



# *Housing for older people: Opportunities Post Brexit*

November 2016

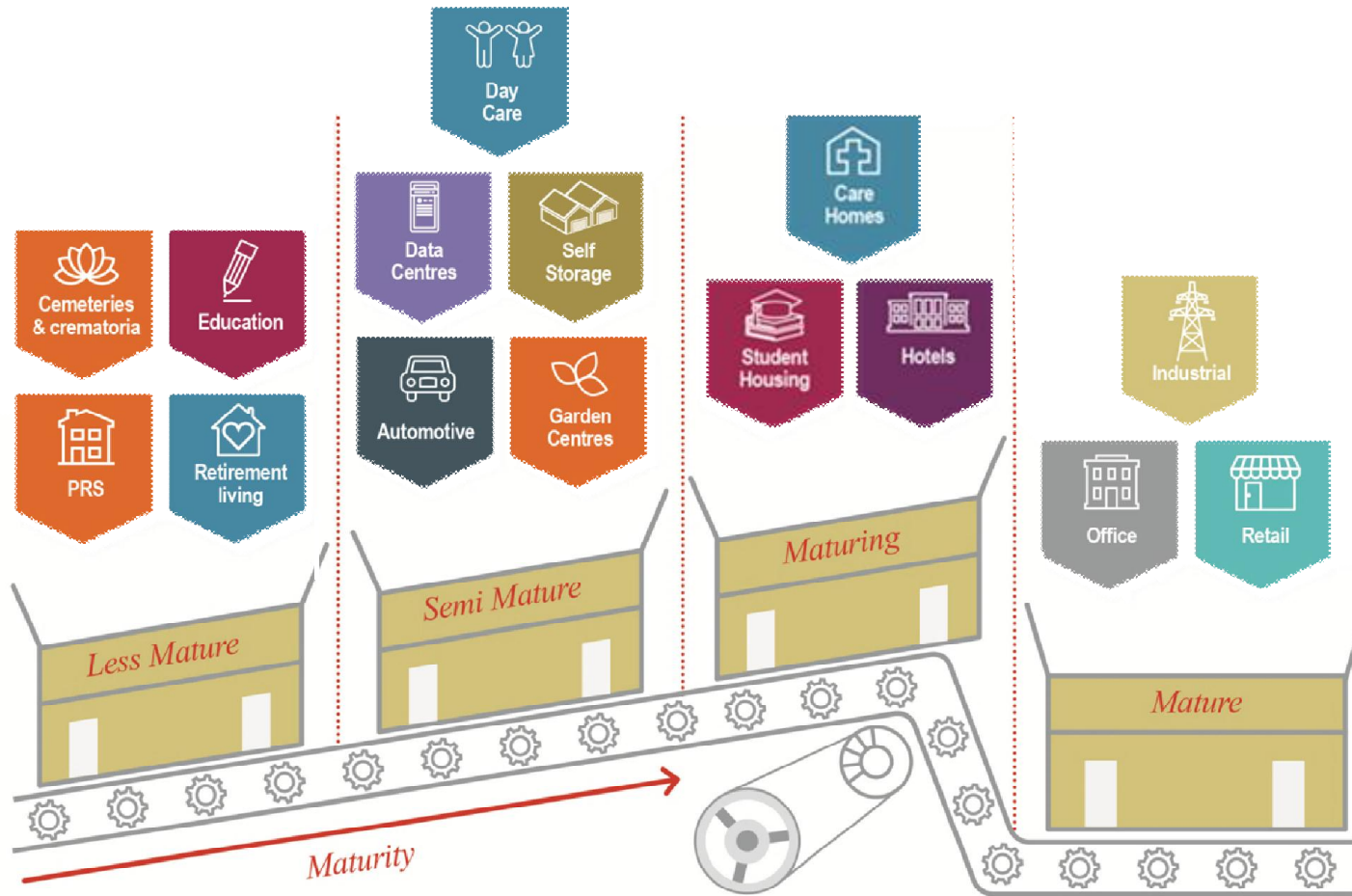
Phil Schmid - Director

Where are we now?



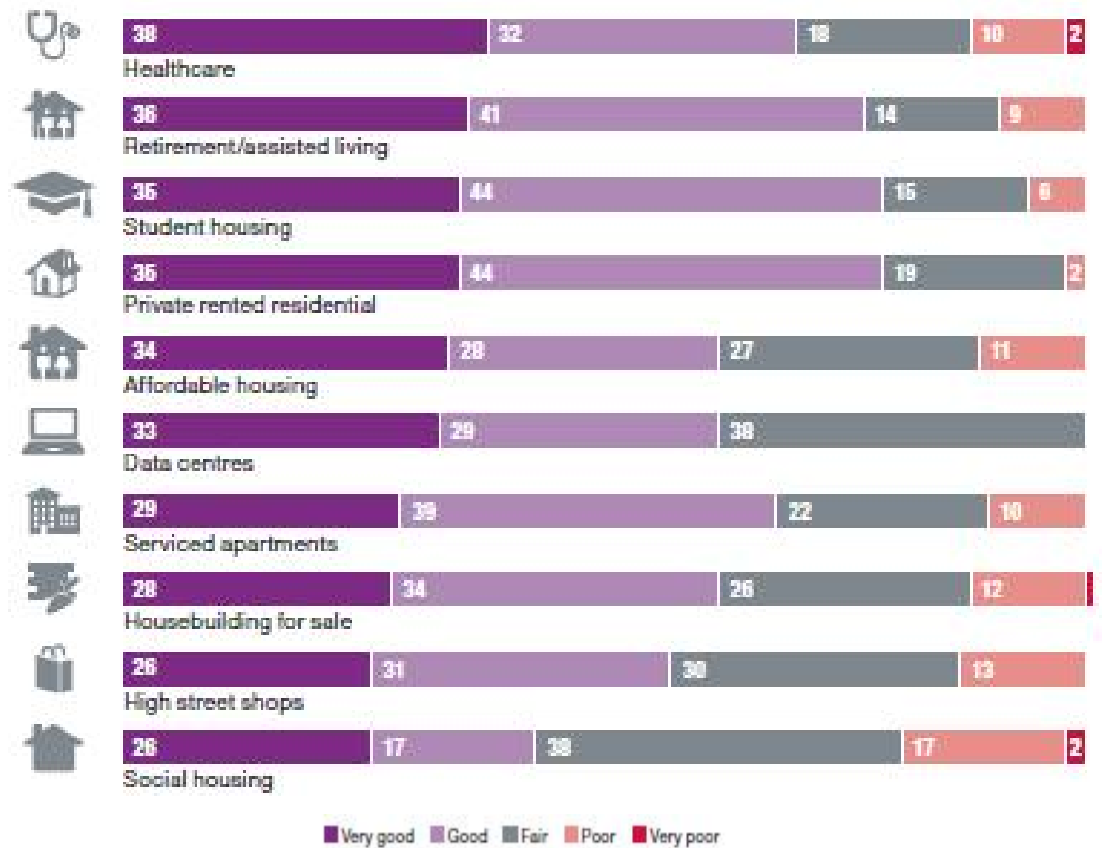
# Alternatives

*Operational backed real estate*



# How do investors see the opportunity

Emerging Trends 2017 – Sector Investment Prospects



# Market Themes

## *Drivers in the sector*

### **1 Demographic pressures:**

- Demographic population pressures
- Concomitant and exponential health problems
- Lack of alternative solutions in elderly care

### **2 NHS funding pressures, greater need for community care and self funded care:**

- Need for polyclinic and MOB sector in UK and more in Europe
- Need for easing pressure on NHS
- Rehab and hospital hotels are a growth business

### **3 Poor quality stock:**

- c.486,000 beds in the UK of which c.360,000 are not fit for purpose
- Only 13% of care home stock built since 2001

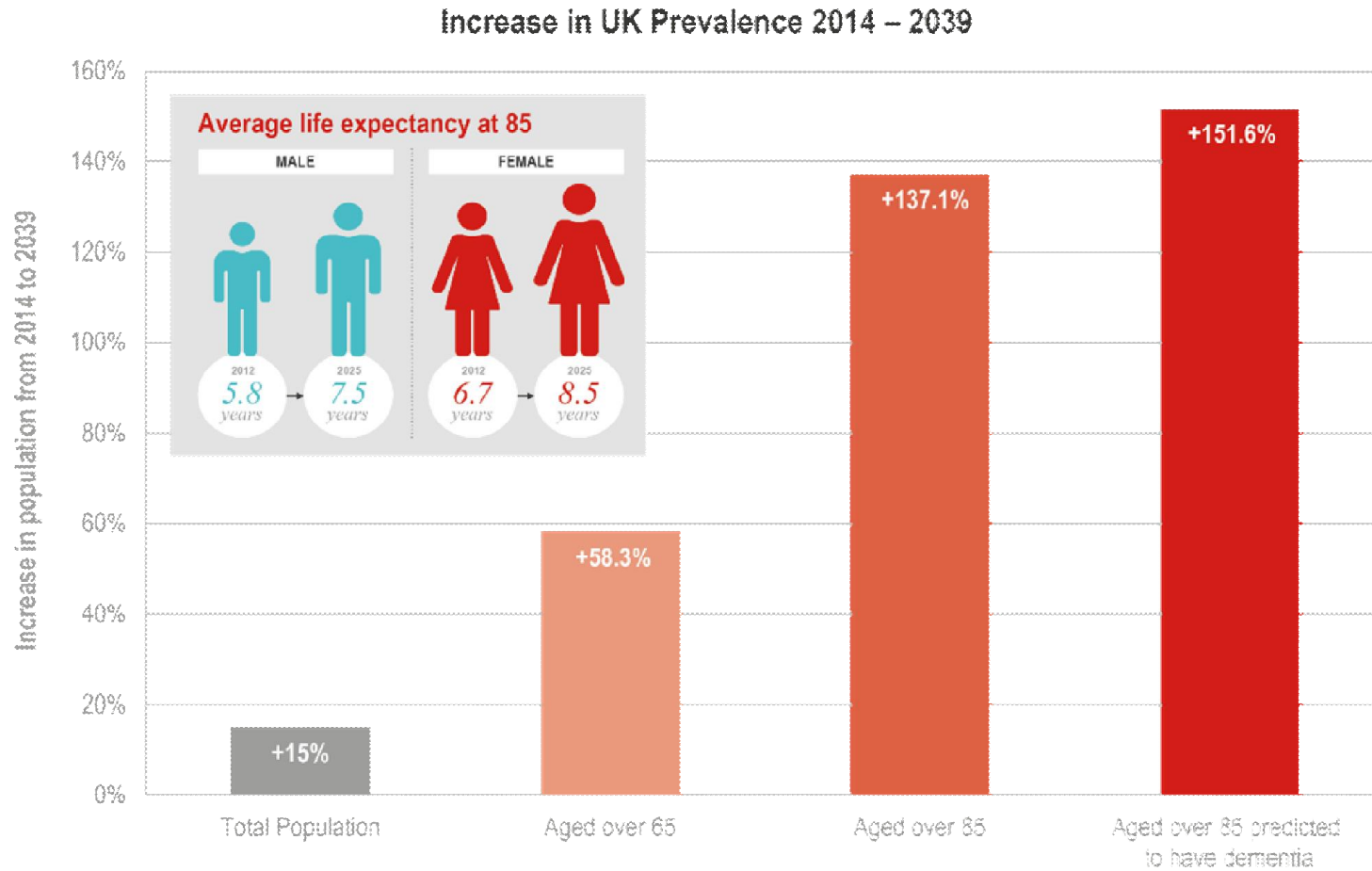
### **4 Lack of retirement living stock:**

- Nascent CCRC or village sector - growing
- Few attractive alternatives in housing stock - not fit for purpose
- Purchase rather than rental market

### **5 Housing Equity**

# The demographic pressure is here

*Future demand for social care set to increase much faster than general growth in population*



# Shortfalls in spending

*Gross current spending on adult social services (£ billion)*

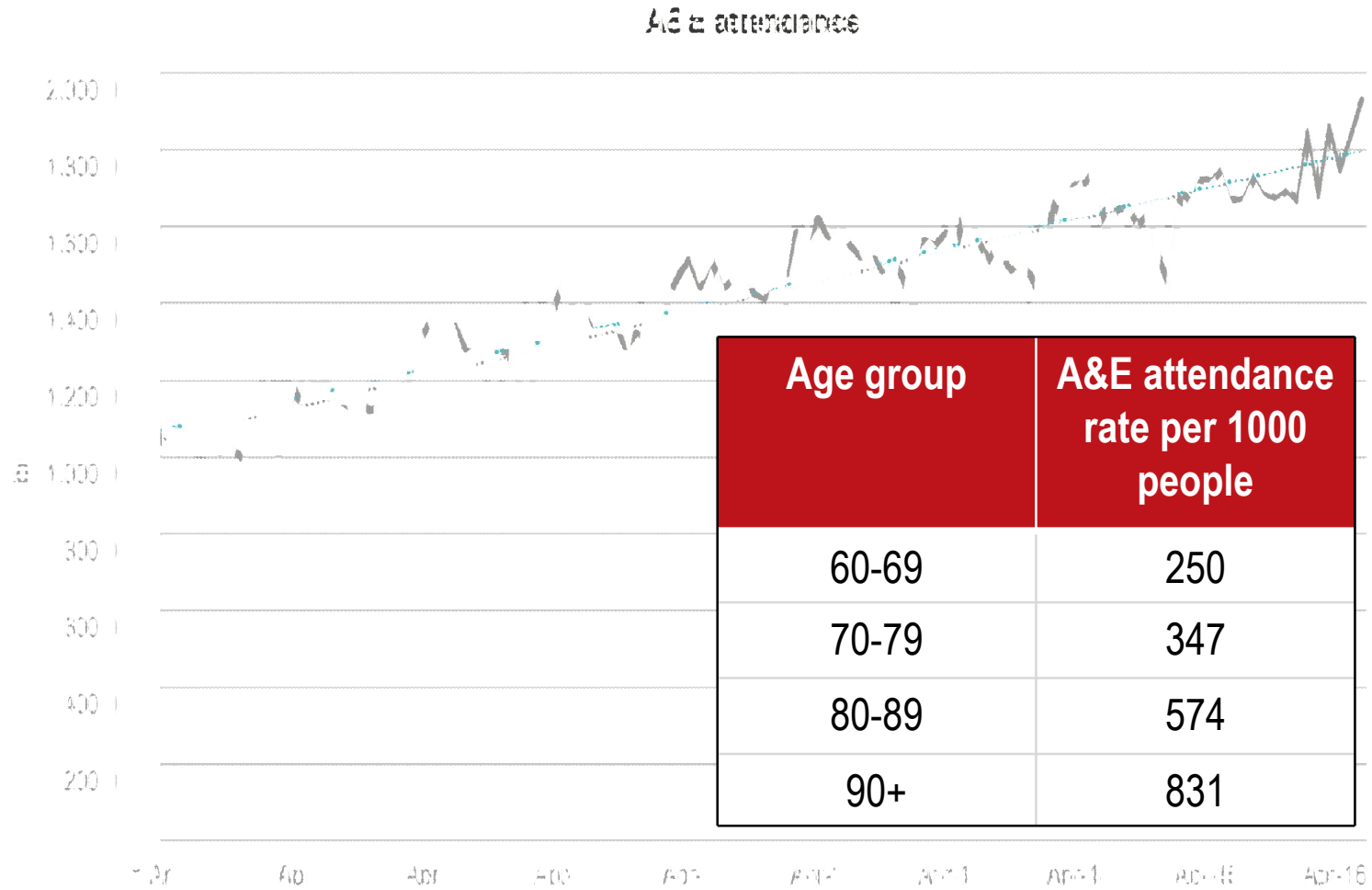
Year	Cash terms	Real terms
2008/09	16.1	18.2
2009/10	16.8	18.5
2010/11	17.0	18.3
2011/12	17.2	18.2
2012/13	17.2	17.7
2013/14	17.2	17.5
2014/15	17.0	17.0

Source: Health and Social Care Information Centre



# Pressure on NHS

*Social care funding now a top priority, but how much extra and when?*





# The problem

*Rather than increasing, supply is falling despite greater demand*



# Relentless pressure on costs

*Healthcare will continue to face greater pressure on margins from a perfect storm of contributory factors, particularly at the more affordable end of the spectrum.*



## Staff

- NLW
- Nurse shortage
- Tighter visa requirements?
- Agency costs



## Operational

- Greater dependency of residents
- LA fee levels
- Banking and finance
- EBITDAR squeeze
- NHS referrals
- Build Costs



## Policy

- CQC regulations and Care Act
- Apprenticeship levy
- Compulsory pension contributions
- Impact of Brexit
- Land & Planning

# Diversification of the Market

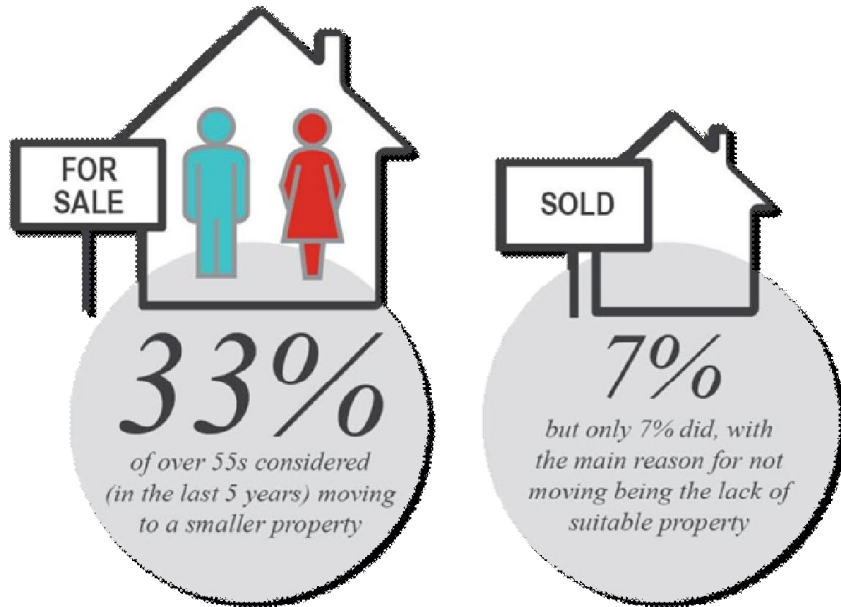
*'Retirement housing in the UK has evolved over the last 30 years providing an alternative between mainstream housing (which begins to fail older people) and care homes'*

**“You never change things by fighting the existing reality. To change something, build a new model that makes the existing model obsolete.”**

*Buckminster Fuller*

# Demand

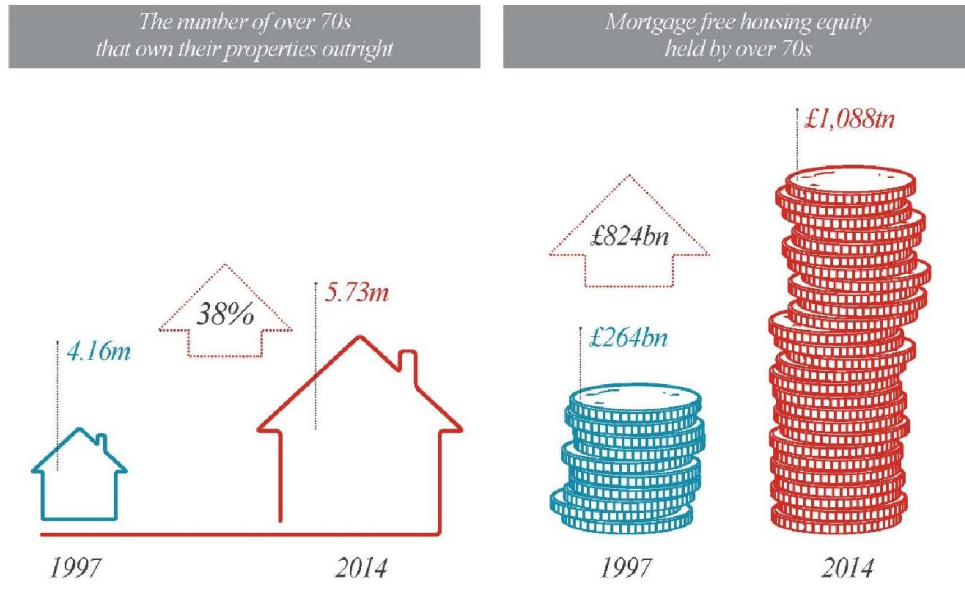
The L&G Last Time Buyers Report 2015



# Changes in home ownership and equity

*Self funded market set to become the status quo*

*The proportion of over 70s that own their property outright*



Source: ONS, JLL

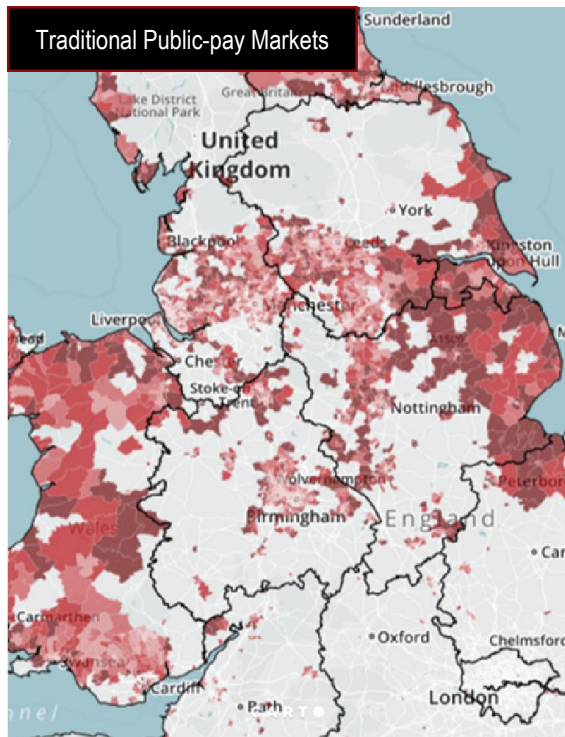
# Two tier market

*At present, "Middle Class" being largely ignored*

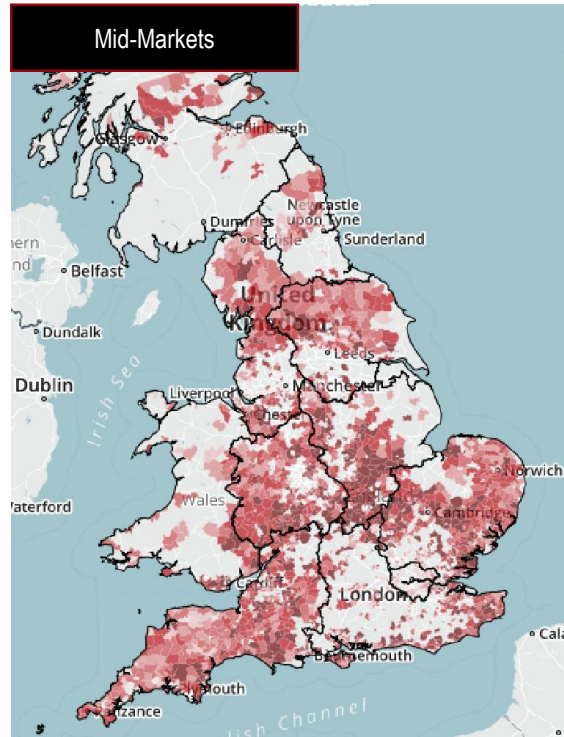


# JLL Location - Intelligence

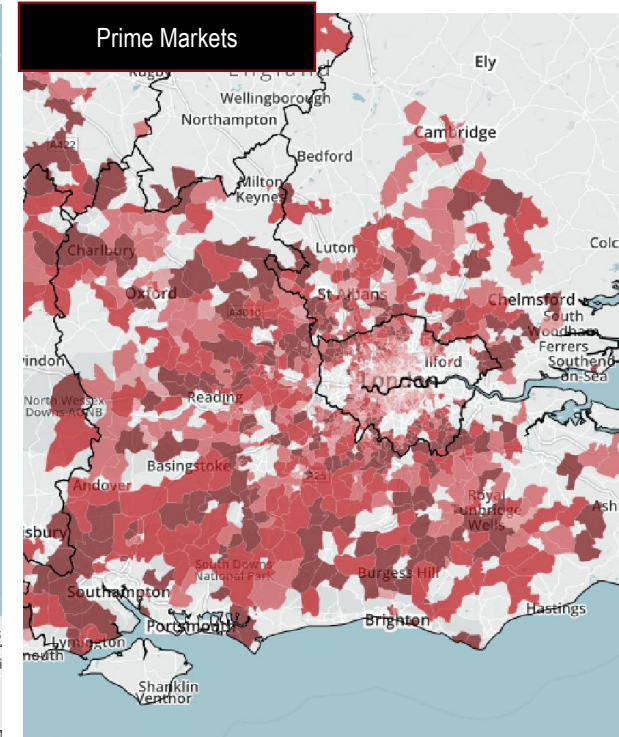
*Housing equity of the over 65s underpins future growth in demand for retirement housing*



Filter by Price	Population	Households	Equity
Less than £210,000	#	#	£ bn
65-74	4,269,244	2,373,255	375
75-84	2,382,217	1,462,026	231
85 plus	947,972	684,883	103
<b>Total 65 plus</b>	<b>7,599,433</b>	<b>4,520,164</b>	<b>708</b>



Filter by Price	Population	Households	Equity
£210,000 to £420,000	#	#	£ bn
65-74	2,087,882	1,143,175	395
75-84	1,258,420	759,135	260
85 plus	561,372	402,788	128
<b>Total 65 plus</b>	<b>3,907,674</b>	<b>2,305,098</b>	<b>783</b>

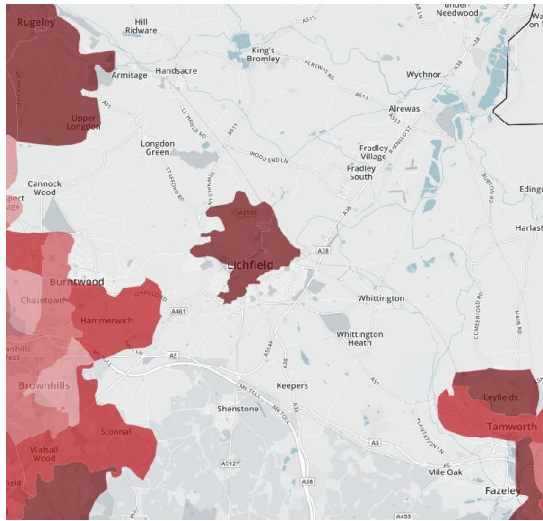


Filter by Price	Population	Households	Equity
£420,000 plus	#	#	£ bn
65-74	477,487	266,413	201
75-84	300,899	185,117	141
85 plus	159,840	118,691	87
<b>Total 65 plus</b>	<b>938,226</b>	<b>570,221</b>	<b>429</b>



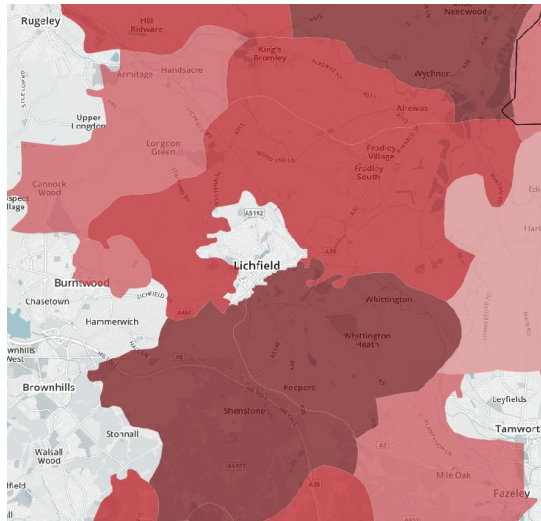
# Catchment by wealth

*Large market outside of the town centre but a lack of non-prime alternatives*



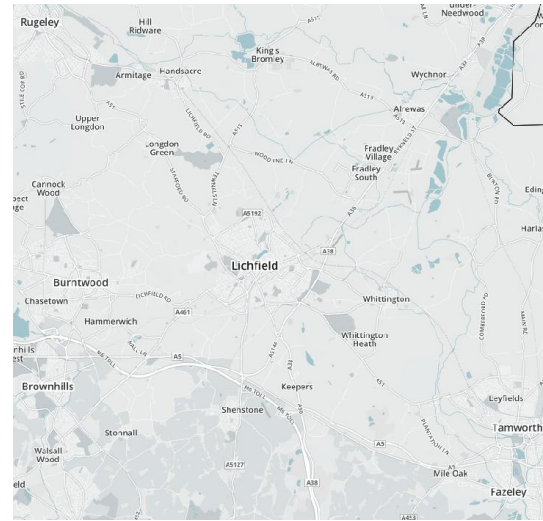
**Average house price** <£210,000

<b>Over 65s (2016)</b>	4,757
<b>Over 65s (2026)</b>	5,961
<b>Total Equity</b>	£588 million



**Average house price** £210,000 - £420,000

<b>Over 65s (2016)</b>	8,269
<b>Over 65s (2026)</b>	9,931
<b>Total Equity</b>	£1.33 billion



**Average house price** >£420,000

<b>Over 65s (2016)</b>	n/a
<b>Over 65s (2026)</b>	n/a
<b>Total Equity</b>	n/a



# Operational Models

## Plenty of Choice

	Development Stage	Operational	Deferred Charges	Target buyer	Comments
Front Loader	<ul style="list-style-type: none"> <li>Price: £££</li> <li>High risk</li> <li>Volatile</li> <li>Compete on sites with residential</li> </ul>	Notional returns	none	High	<ul style="list-style-type: none"> <li>Return all at the front</li> <li>Good in rising market</li> <li>Location driven</li> <li>Pressure on initial sales</li> </ul>
End Loaders	<ul style="list-style-type: none"> <li>Price: £</li> <li>Cover development cost or majority</li> <li>Historically struggle to compete on best sites without other support</li> </ul>	<ul style="list-style-type: none"> <li>Price: -£ or £</li> <li>Business breaks even at best</li> </ul>	<ul style="list-style-type: none"> <li>Price: £££</li> <li>Higher returns at back end – all capital uplift, or high % of value charged 20% plus</li> <li>Can require high working capital</li> </ul>	Low/mid	<ul style="list-style-type: none"> <li>Can be loss making in build up</li> <li>Returns all once village mature 5 years +</li> <li>Suits longer term investors</li> <li>Cashflow business</li> <li>Patient capital</li> </ul>
Hybrid	<ul style="list-style-type: none"> <li>Price: ££/£</li> <li>Make some development return</li> <li>Can compete on some sites (growing ability on the remainder)</li> </ul>	<ul style="list-style-type: none"> <li>Price: £ or ££</li> <li>Services targeted to break even or make notional return</li> </ul>	<ul style="list-style-type: none"> <li>Price: ££</li> <li>Offers good returns at back end</li> <li>Longer term appeal</li> <li>Deferred charges vary from 1% to 10% pa with cap between 15% and 30%.</li> </ul>	Mid/high	<ul style="list-style-type: none"> <li>Hybrid house builder model</li> <li>Mature market in commonwealth</li> <li>Can be flexed for markets</li> <li>Well suited to asset rich/cash poor mid market</li> <li>Lifestyle/aspirational driven more than location alone</li> <li>Market evolving quickly</li> </ul>

# Financial Outputs

## Low Value Area

	End Loader	Hybrid	Front Loader
Sales price per unit	£210,000	£210,000	£210,000
Build price per unit	£190,000	£190,000	£190,000
Service charge	£2,500	£5,000	£8,500
Operational Expenditure	£8,500	£8,500	£8,500
Shortfall	-£6,000	-£3,500	£0
Event fee	50.00%	25.00%	--%
<b>IRR</b>	<b>13.69%</b>	<b>9.76%</b>	<b>4.29%</b>
Multiple	2.8x	1.6x	1.1x

# Where do we go from here?

*Lots of questions but some clear answers*

- Short-term funding fixes
- Creative thinking needed regarding financing and delivery of social care – but is this realistic?
- No relief from cost pressures
- Demand guaranteed but supply not in place to satisfy it properly
- Record housing equity makes private pay a sound investment opportunity
- Middle England: Large market, diverse market, cheaper land, more buying opportunities



# Healthcare & Retirement Housing

## *JLL's Multidisciplinary Approach*

- The Healthcare team is an integral part of JLL's Alternatives division. The Alternatives team provides our clients with a streamlined approach to maximize their investments across the 'Alternative' sectors.
- Over the last 15 years we have established ourselves as a 'go to' adviser by striving to achieve excellence whilst delivering value in the service we provide. Our combined approach incorporating Professional Advisory, Corporate Transactional and Investment Transactional services is unique in our market place.
- **Philip Schmid**  
**Director - Healthcare Investment, Alternatives**  
T: +44 (0)117 930 5761  
M: +44 (0)7970 667162  
[philip.schmid@eu.jll.com](mailto:philip.schmid@eu.jll.com)

