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# SECURING AN ALTERNATIVE FUTURE

Investors are turning to alternative property sectors for resilient returns and growth opportunities

**A**lternatives covers a plethora of property sectors. We have focused on three with strong potential: data centres, purpose-built student accommodation (PBSA) and care homes.

These sectors offer purpose-focused investors a few key benefits: strong demand supports returns, and the living sectors in particular have the potential to make a positive ESG contribution.

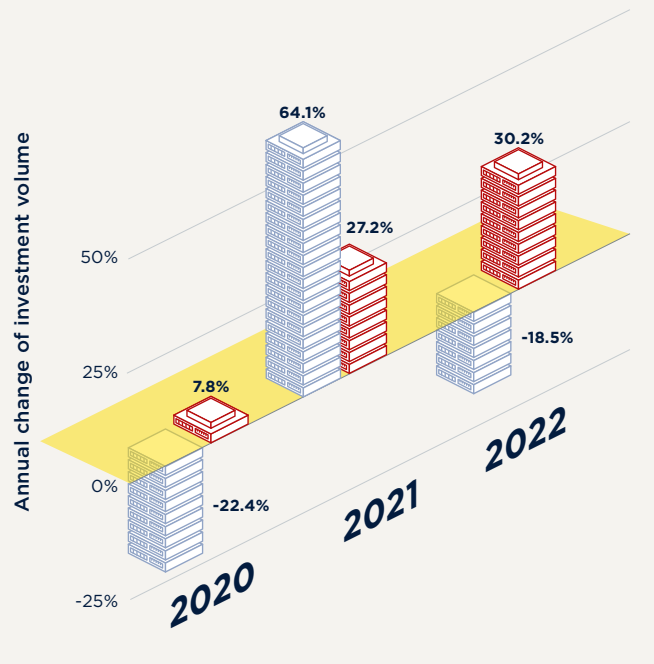
Driven by structural factors largely unaffected by business cycles, alternatives can be a good way to diversify. Phenomena such as the digitalisation of our business and personal lives, the population ageing and growth in higher education continue whether the economy is up or down.

While total commercial property investment has seen some volatility over the past few years due to the pandemic and changing interest rates, investment into PBSA, care homes and data centres has steadily increased – highlighting their strong fundamentals. Over the past 10 years the average annual growth of total commercial real estate investment was around 7%; the average annual growth of investment into PBSA, care homes and data centres was 17%.

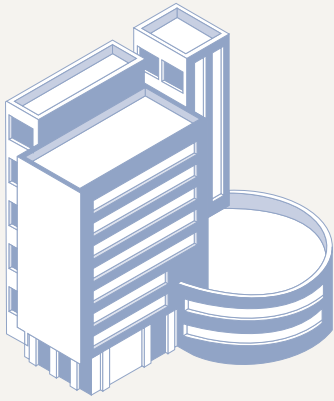
Our projection across 13 global markets for these three sectors over the next decade shows a significant opportunity, amounting to 17 million care home beds, 18 million PBSA beds and 110,000MW of data centre capacity. This translates to an additional space of more than 12 billion square feet – a sizeable opportunity for investors and developers.

## GLOBAL PROPERTY INVESTMENT TRENDS

■ Total commercial investment  
■ PBSA, care homes and data centres



Source: Savills Research using RCA



# 12.4

## BILLION SQ FT

### ADDITIONAL SPACE NEEDED BY 2033 GLOBALLY TO REACH IDEAL PROVISION

More than 12 billion sq ft of additional space is required to satisfy the growing need for alternative uses in the next decade, creating an immense development and investment opportunity for real estate players.

	Number of beds, millions/MW	Additional space needed by 2033 (Sq ft, million)
Care homes	17	3,600
PBSA	18	6,600
Data centres	110,000 MW	2,200

**Note:** This is based on 13 markets

**Source:** Savills Research using CoStar, HESA, German Federal Statistical Office, Korean Council for University Education (KCUE), UNESCO, OECD, Oxford Economics, TeleGeography

### Digitalisation

“Data centres are on the verge of significant growth, driven by increasing demand for cloud computing, big data and the Internet of Things,” says Scott Newcombe, EMEA Head of Data Centres at Savills. “The emergence of new technologies, such as 5G and AI, has further accelerated this trend. As businesses continue to move towards digital transformation, demand is expected to rise, creating investment opportunities.”

Digital use around the world still varies enormously. At the top end of the scale, 55 countries enjoy internet adoption rates exceeding 90%. At the lowest end, 730 million people across India were still not using the internet at the start of 2023. Meanwhile – despite showing an internet adoption

rate over 70% – China has the world’s second-largest “unconnected” population, with almost 375 million people not yet online.<sup>1</sup>

Multiple new technological innovations – including artificial intelligence (AI), machine learning (ML), the internet of things (IoT) and quantum computing – are expected to have game-changing effects on how data is being generated and used by individuals and businesses. This will have a notable effect on data centres.

Access to data centre assets has been somewhat limited for real estate investors. Much of the world’s space is owner-occupied, predominantly by a few specialised public REITs such as Equinix and Digital Realty. However, as data centres are expensive to build and manage, they need significant

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“Over recent years, the data centre sector has taken giant leaps forward in improving power efficiency and reducing reliance on potable water. We have also seen some interesting use of waste heat in providing community heating projects and even the heating of swimming pools. I see the next big target of our sector as continuing the development of heat reuse strategies.

Heat reuse in data centres is a strategy to reduce energy consumption and greenhouse gas emissions. Data centres generate a large amount of heat, which can be captured and reused for various purposes. Heat reuse will improve the efficiency and reliability of data centres by reducing the cooling load and mitigating overheating challenges. However, there are many barriers to implementing heat reuse in data centres, including technical, economic, regulatory and social factors.

Generating power from heat is rapidly becoming a viable technology. Most facilities currently eject most of their waste heat. But with the advances in thermoelectric generation, we could soon see systems capable of reusing this waste heat at around 40% efficiency. If this approach can be developed, we will also see significant savings in operational costs and, more importantly, our sector’s impact on the planet will reduce.”

<sup>1</sup>Source: Datareportal

# THERE IS A NEED FOR SENIOR HOUSING ACROSS A SPECTRUM WHICH RUNS FROM INDEPENDENT LIVING TO SPECIALIST NURSING HOMES FOR END-OF-LIFE CARE

◀ investment to meet ESG credentials, and require scale to achieve profitability, their owners are increasingly looking for external capital. This is where property investors can step in.

Data centres are power hungry and generate significant emissions, so meeting ESG criteria can be challenging. However, many resourceful operators are improving energy efficiency. There are many means to green the industry; the most straightforward way is to avoid fossil fuels. Data centres are increasingly using renewable energy or generating their own – off- and on-site.

## Higher education

The number of university students rose 30% in the decade preceding 2020. During this period there was a 68% increase in the number of international students. Most of this growth was in developing nations with youthful populations and it is set to continue. This will drive demand in growing nations such as India and in countries popular with international students, such as the UK and Australia.

UNESCO forecasts that over the next decade the number of students is going to double in Japan, South Korea, Australia, China and India. Across the 13 global markets analysed in this article, the number of university students is predicted to rise from about 130 million in 2020 to over 227 million in 2033.

A lack of alternative housing

options, due to a limited supply of affordable accommodation and a higher number of smaller households, has accentuated the increased propensity to stay in purpose-built student accommodation post-pandemic.

Even developed markets lack high-quality student housing. Provision rates are below 10% in most markets, with the highest rate (in the UK) at 25%.

The need for accommodation that provides space for students' social needs and offers additional wellbeing services is growing.

Students seek housing options that offer community living, amenities, safety and access to transportation and entertainment. This drives demand for high quality PBSA in major university cities in the world.

Paul Savitz, Director of Operational Capital Markets at Savills Australia and New Zealand, says new development projects in the sector are experiencing some challenges: “The structural undersupply of the student housing market in Australia looks set to continue for the medium term, given the relatively restricted pipeline of new projects underway.

“Increases in build costs and high debt finance costs are contributing to decreasing development feasibility, and land acquisition for development remains competitive as developers of multifamily, hotel or residential for sale pursue the same opportunities.”

## Ageing populations

Populations are ageing worldwide, although approaches to later-life living setups vary across regions. Oxford Economics says the proportion of people aged 60 and above is currently 14 per cent and is expected to be 18 per cent by 2033 globally. The number of people aged over 80 will nearly double across the 13 markets analysed, from 94 million in 2023 to close to 160 million in 2033. In cultures where older relatives living with younger generations or extended family is not the norm, substantial numbers of these people will need specialist accommodation.

“Property investors who meet this demand will be fulfilling a real social need,” says Richard Valentine-Selsey, Head of European Living Research at Savills. “There is a need for senior housing across a spectrum which runs from independent living to specialist nursing homes for end-of-life care. In New Zealand and the US, for example, they have retirement communities that don't look like old people's homes.”

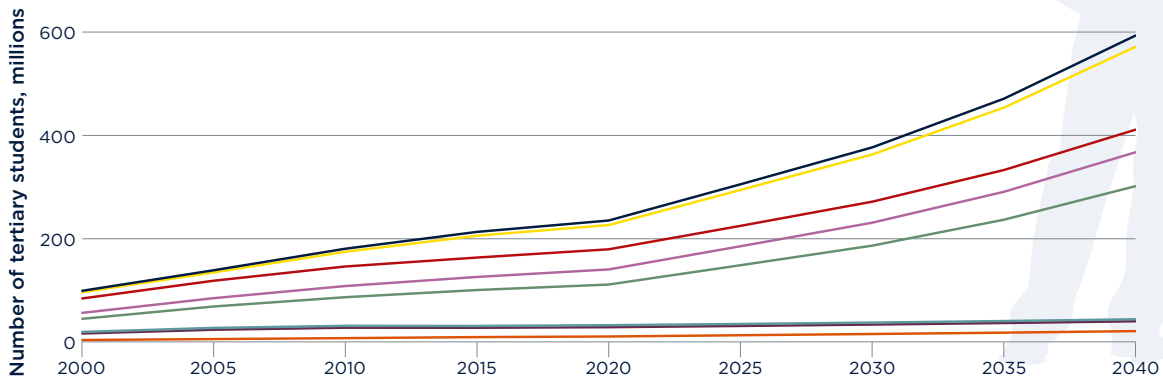
Other markets, such as the US, are developing intergenerational multifamily housing and schemes that mix accommodation for students and seniors. Being close to the facilities of a university suits retirees, especially those engaged in “lifetime learning”. The market is also moving towards rental accommodation. This suits retirees who wish to hang on to their capital and investors looking for resilient income streams.

As lifestyles and priorities change, driven by technological advancements and demographic and social change, new real estate asset classes are emerging and proliferating.

For property investors, this presents an opportunity to look beyond the traditional triptych of office, retail and industrial assets – to an asset class that is growing rapidly, resistant to economic uncertainties and benefits future generations. It's a compelling case for investment. ■

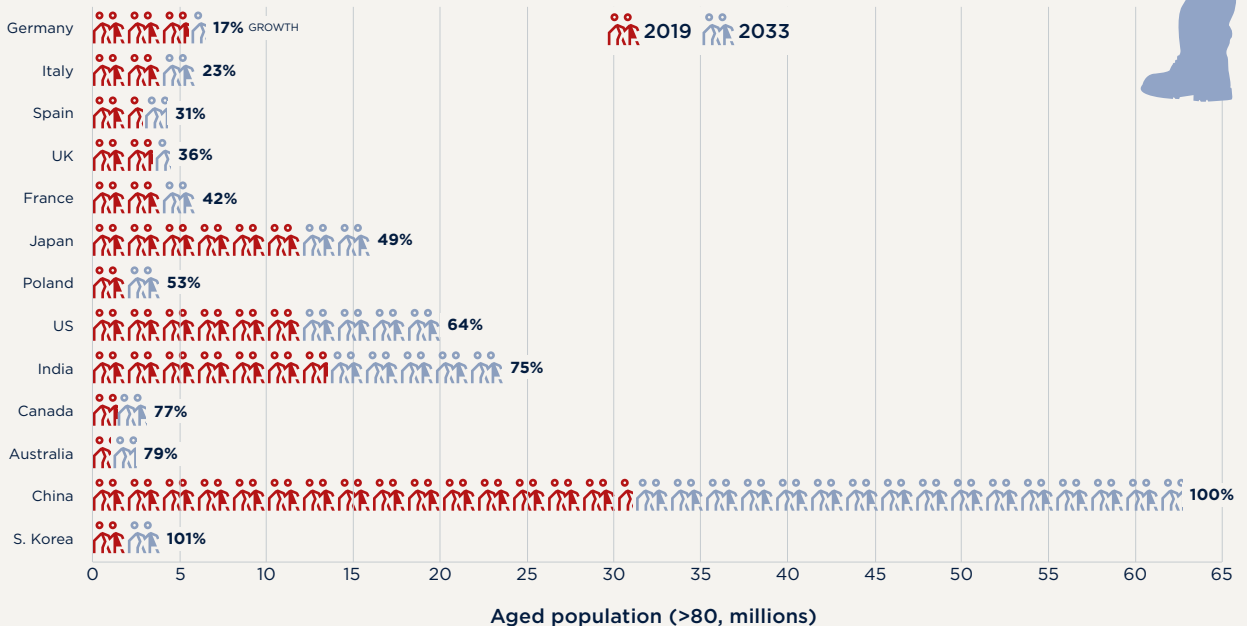
## GLOBAL STUDENT NUMBER GROWTH

- Sub-Saharan Africa
- South and West Asia
- North America and Western Europe
- Latin America and the Caribbean
- East Asia and the Pacific
- Central Asia
- Central and Eastern Europe
- Arab States



Source: Savills Research using UNESCO

## AGED POPULATION GROWTH



Source: Savills Research using Oxford Economics