RESEARCH

Knight Frank

2019
SENIOR LIVING
ANNUAL PERFORMANCE REVIEW

INTRODUCTION

Lauren Harwood
Head of Senior Living Research

Our market leading research examines the fundamentals of the private Senior Living market from the strong demographic landscape to sales and rental performance of the largest private operators.

Our database of information on the burgeoning Senior Living sector is expanding rapidly, and our aim is to use the headline data to help contextualise the industry for those already active or thinking of investing. We look forward to working with you over the next year.

UK DEMOGRAPHIC SNAPSHOT

12 MILLION PEOPLE AGED 65+

There are more than 12 million people in the UK aged aged 65 or over

OLDER POPULATION RISING

The number of those aged 65+ is forecast to grow by 22% over the next decade

POPULATION AGEING

The number of people aged 80+ is set to climb by 40% over the next decade

1 IN 4 OVER 65

One in four people in the UK will be aged 65 or over in the next 25 years

Source: Knight Frank

MARKET FUNDAMENTALS

There is a growing demand and supply imbalance in the UK, driven by an ageing population and structural undersupply of suitable housing for seniors.

The Senior Living sector has evolved in recent years, and there are now an extensive range of tenures and offerings with varying facilities and services (which include hospitality and care). As the sector evolves it is increasingly seen as the seniors housing market which comprises Age Restricted Housing, Independent Living, Assisted Living and Memory Care.

In this analysis we cover: Age Restricted Housing with a lower range of facilities and services, and Independent and Assisted Living with an increasing facility and service offering, including care.

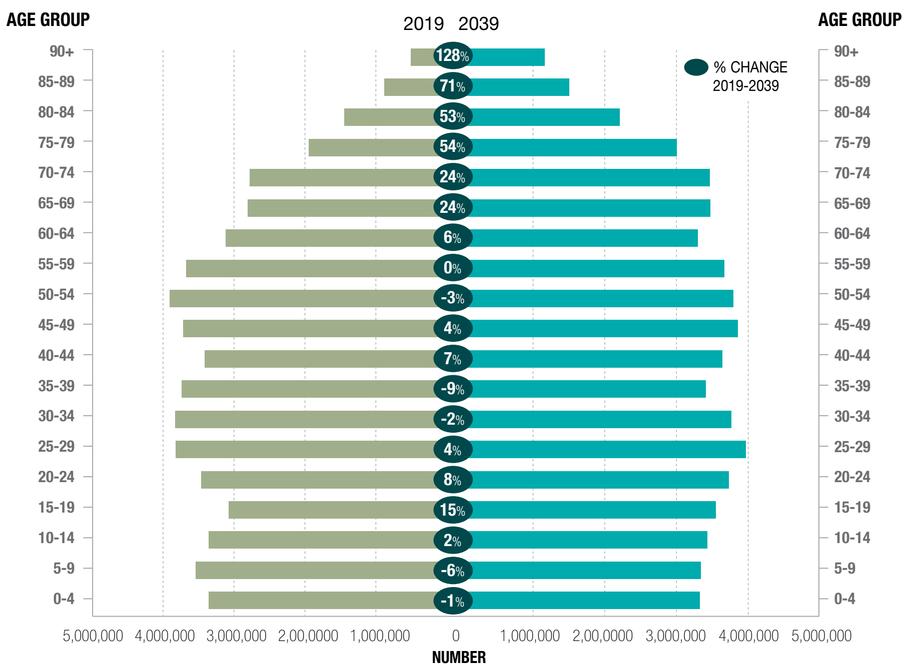
The private Senior Living market to date has predominantly been driven by a 'For-sale' model offering properties on a leasehold basis to those looking to downsize.

There has been a shift in the economics from a housebuilder model based maximising development margins to an operational model with profit derived from the development and the operating business. Deferred Management Fees or Charges (DMF) are key to this model, to enable land to be acquired in a competitive market and operational models to be profitable. Increasing clarity from the Law Commission on the use of DMF's has helped progress this model in the sector. The DMF enables payment of part of the long-leasehold interest when the property is vacated – allowing for management costs and capex.

The DMF aligns the interests of the operator and the residents – and ensures re-investment and management of the scheme over the long term. This in turn maximises the growth in value of the residents purchase and investment.

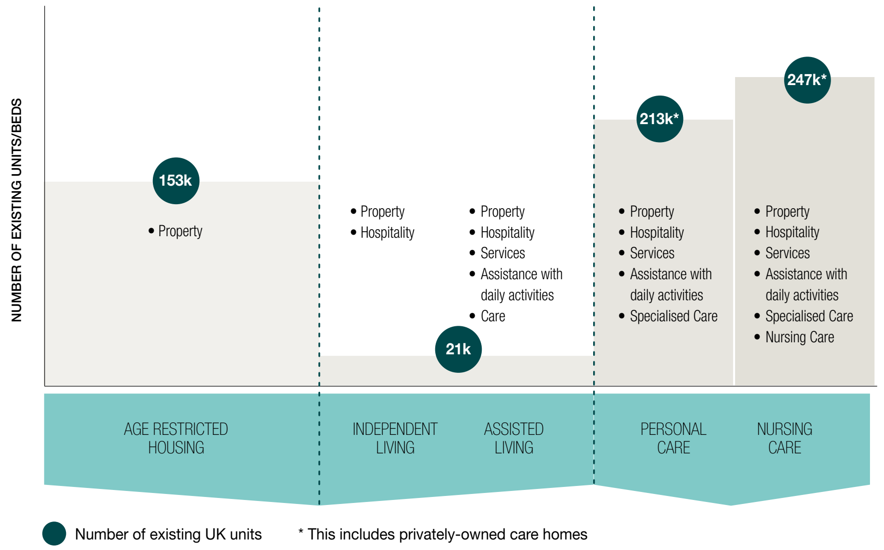
Lastly, it is interesting that the first substantial rental platforms are materialising, with increasing equity invested into the rental seniors market from the UK and overseas. Existing for-sale operators are introducing rental as pepper-potted units or standalone blocks into schemes, and we are seeing the first BTR Senior Living schemes come forward.

FIGURE 1
The ageing population: England ONS Projections



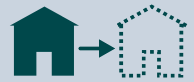
Source: Knight Frank, ONS

FIGURE 2
Private Senior Living and care home models



Source: Knight Frank, EAC

THE CASE FOR *RENTAL* IN SENIOR LIVING



FLEXIBILITY

The former family home can be sold at the resident's convenience

LOWER COST OF RE-LOCATING

No stamp duty to pay

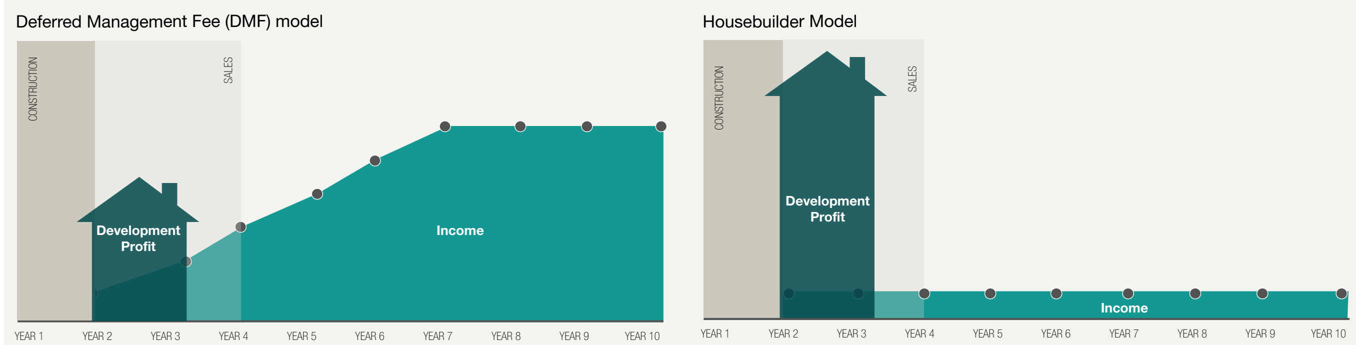
PEACE OF MIND

A resident can move within a scheme and trade space for care as their needs increase

TAX PLANNING

Earlier release of equity to reduce Inheritance Tax

FIGURE 3
Private Senior Living operator income models – For-sale model



Source: Knight Frank

CURRENT AND PROJECTED SUPPLY

There are currently around 740,000 Senior Living units across the UK and almost a quarter of these are private units, some 175,000 units.

Given the growth of investment in the Senior Living sector in recent years, an increase in delivery of units is widely expected. We have analysed the future plans of all major operators against past delivery to forecast a 30% increase to the current stock of private living senior units by the end of 2023. This equals an additional 50,000 private sale and rental units being delivered in the next four years.

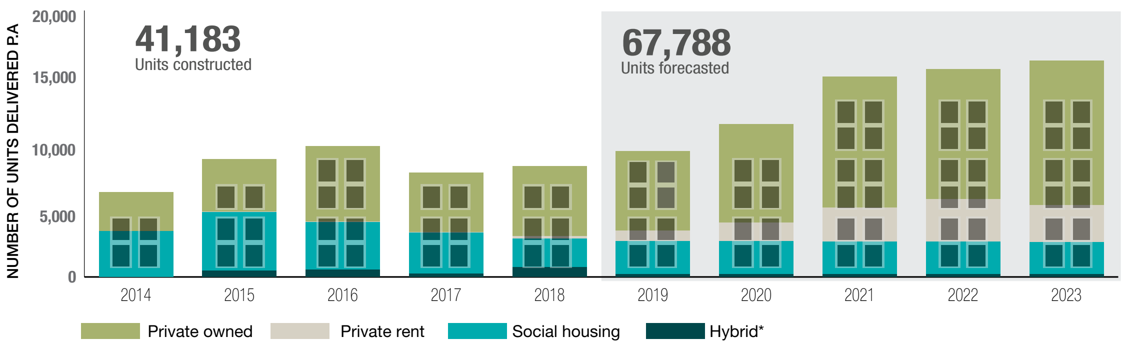
However, the growth in private delivery will not be spread evenly across the country – it will be concentrated in £350psf+ markets in the South East, South West, Midlands and East of England. In time, varying DMF models and an increase of rental schemes will help re-distribute delivery into lower priced areas of the UK.

In London, we estimate that the number of private units priced at more than £1,000 psf will rise from 300 at present to 2,000 units by the end of 2023.

There are more than 4,000 existing Senior Living private rental units in the UK, with 93% of these pepper-potted in for-sale schemes, and the remaining 7% delivered as purpose-built rental schemes (BTR).*

The rental market for Senior Living is likely to increase, in line with the changing tenure trends across the wider housing market, particularly the uplift in renting among older age groups in the UK. As well as increased interest in purpose-built rental (BTR), for-sale operators are also increasing their allocation of private rented units pepperpotted in their schemes. Projections from the Centre for Ageing Better suggest that by 2040, a third of those aged 60+ could be living in privately rented housing. Knight Frank estimates the value of the private rental market will increase from £1.3bn in 2019 to £3.4bn by 2023.

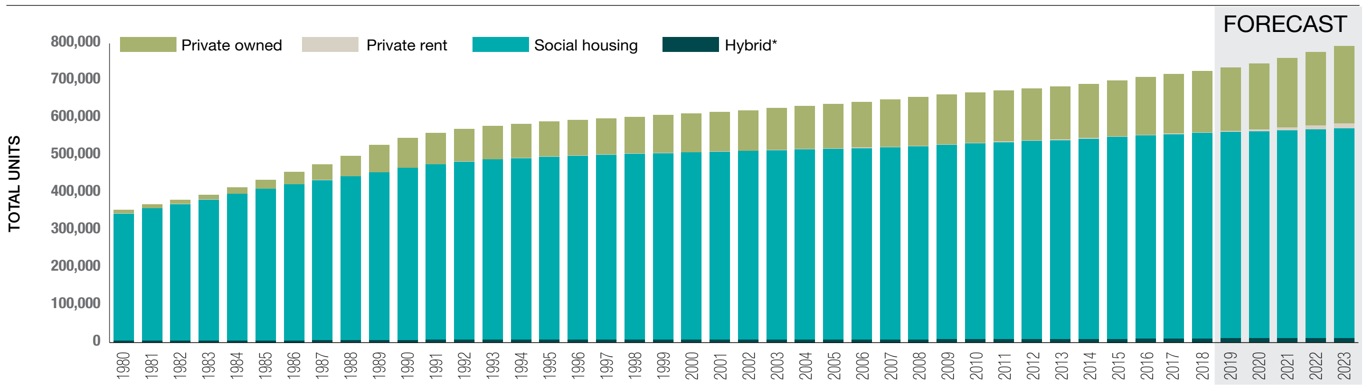
FIGURE 4
Annual delivery of Senior Living units in the UK



Knight Frank forecasts the delivery of more than **50,000 private sale units and 6,000 private rental units** between 2019-2023

*** Note:** This includes a mixed of tenures and shared ownership

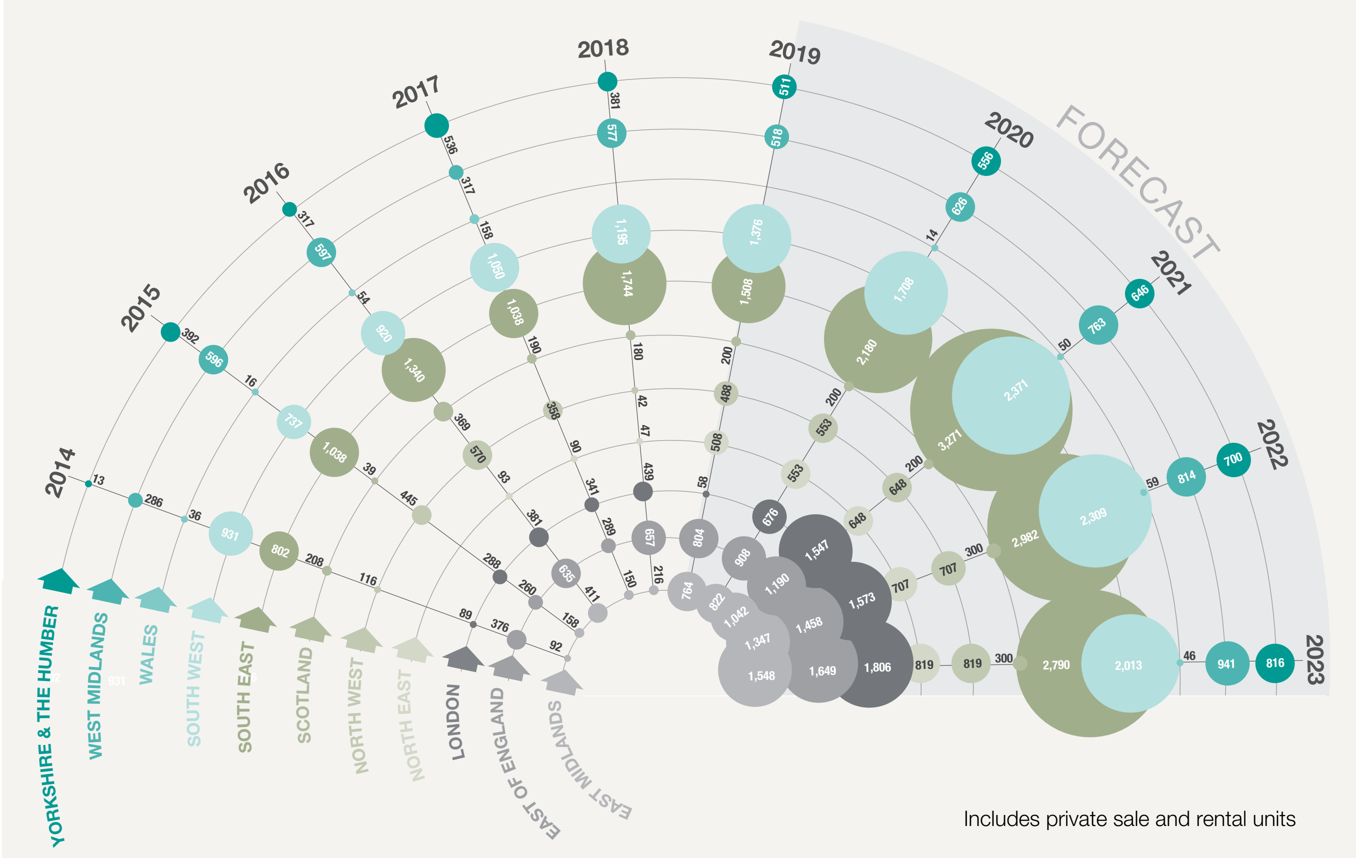
FIGURE 5
Senior Living total UK stock by tenure – current and forecast



*** Note:** This includes a mixed of tenures and shared ownership

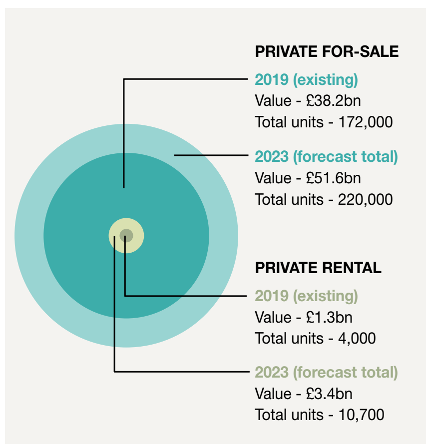
Source: EAC, Knight Frank

FIGURE 6
Private Senior Living annual supply, by region: current and forecast



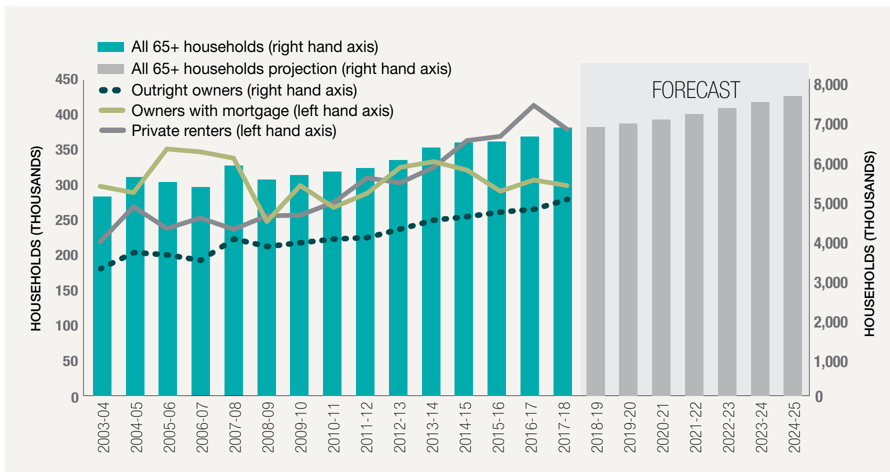
Source: EAC, Knight Frank

FIGURE 7
Private Senior Living supply projections in the UK



Source: EAC, Girlings, Knight Frank

FIGURE 8
Trends in 65+ household tenure In England



Source: Knight Frank, English Housing Survey

*** Note:** Private rental units refer to those in existing Age Restricted and Independent Living schemes. These figures currently exclude beds within higher care provision schemes such as Sunrise and Signature.

SALES PERFORMANCE

Methodology: We took a sample of 200 schemes across the country developed since 2000, split between Age Restricted Housing (57%) and Independent/Assisted Living (43%). The schemes are made up of more than 6,500 individual units, which we tracked from original sale through all re-sales to today, providing data for more than 10,000 private Senior Living sales. This analysis includes schemes from all major private Senior Living operators, which together have delivered 77% of private Senior Living units in schemes of 20+ units.

The database incorporates schemes spread across the country, but with a natural bias towards the South East and the South West of England (as shown in Figure 9) as that is where most development activity has been focused.

Using this data, we are able to understand the impact of demographics, local housing market, scheme facilities and services on scheme performance.

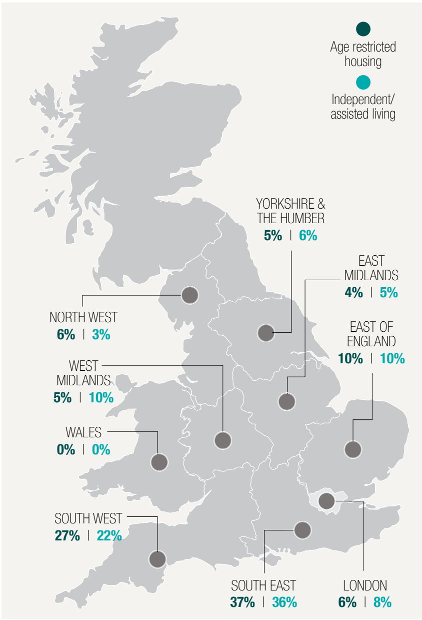
How Senior Living compares

Our data demonstrates that Independent/Assisted Living have higher sales values on average compared to Age Restricted Housing, this is typically due to the the wider provision of facilities and services on offer on offer (as examined further on Page 9).

Indeed, the data shows that in 2018, the average achieved sales price for Independent/Assisted Living units are higher than for Age Restricted Housing.

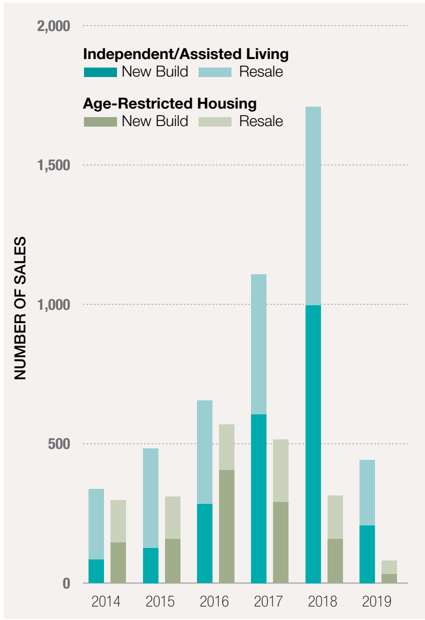
Likewise, achieved £psf pricing for new-build is higher than resale as expected. It is worth noting that this data will be influenced by the schemes on sale in any given year. When observing individual property resales, we can identify that on average, these units are retaining value on resales, as identified by our resale index overleaf.

FIGURE 9
Sample: % of sales examined, by region, 2014-2019



Source: Knight Frank, Land Registry

FIGURE 10
Sample: Sales per year – new-build and resale



Source: Knight Frank, Land Registry *January to June 2019

FIGURE 11
Achieved pricing analysis for Senior Living sales in England

Source: Knight Frank, Land Registry

FIGURE 12
Achieved sales values for Senior Living sales

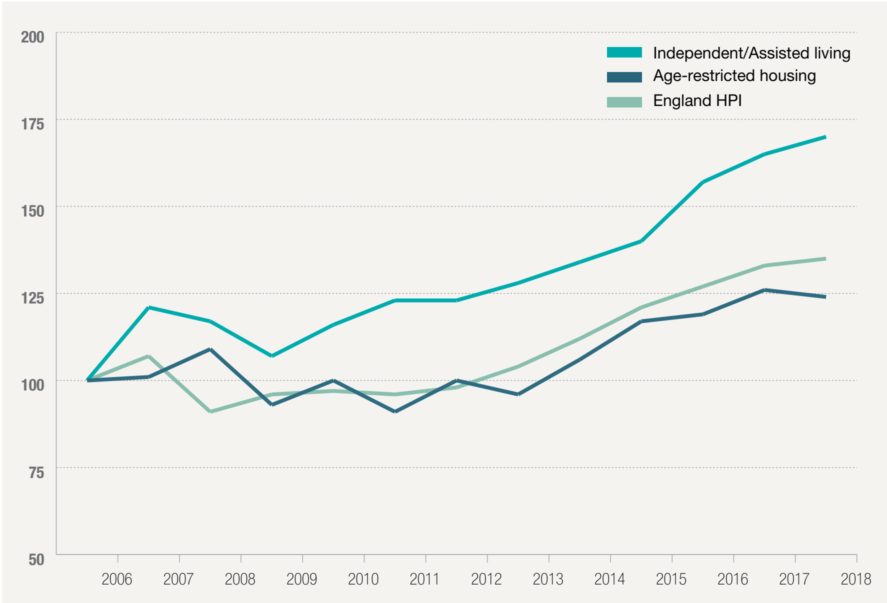
Source: Knight Frank, Land Registry

Note: All Senior Living data on this page is from the Knight Frank sample database.

Note: All Senior Living data on this page is from the Knight Frank sample database.

Examining the sales from our sample in more detail, it can be seen that over time, the rise in pricing in Age Restricted Housing largely tracks the average house price index, while Independent/Assisted Living has outperformed as shown in Figure 12.

FIGURE 13
Sales index – Senior Living vs Residential

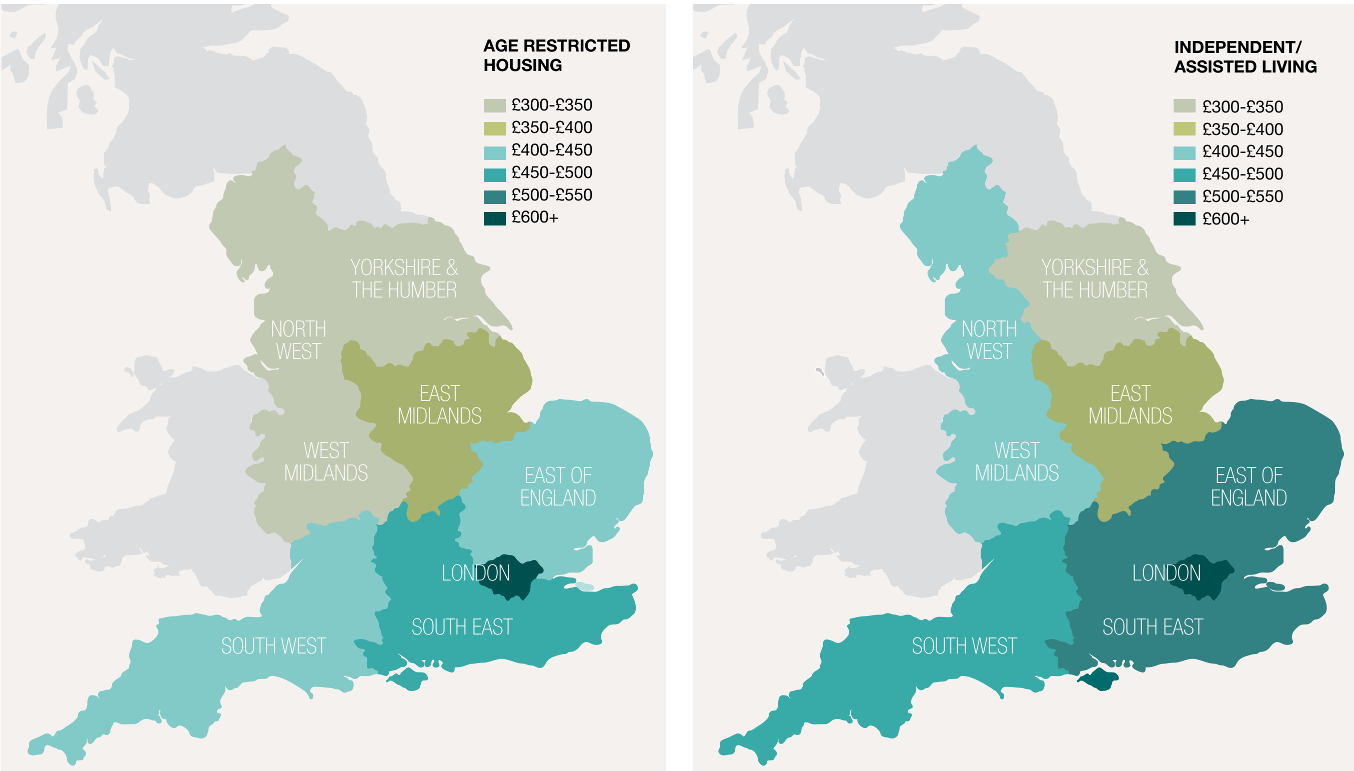


Methodology: This uses hedonic regression based on price and controlling for characteristics such as region, property type and size. The dataset has a bias due to the nature of a sample, with this being heavily weighted towards the South East and South West and to flats. We have tried to control for this.

Source: Knight Frank, Land Registry

> **Our analysis shows that Independent/Assisted Living achieves a higher £PSF across many regions compared to Age Restricted Housing.**

FIGURE 14
Average achieved £psf – Senior Living by region (2018)



Note: Categories with a small number of sales in 2018 have been excluded from our analysis

Source: Knight Frank, Land Registry

Note: All Senior Living data on this page is from the Knight Frank sample database.

WHAT DRIVES VALUE

The value and performance of a unit within a Senior Living scheme is influenced by a number of factors.

Location is a crucial factor when assessing demand and value as it can strongly influence a senior's decision to relocate. The location of a scheme can be influenced by: the number of seniors within a specific area, the demographic composition, wealth and liquidity, and downsizing potential in relation to affordability.

The performance of the local residential market is also an important factor. With a large proportion of downsizers selling their property to release equity for a Senior Living move, an understanding of performance in the residential market – both locally and regionally – underpins the success of a Senior Living scheme.

The composition of a scheme itself can also drive value. Unit mix, layout and specification can be determining factors of performance.

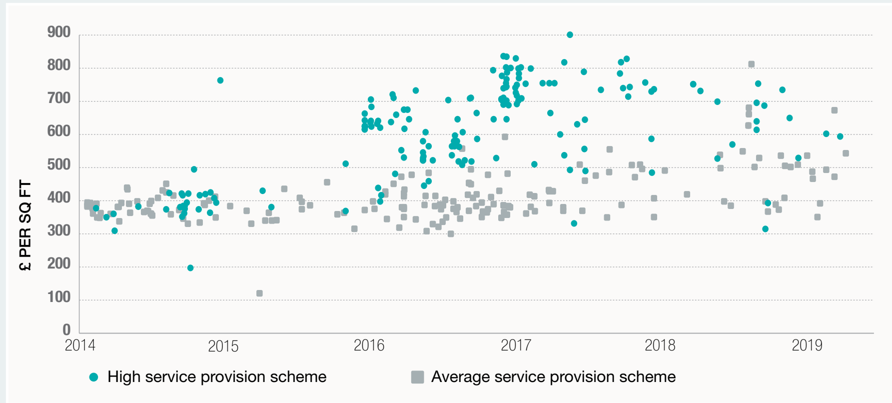
The provision of services such as care or assistance with everyday activities can widen the demand and influence the performance of a scheme in terms of achieved pricing, sales rates and length of stay. This relationship is highlighted in Figure 16, with higher service schemes commanding higher £PSF in the South East.

Indeed the level of care provision can also play a large part in the length of stay for a resident (figure 15). With increasing care provision on offer in Assisted Living schemes, residents can stay for longer, and potentially reduce the need for, or the time that would be spent in, a care home.

The facility offering is also an influencing factor in determining value, with evidence suggesting that some schemes with a diverse range of facilities e.g. a pool and a gym, achieve higher sales values compared with schemes with little or no facilities.

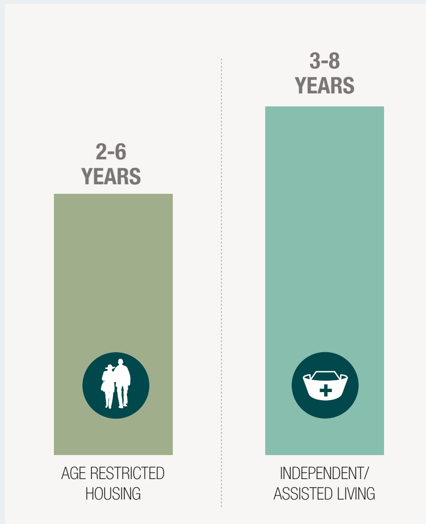
Figure 17 demonstrates the relationship between rental pricing and the provision of facilities and services. In time, and with more data, we can analyse this relationship in more detail.

FIGURE 16
SOUTH EAST: Achieved £PSF by service offering in Independent/Assisted Living schemes built since 2010



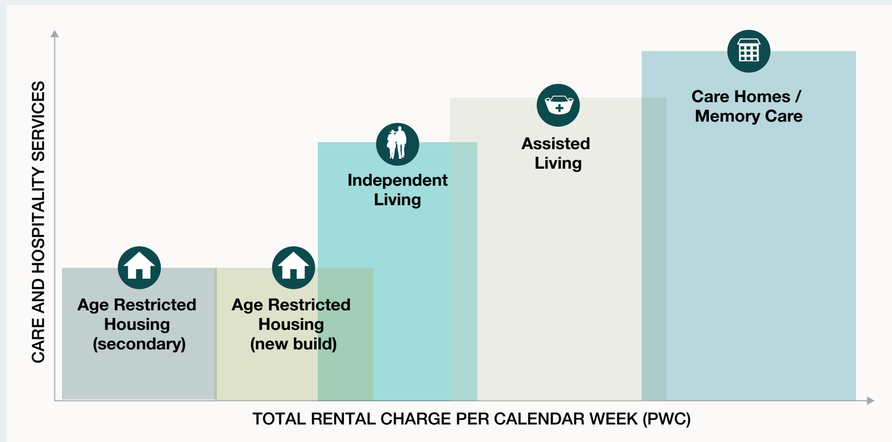
Source: Knight Frank

FIGURE 15
Average length of ownership in England



Source: Knight Frank, Land Registry

FIGURE 17
Rental pricing for private Senior Living schemes

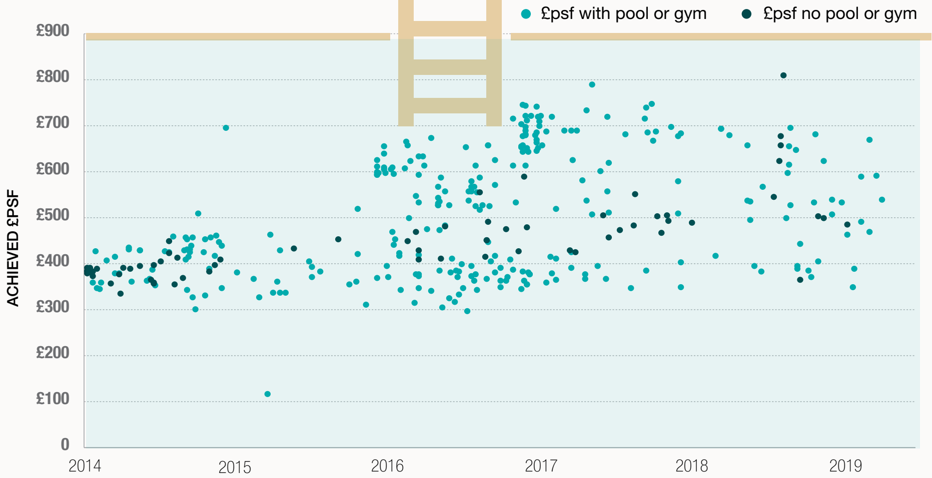


Source: Knight Frank, operator data

Note: All Senior Living data on this page is from the Knight Frank sample database.

FIGURE 18
£PSF by facility level – schemes with pool and gym
Independent/Assisted Living schemes in the South East

Focusing on Independent/Assisted Living schemes in the South East, we have analysed the achieved £PSF for sales within schemes with a higher facility offering versus those with a lower offering. The analysis indicates that a higher provision of facilities, particularly the presence of a pool or gym can positively influence achieved pricing.



Source: Knight Frank, Land Registry

Operational performance

As part of this exercise, we were fortunate to work operators across the Senior Living sector and undertake a detailed analysis of their operations and performance.

Here is a snapshot of the analysis of the operator data.

TABLE 1
FACILITIES AND SERVICES WITHIN PRIVATE SENIOR LIVING SCHEMES

FACILITIES	SERVICES
Entrance hall, guest suite, lounge, cafe, bar, restaurant, library, cinema room, craft room, gym, yoga studio, spa, pool, treatment room	Dining, educational activities, exercise activities, transportation, assistance with daily living activities (dining, bathing, dressing, help with walking), medication management

TABLE 2
COMPONENTS OF INCOME 2018/19 (%)

F&B INCOME	LEISURE/ WELLNESS INCOME	SERVICES AND OTHER INCOME	TOTAL GROUND RENT RECEIVED	TOTAL SERVICE CHARGE / MANAGEMENT INCOME	DMF FEE
10%	1%	11%	3%	62%	12%

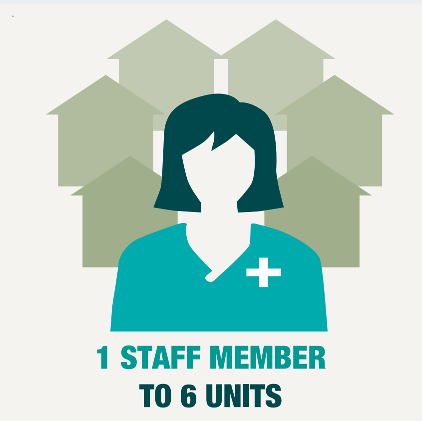
Source: Knight Frank operator analysis

TABLE 3
COMPONENTS OF COSTS 2018/19 (%)

PAYROLL COST	REPAIRS & MAINTENANCE	UTILITIES	ADMINISTRATIVE COSTS	F&B COSTS	LEISURE/ WELLNESS COSTS	OTHER COSTS
44%	7%	10%	6%	7%	3%	24%

Source: Knight Frank operator analysis

FIGURE 19
Average Staff to unit ratio, Independent/Assisted Living



Source: Knight Frank operator analysis

Note: All Senior Living data on this page is from the Knight Frank sample database.

OUTLOOK

Tom Scaife
Head of Senior Living

How would you characterise 2019 in the Senior Living Market?

The UK seniors housing market has really taken off in 2019, fuelled by increased international capital coming into the market – including private equity, institutional investment and investment from family offices. The largest proportion of international capital has flowed from North America this year.

The number of deals has increased this year, among both established operators and new entrants. Larger deal sizes are taking place as operational efficiencies are sought, and there have also been sizable forward funding deals.

Underpinning this trend is a search for real estate alternatives in the investment markets as other sectors look mature or under pressure. Certainly there is debt funding available for development across the spectrum of seniors housing – from Age Restricted Housing, through Independent Living to Assisted Living schemes, both sale and rental.

Any challenges ahead?

Some of the biggest challenges, once overcome, could be significant opportunities within our sector. These include effectively applying increasingly sophisticated technology to the sector and solving the staffing conundrum.

We need to increase the use of technology – including for medication administration, human resources and dissemination of information for family members.

And we need to come together to find and create the employment base to meet the growing business opportunity. Increased partnerships with universities and colleges are required to establish hospitality and wellness as a more recognised career. More advanced training programmes will be required to improve staff retention rates and manage those staffing costs.

What about Brexit?

Senior Living is not immune from the uncertainty created by Brexit, but we expect a high level of resilience in this market due to the strong fundamentals and defensive nature of the sector.

The sector is being driven by structural demographic shift, economics of wealth accumulation and care needs. This shift is happening, and not going away. Seniors are living longer due to benefits of increased wealth and access to healthcare through their lifetimes. The development of property specifically designed for seniors will provide them with a better range of housing options and free up family housing for future generations.

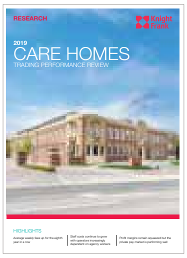
What are your predictions for the coming years?

- We expect increasing levels of activity in the sales market and the continued expansion of the institutional investment-grade rental market.
- Going forward, we will see increased diversification of residential masterplans and more partnerships between builders and operators, with a focus on the role Senior Living can play creating intergenerational communities.
- There will be an increased number of joint ventures and management agreements between care companies and developers. More operators will also enter the market.
- The increased transparency around, and rising acceptance of, deferred management fees (DMF) among residents and investors will lead to increased purchase options for consumers. The charges offer more scope for flexibility around using housing equity to purchase while retaining pension income.
- The market will continue to expand with a focus on flexible services, access to high quality care with wellness a priority, an expansion of tenure options, new construction methods and a long term operational approach. Increased government support and clarity at the planning level along with SDLT relief for downsizers would be great – but let's not hang around for it!
- The ageing population, especially the forecast growth in those aged 80 or over between now and 2040 will lead to an increase in demand for assisting living. The example set by North America illustrates the potential offered by continuum of care, with independent, assisted and memory care being delivered in one scheme.

Front cover image: Gifford Lea, Tattenhall, Inspired Villages Group

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

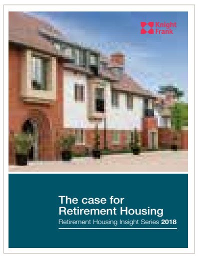
RECENT MARKET-LEADING RESEARCH PUBLICATIONS



Care Homes Trading Performance Review

Senior Living Survey 2019

Residential Investment Report 2019



The case for Retirement Housing 2018

Knight Frank Research Reports are available at **KnightFrank.com/Research**

RESEARCH

Lauren Harwood
Head of Senior Living Research
+44 20 7268 2599
lauren.harwood@knightfrank.com

SENIOR LIVING

Tom Scaife
Head of Senior Living
+44 20 7861 5429
tom.scaife@knightfrank.com

Peter Youngs
Partner – Valuation & Advisory
+44 20 7861 1656
peter.youngs@knightfrank.com

HEALTHCARE

Julian Evans
Head of Healthcare
+44 20 7861 1147
julian.evans@knightfrank.com