient provision in Brandenburg. The federal state is also a front-runner in single room provision, with a ratio of 80%. However, the number of patients looked after by each member of the care staff is, by a wide margin, the highest in Brandenburg.

Population

under 65 years | 65-74 | 75+

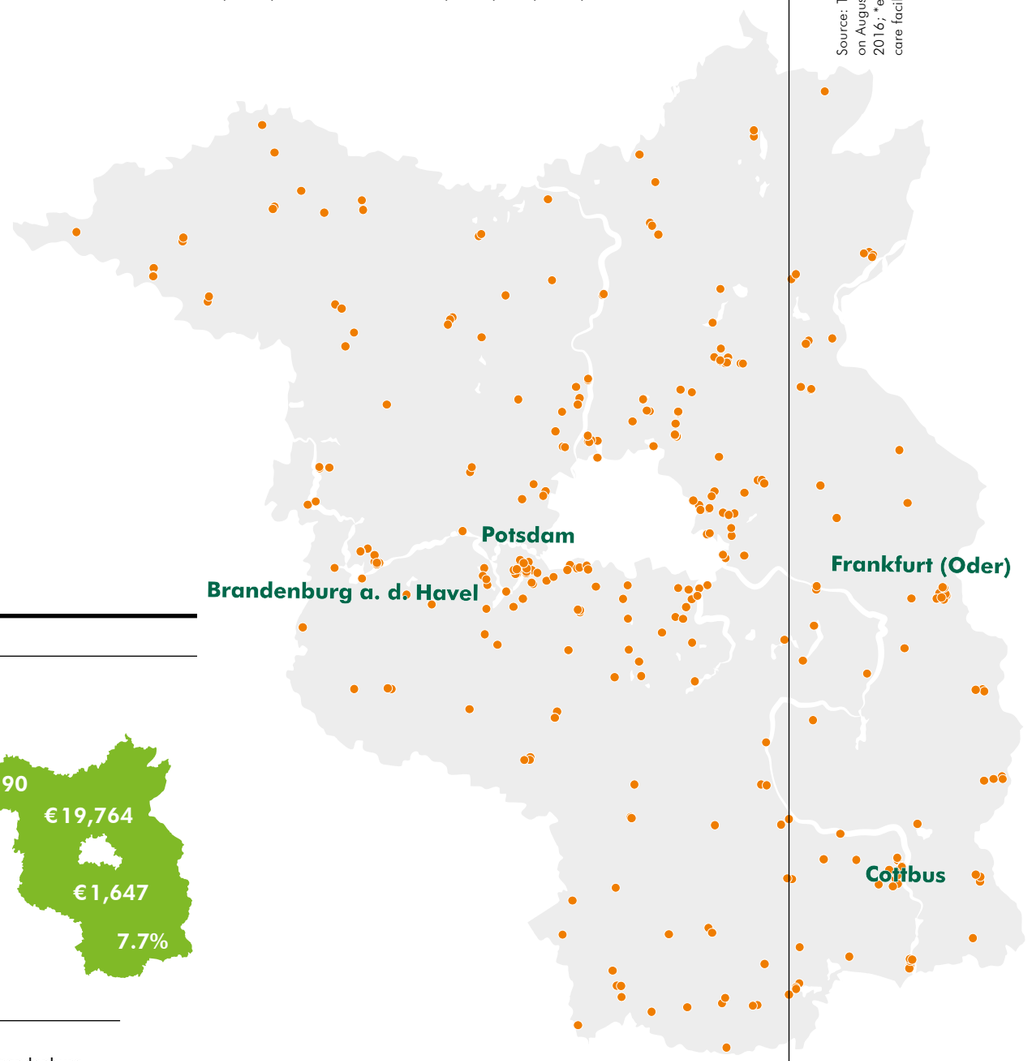
Population 2015 (absolute)

1,906,975 (76.7%) | 271,223 (10.9%) | 306,628 (12.3%)

Population 2030 (absolute)

1,407,363 (62.5%) | 429,960 (19.1%) | 413,561 (18.4%)

Source: Federal Statistical Office, Riwis.



Purchasing Power

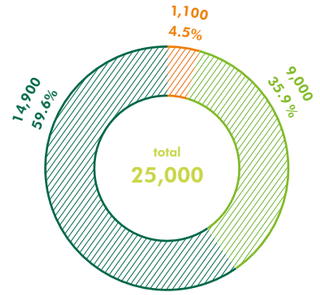
2015

	Germany	Brandenburg
Purchasing power index:	100	90
Purchasing power per capita (in €):	€21,865	€19,764
Purchasing power per capita (in € per month):	€1,822	€1,647
Unemployment rate:	6.1%	7.7%

Source: Riwis, MB Research, Federal Employment Agency.

Available Places

2016

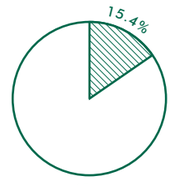


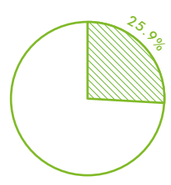
Public institutions
institutions
Non-profit institutions

Source: Trasenix (ITC), referring to public sources, registered on August 2referring to public sources, registered on August 2016; *except solitary short-term nursing-day care and night care facilities; own calculation.

Care-Dependent Seniors

2013 / Share of Seniors among age group 65+ and 75+





Change compared to 2011: +0.8%

Change compared to 2011: -0.7%

Change of national average between 2011 and 2013: +2.1%

Change of national average between 2011 and 2013: -0.5%

Source: Federal Health Monitoring, Federal Statistical Office.

Full inpatient Care Homes*

2016

*except solitary short-term nursing- day care and night care facilities

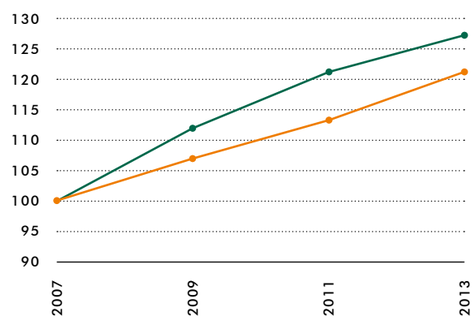
Number of care homes	Care places in total
350	80%

Capacity (in%)	Proportion of single rooms
94%	25,000

Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Employees in Care Homes Index

in 1,000

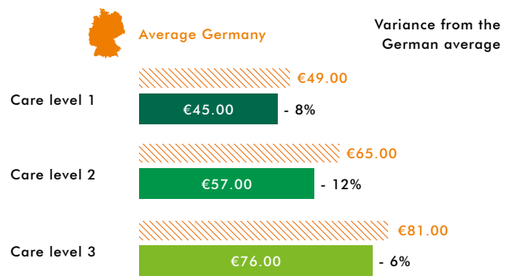


Source: Federal Health Monitoring.

Remuneration for full inpatient care in care homes**

2016 / Average per capita per day in €

**General care in fully inpatient care homes (except care rates for special care)



Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Bremen

The Hanseatic city of Bremen, which has a population of around 600,000, is the least populous federal state. As well as the easy accessibility of care facilities that is characteristic of cities, Bremen has a single room ratio of 80%, among the highest of the 16 federal states. Nevertheless, the city of Bremen is one of the front-runners in terms of average investment rates.

Bremen is the only federal state in which no care beds are provided by the public sector. 55% of the care beds are provided by independent non-profit operators, although the market concentration can be assessed as low because of the large number of different operating companies.

Population

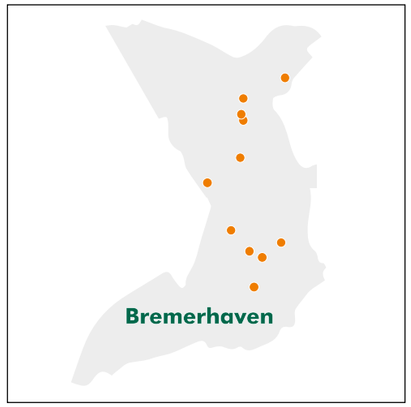
Population 2015 (absolute)

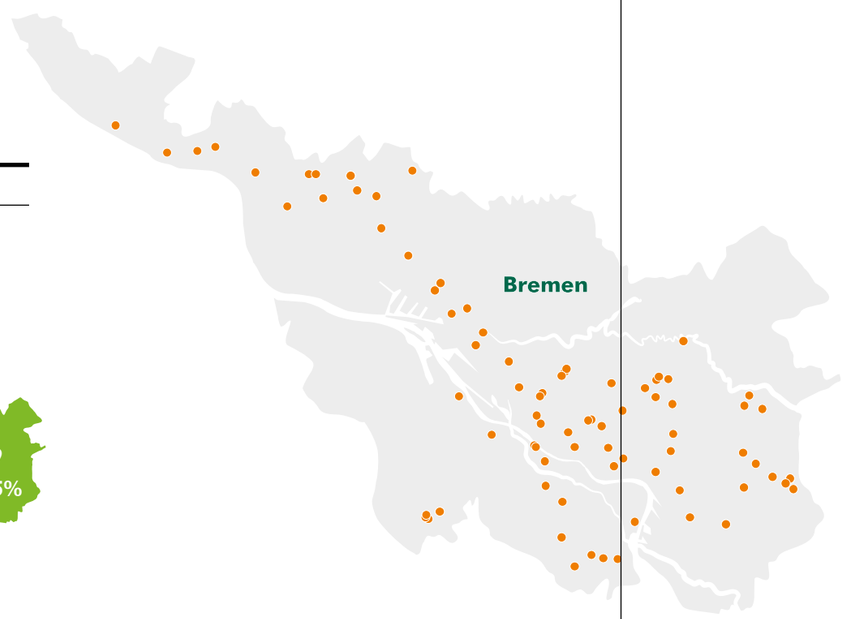
under 65 years	65-74	75+
529,000 (78.8%)	69,038 (10.3%)	73,451 (10.9%)

Population 2030 (absolute)

under 65 years	65-74	75+
470,093 (73.5%)	84,861 (13.3%)	84,469 (13.2%)

Source: Federal Statistical Office, Riwis.





Purchasing Power

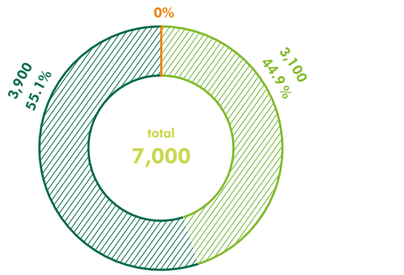
2015

	Germany	Bremen
Purchasing power index:	100	94
Purchasing power per capita (in €):	€21,865	€20,51
Purchasing power per capita (in € per month):	€1,822	€1,709
Unemployment rate:	6.1%	10.5%

Source: Riwis, MB Research, Federal Employment Agency.

Available Places

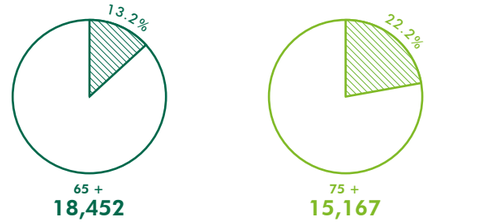
2016



Source: Trasenix (ITC), referring to public sources, registered on August 2referring to public sources, registered on August 2016; *except solitary short-term nursing-day care and night care facilities; own calculation.

Care-Dependent Seniors

2013 / Share of Seniors among age group 65+ and 75+



Source: Federal Health Monitoring, Federal Statistical Office.

Full inpatient Care Homes*

2016

*except solitary short-term nursing- day care and night care facilities

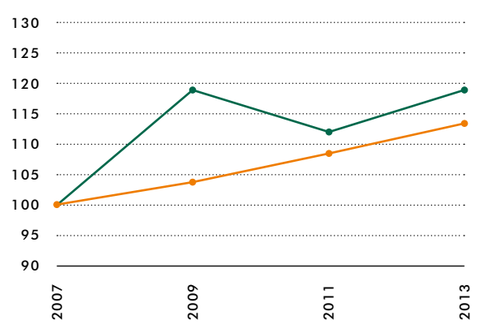
Number of care homes	Care places in total
100	80%

Capacity (in%)	Proportion of single rooms
92%	7,000

Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Employees in Care Homes Index

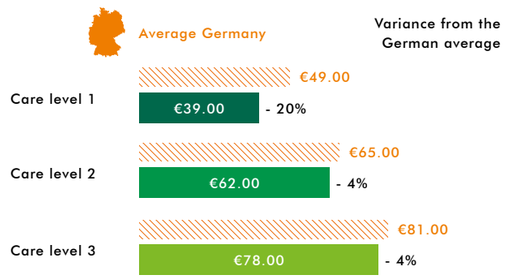
in 1,000



Source: Federal Health Monitoring.

Remuneration for full inpatient care in care homes**

2016 / Average per capita per day in €
**General care in fully inpatient care homes (except care rates for special care)



Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Hamburg

At the end of 2015, the Free and Hanseatic city of Hamburg had a population of around 1.8 million. The proportion of over 65-year-olds, just over 19%, is over two percentage points lower than the federal average. Hamburg, because of its attractiveness and economic power, is benefiting from internal migration, so that the proportion in this age group will increase only slightly, to just over 23%, by 2030.

Currently, because of the large number of stand-alone care companies, the care market in Hamburg features a low market concentration and a high proportion of care homes run by private operators. The city has a very small number – less than 100 – of care beds operated by the public sector.

Like all densely populated cities, Hamburg benefits from easy accessibility to care facilities.

Population

under 65 years | 65-74 | 75+

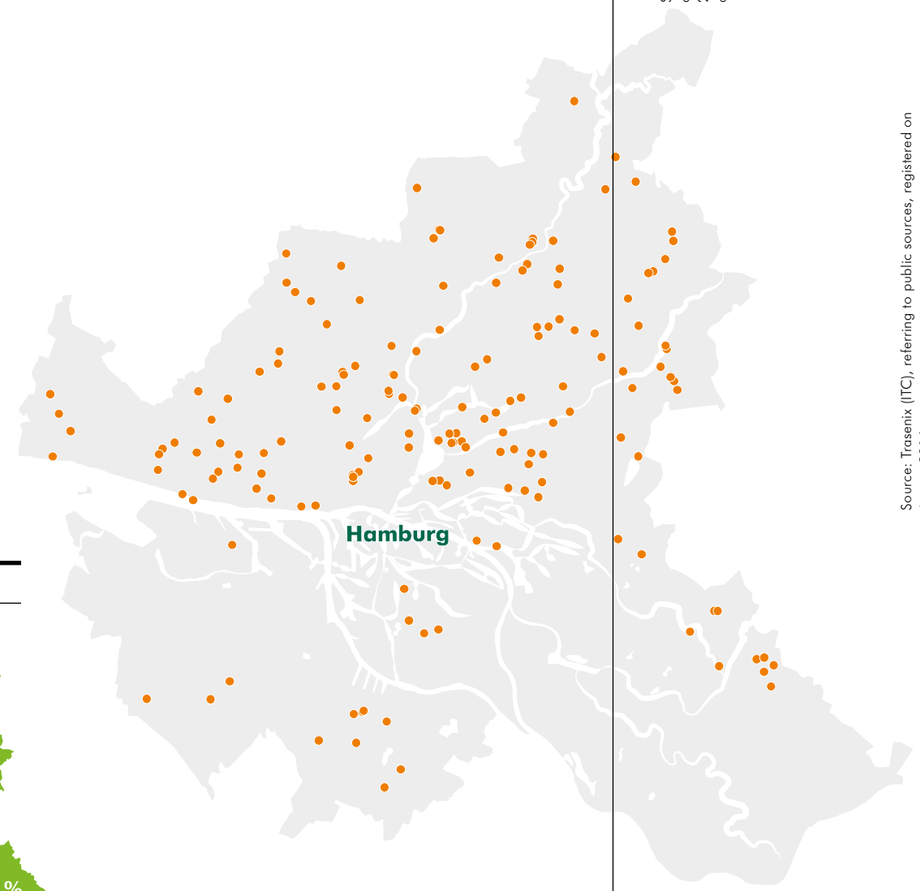
Population 2015 (absolute)

1,452,999	163,140	171,269
(81.3%)	(9.1%)	(9.6%)

Population 2030 (absolute)

1,442,163	223,559	196,916
(77.4%)	(12.0%)	(10.6%)

Source: Federal Statistical Office, Riwis.



Purchasing Power

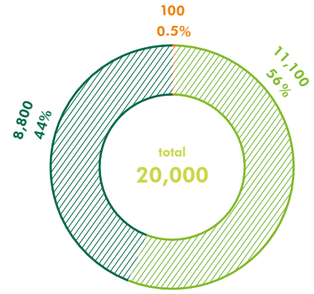
2015

	Germany	Hamburg
Purchasing power index:	100	111
Purchasing power per capita (in €):	€21,865	€24,331
Purchasing power per capita (in € per month):	€1,822	€2,028
Unemployment rate:	6.1%	7.1%

Source: Riwis, MB Research, Federal Employment Agency.

Available Places

2016

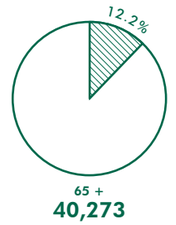


Public institutions
institutions
Non-profit institutions

Source: Trasenix (ITC), referring to public sources, registered on August 2referring to public sources, registered on August 2016; *except solitary short-term nursing-day care and night care facilities; own calculation.

Care-Dependent Seniors

2013 / Share of Seniors among age group 65+ and 75+

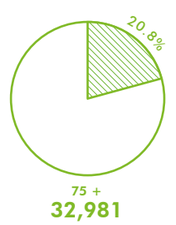


Change compared to 2011: +0.4%

-3% +3%

Change of national average between 2011 and 2013: +2.1%

-3% +3%



Change compared to 2011: -0.3%

-3% +3%

Change of national average between 2011 and 2013: -0.5%

-3% +3%

Source: Federal Health Monitoring, Federal Statistical Office.

Full inpatient Care Homes*

2016

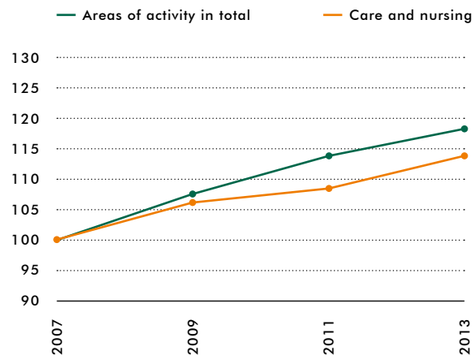
*except solitary short-term nursing- day care and night care facilities

Number of care homes	Care places in total
150	80%
Capacity (in%)	**Proportion of single rooms**
90%	20,000

Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Employees in Care Homes Index

in 1,000

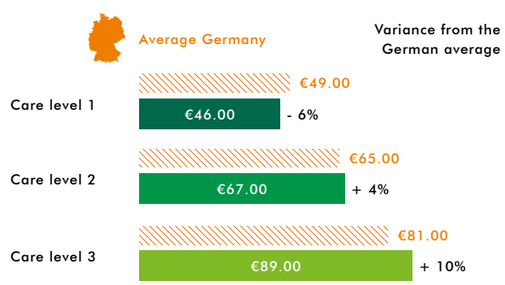


Source: Federal Health Monitoring.

Remuneration for full inpatient care in care homes**

2016 / Average per capita per day in €

**General care in fully inpatient care homes (except care rates for special care)



Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Hesse

The federal state of Hesse includes the Rhine-Main region, which has one of the strongest economies in Germany. While southern Hesse boasts good economic figures and a dynamic population trend, by regional comparison the care market in the rather sparsely populated central and northern Hesse is much better provided with professional care services.

Compared to the whole of Germany, the care statistics in Hesse traditionally indicate a somewhat higher proportion of beneficiaries of care allowances. Because of the high cost of living, the Rhine-Main region is particularly badly affected by a shortage of care staff. The occupancy rates of the care homes vary considerably. Frankfurt in particular has a history of low occupancy in a few of its homes.

As regards the structural requirements for care homes, the federal Heimmindestbauverordnung [regulations on minimum standards for care homes] still applies in Hesse, although this is to be replaced by state regulations in the future.

Population

under 65 years | 65-74 | 75+

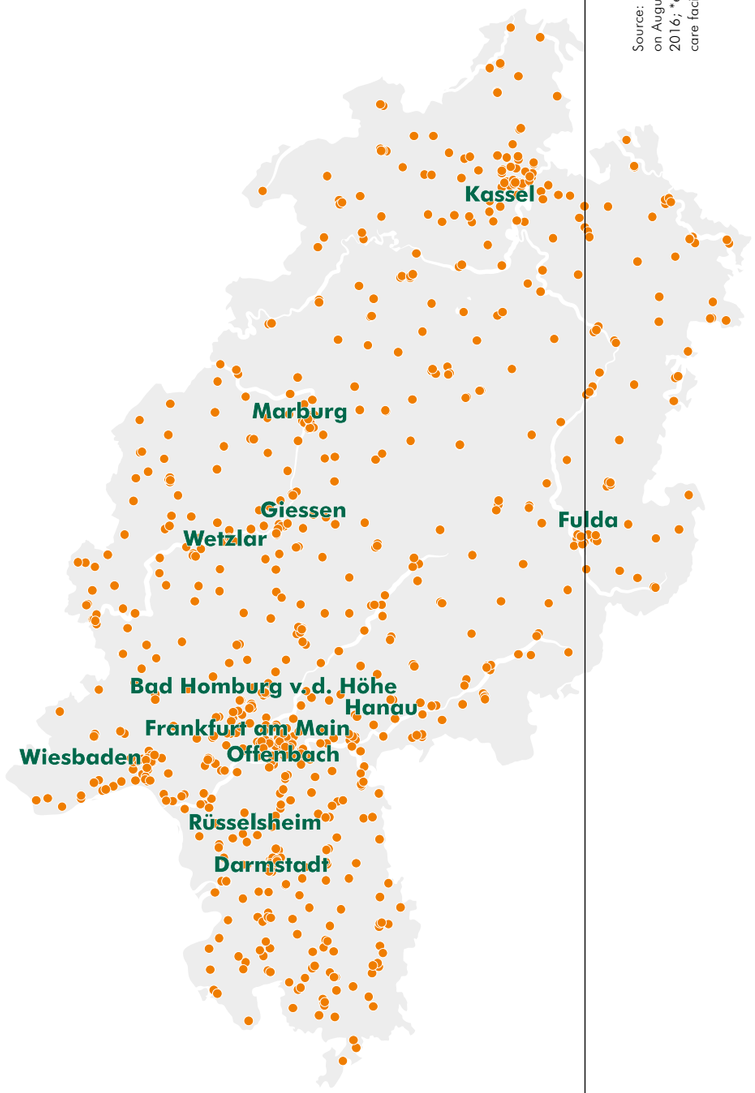
Population 2015 (absolute)

4,921,762 (79.7%) | 613,549 (9.9%) | 640,861 (10.4%)

Population 2030 (absolute)

4,275,965 (73.0%) | 817,011 (13.9%) | 767,879 (13.1%)

Source: Federal Statistical Office, Riwis.



Purchasing Power

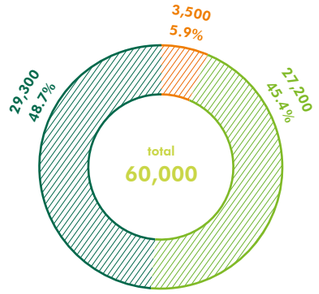
2015

	Germany	Hesse
Purchasing power index:	100	106
Purchasing power per capita (in €):	€21,865	€23,151
Purchasing power per capita (in € per month):	€1,822	€1,929
Unemployment rate:	6.1%	5.3%

Source: Riwis, MB Research, Federal Employment Agency.

Available Places

2016



Public institutions
institutions
Non-profit institutions

Source: Trasenix (ITC), referring to public sources, registered on August 2referring to public sources, registered on August 2016; *except solitary short-term nursing-day care and night care facilities; own calculation.

Care-Dependent Seniors

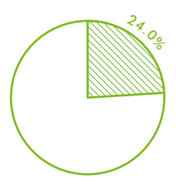
2013 / Share of Seniors among age group 65+ and 75+

Change compared to 2011: 0.0%

-3% +3%

Change of national average between 2011 and 2013: +2.1%

-3% +3%



Change compared to 2011: -0.9%

-3% +3%

Change of national average between 2011 and 2013: -0.5%

-3% +3%

Source: Federal Health Monitoring, Federal Statistical Office.

Full inpatient Care Homes*

2016

*except solitary short-term nursing- day care and night care facilities

Number of care homes: 800

Care places in total: 75%

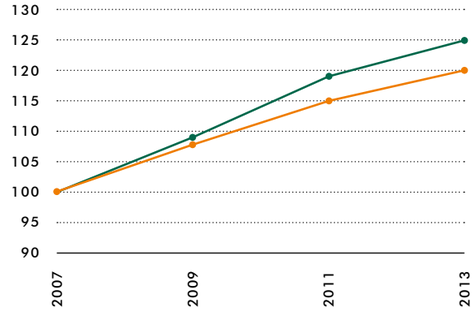
Capacity (in%): 88%

Proportion of single rooms: 60,000

Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Employees in Care Homes Index

in 1,000

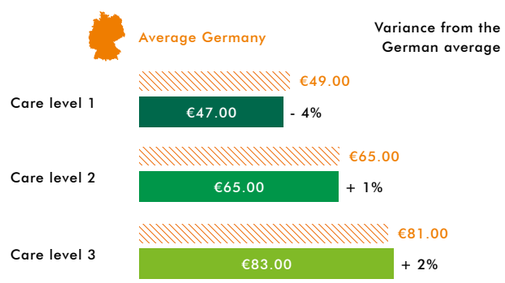


Source: Federal Health Monitoring.

Remuneration for full inpatient care in care homes**

2016 / Average per capita per day in €

**General care in fully inpatient care homes (except care rates for special care)



Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Mecklenburg-Western Pomerania

The federal state of Mecklenburg-Western Pomerania has a population of 1.6 million, making it the most sparsely populated territorial state after the Saarland. Over 65-year-olds accounted for 23% of the total population in 2015, with more than half of them older than 75.

The care market in the federal state features a high occupancy rate of full-time inpatient care homes and, by federal standards, a low level of wages of the care staff. Together with the increasing proportion of over 65-year-olds, this results in a discrepancy between persons in need of care and care staff.

Population

under 65 years | 65-74 | 75+

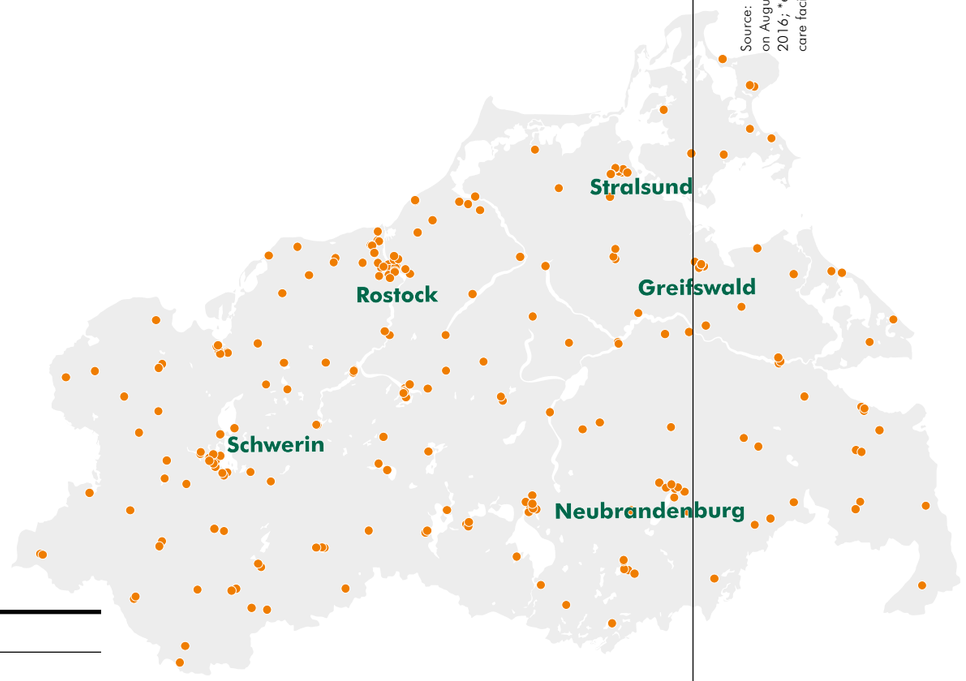
Population 2015 (absolute)

1,241,264 (77.0%) | 172,129 (10.7%) | 198,969 (12.3%)

Population 2030 (absolute)

942,262 (64.3%) | 273,542 (18.7%) | 250,429 (17.1%)

Source: Federal Statistical Office, Riwis.



Purchasing Power

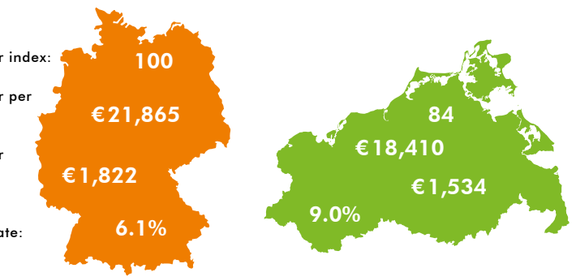
2015

Purchasing power index:

Purchasing power per capita (in €):

Purchasing power per capita (in € per month):

Unemployment rate:



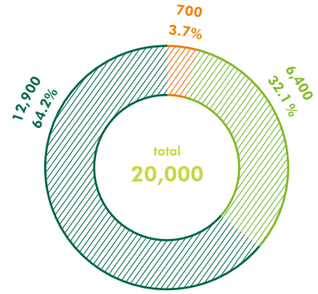
Germany

Mecklenburg-Western Pomerania

Source: Riwis, MB Research, Federal Employment Agency.

Available Places

2016

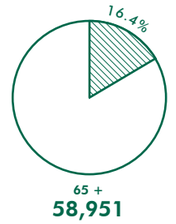


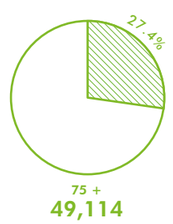
Public institutions
institutions
Non-profit institutions

Source: Trasenix (ITC), referring to public sources, registered on August 2referring to public sources, registered on August 2016; *except solitary short-term nursing-day care and night care facilities; own calculation.

Care-Dependent Seniors

2013 / Share of Seniors among age group 65+ and 75+





Change compared to 2011: +1.0%

Change compared to 2011: -0.1%

Change of national average between 2011 and 2013: +2.1%

Change of national average between 2011 and 2013: -0.5%

Source: Federal Health Monitoring, Federal Statistical Office.

Full inpatient Care Homes*

2016

*except solitary short-term nursing- day care and night care facilities

Number of care homes
250

Care places in total
65%

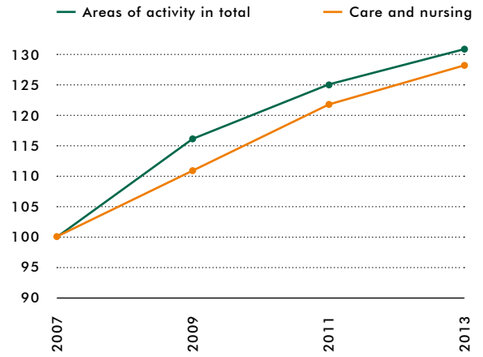
Capacity (in %)
97%

Proportion of single rooms
20,000

Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Employees in Care Homes Index

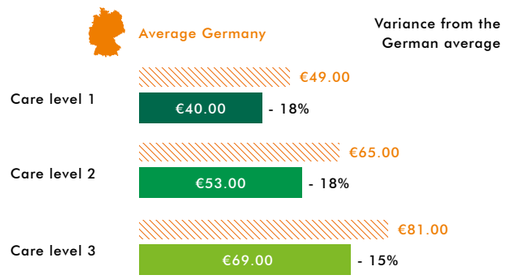
in 1,000



Source: Federal Health Monitoring.

Remuneration for full inpatient care in care homes**

2016 / Average per capita per day in €
**General care in fully inpatient care homes (except care rates for special care)



Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Lower Saxony

Germany's second largest federal state in terms of area has a population of 7.9 million, 21% of whom are over 65 years old. This will increase to an anticipated 29% by 2030, when the proportion in this age group will be marginally above the federal average (just over 28%).

A striking feature of Lower Saxony is the high proportion of care beds with private providers, at 57% the second highest in Germany. At the same time, the proportion of care beds provided by the public sector, around 2%, is one of the lowest.

Lower Saxony has the fourth-highest hospitalisation rate, over 34%, of persons over 65 years old who are in need of care.

Population

under 65 years | 65-74 | 75+

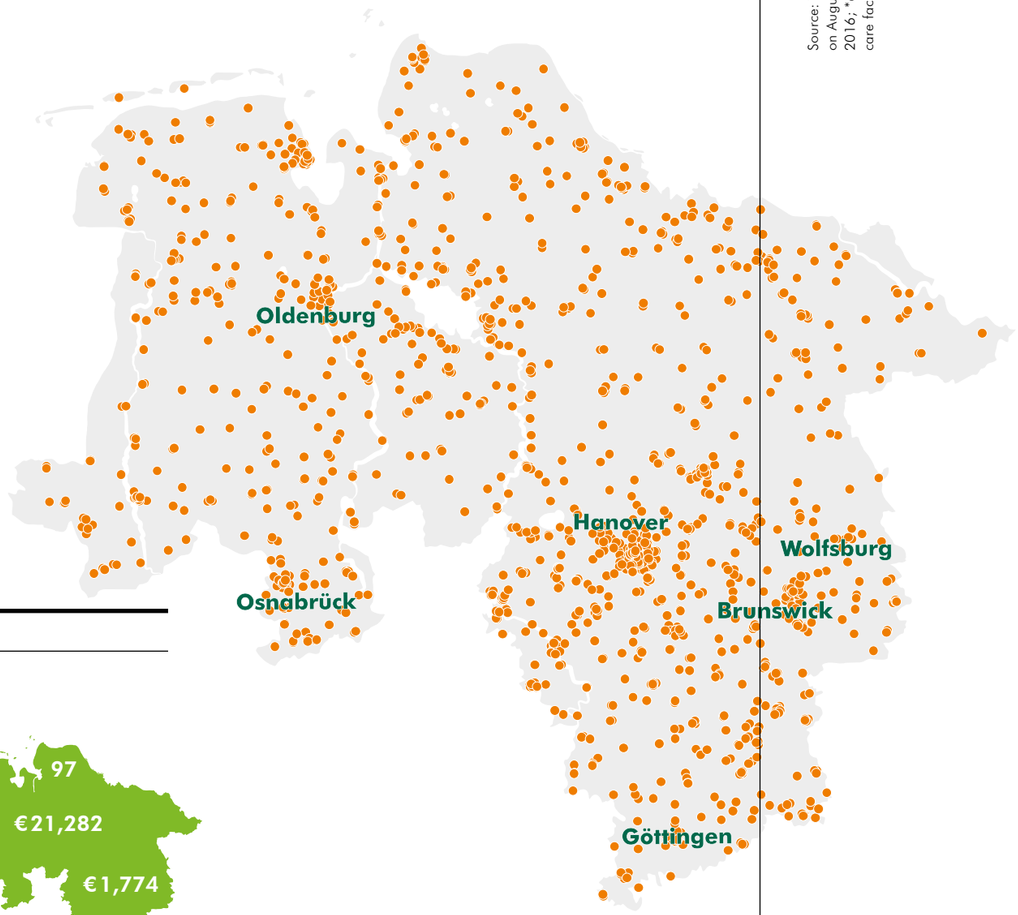
Population 2015 (absolute)

6,228,237 (78.6%) | 818,648 (10.3%) | 879,714 (11.1%)

Population 2030 (absolute)

5,302,549 (71.0%) | 1,129,639 (15.1%) | 1,038,072 (13.9%)

Source: Federal Statistical Office, Riwis.



Purchasing Power

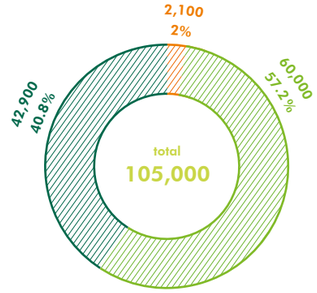
2015

	Germany	Lower Saxony
Purchasing power index:	100	97
Purchasing power per capita (in €):	€21,865	€21,282
Purchasing power per capita (in € per month):	€1,822	€1,774
Unemployment rate:	6.1%	6.0%

Source: Riwis, MB Research, Federal Employment Agency.

Available Places

2016

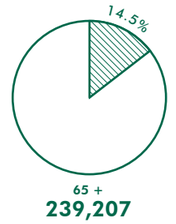


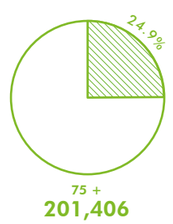
Public institutions
institutions
Non-profit institutions

Source: Trasenix (ITC), referring to public sources, registered on August 2referring to public sources, registered on August 2016; *except solitary short-term nursing-day care and night care facilities; own calculation.

Care-Dependent Seniors

2013 / Share of Seniors among age group 65+ and 75+





Change compared to 2011: +0.6%

Change compared to 2011: -0.1%

Change of national average between 2011 and 2013: +2.1%

Change of national average between 2011 and 2013: -0.5%

Source: Federal Health Monitoring, Federal Statistical Office.

Full inpatient Care Homes*

2016

*except solitary short-term nursing- day care and night care facilities

Number of care homes
1,450

Care places in total
75%

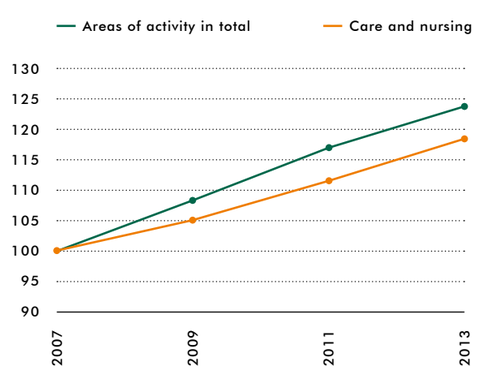
Capacity (in %)
89%

Proportion of single rooms
105,000

Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Employees in Care Homes Index

in 1,000

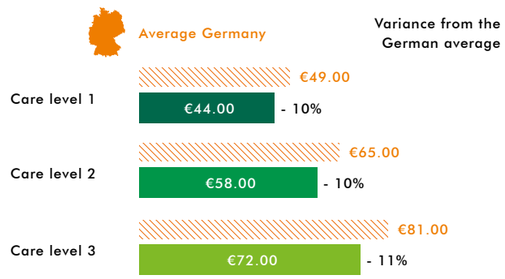


Source: Federal Health Monitoring.

Remuneration for full inpatient care in care homes**

2016 / Average per capita per day in €

**General care in fully inpatient care homes (except care rates for special care)



Source: Trasenix (ITC), referring to public sources, registered on August 2016.

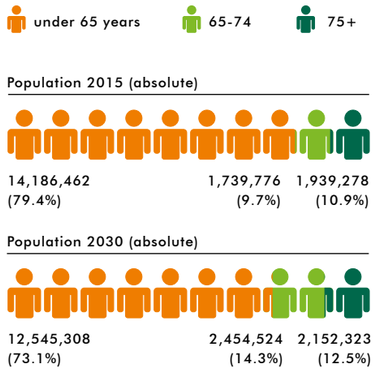
North Rhine-Westphalia

At the end of 2015, the Germany's most populous federal state had over 17.8 million residents, of whom 20.6% were over 65 years old. 53% of this age group were older than 75. By 2030, the proportion of over 65-year-olds will considerably increase, reaching around 27%.

Compared with the other federal states, North Rhine-Westphalia has the highest investment costs for full-time inpatient care facilities. North Rhine-Westphalia recently ranked among the top 5 for the trend of investment costs. The costs of care and of board and lodging (so-called "hotel services") are the highest in North Rhine-Westphalia.

The "*Gesetz zur Entwicklung und Stärkung einer demographiefesten, teilhabeorientierten Infrastruktur und zur Weiterentwicklung und Sicherung der Qualität von Wohn- und Betreuungsangeboten fur ältere Menschen, Menschen mit Behinderungen und ihre Angehörigen* (GEPA NRW)" [law for the development and strengthening of a demographically robust, participant-oriented infrastructure and for the further development and security of the quality of residential and care facilities for elderly people, disabled people and their dependants], in creating a bureaucratic monstrosity, has also paved the way for even stronger regulation and less competition.

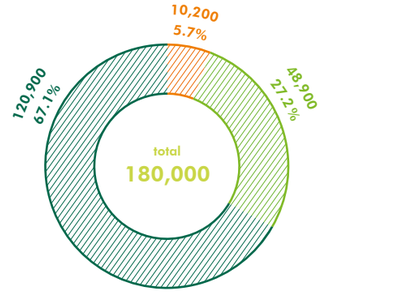
Population



Source: Federal Statistical Office, Riwis.

Available Places

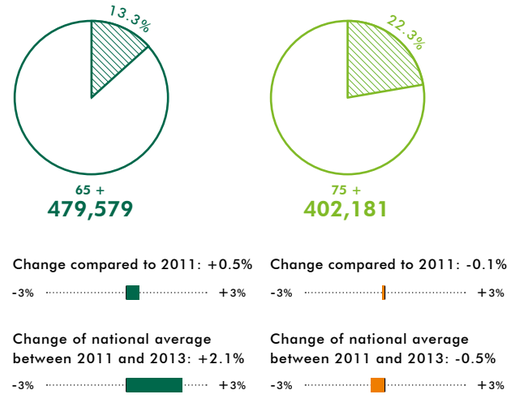
2016



Source: Trasenix (ITC), referring to public sources, registered on August 2referring to public sources, registered on August 2016; *except solitary short-term nursing-day care and night care facilities; own calculation.

Care-Dependent Seniors

2013 / Share of Seniors among age group 65+ and 75+

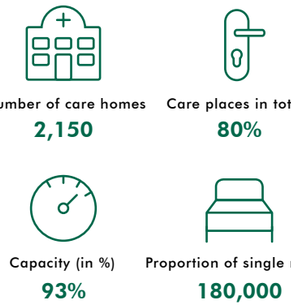


Source: Federal Health Monitoring, Federal Statistical Office.

Full inpatient Care Homes*

2016

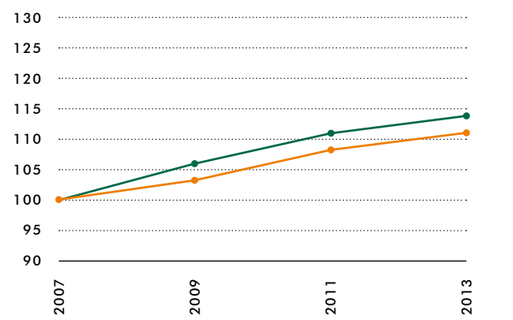
*except solitary short-term nursing- day care and night care facilities



Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Employees in Care Homes Index

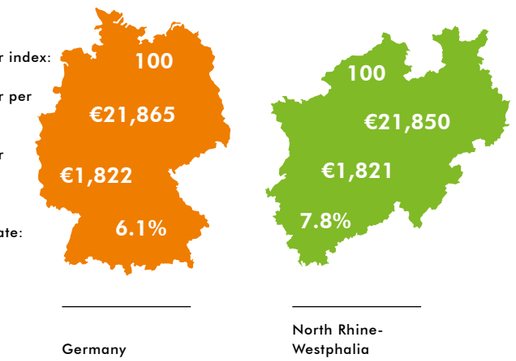
in 1,000



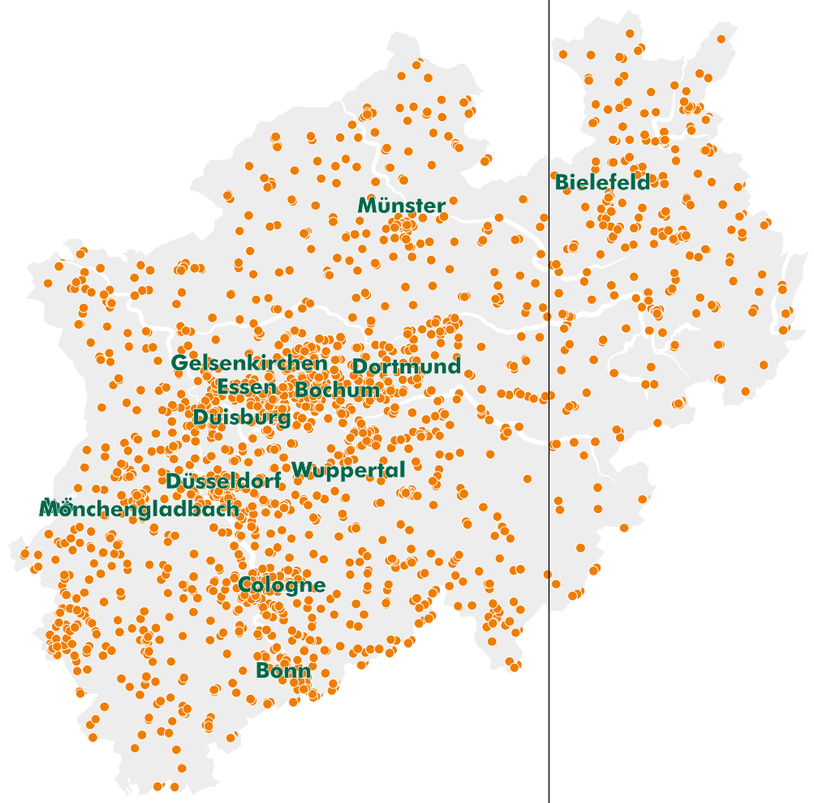
Source: Federal Health Monitoring.

Purchasing Power

2015

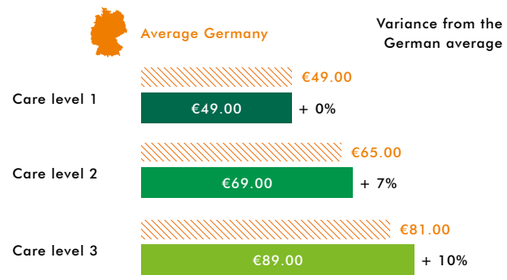


Source: Riwis, MB Research, Federal Employment Agency.



Remuneration for full inpatient care in care homes**

2016 / Average per capita per day in €
**General care in fully inpatient care homes (except care rates for special care)



Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Rhineland-Palatinate

Rhineland-Palatinate has a population of over 4 million; 21% of its residents are over 65 years old.

By 2030, the anticipated increase in the number of persons needing care in Rhineland-Palatinate will be relatively small by federal comparison, with the exception of a few smaller districts and administratively-autonomous towns.

Together with the Saarland, in view of the economic situation, the homes in Rhineland-Palatinate are performing at above average levels. This may be partly due to the quite generous allocation of funding. On the operational side, the market is dominated by the over 60% of independent non-profit providers.

Population

under 65 years | 65-74 | 75+

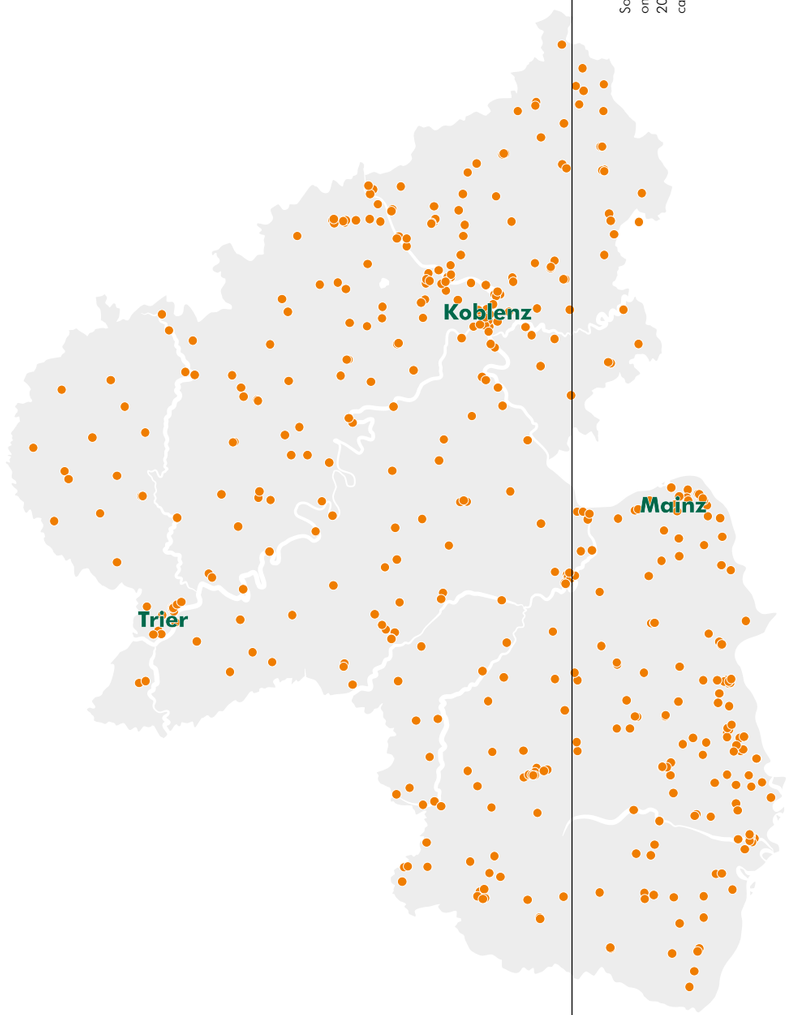
Population 2015 (absolute)

3,201,592 (79.0%) | 402,347 (9.9%) | 448,864 (11.1%)

Population 2030 (absolute)

2,706,465 (71.7%) | 544,687 (14.4%) | 524,080 (13.9%)

Source: Federal Statistical Office, Riwis.



Purchasing Power

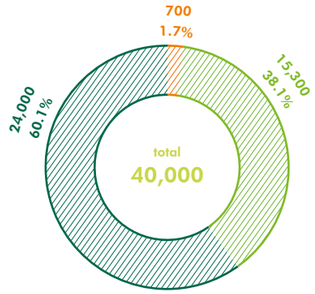
2015

	Germany	Rhineland-Palatinate
Purchasing power index:	100	99
Purchasing power per capita (in €):	€21,865	€21,603
Purchasing power per capita (in € per month):	€1,822	€1,800
Unemployment rate:	6.1%	5.2%

Source: Riwis, MB Research, Federal Employment Agency.

Available Places

2016

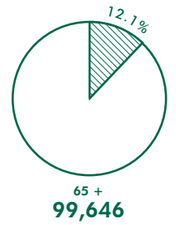


Public institutions
institutions
Non-profit institutions

Source: Trasenix (ITC), referring to public sources, registered on August 2referring to public sources, registered on August 2016; *except solitary short-term nursing-day care and night care facilities; own calculation.

Care-Dependent Seniors

2013 / Share of Seniors among age group 65+ and 75+

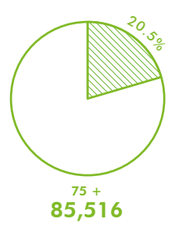


Change compared to 2011: +0.3%

-3% +3%

Change of national average between 2011 and 2013: +2.1%

-3% +3%



Change compared to 2011: -0.3%

-3% +3%

Change of national average between 2011 and 2013: -0.5%

-3% +3%

Source: Federal Health Monitoring, Federal Statistical Office.

Full inpatient Care Homes*

2016

*except solitary short-term nursing- day care and night care facilities

Number of care homes: 450

Care places in total: 70%

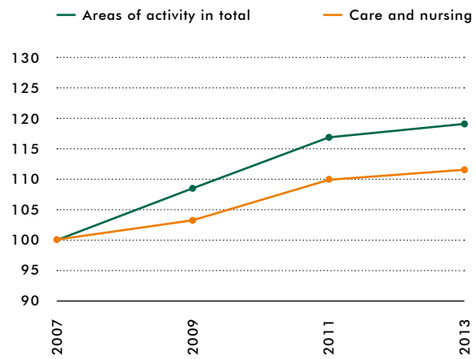
Capacity (in %): 90%

Proportion of single rooms: 40,000

Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Employees in Care Homes Index

in 1,000



Source: Federal Health Monitoring.

Remuneration for full inpatient care in care homes**

2016 / Average per capita per day in €

**General care in fully inpatient care homes (except care rates for special care)

	Average Germany	Variance from the German average
Care level 1	€49.00	€51.00 + 4%
Care level 2	€65,00	€66.00 + 2%
Care level 3	€81.00	€90.00 + 11%

Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Saarland

Apart from the city states, the Saarland is Germany's smallest federal state. At the end of 2015, almost 23% of its population of around 995,600 were at least 65 years old.

Independent non-profit providers, accounting for almost 70%, dominate the operational market in the Saarland. The care homes feature an extremely large proportion of residents on *Pflegestufe* [care level] I.

In the Saarland, over 35% of the available beds in permanent inpatient homes are provided in double rooms. This stands out as the highest proportion in Germany.

Together with the Rhineland-Palatinate, in view of the economic situation, the homes in the Saarland are performing at above average levels.

Population

under 65 years | 65-74 | 75+

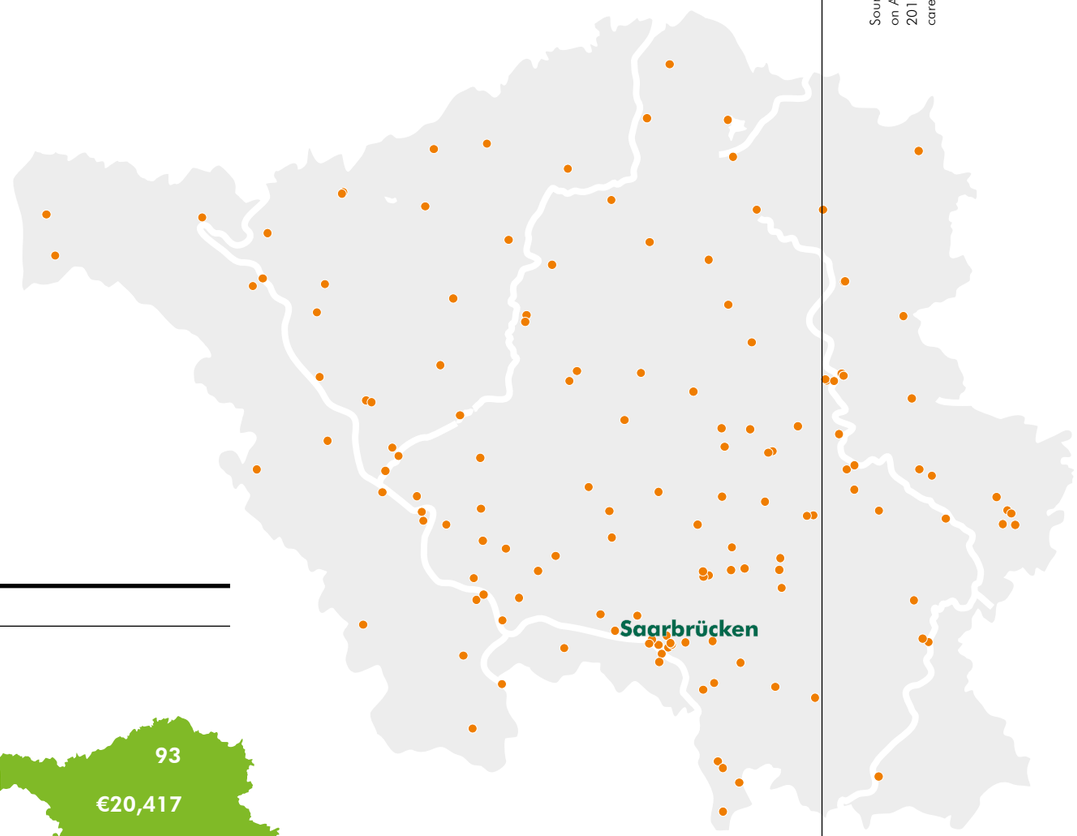
Population 2015 (absolute)

767,967 (77.1%) | 106,056 (10.7%) | 121,574 (12.2%)

Population 2030 (absolute)

611,906 (68.5%) | 147,934 (16.6%) | 133,344 (14.9%)

Source: Federal Statistical Office, Riwis.



Purchasing Power

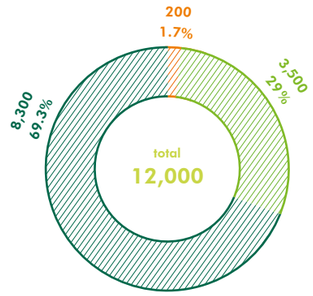
2015

	Germany	Saarland
Purchasing power index:	100	93
Purchasing power per capita (in €):	€21,865	€20,417
Purchasing power per capita (in € per month):	€1,822	€1,701
Unemployment rate:	6.1%	7.3%

Source: Riwis, MB Research, Federal Employment Agency.

Available Places

2016

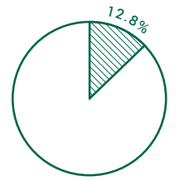


Public institutions
institutions
Non-profit institutions

Source: Trasenix (ITC), referring to public sources, registered on August 2referring to public sources, registered on August 2016; *except solitary short-term nursing-day care and night care facilities; own calculation.

Care-Dependent Seniors

2013 / Share of Seniors among age group 65+ and 75+

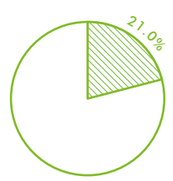


Change compared to 2011: +0.4%

-3% +3%

Change of national average between 2011 and 2013: +2.1%

-3% +3%



Change compared to 2011: -0.4%

-3% +3%

Change of national average between 2011 and 2013: -0.5%

-3% +3%

Source: Federal Health Monitoring, Federal Statistical Office.

Full inpatient Care Homes*

2016

*except solitary short-term nursing- day care and night care facilities

Number of care homes **150**

Care places in total **65%**

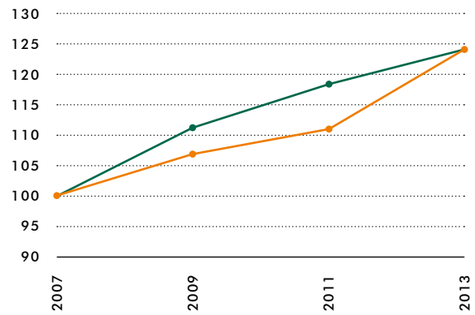
Capacity (in %) **94%**

Proportion of single rooms **12,000**

Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Employees in Care Homes Index

in 1,000

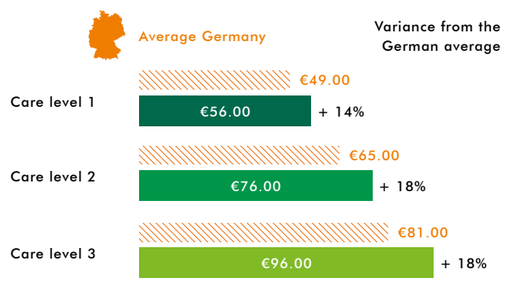


Source: Federal Health Monitoring.

Remuneration for full inpatient care in care homes**

2016 / Average per capita per day in €

**General care in fully inpatient care homes (except care rates for special care)



Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Saxony

Saxony is the most populous of the "new" federal states. It has a population of around 4.1 million. It ranks sixth in the context of Germany as a whole. As in Saxony-Anhalt, around 25% of the people are older than 65 years, and almost 54% of these are older than 75 – the highest percentage in Germany.

However, according to current forecasts, relatively low growth in this age group is anticipated by 2030. The forecast growth of 18.6% is the second lowest, after Berlin, among the federal states.

Compared with the federal average, the total costs of care – hence the costs for accommodation and food as well as the investment costs – are rather moderate.

Population

under 65 years | 65-74 | 75+

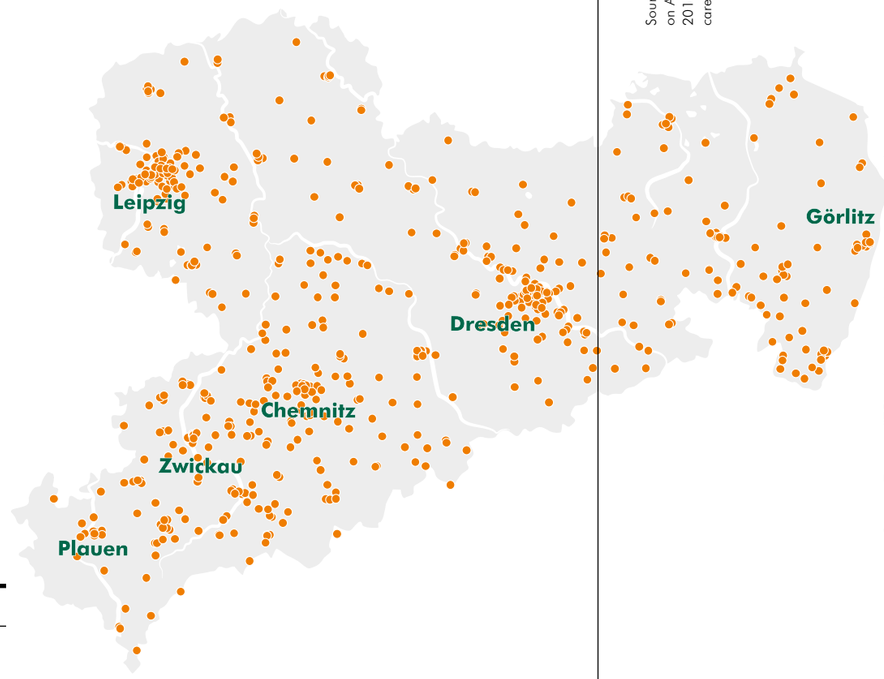
Population 2015 (absolute)

3,059,487	475,213	550,151
(74.9%)	(11.6%)	(13.5%)

Population 2030 (absolute)

2,268,139	572,028	644,825
(65.1%)	(16.4%)	(18.5%)

Source: Federal Statistical Office, Riwis.



Purchasing Power

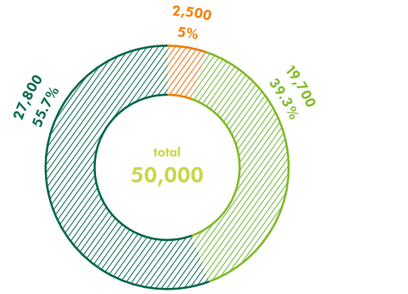
2015

	Germany	Saxony
Purchasing power index:	100	86
Purchasing power per capita (in €):	€21,865	€18,782
Purchasing power per capita (in € per month):	€1,822	€1,565
Unemployment rate:	6.1%	7.1%

Source: Riwis, MB Research, Federal Employment Agency.

Available Places

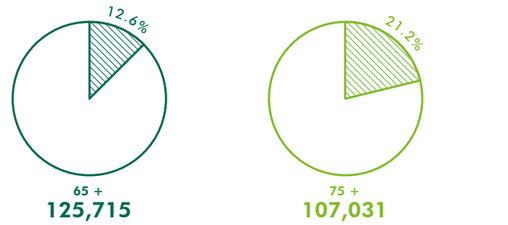
2016



Source: Trasenix (ITC), referring to public sources, registered on August 2referring to public sources, registered on August 2016; *except solitary short-term nursing-day care and night care facilities; own calculation.

Care-Dependent Seniors

2013 / Share of Seniors among age group 65+ and 75+



Change compared to 2011: +0.9%	Change compared to 2011: +0.2%
Change of national average between 2011 and 2013: +2.1%	Change of national average between 2011 and 2013: -0.5%

-3% … +3%

Source: Federal Health Monitoring, Federal Statistical Office.

Full inpatient Care Homes*

2016

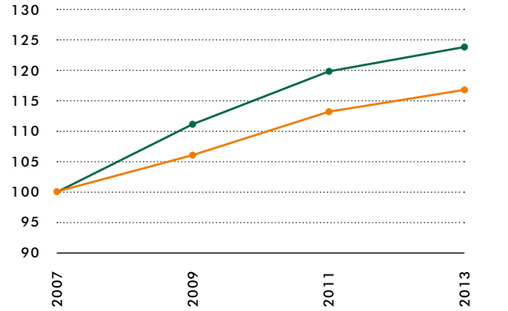
*except solitary short-term nursing- day care and night care facilities

Number of care homes	Care places in total
650	75%
Capacity (in %)	Proportion of single rooms
95%	50,000

Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Employees in Care Homes Index

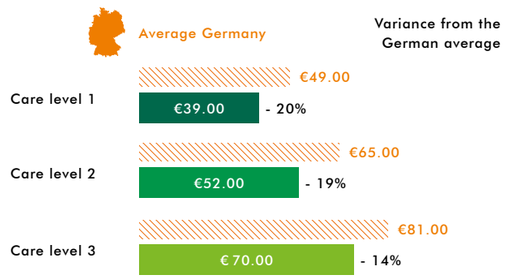
in 1,000



Source: Federal Health Monitoring.

Remuneration for full inpatient care in care homes**

2016 / Average per capita per day in €
**General care in fully inpatient care homes (except care rates for special care)



Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Saxony-Anhalt

Saxony-Anhalt has a population of 2.2 million. Around 25% of the residents are over 65 years old – together with the neighbouring federal state of Saxony, this is the highest percentage in Germany. Those over 75 years old make up 52.4% of this age group.

Considerable investment in developing the care sector was made in Saxony-Anhalt between 2007 and 2013. For example, the number of workers in the care and support sector increased by around 22% in this period. Private and independent non-profit operators effectively share the care market in Saxony-Anhalt between them. The public sector provides only around 4% of the care beds.

Population

under 65 years | 65-74 | 75+

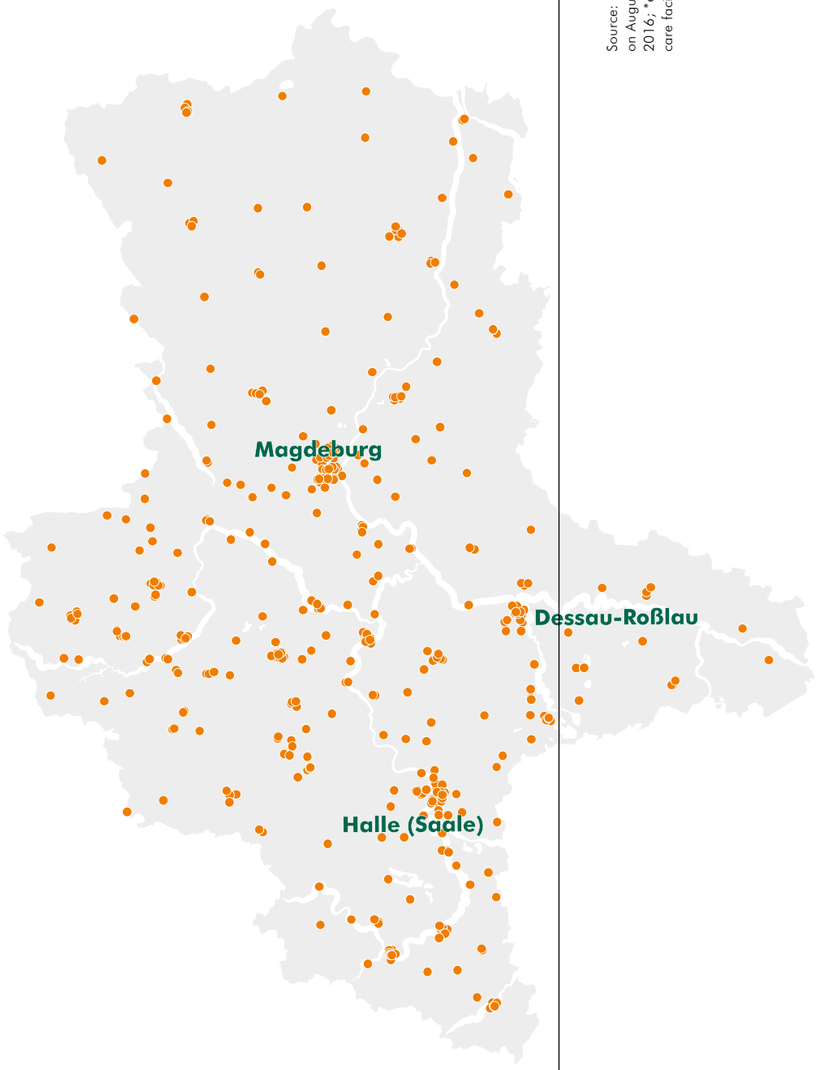
Population 2015 (absolute)

1,680,848 (74.9%) | 269,004 (12.0%) | 295,618 (13.2%)

Population 2030 (absolute)

1,137,608 (62.1%) | 336,399 (18.4%) | 358,960 (19.6%)

Source: Federal Statistical Office, Riwis.



Purchasing Power

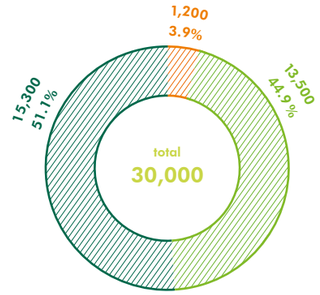
2015

	Germany	Saxony-Anhalt
Purchasing power index:	100	85
Purchasing power per capita (in €):	€21,865	€18,478
Purchasing power per capita (in € per month):	€1,822	€1,540
Unemployment rate:	6.1%	9.2%

Source: Riwis, MB Research, Federal Employment Agency.

Available Places

2016

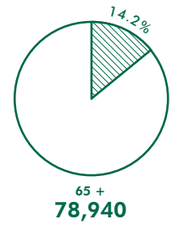


Public institutions
institutions
Non-profit institutions

Source: Trasenix (ITC), referring to public sources, registered on August 2referring to public sources, registered on August 2016; *except solitary short-term nursing-day care and night care facilities; own calculation.

Care-Dependent Seniors

2013 / Share of Seniors among age group 65+ and 75+



Change compared to 2011: +0.5%
-3% +3%

Change compared to 2011: -0.6%
-3% +3%

Change of national average between 2011 and 2013: +2.1%
-3% +3%

Change of national average between 2011 and 2013: -0.5%
-3% +3%

Source: Federal Health Monitoring, Federal Statistical Office.

Full inpatient Care Homes*

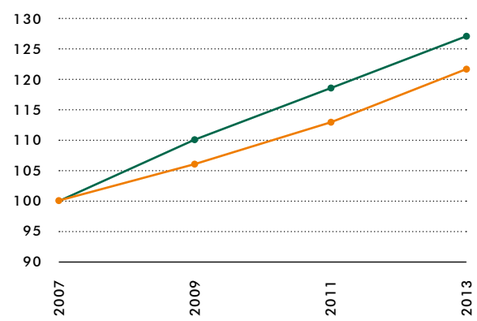
2016
*except solitary short-term nursing- day care and night care facilities

Number of care homes: 450
Care places in total: 75%
Capacity (in %): 94%
Proportion of single rooms: 30,000

Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Employees in Care Homes Index

in 1,000



Source: Federal Health Monitoring.

Remuneration for full inpatient care in care homes**

2016 / Average per capita per day in €
**General care in fully inpatient care homes (except care rates for special care)

	Average Germany	Variance from the German average
Care level 1	€49.00	€40.00 - 18%
Care level 2	€65.00	€53.00 - 18%
Care level 3	€81.00	€65.00 - 20%

Source: Trasenix (ITC), referring to public sources, registered on August 2016.

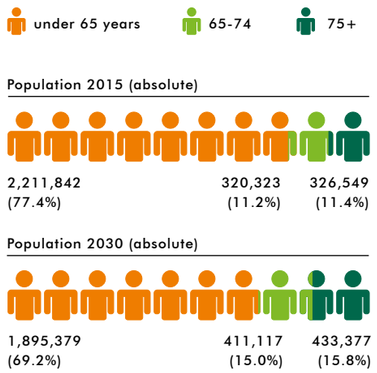
CBRE

Schleswig-Holstein

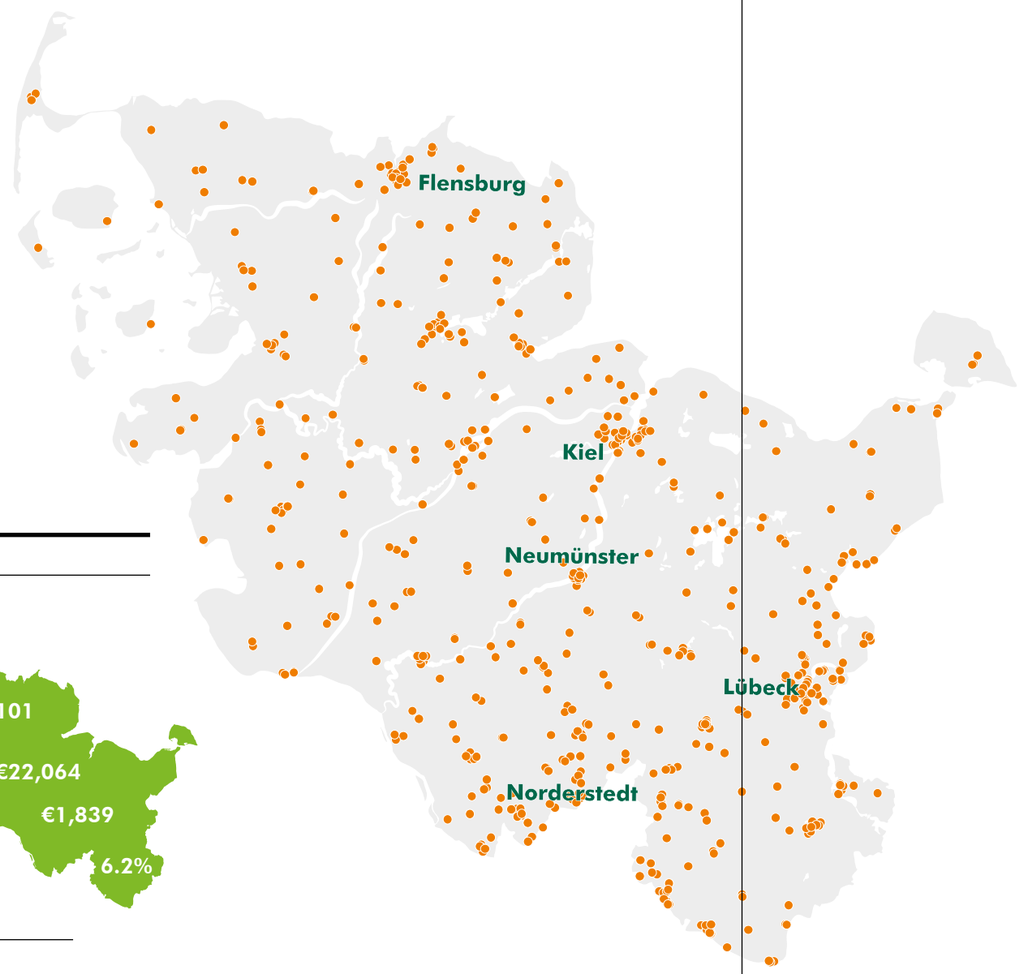
At the end of 2015, the northernmost federal state had a population of just over 2.9 million, of whom around 23% were over 65 years old. By 2030, this age group will make up over 31% of the population, which will be more than 3 percentage points above the federal average.

Particularly striking features of Schleswig-Holstein are the hospitalisation rate of persons over 65 years old in need of care, and the distribution of care providers. Schleswig-Holstein has, by a wide margin, the highest hospitalisation rate in Germany, around 45%. Two thirds of its care facilities are operated by private providers.

Population

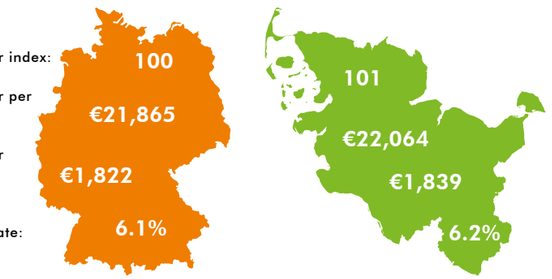


Source: Federal Statistical Office, Riwis.



Purchasing Power

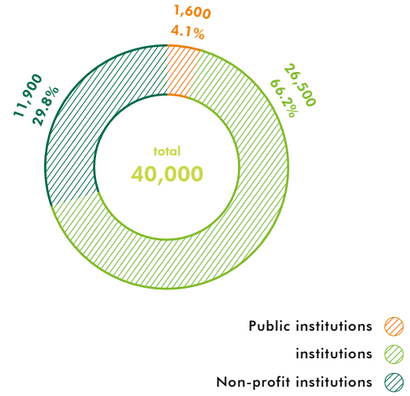
2015



Source: Riwis, MB Research, Federal Employment Agency.

Available Places

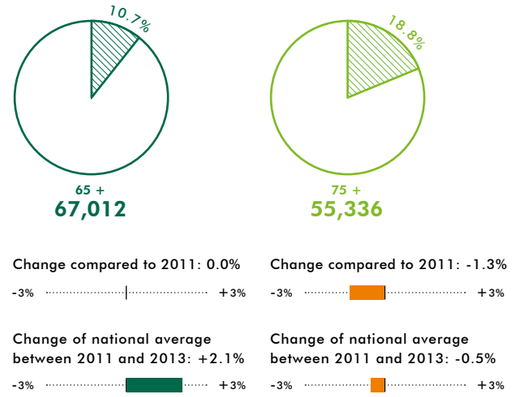
2016



Source: Trasenix (ITC), , referring to public sources, registered on August 2referring to public sources, registered on August 2016; *except solitary short-term nursing-day care and night care facilities; own calculation.

Care-Dependent Seniors

2013 / Share of Seniors among age group 65+ and 75+

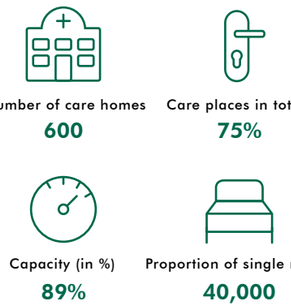


Source: Federal Health Monitoring, Federal Statistical Office.

Full inpatient Care Homes*

2016

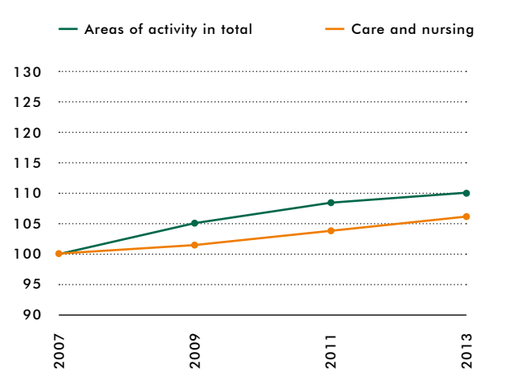
*except solitary short-term nursing- day care and night care facilities



Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Employees in Care Homes Index

in 1,000

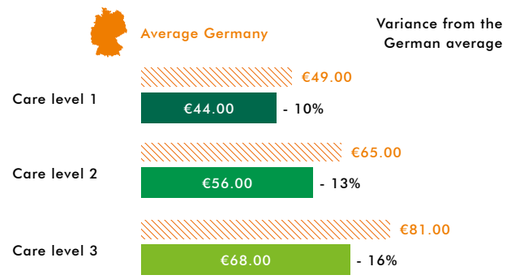


Source: Federal Health Monitoring.

Remuneration for full inpatient care in care homes**

2016 / Average per capita per day in €

**General care in fully inpatient care homes (except care rates for special care)



Source: Trasenix (ITC), referring to public sources, registered on August 2016.

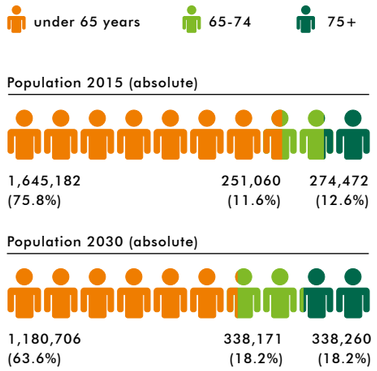
Thuringia

Thuringia has a population of 2.1 million, 24.2% of whom are older than 65 years. Over 75-year-olds make up around 52% of this age group.

The federal state of Thuringia has the lowest care charges by federal comparison. They are around 15 to 22% less than the overall German average. On the other hand, the occupation rate of the care homes is well above average.

Independent non-profit providers operate around 58% of the care beds. However, public providers account for 8%, a high proportion by federal comparison.

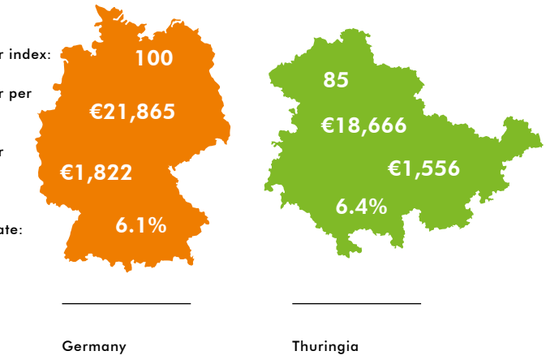
Population



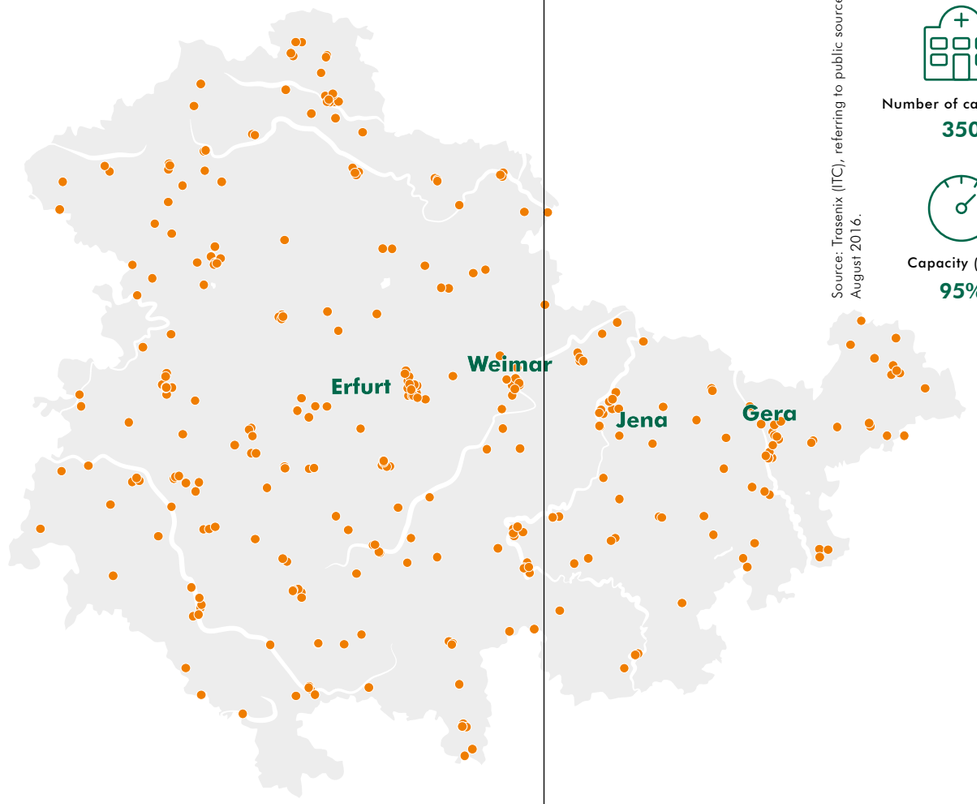
Source: Federal Statistical Office, Riwis.

Purchasing Power

2015

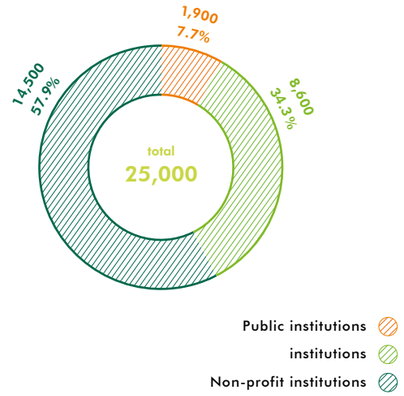


Source: Riwis, MB Research, Federal Employment Agency.



Available Places

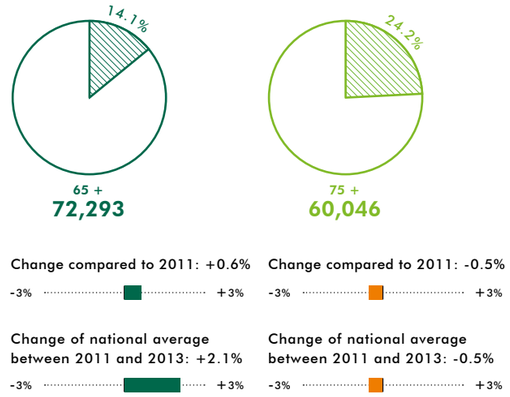
2016



Source: Trasenix (ITC), referring to public sources, registered on August 2referring to public sources, registered on August 2016; *except solitary short-term nursing-day care and night care facilities; own calculation.

Care-Dependent Seniors

2013 / Share of Seniors among age group 65+ and 75+

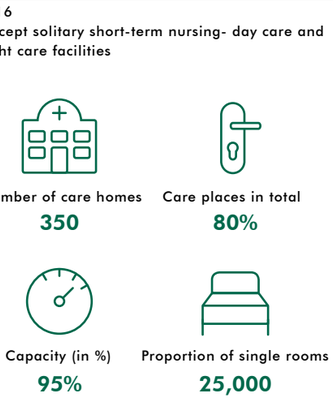


Source: Federal Health Monitoring, Federal Statistical Office.

Full inpatient Care Homes*

2016

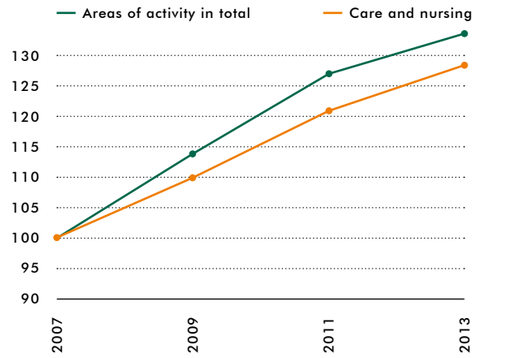
*except solitary short-term nursing- day care and night care facilities



Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Employees in Care Homes Index

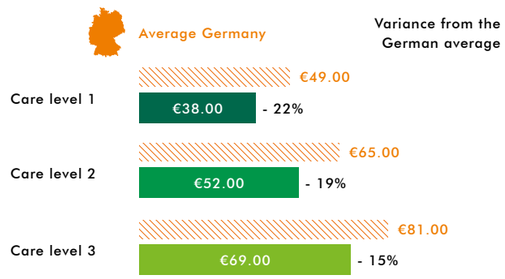
in 1,000



Source: Federal Health Monitoring.

Remuneration for full inpatient care in care homes**

2016 / Average per capita per day in €
**General care in fully inpatient care homes (except care rates for special care)



Source: Trasenix (ITC), referring to public sources, registered on August 2016.

Company profiles

CBRE

CBRE Group, Inc. (NYSE:CBG), a Fortune 500 and S&P 500 company headquartered in Los Angeles, is the world's largest commercial real estate services and investment firm (in terms of 2015 revenue).

The Company has more than 70,000 employees (excluding affiliates), and serves real estate owners, investors and occupiers through more than 400 offices (excluding affiliates) worldwide.

CBRE offers strategic advice and execution for property sales and leasing; corporate services; property, facilities and project management; mortgage banking; appraisal and valuation; development services; investment management; and research and consulting.

immoTISS care GmbH

ImmoTISS care, a company located in Oberursel/Hesse is specialized in the area of health care and senior citizen properties. ImmoTISS care's spectrum of this asset class is broad. This range encompasses nursing care facilities, medical care centres (MVZ), medical practice centres, rehabilitation centres and private clinics. ImmoTISS care, advises, develops, conceptualizes, manages and provides operational organization. ImmoTISS care meets all the needs of real estate investors and operators by providing extensive services beginning with comprehensive market and location analysis to restructuring and investment consulting services.

Years of industry experience and the resulting national market expertise derived from this experience makes ImmoTISS care a leading player in Germany.

KATHARINENHOF® Seniorenwohn- und Pflegeanlage Betriebs-GmbH

Since almost 20 years, KATHARINENHOF Company plays an active role in the area of nursing and assisted living in Germany with strong regional clusters in Grater Berlin, Saxony and Lower Saxony.

Beginning with 2015, the operational business of KATHARINENHOF was transferred into a partnership structure. Deutsche Wohnen AG has a 49% stake; the 51% partner is a family office.

Currently 20 facilities with more than 2.000 beds are managed by the KATHARINENHOF partnership. Deutsche Wohnen AG 100% owns 19 Facilities of the KATHARINENHOF properties.

The full inpatient nursing care promotes an active lifestyle for patients in exalted quality. The assisted living facilities offer rental apartments to senior citizens along with an extensive range of services. Outpatient care services offer assistance and care for the elderly in their households.

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Editor

CBRE GmbH
Bockenheimer Landstraße 24
60323 Frankfurt am Main
www.cbre.de

Dr. Jan Linsin
Senior Director | Head of Research Germany
jan.linsin@cbre.com
T +49 (0)69 17 00 77 663

Dirk Richolt
Managing Director, Head of Real Estate Finance
dirk.richolt@cbre.com
T +49 (0)69 17 00 77 628

Andreas Polter
CREA | Director | Team Leader Valuation
andreas.polter@cbre.com
T +49 (0)30 72 61 54 175

Tim Schulte
MRICS | CIS HypZert (F) | Associate Director Valuation
tim.schulte@cbre.com
T +49 (0)30 72 61 54 176

immoTISS care GmbH
Gattenhöferweg 32
61440 Oberursel
www.immotisscare.de

Jochen Zeeh
Dipl.-Ing.; MBA | Managing Director
jz@immotisscare.de
T +49 (0)6171 92 35 933

KATHARINENHOF® Seniorenwohn- und Pflegeanlage Betriebs-GmbH
Markgrafenstraße 19
10969 Berlin
www.katharinenhof.net

Dr. Jochen Schellenberg
Managing Director
schellenberg.jochen@katharinenhof.net
T +49 (0)30 847 151 902

Agency

N3VISION GbR
www.n3vision.de

Project management

Dr. Jan Linsin, CBRE GmbH

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