

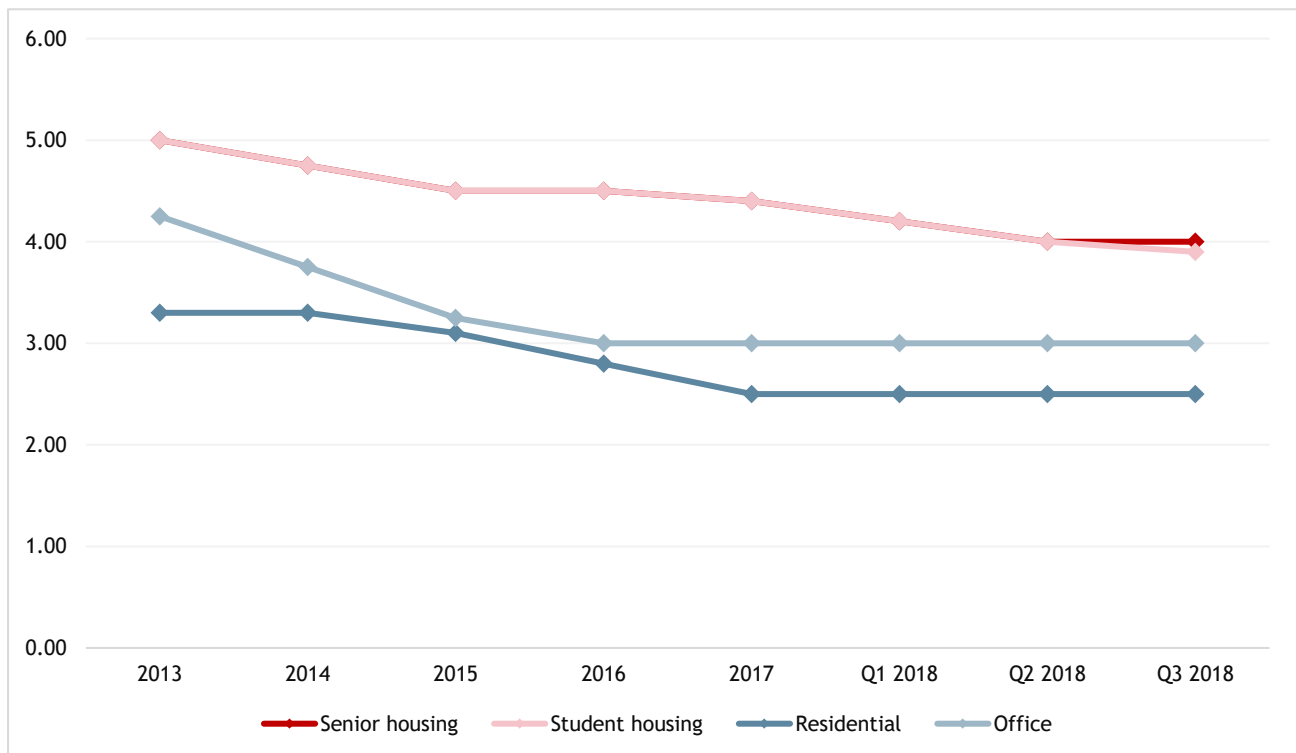
EUROPEAN RESEARCH MONTHLY UPDATE

OCTOBER 2018

NON-TRADITIONAL SECTORS: A FOCUS ON SENIOR & STUDENT HOUSING

- Over the last few years, institutional investors have increased their exposure to non-traditional or alternative property types, which represented 14% of total direct real estate investment volumes in Europe in the first half of 2018.
- Senior housing and student housing offer an attractive yield premium of 150bps over standard residential investments, while benefiting from the same defensive character.
- New data mining methodologies allow investors to better identify micro locations where supply-demand imbalances are offering the most attractive opportunities in the student and senior housing sectors.
- Student housing in France is seeing a big increase in new supply, while some changes in the educational system might limit new demand and increase turnover.
- Senior housing offers attractive investment opportunities to investors due to strong demand fundamentals, high occupation rates, low occupier turnover and a diversified revenue model for the operator.
- Existing German senior housing has so far focused more on a higher level of medical care, which might leave more room for lower care and more affordable alternatives in future.

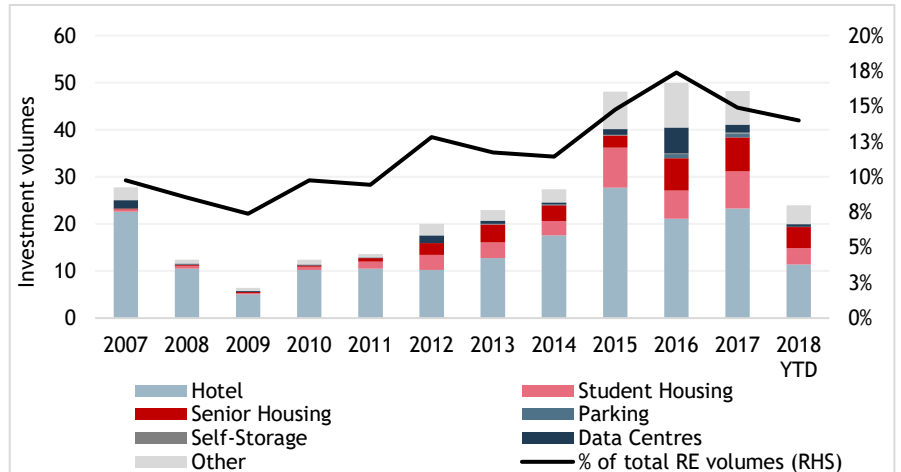
SENIOR & STUDENT HOUSING OFFER A YIELD PREMIUM OVER STANDARD RESIDENTIAL IN FRANCE



Sources: JLL, CBRE & AEW

ALTERNATIVE PROPERTY SECTORS ACCOUNT FOR 14% OF TRANSACTION VOLUMES (€BN) IN EUROPE

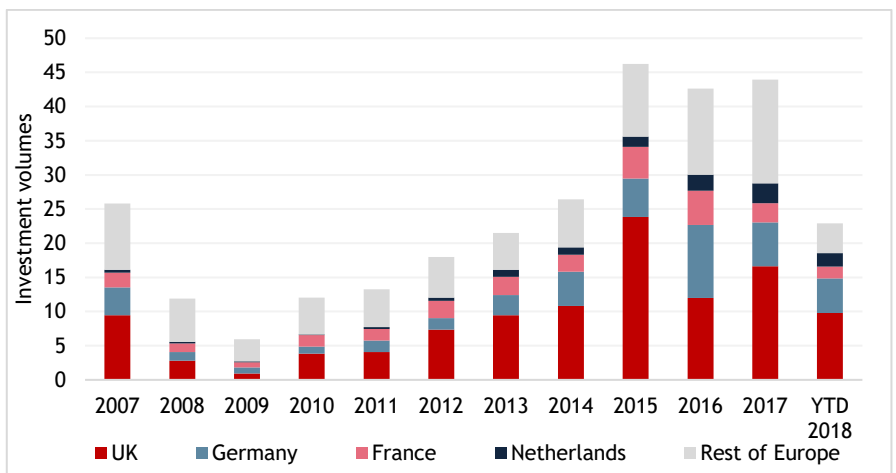
- Since 2010, investors have increased their exposure to non-traditional property sectors such as hotels, senior & student housing, nursing homes, car parks, self-storage and data centres.
- The share of niche property sectors now accounts for 14% of real estate investment volumes in Europe.
- Hotels is the largest of the non-traditional property types, followed by senior & student housing.



Sources: RCA & AEW. As at October 2018

THE UK SETS THE TREND FOR ALTERNATIVE PROPERTY INVESTMENTS IN EUROPE (€BN)

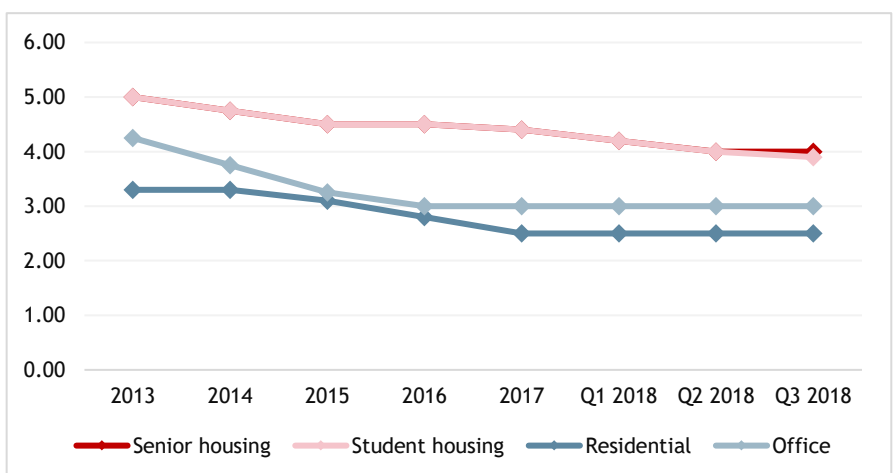
- The UK alone represents more than 40% of the alternative property investments in Europe so far this year.
- In our view, alternative sector investments therefore have room to grow further in continental Europe.
- Each alternative sector has its own specific business model, operating risks and related return profile.
- This report focuses on student and senior housing, where typically a professional operator leases the entire property from an investor and residents sublet each unit with a range of services from the operator.



Sources: RCA & AEW. As at October 2018. Niche property sectors include hotels, student & senior housing, nursing homes, medical offices, parking, data centres and self-storage

SENIOR & STUDENT HOUSING OFFER A YIELD PREMIUM OVER STANDARD RESIDENTIAL IN FRANCE

- Investors have increased their exposure to student & senior housing due to the yield premium that these niche sectors offer over standard residential.
- Both sectors offer a spread of more than 150bps over prime residential and of more than 100bps over prime offices in France.
- Prime student and senior housing yields have followed the same trajectory as other sectors - compressing from 4.50% in 2016 to 3.90% and 4.00% respectively today. The spread over residential & offices has remained stable over the same period.
- Further yield compression can be expected as these alternative sectors mature.

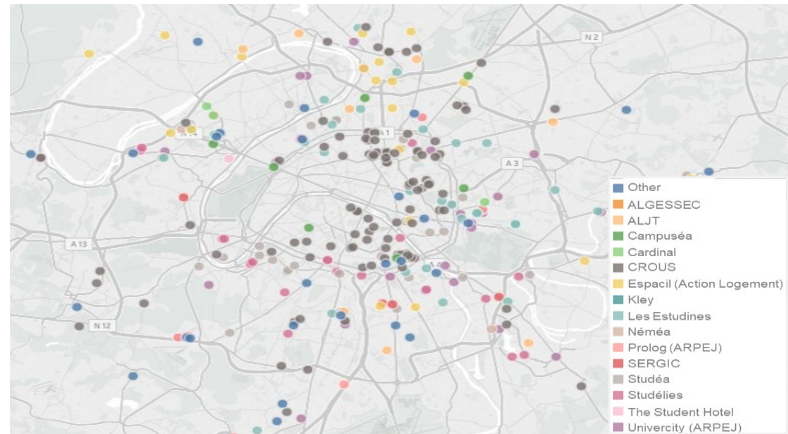


Sources: JLL, CBRE & AEW

STUDENT HOUSING SUPPLY-DEMAND BALANCE SHOULD BE MEASURED AT THE MICRO LEVEL

- Lack of student housing supply has driven rents in France to 686 euros per month in 2018, based on our web-scraping.
- New supply in both private and public sectors could soften rents.
- In France, 40,000 additional beds have been built by public providers over the past five years and the target for the next five years is 60,000 more new beds.
- In Paris, only 25% of units are privately managed, with most public units only available to lower income students.
- Changing programmes (professional placements, semesters abroad) have reduced occupancy throughout the academic year and increased turnover.

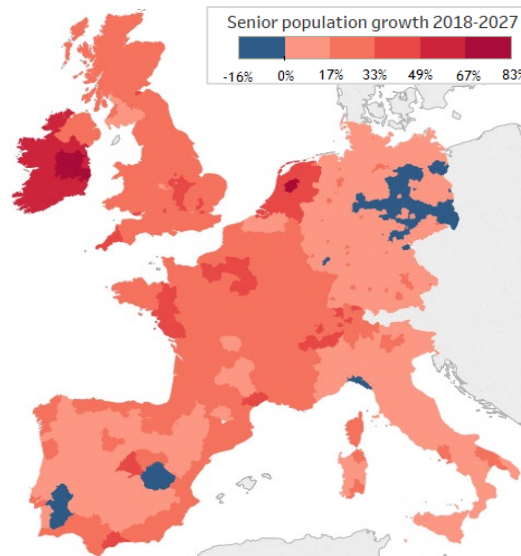
Student housing stock in the Paris region by operator



Sources: Adele, AEW

SENIOR HOUSING BENEFITS FROM STRONG DEMAND FUNDAMENTALS AND DIVERSIFIED BUSINESS MODEL

- Senior housing benefits from very strong demand fundamentals. In Europe, the number of people aged 75+ is expected to increase by 27% over the next 10 years. In some regions, the expected growth rate is over 50%.
- Senior housing operators' revenues stem from catering (20%) and other non-food à la carte services (30%) in addition to rental incomes (50%). This makes for a diversified business model.
- High occupancy rates and a low resident turnover (with an average stay of six years) provide stable performance.
- Potential conversion into residential also offers downside protection.

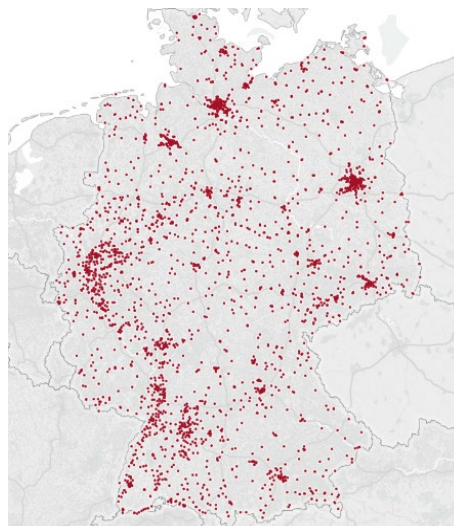


Growth in the population aged 75+ (2018-2027)

Sources: Oxford Economics, AEW

GERMAN SENIOR HOUSING HAS ROOM TO GROW ESPECIALLY OUTSIDE MEDICALISED CARE HOMES

- Just 10% of people aged 80+ currently live in a care home or in senior housing in Germany. 90% live in their house, of which 48% are owner-occupied.
- However, with only 7.5% of private dwellings suitable for people with reduced mobility, the senior housing sector has room to grow in Germany.
- German senior housing residences (*Betreutes Wohnen*) tend to offer more medical services (on site nurses) than the French *résidences services séniors* concept. *Betreutes Wohnen* are therefore significantly less affordable for the elderly.



Senior housing stock (*Betreutes Wohnen*) in Germany

Sources: Senioren Portal, Destatis, SHARE survey, AEW

There are 2,000 senior housing residences in Germany. The majority are located out-of-town or in rural areas and offer larger dwellings than the French "senior serviced residences" concept.

ABOUT AEW

AEW is one of the world's largest real estate asset managers, with €62.1bn of assets under management as at 30 June 2018. AEW has over 680 employees, with its main offices located in Boston, London, Paris and Hong Kong and offers a wide range of real estate investment products including comingled funds, separate accounts and securities mandates across the full spectrum of investment strategies. AEW represents the real estate asset management platform of Natixis Global Asset Management, one of the largest asset managers in the world.

As at 30 June 2018, AEW managed €29.8bn of real estate assets in Europe on behalf of a number of funds and separate accounts. AEW has close to 400 employees based in 10 offices across Europe and has a long track record of successfully implementing core, value-add and opportunistic investment strategies on behalf of its clients. In the last six years, AEW has invested and divested a total volume of over €19.4bn of real estate across European markets.

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