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RESEARCH TO GO XL

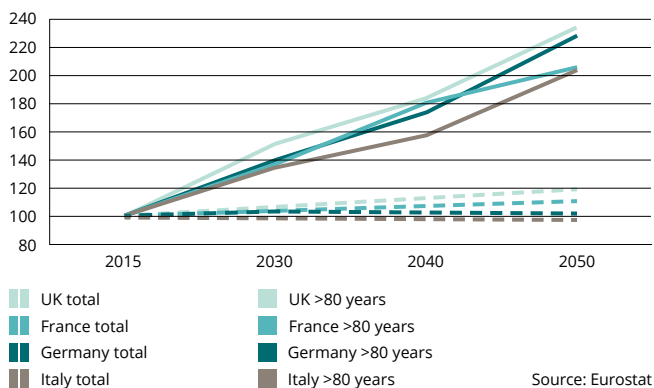
Health care in Europe

DEMOGRAPHIC CHALLENGES

Duplication of number of elderly people

The population in Europe is anticipated to increase over the next few decades, accounting for heterogeneous trends throughout Europe. There is anticipated to be a significant change in the dynamics of the population. The number of people over the age of 80 is expected to double in almost all European countries by 2050.

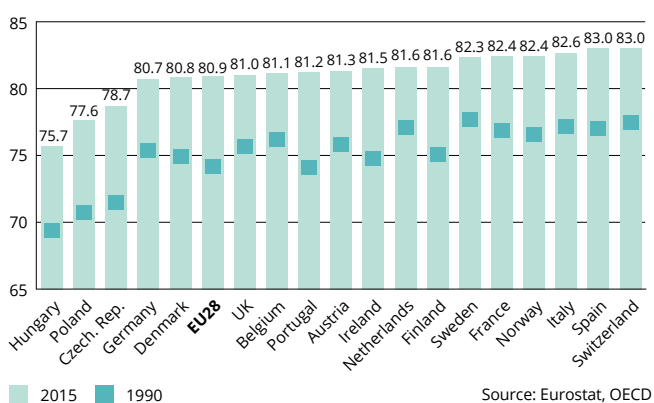
Population and people >80 years until 2050 (2015 = 100)



Significantly increasing life expectancy

Life expectancy has increased over time. For example an infant born in 2015 is likely to reach the age of 81 on average in Europe, whereas 25 years ago life expectancy was 7 years lower. Life expectancy is highest in Spain and Switzerland where the average age is 83 years, however in Central Europe people tend to live 5 years shorter than the EU average.

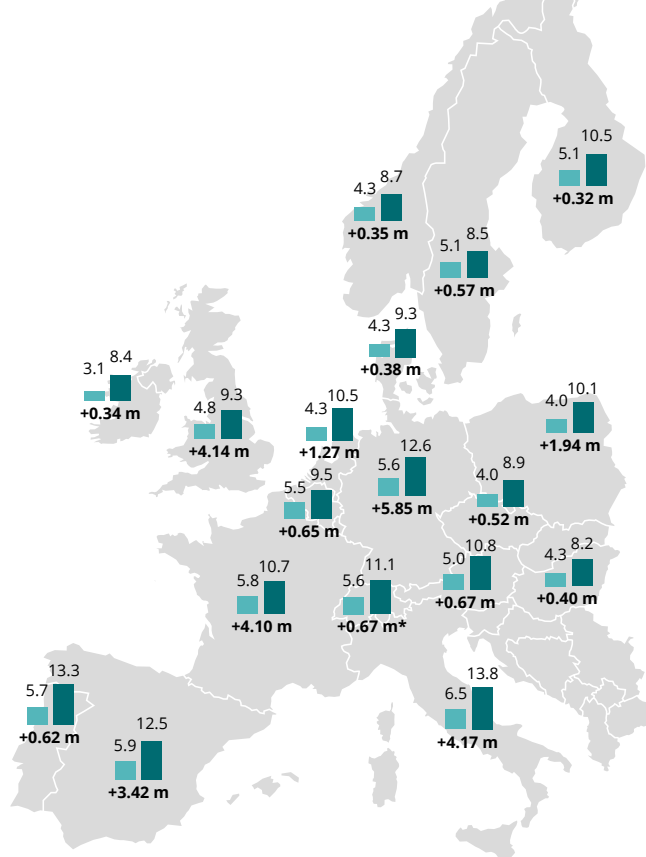
Life expectancy at birth 1990 and 2015 (in years)



Strongest ageing in Southern Europe and Germany

The number of people over the age of 80 is expected to increase by 32 m from 27 m in 2015 to 59 m people in 2050 within the EU. Germany is expected to account for 18% of this increase (6 m) and France, Italy and the United Kingdom have all been predicted to increase by 4 m people. Therefore the proportion of the European population over the age of 80 is expected to increase from 5.3% to 11.1%. Italy is anticipated to reach the highest proportion of people over 80 years (13.8%), followed by Spain and Germany with 12.5% each.

Growth and share of people over the age of 80 by 2050

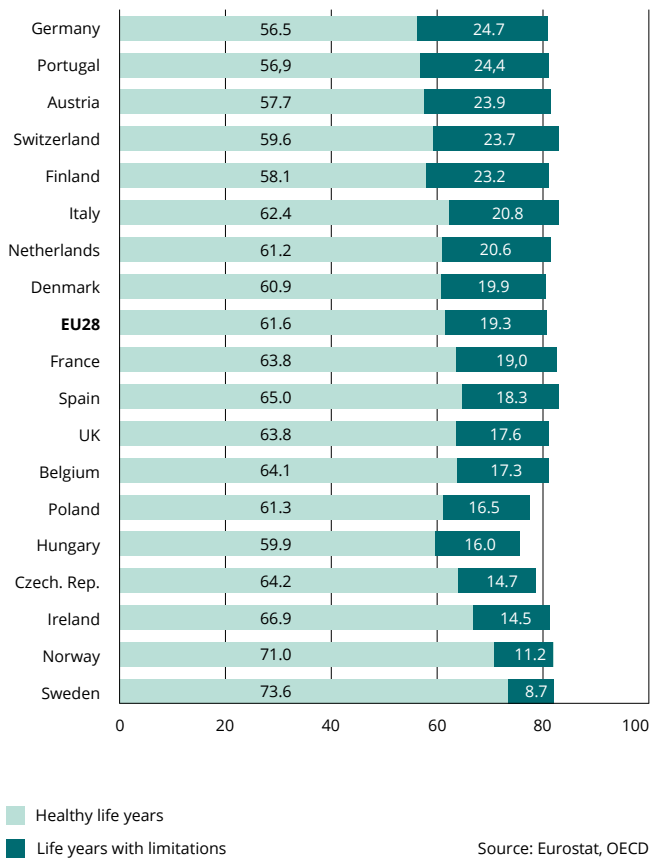


INCREASING DEMAND FOR CARE SERVICES

Health restrictions start early

The European Union publishes an indicator for the number of "healthy life years", showing the amount of years a person is expected to live without any disabilities. The differences are striking: in Sweden and Norway, people are expected to live more than 70 years without any greater limitations whereas in German speaking countries the threshold lies below 60 years – with corresponding consequences for the social system.

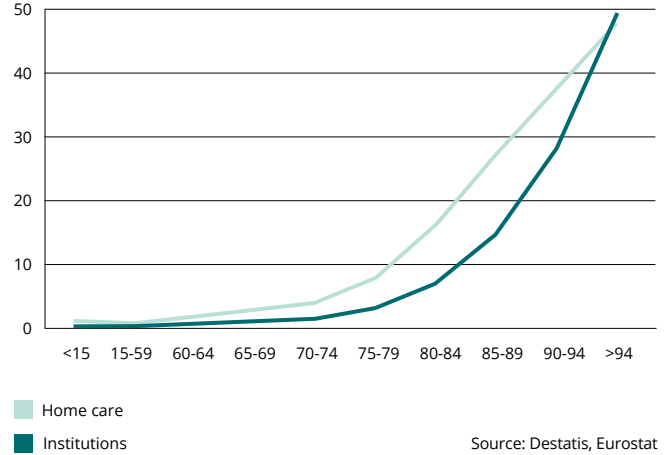
Life expectancy and healthy life years 2014



Need for care starts at the age of 80

Although people aged 60 to 70 tend to experience limitations, in the wider society professional health care is only needed in later years. The need for ambulant health care in Germany significantly increases from the age of 80 and stationary health care is notably deployed from an age of 85 years and continues to increase further.

Dependency rate by age groups in Germany 2015 (in %)



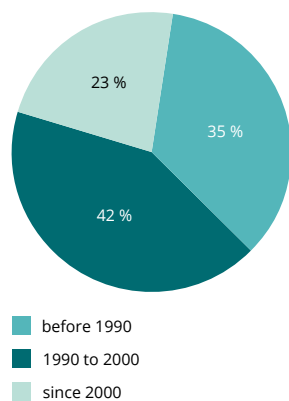
Costs of care economically challenging

The ageing population is set to increase the demand for health care significantly and will notably raise public spending in the sector in the future and in some countries costs may even double. In highly developed social states such as Norway or the Netherlands peak costs are forecasted to be up to 10% of GDP, which will challenge the society and the economy.

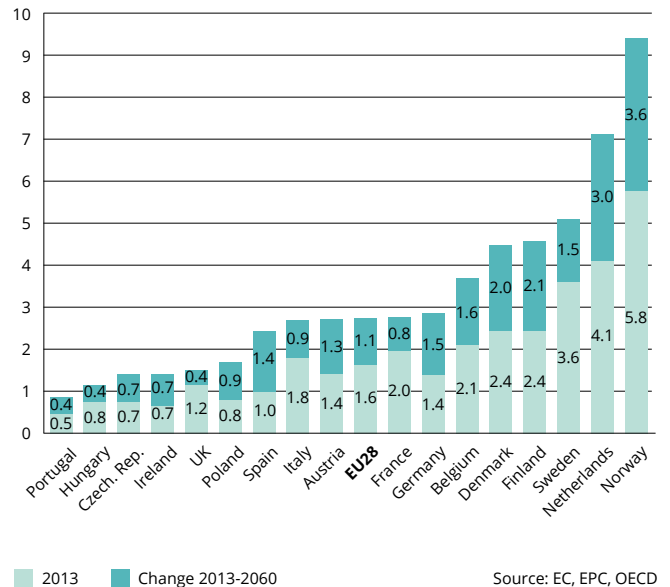
Need for modernisation of care homes

In addition to an ageing population demanding new care institutions, also the age and quality of the current supply needs to be assessed. In the United Kingdom more than one third of care homes are older than 25 years, resulting in many homes in need of modernisation and investment. Many of these homes should even undergo refurbishment or demolishing and rebuilding.

Age of long-term care beds in UK (in %)



Public spending on long-term care (in % of GDP)

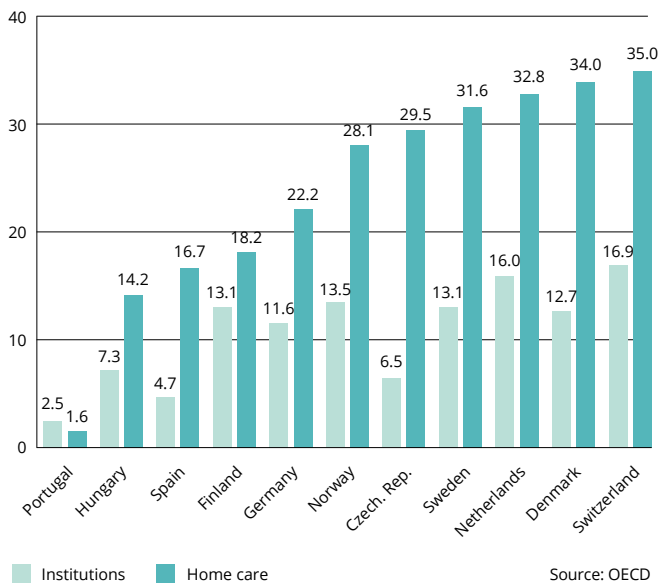


DISPARITIES IN SUPPLY OF CARE

Outpatient care dominates care services

European countries exhibit significant disparities between stationary and ambulant care of dependents. Countries with currently high rates of ambulant services offer further potential for the extension of stationary care – however, financing limits the expansion.

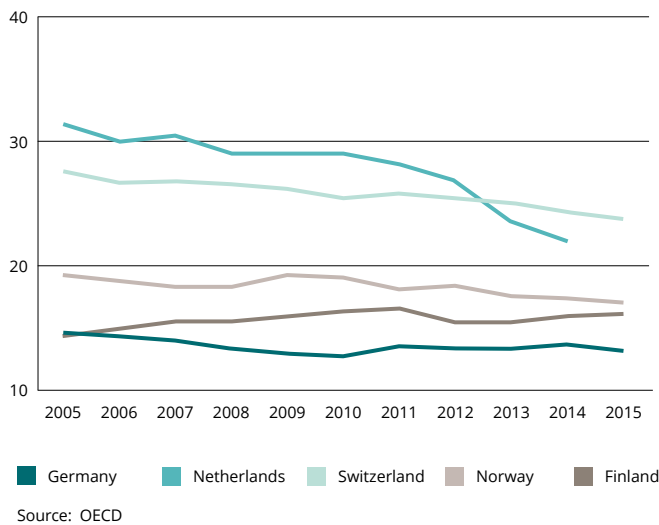
Long-term care by facility (in % of people >80 years)



Growth of elderly people drives demand for care homes

The big social burden generated by health care service is the social policy target to prefer ambulant to stationary health care in the base case in order to slow cost increase. In Europe's social states, stable developments or even slight reductions in provision of the proportion of stationary long-term care is visible. Therefore the increasing ageing population is the main driver for additional demand of care homes.

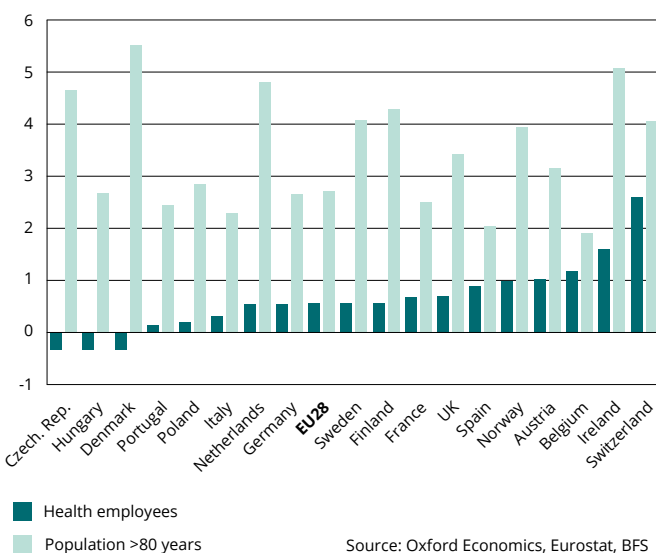
Long-term care recipients in nursing homes (% of people >80 years)



Increasing shortage of employees in the care sector

With the number of people in need of care growing the need for staff employed in the health care sector also increases. There is expected to be a moderate increase in the number of employees in this sector, however it is anticipated that there will still remain a lack of supply and this will be one of the largest challenges in Europe, which is an important factor for every individual care institution as well.

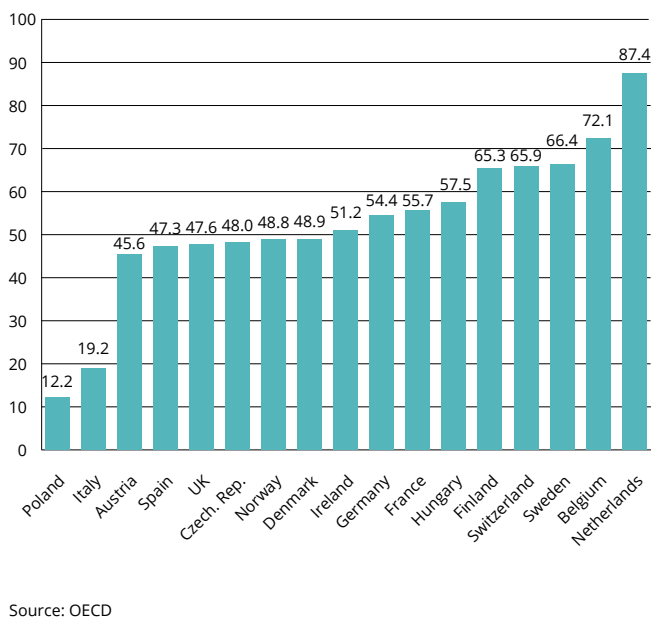
Employees in the health sector and population >80 years until 2030 (in % p.a.)



Supply of care beds varies widely

The availability and accessibility to stationary care is highly heterogeneous in Europe. The provision of care homes is highest in the Netherlands, Belgium, Switzerland, Sweden and Finland. Whereas, the number of beds in institutions is poor in Italy and Poland.

Long-term care beds per 1,000 inhabitants >65 years in 2015

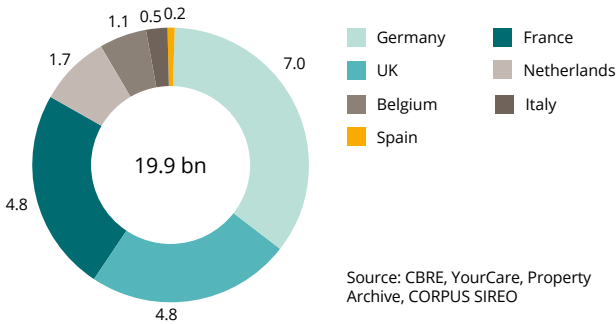


INVESTMENT MARKET

Investment market has established

Health care properties have established in core European markets as individual but a specific investment category. In the last 4 years, institutional investors spent around EUR 20 bn in health care properties, especially care homes. Although the investment activity is increasing, volumes have fluctuated due to influence from portfolio sales in some years.

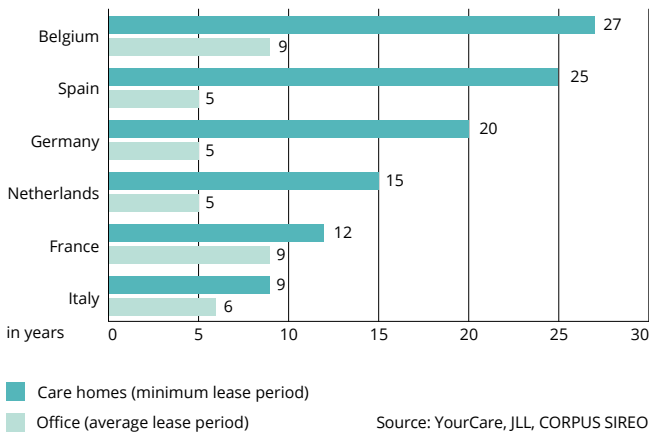
Transaction volume in health care in Europe 2014-2017 (in EUR bn)



Monitoring of operator essential due to long lease terms

Lease agreements with care home operators are characterised by long durations compared to other real estate sectors, which are usually supplemented by extension options. For investors, therefore, a reliable investment, although from a risk point of view, ongoing monitoring, e.g. to the credit rating and market position of the operator remains essential.

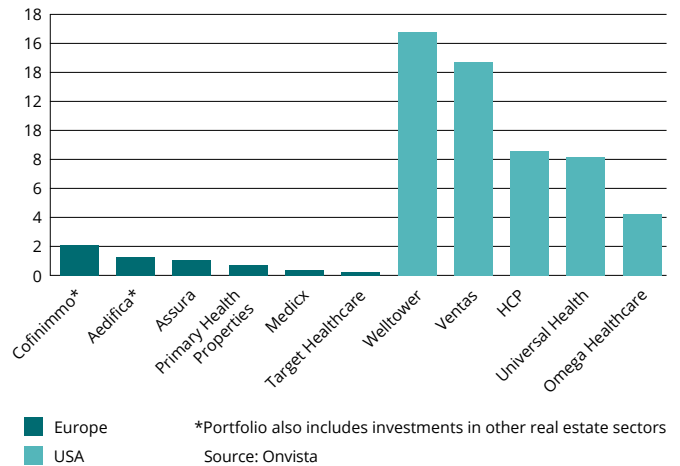
Typical average lease terms by sector (in years)



European investment vehicles with low volume

Europe's investment market for health care properties has established, but is still less mature than in the USA. In the USA, in particular listed companies (REITs) bundle large real estate portfolios. In Europe, the number of institutional investments in funds or listed companies is limited and the portfolios have a volume of less than EUR 1 bn – there still is growth potential.

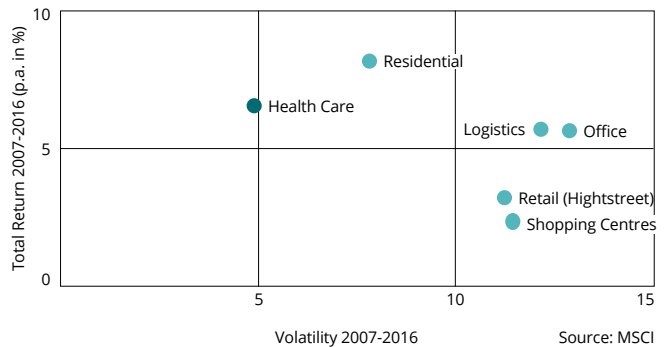
Market capitalisation of US health care REITs and European listed health care companies (in EUR bn)



Attractive returns and low volatility

The risk-return-profile of health care properties is attractive, as can be seen in the United Kingdom: Volatility has been low and total return above average during the last 10 years, despite the great financial crisis and uncertainties caused by Brexit.

Risk-return-profile of health care investments in the UK



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