

Spain Research - 2021

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Senior Living in Spain



Senior Living

Current demographic trends are driving new accommodation models

Senior living or senior housing

Senior housing includes all models of accommodation intended for the elderly, regardless of their level of dependency, and therefore ranges from nursing homes to senior living accommodation.

There is no single model within senior living. The following definitions refer to models that fall under the umbrella of senior living and are therefore focused on the non-dependent population aged 60-65+.

-Senior Co-housing: a group of people with common interests who come together under the format of a cooperative in order to develop the project where they are going to reside.

-Senior Co-living: housing with common areas carried out by a developer whose units are marketed for sale or rent to the senior market.

-Senior Resort: a development usually located on the coast, aimed at foreign residents.

-Serviced flats: housing for seniors with basic medical services (in compliance with light dependency regulations).

The transformation that Western societies are undergoing, as a result of the consolidation of certain macro trends, is leading to a significant change in accommodation models. The way we live and relate to each other is being impacted by the thriving urbanisation process, gradual ageing of the population and an increase in life expectancy.

A revolution is taking place in accommodation spaces with the emergence of new models, such as co-living formats, where common spaces and the value of community are of particular importance. Moreover, classic accommodation spaces such as student residences, senior homes and rented residential accommodation are evolving towards more modern formats adapted to the needs of a new demand.

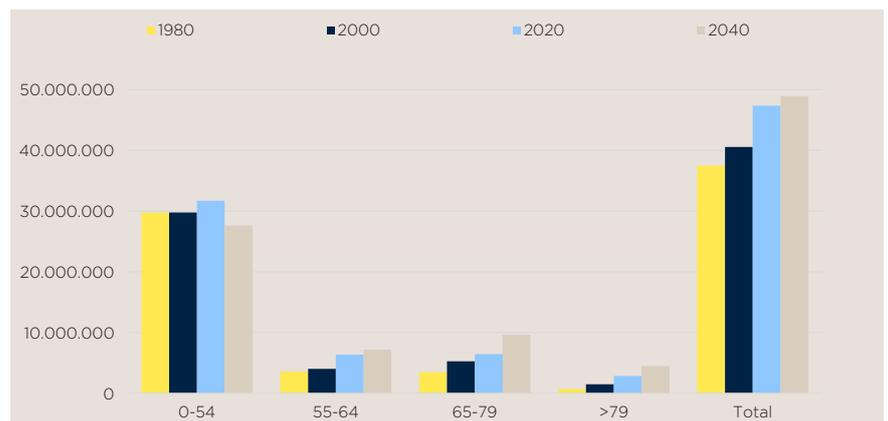
Among the new models that are emerging is “senior living”. At Savills Aguirre Newman, through workshops with various operators, we have built different economic and operational models based on their experience. This is carried out with a clear focus on a demand that requires a mixed format between hotel services and a wide range of activities, leisure and care services.

This scheme, which has a notable presence in countries such as the USA and Japan, is also a highly consolidated product with a very dynamic development and investment market in northern European countries such as the United Kingdom, Norway and Denmark. As for Central Europe and the Mediterranean, France clearly leads this market, with a growing interest in the Iberian Peninsula where development is minimal to date.

In 2030, there will be almost 8 million seniors aged 65-79, 1.5 million more than today. The population within this group will continue to grow rapidly during the decade of the 2030s to reach 9.6 million in 2040. At the same time, there is a rising trend of life expectancy and a long healthy life without a dependency on the population within this group.

These demographic trends are boosting the development of housing models aimed at independent seniors, aged 65 and over, with full physical and cognitive capacity, who do not require medical assistance. When children leave their parents’ home, this is seen as the start of a new phase, an opportunity to decide with whom, how and where they want to live.

Figure 1: Population by age range (Spain)



Source: INE

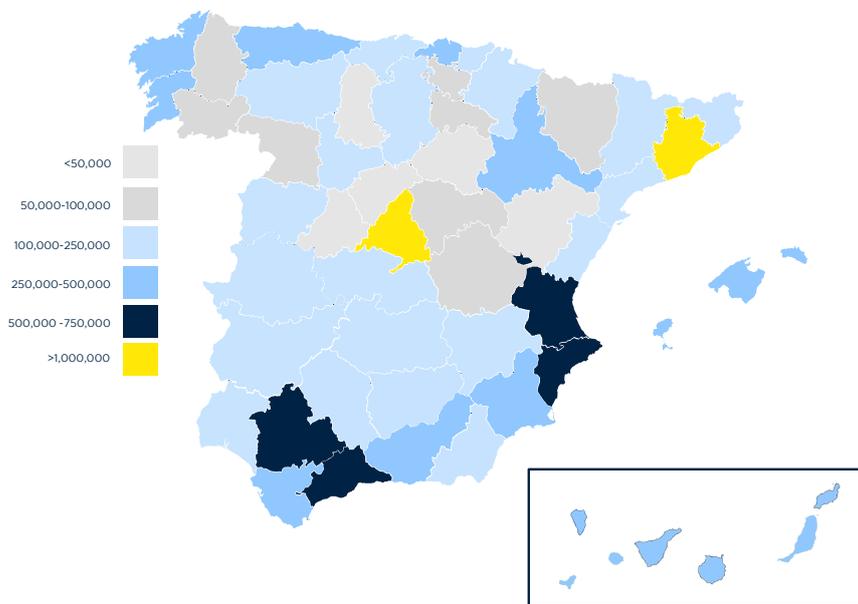
Senior residents are provided with a home tailored to their requirements and share a wide range of communal spaces with the rest of the tenants. Services tend to be adjusted to the residents' needs, tastes and interests.

Where best to develop senior living?

The analysis of the optimum location for senior living is a key factor in its development. In Spain, a distinction must be made between accommodation aimed at Spanish nationals and that targeted at foreigners, with this differentiation providing different product types.

For Spaniards, it is a priority that their residence is near their current home, in close proximity to family and friends. Moving to senior living accommodation should not imply a separation from what has been their lives up to that point. For the resident's profile, the property should be located in a well-established environment, whether in nearby areas or integrated within the municipality. They wish to be close to the local community, with the ability to independently access the range of services, culture and leisure that it offers.

Figure2: Population aged 55-75. Provinces
(Forecast for year 2030)

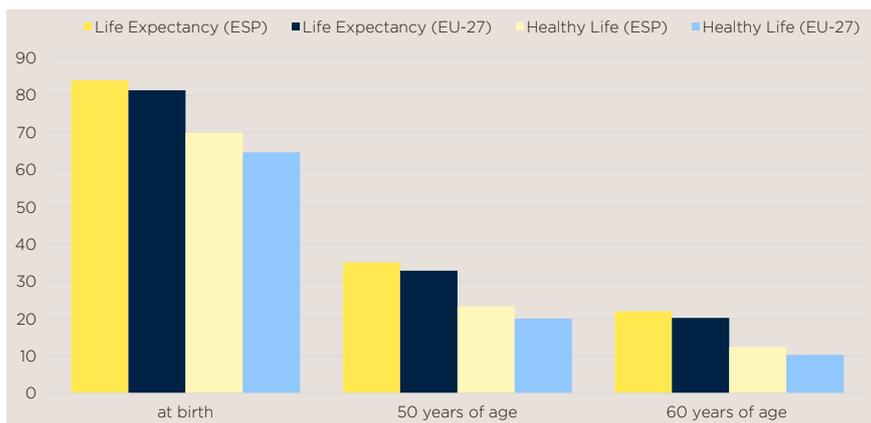


Source: INE

This first option entails the development of projects in highly populated cities where potential demand will be greater and where, in general terms, the population with higher income levels is concentrated. Catalonia, the Basque Country, the Balearic Islands and Madrid are interesting locations given their large population and elevated income. Moreover, these locations have traditionally seen a greater tendency for the elderly to remain independent from their family, going to live in a residence when they start to require daily assistance.

A second option is the development of senior living projects aimed at the international market in coastal areas. Spain's success as a tourist destination over other European countries is due to its climate, high level of safety, excellent health and transport infrastructures, culture, gastronomy and very attractive price levels, making it a sought-after destination for many retirees from central and northern Europe.

Figure3: Life Expectancy and Years of Healthy Life
(Spain vs EU-27, in years)

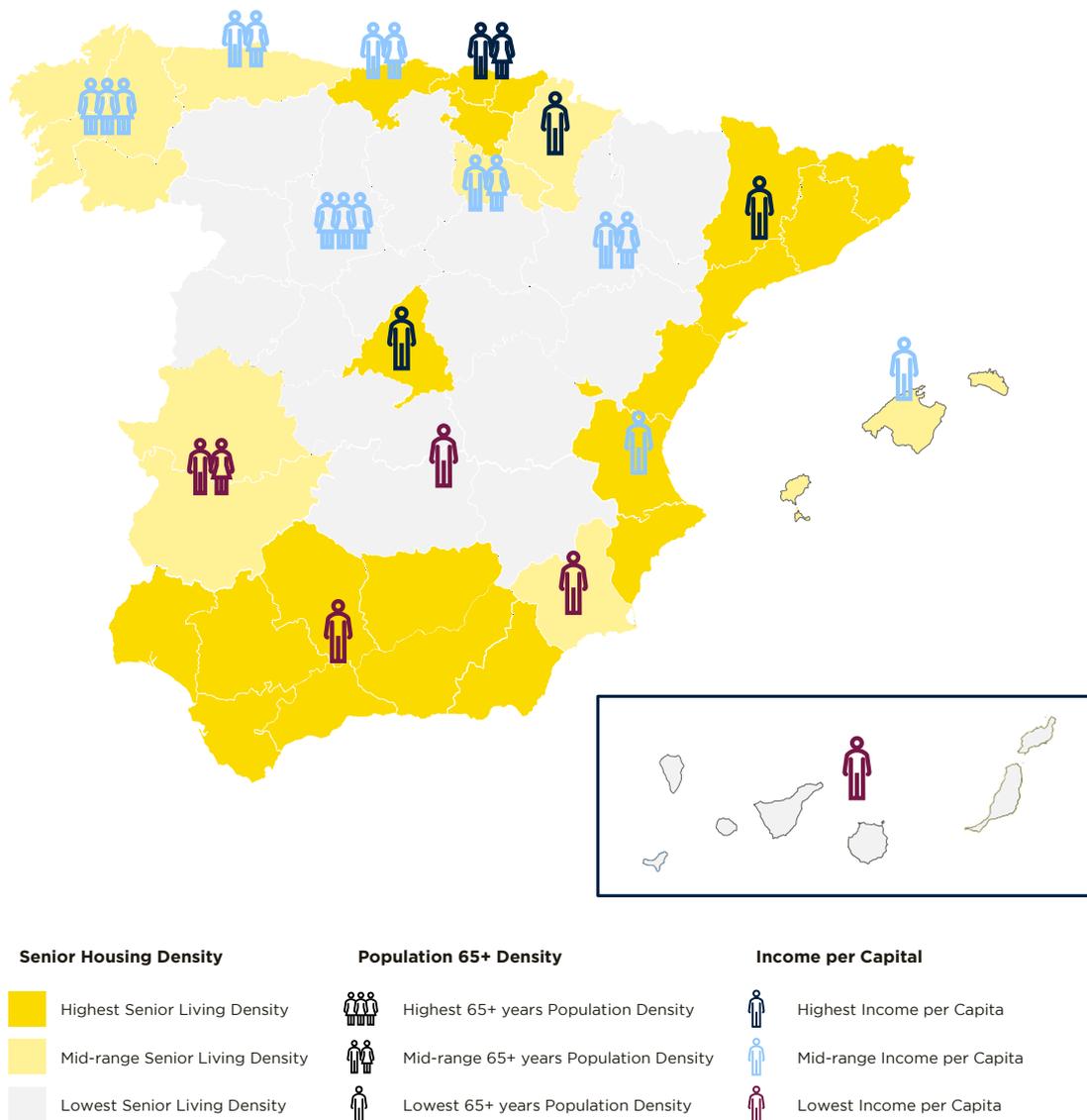


Source: Eurostat

This resident's profile is seeking projects under the resort or urbanisation format. They are developed on larger plots of land, which do not require as much proximity to the urban zone as in the first option. This allows for the integration of a wider range of services and activities, which try to include, at least in part, those found in a neighbourhood or city.

Up until now, they have been grouping together haphazardly in certain areas along the Mediterranean coast and the islands. Thus, we find municipalities such as Alfaz del Pi, a small town on the Costa Blanca in Alicante, where the largest concentration of Norwegians outside Norway is found, second only to New York. Alfaz del Pi is just one example of a trend that is repeated along the Mediterranean coast and on the

Figure 4: Senior Living Development, Population over 65 and Personal Income
(by Regions)



Source: INE

islands, where we find high concentrations of foreigners who, once they have reached the age of 55-60, decide either to reside permanently in Spain or to spend long periods of time there.

Regional and local governments, seeing the benefits this type of project can have for the local economy, are in favour of its development. An example of this is the incentive programme signed between

the Norwegian government and the municipality of Alfaz del Pi.



Main operators

Current demographic trends are driving new accommodation managements models

Residential Developers



Cooperatives



Geriatric-focused Operators



The largest pan-European senior living operators are of French and British origin. While in France they operate in most cases under the rental scheme, in countries such as the UK, the sales model is widely implemented and shows an interesting profitability for their operators/developers.

The few operators of senior living accommodation who have traditionally been active in Spain have either been developer groups specialising in the residential market that have diversified their activity towards the senior living scheme (such as Forum Mare Nostrum and Las Arcadias); cooperatives formed by elderly people who self-develop their residence (Trabensol and Vitapolis); or geriatric-focused operators who have expanded their activity towards this segment of people who do not require medical care (DomusVi's Adorea and La Quinta de CK Senior Gestión).

Currently, there are different profiles that are showing a high level of interest in gaining a presence in the Spanish market:

- Spanish operators of geriatric care homes are analysing their entry into this market

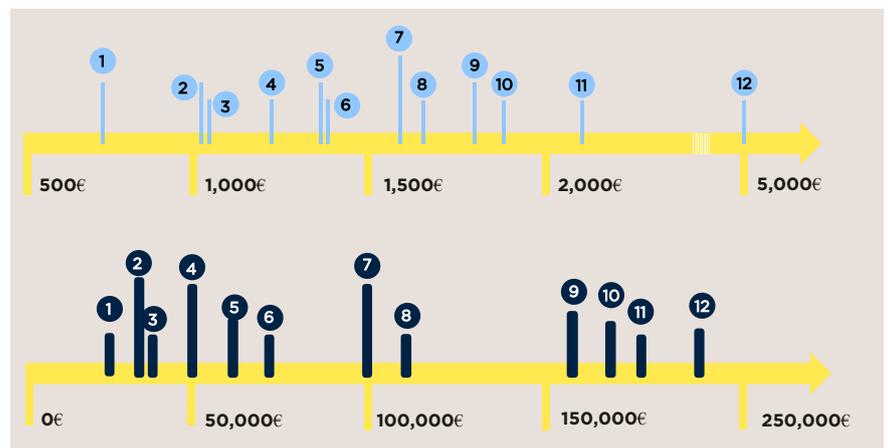
due to the synergies between both types of assets, as well as projected growth in demand for non-medical accommodation.

- International operators seeking to enter Spain due to the market potential.
- Owners and managers of operating assets seeking to expand their presence in the market.
- Investors interested in creating their own management company. Their objective is to develop a portfolio of a certain size, then consolidate and divest it over a period of 5-7 years.
- Developers and investors specialising in other real estate segments are analysing the sector owing to its growth prospects. In Spain, highly specialised developers such as Aedas Homes, Layetana/Arcadia and Richelieu are planning to undertake different projects of this type throughout Spain.

Operating models

The operating model refers to the various formats used by the operator when marketing the flats and services offered. The options

Figure 5: Rents and Sales prices
(Analysed Projects)



Source: Savills Aguirre Newman



are diverse and it is essential to understand their functions, given the impact they have on operating accounts and the administrative management of the asset. The most common options are the following:

- Monthly “all inclusive” rate. This includes accommodation and all services and activities offered, regardless of how they are used.
- Monthly fee that covers accommodation and full board (or half board). The rest of the activities and services offered are not included in the monthly fee and follow a “pay-per-use” basis.
- Right of use and enjoyment / right of occupancy. The operator grants the right of use and enjoyment of a flat to an interested party for a certain period of time. The tenant is entitled to use the flat during this period and may not transfer this right. If the tenant wants to avail of the services and activities provided by the development, a monthly fee must be paid.
- Purchase of participation. The tenant acquires ownership of a share in the development (corresponding to a flat), and therefore the right to use it. In contrast to the previous option, it is possible to transfer

the share to a third party; however, there are limitations as to the minimum age of the occupier. Normally, a minimum age of over 55-60 is required. The use of the services and activities provided by the project are paid in accordance with the amount they are used.

Although there is a common practice of home ownership in Spain, the purchase of a flat for senior living or similar schemes (right of use and enjoyment, purchase of participation, etc.) does not seem to be the most appealing form of ownership, neither for Spaniards nor foreigners who come to Spain as residents.

The reluctance has to do with the difficulty of transferring a flat when acquiring only the lifetime use or a right of use and enjoyment of the property. In those cases where ownership or a share in the project is acquired, the clause that establishes a minimum age to be able to access their use affects liquidity at the time of sale, therefore discouraging the purchase.

Rental and Sales Prices

With operating properties, there is a considerable disparity in rental and sales prices. In the case of rental, most of the supply has a base price concentrated in the range between €1,600 and €2,000 per month. The most affordable projects show rents of around €700 per month, while on the other

side of the spectrum there are projects with monthly rates of around €5,000 per month. The difference between these properties lies in the location, quality of the project and services included in the monthly fee.

In projects where residential units are sold to the end user (or a temporary or lifetime right of use), sales prices also show a wide disparity. The less exclusive projects have sales prices starting from €50,000, usually in cooperatives located in rural areas. The highest-priced projects begin at €200,000 and exceed €500,000 in the upper range. In addition to the aforementioned prices, residents must pay a monthly fee to cover the costs of services offered.



The development of the senior living model

Cooperatives

To date, many of the developments undertaken in Spain have been under the cooperative (or senior co-housing) format. The low supply of projects on the market has forced those interested in this housing model to join cooperatives. Several interested parties with similar interests and tastes and who, in many cases, know each other beforehand, acquire a plot of land as a cooperative. The aim is to develop, at their own risk, the project in which they are going to live.

They participate in the design, which will match their present and future needs, and decide what services will be offered, all under a self-management model. After the initial investment, the members pay a monthly fee, which depends on the number of people occupying the property. This fee covers the cost of food, supplies and services, including health, sports and leisure activities, which are organised both inside and outside the centre.

In 2021, Cohousing Spain, a meeting point that connects people interested in developing or joining co-housing groups and projects, has registered more than 70 senior co-housing initiatives in different stages of development. This demonstrates the high level of interest being created around this format.

Institutional investors and operators of senior living accommodation are not oblivious to this interest and are analysing their entry

into the Spanish market. Demographic and social trends and the success of the model in neighbouring countries have turned their attention towards Spain.

Owner-Operator

The operator, a senior living specialist, decides to acquire the plot of land and develops the property, thus ensuring that it exactly meets their operational needs. As the owner of the property, they have full control over it. This scheme is not very common, nor do we believe it will be in the future. The market is becoming more professional, with the trend for ownership remaining in the hands of investors and for management to be carried out by specialist operators.

Owner-Investor / Managing Operator

The property is developed by an institutional investor who enters into an agreement with a specialised operator to run the property in return for a long-term lease or a management agreement. Typically, the operator, who has the know-how of the market, is involved in the project's design in order to meet its requirements. He is also authorised to supervise the construction.

The investor can acquire ownership of the property by buying the land directly and developing it. This option makes sense if he is a specialist in this market, knows the regulations and urban planning procedures, and is capable of managing the construction of a property. All

of these tasks require a local team with in-depth knowledge of this market.

A second option for the investor is to acquire the property through a collaboration agreement with a developer. This includes forward contracts (funding and purchase) between investor and developer. The developer is responsible for carrying out the urban development tasks, managing the construction of the project and delivering it to the investor in accordance with the agreed conditions and timeframe. The investor, on the other hand, provides the necessary financing for the development and pays a purchase price once the property is delivered.

The scarcity of investment opportunities in operating assets is leading institutional investors to focus on the development of new "greenfield" projects. They are seeking agreements, on the one hand, with developers for the undertaking of projects, and on the other, with specialised managers for the supervision of these projects.

Individual Investor / Operating Manager

In markets where senior living is a mature asset (primarily France and the United Kingdom), there is an opportunity for small investors to buy flats in senior living projects which they then rent out. These are managed entirely by the operator, an activity for which he is remunerated, with the investor receiving a regular return.

Investment market

Why invest in senior living?

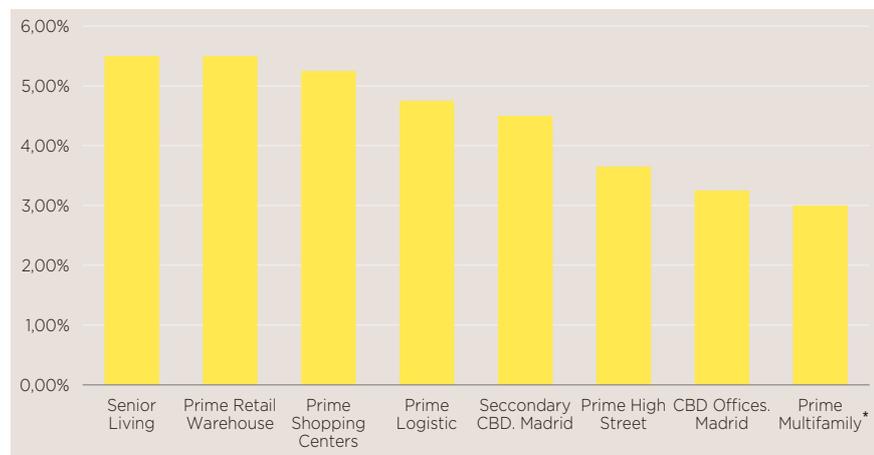
From an investment perspective, given the demographic trends this is a market with high potential in the medium and long term. The end customer of this product, the so-called silver economy, are people in good health with spending power. To a certain extent, this clientele is protected against economic cycles (pre-retired and retired homeowners), generating security for the investor in regards to the occupancy levels of properties and the payment capacity of tenants.

This format provides an alternative for the real estate investor in the current climate of high liquidity and low yield by combining the benefits of residential investment (stable cash flows and low correlation to economic cycles) with those of commercial investment (20-year contracts; triple net lease to a single operator), as well as demonstrating high occupancy levels in comparable markets.

The yield on senior living (under a 20-year lease) for existing projects is in the range of 5.50%-5.75% triple net. This is a significant difference compared to the yield offered by other real estate products, although senior living is still maturing and pending development. In this scenario, it is normal to see the entry of opportunistic or value added investors in the development phase, and once the market has stabilised, to start receiving “core+” and “core” investors.

When analysing the investment opportunity, it is essential to understand the collaboration model between owner and operator and the relationships established between them. In this regard, it is necessary to understand whether the relationship between investor and operator is based on a lease contract (guaranteed rent, turnover rent, variable rent over NOI, ...) or a management model (standard management fee, staggered fees, hybrid formats), as well as the implications derived from this. There is a notable difference in the analysis between senior living and any traditional real estate investment; however, it is similar to that of a hotel and student residence investment.

Figure 5: Initial Yield. Real Estate Market



Source: Savills Aguirre Newman / *Net Yield

Figure 7: Type of project to be developed

Project size	8,000 - 10,000 sq m
Number of flats	100 - 120
Surface area wca (%)	7% - 10%
Surface area wca	600 - 1,000 sq m
Average profile	€ 1,800 - 2,000 per month
Top profile	€ 4,000 - 5,000 per month

Source: Savills Aguirre Newman

When understanding the key ratios for investment analysis, the fact that the market is still emerging forces us to consider not only the few operational projects in Spain, but also the consolidated markets in our environment. In the analysis of a development or investment opportunity, we must be certain of variables such as the required Capex, EBITDA margin, opex, management fees, additional revenues, etc., especially where previous experience in analysing senior living projects is essential. The more than 20 senior living projects studied in the last year by the Savills Aguirre Newman team, as well as the different workshops carried

out with various operators, provide us with a clear idea of the following: the type of projects that operators and investors are seeking, the main economic-financial inputs and the yield that must be achieved.



Outlook

- Senior living is a new housing model with little presence in Spain but with certain success in other countries with a similar economic and social environment. Some of the main global senior living investors and operators are analysing Spain as a potential market due to the ageing population and its quality of life.
 - The trends that support the demand for this accommodation model are particularly pronounced in Spain.
 - Population growth in the 60-75 age bracket.
 - High quality of life and longer life expectancy after the age of 65 in Spain, which has increased by more than 12 years.
 - Growing trend of a non-dependent senior population coming together to live in the same property and share experiences and interests.
- The key factors for the successful development of a senior living project are the location close to well-established areas of the city, the services it offers and the quality of public transport. There is a possibility of developing projects focused on the international market given the excellent characteristics of the Spanish market.
- The few projects developed in Spain so far have been, in most cases, the result of the development of cooperative projects (senior co-housing), where groups with similar interests have acquired land for the development of projects adapted to their specific needs.
 - The development format that we expect to see over the next few years will be based on rental or management agreements between the investor-owner of the property and a specialised asset manager.
- Importance of the operating model chosen by the operator given the different impact on operating accounts and the administrative management of the asset
 - An emerging investment and development market in Spain where the main variables affecting project profitability (Capex required, EBITDA margin, opex, management fees, additional revenues, fees, services, occupancy, etc.) are based on the study of comparable markets, as well as the few operational projects in the development phase in Spain.



Savills Aguirre Newman Research

We carry out a thorough and objective analysis of the real estate market in order to provide our clients with accurate information on the current situation in all sectors, helping them make the right decisions at each moment

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