

Healthcare in Africa



FOREWORD

I am excited to introduce Knight Frank’s inaugural edition of the Healthcare in Africa report.

The Covid-19 pandemic has presented the world with its greatest challenge yet, as a global healthcare and economic crisis. It has challenged global health systems with infrastructure, mode of delivery and financing being some of the many things which were directly impacted in the immediate aftermath. However, as an optimist, I believe the pandemic has also presented us with opportunities. It has allowed each country to carefully examine the infrastructure gaps, consider alternative mediums such as Telemedicine, a longstanding concept which is only now becoming mainstream, and this in turn has caught the attention of a broader pool of investors to take a closer look and deploy funding towards healthcare.

As a continent, Africa’s overall economic and demographic fundamentals present a strong case for investment in healthcare with the private sector playing a pivotal role. With increasing urbanisation and a rising middle class, the need for specialised care continues to be prevalent. Across the continent, the need for governments to facilitate investments in this sector cannot be overemphasized. Through retention of qualified human capital and revenues that would otherwise be spent on outbound medical tourism, a long term positive impact in individual countries would be realised.

Alongside real estate experts, the Knight Frank Healthcare team includes medical doctors and corporate finance specialists who offer a wider perspective on the market and can identify where and what the opportunities are. We believe that the healthcare sector in Africa will continue to be driven through consolidation, public private partnership opportunities, international operator interest and the introduction of highly specialised health services.

Whether you are an investor, operator or owner, I am sure you will find this edition extremely valuable and useful.

If my team or I can be of any help, do not hesitate to contact us.



SHEHZAD JAMAL
Partner, Healthcare Consultancy

INTRODUCTION

As Africa continues to grow, improving the health of people living on the continent remains the key to unlocking economic development and wealth

Whilst, Significant strides have been made in Africa’s healthcare provisions, healthcare financing remains the greatest hurdle towards quality and accessible healthcare on the continent. According to the World Health Organisation, Africa shoulders 24% of the global disease burden and yet only accounts for only 1% of the global financial resources for health. The UN Economic Commission for Africa further notes that although the private sector accounts for 50% of healthcare expenditure, African Governments

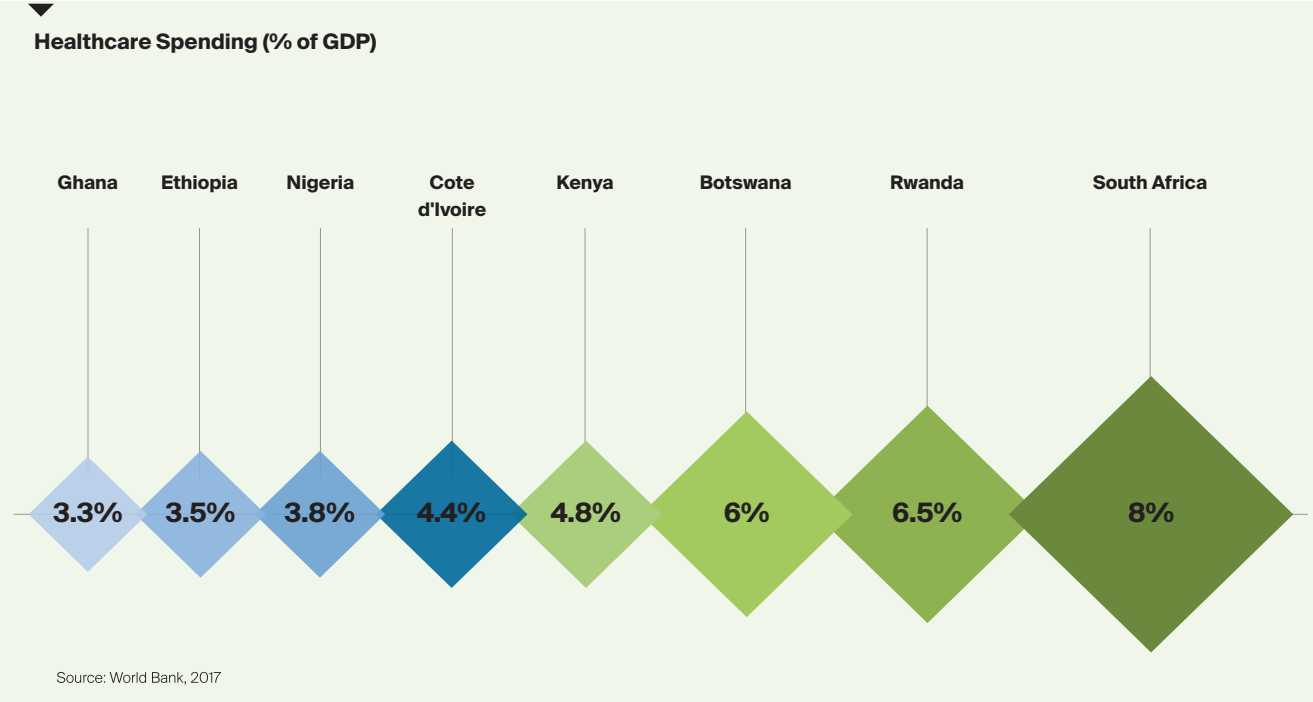
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The sizeable gap for healthcare infrastructure and increase in urbanization, creates a demand for additional healthcare facilities. This can be an opportunity for the private sector to step in and invest in sub-country (level 4) hospitals with a typical size of 50-70 beds to be able to reach wider catchment in the community level.

Dr Gireesh Kumar
Senior Manager,
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currently grapple with an annual financing deficit of \$66bn for primary healthcare. Significant disparities exist in terms of healthcare funding by African Governments, with the majority continuing to fall below par of the 2001 Abuja declaration which sought up to 15% of GDP allocated to healthcare spending. Opportunities spanning the entire human lifecycle abound for both small and large market participants, such as private investors, institutional funds, real estate developers and healthcare operators, to enter the sector.



HEALTHCARE DEMAND DRIVERS



POPULATION GROWTH:

Africa's population has continued to grow at an average rate of 2.5% per annum and is expected to grow to 2 billion people by 2050, up from 1.3 billion people in 2019, making it the fastest growing continent in the world. More so, Oxford Economics estimates that individuals aged over 65 years will grow by 43% over the next ten years, as life expectancy increases. Currently, individuals aged under 30 years account for 60% of the population. These demographic shifts present a range of challenges in relation to the provision of healthcare but will ultimately mean a substantial growth in demand for healthcare services.



URBANIZATION:

At a 4.5% annual growth rate, Africa's urban growth is estimated to be approximately 11 times that of Europe. By 2050, nearly 60% of Africa's population is expected to be living in urban areas. This has been attributed to rural-urban migration and increased migrations across African cities. As a result of increasing urban pressures, African Governments have developed satellite cities. This further strains the under-served healthcare infrastructure of the continent and presents an urgency to plug this gap.



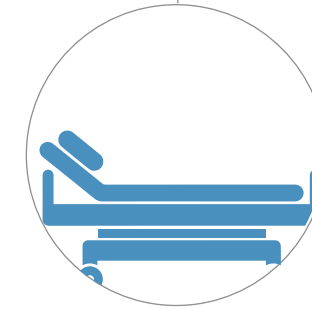
DOUBLE DISEASE BURDEN:

Historically, communicable diseases have formed the bulk of Africa's healthcare burden. However, changes in lifestyle and structural adjustments have contributed to the rise of non-communicable diseases. Lifestyle diseases such as cancer, diabetes, and heart disease now feature prominently in Africa's epidemic profile. According to the International Diabetes Federation in Africa, an estimated 2.8 million individuals aged between 20-79 years were living with diabetes in 2019, these are projected to grow to 4.2 million by 2030. As demand for specialist care rises, existing healthcare facilities lack the capacity required. This has led to the rise in medical tourism across the continent, as individuals seek specialist care elsewhere. Nigerian authorities, for example, have estimated that the country loses up to \$1 billion in outbound medical travel annually.



RISING MIDDLE CLASS:

The African Development Bank estimates that Africa's middle class will grow from 355 million individuals to 1 billion individuals by 2050. By 2023 almost half of African households will have an annual income exceeding \$5,000, up from 41% in 2018, according to Oxford Economics. Knight Frank's Wealth Report data further estimates that individuals with an income of over US\$20,000 are forecast to rise by 32% to 17 million individuals over the same period. This rise in middle class numbers is expected to lead to a change in tastes and preferences and consequently lead to increased demand for quality healthcare. We expect that this will also lead to increased demand in preventive care services, as individuals become more conscious of their general health and wellbeing.



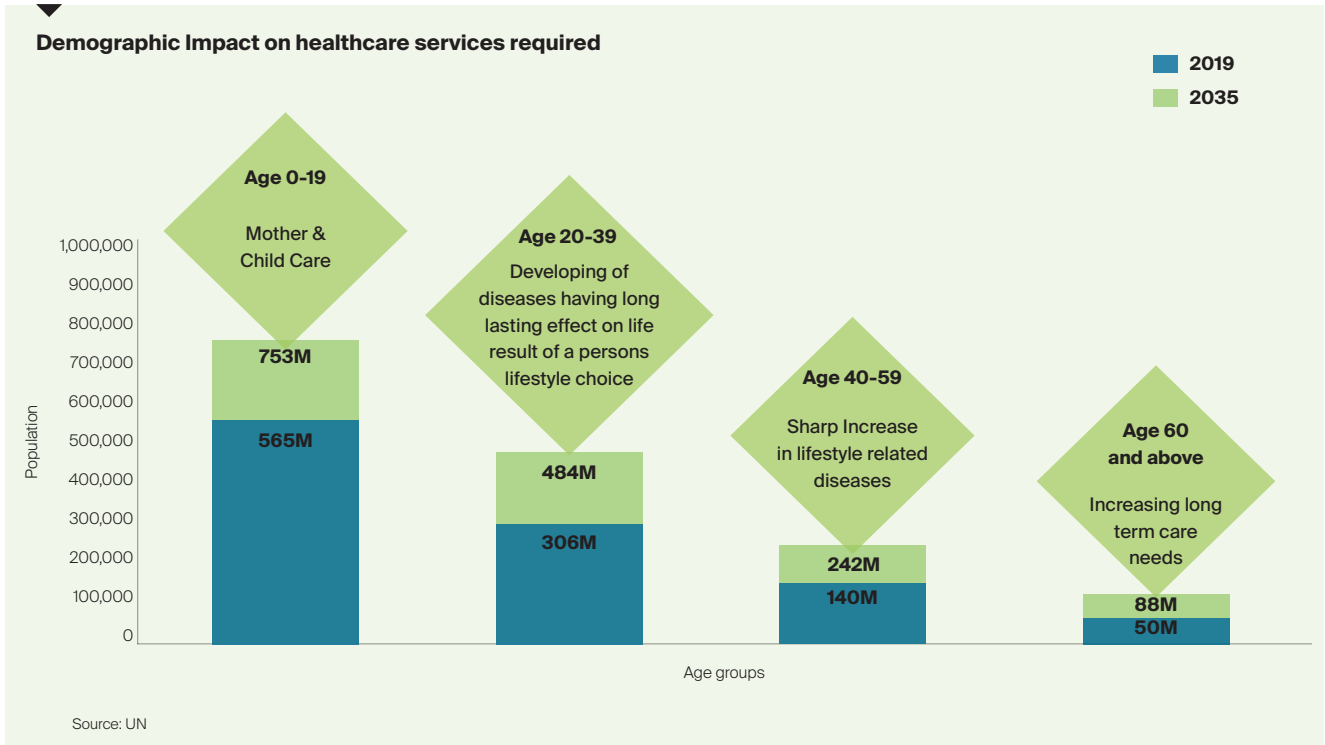
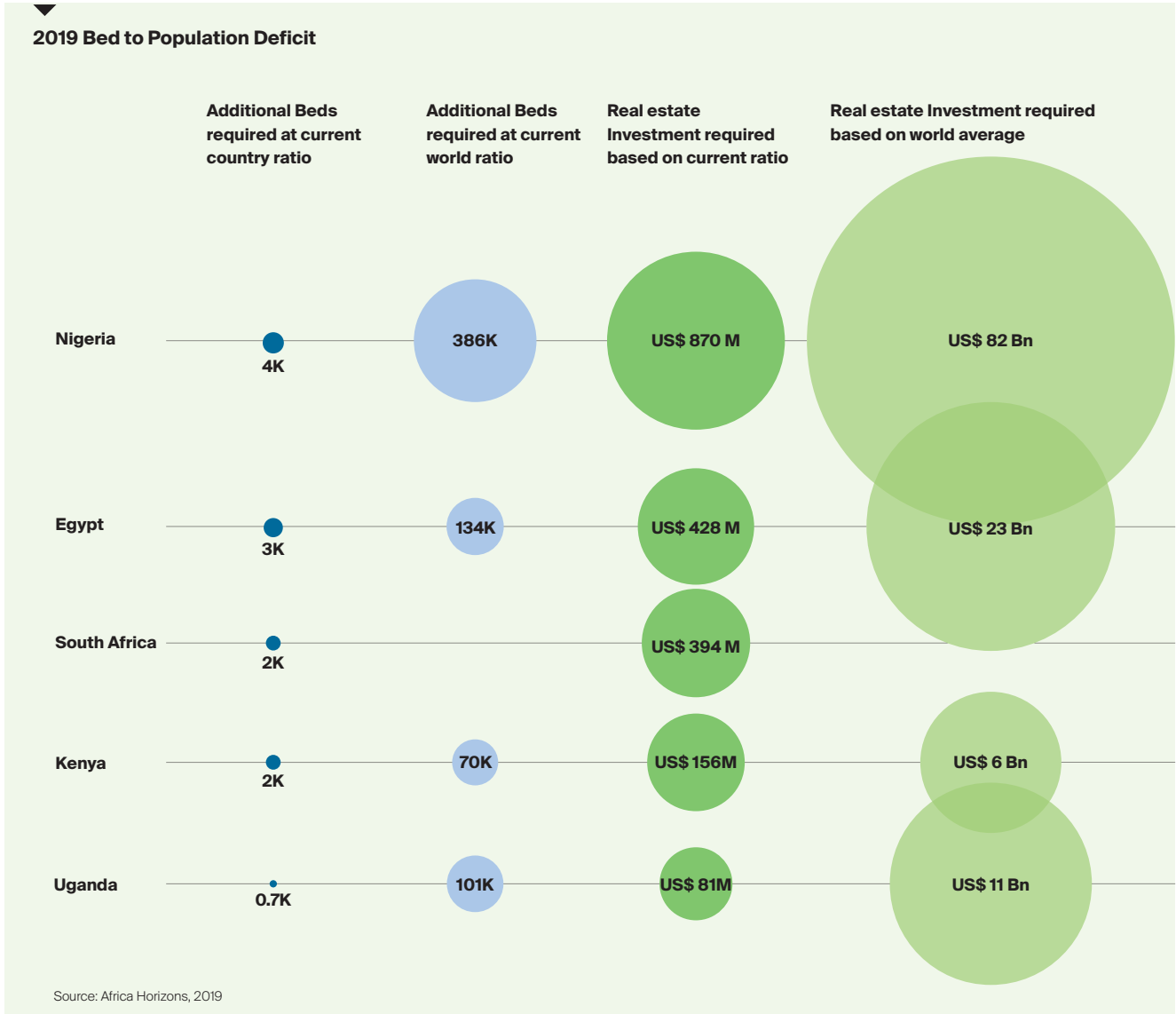
HEALTHCARE INFRASTRUCTURE (HOSPITAL BED DENSITY):

Other than South Africa, all African countries fall short of the global average hospital bed-to-population ratio of 2.7 beds per 1000 people and require significant investment in healthcare infrastructure. In terms of additional beds for example, Nigeria requires an additional 386,000 beds based on the global average, while Kenya requires an additional 70,000 beds as illustrated in the Bed to Population deficit chart.



TECHNOLOGY:

Africa's adoption of technology has been lauded as a means for the continent to leapfrog its existing infrastructure deficit. Big data analytics, telemedicine, and point of care imaging and diagnostics currently constitute ways in which the healthcare sector can deploy technology for quality and accessible healthcare. Historically, the use of telemedicine was primarily seen to meet the healthcare requirements of remote areas due to lack of available skilled labour. Among the major hurdles to telemedicine has been the adoption of this technology by insurance providers. However, with COVID-19, this may end up more mainstream as insurance providers embrace the concept. In April 2020, as a measure towards ensuring limited human interaction during the COVID-19 pandemic, insurance brokerage Minet Kenya and virtual medical clinic SASA doctor launched a telemedicine solution for their clients across the country.



INVESTING IN AFRICA'S HEALTHCARE

What Experts Have to Say ...

While the need and demand for healthcare facilities in Africa remain compelling, they do not complete the investment rationale for potential healthcare investors. The IFC noted that while in 2005 Africa focused healthcare funds raised only US\$0.1 million, by 2015 this amount had increased twenty thousand-fold to top \$2 billion, ushering in a new dawn of access to private equity capital.

We therefore sought to understand the healthcare investment landscape in the continent by analysing the prospects of the formation of a healthcare REITs or healthcare real estate funds in different markets across the continent. For this exercise, we sought the opinion of investment managers, REITs managers, and healthcare travel consultants in different countries. Below we summarize the responses received on healthcare as an investible asset class.

Healthcare REITs as a viable investment option in Africa:

At the moment, healthcare REITs do not exist in the continent since the development of REITs is still in its nascent stages. All individuals interviewed believed that healthcare REITs could be a viable investment option as these are low risk, long term investments. However, regulatory constraints in countries such as Nigeria pose a challenge towards

establishment of the Healthcare REITs.

Investment Criteria

In terms of investment criteria, all of those interviewed would prefer picking established hospitals with strong brand equity and history, or new build with an established operator. However due to the lack of an adequate pool of investible grade assets in healthcare, greenfield projects can be considered, provided a reputed healthcare operator is signing the lease.



Healthcare investments attraction:

Individuals interviewed cited the following reasons why healthcare REITs would be a viable option to investors:

- **Defensible Nature:** As an asset class, healthcare is less cyclical in nature and offers stable yields regardless of potential economic downturns.
- **Triple net lease provision:** Healthcare assets generally attract longer term leases of a duration of twenty or more years compared to other commercial real estate sectors ensuring a steady cash flow for landlords. This makes it an attractive option for institutional capital.
- **Sustainable demand:** There is a strong demographic fundamental towards investing in healthcare to meet existing and forecasted demand, hence ensuring continuous income flow.

Healthcare real estate investment operation models:

A majority of healthcare facilities across the continent are state-owned. However, investments in healthcare real estate currently occur through the following methods;

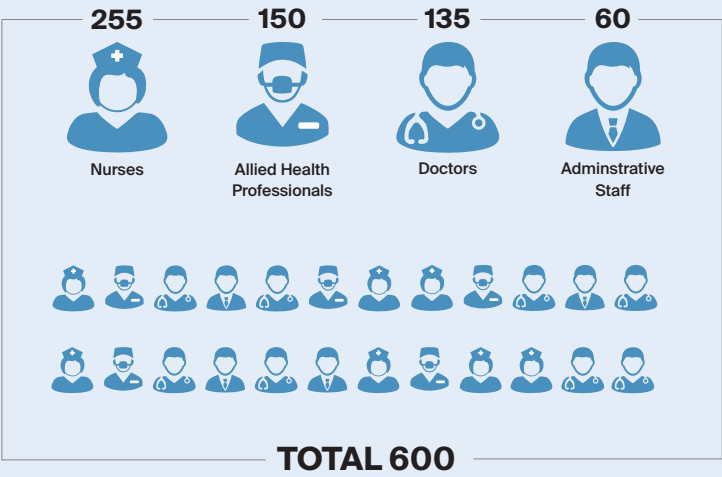
- Public Private Partnerships
- Owner-Operated investments
- Joint Ventures

Healthcare synergies in Masterplan developments:

Investing in healthcare presents an opportunity for new master planned developments (urban developments) to benefit from the synergies a healthcare component has to offer. The adjacent exhibit helps put this into perspective:

Employment at the hospital in the development results in demand for residential assets as healthcare professionals prefer to stay closer to their work. In addition, the footfall of caregivers, patients and hospital staff also spur demand for the retail and F&B facilities in the area. This creates longevity to the masterplan and directly impacts the socio-economic fabric by having a multiplier effect on creating employment.

Number of employees required for 100 bed general hospital



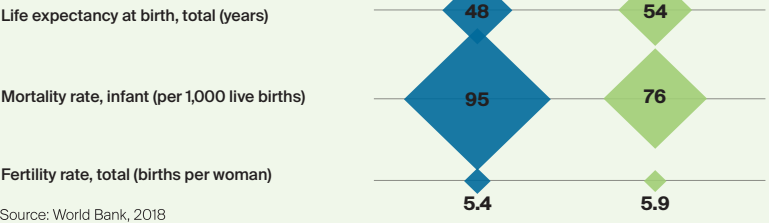
HEALTHCARE FOCUS ON NIGERIA

Healthcare Legislation & Policies

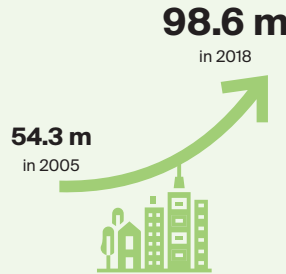
- 1 National Health Act
- 2 The Economic Recovery & Growth Plan 2017-2020
- 3 National Policy on PPPs for Health

Source: Knight Frank Research

Healthcare outcomes

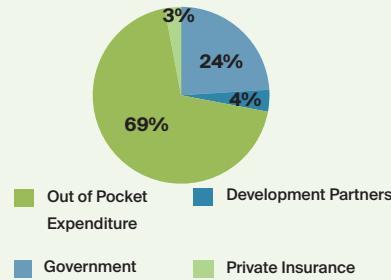


Urban Population

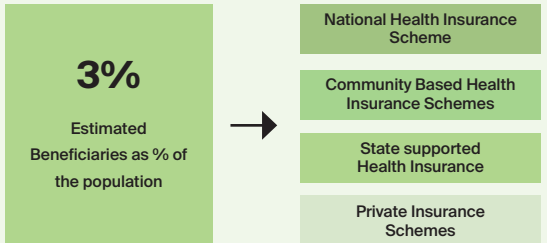


Source: World Bank, 2018

Healthcare Financing



Health Insurance Distribution



HEALTH CARE INVESTMENT ACTIVITY AT A GLANCE

Over the past five years we have witnessed key healthcare investment initiatives across Africa. These have included:



Public Private Partnership (PPP) initiatives:

Government of Kenya launched a PPP initiative for Kenyatta National Referral Hospital in October 2019 for the development of a 300-bed private facility.



Consolidation Initiatives:

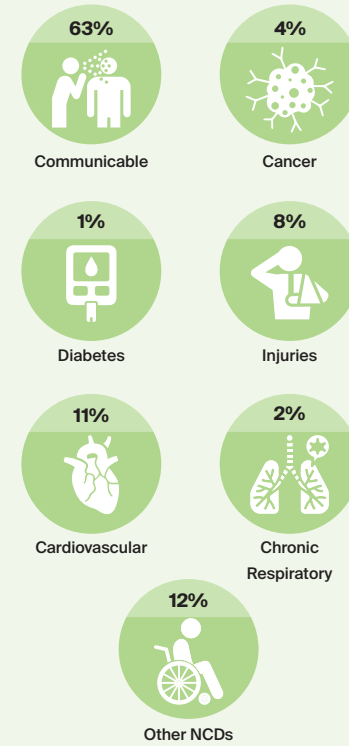
The emergence of market consolidators such as Evercare Fund consolidation of healthcare providers such as Avenue Hospital and Nairobi Women's Hospital in Kenya.



Financing Initiatives:

In November 2019 the IFC and Investments Fund for Health in Africa launched a \$115M health care holding company to acquire and integrate targeted health care service businesses in East and Southern Africa.

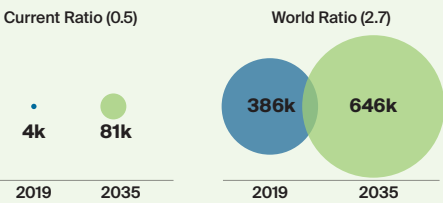
Mortality Proportion



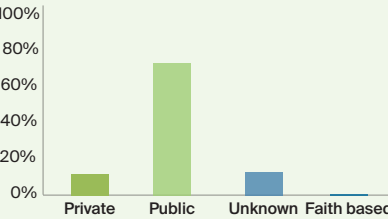
Medical Tourism



Hospital Bed Density

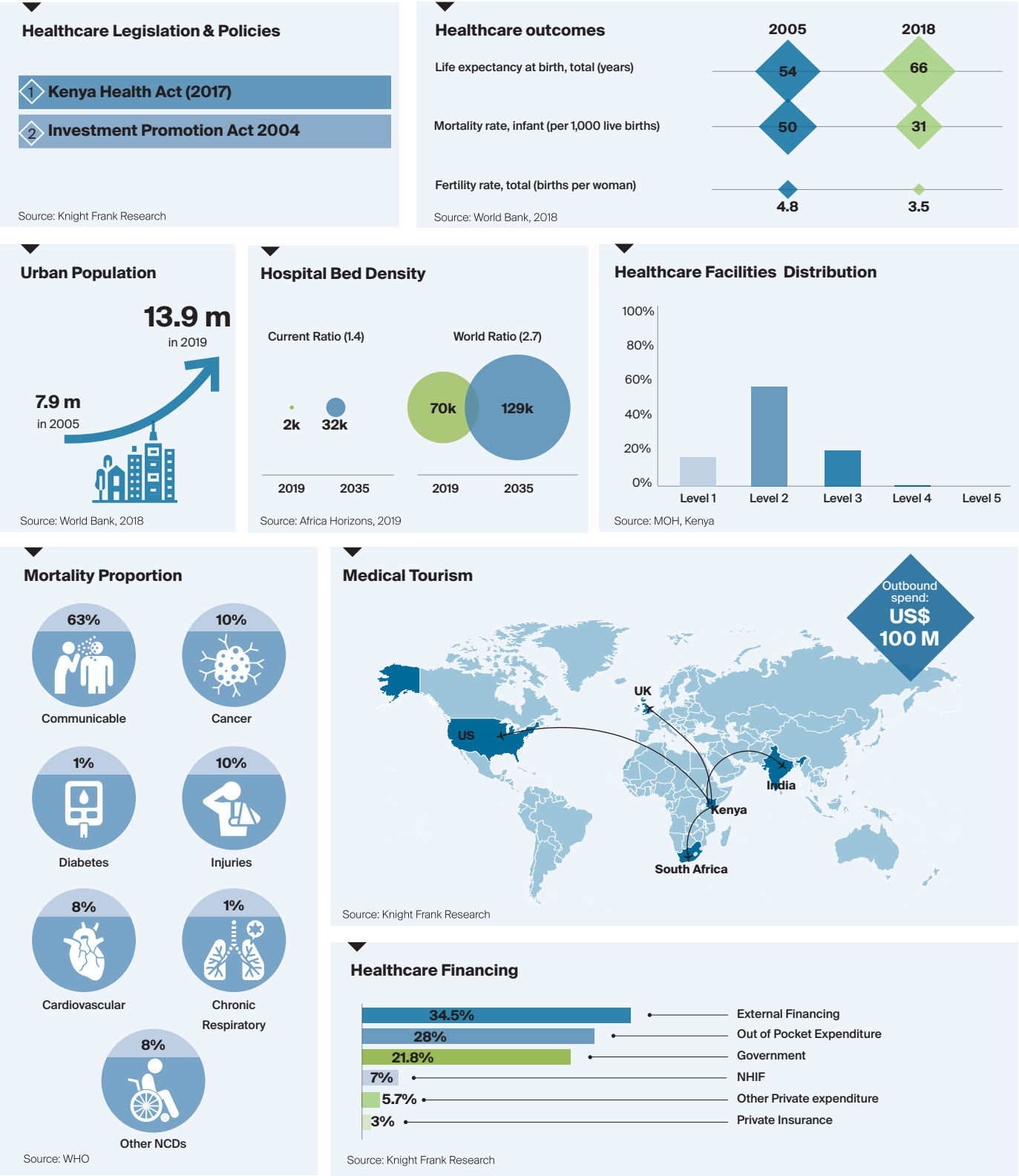


Healthcare Facilities Distribution



HEALTHCARE FOCUS ON KENYA

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