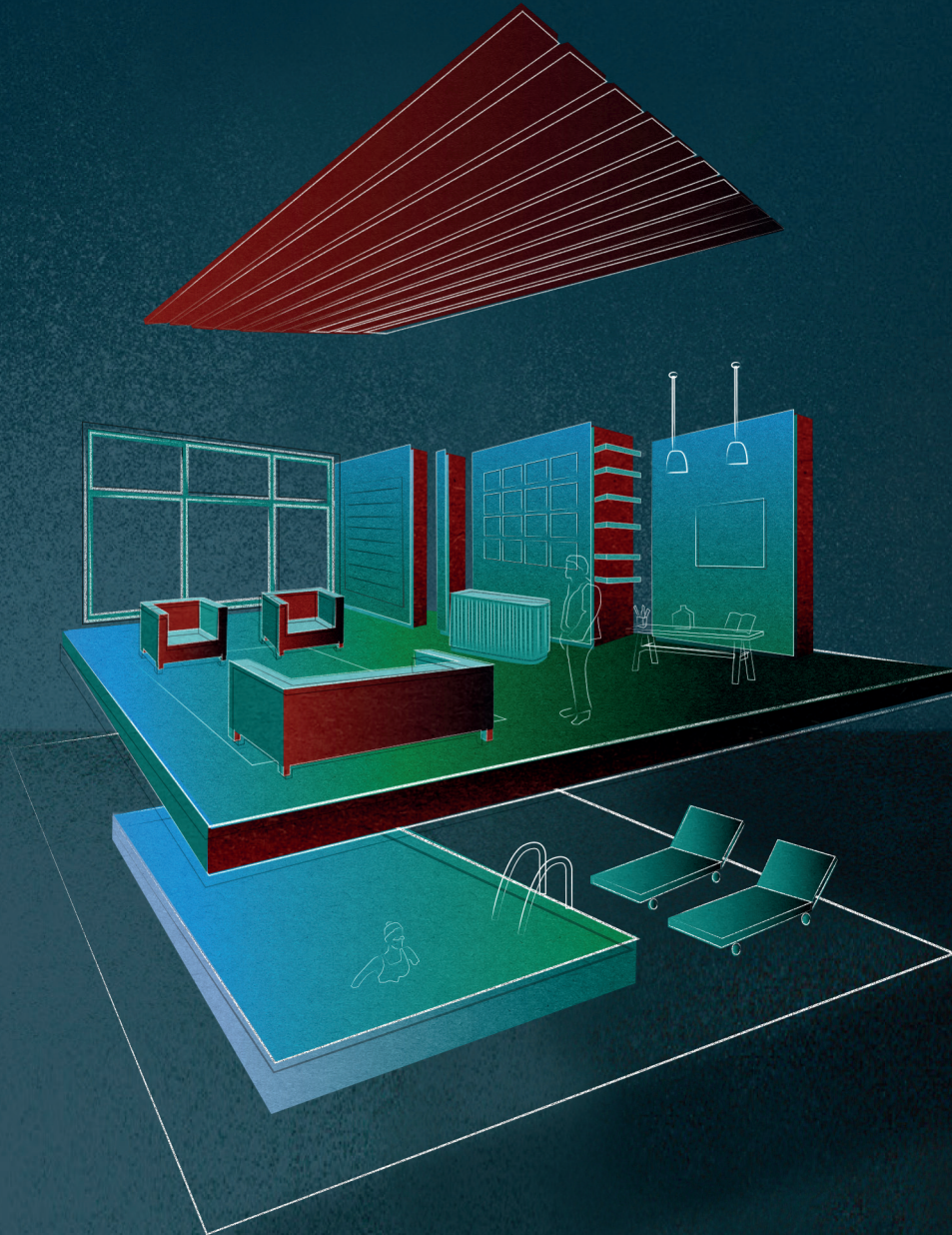


Senior Living Annual Review 2020



INTRODUCTION

Our market-leading research examines the fundamentals of the private Senior Living market, from sales to operations, sharing the results of our survey of some of the leading operators in the sector.

It is forecast that 2020 will be a record year for institutional investment into the UK senior living market with £1.5 billion anticipated to be spent by the end of the year, according to data from our in-house deal tracker.

Rising investment volumes are reflective of the fact that investors are increasingly recognising the potential for growth in the sector, underpinned at its core by rising demand and a lack of adequate supply. There is a move toward providing more choice for residents including through mixed-tenure and rental-only options and more schemes

with varying facilities and services, from Retirement Housing designed with the downsizer in mind, through to Housing with Care schemes which provide high levels of services, care and support as an integral part of their proposition.

However, despite this growth, there remains a significant supply and demand imbalance, and one which puts the UK far behind peer countries. In the UK Housing with Care market, for example, there is a current supply of 78,383 homes, yet a total population of over 65s of 12.4 million, based on a household size of 1.3 adults, this gives the UK a penetration rate of just 0.82%.

This compares with penetration rates for Housing with Care schemes in Australia, New Zealand and the United States of 5%, 5.5% and 6% respectively. For the UK to just match the lowest of those figures would require nearly 400,000 additional Housing with Care units.

Based on our analysis of pipeline data, we are anticipating a 48% growth in the number of Housing with Care units over the next five years. The Retirement Housing market, which currently accounts for 658,000 units is forecast to grow by 10% over the same time, taking total seniors housing stock to more than 800,000 by 2024. However, the rate of

KEY TRENDS

1

INCREASED INVESTMENT

Institutional investment is driving the market as platforms are being constructed to deliver long-dated income returns

2

LARGER SCHEMES

with the capacity to deliver operational efficiencies and a range of unit sizes that are affordable to the local catchment

3

URBAN LOCATIONS

Closer proximity to high street, developing mixed-use schemes and re-purposing sites currently in other land uses, such as retail

4

TENURE OPTIONS

Increasing mixed-tenure and rental-only propositions, as well as more variations of Deferred Management Fee (DMF) structures providing increased tenant choice best suited to their financial profile, budget and preference

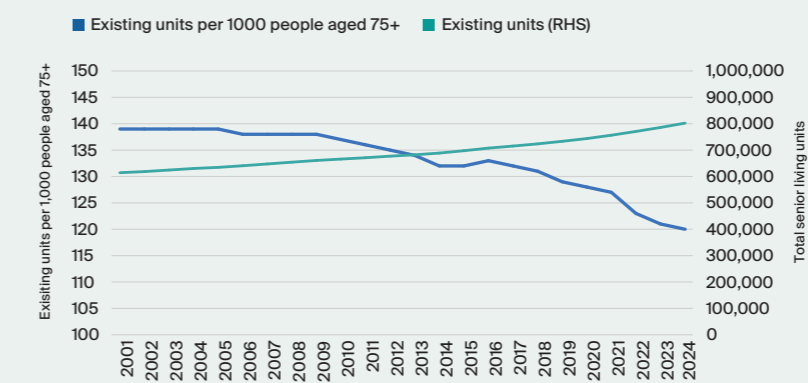
5

DESIGN EVOLUTION

Greater institutional investment has driven optimisation of the proposition – both the property and the service provision

In the next five years we expect to see a race to scale and brand-building from some of the early movers to create management platforms with operational efficiencies.

1 | Existing senior living units per 1,000 people aged 75+



Source: Knight Frank, ONS, EAC

delivery is still dwarfed by the UK's ageing population. It means that, even though total delivery is forecast to continue to rise, in real terms the number of seniors housing units per 1,000 individuals aged 75+ is expected to drop to 120 by 2024, down from 137 in 2010 and 129 currently.

It's clear that a step change in new delivery is required if the huge imbalance between need and supply is to be reversed.

Consequently, in the next five years we expect to see a race to scale and brand-building from some of the early movers as delivery rises and as they look to create management platforms with operational efficiencies.

In this report we share the findings of our second Senior Living Operator Survey, based on data shared with us by leading Housing with Care operators.

The results highlight the diverse sources of income – across different departments and timescales – with deferred management fees, rent, management and service charges, ground rents, care and wellness, and food and beverage all contributing.

Operating costs, meanwhile, are dominated by staffing and can extend beyond single assets to head office functions.

In addition, we have analysed more than 16,000 senior living property sales across the private sector to give a view on pricing and price changes over time.

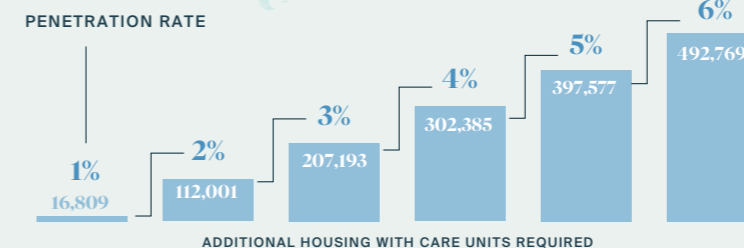
It has, arguably, never been more important to have high quality data to assist with investment decisions and move the sector forward.

2 | Housing with Care market penetration rates

78,383 EXISTING HOUSING WITH CARE UNITS IN UK
12.4m 65+ POPULATION IN THE UK
0.82% PENETRATION RATE

PEER COUNTRY PENETRATION RATES (65+ LIVING IN HOUSING WITH CARE EQUIVALENT)

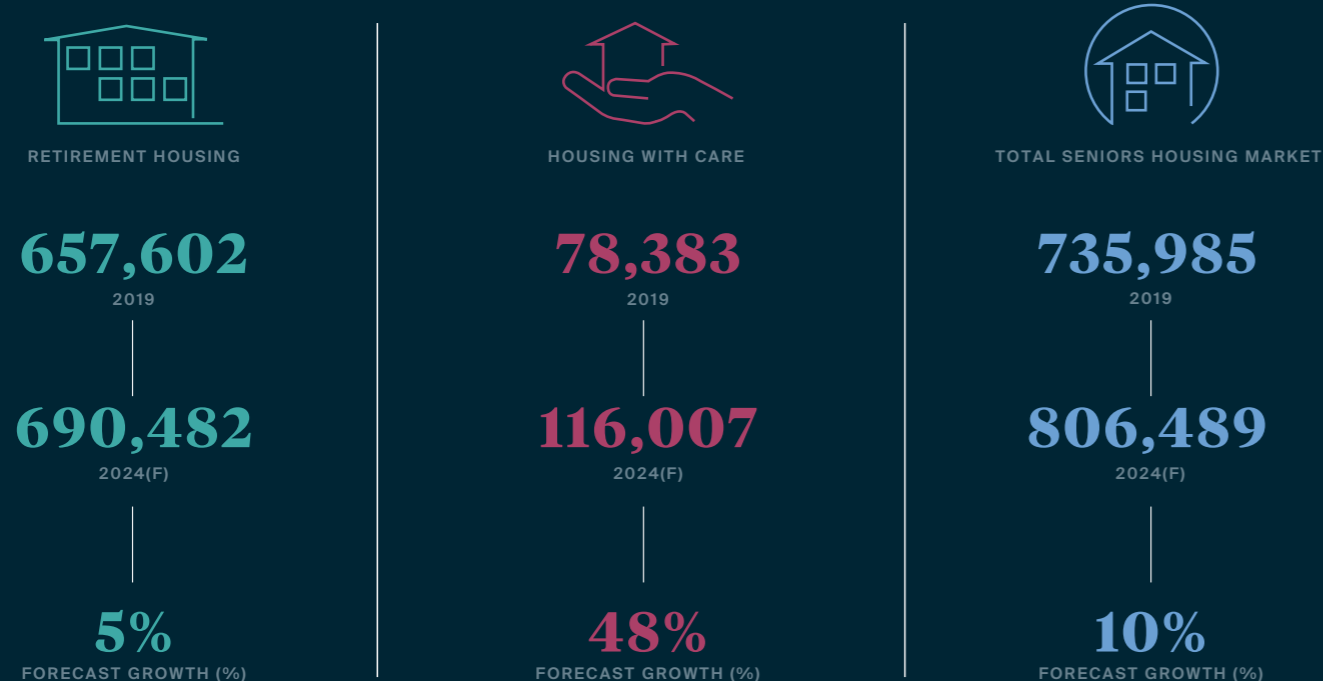
5.5% NEW ZEALAND
5.0% AUSTRALIA
6.0% UNITED STATES



Source: Knight Frank, ONS, EAC, ARCO

Note: This is calculated on the assumption that an average household size in a Housing with Care property is 1.3 adults.

CURRENT LANDSCAPE



AVERAGE SIZE OF UK PRIVATE HOUSING WITH CARE SCHEMES



9,000

AVERAGE UNITS DELIVERED PER ANNUM (2015-2019)

DEVELOPMENT PIPELINE

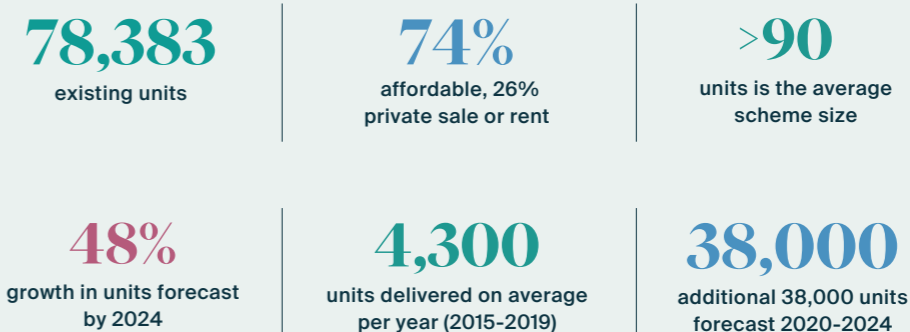
	APPLICATION SUBMITTED	FULL PLANNING GRANTED - CONSTRUCTION NOT STARTED	UNDER CONSTRUCTION	TOTAL
RETIREMENT HOUSING	4,087 UNITS	4,990 UNITS	4,302 UNITS	13,379 UNITS
HOUSING WITH CARE	5,380 UNITS	4,263 UNITS	7,747 UNITS	17,390 UNITS
TOTAL SENIOR HOUSING	9,467 UNITS	9,253 UNITS	12,049 UNITS	30,769 UNITS

Source: Knight Frank operator survey, EAC, Glenigan *based on private Housing with Care schemes under construction.
 Note: Housing with Care includes Extra Care and Close Care schemes identified within the EAC database supply landscape as at end 2019.
 Note: Pipeline data includes all applications logged in the planning portal since January 2018

HOUSING WITH CARE OPERATOR SURVEY

We have been fortunate enough to work with a number of leading operators who between them account for 50% of the Housing with Care sector across both private and affordable markets. This analysis gives us a unique and detailed insight into operations, performance and resident profile.

HOUSING WITH CARE - AT A GLANCE



THE SURVEY IN NUMBERS



*Peer countries includes US, Australia and New Zealand
 **Private Housing with Care operators who have delivered 3 or more schemes since 2000

OCCUPANCY

Understanding tenant profiles is crucial to helping the sector plan for the future. According to the results of the survey, the average age of residents in private Housing with Care schemes across the UK is 83 years old, with more than 80% of current residents over the age of 80.

The average resident age increases in line with the age of a scheme, though we would expect this trend to stabilise as a scheme approaches 20 years of age. More than half of residents live alone, with females making up a large proportion of this.

When looking at where residents moved from, it becomes clear that seniors housing is primarily a local product designed and built for local people. Almost half of residents moved from within 10 miles of a scheme. While this can vary by operator and motivations of a resident, it highlights the need for local authorities, developers and communities

to adequately plan for housing across age brackets. A proper policy framework and separate use class for seniors housing will be beneficial in this regard.

The average length of stay is seven years, though this does vary depending on age of entry and level of frailty, and also by the level of services and care provided by the operator.

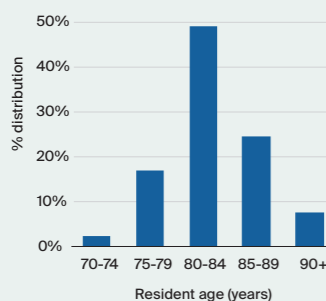
In keeping with the growing maturity of the sector, the analysis shows newer schemes tend to offer higher levels (and a wider range) of services.

On average, schemes less than 10 years old had at least 8 amenities* on average

including those related to wellness, food and beverage and entertainment. This is in addition to services such as care, including assistance with daily activities, and specialist and clinical care. By comparison, schemes more than 10 years old had an average of 5-6 additional amenities.

An increase in amenity provision reflects a focus on ensuring residents are able to 'age in place', though it is also clear from the survey results that the proposition of a scheme needs to be tailored to the local market to address affordability, absorption rates, scheme design and level of service and care.

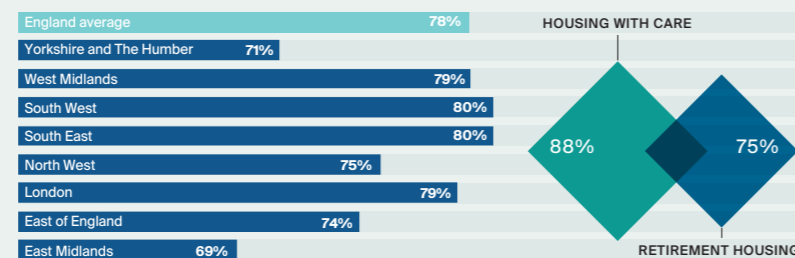
3 | Current private Housing with Care resident age



Source: Knight Frank operator survey

*This analysis excludes basic amenities such as lift and lounge.

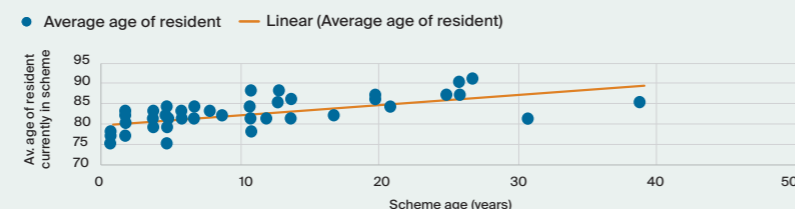
4 | Average senior living unit price vs average local residential house price**



Source: Knight Frank, Land Registry

** Local residential house price is the average price of a detached, semi-detached or terraced house within the postcode district of each senior living scheme, averaged to a regional level

5 | Average private Housing with Care resident age vs scheme age



Source: Knight Frank, Land Registry

PRIVATE HOUSING WITH CARE RESIDENT SNAPSHOT

- 83** Average current age of resident
- 78** Average entry age
- 60%** % occupied by single resident
- 40%** % occupied by couples
- 38-41%** % residents moved within 10 miles
- 7 years** Average length of stay (mature villages*)

*Analysis includes villages that are have been operating for 3+ years

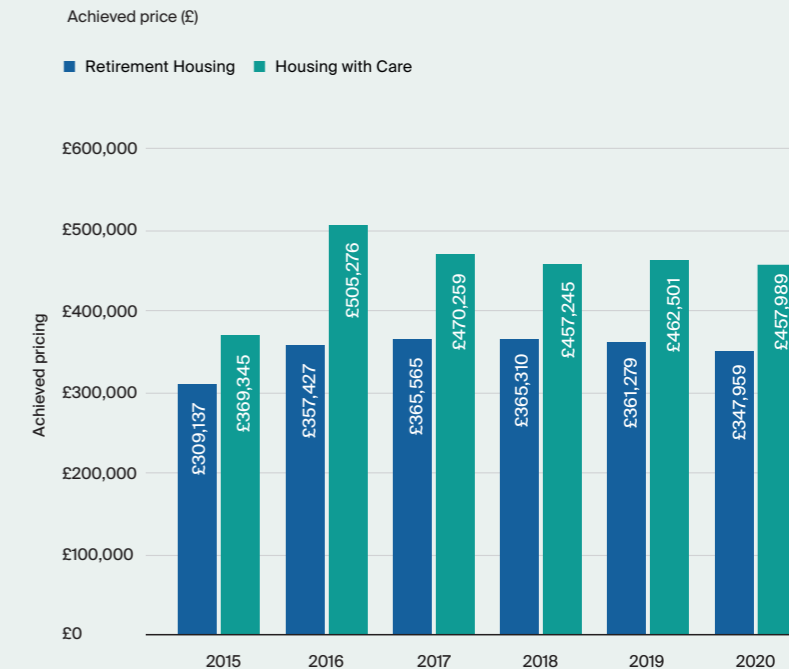
SALES AND RENTALS

Housing with Care generally achieves higher sales values on average compared to Retirement Housing, though this is typically due to the difference in propositions – both in terms of the specification and design of the property and levels of service.

Analysis of sales data for properties which have sold over the last year shows that achieved £psf levels have risen in 2020 compared with 2019, up by 2.5% for Retirement Housing and by 3.6% for Housing with Care. Whilst this data will be influenced by the schemes on sale in any given year, it is notable that an increase was recorded across all regions within England.

Indeed, further analysis shows newer schemes are achieving a higher £psf in general. This reflects the maturing of the market, with newer schemes often boasting higher levels of service and care and subsequently achieving higher pricing.

6 | Average price paid per annum for senior living schemes in England

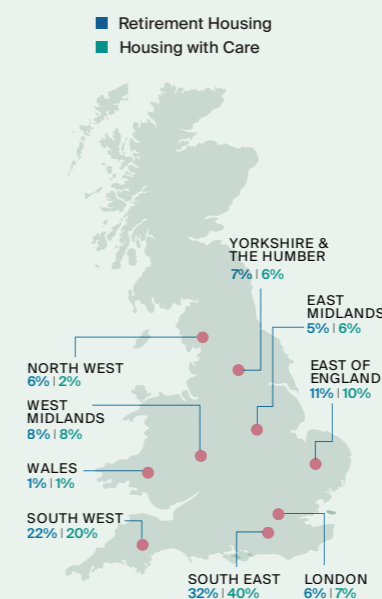


Source: Knight Frank, Land Registry

METHODOLOGY

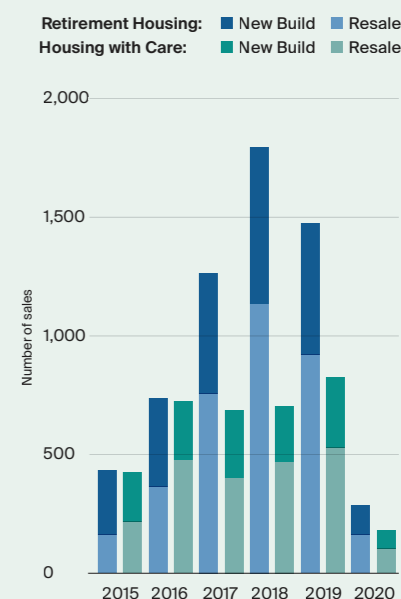
Our pricing analysis is based on a sample of more than 300 schemes across the country developed since 2000, split between Retirement Housing and Housing with Care. The schemes comprise more than 8,500 individual units, which we tracked from original sales through to today, including re-sales. This provided us with data for almost 16,000 senior living property transactions. This analysis includes schemes from all major private senior living operators, which combined have delivered almost 70% of private units in schemes of 20+ units.

7 | Database sample: % of sales examined by region, 2015-2019



Source: Knight Frank, Land Registry

8 | Database sample: Sales per annum by product

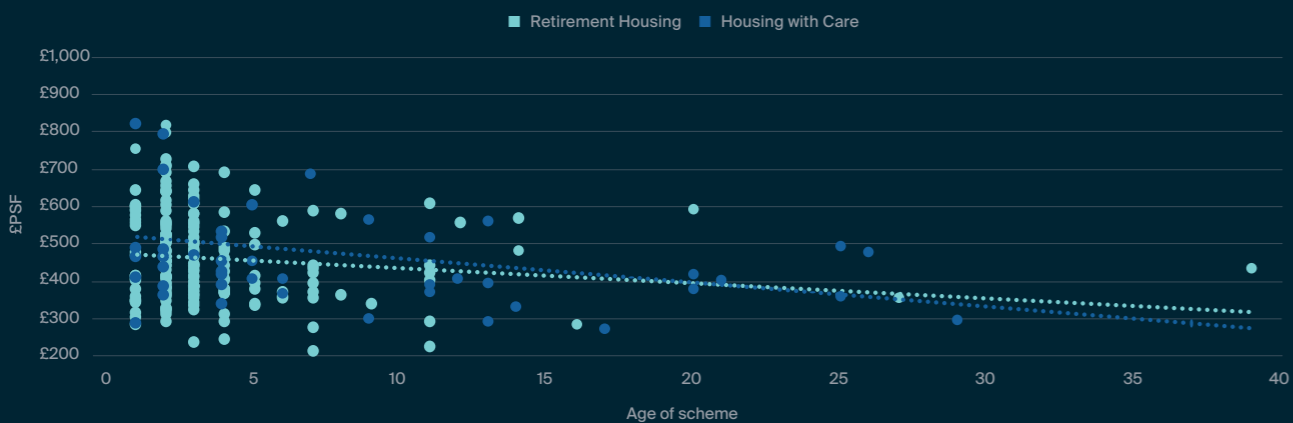


Source: Knight Frank, Land Registry

9 | Average price paid by region for senior living properties in England (2015-YTD 2020)



10 | Average achieved £PSF in 2019 vs age of scheme

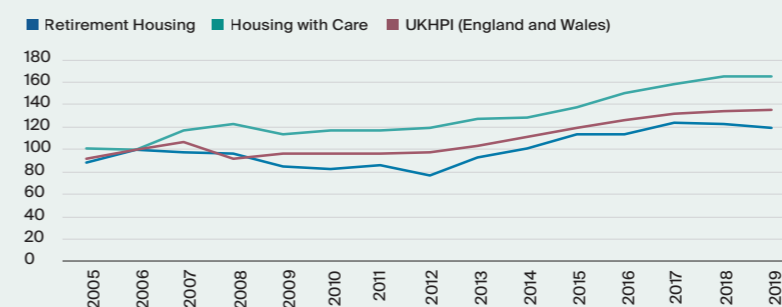


Source: Knight Frank, Land Registry

Price performance

As detailed in last year's report, Retirement Housing pricing largely tracks the average house price index for England, while Housing with Care continues to outperform both.

10 | Senior Living property prices vs Residential Indexed 100 = 2006

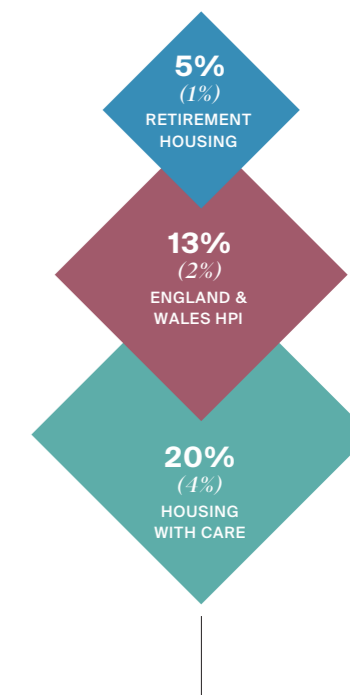


Source: Knight Frank, Land Registry

METHODOLOGY

The house price index uses hedonic regression based on price and controlling for characteristics such as region, property type and size. The dataset has a bias due to the nature of a sample, with this being heavily weighted towards the South East and South West and to flats. We have tried to control for this.

PRICE CHANGE



Top percentage figure shows 5-year growth (Figures in brackets show CAGR 2015-2019)

SENIOR LIVING RENTAL

The number of private senior living rental properties in the UK is forecast to increase by 160% in next 5 years, from almost 5,000 currently to more than 13,000 by 2024. Growth will be driven by a rise in the number of Housing with Care operators allocating a proportion of their pipeline to the rental market. Even accounting for such rapid growth, senior housing rental stock will only account for 3% of the total number of private senior housing units, which is currently dominated by 'for sale' stock.

However, this dynamic is changing, with the market driven by an increasing weight of capital from investors, as well as greater demand from tenants for flexibility - which includes being able to delay the sale of the family home - and quicker access to services and care.

We expect to see a rise in take-up of the 'one move solution' with increasing service and care being delivered into rental propositions. A rental apartment or care suite can provide increased tenant choice best suited to financial profiles and preference.

11 | Average monthly asking rent

	RETIREMENT HOUSING		HOUSING WITH CARE	
	1 BED	2 BED	1 BED	2 BED
LONDON		£2,700+	£3,000+	£3,600+
NORTH WEST	£900-£1,800	£1,200-£1,600	£1,300-£2,000	£2,000-£2,300
SOUTH EAST	£1,500+	£2,200+	£2,700+	£3,000+
SOUTH WEST	£1,400-£2,300	£1,900-£2,900	£1,700-£2,300	£2,000-£2,600
WEST MIDLANDS	£1,200-£1,900	£1,500-£2,400	£1,500-£2,600	£1,900-£2,500
YORKSHIRE AND THE HUMBER	£1,400-£2,000	£1,600-£2,100	-	-
EAST OF ENGLAND	£1,850-£2,350	£2,200-£2,900	£2,300-£2,900	£2,700-£4,000
NORTH EAST	£850-£1,150	£1,250-£1,450	-	-
EAST MIDLANDS	£1,500-£1,900	£1,800-£2,200	£1,700-£3,300	£2,000-£2,300
AVERAGE ASKING RENT	£1,950	£2,380	£2,400	£2,950

OPERATIONS

12 | Components on Income (gross p.a. 2019/20)

	GROUND RENT	SERVICE/ MANAGEMENT CHARGE	DMF	F&B	CARE AND WELLNESS	OTHER
Schemes with third party care	2.7%	65.9%	22.5%	6.8%	1.5%	0.7%
Schemes with operator delivered care	2.1%	58.7%	20.2%	5.9%	12.5%	0.4%

Income

Income from Housing with Care schemes is varied and comes from a number of different sources. Our survey shows that service or management charges account for the largest proportion of income at approximately 60% in the 2019/20

financial year, though such charges vary at each scheme depending on the level of service, care and amenity.

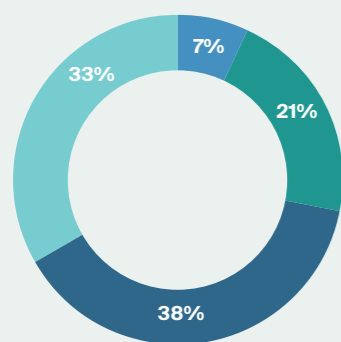
Deferred Management Fees (DMF), which are payable when a resident leaves a scheme and are used to help offset upfront costs and align the interests of the operator and the resident, form the second largest proportion of income for operators. The remainder is from food and beverage (F&B) facilities – including restaurants and cafes, care and wellness and ground rents.

The survey shows how Housing with Care schemes support income through provision of services, both into resident's

apartments as well as to the wider community. Indeed, of the schemes surveyed which offer either a café or restaurant, 50% have opened up their F&B offering to the public.

A large proportion of operators surveyed deliver care themselves, though a variety of different models exist including partnering with external providers, reflecting the nascent nature of the sector, as well as the different approaches adopted by investors and operators. For those operators who do deliver care themselves, care and wellness represents on average between 10-20% of total income.

13 | Maximum deferred management fees at schemes



■ 0-5% ■ 5-10%
■ 10-15% ■ 15%+

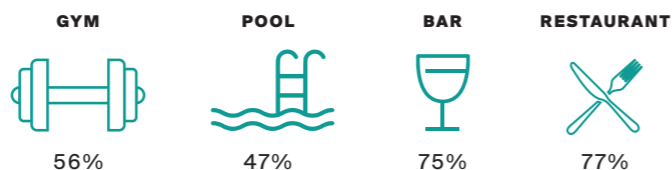
DMF Ranges

Note: % shown on chart are the proportion of schemes with each DMF range

DMF

DMF structures vary between operators and are payable on resale*. DMF revenue accounts for approximately 20% of total revenue, though this does vary.

PRIVATE HOUSING WITH CARE - SERVICE AND CARE OVERVIEW



OPERATOR DELIVERED CARE	59%
THIRD PARTY DELIVERED CARE	41%
CARE DELIVERED TO LOCAL COMMUNITY	45%
CARE HOME INCLUDED WITHIN SCHEME	30%

Costs

Like income, costs in Housing with Care schemes vary and are influenced by service and care levels, location and scale.

However, across the survey, staffing is identified as the largest outlay, accounting for approximately 61% of all costs incurred by private Housing with Care operators in the in the 2019/20 financial year.

As a proportion of income, staff costs represent 35% of revenue across the schemes surveyed. The analysis highlights there is approximately one full-time staff member to every four units within a private Housing with Care scheme. In terms of total numbers of staff, on average, 38% are employed in care and wellness, 35% in estate and scheme management, and 19% in F&B.

14 | Components of Costs (gross p.a. 2019/20)

PAYROLL	61%
ESTATE MANAGEMENT	9%
F&B	15%
CARE AND WELLNESS	5%
ESTATE AGENCY	2%
OTHER	8%

Note: Staffing costs for each division are included under Payroll

AFFORDABLE HOUSING WITH CARE

The affordable sector within the UK is much more established than the private market, accounting for 550,000 units and representing 75% of the total market.

The majority of stock is Retirement Housing, with on-site management staff but limited services and care. However, there are still a number of Housing with Care operators in this space, and significant growth in the sector is expected, with the 5 most

active operators accounting for more than a third of total delivery since 2010*.

Our operator survey includes a sample of data from leading affordable Housing with Care operators. The portfolios of these operators total more than 28,000 units. This has provided us with an invaluable insight into key metrics for the market on occupancy, length of stay, delivery of care and staffing.



Knight Frank Senior Living

The Knight Frank Senior Living Team provides a full range of services to the sector from research and consultancy, valuations and capital markets aimed at senior living developers, funders and operators and specialising in senior housing, housing with care, retirement living, and assisted living schemes.

Special thanks to the operators who contributed to this report.

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