

Senior Living Report

Savills Portugal - 2020 Edition

savills



THE NEW "MILLENNIALS" - OPPORTUNITIES FOR THE SENIOR RESIDENCE MARKET IN PORTUGAL

Over the past five years, the residential operating sectors have experienced overall growth.

As average life expectancy increases and people live healthier for longer, residential model choices for the senior class needs to reflect these changes with this facet now constituting an opportunity for property investors.

According to the United Nations, the population aged over 65 will reach 1.5 billion by the year 2050. This opportunity is thus oncoming, especially when considering the potential for developing residential solutions with specialised care and medical services.

Whether under the concepts of Independent Living, Assisted Residences or Continuous Care Residential Units, these market gaps exist alongside demand that is set to grow continuously into the future.

In Portugal, the supply of quality residential accommodation targeting the senior class still remains an underdeveloped concept, involving a still only narrow group of investors, but which benefits from strong market fundamentals.

Currently, the bulk of such residential supply is provided by the so-called old people's homes, which continue to be tainted with rather negative connotations in the marketplace.

Along with this perception and a change in the profile of the elderly, who are now more active for longer periods of life, there are openings in the market for establishing purpose-designed residential supply units to meet the needs of the elderly not only in physical terms but also for interaction and social sharing.

It is no longer just millennials who are acting to revolutionise the market. Seniors are more active, more informed and demanding over spending the last decades of life with greater quality. But can the current residential supply for seniors cope and respond to this demand?



In 2019, half of the population residing in Portugal was aged over 45.5. Statistics released by the National Statistics Institute (INE) prove that population ageing in Portugal continues to advance, with the index reaching 163.2 elderly per 100 young people in 2019.

A 2018 study produced by Kantar identifies how in the year 2028 the weightings of millennials will fall back to 16% while the senior population is forecast to rise to 26%, a percentage expected to surge to 31% in the year 2038.

The senior demographic group thus emerges as the market not only with the highest growth forecast but also the greatest potential for the diversification of products geared to their needs. This reality opens the door to the emergence of a new class of assets, which is presently seen as an alternative to the assets deemed more traditional such as office or retail properties.

The senior home market, already mature in many international investment markets, is beginning to attract the interest of investors in Portugal, both international

and national players, which are broadening their expansion strategies to this market in keeping with its rising global recognition.

Senior living encompasses several residential concepts that are generally mutually differentiated according to the definition of the degree of autonomy or dependence of their users, by the various types of services provided and by the rental models in effect.

In Portugal, what are known as Elderly Homes continue to dominate the market compared with the existing supply of senior living services, which focuses on a niche with higher purchasing power and, in most cases, high degrees of autonomy.

In 2018, the national investment market recorded the first sale of senior living real estate assets. Far from the investment volumes of mature European markets, Portugal nevertheless brings together all the variables of success to attract renowned international operators and is now positioned in the race to become one of the strongest European destinations in this real estate sector.

WHY SENIOR LIVING:

- Investment portfolio diversification;
- Strong imbalance between the existing supply and the continuously growing demand;
- High occupancy rates and increased average length of stay;
- Revenues from a wide range of services;
- Low dependence on business cycles;
- Possibility of conversion to the residential sector.

“ The changing lifestyle of the Baby Boomer generation, which includes a greater desire for privacy and independence, does not match most of the supply available on the market. ”

“Between the years 2010 and 2050, the total number of dependent people worldwide will surge by more than 76%, from 350 million to 614 million while the number of elderly people in need of care will triple”

KEY FACTS

Between the years 2020 and 2080, the weighting of the population aged over 65 is set to increase by 63.8%.

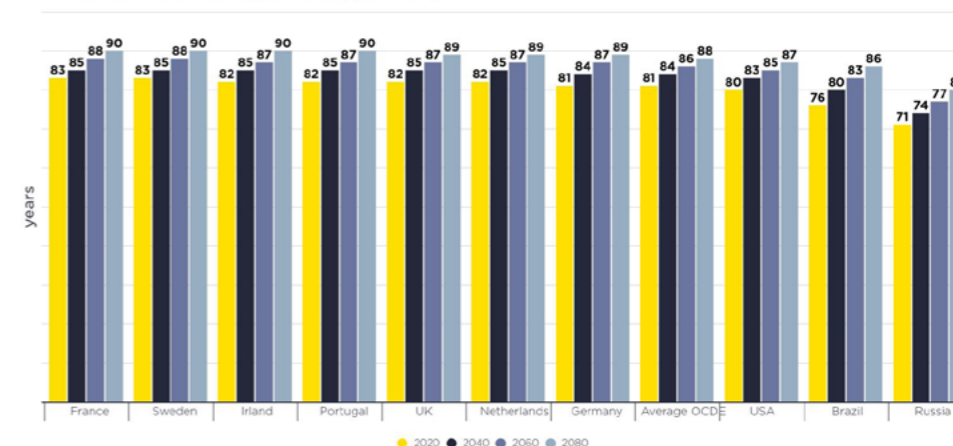
The population above 70 will grow sharply between the years of 2020 and 2080, up by 89.3% to account for 31% of the total population.

The increase in the elderly population weighting in the total of national citizens will lead and sustain the establishment of equipment and services exclusively directed to the needs of seniors.

Widespread increase in Average Life Expectancy in senior tourism issuing countries for Portugal.

Improvement of health care in Portugal.

FORECAST OF AVERAGE LIFE EXPECTANCY



Source: OurWorldindata

AGEING OF THE PORTUGUESE POPULATION A GOLDEN OPPORTUNITY

1 In Portugal, between 2016 and 2018, life expectancy at birth has been estimated as standing at 80.80 years for the total population. For every 100 citizens between the ages of 15 and 64, the statistics currently point to 35.1 individuals aged over 65 with a high level of dependency (requiring third person assistance for daily living needs), a figure forecast to rise to 65.5 in 2080, an increase of 86.61%.

The resulting higher healthcare costs and the risks around the availability of (increasingly specialised) human resources boost that often termed the "silver economy" as business opportunities and the demand for space attributed to older people rise irrespective of their state of dependency or the actual services they seek.

2 Health sector costs will furthermore rise in parallel with the increase in the elderly population in need of medical care. It is important to note that over the last few years, the profile of the senior consumer has changed significantly. Today, senior consumers are better informed and more demanding about the products and services they consume. This upgrade has inevitable repercussions on contracted service standards and therefore puts pressure on the unit costs of care.

3 The entry into seniority has been delayed and increasingly advancing along the timeline in accordance with the results of the Average Life Expectancy indicator. The image of the old, confined by retirement and inactive man could now not be further from the truth. The senior age group seeks to live more intensely and rejects the label of elderly.

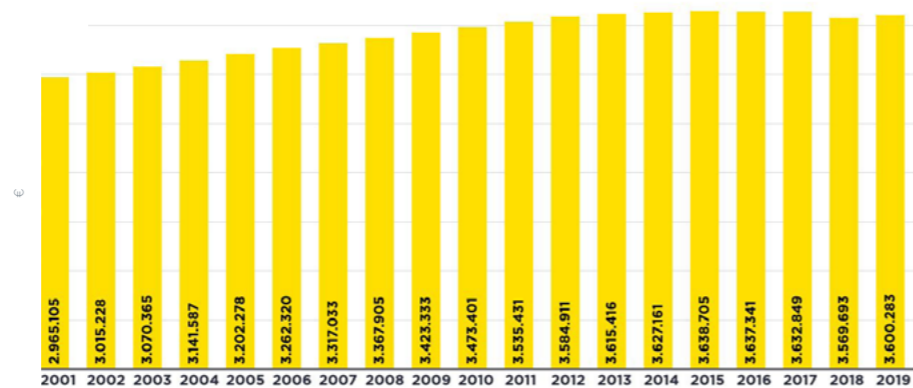
“ Portugal has an innovative research and development ecosystem in areas such as neuroscience, cancer, immunology, regenerative medicine and nanomedicine as well as a highly qualified workforce that together act as factors of attraction for the senior home market. ”

“ PORTUGAL WAS ELECTED BY INTERNATIONAL LIVING MAGAZINE AS THE BEST DESTINATION FOR RETIREES TO LIVE IN 2020. ”

TEN REASONS TO LIVE IN PORTUGAL:

-  Affordable cost of living
-  Multicultural country
-  Quality national public health system
-  Proximity to major European capitals
-  Quality infrastructures and complete transport network
-  Green spaces
-  Cultural and gastronomic heritage
-  Hospitality
-  Good weather throughout the year

TOTAL OF PENSIONS PAID IN PORTUGAL



Source: Pordata

Portugal has earned its place in the sun as a destination for senior tourism and permanent residence for retirees of various nationalities.

Considered by the Global Peace Index as the third most peaceful country to live in (out of 163 countries), Portugal has been consecutively nominated by renowned international publications as an attractive tourist destination and an ideal country to live through the years of retirement.

Recently, Forbes magazine elected the Algarve region as the best place to live in retirement, highlighting the climate, security, beaches, infrastructures, healthy lifestyle and affordable cost of living.

According to the Observatory for Migration, in accordance with certain changes in immigration profiles over recent years, there has been a slight increase in the older age groups among the resident international population. At the end of 2017, foreign residents aged over 65 accounted for 9.4%. Those arriving from the United Kingdom rank as the highest percentage of citizens aged over 65 (38%), followed by French (30.3%) and Italian citizens (17%), furthermore reflecting the increase in flows of retired immigrants of those nationalities to Portugal in recent years.

Portugal also runs one of the best health systems in Europe.

The publication "International Living" has placed Portugal at the forefront of the healthcare, climate and accommodation categories.

All foreign residents in Portugal receive full rights to access health care, with registration with the National Health Service featuring as one of the components of the resident integration process in Portugal.

Through to the entry into effect of the new 2020 state budget, Portugal had, since 2009, provided an extremely advantageous tax regime under the Non-Habitual Residents Regime, which granted personal income tax (IRS) exemption to retirees resident in the country with pensions paid by a foreign country for a period of ten years.

With the 2020 state budget coming into effect, the pensions received by non-habitual residents are no longer exempt but are instead subject to a special rate of 10%.

“ Population ageing, coupled with the desire for a better quality of life, places Portugal in a privileged position as a destination of choice in the retirement stage. ”

SEGMENTATION OF SUPPLY IN PORTUGAL



RESIDENTIAL STRUCTURES FOR THE ELDERLY (RSE)

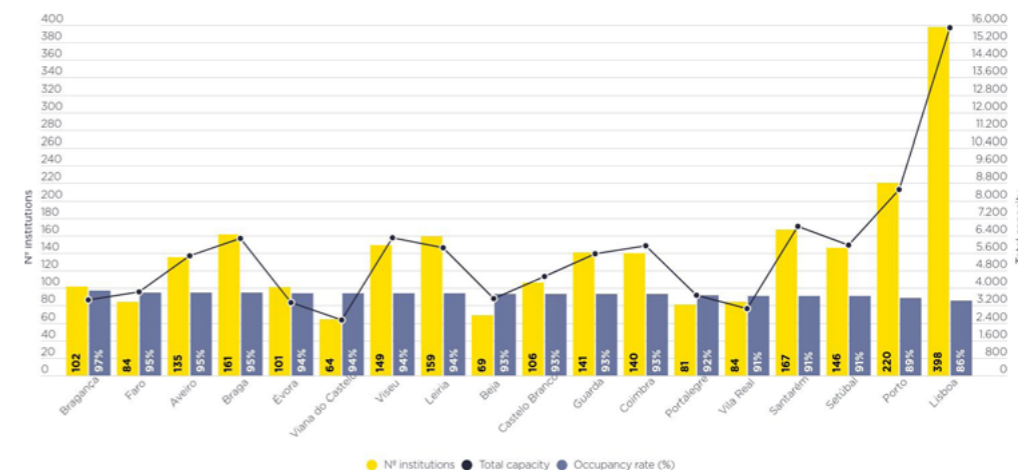
Target: Seniors, either with a high degree of autonomy who seek active lives integrated into some form of institution, or who need permanent medical care with a reduced or non-existent degree of autonomy.



RESIDENTIAL CONDOMINIUMS

Target: Seniors with high degrees of autonomy, who do not need recurrent medical care but who wish to live in communities that provide them with active lifestyles through the provision of services and leisure activities.

SUPPLY OF RESIDENCES BY DISTRICT



Source: Social Charter

THE PORTUGUESE SENIOR RESIDENCE REALITY

In Portugal, the family has long played a central role in caring for seniors. A major proportion of senior care is provided by the family nucleus or by domestic care services. In Portugal, there are a total of 2,687 such services providing support to about 77,277 elderly people.

However, this reality is intrinsically linked to cultural factors and with aspects such as healthcare, climate and housing now changing. The increase in single-parent families is accompanied by the greater inclusion of women in the labour market as well as sustained increases in the emigration rate of the younger population.

These factors are crucial to the need for market supply capable of responding to this changing reality not only in terms of the total number of residential infrastructures available but also in terms of increasing the quality of their services and the care provided.

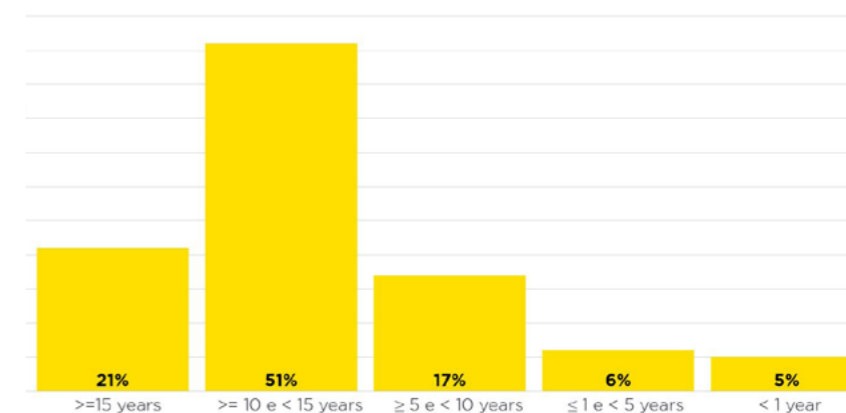
Although the family nucleus remains responsible for much of the care provided, the supply of services aimed at the senior age group has steadily grown in recent years in Portugal, breaking down into several categories according to the service level included.

In Portugal, the senior residential supply still remains dominated by that termed the tertiary sector of the social economy, in particular: cooperatives, municipal charitable institutions, foundations and private social solidarity institutions, highly dependent on state regulation.

In parallel with this supply, the national market has in recent years witnessed the entrance of private operators that set up their activities in locations with higher purchasing power and higher population densities, such as the Lisbon and Oporto markets.

“Rather than being perceived as a worrying development, population ageing should be approached as a market opportunity for creating innovative, value-adding and highly targeted concepts for the current profile of the elderly.”

LENGTH OF STAY



Source: Social Charter

“ In Portugal, there are approximately 1,800 public institutions and 740 private institutions with a capacity for over 100,500 users. Around 93,000 users are integrated in the so-called RSE ”

THE FUTURE OF SENIOR LIFE THE NEW CONCEPTS

INDEPENDENT LIVING / SENIOR RESIDENCES:

A purely built-to-rent concept with wellness services and infrastructures included (such as restaurant, swimming pool, gym, etc.) while not extending to the provision of medical care.

A concept focused exclusively on totally independent people. They are able to adopt a more hybrid approach, including independent living and assisted living in the same project even while the units are independent (usually located a few meters from each other), with each faithful to its own definition while enabling the scope for sharing services.

Currently, there are no medium or large scale senior residences registered in Portugal. The first project is due for launch in Silves by the summer of 2023, constructed by the BF Group, the owner of the Momentus Senior and Memoville brands, and will contain around 137 apartments with a mixture of senior residence and assisted living units (with independent facilities).

ASSISTED LIVING & MEMORY CARE

Institutions focused on residents coping with specific pathologies. These facilities do not target users with a high degree of dependence.

Memoville, the largest residence belonging to this concept on the Iberian Peninsula, located in Beloura and with a completion date before summer 2021, focuses on the pathologies affecting the memory and that may consequently imply more personalised care requirements.



Between 2000 and 2020, the responsiveness of homes and senior homes has increased by around 81%. The districts of Lisbon and Oporto are home to the largest number of RSEs in Portugal, accounting for 24.7% of the total supply of beds at the national level (with 24,393 beds in 618 homes). However, the district of Bragança hosts the highest occupation rate, followed by the district of Faro on 95.4%, which also ranks as the 5th national district with the lowest number of beds.

LISBON MARKET

The Lisbon Metropolitan Area accounts for 15.8% of the total assisted residence capacity in Portugal. According to the Social Charter, there are 398 homes/facilities for the elderly with a total capacity of 15,883 beds and an occupancy rate of 86.8%.

With over 144,000 persons aged over 65, the District of Lisbon provides the largest cluster of facilities, 116 in total with a capacity of 4,869 beds, 4,057 users and thus an occupancy rate of 83.3%.

In terms of private supply, the capital features the presence of the three largest operators active in Portugal, namely: Montepio Group, Orpea and Luz Saúde, which collectively represent a supply of approximately 830 beds.

PORTO MARKET

The Oporto Metropolitan Area hosts a total of 220 senior residences, with a capacity of 8,510 beds and an occupancy rate of 89.8%. With a total of approximately 62,000 elderly people aged over 65, the district of Oporto has a total of 60 senior residences, 1,747 beds and 1,463 users.

Residências Montepio, Orpea and the operator Geriavi Portugal are all present in this market, providing a total of 389 beds spread over five residences.

ALGARVE MARKET

Compared to the Lisbon and Oporto markets, the Algarve market has a higher occupancy rate but less equipment available. In the district of Faro, there were 84 senior residences registered, totalling 3,810 beds and an occupancy rate of 95.4%.

The main private player in this market is Amera, an operator of assisted residences with a 68-user capacity in Faro.

SPECIALIST SUPPLY BY PRIVATE OPERATORS

With a strong emphasis on the quality of the facilities and a set of integrated services, the arrival of national and international operators on a large scale in the senior residence market has raised the bar with their supply adapted to the new senior profile and aimed at the medium-high and high segments.

“ The 64 residences surveyed by Savills reported an average capacity of 59 beds. At the national level, the occupancy rate stands at 92.4%. ”

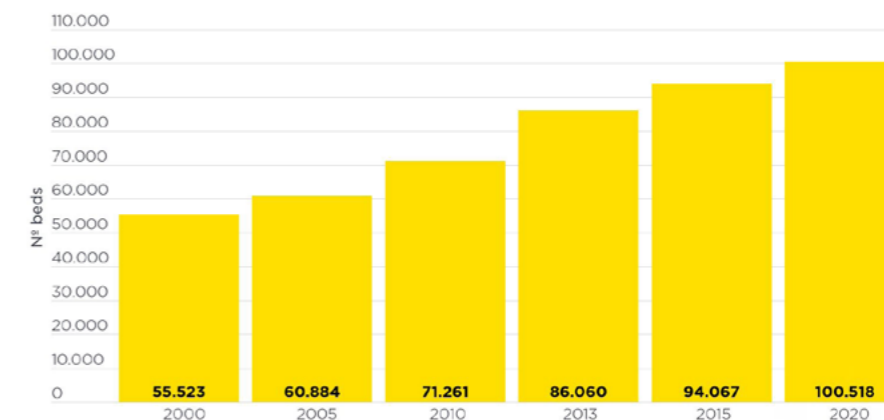
“ In Portugal, the average prices for private, quality senior residences can reach up to € 2,200 for a single room and € 1,800 for a double room. ”

SERVICES AND INTEGRATED ACTIVITIES SUPPLIED IN PRIVATE SENIOR RESIDENTIAL UNITS:

- Private Suites (single | double rooms)
- Multipurpose room
- Library
- Gym
- Garden
- Physiotherapy room
- Swimming pool
- Social event room
- Laundry
- Restaurant | Cafeteria
- Beautician salon
- Chapel
- Cinema
- Individual health care plan
- Hospital agreements
- Pharmacy
- Geriatric assistance
- Nursing service

“ Residential solutions that ensure an appropriate adaptation of their infrastructures to the specific needs of residents, combined with differentiating factors that may include home care or remote-assistance, are now being contemplated by private operators ”

EVOLUTION OF RESPONSE CAPACITY



Source: Social Charter

With a focus on quality and placing great emphasis on innovation, private groups present a targeted approach that differentiates them from the supply of the aforementioned tertiary sector. Focused on the optimisation of resources and professionalised management of their equipment and services, private operators distinguish themselves by introducing various concepts depending on the level of services and care provided, ranging from the concept of Independent Living to Nursing Homes.

Savills has identified a total of 64 senior residences, from the north to the south of the country, which fit into the concept of assisted living, characterised by a supply of quality equipment and services, catering for the senior public with a high degree of autonomy while also able to provide medical care and services through partnerships established with health units.

Portugal counts on the presence of large private operators, some of them originating from financial groups. Such is the case of the José de Mello Residências Group, Luz Saúde Group and Montepio Residências Group, which operate a total of 10 residences with over 1,000 beds. In their operational origins, some of these groups present in the national market underwent an evolution in their business models that were initially focused only on home care before then evolving to include residential models.

Currently, the largest provider operating in Portugal is the French group Orpea which expanded its activities in the country in 2018. With over 800 centres across Europe, it operates eight residences, with a capacity of over 700 beds, and a hospital in Portugal.

In keeping with their operational models, the relationship between efficiency and quality represents a core pillar, ultimately seeking to establish a balanced relationship between the necessary rationalisation of resources and the quality of the services provided with a view to further maximising economic benefits.

We can also observe the existence of mixed models, which integrate a supply connected to the RNCC - the National Continuous Care Network and beds intended for the private sector. One example of this model comes with Residências Montepio. This group is expected to close 2020 with a supply of 553 private beds and 518 beds registered in the RNCC.

There is also the ongoing establishment of strategic partnerships able to foster expansion and bring about greater service specialisation.

Recently, the José de Mello Residências e Serviços Group and AGEAS Portugal established a partnership to leverage the advantages of the experience and knowledge of the senior market accumulated by these two benchmark players.

While we should not overlook how the current unprecedented situation may result in cause a delay in these plans to expand, some promoters are nevertheless continuing to invest in expanding their supply of senior residential models.

46% OF THE INVESTMENT IN SENIOR LIVING IN 2019 CAME FROM INSTITUTIONAL INVESTORS

FROM ALTERNATIVE TO CORE



An appetite for more attractive returns and the diversification of investment portfolios that takes into account the prevailing degree of uncertainty that may now characterise some traditional assets.



Assets belonging to the senior living sector inherently incorporate guaranteed income for long periods of time.



The current and future demographic position, based on the marked ageing of the population, requires a greater supply of such services and equipment to meet the needs of this older population.



Senior living and care home assets report the highest occupancy rates, above 80%.



Leases of 20 to 30 years.

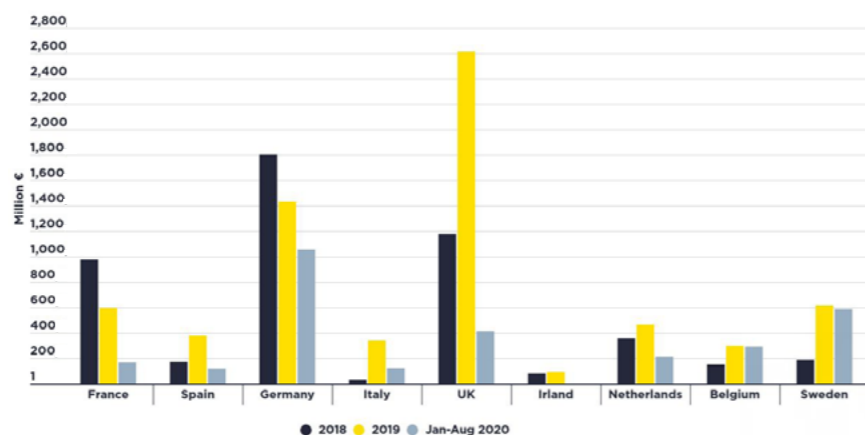


Informal care, mostly provided by relatives, constitutes an increasingly inappropriate response.



In addition to the quality factor, there remains the price factor. The entry of private investors and operators into the senior living and care home sectors has deepened the market's scope.

TOTAL SENIOR LIVING INVESTMENT VOLUME



Source: RCA analysed by Savills Research

A TARGET MARKET FOR INVESTORS

With demand exceeding the available supply, the market for senior homes has deep foundations that provide it with strength and attractiveness. The competitiveness encountered in the so-called traditional asset class now directs attention to this asset class with its characteristics particularly attractive for investors seeking to diversify the degree of risk in their portfolios.

Due to their operational model and the services implied, this type of asset generates income from different sources, resulting in a diversified income model.

However, the most attractive factor for investors undoubtedly stems from the prospect of long-term returns, based on increased life expectancy and changing demographic variables that point to the significant potential of the senior market as a user and consumer of health and welfare products.

As a result of the current context in which changes in the age pyramid open up the market to new business opportunities, we have in recent years witnessed growing interest in the care homes and senior living market.

Historically defined as a highly fragmented market subject to state regulation, the senior living segment is now experiencing a change as private, highly specialised operators seek to expand their activities internationally and gain market share.

In the European context, commercial investment in the senior living sector displays a consolidated track record in markets such as France, the United Kingdom and Germany (among others).

The UK is the leading destination for the volume of assets traded in the senior living sector, with over 2.6 billion euros in 2019, followed by Germany with 1.4 billion euros and Sweden with 617 million euros.

In all the European markets mentioned above, institutional investors (46%) account for the most active group, followed by REITs (26.7%) and private investors (25%).

In Portugal, the transactions recorded in this sector have not yet gained any significant expression within the overall statistics due to the predominance of senior residences held by the operators themselves and to the still scant number of facilities 100% geared to the concept of senior living.

In Portugal, the main private operators active in the senior assisted residence sector account for the supply of approximately 3,000 beds

THE IMPACT OF COVID-19

According to the World Health Organization, up to 50% of fatal cases of covid-19 occurred in elderly homes across Europe. The explanation is simple. The elderly population has a higher rate of vulnerability which is aggravated by closed environments highly conducive to contagion.

Most elderly residences were not adequately prepared for the impact of this pandemic, with the level of rapidity of response and the implementation of health measures and human means varying between residences.

In addition to the impact on operating costs due to a greater increase in human resources and additional equipment, there has been an obligatory readaptation of spaces in order to create isolation facilities.

Increases in the hiring of health and daily care professionals (nurses and socio-cultural animators, with a redefinition of the activities planned to compensate for the other initiatives cancelled in the meantime) also feature among the solutions adopted to offset any staff sick or in isolation and to expand the services provided within the institutions.

Social distancing and isolation have been particularly difficult for older people and harmful for all users of senior homes, who are now deprived of contact with their immediate family members.

As a way of combating this necessary evil, some homes have adhered to digital solutions (teleconferencing systems) to minimise distance and enable communication between the elderly and their relatives.

Gardens and green spaces have gained a new dimension and now receive even greater value through becoming a major factor in the choice of residences.



DEMAND

In recent years, Portugal has experienced an unprecedented boom in the scope of its international recognition as a tourism and residential destination.

In 2019, 8.5% of the residential sales volume was accounted for by international buyers, the majority of whom plan to take up residence under the Golden Visa Program.

40% of international buyers in 2019 invested more than 500 thousand euros for the acquisition of a residence in Portugal, representing 13.3% of the total amount transacted.

Property purchases by buyers aged over 65 may represent an interesting opportunity for the senior living sector, leveraged by market fundamentals that put Portugal at the forefront of the most attractive countries for spending the years of retirement.

For this age group, who now aspire to actively live out their golden years, investment in residential units may revert to residential units within senior living concepts, both for persons with full autonomy and for those who may need medical services and care.

DRIVERS OF DEMAND

- Growing needs for social interaction and combating isolation and social exclusion.
- Increased awareness of the benefits of physical activities and the concept of active aging.
- Preference for residences that provide a diversity of services and promote mental health and physical well-being.
- Price-sensitive approach.
- Greater demand for residences that offer the Living concept, a sensation of "Feel Like Home" comfort and that nurture a sense of community.
- Enhancement of green spaces and maintaining connections with the outside world.

“ This is a strategic business area for the group, especially in Portugal, where the growing average life expectancy and trend towards active ageing require options adjusted to this new reality. ”

CLECE VITAM GROUP IN DECLARATIONS TO ECONOMIA AO MINUTO



TRENDS

The report by the Organisation for Economic Cooperation and Development on the long-term care of the population aged over 65 identifies an increasing incidence in recourse to domestic care when compared to other service types.

Domestic care provides the opportunity to receive a wide range of elderly medical care services while remaining in your own home.

There are several reasons that can be pointed out for the increase in home care with the leading factors interlinked with social and economic factors.

The home is a place of emotional and physical associations, memories and comfort.

The financial factor also represents an obstacle over opting for senior residences. Domestic based solutions achieve reductions in public spending and in many countries, and with Portugal no exception, they are increasingly integrated into healthcare systems.

Some elderly home operators are now studying more closely these solutions for caring for the elderly and are themselves beginning to provide domestic care services.

Nevertheless, we continue to believe this trend will not offset the prevailing demand for senior homes. Different health conditions require different care solutions and many personal homes are now and shall continue to be completely unsuited to the needs of their residents.

In addition, the rise of dementia among older people will bring about an inevitable need for facilities focused on caring for people with such pathologies. For example, by 2013, 44 million people were already suffering from dementia worldwide with this number expected to triple by 2050 (according to Alzheimer Disease International).

Market opportunities also arise from senior homes focused on international seniors, located in areas close to the coast and to golf courses, with the Algarve region presenting enormous development potential for a type

of residential product directed towards a highly affluent social class.

Senior homes will come onto the radar of national users as the younger generations (now in their 40s or younger) begin to reach retirement age, already with a different perception of material goods (more detached) and valuing wellbeing and safety regardless of the place; this should happen in the next two to three decades.

The main investors coming to our market are expected to a mix of international and national investors, primarily from the perspective of developing their company's own operations. Purchases of existing residences will also increase in order to enable the expansion of the operators and their capacities, thus achieving growth without the need to build from scratch, especially within the scope of the assisted living concept.

“ **It is expected that the proportion of the elderly population receiving long-term care at home will continue to increase in the coming years.** ”



Savills Research

We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the Portugal property market.

Paulo Silva
Head of Country
paulo.silva@savills.pt

Paula Segueira
Consultancy Director
paula.segueira@savills.pt

Patrícia Liz
Chief Executive Officer
patricia.liz@savills.pt

Joana Rodrigues
Architecture Director
joana.rodrigues@savills.pt

Alberto Henriques
Associate Director - Capital Markets
alberto.henriques@savills.pt

Alexandra Portugal Gomes
Associate Market Research
alexandra.gomes@savills.pt