Healthcare Research – 2017

JLL Housing with Care index

JLL Achieve Ambitions

Retirement Living

Contents

In this report we set out our first Housing with Care index, alongside further analysis on the vast potential of this market in the UK.

Terminology

	Variations
Housing with Support The most basic type of retirement housing. Private units with some communal facilities and limited levels of support on site.	• Age Restricted Housing • Independent Living / Sheltered Housing
Housing with Care Self-contained units with communal facilities and includes on-site care provision.	• Extra Care / Assisted Living • Very Sheltered Housing • Close Care

Source: JLL/EAC

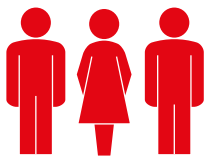
Executive summary

- Housing with Care represents a major opportunity for investors and developers. There is a substantial under supply of units within the mid and upper market tiers and a rapidly growing older person population.
- Our Housing with Care index shows that 80% of re-sales in the Housing with Care market increase in value.
- Price growth in the sector also correlates strongly with average house price trends, meaning long-term returns are possible in actively managed Housing with Care schemes.
- Our data shows that Housing with Care units have an annual average price growth of 6% per annum.
- It remains a very fragmented market with relatively few operators and sometimes confusion over terminology. The growth potential is huge when compared to the more mature markets of the USA, Australia and New Zealand.
- The UK is undergoing a significant change in demographics. By 2066, one in four of the population will be aged 65 or over. The pace of population growth for over 65s is three times the pace of the overall UK population.
- Over 65s have as much as £1 trillion of combined housing equity, with almost two thirds owning their homes outright. The majority of these households are in the mainstream housing market.
- Over 65s account for 35% of all homeowners and 61% of households who own homes debt free.
- The next generation of retirees are even more affluent, providing further demand for the next 30 years.

The over 65s population growth

3x rate

of UK population growth



Over 65s have as much as

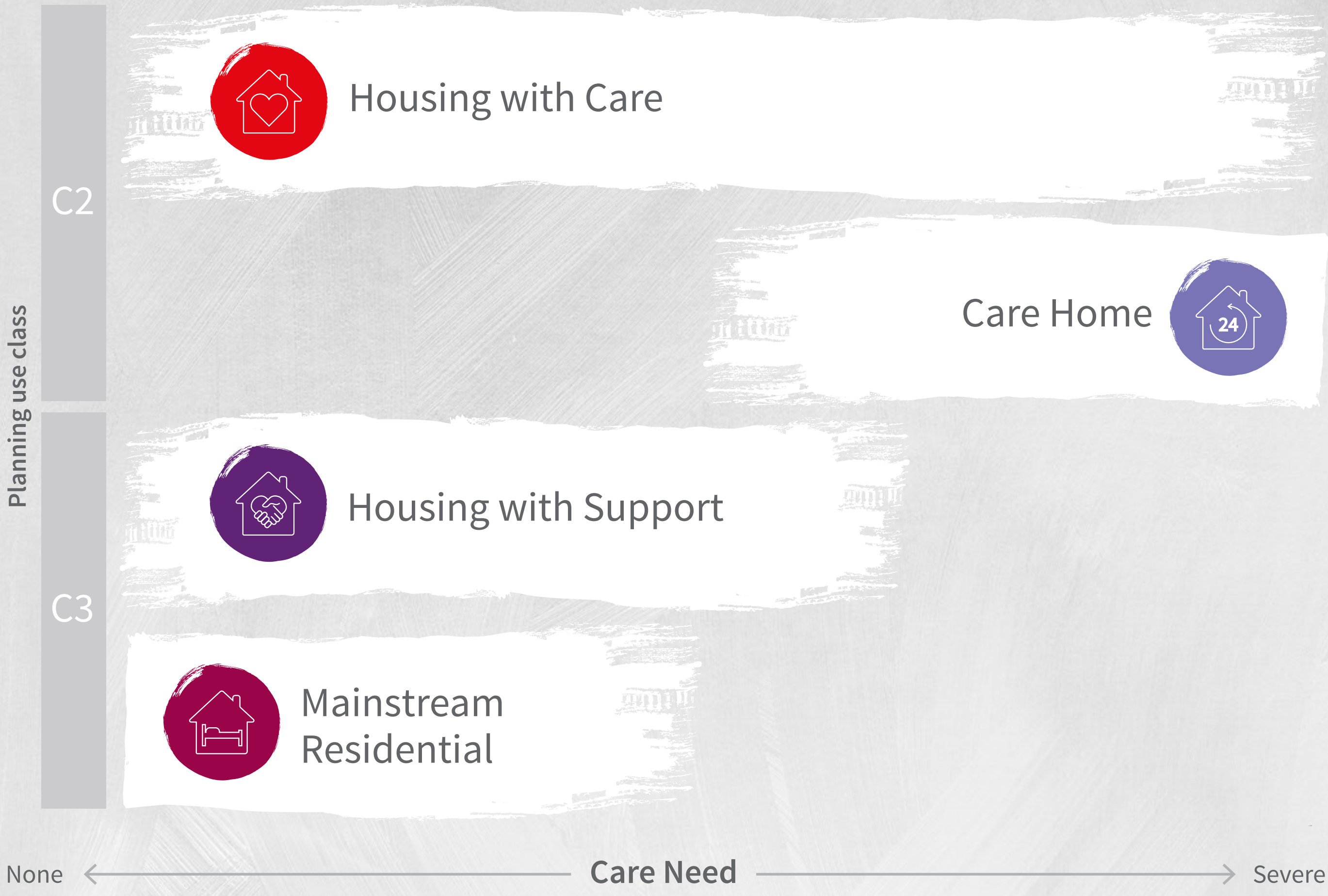
£1 trillion

of combined housing equity, with almost two thirds owning their homes outright

Our 2015 report ‘Retirement Living: Where’s the opportunity?’ provides a detailed look at the potential of the sector. We have summarised the main points of the report below:

1. By 2025, the number of over 65s in the UK will have increased by 22% since 2015 to 14.3 million.
2. Increased life expectancy from the age of 85 is set to increase by 2025, to 7.5 years for men and 8.5 years for women.
3. JLL estimate that almost 80% of over 65s will be mid to high affluence by 2025, largely as a result of house price growth. At present, 75% of Housing with Care stock is affordable, meaning there is a significant gap in the market for new, purpose built stock aimed towards self-funded customers.
4. There is a potential requirement for an additional 725,000 Housing with Care units by 2025, which would equate to almost half the number of all new homes built at the current rate.
5. If more people are to be encouraged into downsizing into retirement living accommodation, there needs to be a better range and choice available to them that meets their needs and preferences. The RICS estimate that the introduction of a viable retirement living market could release as many as 2.6 million houses back in to the mainstream housing market – equivalent to a decade of above target house building.

Housing with Care provides housing that can be adapted and modified to suit evolving needs. Care and support facilities are available on-site 24 hours a hours a day, with a variety of facilities to help facilitate an active and independent lifestyle.



JLL Housing with Care index

Long-term owners and operators of retirement communities are focused on the ongoing success of their schemes, especially where their model utilises event fees. If the value of the units within the scheme rise then the freeholder/operator will benefit from more revenue as the units are sold. This is an important consideration for investors. We have therefore undertaken research to establish what the primary data shows in this regard.

For our analysis, we focused on Housing with Care schemes. As a sample, we looked at schemes operated by members of ARCO (the Associated Retirement Community Operators). ARCO represents both private and not-for-profit providers of Housing with Care schemes such as extra care housing and retirement villages.

This analysis focused exclusively on leasehold units run by ARCO members for which information could be accessed on the Land Registry. We identified a total of 2,400 units, and analysed over 20 years' worth of historical sales data.

The sample totals over £1billion worth of retirement home sales, nearly 5,500 individual transactions, and over 3,000 re-sales.

Our analysis enables us to review individual schemes and aggregate this to demonstrate regional and national trends. We have set out below some key headlines and extracts from our findings:

- 80% of re-sales saw an increase in price.
- The average price change between transactions was £41,391.
- In terms of the average price difference between sales, Greater London gained on average £118,925 with the East of England next at £54,094.
- Over a quarter of all sales were in the South East reflecting the preference of operators, but there were 18% in the West Midlands and 15% in the North West.
- The average period between sales was 6.1 years. Greater London had the largest time between sales at 6.9 years, considerably longer than Yorkshire at only 5.3 years.
- Pricing for Housing with Care units closely mirrors the movements in UK house prices.
- Based on an average annual growth rate of 6.0%, a retirement home in this dataset would double in value in 12 years.
- Many of the schemes analysed have yet to fully churn and we will continue our analysis of this sector in the coming years.

80%
of re-sales saw an increase in price

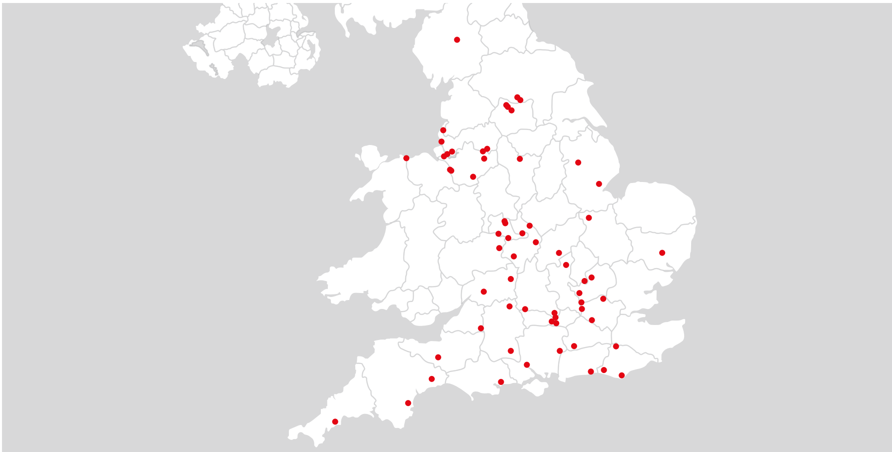
The average price change between transactions was
£41,391

Market performance

Our analysis demonstrates the long-term performance of managed retirement communities (Housing with Care) and the appetite for properties and re-sales within these communities.

1. Sales

Since 1995, there have been almost 5,500 sales within our dataset, with over 3,000 of these being re-sales. This is equivalent to 56% of total transactions within the dataset.

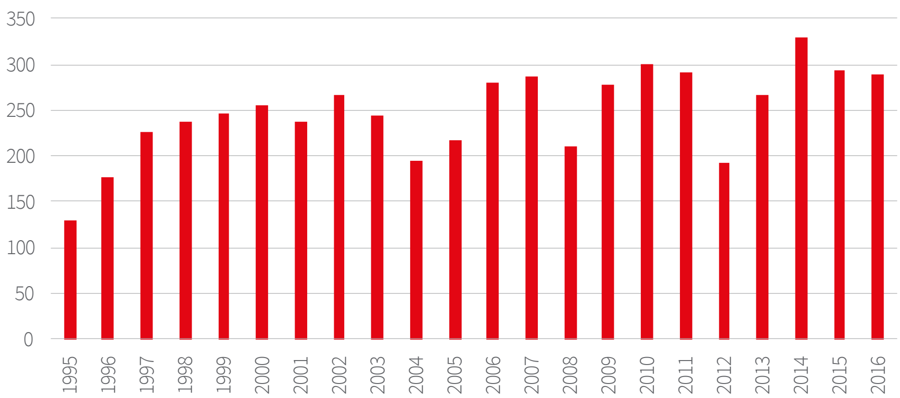


Source: JLL

1.1. Count of sales

The average number of sales per annum within the dataset was 250. In the last three years, there have been more than 290 sales each year.

There is a fall in the number of sales in 2008 and 2012, which follows the same trend in residential transactions in the UK.

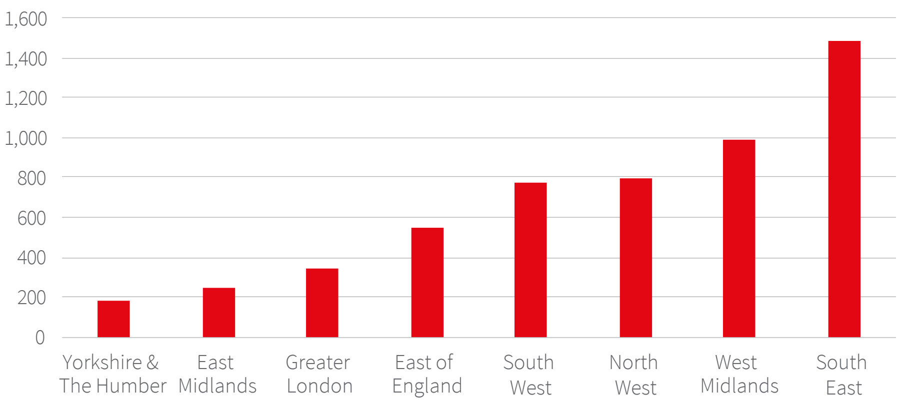


Source: JLL

1.2. Regional count of sales

The South East has been the largest market in terms of activity, with almost 1,500 sales. Of these, 57% have been re-sales. The region has accounted for 27% of all transactions.

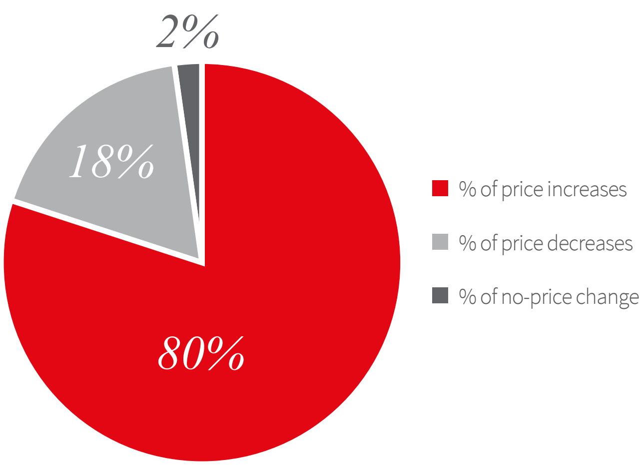
The next largest markets are the West Midlands (18%), the North West (15%) and the South West (14%).



Source: JLL

2. Price growth

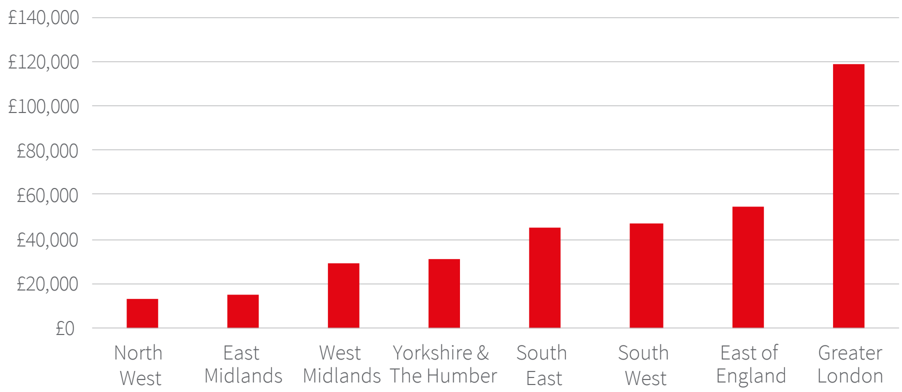
80% of sales saw an increase in price, 18% decreased in price and 2% remained the same. Unsurprisingly, the largest price decreases came between 2009 and 2012, coinciding with the global financial crisis, reflecting wider residential markets.



Source: JLL

2.1. Average price between sales

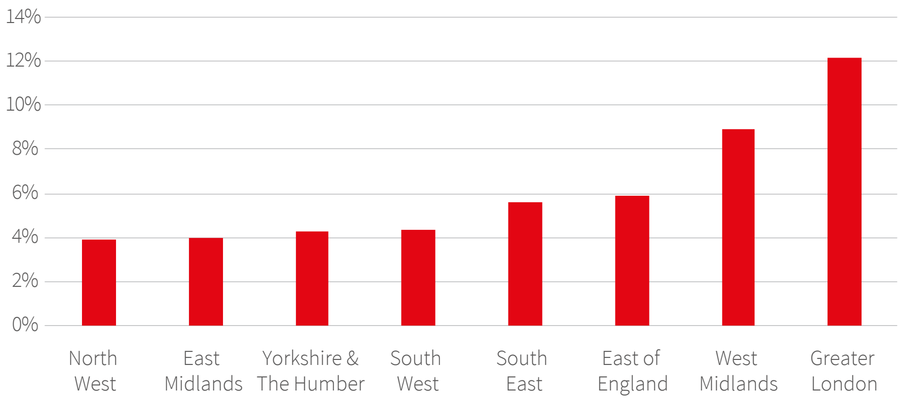
Greater London has seen the highest price difference between sales with the region benefiting most from house price growth over the last 20 years. The North West and Midlands recorded the lowest price differences between sales. It should be noted that average values in these markets are lower than the South East.



Source: JLL

2.2. CAGR 1995-2016

The compound annual growth rate for Housing with Care is 6.0% in England since 1995. On a regional basis, London has the strongest growth at 12.2% per annum, followed by the West Midlands (8.9%).



Source: JLL

Encourages long term investment

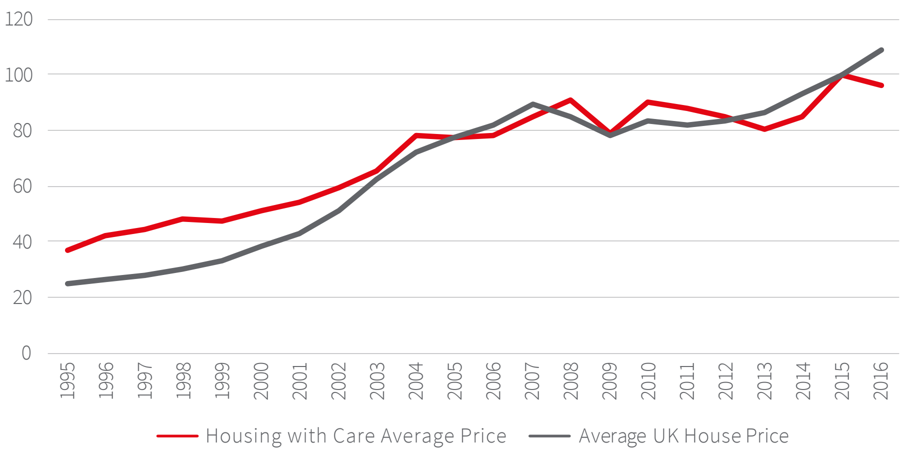
One of our key findings is that Housing with Care prices tend to follow UK house price growth. Figure 3 shows how average prices for Housing with Care have fared against the Land Registry UK annual house price index. UK house prices fell by 9% in 2009 and there was a similar correction for Housing with Care. However, in 2009 Housing with Care in the South East and the East of England only fell by 3%, while the West Midlands only saw a 2% drop.

Wider house prices have seen slightly higher growth but our Housing with Care index only includes leasehold properties. **The lack of mid and high-end stock impacted on 2016 pricing, but we expect 2017 to see a rise as new schemes open and sales filter through.**

Since 1995, the compound annual growth rate for our data has been 6.0%, compared to 6.8% for the UK housing market. On this basis, a retirement home in this dataset would double in value in 12 years. The average length of time between sales in our dataset is just over six years.

Greater London has the longest time between sales at 6.9 years and Yorkshire and The Humber the shortest at 5.3 years (Figure 4). We anticipate this hold period to grow over the coming years as more schemes hit maturity. Many schemes are yet to see the development fully churn which will raise the hold period.

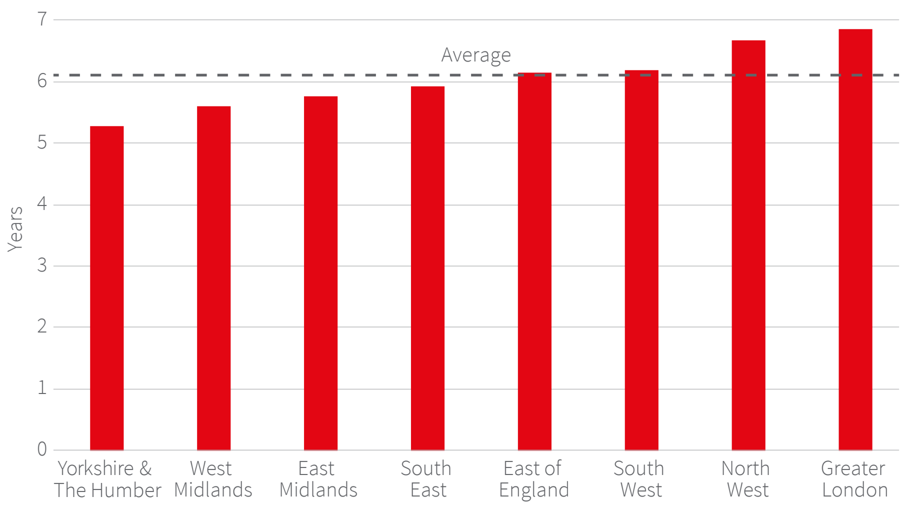
3. Retirement living against UK HPI (2015=100)



Source: JLL, Land Registry

4. Average hold period

Average years between sales



Source: JLL

Source: Audley Retirement

Depth of market

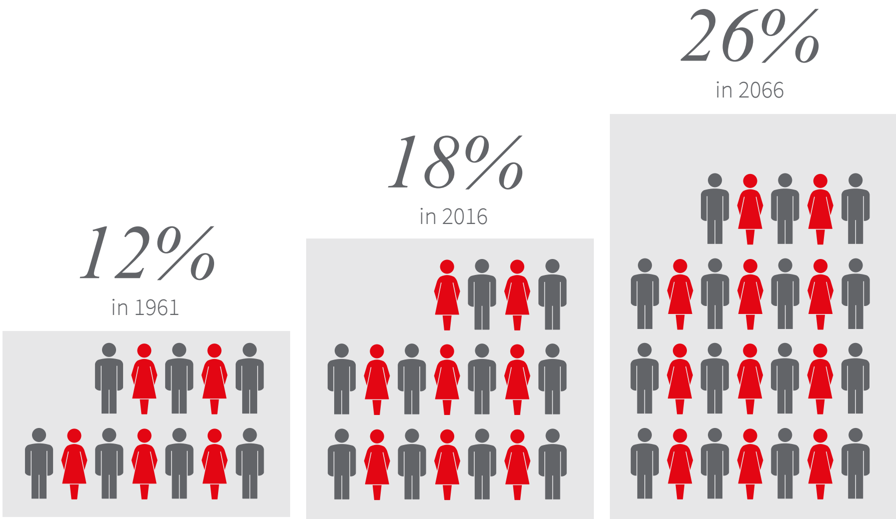
Within a decade, one in five people will be over the age of 65. Within 60 years, this will increase to one in four (Figure 5).

More people living longer is a leading factor behind the projected population growth of the UK. This growth is one of the main reasons behind the growing need for a broader mix of housing options.

The increased life expectancy, particularly amongst over 85s, means that growth in the older population is set to outpace overall UK population growth significantly over the next 25 years.

5. Growing demand from over 65s

Over 65s % of UK population



Source: ONS

 Source: Liberty Retirement Living - CrownPoint

Housing with Care is an established component of the market in many countries similar to the UK in terms of demographics and ageing population.

Market share for this type of retirement accommodation exceeds 5% of all over 65s in the USA, Australia and New Zealand, but in the UK, the rate is just 0.7%.

Among over 75s, who are more inclined to use this type of accommodation, the UK penetration rate is 1.6% compared to 12.4% in New Zealand.

Comparable retirement living markets

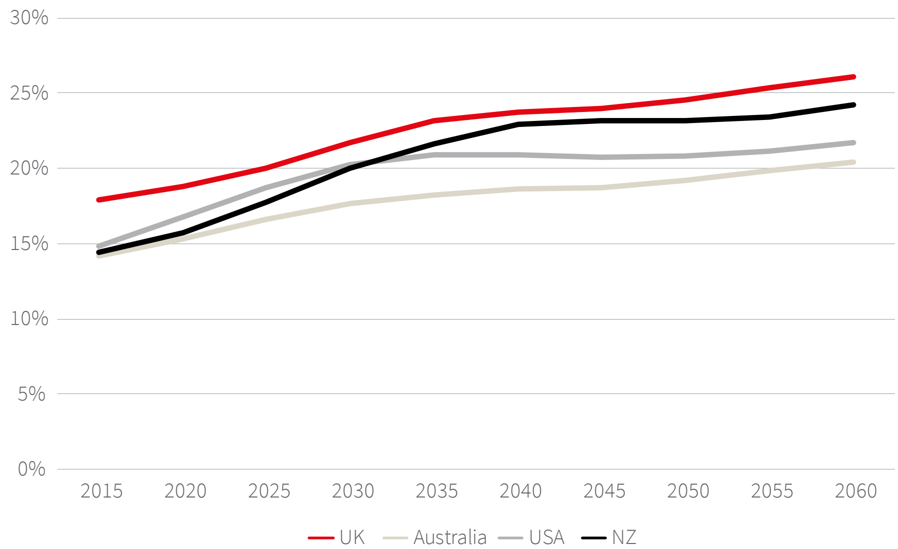
	USA	Australia	New Zealand	UK
Over 65s (2015)	*47.6 million*	*3.4 million*	*0.7 million*	*11.8 million*
Over 65s as % of Total population (2015)	*14.8%*	*14.2%*	*14.4%*	*17.9%*
Housing with Care units	*2,950,000*	*184,000*	*28,200*	*66,700*
Penetration rates	*6.1%*	*5.4%*	*5.2%*	*0.7%*

Source: JLL, EAC, NIC MAP, Property Council of Australia

Of all of these countries, the UK has the largest ageing population in proportionate terms, both now and in the long-term future.

In New Zealand, the market with the closest comparable ageing population profile to the UK, occupancy levels remain robust and penetration rates continue to increase year on year. While there are seven units for every 1,000 over 65s in the UK, in New Zealand there are more than 40. This highlights the scale of opportunity within the UK market.

6. Over 65s as % of population



Source: JLL, ONS, National Statistics Agencies

Growing home ownership

Over 65s are the only age group who have increased home ownership since April 2006 (Figure 7).

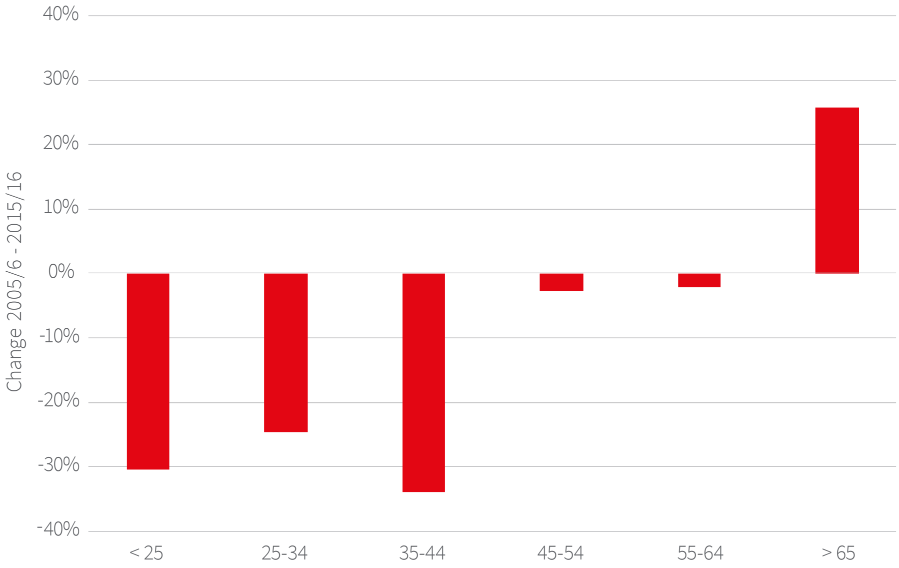
In terms of home ownership, the over 65s account for 35% of all home owners in the UK but 61% of the households who own their homes outright and mortgage free (Figure 8).

This is despite the fact that UK home ownership has been in decline since peaking at 71% of all households in 2003. More people coming up to retirement age own their homes outright than any other tenure.

Even though there are less people owning homes as a proportion of all households, there will be more elderly homeowners as the 45-54 and 55-64 age groups pay off their mortgages.

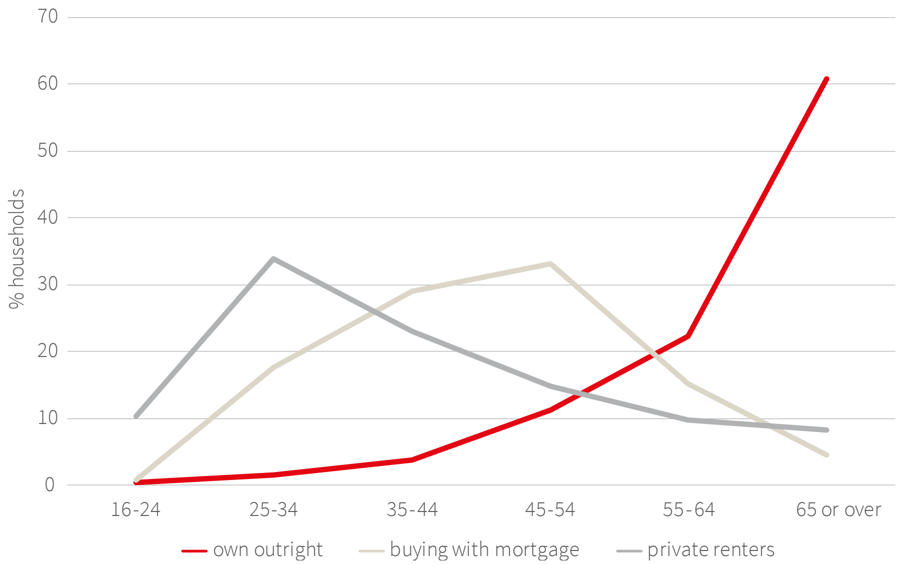
JLL estimate that almost 80% of over 65s will be mid to high affluence by 2025, largely a result of house price wealth. At present, 75% of the retirement living market is affordable, meaning there is a significant gap in the market for new, purpose built stock aimed towards the mid and high-end markets.

7. Changes in home ownership



Source: CLG

8. Tenure by type and age



Source: CLG

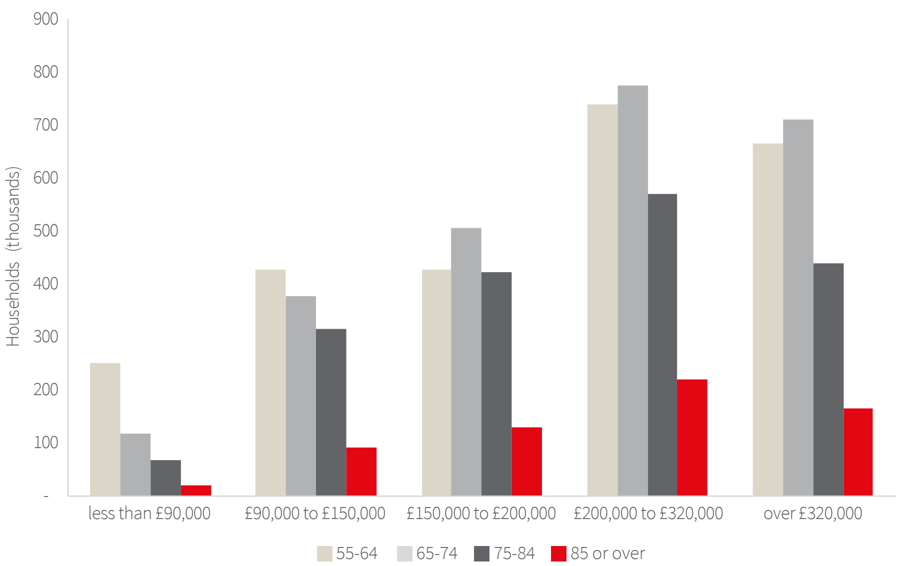
Source: Audley Retirement

Housing equity a key component of wealth

The advantage of high rates of home ownership amongst older people is that they have the ability to pay for retirement housing. A combination of record low interest rates and long-term house price growth have boosted housing equity levels, with older people benefiting the most. 27% of over 65s have more than £320,000 of housing equity, with a further 32% having more than £200,000.

More importantly, 56% of 55-64 year olds already have more than £200,000 of equity. This is significant because this means that the next generation of older people is likely to have access to even higher levels of housing equity than the current generation of over 65s.

9. Housing equity

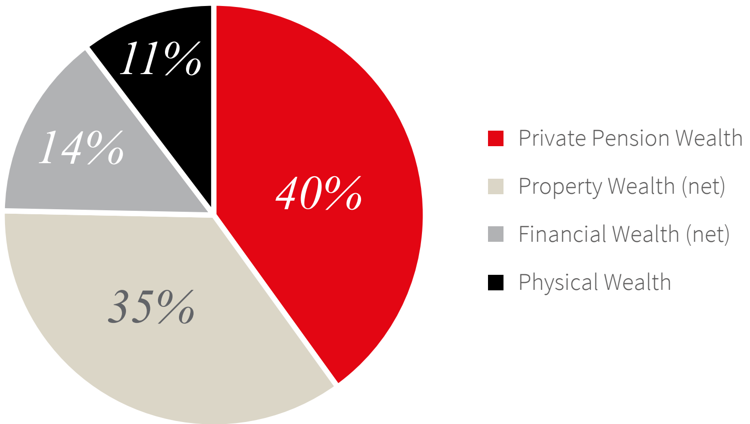


Source: CLG

 Source: Anchor - Austin Place

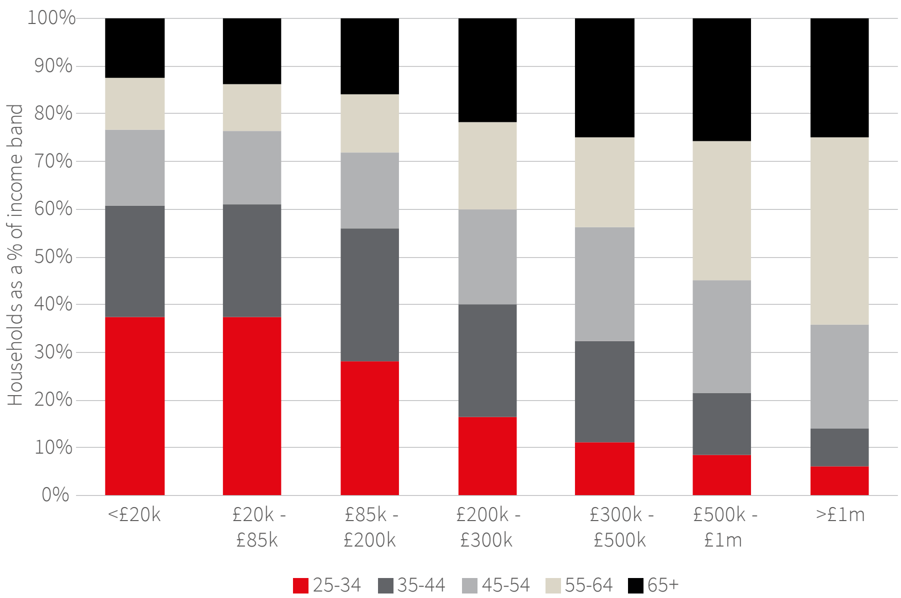
Housing equity is a key component of overall wealth, particularly in parts of the country where average house prices have increased the most. On average, private pensions are the main contributor to household wealth, although housing equity is more accessible. Pension reforms now enable retirees to access lump sum payments, or take a regular income. We expect housing wealth to become a larger proportion of wealth in future generations.

10. Household wealth components



Source: ONS

11. Household wealth by age



Source: ONS

A quarter of over 65s have household wealth of between £500,000 and £1 million; while one in six have more than £1 million. **The number of over 65's in households with wealth over £1m has risen from 636,000 in 2006 to 1.7 million in 2016. More than half of 55-64 year olds also have wealth of more than £500,000** (Figure 11), indeed this age group is already wealthier than the over 65s and will continue to get wealthier over the course of the next 10 to 20 years.

Total net property wealth (equity) for the UK is £3.9 trillion, with the richest 20% of households owning more than £2.2 trillion. The over 65s have an estimated £1 trillion of housing equity, with total housing stock valued at £1.9 trillion. As this demographic increases in size, so too will the amount of equity they hold. As house prices continue to increase over the long-term, the equity stake for this demographic will allow them to fund retirement living purchases.

Conclusion

Based on our analysis, Housing with Care values track house price growth and there is a strong re-sales market. Not only do most units maintain their value, by the point of re-sale 80% have increased.

Our analysis highlights the frequency of re-sales over the course of 15 to 20 year period. Together, these benchmarks allow for a more informed cash-flow analysis for operators and investors looking to enter or increase their exposure in the sector.

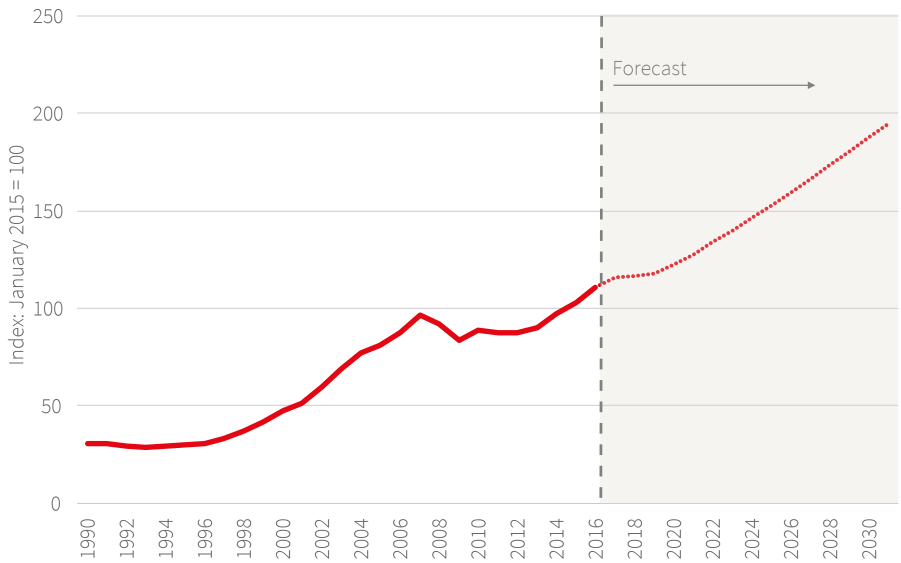
UK HPI long term growth projection shows average house prices are set to double from 2014 levels by 2031 (Figure 12) which bodes well for Housing with Care operators given the correlation to wider residential markets.

Housing with Care is not immune from the economic housing cycle; customers often need to sell their own homes first in order to purchase a retirement property, and so sales performance tends to track wider house price trends.

However, older people have the distinct advantage of being able to use housing equity when downsizing, and are less constrained by mortgage debt.

There is also a larger proportion of affluent 55-64 year olds who at retirement will be even wealthier than the current retirement population, meaning that this market has a very positive long-term future.

12. Long term house price growth



Source: Land Registry, Oxford Economics

Source: Audley Retirement

Contacts

Anthony Oldfield
Director - Healthcare
Alternatives
+44 (0)117 930 5844
anthony.oldfield@eu.jll.com

Philip Schmid
Director - Healthcare Investment
Alternatives
+44 (0)117 930 5761
philip.schmid@eu.jll.com

Martin LeGrice
Head of Alternative Investment
Alternatives
+44 (0)20 7087 5342
martinlegrice@eu.jll.com

James Kingdom
Associate Director - Research
Alternatives
+44 (0)20 7087 5154
james.kingdom@eu.jll.com

Daniel Thorpe
Research Analyst
Alternatives
+44 (0)20 7087 5765
daniel.thorpe@eu.jll.com

jll.co.uk/alternatives