

The Specialist Explains: The Attractiveness of Next Core Assets

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Investment in Medical Facilities:

- ✓ **Its profit structure is similar to that of investment in infrastructure**
- ✓ **The marriage between real estate financing and medical facilities is the trend of the times**

Stable Demand and Cash Flow, with Sufficient Benefits to the Medical Facilities and to the Patients

Many attempts have been made to introduce medical facilities, such as hospitals and clinics, into the market for real estate financing. So far, however, such attempts have not yet resulted in steady progress. When it comes to Japanese domestic healthcare REITs, they have not yet succeeded in encompassing medical facilities, either. Nonetheless, there is no doubt that the marriage between real estate financing and medical facilities is the trend of the times, and will prevail further as time goes by. When we turn our attentions to overseas, we can find a number of healthcare REITs, especially in the U.S., which have succeeded in incorporating hospitals.

Both at home and abroad, investors are becoming more interested in medical facilities. One reason is the expectation that the demand for medical facilities will expand in a stable manner due to aging population. Another element is the fact that the health care insurance system covers, in principle, 70% to 90% of the revenues of medical facilities, guaranteeing stable cash flow. This profit structure is attractive because the government's policy ensures revenues to a certain degree, such as the case in the investment for renewable energy facilities based on the Feed-in Tariff (FIT), which has become popular in the last few years, and in the investment for infrastructure, which will gather a lot more attention going forward.

We believe that the need for real estate financing should be on the rise among medical professionals. Many hospitals that opened at the last minute before the first revision of the Medical Laws in 1985 are now older than 30 years, and are facing the need for reconstruction or renewal. Moreover, the policy to control health care insurance will most likely decrease medical revenues in the future. Mid- or small-sized medical

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corporations are especially vulnerable to such income decrease, and therefore would hesitate to make a large investment.

The above-mentioned circumstances make it very attractive for both investors and medical professionals to securitize the underlying cash flows from medical facilities, and let the investment funds take care of the structural issues associated with the medical facilities. For example, when an investment fund owns medical facilities, the underlying investors receive stable long-term income, while the doctors are able to concentrate on providing medical care to their patients. This will create an ideal “win-win” situation.

Of course, we are aware of several risks to investing in medical facilities. These include the possibility of the government revising the social security system, the bankruptcy of the medical operator, and the lack of necessary human resources.

Importance of Establishing a Mutual Understanding Between the Real Estate Financing and the Medical Professionals

SPARX Asset Trust & Management (“SATM”) of SPARX Group has developed a medical building, equipped with operation rooms and the latest MRI. The Fund run by SATM owns the land and the building. The investment amount is approximately 2 billion yen and the underlying investors include foreign public pension funds, and so on. One of the tenants in the building is a clinic which accumulated a solid track record of the number of operations and hospital stays during the first year after its opening, and has been increasing its competitiveness by recruiting another doctor with an excellent track record.

When it comes to investing and managing medical facilities, we consider close communication with the medical operator, who operate medical facilities, to be a matter of primary importance. For example, it is important to maintain the stance to improve profit stability with the mid- or long-term perspective, by flexibly dealing with requests from the medical corporations by providing them with ample repair costs or CAPEX.

It is indispensable for both the real estate financing and the medical professionals to be willing to understand each other in order to further promote investment in medical facilities. Fortunately, the real estate financing professionals are increasingly well-versed in the management and day-to-day business of medical facilities. On the

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other hand, the medical professionals, especially among the younger generation, are also becoming equipped with management capabilities. They have been seriously paying attention to our initiatives.

In recent years, real estate owners and developers have become more interested in investing in medical facilities. We sense heightened needs for utilizing lands and unoccupied spaces in the buildings adjacent to their own rental apartment buildings. The medical facilities that have been attracting a lot of attention these days are the community-based hospitals providing the primary care, and the highly-specialized clinics focusing on particular functions. The former will be able to absorb patients' needs caused by the governmental control of the first medical examination in the major hospitals. The latter serves patients' needs for a high-quality early treatment or surgical operation, as well as the excellent and aspiring doctors' needs for independence. A typical solution for the latter case is the medical building mentioned previously.

SPARX Group is planning to build excellent track record through the Fund, and to generate profits to all three relevant parties, that is, patients, medical professionals, and investors.



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Founded Japan Asset Trust (presently SPARX Asset Trust and Management) in 2006. The company launched and managed funds with over 400 billion yen in AUM. Merged with SPARX Group in 2014, the company oversees real estate investment through funds and boasts more than 10 years of track record in forming the funds in the field of health care, including the medical buildings and nursing homes for the elderly.

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Upper right --- The medical building developed in Setagaya Ward, Tokyo, through private placement funds. Its tenants at its opening in 2016 are “Tokyo Hip Joint Clinic,” specializing in orthopedics, and the “Tokyo Medical Imaging Clinic,” specializing in imaging diagnosis. The latter was renamed as the “Setagaya Artificial Joint and Spine Clinic,” specializing in orthopedics and imaging diagnosis.

Lower right --- Operation room at Tokyo Hip Joint Clinic

Upper left --- X-ray machine at Setagaya Artificial Joint and Spine Clinic

Lower left ---Tokyo Hip Joint Clinic equipped with 19 hospital beds