

MARKETBEAT

EUROPEAN NURSING HOMES REPORT

*Overview of the European Nursing
Homes Market*

2020 Summary & 2021 Outlook

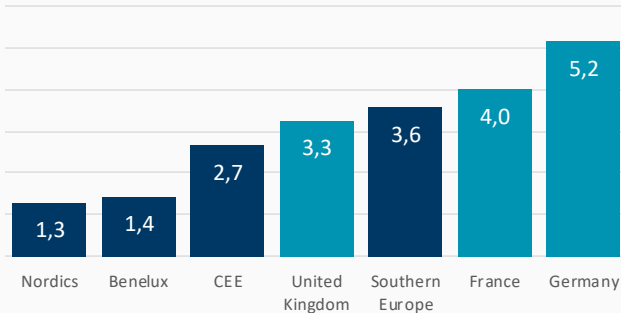


EUROPEAN CONTEXT

DEMOGRAPHIC EVOLUTION

POPULATION OVER 80

POPULATION OVER 80 YEARS IN 2018 IN MILLION



Source : Eurostat

Benelux: Belgium, Luxemburg and the Netherlands

CEE: Czechia, Hungary, Poland, Romania and Slovakia

Nordics: Denmark, Finland, Norway and Sweden

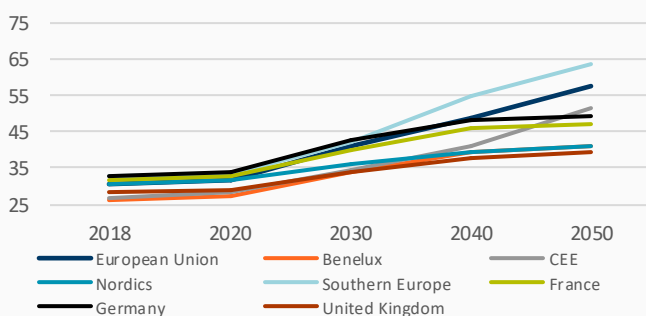
Southern Europe: Italy, Portugal and Spain

The European Union (28 countries) in 2018 counts for more than 25 million people over 80 years, up by 25% over the last decade. This older population is predominantly in Germany (5.1 million people over 80 years), France (4 million), in the Southern part of the region (3.6 million) and the United Kingdom (3.3 million). Combined, these countries account for 56% of the over 80 years population in Europe. Two thirds of this population is composed by females with the ratio of the total population varying between 60% and 70% depending on countries. The pace of growth of this population is faster than other age groups. Between 2018 and 2050, the elderly population in the European Union is projected to more than double, up by 130%.

In a recent report "Ageing Europe - looking at the lives of older people in the EU", an analysis of the older populations' life location indicated that in 2018, 42% of people over 65 were living in predominantly urban regions and 38% in intermediate regions, leaving 20% in predominantly rural regions. This pattern is a higher-than-average proportion of older people living in rural regions – could be observed in the vast majority of the region with only exceptions for Belgium and Poland. By contrast, the share of older people living in rural regions was high in France, United Kingdom, the Netherlands and particularly in Spain.

DEPENDENCY RATIO

DEPENDENCY RATIO (in %)



Source : Eurostat

Dependency ratio = the number of people aged over 65 / the population aged 15-64

The dependency ratio (the number of people aged over 65/ the population aged 15-64) in the European Union was at 30.5% in 2018. It is forecasted to increase to 40.8% by 2030 and 57.5% by 2050. The pace of this increase will be significantly different depending on the country and we can identify 3 groups within the region:

- A 1st group which includes Benelux, Nordics and the United Kingdom where the dependency ratio is expected to reach 39%-41% by 2050, far below the European average.

- A 2nd group which includes France, CEE and Germany with dependency ratio expected to reach 47%-51% by 2050.
- A third one which includes Southern Europe (Italy, Spain and Portugal) where dependency ratio is expected to be significantly higher than the European average, with an estimated ratio of 63%.

EUROPEAN CONTEXT

NURSING HOME LANDSCAPE

EQUIPMENT RATE

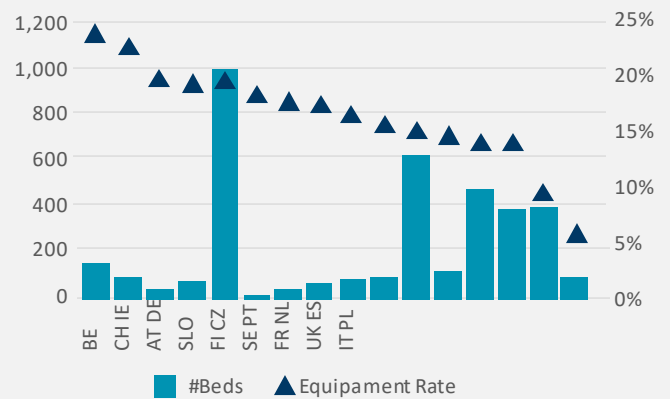
The equipment rate represents the number of beds / 80 plus population. Across Europe, this rate varies very widely from 6% in Poland (the lowest rate) to 23% in Belgium (the highest one) with the European average standing at 16%. The lack of nursing homes is quite visible in some countries such as Italy, Czech Republic and Poland. In some of them, traditional family structures could still prevail as a solution for older people living for a while; however, we can expect in the medium/long term a growing demand both from operators and investors, in order to provide alternative solutions for this ageing population.

TYPE OF OPERATORS

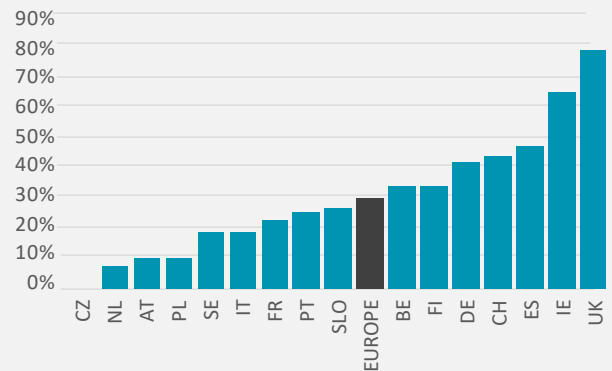
Nursing homes management can be split between different types of operators: public, non-profit or private ones. The share of those operators in the local markets often depends on regulations (licensed operators, outsourced or free market). At the European level, the market share of care homes managed by private operators reaches 31% of total beds (+300 bps in 2 years). Across the region, the United Kingdom has a specific position with private operators managing 81% of total beds dedicated to ageing population. This is by far the highest ratio in Europe, with Germany following quite far at 45%. Private operators can find some space to grow their business in a wide range of countries such as Czech Republic, Poland, The Netherlands for the most obvious ones and then extend to Sweden, Italy, France and Portugal.

Supported in their development by shareholders and corporate investment funds but limited by their growth in their domestic market, major healthcare providers have already started exporting their expertise abroad. Over the last 20 years, ORPEA is becoming the leader of the care homes industry with homes in 22 countries and 67% of its networks currently outside of France (Europe mainly but also Brazil, China, Colombia, Chile, Mexico and Uruguay). On its end, DOMUS VI has accelerated its development in Southern Europe (Spain and Portugal) but also in Southern America (Chili, Uruguay and Colombia). Most of the international expansion of healthcare operators is made by the acquisitions of local private operators in order to get a rapidly critical mass. They can also create joint-ventures in order to increase their weight; this has been the case in 2019 for COLISEE (France) and ARMONEA (Belgium) or for KORIAN (France) buying STEPPING STONES, a Dutch operator. Beyond the European market, some operators have already started to develop their business in Asia – with China being at the top of their priorities – and in South America.

NUMBER OF NURSING HOME BEDS* AND EQUIPMENT RATE IN 2020



BEDS MANAGED BY PRIVATE OPERATORS



Source : ORPEA, National Statistics, Cushman & Wakefield

The M&A operators activity to grow their platforms in Europe remained strong in 2020. The deals often involve a real estate investor from the early stages of the process to execute more efficiently the transactions. Investors having an existing close relationship with operators can then better leverage their existing presence; this makes it harder for new entrants to close such deals

EUROPEAN CONTEXT

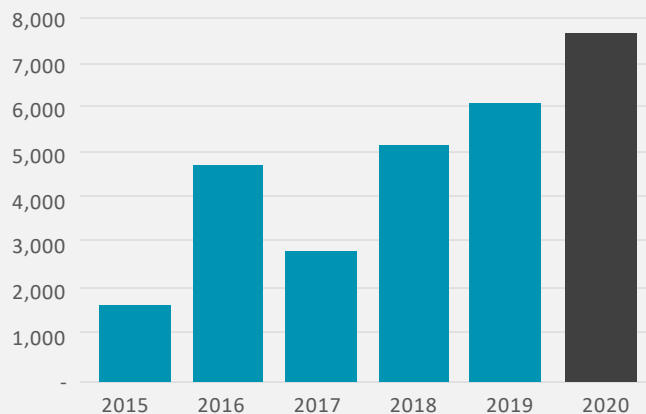
INVESTMENT MARKET

MARKET TRENDS

The pandemic crisis of Covid 19 has not slowdown the pace of investment activity in care homes across Europe. The volume of transactions recorded in 2020 has increased to reach a record level of €7.6 billion, up by 24% year-on-year. After several months of questioning in the early stage of the crisis about their potential obsolescence and capacity to survive to the very strict sanitary rules, care homes assets have rapidly demonstrated their resilience in a quite challenging times for the commercial real estate market. First, the care homes operators have overall gone through the crisis in a pretty good shape, consolidating their position and the relevance of their business models. Secondly, the fast dosing of care homes acquisitions by investors in Q2 and Q3 2020 have re-assured the market players in the bright future of this asset class and brought some clarity regarding the current prices. Care homes are still highly sought after by investors in Europe with Germany confirming its leading role within the region with more than €3 billion of transactions recorded in 2020 (42% of total volume). The Netherlands and the United Kingdom have also posted a quite good market performance with €1 billion and €800 million of transactions respectively in 2020. Market activity has continued to be dynamic in the Northern part of the region with Sweden and Finland totalling a volume close to €1.6 billion while the Southern countries (mainly Spain and Italy) have benefitted from a regain of interest from investors keen to increase their investment return ratio. French investors such as ICADE or PRIMONIAL / PRIMOVIE or some Belgian ones such as COFINIMMO have been quite active in 2020 on the buy side in these two countries, bringing the investment volume to €843 million, up from €510 million recorded a year ago. Finally, the French market is still suffering from a lack of care homes opportunities, constraining the investment volume to €210 million in 2020.

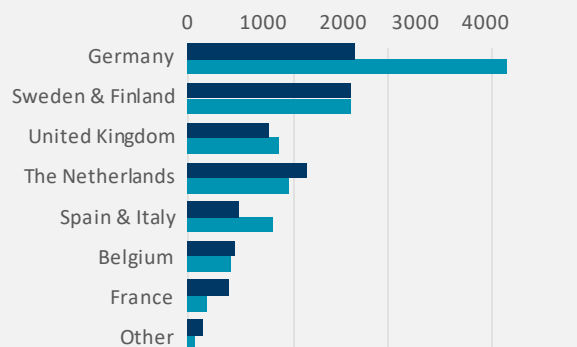
The care homes investment market should continue to grow over the next few years, based on favorable demographic fundamentals coupled with a desire for development from care homes operators who are increasingly partnering with investors for the real estate component. In this context, we should see the volume of investment continuing to grow, with the Southern and Central European markets gaining in share.

INVESTMENT VOLUME IN CARE HOMES IN EUROPE, MILLION €



Source : Cushman & Wakefield

INVESTMENT VOLUME IN CARE HOMES IN EUROPE IN 2019 & 2020, € BN



Source : Cushman & Wakefield

EUROPEAN CONTEXT

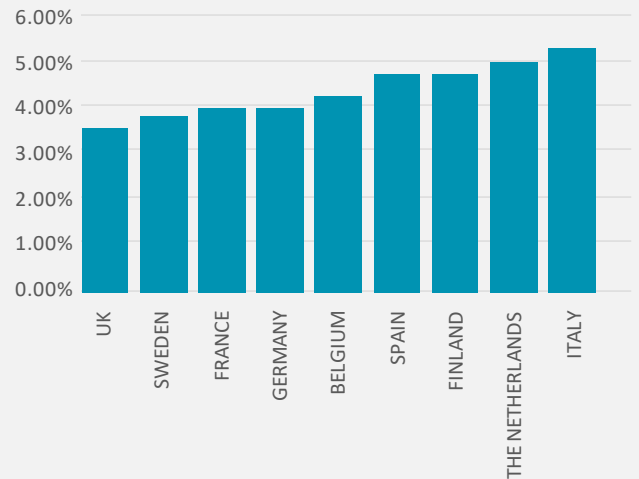
INVESTMENT MARKET

PRIME YIELDS

Prime yields for care homes in Europe have not changed in 2020; they are still ranging from 3.50% in the United Kingdom followed by Sweden (3.75%). France and Germany still occupy an intermediate position in the Europe landscape with highest prime yields standing at 5.25% in Italy and 5.40% in Poland.

Comparing these yields from a country to another one across Europe is still a challenging exercise as major differences exist regarding the lease duration, the type of lease (double or triple net) and the rents indexation.

PRIME YIELDS IN THE HEALTHCARE SECTOR IN EUROPE



Source : Cushman & Wakefield



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