

The golden years for European senior housing



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Europe's most frequently discussed demographic shift is its fast-ageing population. The European population is forecast to continue getting older, shifting the demographic framework in Europe to an unprecedented extent. In turn, the senior housing sector is expected to experience a significant surge in demand over the next decade, driven by the unprecedented acceleration of the 75+ population whilst the rest of the population is already in decline. This age cohort is projected to increase by 10.8 million individuals by 2035 (+23%).ⁱ This powerful demographic wave positions the sector for remarkable growth and with supply remaining curbed by higher construction and financing costs, demand is likely to outstrip supply in the years ahead. In addition to demand driven by an ageing population, this age cohort, known as the 'Baby Boomers', are the beneficiaries of robust defined benefit pension plans and substantial historical increases in house prices. Baby Boomers have emerged as the wealthiest age group in Europe and as the next generation moves into the next phase of their life, their expectations for quality in housing and health services will match their ability to pay for those thingsⁱⁱ. This shift provides a compelling investment opportunity in a sector that already has record occupancy rates and has demonstrated years of strong income growth.

Defining European Senior Housing

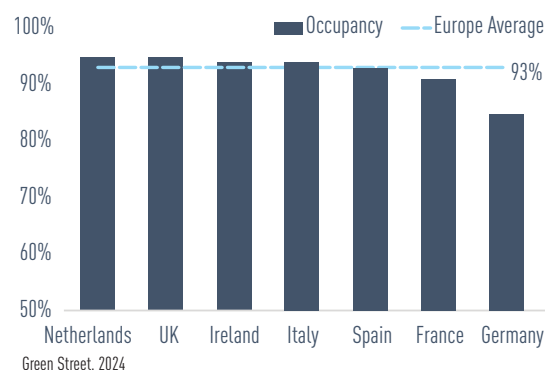
Unlike other real estate sectors, the senior housing sector is incredibly diverse, ranging from highly specialist care-related facilities through to assisted living and independent living. The sector grows ever more nuanced as a result of advances in health care and technology which has created demand for a range of different senior living categories. Harrison Street believes the greatest near-term opportunity in Europe lies in the largest segments of the senior living spectrum, which includes independent living and assisted living/memory care.

The growth of independent living has been remarkable, driven by the evolving needs and preferences of the aging population, demonstrating the demand for a different type of senior housing. Residents in these assets remain relatively self-sufficient but seek a lifestyle that offers convenience, social opportunities, and access to healthcare services. While the sector has grown rapidly it remains relatively immature, particularly when compared to assisted living, which represents the majority of the senior housing sector in Europe. There are now almost 92,000 units of Integrated Retirement Communities (IRC) in the UK, which forms

part of the independent living sector.ⁱⁱⁱ This segment of the UK senior housing sector has been the fastest growing, increasing from 77,233 units in 2019 to 91,977 units in 2024, indicating a significant 5-year growth rate of 19.1% (3.6% p.a.).^{iv} Despite the considerable expansion in supply, both in for-sale IRCs and pure rental schemes, occupancy levels in rental-only schemes are above 95%.^v Average occupancy levels in private IRC for sale schemes which have been open for at least three years are 90%, up from 84% in 2022.^{vi} We believe that the higher occupancy in rental schemes reflects the speed of re-let versus for-sale and a slightly different target resident, which are usually marginally older more needs-driven. We also believe that this product provides greater flexibility for tenants, many of whom move into rental schemes using cash reserves and sell previous residences within a year of occupancy. We believe that the rental segment of IRCs is attractive as it operates in a similar manner to other Living sectors, such as Build-to-Rent, and has fewer regulations and operational requirements, while also benefitting from the strong demographic fundamentals. We believe that the sector will continue to grow across Europe, with French and German equivalents of IRCs, 'Residences Service Seniors' and 'Betreutes Wohnen', anticipated to grow even faster than UK IRCs, as models continue to develop in response to residents' needs and affordability criteria.

Meanwhile, the supply/demand dynamic within the assisted living market, four to five times larger than the independent living market, is vastly different.^{vii} The number of beds has remained broadly flat despite significant levels of new development market in recent years. This is a result of high levels of asset closures

European Assisted Living Occupancy



due to obsolescence, with an estimated 70% of existing assets in some European markets not fit for future^{viii}. Deregistrations have outpaced new supply added in most European markets, causing the provision rate to fall as the number of over-75s has already increased significantly.^{ix} This creates a continuous need of new, future-proof assisted living homes to offset high rates of obsolescence and despite the flat total number of beds, investment in the assisted living sector is still significantly higher than the independent living one in most European countries. In order to keep provision rates in line with current levels, it is estimated that the assisted living stock in Western Europe will need to double over the next 25 years. We believe that

investment strategies focused on the UK (530,000 beds/+110%), Italy (490,000 beds/+125%) and Spain (370,000 beds/+100%) are well positioned to benefit from the anticipated increase in supply required.^x

Although specialised senior housing real estate investors in Europe have consistently achieved occupancy rates over 90%, the sector was significantly impacted during the Covid-19 pandemic. Occupancy has since rebounded extremely well, with occupancy now at a record 93% across Europe, while revenue growth remains strong.^{xi} These factors, particularly when coupled with triple or double-net leases, have ensured that senior housing is increasingly becoming a key target sector of investors' core real asset strategies. The sector however remains severely underinvested in European core vehicles, with just 0.4% of the INREV European ODCE Index allocation by GAV allocated to 'aged care' assets.^{xii} Harrison Street believes that the assisted living sector in Europe offers attractive risk adjusted returns in a high barrier to entry sector that usually has favourable lease structures that provide predictable long-term income whilst removing property owners from any variability in underlying operational performance.

Capturing Enhanced Value

We also believe that there is value in exploring other structures between owners and operators which could extract higher returns from senior housing assets. Assisted living assets across Europe are typically leased to operators at a rent level of approximately 50% to 60% of their operating EBITDAR. In an environment of high debt costs and construction prices, alternative arrangements between property owners and operators could increase investment in the sector, encourage the delivery of new supply and better align property owners and operators. This could include a range of options, ranging from rent levels at a lower EBITDAR to Rent cover ratio, different lease structures including a fixed and variable rent element, or to the implementation of management agreements, which are prevalent not only in other operational real estate asset classes but also in senior housing in the US and increasingly also in the UK.

Harrison Street believe that strategies focused on the acquisition and development of assisted living and independent living assets are well placed to benefit from this unprecedented demographic shift. However, all senior housing strategies will not be equally as successful in the years ahead. The housing requirements from more affluent, mobile and sociable Baby Boomers are higher and in turn there is a greater emphasis on high-quality, flexible housing solutions for this demographic. Navigating these issues requires deep sector knowledge and Harrison Street seeks to leverage almost 20 years of operational know-how in senior housing to capitalise on the opportunities they provide, both now and for the future.



ⁱEU-27 Eurostat Population Forecasts, 2025

ⁱⁱEuropean Central Bank, 2025

ⁱⁱⁱJLL, 2024

^{iv}JLL, 2024

^vKnight Frank, 2024

^{vi}Knight Frank, 2024

^{vii}Harrison Street Research, 2025

^{viii}Harrison Street Research, 2025

^{ix}Harrison Street Research, 2025

^xGreen Street, 2024

^{xi}Green Street, 2024

^{xii}INREV, Q3 2024