

MARKET
RESEARCH

European Listed Real Estate - Sector Report Alternative property sectors

FTSE EPRA Nareit Global Real Estate Index

July 2024

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AUTHORS

Dilek Pekdemir, PhD
 Research Manager

David Moreno, CFA
 Indexes Manager

Iskren Marinov
 Senior Analyst: Indexes & Research

Giovanni Curatolo
 Junior Analyst: Indexes & Research

CONTACT

d.pekdemir@epra.com

d.moreno@epra.com

i.marinov@epra.com

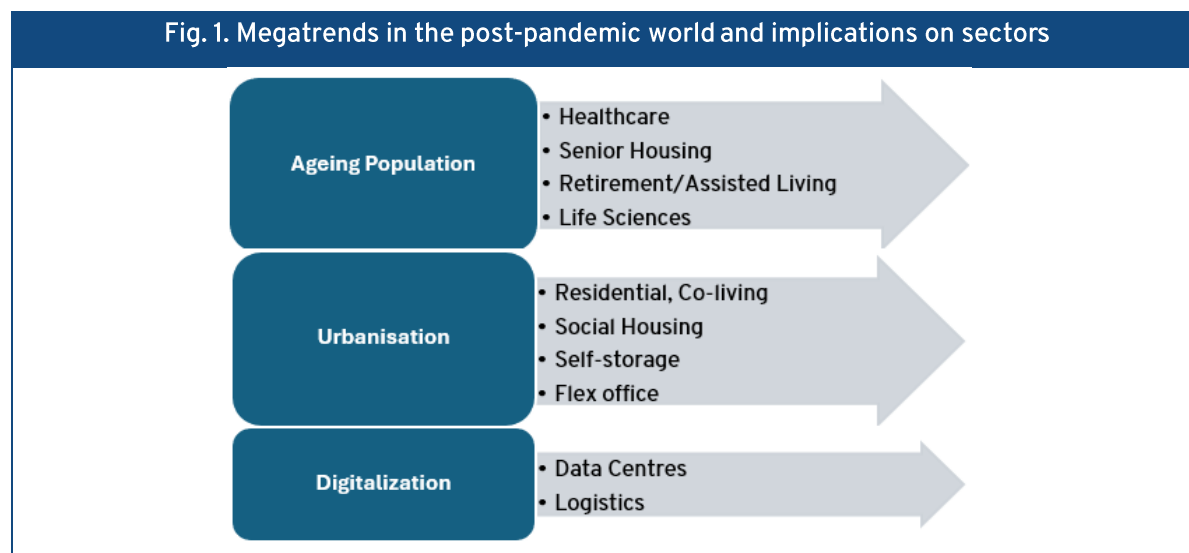
g.curatolo@epra.com

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1. Introduction : The rise of niche sectors

The real estate industry has undergone a notable shift away from traditional core properties like retail, office, and industrial spaces towards alternative sectors, a trend that began before the pandemic and accelerated afterward. Megatrends are reshaping the industry in Europe, and alternative sectors like healthcare, self-storage, and data centres are gaining attraction, becoming niche sectors for institutional investors (Fig.1).



Source: EPRA Research

The evolution of alternative sectors became evident in the increasing diversification of real estate markets, as highlighted by reports such as PwC&ULI Emerging Trends in Real Estate¹. Between 2004-2024, the number of sectors analysed in these reports has grown from 9 to 26, with alternative sectors dominating the top 10 rankings for investment and development prospects, led by data centres, healthcare, self-storage and various specialists residential subsectors.

According to PwC&ULI (2024), public real estate investment trusts (REITs) have played a significant role in driving investments into non-traditional sectors, helping alternative sectors gain mainstream acceptance. Cellular/mobile phone towers are now the single largest sector of the US REIT universe (not an eligible sector for Europe), and data centres and healthcare are both almost as big as office and retail combined. The world's two largest REITs are American Tower, the cell tower giant, and Public Storage, a self-storage REIT.

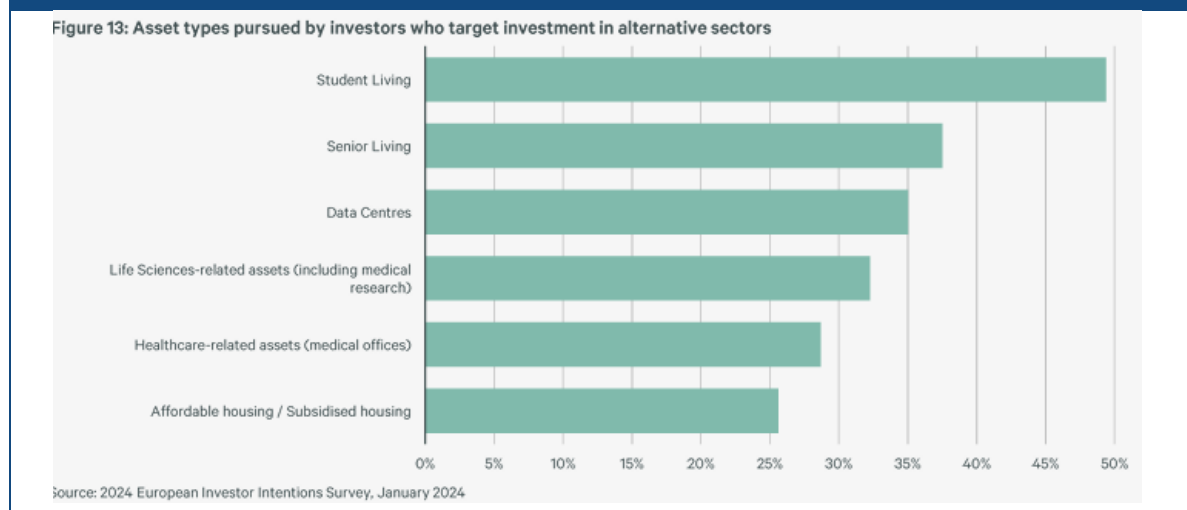
This phenomenon is further spread across the whole investment universe. Further data from CBRE (2024) indicates investors' increasing appetite in alternative sectors (Fig.2). Investors will pursue alternative investments in 2024, with favourites in alternative living sectors, such as student housing (49%) and senior living (38%).

On the other hand, by comparing the market cap of those companies specialized in each of these property types, EPRA estimates that these sectors counted for approximately EUR 5,353 million in full market capitalization in 2014 (3.4% of the industry) and EUR 27,336 million in 2024² (10.7% of the industry), representing an annual growth of 17.7% over the last ten years and highlighting the rise in importance of these sectors.

¹ ULI&PwC (2004, 2024) Emerging Trends in Real Estate in Europe

² Including the proportion of investments in data centres from European diversified property companies.

Fig. 2. Europe: Investors' intention in alternative sectors

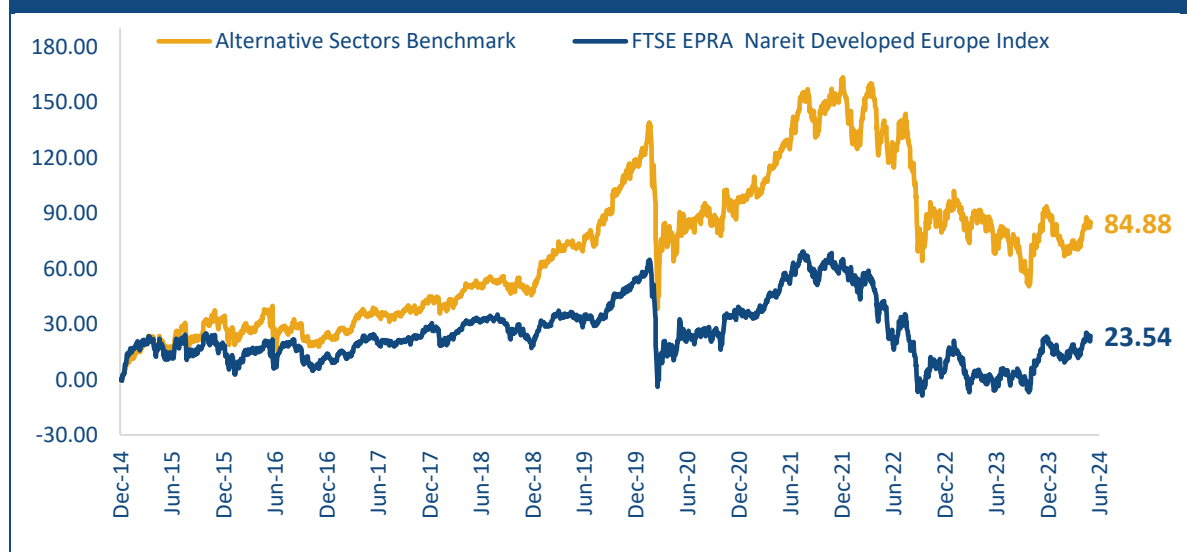


Source: CBRE (2024), European Investor Intentions Survey.

This report aims to present a summary of the evolution of these alternative sectors in Europe, providing some context on demand and supply, and also some thoughts on their future growth. The report is structured as follows: next section focuses characteristics of each sector covering drivers and growth potential, and final section concludes by highlighting the opportunities and the challenges in the alternative sectors for European LRE.

In order to have a good understanding of the performance and evolution of these alternative sectors, EPRA has created some in-house research benchmarks for each of these alternative sectors, as well as a composite Alternatives Sectors benchmark. These benchmarks are used all across the sections (*the definition of each alternative subsectors and list of the companies are given in Appendix 1 and 2*).

Fig. 3. Total Return (%) : Alternative RE Sectors vs European Listed RE (Dec/14 – May/24)



Source: EPRA Research.

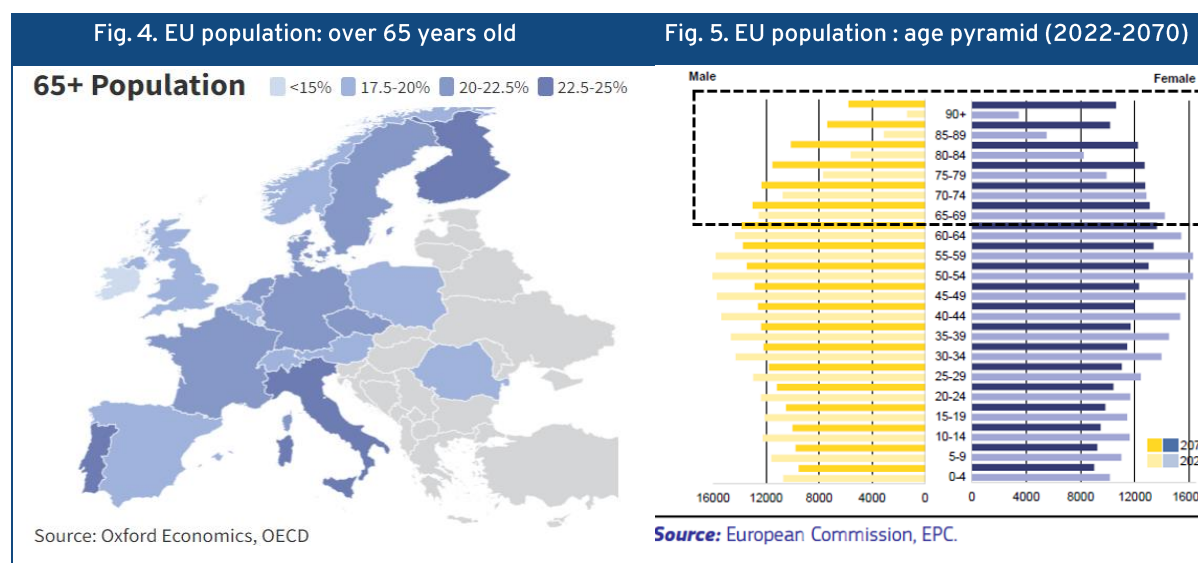
2. Alternative sectors : characteristics, performance and potential growth

2.1. Healthcare

Main drivers : grey wave

As one of the megatrends shaping real estate industry, the healthcare sector is significantly impacted by demographic changes, where the rising elderly populations and increased healthcare expenditure are both core demand drivers (see Appendix 3). The demographic projections over the long-term reveal that the EU is ‘turning increasingly grey’ in the coming decades. The total population of the EU is projected to decline over the long term, but also to experience a significant change in its age structure, ‘ageing of the baby boom cohorts’. Eurostat projects a 4% decline in the total EU population from 449 million (2022) to 432 million (2070). Simultaneously, a significant upward shift in the age distribution is expected, as the share of the elderly population will increase from 21.2% to 30.5% by 2070.

Key factors influencing future healthcare expenditure relative to GDP include low fertility rates, increasing life expectancy, and demographic transitions, all these leading to an increase in the old-age dependency ratio. The old-age dependency ratio, which indicates the relative shift between potential retirees and potential workers, is projected to rise sharply in the EU over the coming decades, reflecting how an aging population alters the beneficiary-contributor balance. It stood at 36% in 2022 and is projected to rise further to 59% by 2070.



Source: JLL (2024) and European Commission (2024)

Demographic changes entail that Europeans are living longer lives. However, this also leads to an increased demand for accessible, affordable, quality long-term care. Therefore, healthcare spending continues to increase dramatically as life expectancy climbs (projected to reach 86.1 for males and 90.4 for females by 2070). In addition to demographic shifts, clinical and technology advances also contribute to increased healthcare spending³. Healthcare expenditure accounts for a significant share of GDP and is expected to rise 7.3% in 2070. Considering other factors, the total cost of ageing is projected to be 25.6% of GDP in the same period⁴.

³ Deloitte (2019) Global Health Care Outlook

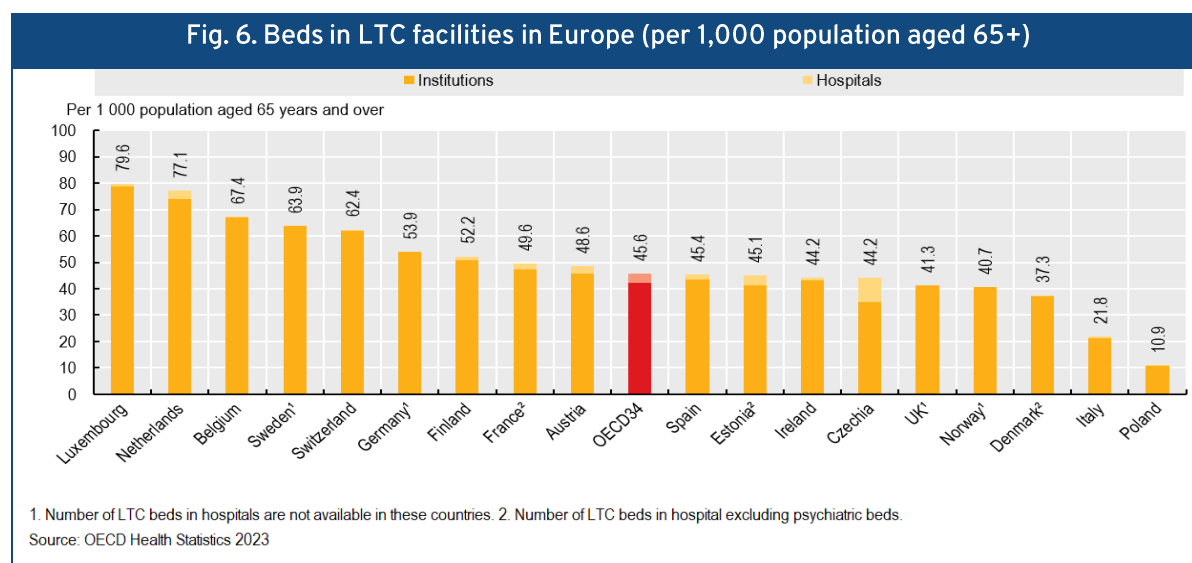
⁴ European Commission (2024) The 2024 Ageing Report, April 2024

Long-term care (LTC) from the policy perspective

The rapid aging of EU populations is placing significant strain on long-term care (LTC) systems, which are tasked with caring for a growing number of older individuals with complex health needs. Across the EU, the projected increase in people potentially needing long-term care is significant, rising from about 30.8 million (2019) to 38.1 million (2050), marking a 23.5% overall increase⁵. Understanding the demographic drivers of health care spending dynamic is essential for policy decisions. LTC is one of the priorities in the EU Care Strategy in continental Europe⁶. Therefore, the EU Commission recommends that Member States draw up national action plans to make high quality LTC more available, accessible, affordable supporting financially by EU funds.

Healthcare demand and supply mismatch

The "baby boomers" are entering retirement age with better education and greater wealth, enabling increased access to medical services. Consequently, there's a rise in high-quality care facilities to meet their needs, leading to expanded investment opportunities in healthcare assets⁷. On the other hand, the availability of stock is one of the biggest barriers to sector expansion, particularly in the prime care home market. Short to medium-term projections suggest a rising demand for nursing homes and assisted living facilities, exacerbating the substantial imbalance between supply and demand. On average, the EU has approximately 46 beds in residential LTC facilities per 1,000 population aged 65 years and over (Fig. 6). Moreover, the provision of new developments is generally low across Europe.



Source: OECD Health Statistics (2023).

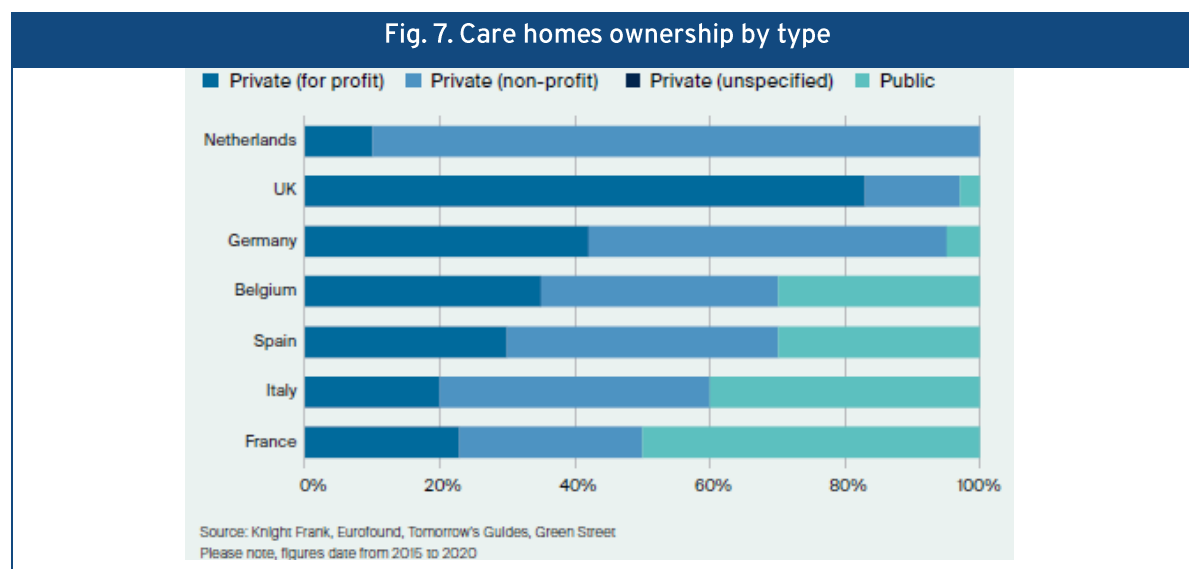
The increasing need for care has prompted adjustment in capacities and construction of customized facilities to meet growing demands and ensure proper care. The Covid-19 crisis also highlighted concerns about gaps in care facilities and the healthcare system that public healthcare struggle to bridge these gaps due to budget constraints. Thus, private-sector involvement has now become

⁵ European Commission (2024) The 2024 Ageing Report, April 2024

⁶ European Commission (2022) European Care Strategy. *European Pillar of Social Rights Principle 18: Long-term care : Everyone has the right to affordable long-term care services of good quality, in particular home-care and community-based services).*

⁷ BNP Paribas REIM (2022) Mapping A Healthcare Strategy; Savills IM (2017) Long term trends support alternative sectors in Europe








necessary to accommodate the increasing needs⁸. Private equity and institutional investors are exploring the range of real estate opportunities globally (Fig. 7).



Source: Knight Frank (2022) European Healthcare Elderly Care Market.

The UK, Germany and France are the largest markets by bed numbers and have an established healthcare infrastructure with high standards of care. Spain, Italy, and Finland are lagging in both quality and quantity of stock relative to their aging populations. The Netherlands, Belgium and Scandinavia are often considered model care home markets due to the high standards of care and government spending on long-term care⁹. The demand and supply indicators for top markets are summarized in Fig. 8.

Fig. 8. Top markets in Europe

		DEMAND	SUPPLY			OPERATORS		
		% OF GDP SPENT ON HEALTHCARE (OF WHICH IS LONG-TERM CARE)	OVER 75 POPULATION 2021	OVER 75 POPULATION 2050	MARKET SIZE (BEDS)*	BED PROVISION PER 100 PERSONS AGED 75 AND OVER	% PRIVATE OWNERSHIP	MARKET SHARE OF TOP FOR-PROFIT OPERATOR
GERMANY		11.5% (2.1%)	9.6 MILLION	14 MILLION	900K	9	95%	12%
FRANCE		11.3% (2.4%)	6.3 MILLION	11.4 MILLION	700K	11	50%	29%
UK		10.0% (2.3%)	6.0 MILLION	10.2 MILLION	479K	8	97%	13%
SPAIN		9.0% (0.9%)	4.9 MILLION	9.42 MILLION	370K	8	70%	19%
ITALY		8.7% (0.9%)	7.2 MILLION	12 MILLION	340K	6	60%	11%
NETHERLANDS		10.0% (3.9%)	1.6 MILLION	2.8 MILLION	180K	12	100%	5%
BELGIUM		10.3% (2.3%)	1.1 MILLION	1.84 MILLION	150K	14	70%	33%

Sources: Eurostat, WHO, Eurofound, Patron Capital, Greenstreet, INSEE, XERFI

*Market size figures may include some beds designed for working age adults in long-term care

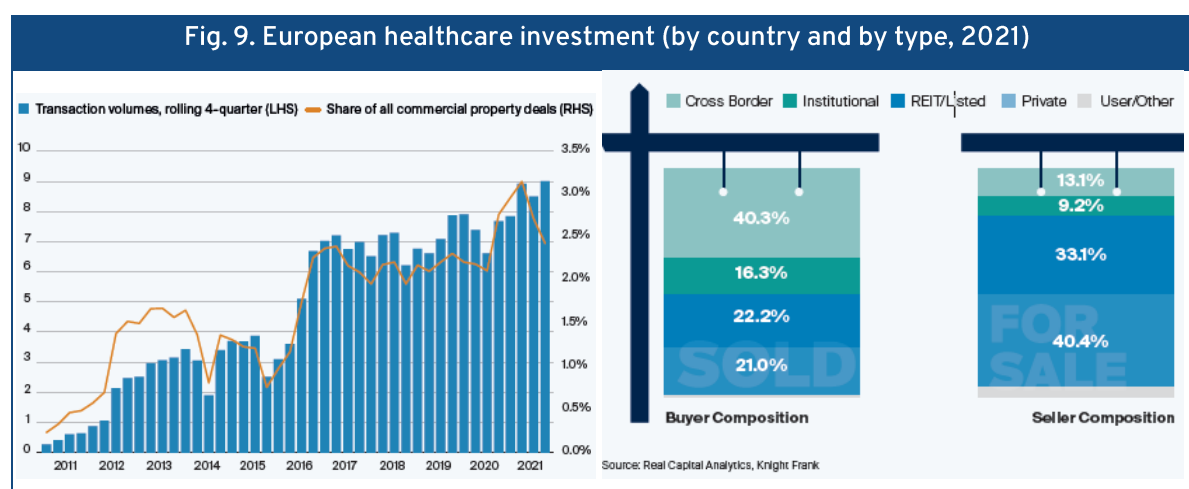
Source: Knight Frank (2022) European Healthcare Elderly Care Market.

⁸ BNP Paribas REIM (2022) Mapping A Healthcare Strategy

⁹ Knight Frank (2020, 2022) European Healthcare Report

Healthcare as an asset class

The healthcare is one of the most attractive segments for investors with a risk appetite supported by strong demographics and market conditions, as well as strong historical performance, delivering robust returns even during periods of economic uncertainty such as the global financial crisis. Healthcare assets have been increasingly popular first in Belgium and France, and, later, in Germany and the United Kingdom which are relatively mature European markets. On a global scale, the UK seems like a small market against the US or Australia, but it is still a promising market compelling new capital when compared to the rest of Europe. Southern Europe is considered an attractive location for investment, and not just because of the strong underlying demographic trends but also warmer climate and generally lower cost of living, hence, in particular Spain and Italy are now beginning to see institutional investment flows from across Europe.



Source: Knight Frank (2022) European Healthcare Elderly Care Market.

According to Real Capital Analytics, European healthcare transaction volumes for 2022 was around EUR 9.4 billion and the first half of 2023 was EUR 3.6 billion¹⁰. Across Europe investment activity in the sector has been driven by cross-border capital, a mix of institutions, private and REITs, which has accounted for 42% of the total transactions. REITs especially, have been playing an active role over the past a few years, with Cofinimmo and Aedifica being the largest healthcare investors in Europe. They contribute to cross-border acquisitions, while domestic REITs remain active within their respective geographies. In terms of geographies, the UK and Germany have been the most active markets, far ahead of France, Spain and Belgium¹¹.

Performance of healthcare specialists

Within the scope of this report, eight listed real estate companies, all REITs are identified. The total market cap of Europe's healthcare REITs has more than doubled in the last decade and reached EUR 9.5 billion as of 28/03/2024.

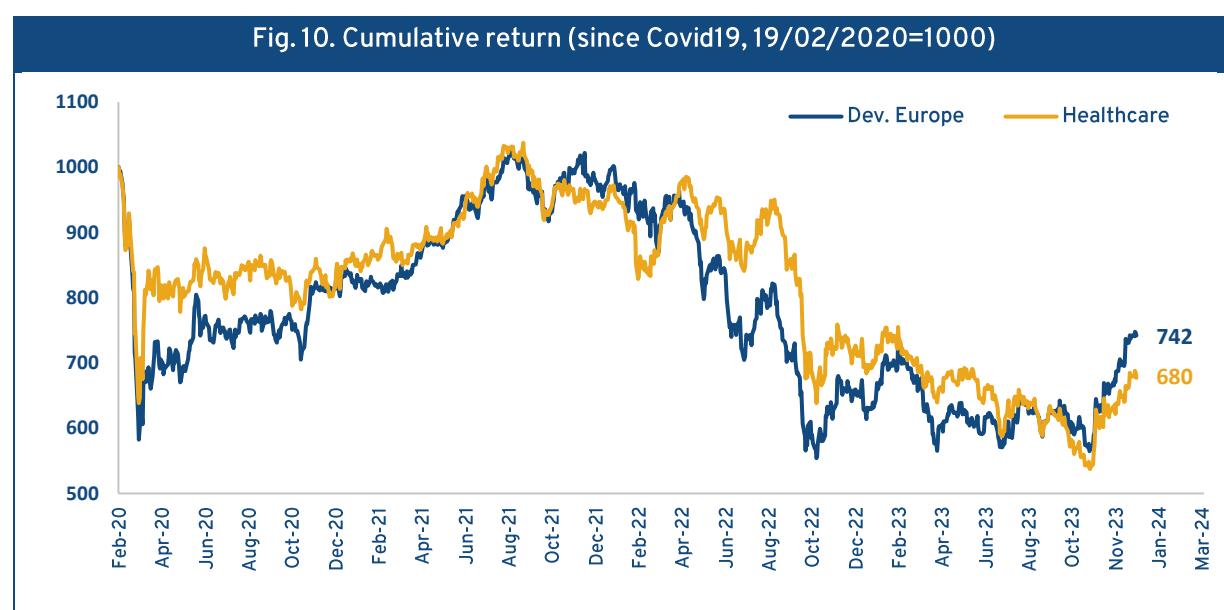
Since the Covid-19 pandemic, the healthcare sector has underperformed similar to the FTSE EPRA Nareit Developed Europe index, also the recent macro-economic shifts (high inflation and interest rate) put additional pressures on the sector (Fig. 10).

¹⁰ European Healthcare Investor Association (2023) Healthcare Investing in Europe.

¹¹ Knight Frank (2022, 2023) European Healthcare Report

Company	Country	FF MCap (EUR, Bln) As of 28/03/2024	FF MCap (EUR, Bln) As of 31/12/2014
Aedifica	Belgium	2.68	0.61
Cofinimmo	Belgium	2.23	1.73
Primary Healthcare	UK	1.45	0.53
Assura plc	UK	1.44	0.66
Target	UK	0.61	0.15
Care Property	Belgium	0.49	0.16
Life Science REIT	UK	0.16	
Impact Healthcare REIT	UK	0.31	
Total		9.51	3.84

Source: EPRA Research. Data is compiled from Bloomberg



Source: EPRA Research. The list of the companies is given in Appendix Table 1.

Healthcare: expected growth for the next decade

EPRA estimates that European listed healthcare sector will grow at CAGR 11.7% in the next decade based on its historical growth (10yr: CAGR 14.6% in full market cap) and the aforementioned drivers to support further expansion. Total market cap is estimated to exceed EUR 28.6 billion. In addition, the weight of the healthcare sector in the listed real estate universe is expected to reach 5.9% from 3.7% by 2034 and will contribute to the growth of the listed real estate (*further details in the section 4: Alternative sector forecasted growth*)

2.2. Alternative housing

Introduction

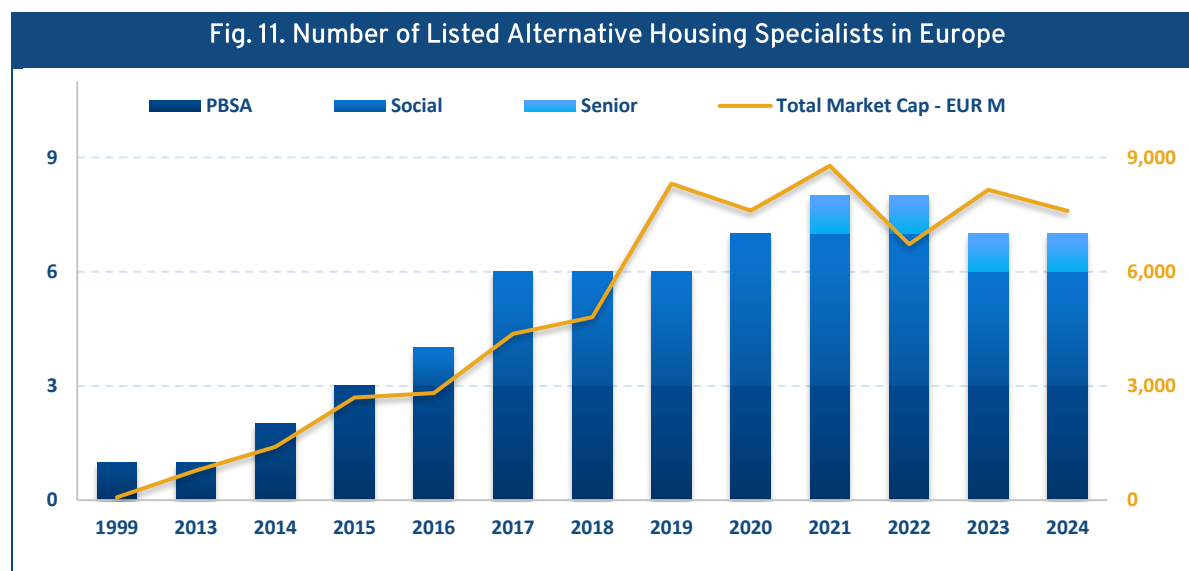
Residential properties have been part of the listed real estate industry in Europe for decades, although modestly at the beginning representing less than 3% of the FTSE EPRA Nareit Developed Europe in 2010. It became much more relevant after 2012 with the expansion of the German residential landlords and the emergence of several alternative subsectors like co-living, social housing, senior living, and

purpose-built student accommodation (PBSA) in continental Europe¹². The growth of these alternative sub-sectors has been remarkable, now catching the attention of several policy makers, analysts and investors.

In spite of the common idea of student accommodation currently seen as an alternative sub-sector, its history is much longer. The first listed property company operating PBSA in Europe was Unite Group with its IPO in 1999. This activity was considered very niche for several years, so classified as specialty in the FTSE EPRA Nareit indexes and taking more than a decade (2011) to be reclassified into the residential sector. However, the continuous expansion of international students arriving at European universities, Empiric Student Property (UK, IPO in 2014) and Xior Student Housing (Belgium, IPO in 2015). Since then, these 3 companies have been leading this segment in Europe ahead of some private companies and investors.

On the other hand, senior living and social housing specialists are much younger. In 2016, Civitas Social Housing¹³ (UK) debuted in public markets being the first listed social housing specialist in Europe, followed by Triple Point Social Housing (UK) and Residential Secure Income (UK) in 2017, Inclusio (Belgium) in 2020 and Adriano Care (Spain) in 2021, this last mainly focused on senior housing. Actually, senior living and care homes have become two of the most successful property types used by residential companies for diversifying their property portfolios.

During the last decade, the number of alternative housing specialists in Europe multiplied by 4 and their full market cap changed from EUR 1.4 billion in 2014 to EUR 7.3 billion in 2024, representing a total growth of 416.7% (CAGR 17.8%). Therefore, it is clear that alternative housing is becoming a more mature sub-sector, with strong fundamentals behind it and attractive potential growth and expected returns.



The alternative housing is a sector closely related to social dynamics, demographics and other changes in different segments of the population, hence, less influenced by economic cycles than traditional real estate.

¹² See EPRA sector analysis – Residential 2020 report. Available [here](#).

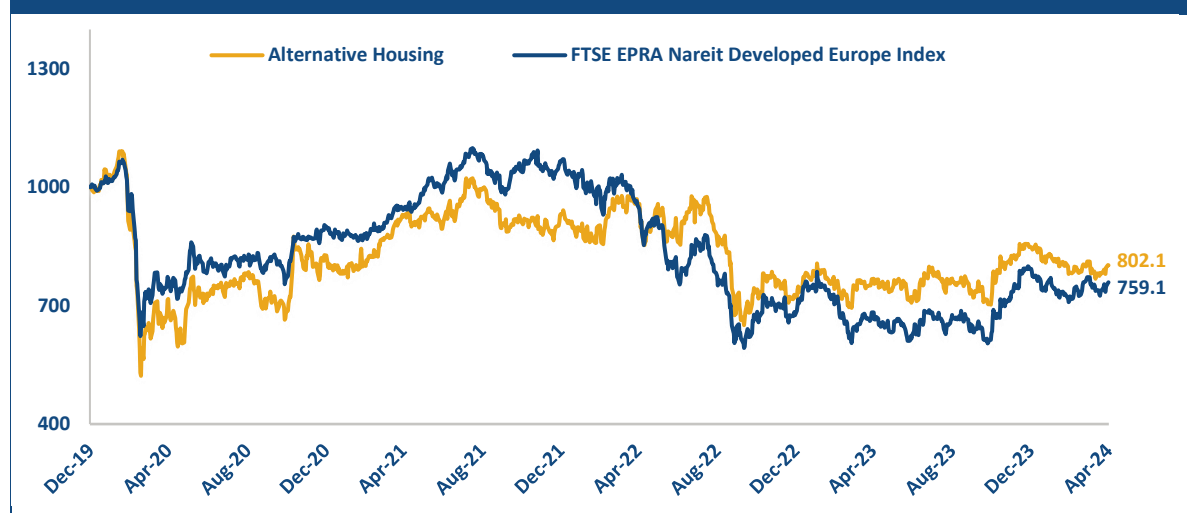
¹³ Acquired by CK Asset Holdings (Hong Kong) in Aug/2023.

Performance and growth drivers

Looking at its recent performance, it is clear that this sector showed significant resilience during the pandemic and also during the recent inflationary and interest rate hiking cycle, outperforming by 430 bps the FTSE EPRA Nareit Developed Europe index between Dec/19 and Apr/24 and by 610 bps between Apr/21 and Apr/24 (Fig. 12).

Regarding a long-term potential growth, some demographic trends can be highlighted. First, according to Savills¹⁴, in spite of all the evidence on aging population across the continent, the provision of care homes and senior living facilities has not evolved fast enough, therefore creating a significant mismatch between supply and demand. Simultaneously, looking at senior housing, most of the European markets remain highly fragmented, mainly due to regulatory and idiosyncratic differences across several territories, therefore representing a significant challenge that needs to be corrected in order to reach sustainable growth in this subsector.

Fig. 12. Comparative performance: Alternative Housing vs FTSE EPRA Nareit Dev. Europe Index

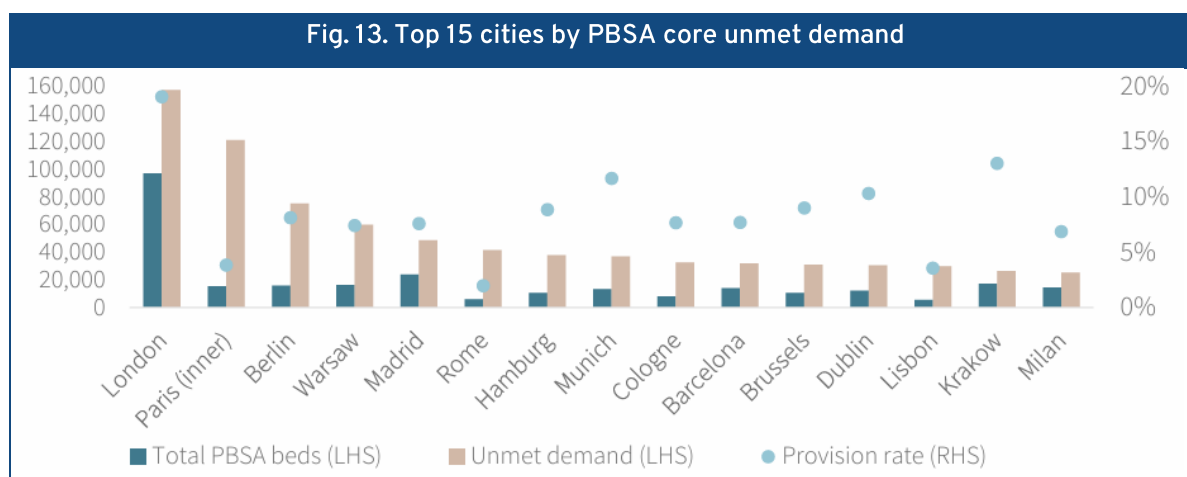


Source: EPRA Research. The list of the companies is given in Appendix Table 1.

Second, there is substantial evidence of undersupply of student accommodation in most of the main cities in Europe. According to JLL¹⁵, the number of students in Europe is expected to grow by 10% between 2021/22 and 2030/31, reaching 23.5 million students, while the PBSA pipeline will fulfil only 11% of current unmet demand in European cities once completed. Therefore, the total unmet demand across Europe will reach 3.2m beds, up 8% compared to 2022/23, as the PBSA pipeline fails to offset growing demand, suggesting a further need for new PBSA stock. In total, circa €450 billion of investment is required to meet current levels of unmet student demand across 16 key European countries, which represents a significant opportunity for listed property companies to expand across different geographies aiming to receive private investments.

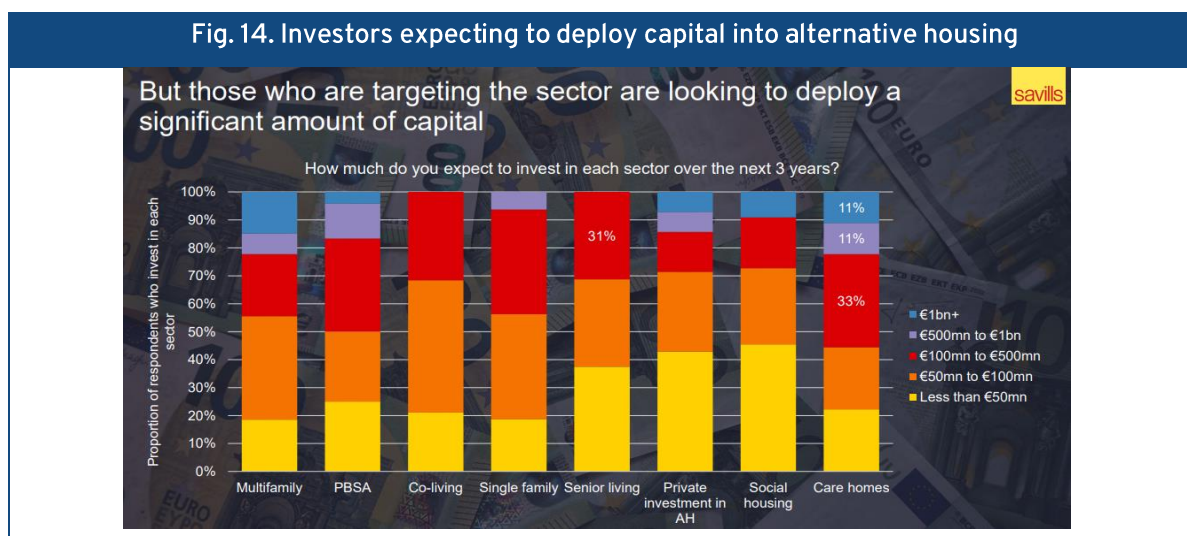
¹⁴ Savills, presentation at the Senior Housing & Healthcare Summit, Brussels, June 27th 2023.

¹⁵ JLL Research, European PBSA Investing in the Future, June 2024.



Source: JLL, 2024. Unmet demand based on 80% of international and 40% of domestic migratory students.

Third, since this property sector has historically provided attractive returns that called the attention of all types of stakeholders and shows strong fundamentals both in the short and long-term, several investors are eager to increase their allocations to this sector in the near future, although some important barriers need to be surpassed. Finally, ESG and sustainability are becoming the most important topics for all types of stakeholders in the sector. In the light of aforementioned fundamentals, REITs and listed property companies are playing an important role and have gradually become a key participant in the sector, and alternative housing specialists face an incredible opportunity to take advantage of the expansion of this sector.



Source: Savills Research. Survey was run between 24th January 2023 and 10th February 2023.

Alternative housing: expected growth for the next decade

All the previous elements support the idea of a further expansion of the European alternative housing sub-sector in the coming years. Observing its historical growth (10yr: CAGR 17.8% in full market cap) and the strong demographic trends behind, EPRA expects a further expansion of this sub-sector close to CAGR 12.3% during the next decade, which is consistent with the expansion of a sector still in an early stage growing faster than the entire European listed real estate industry (expected growth of CAGR 6.6% in 5y according to Oxford Economics), and representing a substantial opportunity for all types of investors interested in diversifying their portfolios by investing in real estate.

2.3. Self-storage

Introduction

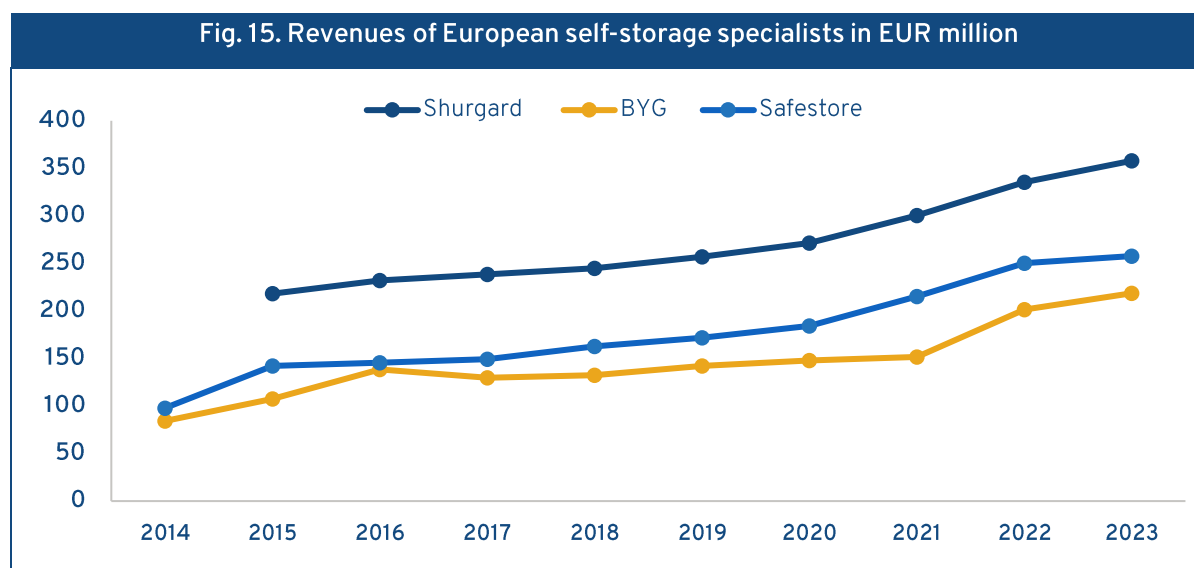
Self-storage companies, in simple terms, are entities that rent out storage units to both individuals and companies offering a wide range of storage spaces to choose from, allowing them to store their goods for short or long term with the flexibility to pick up their goods whenever they want (or almost). These facilities are usually equipped with a variety of features to ensure that the stored goods are safe throughout the time they are stored.

In recent years, the self-storage sector has become quite popular due to its performance when compared to the general industry. The table below, shows the performance of the FTSE EPRA Nareit Developed Europe Self-storage index against the general index. Noticeably, the sector has provided positive returns across all the time horizons taken into consideration.

	Currency	TR 10Y (%)	TR 5Y (%)	TR 3Y (%)	TR 1Y (%)
Developed Europe	EUR	3.12	-1.57	-6.50	26.62
Developed Europe Self Storage	EUR	14.74	8.69	1.79	4.99

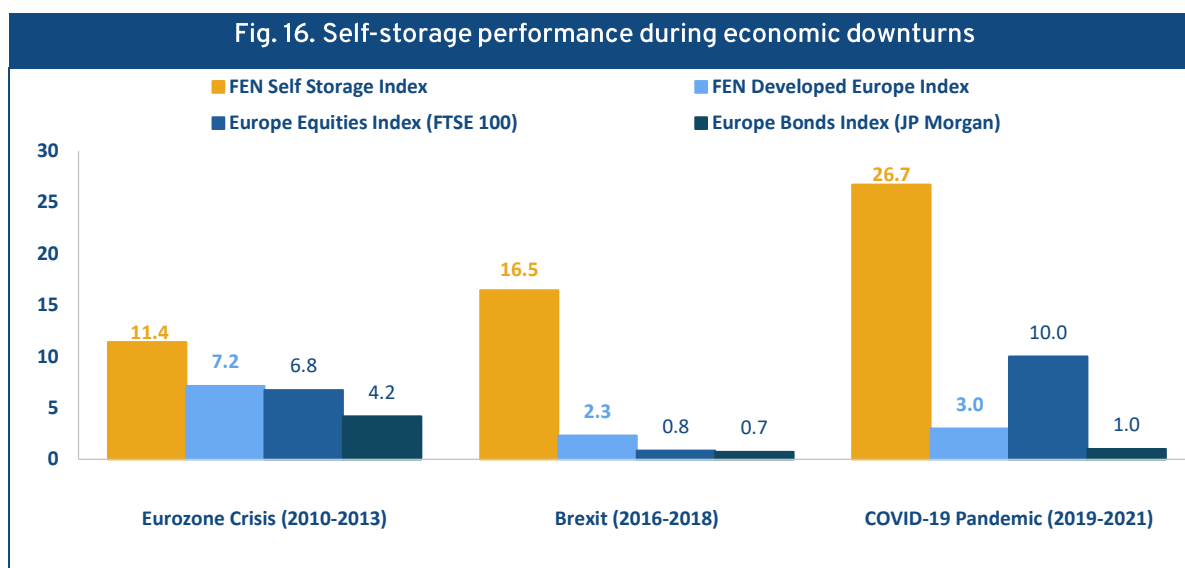
Source: EPRA Research

Currently, the FTSE EPRA Nareit Developed Europe Self-Storage Index comprises of three companies, namely: Shurgard Self-Storage (SHUR BB), Safestore Holdings (SAFE LN), and Big Yellow Group (BYG LN). As illustrated in the figure below (Fig.15), these companies have been growing quite significantly during the past ten years, highlighting a growing interest of investors in Europe.



Source: EPRA Research

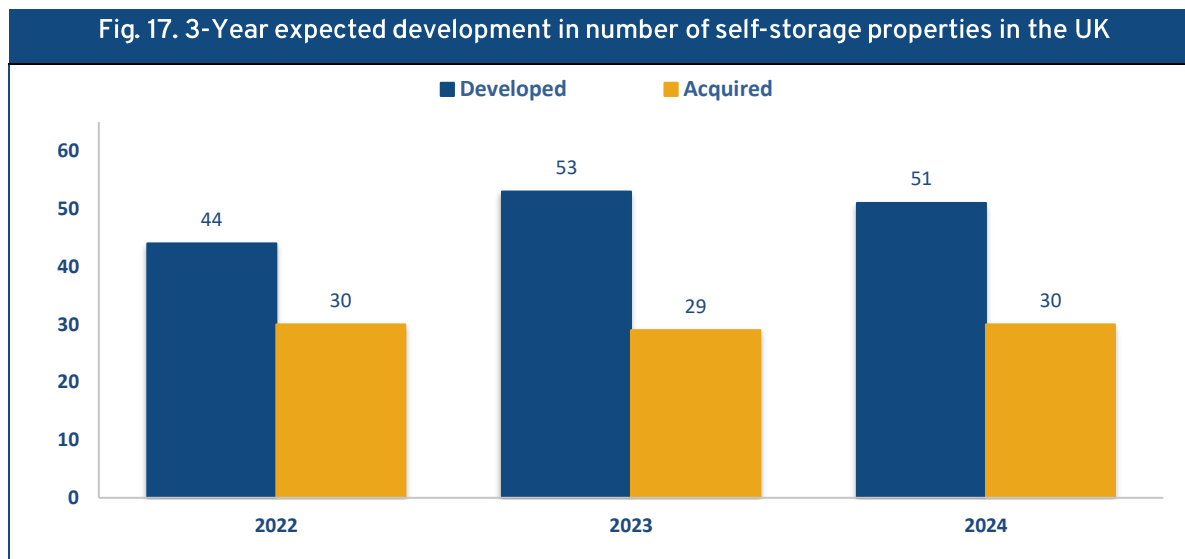
The self-storage sector has also demonstrated a resilience during crisis periods, yielding higher returns than the broader real estate industry as well as both equities and bonds. The sector provided relatively higher returns, on an annual basis, 26.7% during the COVID-19 pandemic, 16.5% during Brexit and 11.4% during the Eurozone crisis.



Source: EPRA Research. Annualized returns

Potential growth

Recent FEDESSA data¹⁶, suggests that in the UK, only 3% of people actively use self-storage, while 9% consider making use of the service. This clearly points to a lack of awareness about the self-storage sector among customers, especially in Europe, where the size of the sector is significantly lower than in the US.

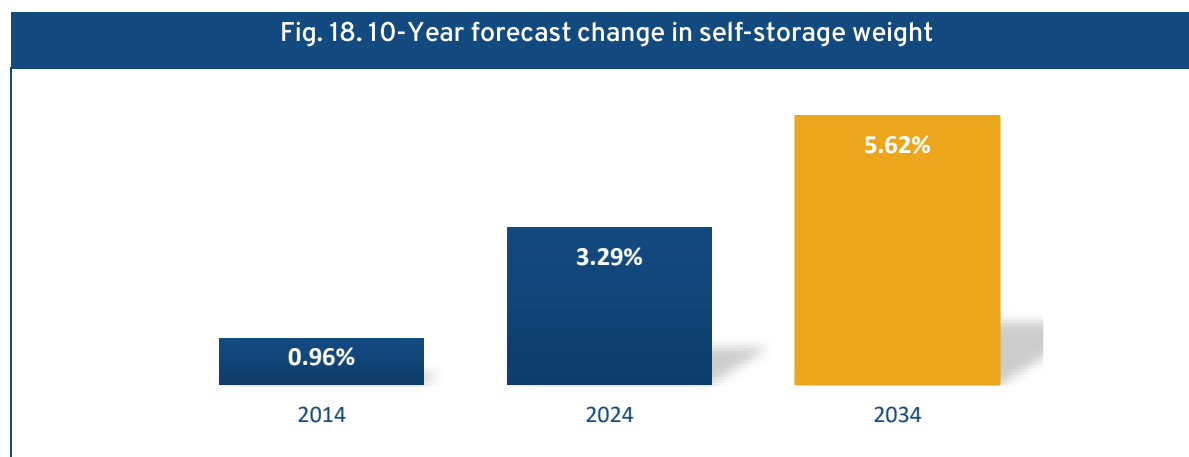


Source: Self Storage Association (UK)

Although the general public remains largely unaware of the self-storage sector, analysts predict robust growth and development for the industry in 2024. This optimism is fuelled not only by the increasing recognition among individuals but also by businesses awakening to the advantages of using self-storage facilities in Europe. Businesses, in particular, are beginning to realize the cost-efficiency and convenience of utilizing self-storage solutions for excess inventory, document archiving, and transitional storage needs.

¹⁶ FEDESSA (2024) Self-Storage – UK Annual report

Considering all these factors and also relatively small size of the European market compared to the US, there is certainly untapped potential in Europe. The increasing awareness about the self-storage sector and the resilience shown during periods of crisis could lead it to continue to grow at the same rate as the last decade, reaching up to EUR 27.2 billion in MCap by 2034 (representing 5.62% of the FTSE EPRA Nareit Developed Europe Index).



Source: EPRA Research.

2.4. Data centres

Introduction

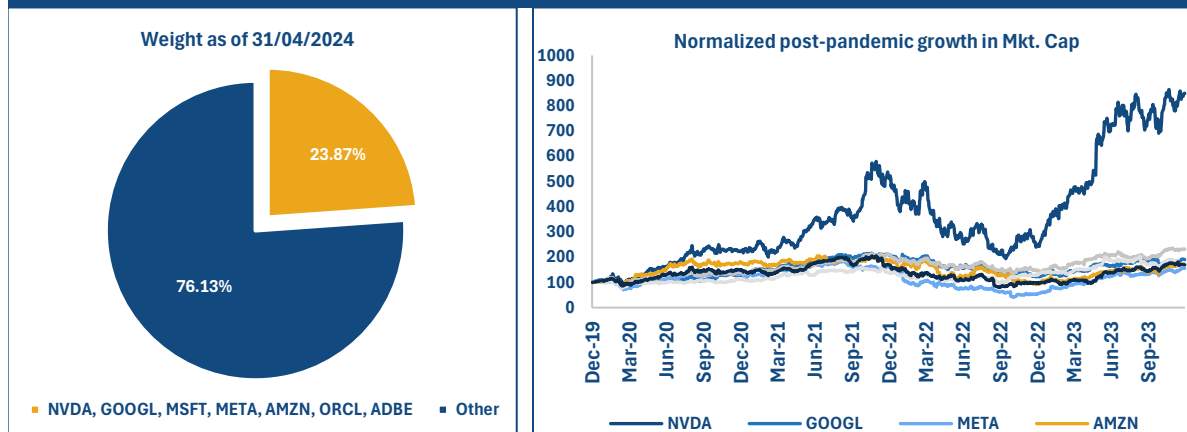
In the past thirty years, technological breakthroughs have led to a digital revolution that has significantly impacted our daily lives. Although this technological shift started in 1989 with the introduction of the World Wide Web, it is undeniable that, since the launch of the first Apple iPhone in 2007, our world has changed exponentially, resulting in a new society that has become almost fully reliant on fast and accessible technology. Today, we have the possibility to exchange data and information in a matter of instants thanks to advanced technological infrastructures that allow the interaction of devices like smartphones, laptops, and more in general, every piece of equipment that requires the exchange of information/data with others to be functional.

These IT infrastructures, the backbone of this new “digital economy”, are mainly stored in data centres, which are assets that allow efficient storage and management of large amounts of data. Despite looking like “conventional” warehouses, they are designed to provide high-level technological space in which companies, institutions and other organizations can allocate their computing resources.

Drivers : AI and cloud computing to power the digital transformation

Although the data centre sector is still considered as an alternative one in the real estate universe, increasing demand for cloud computing, artificial intelligence (following its democratization by OpenAI in 2022) and big data have made it one of the most attractive sectors in the industry. As a matter of fact, a large amount of the available space is leased out to tech giants (“hyperscalers”) who are involved in cloud services and/or AI development/deployment. These heavy tech corporations have seen an incredible growth in market capitalization (*Fig. 19*), reaching 23.87% of the S&P 500, which represents the largest economy in the world, as of March 29, 2024. (Bloomberg). Although NVIDIA (NVDA) does not directly offer those types of services/technologies, being the world leader in chip manufacturing, it has become essential for the development of artificial intelligence (*Fig. 20*).

Fig. 19-20. Evolution and weight of major tech companies

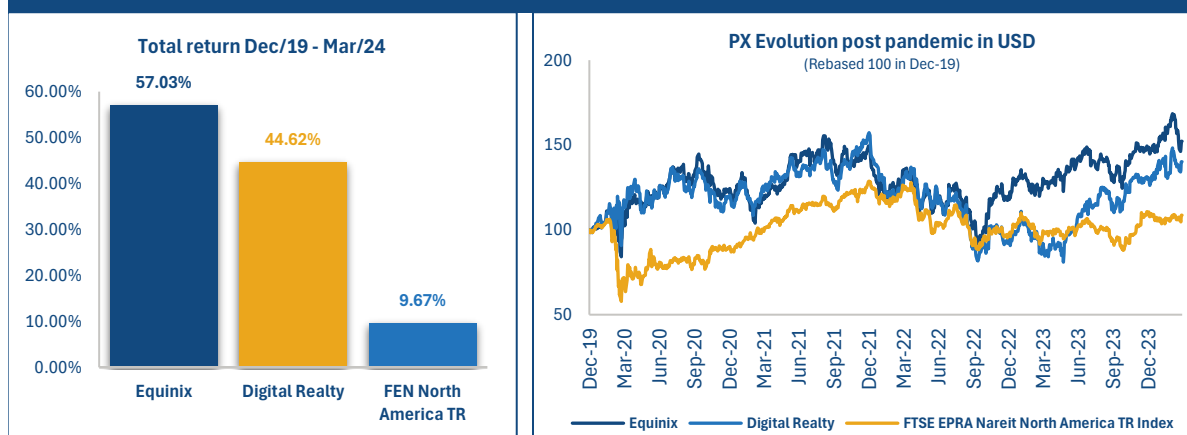


Source: EPRA Research. Compiled from Bloomberg

Current situation and looking ahead

Even though the vast majority of assets worldwide are privately owned, the largest market in the world, the US one, is led by two listed giants: Equinix (EQIX US) with a free-float market capitalisation of USD 71,2 billion and Digital Realty (DLR US), with a free-float market capitalisation of USD 40,2 billion as of March 29, 2024. Combined, the two corporations made up for 11.8 percent of the FTSE EPRA Nareit North America Index (USD 981,3 billion in free float market capitalisation) as of March 29, 2024 (Fig. 21). Both of them widely outperformed the index post pandemic (Fig. 22), further highlighting how the data centre sector in the United States benefitted from the considerable growth of these new and already existing technologies that are shaping our daily lives.

Fig. 21-22. Data centres performance in the US



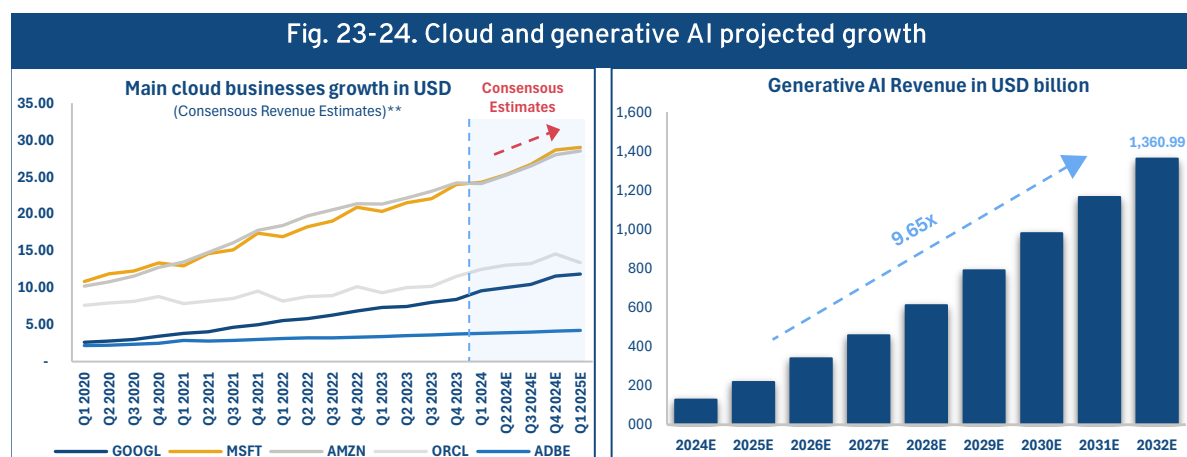
Source: EPRA Research.

In the Asia Pacific region, Singapore-based Keppel DC REIT (KDCREIT SP) and digital Core REIT Management (DCREIT SP) lead the listed universe with a combined free-float market capitalisation of USD 2,9 billion as of March 29, 2024. Currently, in the European arena, there are no listed specialists. However, besides the above-mentioned large data centre REITs in the United States, which among their international investments, are estimated to generate a third of their total revenues in Europe, large and diverse European players have developed an appetite for this type of asset.

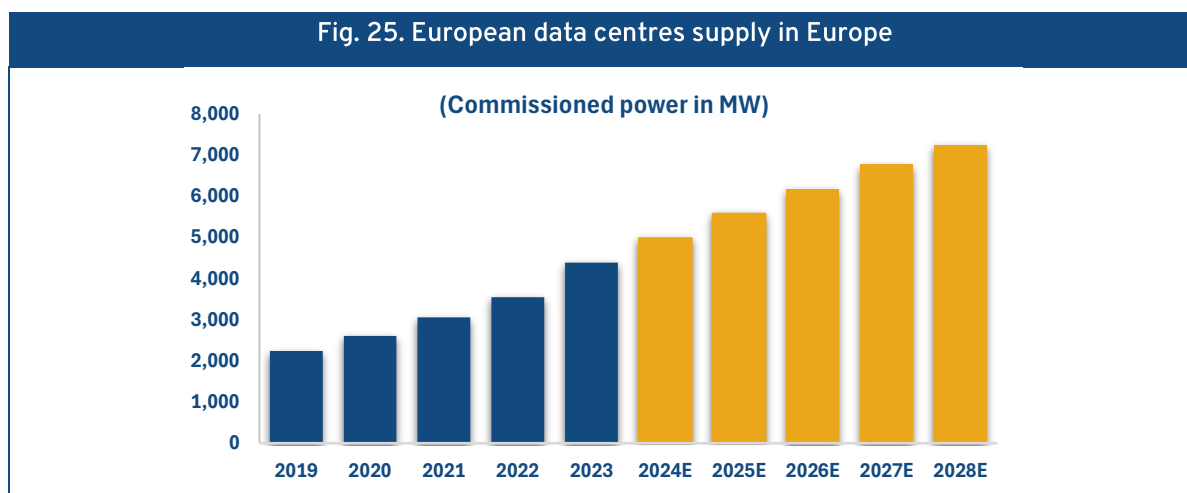
In Spain, Merlin Properties (MERY SP), which owns offices, warehouses, and shopping centres, launched a new business line dedicated to data centres at the end of 2021. Four of these data centres have already been completed and are located in Madrid, Barcelona, and Alava, with a total capacity of 60 MW. In the United Kingdom, SEGRO (SGRO LN), the largest industrial player in Europe and the second largest property company in the FTSE EPRA Nareit Developed Europe Index, has also ventured into the data centres niche. Differently from Merlin Properties, however, SEGRO owns the land and the 'shells' of these data centres, meaning it owns the buildings, but does not operate them. Instead, it leases them out to companies that operate them, such as Equinix, CyrusOne, and Iron Mountain.

Growth potential

In conclusion, as digital transformation accelerates globally, data centres hold substantial potential for growth. In particular, as mentioned, most of the demand for this type of facilities is driven by two main factors: cloud services, which are expected to keep growing in the upcoming quarters (Fig. 23), and AI, which is projected to see its generated revenues increase nearly tenfold over the next eight years, reaching USD 1,3 trillion by 2032, according to Bloomberg (Fig. 24).



This evolving trend will create significant opportunities for the European listed real estate industry looking ahead, as the full potential of data centres, is yet to be unlocked (Fig. 25). *Oxford Economics* predicts that the FTSE EPRA Nareit Developed Europe Index will grow by an average of six percent per annum over the next five to ten years. Under this context, the rising demand for data centres and the overall growth of the real estate industry in the region could lead to massive expansion of this sector in Europe, EPRA estimates that the data centres will make up 9.51% of the FTSE EPRA Nareit Developed Europe Index by 2034.



Source: Green Street data

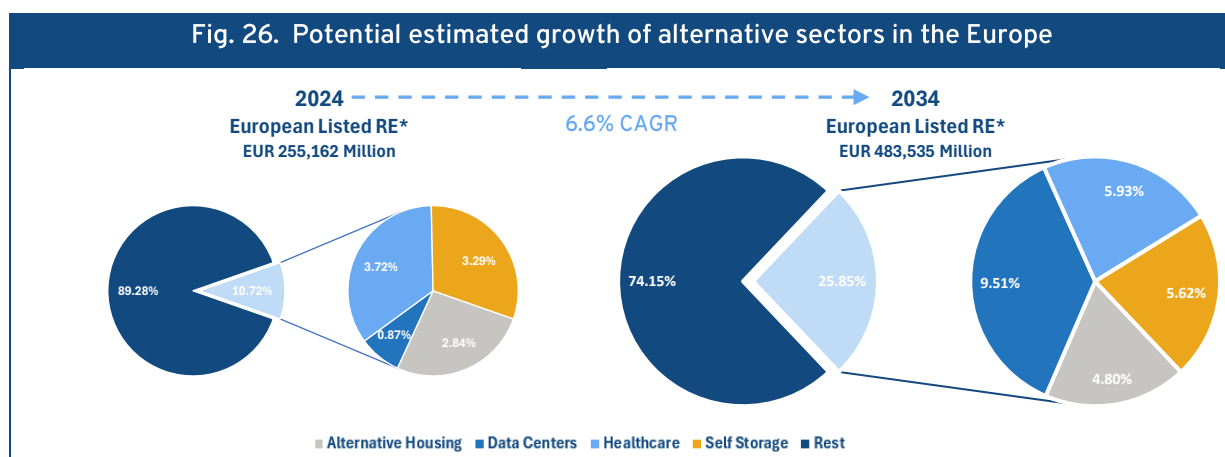
3. Key Takeaways

- The listed real estate industry in Europe is experiencing a shift to adapt to changing market dynamics. In particular, **strong demographic drivers and technological advancement are boosting the growth of some niche property sectors**, while transforming them into new real alternatives for all types of investors looking for portfolio diversification in the medium and long term.
- Some megatrends like ageing population and urbanisation are supporting the expansion of property companies specialised in healthcare and life science facilities, senior living and social housing, while creating outstanding opportunities for several stake holders to have a direct positive impact on European society. Simultaneously, changes in households composition, migration of international students and the raise of the digital economy represent an exceptional opportunity for REITs and other listed property companies to expand their operations and property portfolios by investing in self-storage facilities, student accommodation and data centres.

Despite this growth potential, alternative sectors face some challenges, some of them derived from Covid-19 crisis, and some others from the changing macroeconomic landscape. On one side, healthcare and alternative housing are highly fragmented and experience significant imbalances between supply and demand, on the other, self-storage needs to increase the awareness of its business model across the general public in Europe and data centres have to attract new capital from European investors eager to venture into an entire new very specialised sector. Nevertheless, Europe's property market is expected to see a further increase on its share of alternative real estate sectors over the coming years.

- Using EPRA's definition and scope, it can be observed that **the alternative sectors experienced an annual growth of 17.7% during the last decade**, counting for approximately **EUR 5.3 billion** in full market capitalisation in 2014 (3.4% of the industry) and **EUR 27.3 billion** in 2024 (10.7% of the industry).

- **The rise in importance for these sectors is evident and their expansion is already ongoing.** Many analysts, investors and real estate specialists have been increasing their coverage in their research reports and investable universe, following actively all the events in the alternative property sectors. This phenomenon also reflects a dynamic response to investors' demand by offering a diversified set of investment opportunities characterised by strong resilience against economic fluctuations.
- Based on Oxford Economics' forecast on the FTSE EPRA Nareit Developed Europe Index growth (an average of 6% per annum over the 5 years) and a global trend for specialisation and growth of niche sectors, EPRA estimates that the alternative sectors will grow at annual rate of 16.4% during the next decade. In the light of this forecast, **EPRA also projects that the share of the alternative segment will reach 26% of the total index and exceeding a total market capitalisation value of EUR 125 billion in the next decade (Fig. 26).**



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Appendix

1. Defining alternative property sectors : a highly fragmented market

For better understanding of the scope of this report, the definition of each alternative real estate subsectors is given below:

1. Healthcare

Healthcare property companies own different property types, including hospitals, medical & wellness centres, medical office buildings, and skilled nursing facilities. Healthcare REITs may further include outpatient facilities, medical offices and life science innovation and research properties, among others. In particular, life science is one of the most recent sub-sectors to catch investors' attention since COVID-19 sparked additional R&D for drugs, therapies, and vaccines for future viruses. Human genome sequencing continues to drive rapid advancements in drug development, resulting in increased demand for life science space.

2. Alternative housing

Here, the main attention focus is on residential properties different than the traditional single-family houses and apartment buildings. The *student housing* sub-sector has the longest history in Europe. Modern amenities of traditional apartments with the collegial atmosphere of dorms are preferred by students without the drawbacks of obsolete buildings or isolating distance of off-campus apartments. Manufactured homes and co-living structures are also covered here. *Social housing* is also covered, being a very niche sub-sector characterized by government support through long-term contracts with municipalities and operators, focused on population under difficult conditions and disabilities. Finally, *senior housing* completes this sector, delivering senior living facilities to older generations and offering advanced technology, safety, wellness and delivery of healthcare. It is important to distinguish between senior living and care/nursing homes, where the main difference is the supply of medical services offered in the second case but not in the first one, therefore we include senior living in the alternative housing sub-sector and care/nursing homes in the healthcare sub-sector.

3. Self-storage

These are properties that offer both individuals and companies some modern storage facilities, providing a high level of flexibility in terms of size, availability, and location among others. Expedited migration of millennial populations from apartments to single-family rentals is driven by major life changes or a desire to change current living situations. This trend is characterized by resilient cash flows in both periods of strong economic growth and downturns.

4. Data centres

Properties specialized on providing data storage facilities and servers with very specialized features, including cooling and power supply. Strongly supported by digitalization, e-commerce, AI expansion, and accelerated migration of IT infrastructures to cloud servers as companies reduce long-term IT costs and enhance their work from home abilities. Growth is driven by rising consumption of online content, the rise of big data, and companies migrating their data to the public cloud.

2. The Alternative Sector Benchmark

The Alternative Sectors Benchmark is an in-house research benchmark created by EPRA and includes constituents of the FTSE EPRA Nareit Developed Europe Index and EPRA members.

Table 1. Scope of the analysed companies

Alternatives combined constituents	Asset class	Alternatives combined constituents	Asset class
Adriano Care	Senior housing	Primary Health Properties	Healthcare
Aedifica	Healthcare	ReSi	Social housing
Assura	Healthcare	Safestore	Self-Storage
Big Yellow Group	Self-Storage	Shurgard Self Storage	Self-Storage
Care Property Invest	Healthcare	Target Healthcare REIT	Healthcare
Empiric Student Property	Student housing	Triple Point Social Housing REIT	Social housing
Impact Healthcare REIT	Healthcare	Unite Group	Student housing
Inclusio	Social housing	Xior Student Housing	Student housing
Life Science REIT	Life science	Cofinimmo	Healthcare

3. Demographic Projections

Table 2. European Commission's demographic projections

Demographic projections	Ch 22-70	2022	2070
Population (million)	-17.2	449.1	431.9
% of elderly population (+65y)	9.3	21.2	30.5
% of very elderly population (+80y)	7.0	6.1	13.0
% of very elderly population (+80y) in elderly population (+65y)	14.2	28.6	42.7
Life expectancy at birth			
males	7.7	78.4	86.1
females	6.4	84.0	90.4
Dependency ratios	Ch 22-70	2022	2070
Share of older population in working-age population (1)	1.0	23.5	24.5
Old-age dependency ratio (2)	23.0	36.1	59.1
Total dependency ratio (3)	23.1	70.7	93.8
Economic old-age dependency ratio (20-64y) (4)	24.2	45.7	69.9
Long-term care (baseline scenario)	Ch 22-70	2022	2070
Healthcare spending as % of GDP	0.4	6.9	7.3
Long-term care spending as % of GDP	0.8	1.7	2.6
of which on institutional care	0.5	0.8	1.3
of which on home care	0.2	0.5	0.7
Number of dependent people (in million)	23%	31.2	38.4
Recipients: receiving institutional care	64%	4,142	6,792
receiving home care	56%	7,141	11,114
Total cost of ageing as % of GDP (5)	1.2	24.4	25.6
(1) Share of older population = Population aged 55 to 64 as a % of the population aged 20-64. (2) Old-age dependency ratio = Population aged 65 and over as a % of the population aged 20-64. (3) Total dependency ratio = Population under 20 and over 64 as a % of the population aged 20-64. (4) Economic old-age dependency ratio (20-64) = Inactive population aged 65+ as a % of the employed population 20-64. (5) The total cost of ageing (pension, health care, long-term care and education expenditure)			

Source: European commission (2024)