Retirement Living comes of age

Retirement Living Insight Series **2018**

Retirement Living comes of age

Driven by private sector development, investment into the UK later living market is currently at its highest level ever. We forecast that the existing 167,000 private units will increase by 30% in next five years and the private market will grow to a value of £44bn. Growth is being driven by demographics, economics of investment and the changing mindset of older purchasers.

Retirement Living private market to **increase by over 50% to £44bn** by 2022

Number of Retirement Living (private) units to **increase by almost 30%** from 2017–2022

65+ population to **increase by 20%** over next 10 years

The Demographics

The number of people aged over-65 living in the UK is forecast to increase by 20% to 12 million by 2027. Advancements in healthcare mean individuals are living longer lives and managing health conditions better. Indeed, the cohort of 90+ year olds is expected to rise at an even faster rate, by a third, to more than 750,000 people over the same time. The need to provide suitable housing options for these individuals is more important than ever.

Our calculations suggest a need for three million retirement living properties to house the number of people aged over 65 that would consider downsizing. Based on the assumption that 25% of over-65's in their existing homes would consider downsizing into some form of specialist retirement living.

The Economics

Increasing wealth and income is resulting in more informed housing and lifestyle choices. Average UK residential house prices have increased by 230% over the last 20 years and long-term homeowners are able to release large sums of equity from a downsizing move. This allows for higher quality retirement living development to be financed, as well as magnifying other benefits such as inheritance tax savings from earlier tax planning.

The economics for local services and the potential savings to the NHS have never been clearer. Retirement living schemes provide cost-effective and efficient delivery of healthcare into people's own homes, and will, in theory, help to alleviate some of the current pressures on the healthcare system which will undoubtedly increase with the ever-growing over-65 age cohort.

Receiving care at home (within a retirement living scheme), in-line with an individual's care needs, is the cost-effective solution for the provision of healthcare. And receiving it from a well-managed company is the most efficient delivery mechanism. The alternative is either a higher cost of care bought by the individual – the average monthly cost of a care home is £2,000-£8,000 depending on location – or relying upon an increasingly over-stretched NHS.

The economics for an investor have also never been as favourable. With the evolution of the alternative investment markets, there are a number of comparisons that can be drawn between the student housing and build to rent markets – with demographics, economics and a changing consumer mindset underpinning all of these sectors.

There are increasing flows of equity and debt into the retirement living sector with investors drawn to its exposure to development supported by a healthcare business. The sale model provides investors with both short and long-term income – which creates both benefits and challenges. And the later living rental market provides smoother long-term returns with early movers looking to capitalise on yield compression in time.

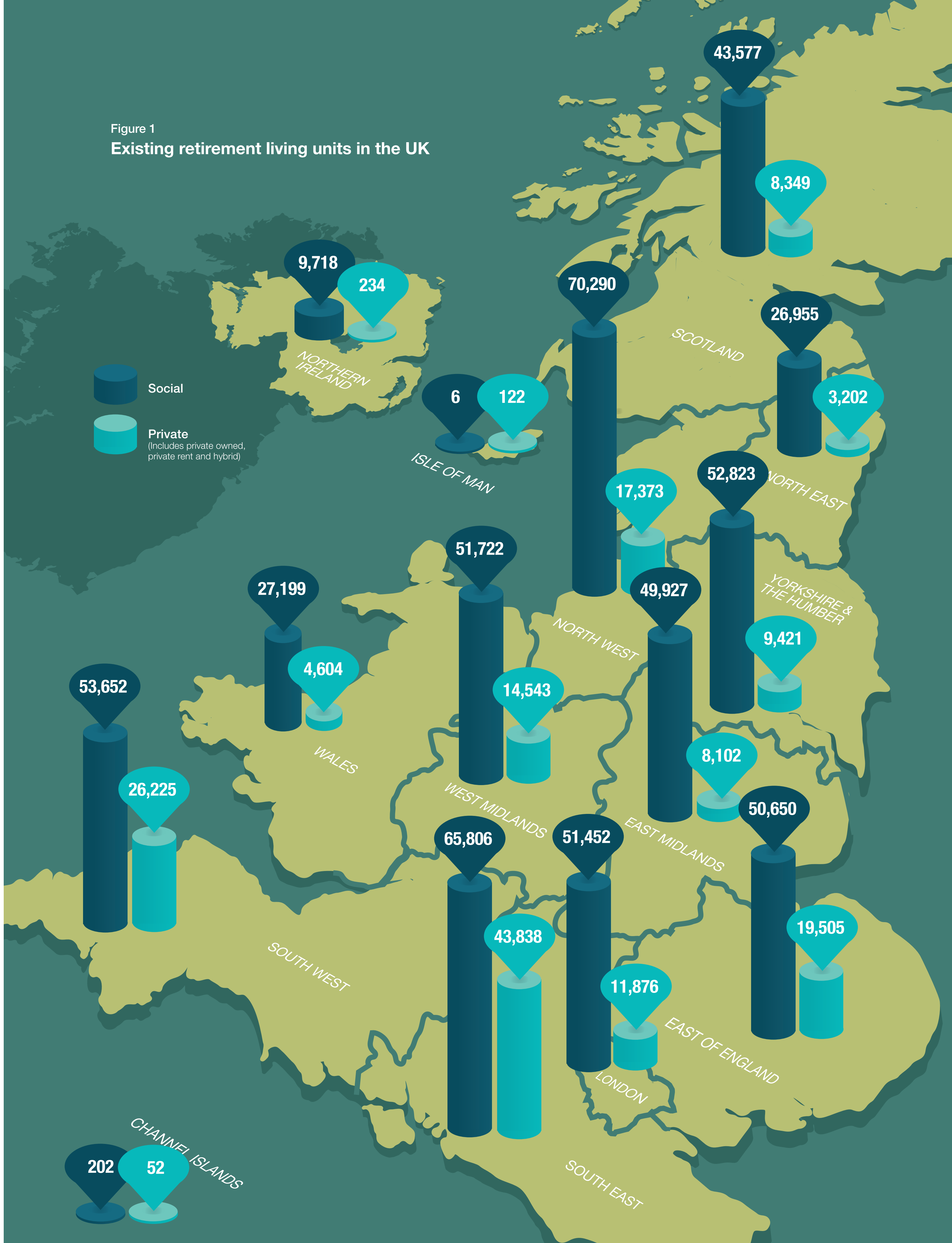
Changing Mindset

Being 'old' does not have the same connotations as in previous generations. In a globalised world with increased connectivity, technology and travel, we demand both increased independence and contact in later life. Very few people actually believe they are 'old' anymore.

Options that allow you to live independently for longer in your own home (compared with alternative housing choices) in a safe environment with like-minded people are major draws in the decision making process when choosing to move into specialised retirement living.

Furthermore, the importance of maintaining independence whilst ensuring that loneliness doesn't become an issue is also a huge consideration. In an attempt to combat loneliness, many individuals – particularly those living alone or widowed – have been attracted to retirement living schemes which enable them to feel part of a community. Moreover, factors such as maintenance/repairs and the need for personal security are reduced when moving to retirement living schemes, potentially releasing more time and money for those living in these communities.

Figure 1
Existing retirement living units in the UK



Source: EAC (as of Q1 2018)

Please refer to the important notice at the end of this report

Current Stock

The retirement living market has evolved into two distinct types. Retirement Housing with limited on-site care accounts for 70% of the market. Housing with Care / Assisted Living has increased amenities, management and availability of on-site care, and has a 30% market share.

There are currently more than 720,000 retirement units in the UK across almost 25,000 schemes. Of this, 75% of the stock comprises social housing and was predominantly constructed between 1970 and the 1990's. Some 23% of stock is privately owned or rented and 2% hybrid (this includes shared ownership and licence tenures as from the EAC – Elderly Accommodation Counsel).

> "In a globalised world with increased connectivity, technology and travel, individuals demand both increased independence and contact in later life. Very few people actually believe they are 'old' anymore."

The market has evolved over the past 50 years and when it comes to new supply there has been a shift from publicly funded stock to private development. The private retirement living market has expanded from 2% of total stock in the 1970's to almost a quarter of retirement stock at present. Since 2000, private units have accounted for 54% of all new units delivered annually.

The increasing maturity of the sector has been reflected over recent years by an increased diversity of funding entering the market. There are now three distinct business models for investing into the retirement living sector; the developer model, whereby firms construct and manage developments independently, the operational model, which exposes firms to the sector through acquiring existing schemes and portfolios, and finally the rental model, which is still a small segment of the sector, but enables firms to lease their units. Recognizing the potential, numerous investment funds, pension funds and insurers have made acquisitions in the retirement living sector. Many of the larger investments over the last 12 months have been into operational models; AXA's acquisition of Retirement Villages and Legal & General's acquisition of Inspired Villages and Renaissance Villages amongst others highlight increasing confidence to invest in the market.

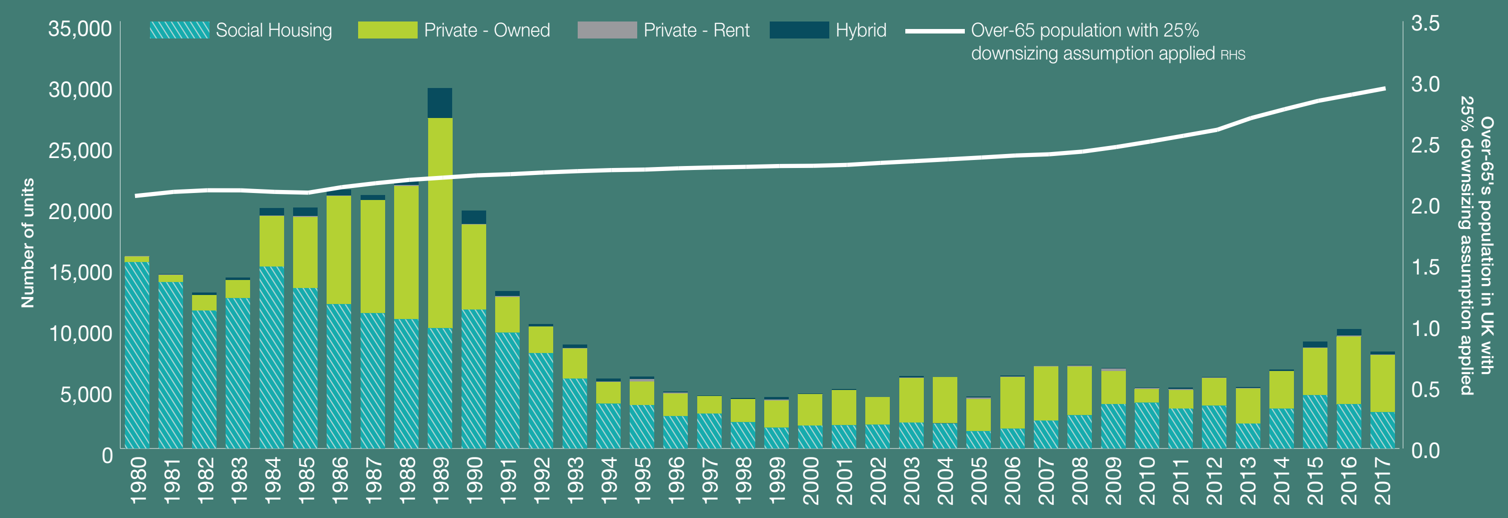
In the past five years, the influx of new operating platforms has resulted in an increase in annual delivery from a previous historic average of 6,000 units a year (2008-2012) to 7,600 per year (2013-2017). Given the market dynamics and underlying demographics we forecast this trend will continue.

Undersupply

Comparing the existing supply in England across both private and affordable markets against the current over-65 population and assuming 25% of the population would downsize (based on Knight Frank research that this number of over-55's would consider downsizing into some sort of specialised retirement property), the ratio of existing units per 1,000 population of potential downsizers is currently 256. In broad terms, this means there are around four people wanting to downsize for every existing retirement living home in the UK. There are slight regional variations with the South West having the highest supply with 268 homes per 1,000 people, with London, the North East and the East of England at the lower end of the scale with less than 250 homes per 1,000 population.

Figure 2

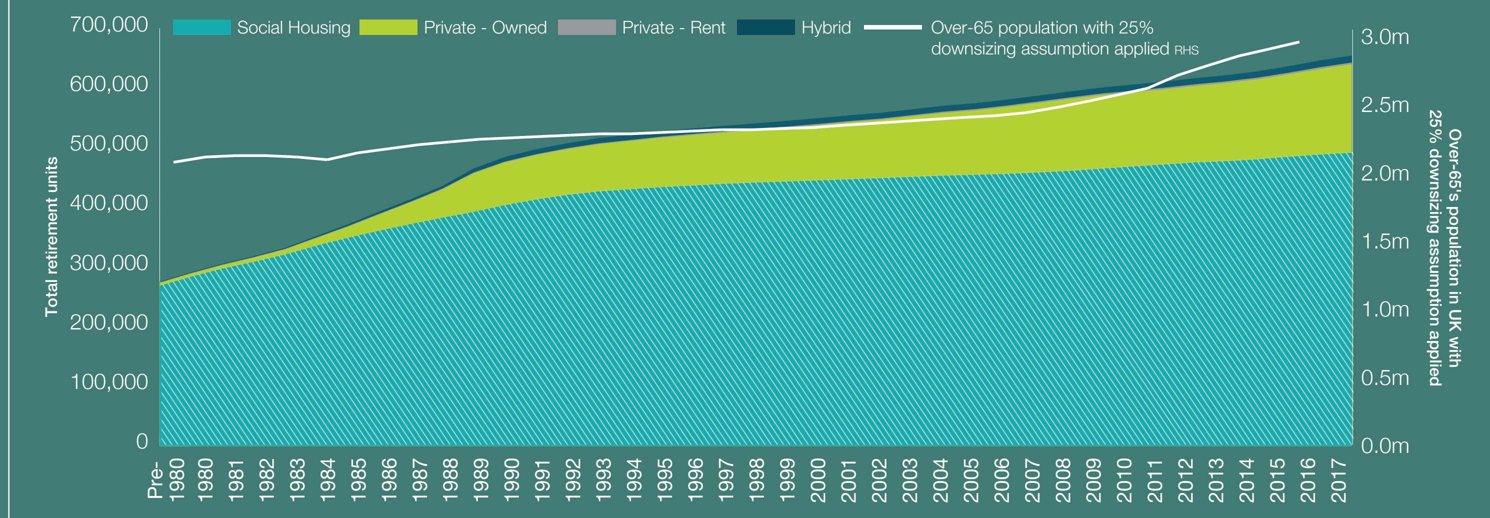
New retirement units completed per year in the UK



Source: EAC, ONS

Figure 3

Evolution of tenures in the UK retirement market – total retirement units



Source: EAC, ONS

Figure 4

Number of retirement units per 1,000 population (of over-65 potential downsizers)

SOUTH WEST	NORTH WEST	EAST MIDLANDS	SOUTH EAST	YORKSHIRE AND THE HUMBER	WEST MIDLANDS	LONDON	NORTH EAST	EAST OF ENGLAND
268 EXISTING UNITS	265 EXISTING UNITS	259 EXISTING UNITS	256 EXISTING UNITS	252 EXISTING UNITS	250 EXISTING UNITS	248 EXISTING UNITS	238 EXISTING UNITS	237 EXISTING UNITS

> "For every existing retirement unit, there are **four individuals** who would consider downsizing into them in the UK."

Source: EAC, ONS.

Methodology: We have taken the existing units in each region alongside the current population of over-65's. A 25% downsizing assumption has been applied to the populations (as per previous Knight Frank research). The number of existing units per 1,000 potential downsizers has then been calculated.

Figure 5

Top and bottom local authorities by ratio of private units per 1,000 population (of over-65 potential downsizers)

Source: EAC, ONS, Knight Frank Research. Please note: ranking is based on available data from sources. Where existing supply data is missing, we have excluded that local authority from this analysis.

Using the same methodology, the picture changes if we look at private retirement units which account for a much smaller proportion of the market, with a ratio of 62 homes per 1,000 population across England, or 16 people who would consider downsizing for every existing unit. The lowest ratio is in the North East at 25 per 1,000 and the highest ratio is in the South East at 103 per 1,000.

At local authority level the model confirms that the highest level of supply of private retirement units is in the South East and South West of England, with the highest in Epsom and Ewell with a ratio of almost 200 homes per 1,000 people. This is closely followed by Runnymede at 181 per 1,000 and Cheltenham and Hart with 172 per 1,000 each.

Predictably, not one of the 32 London boroughs made the top ten ranking (for all tenures), or the top 50 when analysing private units. If both private and social retirement units are included, Haringey is the 15th highest local authority with a ratio of 416 homes per 1,000 people.

Focus on London

There are currently just over 1 million people aged over-65 in Greater London, serviced by 63,000 retirement living units across almost 2,000 schemes. Of these, 72% are affordable housing, 17% privately owned and 1% privately rented. However, with a number of new schemes planned, and with increased support from the Mayor, the volume of new retirement living schemes in London is set to have a marked upturn.

The Draft New London Plan is the only major plan in UK to outline annual targets for the delivery of retirement living. If implemented, this will see an additional 4,000 units delivered per year across the capital up to 2029 with the greatest number being delivered in Barnet, Brent, Croydon and Bromley (each more than 200 units per year). Given the current population of over-65s is forecasted to rise to 1.38 million people over this time period, a strategic plan for delivery is welcomed.

However, for a plan to be effective, it needs to be properly implemented and progress should be measured and regularly reported. The latest data from EAC indicates the London pipeline has recorded 1,009 new retirement units for delivery between 2018 and 2020, suggesting targets are going to be missed in the early stages.

Supply Pipeline & Forecasts

We predict the retirement living market will grow over the next five years as established platforms expand with existing and new sources of investment, and a number of new entrants enter the market – both operators and funders. We forecast that growth will be led, as it has in recent years, by private sector development which is forecast to be 78% of total delivery between 2018 and 2022. Private stock will increase by almost 30% from 167,000 units at present to 215,000 units by 2022. This translates into the value of the private retirement private retirement living market increasing 50% from £29bn to £44bn in 2022. We also expect the share of the private rental market to increase significantly over this period.

54%

Since 2000, private units have accounted for 54% of all new units being delivered annually.

Expert view

Tom Scaife
Partner, Retirement Living

The supply of later living homes in the UK is dwarfed by the rate at which our population is ageing. And the need for housing designed for people to 'age in place' and remain independent for longer continues to expand at an ever increasing rate. At a current absorption rate of for housing with care 0.5% (% of those aged 65+ residing in schemes), the UK lags behind other more mature markets in the USA, Australia and New Zealand which all exceed 5%, indicating huge potential for further growth.

Modern later living schemes provide a number of 'pull' factors for purchasers and tenants. High quality amenity and specifications that rival new residential schemes provide a safe secure 'fit for purpose' built product. Scheme management and services give time back to residents. The scale of schemes is increasing which reduces service charges and increases amenity provision. With increasing operators and tenure options, and with rental schemes increasing in number, there is more choice of services, acuity of care services, and flexibility on cost and length of stay.

Increasing the supply of quality new homes will fuel awareness and exposure to the benefits of specialist later living housing which will underpin further growth in supply in years to come.

Going forward we rapidly need every UK local authority to take London's lead and have a cohesive plan for the delivery of retirement living – so they can be held to account for meeting the needs of their constituents. The government has committed to help those at the beginning of the property ladder with initiatives such as the 'Help-to-buy' scheme and stamp duty relief for first time buyers. These initiatives and support should not be constrained to the beginning of the ladder – support should be available at all stages of the property life cycle.

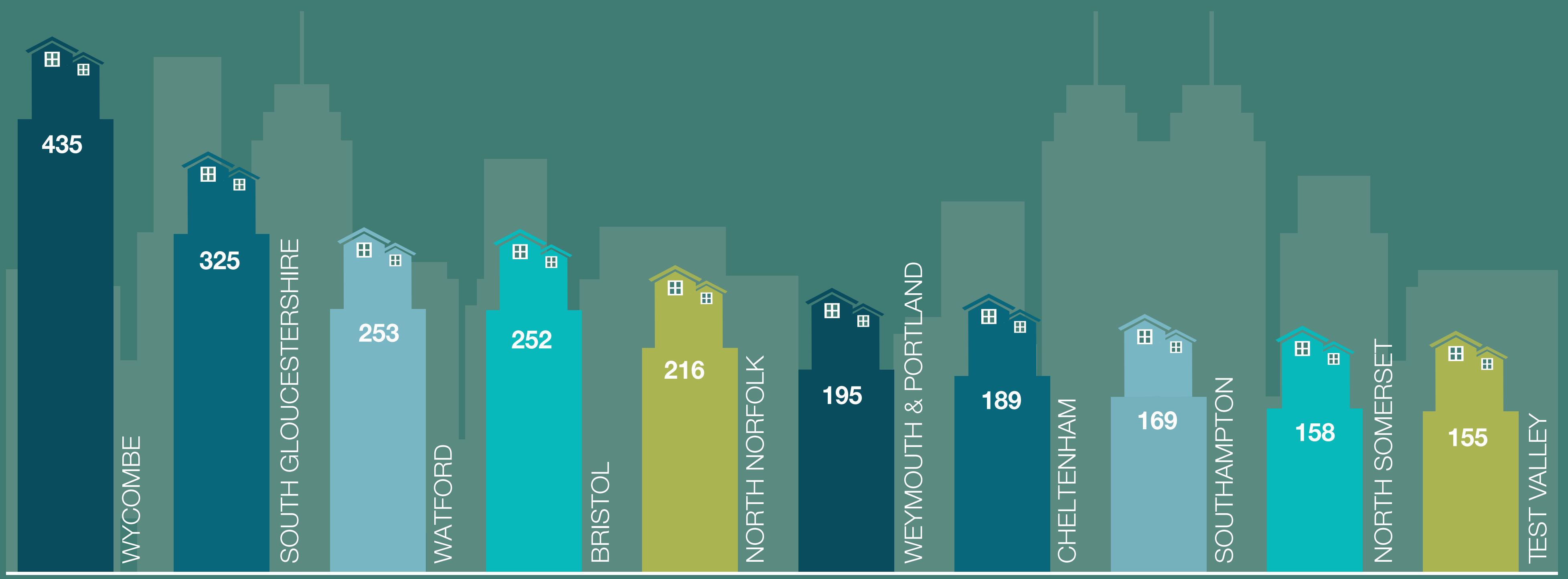
At a national level, a 20% allocation should be given for retirement living from the England's annual housing delivery target of 300,000 homes. Given that 18% of the population in England is over-65 (almost 10 million people), and that this age is predicted to increase by over 20% over next ten years, it is imperative that the issue is addressed.

Figure 6
Number of retirement living units in London per 1,000 potential downsizers

CITY OF LONDON	55
HAVERING	154
BRENT	158
RICHMOND	181
HILLINGDON	184
HARROW	184
HOUNSLOW	187
MERTON	189
ENFIELD	207
ISLINGTON	209
EALING	215
BARNET	216
NEWHAM	217
TOWER HAMLETS	230
SOUTHWARK	236
BEXLEY	239
REDBRIDGE	243
CROYDON	243
WALTHAM FOREST	252
BROMLEY	259
KINGSTON	261
WESTMINSTER	262
BARKING & DAGENHAM	270
SUTTON	271
CAMDEN	272
KENSINGTON & CHELSEA	279
GREENWICH	293
WANDSWORTH	301
LEWISHAM	338
HACKNEY	368
LAMBETH	377
HAMMERSMITH & FULHAM	380
HARINGEY	417

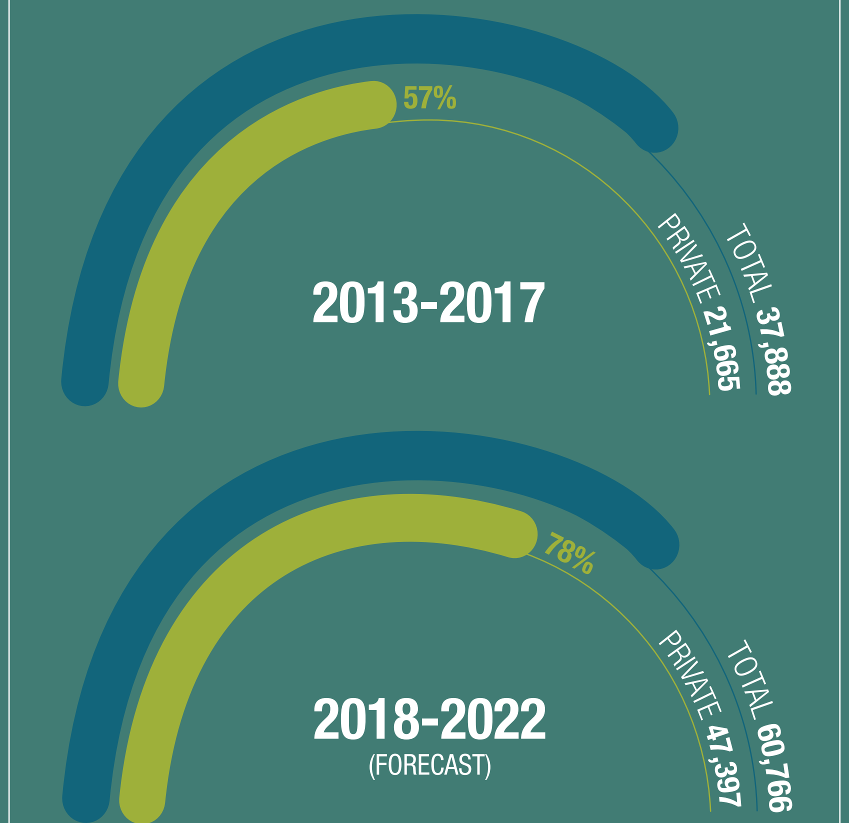
Source: EAC, GLA
Methodology: Using the existing retirement living units data from EAC and existing population from GLA (with 25% downsizing assumption applied), we have calculated how many existing retirement units are in each borough per 1,000 population.
* Please note the 1,000 population is taken from the total of over-65's with 25% downsizing assumption applied.

Figure 7
Top Local authorities by pipeline private retirement units, 2018 – 2020



Source: EAC

Figure 8
Total new retirement units delivered in the UK by tenure



Source: EAC

Figure 9
Forecast change in private retirement units in the UK

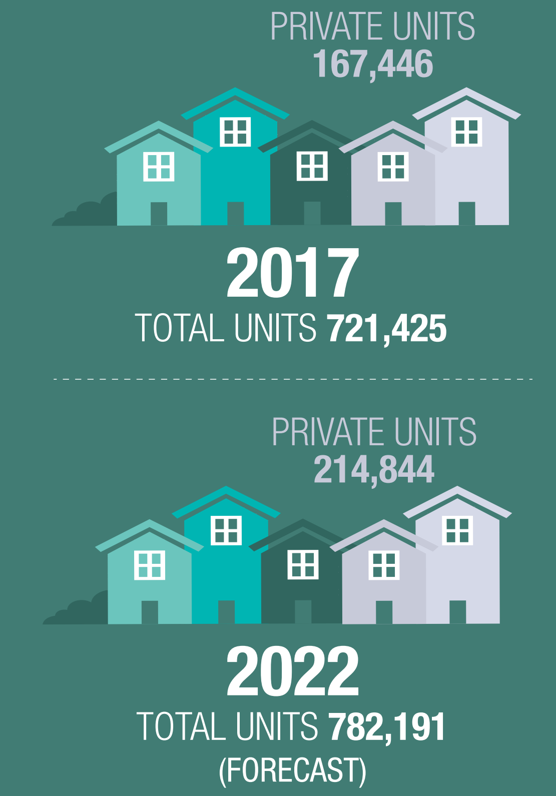
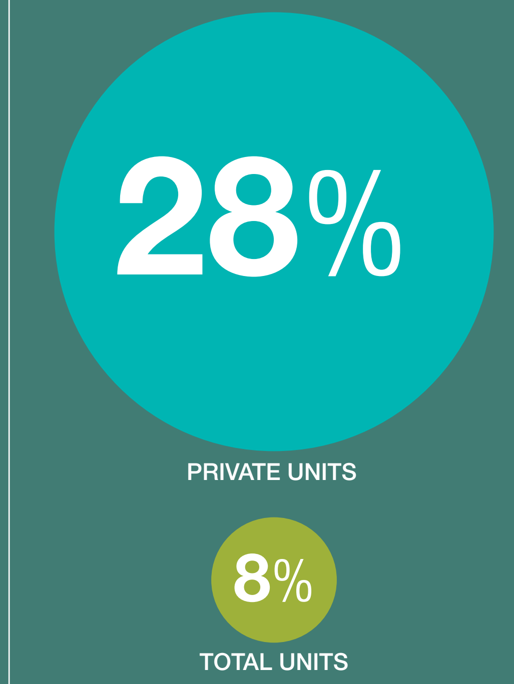


Figure 10
Growth in the number of retirement units in the UK over the next five years



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