

Seniors Housing Annual Review 2021

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FOREWORD



TOM SCAIFE, HEAD OF SENIORS HOUSING

The wider backdrop to this year's Seniors Housing Annual Review has been a challenging one. Undoubtedly, the ongoing health crisis has tested and will continue to test seniors housing investors, operators and residents.

As the world begins to open back up, it is encouraging to see just how resilient the sector has been.

The data in this year's Review suggests that, while the pandemic had an impact on the sector, recovery has been swift.

Indeed, it feels like the time has come in 2021 for the UK seniors housing sector, with an alignment of forces driving it forward – increasing investment into operational real estate, expansion of rental, operators gaining experience, marketing suites re-opening after lockdowns, greater understanding of the proposition from investors and residents alike and increased government focus (and spending!) on the social care agenda due, in part, to the pandemic pushing it up the agenda.

Investors are moving and diversifying across the residential investment space (PBSA, to PRS and into Seniors Housing). Investors view seniors housing as an extension of the residential investment market with

◆◆
We are seeing operators exploring what customers want with different financing options and tenures, with an emphasis on choice and flexibility.
◆◆

differences around design, tenants, hospitality and services.

Thanks to (advancements in) modern medicine, many people in the UK are living longer, with the number of people requiring higher levels of support in later life increasing. It is essential to focus on and understand the target customer and build stable operating businesses. We are seeing operators exploring what customers want with different financing options and tenures, with an emphasis on choice and flexibility.

The potential benefits of a larger seniors housing sector are substantial. Increasing quality of life; addressing feelings of loneliness and isolation; reducing social care costs; as well as freeing up family housing – all issues which have come into sharper focus through the pandemic.

Accordingly, the government's commitment to "Build Back Better", simply has to factor in a need to deliver age-appropriate housing to support our aging population.

In this report we share the findings of our third annual Seniors Housing Operator Survey, our biggest yet, based on data shared with us by leading 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 as operators, like in other sectors, are focusing on staff training and retention as a way of managing costs.

In addition, we have analysed more than 20,000 seniors housing unit sales across the private sector to give a view on pricing and price changes over time.

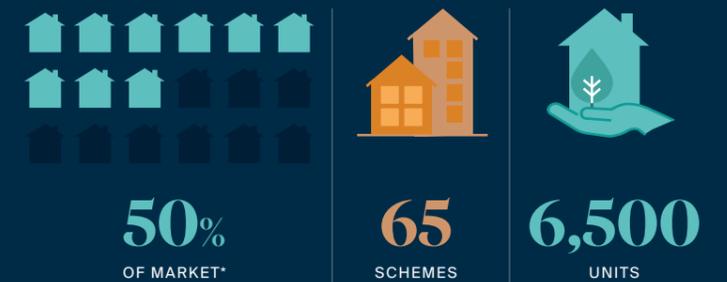
As ever, we'd like to extend our thanks to those operators who contributed to this report. It has never been more important to have access to high quality data to move the sector forward – the willingness of many of you to contribute to our review is testament to this.

THE SURVEY IN NUMBERS

We have been fortunate enough to work with a number of leading operators in 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.

15,000 units analysed across 165 Housing with Care schemes

PRIVATE HOUSING WITH CARE



AFFORDABLE HOUSING WITH CARE



*Private Housing with Care operators who have delivered 3 or more schemes since 2000
**Affordable Housing with Care operators who have delivered 3 or more schemes since 2000

MARKET UPDATE

Institutional investment continued to flow into the UK seniors housing market in 2021, with more than £800 million spent in the first nine months of the year. This represented an increase of 73% on comparable 2020 levels. With a significant pipeline of deals expected to complete before year-end, we expect annual investment volumes will reach a record high for the second successive year.

Rising investment reflects the ongoing strong demand from investors to gain a foothold in a sector which, at its core, is underpinned by solid long-term demographic change. Volumes are also being supported by

a wider pivot from investors away from traditional real estate assets.

Residential operational real estate has been a key beneficiary of this shift, with investors recognising the resilience of 'beds' sectors in a time of exceptional upheaval, as well as the potential for long-term secure income. Reflecting this, residential assets accounted for 17% of total UK CRE investment so far in 2021, up from 12% five years ago and 5% a decade previously.

The upshot for the seniors housing market has been a more diverse range of investors involved with the sector.

Global capital is also taking note. Cross-border investment has accounted for almost a third of all senior housing

spend so far in 2021, rising to 56% over the last 12 months. We anticipate international investment will continue to grow as the market matures into a liquid, mainstream asset class, in a similar manner to PRS and PBSA.

Naturally, as investment has risen, so too has delivery. While a significant number of the 749,000 existing specialist seniors housing units in the UK are social housing for rent, future development will be driven by the private sector.

We expect the number of specialist seniors housing units in the UK will grow by 9% over the next five years to just short of 820,000 units. There is a substantial pipeline for private Housing with Care schemes, offering increased levels of amenities, services and tenures.

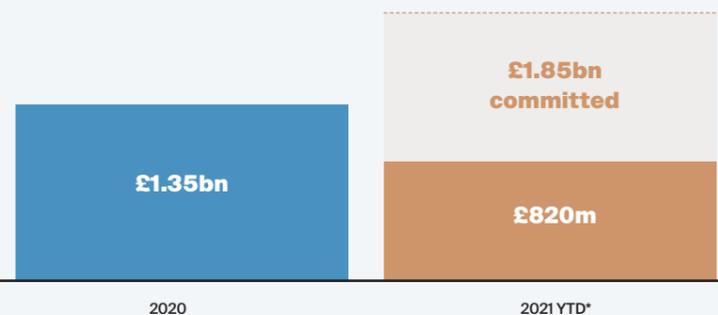
Yet, even with this forecast expansion, the rate of delivery will still be dwarfed by the UK's aging population, deepening the existing

We expect the number of specialist seniors housing units in the UK will grow by 9% over the next five years to just short of 820,000 units.

1 | Total investment into Seniors Housing - 2020-H1 2021

£1.85bn

Total capital committed to Seniors Housing - 2021
(excluding already spent)



Source: Knight Frank, RCA *Total as of mid September 2021

imbalance between supply and demand as shown in Figure 3.

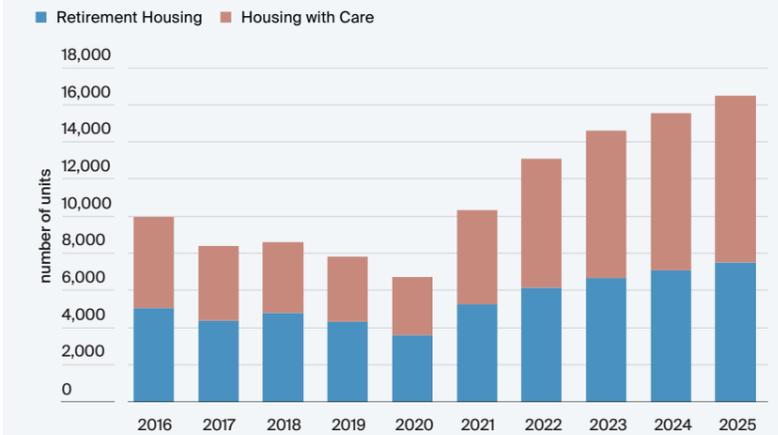
The benefits of a larger seniors housing sector to society are substantial. Yet, just 20% of local authorities in England have supportive planning policies or sites allocated to seniors housing.

Progress is being made, albeit slowly. A number of recent planning refusals have been overturned at appeal based on a recognition of 'need'. This gives confidence in the appeals process for other applications and supports the case for planning authorities to consider robust needs assessments going forward.

There are currently 31,000 seniors housing units in the pipeline. More than 90 seniors housing schemes have gained planning approval already this year, equating to 4,200 units. In order for the sector to reach its full potential, a uniform and supportive approach to planning at both a national and a local level is required.

In this report we share the findings of our third Seniors Housing Operator Survey, based on information shared with us by leading operators. It has, arguably, never been more important to have high quality data to assist with investment decisions and move the sector forward.

2 | Annual delivery of seniors housing units in the UK



Source: Knight Frank, EAC, planning portals

3 | Existing seniors housing units per 1,000 people aged 75+



Source: Knight Frank, ONS, EAC

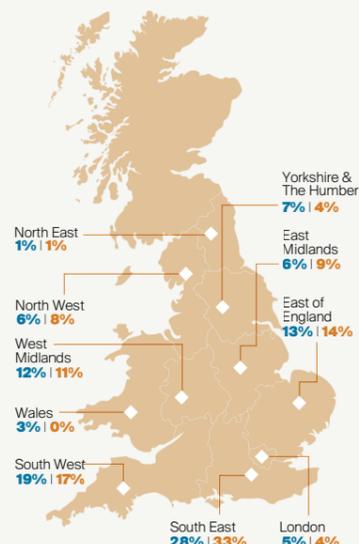
TABLE 1 | UK Seniors Housing Development Forecasts 2021-2025

	RETIREMENT HOUSING	HOUSING WITH CARE	TOTAL SENIORS HOUSING MARKET
2021	668,306	80,696	749,002
2025 (f)	700,956	118,146	819,102
Forecast new units	32,650	37,450	70,100
Forecast growth (%)	5%	46%	9%

Source: Knight Frank, EAC, planning portals

SECTOR PERFORMANCE

4 | Database sample: % of sales examined by region, 2016-2020



◆ Retirement Housing ◆ Housing with Care

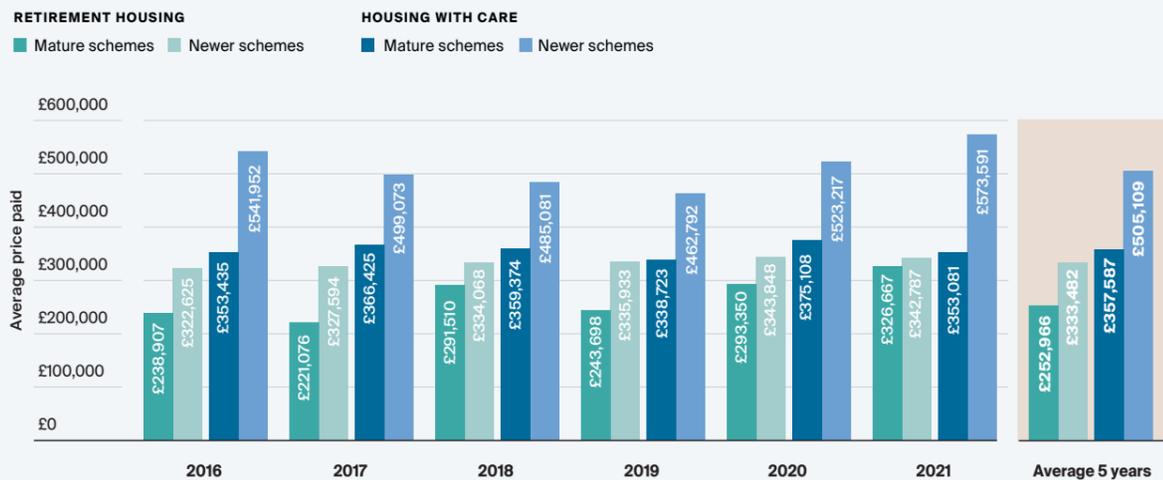
METHODOLOGY

Our pricing analysis is based on a sample of almost 500 schemes across the country developed since 2000, split between Retirement Housing and Housing with Care. The schemes comprise more than 10,000 individual units, which we tracked from original sales through to today, including re-sales. This provided us with data for more than 20,000 seniors housing property transactions since 2001. This analysis includes schemes from all major private seniors housing operators, which, combined, have delivered almost 70% of private units in schemes of 20+ units.

Source: Knight Frank, Land Registry

5 | Average price paid per annum for seniors housing units in England

Achieved price (£)



Source: Knight Frank, Land Registry

Note: Mature schemes are those built before 2010. Newer schemes are those built since 2010.

This represents sales during the 2016-2020 period only. During this period, the data for mature schemes will be resales, with newer stock achieving higher pricing on average.

Sales performance

As more schemes launch, we are getting more clarity on how different parts of the sector perform, and what drives value and out performance.

The data shows two distinct groups; Retirement Housing and Housing with Care. Retirement Housing is age-restricted housing designed with the downsizer in mind, with Housing with Care schemes providing larger amenities and higher levels of services and care as an integral part of their proposition.

The sales evidence confirms seniors housing is capable of securing premiums over local residential pricing. When analysing the level of this premium, careful thought is required, with a number of considerations, such as micro locations and specification potentially having a significant impact. The Housing with Care premium is supported by the

In the next five years we expect to see a race to scale and Housing with Care generally achieves higher sales values on average compared to Retirement Housing,

operator proposition, which includes the on-site services and support, as well as access to the communal facilities, which can be quite extensive.

Analysis of sales data for units which have sold over the last year shows that achieved prices have risen in 2021 compared with 2020.

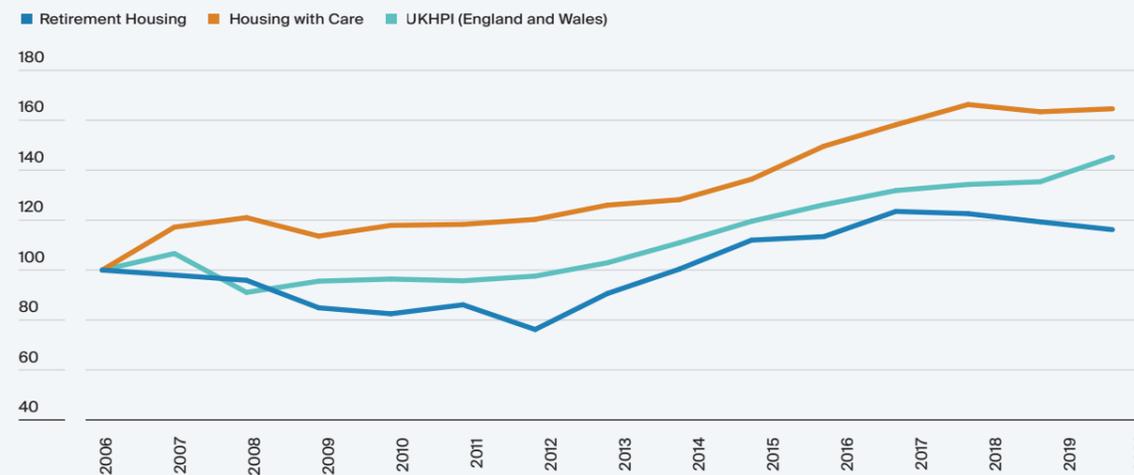
Strong house price growth over the last few years relative to the wider property market has been one factor driving investment and sales within the seniors housing market.

Our Seniors Housing Index shows that, over the last five years, average prices in Housing with Care schemes have risen by more than 20%.

While this is in line with average house price growth for England over that time, it should be noted that this is largely due to the exceptionally strong performance of the residential property market over the last 12 months.

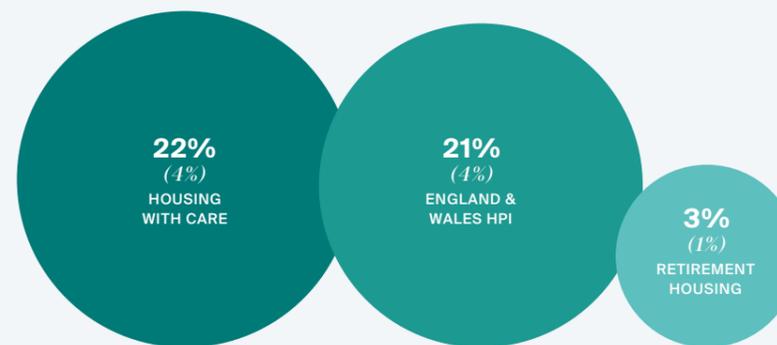
6 | Seniors Housing property prices vs. Residential

Indexed 100 = 2006



Source: Knight Frank, Land Registry

7 | Price change 2016-2020



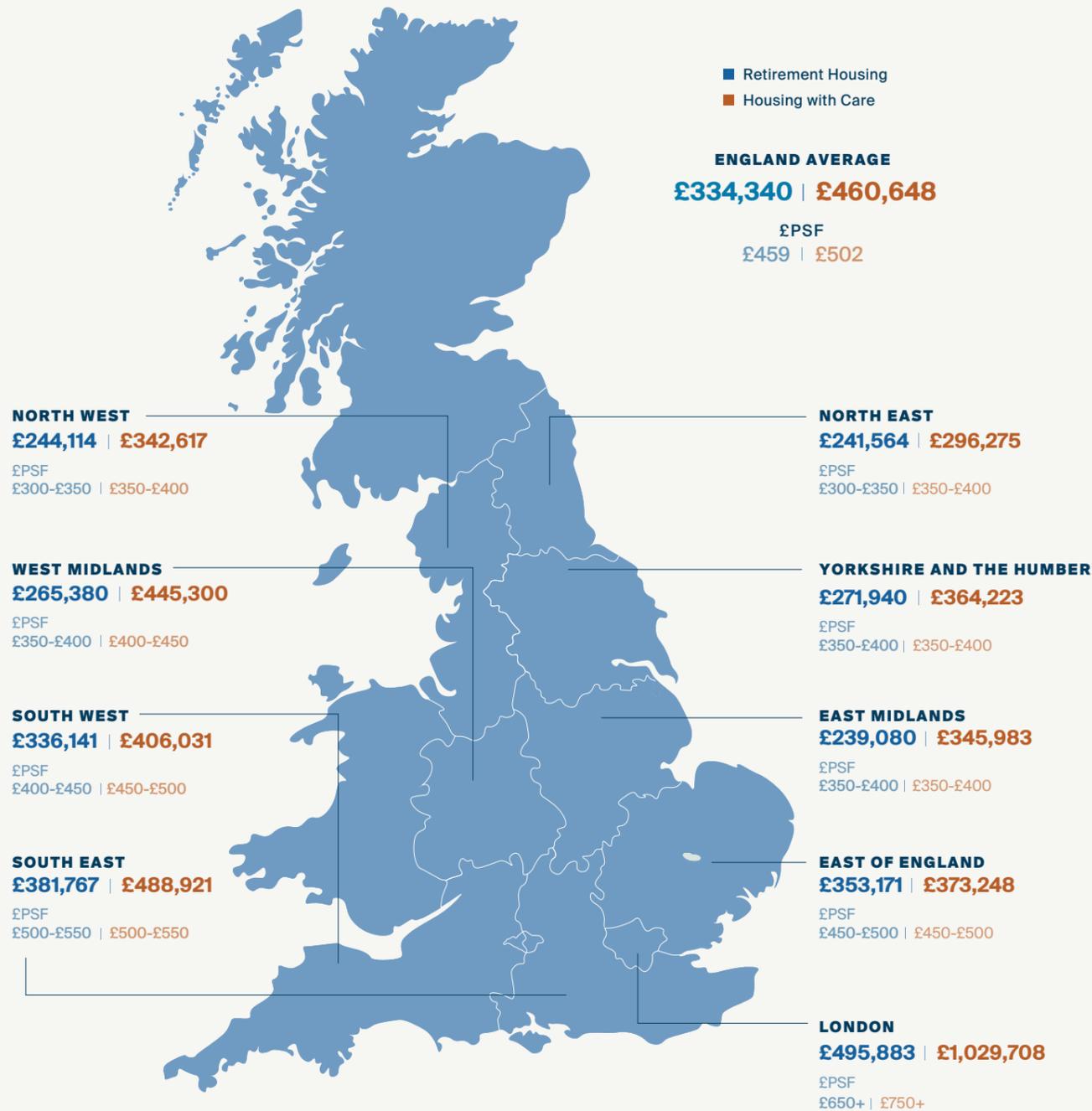
METHODOLOGY

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 allowed for this weighting within our calculations.

Top percentage figure shows 5-year growth

(Figures in brackets show CAGR (2016-2020))

8 | Average price paid by region for seniors housing units in England and Wales (2016-YTD 2021)



Source: Knight Frank, Land Registry
 * Achieved £psf in London ranges from £600 to in excess of £1,500 psf.

RENTAL PERFORMANCE

An increasing number of seniors BTR schemes have opened in last 12 months, in addition to an increased provision of mixed tenure offerings (rental units alongside for-sale units in the same scheme) to meet tenant demand. We have collected rental data for a number of key private Housing with Care operators as part of this year's survey. In total, 67% of private Housing with Care schemes offer private rental as a tenure option, either in standalone build to rent schemes, or pepper-popped within for-sale schemes.

Some 25% of total investment into the seniors housing market in the first half of 2021 was specifically targeting rental product.

We forecast the number of private rental units to increase by 166% in next 5

years, from more than 5,000 currently to almost 13,000 by 2025. We project investment into rental will accelerate as investors from across residential bring their learnings from PBSA and PRS.

As the number of seniors BTR schemes grow, so too does the availability of data on aspects such as tenant profiles, how tenants are funding their stay, acceptable rental levels, design and operator Opex.

The rental data confirms that retirement units can support rents that are higher than local residential lettings, which is particularly notable for Housing with Care. The higher rent being supported by the operator proposition including on site services and care, as well as access to the communal facilities.

PRIVATE HOUSING WITH CARE RENTAL

We have collected rental data for a number of key private Housing with Care operators. This includes rental units both in BTR schemes and pepper-popped within for-sale schemes.

67%

of private HwC schemes offer private rental as tenure option

2.5%

Margin from quoting to achieved rent

0.1%

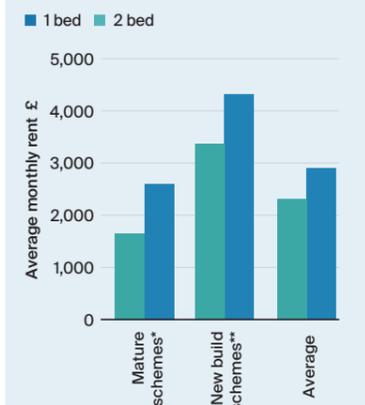
bad debt reported by operators

9 | Average monthly asking rent

	RETIREMENT HOUSING		HOUSING WITH CARE	
	1 BED	2 BED	1 BED	2 BED
London	£2,300+	£2,800+	£3,000+	£4,000+
North West	£1,150-£1,300	£1,300-£1,600	£1,300-£1,500	£2,000-£2,200
South East	£1,600+	£2,300+	£2,700+	£3,200+
South West	£1,500-£1,700	£2,000-£2,300	£2,300-£2,500	£2,900-£3,100
West Midlands	£1,400-£1,500	£1,800-£2,100	£1,600-£1,800	£2,200-£2,400
Yorkshire and the Humber	£1,450-£1,700	£1,700-£1,900		
East of England	£1,850-£2,000	£2,600-£2,800	£2,500-£2,700	£3,300-£3,700
North East	£900-£1,100	£1,250-£1,400		
East Midlands	£1,500-£1,800	£1,900-£1,100	£2,000-£2,200	£2,500-£2,700
AVERAGE ASKING RENT	£1,900	£2,450	£2,500	£3,050

Source: Rightmove, operator websites

10 | Average achieved monthly rents



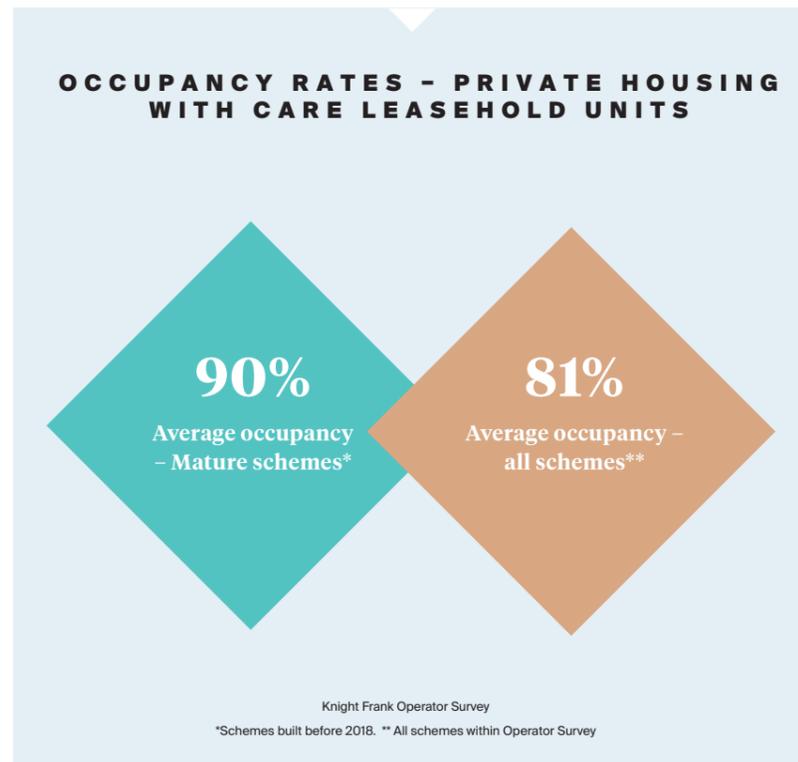
Knight Frank Operator Survey
 *Analysis includes schemes that are have been operating for 3+ years (built before 2017). **Analysis includes schemes that have been built since 2017

SALES RATES AND MARKETING

A number of operators have reported a significant uptick in new enquiries and reservations in recent months. While our analysis of quarterly sales data points to a 141% uptick in volumes in Q3 2021 compared with the second quarter.

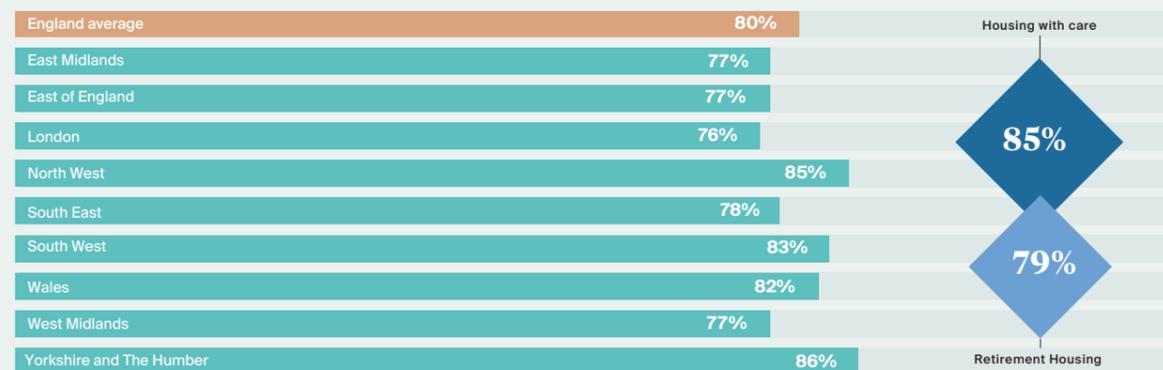
The pandemic has forced the reassessment of housing and care provision in later life and accelerated the decision making process. With the further delivery of new institutional quality Housing with Care, there is an increased awareness of seniors housing and the benefits of its proposition. The ability for seniors to visit the sales room and show apartments once again, and for operators to engage face to face, has helped to increase sales activity. This momentum will continue, as there is a wider understanding of the product, and rental continues to expand.

Housing with Care has stood up well to Covid-19 and the data indicates sales are already recovering from this period.



11 | Downsizing Premium

Average Seniors Housing unit price vs. average local residential house price**

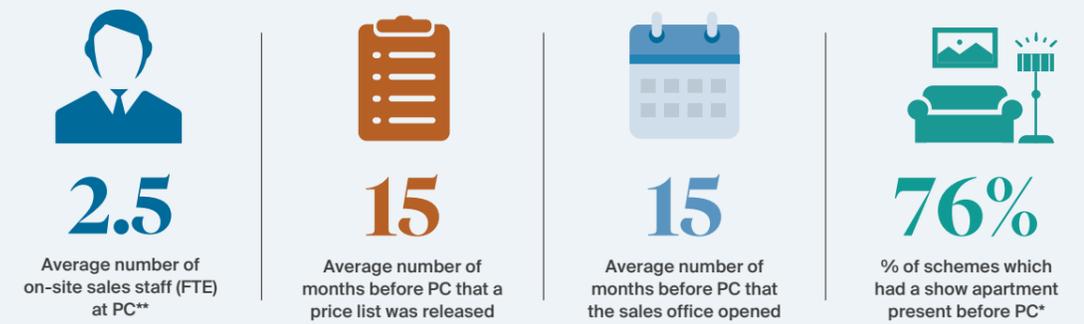


Source: Knight Frank, Land Registry ** Local residential house price is the average price of a house owned by seniors within the postcode district of each Seniors Housing scheme.

A number of operators have reported a significant uptick in new enquiries and reservations in recent months.

PRIVATE HOUSING WITH CARE - SALES AND MARKETING

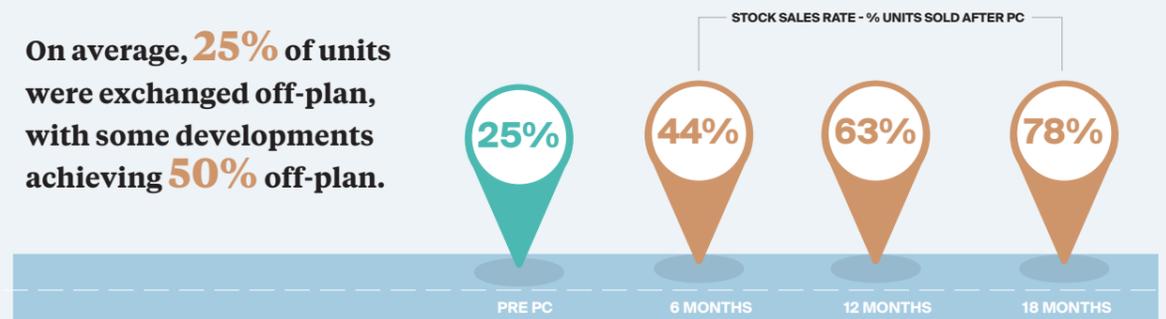
SALES AND MARKETING PROCESS SNAPSHOT



Source: Knight Frank Operator Survey *Mature villages **PC - Practical Completion

SALES RATES - NEW BUILD VILLAGES

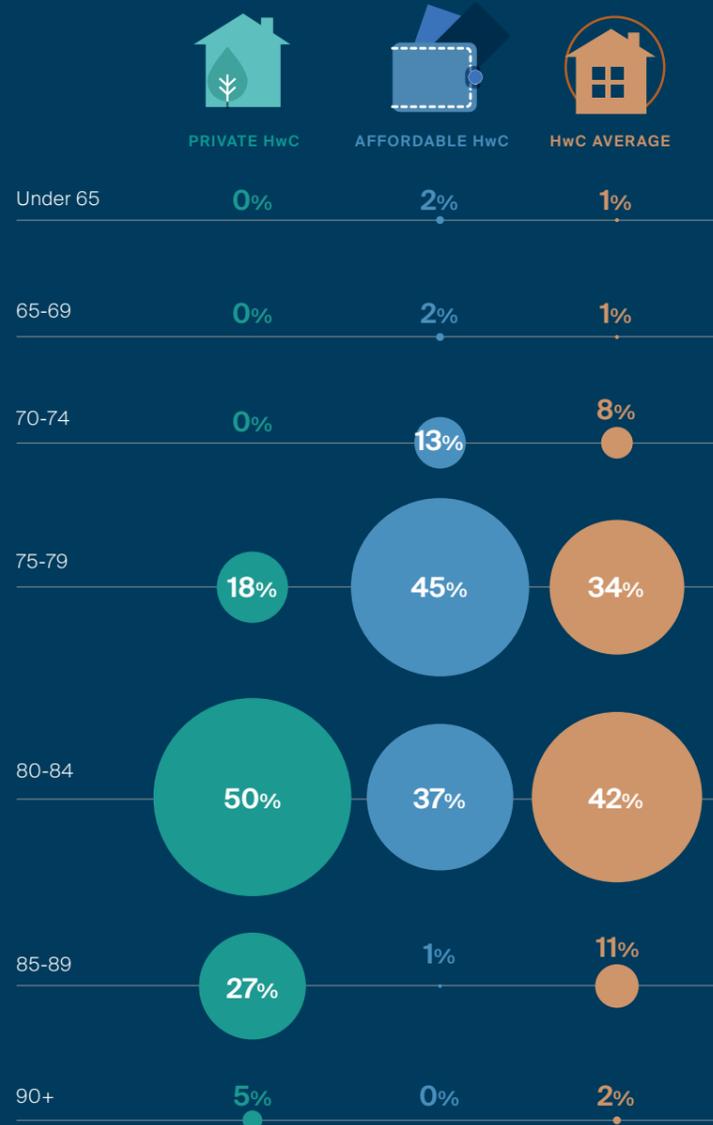
Average % of units exchanged off-plan* in schemes built since 2018



Knight Frank Operator Survey *Off-plan indicates exchanges which took place before practical completion. PC - practical completion
Note: These are averages based off proportion of units exchanged before PC and the rates do vary across schemes.

RESIDENTS AND OCCUPANCY

AVERAGE RESIDENT AGE DISTRIBUTION (SCHEME AVERAGE)



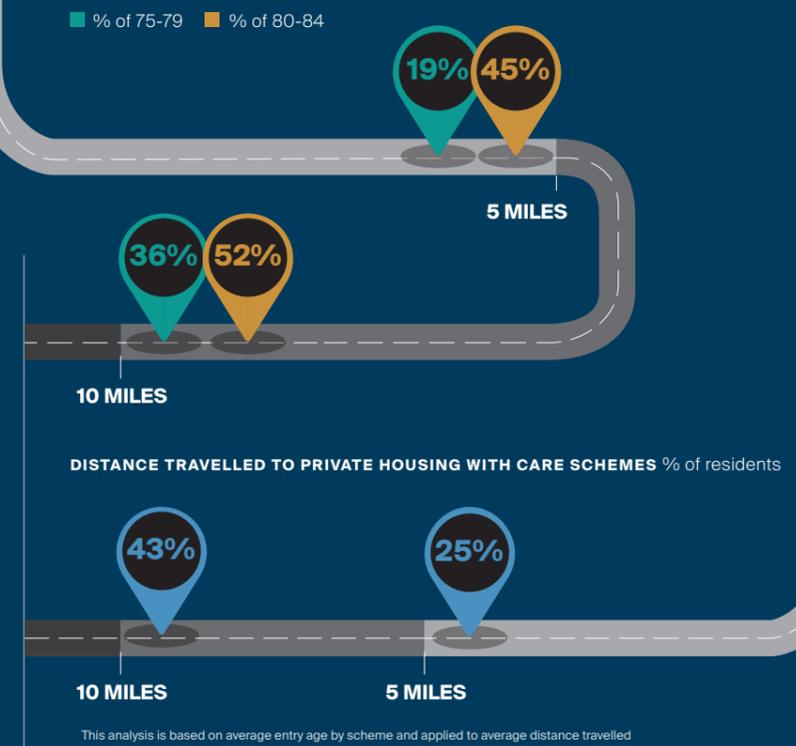
AVERAGE RESIDENT AGE



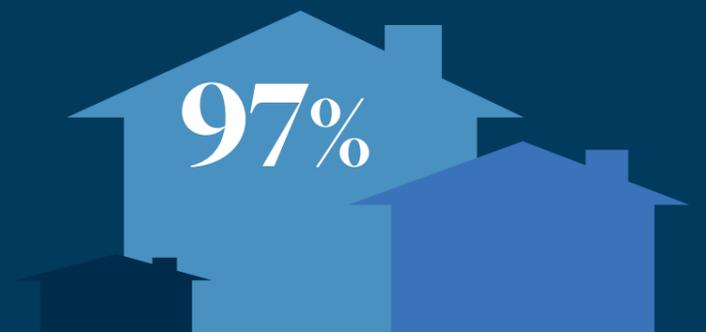
% OF RESIDENTS MOVED WITHIN 10 MILES



DISTANCE TRAVELLED TO PRIVATE HOUSING WITH CARE SCHEMES BY ENTRY AGE



% OF PRIVATE HwC RESIDENTS WHO WERE OWNER OCCUPIERS



% OF SCHEME OCCUPIED BY COUPLES (HwC)



% OF SCHEME OCCUPIED BY COUPLES - BY AVERAGE AGE

	PRIVATE HwC	AFFORDABLE HwC	HwC AVERAGE
Under 65		18%	18%
65-69		9%	9%
70-74		3%	3%
75-79	52%	14%	27%
80-84	41%	18%	31%
85-89	21%		21%
90+	9%		9%
Grand Total	36%	15%	26%

This analysis is based on average entry age by scheme and applied to average household composition

AVERAGE LENGTH OF STAY (MATURE VILLAGES*)



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

% OF RESIDENTS WHO REQUIRED PERSONAL CARE ON ENTRY



OPERATIONS

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Seniors housing is operational real estate with experienced teams managing a range of income streams across both DMF, rental and mixed tenure platforms
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The data provided in the Income and Costs section refers to private Housing with Care schemes included with the Knight Frank Operator Survey. This data is for the 2020/21 financial period.

Income

Income from Housing with Care schemes comes from a diverse number of sources, and income streams vary across different operators, propositions and age of schemes.

In line with last year, service or management charges account for 60% of the total, on average, though such charges can vary significantly at each scheme depending on the level of amenity and service offered.

Deferred Management Fees (DMF) makes up the second largest income stream with an average of 21% of total gross revenue. Note that this analysis combines both mature and

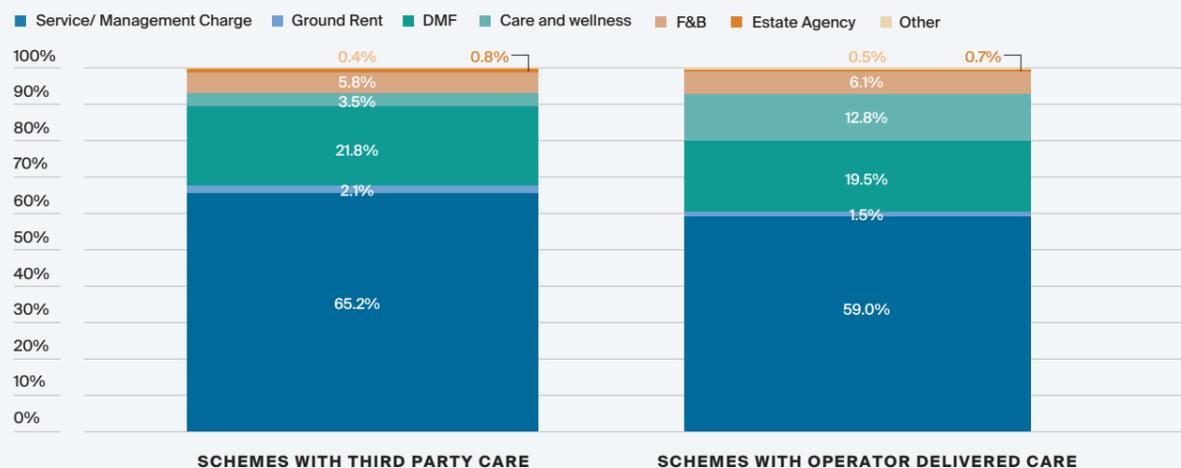
newer built schemes, so this metric will vary substantially.

The remaining 20% made up from food and beverage (F&B) facilities – including restaurants and cafes – care and wellness, ground rents and estate agency.

Compared to last year's survey, income from ground rents makes up a smaller proportion of the total, reflecting the fact that most operators have, or are in the process of, phasing them out.

13 | Average % of total gross income by source

Private Housing with Care Schemes, excluding rental income

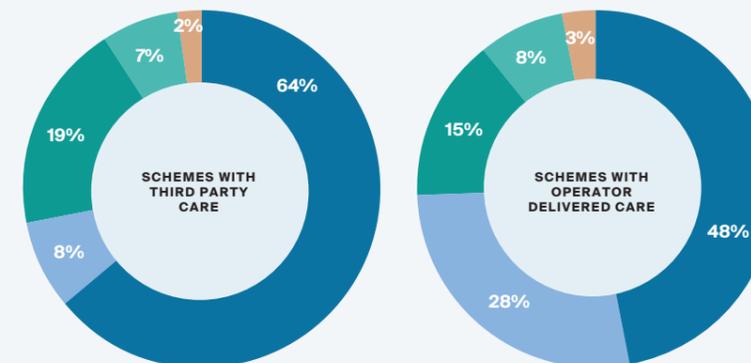


Source: Knight Frank Operator Survey

14 | Average % of total costs by source

Private Housing with Care Schemes, including staffing costs

■ Estate Management & Maintenance ■ Care & Wellness ■ Food & Beverage ■ Estate Agency ■ Other



Source: Knight Frank Operator Survey

Costs

Costs in Housing with Care schemes vary and are influenced by amenities, service and care levels, location and scale. Staffing is by far the largest outlay for operators, though costs associated with care and wellness are also significant, especially for schemes with operator-delivered care.

Estate management and maintenance costs are also notable.

Staffing

As a proportion of income, staff costs represent 35% of revenue across the schemes surveyed, rising to 48% in schemes with care provided by the operator.

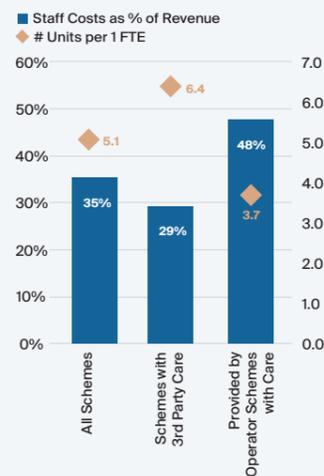
There is approximately one full-time staff member to every five units within a private Housing with Care scheme, though

there are more staff per unit in schemes with operator delivered care.

Within private schemes, the majority of staff are employed in areas such as F&B, estate management and maintenance. Conversely, in affordable schemes, the focus for staffing is within care and wellness.

◆◆
Staff costs represent 35% of revenue across schemes surveyed
◆◆

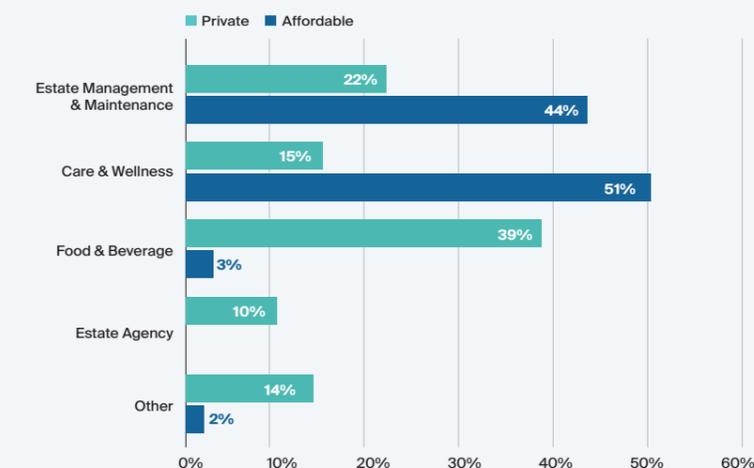
15 | FTE Staffing (# units per 1 FTE, staff costs as % of revenue) Private Schemes



Source: Knight Frank Operator Survey

16 | FTE Staffing Distribution (%)

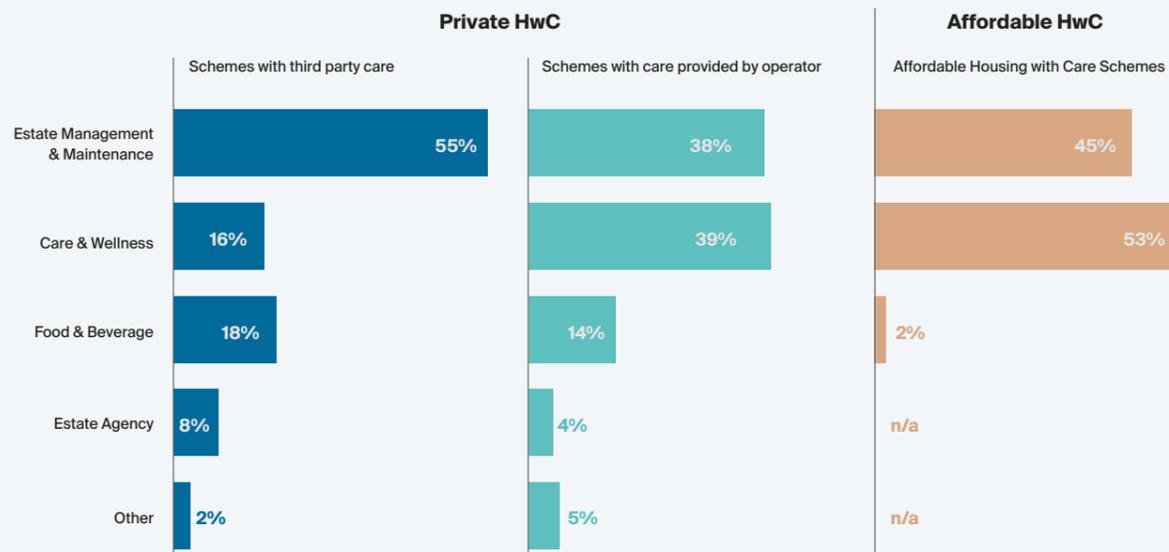
% of FTE Staff by Area, private and affordable Housing with Care schemes



Source: Knight Frank Operator Survey
Note: Estate Agency costs not provided for Affordable Housing with Care schemes.

17 | Average % of staffing costs by source

Private and Affordable Housing with Care Schemes



Source: Knight Frank Operator Survey

DEFERRED MANAGEMENT FEES

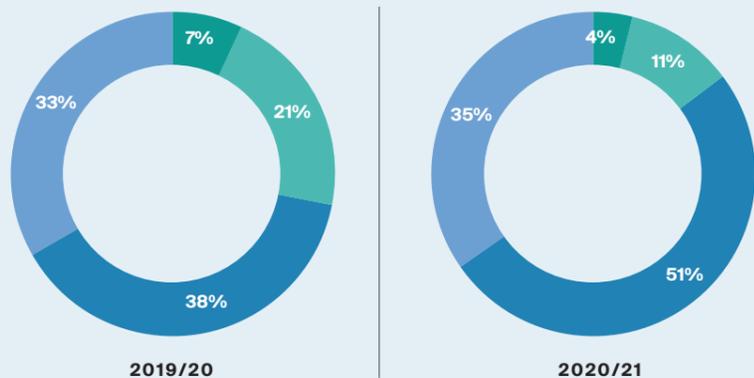
In private housing with care schemes

93% of the schemes from the operators surveyed collect a DMF/event fee. Of those operators which do collect DMF/event fee, more than two thirds (69%) offer just one option, while the remaining third (31%) offer two options.

18 | Maximum DMF fees at schemes Year on year comparison

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

0-5% 5-10% 10-15% 15%+



Source: Knight Frank Operator Survey

28%

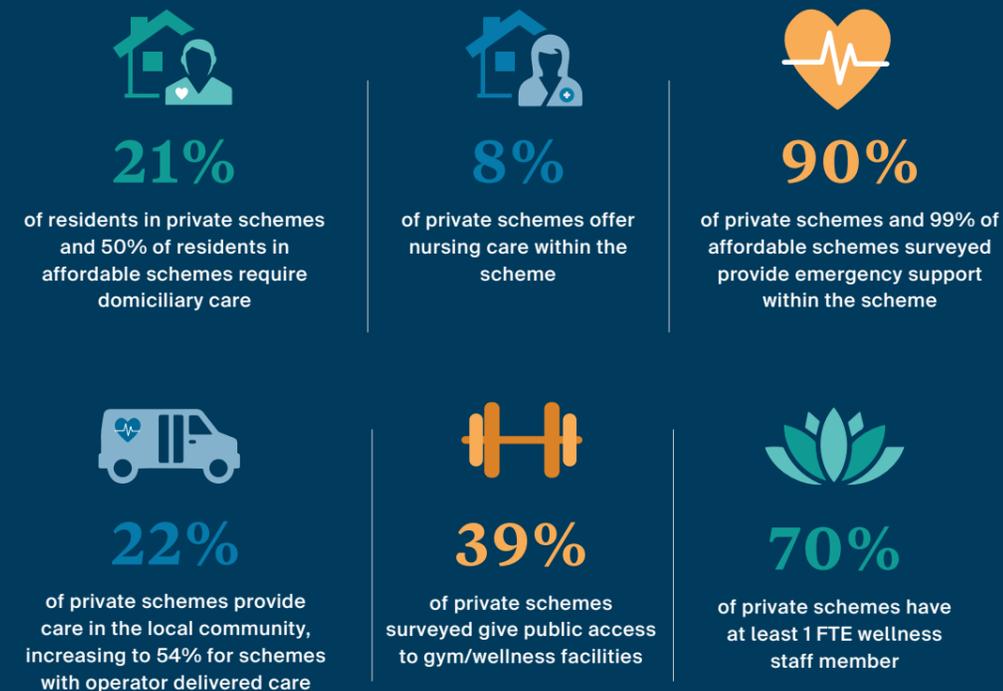
of schemes surveyed had a maximum DMF cap of 20%+

DMF/EVENT FEES

Deferred Management Fees (DMF), or event fees, are typically paid when the long leasehold is re-sold and are used to help offset upfront costs and align the interests of the operator and the resident.

DMF structures vary between operators, but our survey suggests that maximum caps are getting larger. Some 51% of operators who responded to our survey had a maximum DMF fee of between 10% and 15%, up from 38% last year. 28% of schemes surveyed had a maximum cap of 20%+.

CARE AND WELLNESS IN HOUSING WITH CARE SCHEMES



450,000 HOURS

Total hours of domiciliary care provided to residents across private Housing with Care schemes sampled by Knight Frank over the last 12 months*.

Source: Knight Frank Operator Survey, UKHCA *In the 31 schemes which provided at least one hour of care over the 12 month period

Knight Frank Senior Housing

The Knight Frank Senior Housing 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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