Seniors Housing
Annual Review

2023/24

Knight Frank's annual assessment of operating performance in the UK Seniors Housing sector. This market-leading report includes analysis of occupancy, sales and rental performance of the largest private operators.

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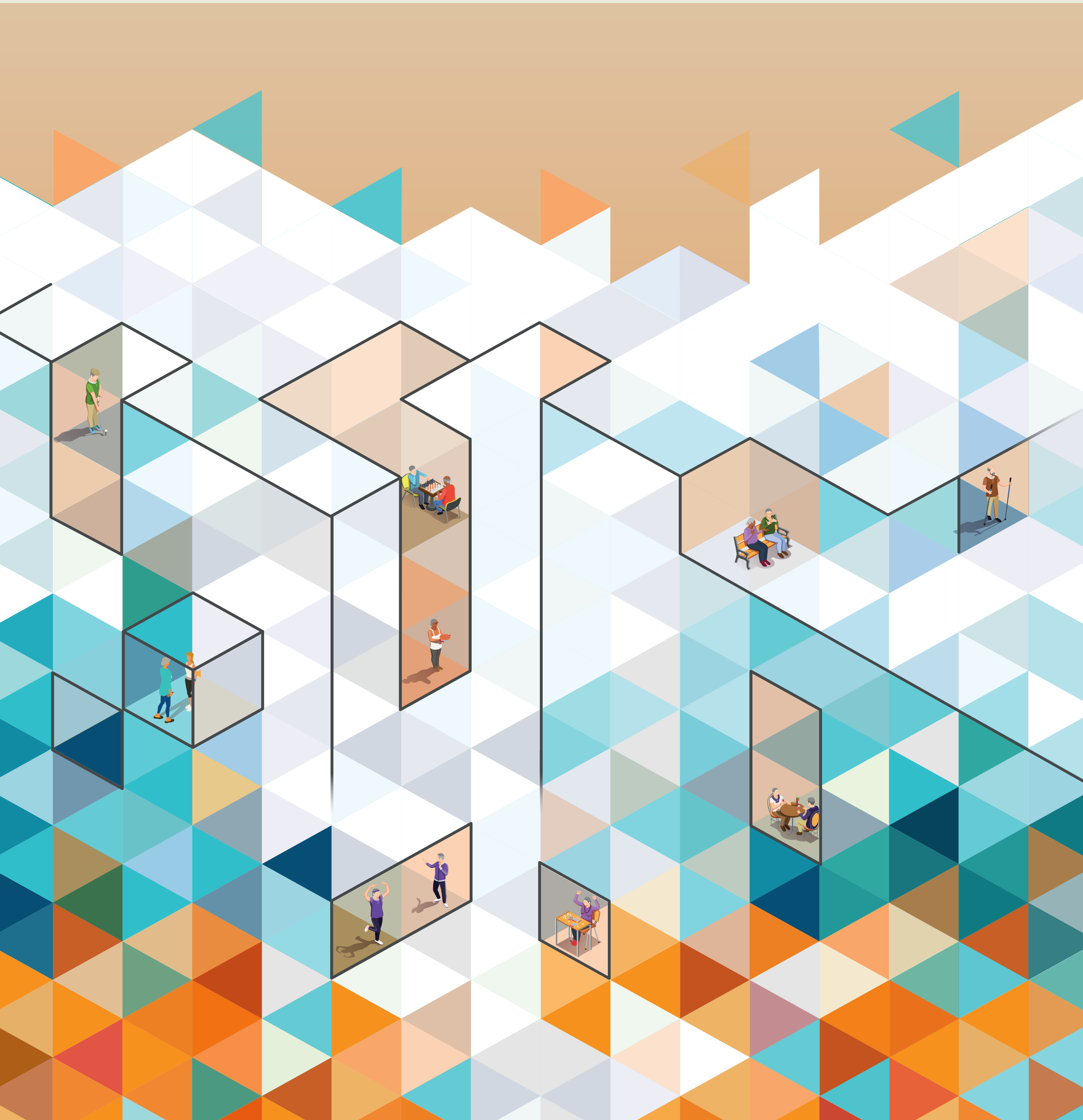

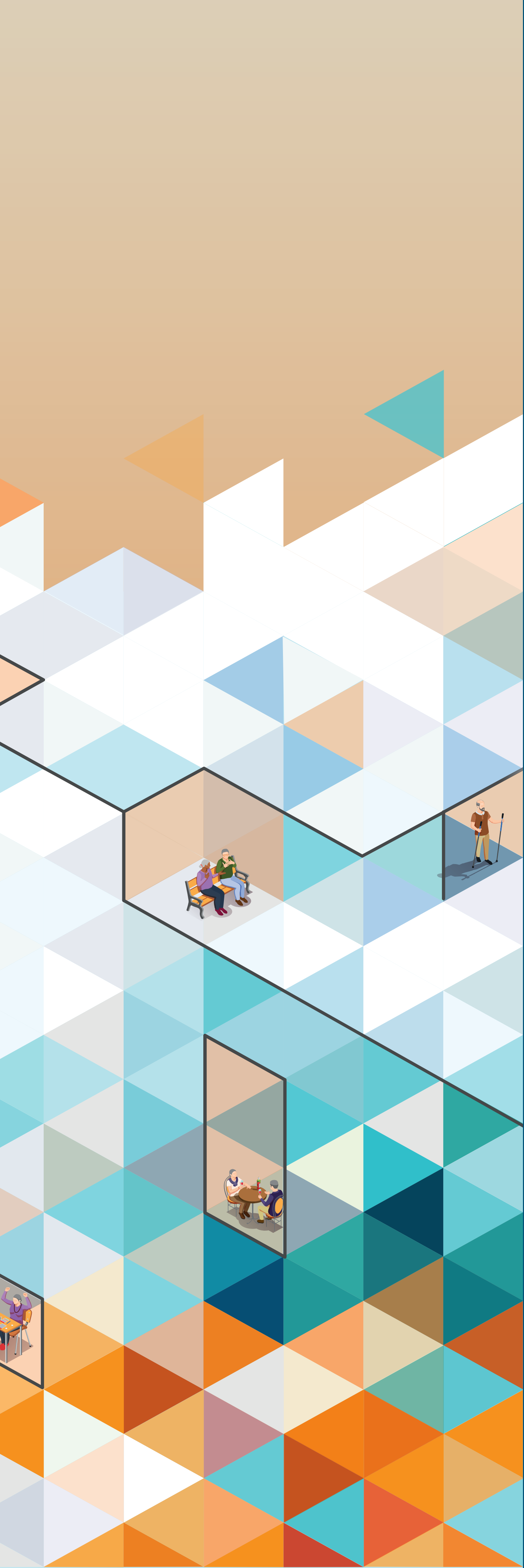

Contents

Introduction

SAM HEFFRON
SENIOR ANALYST,
RESIDENTIAL RESEARCH

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We are proud to present the 2023-24 Seniors Housing Annual Review. This is the 5th edition of our annual operator survey and our largest and most detailed survey of the sector yet.

Our purpose is to provide operators, developers, investors, and other stakeholders with valuable, market-leading insight into the sector, both as it is currently positioned and to show how it has progressed over time.

There are two components to the survey. We have asked leading operators for their views on the sector and their plans for the next five years. And we have been provided with data across their current portfolios.

We have surveyed the leading IRC operators in the UK, providing insights into the daily operations, performance, and resident profiles of 115 schemes, managing 13,000 units (110 units per scheme), and housing 17,500+ residents.

In total, 32% of schemes analysed were affordable and 68% were private, and geographically spread across the country with 30% in rural and 70% in urban locations.

As evidenced by the results of this year's survey, the sector continues to evolve and transform, with more flexibility and choice than ever before. Rental has been increasing in popularity and amongst private IRC operators, DMF options are also on the rise.

While there are a number of challenges, there are more reasons to be positive about the sector given strong fundamentals and increasing maturity of operators, as reflected in a number of key performance indicators presented in the report.

TOM SCAIFE
PARTNER,
HEAD OF SENIORS HOUSING

Once again, this year's report provides further evidence of the resilience of the seniors housing market, as well as the long term drivers for growth, including focussing on customers and responding to changing market conditions. We can see this reflected in the tenures being offered and the widening choice on DMF structures.

Even with challenges such as build cost inflation, the leading operators continue to grow their platforms, creating communities that generate long term income streams that offer a hedge against inflation.

Larger DMFs allow more cost risk to be shared between income sensitive tenants and investors creating long term alignment. Rental tenure allows increased flexibility and choice to tenants whilst widening the addressable market.

Sales volumes in 2023 to date appear to be down around 20% year-on-year (albeit with the time delay on Land Registry a comprehensive dataset is still being analysed). Conversely rental volumes have increased in 2023 year-on-year. And pricing volatility is low with operators largely holding headline pricing. These dynamics are more robust than the wider residential market, where prices increased more post Covid and hence are reducing along with sales volumes in the current higher rate environment.

The past year has not been without its challenges. Yet, there is appetite in debt markets from a growing range of lenders to fund seniors housing schemes. Prime yields sit outside of the rest of the living sectors, making leverage more accretive. And value looks attractive: high inflation over the last two years means real values remain down.

Looking forward to next year, inflation will remain sticky which will continue to support rental growth. If the current Older People's Housing Taskforce delivers in 2024 on their brief of providing policy change to increase supply, then the sector will have a tailwind through 2024 and beyond which will accelerate investment.

Overall, this year's survey results serve as a positive indicator as to the position of the sector following on from the pandemic and moving through economic headwinds.

Survey in numbers

13,000 UNITS

115 IRC SCHEMES

17,500 RESIDENTS

110 – AVERAGE NUMBER OF UNITS PER SCHEME

£4 BILLION – TOTAL MARKET VALUE OF UNITS SURVEYED

2023-24 Results at a Glance

Average age of entry for IRC

2023-24	2022-23
77	79

% of operators who offer two or more DMF options

2023-24	2022-23
68%	38%

% of schemes offering a maximum DMF above 20%

2023-24	2022-23
30%	24%

% of residents who sold their previous home before moving

2023-24	2022-23
93%	81%

% of private IRC schemes who offer private rental as a tenure option

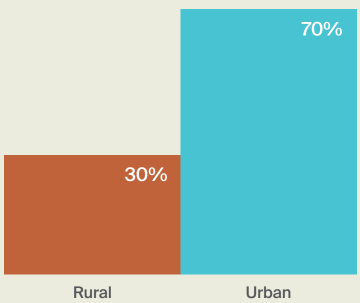
2023-24	2022-23
78%	68%

AVLOS in IRC schemes that have been operating for 5 years+

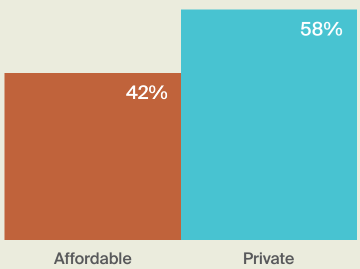
7.1 years
2023-24

Sample Overview

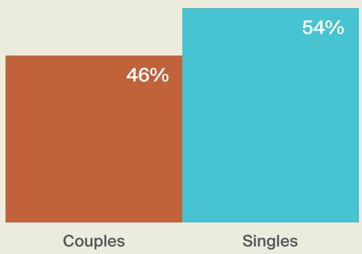
LOCATION TYPE, % OF SCHEMES



TRENDS IN TENURE, % OF UNITS



SINGLES VS COUPLES, % IN IRC SCHEMES



Source: Knight Frank Research

KEY: IRC - Integrated Retirement Community | **RH** - Retirement housing | **AVLOS** - Average length of stay | **DMF** - Deferred management fee | **FTE** - Full time employee

Operator survey

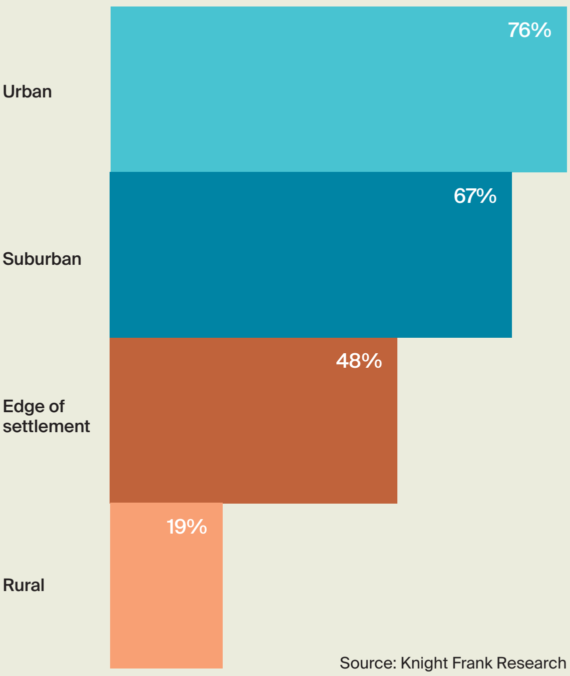
This is our largest and most detailed survey of the senior housing sector yet. We have surveyed the leading IRC operators in the UK, and asked for their views on the sector and their plans for the next five years.

Operators targeting more urban developments

At 76%, urban markets were the target location of choice for future IRC developments, followed by suburban locations (67%) and sites on the edges of settlements (48%). The results chime with our analysis of development data which shows that 75% of seniors housing schemes built in the last two years have been in urban areas.

More urban schemes support the priorities of the Baby Boomer generation for walkability, convenience, and proximity to culture. Data from the 2021 Census shows that more than eight million over-65s already live in urban areas, up from seven million in 2011. In the next 20 years, the over-65 population is forecast to increase by around a third – meaning seniors will make up an even bigger part of our urban communities.

What types of locations are you considering for new development?

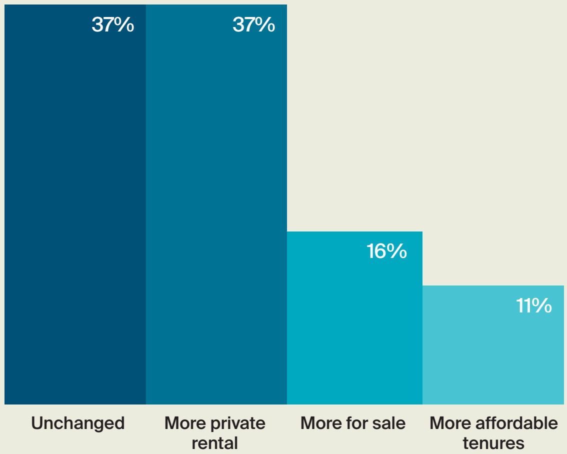


Source: Knight Frank Research

With a focus on offering seniors flexibility and choice

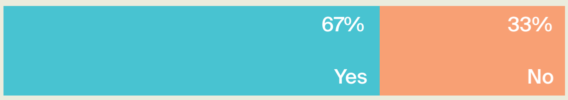
As well as location, the composition of the seniors housing market continues to evolve, with operators broadening the range of options available to seniors. More than a third (37%) of surveyed operators said they plan to incorporate more private rental stock in future schemes.

To what extent has your outlook on tenure types changed over the last 12-18 months?



Source: Knight Frank Research

Have you considered (or are you already) offering multiple DMF structure options?



Do you think your approach to event fee structures may change or evolve further over the next 5 years?

Source: Knight Frank Research

To achieve this 45% said that new IRC schemes will be a mix of private sale and private rental tenures.

This shift supports our view that the number of seniors private rental units will nearly double within the next five years.

... and a focus on creating communities

Seniors housing operators must adopt a customer-focused model to create strong connections with residents. Hosting resident events and organising activities for residents are important features within communities. Respondents also said activating communal space and transport for residents were important.

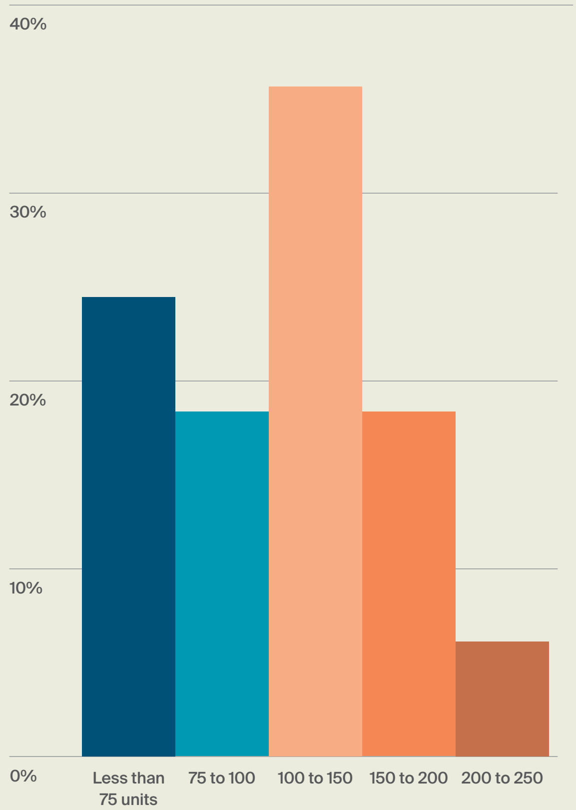
The event fee model continues to evolve

Some 72% of operators said they plan to charge an event fee at all new communities opened in the next five years. More than two thirds (67%) of operators have considered offering or already offer multiple DMF options as they aim to provide residents additional flexibility and choice on payment options.

78% of the operators saw caps of 15%+ or higher as acceptable to customers, whilst 56% of the respondents believe that a cap of at least 30% would be acceptable to customers.

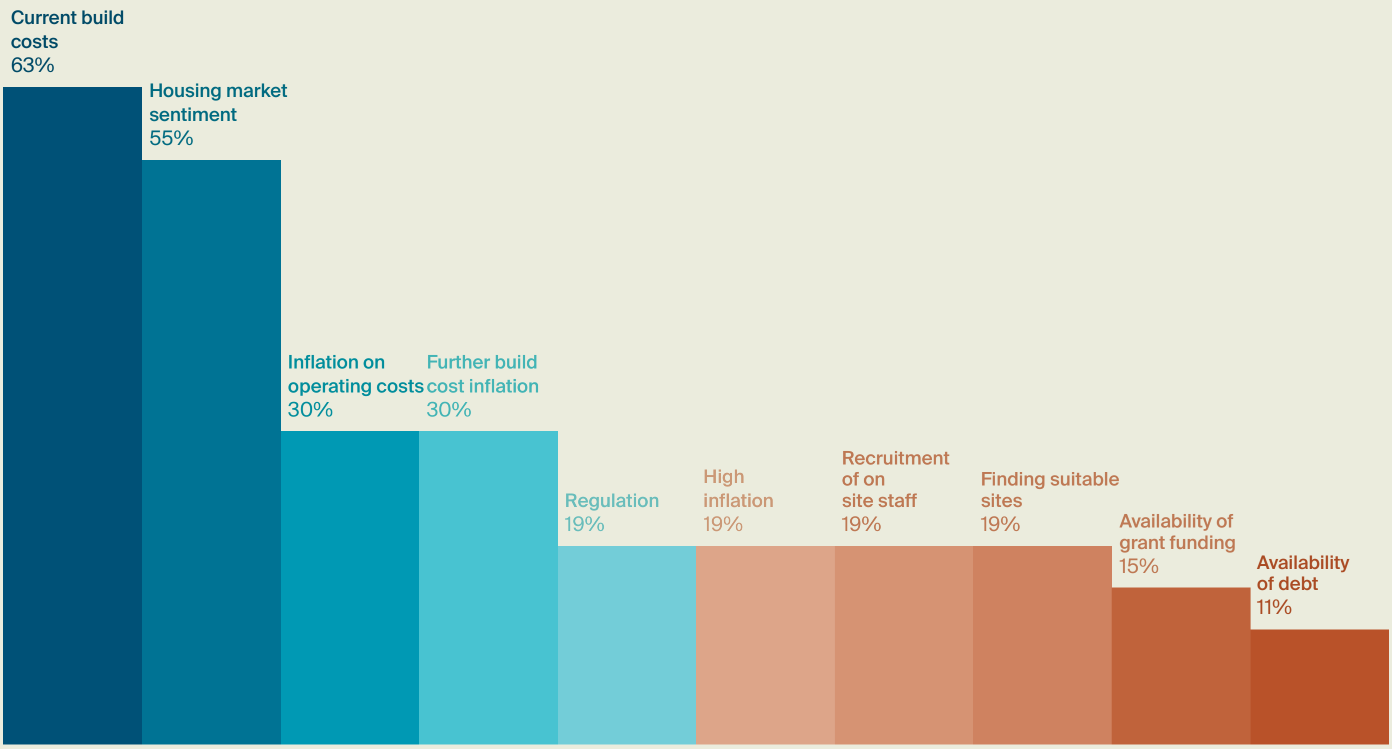
"Breaking down performance within different seniors housing models shows the strongest price growth has been recorded in the IRC sector."

Which is your optimum size of community?
(for future IRCs)



Source: Knight Frank Research

Which of the following represents the biggest challenges for the market over the next 12-18 Months?



Source: Knight Frank Research

Build costs and housing market sentiment are challenging...

Some 63% of operators highlighted current high build costs as the biggest challenge for the market over the next 12 to 18 months, indicating that a number of the leading operators are in a development / expansion phase. But there is a feeling that build cost inflation may have peaked, with just 30% of respondents concerned about further build cost inflation. The BCIS is forecasting that build costs will increase by a more manageable 3.2% this year, down from 8.7% in 2022, which should support viability.

The performance of the wider housing market was flagged as a concern by 55% of respondents, with any expected slowdown likely to have an impact on sales rates. Equally, the sector is fundamentally under supplied and has the potential to pivot to more needs based demand.

45%

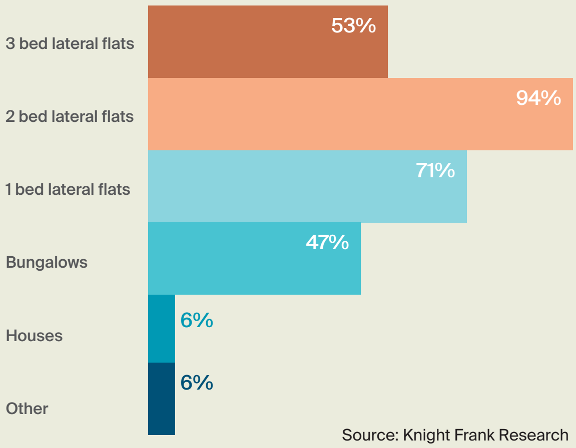
of operators are considering mixed tenure, sales and rental, for private new IRC schemes

"There is a compelling case for investing in assets that benefit from changing ways of living and which provide strong counter-cyclical features and inflation-matching characteristics."

More awareness and clear targets needed to accelerate growth

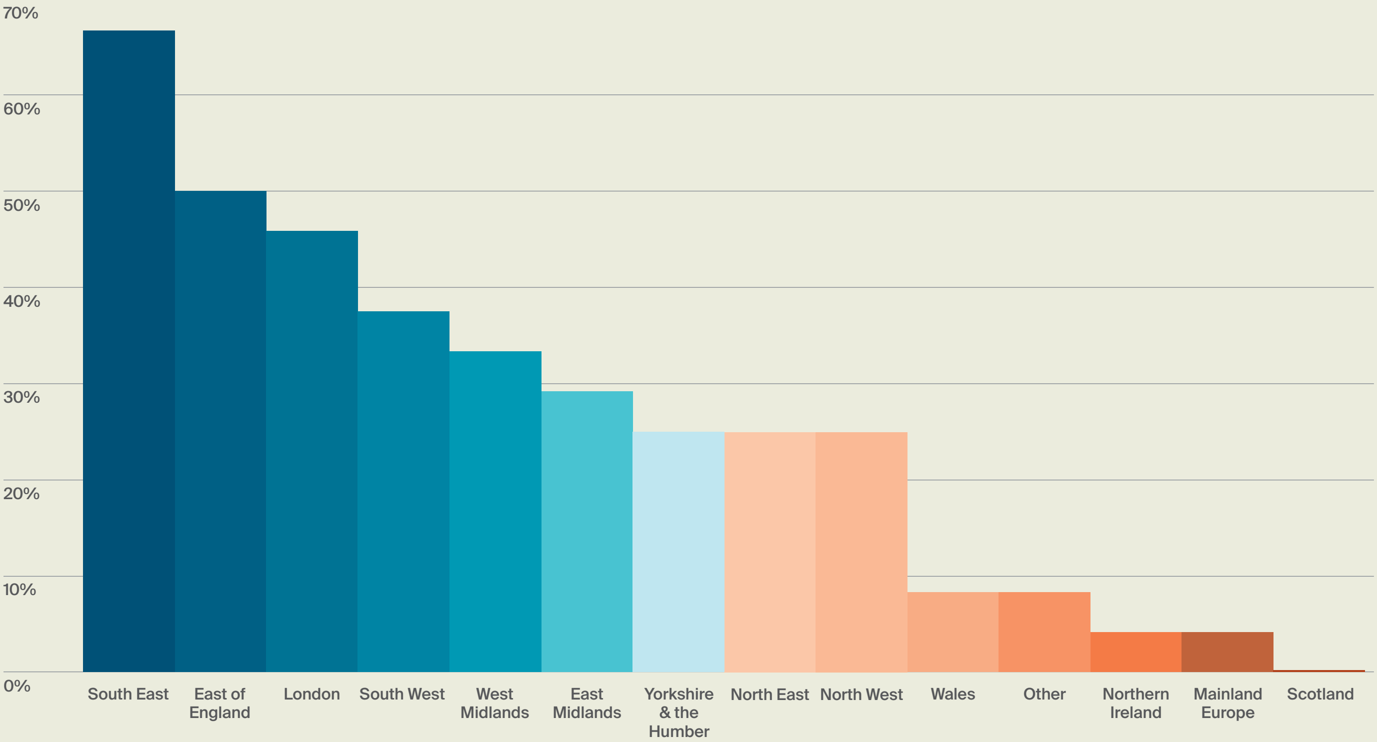
Better awareness of the IRC proposition from local planners, and clear targets for seniors housing in local plans are the two changes required to accelerate the growth of the seniors housing sector, according to 65% and 55% of survey respondents respectively. Some 40% said more education and awareness of the product from the general public was needed.

Which unit types will you provide in future/ planned communities?



Source: Knight Frank Research

Which of the following locations are you considering for new developments?



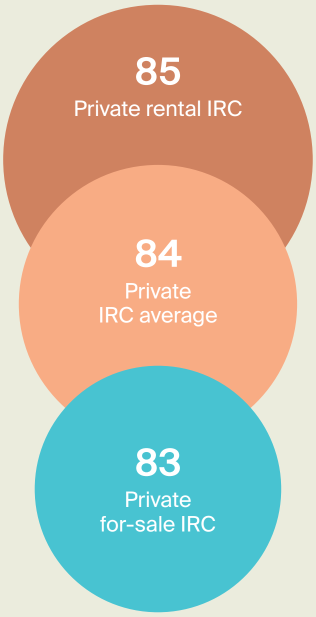
Source: Knight Frank Research

Customer profile

The seniors cohort is the wealthiest cohort with in excess of 1.5 trillion pounds of unmortgaged housing equity locked up in family houses with under utilised bedrooms. In the next 30 years this wealth will be released through seniors investment in their housing, services and health and/or inheritance tax/estate planning. We can see operators catering for the baby boomer generation which have a higher propensity to spend their wealth than the previous generation.

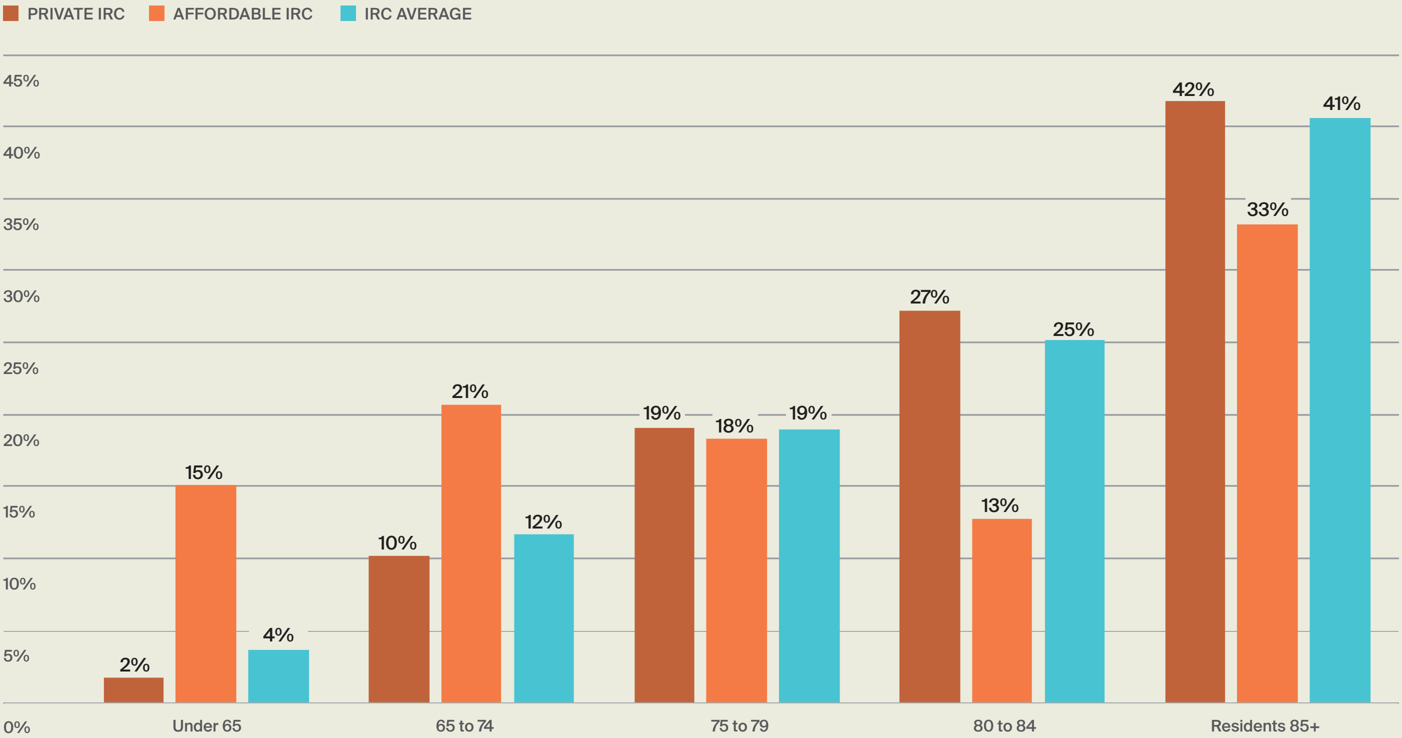
Understanding customer profiles is crucial to helping the sector plan for the future, as well as for the sales and marketing process. The average age of entry for residents in IRC schemes across the UK is 77 years old, down from 79 in the 2022-23 survey. The data shows that seniors moving into communities are over a relatively wide range of ages from less than 70 to over 89. But the bulk of people moving in is weighted towards people who are between 75 and 84. In terms of the average age of residents living

Private IRC ages by tenure



Source: Knight Frank Research

Average resident age distribution – private IRC's



Source: Knight Frank Research

within communities we can again see a relatively wide range of ages including people who are less than 70 years old. But the majority of people are within the age band of 75+. We also know the average age in older communities tends to be higher.

There is an approximately 50-50 split of residents who are single or living as couples. More than a third of all households moved from within 10 miles of a scheme, highlighting the fact that seniors housing is a local product designed and built for local people. We can also see in the data that the size of primary catchment varies by operator and motivations of a resident. In our opinion this highlights the need for local authorities, developers and communities to adequately plan for housing across age brackets. Some 93% of residents sold their previous home before moving, up from 81% as reported in our 2022 survey.

It is interesting that 95% were formally owner occupiers before moving into an IRC unit, therefore highlighting seniors are rightsizing the family home in the move. Also at 46% we are seeing couples more likely to purchase, whereas tenants in rental are more likely to be single.

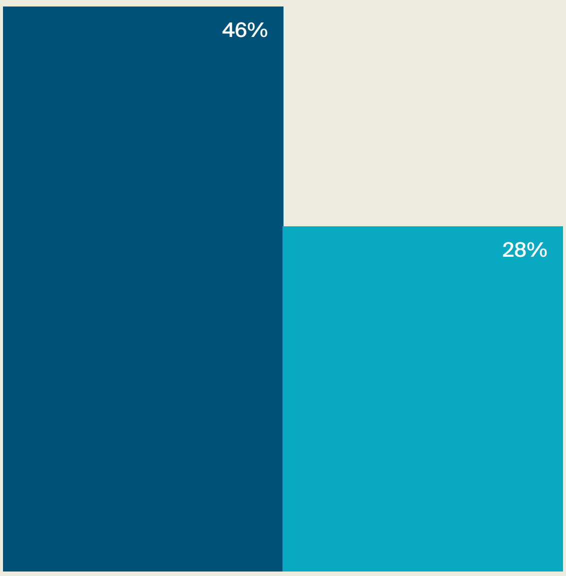
Also, with respect to rental customers, they are normally older when they first move into the community, with an average age of 83 in the private IRC market.

95%

% of Private IRC residents who were owner occupiers before moving

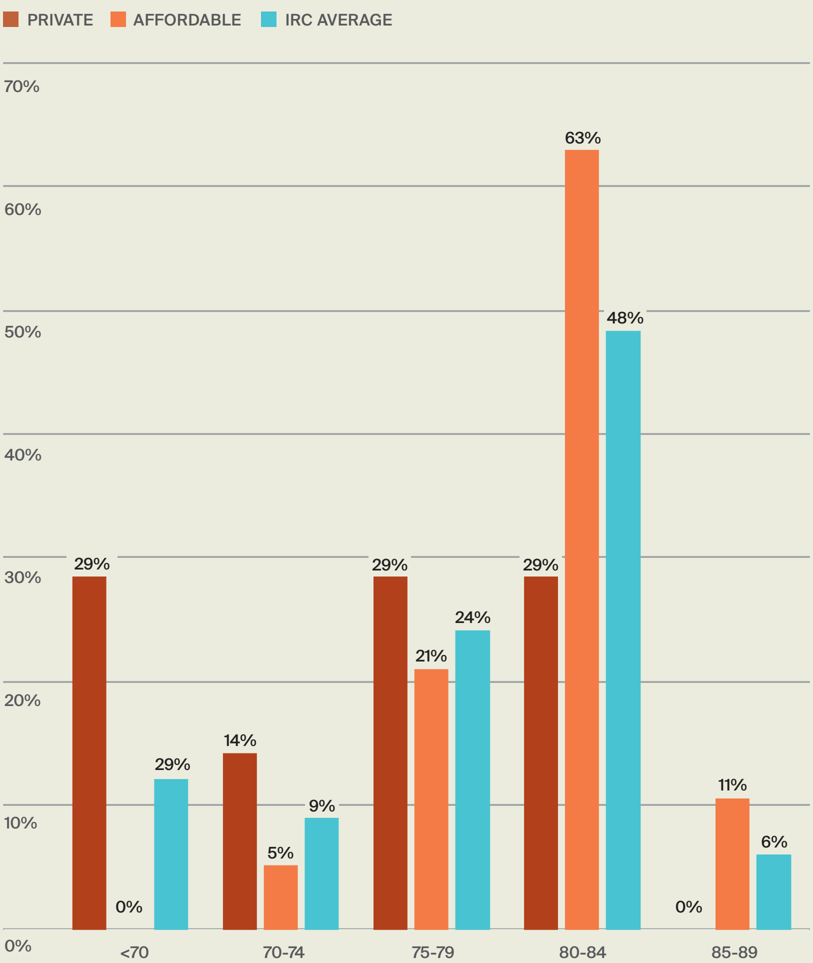
% of scheme occupied by couples

Private IRC schemes



Source: Knight Frank Research

Average age of entry



Source: Knight Frank Research

Sales and rental performance

Sales

Long-term owners and operators of retirement communities are focused on the ongoing success of their schemes, with event fees aligning the operator and the customer. Our pricing analysis is based on a sample of over 1,110 schemes across the country, split between Retirement Housing and IRCs. The schemes comprise more than 41,000 individual units, which we tracked from original sales through to today, including re-sales. This provided us with data for close to 75,000 seniors housing unit sales, totalling over £15 billion.

Price performance

The depth of data in the short term makes conclusive analysis more difficult but in the long term our Seniors Housing House Price Index (HPI) shows that since 2005, average prices for IRCs with DMF have increased by 93% compared to 83% for UK HPI over that same time. Not only has it outperformed UK HPI, but it has been much less volatile over this period.

It is logical that HPI will vary across the various stages of development and sales. HPI through sales will likely be less than HPI once all first sales are completed and only re-sales are taking place.

"Breaking down performance within different seniors housing models shows the strongest price growth has been recorded in the IRC sector."

Optimum sales performance naturally depends on how heavily operators have lent into the DMF model. In time the data should show the best performance coming from the best management teams, a higher DMF, refurbishment of apartments before re-sale, investment back into communal areas, best staff training, best sales and marketing teams.

Breaking down performance within different seniors housing models shows the strongest price growth has been recorded in the IRC sector. But fundamentally the IRC sector and the Retirement Housing sector builds and sells and/or rents different products for their consumers. Therefore, price performance varies.

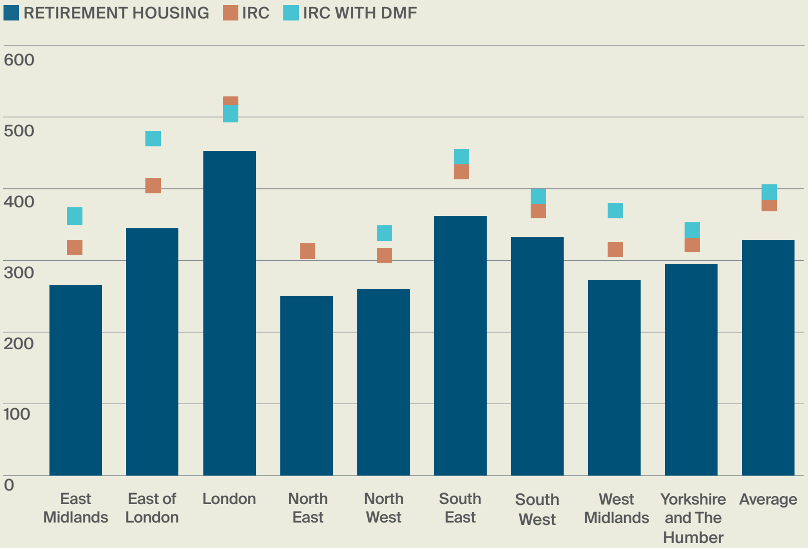
Given seniors sell their previous property to 'right size', the health of the wider housing chain can impact sales rates. The higher interest and mortgage rate environment in the last 12 months

78%

of private IRC operators surveyed offer private rental as a tenure option, either in standalone build to rent schemes, or pepper-potted within for-sale schemes.

£PSF by region

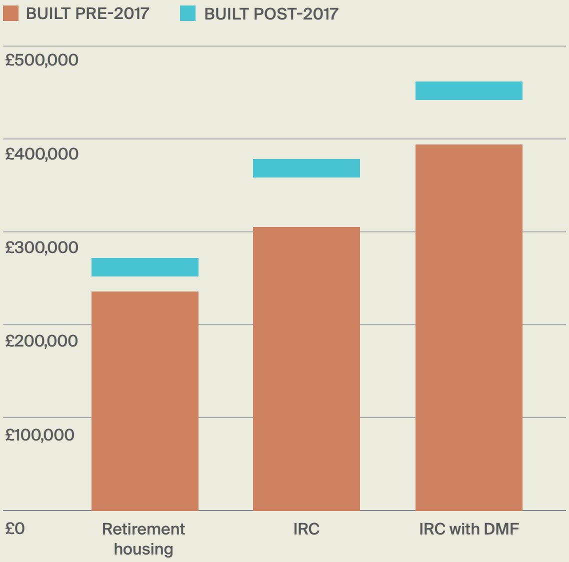
2018-2023



Source: Knight Frank Research, Land Registry

Average price paid by scheme age

Last 5 years (2018-2023)



Source: Knight Frank Research, Land Registry has impacted the chain of buyers and hence the sales rates of seniors housing. Pricing in seniors housing has held up well though when compared to the wider residential market where pricing has fallen c. 5-10% in some regions. Albeit IRCs have not been as volatile as the wider residential market so pricing didn't spike upwards as dramatically as residential in the post Covid market.

Average occupancy levels in schemes at least three years old were 91%, up from 84% in last year's survey. On average, for schemes built since 2017, our data shows that 1.9 units were sold each month in the first 18 months post-completion.

The average length of stay is over a range and the data needs to be carefully analysed considering that a number of the leading communities have not yet fully stabilised. Our analysis indicates that the average length of stay (based on data for IRCs which are 5 years +) is 7.1 years.

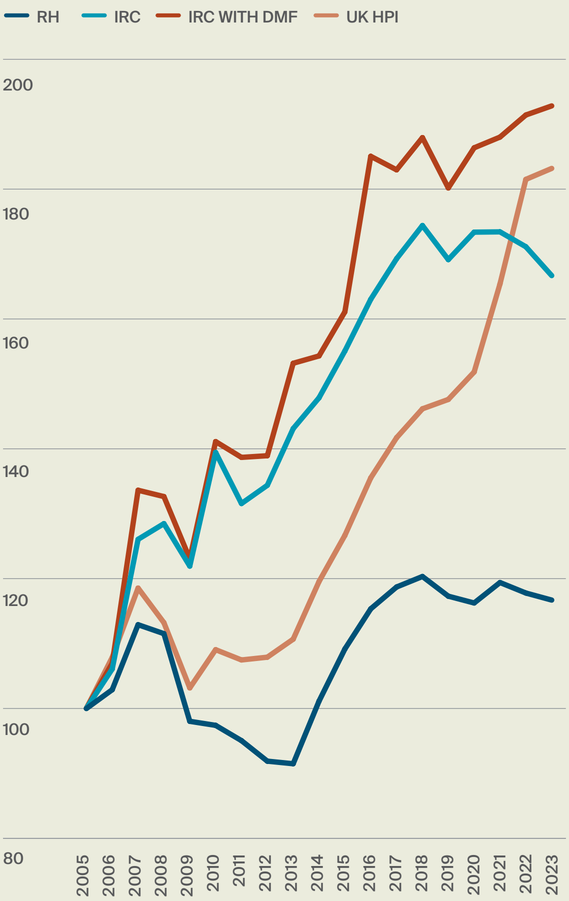
"From an investor perspective, mixed tenure schemes widen the accessible market and help accelerate absorption rates, whilst also reducing voids."

Private Seniors Rental market

Rental is a growing part of the seniors housing market. In total, 78% of private IRC operators surveyed offer private rental as a tenure option, either in standalone build to rent schemes, or pepper-potted within for-sale schemes. This was up from 68% in 2022-23. A greater proportion of rental product reflects the evolution of the sector to provide more flexibility and choice to seniors, sitting as a proposition between residential and residential care homes, but with the amenity and on-site service provision that is provided within a seniors housing community. From an investor perspective, mixed tenure schemes widen the accessible market and help accelerate absorption rates.

Seniors Housing property price performance by product

Index 2005=100



Source: Knight Frank Research, Land Registry

Knight Frank Sales Database

Our pricing analysis is based on a sample of over 1,100 schemes across the country, split between Retirement Housing and IRCs. The schemes comprise more than 41,000 individual units, which we tracked from original sales through to today, including re-sales. This provided us with data for close to 75,000 seniors housing unit sales, making our sales database one of the largest and most comprehensive in the sector to date.

75k Seniors Housing Sales

59k Retirement Housing Unit Sales

16k IRC Unit Sales

5k IRC with DMF Unit Sales

£15bn GDV of Sales in database since 1995

Operational Income & Costs

The data presented here has been collected from the existing portfolios of operators for the 2022/23 financial period. As we navigate through a high inflation environment collecting information on costs, especially staffing, is important for the sector.

Financing options

Under the for sale model in IRCs, the purchaser buys the long lease, pays an annual service or management charge and normally commits to an event fee (also DMF) payment on resale. Ground rents have now fallen out of the sector on new IRCs. Management charges and fixing service charges provide customers with additional certainty and DMF defer costs. Some operators now offer reduced annual charges in return for higher deferred charges (or fees).

Income (for sale model)

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

Lower than previous years, service or management charges accounted for between 21% and 30% of total income, one factor being whether schemes had third party or operator-led care. Charges within our sample varied significantly at each scheme, depending on the level of amenity and service offered.

Compared with last year's survey, service charges increased by 10% on average, which reflects the higher cost of utilities and staffing over the past 12 months.

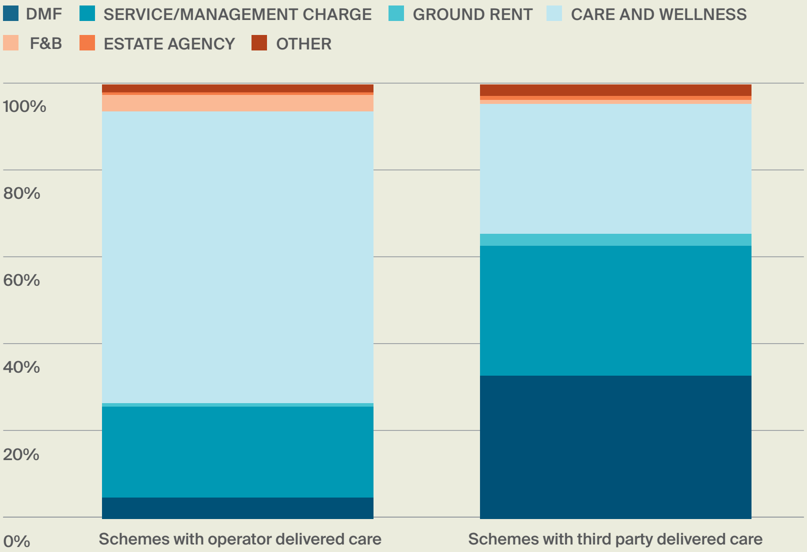
Deferred Management Fees (DMF) make up the second largest income stream of approximately one quarter of total gross revenue. Note that this analysis combines both mature and newer built schemes, so this metric will vary substantially. The data also shows a continuing widening of DMF structures being used by operators. Of the schemes from the operators surveyed, 86% collect a DMF/event fee. Of those operators which do collect, 32% offer just one option (down from 62% last year), while 68% offer two or more options.

DMF structures vary between operators but, as has been the case in previous surveys, maximum caps are getting larger. In 2019, just 14% of schemes offered a maximum DMF above 20%. This has risen to 30% in this year's survey.

Seniors rental

The seniors rental model is based on a single rental payment which covers most of what is provided to the customer, including the apartment, access to the communal facilities and the provision of the operator's management and services. Domiciliary care is available on a flexible basis in return for an additional payment and F&B is normally an additional payment, though may be subsidised.

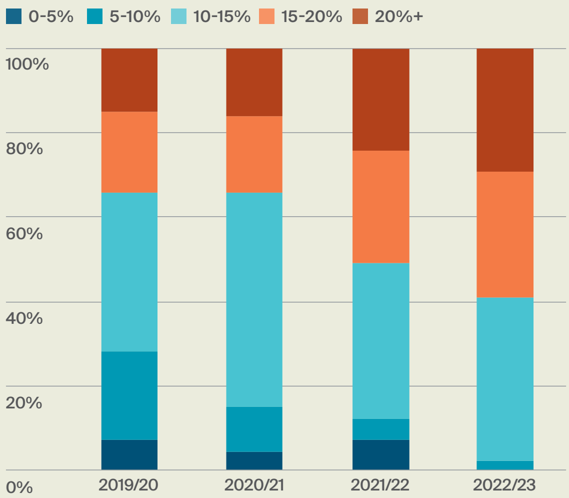
Average % of total gross income by source



Source: Knight Frank Research

Maximum DMF fees at schemes

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



Source: Knight Frank Research

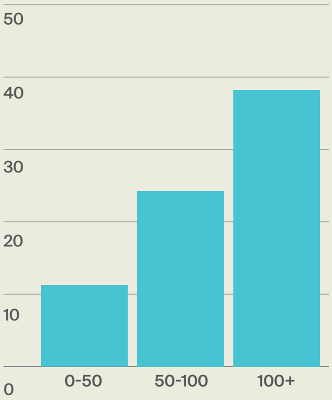
Costs

Costs in IRC 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.

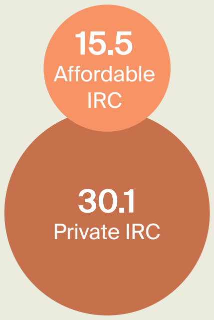
The data confirms that approximately 50% of costs are staff costs. There is approximately one full-time staff member to every six units within a private IRC scheme, though there are more staff per unit in schemes with operator delivered care. Within private schemes, most staff are employed in areas such as F&B, estate management and maintenance. Conversely, in affordable schemes, the focus for staffing is within care and wellness.

FTE staffing by scheme size

Private IRC schemes, (# of units)

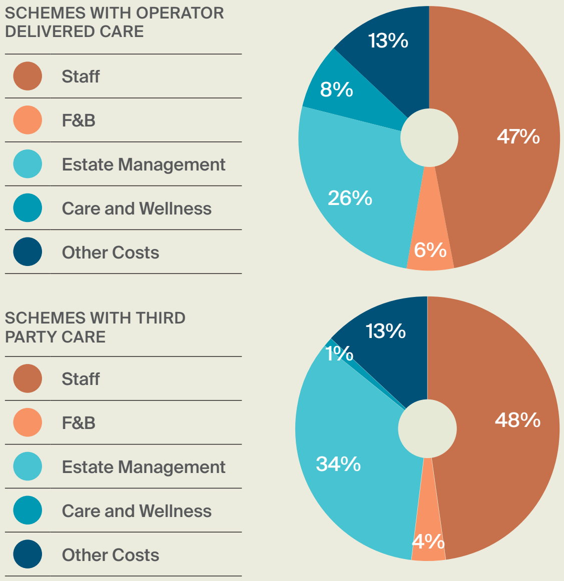


Average FTE staffing per scheme



Source: Knight Frank Research

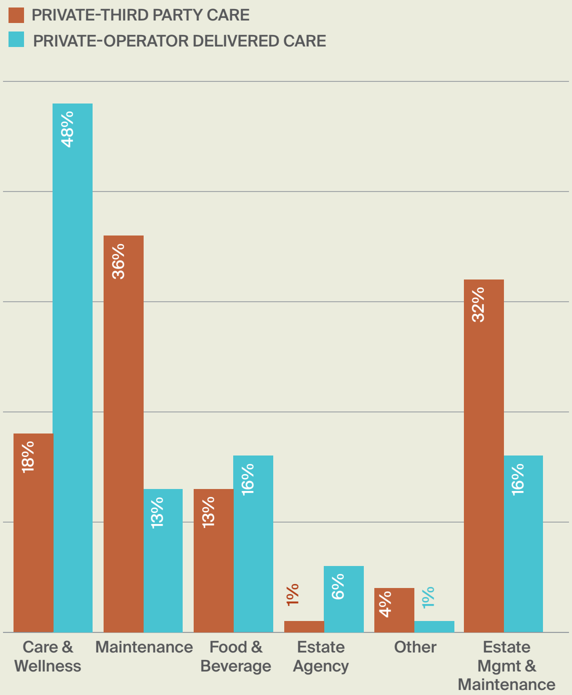
Average % of total costs by source



Source: Knight Frank Research

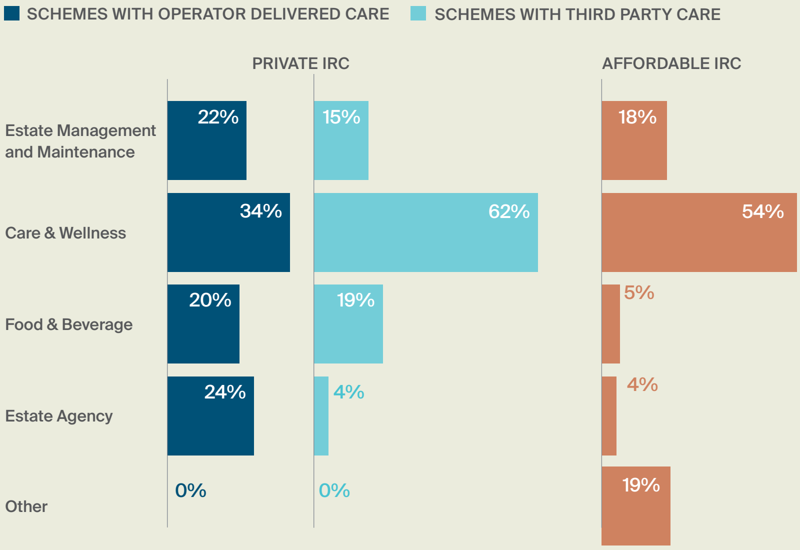
FTE staffing distribution (%)

% of staff by area, private and affordable IRC schemes



Source: Knight Frank Research

Average % of staffing costs by source



Source: Knight Frank Research

Leading on ESG

ESG has become common parlance for property investors, including those active in the senior housing sector. A full 94% of operators surveyed said ESG was either important or very important for their business strategy over the next five years demonstrating this focus.

Whilst the E element of ESG often garners the most attention, and is critical for operators, the senior living sector also has an obvious focus on the 'S' in ESG, with far reaching positive social impact on residents, their families, employees and local communities. The sector helps to reduce the burden on the social care sector and the NHS. IRCs assist in freeing up local housing and they provide amenities, employment and support for local communities.

So how are operators delivering and bolstering these ESG benefits?

Integrating sustainability and nature in developments and design

More than three-quarters, 78%, have revised design standards for sustainability over the past three years and almost two-thirds (65%) have revised standards for biodiversity. This may be partially attributable to regulation but also the growing evidence of nature's benefits, particularly among the elderly.

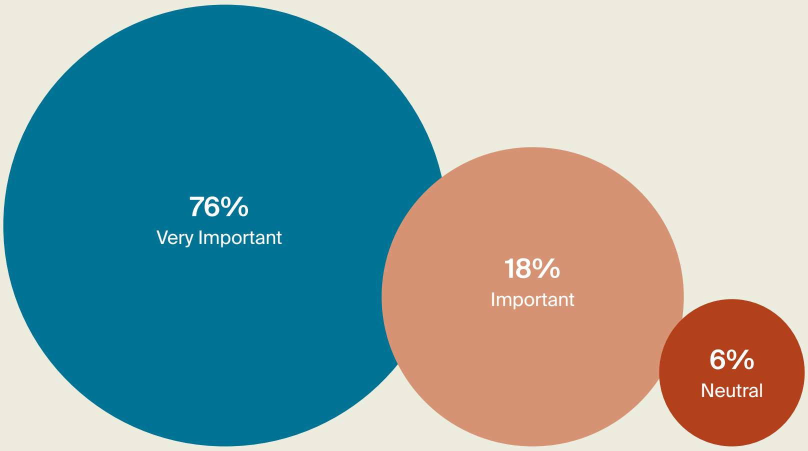
Some 76% of operators surveyed said they are including green spaces within developments. The health benefits of green spaces have been well researched but are particularly well founded for children and older people. Studies have found that greener environments are linked to better physical and mental health, including improvements in memory, attentiveness, and a reduction in stress.

"More than three-quarters, 78%, have revised design standards for sustainability over the past three years and almost two-thirds (65%) have revised standards for biodiversity."

Operators are targeting certificates to indicate sustainability and wellbeing credentials

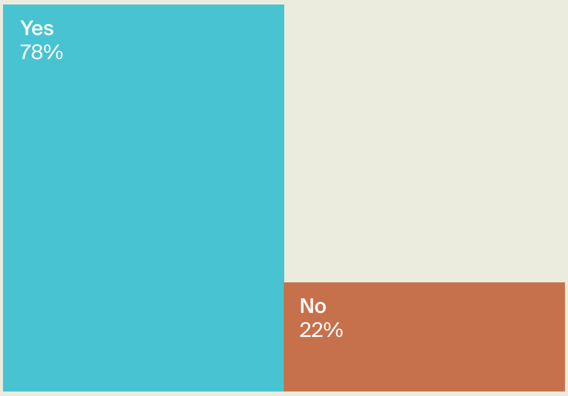
Beyond the mandatory EPCs being considered, a staggering 91% are targeting BREEAM certifications for developments to demonstrate their sustainability. In addition, 45% are aiming for Fitwel certification, one of the most established systems of identifying buildings that

How Important is ESG to your business strategy over the next 5 years?



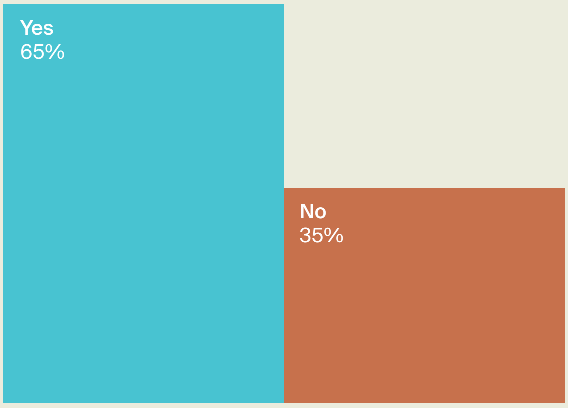
Source: Knight Frank Research

Have you revised design standards for sustainability over the past 3 years?



Source: Knight Frank Research

Have you revised design standards for bio diversity over the past 3 years?



Source: Knight Frank Research

support health and wellbeing, which shows a commitment to the S as well as the E.

Going beyond the minimum requirement to futureproof and achieve net zero in operation

Seven in ten operators are targeting net zero in operation. For investors, this is important for futureproofing assets and lowering any potential regulatory risks.

Property investors are increasingly imposing stringent energy efficiency and ESG criteria for assets. By delivering net zero in operation, assets will be well positioned for the future by lowering regulatory risk and ensuring continuing demand. Furthermore, energy efficient buildings provide operators the opportunity to reduce gross to net leakage and boost performance.

Increasing thermal comfort and reducing energy costs to drive value

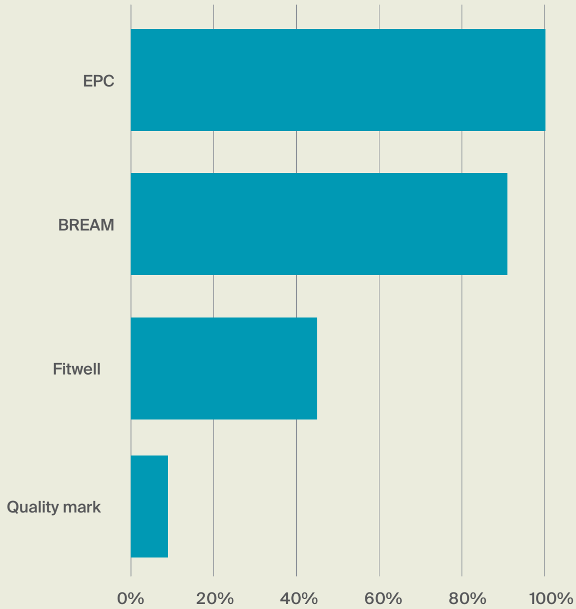
The targeting of net zero in operation has the potential to command higher sales values and for residents, lower energy bills and increased thermal comfort.

Just over three-quarters of survey respondents (76%) are planning on installing heat pumps and 59% look towards solar energy solutions. There is a well-documented performance gap in building and therefore to ensure they are performing as designed, more than half (53%) are installing energy monitoring systems.

"Energy efficient buildings provide operators the opportunity to reduce gross to net leakage and boost performance."

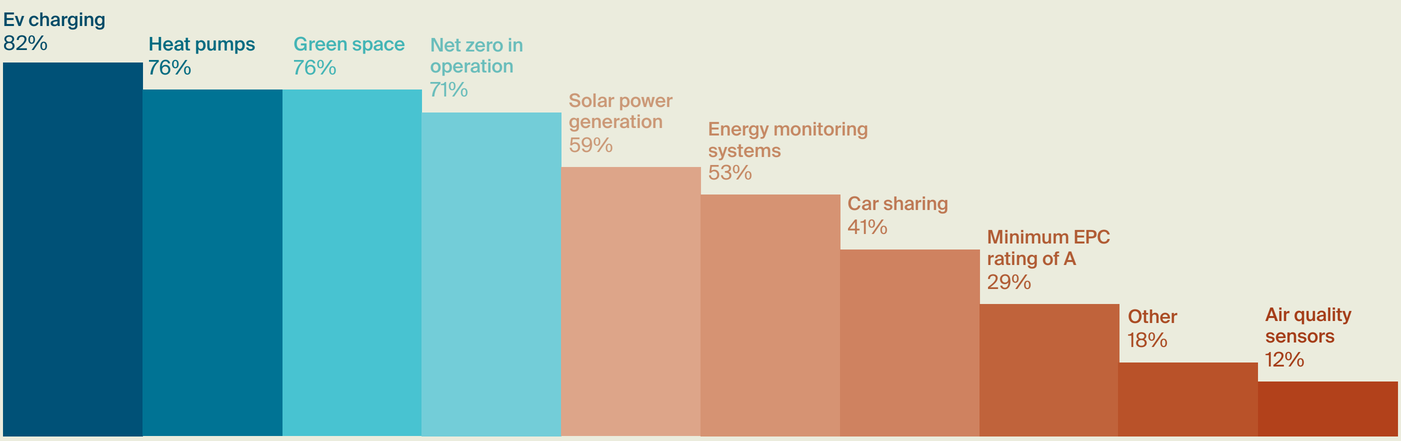
Although the data is limited, there are indications that net zero properties can command a premium. Net zero carbon homes have commanded a premium of around 3.8% over non-net zero carbon residential properties since 2012, according to a Knight Frank analysis.

Respondents were asked which standards they consider



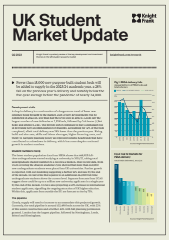
Source: Knight Frank Research

For new developments, which of the following are you installing/targeting?



Source: Knight Frank Research

Recent Research



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