Healthcare Research

Delivering the opportunity

JLL Achieve Ambitions

Retirement Living

Audley Group – Mayfield Village Watford

Developer – Charterpoint Senior Living
Operator – McCarthy and Stone

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Executive summary

Retirement living is a huge opportunity in the UK but there are a few key hurdles that need to be navigated. There is an eagerness amongst investors to enter this sector, both from a leasehold basis and to establish a workable rental model. To reach the scale of similar markets, like student housing or multifamily, will take time.

There are several policy movements which are assisting the sector and have provided clarity for investors, but the biggest challenge holding back the full potential of this market remains a lack of supply.

Development is going to be a key priority for both existing operators and new entrants. Based on what has happened in other living focused sectors in recent years, there are several ways to achieve this.

ARCO, the industry's body, has set an ambitious target for 250,000 over 65s to be living in retirement communities by 2030. This would require more than 11,000 housing with care units to be built per annum for the next decade, compared to an average delivery rate of 3,220 for the last 10 years.

Despite providing an element of care, housing with care is a real estate product with shared amenities and managed services, much like multifamily and student housing. JLL, in partnership with **Assael Architecture**, have produced a detailed breakdown of the costs of developing an example housing with care scheme to improve transparency and encourage further development.

Jargon buster

Living
Term for all the Alternatives which provide an element of living space, specifically student housing, retirement living and multifamily, alongside mainstream residential.

ARCO

Associated Retirement Community Operators.

Retirement housing

Purpose built accommodation designed for and occupied by older people, and takes one of two forms, housing with support and housing with care.

Housing with support
Can be termed age restricted housing, independent living, sheltered housing or category 2 housing. It is housing for older people that require some assistance but not 24 hour support. Often includes a warden during office hours, call system and a communal lounge.

Housing with care
Can be termed extra care, assisted living, very sheltered housing or close care. It is housing for older people that can include personal and domestic support, a dining service, communal facilities and 24 hour on site staff.

Source: Belong Morris Feinmann

Introduction

Retirement living is one of the fastest growing alternative residential living sectors. We have previously highlighted the demand and performance of the sector; the purpose of this paper is to encourage landowners, investors, operators and developers to understand how they can access the potential of this market by answering some of the common themes we are asked about:

1. Why should we build it?

2. Where do we build?

3. How do we access the market?

4. How much can it cost?

Source: Brio Retirement Living

Over 65s housing options

Source: JLL

Why should we build it? The political case

The implications of an ageing population are already being felt by the National Health Service and the social care system. Local authorities are coming under increasing pressure to think differently on how they facilitate, fund and cater for their ageing population and central Government is now beginning to help facilitate local changes.

Measures such as the Better Care Fund and greater flexibility on council tax increases represent a short term ‘sticking plaster’ solution. A shift in focus to reducing the impact and managing care needs outside of formal care settings will help develop a more sustainable solution, of which retirement living can play a key role.

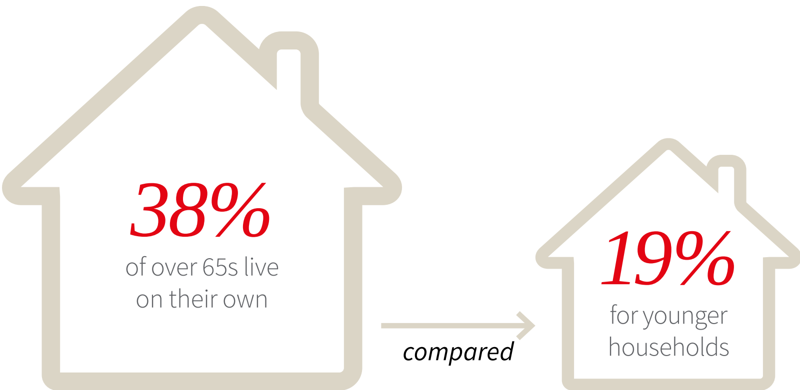
The core focus on house building policy is concentrated on providing opportunities for first time buyers and increasing home ownership. Yet with over 65s already accounting for more than 6.5 million households in England, there has been little serious thought given to what is required to accommodate the changing needs of this age group, which is larger than the entire private rented sector.

It has already been established that a mature retirement living sector enables greater liquidity in the mainstream housing market. An over 65 household downsizing generates (on average) a chain of three further dependent sales in the mainstream housing market. This suggests that a greater focus on developing housing solutions for over 65s, instead of mainstream residential, could have a sizeable impact on the overall supply and will boost the market by enabling more transactions.

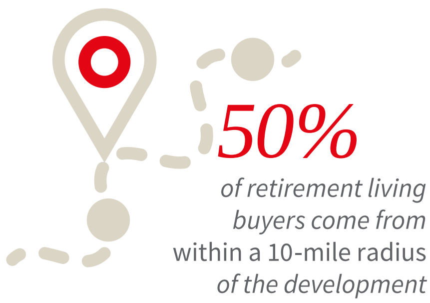
Under occupation and loneliness is a growing issue amongst over 65s. Single person households account for 38% of this age group, compared to 19% for younger households. Living in a retirement community can help address these problems, as well as improve wellbeing and quality of life, in addition to supporting care needs or enabling better management of them.

From a planning perspective, one of the biggest challenges local authorities face in meeting housebuilding targets is local opposition. A common objection is that the new development is of little benefit to residents. Analysis by JLL shows that over 50% of retirement living residents move from within a 10-mile radius of the development, freeing up family homes in the local area, and enabling people to remain close to family and friends.

There is an extensive lobbying campaign at present to grant retirement living certain exemptions from policies aimed at the whole residential market, such as blanket affordable housing requirements and ground rents. The introduction of a dedicated use class could be a possibility, but the politically sensitive nature of intra-generational fairness and perceived scale of benefits already enjoyed by retirees means that a stamp duty exemption to stimulate demand is unlikely to happen.



Source: English Housing Survey



Source: JLL

Source: Belong Morris Feinmann

Why should we build it? Scale of demand

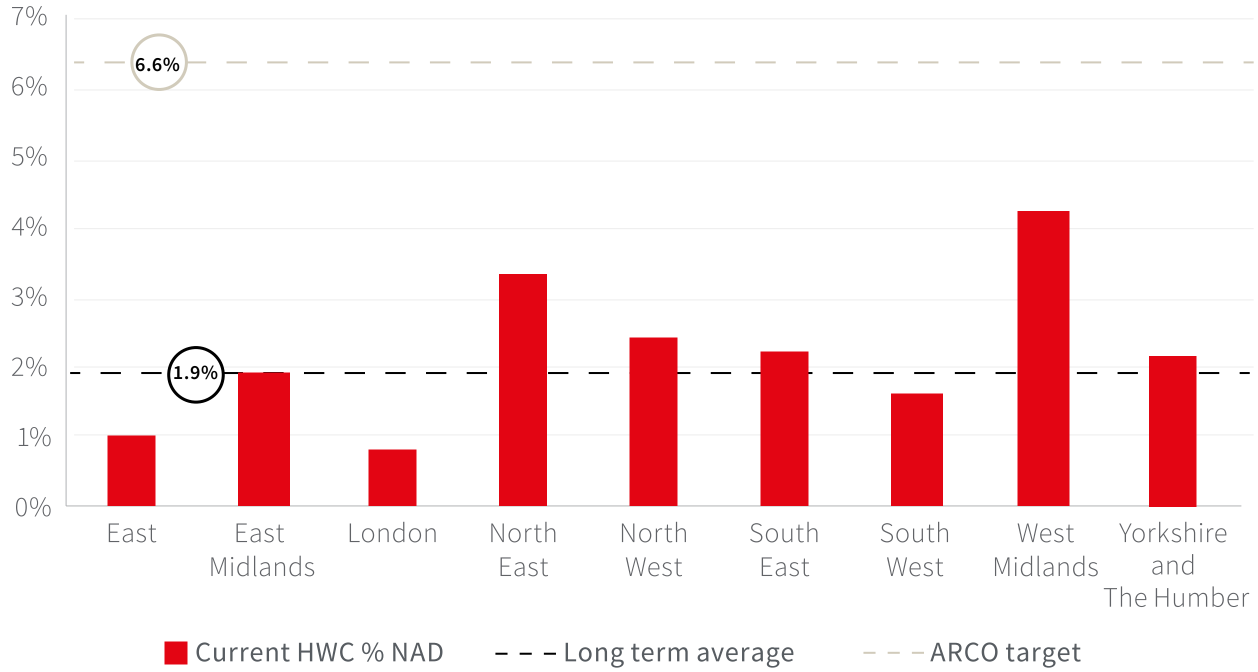
To put the scale of an ageing population and opportunity into context, in the 10 years since 2006/7 the average number of net additional dwellings built in England was 170,000 per annum. Over the next decade, the number of over 65s will increase by 191,480 per annum.

On this basis, the expected increase in retirees is equivalent to 113% of all new housing supply in the last decade. But the number of housing with care units built over the same period accounted for just 1.9% of all new housing each year.

The latest projections show that over 65s will account for 59% of population growth to 2026, yet housing policy fails to reflect this trend. However, a build rate over the last decade of 3,220 units per annum implies we are well below the level of construction needed to satisfy additional demand in the future.

ARCO, the housing with care industry body, has set a target of 250,000 over 65s living in specialist retirement communities with care provision by 2030. Based on this target rate of growth, housing with care would need to account for 6.6% of net additional dwellings per annum. The current rate is 1.9%. This means over 11,000 housing with care units would need to be built each year to 2026, over three times the current long-term average rate.

Housing with care delivery rates



Source: JLL, ONS, EAC

Net additional dwellings per annum (10-year average):

170,000

Source: MHCLG

Additional number of over 65s per annum (next 10 years):

191,480

Source: ONS

Why should we build it? The financial case

The JLL Housing with Care Index has shown the strong correlation with mainstream residential house prices. JLL has analysed £1.7 billion of housing with care transactions since 1995, comprising of 4,000 units and 6,000 resales. Over this period, the compound annual growth rate for housing with care is 7.3%, compared to 6.3% for residential.

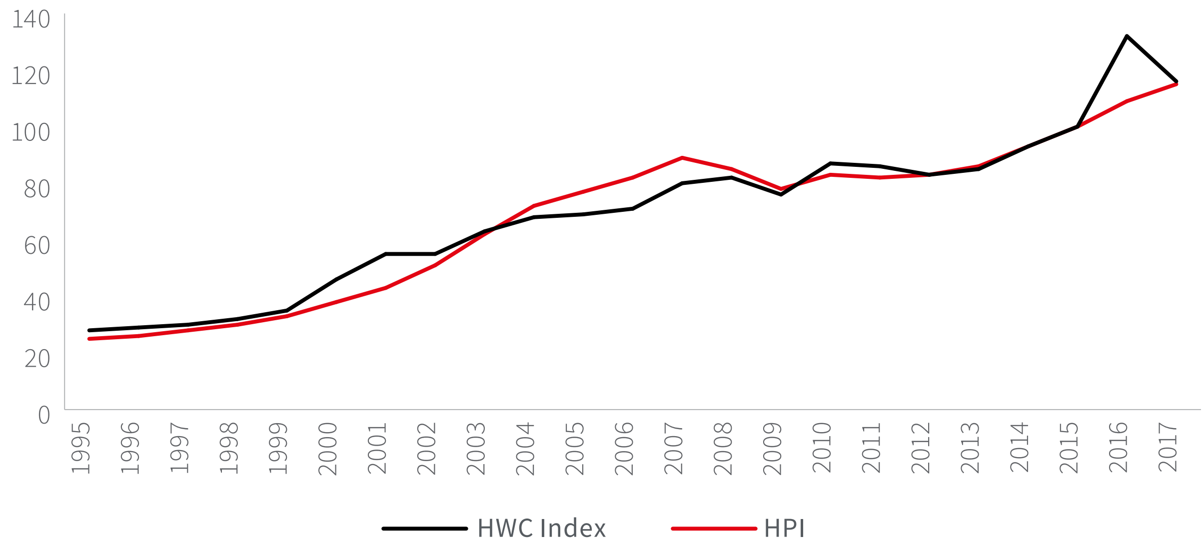
As the index has increased in size from 2017, so has the number of units that have recorded an increase in value and the scale of that increase. In the 2017 index, 80% of all resales resulted in an increase of £41,400. Our latest analysis for 2018 now shows that 83% of housing with care resales have gone up in value, by an average of £54,500.

With the law commission providing further clarity on the use and legality of event fees, operators now have a clear incentive to ensure that values on their schemes increase. With the average holding period at 6.1 years, this staggered income requires a longer-term pragmatic view than other real estate investments, but the performance benefits are becoming more obvious.

Retirement living is unique in the fact that consumer demand is underpinned by housing equity as well as income. With home ownership rates of 78% amongst the over 65s, of which 73% are mortgage-free, this age group has benefited from long-term house price growth and more generous pension packages.

Even so, in terms of future demand, it is the next generation of over 65s, those who are currently still in the 55-64 cohort that has even higher levels of household wealth. Of this age group, 52% have more than £500,000, compared to 40% of over 65s.

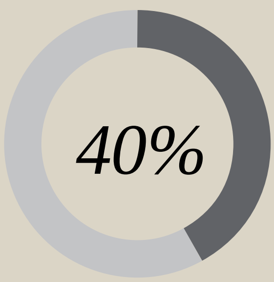
Housing with care vs Housing Price Index (HPI)



Source: JLL

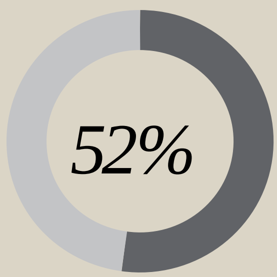
£54,500

Average increase in Housing with care units at re-sale



for over 65s

Household wealth over £500,000



for 55-64 age group

Source: ONS

Where do we build it?

As is the case for the care home sector, the South East is the prime market for retirement living due to high average house prices and household wealth among the over 65s. The West Midlands has seen the highest increase in housing with care, accounting for 4.2% of net additional dwellings over the last decade.

Some of this has been through high end developments by operators such as Audley, however most have been affordable units, for example by The ExtraCare Charitable Trust. It has built 1,400 units in six schemes in the region since 2010, and has one more due to open in 2019 in partnership with the local authority who has recognised the benefits on the local area.

Even so, each region requires a significant increase in new supply above existing levels if the ARCO target growth rate is to be achieved. While the increase to 6.6% of all net additional dwellings (11,000 units per annum) may seem like a sharp increase, it would only increase the penetration rate for housing with care from 0.7% of all over 65s to 1.3% by 2026.

By way of context, to match the mature retirement living market rate of 5% as per Australia, the USA and New Zealand, housing with care would need to account for 38.6% of all new housing gain.

10 year average build rate for housing with care: 3,260 units per annum

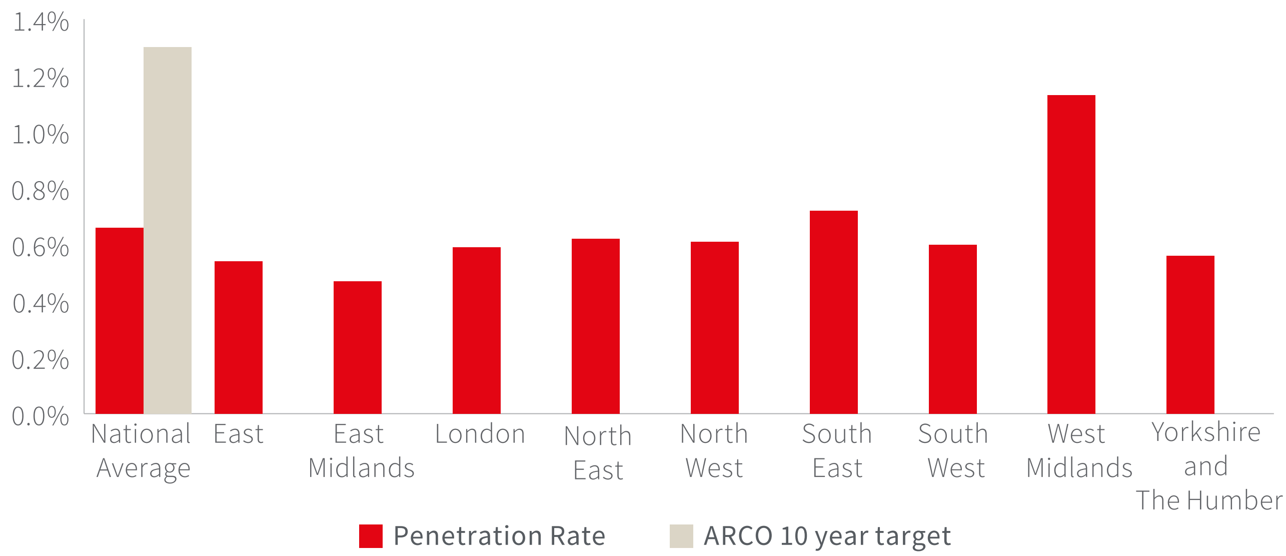
ARCO target rate:

11,130

units per annum

(Source: EAC, JLL, ARCO)

Housing with care penetration rate



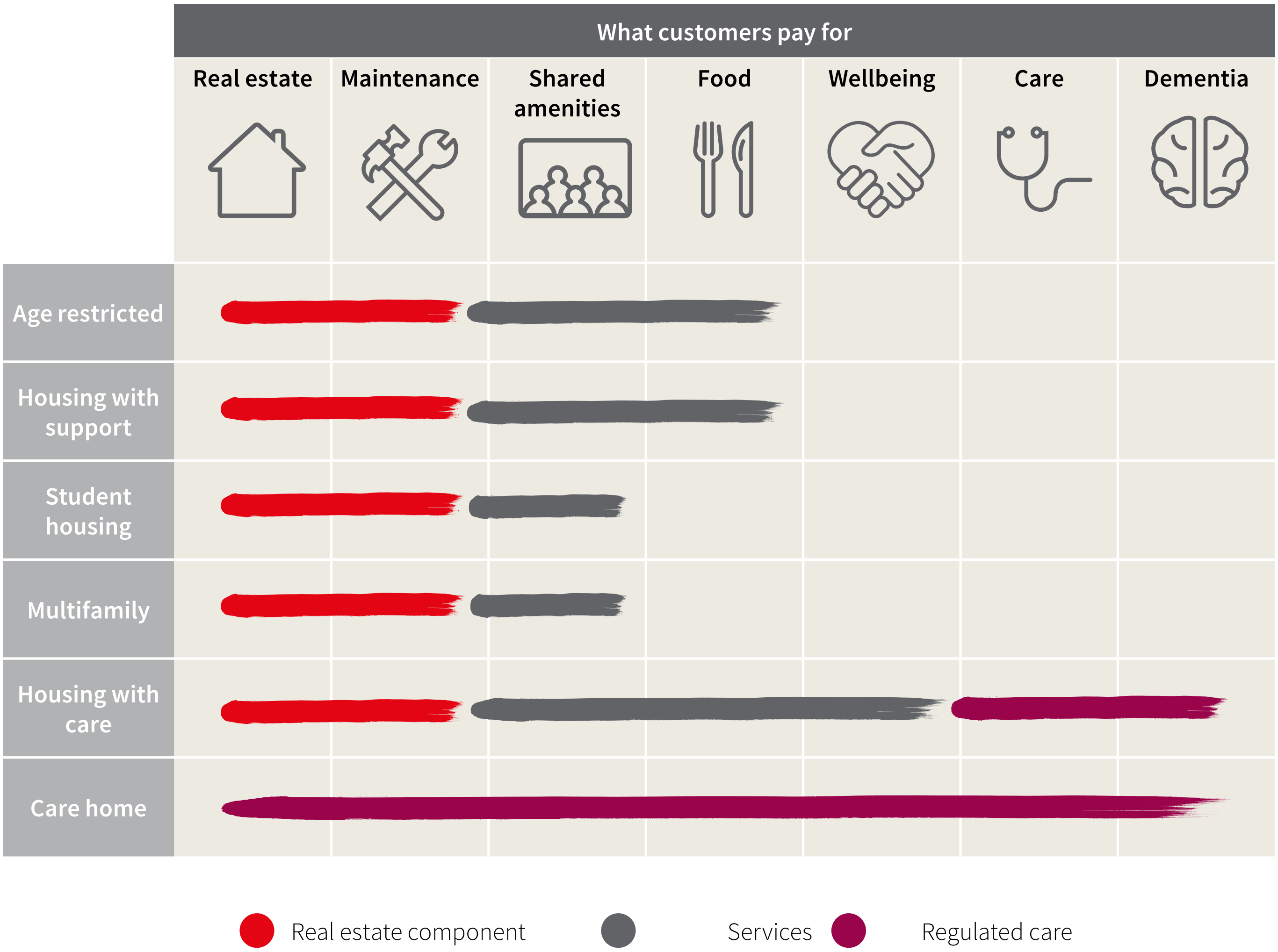
Source: JLL, ARCO, EAC, ONS

How do we access the market?

Compared to similar sectors such as student housing and multifamily, retirement living is less established but offers the fastest growing opportunity in the living arena.

In the US where the sector is more established, 2017 investment volumes were $12 billion, equivalent to 3% of all investment activity and larger than student housing. Given the scale of development activity required to stimulate the market in the UK, it is not unrealistic for investment volumes to reach £2 – £3 billion per annum in time, driven through partnerships or forward funding.

The similarities with other living sectors are clear, as shown below. While housing with care is a real estate driven product, the added value is driven by the income producing service offering. The ability to access care, when required, and the integration of services with the real estate creates the operational proposition. Importantly unlike a care home, the care element is separate from the real estate and so from a regulation perspective is separate.



Source: JLL

As an asset class, the housing with care sector is still in its infancy so while attention is naturally drawn to the prime market, the largest opportunity lies in the mid-market, which is 50% of the population. Appetite from investors continues to circle the rental proposition or other forms of income generating business models, which will encourage lower cost of capital into the market and accelerate supply.

Encouraging a generation of home owners to rent creates some obstacles. The biggest one to solve is how to ensure that released equity can grow, especially with interest rates at a level that makes saving unviable. Similarly, in the absence of a home sale, would the hardening tax regime for buy-to-let landlords be applied equally to over 65 homeowners who rent-to-let and use the income raised on their old residence to fund their retirement living?

While admittedly coming from a low proportion, the number of private renters amongst this demographic has increased by 74% since 2006 and will continue to grow as renters from younger age groups get older. The broad involvement of pension funds in the sector indicates a sustainable solution for turning pension and housing wealth into a steady income stream. The retirement rental product would therefore initially be aimed at older retirees as a replacement or alternative option to a care home.

Competition for land remains strong, although any slowdown in other sectors will increase opportunities. Homes England, the NHS and local authorities all represent potential partners to help increase supply and a large untapped resource.

For the sector to grow in a similar way to student housing and multifamily housing, it is developers, investors and operators that need to deliver attractive homes, communities and developments which will entice consumers to move and create the market. On this basis, what lessons can be learned about increasing supply from these more evolved living sectors, and what best practice is already in the sector?

There are a range of options to help increase supply in the sector that are already used in other sectors, and we have begun to see some early adopters.

Audley Villages

How do we access the market?

Model of delivery			
Type	**Developer operator**	**Partnerships**	**Forward Funding/ Commitment**
Who (Retirement living in bold)	**Audley Inspired Villages (Legal & General), Retirement Villages Group (AXA), Anchor**, Greystar.	**Audley and Apache Capital**, Fizzy Living (Thames Valley Housing Association, ADIA), Homes England, Places for People.	**Riverstone (Goldman Sachs)**, Telford Homes, Watkin Jones.
How	Current model adopted across the sector. Developer operator acquire sites, obtain planning, build out and operate.	Partner on developments with a third party to increase supply, sharing risk and returns. Partners can include land owners, developers, house builders, housing associations or the public sector depending on the nature of the relationship and contribution. Using their management expertise, housing associations are partnering with investor/ operators in joint ventures to establish an operational platform that caters not just for social rented tenants but the private sector as well. This approach provides diversified income and returns.	Operators fund or acquire completed schemes at a fixed price, avoiding development risk and planning delays. Money is only deployed during construction or at completion, shortening timelines and aiding return requirements.
Why	Delivers typically higher development returns in exchange for planning and development risk and operational profits. Current business model adopted across the retirement sector. Historically and currently used across multifamily and student housing sectors in some capacity.	Leverage opportunities across land, funding, or delivery experience to accelerate delivery whilst sharing in risk and returns. Universities have taken this approach to increase quality and amount of university beds via Design Build Finance Operate (DBFO) contracts. Partnerships have been one of the main models used in the multifamily sector and there have been some examples in both retirement living and student housing. Registered Providers have entered into partnerships for specialist and student housing, while more housing associations are looking to become multifamily landlords.	De-risk development process or speed up delivery timeline to scale platform and operational capacity more quickly. With an absence of stock, forward funding provides investors with an opportunity to enter the market at a faster scale. Forward funding deals account for 22% of all student housing activity since 2014, whereas over 50% of multifamily transactions in H1 2018 were on this basis.

How much can it cost?

Whilst retirees are typically equity rich, they are financially astute and we have seen an increased focus on build costs and specification to deliver value for money.

The perceived specialised nature of housing with care compared to other forms of residential housing means that there is an assumption that it is more expensive to build. With the growth of similar purpose-built living sectors with similar shared amenity spaces such as student housing and multifamily, it is now easier to benchmark the cost of housing with care and consider where differences lie and the drivers of these costs.

In conjunction with Assael Architecture, we have sought to benchmark some of these differences and highlight where costs can vary so that developers and operators can better scrutinise proposals. Taking an identical site and similar style of approximately 150 units in an urban setting of no more than 10 storeys, we have been able to highlight some of these potential variances.

Due to these different end users, there is a slight variation in terms of the overall layout and design, but many of the core design features are the same with similar levels of amenity and common spaces. The multifamily units have less storage space, slightly smaller living areas and the option of bolt on balconies.

The housing with care scheme provides half of all units at 10% larger than minimum space requirements and include inset balconies which can be made into enclosed winter gardens for example.

The retirement living benchmark scheme costs 5% more to build compared to the multifamily scheme. This is a result of some variances in layout, internal arrangement and a marginally higher gross internal area. Overall, the higher quality finish will enable a sales premium to be achieved. However, this will be sensitive to local mainstream residential market pricing.

With urban led schemes there will be an ability to make greater use of nearby facilities and encourage wider community interaction, whilst mitigating build cost increases. With larger full service offers, this increase in amenities will need to be reflected in the sales value to ensure viability of developments, as well as consideration on the longer term running charges to occupiers.

Source: Brio Retirement Living

Benchmark housing with care key variances to multifamily:

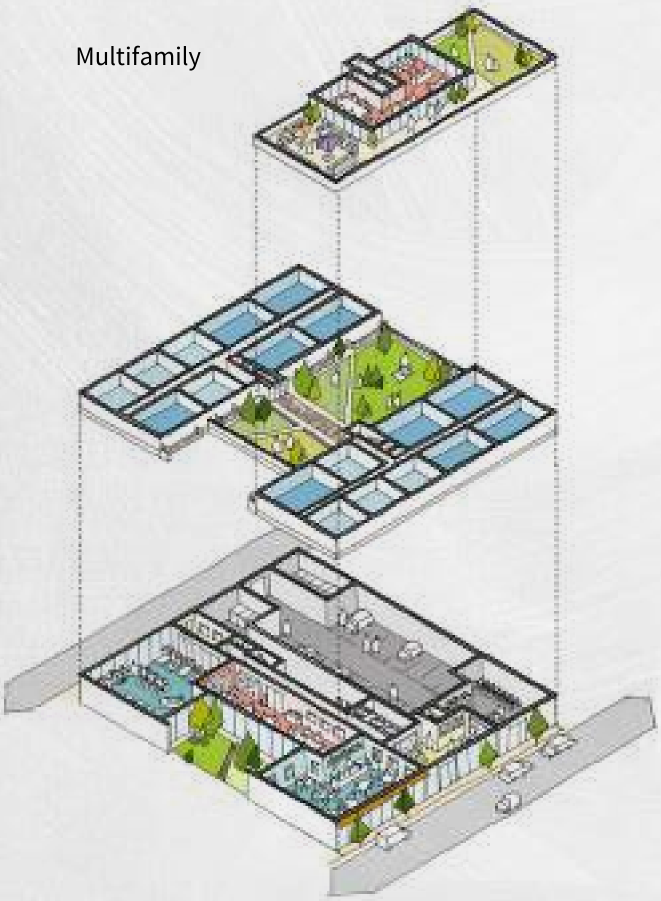
Gross internal area	Net sale area	Cost per sq ft	Cost per unit
+6%	+7%	+5%	+10%

Amenities – Key similarities

- Food service
- External communal area
- Fitness facility
- Internal communal area
- Storage space
- Pick up area
- Community focal point

Typical layout

Multifamily



Housing with care

Assael

Source: JLL. Assael Architecture

Summary

The underlying fundamentals behind the retirement living sector are undoubtedly strong. The sheer scale of demographic change across the next decade and beyond is a compelling reason alone. With over 65s accounting for such a large share of the population and existing housing wealth, it makes sense that a larger proportion of housing development should be aimed at this age group.

The appeal is even greater given that there is such a marked shortage of supply, especially for modern purpose-built retirement communities which are well managed, providing optional care, and offering amenities that support lifestyle and wellbeing of the occupants.

With wider political and social benefits of retirement living, in addition to what it can offer residents and their families it is no surprise we are seeing greater interest from banks, developers, private equity and institutional investors suggesting that the wider market also recognises the opportunity.

The broad range of terminology and types of retirement living product can add a degree of confusion but as this paper has highlighted, it is a managed serviced residential product, the type of which many developers, operators and investors are already comfortable with.

With the scale of the opportunity there is room for a variety of tenure types that span the affordable, mid-market and prime tiers of the market.

The evolving nature of the sector means that options to purchase large income producing platforms are limited. Any investor looking to establish market share will instead need to focus either on development or joint ventures. The growth of student housing, and more recently multifamily, provides a loose template of how the sector can grow. Yet if the sector is to grow, it will require innovation and new entrants to help it reach its full potential.

While housing policy focus is currently aimed at first-time buyers and increasing home ownership, the withdrawal of Help to Buy in 2023 suggests that it is now time to take a closer look at the considerably larger market of potential downsizers and ensure you are able to be part of the fastest growing sector in the living space.

Source: Brio Retirement Living

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