

# HOW EUROPE'S AGING POPULATION IS SHAPING THE HEALTHCARE REAL ESTATE MARKET

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## ***As the European demographic landscape evolves, demand for healthcare assets continues to grow***

Healthcare is a niche segment of the real estate market and commonly comprises buildings, offices and campuses leased to medical service providers or institutions related to the healthcare sector. Until recently, healthcare assets required specific technical features and layouts. However, rising demand and new trends in healthcare have created opportunities for conversion projects, such as the repurposing of existing retail and office space. Increasingly, healthcare providers are opting for leasehold properties, owned and managed by third parties, thereby enabling them to preserve their capital for their core business development.

## ***Adapting the real estate landscape to an aging population***

Population aging, coupled with a longer life-time expectancy, is a long-term trend observed across Europe. In European Union (EU) member states, the population aged 65 years and older is projected to reach 129.8 million by 2050<sup>1</sup>, a significant rise from 90.5 million in 2019. The segment aged 75 to 84 years old is projected to increase by 56.1%<sup>2</sup> and even more concerning is the number of people aged 85 years and more which is expected to more than double (12.5 million in 2019, versus 26.8 million in 2050<sup>3</sup>). Alternatively, data suggests that there will be 13.5%<sup>4</sup> fewer people aged under 55 years by 2050 in EU member states, which implies a progressive shrinking of the active population.

With population aging coupled with an extended life expectancy, there will be new demand for serviced housing, an increase in the number of pathologies due to old age, an increase in the number of chronic diseases and overall, increased demand for healthcare. But where do European Union member states stand in terms of infrastructure, adapted to the needs of an aging population? Naturally, for an aging population faced with a greater risk of reduced mobility and greater healthcare needs, urban environments offer a number of advantages which can improve the lives of older people: better access to public transportation, a greater variety of housing options, more public and commercial services. At the international level, the World Health Organization on Age Friendly Cities (AFC) addresses the issue as do state initiatives such as France's Plan Vieillessement et Solidarités (2003 to 2006) and Plan Solidarité grand âge (2007 to 2012) which spurred investment in the construction and renovation of nursing homes and the development of long-term care services. However, governments alone will not be able to finance the galloping costs associated with healthcare, especially with a dwindling working-age population. Private capital is necessary to fill the divide between waning supply and increased healthcare services usage.

## ***The defensive profile of healthcare assets***

Generally speaking, healthcare assets (senior housing units, care homes, clinics) offer the advantage of being non-cyclical. They have a more defensive profile, based on strong fundamentals and long-term trends, namely structural changes in demographics, alternative living arrangements and an overall undersupply of operational assets. The healthcare real estate market is still relatively modest

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<sup>1</sup> Eurostat - Older people – population overview

<sup>2</sup> Eurostat - Older people – population overview

<sup>3</sup> Eurostat - Older people – population overview

<sup>4</sup> Eurostat - Older people – population overview

in terms of investment volume. Supply remains an obstacle for investment volume to scale up and has pushed investors to look beyond their domestic markets for opportunities.

Healthcare assets continue to offer a relatively competitive risk/return profile as well as portfolio diversification opportunities. 2022 was marked by a tightening of monetary policies. The rise in risk-free rates mechanically pushed up real estate yields, the extent of which varies across assets and markets. According to our experience, healthcare real estate yields are resisting better than other sub asset classes across core Europe; the limited and largely regulated supply supports the value of healthcare assets.

***ESG investment strategies, a supporting factor of healthcare real estate***

As investment strategies are increasingly articulated around Environmental, Social and Governance criteria, investors are naturally seeking diversification opportunities in the alternative real estate segment. The growing emphasis on health, well-being and quality living for the elderly is a supporting factor for healthcare assets as is the structural shortage which is emphasized by an aging population.

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