IPE & REAL ASSETS



# Does an ageing Europe create opportunities for real assets investors?

**By** Christopher Walker | **March/April 2025 (Magazine)**

Europe is in the midst of a major demographic shift – a marked ageing of the population driven by higher life expectancy and declining birth rates. The former has been slightly tempered by the impact of the COVID-19 pandemic, and the latter marginally blunted by various fiscal initiatives, but the overall direction of travel is clear. Europe is getting older.

Ageing population: according to the European Commission, the proportion of EU citizens aged over 65 will increase from 21.1% in 2022 to more than 30% by 2060

According to the European Commission, the proportion of EU citizens aged over 65 will increase from 21.1% in 2022 to more than 30% by 2060. The proportion of the "very old", defined as those over 80, will increase dramatically, especially over the longer term. In 2022, they were just 6.1% of the population; by 2100, they will be 15.3%.

Brits are younger, but similar demographic trends are observed in the UK. In 2022, there were around 12.7m people aged 65 or over, making up 19% of the population. According to the Office for National Statistics's (ONS's) population projections, by 2072, this could rise to 22.1m people, or 27% of the population. The over-80s will rise from 5.1% of the population in 2023 to 10.4% by 2072.

There are many implications for real assets, and significant investment opportunities. Marcus Cieleback, chief urban economist at real assets fund manager Patrizia, says: "Ageing demographics and accumulated wealth among baby boomers are driving strong demand for senior-living products. The sector offers attractive yield premiums and ESG opportunities, making it a compelling long-term investment for institutional investors. Senior living spans from barrier-free housing to fully serviced or assisted living, each with different investment profiles."

**Marcus Cieleback (L)**: “The senior-living sector offers attractive yield premiums and ESG opportunities”. **Daniel Ahrendt (R)**: “To meet the massive future demand, we will need to see a shift in regulation”

But Cieleback emphasises, “there is no one-size-fits-all approach – strategies must align with location, demographic needs and operational risk”.

Historically, European elderly care was primarily the responsibility of children and extended family members. However, as a result of the modern ‘nuclear family model’, care for the elderly is increasingly transitioning from familial to professional care, especially given the need for specialised medical attention. Tom Pridmore, co-founder of Civitas Investment Management, says: “Care homes represent affordable alternatives; hospitals typically offer high-cost, intensive medical care, which can result in significantly higher expenses for both individuals and the healthcare system.”

According to Eurostat, the EU’s statistical office, around 4% of Europeans aged 65 and over currently reside in care homes, with this percentage expected to rise as the population ages further. There are clear attractions for investors. “Demand will remain robust,” says Cieleback. “Supply is constrained by rising costs and planning complexities.”

Kenneth MacKenzie, CEO of Target Fund Managers, notes that “care homes are a needs-led decision, and therefore a safer bet for the investor.”

However, approaches vary hugely. Pridmore says: “Each European country has its own set of policies and regulations governing healthcare real estate… including construction standards, zoning permissions, funding models to pricing and reimbursement rates for care services.”

Public funding for care also differs, with Germany relying on private co-payments, while Nordic countries offer more comprehensive support. Cieleback points out that “operator lease structures [are] common in continental Europe, while the UK market favours for-sale products”.

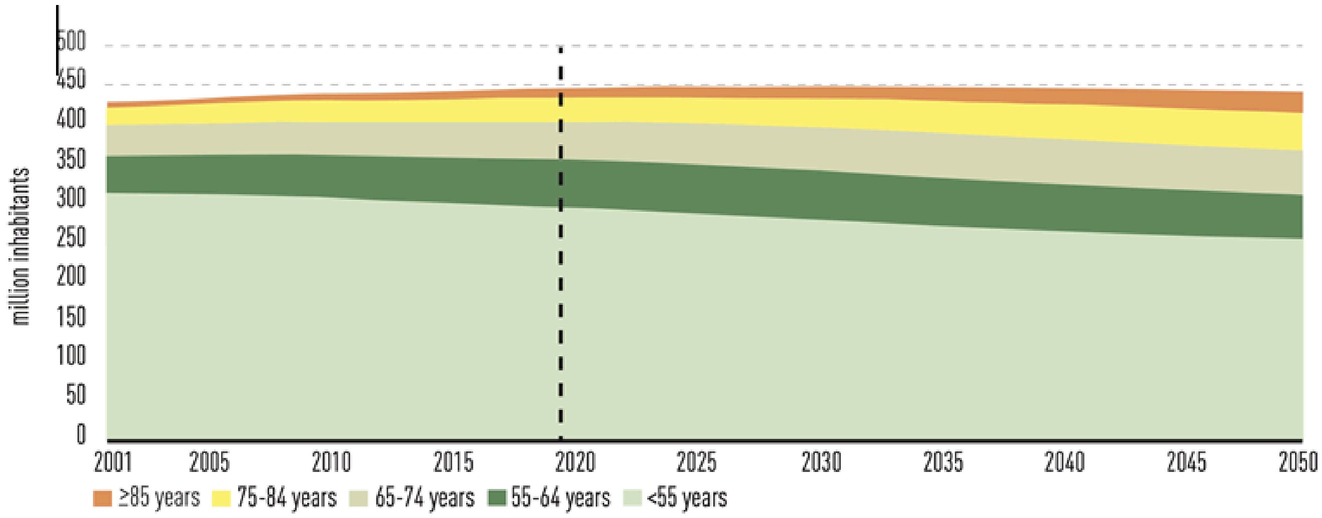
Alexander van Riel, head of continental Europe, indirect real estate strategies at CBRE Investment Management, notes: “The private pay segment is considerably more expensive in the UK than on the continent, and the higher rents have encouraged the construction of a number of new facilities. Consequently, while occupancy on the continent is typically well above 90%, with only frictional vacancy, we see it takes much longer to stabilise a new facility in the UK or maintain occupancy. In some cases, that may be a concern.”

But investors can find multiple routes to market in the UK, according to Hugo Llewelyn, CEO of Newcore Capital. “Investors can own property titles or equity stakes in operators, and various funds – both listed and unlisted – support this model,” he says.

Newcore’s primary focus is on value-add strategies of buying land and vacant buildings and gaining planning consent for care uses prior to selling sites on to care businesses. The firm has done this successfully in London and neighbouring counties, working with operators such as Porthaven, Barchester and Beechcroft.

Germany’s ageing population, meanwhile, is supporting the growth of a “resilient” senior-living sector, says Daniel Ahrendt, director at ActviumSG, which owns Carestone, Germany’s major senior developer. Around 300,000 additional care beds will be needed by 2040 to keep up with demand, leading to “opportunities to consolidate smaller, fragmented assets into scaled portfolios”. Ahrendt says: “We are seeing existing stock trade at around a 50% discount to replacement value, with all-in yields of around 6-6.5%.”

## Population developments, by age class, EU-27, 2001-2050




**Note:** all data as of 1 January. 2008, 2010-2012, 2014-2015 and 2017: breaks in series. 2019: provisional. 2020-2050: population according to the 2019 projections, baseline variant (EUROPOP2019). The vertical dotted line marks the divide between official historical data and EUROPOP2019 population projections.

Source: eurostat

## Opportunities not without risk

An ageing population might well drive long-term demand for nursing homes, but investment in the sector does not come without considerable challenges – not least those relating to the specialist businesses operating care homes, plus regulatory uncertainty and reputational risk.

“One should pay attention to the affordability of leases for facilities operators and total occupational costs for final users,” says Romain Linot, deputy head of real estate debt at BNP Paribas Asset Management. “Staff shortages and inflation are detrimental to operators’ profitability, which is already under pressure.”

These businesses are also “heavily reliant on welfare state subsidies, which may vary over time”, Linot warns. “Real estate owners of such properties have to pay great attention to operator business model robustness to enjoy continued rental growth.”

**Alexander van Riel (L)**: "The private pay segment is considerably more expensive in the UK than on the continent". **Ulrich von Creytz (R)**: "Healthcare is a beneficiary of the ageing trend and the growth in spending"

Ahrendt agrees. "The major challenges in nursing homes are the quality of the operating companies, staff attainment and retention, and regulation," he says. "As nursing homes are typically single-tenant assets heavily reliant on operating company performance, it is very important to be selective in your choice of operating partner."

Then there is regulatory risk. "The regulatory environment is very fluid, creating uncertainty," says Ahrendt. "To meet the massive future demand, we will need to see a shift in regulation to allow for more flexible nursing and ambulant [outpatient] care concepts."

Care homes often make it into the headlines for the wrong reasons – neglect or worse – which will be a major issue for institutional investors with fiduciary and ESG policies.

MacKenzie says "the potential of reputational damage" means the sector cannot take the form of a passive investment. Operators "require sound experience and an engaged management team to monitor the investment", he says. "This is not an 'invest, forget, and just collect the rent' sector."

**Tom Pridmore (L)**: “Care homes represent affordable alternatives; hospitals typically offer high-cost care”. **Kenneth MacKenzie (R)**: “Care homes are a needs-led decision, and therefore a safer bet for the investor”

An additional risk is that the sector can be capital-intensive. For example, Llewelyn says: “Care homes require significant capex to keep up with health and safety regulation and environmental change – such as decarbonisation journeys. If the property is split between property owner and operator, it can be unclear who is responsible for these costs.”

Van Riel says: “There is a lot of older stock with a higher ratio of double rooms, no ensuite bathrooms, outdated fire safety protection and environmental standards.” Such assets can often be found mixed into “funds seeking a recapitalisation after aggregating a portfolio”. He adds: “Despite the higher yields and possibility to deploy fast and in volume, we have chosen not to invest in these products.”

## Alternative plays

Given these issues, investors are exploring alternatives to the nursing-home solution.

Ageing is increasing healthcare demand in general, and Llewelyn says there are “purer-play ways” to gain exposure to the trend. “Opportunities exist via clinical facilities, such as doctors’ surgeries and private hospitals, medical research and pathology," he says. These day-service sectors are all strategies that Newcore is active in.

Likewise, Ulrich von Creytz, CIO for European real estate at DWS, is clear that healthcare is "a beneficiary of the ageing trend and the growth in spending we have witnessed in recent years". He says: "This sector is attractive in offering long leases to well-established private healthcare providers, with potential for rental uplift in assets which require upgrading. The UK and Germany are our key target markets here, largely because of the large existing stock of investable product in this sector."

***"We need more widespread integration of sensors and other technologies"***

*Thomas Kotyrba*

Senior-living communities and assisted-living facilities are also becoming more prevalent. Developers are increasingly focusing on building homes that cater to the elderly, incorporating innovative design elements that prioritise safety, comfort and accessibility. Technology has a crucial role to play here, according to Thomas Kotyrba, head of research and strategy at BNP Paribas REIM Germany. "We need more widespread integration of sensors and other technologies, like smart home systems or robotics that in the mid and long term will gain more importance."

Concepts that combine elderly care with assisted living are already proving to be "flavour of the month among residents and investors alike, and it is expected that this trend will intensify", says Pridmore. But he warns, "as with every nascent product, there is a large variety in quality, level of support/service and price, and it is to be expected that some of these concepts are going to be less successful".

Urban planners and policymakers are starting to consider the implications of an ageing population, ensuring that infrastructure and community services are aligned with the needs of older residents. "Senior housing is increasingly part of social infrastructure, blending real estate and care," says Cieleback. "It enhances community resilience by providing age-appropriate, accessible living spaces, supporting broader smart-city goals."

Ahrendt says: "The future product could see more new-builds incorporating a mix of residential, assisted living, ambulant care and nursing care to diversify income streams and offer different types of care depending on what stage of life the occupant is in."

The experience, however, is widely differing here too. Amy France, head of later living at law firm Forsters, says: "The seniors' housing market in the UK is still in its infancy, but it is growing and developing rapidly. Similarly in France, Spain and Germany, the seniors' housing market is not well developed." As a consequence, "the investment opportunities are manifold", she says.

"All of Europe should be looking across the globe for inspiration. New Zealand and Australia are way ahead of the rest of the world in terms of the retirement-living market. People in later life don't want to be confined to housing developments which are isolated and only full of older people."

Octopus Real Estate, which had previously focused on living and healthcare real estate in the UK, opened a Madrid office with a view to investing in continental European senior-living developments. "We'll continue to see capital flowing into the seniors' housing markets across Europe [and] more investors taking a pan-European approach," says France.

Not everyone is convinced of this conclusion. "Retirement and integrated retirement community developers consistently try to extol the potential demand for senior housing, comparing it to the more established markets in Australasia and the US," says MacKenzie. "But in the UK, the population has been hard to convince, and it likely remains a hard slog. Care homes, on the other hand, will see continued demand."

Similarly, in Germany, ActivumSG has "more of a focus on regulated nursing homes versus unregulated assisted-living assets," says Ahrendt. "As assisted-living assets tend to be more location-focused, you must achieve certain rent levels to make them viable. New-builds are hard to justify due to negative development margins."

***"New Zealand and Australia are way ahead of the rest of the world in terms of the retirement-living market"***

*Amy France*

But von Creytz is much more optimistic. He sees the biggest opportunity in assisted living, "which does not require skilled nursing, has fewer regulatory rules compared to care homes and benefits from longer tenant tenures". He says: "The combination of a higher in-going net yield versus multifamily and inflation-linked leases could result in an attractive cash-on-cash return for institutional investors. In addition, [internal rates of return] could be boosted by some modest yield compression relative to multifamily residential as the sector matures in Europe."

Moreover, von Creytz believes “senior housing is still a nascent model in Europe”. He says: “Current stock of assisted-living units relative to the elderly population…. remains well below mature markets.”

France at Forsters suggests there is proof of concept. “There is growing opportunity in Spain, the Netherlands and France, which all share the characteristic of rapidly ageing populations,” she says. “Spain benefits from a relatively wealthy foreign retirement population and is a well-known retirement destination, which adds demand to the existing growing domestic retired population.”

The last point could give investors optimism for the future. Compared with other real estate sectors, such as residential or commercial properties, the elderly care market is “still in its early stages of development”, Pridmore says. “This relative immaturity means that it is not yet fully saturated, and there is significant potential for growth. As a result, pricing for elderly-care properties remains favourable for investors, offering opportunities for capital appreciation and long-term returns.”

With the market still evolving, he believes “there are potential advantages in entering the sector now”.