Seniors Housing Development Update 2021

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A GROWTH SECTOR

Investment into UK seniors housing in 2021 is set to increase by 30% year-on-year to £1.75 billion. While delivery volumes are set to increase by nearly 10% over the next 5 years, this still only equates to less than 3% of total UK housing stock.

The 65+ population is set to increase by 22% in next 30 years to 15.1 million people. It is the wealthiest cohort and owns £1.5 trillion of family housing stock. More focus should be made to increase delivery and meet the UK's seniors housing needs.

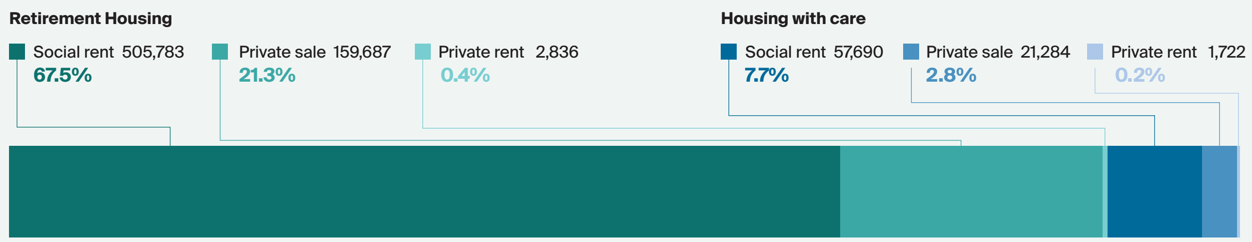
Market Activity

Last year, a record £1.3 billion was deployed in the seniors housing market in the UK. Momentum has continued into 2021, with more than £450 million invested in the first half of the year, more than double H1 2020 levels. In addition, a further £1.3 billion has been committed to the sector. At this current rate, investment is expected to increase by 30% year-on-year in 2021.

Rising investment volumes come amid a wider pivot from institutional investors towards residential assets across all age groups, with investors recognising the quality of income streams on offer and strong demographic fundamentals.

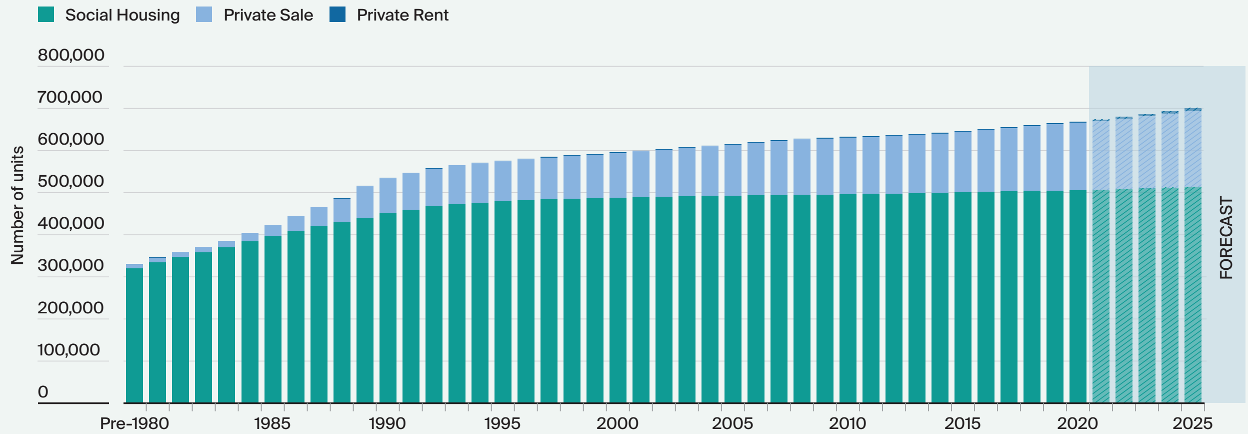
There are currently 749,000 seniors housing units in the UK across 25,000 schemes. This equates to less than 3% of total housing stock in the UK. Delivery is gradually rising, with 6,700 new seniors housing units built in 2020, according to data from the Elderly Accommodation Counsel and planning portals.

1 | **Total size of Seniors Housing market in the UK** Number and proportion of units



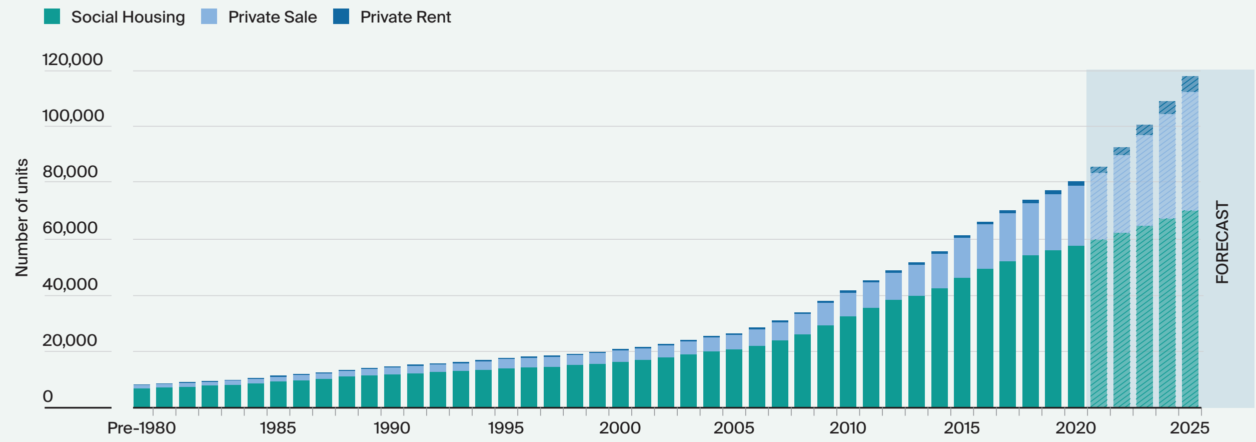
Source: Knight Frank, EAC, planning portals

2 | **UK Retirement Housing market – Total supply**



Knight Frank, EAC, planning portals

3 | **UK Housing with Care market – Total supply**



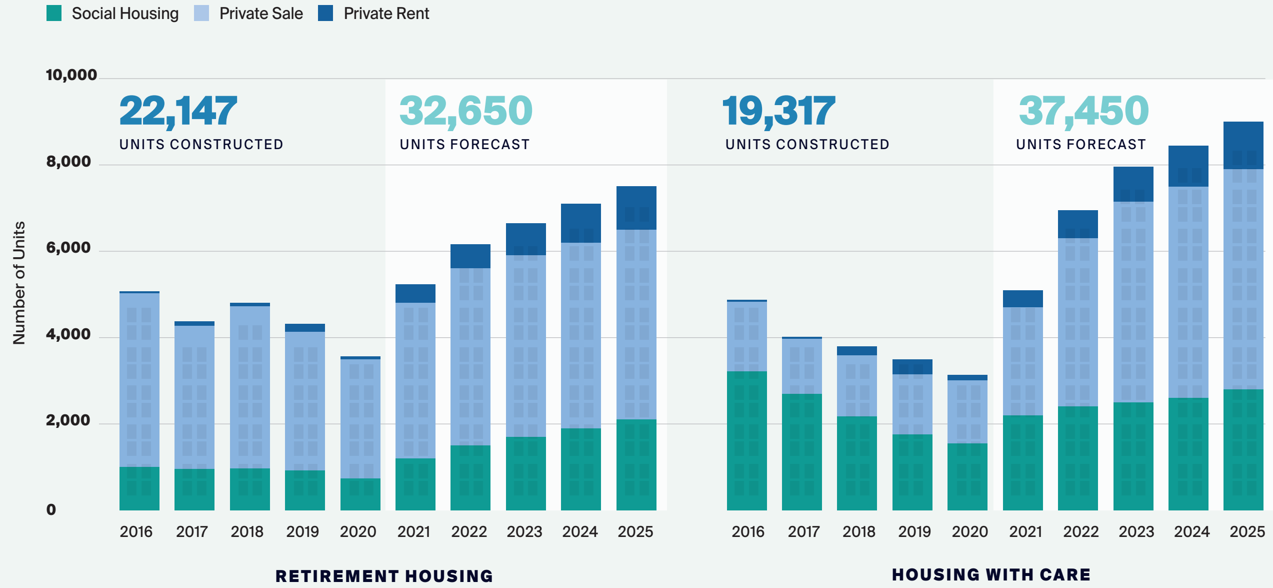
Knight Frank, EAC, planning portals

Our forecasts suggest development will continue to rise, with the number of specialist seniors housing units in the UK anticipated to grow by 9% over the next five years to just short of 820,000 units.

Even with this forecast expansion, the rate of delivery will still be dwarfed by the UK's ageing population, deepening the existing mismatch between supply and demand. In real terms, it means that the number of seniors housing units per 1,000 individuals aged 75+ is expected to drop to 120 by 2025, down from 137 in 2010 and 128 currently.

Momentum has continued into 2021, with more than £450 million invested in the first half of the year and a further £1.3 billion committed.

4 | **Annual delivery of seniors housing units in the UK** 2016-2025



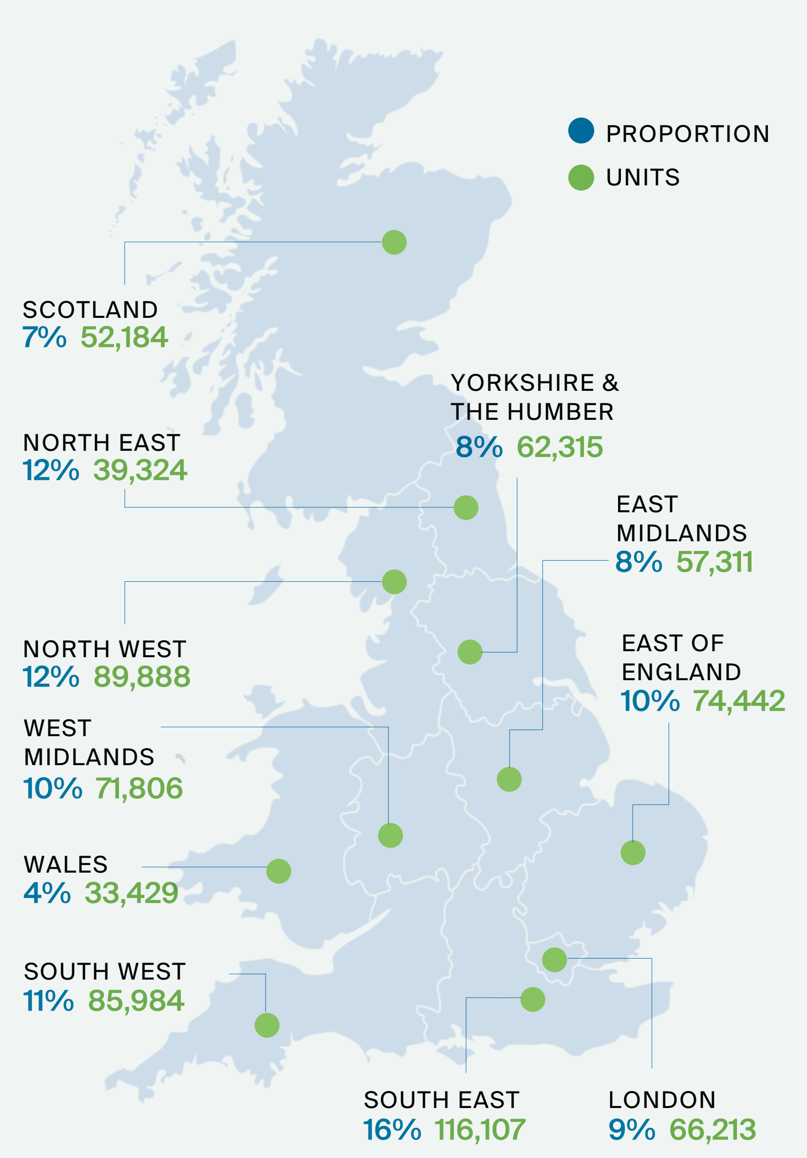
Source: Knight Frank, EAC, planning portals

TABLE 1 | **UK Seniors Housing Development Forecast** 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

5 | **UK Seniors Housing units by region** Proportion and total units (existing stock)



Source: Knight Frank, EAC, planning portals

This imbalance also puts the UK far behind peer countries. In the UK Housing with Care market, for example, which comprises schemes which offer higher levels of services, care and support as an integral part of their proposition, there is a current penetration rate of just 0.82% for the 75+ population. This compares with 5% in Australia, 5.5% in New Zealand and 6% in the United States.

For the UK to just match the lowest of those figures would require nearly 400,000 additional Housing with Care units. This is the headroom in the market today, which will grow with population growth.

It is clear that a step change in new delivery is required if the huge imbalance between need and supply is to be reversed.

It is clear that a step change in new delivery is required if the huge imbalance is to be reversed.

The number of people aged 65+ living in the UK is forecast to increase by 22% to 15.1 million by 2030. Advancements in healthcare mean individuals are living longer, and more healthily – in many cases managing health conditions for longer.

MARKET COMPOSITION

The UK seniors housing market comprises Retirement Housing (also known as sheltered housing) which accounts for 89% (668,000 units) of existing stock, with the remainder (11% or 81,000 units) made up of Housing with Care, an overarching term for models with access to care and often with communal space and amenities.

The sector is segmented into private and affordable markets, offering a range of tenures including long leasehold sale, private rental, shared ownership and affordable. The private market has been dominated by leasehold sale but we are now seeing the emergence of private rental.

Propositions have a range of built forms with varying amenity areas and numbers/size of apartments/or cottages, with a range of on-site services including hospitality, wellness and care. With increasing institutional investment accessing long term income profiles from rental and event fee income as wells as services, some operator's schemes are growing in size and there is increasing development activity in suburban and urban locations.

Market drivers

1. Increase in seniors population - all baby boomers will be aged 65+ by 2030.
2. Wealth of the seniors population – the cohort has benefited from a large amount of growth in their main residence with residential HPI over time.
3. Increase in investment - the opportunity is being recognised.

Market constraints

1. Huge undersupply of units when compared with need.
2. Lack of government support for seniors housing and relevant planning policy to address local need.
3. Competition from staying in the family home for longer and buying in home care or relying on the wider family for care.

At the same time, increasing wealth and income among this age cohort is resulting in more informed housing and lifestyle choices. The seniors cohort is the wealthiest in the UK in terms of property assets, with an estimated £1.5 trillion of equity.

However, with age comes frailty. An 85 year old is 25 times more likely to require care than a 75 year old, according to LaingBuisson. The current pressures on the NHS and Social Care system are going to be amplified each year for the next 30 years as baby boomers age. Most family housing requires adaptation or is not suitable for living in later life.

More schemes more choice

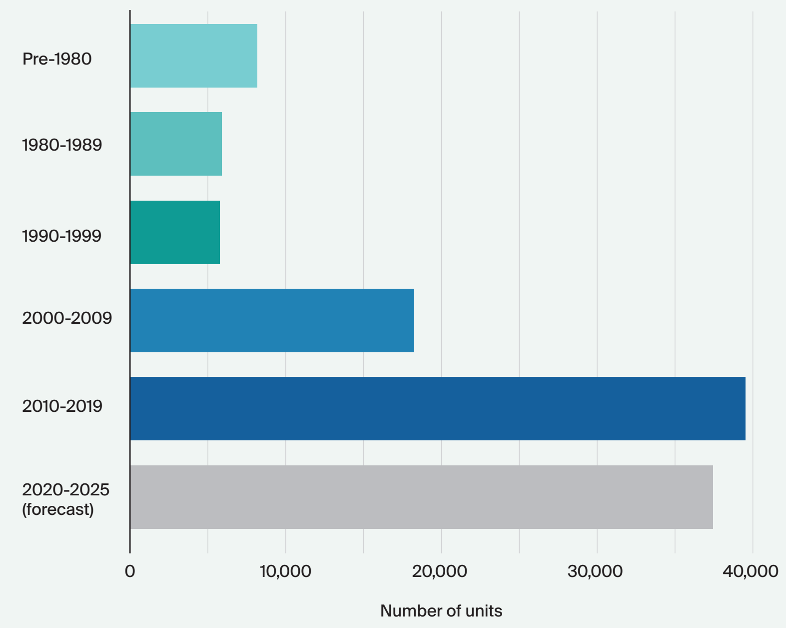
Based on our analysis of pipeline data, we anticipate the overall stock of seniors housing will increase by 9% over the next five years, taking the total number of seniors housing units across the UK to nearly 820,000 by 2025.

Closer analysis suggests the composition of the market will also shift over this time, with a move toward providing more choice for residents including through mixed-tenure and rental-only options and more schemes with varying facilities and services.

Institutional investment has been driving delivery, particularly within the Housing with Care part of the sector.

We anticipate a 46% (or 37,450 units) increase in Housing with Care supply over the next five years. This is compared with 5% (or 32,650 units) growth in Retirement Housing.

6 | **Housing with Care delivery – number of units delivered by decade**



Source: Knight Frank, EAC, Planning Portals

Search for scale

At an average of 51 homes per scheme, the size of developments has risen steadily over the last decades up from 41 between 2000 and 2009 and 31 in the nineties. These averages mask increasing development size in the upper quartile where there are increasing developments of 100 to 150 units and 150+ units are being delivered. The planning pipeline shows this trend is set to continue.

That is partly a reflection of a desire for scale and brand-building from new entrants to the sector as they look to create management platforms with operational efficiencies at pace.

Currently, there is a shift in focus towards larger schemes and mixed tenure and rental propositions. Further, there is a move towards providing increased services and care, and operators having an increasing focus on producing stabilised income.

THE RISE OF RENTAL

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

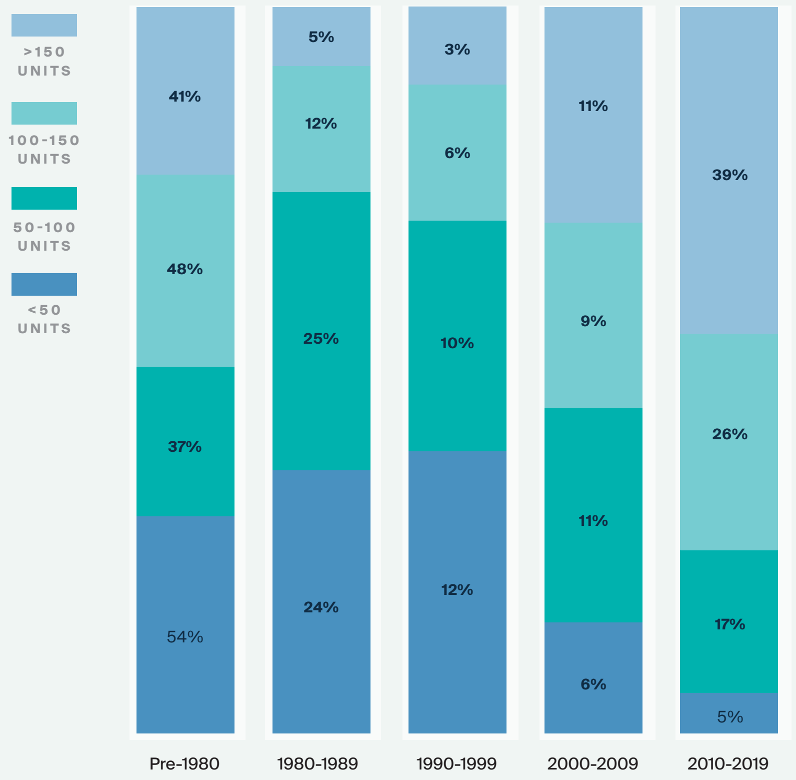
And increasing number of seniors rental-only schemes have opened in last 12 months, while there has also been a number of Retirement Housing and Housing with Care operators choosing to provide mixed tenure offerings to meet tenant demand.

This trend is set to continue with the number of private seniors housing rental properties in the UK forecast to increase by 166% in next 5 years, from almost 5,000 currently to almost 13,000 by 2025.

Even accounting for such rapid growth, senior housing rental stock will only account for 5% of the total number of private senior housing units, which is currently dominated by 'for sale' stock.

However, the dynamic is changing, with the market driven by an increasing weight of capital from investors, as well as greater demand from tenants for flexibility – which includes being able to delay the sale of the family home, inheritance tax planning, and quicker access to services and care.

7 | Delivery of Seniors Housing units by scheme size
As a proportion of total units delivered

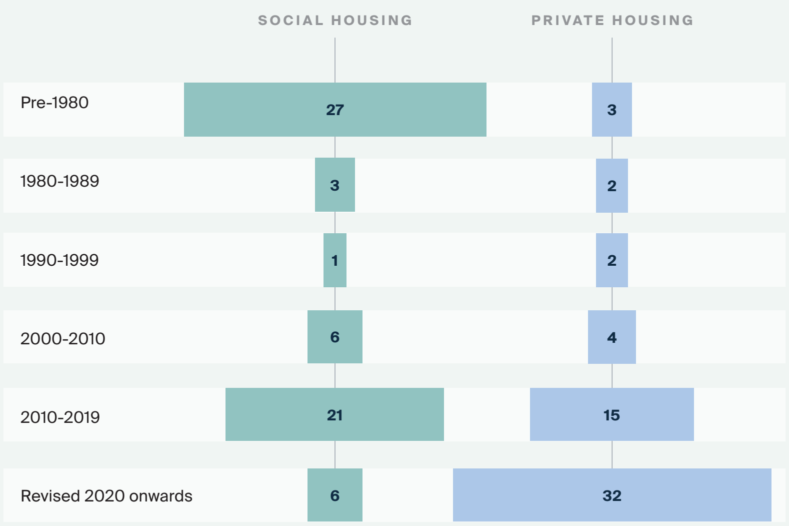


Average scheme size by decade
All seniors housing

Pre-1980	1980-1989	1990-1999	2000-2010	2010-2019
30	35	31	41	51

Source: Knight Frank, EAC, planning portals

8 | Delivery of large-scale (150 unit+) seniors housing schemes
Number of units, all seniors housing



Source: Knight Frank, EAC, planning portals

LONDON FOCUS

London includes England's top ten ageing local authorities. Yet seniors housing provision across the capital remains limited.

There are currently almost 1.1 million people aged 65+ in Greater London. This figure is set to increase by 30% in the next 10 years to 1.4 million. Currently the capital is serviced by 65,000 seniors housing units. Of these, 79% are affordable housing, 20% privately owned and 1% privately rented. Some 84% of this stock is more than 20 years old.

The New London Plan, recognises the importance of the sector with a seniors housing policy. However, while care homes are defined as C2 use in planning, seniors housing is defined as C3, which includes a higher requirement for CIL payments and a greater proportion of affordable housing.

if London Plan targets are to be met, delivery needs to accelerate significantly from current levels.

The New London Plan outlines annual targets for the delivery of seniors housing for the first time, stating a need for an additional 4,115 units per year across the capital up to 2029. Since the start of the London Plan timeline in 2017, only 3,000 seniors housing units have actually been delivered – less than a quarter of the targeted 16,460 units which should have been delivered over the last four years.

Analysis of the development pipeline suggests that annual delivery of seniors housing units in the capital averaged 700 per year between 2015 and 2020. This has increased recently, helped by new private schemes opening in central locations.

There are 1,600 further units in the pipeline either under construction or with planning granted, with a further 684 units with planning submitted. These numbers will accelerate as more schemes open - and both tenants and planners see the benefits of seniors housing to local communities. However, if London Plan targets are to be met, delivery needs to accelerate significantly from current levels.

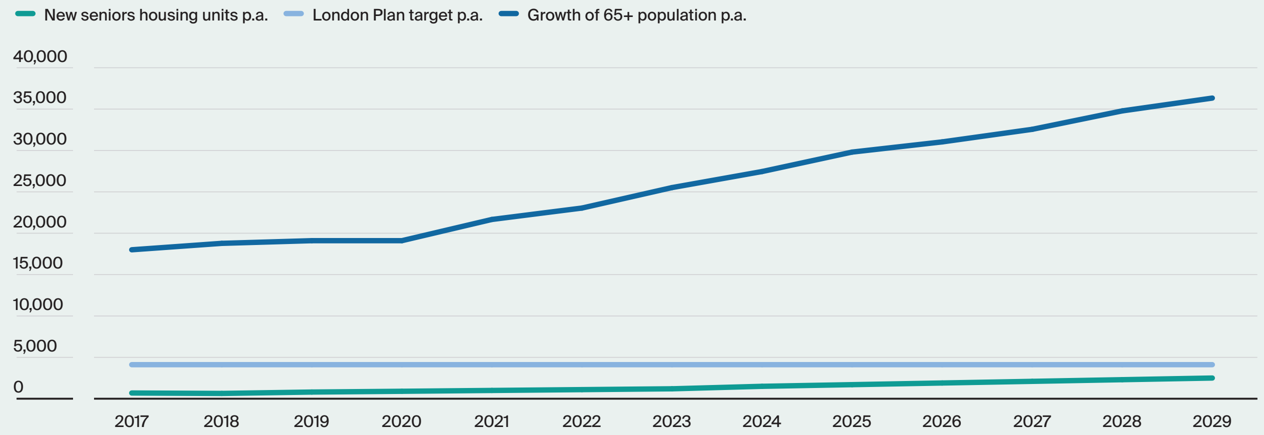
30%
increase of people aged 65+ in Greater London in the next 10 years to 1.4 million

TABLE 2 | London Development Pipeline

	SCHEMES	TOTAL UNITS
Planning Submitted	6	684
Full Planning	10	453
Under Construction	17	1,116
Grand Total	**33**	**2,253**

Source: Knight Frank, EAC, planning portals

9 | Seniors Housing landscape in London



Source: Knight Frank, EAC, planning portals

PLANNING FOR THE FUTURE

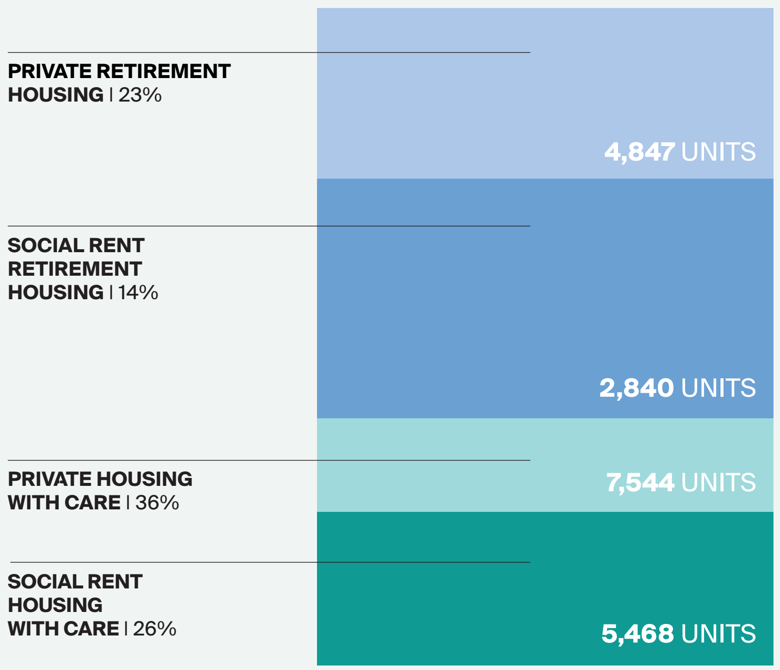
Planning is one of the largest barriers to the growth of the sector. Some 50% of local authorities in England do not have clear planning policies in place to support housing for seniors and 80% do not have site allocations.

Just 20% of local authorities in England have allocated sites in their local plans, as well as supportive planning policies for seniors housing, a clearly defined position on affordable housing and a supportive position on CIL.

This is despite studies demonstrating that properly incorporating and planning for seniors housing will reap numerous benefits, including supporting local seniors populations and promoting independent lifestyles, releasing family housing back into the local market and making more effective use of local healthcare resources.

A number of recent successful planning appeals have been won based on a recognition of the need seniors housing in an area versus available supply

10 | **Schemes with planning approval**
Proportion of total schemes approved since January 2020

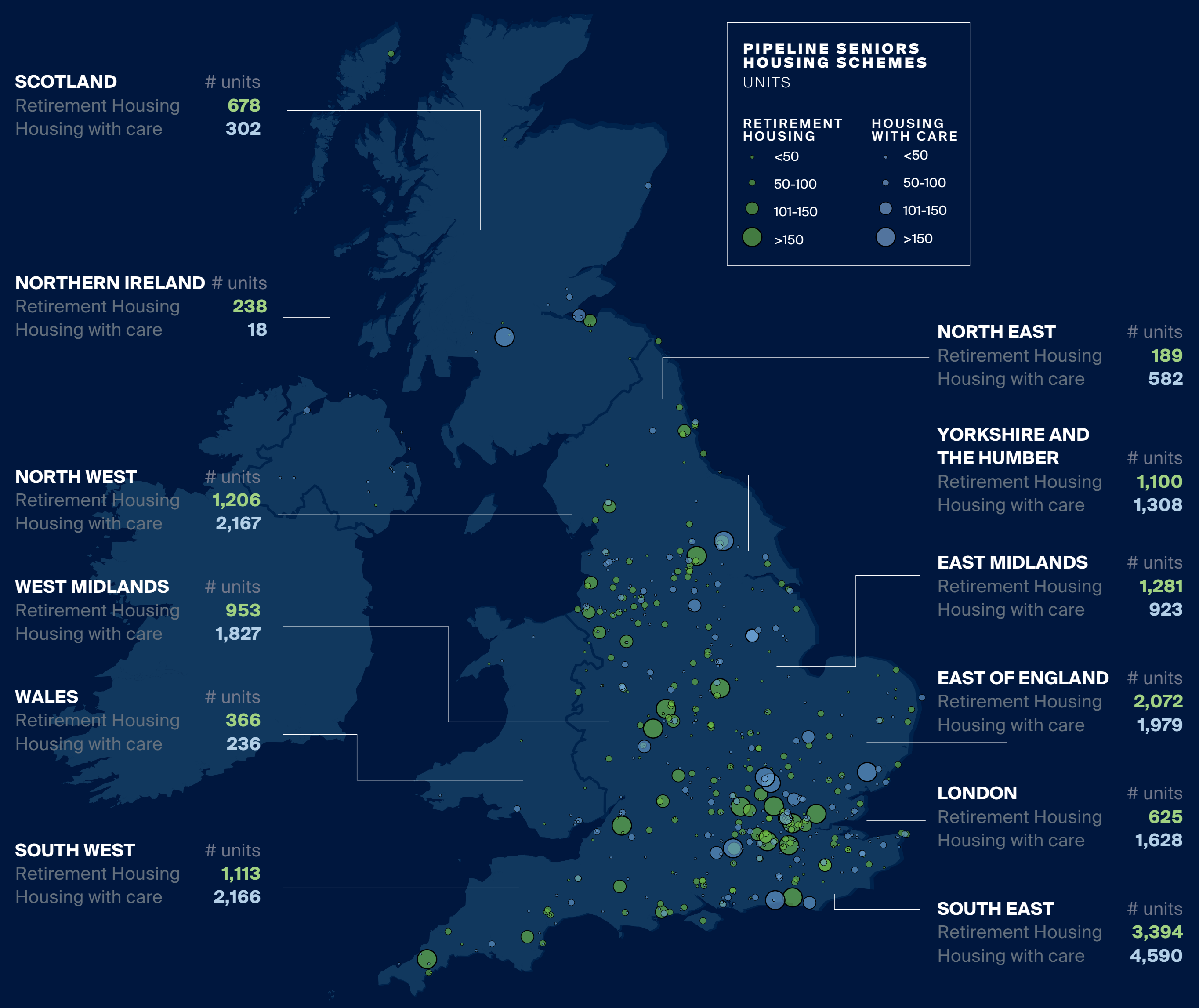


Source: Knight Frank EAC, Planning portals
Note: this includes schemes with planning granted. Schemes may be under construction

A number of recent planning appeals have been won based on a recognition of the need seniors housing in an area. These decisions should give confidence in the appeals process for other applications and support the case for local planning authorities to consider robust needs assessments going forward.

The outcome of recent planning decisions shows there is not a uniform approach to viability and the assessment of affordable housing. Greater clarity on the subject would lead to more development on viable opportunities. In order for the sector to meet its potential the current patchwork approach to local plans which is holding back the development of the sector needs to end, and a national and local policy framework that works to promote a uniform and supportive approach to seniors housing is required.

DEVELOPMENT PIPELINE



	APPLICATION SUBMITTED	FULL PLANNING GRANTED – CONSTRUCTION NOT STARTED	UNDER CONSTRUCTION	TOTAL
RETIREMENT HOUSING	5,528 UNITS	4,014 UNITS	3,673 UNITS	13,215 UNITS
HOUSING WITH CARE	4,741 UNITS	6,641 UNITS	6,371 UNITS	17,753 UNITS
TOTAL SENIOR HOUSING	10,269 UNITS	10,655 UNITS	10,044 UNITS	30,968 UNITS

Knight Frank, EAC, Planning portals
Note: pipeline data includes all applications logged in the planning since January 2020

TOM SCAIFE
HEAD OF SENIORS HOUSING

We should all know landscape by now - expansion of our senior population; limited supply of seniors housing; increasing institutional investment; a growing housing with care and services market; growth in rental and mixed tenure providing more choice to tenants; supply provides savings to local NHS services.

We know the challenges – planning; sales rates; competition with tenants staying in family house too long and 'making do'. All of these will be overcome with more supply, more propositions, and more tenant choices in the sales room. We just need to manage build cost inflation in the short-term (!).

2021 feels like the time has come for the UK seniors housing sector. There is an alignment of forces pushing in the same direction in a positive way for the sector. These include:

1. the long awaited increase in social care funding;
2. the re-weighting of investment from established asset classes into residential investment (PBSA, PRS, Seniors Housing);
3. the second wave of institutional investment into the sector after first movers in 2017-18;
4. operators optimising their platforms (through design, variation and provision of services, access to care, tenure options);
5. house price inflation increasing value/ demand for the family home, and;
6. an increase in availability of development finance in 2021 after a slowdown in 2020.

Moving into seniors housing has number of benefits to the tenant - increases quality of life, reduces loneliness, removes burden and cost of up keeping family home, gives access to cost effective 'a la carte' services and care, allows for Inheritance Tax savings and estate planning, can avoid need to move into a care home by increasing availability and quality of care services earlier in life.

The on-going pandemic has forced the reassessment of housing and care provision in later life in homes and communities across the country. Surely this final alignment force should (must!) drive government to include meeting the needs of our aging population in their current levelling up agenda and sorting social care 'once and for all'.

With current sizeable pandemic government debt our leaders should be looking carefully at zero cost items to support our aging population.

Here are four suggestions:

1. At a national level allocating a percentage of the country's housing delivery target of 300,000 homes to be built as age appropriate housing.
2. Holding local authorities to account to ensure housing delivery meets local needs.
3. Giving more support to seniors housing in planning policy through its own planning use class.
4. Be committed to providing support to all stages of the property life cycle and help those at the end of the property ladder as well as those at the beginning through 'Help to Buy' schemes and stamp duty relief for first-time buyers.

Knight Frank Seniors Housing

Seniors housing

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