Vision on elderly homes needed to cope with the rapid age

The expected growth of the older adult population will have an unprecedented impact on the national health care system. There is a clear need for additional nursing homes and healthcare workers, to avoid potential shortages in the coming years. Like most other European countries, Belgium is confronted with a rapid ageing of its population. This is the direct result of longer life expectancy and continuous improvement in living standards.

Pieter Paepen,
Senior Director,
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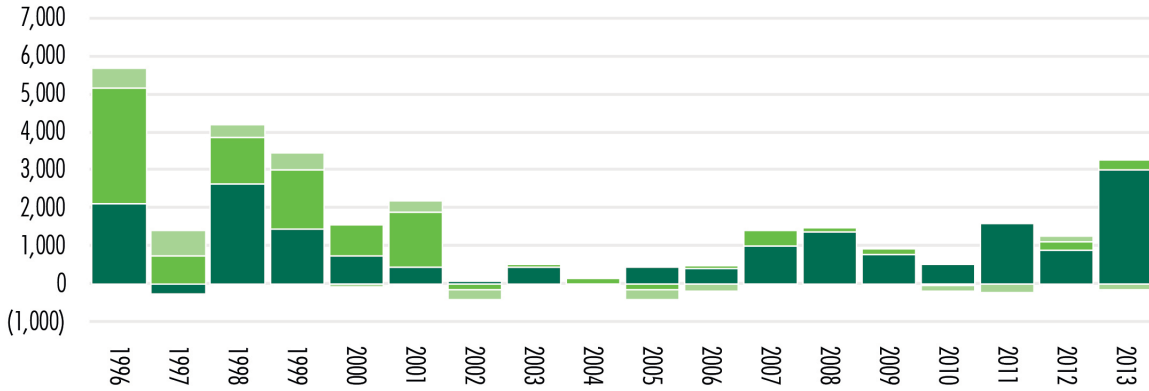
"A substantial surge in the number of elderly people is expected as from 2024. As a result, Belgium will need 3,000 additional beds per year from 2025 onwards, to avoid significant demand/supply imbalances"

The ageing 'baby boom' generation (people born between 1946 and 1964) will have a profound impact on the Belgian health care system over the coming decades, with elderly (inactive) people rapidly outgrowing the younger active population.

Concerns have emerged about the long term sustainability of the national pension system. Belgium is trying to address this issue by adopting a range of measures, such as delaying the retirement age or promoting alternative sources for funding pension welfare.

In 2016, 1.45 million Belgians are at the age of 70 and older. This is 12.9% of the total Belgian population. By 2025, this population group will increase by another 290,425 people. By 2035, 2.2 million people or 17.8% of the total population will be 70 years or older.

Net addition & future need of beds per year per region (1996-2030)



ing of the population

Consolidation trend in the market

In 2016, Belgium numbers 142,818 beds in 1,502 elderly homes. The majority of elderly homes are to be found in Flanders, with 77,481 beds in 770 homes. Wallonia numbers 49,484 beds in 583 institutions and Brussels provides 15,853 beds in 149 elderly homes.

Elderly homes in Wallonia and Brussels are more often operated by a commercial enterprise. In Flanders, the majority of nursing homes is still managed by non-profit organizations or the government itself. Often, commercially driven nursing homes are smaller in size.

With legislation on nursing homes increasingly stringent, smaller privately-led nursing homes are slowly disappearing. Over recent years, larger corporations specialized in nursing homes have appeared on the scene as part of a consolidation trend towards less players and more beds per home. New commercial players that are expanding across the country are Senior Living Group, Armonea, Orpea, Senior Assist, Noble Age and Domitys.

Prospective on the need for additional beds in the upcoming year

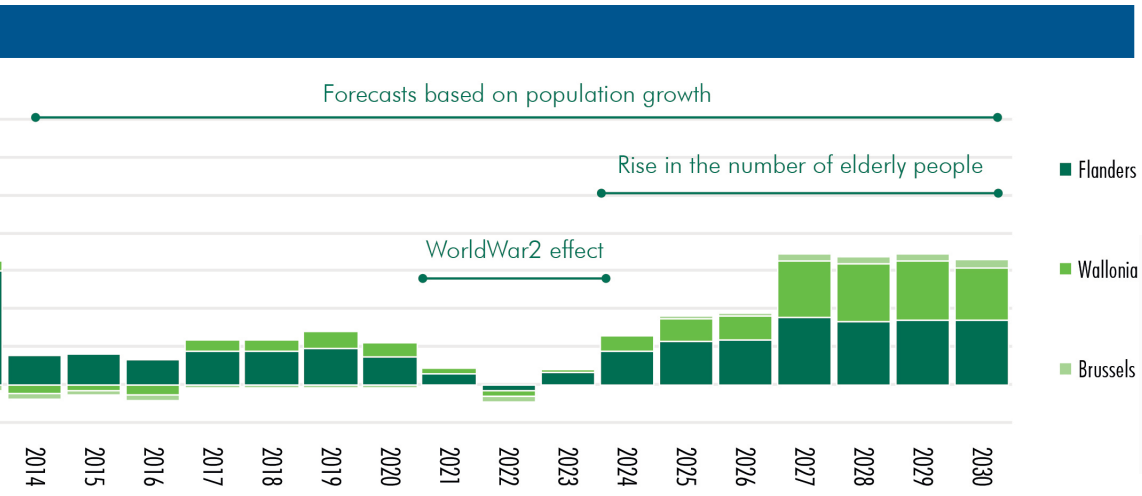
Because nursing homes are heavily subsidized by the state, caps to the number of beds have been imposed to control costs. The development of new homes is therefore limited. Based on calculations by CBRE, Belgium needs to continue its development of around 1,000 beds per year until 2025 (not taking into account possible shortages today). Most of these beds are required in Flanders, while the need for additional rooms in Brussels and Wallonia is less pronounced, mostly because of strong development in the recent past.

Flanders will have to develop an average of 640 beds per year in the period 2015-2024, while Wallonia requires 145 beds per year in that same period. A substantial surge in the number of elderly people is expected as from 2024. As a result, Belgium will need 3,000 additional beds per year from 2025 onwards, to avoid significant demand/supply imbalances.

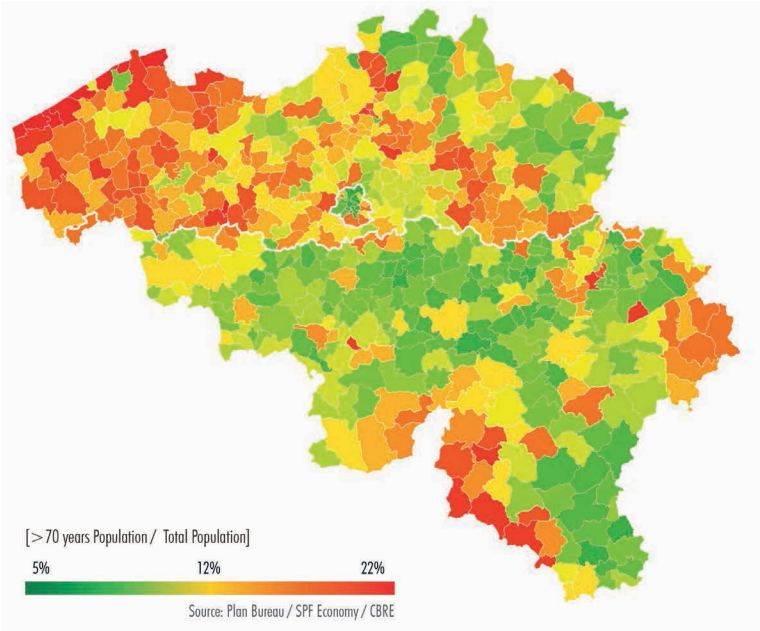
Our calculations take into account a continued rise in health standards and an increase in home care and assisted living. While today, the total number of elderly care beds in Belgium equates to around 9.6% of the people older than 70 years or 23.1% of those older than 80 years, we expect these ratios to gradually drop to 8.1% and 21% respectively in 2035.

While the requirement for more beds is definitely an issue going forward, the most important problem within the sector remains the ability to find suitable staff. Since the active population in Belgium will significantly decrease towards 2050, this problem is likely to grow over time.

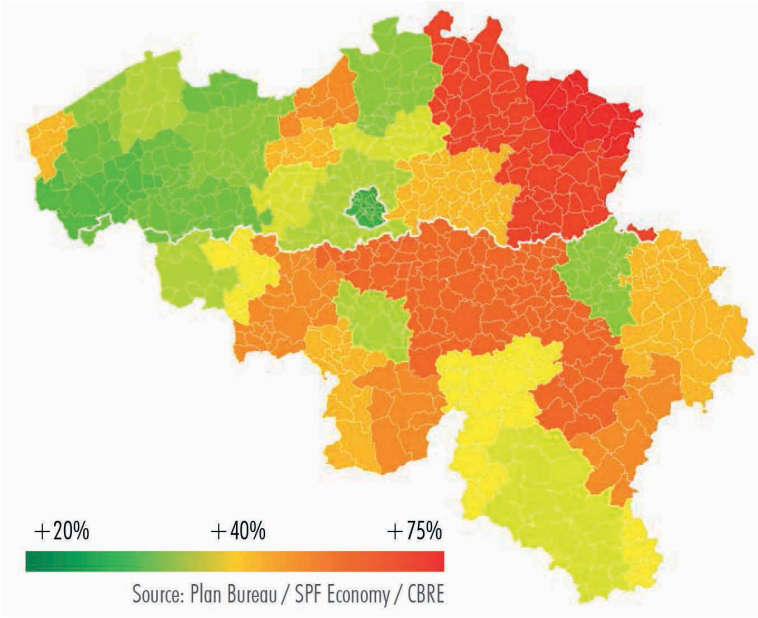
Legally, a minimum of 1 nurse per 30 beds and per floor is needed. Property-wise, this requires operators to look for or build properties that can handle this legal requirement in the most efficient way. Modern nursing homes ideally have a multiple of 30 beds per floor.



Source: Riziv / Inami / CBRE



Elderly population - % of population older than 70 years per commune - 2013



Elderly population - expected growth in elderly people toward 2030 > 70 years

Uneven regional demographics regarding population aging

Over the coming years, growth in the number of elderly people tends to differ strongly upon location. The Brussels Capital Region has a fairly young population, with only 9.4% elderly people. Flanders, on the contrary, has the oldest population, with the share of 70 year olds rising from 14.0% in 2016 to 16.0% in 2025. While Wallonia numbers fewer elderly people, it is expected to have the steepest growth, from 12.1% to 14.5% in 2025.

Today, most Belgians aged 70 years or older are to be found in West- and East-Flanders (with strong concentrations along the sea coast), in parts of Limburg, the province of Liège and parts of the Provinces of Namur and Luxembourg. Numbers by the Federal Planning Bureau indicate a strong expected rise of elderly people in areas such as Kempen, Limburg, Walloon-Brabant and Namur. In some of these communes, the elderly population is expected to increase by up to 75% in the next 15 years.

> "The transfer of the elderly homes from the Federal towards the Regions has been effective since the first of July 2014"

The 6th reform of the state : from federal to regional elderly care policy

Previously, elderly homes were regulated in large part by the federal health care system, with the Regions only being responsible for the actual licensing of retirement homes, and possibly implementing additional legal requirements on top of the federal regulations.

The transfer of the elderly homes towards the Regions has been effective since the first of July 2014. The Regions obtain full control over senior living, including legal regulations, financing, price control and licensing.

It is unclear whether the Regions will continue the current licensing programs and financing. As from 2025 onwards, the financial burden will rise rapidly. It is likely that regional differences will emerge to cope with this situation. Once each Region can implement its own elderly care policy, it can be expected that home care and assisted living will be heavily promoted, to ease the need for actual elderly homes.

Outsourcing the bricks & mortar

Nursing home operators prefer to sell off the real estate component in their business model. The released cash can subsequently be used to expand and develop new nursing homes and to acquire beds.

The outsourcing of the property component happens in the form of long-term lease rights, whereby the operator and investor agree terms on for example a 27-30 year lease (2 times 15 years) contract with a purchase option or renewal option for the operator.

The rent paid to the landlord is not generally linked to revenues, but consists of an annual rent, indexed to the health index. Rents paid by elderly home operators to landlords are € 5,000/room/year on average or € 115/m² on average, with the best locations trading at

rents per room between € 7,500 /m²/year and € 9,000/m²/year. Rents may vary depending on a number of specific parameters such as the quality and efficiency of the structure and interiors, the location of the property, services available, the residual value and possibly, the type of targeted customers.
Nursing homes are typically more expensive in communes with a wealthier population or with higher residential values. The operator is in most cases responsible for maintenance expenses and also bears the costs linked to the upgrading of the facilities and related equipment.

Attractive investment assets

Senior housing has attracted growing interest from investors over recent years for the bricks and mortar component. Operators prefer to focus on their operational activities to allow for quick expansion, without having to carry the property costs.
Since 2006, the sector has quickly emerged as an alternative investment class for those investors looking to diversify their portfolios. 1.79 billion Euros have been invested by property investors since that time. Many of these deals have been transacted through sale-and-leaseback constructions.
Cofinimmo and Aedifica in particular, have built huge portfolio positions in this market. Other notable players are financial institutions and insurance companies such as KBC, Belfius, Ethias and Ageas.

> "Nursing home operators prefer to sell off the real estate component in their business model"

Nursing homes are popular investment assets. Investors appreciate the high occupancy rate (often 100%) and the long-term, secured cash flows (lease contracts of 27-30 years).
With most properties located in dense residential areas, investment decisions are also based on expected future asset appreciation. In addition, the fact that most elderly home operators receive subsidies also ensures the sustainability of rents. The flip side of the coin is that the heavily-regulated nature of the sector offers little scope for upward rental revisions.
With less subsidies coming through and the future development potential of licensed beds being uncertain, investment opportunities are becoming more limited. Elderly home properties trade at yields of 5.25 to 7%. Insurance companies have been particularly aggressive buyers in the recent past, with REITs being more conservative and creative buyers.

Pieter PAEPEN
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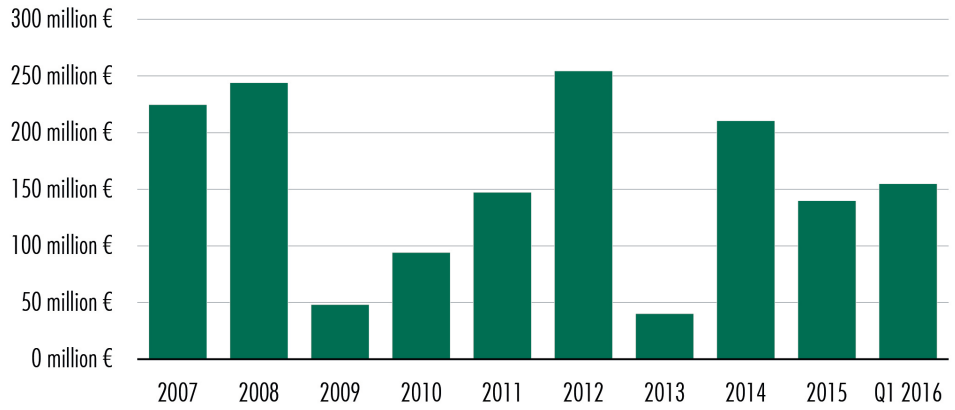
CBRE

Elderly homes investment volume



Source: CBRE