

European Care Homes In the midst of the pandemic



Resilient investment flow

European care home investment volume reached approximately €3.6bn during the first three quarters of 2020. This is 8.1% down compared to the same period last year. Yet still a robust result in the light of the Covid-19 pandemic. Investment activity has been particularly resilient in Sweden and Germany where volume transacted during the first nine months of the year increased by 80% and 21% respectively, compared to Q1-Q3 2019. Germany remained the major care home investment destination accounting for 42% of the total volume followed by Sweden (23%). Belgium, Finland and the Netherlands also remain strategic care home markets targeted by investors.

In contrast with last year when a few very large portfolios boosted the European volume, investment activity in H1 was fuelled by several small to mid-size portfolio transactions mainly signed in Germany and Sweden and a large

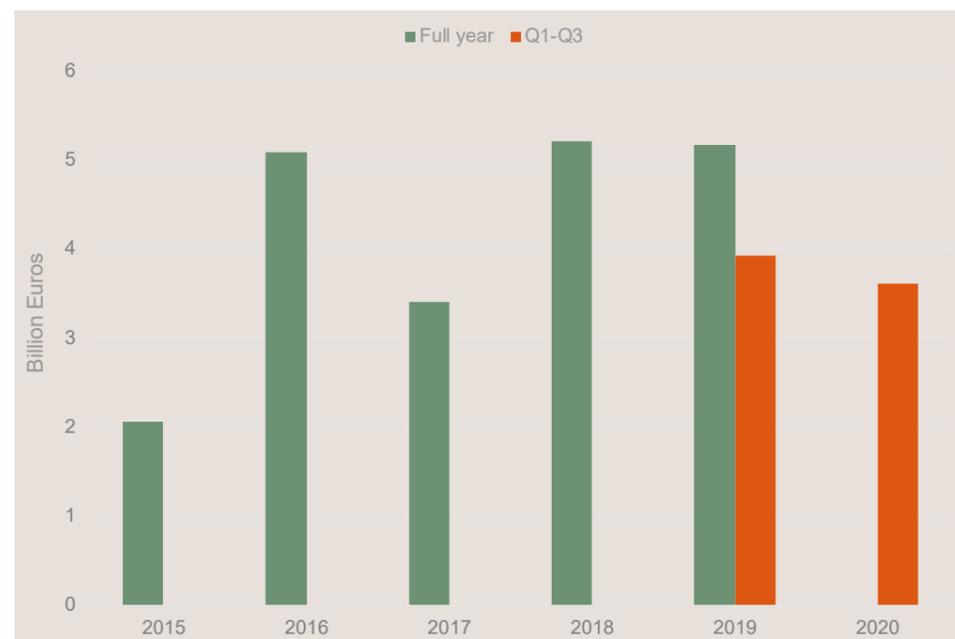
number of single property deals. The share of forward-acquisitions in new care home developments also accounted for nearly 30% of the overall volume.

Public specialised REITs, which have been pioneers in the market, are still the most dynamic market players, notably Aedifica and Cofinimmo. Nevertheless, a growing range of investors is now involved in the sector, including investment managers (Primonial, Patrizia, Threestones Capital, Capital Bay) and listed property companies (SBB i Norden).

Cross border investment, which accounted for approximately 40% over the past five years predominantly originates from within the continent. In recent years, US and Asian investors demonstrated a rising interest for the sector, however strong market knowledge and knowhow from European investors provide them with a solid grip on their markets.

Despite the current health crisis, the sector remains very attractive for investors seeking secure, long-term income streams as the sector is backed by solid long term fundamentals. Last month, SBB bought a large care home property portfolio in Finland from eQ for €222 million, the largest care home investment transaction in the country. Based on the deals transacted since the beginning of October and others in the pipeline for the rest of the year, we expect the end-year volume to slightly exceed €5bn, in line with 2019. As the overall investment activity will eventually resume sometime next year, we could witness surprisingly high care home investment volume in 2021. According to the Emerging trends in Europe 2020 survey, retirement/assisted living is the sector offering the best prospects for investment and the second-best prospects for development.

European care home investment



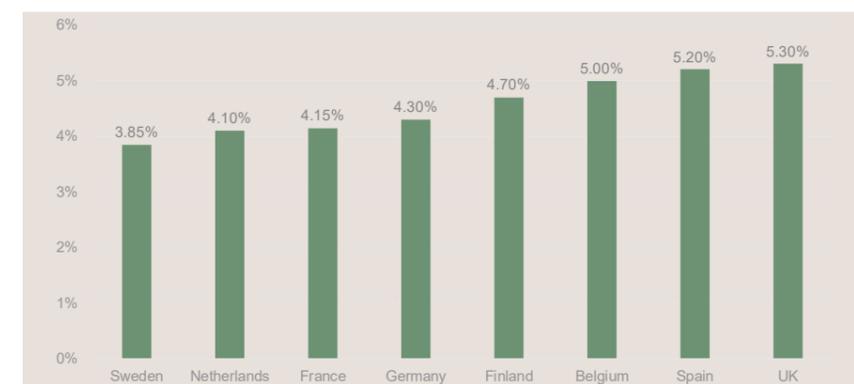
Source: Savills, RCA

👉 We expect growing competition for care home assets will continue to put upward pressure on prices. 👉

Hardening yields

Increased appetite from investors for care homes has put downward pressure on yields over the past two years. Notably in Sweden, Germany and Finland where prime yields hardened by 30, 20 and 10 basis points respectively. The prime care home yield currently ranges between 3.85% and 5% depending on country, location and quality of assets. We expect growing competition for care home assets will continue to put upward pressure on prices.

Prime care home yields Q3 2020



Source: Savills



TOP 5 EUROPEAN CARE HOME OPERATORS

1 Orpea

Residences: 443
 Beds: 78,988
 Turnover 2019: 3,740.1 M€ (+8.4% vs 18)
 Ownership: 49%

Presence in 12 European countries (+ China, Russia, Brazil, Uruguay and Chili)

2 Korian

Residences: 741
 Beds: 72,246
 Turnover 2019: 3,612.5 M€ (+8.3% vs 18)
 Ownership: 22%

Presence in five European countries

3 DomusVie

Residences: 353
 Beds: 78,988
 Turnover 2019: NA
 Ownership: NA

Presence in three European countries (+ Chili, Colombia and Uruguay)

4 HC-One

Residences: 624
 Beds: 21,891
 Turnover 2019: 3321.9M€ (+4.2% vs 18)
 Ownership: NA

Presence in the UK

5 Attendo AB

Residences: 624
 Beds: 32,296
 Turnover 2019: 11,935 MSEK (+8.6% vs 18)
 Ownership: 83%

Presence in four Nordic countries

Increasing polarisation of the industry

The increasing level of dependency of the elderly population for the working-age population as well as the rising number of chronic health conditions puts strong pressure on European social care budgets. As a consequence, many governments are seeking ways to cut costs by either putting pressure on care home tariff fees or reducing care home-usage. This in turn has squeezed operators' profit margins and triggered significant consolidations and footprint expansion amongst the industry to reach a sustainable scale.

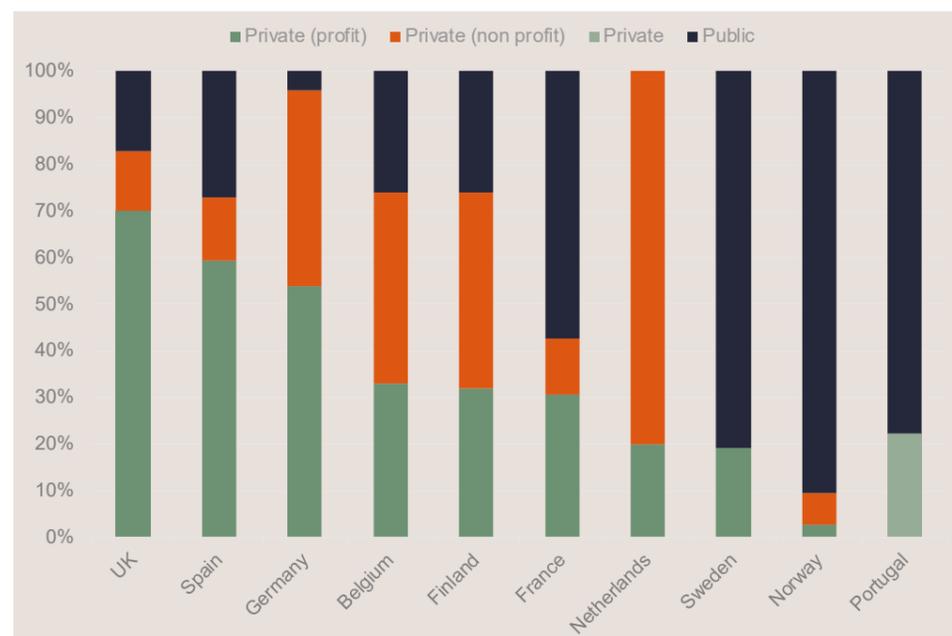
The three largest operators remained the most expansionist. Early this year, Orpea made a noted entrance in the Irish market by acquiring consecutively, TLC

and 50% of Brindley Healthcare - becoming the second largest operator in Ireland. Last year, Korian entered the Spanish market (Seniors - 1,300 beds) and the Dutch market (Stepping stones - 580 beds) and expanded its leadership in Germany (Schauinsland - 420 beds) and France (Omega - 1,000 beds). Recently, Korian reached an agreement with Ontzorgd Wonen, the major care home operator in the Netherlands, to acquire five facilities (240 units). An additional acquisition of seven facilities (240 beds) is currently under discussions with the vendor. DomusVie, the third-largest operator, strengthened its position in France by acquiring Residalya (2,730 beds) last year.

Covid-19 is directly affecting the care home sector due to its very nature. Should the pandemic last long and no vaccine be found rapidly, we expect rising financial difficulties amongst some operators. This will provide large and solid operators with some further M&A opportunities. We expect consolidation strategies will continue until the end of the year and next.

Surging government costs and funding challenges may also give the private sector more room in the future for new development. On average across Europe* the private sector accounts for approximately 30% of the total bed capacity, with very large differences between countries.

Care home beds by ownership



Source: Source: Savills based on national statistics, Orpea, Eurofound

The Covid-19 strike on care homes

A large number of Covid-19 outbreaks have been reported in European care home facilities and hit the headline news. According to the World Health Organisation (WHO) up to 50% of all Covid-19 related fatalities occurred amongst care home residents in Europe. This is sadly explained by the fact that care home residences gather the frailest and vulnerable population group in a close environment which facilitates the spread of infectious diseases.

Most care home residences were unprepared for the sudden pandemic outburst and some copped and adapted better than others. The pandemic highlighted the fragmented nature of some markets notably Spain, Italy, where care homes are owned by small private owners. In turn, this will represent an opportunity for investors, especially private equity to aggregate failing care homes

or to acquire owners that simply cannot afford or do not want to carry out significant capex on assets to meet changing rules and regulations.

Whilst continuously adapting to the pandemic situation, Covid-19 has direct and severe economic impacts on the sector. More cautious and systematic disinfections, additional drugs and equipment needed, new fit-out, and more importantly, health-care personnel reserves to replace absent staff are adding to care home operating costs. At the same time, many operators experienced a decrease in income revenues due to lower occupancy rates.

Despite the critical context, we expect care home admissions to slowly resume, most notably in well-established and fast-adapting residences due to the extreme supply and demand imbalance.

Ultimately, living in a care home facility is a necessity for some residents in need of specific healthcare.

Physical distancing and isolation have been particularly detrimental to the wellbeing of care home residents. In many institutions, teleconferencing services made a noticeable and salutary entrance. As it has also been largely adopted by the overall population, residents and their relatives will certainly expect more digital solutions from care home residences in the future.

Likewise, garden and green space have also been strongly beneficial allowing for some outdoor activities and in some cases, for some meetings with relatives. As such, the availability of outdoor space has become a key attribute to the wellbeing of care home residents.



Towards new care home concepts

With many public bodies and institutions looking at the sector and questioning the care home model, we expect new concepts will continue to emerge from the crisis in the medium term.

Colocation model

Last year, Korian, a European leader in the care home sector, acquired 70% of Ages & Vie, a private institution specialised in small care home facilities for dependent elderly people. Due to the small scale of facilities, the concept seems similar to colocation. The residence is a 2-storey house which cannot host more than eight residents. It is often located in rural areas closed to where residents used to live. Residents have their own studios with a bathroom and a small terrace based on the ground floor of the house, whilst the care personnel and their families live on the first floor. As in a typical house, the ground-floor includes a kitchen open to a living room and a dining room, as well as a garden. Korian is planning to develop the concept by building 200 of such residences in France in the next six years from 30 existing today and to expand the model in Germany, Belgium and Italy. Whilst this is a relatively new model in western European this concept has developed successfully in the UK through brands such as Inspired Living and Guild.

Care home versus home care

OECD figures on long term care (LTC) recipients amongst the elderly population (65+), shows a growing pattern towards home care. On average across the 10 countries covered in this report, the share of the population aged 65 or over receiving LTC at home increased from 65% to 72% over the past 10-15 years. Home care offers the possibility to receive a wide range of care services for

elderly people, whilst staying in their home.

There are several reasons for the rise in home care. The first one is sociological; a home is a place of emotional and physical associations, memories and comfort, hence leaving home can be disruptive and depressing for some people. The second one is financial; home-based solutions offer great prospect in terms of reduction in public expenditure. In some European countries, it is increasingly integrated within the healthcare system and largely encouraged. The third reason is technological advancements, which is enabling improvements in home modifications as well as monitoring and instant communication with health careers.

Due to these compelling arguments convincing end-users and governments, some care home operators are increasingly looking into this new elderly care solution by offering both care home and home care services. Largely adopted and encouraged, we expect the share of the elderly population receiving long term care at home will continue to increase for many years. However, we believe it will not cannibalise demand for care home residences. Different health conditions require different care solutions and many homes are and will remain unfit for care in situ.

Merging elderly care offering

As traditional care home operators are embracing new elderly consumer trends and needs by servicing them in their own homes, the step towards

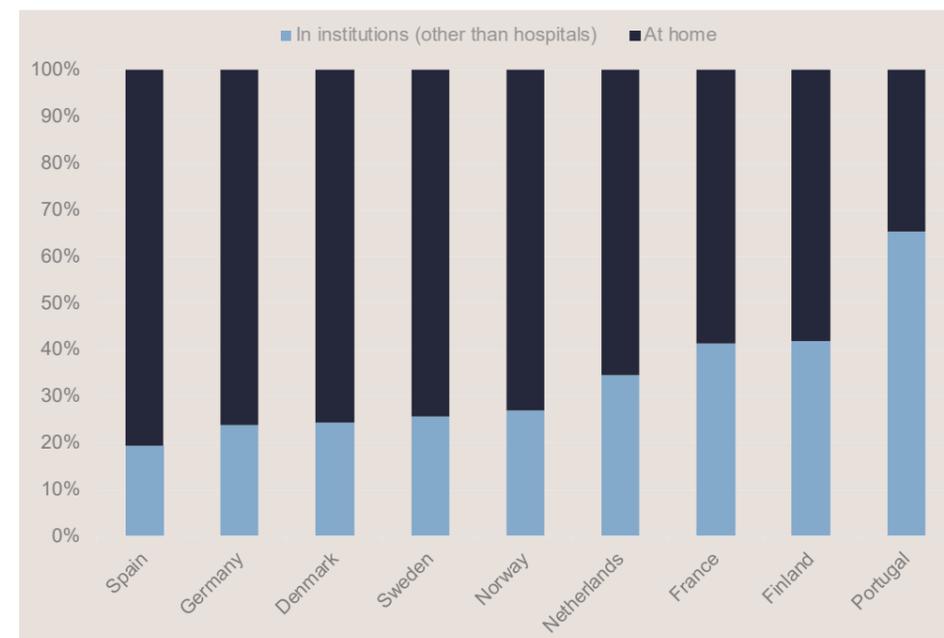
tapping in the senior housing market is tempting and slowly closing. The three major European care operators have recently expanded their panel of offers, increasingly including senior housing residences. As opposed to care home, senior housing does not provide assistance with 24/7 skilled nursing. Independent residents live in their apartment benefiting from non-care services and facilities adapted to their age.

In some European countries such as Germany, Belgium, Finland or Portugal for instance, the two types of residences are often associated and combined within the same complex. This allows to accompany seniors throughout their later life by providing both non-care and care-intensive residential solutions as their needs change over time, whilst avoiding moving and changing neighbourhoods. At the other end of the spectrum, in France, the success of senior housing deeply relied on the distinction between the types of residences, with the senior housing concept promoting the image of free independent elderly people.

Whilst cultural differences will remain across countries, we expect, overall, the two models will increasingly be mixed driven by expansion and M&A strategies between care home and senior housing operators. In June, Korian bought Les Essentielles in France, a portfolio of 11 senior housing residences (independent living), whilst a few years ago, Orpea and DomusVie have started developing new senior housing brands (France Senior and Templitudes respectively).



Long term care recipients aged ≥65 per type of care



Source: OECD

The coming of age of the ageing European population

According to the European Commission, the total population of the EU-27 is projected to increase from 447.7 million at the start of 2020 to peak at 449.3 million by 2026, before falling through the entire century driven by historically low fertility rates and increasing life expectancy.

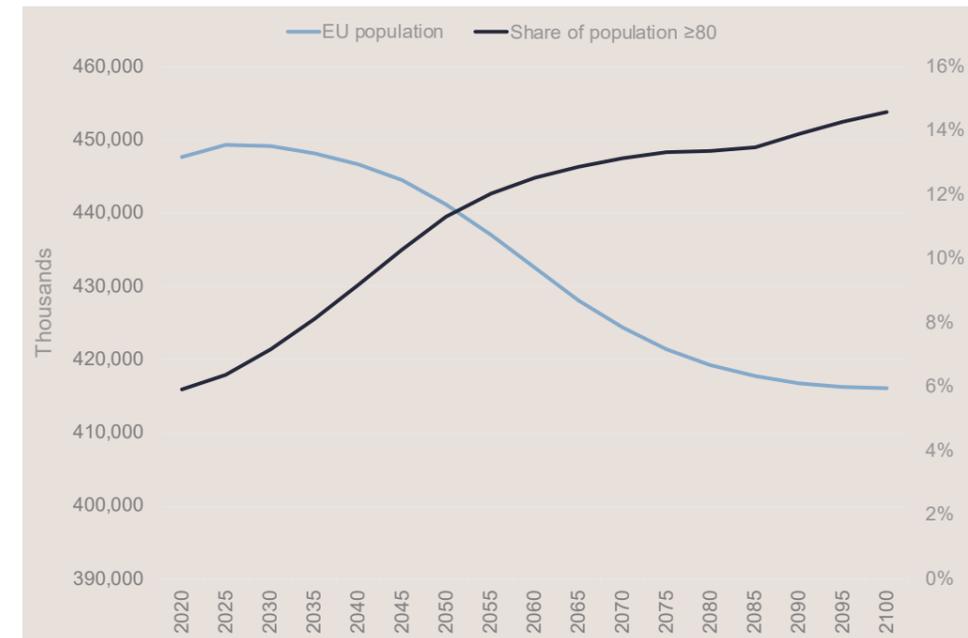
In the same timeframe, the elderly population aged 65 years or more will increase significantly, rising from 92 million in 2020 to reach 130 million by 2100. By 2050, this population group will account for 30% of the total population from 20% currently. The very old population age over 80 years or over, which currently represents 6% of the total European population will account for 11% in 2050 and 15% in 2100.

Population ageing is the 21st century's dominant demographic phenomenon, predicted to grow rapidly throughout the century. Whilst population ageing is coming all over the world, timing is uneven, striking the European continent first and most specifically Italy, Germany and Portugal.

With the European old-age dependency ratio, expected to reach 50% in 2025, meaning that every two working-age people will have to support for one elderly person (65+), ageing countries are bound to experience great pressure on their healthcare care budgets. For the EU, public expenditure on long term care is projected to increase from 1.6% to 2.7% of GDP between 2016 and

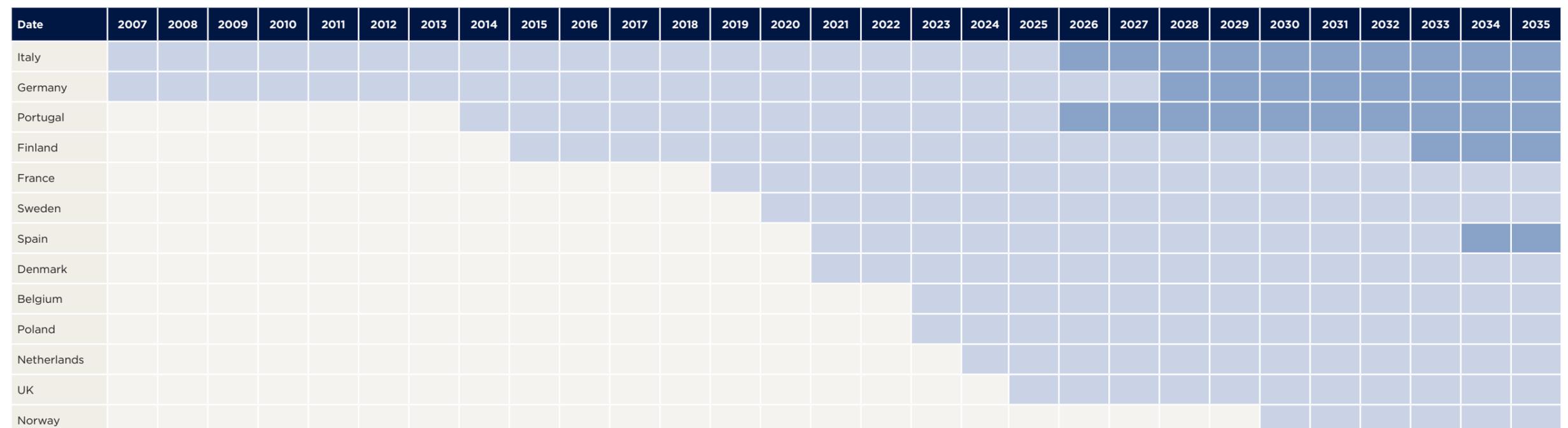
2070. This generational turnover triggers opportunities for private initiatives to supply sufficient qualitative and suited care homes for the growing elderly population. In the 10 countries covered in this report, there are approximately 3.3 million long term residential care facilities (public and private). This means on average there are 170 beds for 1,000 people aged 80 years or above, a very low level of provision. Assuming a constant provision rate over the next decade, approximately 775,000 new beds will be needed in these 10 countries to face the growing number of elderly people.

European generational shift



Source: European Commission

European generational shift



Source: European Commission



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