

UK Seniors Housing Market Update

Q2 2024

Knight Frank's quarterly review of the key investment and development themes in the UK Seniors Housing market

knightfrank.com/research

► The supply of new seniors housing stock across the UK is increasing. In 2023, more than 9,160 new seniors housing units were built, up 20% on the previous year's delivery and the strongest year for new supply since 2016.

Development up but short of need

Delivery of new seniors housing has picked up, yet it remains significantly short of need. Annual completions account for just 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. There will be an additional four million seniors living in the UK by 2043, according to ONS projections. Over that time, the over-65 age cohort is expected to grow at three times the pace of the national average. The 2022 Mayhew Review recommended an annual delivery of 50,000 new units is needed to meet housing need. As has become the case in recent years, delivery in 2023 was weighted towards homes within Integrated Retirement Communities (IRC). In total, IRC schemes accounted for 58% of new seniors housing units built in 2023.

More schemes, larger schemes

In total, 183 new schemes opened last year, up 17% on the previous year's delivery. The data shows that, as well as an increase in schemes being delivered, the average size of those schemes is also growing. This trend is being led by the IRC with DMF market which averaged 117 units per scheme last year, up 30% compared with five years previously (90 units per scheme). A move towards larger IRC schemes reflects investors desire for scale, as well as being a means to drive operational efficiency and support a greater range of onsite amenities.

Fig 2: Seniors Housing annual delivery

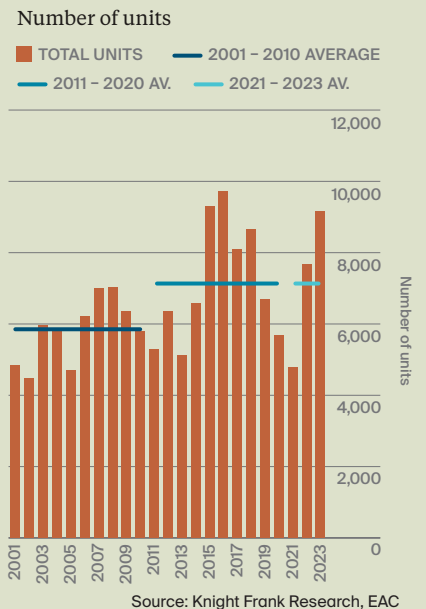


Fig 3: Average new scheme size

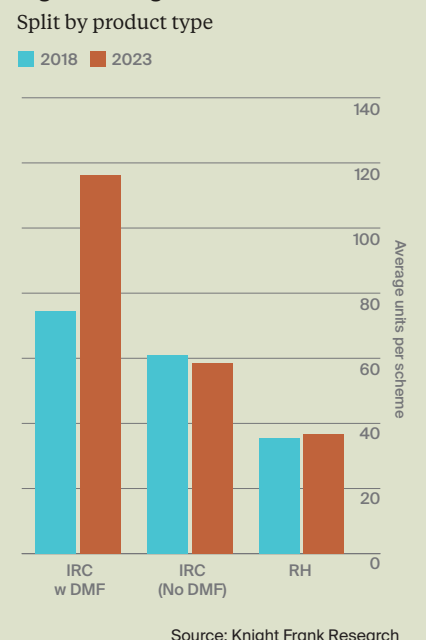


Fig 1: IRCs take a larger share

Annual delivery split by property type

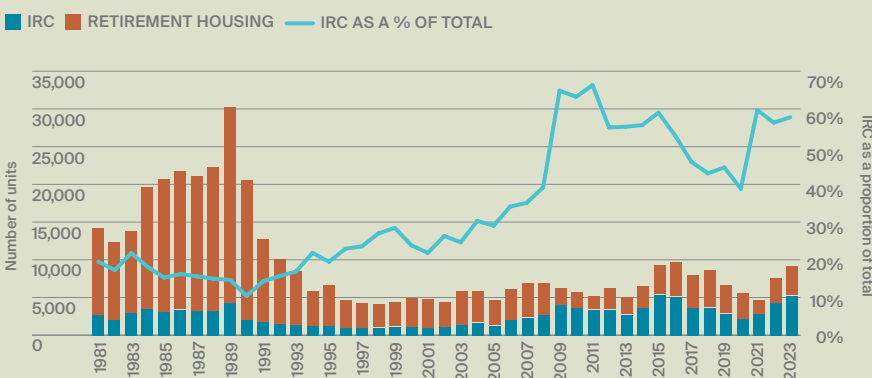
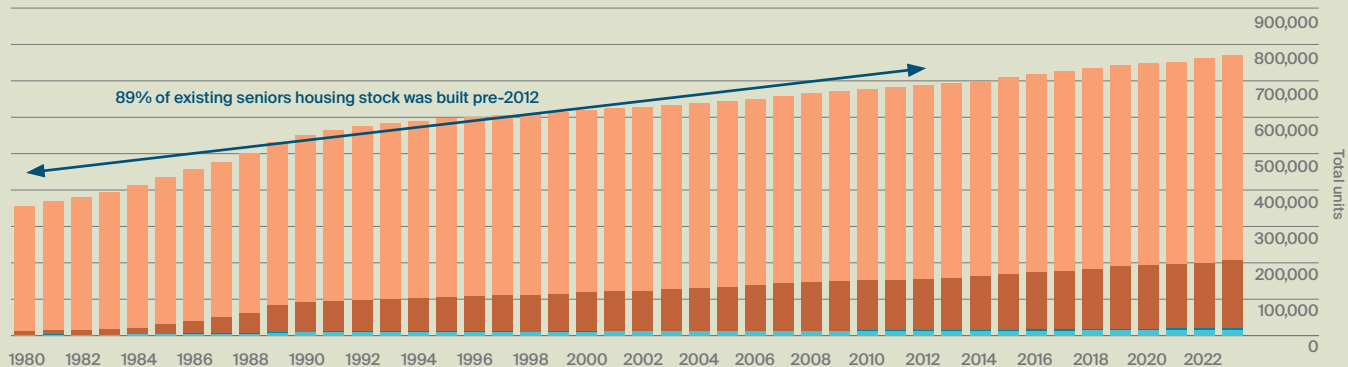


Fig 4: Total Seniors Housing supply

By year built and product type

■ HYBRID ■ PRIVATE RENT ■ PRIVATE SALE ■ SOCIAL RENT



Source: Knight Frank Research, EAC

Apartments dominate delivery

Of the schemes delivered in 2023, one-and-two-bedroom homes were the most common property type. Some 82% of schemes offered one beds, while 93% offered two-bedroom units. Only 12% of new schemes delivered in 2023 offered three-bedroom homes. A preference towards one and two-bed units also reflects the fact that 94% of schemes which opened last year were apartments, compared with just 6% which were houses.

A two-tier market

The total number of complete and operational seniors housing units across the UK now stands at 776,595. But just 83,198 of these homes have been added to supply across the UK over the last decade, accounting for 11% of total stock. That means that 89% of existing seniors housing supply in the UK was built before 2012. Some 70% was built before 1990. This dynamic has created a clear two-tier market in terms of age and quality of stock, with much of the older and more dated stock not fit for purpose for a new generation of seniors. The new government has set a target to build 1.5 million homes over the next five years. Seniors Housing has an important role to play here, particularly given the role newer, high-quality purpose-built homes can play both in improving quality of life for seniors, as well as relieving pressure on the NHS and social care system – two areas of focus for the Labour Party. The sector will also be awaiting the new government’s response to the results of the Older People’s Housing Taskforce.

Pipeline points to further growth

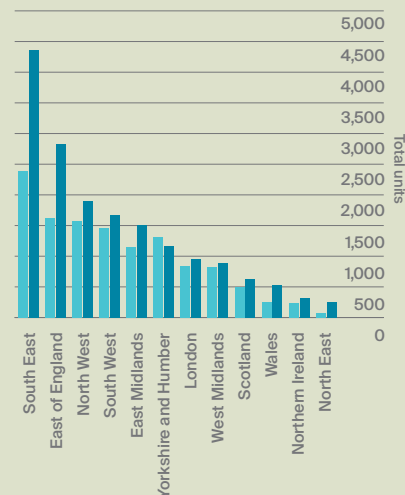
Analysis of planning data shows more new seniors housing schemes are coming forward. Around 200 new planning applications were submitted last year, roughly on par with 2022. Since 2022, some 270 schemes have received planning permission accounting for a potential 14,474 additional homes. We are also seeing an evolution of the seniors housing model to cater to a broader range of residents. This includes a continuation of a trend towards larger developments for pipeline stock, for example, typically with 60-200 units. The planning pipeline suggests this will continue – there are 115 schemes with 100+ units in the planning pipeline, compared to 155 currently operational, the majority of which are social housing and built pre-1980. Our analysis shows that the largest pipeline of seniors housing units under construction or with planning granted can be found in the South East, at approximately 6,742 units. This is followed by East of England (4,453), North West (3,473) and South West (3,151). The regional patterns in development mirror the trends seen in current supply, with the South East accounting for the largest share.

However, while the pipeline demonstrates a clear appetite from investors and developers to deliver more age-appropriate housing, planning remains one of the biggest challenges facing the sector. Our *latest research*, in partnership with law firm Irwin Mitchell, reveal that just under a third (32%) of local authorities in England still do not have clear policies in place to support housing for seniors.

Fig 5: Seniors Housing development pipeline

Units in schemes with full planning or under construction

■ RETIREMENT HOUSING ■ IRC



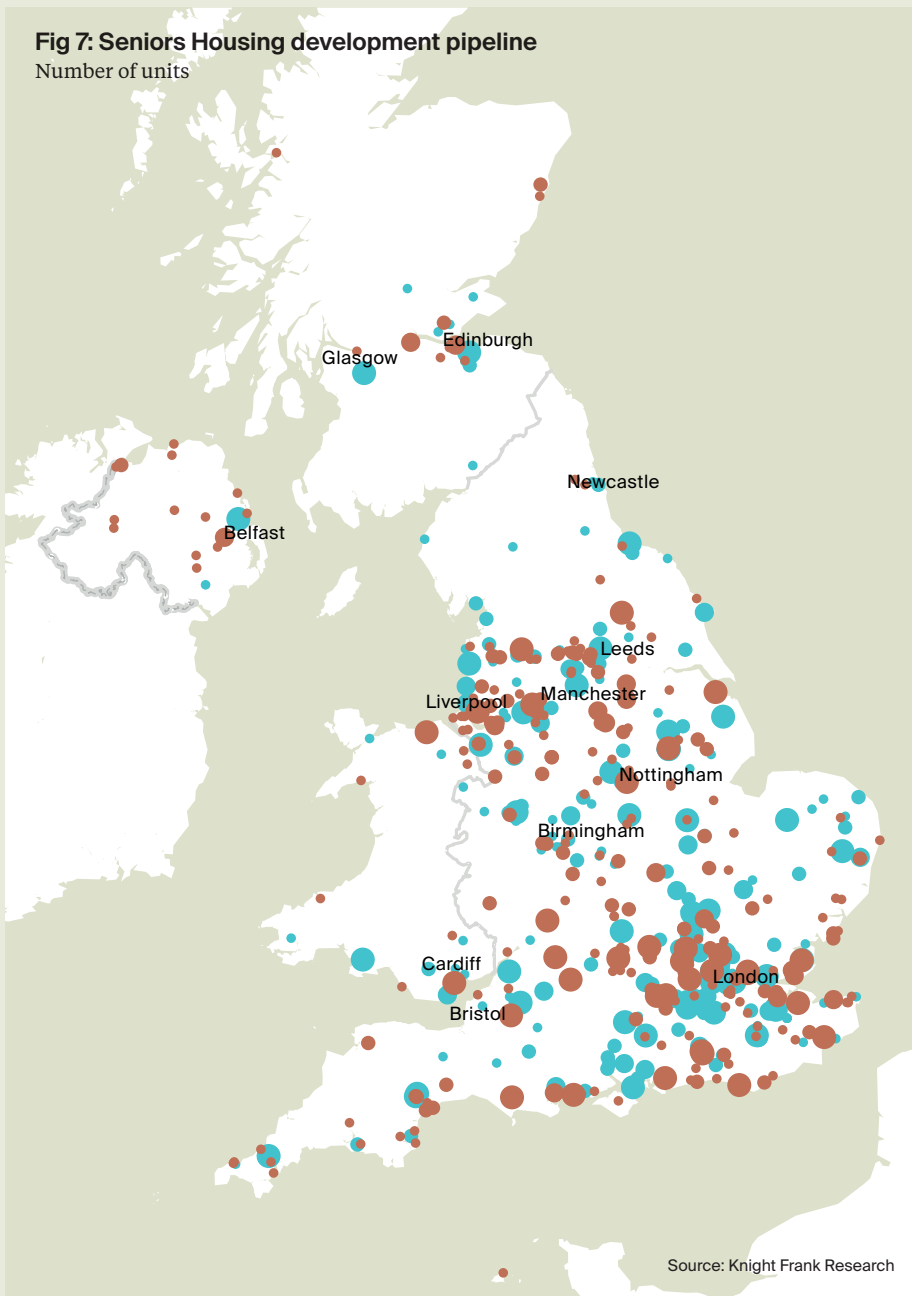
Source: Knight Frank Research



	Planning Submitted	Planning Granted- Construction not started	Under Construction	Total
Retirement Housing	15,824	7,447	5,139	28,410
Integrated Retirement Communities	8,483	9,748	7,078	25,309
Total Senior Housing	24,307	17,195	12,217	53,719

Fig 7: Seniors Housing development pipeline

Number of units



Source: Knight Frank Research

Key

PIPELINE SENIORS HOUSING SCHEMES (UNITS)

RETIREMENT HOUSING

- UP TO 50
- 51-100
- 101-150
- MORE THAN 151

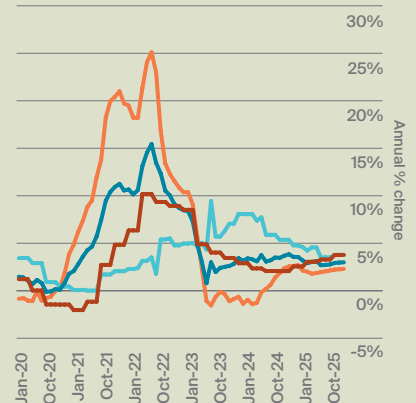
INTEGRATED RETIREMENT COMMUNITIES

- UP TO 50
- 51-100
- 101-150
- MORE THAN 151

Fig 6: Build cost inflation moderating

Annual % change (and forecast)

- TENDER PRICING
- MATERIALS
- GENERAL BUILD COST
- LABOUR

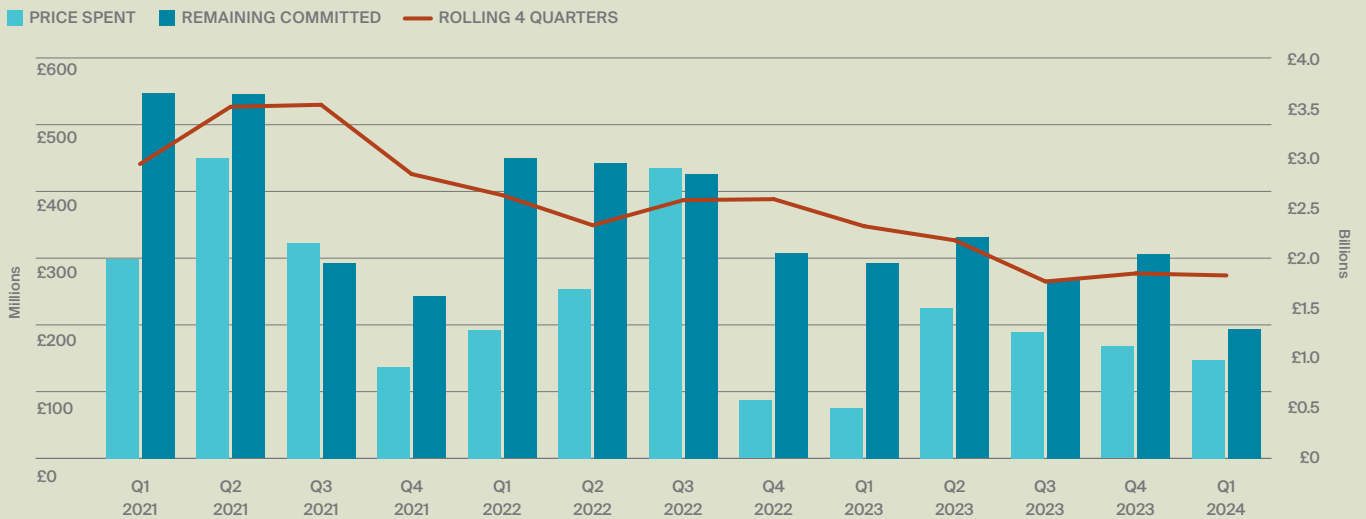


Source: Knight Frank Research, BCIS

Development pressures curtail new starts

Rising build and site costs, skills and labour shortages, higher financing costs, and tricky-to-navigate planning policy have been notable headwinds for all development over the last year and seniors housing is no exception. Consequently, new housing starts are subdued. Construction costs are stabilising, however, which will provide a platform for a longer-term recovery in development volumes. Build cost inflation has already been moderating, down to 3.1% in 2023, from a peak of 15.5% in 2022, according to the BCIS. Tender pricing is forecast to drop to

Fig 8: Capital committed to Seniors Housing



Source: Knight Frank Research

1.5% this year, from 3.5% in 2023. Materials and labour costs are also expected to come in notably lower than recent peaks, all of which should support a pick-up in development volumes.

Shifting tenures increasing choice

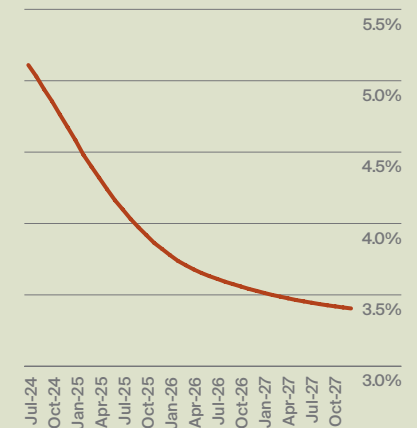
The data points to a further increase in the provision of age-targeted rental product and shared ownership, as investors and operators look to offer seniors the broadest choice possible. It also reflects the fact that there is demand from seniors for both private sale and rental product. Consequently, delivery of rental product is expected to increase further in the coming years, with analysis of the pipeline suggesting total private rental units will nearly double from around 4,100 currently to just shy of 10,000 by 2027. Analysis of existing schemes shows that only 2% of IRCs (84 schemes) are primarily market rent, but a growing number now include a private rental element. This has been driven by established operators diversifying their business models and incorporating rental tenure alongside sales options to cater to a broader range of residents. For investors, who are increasingly comfortable to include more diverse tenure options, the pace of absorption of rental homes is also faster than sales. There is also a trend towards Seniors Housing is also being incorporated into wider masterplans, evidenced by the joint venture between Audley Group and Senior Living Investment Partners in 2023 to deliver a new retirement village at Brent Cross Town, alongside build to rent, private sale, student and affordable homes. Knight Frank advised on the deal.

Muted investment volumes

The volume of capital invested and committed to the seniors housing market stood at just over £340 million in the first quarter of the year. Land acquisitions accounted for all investment over the course of the quarter with muted activity in the investment market compared with recent years with the increased cost of debt continuing to put pressure on deal structuring, particularly in the funding market. As the cost of debt comes down, our expectation is that transactional activity will pick up and provide a boost to the funding market. Capital Economics is forecasting that the Bank of England will cut the base rate to 3% by the end of 2025. The SONIA forward curve confirms financial markets are expecting a sizable fall in the cost of debt through 2024 and 2025. A focus on land deals reflects the fact that the market is still in growth phase, with investors needing to develop rather than acquire stock. On an annual basis, over the 12 months to the end of Q1 2024, capital invested and committed to the sector stands at just over £1.8 billion.

Fig 9: Financial markets expecting falls in debt costs

3-month compounded SONIA forward curve



Source: Chatham Financial (latest curve as of 18th July 2024)

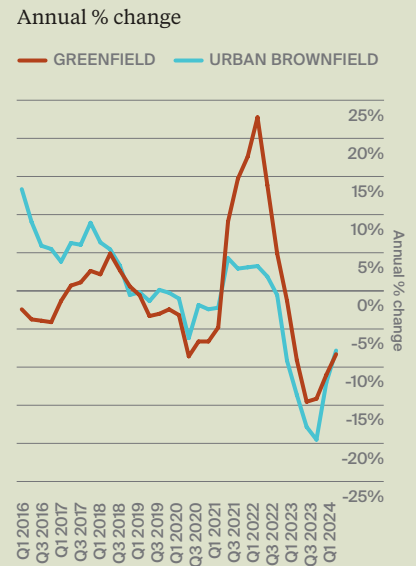
Favourable demographics and secure income

Our recent survey of institutional investors active in the sector found that a shortage of high-quality operators and a lack of high-quality data were the two biggest challenges to investment at the current time, for 43% and 40% of respondents respectively. Both factors reflect the fact the sector is in growth mode. The top ranked drivers for investors deploying capital into seniors housing were favourable demographics in first place, the secure nature of the income in second and constrained supply in third spot. While not mentioned by our survey respondents, *clarity and legal certainty* introduced earlier this year around event fees – which are paid when a property is sold – will give further confidence to consumers, operators and investors. It also underlines the fact such payment structures have an important role in providing housing, care and support options within some Seniors Housing developments.

Land values bottoming out

Average England brownfield and greenfield land values were flat on quarter and down just 2% on year in Q2, according to the *Knight Frank Residential Development Land Index*. Overall, residential land values have fallen on average nearly 20% over the past two years. Despite ongoing challenges around finance and build costs, the scarcity of land supply is supporting competition for sites in a number of markets. That said, sites which are being sold are tending to take longer to progress due to additional caution and due diligence.

Fig 10: Land prices bottom out



Source: Knight Frank Research



Keep up to speed with global property markets with our range of dedicated sector newsletters

[SIGN UP ONLINE](#)

Recent Living Sectors Research



UK Student Housing - Q2 2024



UK BTR market update Q2 2024



Residential Development Land Index Q2 2024



Seniors Housing Annual Review 2023

Research



Oliver Knight
Head of Res Dev Research
+44 20 7861 5134
oliver.knight@knightfrank.com



Andrew Sandison
Senior Research Analyst
andrew.sandison@knightfrank.com



Sam Heffron
Senior Research Analyst
sam.heffron@knightfrank.com

Living Sectors



Tom Scaife
Head of Seniors Housing
tom.scaife@knightfrank.com



Peter Youngs
Partner, Seniors Housing
peter.youngs@knightfrank.com

Knight Frank Capital Advisory



Lisa Attenborough
Head of Debt Advisory
lisa.attenborough@knightfrank.com



Emma Winning
Head of Equity Advisory
emma.winning@knightfrank.com



© Knight Frank LLP 2024. This document has been provided for general information only and must not be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this document, Knight Frank LLP does not owe a duty of care to any person in respect of the contents of this document, and does not accept any responsibility or liability whatsoever for any loss or damage resulting from any use of, reliance on or reference to the contents of this document. The content of this document does not necessarily represent the views of Knight Frank LLP in relation to any particular properties or projects. This document must not be amended in any way, whether to change its content, to remove this notice or any Knight Frank LLP insignia, or otherwise. Reproduction of this document in whole or in part is not permitted without the prior written approval of Knight Frank LLP to the form and content within which it appears.