



European Commercial - September 2019



REPORT

Savills Research

European Senior Housing



Senior housing towards its golden age

The world is ageing at an unprecedented pace, the European populations definitely much faster than most other countries in the world. This generational turnover poses significant challenges to policymakers but also triggers opportunities for private initiatives to supply sufficient qualitative and suited housing for the growing elderly population.

The reality of this growing demographic group does not necessarily fit with the narrative. In their golden age, seniors are the happiest in today's society. They want to have fun and make the most of their post-retirement age. Being up-to-date and feeling useful comes first and foremost by keeping abreast of innovations and embracing new technology.

The profile and the affluence level of the ageing baby boomers generation are progressively changing their living arrangements towards more privacy and independence, even in Mediterranean countries with traditionally tight-knit families.

As an asset class, senior housing is an increasingly strategic investment opportunity. As prime opportunities in traditional property sectors are becoming rare and competitively priced, investors are shifting their focus towards operational-type assets with potential for secured long term income growth such as senior housing.

No European country will escape from an ageing society but at a different pace and to a different degree. So where it is best to invest? To identify the senior housing hot spots, we formed a Senior housing opportunity index based on demographic change potential, the maturity of housing markets, private wealth of the elderly population and government old-age pension levels. Germany, France, the UK, Italy and Poland top the index, each country backed by different prevailing drivers.

A growing niche

The European senior housing investment volume totalled more than €700m since the beginning of the year. This is a record high, mainly fuelled by two large transactions in the UK. The forward purchase by Riverstone living of the Royal Warwick Square project in London and the development by Audley group who teamed up with Octopus Investments and Schroder Exempt PUT, of four retirement villages. Both projects will be built to sale.

Initially fuelled by the consolidation of large portfolios between investors, over the past two years growing demand for senior housing has pushed major market players toward new investment strategies. New developments and forward sales are palliative ways to counter the inadequacy of the existing supply, whilst M&A is a fast means to reach

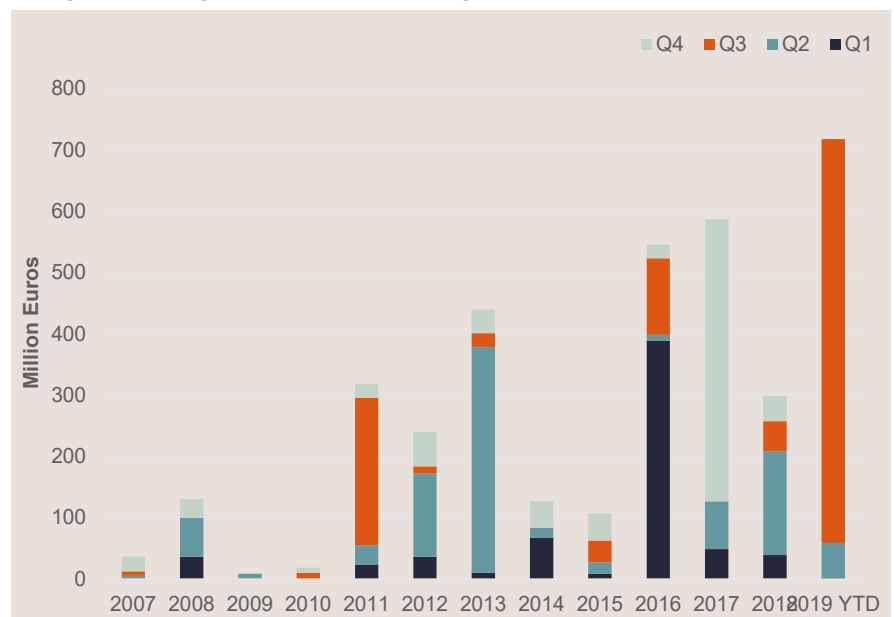
a suitable portfolio scale.

Hence, annual investment volumes can be very volatile in the sector and the breakdown per country should be treated carefully. Overall over the past five years, senior housing investment activity was mainly concentrated in the UK, France the Netherlands, Germany and Belgium.

A growing range of investors is now involved in the sector. Pension funds and public REIT were pioneers in the market, gradually followed by insurance companies (Axa Group), equity funds (Fremont Group), investment managers (Catella) and developers (Batipart). Some public REITs that were originally dedicated to healthcare, including notably Aedifica and Cofinimmo are increasingly looking into the senior living market.

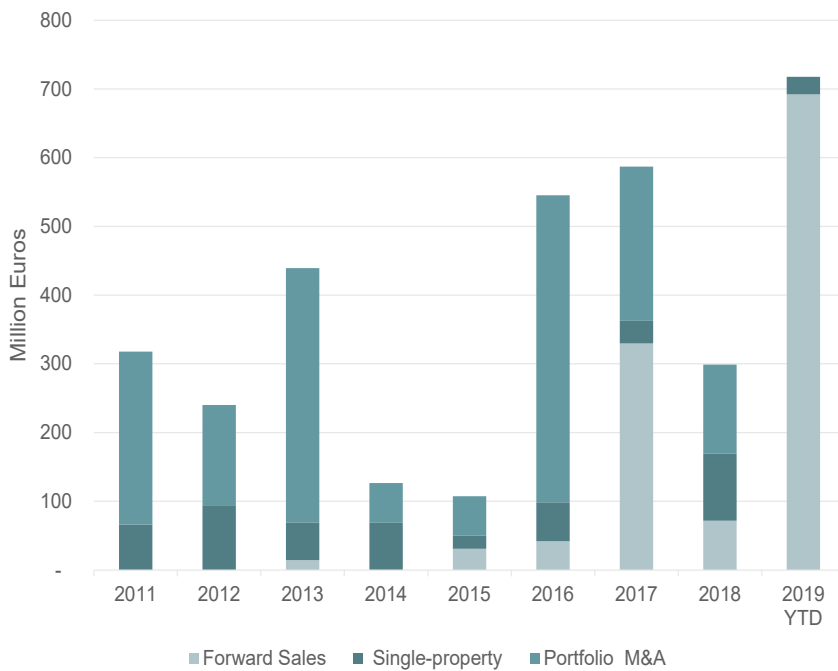
Compared to other asset types, senior housing is attracting a limited amount of foreign capital. Over the past five years, cross border investment accounted for 30% of the total volume on average, compared to 40% for multifamily and 62% for student housing. The sector requires solid knowledge of rapidly changing regulations and a good understanding of anchored habits from the elderly population, both of which can be very different from one European country to another. Furthermore, as the sector is still in its infancy, the market remains very opaque. This explains why the sector still mainly attracts domestic investors. Cross border investment is predominantly coming from Europe but US investors, who have built bridgeheads in both the student housing and multifamily sectors, are now starting to look at the potential for senior living.

Graph 1: European senior housing investment volumes



Source Savills Research based on RCA

Graph 2: European senior housing investment by type of acquisition

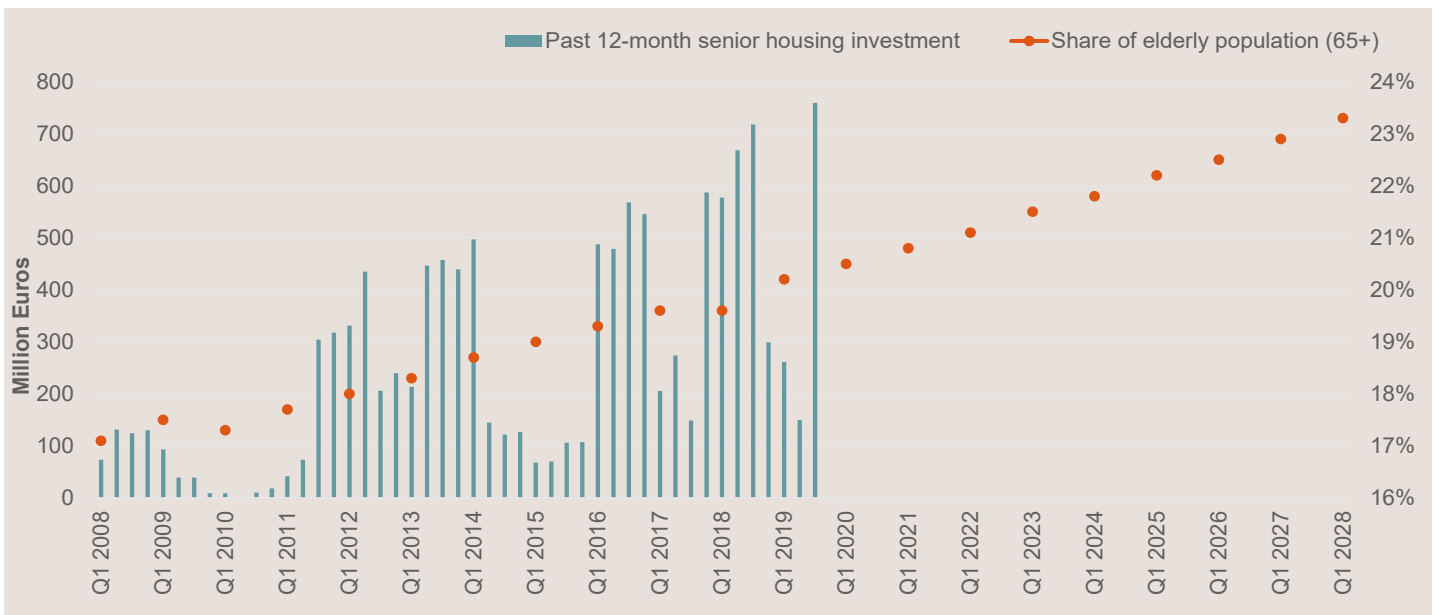


Source Savills Research based on RCA

THE SENIOR HOUSING MODEL

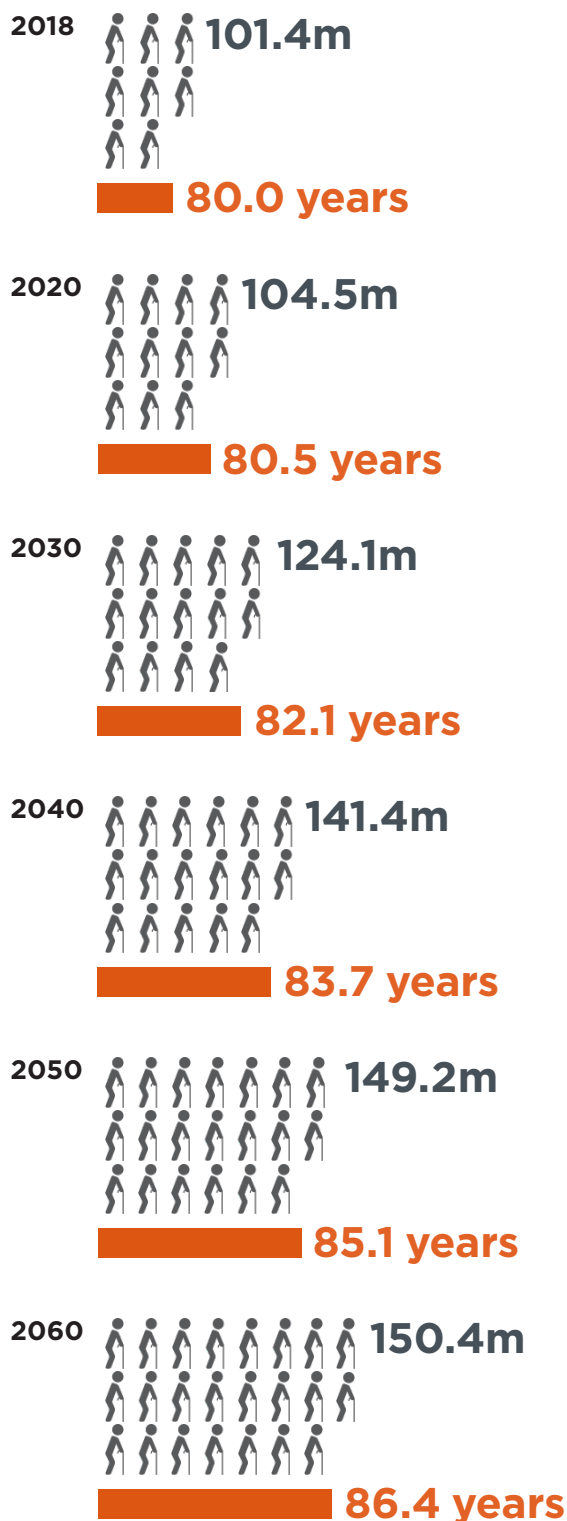
Senior housing commonly provides apartments, but some also offer cottages, condominiums, and single-family housing facility intended for the elderly. Typically, each person or couple in the home has an apartment-style room or suite of rooms. Additional facilities are provided within the building. This can include facilities for meals, gatherings, recreation activities. However, residents do not require assistance with 24/7 skilled nursing.

Graph 3: European senior housing investment activity and ageing population



Source Savills Research based on RCA and Oxford Economics

EUROPEAN POPULATION AGED 65+ AND LIFE EXPECTANCY



Source Eurostat

Based on strong fundamentals...

The senior housing investment market really emerged in 2012 when the European investment volume increased threefold. As other alternative residential assets, senior housing has become popular in recent years for the following reasons. It is a way to provide greater diversification while avoiding fierce competition for highly-priced traditional assets. The less cyclical nature of this specialist property type is also appealing to investors. In addition to rental income, this management-intensive asset class also relies on services and catering revenues allowing for a diversified revenue model. Easy potential conversion into non-aged-restricted residential also offers downside protection. But most importantly investors' interest is fuelled by the long-term secured income stream backed by significant demographic changes.

Most of the countries in the European region are currently among the world's most aged. In the late nineteenth century, Europe was the first continent to enter the ageing population transition due to lower fertility and increased longevity. Since, the share of older persons (65+) in Europe nearly doubled, from 12% in 1950 to 20% in 2018, representing approximately one-fifth of the total population. In 2050, the percentage aged 65 years or over is projected to reach 36%.

Furthermore, the divorce rate in Europe more than doubled between 1965 and 2016 (from 0.8 to 1.9 per 1,000 persons), causing changes in the structure of families and triggering new living arrangements. The increasing number of individuals who live in single-person households is causing an overall lack of housing, hence pushing prices up, especially in large cities where

the urbanisation trend is strong. In 2015, on average across Europe, 32.1% of the population aged 65 or over were living alone, compared with 14.4% across all age groups. Most European countries have the highest proportion of the elderly population living alone compared to the rest of the world. This is notably more prevalent in the northern or protestant countries, whereas in Mediterranean or catholic countries with traditionally tight-knit families are much more likely to live with their children.

However, even deeply anchored cultural habits are changing. Overall, the senior population is increasingly demanding more privacy and independence in their post-retirement stage of life. This new trend is notably driven by solid financial conditions. The senior population has a rising share of income compared with other demographic groups and thus increasingly high spending power. Between 2010 and 2017, the median equivalised net income of the population of 65 or over in Europe, increased by 19.6% against 16.9% for the total working-age population and 14.4% for the young population (18-24 years old). Although an increasing amount of their spending is now spent on leisure, the bulk of their spending remains concentrated on their housing expenditure.

The growing number of senior population living longer with a high purchasing power spent largely on housing and the elderly people habits gradually moving towards independent living, both suggest senior housing in Europe is bound to expand the next 10 years and beyond.

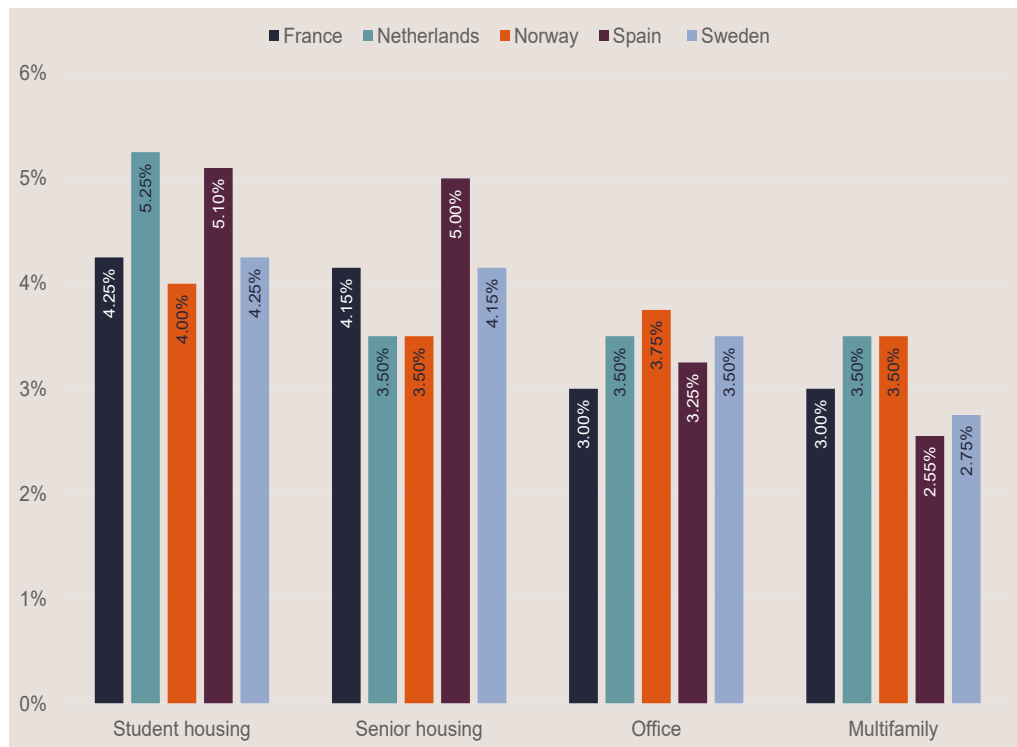
Change in the median equivalised net household income between 2010 and 2017



Source Eurostat

...and competitive returns

Graph 4: Prime yields



Source Savills

Increased appetite from investors for senior has put downward pressure on prime yields over the past years. It remains competitive compared to standard residential units, or traditional commercial properties. On average, the yield discount that senior housing offers over other asset classes ranges between 100bps over prime multifamily and 66bps over prime CBD-offices. Additionally, the low interest rate environment across Europe offers an attractive yield spread of 294bps for prime senior housing properties.

The prime senior housing yield currently ranges between 3.5% and 5% for direct-let, depending on the country, location and quality of assets. As the sector is maturing, we expect further yield compression.

10-year government bond and prime senior housing yield spread

300bps	366bps	229bps	286bps	284bps
France	Netherlands	Norway	Spain	Sweden

Senior housing opportunity index

Top five hot spots

To establish where in Europe the senior housing market has more potential for growth, Savills formed a **Senior housing opportunity index**. The index measures 23 European countries against 17 metrics, which assess the demographics change potential, identifies the best and the easiest housing market to enter and evaluates both private wealth and government old-age pension levels. The final results show that Germany, France, UK, Italy and Poland top the index, each country backed by different prevailing drivers.

1 Germany: At the top of the demographics potential. Germany has the largest elderly population (70-79 years old) and it will remain the largest in ten years time. The level of affluence amongst the elderly population is not particularly high compared to other countries benchmarked in this index but still stands above the average. However, with one of the highest saving ratio (17.3%, the third-highest behind Luxembourg and Sweden) germans have a greater ability to disinvest once reaching the retirement age. Germany benefits from a highly liquid property market and a matured residential market. Senior housing is not yet an established market. It is increasingly associated with care home residences enabling to accompany seniors throughout their later life by providing both care-intensive and non-care services as their needs change over time, whilst avoiding another move. The country offers strong potential for elderly demand, notably for lower care and affordable aged-restricted housing options.

2 France: Wealthy and fast growing elderly population. French seniors are relatively wealthy, enjoying a good income level, a high saving rate and a comparatively low housing cost burden ratio. They also benefit from a high level of old-age government pensions. The French elderly population is the fourth largest amongst the 23 countries surveyed in this report but will become the second largest by 2028. The housing market is strongly tenant-friendly oriented. However, some of the tight housing regulations in France, do not apply to age-restricted residences. The senior housing model is growing fast thanks to a few large operators offering different types of concepts, going from urban and semi-urban apartments to out-of town houses in senior villages, offering a wide range of services included in the rent or optional “a la carte”. Domitys, the market leader, has plans to expand into Spain, Portugal, the Netherlands, Germany, Switzerland, and Italy. France totals 620 senior housing residences, representing more than 47,000 units.

3 UK: Strong demographics and matured housing market. The senior population in the UK is the third-largest in Europe and it is expected to grow rapidly in the next 10 years. The median of seniors’ income is above average but the overall level of debt of British citizens is high and their saving rate is relatively low. The UK has the most liquid real estate market in which the residential segment is very matured and not overly regulated compared to other European countries. The senior housing model remains the least established of all age-restricted housing concepts. The vast majority (around 99%) of UK retirement housing is either sold as leasehold or let at social rents through non-profit housing associations. Yet, senior housing rental models are emerging. Since the financial crisis, the UK underwent the deepest fall in home ownership of any country in the EU. It is currently the fifth-lowest of the 24 countries benchmarked in this report. This, added to the fact that new flexible ways of living are gaining ground, the UK has strong potential for growing senior housing demand.

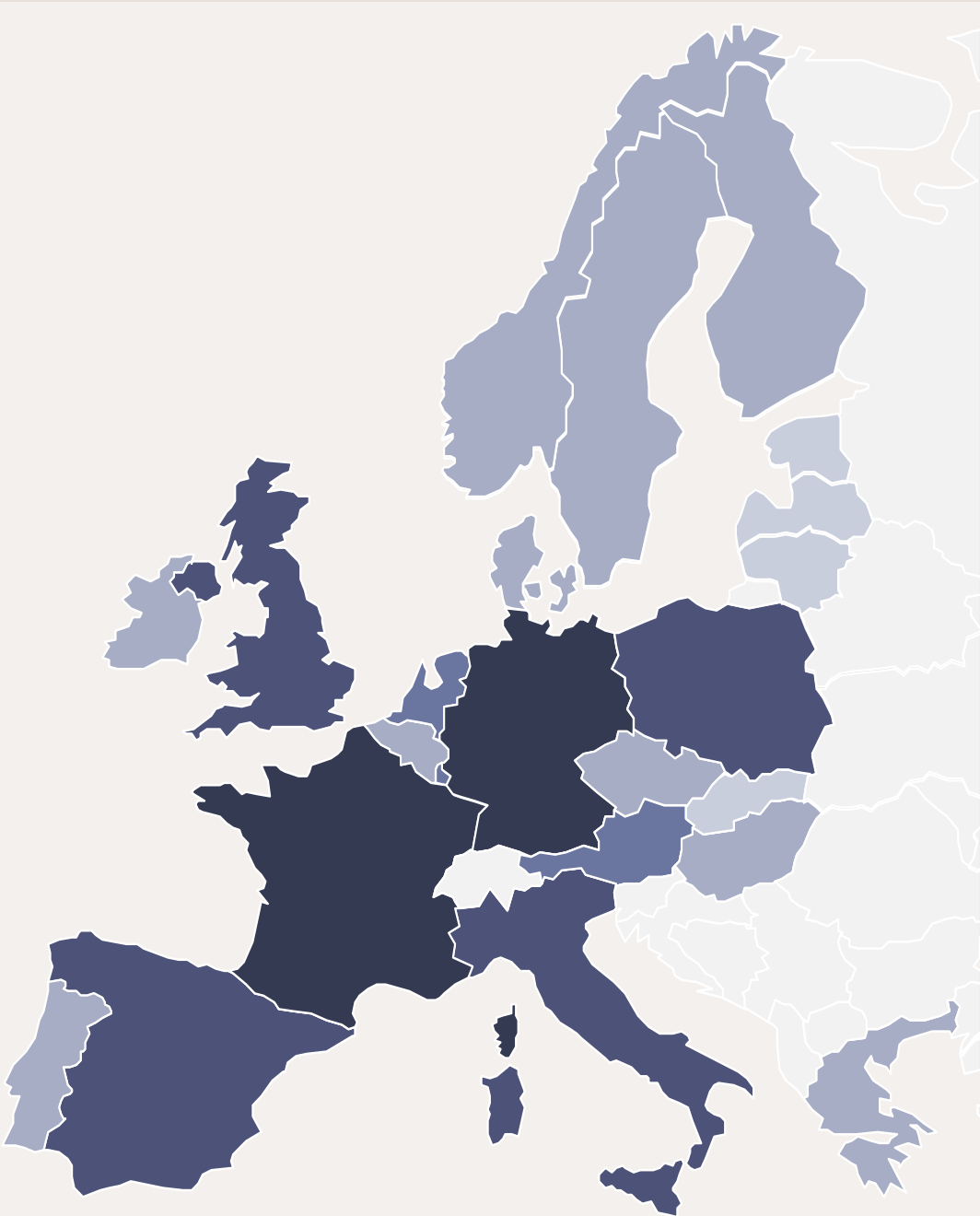
4 Italy: Largest share of elderly people. Italy has the highest share of elderly people as a percentage of the total population. The size of the Italian senior population is also the second-largest across the 23 European countries. The level of affluence amongst the elderly population is not very high compared to other countries but in line with the average and the housing cost burden ratio is the third-lowest of the 23 countries. Additionally, old-age pension allocation provided by the Italian government is significant, the fourth-highest. From their cultural background, Italian are very attached to their family and their home. Given the very large proportion of elderly people, there is no way that younger Italians can care for, not just one, but three to four senior relatives. Traditions are slowly giving room to independence. A quarter of Italian aged 65 or over would consider moving to new accommodation in a senior housing residence when the time is right.

5 Poland: Fast-growing elderly population. Today, the share of senior people (aged between 70-79 years-old) in Poland, is the lowest out of the 23 European countries (6.82%) but the size of the elderly population, which is already the fifth-largest will more than double in the next ten years. Fast-growing elderly population combined with the lowest number of dwellings per inhabitant, make Poland a great prospective country for the senior housing market. The financial foundations of the elderly population is just in line with the average but should gradually increase in line with their strong economy. Over the past 10 years, the amount of old-age pension per inhabitant grew faster than average, although it remains relatively low compared to the amounts allocated in western European countries.

Score out of 100

- ≥ 60
- 55 - 59
- 50 - 54
- 45 - 49
- ≤40
- No Data

Germany	69.2
France	66.5
United Kingdom	59.9
Italy	59.5
Poland	56.6
Spain	55.7
Austria	52.2
Luxembourg	51.3
Netherlands	51.0
Sweden	49.1
Denmark	48.2
Belgium	48.2
Norway	47.7
Ireland	47.4
Czech Republic	46.7
Hungary	46.6
Finland	46.0
Portugal	45.5
Greece	45.3
Slovakia	43.4
Latvia	43.1
Estonia	42.5
Lithuania	39.7



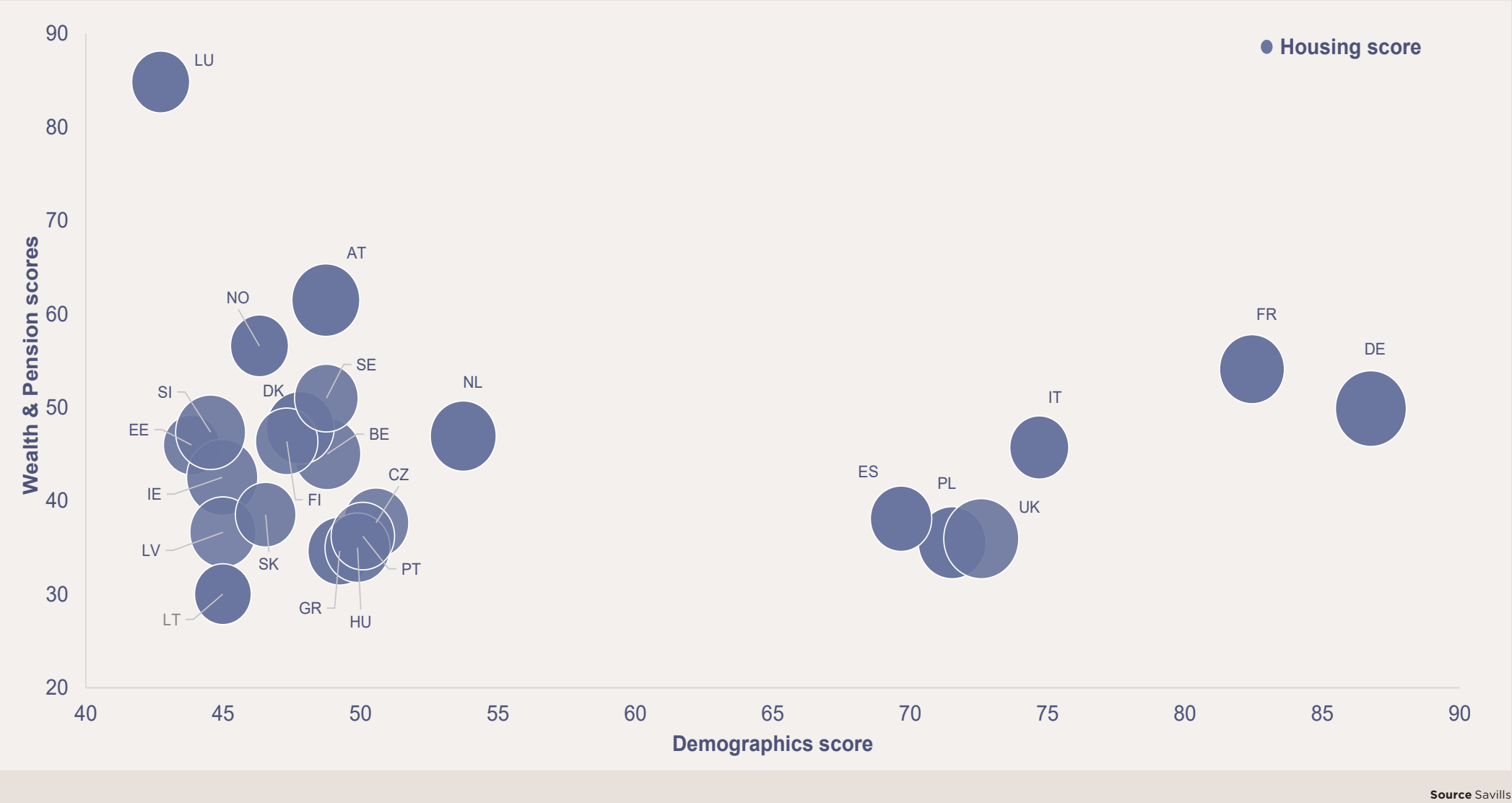
Senior housing opportunity index

Beyond the top five

Beyond these five countries, lie many other opportunities depending on investors and operators strategies.

Spain also has a large and fast ageing society. Dutch seniors benefit from good financial conditions thanks to high amounts of old-age pensions and a fast-growing economy, whilst Dutch citizen are very-opened to age-restricted housing options. In Austria, the number of wealthy elderly people is expanding rapidly, home ownership is low and rental growth is strong. Nordic countries and Belgium, all have wealthy elderly populations and mature residential markets. In Luxembourg, the senior population is small in size but has the highest level of affluence, which could be a target for small scale luxury senior living residences.

Graph 5: Demographics, Housing, Wealth and Pension scores



METHODOLOGY

This research covers 23 European countries including Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and the UK.

The analysis used to develop the Senior housing opportunity index draws on 17 different indicators gathered into four matrices: Demographics fundamentals, Housing/property metrics, Wealth and Pensions parameters.

The data used for the index was collected at a national level. Where possible these indicators use the latest annual data available, past five-year growth and five-year forecasts, to ensure the index incorporates a forward-looking view.

The various indicators have been ranked and weighted across the 23 countries included in this report allowing us to develop the index. The results of the index do not determine the exclusive attractiveness of a given country to prospective senior housing market players, it purely provides a macro guide for investors, operators and developer to incorporate as part of their specific strategy.

Demographics



- Population (70-79)
- Share of population (70-79)
- Forecasted growth of pop. (70-79) until 2028
- Old age dependency ratio

Wealth



- Saving ratio
- Household debt
- Housing cost burden (65+)
- Net income (65+)

Housing



- Dwelling stock per inhabitant
- Home ownership ratio
- House price to rent ratio
- Housing regulation
- Past 5-year total investment volume

Pension



- Pension Beneficiaries
- Old age pensions per inhabitant
- Anticipated old age pension
- Past 10-year increase of old age pension

Elderly people and their homes

The common portrayal of senior people is generally in sharp contrast with the living experience for many. According to Ipsos*, those in later life are, in fact, some of the happiest in society. On average, 83% of the people aged 65 or over feel satisfied with their life against 70% for the younger population (less than 65). Between 75 and 79 years old, this level of satisfaction goes up to 86%. However, it drops to 79% starting from 80 years old, which corresponds to the time when the loss of autonomy is starting to be felt and also considered by elderly people to be the start of the “old age” (79 years old). They also feel more useful than younger generations. Healthier for longer, they want to enjoy life and have fun but generally do not bury their heads in the sand about their future. 75% say they try to anticipate their future needs, and on average 47% say they can save money.

Their home is a sensitive subject as it is often the epicentre of their life-time accumulated habits and memories. Most older people want to stay in their own homes for as long as possible. Even if they were to become dependent and in need of a medical follow-up to live, 69% would rather stay in their home by

adapting it. Living in a new home in a senior housing residence would be their second choice. 31% think it would be a desirable option and 43% think it would not be desirable but realistic. One in four senior feels they should move because their current accommodation is no longer suitable for them and only 37% of the respondents have already begun to anticipate the adjustments they would need to be able to stay in their home.

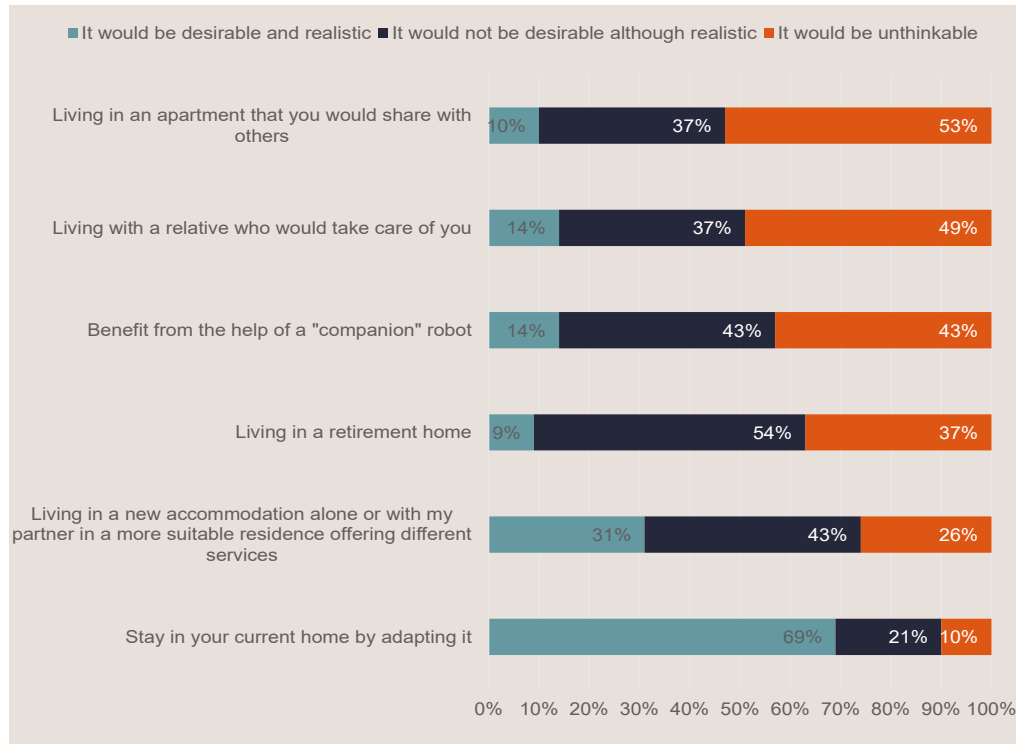
Quality, security, calm and stability are the key components for them to feel at home and the criteria that have the most important role in their attachment to their home, whereas memory-related furniture or objects seem to have less importance to them. Their physical conditions and their home location are the main drivers for them to decide to move. 34% would feel ready to move to an accommodation more suited to their current or future physical condition. 33% would move for an accommodation located closer to their loved-ones and 33% would move for an accommodation closer to commodities. Seniors are very attached to their pets which can be the main brake for them to move. For 90% of them, the presence of their

pet is crucial or important and 63% would not agree to move to a residence more suited to their physical condition without their pet.

If they are not digital native, they are more connected than we give them credit for. According to Eurostat, last year, 58% of the Europeans aged 65 or over, used the internet in the last three months compared to 19% in 2008. The current generation of those in later life are more connected than ever and recognise the benefits that technology can bring as much as younger people do. Older people are using the internet to communicate, to find information about goods and services, to read, to watch movies and to access services. 66% use the internet to send emails on a weekly basis, 47% to manage their finances, 41% use social media (Facebook, Twitter...), 35% to search for information or chat on forums, 33% to listen to music or to watch movies. Being up-to-date and feeling useful comes first and foremost by keeping abreast of innovations and embracing new technology. 47% say they like discovering new things and keep abreast of innovations.



Graph 6: If you were to become dependent and in need for a medical follow-up to live, how would you think of the following solutions?



Source Ipsos surveys 2016 and 2018

People aged 65 or over

83%

Feel satisfied with their life compared to 70% for the working-aged generation.

1 in 4

Feel they should move because their current home is no longer suitable for them.

2nd choice

They would rather stay in their home by adapting it but Senior housing would be their second choice.

47%

Can save money but only 37% have already begun to anticipate their home adjustment.

Source Ipsos surveys 2016 and 2018

Conclusion & Outlook

The senior housing market has strong potential to grow further in Europe, in terms of number, quality, concepts and range of services.

As an asset class, senior housing is an increasingly strategic investment opportunity. Institutional investors still have a weight of money which they need to place and prime investment opportunities in the traditional property sectors are becoming rare and competitively priced. Since property investment is currently mostly income return driven, an increasing number of investors seek assets with potential for secured long term income growth such as senior housing. Both long term trend demographics and changing elderly living habits support the appeal of the sector.

Based on demographics change potential, the maturity of housing markets, private wealth of the elderly population and government old-age pension levels, Germany, France, the UK, Italy and Poland offer the best opportunity for the senior housing demand to expand.

Nevertheless, no European country will escape from an ageing society. Depending on investors and operators strategies, notably in terms of scale, concept and quality range, other countries should be considered. In the future,

increasing mobility will be a game-changer. It would be no surprise to see the next elderly generations willing to live their post-retirement age abroad, closer to their relatives, in a sunnier or cooler country or in a country where the cost of living is lower than in their home country.

Overall in Europe, the senior housing model remains relatively unknown. Hence, some elderly people show some resistance towards this type of property that they often assimilate to care home. Operators have an important role to market the concept. This may vary depending upon cultural differences and may mean longer leasing up periods of new projects as the local market understands and accepts the concept.

In the long term, the major challenge will be to improve access to quality senior housing facilities for the elderly population at an affordable cost. In 2060 there will be two workers for one pensioner in Europe against four workers for one pensioner today. The increasing number of old-age pension beneficiaries, the growing healthcare prices and the high level of indebtedness of some European governments following the global financial, all suggest less revenue coming into central governments to fund state pensions.

This means that elderly people will increasingly have to rely on out of pocket money to be able to rent an accommodation in a senior housing residence. The baby boomers have been relatively preserved from crisis and unemployment whereas following generations went through several periods of low economic growth, tough labour market and frozen salaries. Hence, their purchasing power in their later life is likely to be lower than that of today's elderly population.

The ageing population and the increasing dependency ratio pose severe challenges to policymakers. Some have already found ways to somehow ease their financial issue. This is notably the case in the Netherlands, where dependent seniors are given the option of receiving a "care budget" to pay for their own services in lieu of an institutional bed, which cost two-thirds of what the state would have paid for nursing home care. Such an evolution added to the fact that technology is now providing goods, services and in-home adaptations which allow for older people to stay in their homes safely, could restrain the success of the senior housing model in the midterm.





Savills Commercial Research

We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team.

European Research

Lydia Brissy

Director

+33 (0) 624 623 644

lbrissy@savills.com

Residential Capital Market

Marcus Roberts

Director

+44 (0) 207 016 3799

mroberts@savills.com

Healthcare

Craig Woollam

Head of Healthcare

+44 (0) 207 409 9966

cwoollam@savills.com

Samantha Rowland

Head of Healthcare valuation

+44 (0) 207 409 9962

srowland@savills.com

Chris Wishart

Director

+44 (0) 207 409 9964

chris.wishart@savills.com

33 Margaret Street
London W1G 0JD
+44 (0)20 7499 8644

