UK Seniors Housing Market Update

Q4 2024

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

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Land deals dominate in 2024, as planning pipeline points to further growth.

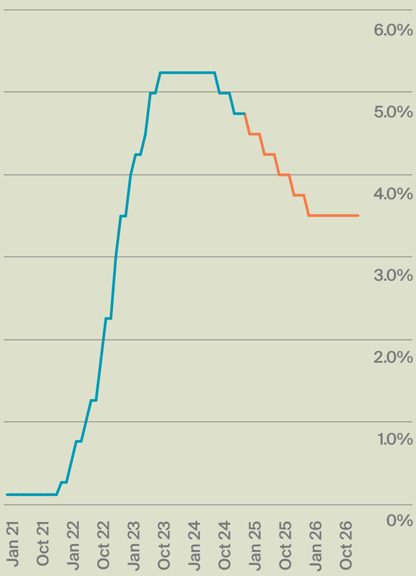
Investor sentiment improving

Just over £1.25 billion was invested and committed to the seniors housing market in 2024, around a third lower than in 2023. A quieter investment market reflects the fact the sector continues to navigate improving, but still challenging, market conditions. The higher cost of debt has put pressure on deal structuring, across all real estate sectors, particularly in the funding market. The seniors market is also going through a period of dislocation with changes to management teams, as well as upcoming policy changes impacting leasehold taking place against a backdrop of stubbornly high construction and finance costs, which have contributed to a slowdown across the housing market. More certainty from a policy and operational standpoint – as well as an improvement to broader macro-economic conditions – mean investment is expected to bounce back in 2025. Interest rates are on their way down, and this will continue to have an impact on debt costs. Capital Economics expects the base rate to fall to 3.75% by the end of 2025. Any movement should pave the way for more accretive debt finance in the second half of the year.

Capital raises

Any improvement in the macro backdrop will also support a return of fund raising to support future investment, following a difficult few years. Indeed, even despite higher costs, 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. Core and core+ money is also expected to come back to the market in 2025.

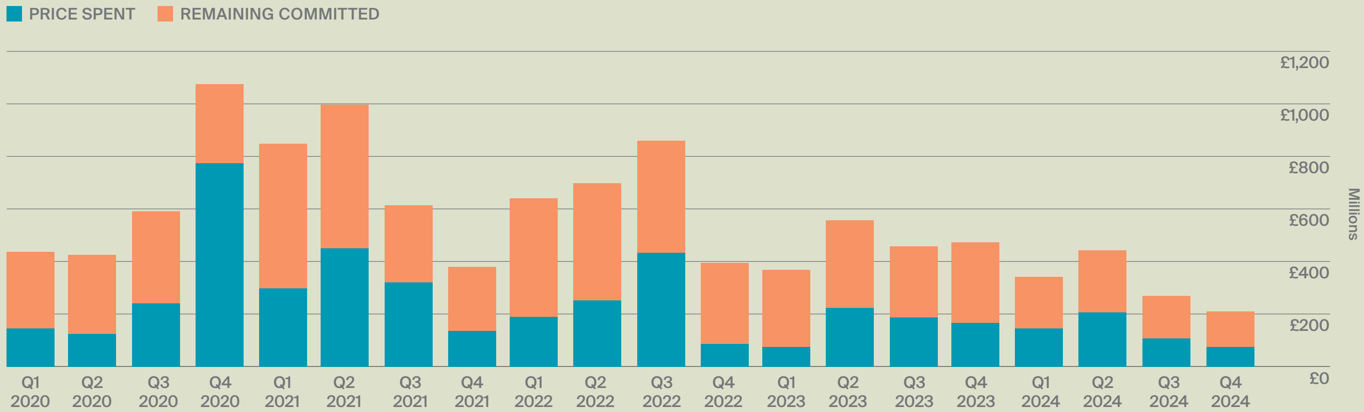
Fig 2: UK Base Rate expectations



Source: Capital Economics

Fig 1: Seniors housing investment volumes

Includes forward funding, operational sales, land sales and site specific capital committed



Source: Knight Frank Research

Land leads

Overall, in 2024 investment was focused on other routes to market, with land acquisitions accounting for more than 73% of the total investment and capital committed in 2024. Such a high proportion of land deals also reflects the fact the sector remains in development mode. Land sales accounted for more than 80% of total investment for three out of the four quarters in 2024. Deal structures are also expected to shift, with developer partnerships an attractive entry route to the sector with the ability to share risk with an experienced developer to build new assets attractive in the current environment.

Greater positivity in the land market

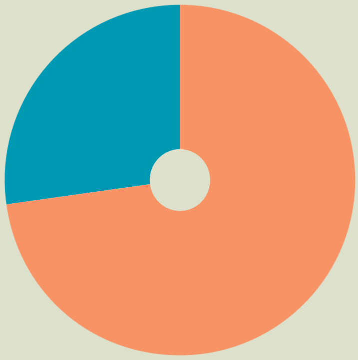
Seniors housing developers active in the land market have been able to capitalise on less competition and softer pricing over the last few years off the back of a challenging development environment and weaker private sales demand. Urban brownfield land prices have fallen by more than 10% on average since the end of 2022, Knight Frank data shows, while greenfield values are down by around 8% over the same period. Conditions look to be improving, according to the latest Knight Frank Residential Development Land Index, albeit the market remains polarised in terms of pricing and activity, with greenfield land in highest demand. In contrast, urban land values continue to face downward pressures because of ongoing (but moderating) build cost inflation, viability challenges, and stagnant economic growth. Land supply generally remains constrained, which is supporting land values in some areas.

Planning for the future

A strong year for land sales has helped support a growing development pipeline. Analysis of planning data shows that 244 new planning applications were submitted last year, with the potential to deliver more than 16,000 new units. Meanwhile, some 230 schemes (13,478 homes) were granted full planning permission in 2024. Reflecting a shift seen in recent years, some 57% of the total homes granted planning permission last year were located within Integrated Retirement Communities (IRCs). It takes the total pipeline of seniors homes across the UK to nearly 30,000 homes, of which nearly 13,000 are currently under construction. The largest concentrations of pipeline in terms of the absolute number of homes are found in the South East, followed by the North West and the East of England, mirroring the trends seen in current supply. Combined, they account for just over half of the total. However, while the pipeline is robust it lacks the capacity to deliver the 50,000 seniors homes per annum which are needed to meet demand.

Fig 3: Land deals dominate in 2024

As a proportion of total investment

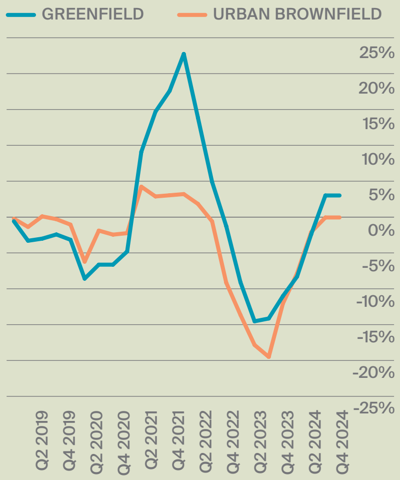


Land (incl. capital committed)	73%
Funding and operational	27%

Source: Knight Frank Research

Fig 4: Up and down few years for land values

Annual % change



Source: Knight Frank Research

A growing pipeline

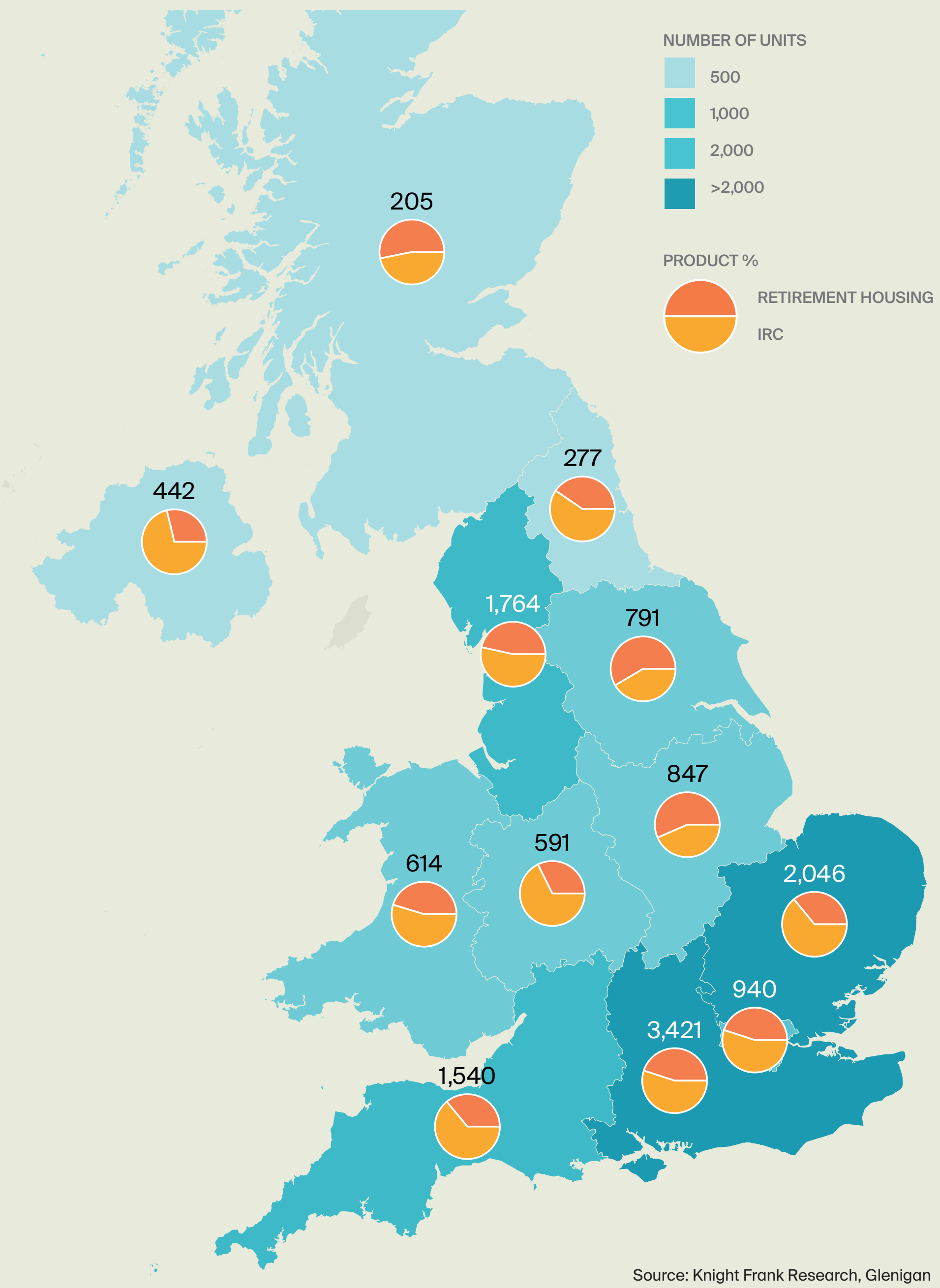
Number of seniors housing units and developments granted full permission in 2024

	INTEGRATED RETIREMENT COMMUNITIES		RETIREMENT HOUSING	
	NUMBER OF UNITS	NUMBER OF SCHEMES	NUMBER OF UNITS	NUMBER OF SCHEMES
East Midlands	368	5	479	9
East Midlands	1,310	13	736	18
London	517	4	423	4
North East	165	3	112	2
Northern Ireland	315	1	127	7
North West	943	17	821	21
South East	1,883	20	1,538	33
South West	985	10	555	16
Scotland	96	4	109	6
West Midlands	400	7	191	3
Wales	336	5	278	6
Yorks and Humber	328	5	463	11
UK	7,646	94	5,832	136

Source: Knight frank Research, Glenigan

Fig 5: Seniors housing development pipeline

Units in schemes with full planning granted in 2024



Source: Knight Frank Research, Glenigan

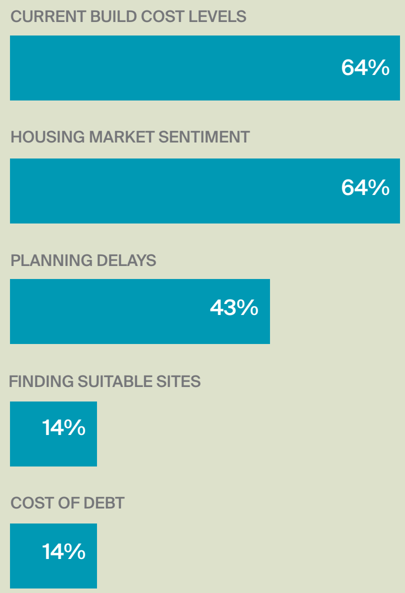
> "Analysis of planning data shows that 244 new planning applications were submitted last year, with the potential to deliver more than 16,000 new units."

Build costs and housing market sentiment...

That's not to say there aren't challenges. Our survey of IRC operators from across the sector found that nearly two thirds (63%) believe current high build costs are the biggest challenge hindering the further growth of the market over the next 12 months. But there is a feeling that build cost inflation may have peaked, with just 7% of respondents concerned about further increases. Weaker overall construction activity over the last year means inflation in material and labour costs is likely to be closer to zero for the next year or so. As the sector develops, there is greater standardisation around design based on learnings from existing stock which is helping support viability. Sticking with development, 43% of respondents said planning delays were acting as a drag on activity, reflecting wider sentiment across the development sector. From an operational standpoint, the performance of the wider housing market was flagged as a concern by 64% of respondents, with any expected slowdown likely to have an impact on sales rates.

Fig 6: What represents the biggest challenge for the IRC sector over the next 12 Months?

Top five



Source: Knight Frank Research

Sales rates at mid-market schemes outperform

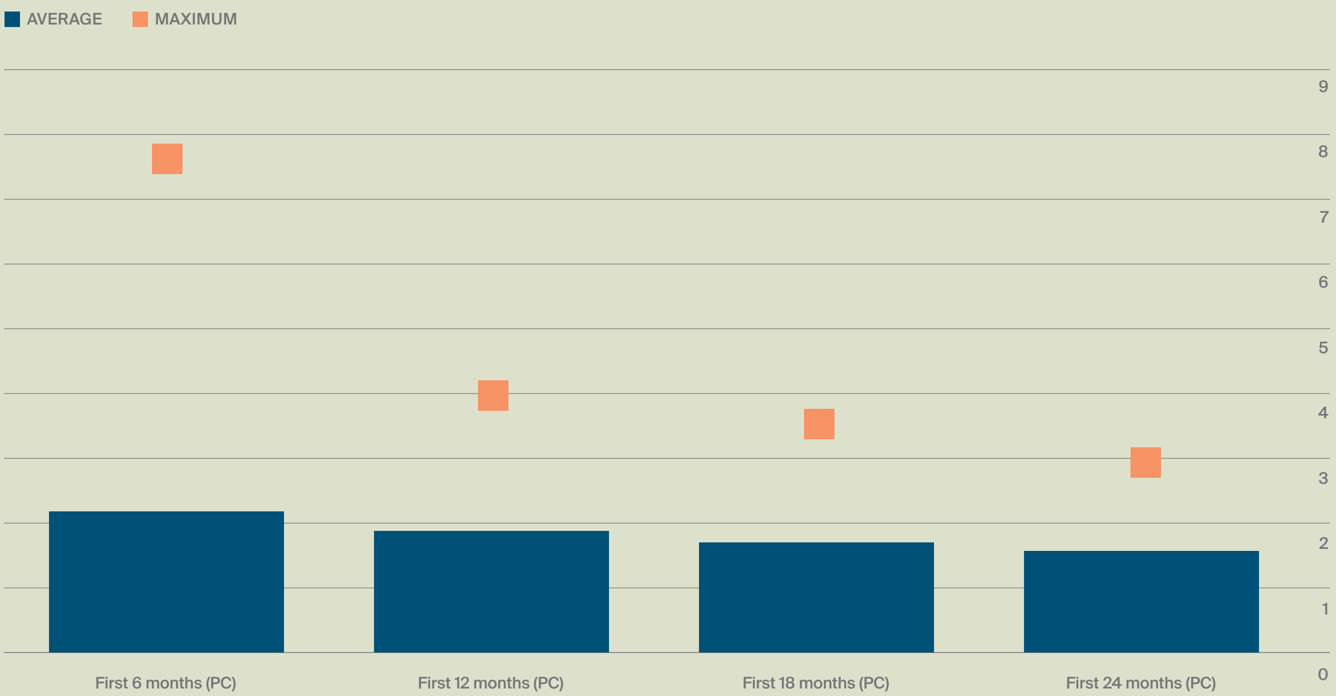
Indeed, sales rates for seniors housing developments are tied to the performance of the wider housing market, given many seniors will be selling their previous property to 'right size'. Consequently, the higher interest and mortgage rate environment in the last 24 months has impacted the chain of buyers. Data shared with us by operators as part of the Knight Frank Seniors Housing Trading Update confirms this. On average, 1.84 units were sold each month in the first 12 months post-completion for private IRC schemes. Further analysis, however, shows variations depending on location, amenity provision and price. Based on our sample, for example, the maximum absorption rate in the first six months post completion was 7.7 units per month, dropping to an average of four units per month 12 months post-completion. The ability to achieve higher absorption rates highlight strong demand where schemes have got it right with design, location, pricing, sales teams, service charge levels, flexibility and optionality around fees.

Taskforce issues a call to action

The publication of the Older People's Housing Taskforce recommendations at the end of last year presents an additional tailwind for the sector. Among other findings, the report emphasised the urgent need for more specialist housing to address the needs of the UK's ageing population, as well as recommending the UK builds on the experience of other countries with more mature and diverse seniors housing tenure models, and that the Government gives the sector greater fiscal, financial and planning support, along with regulatory certainty. Some steps have already been taken. Among the changes to the National Planning Policy Framework (NPPF) announced in December, was a new paragraph emphasising the importance of mixed tenure sites which can include "housing designed for specific groups such as older people's housing and student accommodation".

> "The ability to achieve higher absorption rates highlight strong demand where schemes have got it right with design, location, pricing, sales teams, service charge levels, flexibility and optionality around fees."

Fig 7: Average sales per month



Source: Knight Frank Research

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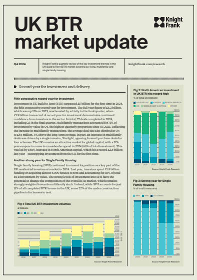

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