



Ignore the noise:

Australian healthcare real estate
is alive with opportunity



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Some market commentators thrive on uncertainty because it makes for attention-grabbing headlines.

This year, the Australian private healthcare sector has been a frequent target of pessimistic commentary focused on its profitability, which by extension, causes speculation over rental affordability. Much of this noise is related to corporate level concerns and not from a local asset perspective. Anxiety has stemmed from rising operational costs, post-COVID recovery, workforce shortages, and at a corporate level, the impact of higher lending rates and ongoing conflicts between operators and insurers.

Amidst this noise, RAM did something seemingly contrarian: we announced a recalibration of our listed real estate portfolio, the RAM Essential Services Property Fund (ASX:REP), shifting from the current 50:50 focus on neighbourhood retail and healthcare to a pure healthcare REIT.

Why did we do this, despite the dramatic headlines?

Things aren't as uncertain as they appear. Investing in healthcare real estate, not unlike neighbourhood or bulky goods retail, is a local investment. Ongoing active engagement with our operators is paramount as they continue evolving post-COVID. This evolution can be driven by a shift in local market dynamics, including how private healthcare interacts with the local public healthcare system. These considerations are led by highly experienced and proven local or regional healthcare professionals. Adapting to these dynamics can lead to shifts in profitability.

Our healthcare tenants and the data reveal an operationally resilient sector that remains a portfolio of local services. In the short term, the sector offers good relative value and an opportunity — provided there is discipline in stock selection and an understanding of our operators.

In the long term, economic and sector fundamentals support a risk-adjusted exposure to the sector. Despite the noise, capital market fundamentals are presenting investors with an opportunity to build a more substantive exposure to an undervalued sector.



What the data shows

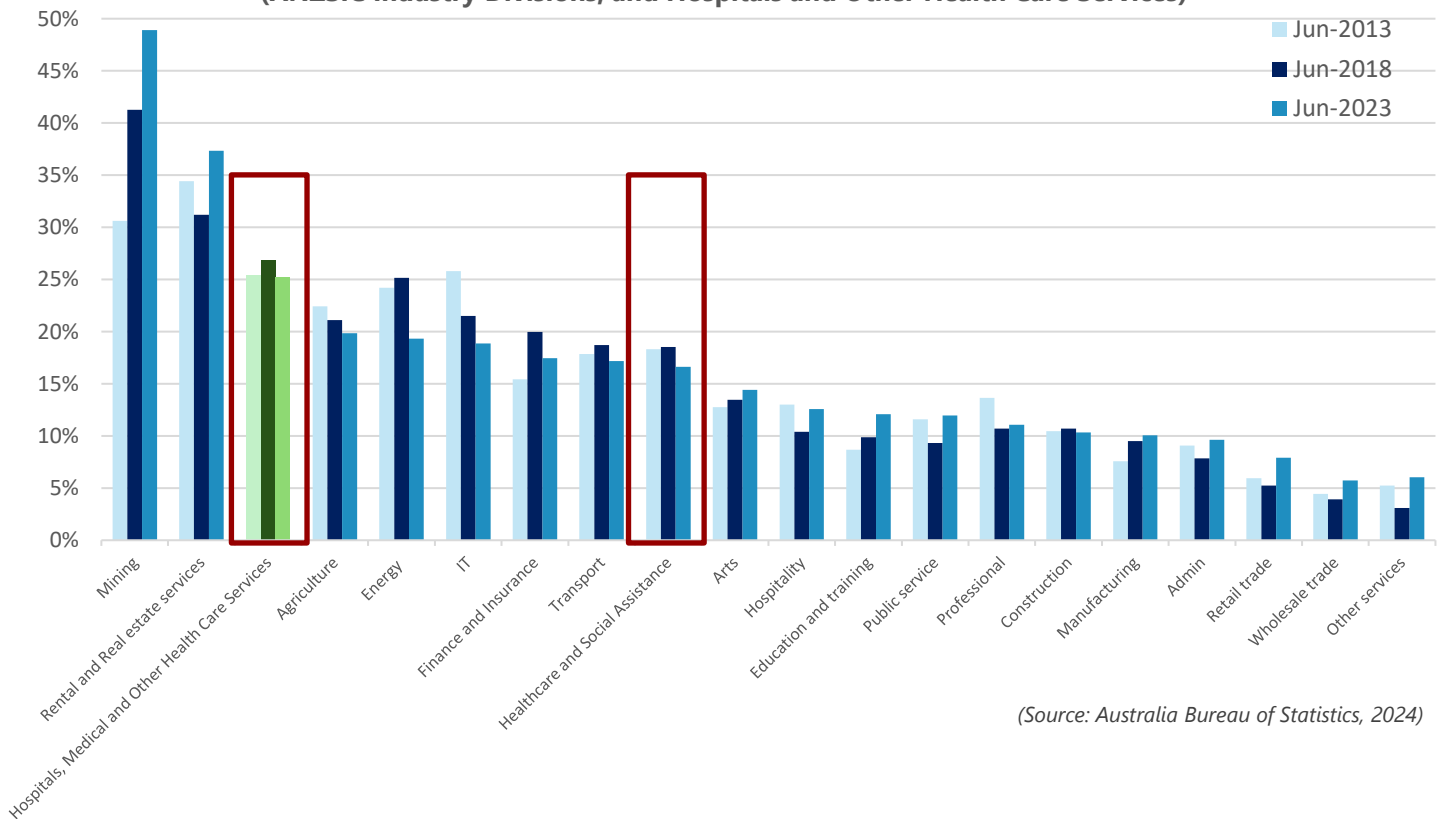
The negative commentary about the healthcare sector ignores three key facts.

Firstly, the sector is profitable. The Australian Bureau of Statistics' most recent Australian Industry release revealed that Private Healthcare and Social Assistance had the eighth-highest EBITDA margin out of 19 industry categories — a healthy 16.3%. While slightly down from pre-COVID levels (18.2% in June 2018), margins have remained largely stable since 2014.

If we exclude Social Assistance (e.g. aged care and childcare) and focus on Hospitals (psychiatric and non-psychiatric), Medical and Other Health Care Services (pathology, allied health, general and specialist services and other healthcare services), this margin increases to 25.2%, lifting it to third behind Mining and Real Estate Services.

EBITDA Margin

(ANZSIC Industry Divisions, and Hospitals and Other Health Care Services)



(Source: Australia Bureau of Statistics, 2024)

Secondly, private healthcare is a broad and diverse sector. Concerns about the sector's performance often focus on large, general hospitals, which are just one subsector within a much larger and more varied industry.

Thirdly, the most comprehensive and recent source of data on the sector, the Federal Government's Private Hospital Sector Health Check, does not support the "unprofitable sector" narrative. The data reveals that 41.2% of total hospital admissions occur in private hospitals, up from 40.3% in 2018–19. Around 70% of elective surgeries take place in private facilities and most private hospital patients (an all-time high of 74%) stay less than 24 hours.

Operators delivering treatments for less severe, shorter-stay conditions are the biggest beneficiaries of these trends. This aligns with RAM's experience: our day hospital tenants are operating profitably, often with double-digit margins. This is just one example of a succeeding subsector within healthcare.

In the long term, it's about the economy

Almost everything we know about Australia's population points to sustained demand growth for private healthcare. Our population is growing, but mostly due to immigration rather than births. Coupled with this — and the fact that we are living longer on average — our population is ageing.

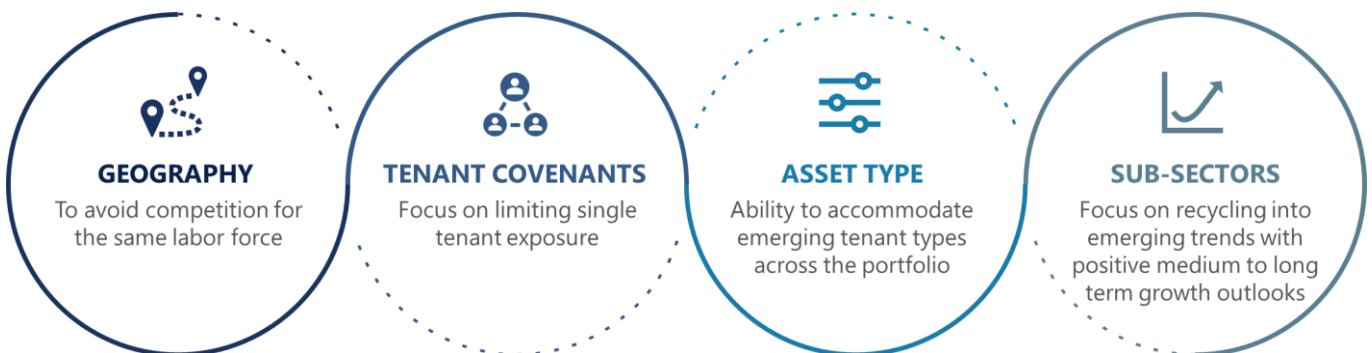
An ageing population brings a higher incidence of chronic and age-related illnesses, with people increasingly seeking private medical attention for these conditions. This is not just a behavioural shift — it's an economic one. Older Australians are wealthier on average than ever before.

This has led to a steady rise in private healthcare utilisation and demand. The healthcare workforce is growing 4.4% annually, outpacing population growth. There's nothing to suggest that these trends won't continue.

JLL estimated the value of the private healthcare real estate market at \$40 billion in 2022. Supported by these trends, an additional \$1.9 billion in private healthcare real estate value is expected to be added each year for the foreseeable future.

How we're investing

RAM's strategy focuses on diversification across sub-sectors, geographies, asset types, and tenant covenants to mitigate risks and capitalise on growth opportunities.



Understanding that large, traditional private hospitals represent only a single segment of the sector, RAM targets investments in surgical day hospitals, IVF and radiology centres, laboratories, medical storage facilities, and mental health facilities.

Facilities located in regions with strong population growth, aging demographics, and increasing rates of chronic illnesses provide long-term stability. In these areas, demand ensures that tenants' businesses — and, by extension, our real estate assets — are resilient to market and policy shifts.

Most importantly, we listen to our operating partners. Our investment plans are guided by those who know local dynamics and the healthcare business best — our tenants. We manage, build and redevelop facilities that support the most profitable parts of operators' businesses. Tenants rarely seek to evolve or expand their space without a clear plan for how it will support growth.

Seizing the opportunity

The best time to invest is when assets are undervalued and there is a tactical reduction in capital. High interest rates, rising operational costs, and constrained operator balance sheets have led to an underestimation of healthcare assets' value. These conditions present an attractive opportunity and allow RAM to demonstrate its core objective of being a trusted partner to our operators.

We are acting on the opportunity by acquiring high-quality assets and progressing discussions for expansion and new construction. Valuations are attractive and operators continue to express a desire to grow.

RAM is an active manager that carefully assesses a wide range of risk assets. Central to our approach is ongoing engagement with our tenants, which provides deep insights into opportunities for expansion and growth. We intend to seize those opportunities.

Naturally, not every opportunity initially aligns with the investment criteria of our listed fund, REP. In such cases, we leverage our broader managed vehicles to incubate and de-risk assets before integrating them into REP's portfolio.

The result is an end-to-end portfolio of assets in a resilient and attractive asset class, offering unique advantages such as low volatility, tenant diversification, urban and regional diversification, high renewal rates, minimal capital expenditure leakage from modern properties, and long WALEs. As the sector continues to institutionalise, RAM is well-positioned to capitalise on both immediate opportunities and the sector's long-term growth trajectory.