Healthcare snapshot

2023 – Market Overview

Italy

JLL SEE A BRIGHTER WAY

Content List

01
Our Key Takeaways

Increasing demand for long term nursing homes in the coming years

An aging population, longer life expectancy, declining average number of family members and greater job mobility will support demand for long term nursing homes in the coming years.

Specialized operators are more focused

The Italian nursing home market is increasingly privatized, shifting from a former public or non-profit organization predominance. The post Covid-19 era might see an acceleration of this process and consolidation of some groups.

Shortage in supply

Market supply is still very limited in Italy, with many regions still far from striking a good balance between supply and demand, although the development activity is fervid. This means that the market has room for high quality offer focused on wellbeing and services, affordability and inclusion.

Healthcare as a defensive asset class

The market outlook is heavily influenced by economic uncertainty. Investors will continue to view the Healthcare sector as a defensive asset class with interest. Furthermore, inflation has cooled down, as have construction costs, reducing pressure on operating margins in the sector on the development front.

02
The Italian Economy

Projections for Italian economy indicate an average GDP growth of +0.5% in 2024

In Q3 2023 the Italian economy posted a GDP increase of **0.1%** in comparison with both the previous quarter and the third quarter of 2022. Projections for 2024 annual GDP growth indicate an increase of 0.5% .

The impact of high **inflation** and interest rates persists, but there are signals that, overall, economic conditions are on an improving trend: Inflation remains high by historic standards, but it has peaked and is now slowing quickly and it's going to stabilize around 2%; commodity prices have fallen, supply chain disruption and costs have eased; **interest rate** tightening cycle is drawing to an end.

Q3 data were impacted by the continued weakness in the manufacturing PMI – Italian industry despite the continued resilience in more services-oriented sectors. Net exports and consumption drive positively GDP evolution. Having said this, latest market projections indicate an average GDP growth of **+0.7% in 2023** and a **+0.5% 2024 forecast.**

Contribution to GDP growth QoQ %
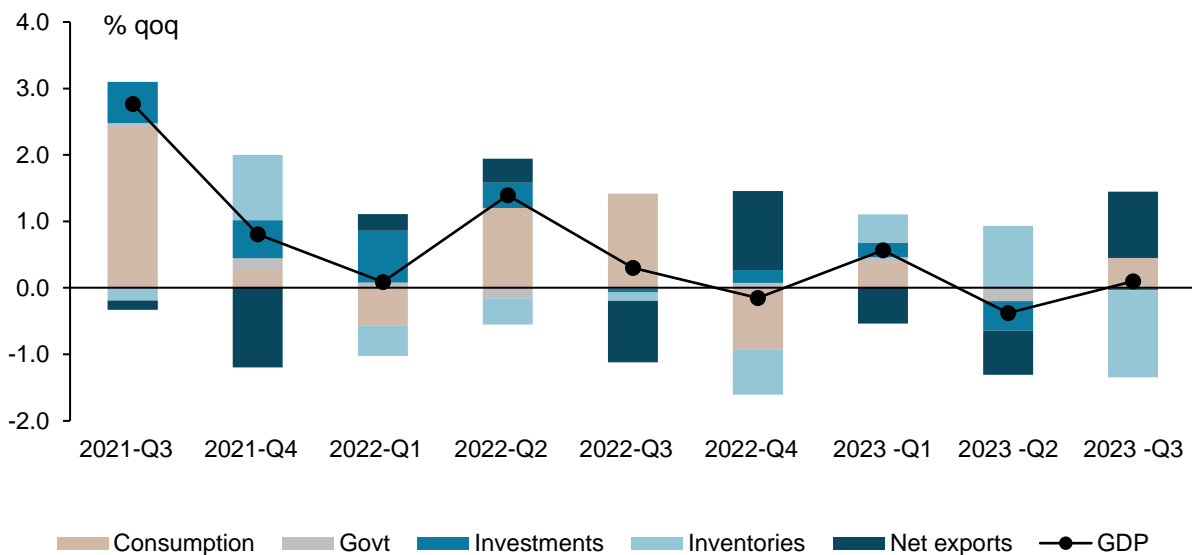
Industrial production in **November** posted a seasonally-adjusted stabilization **MoM** (-1.5% YoY on a calendar adjusted basis). The change of the average of the last three months with respect to the previous three months was **-0.8%.**

Industrial Production - November 2022 to November 2023

IP mom % —●— IP yoy %
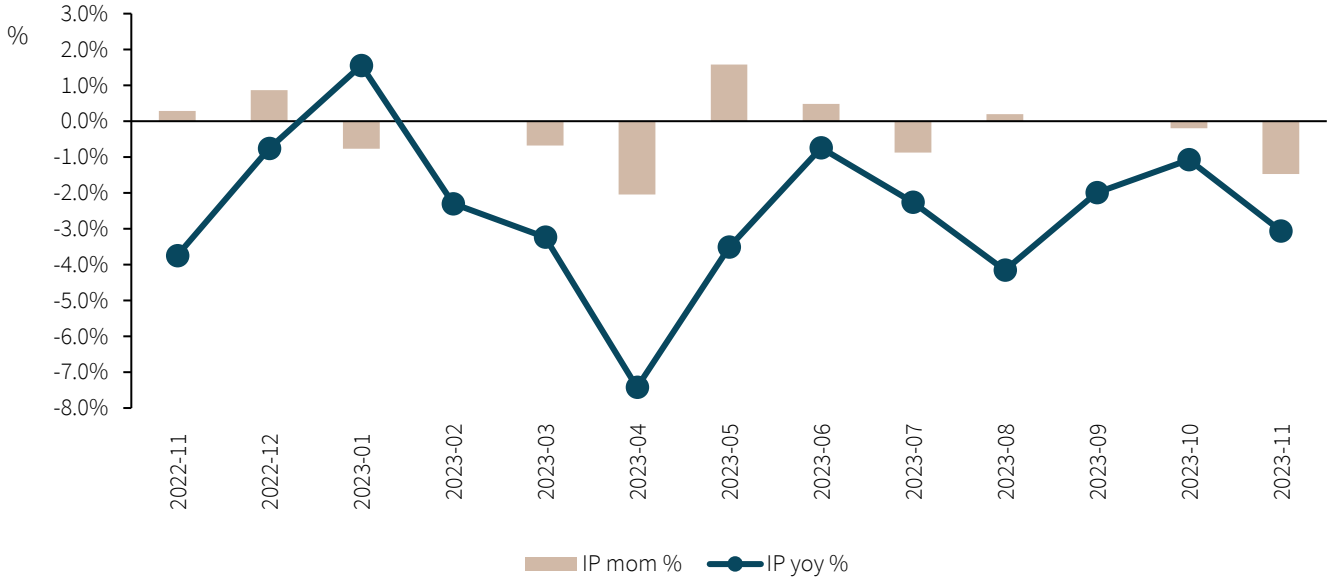
Annualized headline **inflation** (HICP) reached **0.6% in December** (down from 0.7% in November). Looking ahead, headline inflation should continue to slow down throughout the year. Core inflation, however, will take longer before it starts to come down, despite recent developments in the energy market.

Inflation mom % (lhs) ——— Inflation yoy % (rhs)
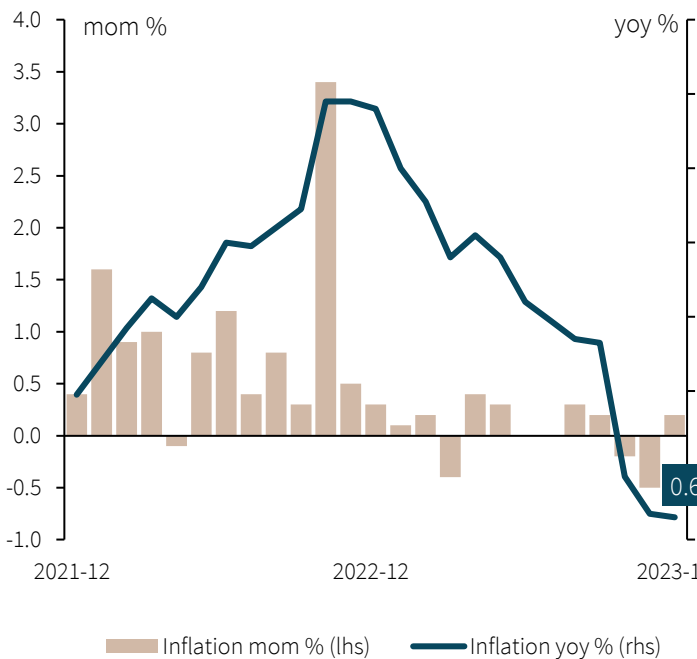
| Forecasts (Italy)	2023F	2024F
Gross Domestic Product	0.7	0.5
Industrial Production	-2.3	1.2
Consumer Prices (%)	5.7	1.7
Govt Balance (% GDP)	-5.4	-4.5
10yr govt bond yield (% EOP)	4.1	4.1

Source: JLL elaborations on ISTAT data

Source: Oxford economics and Consensus as of December 2023
Data: annual percentage changes unless specified

After a year of high inflation and stagnant GDP, operators are now seeing signs of recovery, with biggest adjustments now behind us.

In particular, 2023 has been very challenging for the residential healthcare sector, as the structural increase in **the cost of energy inputs**, and consequently the price of electricity, has had a strong impact on investment **margins**. Forecasts of a compression and stabilization of energy input prices are a strong encouragement for healthcare investment.
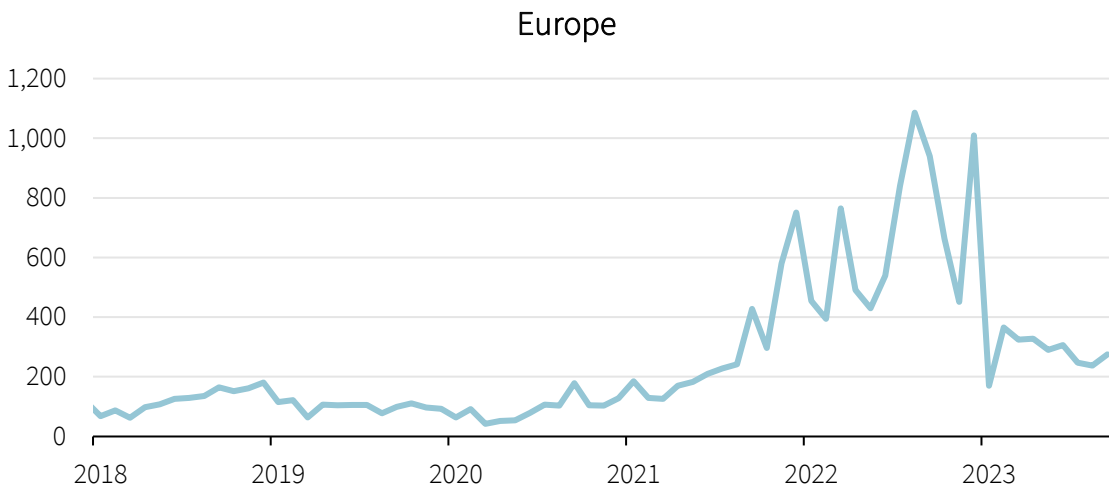
Energy commodity prices are (mostly) falling

Covid- and war-related disruptions were largely over, and prices had moved off their highs.

Natural gas price index
(2019 = 100)

Brent crude oil price
(USD per barrel)
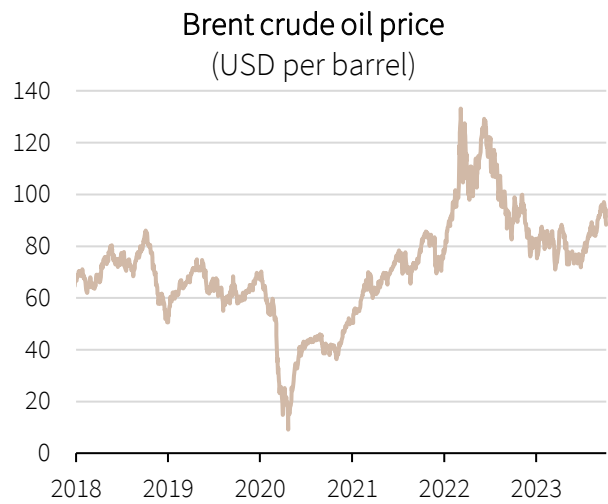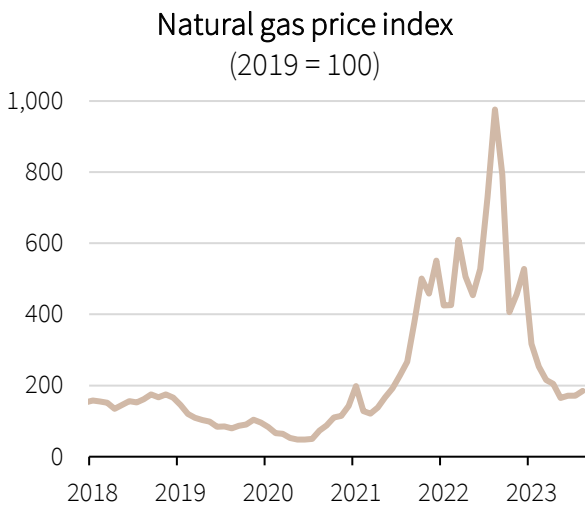
Electricity prices have fallen back in most countries:

Lower energy input costs are driving electricity prices back down too, albeit volatility remains

Europe

03
The Healthcare Capital Markets

From a Real Estate capital markets perspective, European healthcare investment fell marginally in 2023 compared to other commercial sectors, dropping 28% YoY to **€9.8bn**. Annual investment was 15% below the previous five-year average, following a 10-year CAGR of 7%. Historical care home dominance was disrupted by several clinics and hospital transactions in 2023. This includes the €1.4bn Icade Sante purchase from Primonial REIM and PureHealth €1.1bn purchase of UK hospital operator Circle. The UK attracted almost half of all investment in European healthcare, followed by France overtaking Germany, both driven by large M&A deals.

In **Italy** 2022 healthcare investments recorded almost €400 M while 2023 saw a decrease mainly due to the general overall volume slowdown, with around **€150 M** invested. In 2023 the dominant sub-sector was represented by Clinics and Medical Offices, where the most significant transaction was the acquisition of Istituto Dermopatico dell'Immacolata in Rome by REAM SGR S.p.A.

Healthcare Investment volumes - Italy

€ M

Legend: ■ Clinic / Medical Office ■ Hospital ■ Nursing homes
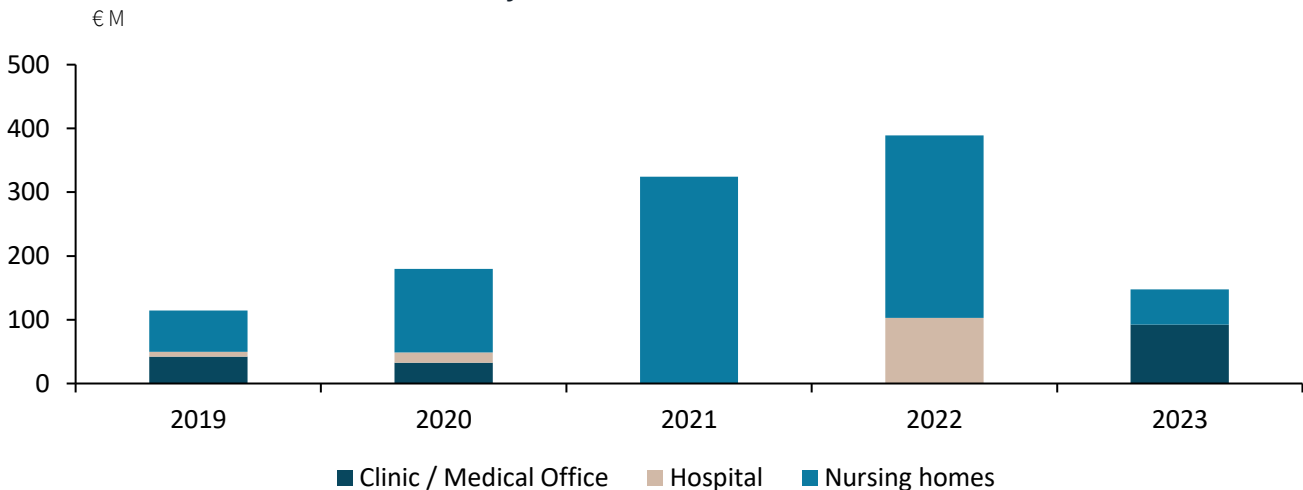
Looking at **Italian healthcare volumes**, investment by local buyers has increased significantly in 2023.

Italy Healthcare Capital markets Vols by source of capital
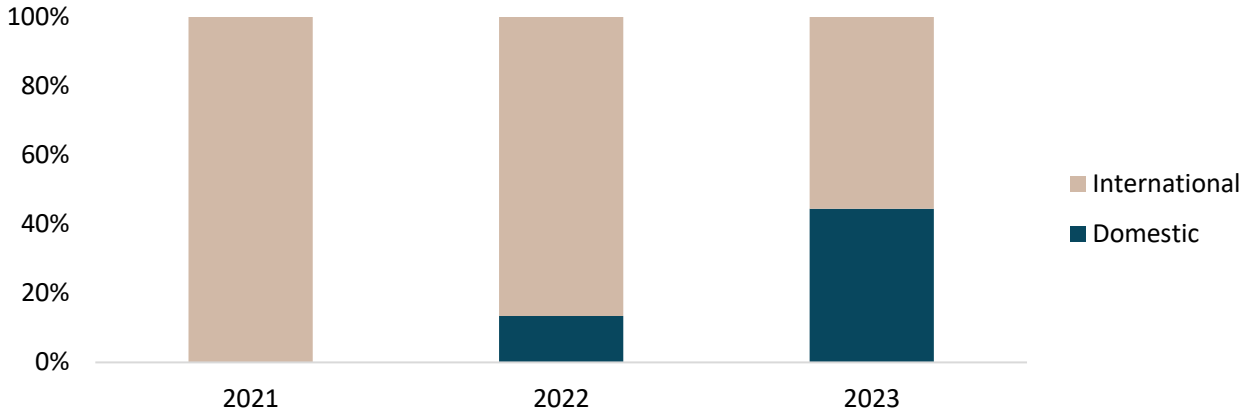
Over the last two years, investments in Italy have been entirely focused on hospitals or **nursing homes**, while in 2023, also **clinics and medical office** properties also accounted for a significant portion.

Italy Healthcare Capital markets transactions by sub-sector activity
(number of transactions)
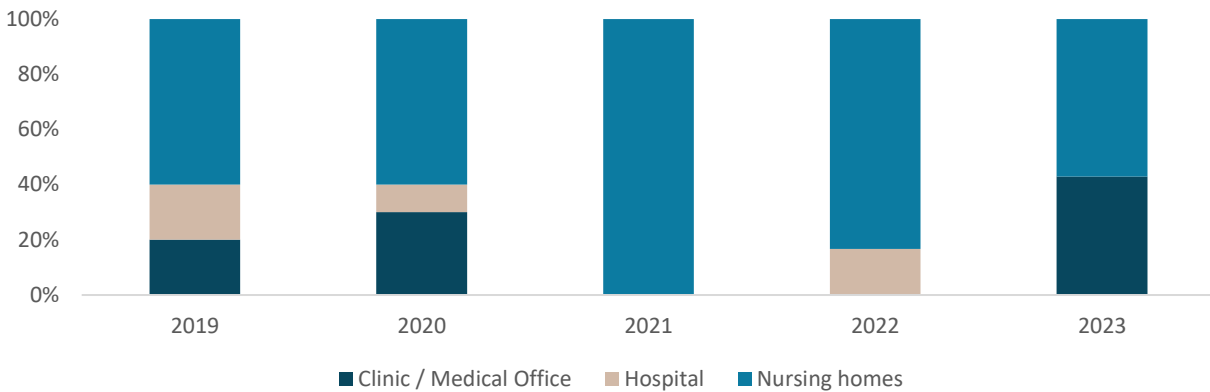
Repricing occurred in the Italian market since the last 18 months mainly due to the increase of utility costs and occupancy not at full level; further decompression has moved the prime yield to 5.75% in Q4 2023.

04
Potential demand

The Italian population amounted to almost **59 million** in Jan 2023, falling 0.2% from the 2022 total, confirming the downward trend we are witnessing since 2014. The decrease in Italian population seems to be bound to continue in the future: 2050 it is expected to have a -8% decrease compared to 2022.

Over-65's represent **24% of the Italian population.** This figure is expected to increase in the coming years, reaching a **34.5% by 2050**. The over-65 population is the only age range for which growth is expected over the coming years until 2050.

Most over-65s are **female**(56%) and live in Lombardy, Lazio, Veneto, Campania and Piedmont: these 5 regions together host almost half of the over-65 Italians.

Although these are the regions with more over-65s in absolute numbers, the regions where the share of over-65 on the total population is higher are Liguria (29%), Friuli-Venezia Giulia (27%), along with Piedmont, Tuscany, Molise and Umbria (26%).

Therefore, it is not surprising that Italy is one of the "oldest" countries in the world and the "oldest" in Europe. Although in 2022 Germany and France led for absolute number of over 65 population, Italy has the highest share of people aged over 65 (24%) recorded throughout the continent, followed by Greece, Portugal and Finland (23%). By 2050, the Italian elderlies share is expected to be the highest in Europe (36%) still, followed by Greece (34%), Portugal (33%) and Spain (32.5%).
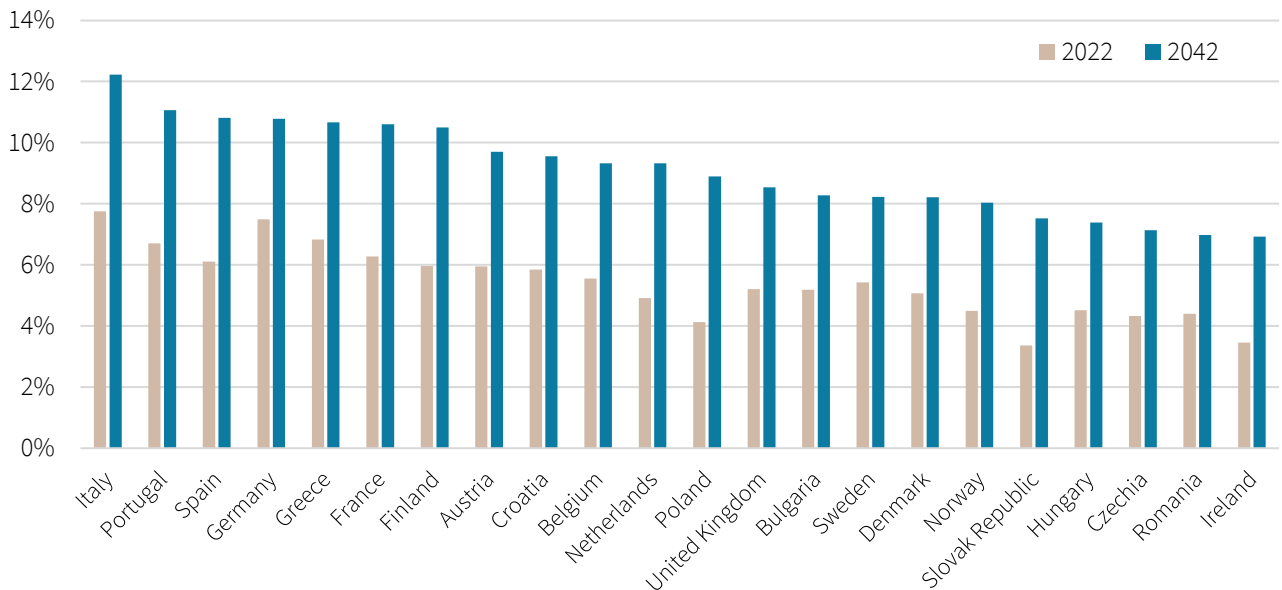
Italy – Over 65 by region
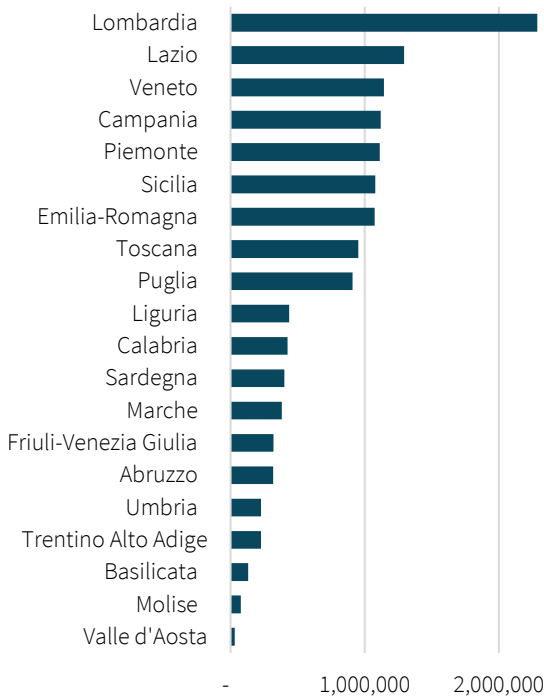
Italy – Over 65 % of the regional population
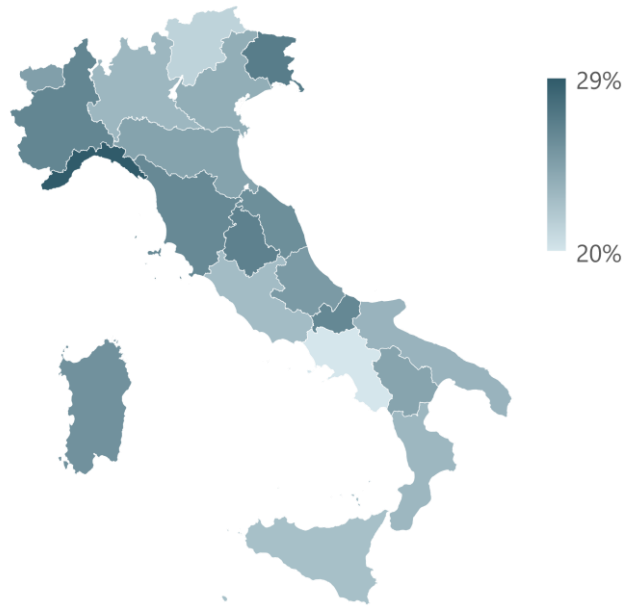
Source: JLL elaborations on ISTAT data

Europe | Population aged over 80
% of people > 80 over the entire population

Source: WHO

05 Pensions and Health

Income-related socioeconomic factors have a significant impact on the **health of a population**. Simultaneously, pension and healthcare costs and are correlated with rising incomes, ageing, and urbanization.

In Italy in 2021, 22.7 million of pensions were dispensed. More than half of these were old-age pensions (53%), followed by spouses' pensions (20%), civil disability (15%), disability (4%), minimum state (4%), allowances (3%) and war (1%) pensions.

Of these, old-age and seniority pensions amount to 12.1 million; old age pensions are the most dispensed category among all types, with a yearly average of around €18,749.

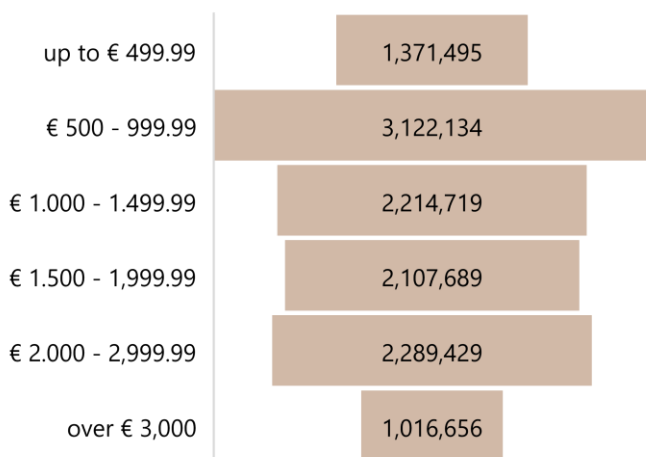### Average annual gross pensions by type, 2021

Pension type	Dispensed pensions	%	Yearly gross avg. pensions income
Old-age + seniority	12,122,122	53%	18,749 €
Disability	996,033	4%	12,694 €
Spouse pension	4,601,645	20%	9,451 €
Allowance	659,759	3%	6,156 €
Civil disability	3,439,828	15%	5,691 €
Minimum state	816,780	4%	6,024 €
War	122,630	1%	8,453 €
Total	22,758,797	100%	13,753 €

N. and avg gross yearly old age pensions, 2021

	Dispensed pensions	Yearly gross average pensions income (euro)
Male	6,770,084	22,161 €
Female	5,352,038	14,433 €
Total	12,122,122	18,749 €

It is worth noting that while the amount of male and female pensions dispensed is very close (21% difference), the average amount for female old-age pensions is 35% less than the male counterpart, and the yearly gross pensions spent for male pensions is twice the female amount.

Seniority pensions by monthly amount class - 2021

up to € 499.99	1,371,495
€ 500 - 999.99	3,122,134
€ 1.000 - 1.499.99	2,214,719
€ 1.500 - 1,999.99	2,107,689
€ 2.000 - 2,999.99	2,289,429
over € 3,000	1,016,656

Old-age and seniority pensions distribution by age class - 2021

40-59 years	
60-64 years	956,678
65-69 years	2,215,049
70-74 years	2,896,410
75-79 years	2,298,403
80-84 years	1,936,460
85-89 years	1,117,517
90-94 years	468,098
+95 years	
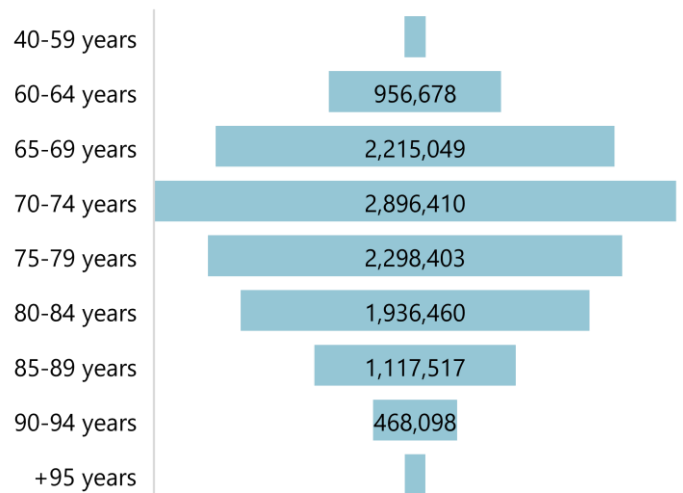
In the **Italian health system**, residential healthcare and social support is guaranteed for various categories of assisted individuals with specific clinical conditions.

The Italian National Health Service only covers the cost of the healthcare services provided. The cost of non-healthcare services and accommodation-related services (meals, cleaning, leisure activities, etc.) is payable by the patient or, in the case of financial difficulty, the patient's municipality of residence.

The graph below shows cases of hospitalization through the public system, while in cases of private hospitalization it is entirely the responsibility of the user.

The residential facilities* – Old age and seniority

Per year

average user participation   **average Ssn participation**   —O— Average spending per users
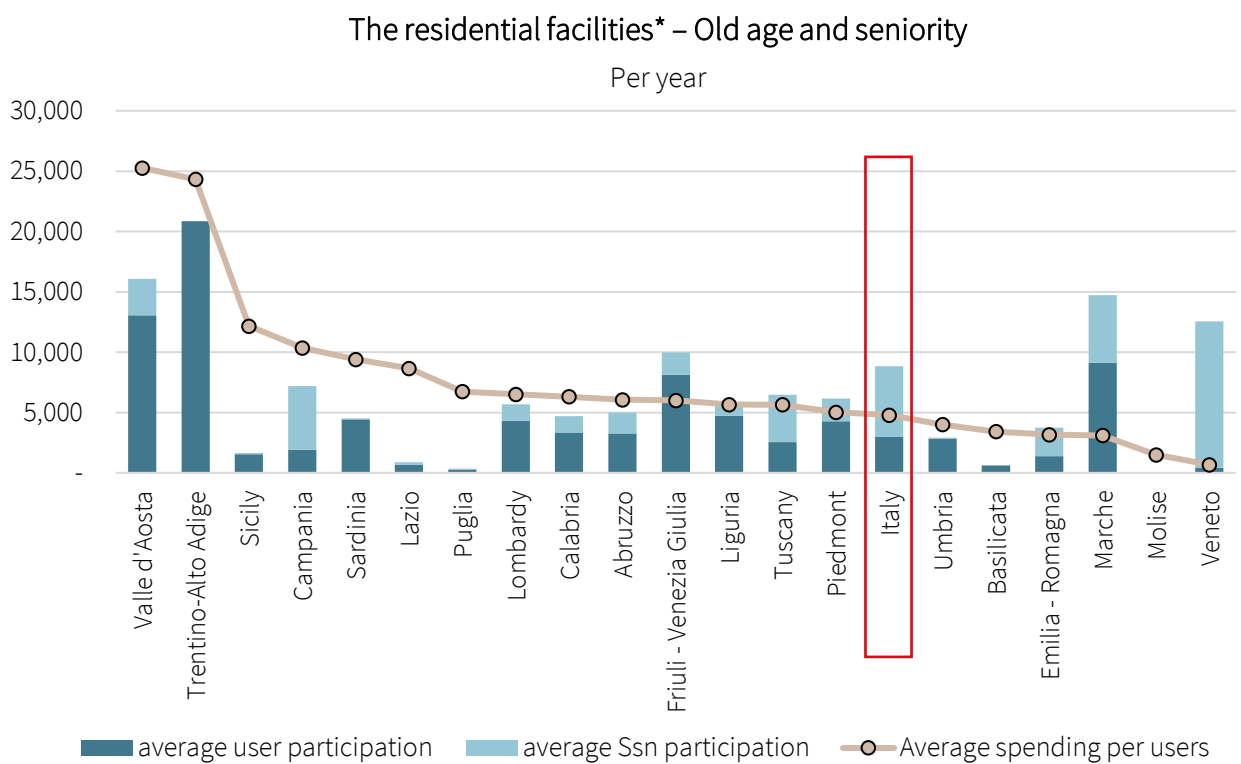
*Includes both municipal facilities and fees and contributions paid by municipalities to users of private residential facilities. Summer or winter centers with overnight accommodation are excluded.

In analyzing average expenditure per user in residential facilities, there is significant variation between regions across Italy.

On average, an Italian user spends nearly 5,000 euros per year in residential facilities. In Trentino Alto Adige and Val d'Aosta, users' expenditures amount to around 25,000 euros per year.

The Italian healthcare system's contribution towards covering users' expenses varies according to the norms in each region. For instance, in Trentino Alto Adige, there is no evidence of social contribution, whereas in Veneto, it covers almost all the expenses.
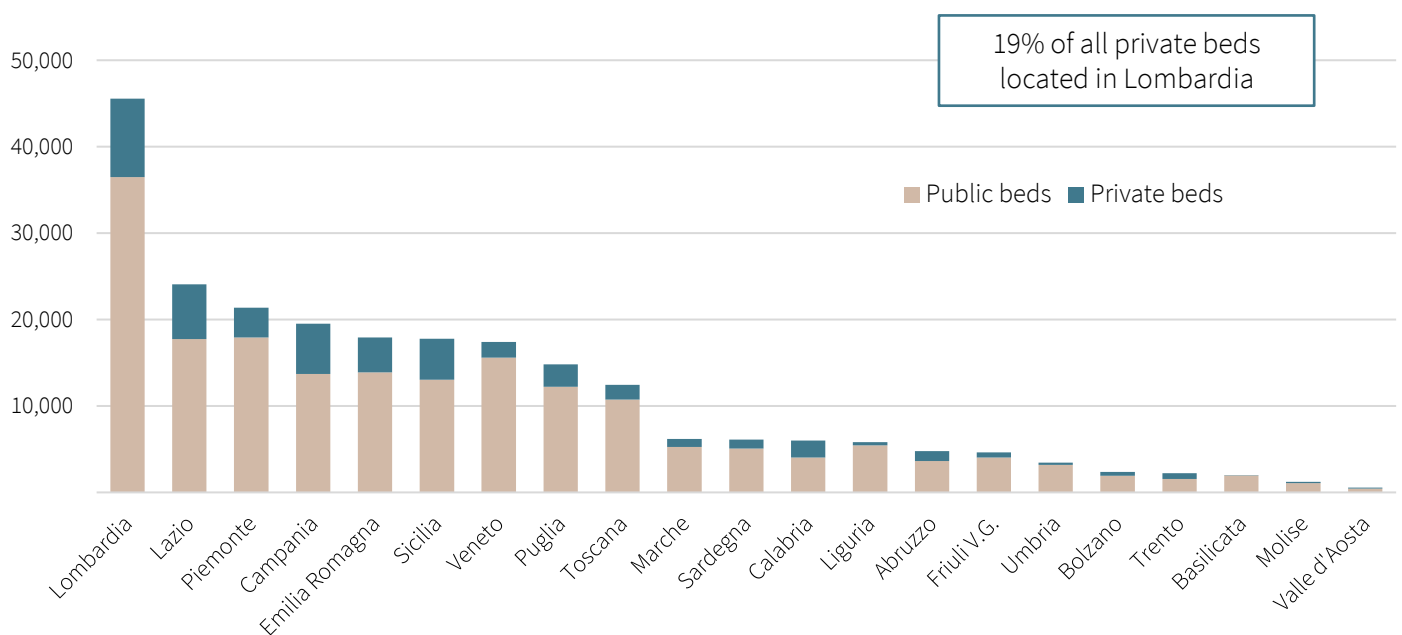
05
Supply

Italian private hospitals and clinics part of the National Health Service (NHS) totalled 484 properties with around **47,300** beds in 2021, a number slightly lower compared to 5 years ago (-2%) for facilities, but +16% higher for beds. Unlike nursing homes, the offer is not mainly distributed in the North: while **Lombardy** hosts most of beds once again, it is followed in this case by **Lazio, Piedmont and Sicily**.

This reflects the different approach to healthcare and privatization that every region has: Lombardy is the region where the privatization process has succeeded the most, with 19% of overall available private beds hosted in the Country, which amount to 20% of the overall bed amount for the region. Some other regions with high ongoing privatization rates are Calabria (33% of private beds), Trento (31%), Campania (30%), Sicily (27%) and Lazio (26%).

On the other hand, regions such as Piedmont (16%), Puglia and Sardinia (respectively 18% and 17%) are still undergoing this restructuring and show a medium rate, while regions like Veneto (10%), Umbria (8%) and Liguria (7%)show some of the lowest privatization rates, with Basilicata being the region with the least private beds (2%).

Italy, Private and public hospitals beds by region, 2021

19% of all private beds located in Lombardia

Legend: Public beds, Private beds

Source: JLL elaborations on Ministero della Salute

In Italy, there are over 7,900 **residential nursing homes**, 84% of which is private. Most of them (47%) specialise in elderly care, followed by psychiatric assistance (independent with support) and physically disabled assistance (assisted living).

Residential nursing homes by region 2021

19%

0%

7,980
Residential nursing homes*

Residential nursing homes by bed count 2021


70,221

466

266,000
Beds
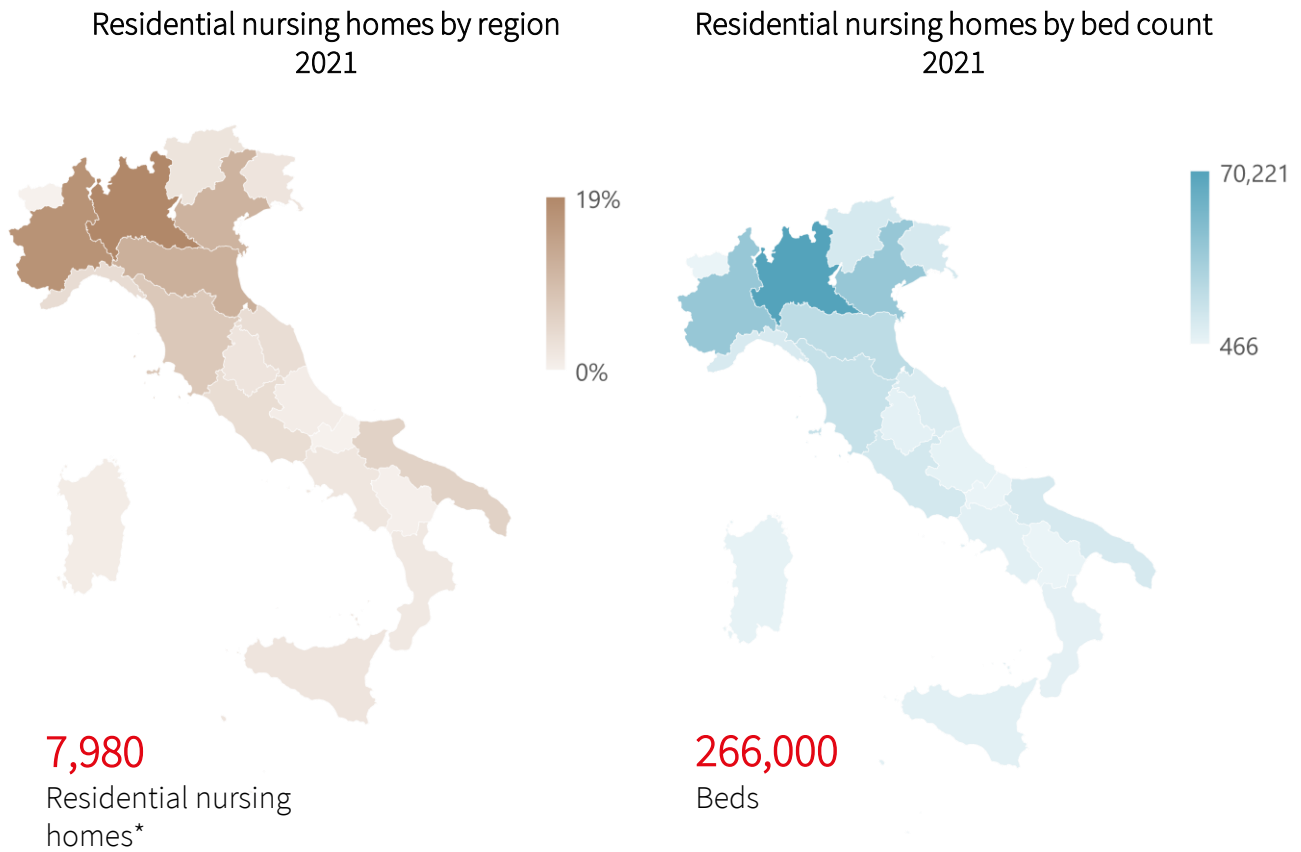
Source: JLL elaboration on Ministero della Salute data;
*data source includes hospital nursing homes treating Covid-19 patients

Northern Italy counts the highest number of nursing homes, with Piedmont and Lombardy on top, Lombardy being the region with most beds.

Lombardy, Veneto and Piedmont combined host more than half of total beds. The number of beds increased by 15% in the past 10 years, but the current coverage ratio (beds per 100 over-65 inhabitants) remains low, standing at 1.9%, far from the 5% ideal target.

Nursing home bed indicators need to take into account major cross-border differences in nursing home nomenclature, as well as historical and current local or country-specific factors affecting nursing homes. Nevertheless, comparing the Italian figures with other EMEA countries, **Italy has one of the lowest bed levels in Europe**. The Netherlands has four times the Italian supply, while only Croatia, Romania, Poland, Greece and Bulgaria have a lower index than Italy. The **provision rate** for nursing home beds is in Italy also among the lowest compared to other European countries: **6% for the over-80s and around 2% for the over-65s**.

### Supply: 65+ and 80+ care bed provision
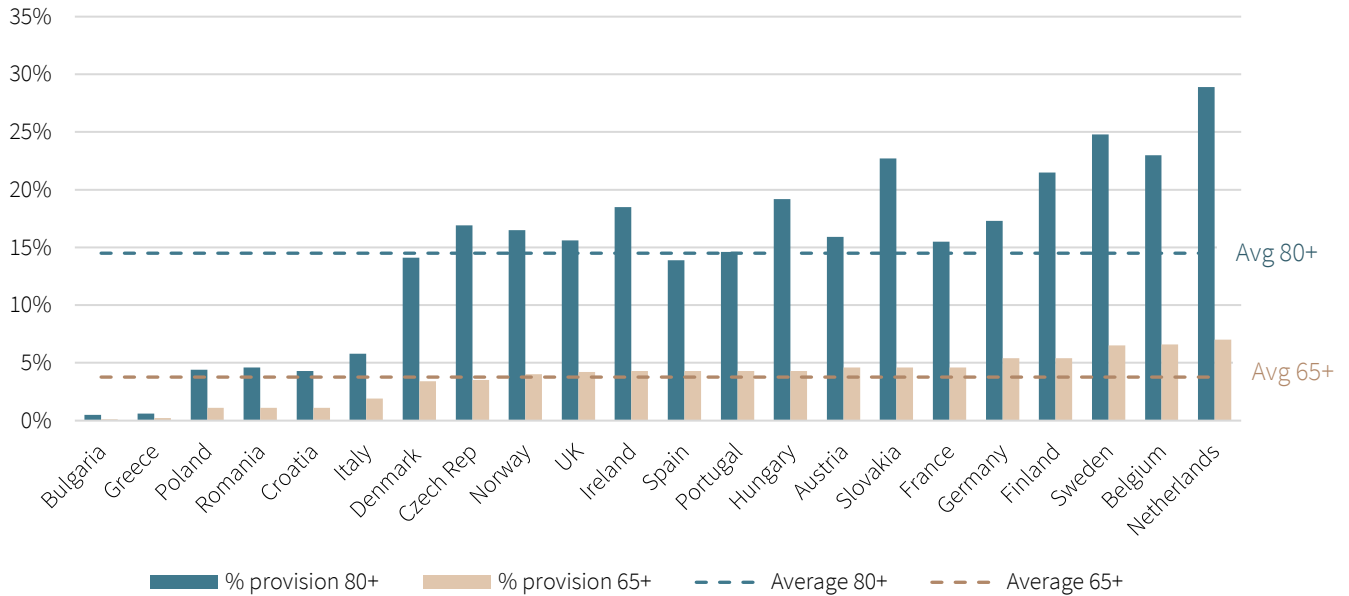
Source: JLL, and elaboration on WHO data

Tariffs

Comparing the business models of the major private residential care home operators, the **average rent** for a single room for a not-sufficient elderly resident is highest in Milan where it reaches 124€ per night. In these analysis Genoa shows the lowest rent which just exceeds 100 euros per night.

Average Rent (€ per night)
### Private Residence in Single Room - not sufficient senior resident
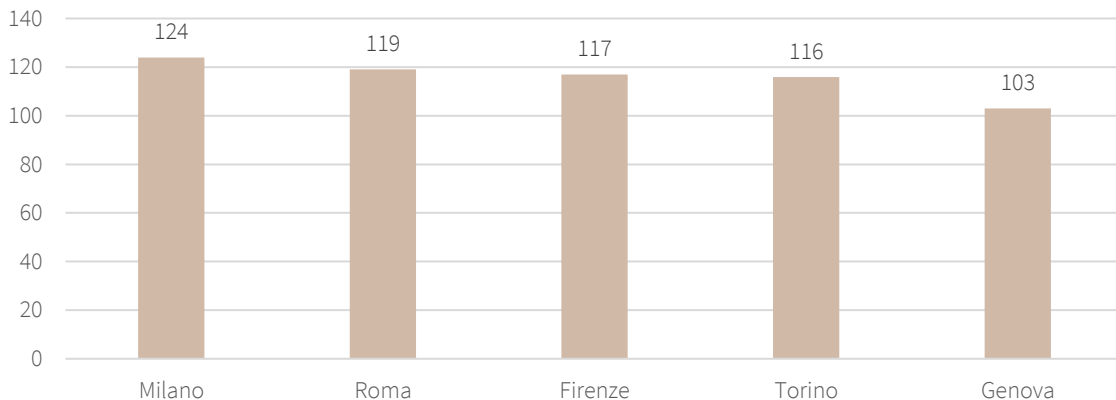
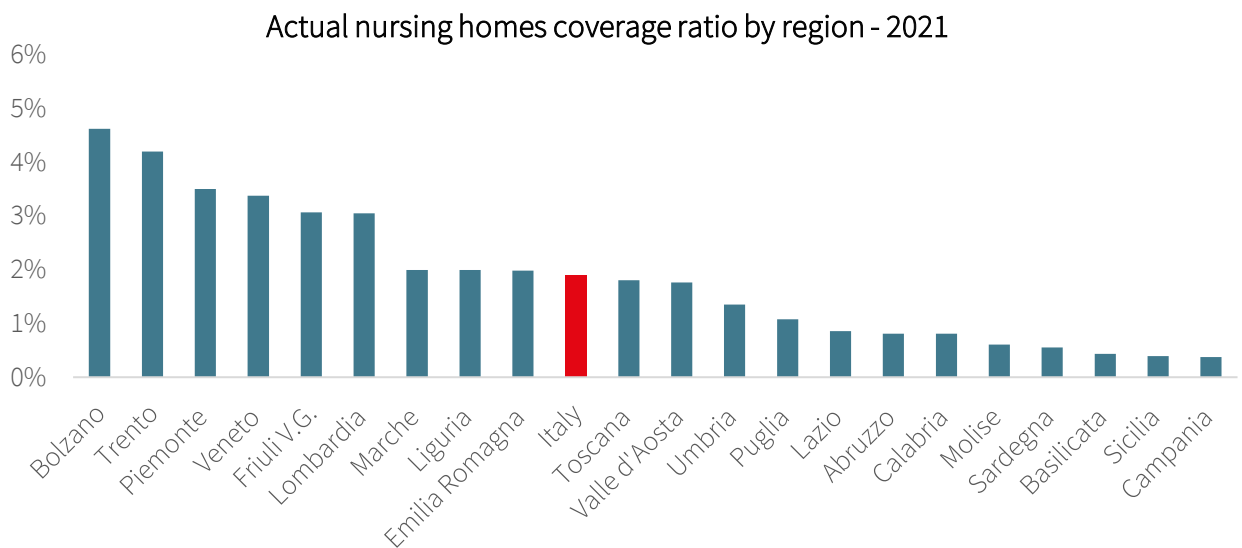Source: JLL elaboration on website information

06
Provision and Projected demand

Comparing the number of existing residential nursing beds with the number of occupied beds per year, the **occupancy rate in Italy stood at 77%**, although it varies across regions: in 5 regions out of 21 is over 80%, Lombardy being the most saturated region with an 88% occupancy rate.

Comparing the number of existing residential nursing beds with the over 65 population, it's possible to see that the coverage ratio in **2021 stood at 1.9**%.

Residential nursing homes beds (lha) and coverage ratio (rha)
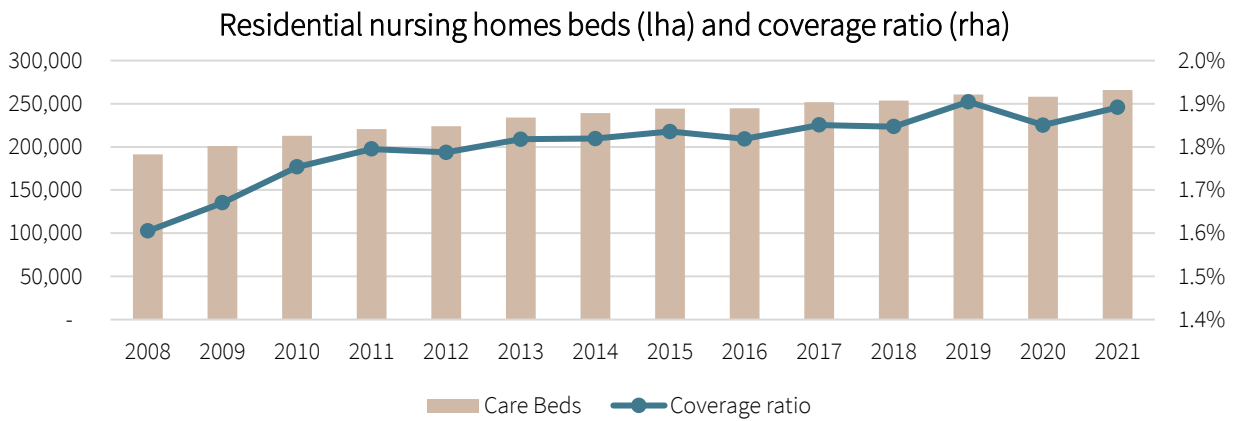
Coverage ratio varies depending on the Region taken into account: Northern regions seem to fare better than others, with Bolzano and Trento (respectively 4.6% and 4.2%), Piedmont (3.5%), Veneto (3.4%) and Lombardy (3%) closest to the 5% target, while almost all of the Southern regions show a 1% or less coverage ratio, with Campania, Sicily and Basilicata being the lowest (0.4%).

Actual nursing homes coverage ratio by region - 2021

Source: JLL elaborations on Ministero della Salute and ISTAT

Italian **patients in nursing homes** grew over the past years: in 2021 they were more than **395,000,** recording a +20% increase on 2010. Among users in residential nursing home - over 65 - the 20% of (around 53,000) was still independent and it represents the majority of patients in Campania, Basilicata and Lazio. Moreover, around 57,000 of them needed low or no nursing care at all, so they might resort to senior living solutions instead.

Users in residential nursing home facilities
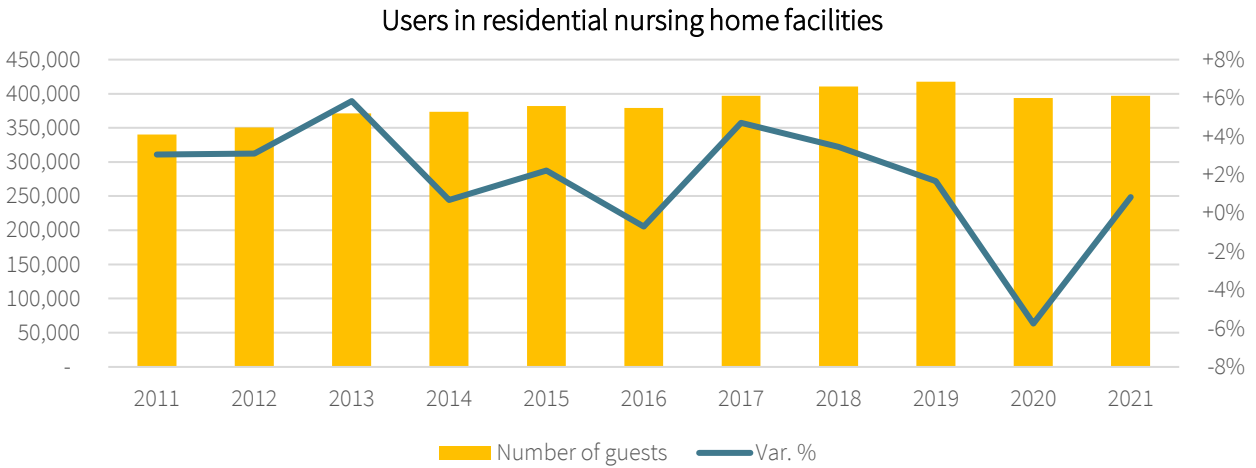
It is crucial to keep in mind the projected growth of the older population in Italy in the coming years: more than 3 millions of additional over-65 and almost 1 Million of over-80 people is expected to live in Italy by 2035, suggesting the need to guarantee more beds. According to the main literature about nursing home bed indicators, the suggested coverage ratio, should be around 50 beds per 1,000 persons aged 65+. To reach a coverage ratio of 5% means that in Italy **more than 600,000 beds need to be on the market by 2035**, therefore doubling the current supply.

The bed supply has to increase in order to reduce the gap with the projected demand driven by the increase in over 65+ that is happening in Italy: regions like Campania, Sicily, Basilicata and Sardinia show an absolute need to reverse the situation.

2022 long-term beds and 2035 projected offer*
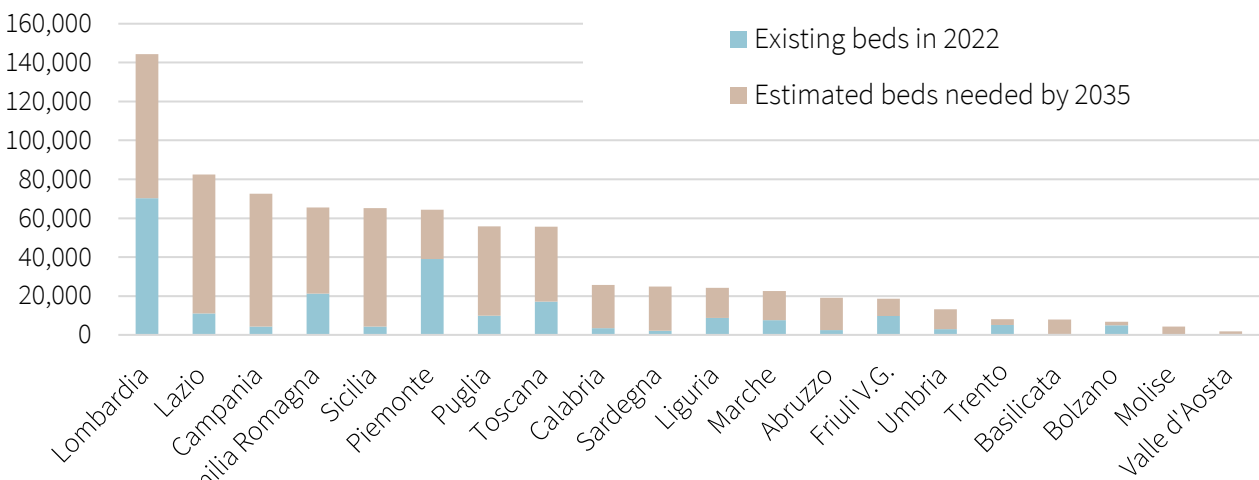
*based on a 5% target coverage ratio

Source: JLL elaborations on Ministero della Salute and ISTAT

7. Looking Ahead

Looking ahead, the **economic environment** remains **challenging**, with the conflict in the Middle East adding to global geopolitical uncertainty.

Inflation is on the way down and is forecast to continue to decline over the coming months. Reduced supply chain disruption, fall in international **energy prices** and commodities prices dropping back to more historically-normal levels should help headline inflation to move down.

As a result, central banks are believed to be at or close to the **end of** their **tightening cycles**.

More stable interest rates will increase visibility and confidence in underwriting, which will in **turn improve market sentiment and gradually encourage return of investment.**

From a real estate standpoint, the healthcare sector remains an interesting asset class:

firstly, investment flows are generally not correlated with the economic cycle, as is the case with other property asset classes, and investors therefore see it as a defensive asset class. In 2023, investments were higher than the pre-Covid level, after the large volume recorded in 2021-2022. Secondly, ageing population – a key factor for developed countries (incl. Italy) – will continue to drive long-term demand in the sector.

Finally, prime yields don't generally swing as much as for other real estate asset classes.

07

Our Three Scenarios for the Italian Healthcare Market

ECONOMY

CRE

Base case

- **Geopolitical uncertainty** has increased and is unlikely to abate with elections in major economies in 2024

- **Inflation** has fallen as energy and commodity prices have fallen. Risks are to the upside from renewed supply

- **Interest rates** are at their peak and are widely expected to fall in 2024

- Despite **tighter lending condition**s there remains consistent demand for borrowing, particularly for refinancing existing debts, as well as for capex finance. **Opportunities** are likely to build, as the volume of debt maturities increases

- **Prime yields** reach the top of their cycle. The cost of debt funding remains high

- **Rental growth** to soften as inflation eases

Upside case

- **Geopolitical uncertainty** will not impact worldwide, and resilient economy allows confidence to remain stable as future conditions are becoming more predictable

- **Core inflation** has started to fall rapidly and will remain around 2% throughout the year

- **Interest rate** outlook is more predictable as there are fewer changes ahead in 2024. More predictable rates make underwriting easier

- **Investments** strengthen as investors gain confidence to start deploying allocated capital. Most markets perform well

- **Prime yield** decompression stops in the short term and a new compression phase starts. **Rents** expected to grow in all markets and submarkets

  .

Downside case

- **Geopolitical uncertainty** increases and is unlikely to abate with elections in major economics in 2024

- **Inflation** is not beaten yet and risks of a new price shock are rising; upside risk to inflation include supply chain fragmentation, climate shocks and armed conflicts

- Central banks should keep **interest rates** high for as long as necessary to bring and stabilize inflation down

- **Investments** suffer as investors flee to core markets. Most markets deteriorate

- **Prime yield** decompression set to continue for a while before reverting to long run average. **Rental growth** suffers in recession-hit sectors while remains stable or shows moderate growth in resilient segments

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