

Seniors Housing

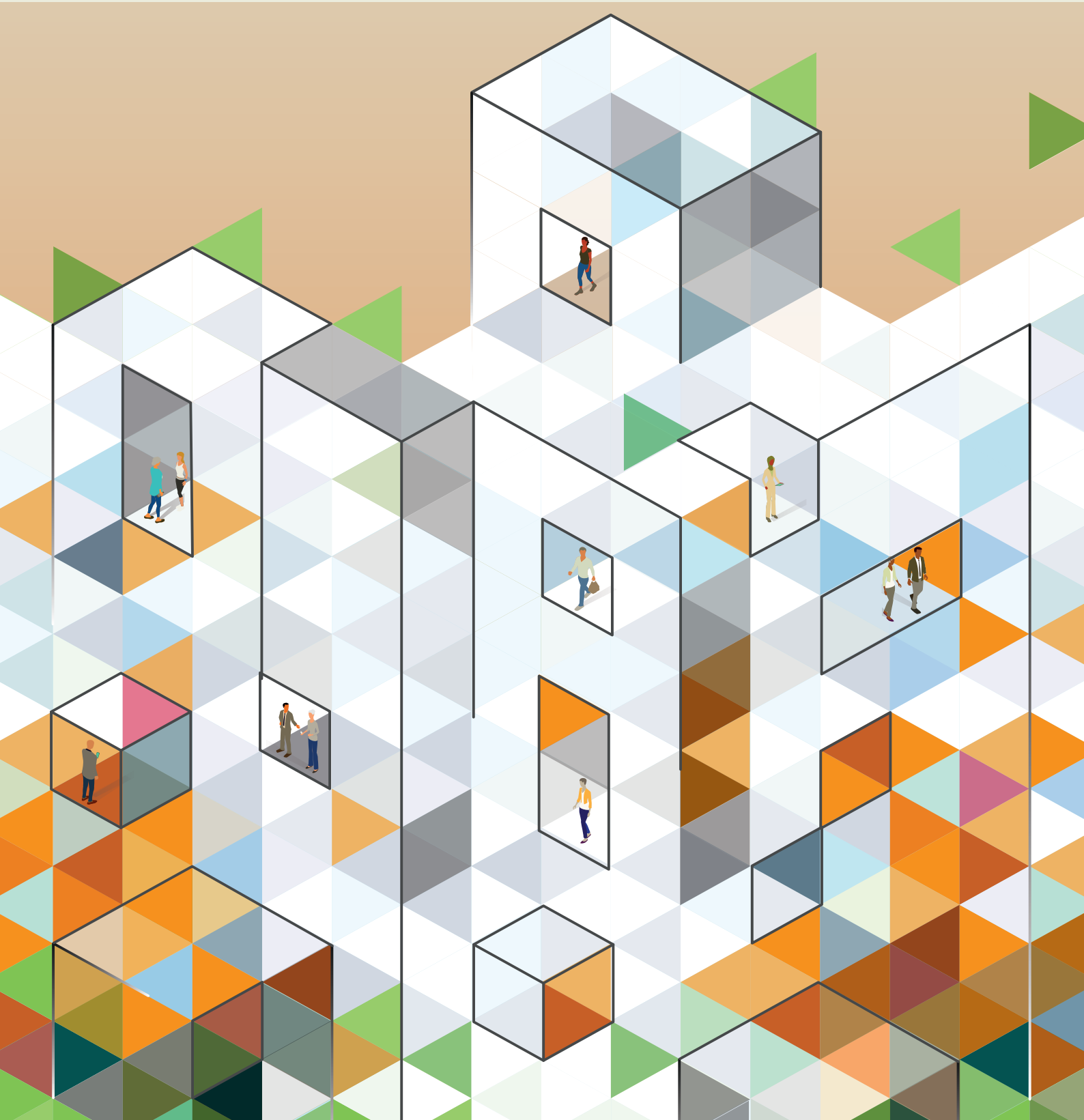
Development Update



Summer 2023

Analysis of the Seniors Housing development landscape in 2022 and detailed forecasts of future delivery

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2022 development highlights

8,008

new units added to supply in 2022 across more than 145 schemes, making it the strongest year for new seniors housing delivery in terms of unit numbers since 2018.

12%

of the total stock of seniors housing units has been built since 2010, with 69% of existing supply older and more dated pre-1990 stock.

7.5%

forecast increase in the total number of specialist seniors housing units in the UK over the next five years. Within that, IRC supply is forecast to increase by 38.7%, and Retirement Housing by 3.5%.

91%

forecast increase in the total number of private seniors rental units by 2027.



IRCS DOMINANT FORM OF DELIVERY

Some 58% of seniors housing units delivered last year were within Integrated Retirement Communities (IRC) schemes. IRCS are the main focus of delivery when it comes to seniors housing.



CHALLENGING BACKDROP

High build costs, labour availability and planning uncertainty have made for a tougher development environment. Rising costs caused by stubbornly high inflation have also posed challenges on the operational side.



URBAN FUTURES

In total, 30% of seniors housing schemes built in the last two years have been in the most urban areas supporting the needs of the Baby Boomer generation for walkability and convenience.



SUSTAINABILITY AT THE CENTRE

The growth of net-zero carbon schemes and a focus on social enterprise reflects a need and demand for investors and operators to adopt sustainable development and operational practises.

Momentum building but still falling short of demand

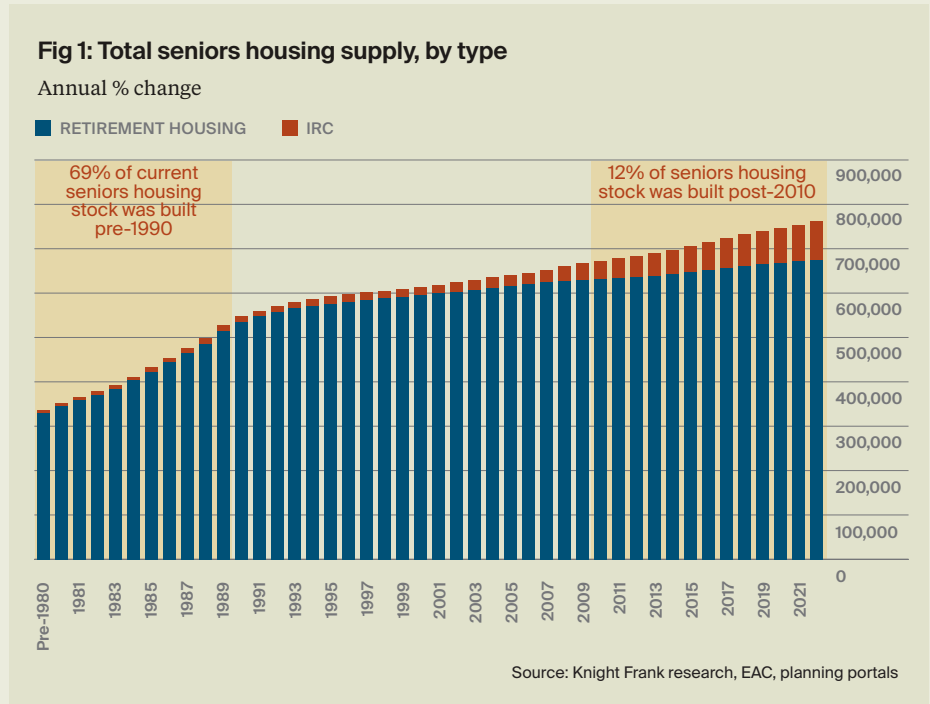
The seniors housing market had its strongest year since 2018 in terms of new delivery, led by a further expansion of the IRC market.

WORDS: KNIGHT FRANK RESIDENTIAL RESEARCH

More than 8,000 new seniors housing units were built in 2022 across 145 schemes, a 6.4% increase on the previous year's delivery. It takes the total number of complete and operational seniors housing units across the UK to 762,872. Just 12% of seniors housing stock was built post-2010, with 69% older and more dated pre-1990 stock.

While delivery of newer seniors housing units has picked up in recent years, annual delivery accounts for around 3% of the total number of new homes built each year, despite the seniors age cohort accounting for the lion's share of past and future population growth. ONS forecasts suggest there will be an additional 4.2 million seniors by 2040, at which point 25% of the population will be aged 65 or over.

The Mayhew Review, published at end of 2022, provided independent verification of the scale of the accommodation challenge. It



recommended that the government adopt a seniors housing target of 50,000 units a year to 2040 to keep up with

demand. Based on current supply this equals over a million additional units needed by 2040 (figure 3, overleaf).

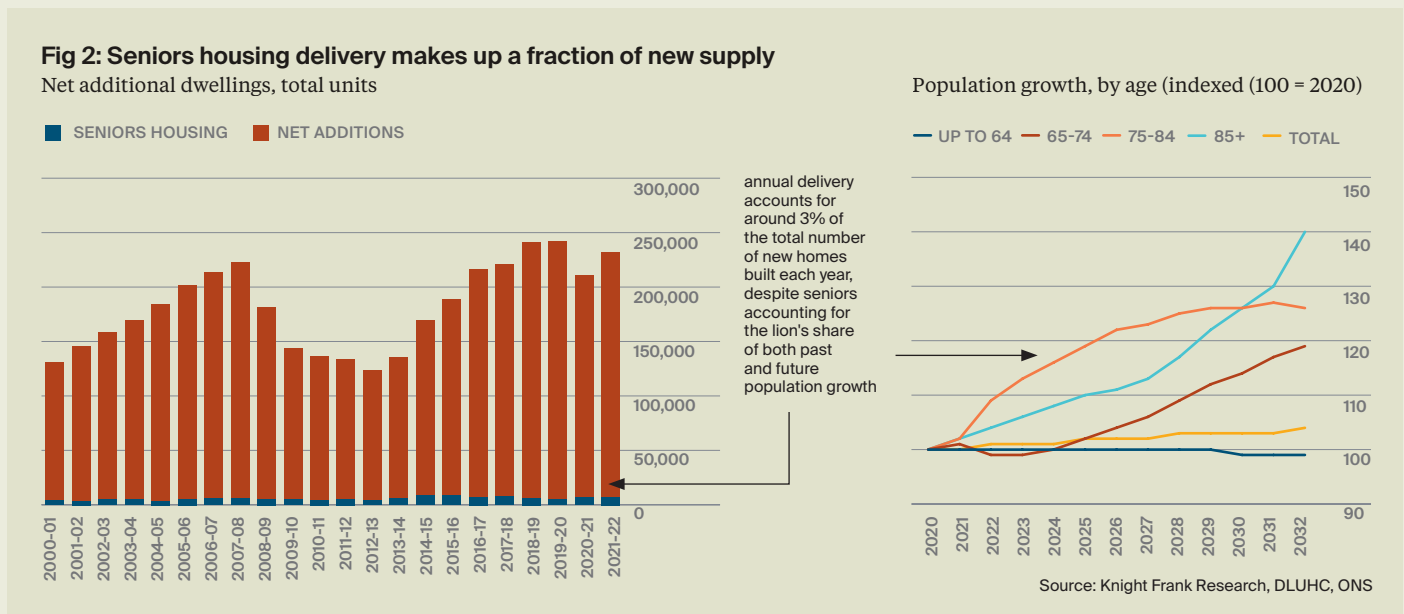
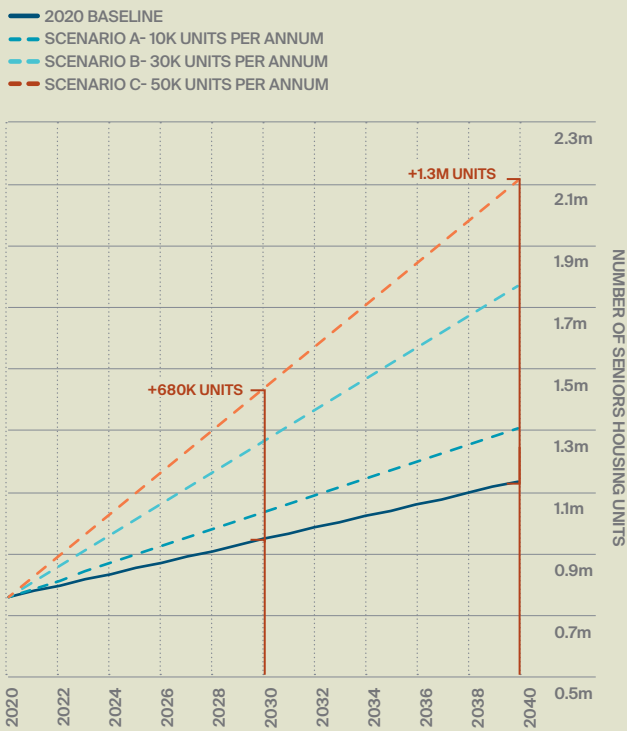
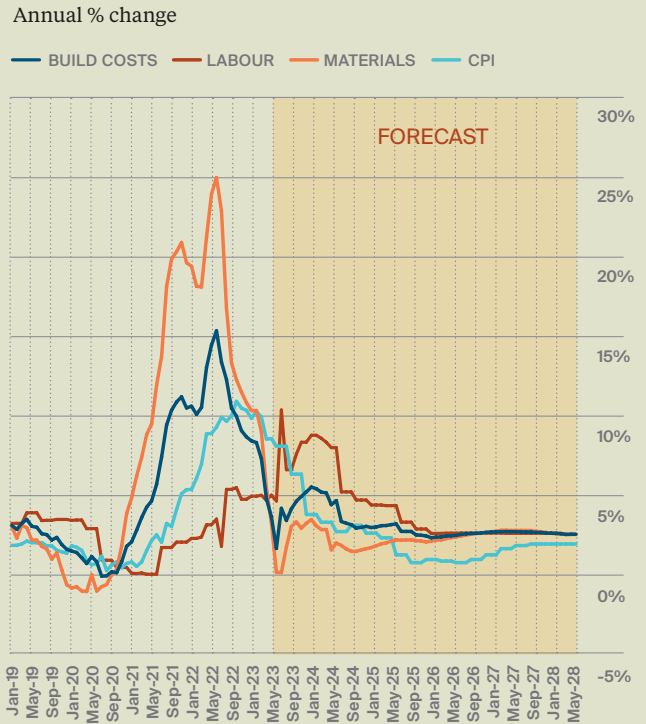


Fig 3: Seniors Housing supply scenarios



Source: Mayhew Report

Fig 4: Inflationary pressures: Build costs have spiked but costs are easing



Source Knight Frank Research, BCIS, ONS

DEVELOPMENT PRESSURES

Rising delivery comes despite a tougher development environment, with inflationary pressures putting pressure on construction and operating costs. Build costs increased by 8.7% last year, with materials costs up by 10.9% and labour costs up nearly 5%, according to the BCIS. The elevated cost of debt has posed another challenge for investors.

These factors have made it harder to bring forward or fund new seniors housing schemes. Nutrient and water neutrality issues, insufficient local government resources, and local plan failures have added another layer of complexity in some locations.

Despite this, there are positive signs. Construction activity has been resilient, as evidenced by the data. And, despite higher costs, there is appetite in debt markets from a growing range of lenders to fund seniors housing schemes. Prime yields sit outside of the rest of the living sectors making leverage more accretive.

In addition, there are signs that build cost inflation is beginning to slow. Indeed, the market seems to be at a turning point as input cost inflation and demand pressures fall. This should result in tender price inflation slowing, in turn giving investors more incentive to take projects forward. Consequently, the BCIS is forecasting build costs will increase by 4.4% this year and by 11.1% between 2024-2027 as inflationary pressures are brought under control.

More broadly, there is also a recognition of the role that seniors housing can play both in improving quality of life for seniors, relieving pressure on the NHS and social care system, and the wider societal benefits of releasing under-occupied homes into the housing market. The government has acknowledged these benefits and launched a cross-departmental task force on housing for older people. This will champion the need for sector-specific legislation, clarity in

the planning system, and funding for affordable housing.

Speaking at the recent ARCO conference, housing minister Rachel Maclean noted how specialist retirement housing can play a hugely valuable role in helping people to remain living independently for longer; feel healthier, and feel more connected to their communities.

At the same time, 114 new planning applications were submitted for seniors housing schemes last year, with 51 schemes receiving planning permission – accounting for a potential 6,545 additional age-targeted new homes.

“Despite challenges in debt markets, there is appetite from a growing range of lenders to fund seniors housing schemes.”

Delivery to accelerate

As has become the case in recent years, delivery in 2022 was weighted towards homes within Integrated Retirement Community (IRC)

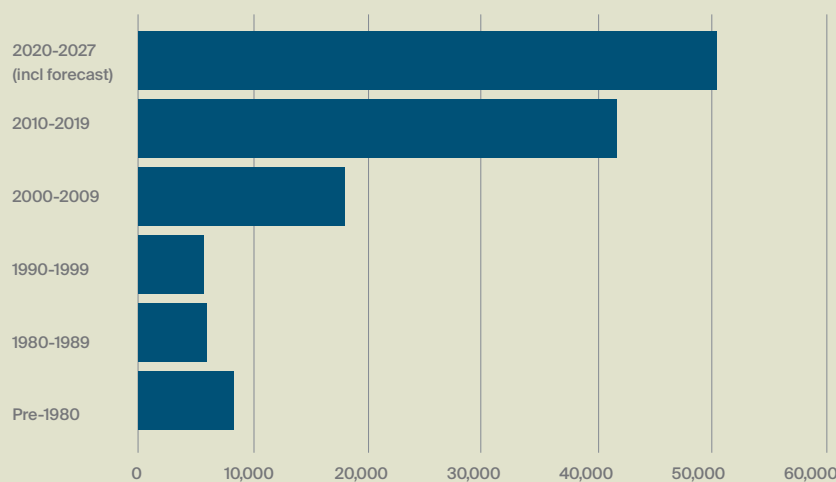
IRC schemes are now the dominant form of new delivery and accounted for 58% of new seniors housing units built in 2022, up from 49% in 2021 and 40% in 2020. More IRC homes were completed in 2022 than at any point since 2016.

We estimate that with current momentum – supported by the weight of capital chasing the sector – the next five years will see delivery accelerate further. Our expectation is that the total number of specialist seniors housing units in the UK will grow by 7.5% over the next five years, taking the total size of the sector to just over 820,000 units by 2027.

The composition of the market will also shift over this time, as operators continue to broaden the range of options available to seniors

Fig 5: Delivery of Integrated Retirement Communities rising

Total units delivered, by decade

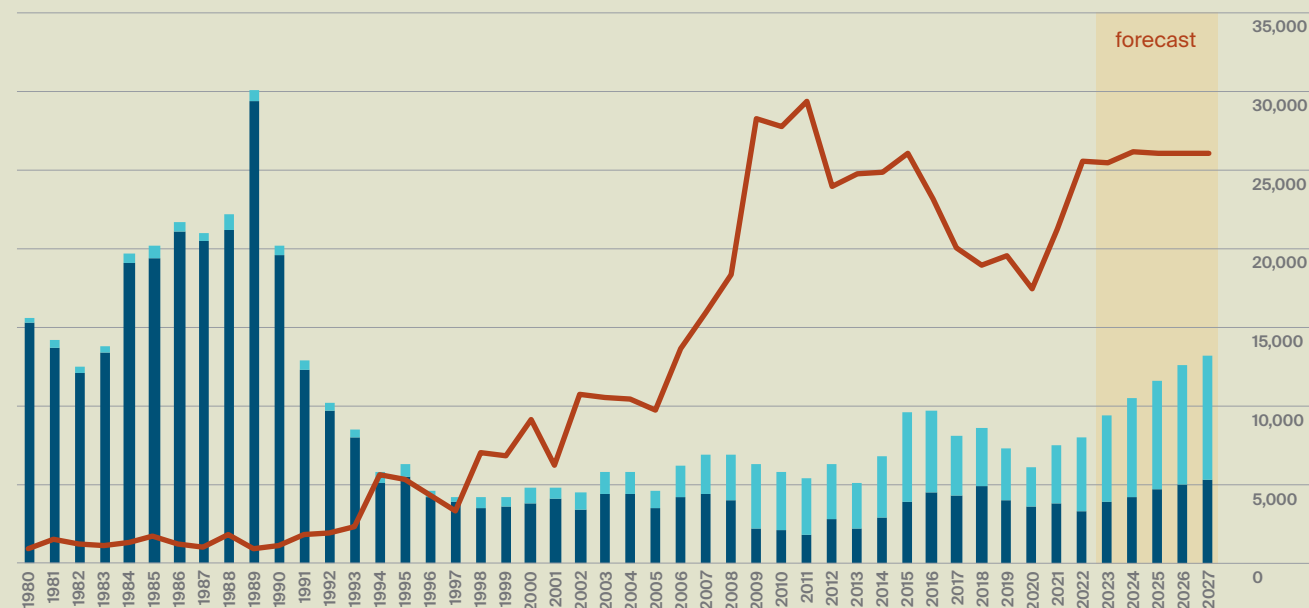


Source: Knight Frank Research, EAC, planning portals

Fig 6: IRCs the dominant form of new seniors housing delivery

Annual delivery, by type

■ RETIREMENT HOUSING ■ IRC — IRC AS A % OF TOTAL DELIVERY



Source: Knight Frank Research, EAC, planning portals

Table 1: UK Seniors Housing Forecasts 2022-2027

	RETIREMENT HOUSING				INTEGRATED RETIREMENT COMMUNITIES				TOTAL SENIORS HOUSING MARKET
	Private Rent	Private Sale	Social Rent	Total	Private Rent	Private Sale	Social Rent	Total	
2022	3,236	163,407	508,244	674,887	1,971	25,444	60,570	87,985	762,872
2027 (F)	4,751	178,927	514,514	698,192	5,186	43,944	72,870	122,000	820,192
Forecast growth (%)	47%	9%	1%	3.5%	163%	73%	20%	38.7%	75%

Source: Knight Frank Research, EAC, planning portals

through mixed-tenure and rental-only options. Affordable housing provision and schemes with varying levels of facilities and services will also increase.

The IRC segment of the market will continue to be the dominant form of delivery, driven by even greater institutional backing. IRC supply is forecast to increase by 38.7% (or by 34,015 units) over the next five years. This compares with 3.5% growth (or 23,305 units) in age-restricted retirement housing stock.

Even with this projected growth, the rate of delivery will be overshadowed by the UK’s ageing population. In real terms, the number of seniors housing units per 1,000 individuals aged 75+ is expected to drop to 120 by 2025, down from 137 in 2010 and 128 currently, underscoring the headroom in the market today, which will only grow with population growth.

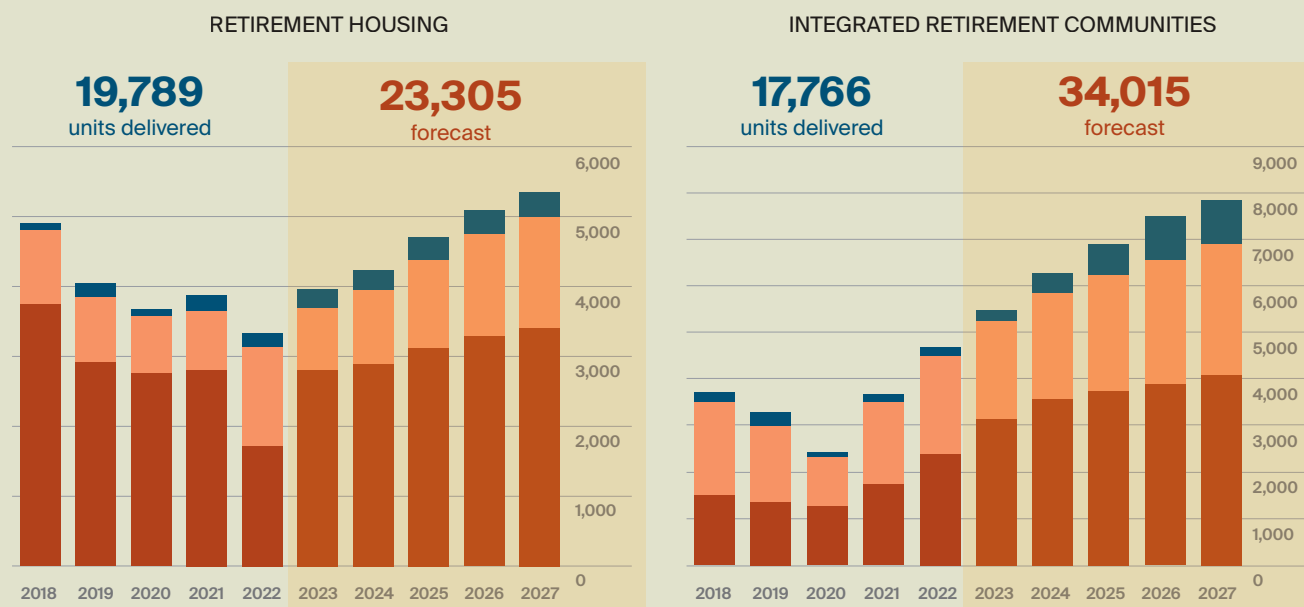
More supply, more propositions, and more choice will help fuel awareness and exposure to the

benefits of specialist seniors housing. However, to reach nearly 60,000 new seniors housing units over the next five years, an average of 11,464 homes will need to be built annually, up from 7,511 over the previous five-year period. Even this, however, falls far short of what is required, with independent reviews of the sector suggesting up to 50,000 new seniors housing units are required annually to keep up with projected demand (see chart).

Fig 7: Pipeline points to IRC delivery outpacing retirement housing

Annual delivery of seniors housing units in the UK, 2018-2027

■ SOCIAL RENT ■ PRIVATE SALE ■ PRIVATE RENT



Source: Knight Frank Research, EAC, planning portals

A SHIFT TO LARGER, MORE URBAN DEVELOPMENTS

As development picks up, we continue to see an evolution of the seniors housing model to cater to a broader range of residents. We are already seeing a trend towards larger developments, for example, typically with 60-200 units.

The planning pipeline suggests this will continue – there are 106 schemes with 100+ units in the planning pipeline, compared to 283 currently operational schemes, the majority of which are social housing schemes built pre-2000. This clearly shows the direction of travel, with larger schemes enabling greater economies of scale and supporting a greater range of amenities, as well as fulfilling investor requirements for scale.

There is also increasing development activity in urban and peri-urban locations. Highlighting this shift, some 30% of seniors housing IRC schemes built in the last two years have been delivered in the most urban settlements, up from just 9% for schemes built before 1980s.

More urban schemes support the priorities of the Baby Boomer generation for walkability, convenience, and proximity to culture. Data from the 2021 Census shows that more than eight million over-65s already live in urban areas, up from seven million in 2011. In the next 20 years, the over-65 population is forecast to increase by around a third – meaning seniors will make up an even bigger part of our urban communities.

This shift has also meant seniors housing schemes are coming through in higher value markets.

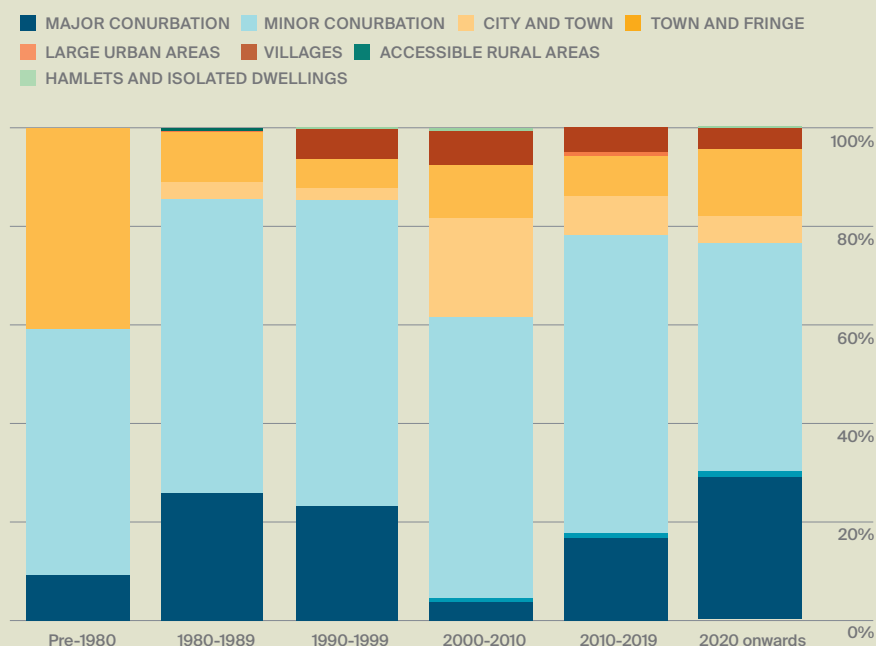
MIXED TENURE AND RENTAL OPTIONS TO RISE

The data also points to a further increase in the provision of age-targeted rental product, as investors and operators look to offer seniors the broadest choice. For investors, the pace of absorption of rental homes is also faster than sales, particularly given the fact rental supply is constrained.

Consequently, delivery of rental product is expected to increase

Fig 8: Private IRC delivery targeting more urban locations

Number of units delivered by rural/urban classification*

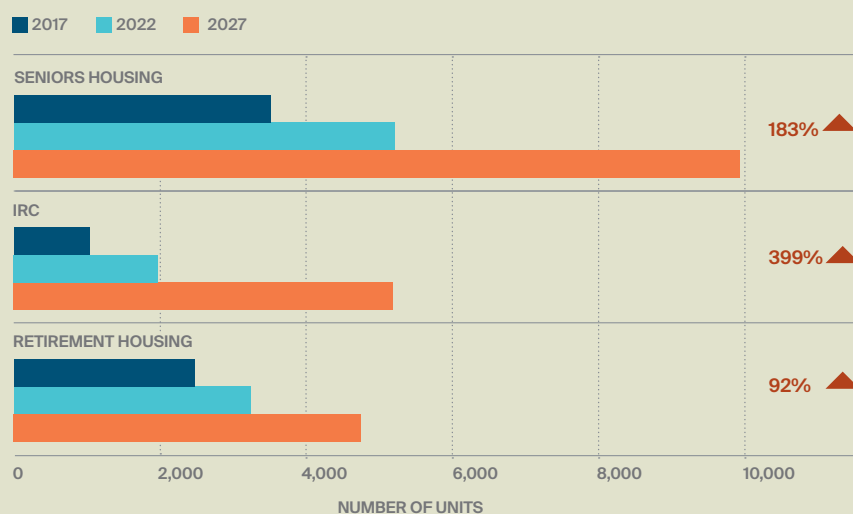


Source: Knight Frank, EAC, ONS *2011 Rural Urban Classification for Output Areas, grouping applied

further in the coming years, with analysis of the pipeline suggesting total private rental units will nearly double to just shy of 10,000 by 2027. Even accounting for such large growth, private rental stock will only account for 1.2% of the total number of specialist senior housing options.

“In the next 20 years, the over-65 population is forecast to increase by around a third – meaning seniors will make up an even bigger part of our urban communities.”

Fig 9: Forecast of delivery rental stock



Source Knight Frank Research

Taskforce for older persons housing

We currently have a government taskforce chaired by Professor Emerita of Nursing, Julianne Meyer running for up to 12 months, that will produce an independent report to DLUHC and DHSC. The Taskforce may make recommendations covering: the appropriate level of older people's housing; the enablers and barriers to growth of supply; and, options to increase the range and choice of specialised housing available to older people.

This month Julianne called on the government to implement "measures to protect consumers from hidden event fees, as soon as possible, based on recommendations developed by the Law Commission in 2017, and accepted by government in 2019." She addressed ARCO's conference saying: "We recommend that the government implements measures to protect consumers from hidden event fees, as soon as possible, based on recommendations developed by the Law Commission in 2017, and accepted by government in 2019 [and] we recommend that the government ensures that older people's housing is given due consideration and prominence in the forthcoming revisions of the National Planning Policy Framework."

Chris Benham, Partner in Knight Frank's Planning team says: "Some clarity in language and positive support for seniors housing at policy level to meet local demand of existing and future growth of seniors would go a long

way to accelerate supply. We need a co-ordinated plan through the NPPF instead of current patchwork of policies at local level. Seeing sites allocated in local plans is also essential to meeting the need for seniors housing. Failure to allocate sites for this purpose is a big missed opportunity to deliver a step change in seniors housing supply."

Tom Scaife, Head of Knight Frank's Seniors Housing team, says: "The big issues holding the UK sector back from accelerating growth and unlocking the potential include: Elimination of the planning premium older people are forced to pay when purchasing an IRC – i.e. increase supply through having planning policy that meets the local need of seniors today and in the future

1. Government support for the use of innovative charging models that help to address affordability and help optimising absorption – i.e. regulation of event fees
2. Help at a national level with marketing the product to consumers who don't necessarily understand what the proposition is – the product provides an 80 year old with independence for longer through a route to paying for their support needs in later life
3. Help to increase supply – we have a supply side issue in UK market, not demand side, we must find ways of increasing supply without delay to reap the many benefits.

"Without a solution to meet the housing needs of our growing seniors population there will be accelerated pressure and cost heaped on our NHS & Social Care System and our housing market."

"We are hoping the opportunity the Taskforce provides the tools for accelerating supply beyond current 8-10k per annum units to the 50,000 (or more) units our country badly needs. Without a solution to meet the housing needs of our growing seniors population there will be accelerated pressure and cost heaped on our NHS & Social Care System and our housing market.

"Seniors housing is a zero cost solution in part to the structural issues in our country around funding NHS and social care and housing. Rightsizing 80 year olds out of family housing into age appropriate housing saves NHS 38% per resident (Extra Care Charitable Trust research) and the family homes they are moving out of don't need to be built, and more family homes are returned to the market each time a new resident moves in. We don't have any time to delay."

ESG AT THE FORE

As ESG (Environmental, Social and Governance) criteria also rise up the agenda across real estate, senior housing looks set to benefit, as it offers favourable attributes under all three 'pillars' of ESG. The growth of net-zero carbon schemes, for example, sit under the **Environmental** pillar with a focus on the greening and energy efficiency

of buildings, and come with benefits for residents and operators alike in terms of running costs.

Increasingly, the **Social** aspect is also climbing up the agenda with a recognition of the positive role that seniors developments and the associated infrastructure and amenity provision can play in integrating with and supporting local

communities, as well as reducing the pressure on local health, social care and housing budgets.

The creation of the Older People's Housing Taskforce is a crucial step towards good **Governance** of the sector, while calls from ARCO for better regulation would go some way towards further boosting consumer confidence.

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