



Investor Focus on the Asset Classes of Senior Housing and Healthcare Property

Between the ageing of the European population and investment opportunities

In recent years, politicians and the capital markets have increasingly focused on the demographic shift towards a structurally ageing European population. In particular, the negative impact on social systems, poverty in old age and the asset meltdown effect have been cited as the greatest challenges for the future in Europe.

However, many of the one-dimensional forecasts made in the past and projected on a straight-line basis have now proven to be outdated. In any case, equating an ageing society with rising demand for residential and care facilities falls well short of the mark – there may be a correlation, but any causality is indirect at best. An external shock is ultimately required, such as the one we have been observing in the emerging asset class of student housing ("extreme educational requirements for the younger generation") for some years now. Two separate pillars can be identified when it comes to the definition of terms: **senior housing** and **healthcare property**.

They describe the extremes of a spectrum within the broader market of residential and care facilities. But where is the boundary between these property types? It is not always possible to identify a clear dividing line, as there is currently some overlap between the two segments – which serves as an unmistakable indicator that the market has not yet established itself at an international level and that it has yet to develop clear market profiles, let alone standards. However, it can generally be stated that social housing and healthcare property, with their respective property specifications, make up the asset class of "residential and care facilities". Table 1 allocates the different types of facility to the respective segments.

TAB. 1: OVERVIEW OF HEALTHCARE PROPERTY AND SENIOR HOUSING

RESIDENTIAL AND CARE FACILITIES	
Healthcare property	Senior housing
– Hospitals	– Retirement homes
– Medical centres	– Senior citizens' residences
– Clinics	– Care homes
– Rehabilitation and preventive care clinics	– Assisted living
– Medical care centres	– Age-appropriate housing

Source: Catella Research 2017

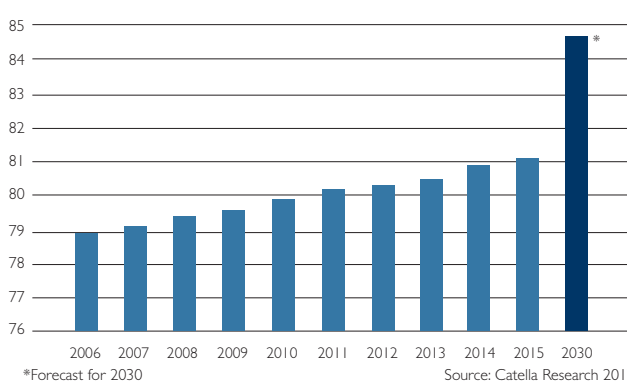
Healthcare property typically differs from senior housing in that it involves the additional presence of doctors among the nursing staff, as well as different legal conditions. In addition, healthcare property is not targeted solely at senior citizens, but at all age groups with health issues. However, senior citizens are the structurally largest and fastest-growing target group of this property type.

In contrast to healthcare property, **senior housing** generally involves a longer stay and hence is focused on comfortable living to a greater extent. Interpersonal and group-specific aspects are also important in this form of living. Does the ageing population automatically mean that there will be more senior housing and healthcare property in future? Do the growth forecasts suggest huge potential for these new asset classes?

The silver society – how ageing has changed

Our society is getting older and older. The rise in our life expectancy means that older people are making up a growing share of the population. Figure 1 illustrates the development of life expectancy in Europe since 2006. Life expectancy has risen steadily over the past ten years and is set to continue to grow, reaching 84.7 years by 2030. It is not only our life expectancy and the average age of our society that are changing, however, but ageing in the wider sense. Retirement from work used to literally mean stepping back and doing less with our lives. For many people nowadays, though, retirement signals the start of a significantly more active phase in their lives. The

FIG 2: DEVELOPMENT OF LIFE EXPECTANCY AT BIRTH IN EUROPE (M/F)



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senior citizens of today (and tomorrow) use the time they suddenly have on their hands for indulging in hobbies new and old, travelling the world and experiencing new things – making them an active consumer group in their own right. Furthermore, the line between working life and retirement is becoming increasingly fluid and many senior citizens (known as "silverpreneurs") are still actively in work. The trend towards increased, if scaled-back, employment in old age will be central to future societal and economic development.

This development is also affecting the healthcare industry at all levels. New technologies resulting from growing digitalisation and trends such as health tourism serve to illustrate how the healthcare sector is changing. Although the specific impact on senior housing in particular cannot be generally measured, people are becoming increasingly demanding when it comes to factors such as the location and quality of nursing and healthcare facilities. They want to retain their individual lifestyle even in their old age, which means that ease of access and scope for customizing living space will have an influence on how senior housing and healthcare properties are designed in future. These are precisely the aspects that investors are including in their market forecasts. At the same time, market research is complicated by having to distinguish between a rational decision to move into such a property and the psychological effect of suppressing a desire to move ("only as a last resort"). In other words, the decision is often taken not by the future residents themselves, but by their children or grandchildren. Or, in the worst case, by the authorities.

However, the construction and design of these properties are also subject to legal conditions. Depending on the facility and the target group, e.g. whether the property is a retirement home or a specific care home, there are different requirements when it comes to promoting treatment and the healing process along with the comfort of the facility. Thanks to the recording of individual data profiles, the customization of senior housing and healthcare property in response to physical and personal needs also makes it easier for carers and employees to work with residents, as well as increasing residents' comfort of living.

When it comes to **care homes** and **retirement homes** – much in the same way as for student residential halls – a distinction also needs to be made between the different operators. Non-profit and church operators rub shoulders with private providers of senior housing and healthcare property, who can offer higher-quality facilities and customization options in exchange for higher prices. As a result, this type of care facility is almost exclusively of interest to investors.

Heterogeneous market situation in Europe

Compared with North America, Japan or South Africa, the European market for senior housing and healthcare property is still in its early stages. The investment and transaction volume to date is especially low compared with the USA. However, clear growth has been observed in recent years.

Catella scoring model: "Market opportunities in Europe"

Our Catella scoring model, "Market opportunities in Europe based on selected factors" (Figure 2), aggregates various factors affecting the market opportunities for senior housing and healthcare property.

It takes into account

- the current **quality of the healthcare system** and
- its **development over the last ten years**.
- It also includes **demographic factors**, such as the percentage of senior citizens in the total population and the historical and projected future change in this figure (according to forecasts)
- as well as the expected **number of healthy life years** of the target group.

Selected factors and the scores for the individual countries are listed in Table 2. The market for senior housing and healthcare property is generally assumed to be developed if the healthcare sector in the respective country is also highly developed (quality) and investments have already been made as a result of the necessary investment conditions being in place. The size of the target group (quantity) is also a decisive factor for investors. Our scoring model delivers the following results: The positive assessment for **Austria** and **Germany** is explained by the strong healthcare system and the older population structure. With 823 beds per 100,000 inhabitants, Germany has the highest number of hospital beds in Europe, followed by Austria with 759. Germany also has the highest proportion of 65- to 79-year-olds in its population (15.4 percent). **Ireland** has the smallest proportion of senior citizens at 9.9 percent, closely followed by **Luxembourg** at 10.2 percent. Austria is the European leader when it comes to the number of doctors per head of population, coming in at around 500 doctors for every 100,000 inhabitants. **Norway** (431), **Lithuania** (428) and **Sweden** (412) are next in line. At the other end of the scale, **Poland** (224), **Ireland** (269) and the **United Kingdom** (277) have an extremely low density of doctors. The highest level of healthcare expenditure as a proportion of GDP is recorded in **Switzerland**, **the Netherlands**, Germany and Sweden (around 11 percent of GDP).

Growth and momentum for the future

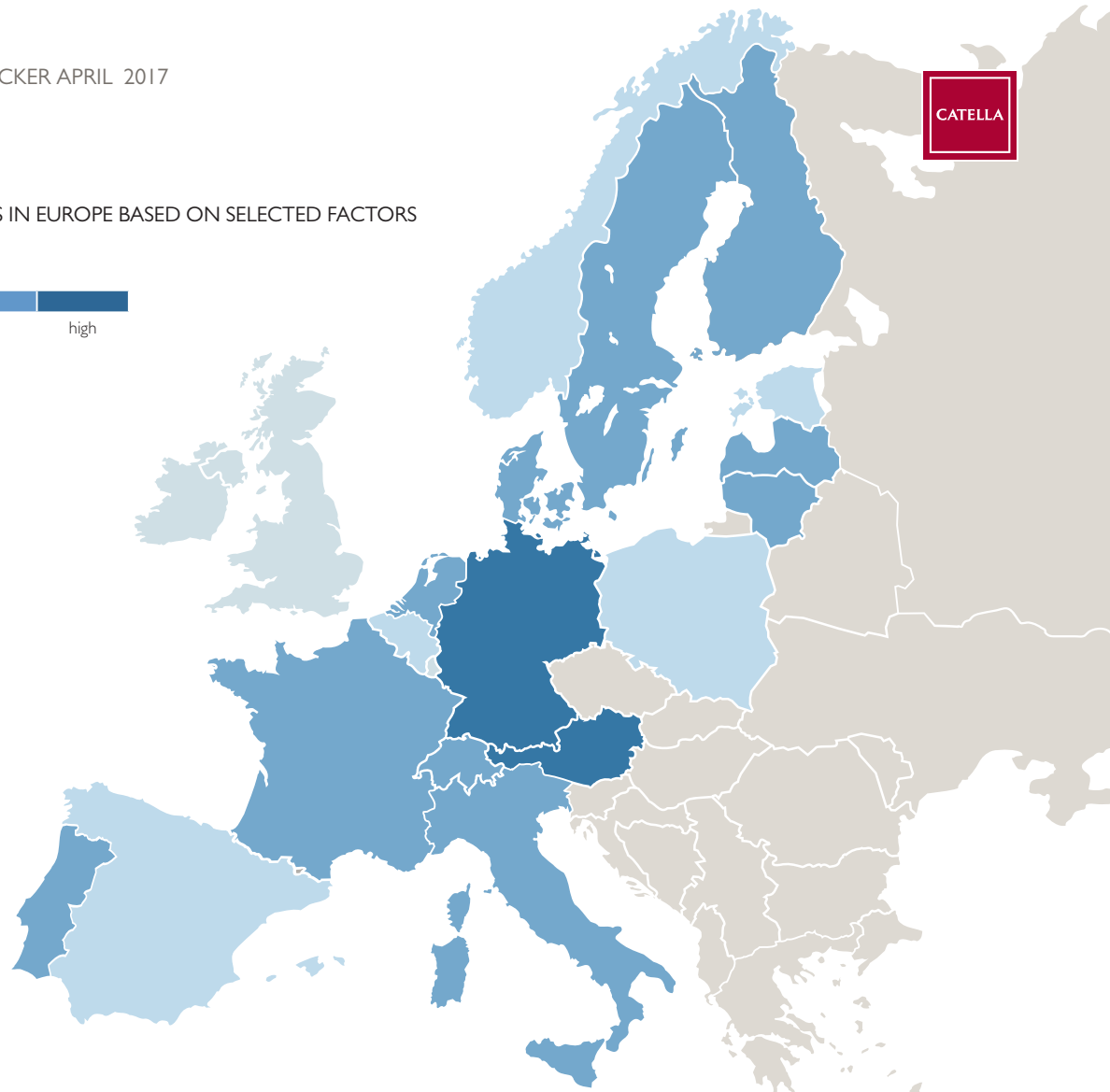
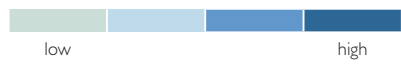
Equating an ageing society with rising demand for residential and care facilities is only true with certain provisos. Although the target group for these property types will continue to grow steadily in future, meaning they undoubtedly offer considerable potential as an asset class, effective demand will not necessarily increase in line with this development. One factor slowing the growth in demand will be the trend towards a "silver society", as people remain increasingly active and relatively healthy even in old age. At the same time, however, this will also increase the standards expected of the properties in question, which could offer economic benefits for investors. At first glance, senior housing would appear to offer interesting market potential on account of the increased size of the future target group. However, this new target group will also embody a structural shift within the residential and care facility sector. Put simply, an entirely new market segment is emerging in Europe. Meanwhile, demand for healthcare will remain high. In terms of interesting markets, Austria and Germany currently offer the best investment conditions. Markets like the United Kingdom and Ireland are less advanced, as illustrated by their relatively undeveloped healthcare systems. In this dynamic market environment, however, these less developed healthcare markets in otherwise strong property markets could see rapid change over the coming years.

American "sun cities" – a model for Europe?

A sun city typically describes an independent city in the southern USA that has been specifically designed for senior citizens. Thanks to their climate and natural geographical qualities, the southern regions of the USA are extremely popular among older "health seekers" looking to spend their later years in a mild climate. This form of urban living dates back to "Pilgrim Place" in California, which became the first community designed solely for senior citizens in the early 20th century. As the ageing of the population had not yet begun to truly accelerate, however, demand for similar cities remained low. From the mid-20th century onwards, the development of sun cities intensified under the aegis of the Del E. Webb Corporation. This model is only expected to be transferable to Europe to a limited extent in the medium term. Although the Mediterranean is a popular retirement destination, not every location has the structures required for the construction of sun cities. The less than ideal conditions in the quieter areas of southern Europe in terms of mobility and infrastructure pose an additional barrier to the accessibility of sun cities for senior citizens.



FIG. 2:
MARKET OPPORTUNITIES IN EUROPE BASED ON SELECTED FACTORS



TAB. 2:
SCORE STRUCTURE BY COUNTRY*

	Hospital beds per 100,000 inhabitants, 2014	Percentage of 65- to 79-year-olds in the total population, 2015	Old-age dependency ratio per 100 inhabitants, 2060	Practising doctors per 100,000 inhabitants, 2013	Healthcare expenditure as a proportion of GDP, 2012	Overall score
Austria	759	13.5	51.0	499	10.1	5.38
Germany	823	15.4	55.0	400	11.0	5.13
Lithuania	722	13.6	64.2	428	6.3	4.75
Netherlands	470	13.4	44.2	390	11.1	4.50
Sweden	254	14.5	42.6	412	11.0	4.50
Italy	331	15.2	61.2	390	8.8	4.38
Denmark	269	14.3	44.6	365	10.4	4.25
Portugal	332	14.6	64.9	340	9.0	4.25
Finland	453	14.9	49.5	302	8.6	4.25
France	621	12.6	43.4	310	10.9	4.00
Latvia	566	14.5	65.7	319	5.9	4.00
Switzerland	458	12.8	44.4	404	11.1	4.00
Poland	663	11.4	64.8	224	6.4	3.88
Estonia	501	13.8	55.8	328	6.0	3.75
Belgium	623	12.6	43.5	295	10.2	3.63
Norway	384	11.9	43.9	431	8.9	3.63
Spain	297	12.6	53.7	381	8.9	3.50
United Kingdom	273	13.0	43.4	277	8.5	2.75
Ireland	260	9.9	44.5	269	8.1	2.63
Luxembourg	494	10.2	44.3	281	6.6	2.38
Europe (average)	478	13.2	51.2	352	8.9	3.97

* The score also takes into account the change in the number of hospital beds since 2005, the change in the percentage of 65- to 79-year-olds in the total population between 2005 and 2015, and the expected number of healthy life years at birth in 2014. The country-specific score represents an initial market indication and does not serve as the basis for property-specific statements.

Source: Catella Research 2017