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Lessons and legacies in international approach to the pandemic

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Operators and investors remain focused on long-term drivers

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Healthcare and elderly care is becoming increasingly global

European Healthcare

Elderly Care Market Research 2021

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ASSESSING THE PANDEMIC ACROSS EUROPE

Countries across Europe have tackled the pandemic with different approaches and from different starting points.

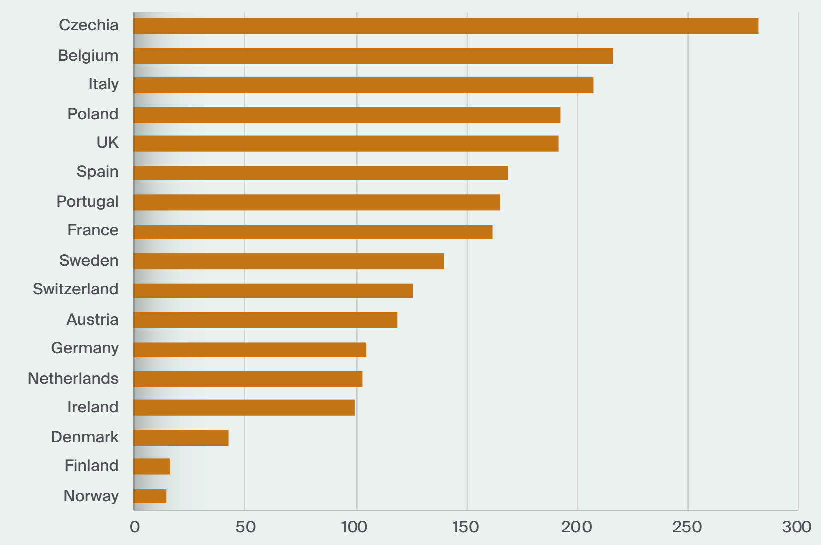
For all European countries, the pandemic has been a near impossible balancing act centred on protecting elderly and vulnerable segments of the population, while doing as little damage to the economy as possible. This challenge is by no means over but international investors, especially those targeting healthcare real estate, need to risk assess future investments and evaluate how the crisis has been handled by different countries. There are certainly some key observations we can make.

As shown in Figures 1 and 2, the human and economic cost of the pandemic has varied hugely across Europe. The Nordic countries have generally seen fewer deaths and low levels of GDP decline. Ireland has also seen lower mortality rates and was the only country to experience economic expansion in 2020, owing much to the export of pharma and IT goods and services. Better outcomes in these countries could be attributed to lower population density which may help to limit the spread of the virus. However, this does not explain the low death rates in Germany and The Netherlands, two densely populated nations which have better controlled the human cost.

Another notion is that countries with higher death rates have larger elderly populations. This might be used to justify high death rates in Italy or Spain, where 20-23% of the population are over 65, but doesn't explain why Japan has experienced incredibly low death rates of 8 per 100,000 when 30% of its population are over 65. The overarching point here is that there is no clear pattern. Even within Europe, countries have different demographic characteristics, wealth profiles, cultural norms, genetic and ethnic profiles, healthcare and long-term care systems, economic structures, legal systems, and civil rights agendas – all of which have influenced the outcome of the pandemic. And these differences come before discussing testing or vaccination programmes, the reliability of reported data and the potency of different strains of the virus. Ergo, we should be very cautious in comparing how each country has handled this crisis.

"The pandemic has forced greater acknowledgment of the hugely important role that residential elderly care plays in supporting any healthcare system".

FIG 1 | Covid-19 deaths per 100,000 inhabitants



Source: John Hopkins University, as of May 2021

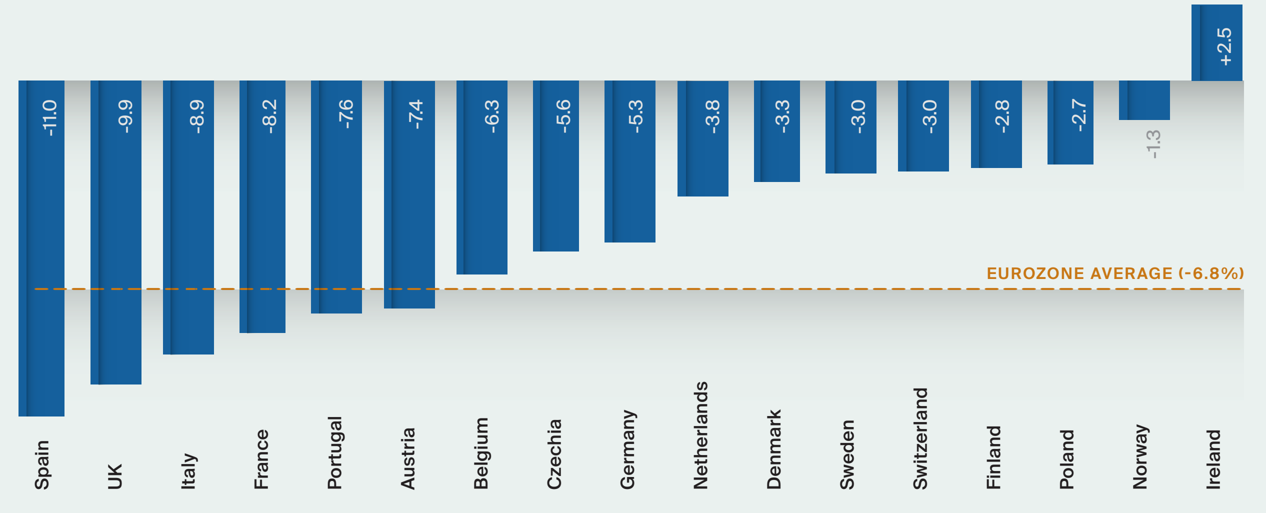
Lessons and legacies for the elderly care sector

The validity of international comparisons are questionable, but this is not to say there aren't some clear lessons. Germany is widely acknowledged to have dealt with the pandemic better than most if death rates are in question (Figure 1). The German hospital system is one of the best-funded and resourced in the world with more hospital beds (and critical care beds) per capita than any other European country. A well-invested healthcare system has been a significant factor in Germany's ability to treat severe cases of the virus and limit the death count. Germany also acted quickly to contain the virus among its elderly population, with all 16 German states adopting stringent lockdown measures in care homes as early as March 2020, with almost full separation of nursing homes from the outside world. The draconian measures received mixed reviews, but certainly saved many lives and should guide international approaches to any future pandemic.

Another clear legacy of the pandemic is that governments, organisations and businesses are now under increasing pressure to systematically reform healthcare and long-term care provision.

The pandemic has forced greater acknowledgment of the hugely important role that residential elderly care plays in supporting any healthcare system, as well as the gap in care provision in many countries. Hopefully, this will translate into policy changes that support and strengthen the sector, including its growing private sector representation in many nations.

FIG 2 | GDP Change 2019 to 2020 (%)

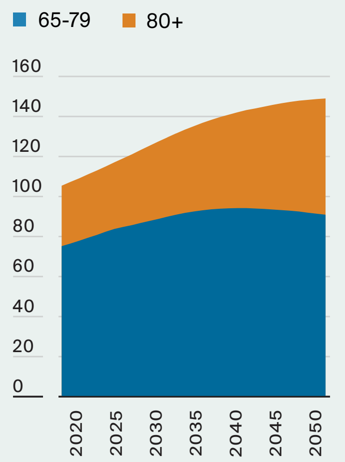


Source: Oxford Economics, Real GDP change in local currency unit

ALL EYES ON LONG-TERM GROWTH IN ELDERLY CARE

The number of Europeans over the age of 65 is projected to grow from 100 million at present to 150 million over the next 30 years.

FIG 3 | EU & UK elderly population projection (millions)



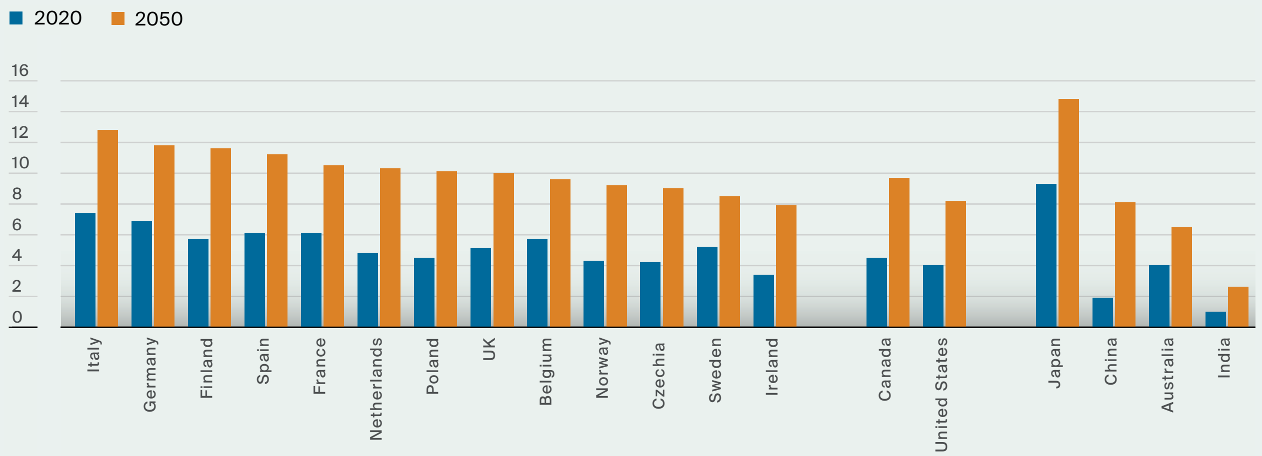
Source: OECD

All commercial property sectors have faced some unprecedented challenges over the last year. For the elderly care home sector, the challenge has been particularly extreme with Covid-19 outbreaks posing a direct threat to residents in the over 80 age category and a clear risk to operators' businesses. Despite this, investment appetite for healthcare real estate across Europe, including elderly care homes, has remained remarkably buoyant (see Figure 8 page 8 for investment volumes). While we shouldn't underestimate the short-term challenges, the long-term opportunity in the market is substantial and this is clearly supporting investment decisions.

Ageing population

This long-term growth is underpinned by Europe's rapidly ageing population. As shown by Figure 3, the number of Europeans over the age of 65 is projected to grow from 100 million at present to 150 million over the next 30 years. The growth rate is most extreme in the over 80 segment which is expected to almost double from 30 million to 58 million in the same period. It is this age category that will drive demand for elderly care beds. As shown by Figure 4, the share of people over the age of 80 will grow across many European nations, to in excess of 10% in many economies. More people reaching old age is arguably a mark of an advancing society, but with many governments committed to providing universal healthcare and long-term care for citizens, it also presents a funding dilemma.

FIG 4 | Share of population over 80 years (%)



Source: OECD

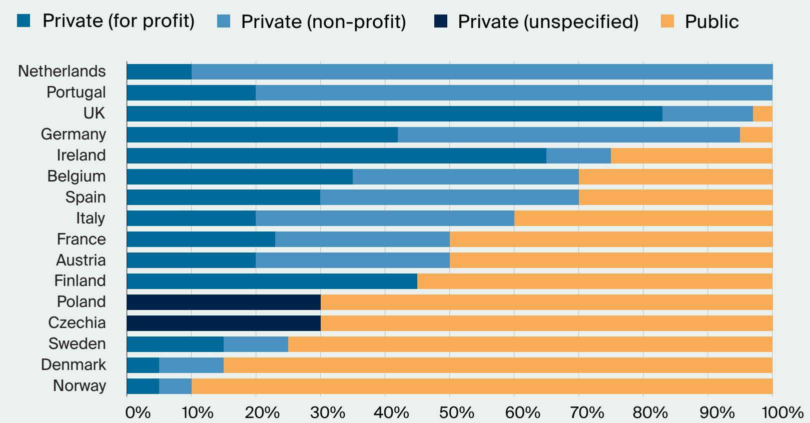
Demand for nursing care in a "residential" setting

Many countries still rely on non-residential methods to care for the elderly – such as domiciliary care delivered to people in their own homes or care delivered informally by family members. Non-residential care is particularly common in countries like Spain and Italy where multi-generational households and cultural factors make homecare the status quo. However, the scale of population ageing is such that relying on non-residential care is not a viable approach. By 2050, there will not only be 58 million Europeans over the age 80, but an estimated 1 in 6 of these people will suffer from degenerative diseases, such as dementia or Alzheimer's, that typically require 24-7 care. It remains to say, an ageing population will drive future demand for elderly care, but will specifically drive demand for full-time nursing care delivered in specialised facilities.

Private sector penetration

The elderly care sector has historically been state-controlled in many European countries, acting as a barrier to private ownership and investment. However, as shown in Figure 5, the market in many countries is increasingly dominated by private sector ownership. This is especially the case for the largest and most mature markets of the UK and Germany, but also the Netherlands which has become somewhat of a pioneer in specialist memory care thanks to private enterprise. The relaxation of state control is ongoing in many countries, but rising demand and growing cost pressure at both central and local government level will lead to further privatisation across many markets, creating a larger pool of real estate investment opportunities.

FIG 5 | Care home ownership by type, private vs public



Source: Knight Frank, Eurofound, Tomorrow's Guides, Green Street
Please note, figures date from 2015 to 2020

KEY MARKETS AND KEY OPERATORS

Understanding the opportunity within different European elderly care markets is often a challenge and intelligence gathering is essential.

Core markets of Northern Europe

Germany, The United Kingdom and France are the largest and most mature elderly care home markets in Europe. Care home ownership in Germany and the UK is dominated by the private sector, making them more accessible to private real estate investors. Despite this, both markets remain highly fragmented with the top five operators holding only a 12-13% market share. Small and often family-owned care homes still permeate these established markets, making them ripe for consolidation and investment.

State control and public ownership of care homes has made France less accessible to private investors, especially international ones. A smaller private market has forced the rapid expansion of major French care operators (Korian, Orpea, Domus VI and Colisée) into neighbouring European countries, as shown in Figure 6. However, cost pressures and underinvestment in France is now forcing national and local government to relax restrictions on private sector development. We expect to see private stakeholders leading the development of new homes in the years ahead.

Emerging markets of Southern Europe

Universal elderly care is a less developed concept in Southern European countries, including both Spain and Italy which spend only 0.9% of GDP on long-term care provision. In Spain, full legal entitlement to long-term elderly care was only adopted at the turn of the millennium. In both Spain and Italy, elderly people are more commonly cared for informally by family members and often in multi-generational households. This has been offered as a potential reason for high mortality rates in these countries during the pandemic.

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“Major operators have targeted expansion in their respective domestic markets but also internationally.”

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The impending exceptional growth in the elderly population has been touted as a game-changer for both countries. In Spain, the over 80 population will double to nearly 6 million by 2050, while over 80s in Italy will represent 12.8% of the total population – a figure second only to Japan. Aware of these projections and recognising the current gap in residential care provision, international operators have moved into both markets, closely followed by a select number of real estate investors. Both have focused on assets catered towards an emerging private-pay market.

The Pioneers

The Dutch and Belgian elderly care markets are the next largest, both in the region of 150-180 thousand beds. Funding for long-term care is very stable in both countries, especially the Netherlands which spends 3.9% of GDP on long-term care, the highest among OECD countries. As in Germany, Dutch citizens are required to pay into mandatory social care insurance schemes (AWBZ) deducted from salary and enhanced by employer contributions too. Both Belgium and The Netherlands are also developing reputations as innovators in elderly care, especially in the areas of memory care and more specifically integrated dementia care villages. While domestic investors have traditionally dominated these countries, the appetite for re-examining and rethinking care models has captured international attention.

The globalisation of elderly care

The operator structure in most major elderly care markets is highly fragmented, but the last decade has seen many markets begin to consolidate. Major operators have targeted expansion in their respective domestic markets but also internationally. French care operators have definitely lead this expansion, transforming their operations into pan-European and even global organisations, entering the Chinese and South American markets.

As you can see from Figure 6, Korian, Orpea, Domus VI and Colisée have built significant market share in Europe. Colisée recently acquired Armonea, the largest domestic operator in Belgium, while Korian entered the UK market acquiring Berkley Care and it’s 6-home portfolio. With many countries experiencing a shift towards private sector ownership and giant operators successfully implementing their business models in new markets, healthcare is expected to become an increasingly global sector, not dissimilar to the international hotel market. The expansion is not limited to geography either with many of these operators active across the dependency curve from assisted living and shared housing through to specialised rehab clinics and outpatient hospitals.

TABLE 1: TOP SEVEN ELDERLY CARE MARKETS

	DEMAND			SUPPLY		OPERATORS	
	% OF GDP SPENT ON HEALTHCARE (OF WHICH IS LONG-TERM CARE)	OVER 80 POPULATION 2020	OVER 80 POPULATION 2050	MARKET SIZE (BEDS)*	BED PROVISION PER 100 PERSONS AGED 80 AND OVER	% PRIVATE OWNERSHIP	MARKET SHARE OF TOP 5 FOR-PROFIT OPERATORS
GERMANY	11.5% (2.1%)	5.8 MILLION	9.8 MILLION	900K	16	95%	12%
FRANCE	11.3% (2.4%)	4.2 MILLION	8.0 MILLION	700K	17	50%	29%
UK	10.0% (2.3%)	3.4 MILLION	7.5 MILLION	480K	14	97%	13%
SPAIN	9% (0.9%)	2.9 MILLION	5.9 MILLION	370K	13	70%	19%
ITALY	8.7% (0.9%)	4.5 MILLION	8.0 MILLION	340K	8	60%	11%
NETHERLANDS	10.0% (3.9%)	0.8 MILLION	2.0 MILLION	180K	22	100%	5%
BELGIUM	10.3% (2.3%)	0.7 MILLION	1.3 MILLION	150K	23	70%	33%

Sources: Eurostat, WHO, Eurofound, Patron Capital, Greenstreet, INSEE, XERFI *Market size figures may include some beds designed for working age adults in long-term care

FIG 6: TOP FIVE FOR-PROFIT ELDERLY CARE OPERATORS BY MARKET

UNITED KINGDOM

Top 5 operators	Beds (000s)
HC-ONE	20
BARCHESTER HEALTHCARE	16
FOUR SEASONS	9
CARE UK	9
BUPA CARE	7

FRANCE

Top 5 operators	Beds (000s)
KORIAN	35
ORPEA	34
DOMUS VI	19
COLISÉE	7
DOMIDEP	7

SPAIN

Top 5 operators	Beds (000s)
DOMUS VI	20
ORPEA	9
VITALIA	8
BALLELSOL	7
SANITAS (BUPA)	7

NETHERLANDS

Top 5 operators	Residences
OREPA	82
KORIAN	37
DOMUS MAGNUS	17
MARTHA FLORA	11
ONTZORGD WONEN	5

BELGIUM

Top 5 operators	Beds (000s)
KORIAN	13
COLISÉE (ARMONEA)	9
ORPEA	7
VULPIA	5
EMERA (NOVADIA)	1

GERMANY

Top 5 operators	Beds (000s)
KORIAN	30
ALLOHEIM	24
ORPEA	20
PRO SENIORE	17
KURSANA	11

ITALY

Top 5 operators	Beds (000s)
KOS GROUP	9
KORIAN	7
ORPEA	3
LA VILLA	2
COLISÉE	1

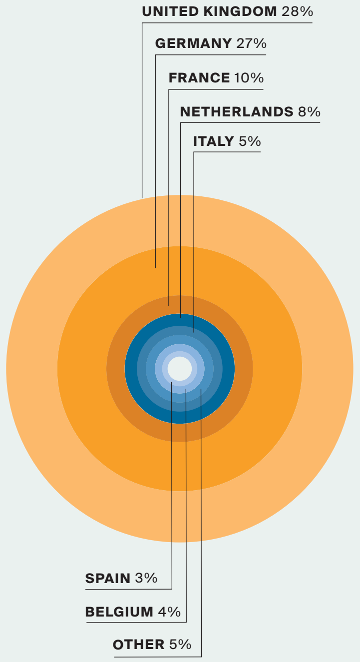
Please note, bed numbers are as of January 2021, and subject to regular change

INVESTMENT

Elevated levels of investment despite the pandemic

As you can see from Figure 8, the level of real estate investment into elderly care and senior living has grown substantially over the last decade. Recorded investment volumes across Europe peaking at €8 billion on a rolling four quarter basis as of March 2020, compared to levels below €3 billion five years earlier. Despite the challenges facing care homes across Europe in the pandemic, investment levels into the sector have been mostly maintained with €7.2 billion of transactions in 2020. With investors undeterred, care home and senior living transactions actually represented a higher share of all commercial property deals in 2020.

FIG 7 | **Country share of all European care home and senior living property investment 2016-2020**
(Total = €35 billion)



Source: Real Capital Analytics

Since 2016, 95% of transactions have occurred in the seven largest elderly care markets, as shown in Figure 7. We should note here that data reflects reported transactions only and may not capture full market activity. 55% of deals have occurred in Germany and the UK combined partly because they are the largest and most mature markets, but also because of the perceived stability.

> **"Major operators and investors have been undeterred by recent challenges, favouring the clear long-term opportunity in the healthcare and elderly care sector."**

Buyer types and key investors

Overseas buyers have been active in the elderly care sector, accounting for 43% of transactions since 2016. Domestic buyers reign supreme in the UK, France and Belgium where competition for assets tends to favour local players. A small domestic REIT market, coupled with lesser demand for alternative assets like care homes may help to explain the lower level of domestic investment in Germany. However, there are signs of change with a number of infrastructure funds emerging to deliver social impact and ESG investment to German investors – healthcare certainly fits the mould. AviaRent are one such fund and purchased a 12-home portfolio for €185 million in 2020. More recently, German firm Kingstone launched a specialist fund that will target age-appropriate forms of living, medical offices and rehab clinics across Germany.

Specialist listed investors have been the most active buyers of European healthcare real estate in recent years, particularly French and Belgian REITs. The largest is Aedifica, with a portfolio valued at €3.8 billion of assets spread across 7 countries. Most recently, Aedifica acquired a 19-home portfolio in Germany for €245 million in cooperation with the operator Azurit Group. Also listed on the BEL 20 and another key player across Europe are Cofinimmo, with a healthcare portfolio of €2.9 billion. Most recently, Cofinimmo acquired a 24-home portfolio across both Spain and Italy for €350 million.

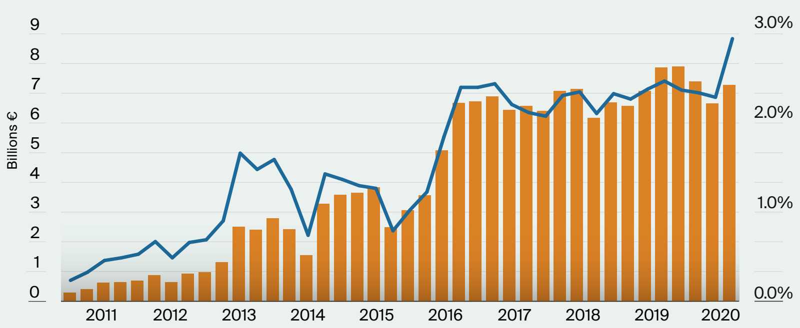
Investment outlook

In the short-term, many investors will be digesting the impact of Covid-19 and this could be a headwind to activity in 2021, much like in other property sectors. But major investors have been undeterred by recent challenges, favouring the clear long-term opportunity across the healthcare and elderly care sector. Investment demand is keeping yields compressed and this is a trend we expect going forward.

The opportunity is being driven by Europe's rapidly ageing population, the increasing shift towards private ownership of care homes and continued expansion and consolidation among operators. These factors will create more real estate opportunities at a time when investors are increasingly looking for stable and socially impactful investments.

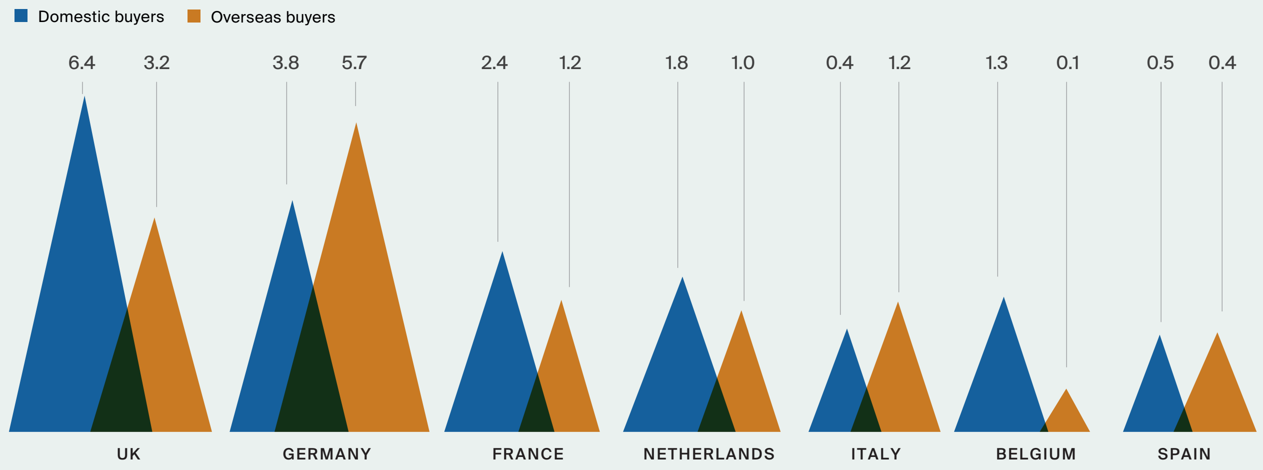
We expect listed specialists with additional fund raising and market knowledge to lead the charge in healthcare real estate in Europe. However, we also expect to see greater interest from other investor types now alert to the investment case for healthcare. This includes an increasing weight of institutional capital and appetite from private funds, including infrastructure funds. The major challenge in many markets will be the supply of assets. The building of new care homes is vital to future elderly care provision across Europe, but financing these facilities needs to occur against the backdrop of economic recovery.

FIG 8 | **Care home and senior living property investment in Europe**



Source: Real Capital Analytics

FIG 9 | **Care home and senior living property investment 2016-2020 (Euros, billions)**



Source: Real Capital Analytics

TABLE 2 | **Major European care home transactions – last 18 months**

Portfolio	Country	Homes	Buyer	Buyer Nationality	Seller	Price (€M)	NIY (%)	Year
27-home portfolio	Germany	27	Corpus Sireo (Swiss Life)	Swiss	Threestones Capital	425	undisc.	2020
24-home portfolio	Spain & Italy	24	Cofinimmo	Belgian	Batipart	350	undisc.	2021
Azurit portfolio	Germany	19	Aedifica	Belgian	Azurit Group	245	5.0%	2021
55-home portfolio	Finland	55	SBB i Norden	Swedish	eQ PLC Asset Man.	222	5.9%	2020
12-home portfolio	Germany	12	AviaRent	German	undisc.	185	undisc.	2020
Orpea Senior housing portfolio	Germany & France	9	Icade	French	Orpea	145	undisc.	2020
Advita Senior housing portfolio	Germany	7	Patrizia	French	Senioren-Wohnen	140	4.0%	2020
7-home portfolio	Italy	7	Icade	French	Batipart	130	undisc.	2020
6-home portfolio	Belgium	6	Cofinimmo	Belgian	undisc.	105	4.5%	2020
Domus Vi portfolio	Ireland	7	Cofinimmo	Belgian	undisc.	93	undisc.	2021
Berkley Care portfolio	UK	6	Korian	French	Berkley Care & Albion Capital	86**	undisc.	2021
43-home portfolio	Sweden	43	Carnegie Fastigheter & Kvalitena AB	Swedish	SBB i Norden	80	5.4%	2020
5-home portfolio	Spain	5	Healthcare Activios	Spanish & American	Mapfre S.A	50	undisc.	2020
5-home Normandie portfolio	France	5	Confinimmo	Belgian	undisc.	44	undisc.	2021

Source: Real Capital Analytics * Gross yield ** Excludes Albion Capital assets. For more detail on transactions in the UK market see UK Healthcare Capital Markets 2021

Image above:
Siilotie, Oulu, Finland, operated by Mehiläinen, owned by Aedifica

Front Cover Image:
Seniorenquartier Lübbecke – North Rhine-Westphalia, Germany, operated by EMVIA, owned by Aedifica

Image page 5:
Huize Hoog Kerckebosch – Zeist, Netherlands, operated Compartijn (Orpea), owned by Aedifica

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