European Healthcare

Elderly Care Market, Research 2022

- European Healthcare continues to be driven by the rapidly ageing population
- Investment volume up 17.4% on the year
- Lack of consolidation in a number of countries may present an interesting opportunity
Despite short-term headwinds the long-term outlook for the elderly care sector remains positive. Following a pandemic-induced recession in 2020, Euro area GDP grew by a record 5.2% in 2021, taking the economy close to its pre-pandemic size. Of the Eurozone’s largest economies, only France (7.0%) and Italy (6.5%) outperformed the Eurozone GDP average, while Spain (5.0%) and Germany (2.0%) still recorded strong growth. However, the economic outlook globally and for the Europe is clouded by geopolitical risks, higher commodity prices, tightening monetary policy and supply-side constraints.

Labour markets across Europe remain tight. The unemployment rate in the Eurozone fell to a historic low of 6.8% in March 2022. The healthcare sector is seeing particularly acute staff shortages which have been exacerbated by the pandemic. In Germany, for example, unfilled vacancies in the healthcare and social work sector accounted for more than 10% of total reported vacancies in April 2022.

In the early stages of the pandemic the elderly care sector came into the spotlight due to high death rates and doubts about safety standards within care homes. While the pandemic is far from over, with the benefits of vaccinations and other tools at hand, the vulnerable and elderly segments of the population can be protected much better. In England, for example, deaths in care homes related to Covid-19 were more than 70% lower in the first four months of 2022 compared to the same period in 2021, according to the ONS.

European governments will likely increase expenditure due to government subsidies for energy, support for Ukrainian refugees and higher defence spending driving up fiscal deficits. Governments might fund the majority of it through increased borrowing, putting pressure on already stretched budgets in many countries. Record high inflation across Europe is putting further demands on operating costs of care homes, in the form of higher utility bills and upward wage pressure, leading to higher costs for residents.

Long-term care expenditure varies significantly across Europe (figure 1) and the pandemic has forced greater acknowledgment of the gap in care provision in many countries. The relaxation of state control and growing cost pressure at both central and local government level will likely lead to more privatisation in the elderly care sector.

As demand for quality bed supply continues to grow across many European nations, it has become more and more useful to understand the market structures and key players, both on the operator and on the investor side, in addition to historical and potential trends to come. Last year’s report focused on a number of key trends from 2020 with highlights including growing private sector penetration as well as the presence of overseas capital. Whilst these are factors that remain within the sector, this year we have added the added insight into less conventional regions such as the Nordics, areas of growing interest such as specialist care and MedTech, as well as a number of operational transactions in the space. We also featured some extremely insightful commentary from Cofinimmo’s Sébastien Berden, on the current state of European Healthcare.
E U R O P E A N  M A R K E T  C O M P O S I T I O N

Ageing population
Figure 3 highlights the ever-growing number of individuals over the age of 65 in the UK and European Union. The chart suggests that we will see the over 65 population in these regions grow from approximately 21% of the total population in 2021 to 29% of the population by the year 2050. Another standout factor is the suggestion that over the same period the share of the over 80s population will rise to just over 11% from circa 6% at present.

This contributes to the case for European healthcare as this continued ageing of Europe’s demographic creates further need for not only available but higher quality, fit for purpose bedspace.

Major Markets
Table 1 outlines the major submarkets within Europe and takes this a step further by accessing the structure of these markets. Figure 4 compares the seven major markets with regards to their various compositions. It is immediately evident that the UK’s elderly care provision is dominated by the private for-profit operators, who hold an 83% market share with the closest comparison being Germany and Belgium with 42% respectively.

The chart also highlights the somewhat balanced composition of Spain, suggesting capacity and opportunity for those actively looking.

Private sector penetration
Again focusing deeper into the key markets, figure 5 presents an outline of the bed numbers held by the top five operators in each of these. Korian stands out as a major player in five of the seven with new exposure to the UK due to its recent entry via the purchase of Berkley Care. Orpea also features heavily with both Orpea and Korian, or at least one of them, featuring in the top two out of six of the key markets, the UK being the only outlier in this case.

This dominance of the key markets is certainly one to keep a watchful eye on, with solvency of operators and recent troubles faced by these operators (at the time of writing Orpea and Korian share troubles faced by these operators (at the time of writing Orpea and Korian share troubles faced by these operators) the safest bet in terms of covenant during deal underwriting, at least not at present.
Seniors housing is a rapidly growing market in Europe as countries across the continent grapple with an ageing population and a lack of suitable housing options. As the sector matures and public understanding of the unique benefits of seniors housing grows, demand for a variety of housing and tenure options will increase. We are already seeing this in the UK, where operators are moving beyond the traditional leasehold/affordable rent dichotomy, with some operators offering units for sale, market rent, shared ownership and affordable rent within the same scheme.

The UK is still thought of as a nascent market for seniors housing when compared to the US, Canada, Australia and New Zealand, but alongside Germany and France, it represents the relatively mature European seniors housing market. Countries such as Spain and Italy, which have substantial elderly populations and are among the longest-lived populations in Europe, are only now beginning to see institutional investment flows from across Europe. From our conversations with operators, Southern Europe is considered a particularly attractive location for investment, and not just because of the strong underlying demographic trends. The warmer climate and generally lower cost of living across Southern Europe have long been an enticing prospect for British seniors seeking to downsize. Investors are now rightly sensing an opportunity to cater to those individuals who seek the sense of community and support that specialist seniors housing can provide. The British are not alone in flocking to warmer climates; we are seeing capital and seniors from across Northern Europe flow into Southern Europe, in places driven by lower build costs. Indeed, many coastal retirement villages in Spain operate specifically with international residents in mind and prominently advertise the range of nationalities among their residents.

This isn’t to say that opportunities are limited to Southern Europe. On the contrary, we are now seeing the establishment of pan-European funds with investments in seniors housing across multiple countries and regions. To take just one example, in 2020, UK-based Audley Villages entered into a joint venture with Danish pension group PFA to form Evia Living, a new integrated retirement community platform in Denmark. The three largest investors in European seniors housing and care over the past 24 months have been Vonovia SE, Cofinimmo and Andälica, each of whom have invested approximately £8bn of capital throughout Europe. According to data from RCA, Q4 2021 saw the highest investment in seniors housing and care in Europe on record, with more than £2.2bn invested. This capped a year which also saw the three highest rolling 12-month investment volumes on record in Q2, Q3 and 4.

This is part of a wider trend across the residential investment space, which has grown from 10% of total European real estate investment in 2011 to 25% in 2021. This growth has come not only in the form of greater investment but also in a broader range of investments. Our latest European residential investment survey, which represents the views of 22 institutional investors that manage €64bn across Europe, showed that while only 32% of investors are currently active in the seniors housing sector, 50% expect to be active in the sector in five years’ time, the largest projected increase of any sector.

For UK operators, the comparative availability of land is another reason that mainland Europe is such an appealing investment proposition. Knight Frank’s latest Land Index shows that the price of English Greenfield sites has increased by almost 23% in the last year, principally driven by a shortage of supply, with 85% of housebuilders surveyed indicating that supply is “limited” or “very limited”. In this challenging environment, Europe offers a relative wealth of development opportunities. As demand for specialist seniors housing grows across the continent, we expect to see further expansion into the European market from UK and international investors and the growth of local and pan European investments.

**While only 32% of investors are currently active in the seniors housing sector, 50% expect to be active in the sector in five years’ time, the largest projected increase of any sector**

Seniors housing is a rapidly growing market in Europe as countries across the continent grapple with an ageing population and a lack of suitable housing options. As the sector matures and public understanding of the unique benefits of seniors housing grows, demand for a variety of housing and tenure options will increase. We are already seeing this in the UK, where operators are moving beyond the traditional leasehold/affordable rent dichotomy, with some operators offering units for sale, market rent, shared ownership and affordable rent within the same scheme.

The UK is still thought of as a nascent market for seniors housing when compared to the US, Canada, Australia and New Zealand, but alongside Germany and France, it represents the relatively mature European seniors housing market. Countries such as Spain and Italy, which have substantial elderly populations and are among the longest-lived populations in Europe, are only now beginning to see institutional investment flows from across Europe. From our conversations with operators, Southern Europe is considered a particularly attractive location for investment, and not just because of the strong underlying demographic trends. The warmer climate and generally lower cost of living across Southern Europe have long been an enticing prospect for British seniors seeking to downsize. Investors are now rightly sensing an opportunity to cater to those individuals who seek the sense of community and support that specialist seniors housing can provide. The British are not alone in flocking to warmer climates; we are seeing capital and seniors from across Northern Europe flow into Southern Europe, in places driven by lower build costs. Indeed, many coastal retirement villages in Spain operate specifically with international residents in mind and prominently advertise the range of nationalities among their residents.

This isn’t to say that opportunities are limited to Southern Europe. On the contrary, we are now seeing the establishment of pan-European funds with investments in seniors housing across multiple countries and regions. To take just one example, in 2020, UK-based Audley Villages entered into a joint venture with Danish pension group PFA to form Evia Living, a new integrated retirement community platform in Denmark. The three largest investors in European seniors housing and care over the past 24 months have been Vonovia SE, Cofinimmo and Andälica, each of whom have invested approximately £8bn of capital throughout Europe. According to data from RCA, Q4 2021 saw the highest investment in seniors housing and care in Europe on record, with more than £2.2bn invested. This capped a year which also saw the three highest rolling 12-month investment volumes on record in Q2, Q3 and 4.

This is part of a wider trend across the residential investment space, which has grown from 10% of total European real estate investment in 2011 to 25% in 2021. This growth has come not only in the form of greater investment but also in a broader range of investments. Our latest European residential investment survey, which represents the views of 22 institutional investors that manage €64bn across Europe, showed that while only 32% of investors are currently active in the seniors housing sector, 50% expect to be active in the sector in five years’ time, the largest projected increase of any sector.

For UK operators, the comparative availability of land is another reason that mainland Europe is such an appealing investment proposition. Knight Frank’s latest Land Index shows that the price of English Greenfield sites has increased by almost 23% in the last year, principally driven by a shortage of supply, with 85% of housebuilders surveyed indicating that supply is “limited” or “very limited”. In this challenging environment, Europe offers a relative wealth of development opportunities. As demand for specialist seniors housing grows across the continent, we expect to see further expansion into the European market from UK and international investors and the growth of local and pan European investments.
Q. In your opinion which countries currently present the greatest opportunity in Europe?
A. Many countries offer interesting perspectives. Of course, Germany remains a strategic market for us because of the depth of the market and operator consolidation that is still going on. Other countries like Spain, Ireland and Finland offer attractive opportunities, although it is slightly more difficult to anticipate.

Q. What would you suggest are relevant areas of caution within the market?
A. The fragility of some operators, especially in the aftermath of Covid-19, remains one of our top concerns. Another area of concern is the general rising costs of materials impacting the delivery of new development projects. Finally there’s the rising inflation rates like in the UK for example, where RPI inflation is almost at 10%, although most lease contracts cap indexation possibilities.

Q. How have increased build costs impacted the development aspect of your strategy?
A. We have a strong development pipeline and have managed to insulate ourselves from current inflationary pressures by way of strong initial negotiations with contractors. Despite this, it has been important for us to remain diligent on the newer developments in order to avoid such inflationary risks that have not yet been priced into the contractor fees. In some cases, we had to delay or reassess certain projects that are now more keenly priced.

Q. What are your views on incorporating ESG into your portfolio?
A. This is very much a part of our investment strategy and we do not hesitate to also reflect this in our pricing for new fit-for-purpose facilities. Whilst we are still interested in older stock, we envisage this is only on the basis of strong prospects for upgrading in terms of energy performance and overall ESG credentials.

Q. What sub-sectors of healthcare are of most interest with regards to your current strategy?
A. Elderly care remains the broadest and deepest market segment in Europe at present. However, we also closely monitor hospital opportunities, although this market is often accessible only in a limited number of countries. Rehabilitation and primary care are also of interest to us, albeit the market is not as deep as elderly care. Finally, specialist care is interesting but tends to offer limited scope due to low private sector penetration in many countries.

Q. What is your portfolio spread across?
A. Cofinimmo has a portfolio spread across Belgium, France, the Netherlands, Germany, Spain, Finland, Ireland, Italy and the United Kingdom with a focus on social developments, and has built up a healthcare real estate portfolio of approximately four billion EUR in Europe.

Q. What are your thoughts on the sector’s recovery following the pandemic?
A. We have the impression that, overall, in our portfolio, we are now certainly closer to normality in terms of patient wellbeing and occupation. Isolated spikes still occur, however they are fortunately less lethal. Closely related to this is the concern that we do not yet fully grasp the longer term consequences of the pandemic on staff motivation, operative expenses and stricter regulations.

Q. The challenge of the market however is to be able to understand demographics, differences in local market organisations and of course the robustness of the operators’ case.
A. There is without a doubt more to come from European healthcare as an overall market. The first reason for this is due to being ahead of the curve, we can compare the current state of Spain’s healthcare market to that of France 10 years ago, thus suggesting plenty of opportunity. I would therefore say that Healthcare generally presents a strong proposition for long term investors. However, the challenge of the market is to understand demographics, differences in local market organisations and the robustness of the operators’ case.

The challenge of the market however is to be able to understand demographics, differences in local market organisations and of course the robustness of the operators’ case.
2021 was another strong year for investment in European healthcare. Figure 7 showcases the quarterly transaction volume overtime with the trend of growing interest in UK healthcare both from domestic and overseas capital. France has also seen growth in its percentage contribution to total transaction volume. Sweden sits fourth with a contribution to total transaction volume of £32bn from £23bn year on year. Figure 9 highlights the percentage contribution to total transaction volume from each of the top ten submarkets. Whilst the biggest share can be attributed to Germany, the UK has seen the biggest growth in its percentage share growing from 14% of transactions in 2020 to 26% of transactions in 2021. This sits fairly well in line with the trend of growing interest in UK healthcare both from domestic and overseas capital. France has also seen growth in its percentage contribution.

In terms of composition of capital, figure 10 suggests that cross border capital is a significant contributor to transaction volume across Europe with listed and private proposals also contributing their fair share. These companies are also fairly active on the sell side, however this is not the case for overseas investors. We are also seeing some sell off from owner-occupiers, however it is important to note that it is very much a case of volume vs value with the overseas capital transacting via larger single portfolio-led transactions as opposed to multiple small to medium sized deals.

Finally table 3 presents the key players over the last 24 months with the usual suspects in Aedifica and Cofinimmo placing at the top in terms of their level of activity.
SPOTLIGHT ON THE NORDICS

Following on from this year’s investment volume and statistics, it is worth acknowledging the presence of Sweden in the top four European countries in terms of transaction volume as well as Denmark’s volume of circa €122m. Not only does it command attention by highlighting their closeness to the more well-known key markets, but it also opens a conversation regarding the overall recognition of the Nordics in the sector.

Figure 11 looks at the population statistics of five Nordic countries primarily focusing on the elderly. Whilst all have an over 60s group that accounts for over 20% of current population, Finland emerges as a standout with 29% over 60s and 16% over 70.

Turning our attention to Sweden, currently the largest in terms of population and healthcare relevant transaction volume, figure 12 suggests that the over 70s group will grow to account for circa 22% of the population by 2050. This is key as with the general sentiment across Europe, if we consider current transaction levels paired with this rapidly ageing population, it presents a somewhat compelling case for the ever-growing need for quality bed space.

Finally, figure 13 focuses on the change in the average age of population of these countries between 2011-2021. Iceland, although the country with the youngest population, still shows signs of ageing, with its population becoming 4.1% older in comparison to Sweden’s 1% over the same period. As we presented earlier, Finland has a significant elderly population and has also seen its population age by 4.3% during this time.

Considering all of the above, the Nordics will certainly be an area to observe firstly in terms of Sweden and its potential volume of transactions relative to the larger markets such as the UK, Germany and France. Secondly, the possible emergence of the younger and smaller markets such as Iceland and Finland as their population statistics begin to dictate the need for supply.

WHILE THERE HAVE BEEN A NUMBER OF STANDOUT REAL ESTATE DEALS, THE SECTOR HAS ALSO SEEN A NUMBER OF SIGNIFICANT OPERATIONAL BUSINESS TRANSACTIONS ACROSS EUROPE.

MERGERS & ACQUISITIONS

Whilst there have been a number of standout real estate deals, the sector has also seen a number of significant operational business transactions across Europe.

- MPT & Waterlands acquire Priory Group for £1.1BN
- Ramsay Healthcare acquires Elysium for £775M
- Mubadala Capital invests in Witherslack Group in partnership with Charme Reubens Brothers buy majority stake in Avery Healthcare’s 58 care homes
- Caring Homes Group acquired by Santerre Health
- Palamon becomes sole PE investor of IDH Group
- Wren House acquires Voyage Care
- Sterling Square Capital acquires Consensus Support Capital

Source: Oxford Economics

Source: Statista

Source: Data from various statistics

Source: Data from various statistics
A 2021 report by OECD suggests that the Covid-19 pandemic has led to a sharp increase in mental ill-health issues, in a range of individuals across Europe.

An area of continued interest for capital across Europe is specialist care. This encompasses a variety of care types such as mental health. A 2021 report by OECD suggests that the Covid-19 pandemic has led to a sharp increase in mental health issues in a range of individuals across Europe.

The same report suggests that mental illness on average costs European economies more than 4.2% of GDP. These costs relate to not only the cost of treatment, but also the reduced employment and productivity rates.

Figure 14 highlights the extent to which the pandemic had a negative impact on the mental health of Europeans. Suggesting that only 30% of those surveyed in the UK did not report a negative impact on the state of their mental health, with Italy being the second most impacted, reporting 62% of respondents suffering a negative impact. Figure 15 shows the rate of hospital admissions for mental health per 100,000 population worldwide as of 2020.

Some key transactions in this space over the last year, both in terms of the real estate and operational businesses, include the acquisition of Priory Group by Waterlands with MPT taking the real estate via a sale and leaseback deal, the year has also seen Ramsay Healthcare’s purchase of Elysium for circa £775m.

With patients becoming far more comfortable with ideas such as remote or digital healthcare, telemedicine and digital diagnostics startups have seen growth in user numbers and investor interest.

Figure 16 highlights the fact that the combined value of European healthtech companies has grown six-fold between the years 2016 to 2021, reaching a total value of approximately €40bn from 2016 to 2021, led by telemedicine, as well as insurtech firms. However, it is worth noting that whilst this growth has occurred, Europe is still somewhat behind the US and Asia, suggesting there is still some growth to come, with the UK the frontrunner for European Healthtech.

Key players in the space include UK-based Babylon Health, Berlin-based insurtech Wefox, and medical bookings Doctolib, all of which have benefitted from substantial capital raises.

Amongst the growing number of MedTech companies emerging, some standouts in Europe include: MindMaz, a Swiss neurorehabilitation and recovery company, UK based Kheiron Medical using AI to assist in breast cancer diagnosis, care home management application, Etype Care, and referral management & care coordination app, PSHEALTH.

According to the annual Healthcare Investments and Exits report, healthtech funding across Europe nearly doubled to €2.2bn in 2021 up from €1.2bn in 2020, with investment in medical devices growing to €2.02bn in 2021 from €681m in 2020. The combined healthtech and medical device markets in Europe saw a 150% increase in funding. Overall, the UK was well placed with 20 seed/Series A fund raises over the last year.
SUMMARY

Whilst globally trends are in terms of the case and underlying demand mechanism, the rapidly ageing population across the European Union and the UK has and continues to be a key theme.

With extremely positive transaction volumes recorded (up 17.4% on the year) in 2021, we anticipate 2022 will be another strong year, with a mixture of REIT and institutional spending as well as significant cross-border capital sitting at the root of this.

These will be a number of key themes to focus on. Firstly, the extent to which the Nordic countries continue to build on their presence within European healthcare. The fundamentals in terms of demographics are certainly evident, and the placing of nations like Sweden in transaction composition further supports this case.

The second point of focus should be the matter of operator solvency in the continent. With examples of instability in some notable European operators last year, investors will need to drill deeper into the strength of operator bottom lines as well as consider the scope for margin compression when underwriting deals in times of such uncertainty and significant inflationary pressures.

Finally, with a number of submarkets seeing a lack of consolidation, investors and operators have an emerging opportunity to expand portfolios into other nations on the continent.

KEY THEMES

Once again, the rapidly ageing population across the European Union and the UK is a key theme.

Approximately €9 billion of transaction volume in 2021.

European healthcare investment volume grew 17.4% between the years 2020 and 2021.

Lack of consolidation in a number of countries may present both investors and operators with significant opportunities.

Nordic nations continue to emerge as ones to watch.

Key operators hold significant presence in six out of seven major markets.
Your partners in property
Independent & debt free
With over 125 years of experience
Food and property costs per bed continue to rise
Average Weekly fees increase by 6.7%

Agency use as a percentage of staff cost falls year on year

Healthcare returns maintain their consistency
Overseas Capital a prominent feature once more
Healthcare property transactions hit £2.34 billion

Please get in touch with us

**Healthcare**
Julian Evans FRICS
Head of Healthcare
+44 20 7861 1147
julian.evans@knightfrank.com

Nick Kempster MRICS
Partner, Healthcare
+44 20 7861 5265
Nick.Kempster@knightfrank.com

Kieren Cole MRICS
Partner
+44 20 7861 1563
kieren.cole@knightfrank.com

**Seniors Housing**
Tom Scaife
Head of Seniors Housing
+44 20 7861 5429
tom.scaife@knightfrank.com

**Commercial Research**
Ryan Richards
Senior Analyst, Healthcare
+44 20 3869 4575
ryan.richards@knightfrank.com

Judith Fischer
Associate, European Capital Markets
+44 20 3830 8646
judith.fischer@knightfrank.com

Cormac Henehan
Senior Analyst, Seniors Housing
+44 2039 677 140
Cormac.henehan@knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs. Important Notice: © Knight Frank LLP 2022 This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members’ names.