

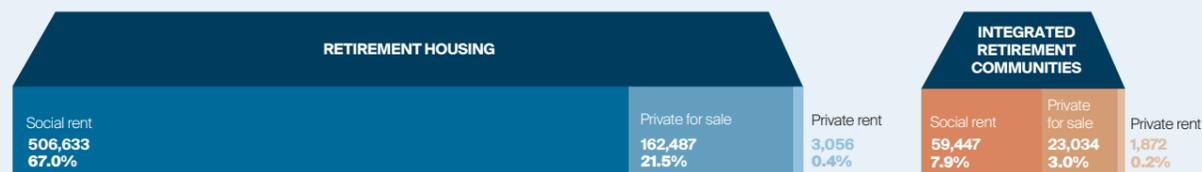
Seniors Housing Development Update 2022



INTRODUCTION

Rising investment continues to fuel development of seniors housing.

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



Source: Knight Frank, EAC, planning portals

The UK has an ageing population and people are living longer; within the next five years, the number of people aged over-65 is projected to total over 14 million, a 10% increase on current totals. By 2037, it is forecast that one in four of us will be over-65.

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.

Yet delivery of age-appropriate housing for seniors continues to lag potential need. More than 7,500 new seniors housing units were built in 2021 across more than 100 schemes, a 12% increase on the previous year's delivery. Rising delivery comes despite a more challenging development environment, with inflationary pressures putting pressure on construction costs and operating costs.

Longer term, over the last 10 years, nearly 80,000 new seniors housing units have been delivered, at an average of nearly 7,700 per annum. It takes the total number of complete and operational seniors housing units across the UK to 756,529.

New delivery over this time has been underpinned by an increase in the number of units located within Integrated Retirement Community (IRC) schemes (also known as Housing with Care), which provide higher levels of services and support as an integral part

of their proposition. IRC completions accounted for 51% of new seniors housing units built between 2011 and 2021, up from 36% over the previous 10-year period, with the remainder age-restricted retirement housing.

With a significant and growing volume of private capital entering the market, largely targeting the IRC sector, we expect the next five years will see delivery

accelerate further. Analysis of the planning pipeline has identified nearly 120 seniors housing schemes which received planning permission last year and an additional 215 new applications which were submitted. Together, they alone account for a potential 20,000 additional new units.

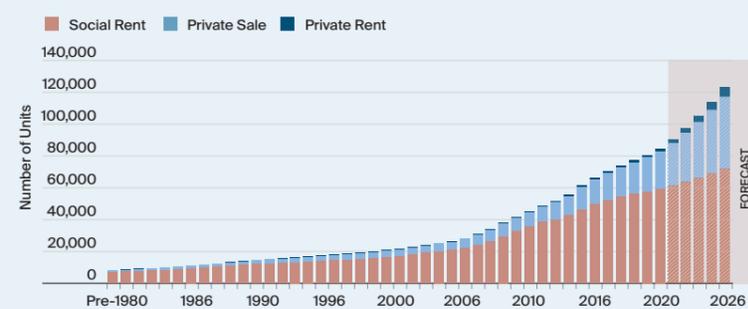
Consequently, we forecast that the total number of specialist seniors housing units

2 | Retirement Housing Cumulative Delivery by tenure



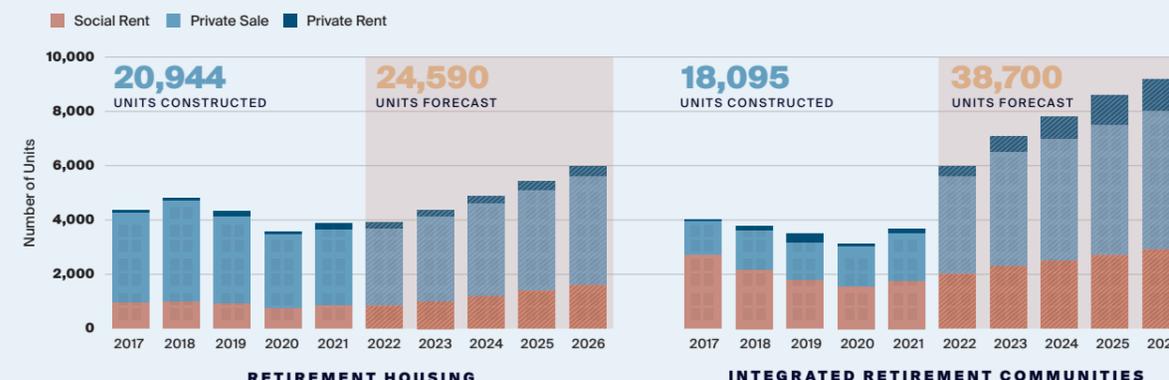
Source: Knight Frank, EAC, planning portals

3 | Integrated Retirement Communities Cumulative Delivery by tenure



Source: Knight Frank, EAC, planning portals

4 | Annual delivery of seniors housing units in the UK 2017-2026



Source: Knight Frank, EAC, planning portals

in the UK will grow by 8% over the next five years, taking the total size of the sector to just short of 820,000 units.

The composition of the market will also shift over this time, reflecting a need to provide more choice for residents including through mixed-tenure and rental-only options, affordable housing provision and more schemes with varying levels of facilities and services.

As a result, we anticipate that the IRC segment of the market will continue to be the dominant form of delivery, driven by even greater institutional backing. IRC supply is forecast to increase by 46% (or 38,700 units) over the next five years. This compares with 4% (or 24,590 units) growth in age-restricted retirement housing stock.

Even with this forecast expansion, the rate of delivery will still be overshadowed

by the UK's ageing population, deepening the existing mismatch between supply and demand. In real terms, 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, underscoring the headroom in the market today, which will only grow with population growth.

RIISING INSTITUTIONAL INVESTMENT KEY TO DRIVING DELIVERY

Last year, a record £1.4 billion was invested in the UK seniors housing market, with a particular focus on the IRC sector. Momentum has continued into 2021, with more than £662 million invested in the first half of the year, up 47% on H1 2021 levels.

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.

Sustainability will dictate investment strategies going forward. There has been commitment from some operators to net zero carbon platforms and we expect others will follow to future proof assets and reduce the risk of future obsolescence.

The social benefits of seniors housing are also recognised by investors. Housing people

in age-appropriate homes can hugely reduce instances of trips and falls and other injuries within the home, while housing people in safe communities where residents can interact and live active and social lives is better for people's mental health and wellbeing, and again reduces the reliance on social services to deal with issues of loneliness and isolation.



DEMOGRAPHIC SHIFT

The number of people aged over 65 in the UK is projected to total over 14 million within the next five years, a 10% increase on current totals. An ageing population means increasing demand for age-appropriate housing allowing seniors to 'age-in-place', with the option of care services.



UNDER SUPPLIED MARKET

Even with this forecast expansion, the rate of delivery will still be overshadowed by the UK's ageing population, deepening the existing mismatch between supply and demand. In real terms, 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.



SECURE INCOME

Demand, occupancy and income have been resilient across seniors housing schemes over the course of the last two years.



SOCIAL IMPACT

The influence of impact or ESG investing in real estate is growing at a faster pace than ever. A range of investors are now focusing on social infrastructure investments, and seniors housing is part of this. A range of investors are now focusing on social infrastructure investments, and healthcare is part of this.

A MORE DIVERSE MIX LEADS TO MORE CHOICE FOR SENIORS

More supply and more choice will help fuel awareness and exposure to the benefits of specialist seniors housing.

The sector is evolving, with a rapidly growing mix of for sale and rental options. Last year some 25% of the £1.4 billion invested in the market was for rental product. Two thirds of private operators currently offer rental as a tenure option, either through flexible tenure options on new and existing schemes, or through fully BTR platforms.

For tenants, the benefits are clear. Targeted at independent seniors, it offers the flexibility of rental accommodation in a community setting. The nature of rental accommodation also gives customers a chance to move quickly, without necessarily selling a family home first.

Given the significant imbalance of supply and existing demand, on top of the ageing population, and a requirement for flexibility and choice from this demographic, we expect delivery of rental product will increase further in the coming years.

From an investor perspective, mixed tenure schemes can help accelerate absorption rates, as well as widening the accessible market.

It is a view supported by our research. Some 67% of respondents to our survey of leading investors across residential investment sectors (encompassing student housing, co-living, multifamily and single-family rental and seniors housing) said they expect to be invested in the seniors housing

rental market within the next five years, up from 31% who said they were currently investing.

This supports our view that the number of private seniors rental properties in the UK will increase by 114% over the next five years, from almost 5,000 currently to more than 10,500.

Even accounting for such rapid growth, senior housing rental stock will only account for just 1.3% of the total number of specialist senior housing options. In the more mature US market, seniors rental housing is well established, accounting for 90% of total stock, with 80% of tenants selling a former family home before moving and becoming a tenant. The

5 | MARKET SEGMENTATION



Source: ARCO

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From an investor perspective, mixed tenure schemes can help accelerate absorption rates, as well as widening the accessible market.
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homes provided are often part of larger 'Continuing Care Retirement Communities' (CCRCs) that allow residents to move into more specialised accommodation as their needs change over time.

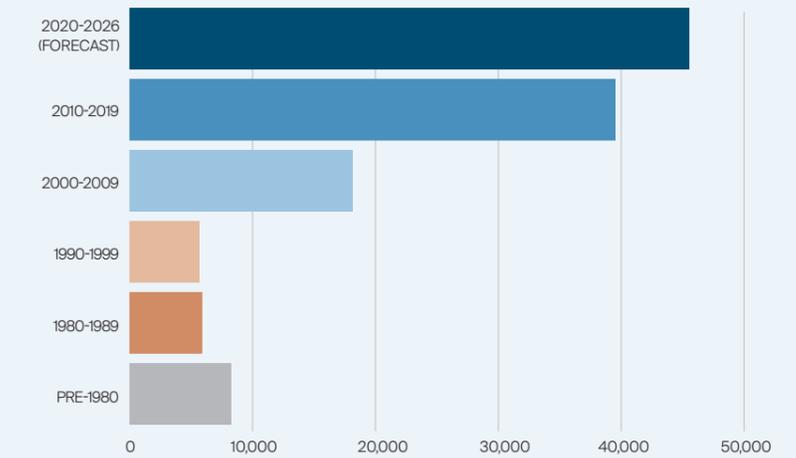
Urban shift

With increasing institutional investment accessing long term income profiles from rental and event fee income as well as services, we are also seeing operators' schemes growing in size, and there is increasing development activity in peri-urban, suburban and urban locations.

Highlighting this shift, some 30% of seniors housing IRC schemes built in the last two years have been delivered in the most urban settlements, up from 9% for schemes built before 1980s.

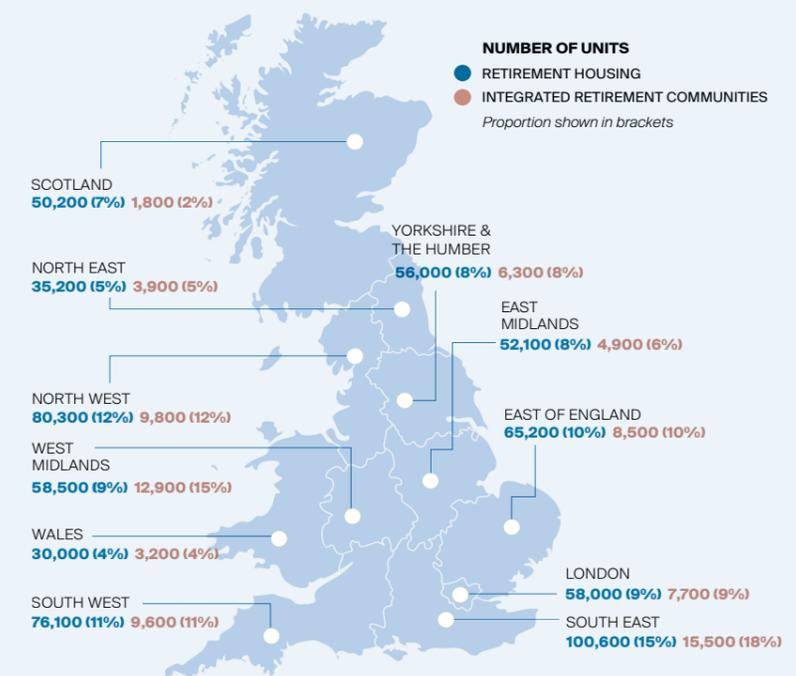
The size of developments has also risen steadily, with an increasing number of developments of 100 to 150 units and 150+ units being delivered. The planning pipeline suggests this trend is set to continue – there are 34 schemes with 150+ units in the planning pipeline, compared to 91 currently operational schemes. 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. For these schemes, phasing is important to manage sales rates.

6 | Integrated Retirement Communities delivery



Source: Knight Frank, EAC, planning portals

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



Source: Knight Frank, EAC, planning portals

TABLE 1 | UK Seniors Housing Forecasts 2021-2026

	RETIREMENT HOUSING	INTEGRATED RETIREMENT COMMUNITIES	TOTAL SENIORS HOUSING MARKET
2021	672,176	84,353	756,529
2025 (f)	696,766	123,053	819,819
Forecast new units	24,590	38,700	63,290
Forecast growth (%)	4%	46%	8%

Source: Knight Frank, EAC, planning portals

OPPORTUNITY, BUT A CHALLENGING BACKDROP

While there is clearly a strong appetite from investors for seniors housing, the sector isn't without challenges.

Several new fully-funder operators have entered the market in the last 12 months, but there remains a shortfall of specialised operators active in the market. New fire safety regulations have also presented a challenge. As in the wider development market, rising operational and build costs have also put pressure on viability.

Housebuilder costs have risen by 15% in the year to Q1 2022, according to the

BCIS Private Housing Construction Price Index, driven by limited availability of materials. To an extent, strong house price growth of nearly 20% across the UK over the last two years has helped offset rising costs, but rising interest and mortgage rates and the prospect of the end of Help to Buy later this year are expected to cool buyer appetite and pricing.

New land supply is also limited, a factor which has driven competition for sites and kept land values buoyant. Greenfield land prices have risen an average 22.8% over the year to Q1, according to the Knight Frank Residential Development Land Index.

Nutrient and water neutrality issues, insufficient local government resources and local plan failures have added another layer of complexity.

Planning

Planning remains the other big hurdle. While the Queen's speech placed heavy emphasis on levelling up, social housing and a wider reform of the regulation in the rental market, there were notable absences when it came to planning.

Over a third of the UK's local authorities still do not have clear policies in place to support housing for seniors. Whilst this represents an improvement, it still suggests significant shortcomings in the level of planning for seniors housing, particularly given the UK's ageing population.

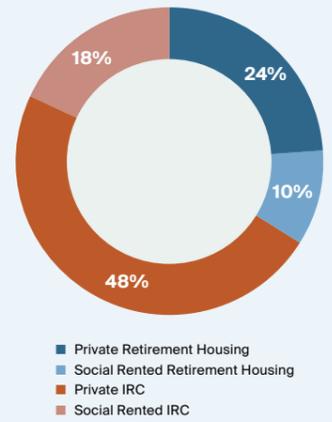
There are signs the tide is turning, however. The UK government has recently announced a cross-departmental task force on housing for older people, championing the need for sector-specific legislation, clarity in the planning

system, and funding for affordable housing. The National Planning Policy Framework and National Planning Policy Guidance also acknowledge seniors housing and say there is a need to increase this in local plan requirements, but it is not prescriptive.

The results of an ARCO-commissioned review into seniors housing need, due to be released later this year, should also help in setting a clear framework to measure housing need at a local level. Stamp duty savings for downsizers have also recently reared their political head.

More supply, more propositions and more choice will help fuel awareness and exposure to the benefits of specialist seniors housing, but a supportive policy environment will be key if the sector is to meet its near-term potential and build on existing delivery levels.

9 | Schemes with planning approval



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

8 | DEVELOPMENT PIPELINE



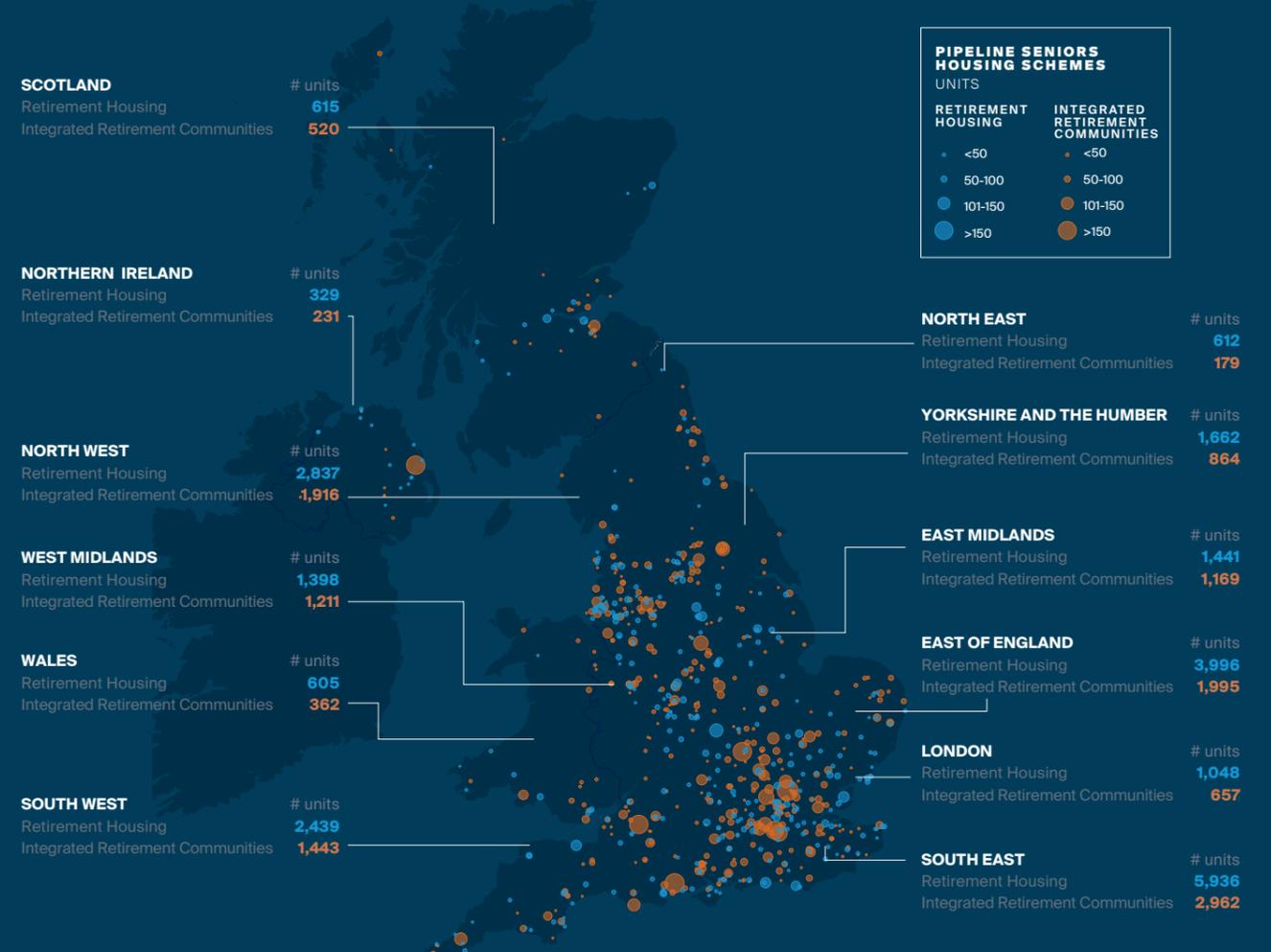
Knight Frank, EAC, Planning portals Note: pipeline data includes all applications logged in the planning since January 2019

PIPELINE SENIORS HOUSING SCHEMES

	PRIVATE		SOCIAL		TOTAL SENIORS HOUSING
	RETIREMENT HOUSING	INTEGRATED RETIREMENT COMMUNITIES	RETIREMENT HOUSING	INTEGRATED RETIREMENT COMMUNITIES	
Planning Submitted	106	96	30	25	257
Planning Granted - Construction not started	85	94	28	38	245
Under Construction	53	49	22	22	146
Total	244	239	80	85	648

Knight Frank, EAC, Planning portals

10 | SENIORS HOUSING DEVELOPMENT PIPELINE



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