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# HEALTH MARKET SNAPSHOT

MAY 2023

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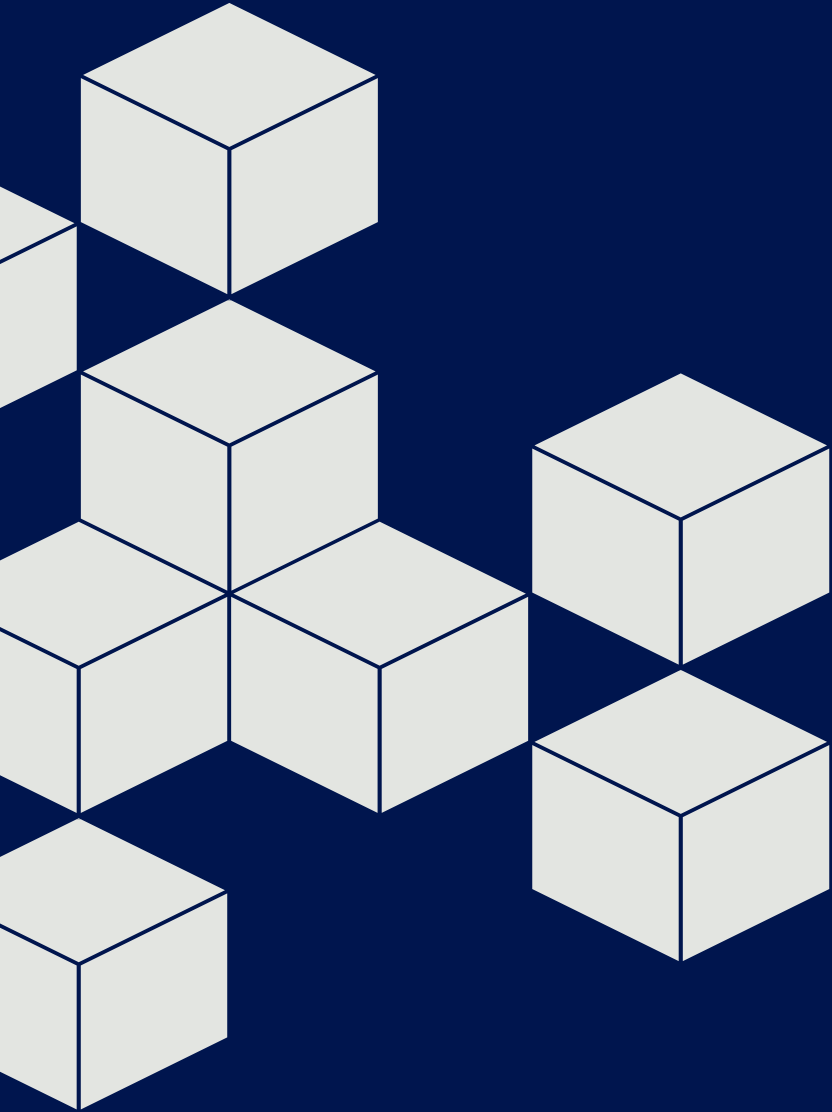
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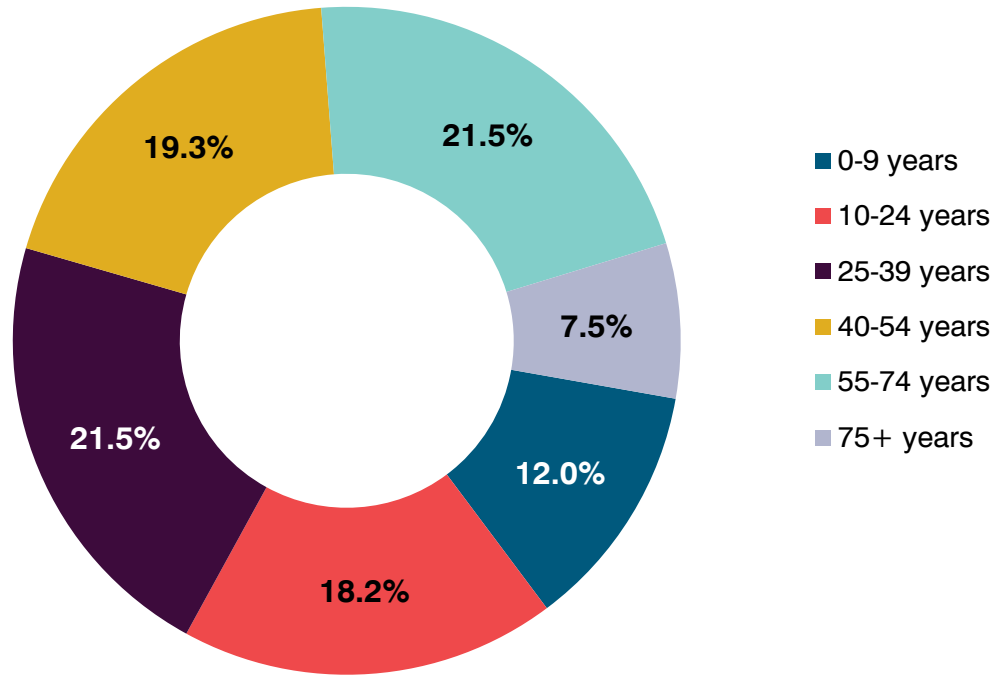




# DEMOGRAPHIC DRIVERS

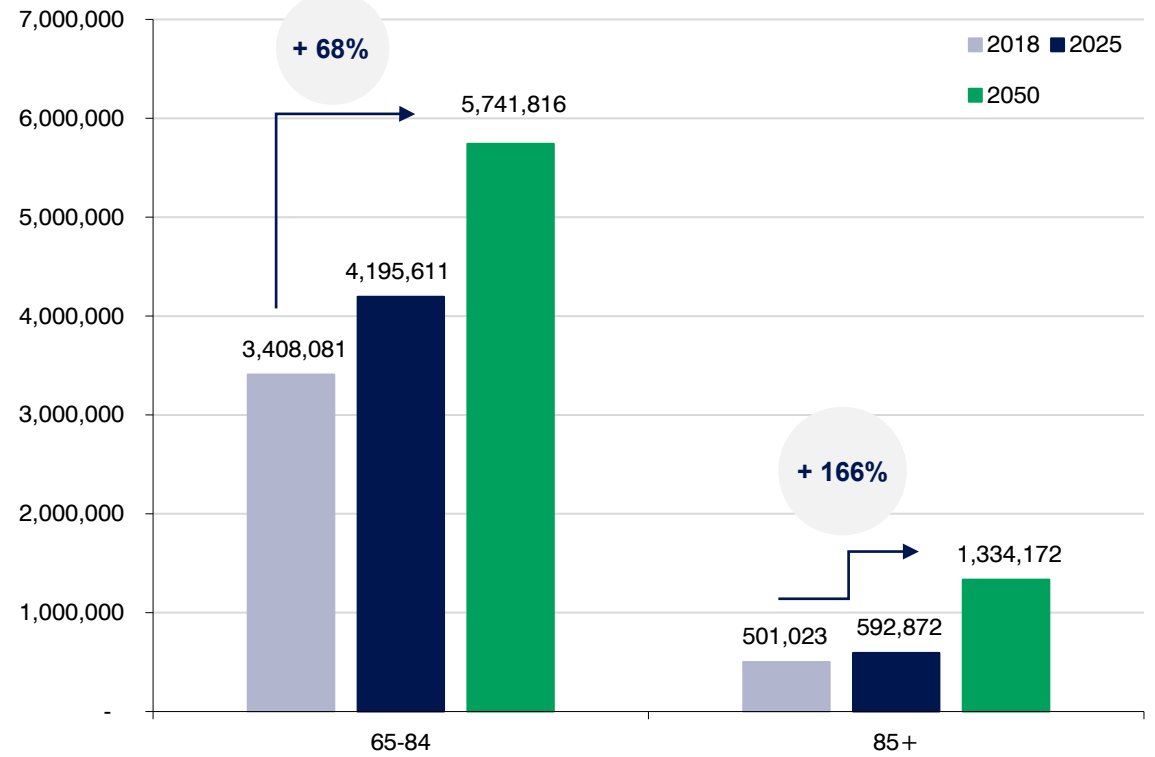
# AGEING POPULATION

## Population by Age Bracket

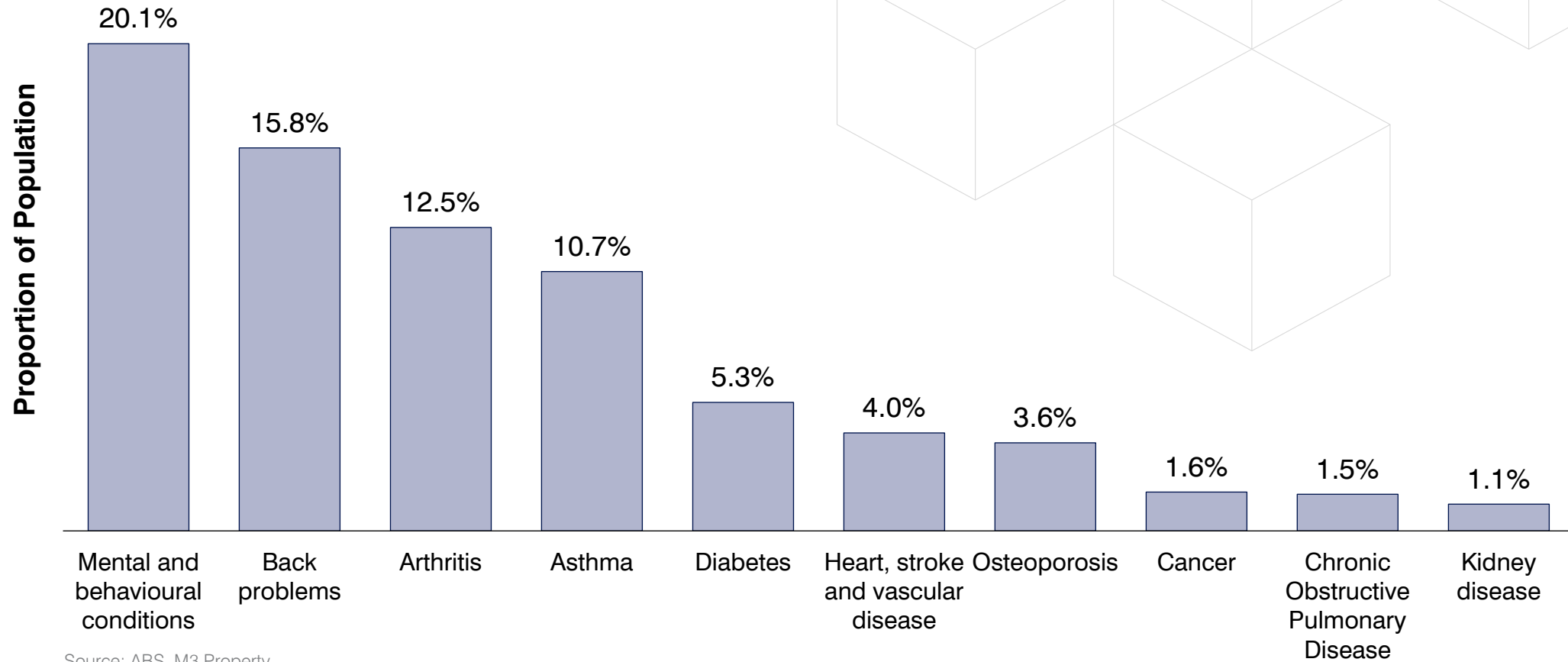


Source: ABS, M3 Property  
 Note: data from 2021 Census

## Ageing Population Forecast



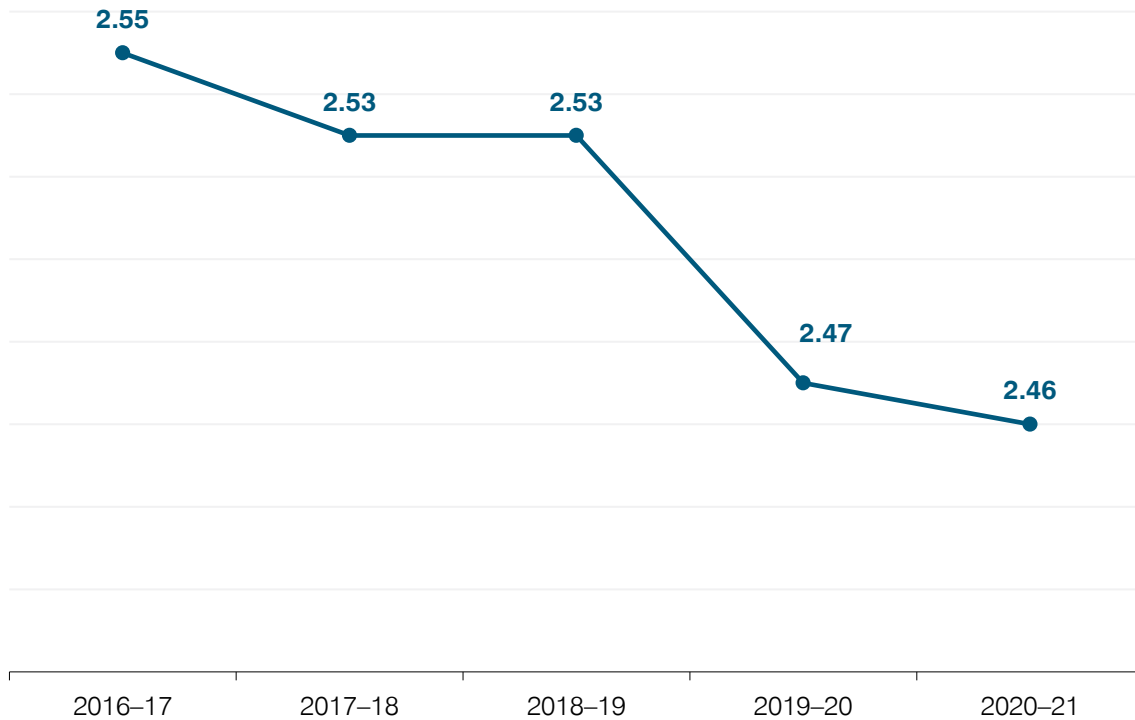
# CHRONIC HEALTH CONDITIONS



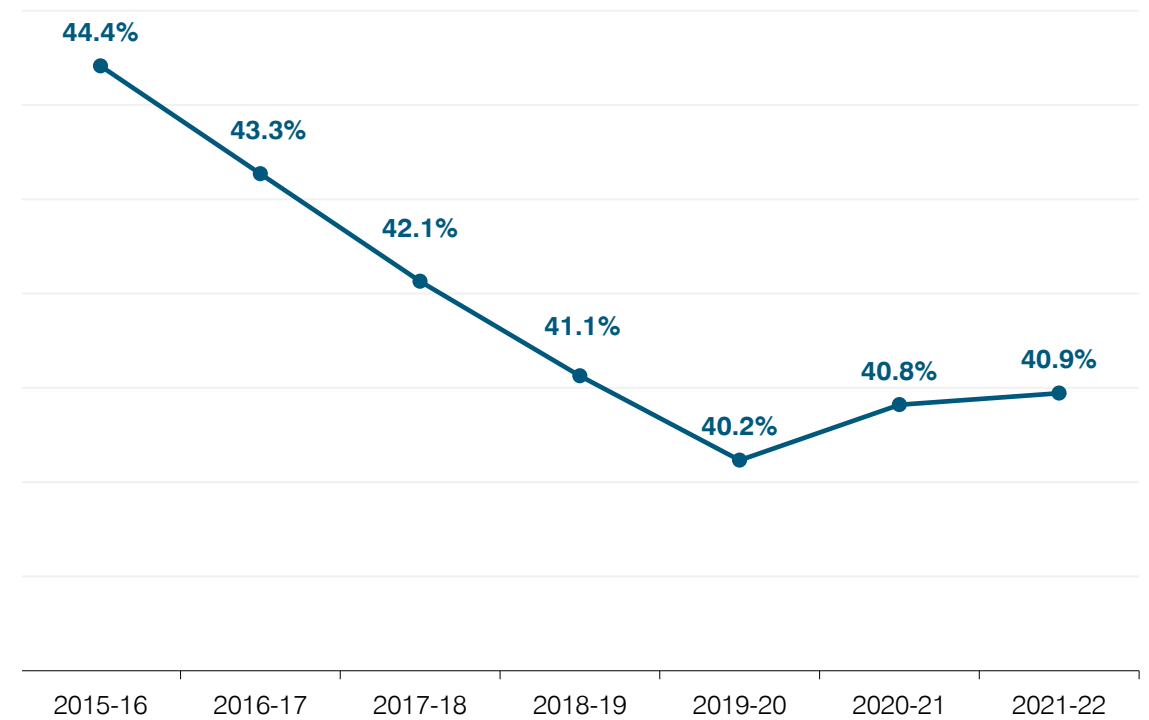
Source: ABS, M3 Property  
Note: data for 2020-21

# PUBLIC HOSPITAL BEDS AND PRIVATE HOSPITAL HEALTH INSURANCE

## Public Hospital Available Beds per 1,000 Population

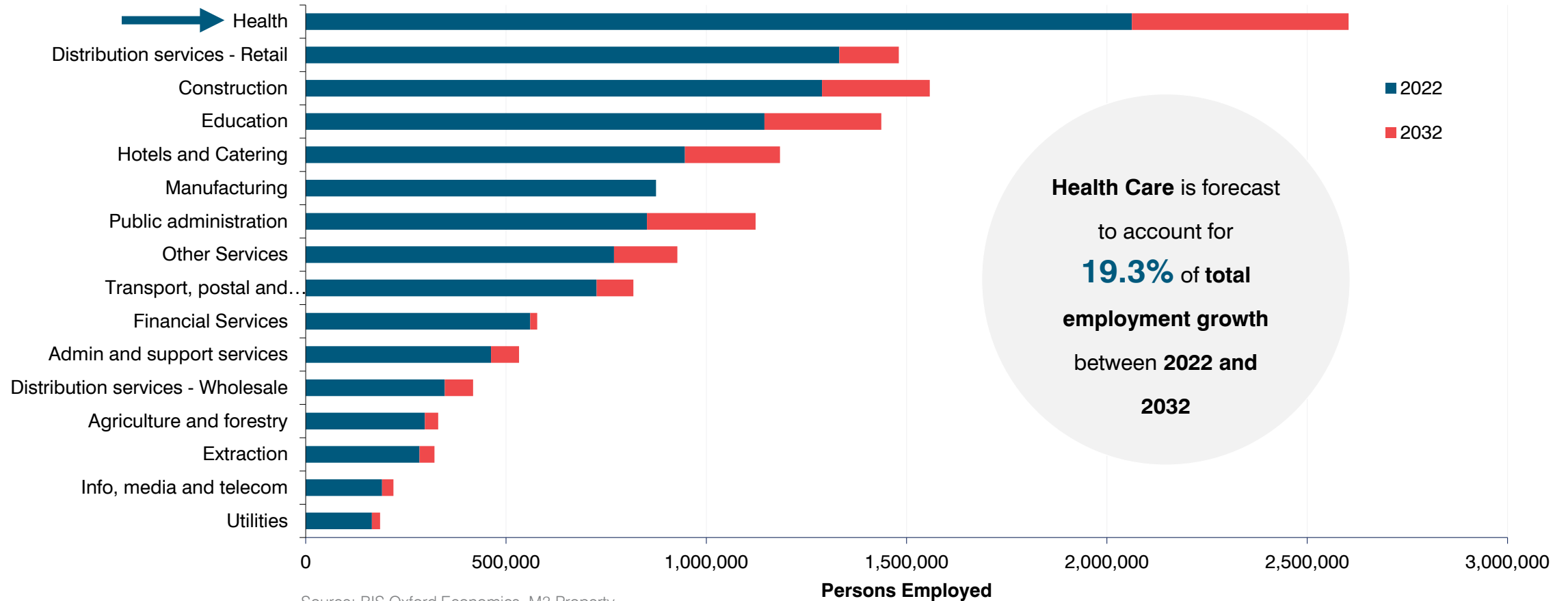


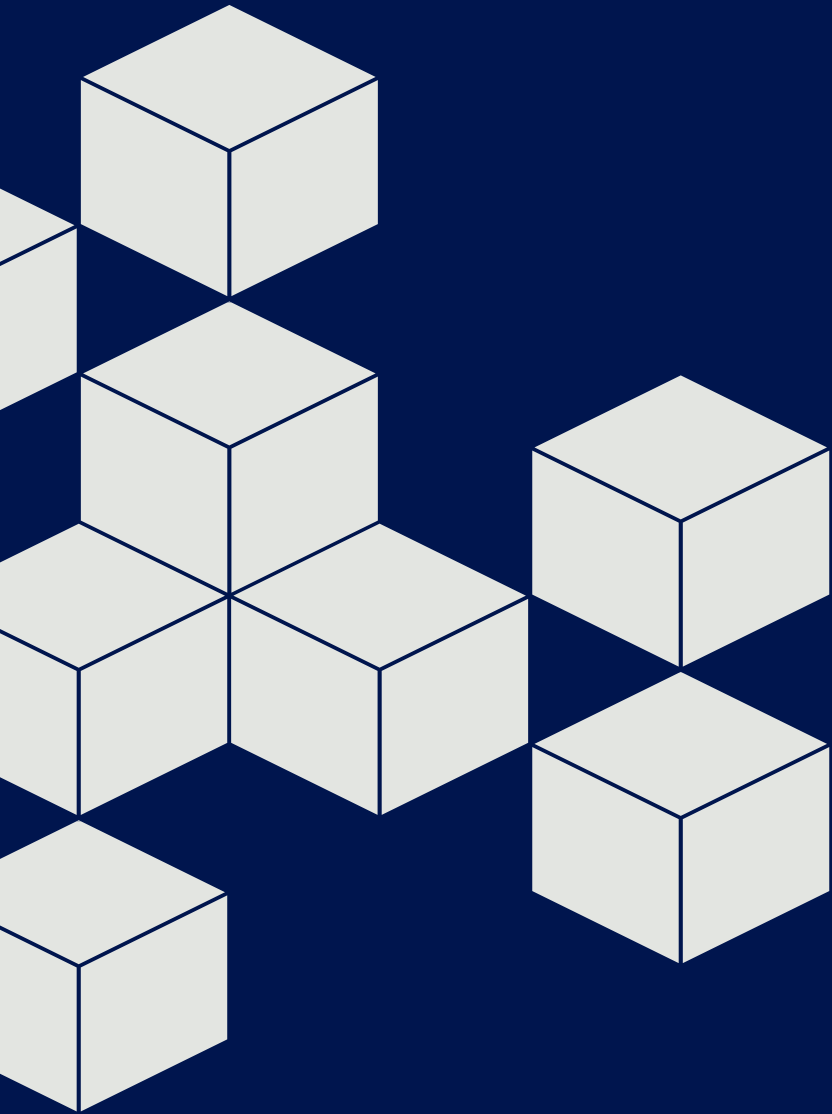
## Proportion of Population with Private Hospital Health Insurance



Source: AIHW, APRA, M3 Property

# HEALTHCARE SECTOR EMPLOYMENT PROJECTIONS





# INVESTMENT MARKET OVERVIEW



# KEY DRIVERS OF INVESTMENT DEMAND

Despite the rising cost of capital, the drivers for investment demand in health properties remain positive.

## AGEING POPULATION

- Increase in demand for services
- Prevalence of chronic diseases

## STRONG LEASE COVERNANTS

- Triple net leases
- High calibre tenants
- Strong performing operators

## LONG WALES

- Prime: 8–25 Years
- Secondary: 3-7 Years

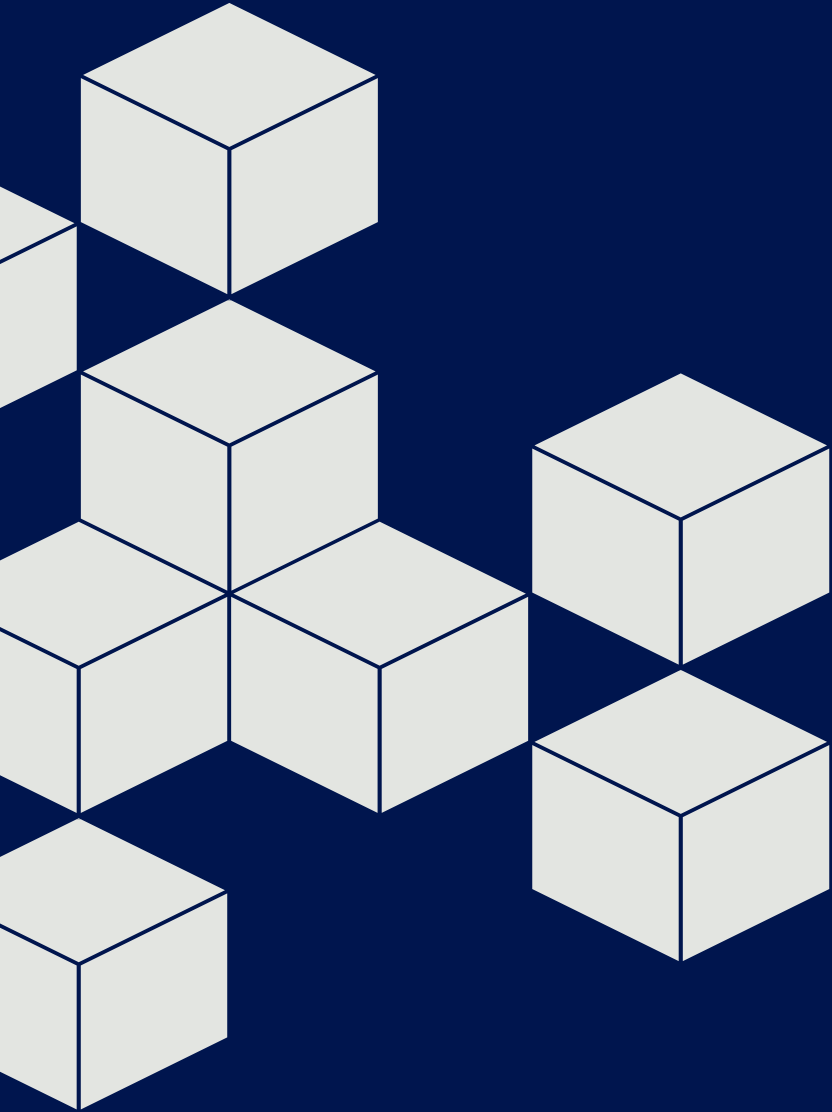
## FUNDING

- NDIS
- Medicare
- Private Health Cover



# INCOME RETURNS OVERVIEW

Asset Type		Prime	Secondary
<b>Medical</b>	Yields	4.5% - 5.0%	5.5% - 6.5%
	IRRs	5.25% - 6.0%	6.0% - 7.0%
<b>Hospital</b>	Yields	4.0% - 5.0%	5.0% - 6.0%
	IRRs	5.0% - 6.0%	6.0% - 7.0%
<b>Freehold Aged Care</b>	Yields	5.5% - 6.0%	6.0% - 7.0%
	IRRs	6.0% - 7.0%	7.0% - 8.0%



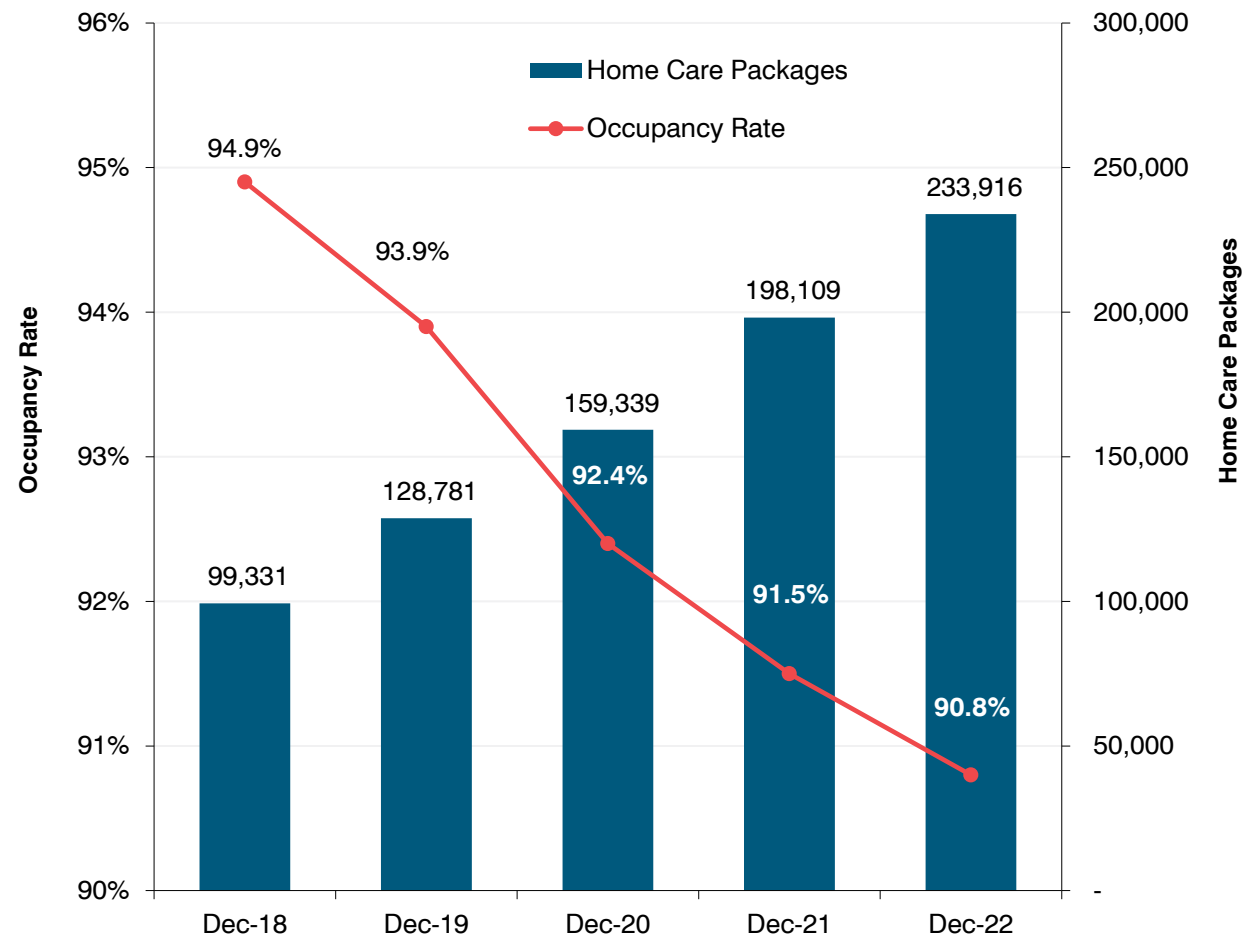
# AGED CARE AND RETIREMENT LIVING

# AGED CARE SECTOR

## Key Observations

- The aged care sector continues to face labour shortages which have resulted in the closure of some facilities. To encourage employment growth in the sector, the Fair Work Commission has increased the wages of direct care aged care workers and head staff by 15% (starting 30 June).
- The AN-ACC Subsidy model was introduced on 1 October 2022 and is anticipated to create more equitable funding for providers.
- Residential aged care occupancy rates have trended down to be 90.8% as of December 2022. Contributing to this has been an increase in Home Care Packages.
- There has been a growing trend towards incoming aged care residents choosing to pay their accommodation payment as RAD/DAP combinations or a DAP rather than a full RAD. This results in a lower capacity for operators to paydown construction costs of new facilities, albeit with a higher cashflow. This has a direct impact on future investment in greenfield developments.
- Ownership in aged care continues to consolidate and most new proposed supply is accounted for by existing operators in the market.

### Residential Aged Care Occupancy Rates & Home Care Packages

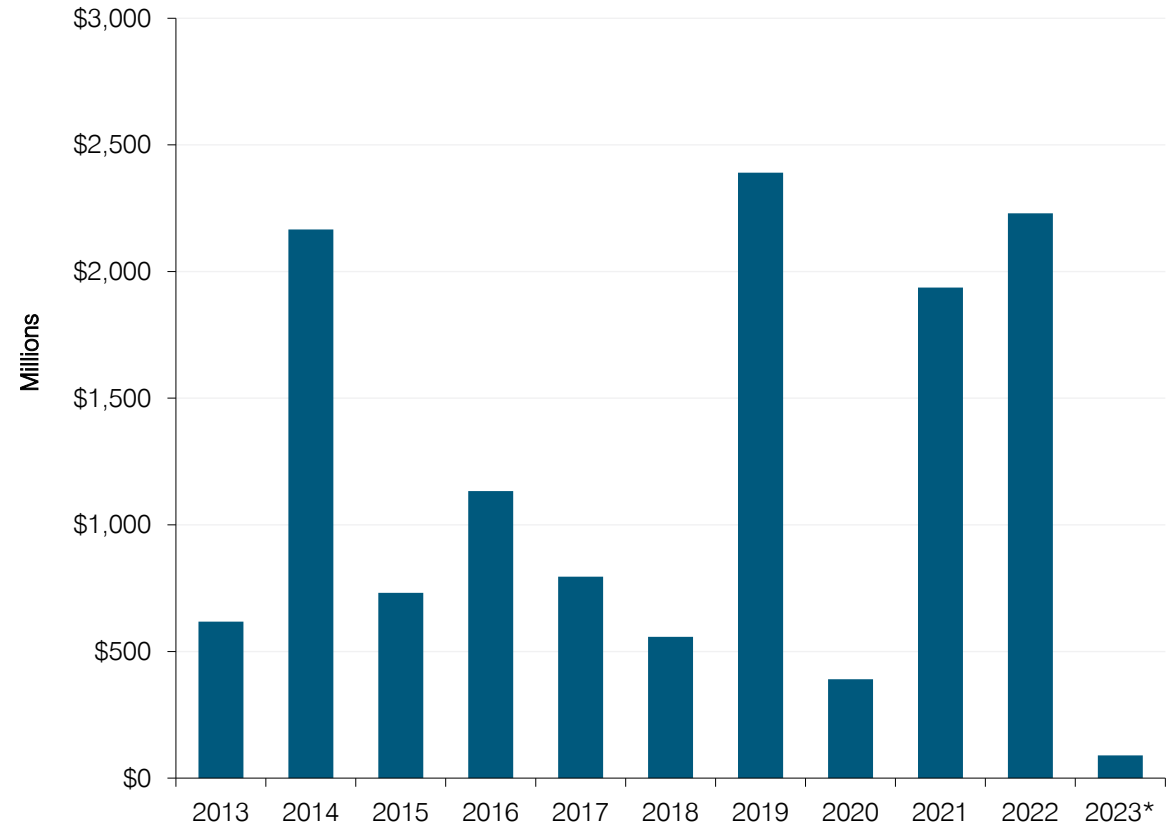


Source: StewartBrown, M3 Property

# AGED CARE AND RETIREMENT LIVING INVESTMENT ACTIVITY

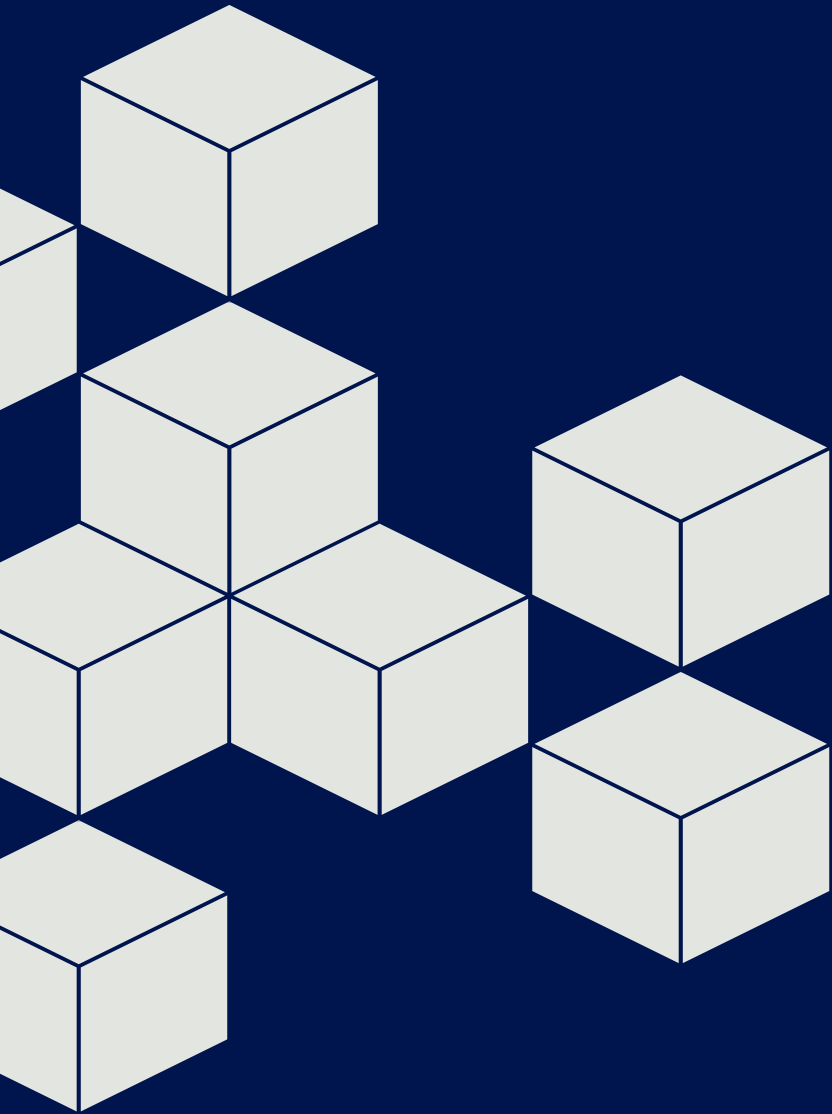
- Sales volumes totalled over \$2.2 billion in 2022, up 15% from 2021 and boosted by the following portfolio sales:
  - EQT Infrastructure’s acquisition of Stockland Retirement Living (including 58 established retirement villages and, 10 development projects, and management platform) for \$987 million. EQT Infrastructure launched its new brand ‘Levande’ following the completion of the acquisition in August 2022.
  - Australian Unity’s acquisition of nine aged-care facilities in South Australia from Bolton Clarke for \$220 million.
  - Bolton Clarke acquired Allity comprising of 43 aged-care facilities for \$700 million.
- A number of transactions are set to exchange in 2023, indicating the continuing strength of the market overall.
- Institutional groups have increased their investment activity over recent years, accounting for an average of 38.5% of the total volume of sales (by \$ value) per annum between 2020 and 2022.
- Factors that have affected investment in greenfield developments include the findings of the Royal Commission, funding changes, and the trend of fewer RADS to more RAD/DAP mix.

National Retirement and Aged Care Sales Volume



Source: RCA, M3 Property

Note: Sales over \$1 million; includes merger and acquisitions; \* as of 9 May



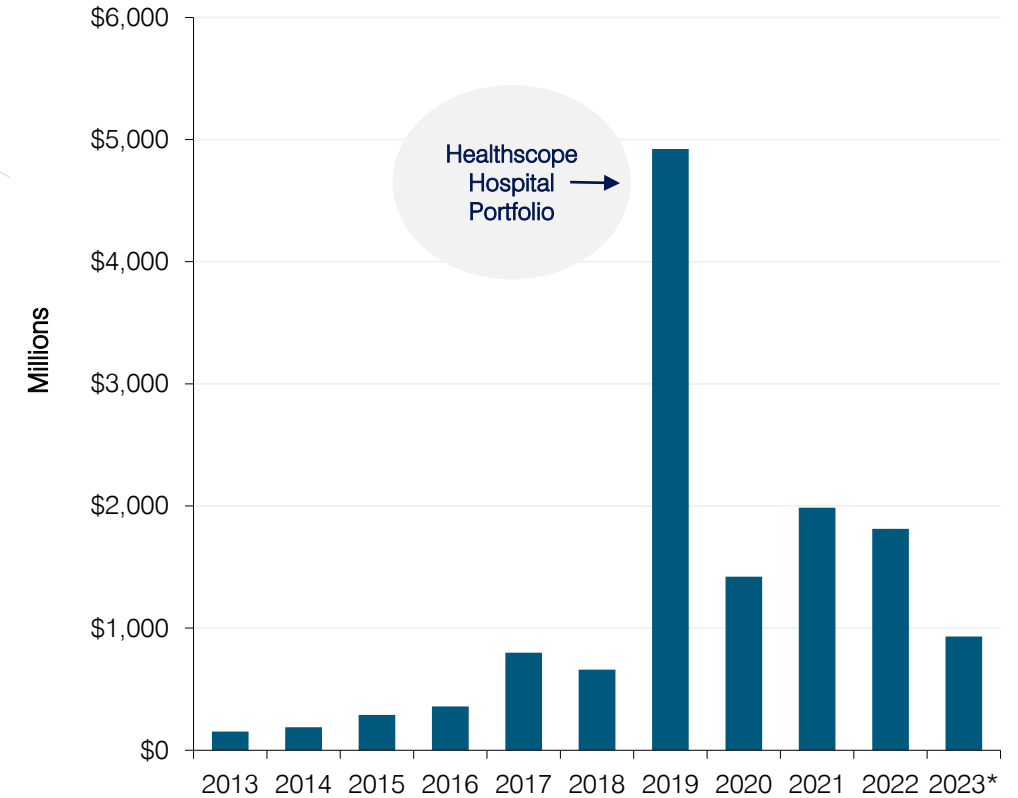
HEALTHCARE

# HEALTHCARE

## Key Observations

- Established and new funds have engaged in a strong bidding competition for assets over recent years. Whilst demand from institutional grade investors is still present, rising interest rates and the lack of quality stock are slowing investment in the healthcare market. We have seen vendors looking to divest non-core assets to pay down debt and fund their future development pipelines.
- However, activity in the sub \$10 million segment of the market remains robust, with private investors acting on the opportunity to enter the market. In 2022 and into 2023 to date, privates have been net buyers of medical assets in the sub \$10 million price point, for the first time since 2013.
- According to RCA, circa \$931 million of sales have been recorded during 2023 to date, including HealthCo REIT's acquisition of 11 private hospitals from MPT which is due for settlement in the second half of this year.
- Investment yields are averaging between 4.50% and 5.00% for prime medical assets and 5.50% and 6.50% for secondary medical assets (predominantly regionally located). Hospital yields generally range between 4.00% and 5.00% for prime assets and 5.00% and 5.50% for secondary assets.
- Looking forward, greater scrutiny is expected on healthcare providers by potential purchasers, particularly in secondary assets where there may be limited asset re-positioning opportunities, or it is capital intensive.

Australia Medical Sales Volume



Source: RCA, M3 Property

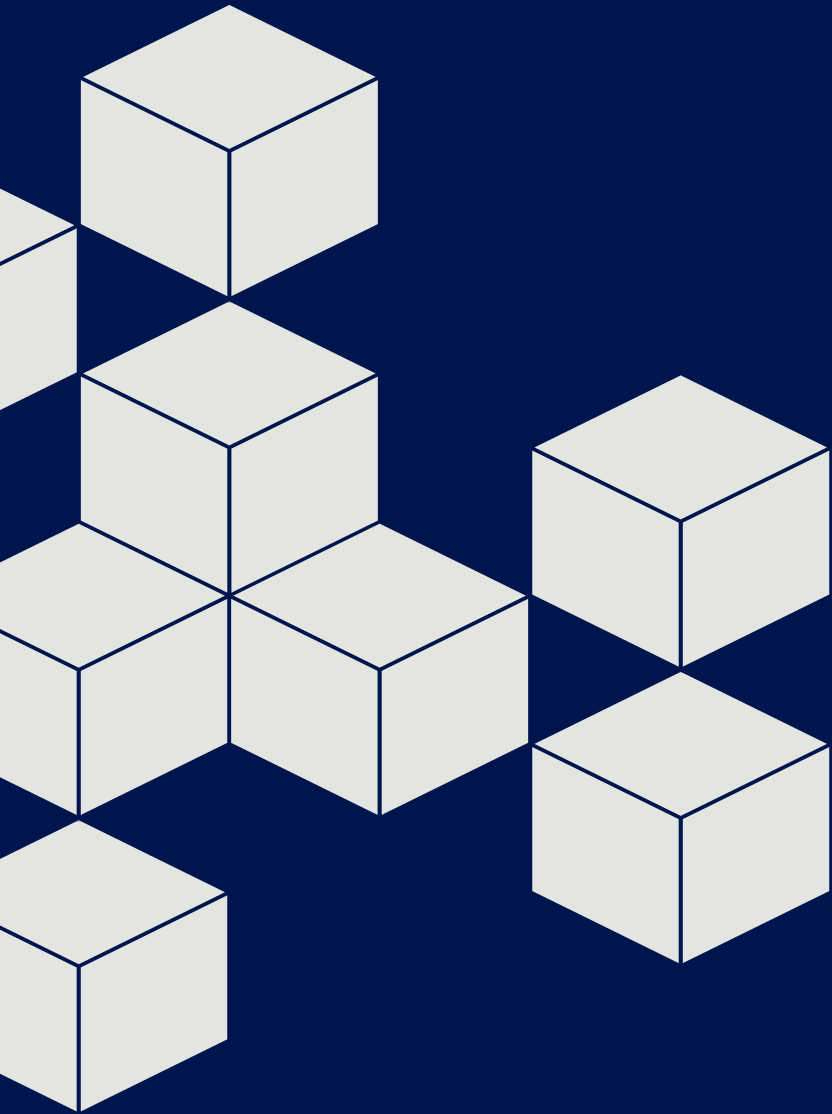
Note: Sales over \$1 million; includes merger and acquisitions; 2019 was a record year for sales due to the Healthscope hospital portfolio sale; \* as of 9 May

# MEDICAL

## Sub \$10 Million Sales

Property	Sale Date	Sale Price	Purchaser	Initial Yield	EMY
Wodonga Medical Centre, Wodonga, Victoria	Mar-23	\$4,605,000	Local Private Investor	6.05%	6.29%
2-4 Charles Street, Mogo, New South Wales	Mar-23	\$5,100,000	Private Investor	6.76%	6.49%
McKinley Medical Centre, Mulgrave, Victoria	May-23	\$3,600,000	Local Investor	5.17%	5.16%
196-200 Hall Street, Spotswood, Victoria	Dec-22	\$8,500,000	Local Private Investor	6.94%	5.96%
South Barwon Medical Centre, Belmont, Victoria	Nov-22	\$5,825,000	Local Private Investor	4.93%	4.92%
1 Zwerner Drive, Hallett Cove, South Australia	Nov-22	\$4,600,000	Private Investor	6.67%	5.85%
10 Ramrod Avenue, Hallett Cove, South Australia	Oct-22	\$5,000,000	Private Investor	4.80%	4.80%





# SPECIALIST DISABILITY ACCOMMODATION

# SPECIALIST DISABILITY ACCOMODATION (SDA)

## Key Observations

- The Specialist Disability Accommodation (SDA) investment market is continuing to mature, with a growing development pipeline, increased operator sophistication, and proven stable returns providing investors with an attractive capital allocation alternative.
- The NDIS has an annual recurrent budget of \$700 million (indexed over the next 20 years) for SDA. This budget is aimed at incentivising investment into the market and the development of new SDA dwellings. Currently, national funding for SDA is circa 48% of the total allocated \$700 million per annum. As new SDA is developed and added to the market, average participant funding is expected to increase as funding for new build SDA is higher than funding for existing and legacy dwellings.
- Whilst the specialist nature of SDA housing typically requires moderately higher entry cost, investment returns are generally higher than traditional residential housing. This is particularly evident in areas where there is strong demand for SDA, combined with strong market growth.
- A review of SDA pricing was announced in August 2022, evaluating the impact of current SDA prices on supply and demand. The review intends to set new SDA prices to encourage investment in areas most required over the coming five years. Outcomes of the SDA price review will be implemented 1 July 2023 with final decisions anticipated to be released in June 2023.

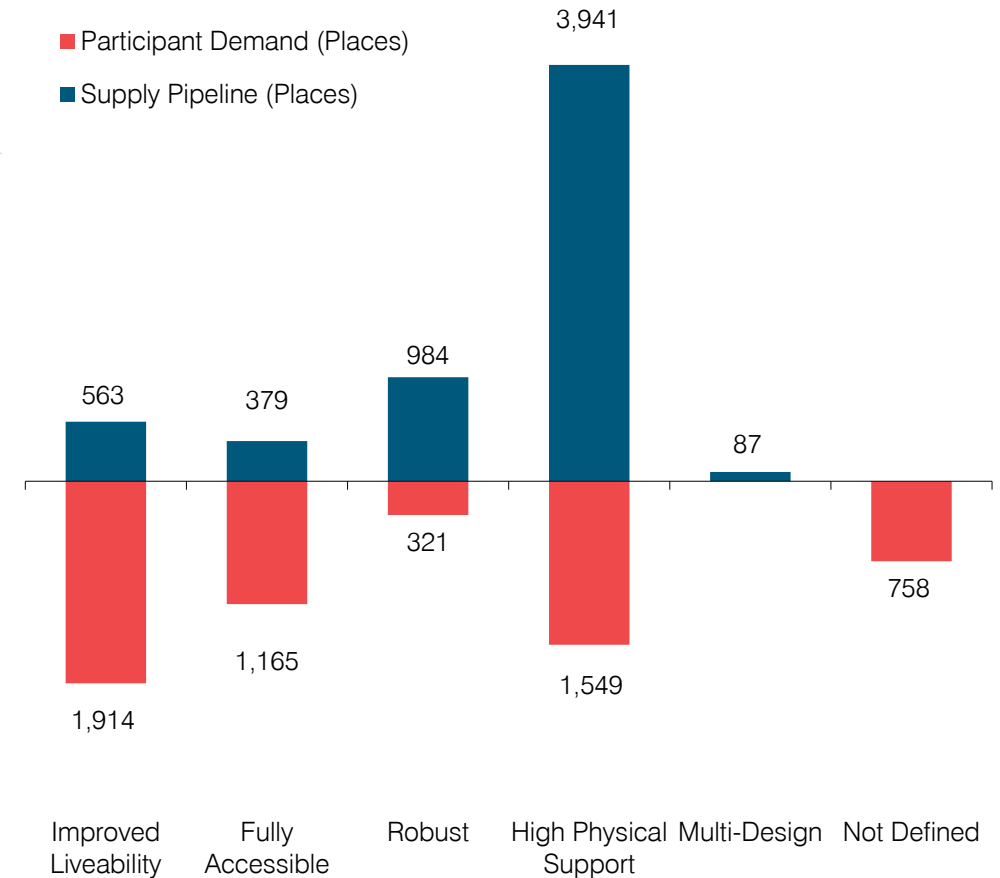


# SPECIALIST DISABILITY ACCOMODATION (SDA)

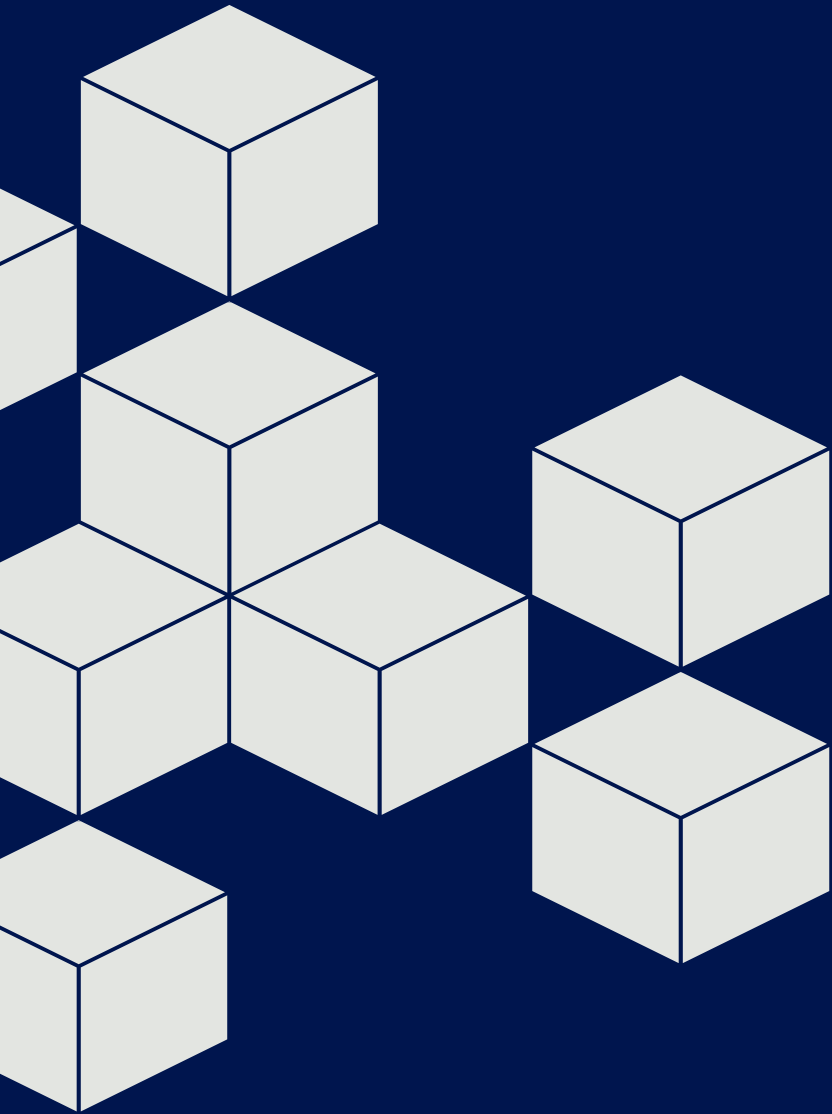
## Supply and Demand

- The national supply pipeline is heavily dominated by High Physical Support places (3,941 places nationally as of March 2023), however, there is only an estimated 1,549 identified persons at present seeking a High Physical Support place. Similarly, Robust supply (984 places in supply pipeline) exceeds known demand for this design stock (321 participants).
- As the market matures, we are seeing an increasing number of participants within SDA dwellings looking for alternative accommodation. This is being driven by increased awareness of SDA (including awareness of the new Design Standard), as well as new supply being developed that might be more suited to a participant’s needs. Vacancy in existing or poorly designed dwellings will likely increase over time.
- New residential building activity has been slowed by labour and supply shortages which have fed through to significant rises in the cost of construction over the past 12 months. The increase in construction costs have put pressure on project feasibilities of some developments and this is likely to continue over the near term. Specifically, there is reduced inner metropolitan development being proposed in comparison to outer metropolitan or regional areas, with high underlying land values prohibiting project feasibility. This is likely to result in reduced supply levels over the medium to long term, with a review of the Price Guide necessary to incentivise further development to meet current and projected demand levels.

National Supply Pipeline & Current Demand (Places)



Source: NDIA, M3 Property



OUTLOOK

# CONCLUSION AND OUTLOOK

- The healthcare sector is a growth sector backed by long-term fundamentals, with significant investment growth opportunities across a diverse range of asset sub-classes.
- The market is highly fragmented and there remain opportunities for further consolidation. There are also high levels of owner occupation (or interrelated leasebacks), presenting further investment and securitisation opportunities.
- Lack of investment stock remains an issue in all markets. We expect to see continued focus on asset repositioning in addition to brownfield and greenfield development opportunities. Capital injected from institutional investors will be a key driver for private hospital/day surgery development within the sector over the coming years.
- The recently announced 2023-24 Federal Budget included a range of measures to strengthen the Medicare system as well as capacity in the health and aged care workforce. Included in the budget is \$11.3 billion over five years to fund the 15 per cent pay increase for aged care workers.
- It is likely that the peak of the monetary policy tightening cycle is approaching, however a degree of uncertainty remains within the market. Looking forward, we expect to see continued demand for quality assets with most of the major groups looking to partner with established operators.



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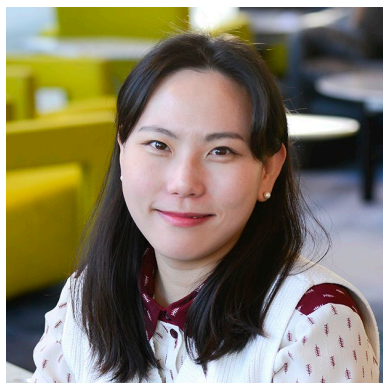
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