



Healthcare Property Special Report 2025 Executive Summary



The state of Europe's healthcare real estate investment market in 2025

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Deal volumes are recovering slowly, still hampered by capital availability

In last year's report we highlighted the slowdown in healthcare real estate investment volumes in Europe in 2022 and 2023, driven primarily by the rise in interest rates as central banks jacked up their base rates to tackle inflation. The investors and advisors we spoke to last year were for the most part cautiously optimistic, however, that deal activity would pick up again in the second half of 2024 and the start of 2025, with interest rates starting to fall and the bid-ask spread

between buyers and sellers beginning to close.

As of March 2025, this hasn't quite materialised. Besides one major deal worth around half a billion pounds (~€0.6bn) in August 2024 — Canada-based Northwest Healthcare Properties REIT's sale of its UK hospital portfolio to UK REIT Assura — activity has picked up a bit in certain areas, but across the board continues to be muted.

Simon Betty, Head of Europe at Northwest Healthcare Properties REIT, tells us that after the sale of Northwest's UK hospital portfolio there was "a real sense of optimism that the 'holy triangle' of operators' ability to pay rent, construction costs and financing costs were aligning in a way that meant we were through the worst of the real estate cycle and activity would ramp up".

But there have only been a few deals worth more than €100 million across Europe in Q4 2024 and Q1 2025.

The basic reason for this is that most European real estate investors have continued to find it difficult to raise capital, either through equity or through debt.

"The reality is that in 2024 the market has been very slow, and that's been



**Data and charts are
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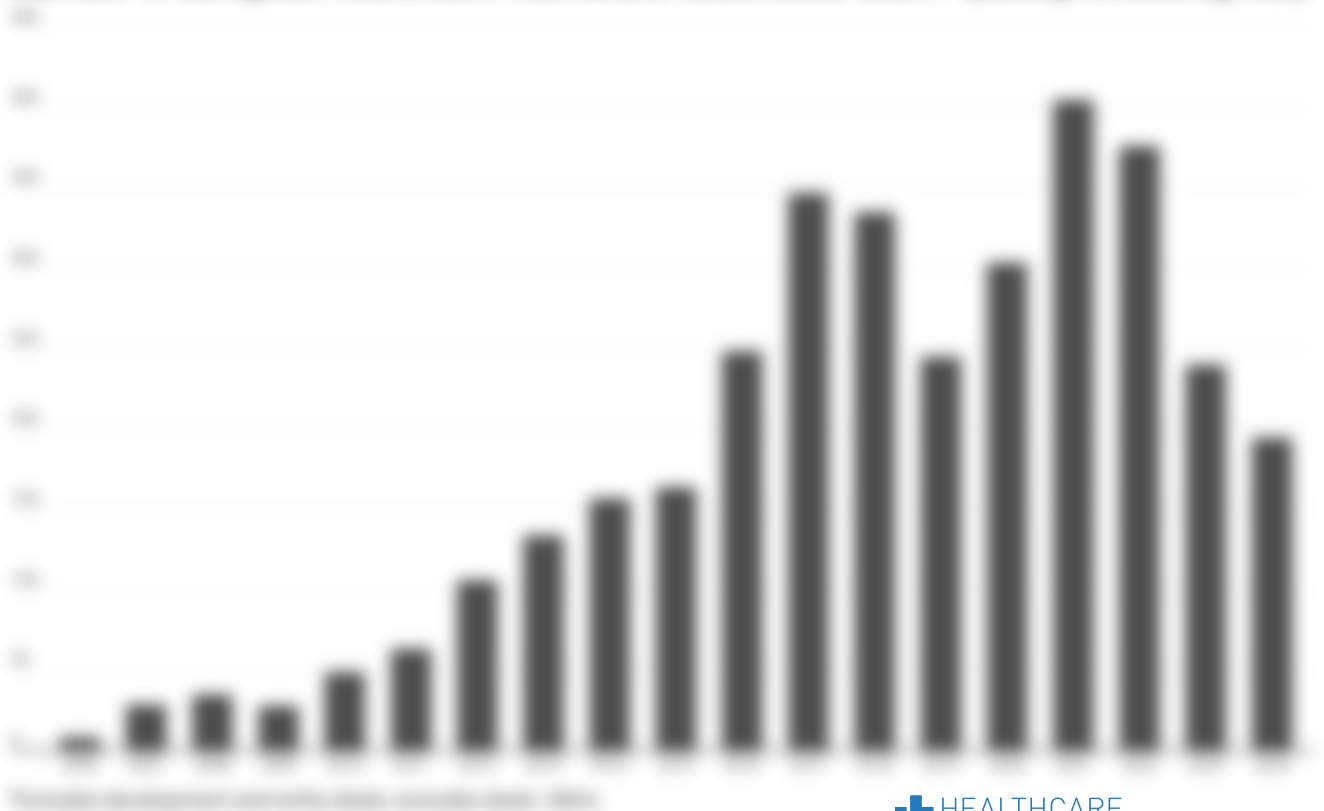
completely driven by lack of capital," Alberto Fernandez, Co-CEO of pan-European Spain-based REIT Healthcare Activos, explained.

"We did nine acquisitions in 2024 across different European countries. The vast majority of healthcare real estate

investors did none, and focused instead on divestments in order to deleverage. Only a handful of investors had some capital available and did one or two acquisitions."

"Some believed with the European Central Bank (ECB) interest rate cuts there'd be new flows of capital coming in, but that

Number of European healthcare real estate deals 2006-2020* (deals completed by Q3)



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hasn't happened," Daniel While, Research & Strategy Director at French real estate investor Euryale, told us. "It may happen in 2025."

Whilst interest rates have fallen a bit, they haven't fallen as fast or as far as many were predicting. All the geopolitical uncertainty the world is currently seeing hasn't helped. Many governments are in the process of implementing policies which are likely to be highly inflationary — think of Donald Trump's trade wars, Europe's plans to drastically increase military spending and the UK's recent budget. So it seems likely that interest rates will have to stay elevated for years to come.

The fact that interest rates are still elevated has meant that healthcare real estate has continued to look less

attractive than the more liquid and less risky option of investing in government bonds. Daniel While went so far as to say that some institutional investors who were previously heavily invested in real estate may believe they can temporarily live without a significant real estate allocation because financial securities have been performing so well, although that won't last forever.

In part because rental yields continue to appear unattractive, the shares of listed REITs are for the most part still trading at a significant discount to their net asset values (NAVs), which has made raising financing through selling shares unviable.

The fact that the shares of listed REITs are generally trading well below their NAVs means that they are cheap, and that we

may soon see a correction as those looking for good value investments on the stock market begin to notice. This has already happened with Assura, whose shares have gone up in February and early March after the REIT announced that US PE firm KKR has made several buy out offers for it, and with Care REIT, whose shares jumped up on March 11th after it received a takeover offer from listed US REIT CareTrust.

But for the time being, most listed European REITs continue to trade well below their NAVs. Raising capital is “as difficult as it was last year” for listed REITs, according to Sebastien Berden, COO - Healthcare at Cofinimmo, one of Europe’s largest healthcare REITs.

Trading at a discount to their NAVs has also made it difficult for listed REITs to acquire assets with debt, because there’s an expectation that they should be keeping their levels of debt leverage under control. Berden tells us loan-to-value (LTV) ratios have become an important KPI for listed REITs.

Similarly, John Flannelly, Head of Investment at UK care home investor Target Fund Managers, which has both a listed and a non-listed REIT, told us it is just not worth it for listed REITs to take on debt at the moment.

“When interest rates were really low when the base rate was 0.5%, we were paying a two hundred basis point margin over SONIA, so we had an all-in cost of debt of about 3.2% after amortising arrangement fees, and we were investing at about a 6% yield. So it was clearly accretive to grow the portfolio with debt. But then interest rates went up to 5%, the all-in cost of bank debt went above 7%, so it was no longer

accretive to grow with debt,” Flannelly said.

Non-listed REITs don’t face quite the same pressures and have been finding it a bit easier to raise capital. Flannelly tells us non-listed investors are taking a slightly different view of the market, focusing on best-in-class assets in a sector which they consider to be relatively defensive.

“I’m hopeful we will raise capital in our non-listed fund,” Flannelly said. “There are a lot of investments we’d like to be making. I think it’s still a very defensive, good sector to be invested in. But for our listed REIT, it is hard to see how the equity raising landscape will recover this year.”

Whilst most of the big listed healthcare REITs, along with French SCPIs (Société Civile de Placement Immobilier), haven’t been buying, they have continued to sell assets in order to deleverage or to return capital to their shareholders.

“The vast majority of European real estate investors have been in selling rather than buying mode in 2024,” Alberto Fernandez said.

Meanwhile some of the biggest operators are in the process of asset disposals to shore up their balance sheets, most notably pan-European listed French nursing home groups emeis and Clariane. UK operators have been performing well for the most part, but operators in France and Germany have faced a lot of difficulties over the last couple of years, with some even going bankrupt.

“The covenants for larger continental operators in particular have been deteriorating since covid, with companies achieving lower EBITDAs whilst having

huge debts. This has posed questions in the minds of investors, and caused them to demand higher yields and to be more selective in their acquisitions,” Stephane Pichon, Founder and Managing Partner of French consultancy Your Care Consult, explained.

With willing sellers outnumbering able buyers, the market is still more of a buyers’ market.

“There are still buyers around, but they are less numerous and therefore they enjoy the luxury of being picky with regard to the asset quality and transaction risk they want to take,” Sebastien Berden told us. The bid-ask spread between buyers and sellers has narrowed in buyers’ favour: real estate valuations fell throughout 2024. They now appear to have stabilised,

although at a level that is still above where most potential buyers would like them to be.

“There’s still a disconnect between sellers who see interest rates coming down and would like this to be reflected in higher prices for their assets, and buyers who are resistant to any price increases as they need to be able to demonstrate a high rental yield on their investments in order to be able to raise future funds,” Stephane Pichon, explained.

Sebastien Berden tells us the markets that will be most attractive for investors over the coming years are those where sellers are aligning more with buyers in terms of valuations, as this means higher yields.

"Southern Europe might be interesting. But the older, more consolidated markets, like France, Germany and the Nordics will be slower to recover. I don't expect to see a lot of activity there in the coming years," Berden said.

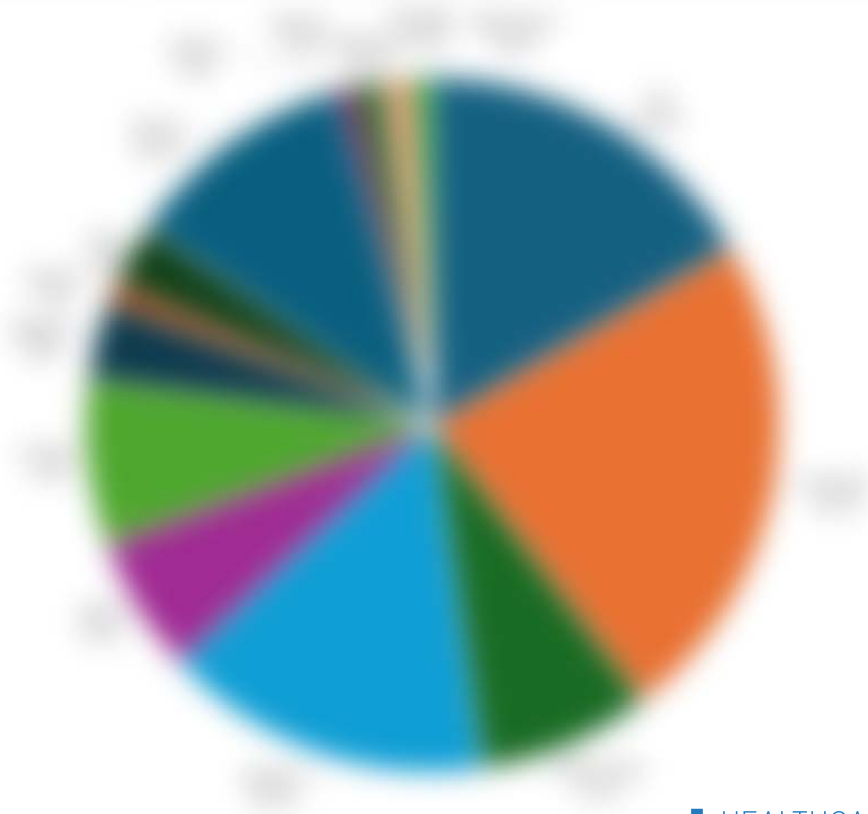
Some of the investors and advisors we spoke to were reasonably confident that deal activity will likely return to a more normal level during 2025.

"Since rates have been cut by at least 100 basis points it's going to make it a more attractive proposal for insurance companies and pension funds to invest in real estate than low yielding bonds, and some of this money will go to healthcare real estate, so mechanically we should see more money," Stephane Pichon said.

Similarly, Simon Betty told us: "The interest rate cycle is largely behind us now; inflation is on its way down; confidence in real estate is growing. Continental Europe is particularly attractive because financing rates are very low."

"Our outlook for 2025 is that the market will slowly open again, especially in the second half of the year."

Alberto Fernandez said: "For the market to re-open we need capital to come back to the industry, and this will happen very slowly as price expectations converge, operating performance improves and deleveraging efforts of both investors and operators materialise.



“Our outlook for 2025 is that the market will slowly open again, especially in the second half of the year.”

John Flannelly emphasised that interest rates, particularly for government bonds, are not going back to the near-zero level they were at during the 2010s, but they should continue to come down:

“A lot of economists predict the base rate might get down to 3–3.5%. At 3.5% debt becomes much more attractive. It becomes much easier to make a project work.”

Daniel While told us he is confident in future market volumes because when institutional investors do come back into the market (hopefully in 2025) they will diversify away from the core real estate categories of residential, office and retail — for which investment volumes have dropped much more sharply than in healthcare: “There will be a rebound towards ‘alternative assets’ such as healthcare, data centres, logistics, and hotels.”

Benedikt Kiefer, Senior Consultant at real consultancy Cushman & Wakefield, believes there won’t be a big jump in deal activity in 2025, but a “slow progression”.

“What we’re waiting for is for the core money to come back into the market. This will likely happen in the second half of 2025,” Kiefer said.

Some investors expressed more uncertainty than optimism. Sebastien Berden told us that it is difficult at the moment to get a clear perspective on how the market is evolving — “We are a bit more optimistic than last year, but

it’s difficult to anticipate what’s going to happen in 2025.”

Steve Nitschke, Head of UK / Europe at US REIT Medical Properties Trust, acknowledged there is a lot of uncertainty, but noted that the current sentiment amongst real estate investors is very different to six months ago, and that “it looks like there’s a lot of processes starting to get traction”. However, he cautioned that “this could change on a dime”.

New developments remain difficult

New build activity remains hampered by high construction and land costs. This is the case across Europe, but the shortage of new developments is most severe in countries which have the most stringent regulatory restrictions on planning, licensing and fees for care services.

There are some new builds happening in the UK, but almost none in France and Germany. In France it’s particularly difficult to build nursing homes because the government doesn’t hand out new licences for them. Hardly any new nursing homes have been built in France’s private nursing home sector in the last ten years. Stephane Pichon commented that this could create a ‘time bomb’ in terms of a shortage of nursing home capacity over the medium term.

Pichon believes the primary lever available to governments to remedy the lack of building is to reduce regulatory restrictions on building. He suggests France could experiment by implementing a ‘special law’ like the one that was recently implemented in the French island of Mayotte which allows the permitting process for new builds to be totally

shortcut after a hurricane devastated the island.

As well as regulatory restrictions on planning and licensing, some countries also have regulatory restrictions on fees that operators can set. This restricts rental yields and therefore the incentive to build. Irina Stamate-Rocha, Partner at European private equity real estate investor Patron Capital, explained: “In the UK rents have increased a lot, especially in private pay, and that has made some developments more viable. But in other markets like Germany and France there are strict regulatory limits on increasing fees so you can’t increase rent that much.”

Whilst the UK has seen more new build activity than France and Germany, it has still been difficult in the UK.

“It’s difficult to find projects where we would get an attractive rent to cover the cost of capital.”

Andrew Cowley, Co-Founder and Managing Partner at listed UK care home real estate investor Care REIT (formerly Impact Healthcare REIT), explained: “If you’re a developer, you’ve just been through a perfect storm. Construction costs went up, debt financing costs went up, you’ve realised you probably overpaid for land you bought four or five years ago. The cost of everything has gone up and there’s less developer profit.”

Similarly, John Flannelly says: “Construction costs and interest rates spiked to a point that there were lots of cases where there is demand for a care home but the costs were too high. But with the base rate

coming down — there have now been two cuts, and we might have two or three more in 2025 — this will give a bit more impetus to do developments.

“We’re not seeing as many that are so mispriced or out of kilter with reality. Those that are tend to be developer-led rather than operator-led. Operators tend to have a better understanding of what you can achieve.

“It needs to recover because there is a shortage of capacity — not in every single location, but there are lots of areas that haven’t seen a new home for 20-35 years, and what was built 35 years ago isn’t fit for purpose. That’s why I’m optimistic that there are lots of opportunities for sensible capital.”

But Flannelly adds that because planning applications have been lower for a while, the UK will have a few years of less building.

Italy and Spain have seen some development starts in the past few months, although both are starting from a position of undersupply. Octopus, a UK-based investor, recently moved into the Spanish market and has been forward funding new developments.

Simon Betty said that interest rates coming down will help make development more viable, but construction costs and fit out costs continue to remain stubbornly high. “The key issue is whether reimbursement rates will grow sufficiently to enable operators to pay rent that is high enough to give developers a return on their investment,” Betty said.

“We don’t see a lot of interesting projects

Despite the difficulties, operators and real estate investors are finding pockets of opportunity to build, or to increase capacity of existing facilities.

As John Gladstone, Head of Healthcare Investment, International Capital Markets EMEA at global real estate advisory firm Jones Lang LaSalle (JLL), said, being “a bit countercyclical” and developing at a time when few others are doing so, can pay off.

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