Università
Ca'Foscari
Venezia

Master's Degree
in Economics and Finance

Final Thesis

Healthcare Real estate: The investment opportunity of Senior Living in Italy

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Academic Year
2018 / 2019

To my mom,
For teaching me that “there is not a bad without a good”.
You inspire me to always find the good in anything that seems bad,
and I keep that with me, wherever I go.
Thanks to you, I’m never lost.

Acknowledgments

I would like to thank the Real Estate Sales team of UniCredit S.p.A. in Milan, Marco Recalcati, Roberto D'Amelio, Angelo Manca and Francesco Beghi, for the support, mentorship and help in retrieving fundamental resources for my dissertation during my six months of internship with them.

I'm very thankful to Patrick Parkinson for letting me interview him and use private data about Real Care past projects.

I'm incredibly thankful also to Oronzo Perrini and Massimo Di Gregorio of REAM SGR S.p.A. for letting me use their private data for the Geras Fund business case reported in my dissertation.

I would also like to thank my supervisor Enrico Maria Cervellati for the patience he had during the writing of the dissertation, and his availability and reassurance towards me and my work.

Lastly, I would like to thank my amazing family for the constant love and support and for putting up with me during my university years, and my incredible friends for behaving like my number one fans in times of doubts, and for being there anytime I needed advice or a different point of view.

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Abstract

The analysis of this dissertation regards the investment opportunity that Senior Living will represent in the next decades in Italy. We begin with a demographic analysis of the population, with particular attention to the “baby boomers” cohort in Europe and in Italy, and an overview of the Healthcare real estate market in the UK and the USA. In Chapter 2 we analyze the healthcare real estate market of Italy, with a focus on Residenze sanitarie assistenziali (RSAs) and Retirement homes and their profitability. Following the market analysis, we present a case study in Chapter 3 of an investment made by the REAM fund to finance the construction of an RSA. Then we introduce the concept of Senior Living in Chapter 4, its prospects and opportunities in the Italian Real Estate market, with a case study of a first attempted construction by Real Care. Lastly, we conclude the dissertation in Chapter 5 with an overview of the type of the investment, if it is feasible and its profitability.

Chapter 1

The Healthcare sector

1.1 Ageing population

Population ageing has been an ongoing trend in Europe in the last decades. According to the data analyzed by Eurostat, on January 1st 2018 the European population was estimated to be 512.4 million, of which: 15.6% were young people (Between age 0 and 14); 64.7% were working age people (between 15 and 64 years old); and 19.7% were elderly people (from age 65 or older) (Eurostat, Statistics explained, (July, 2020)). This last percentage increased by 0.3% in comparison to the previous year, and it increased by 2.6% when compared with data from 10 years ago.

The elderly population has been steadily increasing over the years in every Member State of the EU. The answer to this may be the associated increased longevity, reflected by the statistics on life expectancy which kept rising year over year. In Figure 2 we can see this exponential growth emerging especially from the year 2014, distinguished by sex.

Adding to these statistics are the fertility levels which are at unwavering low levels.

Eurostat's projection of the population, made on the period from 2018 to 2100, show that it will reach the top at 525 million people in 2040, after it will decrease to 492.9 million in 2100.

From this data it is clear that, in the near future, the current high number of "baby boomers" will become a grand portion of the elderly population, and of the European society. Furthermore, the gradually continuous ageing of the already older population is to be underlined when analyzing the ageing of the population since this segment is increasing at a fast rate. Eurostat projections depicts that the EU.28's population of individuals in their 80ies will be growing by 2.5 from 2018 to 2100.

Figure 1: Medium age of population, distinguished by country in 2008. In blue, the increase in the median age from 2008 to 2018.

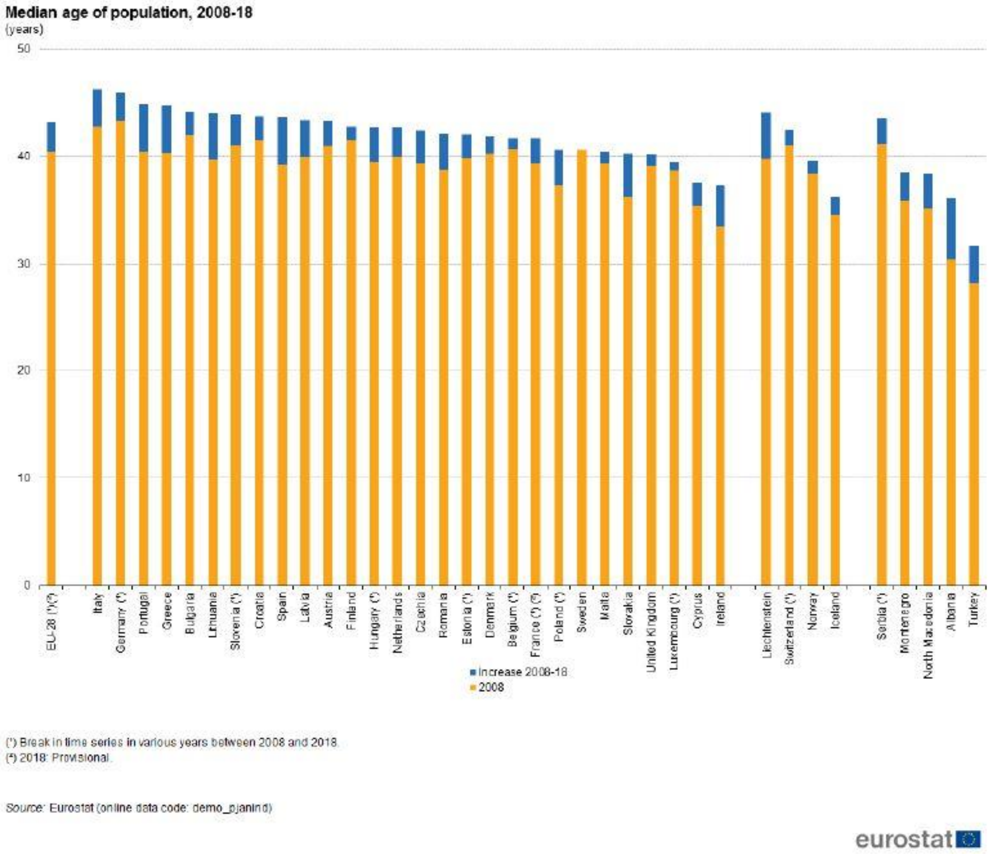
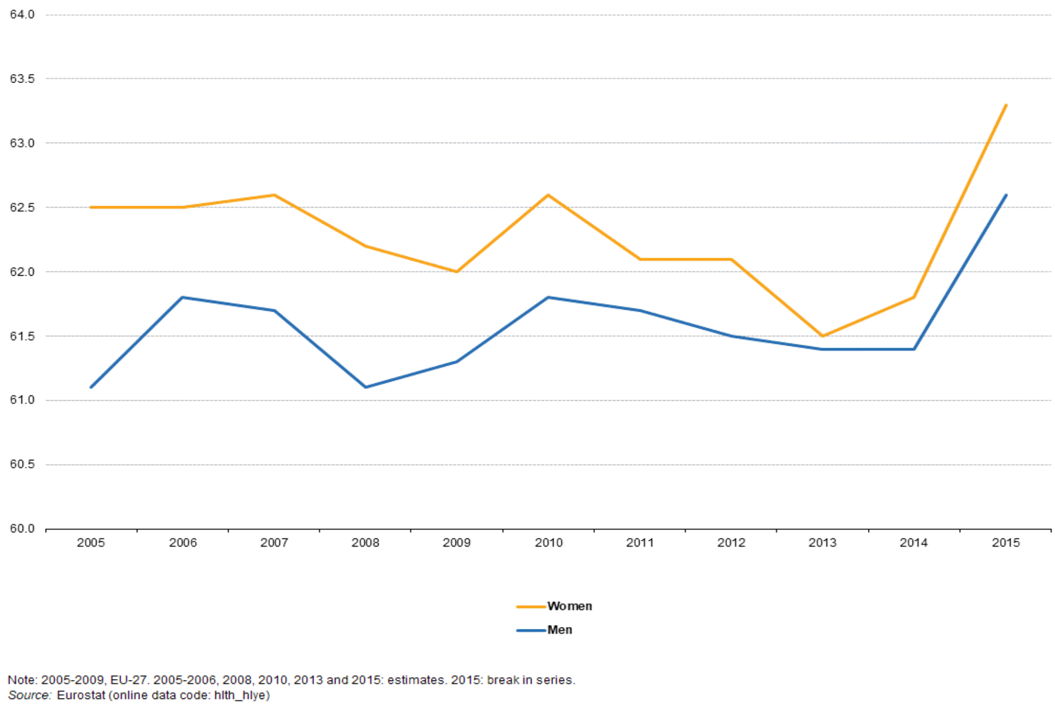


Figure 2: Life expectancy growth from birth, from year 2005 to year 2015

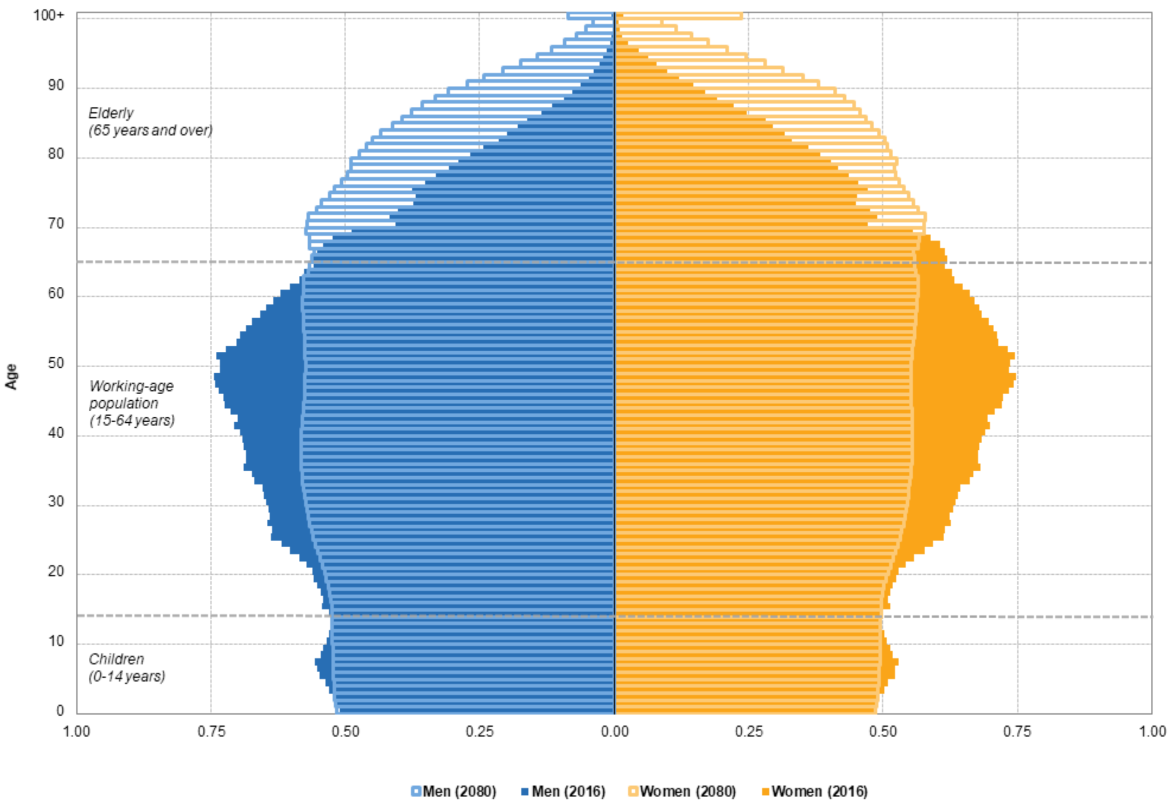


Of the Member States, Italy is the country with the highest median age, of 46.3 years (In Figure 1 we can observe the median age of Italy's population in 2008 and how it grew until 2018 with respect to the other countries). In Italy, life expectancy is expected to grow of five years for both genders by 2065, with men living up to 86.1 years and women up to 90.2 (Istat (2018)) The confidence interval associated to these projections are between ages 84.1 and 88.2 for men, and 87.9 and 92.7 for women.

Therefore, the aging process of the overall population is to be considered certain and consistent.

As already mentioned, most of this process is attributed to the transition of the baby boom cohort, in particular those born between 1961 and 1976, from late active age (from age 39 to 64) to the elderly age (from 65 on). Istat's projection expects an ageing peak for Italy around the years 2045-50, where the population belonging to the elderly age range will comprise on average 34% of Italy's population.

Figure 3: Population pyramid structure in 2016 and projection of 2080 structure



Note: 2016, estimates. 2080: projections.
Source: Eurostat (online data codes: demo_pjan and proj_15npms)

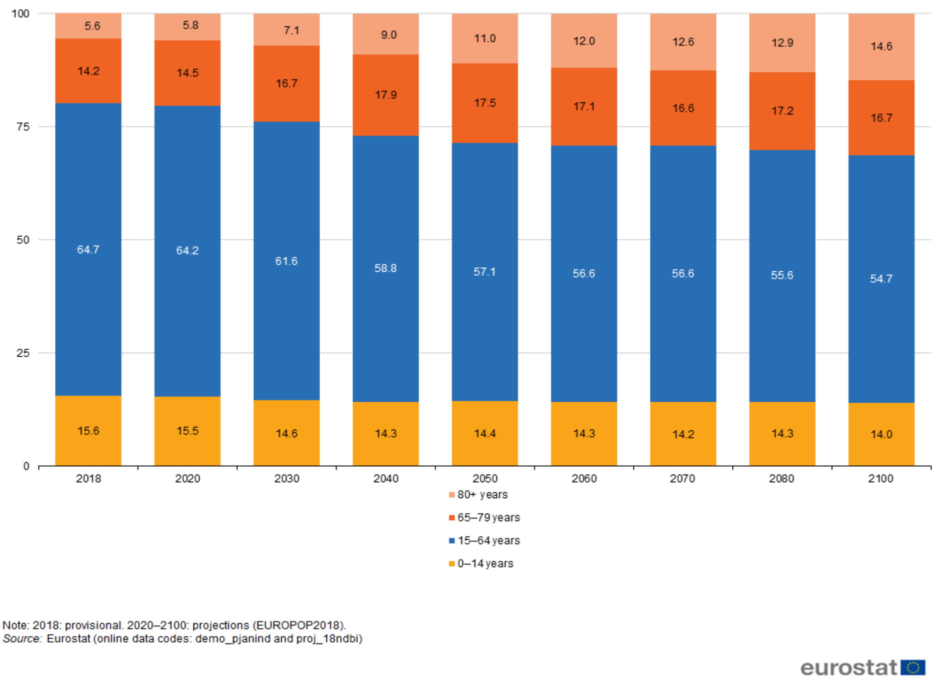
It is evident from the pyramid in *Figure 3* that the population structure is unbalanced, where over 22% of the society is composed by people aged 65 and over, and the average mean age is 45. The largest numbers are represented by working age people belonging to the cohort of the "baby boomers" born between 1946 and 1974. This range of people described will transit to an age range between 54 and 69 by year 2025, and they will still represent the largest portion of society.

Moreover, with strong levels of certainty the working age population will begin to reduce in number going from 64.2% to 63.2% in 2025.

2045 is expected to be a crucial year for Italy regarding the age composition of the country's population; we will see a median age that will rise up to an average of 49.6 and a decrease in the working age population to 54.5%. Hence, the unbalance of the population structure will still be consistent with the elderly range comprising 33.5% of the total population. The "baby boom" cohort will shift to the next notch of age range, going between 74 and 90.

According to Istat, in 2051 the elderly population will reach its peak with an expected average 33.9% of the whole population. As can be seen in Figure 4, from 2030 the

Figure 4: Population structure by major age groups (% of total population), 2018-2100.



percentage of people aged more than 65 (highlighted by the two shades of orange in the figure), and hence, not belonging to the working age group, gradually increases over time.

Even though the uncertainty of the projections data gradually increases as the expectations involves later years, it can be confidently said that the population pyramid will eventually reach a structural equilibrium (Figure 3, 2080 population structure projection).

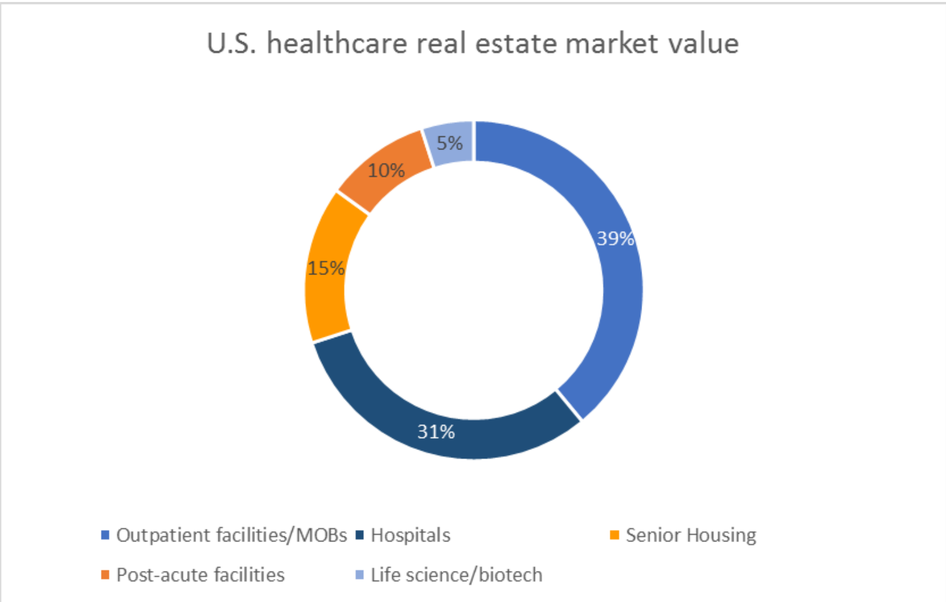
1.2 The Healthcare Real Estate market

1.2.1 Overview of the U.S.A. market

The traditional picture of hospitals and healthcare in the U.S. has been changing in the past years. A simpler access to care with costs that are more contained has been the main demand of the consumers in recent years, mainly by an ageing and growing population. Real Estate has been the answer for the healthcare market to handle patients in a more effective and efficient way.

Nowadays, the healthcare sector comprises 17.9% of the U.S. GDP with an expenditure growth of 33% since 2000. It is not a surprise that it is the sector with the most rapid growth in the U.S. As age increases, so does the general medical costs for the average person. Hence, as seniors' specific medical needs grow, there is an increased need for adapted and specialized spaces and locations.

Figure 5: United States of America healthcare real estate market value in %. Source: JLL Research



Healthcare companies are finding new ways to maintain a healthier population with contained costs. They are achieving this by cutting the unnecessary surplus of utilization of admissions and readmissions of hospitals. Following this strategy allowed the organizations to come up with the most suitable care structure and organization of outpatient and inpatient services.

Healthcare is progressively detaching from the hospital-centric idea and is developing into community settings. Since 2014, REITs (Real Estate Investment Trusts) no longer have a hold on healthcare real estate, they made up only 60% of medical transactions while health systems and hospitals comprised the 16% of transactions, underlining a more diverse distribution of buyer's pool (JLL Research (2018))

More accessible locations for patients are being developed by healthcare institutions. Since patients seek convenience, the variety of services that are annexed are advantageous when dealing with patient care, including all those services that are needed to manage populations concentrated in one location, such as ancillary and physician services.

The diversity of the healthcare real estate market keeps on growing reaching $1 trillion in 2018. Some key transformation where the determinants of such important results, as a consequence of an analysis of fundamental trends arising in the last years. These include a progressive demand increase for locations that are off-campus; more and more outpatients facilities that are becoming more affordable than hospital; and the diversification of facilities which create better experiences for patients, giving them the specific care they seek for their particular problem.

It is evident that new types of real estate in the healthcare sector are needed since the number of patients are constantly growing, the actual costs are becoming a burden too heavy to bear and the young adults generations demand more convenient facilities which are smaller with more specific services.

Hence, innovative real estate solutions that comprise scaled down micro hospitals and outpatients' facilities are the new frontiers. Healthcare delivery is muting because of the advent of value-based care concentrating on the health of the population together with the surge of consumerism.

1.2.2 Overview of the U.K. market

Countries with a strongly regulated healthcare system have usually seen involvement by the government, as an example, we have the National Health Service (NHS) in the United Kingdom.

In 2018 the U.K. healthcare market was able to endure uncertainty of economic and political nature. Research by Knight Frank shows that compared to 2017, the sector activity grew of 13% with £1.49 billion at year end, and compared to the last decade it grew far beyond average levels. The whole economic picture was strongly impacted by the Brexit event; therefore, the previous data are all the more encouraging regarding investments and the economic health of this sector.

As in the rest of Europe, the U.K. ageing population will be the demand driver for new and efficient healthcare solutions. The rates of occupancy for care homes and care home fees are already at the highest they've ever been even before the largest part of the baby boomer cohort comes into the picture.

Even though the supported living and adult care sector is smaller than the elderly care one, it still had investments up to £350 million in 2018, corresponding to 24% of the overall healthcare transactions.

Recently, the market preferences have been redirected from institutional care homes to assisted living residential communities, the main reason is that the latter has lower costs for the local authorities which are the principal funders of these investments.

Different healthcare areas have respectively different ranges of yield, nevertheless, the levels of demand by investors for the overall sector keeps increasing.

In 2018 the overall UK Property average has been outperformed by the healthcare sector which realized returns of 10.9%. In the U.K. the sector has had returns of 8.3% on a five years' average, hence, the stable track record in returns of the healthcare market indicates that its strength doesn't fade even when analyzed on a risk-adjusted ground.

As can be seen, the healthcare sector is the one that has been least affected by Brexit, moreover it was the segment that best performed under political uncertainty thanks to its safe long-term cash inflow. In fact, the expectations for this is segment are positive: the numbers of 2019 that mirror those of the last two years; more and more investors are seeking long-term safe investment opportunities and healthcare REITs portfolios have been constantly growing.

This type of investment has also been attracting international investors, creating an ongoing trend. Those that are specifically interested in healthcare have been increasingly considering the senior living sector to diversify their portfolios, since in recent years it has been more and more perceived as a major alternative asset sector. The investment in the property healthcare segment is exposed to different risk factors that can be mainly grouped into two categories, the first one being Property-specific risks which comprise: reputational risk, obsolescence, operator lease risk, and the most critical one: quality of healthcare property stock; the second category is the risks for the healthcare as an industry, such as: reduced budgets, new regulations, government regulation of sectors' operations, shortage of staff, increase of care costs, Brexit. The major actors in healthcare real estate investment in recent years have been Primary Healthcare, Medic X, Target Healthcare and Assura. The international investors have been mainly from the U.S., more specifically U.S. REITs that have been investing in high quality healthcare real estate assets (Newell, Marzuki (2018)).

When looking at the returns for this type of investment, an analysis made on the risk-adjusted performance of property healthcare in the U.K. between 2007 and 2016 shows that the overall annual average return is 5.10% (In Figure 6, we see the average Fixed-Yield performance per area of the Healthcare sector in the U.K). To be more precise, primary healthcare outperformed secondary healthcare with a 7.67% per annum against a 2.06% per annum. What is remarkable is that property healthcare presented levels of risks of 12.09% that were much lower than total property, which had around 23% of risk level, and it was lower than all of the other sub-sectors. Therefore, the return performance has been outstanding, with a Sharpe ratio of 0.31 (see Figure 7, healthcare sector is highlighted in orange). From these numbers it is evident that when compared to other property sectors, investments in healthcare real estate have lower risks, and can be considered relatively "safe" investments.

In fact, the expectation that have been made for future years are that the portfolios of investors will be increasingly diversified in healthcare properties assets such as senior housing, villages for patients with dementia or other specific care, increasing the demand and importance of this alternative type of investment.

Figure 6: Average healthcare yields as fixed income % in the U.K. Source: Knight Frank Research

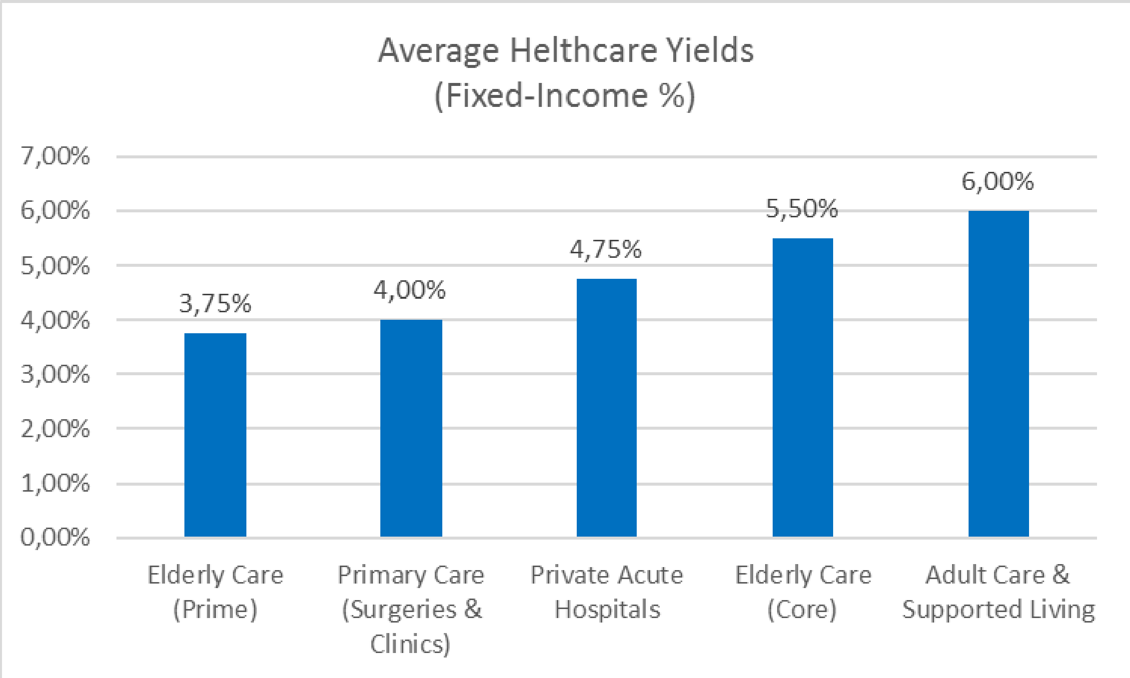
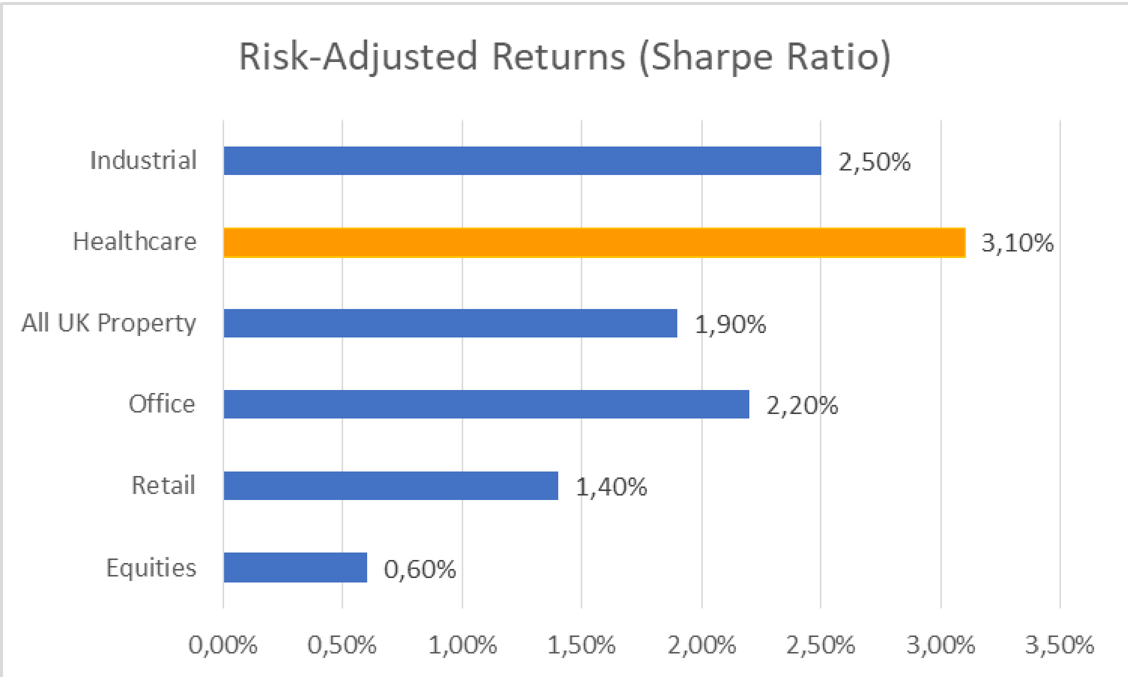


Figure 7: Risk adjusted returns (Sharpe ratio) by sectors in the U.K. Source: MSCI



Chapter 2

Italy's alternative asset class

2.1 Italy's Real Estate Market

2.1.1 The Real Estate Market of Italy after the crisis of 2008

The Italian real estate market faced a drastically economic slowdown when the 2008 crisis hit. Residential mortgages started regaining strength in 2014, in fact, it registered an increase in mortgages to households of about 13% compared to the previous year, and in 2015 the growth approximately increased 70% with respect to 2014. These numbers demonstrate that the financing industry regained trust and interest in the real estate market.

A very important index in the real estate market, in particular in the residential sector, is the affordability index. There are three variables that construct this index: the interest rate; prices of houses; and disposable income. If the index is bigger than 0%, it means that the average household can afford a house at average market price, if it is below 0% then the opposite is true.

Affordability Index base formula= $\frac{Payment\ (years{,}interest{,}house\ price\ x\ LTV\%)}{Income}$

Affordability index= 30%* - Affordability Base index**

*30% should be the yearly income maximum that can be used to service a mortgage

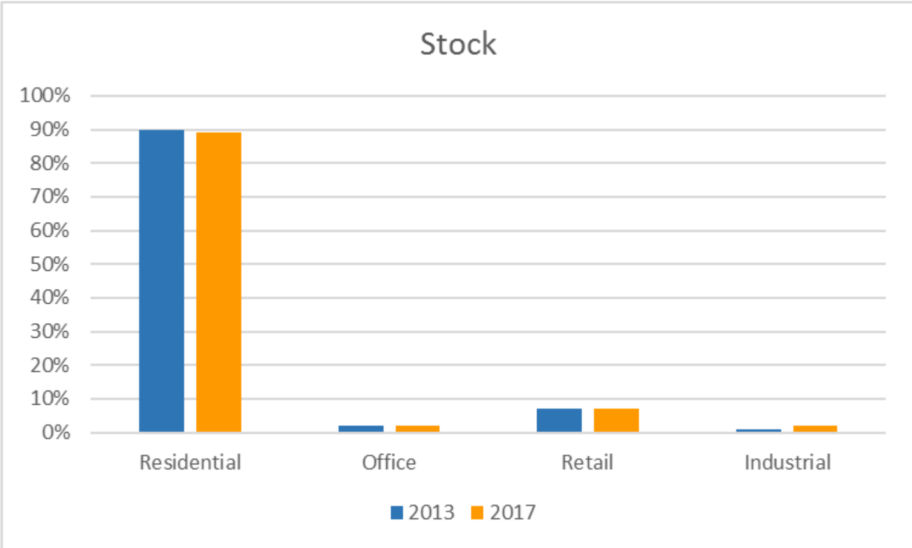
** LTV is 80% and years are fixed at 20

An increase of 1.4% of disposable income was registered in 2017 compared to 2016, with average Italian household disposable income being approximately €43,200. The positive trends were reflected in 2018s Affordability index: in the first quarter of the year it was around 13.4%.

Looking at the transaction trends for the main asset classes, it can be clearly seen that they mimic the residential mortgages trend in Italy.

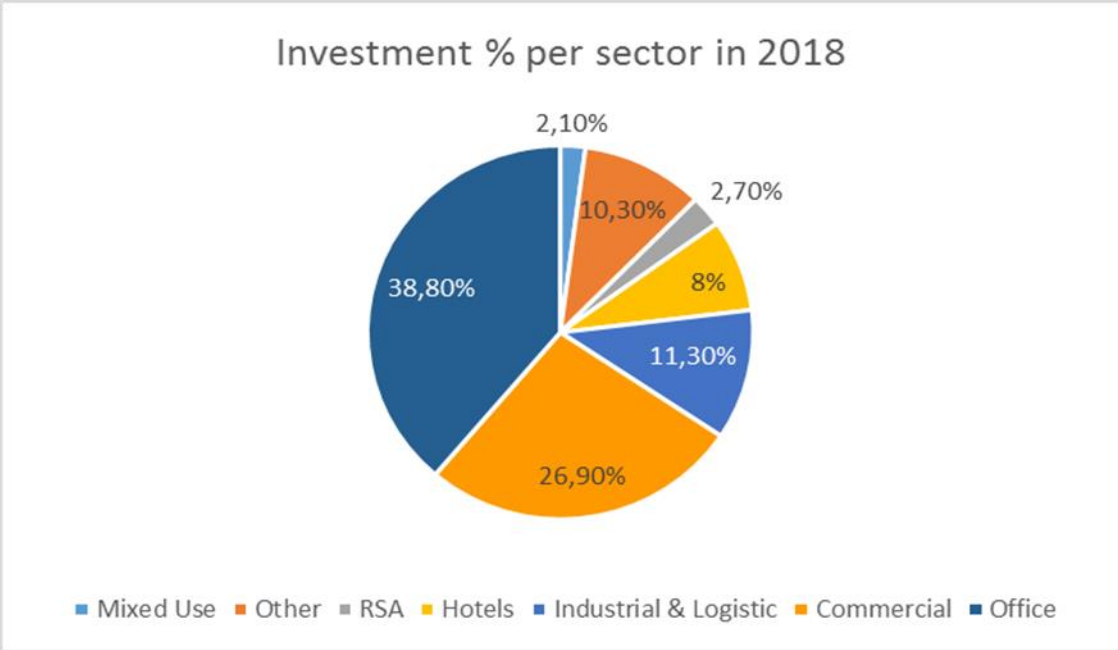
The maximum level was reached in 2006, then it fell when the crisis hit, and subsequently it started to positively perform again in 2014. Since then, the entirety of classes of assets performed well during the years, but the most prominent one has been the Residential class, covering almost 90% of the overall transactions and stocks (Figure 8).

Figure 8: Stock percentages differences per asset class in 2013 and 2017



The recovery of the residential real estate market that started in 2014 keeps on improving, as can be seen by the 543k transaction made by individuals in 2017. From 2014 to 2015 the recovery started with determination with a 6.5% increase in transaction volumes, which then boomed to a 18.8% in the following year. The pace then slowed down at the beginning of 2017, with only an increase of 2.6% compared to the previous year, but nevertheless steadily growing (PwC, Annual report (2018)).
The trend of 2017 was confirmed in 2018, investors demonstrated a strong interest in the Italian real estate market, especially in the residential sector. Still, the sectors that best performed during 2018 were Retail and Office (see Figure 9), yielding investments for 5.5 million of Euro, and representing 65,5% of the transaction volume. A research made by CBRE in 2019 shows that around 72% of the investors are interested in the residential asset class, results clearly seen in 2018 where the sector grew by 63%. This positive development was feasible also thanks to the monetary policy implemented by the European Central Bank, which promoted financing to households with a positive variation of 2.1% compared to 2017.

Figure 9: Percentage share of investments per sector in 2018



2.1.2 REITs investments in the global Healthcare sector

In recent years, the interest of REITs investments in the Healthcare and RSA sector has considerably grown, as a matter of fact, the number of REITs specialized in this type of investment has increased from 11 in 1997 to 32 in 2017 on a global scale.

During this time lapse, not only did the number of this type of product grow, but also its geographical distribution got wider.

In the paper "Real estate focused investments: the Health care sector in Italy" by Roberti, S., Bindo, S., Mattarocci, G., and Scimone, X., an analysis of the worldwide REITS specialized in RSA and the healthcare sector has been done by constructing an index with a fixed based on the market price of the funds in relation to the sector of investments they concentrate in, during the time period going from 1998 to 2017. From this research it was observed that the healthcare sector's performance was low, since the value at the end of the period examined was of 127.51, slightly above the one in 1998 of 100. But what emerged was that this type of investment had the smallest volatility over the time period, hence making it particularly appealing to investors with a medium-low risk profile (Figure 10 shows the trend for different asset classes over the time period examined, in green we see highlighted the low trend of the Healthcare REITs).

Figure 10: Different asset classes performance over the time period 1998-2017. Data source: Bloomberg

Moreover, the Index's median and mean value belonged to the lowest ones compared to the other real estate sectors, as well as its standard deviation, which resulted as one of the smallest ones in this time period, underlining the fact that the healthcare segment is the least exposed to market volatilities (As is underlined by the standard deviation values in Figure 11).

Figure 11: Main descriptive statistics per type of real estate segment

Statistics on REITS classified by Real estate segment									
	General	**Industrial**	**Office**	**Residential**	**Commercial**	**Diversified**	**Hotel**	**Other**	**Healthcare**
Mean	135,65	112,97	126,24	140,32	154,04	147,53	72,09	128,24	93,09
Median	134,11	109,13	121,94	148,22	159,54	141,83	64,28	116,79	97,26
Standard Dev	36,16	26,11	32,33	35,68	49,31	38,64	23,7	51,46	27,58
Kurtosis	-0,72	-0,13	0,92	-0,98	-1,26	0,69	0,78	-0,87	-0,93
Asymmetry	0,31	0,56	0,97	-0,01	-0,07	1,03	1,23	0,41	-0,33
Minimum	79,97	56,43	72,14	72,14	75,97	83,46	28,74	32,71	37,18
Maximum	232,48	187,73	232,3	223,35	263,92	264,1	144,55	244,23	140,73

To create a deeper and complete analysis, the paper investigates the consequences of this type of investment in a diversified portfolio through the Markowitz's approach in the construction of an efficient portfolio. The formulas utilized to perform this analysis are:

$$E(R_p)_{t,t+n} = \sum_{k=1}^{i} x_k \, E(R_k)_{t,t+n}$$

$$\min[\sigma^2(R_p)_{t,t+n}] = \min\left[\sum_{k=1}^{i}\sum_{l-1}^{i} x_k x_l \sigma_{k,l}\right]$$

Here the risk of the portfolios and the yield were based on different time periods, represented in the formulae by *t, t+n*. The weights of the of the different real estate segments for the construction of the efficient portfolios having diverse risk profiles were the primary focus of the analysis, represented in the formulae by x_k *and* x_l.

What emerged from this study was in line with the initial assessment of the healthcare sector, underlining how this type of investment is of particular interest for investors with medium-low risk appetite which wish to diversify their portfolios. The time period examined found that investing in this sector is indeed of significant importance only for the construction of portfolios with medium-low risk profile, in fact as the level of risk of a portfolio increased, the weight of these type of assets in the portfolio decreased respectively, as can be seen in the table of Figure 12.

Another relevant observation found from this research, was the fact that the only year in which the weights of investments in the healthcare sector was at its peak was in 2008, stressing how during the outbreak of a crisis, diversifying the portfolios in these "safe" types of investments would reduce the amount of losses generated by the volatility of the real estate market.

Figure 12: % value of the weights of healthcare investments in portfolios with different risk levels. Data source: Bloomberg

Year	Portfolio risk profile									
	1	2	3	4	5	6	7	8	9	10
1998	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
1999	6,13	4,92	3,71	1,26	0,00	0,00	0,00	0,00	0,00	0,00
2000	39,76	32,77	25,77	18,78	11,78	4,79	0,00	0,00	0,00	0,00
2001	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2002	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2003	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2004	51,68	52,84	50,88	44,10	24,09	4,08	0,00	0,00	0,00	0,00
2005	25,70	2,34	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2006	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2007	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2008	100,00	87,67	77,11	66,67	55,56	44,44	33,33	22,22	11,11	0,00
2009	3,58	3,47	3,11	2,76	0,00	0,00	0,00	0,00	0,00	0,00
2010	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2011	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2012	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2013	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2014	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2015	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2016	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2017	4,55	2,83	2,01	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Overall period	41,14	40,45	36,94	33,43	21,72	11,55	0,00	0,00	0,00	0,00

2.1.3 Italy's alternative asset class

During 2018 a growing interest in the alternative asset classes was observed in Italy. Belonging to this class are the concepts of *co-living*, *senior living*, *student houses*, *nursing homes* etc. Which all derive from a growth in demand due to a rise of particular needs. Particular attention should be given to the senior living and nursing home sectors. This last one, has been suffering in the last years from a shortage of supply due to increasingly demand of beds stemming from the growing ageing population. The Italian sector has been historically characterized by developments of small structures, which still are concentrated in the big metropolitan areas, such as Turin and Milan. The biggest investors in the sector are investments fund specialized in real estate, also known as REITs. In Italy the most operating ones are Ream SGR, Investire SGR, Threestones Capital and Primonial REIM, and they have been covering approximately 70% of the investments in nursing homes.

This sector is about the 5-6% of the overall transaction volume of Italy, after the crisis it accounted for approximately €30 million per year until 2015, and afterwards it grew to around €230 million per year up to 2017.

The shortage of supply in Italy is evident, in fact, the European Commission set out a standard for nursing facilities of fifty to sixty beds for every one thousand of population aged over 60. Whereas Italy has been offering only about 20 beds for every one thousand people that are aged over 60. Being Italy the country of the European Union with the highest median age, it is obvious that the demand for beds from the elderly with caring needs is deemed to increase.

2.2 Italy's healthcare real estate

2.2.1 Italy's Long-Term Care

The Italian long-term care (LTC) public system is composed by two institutional pillars. The first one is what is called "companion allowance" (CA), which is a program that provides allowance to a person with disability of a certain grade of severity. During 2016, CA amounted to 55% of the public LTC resources that were invested.

The CA program is managed by the National Institute of Social Security, also known as INPS, and it collects its funding through general taxation. Compared to the pre-crisis period, the Italian LTC system seems to be mainly cash based. This allowance is granted after a thorough inspection and analysis of the severity of the disability of the individual applying for CA from healthcare authorities.

The second pillar of this system comprises by the home and assisted care facilities and services which are provided by municipalities and regions. We can distinguish two types of allowance for home care, one give for the assistance of daily living activities (such as cooking or cleaning), and one for nursing assistance. Other than these pillars, also care leaves represents an important factor to be considered.

The care leave system of Italy is well developed and offer both short term leave and long term leave combined. Care leave is provided only to public and private employees who are in charge of caring for a gravely disabled family member, following the "sole carer" principle. Hence, only one employee belonging to a family is authorized to receive care leave (Jessoula, M., Pavolini, E., Raitano, M., Natili, M., (2018)).

The LTC system has been, and still is, facing some challenges in Italy, which can be summed up in 7 sets:

1. CA regulation and functioning. There has been a vacancy for requirements on accountabilities of beneficiaries, and as consequence the allowance received is often used in ways which are irregular in the private care labour market. Furthermore, the provision is granted based on rate which is flat, meaning that there is no distinction in relation to the severity of the disability of the individual asking for the allowance.
2. Residential care. There is a severe problem of shortage of supply of beds in Italy, regarding assisted residential facilities. Furthermore, the lack of supply is not limited to the number of beds of care homes, but also on the number of facilities targeted at elderly people which still are considered self-sufficient but need specific cares. Thus, there is also a problem of diffusion of the product.
3. Home care services. Coverage of residential care has been rather low, and it has been creating pressure on the provision for public home care. As a consequence, in the country a great number of cases considered severe are being left at home.
4. Substantial income of migrant care workers. Italy is one of the European countries with the highest number of migrant care workers that often possess irregular contracts. This is mainly due to the fact that the coverage of home care is of an average level but the intensity of the care that is provided is of low levels. As a consequence, the main source for home care for families with low income is through informal care.
5. Balance between work and family. The LTC system negatively influences the balance between work and family for the carers of the disabled family member as well as their work ethic.
6. Inequalities for the access of long-term care services. The policies currently implemented make it difficult for households to access the services provided by the LTC system. In particular, two forms of inequalities can be observed: based on the income or class; and based on territory. The new regulation on the co-payment solution implemented in 2015, helped rendering the access to home care services available to a wider range of individuals. This came as a benefit to households with scarce resources.

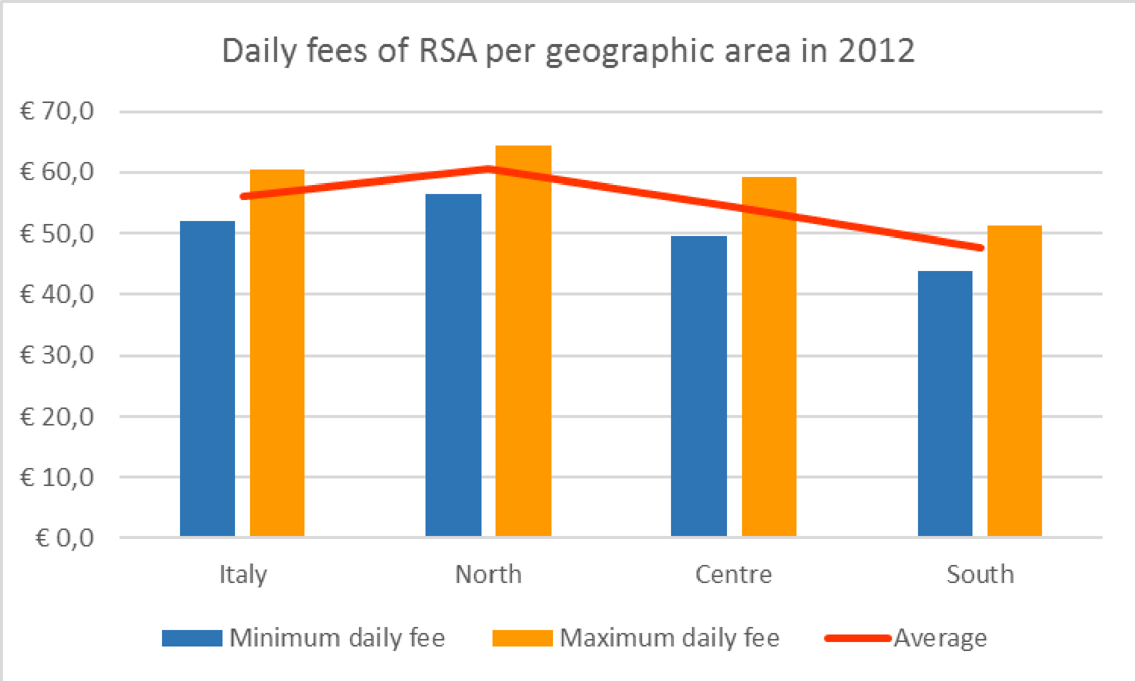
7. Governance of the LTC system. National governments, as a result of the reform implemented in 2001, are able to get involved in care services only in part, and even so, they need to go through intricate processes and negotiation with the regional governments.

2.2.2 RSA Italian market overview

The "Residenze sanitarie assistenziali" or RSA market in Italy, literally the assisted facilities for non-self-sufficient elderly, has been constantly growing over the last fifteen years. An increasing number of national and international investors (with a strong concentration of investors coming from France), mainly through REITs, have been investing in this area of the healthcare real estate sector.

One of the most prominent characteristics of the RSA market is its anti-cyclical feature. Indeed, a research conducted by Auser (Montemurro, F., Mancini, G., Torre, F., (2012)) on a sample of 1,280 RSAs between 2007 and 2012, hence, taking in consideration the time period when the economic crisis had the biggest impact, it observed that the average daily cost for patients in the structure grew substantially: the minimum daily fee increased by 18.5% and the maximum daily fee grew of 12.8%. The total average minimum daily fee that a patient was supposed to pay in 2012 was approximately €52, and the total average maximum daily fee was €60,5, with an average occupancy rate of 95% (Figure 13 shows the daily fees of RSA per geographic area in Italy, the red line indicates the average between the maximum and minimum fees. It reflects the wealth distribution in Italy). Considering that the Italian real estate market started recovering in 2014, these numbers are quite impressive. Ausers research demonstrates how the healthcare real estate sector, and in particular RSAs and retirement homes have been restructured to promote growth in the sector, to increase the interest of investors, in particular of international investors, to improve the management and consequently the financial health of the business and its profitability. From the analyzed sample of 113 RSAs in Italy, some fundamental aspects come to notice: the sector, as already mentioned, seems anti-cyclical compared to the overall economic trend of the period; the yields of the business, even in downswing economic periods are substantial; and the Italian healthcare real estate market has been increasingly of interest of international investors, mainly from France.

Figure 13: Daily fees of RSA diversified per geographic area of Italy in 2012



One problem arising in this type of business has notoriously been the long waiting list for a bed in an assisted facility structure.

In 2015, investments in RSA in Italy registered a record of €300 million, of which 65% were from investors from France.

During 2017, the alternative asset class in Italy observed transaction volumes of approximately €1,2 billions, the equivalent of 11% of the overall volume of transactions, almost double compared to the previous year. Of this, more than 40% belongs to the healthcare real estate sector.

In the short-term, the performance of investments in this sector seem more volatile than others, this is due to the fact that yields do not depend simply on rental fees, but they highly depend on the services and the grade of complexity of these services sold with the product, linked with the needs of the elderly and non-self-sufficient patients. Therefore, this sector does not provide high yields, compared to other asset classes, but it is of particular interest for those investors that intend to diversify their portfolio into alternative asset classes, since in the long-term these investments seem to be some of the less volatile ones, performing also in periods of economic downswing. Hence, investors with a low-risk profile which want to diversify their portfolio, should consider the RSA market, as it can be defined as a “safe” investment.

Chapter 3

RSA Case study: REAM SGR

In this chapter it is reported the analysis conducted by UniCredit bank on the Geras Fund for a potential financing of the acquisition of four RSA that will be part of the fund's real estate portfolio. Other than the assets characteristics and quality, it is also important to observe the projected yields of such investment for the fund, and consequently its ability to repay the loan with interests, without much concern from the bank.

3.1 Real Estate Asset Management (REAM) SGR

Real Estate Asset Management SGR s.p.a. (REAM SGR from now on), is an asset management company specialized in the construction and management of mutual funds concentrated on investments in real estate. In Italy, REAM SGR is the only company whose shareholders are entirely made up of banking foundations. This particular structure has made it possible for the company to choose its investments approach on a medium-term basis, following the life cycle of a real estate investment.

Its business structure assures its investors with quick decision-making and supervision processes which allows the company to build efficient and diversified portfolios, in terms of its risk-profile, type of assets, and yields.

The company currently has a record of fourteen closed (reserved to only professional investors) investments funds specialized in alternative real estate assets, which it built and manages.

Unlike other asset management firms, REAM's mission is focused:

- through the construction and management of real estate mutual funds, on the development of the territory by bringing the best industrial skills in the real estate, finance and industrial sector together;
- on being for the administration and improvement of real estate assets belonging to the foundations the reference operator, achieving this through the combination of the research of social value and the growth in terms of economic worth;

- on concentrating its activities on the assets of business and local authorities in the pursuit of social purposes, in the support of the economy and of employment, in the foundation and improvement of specialized and professional resources, with particular attention the non-profit segment and social housing sector.

There are three pillars at the base of the corporate governance of the company aimed at the optimal management of the real estate funds:

1. A governance structure that concentrate the activities of the company on the Fund’s goals and management strategies, giving the management body of real estate operational aspects, with professionals who are leaders in the sector;
2. Adequate information has to be provided to the investors about the developments o the Fund’s management. This objective is achieved through the formation of an Advisory Committee, which is directly appointed by the Shareholders’ meeting, whom is entitled to express their own considerations on subjects of greatest interest to the investors;
3. Proper tools are adopted to manage in a transparent way any transaction which may results in a conflict of interest.;

REAM is an Italian SGR in whose shareholding there are exclusively banking foundations:

- Fondazione CRT: 30,44%
- Fondazione Cassa di Risparmio di Asti: 30,44%
- Fondazione Cassa di Risparmio di Alessandria: 11,44%
- Compagnia San Paolo: 9,5%
- Fondazione Cassa di Risparmio di Vercelli: 9,5%
- Fondazione Cassa di Risparmio di Fossano: 5,87%
- Fondazione Sviluppo e Crescita CRT: 2,82%

3.2 Geras fund

What will follow is a case study on the establishment of a real estate fund “Fondo Geras” that wishes to acquire four RSA by requesting, through REAM SGR company, a new medium-term long loan to UniCredit Bank.

3.2.1 Background and Executive summary

On January 23rd 2015, UCI (UniCredit Bank) signed a 15-year mortgage loan agreement in favor of Fidesimm Srl for a total of € 40.8 million (LTC 60%) in support of the purchase of three real estate properties used as residential care homes ("RSA") located in the municipalities of Baggio (MI), Corsico (MI) and Genova as well as a building plot adjacent to the RSA of Corsico on which a building is also being constructed which will also become an RSA as an expansion of the existing structure. The acquisition price was €68 million.

On June 1, 2016 Unicredit signed a further 5-year mortgage loan agreement again in favor of Fidesimm Srl for a total of approximately €24.3 million to support the purchase of two other real estate properties (LTV 70%) used for residential care homes ("RSA") located in the municipalities of Soresina (CR) and Rodigo (MN). The acquisition price was approximately €32.65 million.

All the structures were purchased on the basis of long-term lease contracts with the Gheron Srl Group, which subleases the assets to the Med Services cooperative which deals directly with the operational management of the RSA. In October 2016, UniCredit was informed by the Fidesimm shareholders of the ongoing negotiations for the sale of three of the RSA currently owned by the company with REAM SGR. These are the RSA of Baggio (MI), Corsico (MI) including its expansion and Genova. The defined price will be around € 71 million.

The transaction was expected to be completed in early 2017.

At the beginning of 2017 UniCredit was contacted by REAM SGR to evaluate the subscription of a new medium-term loan of a maximum of €44 million to support the acquisition of a real estate portfolio consisting of four RSA.

The transaction was going to be completed through the establishment by REAM SGR of a closed-end real estate alternative investment property reserved for professional investors (GERAS Fund) which will buy the property (asset deal).
The real estate portfolio will consist of four RSAs, three of which have already been identified by the asset management company and one which, at the time, was currently being negotiated / finalized.

As for the first three RSAs already identified, these are:

- the RSA "Il Naviglio" located in Corsico (MI) inclusive of the expansion being finalized;
- the RSA "Parco delle Cave - Baggio" located in Milan;
- the RSA "Casa Santissima Concezione" located in Genoa;

The first three were well known being already mortgaged in favor of UniCredit in relation to the well-known Fidesimm transaction (which will be the seller).
It should be noted that the Fund was also going to acquire an additional RSA structure, at the time currently owned by Santa Croce Srl (post-merger with Sibar srl in December 2016). This structure, located in Rivoli (TO), is internally made by two separate RSAs (RSA "Santa Maria della Stella" and "San Giovanni Bosco") for a total of 200 beds accredited by the Piedmont Region. On this property there is a mortgage in favor of Intesa Mediocredito. In the acquisition of the structure, this debt will be accepted by the Fund and therefore will not be part of the Real Estate Portfolio covered by the UniCredit proposal.
The request was for a medium-term mortgage loan (5 years) that goes to support these acquisitions in the maximum limit of 53% of LTV / LTC calculated on each individual asset. Overall, the Fund's investments were expected to be around €100 million.
A summary of the *sources / uses* of the transaction relating to the initial acquisition of the Target Portfolio - Fidesimm is presented:

Figure 3.1

Target Portfolio Prospect- Fidesimm					
USES			SOURCES		
Asset purchase price	€ 71.000,00	*97%*	Equity	€ 34.860,00	*48%*
Closing costs *(estimated)*	€ 1.420,00	*2%*	Loan	€ 38.200,00	*52%*
Up-front fee/Arrangement fee	€ 640,00	*1%*	*Acquisition*	*€ 38.200,00*	*52%*
Initial cash	€ 0,00	*0%*	*Capex*	*€ 0,00*	*0%*
			Liquidity/Opex	*€ 0,00*	*0%*
IVA tax	€ 0,00	*0%*	IVA financing	€ 0,00	*0%*
TOTAL	€ 73.060,00	*100%*	TOTAL	€ 73.060,00	*100%*

**Amounts in €/000*

For a better assessment of the investment operation envisaged by the Geras Fund as a whole, a summary of the *sources/uses* of the transaction at Fund level is presented (therefore including the Rivoli operation financed by Intesa Mediocredito and the fifth RSA, not yet identified, which will then be acquired through UniCredit commitment for an additional € 5.8 million max):

Figure 3.2

Transaction Prospect					
USES			SOURCES		
Asset purchase price	€ 101.321,00	*97%*	Equity	€ 51.500,00	*49%*
Closing costs	€ 2.051,00	*2%*	Loan	€ 53.000,00	*51%*
Up-front fee/Arrangement fee	€ 770,00	*1%*	*Acquisition*	*€ 53.000,00*	*51%*
Initial cash	€ 358,00	*0%*	*Capex*	*€ 0,00*	*0%*
			Liquidity/Opex	*€ 0,00*	*0%*
IVA tax	€ 0,00	*0%*	IVA financing	€ 0,00	*0%*
TOTAL	€ 104.500,00	*100%*	TOTAL	€ 104.500,00	*100%*

**Amounts in €/000*

All the target structures already identified have been operating for several years (no structure to be developed) and were going to be acquired by the Fund on the basis of leases with a minimum duration of 18 years (no break options in favor of the tenant) entered into with the current managers of the RSA (Gheron Group and Vietti Group who have been operating in the reference sector for several years). Other minimal features that the leases included were:

- Ordinary and extraordinary maintenance paid by the tenant;
- First-time bank guarantee to guarantee correct payment of the rent equal to one year.
- A rental fee of at least 6% of the purchase price.

The target structures have been selected by the Fund on the basis of the following minimum prerequisites:

- Accreditation at the NHS.
- Location in northern Italy in "efficient" regions in terms of capacity and repayment schedule by the ASL.
- Verification of the absence of maintenance risks in the medium to long term.
- Buildings located in urban contexts and therefore easily accessible.
- Minimum size of structures not less than 80 beds.
- Structures without vacancy.
- Potential guest basin of more than 100,000 inhabitants and no risk of relocation.
- Punctual verification of the facilities supplied in line with the standards required by current legislation.

As regards the Equity of the operation, the SGR has set a minimum funding target of €52 million for the fund. As far as what was communicated to the bank, the collection period was ending positively with institutional investors (mainly territorial foundations and category pension funds). The subscribed shares were going to be released during the asset acquisition phase. The loan agreement was going to provide for the verification of the timely payment to the fund of what is envisaged in terms of equity as a suspensive condition for the disbursement of the share of the loan relating to the individual asset.

In this regard, it should be noted that the fund was set up with a duration of 12 years and for the purpose of gradually enhancing and disposing of the real estate assets with an investment period limited to the first 18/24 months.
During the life of the fund, distributions to unitholders was allowed with the target of stabilization on a coupon of 6% per annum and a full-life investment target of approximately 7.8% (levered).
These objectives declared by the SGR during the negotiation have determined the need to limit the amortization plan of the loan to 2% per year, with a profile lower than market standards but in any case in line with the initial leverage of the Fund (LTV 53%), as well as with the average residual duration of the leasing contracts at the expiry of the Loan which may allow, in the event of refinancing, the preparation of a sustainable

amortization plan capable of granting, even in the absence of sales, the full return of the exposure by the deadline of the contracts themselves.
In case of sale of one of the assets that made up the Target Portfolio, the way out of the loan was going to be guaranteed by the negotiated release amount (the greater of 65% sale price and 100% ALA “Allocated lease amount”).
Lastly, for the entire duration of the loan, the loan was going to provide for the verification of compliance with an LTV of no more than 55% and a DYR of not less than 8.5% with a six-monthly check both at the fund level and at the Target Portfolio level.

3.2.2 Proposal to UniCredit Bank for financing

The debtor, “Geras Fund” requested an amount up to €44 million intended to support the acquisition of the properties that were going to make up the Target Portfolio of the Fund. The Loan was going to be divided into tranches to support the acquisition of the individual properties that made up the Target Portfolio and which could have been acquired in different ways and times.
The financing was bilateral and 100% made by UCI. The availability period was within 12 months from the Signing Date of the Loan Agreement.

Disbursements arrangements were made so there was a single disbursement for each tranche dedicated to the acquisition of the single property that were going to constitute the Target Portfolio for a maximum amount equal to the lower of:

- 53% of the purchase price (including closing costs); and
- 53% of the market value determined by the primary independent appraiser approved by the Lending Bank.

The duration of the loan was of 5 years from the date of signing the contract, with the possibility of an extension option were the customer had the option of activating, within 6 months from the expiry of the Loan, an extension of the duration of the same for a further 2 years against the absence of significant events and the positive verification of the following ratios:

a) LTV < 50%;
b) DYR (Debt Yield Ratio; or MOL / Loan) > 10%.

The Margin that was to be applied to the loan during the extension period was supposed to be negotiated in good faith between the parties based on market conditions at the time the option was activated.
The reimbursement arrangements were based on an annual amortization plan equal to 2% of the loan. In case of activation of the extension option, the amortization plan was going to be also applied in the extension period.
A mandatory early repayment release amount was set to be equal to the greater of 65% of the sale price and 100% of the ALA allocated to the individual asset being sold. The Upfront fee was determined to be 145 bps on the amount of the loan, with a margin of 250 bps and a commitment fee of 0 for the first 6 months of availability and 90 bps for the following 6 months.

The security package of the bank on the loan was made of:

- First-degree mortgage on the properties that made up the Target Portfolio.
- Pledge on the beneficiary's project accounts with channeling of the flows relating to the properties that made up the Target Portfolio.
- Deed of obligation on insurance contracts and all risk policies relating to the properties that made up the Target Portfolio which had to be maintained for the entire duration of the loan.
- Transfer to the lending bank of the leasing contracts relating to the properties that made up the Target Portfolio.

The covenants imposed were: LTV not higher than 55%; DYR not less than 8.5% with half-yearly verification at Geras Fund level and of the Target Portfolio.

Some Suspensive Conditions were also determined, such as:

- Acquisition of appraisals certifying the market value of the properties that will constitute the Target Portfolio determined by the primary independent assessor approved by the lending Bank.
- Acquisition of the following due diligence in relation to the properties that made up the Target Portfolio: Technical, Legal and Healthcare.
- Copies of the rental contracts relating to the properties that constituted the target Portfolio which highlighted:

a. minimum duration of 18 years with the right of withdrawal in favor of the excluded tenant (for all 18 years);
b. ordinary and extraordinary maintenance paid by the tenant;
c. first-time bank guarantee to guarantee correct payment of the rent equal to one year;
d. a rent equal to at least 6% of the purchase price.

- Positive examination by the financing bank of a definitive business plan of the beneficiary.
- Evidence, from time to time, of the release in favor of the Geras Equity Fund by the unitholders equal to at least 97.2% of the loan disbursed (or for which the disbursement was requested) up to an amount of €51,5 million.

3.2.3 Geras Fund - The Real Estate Portfolio

The fund's real estate portfolio consisted of five RSA, four of which were already identified by the asset management company and one that was currently being negotiated / finalized.

As for the first three RSAs (plus the extension of the Corsico RSA) already identified and which were then financed by UniCredit, they were:

Figure 3.3

Portfolio Target already identified	Year of construction	Square meters	N. of beds	Price €/000	Rent €/000	Rent per bed
RSA Baggio	2007	12.364	278	€ 38.500,00	€ 2.350,00	€ 8.453,00
RSA Corsico	2004	8.530	120	€ 17.000,00	€ 1.025,00	€ 8.542,00
RSA Corsico ampliamento	2017	4.200	60	€ 8.500,00	€ 525,00	€ 8.750,00
RSA Genova	XVII sec.	3.621	70	€ 7.000,00	€ 450,00	€ 6.429,00
TOTAL		28.715	528	€ 71.000,00	€ 4.350,00	€ 32.174,00

Intesa Mediocredito Portfolio	Year of construction	Square meters	N. of beds	Price €/000	Rent €/000	Rent per bed
RSA Rivoli	1970 (Ristr. 2015)	12.304	200	€ 18.000,00	€ 1.170,00	€ 5.850,00

The RSA Rivoli structure was already being financed and mortgaged by Intesa Mediocredito (on the seller). The same was subject to acquisition by the fund with the relative release of the existing position equal to approximately €10 million.

The numbers presented in *Figure 3.3* in terms of *price / rental* rates of the target properties could undergo small variations compared to what was then represented following the end of the *due diligence / evaluation* period.

Following a description is presented of the structures that were then acquired by the fund:

RSA "The Naviglio"

The building complex called "Il Naviglio" is located in Corsico, province of Milan, at Via Alzaia Naviglio Trento n.1. The city of Corsico is located immediately south-west of Milan and is one of the most urbanized municipalities in the Milanese hinterland. The area in which the property is located is between the Naviglio river and the route of the railway line towards Abbiategrasso. The structure overlooks the Naviglio river and borders to the east with a publicly owned building, while to the west the property area is bordered by an unedited free land.

From the point of view of traffic, the area is well connected with the city of Milan and with the other neighboring municipalities through various connecting arteries, such as the nearby Tangenziale Ovest which allows the connection with the motorway routes, the railway line, the surface lines of public transport and the Milan metro line. The surrounding urban context is characterized by the presence of buildings with a predominantly residential use of a condominium type, in the type of popular economic building. The property was built in 2004 (year of construction).

The analysis of the documentation shows that the building is equipped with an Energy Certification Certificate (ACE) issued on 15 October 2009 and valid until 15 October 2019, which is also necessary in any marketing phase of the property complex pursuant to Law 90/2013. The property is of energy class G. However, the recent window replacement intervention, communicated during the inspection of 05 December 2016, contributed to the reduction of heat losses with potential improvement impact on the energy performance of the existing building.

The Real Estate Complex used as a Healthcare Residence and residential and day care, health and social-health services, consists of a building which develops vertically and an area of surrounding land.

The building develops on four floors above ground (ground, first, second and third) as well as a floor for technical rooms. The external area of relevance is mainly used as a garden and is bordered by a perimeter fence including driveway access. The total gross area of the property is currently about 8,530 square meters. The area of the building is approximately 8,200 square meters.

On this asset, based on the characteristics of the property in relation to the activity carried out, the consultant assigned a score of 73.75 out of a maximum of 100.

On the area of land adjacent to the Real Estate Complex, an expansion was being carried out by the owner company Fidesimm srl - whose works must have been completed by spring 2017 - to be used as a residential healthcare residence and / or assistance, health services and social and health care workers in residential and / or daytime arrangements until an accommodation capacity of 60 additional beds is reached.

The due diligence showed that this intervention concerned the construction of a 5-storey building (including technical rooms) with a floor area of approximately 840 square meters. Therefore, the total surface area of the expansion was 4,200 square meters in total (corresponding to 3,360 square meters if the plan for the technical rooms is excluded).

RSA "Parco delle Cave - Baggio"

The building complex called "Parco delle Cave - Baggio" is located in the City of Milan in Via Capri n.21., in the "Baggio" district in the immediate vicinity of the park for public use called "Parco delle Cave" on which the building overlooks.

From the point of view of traffic, the area is served by public transport lines and is easily accessible from both inside and outside the city of Milan, through the provincial roads and the direct connection to the route of the Tangenziale Ovest.

The surrounding urban context is characterized by the presence of buildings mainly for residential use of condominium type. The property was built in 2007.

The analysis of the documentation showed that the building is equipped with an Energy Certification Certificate issued on 11 November 2012 with validity until 11 January 2022, also necessary in a possible marketing phase of the real estate complex pursuant to Law 90 / 2013. The property is of energy class C.

The Real Estate Complex used as a Healthcare Residence and residential and day care, health and social-health services, consists of a building vertically developed and an area of surrounding land. The Real Estate Complex consists of two independent buildings with a common portion used as service rooms (kitchens, canteen, infirmary, etc.). The building develops on four floors above ground (ground, first, second and third) and a basement floor. The total gross area of the property is currently around 12,364 square meters.

On this asset, based on the characteristics of the property in relation to the activity carried out, the consultant assigned a score of 85 out of a maximum of 100.

RSA "Holy House of Conception"

The building complex called "Casa Santissima Concezione" is located in the city of Genova, Porta Chiappe 7, Madonnetta, within the Righi district.

From the point of view of traffic, the area can be reached via the urban line of the Zecca-Righi funicular and the public transport network. The entrance to the structure (number 1 of Porta delle Chiappe) is located downstream towards the south. The area of grounds on which the property stands is not flat. The surrounding urban context is characterized by the presence of buildings mainly for residential use.

The property was built in the seventeenth century (year of construction), to be used as a cloistered convent, and was completely restored and renovated in the first half of the 90s. The property is subject to restrictions pursuant to art. 10 of Legislative Decree No. 42/2004 "property of particular cultural interest".

The analysis of the documentation showed that the building was equipped with an Energy Certificate issued on 12 July 2008 with validity until 12 July 2018, which is also necessary in a possible marketing phase of the property complex pursuant to Law 90/2013. The building has an energy class higher than G.

The Real Estate Complex used as a Healthcare Residence and residential, day and day care, health and social-health services, develops on 5 floors above ground (ground, first, second, third and fourth) and a basement. The total gross area of the property is approximately 3,621 square meters. The external area used as a garden and bordered by a perimeter fence is approximately 3,300 square meters.

With regard to potentially disbursable activities, it should be noted, also in function of the location characteristics of the Real Estate Complexes that:

- the services provided and the related performances had the possibility to be further improved in the future due to the trend of the demand for high and extremely high levels of social and welfare services, especially in the city and in the immediate vicinity thereof;
- the very large number of elderly people - destined to grow progressively in the years to come, leads reasonably to outline optimistic projections on the potential demand for residential services and on business growth also in the future.

On this asset, based on the characteristics of the property in relation to the activity carried out, the consultant assigned a score of 63.75 out of a maximum of 100.

RSA "Santa Maria della Stella" and "San Giovanni Bosco" (operation Intesa Mediocredito)

The RSA are within the building complex called "Bosco della Stella" located in Rivoli, province of Turin, a few meters from the Paradiso metro stop, close to the ring road - exit Rivoli Cascine Vica. The close proximity of the Municipality of Rivoli to the City of Turin reflects on the type of target and on the health demand of citizens, characterized by the demand for highly complex services. The structure is accredited with the Piedmont Region.

More precisely, the urban location and the accessibility features of the area make the property particularly attractive for the business sector of reference, positively influencing the potential demand and therefore the future functionality of the hosted supply units.

The building of C.so Francia 241 / via Stupinigi 4, fraction Cascine Vica, in Rivoli (TO) was built in 1970 (year of construction) and completely renovated in 2014 to transform the building for office / printing use for social and health use. The last renovation dates back to 2015. The structure has been open to the public since June / July 2015 as an RSA for the elderly.

Furthermore, the analysis of the documentation showed that the building was energetically certified in May 2015 and is equipped with an Energy Performance

Certificate (APE), expiring on 05 May 2025, also necessary in a possible marketing phase of the building complex pursuant to Law 90/2013. The property is of energy class B.

The property consists of a single building consisting of 7 floors above ground and 1 basement. The total gross area is 12,304 square meters.

With regard to potentially disbursable activities, the due diligence highlights that, also according to the location characteristics of the real estate complex:

- the services provided and the related performances had the possibility to be further improved in the future due to the trend of the demand for high and extremely complex social-assistance services, especially in the city and in the immediate vicinity of Turin.
- The large number of elderly people - destined to grow progressively in the years to come leads reasonably to outline optimistic projections on the potential demand for residential services and on business growth also in the future.

Based on the characteristics of the property in relation to the activity carried out, the consultant (AGM Project Consulting) assigned a score of 87.5 out of a maximum of 100.

Santa Croce Srl / Nuova Assistenza Soc. Coop Soc. Onlus (Intesa Mediocredito transaction)

The RSA of Rivoli was leased to Santa Croce Srl (Vietti Group) which was the current owner of the property (following the merger that took place at the end of the year with Sibar that owned the property). The negotiated flow structure was, moreover, in line with what was already been pointed out with regards to the Gheron / Med Service Group. The lease contract with the fund was signed directly by Santa Croce Srl (who was also the seller of the property) which in turn sub leased the structure to a cooperative (Nuova Assistenza Soc. Coop. Onlus) that directly provided the services to customers.

The differences with respect to the structure of the RSA "Gheron" lies in the fact that Santa Croce Srl is an operating company (with 164 employees) that has both direct management of the structures with the support of a cooperative (Villa Ida, RSA Il Valentino, Poliambulatorio Articles of Association) and indirect management through the assignment to a Cooperative.

The RSA of Rivoli was opened to the public in June 2015 so there are no historical "operational" data useful for evaluating the performance of management. The SGR also commissioned a consultant (AGM Project Consulting) to carry out a management due diligence during 2016 and in the first six months of 2015 to assess the sustainability of the agreed fee structure. The draft due diligence provided to us also shows that:

I. the RSA beds are all occupied with a waiting list in July 2016 of 33 guests;
II. average revenues per bed amount to approximately €30,000 a year slightly lower than the reference benchmarks (€35,000) due to the effect, according to the consultant, of the structure's "start up" phase;
III. that the turnover of the structure in 2016 was supposed to be around €6,0 million;
IV. that the staffing, distinguished by professional figures, was in line with the main benchmark values and with the dimensional and productivity drivers of the RSA.

Finally, it should be noted that the rent agreed with REAM on the RSA of Rivoli was the lowest, both if valued per bed (see *Figure 3.3*) and as a percentage of the structure's turnover (19% vs Gheron average, equal to approximately 22%).

3.2.4 Geras Fund - The Business Plan

As part of the New Financing request, the fund presented the lending banks with an info memorandum including a leveraged business plan for the period 2017-2021 (see tables at the end of the chapter) which includes all investments provided by the SGR (approximately € 100 million). On the basis of this document and the terms and conditions negotiated with the counterparty, a Bank Case has been prepared.
The main assumptions on which the document was prepared are summarized:

- *Rental Revenues*: these are represented by the rents that will be received by the fund on the structures purchased by it. As highlighted above, these contracts must highlight some common characteristics; in particular:
    - duration 9 + 9 with no possibility of withdrawal by the tenant;
    - ordinary and extraordinary maintenance of the tenant;
    - bank guarantee to guarantee the rental fee for one year;
    - a rent equal to at least 6% of the purchase price.

Since 2018, the BP has shown growing rents based on assumptions relating to the inflation rate that was expected in the coming years (the contracts will be indexed to 100% inflation).

- *General and Administrative Costs*: they are substantially represented by the typical costs of the real estate funds (Custodian Bank Fees, Independent Expert Semi-annual Evaluation, etc.) and in particular by the management fees due to the SGR which on this fund were equal to about 0.45% per annum of the BCD.
- *Extraordinary Maintenance*: prudently indicated by the SGR in about 450k per year. It should also be noted that the lease payments that were stipulated required that the ordinary and extraordinary maintenance costs (with the exception of the structural ones) should be borne by the tenants.
- *Other taxes*: this is a non-deductible VAT requirement which will therefore be a charge to the fund in no way compensable / deductible with other items.
- *Interest on Loans*: conservatively calculated with a fixed rate of 2.75% equal to the sum of the spread (2.5%), IRS 5y (0.15% at 23/12/2016) and credit charge on the coverage (0, 10%).
- *Amortizing reimbursement*: 2% per year in line with what was negotiated with the counterparty. It should be noted that in the BP Management Case this level was indicated at 1% per year.
- *Equity repayments / distributions*: the level of distributions highlighted in the BP Management Case has been conservatively conserved in order to evaluate their stability also in the Bank Case scenario.

The following tables shows the economic and financial data of the Bank Case for the period 2017-2021:

Table 1

Financial ratios and relevant values						
	Closing	1	2	3	4	5
Asset value	101.321	101.638	101.960	102.282	102.604	1.002.926
Outstanding Debt	53.000	51.940	50.880	49.820	48.760	47.700
Acquisition	*53.000*	*51.940*	*50.550*	*49.820*	*48.760*	*47.700*
LTV	52,3%	51,1%	49,9%	48,7%	47,5%	46,3%
DYR		8,7%	9,9%	10,1%	10,6%	11,1%
ISCR		2,4	2,3	3,4	3,6	3,7
DSCR		1,4	1,3	1,9	2,0	2,1

Table 2

Amounts in €/000		1	2	3	4	5	
	Closing	31-Dec-17	31-Dec-18	31-Dec 19	31-Dec-20	31-Dec-21	TOTAL
Rent revenues	-	5.852	6.180	6.261	6.380	6.514	31.187
Other real estate revenues	-	-	-	-	-	-	-
Property taxes (i.e. IMU)	-	(436)	(456)	(456)	(456)	(456)	(2.260)
Net real estate operating costs	-	(130)	(139)	(139)	(139)	(139)	(686)
GROSS OPERATING INCOME	**-**	**5.286**	**5.585**	**5.666**	**5.785**	**5.919**	**28.241**
General and Administrative costs	-	(770)	(552)	(633)	(635)	(636)	(3.225)
NET OPERATING INCOME	**-**	**4.516**	**5.033**	**5.033**	**5.150**	**5.283**	**25.015**
Assets acquisition	(101.321)	-	-	-	-	-	(101.321)
Closing costs	(2.051)	-	-	-	-	-	(2.051)
CapEx	-	(317)	(322)	(322)	(322)	(322)	(1.605)
Disposal of Assets	-	-	-	-	-	-	-
Costs of disposing of assets	-	-	-	-	-	-	-
Other net cash flows from non-real estate revenues	-	-	-	-	-	-	-
Other costs	-	-	-	-	-	-	-
Income taxes	-	-	-	-	-	-	-
Other taxes	-	(704)	(1.505)	-	-	-	(2.209)
UNLEVERED CASH FLOW	**(103.372)**	**3.495**	**3.206**	**4.711**	**4.828**	**4.961**	**(82.171)**
Upfront fee	(770)	-	-	-	-	-	(770)
Loan disbursement	53.000	-	-	-	-	-	53.000
Acquisition	*53.000*	-	-	-	-	-	*53.000*
Agency fees	-	-	-	-	-	-	-
Loan interests	-	(1.447)	(1.418)	(1.390)	(1.358)	(1.331)	(6.944)
Other fees (e.g. commitment fees)	-	-	-	-	-	-	-
Amortized refund	-	(1.060)	(1.060)	(1.060)	(1.060)	(1.060)	(5.300)
Acquisition	-	*(1.606)*	*(1.060)*	*(1.060)*	*(1.060)*	*(1.060)*	*(5.300)*
LEVERED CASH FLOW	**(51.142)**	**988**	**728**	**2.261**	**2.410**	**2.570**	**(42.185)**
Equity	51.500	-	-	-	-	-	51.500
Change in Reserve	-	-	-	-	-	-	-
FREE CASH FLOW	**358**	**988**	**728**	**2.261**	**2.410**	**2.570**	**9.315**
Additional loan refunds	-	-	-	-	-	-	-
Equity refund	-	-	(1.182)	(1.375)	(2.792)	(2.911)	(8.260)
NET CASH FLOW	**358**	**988**	**(454)**	**886**	**(382)**	**(341)**	**1.055**
Total final reserves	**358**	**1.346**	**892**	**1.778**	**1.396**	**1.055**	

The Bank Case highlights:

- Compliance with all financial covenants envisaged (LTV and DYR) for the entire period considered.
- Cumulative cash fund positive for approximately €1 million despite conservative assumptions in terms of extraordinary capex of approximately €1.6 million in five years and distributions to unitholders in line with the initial indications of the SGR (which provided for an amortization plan at 1%).
- Free Cash Flow before distributions always positive in all the years considered (final cash to service the accumulated equity for a total of €8.2 million).
- DSCR / ISCR relations substantially positive for the entire duration of the Loan.
- The ability of the SGR to activate the extension option with a good headroom with respect to the covenants envisaged (LTV <50% and DYR> 10%) at the expiry of the Loan, effectively mitigating the refinancing risk at maturity.
- An initial DYR that is not particularly conservative but which, due to the amortization plan envisaged, at the end of the loan is more prudent (> 11%), further mitigating (together with the residual maturity of the loan contracts on the same date) the refinancing risk.

3.2.5 Profitability of the New Loan

<u>EBITDA (MOL) 2017</u>

The PPM structure, assigning a PD and LGD of 1.21% and 42.21% respectively, on the basis of the *pricing / guarantees* package described above (145 bps up front and 250 bps spread on the 6-month Euribor - no floor) has calculated a RACE deal of 1.85% with an EVA generation of 334/k.

Total margins of €1,399k million are estimated as follows:

- €568/k financial margins net of cof (already considering the negative 6-month Euribor impact for 24 bps);
- €638/k upfront fees;
- €48/k surety fees (Gheron Group tenant, annual 110 bps pricing);
- €145/k CTS margins for rate coverage (60% including up to 10M MCC Rivoli)

EBITDA (MOL) 2018

The expected profitability in 2018 amounted to €871/k (823/k of financial margins net of cof and net of negative euribor plus 48/k annual surety commission of the tenant Gruppo Gheron).

The transaction allowed, in addition to the specific deal already described in the previous paragraphs, to start personal relationships on the UPB side with one of the Sponsors of the seller Fidesimm Srl, Bariani Family.

A meeting with the UPB structure was then already scheduled for the opening of relations immediately after closing, with a first contribution of 2 million AFI from which the bank expected additional EBITDA for about €30/k per year.

3.2.6 SWOT Analysis

Strengths

The RSAs that were acquired by the fund were all income (no development) and accredited by the local ASL. Before closing, they were also subject to in-depth due diligence by the SGR consultants regarding the technical, legal and above all health aspects in relation to the verification of the requirements necessary to carry out the planned activity as well as the maintenance of accreditations with the Regions of competence.

Of the five assets that should make up the real estate portfolio that was being acquired, three (Baggio, Corsico and Genova) are well known and already positively assessed by Unicredit as the subject of previous mortgage financing to support the seller Fidesimm Srl. It should be noted that the fees collected from the Gheron Group represented approximately 80% of the total amount of the ratios of the RSAs already identified and 70% of the total amount of rents foreseen in the BP.

As regards the acquisition of the three RSAs from Fidesimm, this is essentially a "translation of the risk already in place towards UniCredit (approximately € 38.5 million equal to 72% of the proposal) on a real estate fund managed by REAM SGR, which to the package of guarantees will be added a first-demand bank guarantee in favor of the Fund equal to an annuity of the agreed fee.

Initial lever of the operation was more conservative than market standards with a maximum LTV at closing of 53%. It should be pointed out that the valuations of the target portfolio were not available.
The duration of the leases of the target properties that were acquired by the fund must have had a minimum duration of 18 years without break options in favor of the tenants, well beyond the duration of the loan.
The total amount of installments envisaged when fully operational (approximately €6 million) and the cash flow serving the debt shown in the bank case largely guarantee the timely payment of the provisions of the amortization plan.
The leasing contracts that were signed at closing included, among the clauses, also the ordinary and extraordinary maintenance paid by the tenant as well as, as already mentioned, a bank guarantee on first request in favor of the fund equal to one year of the agreed rent.
The tenant had proven multi-year experience in the management of RSA and in the management of relations with the ASL / public bodies in charge of payments and accreditations.

Points of weakness

Amortization plan of 2% per year. This implies a "risk" of refinancing at maturity, at fund level, of approximately €47.7 million (€39.6 million as regards the bank's loan). It should also be noted that the initial leverage of 53% and the residual duration of the lease contracts (no break options) at maturity represent important mitigations.
DYR from business plan at the start of the operation was slightly below the market standard (8.7%). As a result of the amortization plan envisaged, however, at the end of the loan, this ratio was supposed to be at much more prudent levels (>11%) further mitigating (together with the residual maturity of the loan contracts on the same date) the refinancing risk.
The Real estate fund was intended for the ordinary remuneration of unitholders through annual distributions of excess cash. Nonetheless, the Bank Case shows a cumulative final cash flow, however positive for around €1 million despite the conservative assumptions in terms of extraordinary capex for around €1.6 million in 5 years and distributions to unitholders in line with the initial indications of the SGR. The loan agreement also

provided for the blocking of distributions in the event of a “Relevant Event” thus allowing the excess cash to be kept within the fund in the event of unfavorable events.

Threats

ASL / Region payment deadlines to accredited bodies threat. A partial mitigation of this threat is reported since the 4 RSA identified are located in regions of northern Italy. In particular, in Lombardy and Liguria (ie the Regions where the "UniCredit" RSAs are located), among the most virtuous regions in terms of average supplier payment days (under 100 days against a national average of about 155 days).

Forecasts of reduced GDP growth with consequent tax revenues and conditions of credit restrictions may lead to a reduction in public resources that the state is able to allocate to the Region for health and socio-welfare expenditure.

UniCredit was not a financial counterparty to the Geras Fund because of the Intesa Mediocredito loan. It was also negotiated an *intercreditor agreement / no disturbance agreement* between the institutions in order to minimize the risks associated with the presence of two lenders on the same borrower.

Opportunity

The RSA market is considered a business sector with good potential growth also in the future thanks to a constantly growing demand. In Italy, the presence of about 3.5 million non-self-sufficient elderly citizens is estimated by 2034.

The current availability of RSA beds in Italy stands at around 340k lower than the current and future demand (especially for accredited structures) as evidenced by the full occupancy of the structures being acquired and the waiting lists of the same.

Concluding, as can be seen by the evaluation made by UniCredit bank in financing this acquisition operation for the Geras Fund, the RSA sector is not only of low-risk, but also profitable in the long-term, making it easier even for banks to grant loans for these type of investments, and thus, a good option when diversifying a real estate portfolio.

3.2.7 Business Plan Statements

INCOME STATEMENT													
Amounts in €/000	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	TOTAL
Rent	**5.852**	**6.180**	**6.261**	**6.380**	**6.514**	**6.612**	**6.711**	**6.812**	**7.024**	**7.143**	**7.264**	**6.846**	**79.599**
Vacancy	-						*(168)*	*(170)*	*(176)*	*(179)*	*(182)*	*(171)*	*(1.045)*
Net of Rents	**5.852**	**6.180**	**6.261**	**6.380**	**6.514**	**6.612**	**6.543**	**6.641**	**6.848**	**6.964**	**7.083**	**6.675**	**78.554**
Capital gains from disposal of properties	-										582	16.524	17.106
Revenues total	5.852	6.180	6.261	6.380	6.514	6.612	6.543	6.641	6.848	6.964	7.664	23.199	95.660
Real Estate Costs	**(883)**	**(926)**	**(928)**	**(930)**	**(945)**	**(948)**	**(947)**	**(949)**	**(1.009)**	**(1.013)**	**(1.208)**	**(2.968)**	**(13.654)**
Registration taxes - rents	(29)	(31)	(31)	(32)	(33)	(33)	(33)	(33)	(34)	(35)	(35)	(33)	(393)
IMU	(436)	(456)	(456)	(456)	(456)	(456)	(456)	(456)	(456)	(456)	(447)	(316)	(5.304)
Insurance	(19)	(21)	(21)	(21)	(22)	(22)	(22)	(22)	(23)	(23)	(23)	(17)	(256)
Property Managment	(82)	(87)	(88)	(89)	(91)	(93)	(92)	(93)	(96)	(98)	(99)	(93)	(1.100)
Bad debt provisions	-				(12)	(13)	(12)	(13)	(68)	(70)	(71)	(67)	(326)
Sales fee	-										(207)	(2.212)	(2.419)
Extraordinary maintenance that cannot be capitalized	(317)	(332)	(332)	(332)	(332)	(332)	(332)	(332)	(332)	(332)	(325)	(230)	(3.857)
Fund Costs	**(1.474)**	**(2.057)**	**(633)**	**(635)**	**(636)**	**(637)**	**(644)**	**(643)**	**(643)**	**(643)**	**(640)**	**(529)**	**(9.816)**
SGR Upfront fees	(250)	-	-	-	-	-	-	-	-	-	-	-	(250)
SGR Managment fees	(436)	(461)	(465)	(466)	(465)	(465)	(470)	(468)	(466)	(466)	(463)	(382)	(5.476)
Other SGR fees	-	-	-	-	-	-	-	-	-	-	-	-	-
SGR Provision of success fees	-	-	-	-	-	-	-	-	-	-	-	-	-
Custodian bank fee	(10)	(14)	(14)	(15)	(15)	(15)	(15)	(15)	(14)	(15)	(15)	(14)	(171)
Valuation costs	(14)	(15)	(15)	(16)	(16)	(16)	(16)	(17)	(17)	(17)	(17)	(11)	(188)
Auditing firm	(30)	(31)	(31)	(31)	(32)	(32)	(33)	(33)	(34)	(34)	(35)	(35)	(393)
External consulting	(20)	(20)	(21)	(21)	(21)	(22)	(22)	(22)	(23)	(23)	(23)	(24)	(262)
Non-deductible IVA	(704)	(1.505)	(76)	(76)	(76)	(76)	(76)	(76)	(77)	(77)	(75)	(54)	(2.949)
Other Fund administrative costs	(10)	(10)	(10)	(11)	(11)	(11)	(11)	(11)	(11)	(12)	(12)	(8)	(128)
Gross Operating Margin	3.495	3.198	4.700	4.815	4.932	5.026	4.952	5.049	5.196	5.308	5.816	19.702	72.190
Financial Managment	**(1.455)**	**(1.510)**	**1.495**	**1.492**	**1.516**	**1.550**	**1.655**	**1.727**	**1.784**	**1.924**	**1.869**	**1.355**	**(19.333)**
Financial charges	(1.347)	(1.397)	(1.383)	(1.378)	(1.403)	(1.438)	(1.533)	(1.595)	(1.651)	(1.791)	(1.736)	(1.224)	(17.876)
Amortization - Arrangement fee	(109)	(114)	(114)	(114)	(114)	(114)	(125)	(135)	(135)	(135)	(135)	(135)	(1.481)
Agent Bank fees	0	0	0	0	0	0	0	0	0	0	0	0	0
Active income on liquidity	1	1	1	2	2	2	3	3	2	2	2	4	23
Period's Total	2.040	1.688	3.205	3.324	3.416	3.476	3.297	3.322	3.412	3.384	3.947	18.348	52.857

CASH FLOW STATEMENT													
Amounts in €/000	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	TOTAL
Period results	**2.040**	**1.688**	**3.205**	**3.324**	**3.416**	**3.476**	**3.297**	**3.322**	**3.412**	**3.384**	**3.947**	**18.348**	**52.857**
Amortizations/Provisions	109	114	114	114	114	114	125	135	135	135	135	135	1.481
Other costs	-	-	-	-	-	-	-	-	-	-	-	-	-
CNN Variation	(738)	-	-	-	-	-	(743)	-	-	-	-	-	(1.481)
Equity injection	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	(101.321)	-	-	-	-	-	-	-	-	-	-	-	(101.321)
Fundings	52.292	(527)	(527)	(527)	(527)	(527)	3.161	(564)	(564)	(564)	(4.601)	(46.525)	0
Disinvestments	-	-	-	-	-	-	-	-	-	-	7.704	93.617	101.321
Distributions	-	(1.182)	(1.375)	(2.792)	(2.911)	(3.004)	(3.063)	(5.839)	(2.893)	(2.983)	(2.955)	(72.760)	(101.757)
NET CASH FLOW	(47.618)	93	1.417	119	93	60	2.775	(2.946)	90	(28)	4.229	(7.185)	(48.900)
INVESTORS CASH FLOW	(48.900)	1.182	1.182	1.375	2.792	2.911	3.004	3.063	5.839	2.893	2.983	2.955	72.760

BALANCE SHEET													
Amounts in €/000	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	TOTAL
Portfolio value at the beginning of the period	**-**	**101.321**	**101.321**	**101.321**	**101.321**	**101.321**	**101.321**	**101.321**	**101.321**	**101.321**	**101.321**	**93.617**	**-**
Contribution of properties	90.000	-	-	-	-	-	-	-	-	-	-	-	90.000
CapEx	8.500	-	-	-	-	-	-	-	-	-	-	-	8.500
Capitalization of professional costs on capex	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing costs	2.821	-	-	-	-	-	-	-	-	-	-	-	2.821
Divestments - Residences	-	-	-	-	-	-	-	-	-	-	-	-	-
Properties sales	-	-	-	-	-	-	-	-	-	-	(7.704)	(93.617)	(101.321)
Portfolio value at the end of the period	**101.321**	**101.321**	**101.321**	**101.321**	**101.321**	**101.321**	**101.321**	**101.321**	**101.321**	**101.321**	**93.617**	**-**	**-**
Cash at the beginning of the period	**-**	**1.282**	**1.375**	**2.792**	**2.911**	**3.004**	**3.063**	**5.839**	**2.893**	**2.983**	**2.955**	**7.185**	
Inital liquidity	48.900	-	-	-	-	-	-	-	-	-	-	-	48.900
Loan	52.292	(527)	(527)	(527)	(527)	(527)	3.161	(564)	(564)	(564)	(4.601)	(46.525)	0
Cash flows of the period	1.411	1.802	3.319	3.438	3.531	3.590	2.678	3.457	3.547	3.519	11.786	112.100	154.178
Cash outs	(101.321)	-	-	-	-	-	-	-	-	-	-	-	(101.321)
Distribution of proceeds	-	(1.182)	(1.375)	(2.792)	(2.911)	(3.004)	(3.063)	(5.839)	(2.893)	(2.983)	(2.955)	(23.860)	(52.857)
Repayment of equity	-	-	-	-	-	-	-	-	-	-	-	(48.900)	(48.900)
Cash at the end of the period	**1.282**	**1.375**	**2.792**	**2.911**	**3.004**	**3.063**	**5.839**	**2.893**	**2.983**	**2.955**	**7.185**	**0**	
Other activities at the beginning of the period	**-**	**629**	**514**	**400**	**286**	**171**	**57**	**676**	**541**	**405**	**270**	**135**	
- Other activities	629	(114)	(114)	(114)	(114)	(114)	619	(135)	(135)	(135)	(135)	(135)	0
Other activities at the end of the period	**629**	**514**	**400**	**286**	**171**	**57**	**676**	**541**	**405**	**270**	**135**	**0**	
TOTAL ASSETS	**103.231**	**103.210**	**104.513**	**104.518**	**104.496**	**104.442**	**107.836**	**104.755**	**104.710**	**104.547**	**100.937**	**0**	
Other liabilities ath the beginning of the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
- IVA debt	-	-	-	-	-	-	-	-	-	-	-	-	-
- Other debts	-	-	-	-	-	-	-	-	-	-	-	-	-
- Security deposits	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities at the end of the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
Financing at the beginning of the period	**-**	**52.292**	**51.765**	**51.238**	**50.711**	**50.184**	**49.657**	**52.818**	**52.254**	**51.690**	**51.126**	**46.525**	
Debt disbursement - contribution	52.687	-	-	-	-	-	3.706	-	-	-	-	-	56.393
Debt disbursement - CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt repayment	(395)	(527)	(527)	(527)	(527)	(527)	3.161	(564)	(564)	(564)	(4.601)	(46.525)	(56.393)
Financing at the end of the period	**52.292**	**51.765**	**51.238**	**50.711**	**50.184**	**49.657**	**52.818**	**52.254**	**51.690**	**51.126**	**46.525**	**-**	
Equity at the beginning of the period	**-**	**50.940**	**51.445**	**53.275**	**53.807**	**54.312**	**54.784**	**55.018**	**52.501**	**53.019**	**53.421**	**54.412**	
Issue of quotas	48.900	-	-	-	-	-							48.900
Period result	2.040	1.688	3.205	3.324	3.416	3.476	3.297	3.322	3.412	3.384	3.947	18.348	52.857
Dividends distribution	-	(1.182)	(1.375)	(2.792)	(2.911)	(3.004)	(3.063)	(5.839)	(2.893)	(2.983)	(2.955)	(23.860)	(52.857)
Equity repayment	-	-	-	-	-	-	-	-	-	-	-	(48.900)	(48.900)
Equity at the end of the period	**50.940**	**51.445**	**53.275**	**53.807**	**54.312**	**54.784**	**55.018**	**52.501**	**53.019**	**53.421**	**54.412**	**-**	
TOTAL LIABILITIES + EQUITY	**103.231**	**103.210**	**104.513**	**104.518**	**104.496**	**104.442**	**107.836**	**104.755**	**104.710**	**104.547**	**100.937**	**-**	

Chapter 4

New Investment Opportunity: Senior Living

4.1 Senior living concept

Studies show that around one fourth of the elderly population suffers from social isolation, in fact, in the United States, this condition affects almost 24% of the elderlies, which is around 9 million of people. The main causes for this growing problem are to be found in: ageing, it is frequently observed that with age also cognitive impairment and various disabilities may arise which lead the individual to socialize less and feel less independent; non-involved family or no family at all, and losing a spouse increases the feeling of loneliness and subsequently the probability of depression, which might also be amplified by the absence of children, either from loss, no children at all or if they are marginally involved in their lives; in addition, also retirement with the sudden end of work routine and the daily relationships that came with it, and the increased probability linked with ageing of death of close friends and life companions could also lead to social isolation. A study from Statistic Norway in 2016 found that more than 30% of elderly people had two or less people on which they could rely on in case personal issues arose. What emerged from these studies was that the main cause for social isolation and depression in the elderly population is loneliness, either connected to living alone, and to the lack of meaningful relationships.

What also emerged from the medical research in the paper "The Pathophysiology of Perceived Social Isolation: Effects on Health and Mortality" by Adnan Bashir Bahtti and Anwar ul Haq, was that social isolation can have consequences not only on mental health but also on the individual's physical health. As reported in the paper:

- An increased risk of cardiovascular disease with difficulties related to atherosclerosis, hypertension, coronary artery disease, stroke, heart attack, and cardiac failure;
- Increased risk of type 2 diabetes and obesity;
- Abnormal activity in the endocrine system (hypothalamus, pituitary gland, and adrenal glands);

- Reduced immune system function, increasing the risk of conditions such as the Epstein-Barr virus;

Differently from RSAs and retirement homes for the elderly that can be already found in the Italian market, Senior Living is a new hosing concept that targets elderly people which are still self-sufficient and that are looking to invest in a housing solution that will allow them to feel more protected and integrated than previously. This new housing solution has seen a substantial growth and spread in other countries, such as U.S.A., U.K., Ireland, Germany, France, Belgium, but is still a novelty in Italy.

Senior Living proposes the least amount of care services to elderly people compared to other solutions for them. This is due to the fact that this housing solution is aimed at offering to elderly people which are sufficiently autonomous and need limited support and assistance, not only a safe place to live, but a lifestyle characterized by tranquility and integration in society.

Usually Senior living housing complexes are made of a number of apartments in which seniors (alone or in pairs) can move into. Differently from RSAs, the community that these solutions create are made up of active and relatively healthy elderlies.

Another benefit associated with Senior Living is the specificity towards the target of the apartments. The guarantee for the senior and his family to have available an apartment designed specifically for the needs of a person who, even if still in health, no longer has the same energy as once did. Senior Living is an intermediate solution between the complete autonomy of the private home and the assistance of an RSA, thus being ideal for the elderly who are experiencing the first signs of aging.

4.2 Real Care

In the following paragraphs, the business case of the financing from UniCredit bank to the attempted development of two Senior Living projects of Real Care are reported. Other than the architectural characteristics of the projects, particular attention should be given to the yields that these investments were going to make over the years. In fact, after the analysis made on this investment, UniCredit bank was willing and ready to finance the operation by granting a loan to cover the CapEx costs, perceiving this as a good and safe investment.

4.2.1 Presentation of Real Care

Real Care S.r.l. (the "Real Care") is the first Italian company dedicated to real estate development and management of residential complexes dedicated to self-sufficient elderly (so-called "Senior Living")

The Real Care project (the "Project") involves the construction of residential complexes for the third age which are made up of housing units independently located in a condominium context with a wide range of comforts and dedicated services, aimed at improving the quality of the life of the residents (so-called "Senior Living”).

In order to develop the Project, Real Care formed a partnership with Oaktree Capital Management ("OCM"), an institutional investor listed on the New York Stock Exchange with approximately $ 100 billion under management, which was supposed to invest through managed funds. OCM is already operating in the Senior Living sector in Great Britain through the investment in Pegasus Life, a wholly owned company acquired in 2012 which carries out development and management of residential complexes for the elderly.

Pegasus Life in 3 years acquired over 30 sites in Great Britain and Ireland for a total investment of approximately £ 200 million (excluding equity financing).

In 2016, Real Care acquired the first site of approximately 5,000 square meters located in Milan in the Porta Venezia area and were considering the acquisition of a site in the center of Monza of which they had obtained the exclusive.

4.2.2 Mission

The current offer of the Italian residential market for the third age does not present housing solutions that meet the needs of those who often live in poorly accessible, oversized, increasingly difficult to maintain houses, in the total absence of services and assistance.

The associated discomforts increase the sense of insecurity and loneliness in the elderly, generating growing concerns for family members.

In the third age, the housing need does not end in the availability of a home to live in, rather in being able to continue to maintain the own sense of autonomy and independence, most of the time, unfortunately, during a period of worsening of one's conditions health.

The goal is to promote a new lifestyle that allows older people not to give up their independence.

The project had a strong social value as it protected a weaker segment of the population and responded to an ongoing phenomenon, the progressive ageing of population.

The experience of Great Britain and other European countries shows that Senior Living is a winning model.

According to Real Care, Italy is an interesting market as there are no similar housing models, there is no competition and a potential wide target is present.

Real Care is proposed as the first company in Italy in the development and management of Senior Living.

4.2.3 Real care project concept

The project involved the development of an innovative housing model consisting of the ownership of an apartment in a residential complex dedicated to the elderly population. The concept comprised:

- It allowed the elderly to maintain their autonomy and self-sufficiency for longer by offering independent housing solutions in one condominium context managed with professionalism and equipped with a range of integrated services;
- It created ideal home environments, characterized by comfort, safety, socialization spaces where you can live in serenity without sacrificing the freedom to be at home;
- It promoted a process of "active aging" and a new way of living the elder phase of life that allows you to continue enjoying life relying on a series of services
- aimed at simplifying and solving all daily needs. Target was made up of people aged over 65;
- It is aimed at both self-sufficient people and people with a lower level of autonomy who wished to maintain their own independence;
- The concept is totally different from the model of traditional RSA, rest homes, assisted residences, hospitalizations and of similar structures offered for rent.

Projects’ main characteristics:

Location	• Milan, and other main Italian cities; • Central and semi-central residential areas where neighborhood services are present (shops, supermarkets, etc.) and well connected by public transport;
Projects’ dimensions	• Average size of each project equal to 50 apartments (critical mass sufficient for the sustainability of the services offered); • Adequate size of housing units (mainly three-room apartments);
Architectural characteristics	• Suitable spaces and structures, absence of architectural barriers, bathrooms and kitchens with solutions design studied ad hoc; • Energy efficiency of buildings based on certified international standards;
Security	• Video surveillance and fire prevention system; • Facility management 24 hours a day; • Intercom and home-concierge emergency call;
Services offered	• Extended reception service with constant presence of a house manager; • Assistance services on request (medical and nursing assistance, caregiver, etc.); • Personalized services on request (apartment fit-out, removals, transport, etc.); • Facility management (maintenance, cleaning services, gardening, etc.);
Amenities	• Lounge, TV room and other socializing spaces (organization of events and activities); • Restaurant and home catering;

4.3 Via Kramer Project

4.3.1 Macro Area

Via Kramer is located in a prestigious residential area in the north - east half – center of Milan, in the immediate vicinity of Piazza San Babila (10 minutes on foot) and the Corso gardens.

The area benefits from excellent public transport, there are several tram stops in via Bixio and viale Piave (300 m) while the subway stop/multiple rail link nearby is Porta Venezia (500 m). In addition, in the vicinity two new stops on the site are planned M4 (which was currently under construction);

The area which includes via Kramer is recognized as renowned residential area, characterized by prestigious buildings from the 19th and 20th centuries as well as from more ordinary buildings built after the second world war

Via Kramer is a quiet parallel one-way street at the internal ring road of viale Piave. The area is characterized by the presence of many bars and restaurants and offers varied services for its residents.

4.3.2 Project construction

The individuated complex, represented by a former residence for students, consisted of 2 interconnected buildings erected on a 2,300 square meters' site, dating back to the 1950s.

On the basis of the PGT, demolition of the building was allowed and also the total recovery of the volume of the building through a direct urban planning process (simple "permission to build").

The change of intended use in residential was also allowed.

The project foresaw a conversion/demolition and reconstruction: to build a more efficient building as far as concerns the quality and subdivision of the spaces, as well as below the profile of energy performance.

The new property should have consisted of a complex residential for the third age, comprising:

- Residential units
- Common areas (including reception, lounge, areas recreational)
- Box, technical rooms and cellars

Milano, Via Kramer 25	
Area	**Sq. M.**
Projects SLP	4.827
Extra areas	376
Shared areas	401
Commercial area	5.604

The acquisition and development was conducted through a project company ("SPV"), in the form of a limited liability company under Italian law, controlled by investment funds managed by CMO.

The SPV entered into a preliminary purchase contract with the, at the time, current owner which provided for the signing of the final contract on January 19, 2017.

The purchase price of the property was €14,000,000, of which €5,600,000 was paid upon signing the preliminary contract, €2,800,000 was going to be paid in July and the balance at the end.

The financial structure provided for the use of bank financing to cover part of the acquisition and development costs.

Architectural design was being finalized with the aim of achieving building permits by the end of 2016 and start construction work by the first quarter of 2017.

Real Care was supposed to coordinate all the phases of the development process, outsourcing the construction and project management activities to primary managers' operators and directly manage the sale and subsequent administration of condominium services.

In particular, the construction works were going to be entrusted following a tender procedure on the basis of a turnkey contract fixed price.

The marketing and sales activities were managed by Real Care through personnel trained specifically for this activity in consideration of the specific type of product

4.3.3 Sales value of the project

Number of units were of about 50, the average size was 97 square meters (commercial area), and the expected sale price was on average €7,000 per square meter, with an average price per unit of approximately €680,000. In addition, the price for the garage was €65,000. *See 4.5 Appendix: Via Kramer Tables.*

The common areas related to the Senior Living project (including reception, lounge and recreation areas) had a reduced impact on the final price of housing units as they account for 5% of the total price.

Accessory areas (terraces and balconies, cellars, stairs and elevators, common areas) accounted for 7% of the total price.

The average commercial surface purchased per apartment was 97 square meters, of which:

- 91 square meters of private parts, of which 85 square meters of SLP and approximately 6 square meters of accessory parts relating to balconies and cellars (weighted)
- 5 sqm of share of the common parts relating to Senior Living spaces (weighted)
- 1 square meter of share of "classic" common areas relating to stairs, corridors, etc. (Weighted)

4.3.4 Market of reference

The market study conducted by Sigest on the residential reference market drew the following conclusions:

- Large reference basin characterized by very high population density
- Residential destination with increasing palatability
- Comparable new residential projects with excellent results in terms of marketing
- Selling prices of used items at relatively high values, in the order of €5,600 per square meter for apartments in good condition
- Sales prices for new apartments between €4,500 and €9,000 per square meter, with an average of €6,750 per square meter.

The size of the project was of 5,604 square meters of commercial area for a total of about 50 apartments (beyond the areas municipalities and pits.)

<u>Development costs</u>

Revenues, Costs and Profit:

- € 42.5 million in total sales revenues;

- € 30.2 million in total costs;
- € 12.3 million profit before leverage;
- Site acquisition cost of € 15.5 million (including acquisition costs);
- Total development costs (acquisition, design and construction) of approximately € 4,800 / sq m (on the commercial area net of boxes)

Development times:

- 12 months for planning and urban planning process;
- 18-24 months for the construction period;
- 18-24 additional months to complete sales;
- Start-up of the construction site was scheduled for the first quarter of 2017.

Development timing (costs)			**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Land acquisition (net)		(14.000.000)	(8.400.000)	(5.600.000)				
Land acquisition costs		(1.500.435)	(429.935)	(1.070.500)				
Urbanization Charges		(1.141.582)		(1.141.582)				
Construction costs		(9.321.879)		(2.516.907)	(6.618.534)	(186.438)		
Architecture	3,00%	(279.656)	(186.438)	(93.219)				
Project Management	5,50%	(512.703)			(364.019)	(10.254)		
Asset Management	0,00%							
Property Management	0,50%	(245.117)	(52.500)	(70.000)	(70.000)	(45.267)	(7.350)	
Contingency	10,00%	(932.188)		(251.691)	(661.853)	(18.644)		
Service Charge void		(162.118)				(138.188)	(23.929)	
Marketing	2,00%	(849.508)	(131.820)	(175.760)	(175.760)	(175.760)	(175.760)	(14.647)
Agency	3,00%	(1.274.262)				(930.211)	(331.308)	(12.743)
Total		**(30.219.449)**	**(9.200.693)**	**(11.058.090)**	**(7.890.168)**	**(1.504.762)**	**(538.348)**	**(27.389)**
Net cash flow (unleveraged)		**(30.219.449)**	**(9.200.693)**	**(11.058.090)**	**(7.890.168)**	**(1.504.762)**	**(538.348)**	**(27.389)**
Development timing (sales)								
GDV		**42.475.406**				**31.007.046**	**11.043.606**	**424.754**

4.4 Monza, Viale Battisti Project

4.4.1 Location of the Area

The area is located in Monza along Viale Cesare Battisti, main road axis leading to the Villa Reale, immediately behind the historic center.

The area is located in an area with a strong residential vocation called "Musicians Quarter". The location benefits from the proximity to the historic center, at park, the royal villa and the San Gerardo hospital, destinations included within a radius of 500-

800 meters. The area is directly served by different transportation lines public.

The Musicians' Quarter is characterized by a low urban density with large private gardens, pedestrian paths and cycle paths. The area is characterized by several buildings and building complexes of historical interest e architectural and quality residential condominiums, villas and prestigious homes.

The area is delimited by via Battisti, Donizetti and Scarlatti and it borders on the west side with the church and the college of the Fathers Discalced Carmelites. Along the first stretch of via Donizetti there are residential complexes with private green areas and a large sports center while on the opposite side of the avenue of Battisti is the Villoresi San Giuseppe educational institution.

The neighborhood offers the main neighborhood services, includeing shops, supermarkets, bars and restaurants.

4.4.2 Area Development Project

Until the 1960s, the area hosted the Feltrificio Scotti, one industrial plant with over 500 specialized workers in the manufacturing of hats.

The area of intervention had a territorial area of approximately 16,000 square meters and the pre-existing industrial buildings have been almost entirely demolished.

Monza, Viale Battisti	
Area	**Sq. M.**
Residential	8.265
Commercial	1.250
"Music house"	1.030
Tertiary	855
Auditorium and related services	1.770
Total area	13.170

The project of requalification, subject of an Integrated Plan of intervention approved by the Municipality of Monza last September 2015, provided for a settlement of mainly residential buildings with additional commercial and tertiary functions and a public component consisting of a 400-seat auditorium with services and related activities. Real Care reached a preliminary agreement with the owner where an exclusive period was granted for the completion of the due diligence activity.

The main terms of the agreement reached with the owner included:

- The completion of the purchase and sale of building titles, approximately within 12-18 months from the signing of the preliminary contract (expected in the next 60-90 days);

- A purchase price for the area divided into a fixed part of €3,500,000 and a variable part, payable at completion of sales and conditional on the achievement of certain yield thresholds;
- The take-over by the buyer of the costs of restructuring and conversion of the building named "School of Music" "Ex Casa delle Aste", which would remain property of the seller, for an amount equal to €2,000,000;
- The takeover of the buyer, as implementing body, in the urban planning agreement to be stipulated with the Municipality of Monza and in the related economic commitments (connected, inter alia, to the realization of all the works relating to the public component of the intervention, whose amount equal to €5,982,000 must be guaranteed by a bank guarantee);

Real Care, with the help of a team of consultants, was, at the time, conducting the due diligence activities regarding the aspects of commercial, design, legal, urban and environmental importance. The operating structure and management model were going to reflect those used for the previous Via Kramer operation in Milan.

4.4.3 Sales values

The Number of units to be constructed were about 80-100 with an average size of 90 square meters (commercial area). The expected sale price was, of residential: €4.000 per square meter, of commercial: €2.300 per square meter; and of tertiary: €2.300 per square meter.

The average price per residential unit was approximately €510,000. In addition, for the garage the price was: €32,000.

The common areas related to the Senior Living project (including reception, lounge and recreation areas) had a reduced impact on the final price of the apartments as they accounted for about 3% of the total price.

Accessory areas (terraces and balconies, cellars, stairs and elevators, common areas) accounted for 11% of the total price.

The average commercial surface purchased per apartment was 104 square meters, of which:

- 97.5 square meters of private parts, of which 89 sqm of SLP and 8.5 sqm of accessory parts related to balconies and cellars (Weighted);
- 2.8 square meters of share of the common areas relating to Senior Living spaces (weighted);
- 3.2 square meters of share of "classic" common areas relating to stairs, corridors, etc. (Weighted).

4.4.4 Market of Reference

The reference market study commissioned by the consulting firm JLL drew the following conclusions:

- Large reference basin with over 139,000 people over 65 who live in a radius of 15 minutes;
- Prestigious residential location in the context of the Monza real estate market;
- Comparable new residential projects of relatively limited size (between 10 and 30 units) with good feedback in marketing terms;
- Sales prices of the area for used products included in a range between 3,000 and €4,000 per square meters for apartments in good state;
- Sales prices for new apartments included in a range between €3,000 and €5,600 per square meter.

<u>Development costs</u>

- € 49.4 million in total sales revenues;
- € 33.6 million in total costs;
- € 15.8 million profit before leverage;
- Site acquisition cost of € 11.5 million (including home renovation costs of music and urbanization charges);
- Total development costs (acquisition, design and construction) of approximately €2,640 per square meters (on the total commercial area of 11,161 m2 net of boxes);

Development times

- 12 months for planning and urban planning process;
- 36 months for the construction period;
- 24-30 additional months for completing sales;
- Construction start-up was scheduled for the second quarter of 2017.

Development timing (costs)			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Land acquisition (net)		(3.500.000)	(350.000)	(3.150.000)					
Land acquisition costs		(350.000)	(35.000)	(315.000)					
Planning costs		(5.862.373)		(5.862.373)					
Construction costs		(17.904.760)		(1.790.476)	(6.803.809)	(9.310.475)			
Architecture	3,00%	(537.143)	(179.048)	(358.095)					
Project Management	5,50%	(984.762)		(98.476)	(374.209)	(512.076)			
Asset Management	0,00%								
Property Management	0,50%	(56.452)		(10.208)	(17.500)	(16.538)	(9.304)	(2.844)	(58)
Contingency	10,00%	(1.790.476)		(179.048)	(680.381)	(931.048)			
Service Charge void		(181.340)					(138.226)	(42.248)	(867)
Marketing	2,00%	(988.360)		(119.285)	(204.488)	(204.488)	(2.047.488)	(204.488)	(51.122)
Agency	3,00%	(1.482.540)				(296.508)	(711.619)	(400.286)	(74.127)
Total		**(33.638.205)**	**(564.048)**	**(11.882.961)**	**(8.080.387)**	**(11.271.132)**	**(1.063.637)**	**(649.869)**	**(126.174)**
Net cash flow (unleveraged)		**(33.638.205)**	**(564.048)**	**(11.882.961)**	**(8.080.387)**	**(11.271.132)**	**(1.063.637)**	**(649.869)**	**(126.174)**
Development timing (sales)									
GDV		**49.417.987**				**9.883.597**	**23.720.634**	**13.342.857**	**2.470.899**

4.5 Interview with Patrick Parkinson, co-founder of Real Care

The vendibility according to Patrick is reduced, but there is little supply and a lot of demand for this type of product. It is a niche market, there are 2-6% of those aged over 60 who would choose this type of solution. The offer in Italy is absent, so there is a strong imbalance of supply and demand.

In the U.K. there are more than 100.00 accommodation of this type. The family support network is missing as it once was given by the children, now the elderly parents no longer live with their children.

"It is a limit but also an opportunity, we offer something that is not there" is his outlook on this type of investment.

The projects, in the end weren't developed because the fund (OakTree), being a private equity fund, wanted to make a pan-European development (it has already invested in Pegasus life in the U.K.) by trying in other countries before but without success. Then it found Real Care in Italy, but they understood that the real estate market development in Italy is very slow, and at the end, being private equity, the numbers of this operation were not interesting enough given that they manage an average of 100 billion dollars. So investing 30-50 million was not interesting enough for the fund. The property was then transformed into a pure residential property and sold. From their point of view, they didn’t lose much. In Patrick’s opinion, the market wasn’t ready yet for the introduction of this new product.

The idea is that in Italy there is no such type of market and Real Care wants to test this opportunity, says Patrick. The alternative is that if it doesn't work, it turns into pure residential and sells, so in any case, there wouldn’t be any losses.

During the marketing phase, Real Care managed to get requests for more information by potential customers of about 15-20 per day. In 3 months they collected over 500 requests for information. To date, when they no longer advertise, 1-2 requests for information arrive every day. This, for Real Care, indicates that there is a market for this type of operation also here in Italy.

4.5.1 Why today's (self-sufficient) elderly people seek this type of solution

There is something Patrick calls “the 3 S’s” at the base of elderly reasoning:

- Socialization (growing sense of loneliness)
- Security
- Services

Real Care sells a living concept.

The last concern for the elderlies was the price of the house (obviously in line with market prices), the package offered, the lifestyle was the interest of the buyers, and Real Care during its marketing phase had absolutely positive feedback.

A recurrent phenomenon they observed was of groups of friends, often without children, who wanted to buy a building where everyone had their own apartment.

The marketing they made was aimed at the elderly but also at the children of these, because they seek mental tranquility in knowing that their parents and relatives are well and are safe and controlled. At that age they must think about themselves, they must be well, and they begin to think that the next 20 years of their life will be different from the past 20 years.

4.5.2 Services

There is a house manager present for 24h everyday which acts as an intermediary.

There are a series of activities proposed and hobbies such as gardening, the possibility for a small outpatient clinic on the ground floor, open to all with a general practitioner, and bar/café activity as it is in the urban project, open to all.

Costs efficiency are derived from low consumption systems with a reduction of management costs. At the same cost as a normal condominium there are these extra services. Administration costs are slightly higher than a normal condominium.

The selling price, especially outside the big cities, may reach even 15-20% above the average. A premium is given to what is the value of the house, it is recognized as an added value.

In the business plan of the company, it has always been considered to sell the houses at the average residential price of the area.

The Segesta group which also manages RSAs, has created areas, which are less hospital-like, in RSAs for patients who do not actually need the services of an RSA, says Patrick. Target is usually of 80 years of age, partly autonomous, and it anticipates the customer who is first autonomous and then degenerates so afterwards he/she moves to the non-autonomous area of the RSA. According to Patrick's market research, at 80 you don't make real estate investments, but even at 65-80 the Italian elderly prefers to buy a house, in fact, in Italy 80% buys a house instead of renting them.

Those looking for something at this age, do it for a lifestyle issue, and do so at 65 with a 20-year-term perspective.

In Milan, patients stay in RSAs for 6 months, on average. Statistically you spend about 80% of your healthcare cost on the last two years of your life. So in terms of money management efficiency of the targeted individual, it makes sense to invest in this type of lifestyle solution instead of reducing investments to the last few years of one's life. It's a matter of quality of life rather than quantity.

4.5.3 Legality

There is a purchase constraint on the apartments: the head of the family must be at least 60 years old. According to Patrick, the age limit is a protection for people in this range, not a limit.

The lease would only be for those of that age, it is a limit of use. The constraint can be of a notarial type or it can simply be a constraint of condominium rules. The latter, though, is more easily opposed by a condominium.

This represents a delicate issue to deal with, it's a sort of age discrimination. The limits are tied more to the good management of the condominium by creating a sort of generational barrier. It is still an issue that is dealt with particular attention during the development and selling of this product.

4.5.4 Yields and risks

With Oak Tree, Real Care paid a management fee. They were the financiers and Real Care the manager. With the new financier that the company has found, there is Co-investment.

It is an interest alignment strategy. The promote structure is constructed such as there is a minimum return for the investor up to a predefined threshold, then from threshold to threshold there is a performance fee applied and Real Care benefits from an annual yield percentage.

The minimum of IRR that the developer looks for, is currently around 15-18% pre-leverage, with a minimum threshold of 1.5xEquity.

In Italy there are no tax breaks for these operations focused on senior citizens, and it must also be said that buying and selling houses in Italy is very expensive. You might also end up paying 6-8% of transaction costs.

Today the residential income sector has a very low perceived risk and consequently a very low return, even 3% net.

The market research conducted by Real Care consisted of four focus groups, made up of two specific targets: the over 60s; and their influences (as might be their children); plus, a series of 400 phone calls were made in which a questionnaire about this type of investment was submitted.

4.6 Appendix: Via Kramer tables

Site Values		
Built area (sqm)	**8.014**	
Built area / sqm (€)	**1.835**	
Built area / sqm (€)	2.085	(Incl. Closing / Planning costs)
SLP	**4.999**	(Excl. 9% Gross : Net / 0% Energy Class bonuses)
Land value [SLP / sqm] (€)	**3.100**	**(Excl. Planning / Above ground1)**
Land value [SLP / sqm] (€)	3.343	(Incl. Planning / Above ground1)
Land as % of GDV	33%	(Incl. Purchase costs)
Ratio of Built area:SLP	147%	
Sellable area	**6.186**	
Ratio of Sellable area : SLP	124%	
Land value (gross)	**15.500.435**	
Purchase costs	**10,72%**	

Resale Values		
No. of Units	52	
Average Unit size	102	sqm (commercial area of Resi. Unit / excl. Balconies)
Ratio of Balconies	11%	of Unit size
Average Market Value (€)	**7.000**	/sqm
Average Value of Garages / Parking (€)	65.000	per Garages / Parking
Average Value per Resi. Unit (€)	882.744	(incl. Garage)

DD Costs			1st closing	2nd closing	Final
Real Care (setup fee)	0,00%	-	5.600.000	2.800.000	5.600.000
Agent	1,25%	175.000	175.000		
DD Technical / Legal	0,17%	23.385	23.385		
Commercial / Legal	0,13%	23.433	23.433		
Notary / Company	0,17%	24.200	14.280		9.920
Transfer taxes	9,00%	1.260.000	189.500	-	1.070.500
Total	**10,72%**	**1.506.018**	**6.025.598**	**2.800.000**	**6.680.420**

Chapter 5

Conclusions

From the analysis made above, we can confidently say that in the next 20 years, the number of individuals belonging to the "baby boomer" cohort, and in particular those born between 1961 and 1976, will transit from the working age to the retirement phase, and consequently also their health and social life will change. This increase in the number of the elderly population will push up the demand for a new product, the Senior Living.

As seen in Chapter 2, the alternative asset class in Italy had a substantial growth in the last few years, in particular Students Housing and the Nursing Home sector started to gain a lot of visibility. This last one, as a consequence of the population ageing, is thriving.

From an investment point of view, the real estate healthcare sector in general, has demonstrated strong performances even in time of crisis. In Italy in particular, we find a strong interest, even by international investors, in RSAs. Analyzing the performance of these assets in the last ten years, therefore, accounting also for the years of the financial crisis, we can observe how the portfolios of REITs that invested in RSAs in Italy had a low variance, meaning a low investment risk, with a steady and low long-term yield. Therefore, this type of investment is able to perform well even during market volatilities, and hence, is presumably of particular interest for investors with a low-risk profile. The performances and structure of this real estate investment is highlighted in the business case of REAM SGR in Chapter 3, where we can see that UniCredit bank could confidently grant new loans for the construction of RSA thanks to the strong demand (Occupancy rate of approximately 95%), and stable yields in the long-term.

The increase is not only related to the life expectancy that the ageing population is incurring in, but also of the quality of life. Individuals are living longer than before, but are also conducting a healthier life enabling them to be totally or partially independent until the very end.

In Chapter 4, we see how the transition to this new phase in life for elderly people, could have negative consequences on their social life and physical as well as mental health. Finding themselves with a lack of external stimulation and, most of all, often alone, an overall decay of the individuals can be observed.

Senior Living is a possible solution. As Patrick Parkinson, the co-founder of Real Care, said, Senior Living is a concept of living. Like RSAs, they offer the consumer some services to make life easier by fulfilling some basic needs, but they are limited and aimed only to individuals who are older than 60 and are independent.

As can be seen from the Real Care business case of Via Kramer in Milan, the project seemed to be a good investment, with low but steady long-term yields.

The Senior living segment is still not well defined in Italy, it allocates itself between the Nursing Home sector and the Residential one. From the similarities with Nursing homes, the high forecasted demand for this asset, and from the performance observed in other countries where it is already well known (such as the U.S. and the U.K.), we can assume that also in Italy it will be a low-risk investment with steady long-term yields.

Furthermore, this type of investment would be of interest for investor with low-risk profiles, but it would also have a strong positive social impact on society, by integrating and creating a community of elderly people who want and are able to live the next twenty years of their lives independently and with a healthy lifestyle.

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