RESIDENTIAL RESEARCH

RETIREMENT HOUSING

MARKET UPDATE

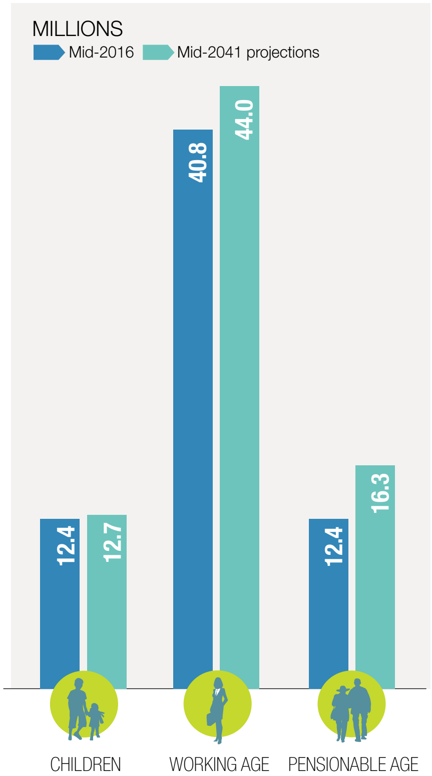
Q1 2018

SUPPLY AND DEMAND | FUNDING MODELS | POLICY FOCUS

FIGURE 1

UK population by life stage

Mid-2016 and 2041 projection



Source: Office for National Statistics

AN ESTABLISHING MARKET

The retirement housing sector in the UK is starting to mature amid increasing recognition of the demographic trends that will underpin demand for specialist housing for older people across the UK. The sector is also becoming more defined between retirement housing (with less care on-site) and housing with care (with increased provision of communal facilities and on-site care).

The increasing maturity of the sector has been reflected over the last year by an increase in the different types of funding entering the market. Recognising the potential for long term income, investment funds, pension funds and insurers have made acquisitions in the retirement living sector.

An increase in the timeframe for returns in the sector should lead to a wider range of models/tenures and payment options for residents.

The benefits of specialist housing for residents are also becoming more widely recognised, with high quality housing and communities helping to promote independence and longer, healthier lives. And awareness of the cost savings of retirement housing on local services is increasing and being backed up by case studies. For example research from Aston University has recently shown that the NHS saved more than £1,000 per year on each resident living in Extra Care Charitable Trust's schemes between 2012 and 2015.

More cost/benefit analysis studies should be encouraged across the sector.

How big is the market?

Although the market is becoming more established, it is still very modest in size, with room for large-scale growth.

There are 725,000 retirement housing units across the UK. This compares to around 28 million homes in total – so retirement housing accounts for around 2.6% of homes across the UK. Of these, private retirement housing units (162,000) account for 0.6% of stock.

An analysis of all private retirement living units indicate that their total worth, at today's house prices, is £29 billion. This means that the private retirement living sector is, by development value, is nearly twice the size of the care home sector, which was valued at around £15.9 billion in 2016.

£1,115

NHS saving per year for each resident living in housing operated by Extra Care Charitable Trust 2012-15

Source: Aston University

£29bn

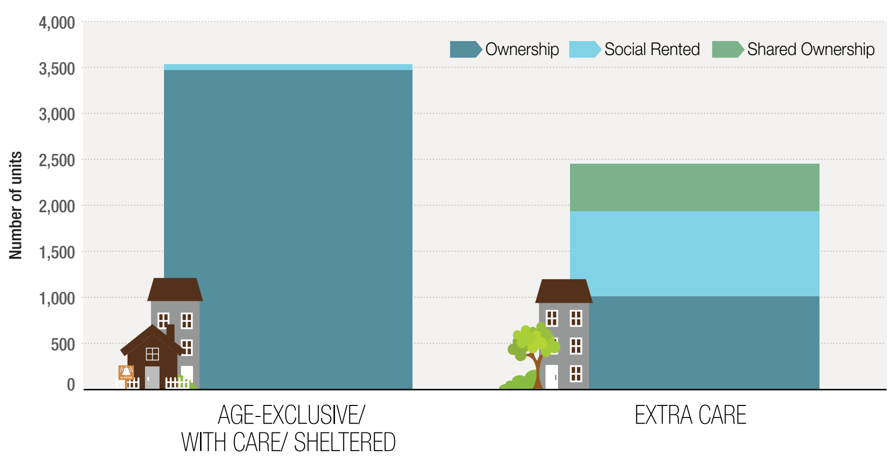
value of private retirement living units, UK

£16bn

value of healthcare sector, UK

FIGURE 2

Supply of retirement living units in 2018



Source: Elderly Accommodation Council

This year, around 6,000 new private units will come to the market, according to data from the Elderly Accommodation Counsel (figure 2).

Will policy encourage development?

There has been progress in this area, with policymakers increasingly recognising the need for, and benefits of, retirement housing since we published our first Retirement Report in 2010.

- **The Housing White Paper** encouraged local authorities to examine the type of housing needed in their area, and consider the age of those who needed the housing, rather than purely aiming for numerical targets.

> CIL and S106 decisions are made on a local basis meaning there is a 'patchwork' of policy across the UK.

Yet all decisions on CIL payments and S106 for retirement housing are made on a local basis leading to a 'patchwork' of policy across the UK. There are still differing levels of knowledge across local authorities on the definition of retirement housing. This leads to varying opinions on, for example, the community benefits of schemes (both benefits for residents living in a development and the overall benefit of reduced pressure on local services) which leads to differing positions on S106 obligations and affordable housing requirements.

- The Law Commission reported to the Department for Communities and Local Government (DCLG) on the long running investigation into **Event Fees or Assignment Fees** in 2017. It's recommendations centred around making the fees fair and transparent and allowing exemptions from such fees for residents in certain circumstances.

Generally, the comments were welcomed across the sector and valuation arena.

The Commission also recognised that some event fees where equity in the property reverts back to the operator in the event of a sale can be adjusted to help offset the costs of service charges for care and amenities.

- A recent announcement by Sajid Javid MP, Minister for Housing, Communities and Local Government, on plans to ban **ground rents** on residential property has potential implications for the retirement housing sector, although there is likely to be discussion on this before policy is introduced.
- **London:** In November, there was disappointment as the Mayor's draft London Plan made no allowance for retirement housing or housing with care as a separate type of housing.

This means, barring any changes, schemes will likely be treated the

FIGURE 3
Funding models: Housing with Care

TENURE	HOW RESIDENT PAYS	BENEFITS TO RESIDENT	BENEFITS TO INVESTOR
OWNERSHIP	· Buys a long leasehold interest in an apartment · An assignment fee upon lease assignment (typically 10-20%, or 1-2% a year) paid at the end of stay · Pays a service charge · Care costs are tailored to specific care needs	· Benefits in any house price growth during the stay · Enables some of the cost of purchase to be delayed to the end of stay	Two income streams: 1) The sale of apartments 2) The long term income from operational business
SHARED OWNERSHIP	· Buys a percentage of a long leasehold interest in an apartment · Assignment fee upon lease assignment (reflecting the percentage of long leasehold acquired) paid at end of stay · Pays a rent on the percentage of long leasehold not acquired · Pays a service charge · Care costs are tailored to specific care needs	· Benefits in any house price growth during the stay on percentage acquired · Enables the cost to be split between an upfront payment, a rent and a payment at the end of stay	Three income streams: 1) The sale of a percentage of the apartments 2) The long term income from operational business 3) Rental income
RENTAL	· Pays a rent to include service charge · Care costs are tailored to specific care needs	· Enables cost to be paid through regular rental payments	Two income streams: 1) Rental income 2) The long term income from operational business

Long leasehold: Housing with care units are often sold on long leaseholds so the operator retains an interest in the property. When a resident leaves, the leasehold is assigned to the new resident.

Assignment/Event Fee: This fee is payable at the end of a stay. It has multiple functions: 1. It helps reduce the cost of buying the leasehold. Housing with care units can be more expensive to develop because of the communal, non-saleable areas. Assignment fees mean that some of this additional cost is covered through a payment at the end of a stay, rather than at the beginning. 2. In some cases, the assignment fee is linked to a cap in service charge, so some residents may choose the security of having unchanged monthly service charges for the length of their stay, in return for a larger assignment fee. 3. The assignment fee is partly used to create a 'sinking fund' so that residents do not have to pay for large projects or works that are needed on the scheme. Operators and residents are aligned in wanting schemes to be well-maintained and attractive.

Source: Knight Frank Research

same as mainstream residential development when it comes to CIL and S106. This will reduce the ability to provide extensive communal areas and facilities to provide on-site care.

However, on a more positive note, the London Plan also outlined specific targets for specialist older people's housing to be delivered in each borough every year – totalling 4,115 per annum.

How will the market look in the future?

As the market matures, the benefits of housing with care (with extensive on-site facilities and provision of care) are becoming more widely recognised. With increased awareness of the product, there is increasing equity and finance available for site acquisition and development, and more new entrants are entering the market. This trend is expected to continue.

EXPERT VIEW

Tom Scaife
Partner, Retirement Housing

There is now some long overdue traction in the retirement housing sector.

The clutch of deals seen in 2017 including Inspiring Villages and Renaissance Villages being acquired by L & G, AXA's acquisition of Retirement Villages and Audley's move into Clapham in Central London (as well as their latest successful fund raising) have all made headlines in the property sector.

The narrative is changing too.

Everyone now understands the demographic trends that are set to drive growth in the sector, and that there is a cast-iron case for building the homes of the highest possible standard.

We are now seeing a more in-depth approach on delivery: investors looking at different products, tenure mixes, and carrying out a thorough assessment across all sectors of the market. This will inevitably result in a more diversified offering.

Inevitably, as with any industry, there are lessons to be learned on the way – from how to get the right balance of care and lifestyle in a scheme to how to respond to the micro-markets of within specific localities.

Knight Frank's Retirement Housing team, along with our colleagues in Healthcare, Residential Capital Markets and Research, are drilling down into data in even more detail in order to present the most complete picture of tenure trends and retirement housing fundamentals. This way, we can share the latest insight into retirement living, care homes and later living rental markets to clients.

We are also working within the wider industry to help define the language of the retirement housing sector, and to promote understanding of this type of housing more widely.

We wait with hope that some of the policy issues which still hold back progress in the sector will be resolved – these include lack of clarity around planning and uncertain Section 106 requirements. What is absolutely clear, however, is that the sector is now firmly out of the blocks, and has the potential to respond to increasingly eager investors and consumers.

Retirement housing allows investors to access returns from the operational care and leisure businesses as well as the development of the scheme. As the market matures investors are taking longer term views on returns, they are making larger investments in the operational businesses in the sector. With investors having longer investment horizons it should lead to an increase in the variety of different tenure options available to residents which will in turn make the sector more accessible to a wider range of residents. The infographic (figure 3) on page 3 builds on some examples in the market to shows the benefits of three different tenure models.

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