

Retirement Living Where is the Opportunity?

Healthcare Research – November 2015



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Jargon Buster

Retirement Housing:

Purpose built accommodation designed for and occupied by older people, typically 55+ 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 often includes personal and domestic support, a dining service, communal facilities and 24 hour on site staff.



The Care Act 2014:

Key legislation that now places housing at the heart of the definition of wellbeing. Local authorities now have to consider housing related outcomes alongside health and social care.

Executive summary

- By 2025, 20% of the UK population will be over 65 (14.3 million people)
- The over 65s own a combined £800 billion of housing equity
- Many retirees want to live in retirement housing, but there is a chronic under-supply of high quality Housing with Care in the right locations. Recent mid to high end schemes being developed across the UK are being fully sold off-plan, with long waiting lists for existing schemes
- In the UK the vast majority of over 65s currently live in the mainstream housing market. Only 0.6% of retirees live in Housing with Care, which is ten times less than in more mature retirement housing markets such as the USA and Australia, where over 5% of over 65s live in Housing with Care
- JLL research shows that almost 80% of the over 65 population would be classified as being within mid and high end affluence by 2025, whilst 75% of the current Housing with Care stock is classified as affordable, highlighting the supply-demand imbalance in the current market
- JLL estimate that there is a potential requirement for an additional 725,000 Housing with Care units by 2025 which would equate to nearly 50% of all new homes built at the current rate
- The Care Act 2014 places housing at the heart of the definition of Wellbeing and forces local authorities to be proactive in shaping and developing the market, particularly in alternatives to institutional care such as Housing with Care. It forces engagement with the market to ensure there is sufficient variety and supply of accommodation to match the local population and will ease the passage of planning for schemes
- The RICS estimate that by providing viable, alternative residential accommodation for older households such as Housing with Care, could release 2.6 million houses back into the mainstream housing market

“There are two main retirement housing options in the UK, Housing with Support and Housing with Care. The former became popular in the 1980s, whilst the latter is now the fastest growing part of retirement housing and better suited to the long-term care needs of retirees.”

Anthony Oldfield
JLL – Alternatives

Diversification of the market

Retirement housing in the UK has evolved over the last 30 years providing an alternative between mainstream housing (which begins to fail older people) and care homes. It has grown, in the same way the care home market evolved out of the hospitality and residential markets, to meet the changing care needs of older people as they live longer than previous generations.

Advances in medicine and treatment means many care issues are now more manageable in residential settings and do not require the full support of a traditional care home. As a result we are beginning to see those entering care homes have more acute care needs, widening the gap between mainstream housing and care homes further.

It is this separation between mainstream housing and care homes and the rise in manageable care issues and support systems such as Telecare, that is creating opportunity for innovation and growth in retirement housing.

The principal aim of retirement housing is to provide an alternative to private residential housing and residential care for older households. It targets those older people requiring specialist-housing support or care (or will in the future) but who also wish to maintain their independence and can provide a community (with on-going activities and support provided), not just housing.

The key shared factor of all retirement accommodation is that occupiers own or rent their own independent property with a shared central core providing communal facilities which vary in provision according to the development type.

Housing with Care (Figure 1) is a diversification of retirement housing provision. It is an accommodation response to this increase in manageable care needs and desires of older people to remain at home for as long as possible, avoiding institutional care if possible. It provides housing that can be adapted and modified to their needs with care and support services available on-site in a flexible way, tailored to residents' particular and evolving care needs. Staff are available 24 hours a day and there are a variety of facilities, depending on scale, that help facilitate an active and independent lifestyle.

Housing with Care can therefore provide both independence and care provision. It will span a much wider care need and accommodation spectrum.

“Housing with Care is an accommodation response to the increase in manageable care needs and desires of older people to remain in a home of their own for as long as possible.”

Philip Schmid
JLL – Alternatives

Figure 1 – Over 65s housing options



Source: JLL

Shifting demographics

There are a number of key demographic changes that are driving the need for the Housing with Care market, which will only accelerate over the coming decade. The most important are: the ageing population; rising care needs; reduced state funding and increasing affluence which is helping to drive changing tastes for retirement accommodation.

Ageing population

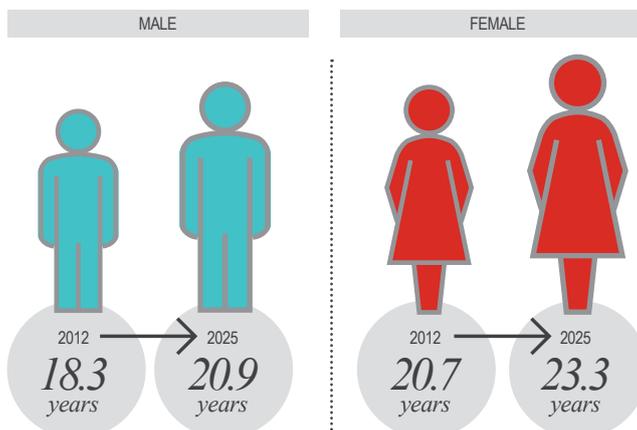
Growth in the retirement housing sector is being driven by the ageing Baby Boomer generation. The number of over 65s is forecast to rise over the next decade, from the current 11.7 million people, to 14.3 million by 2025, a 22% rise (Figure 2). This translates into one in five of the total population being over 65 in 10 years' time, which will become one in four by 2050. In addition, they are forecast to live longer (Figure 3).

Figure 2 – Population growth – age 65+



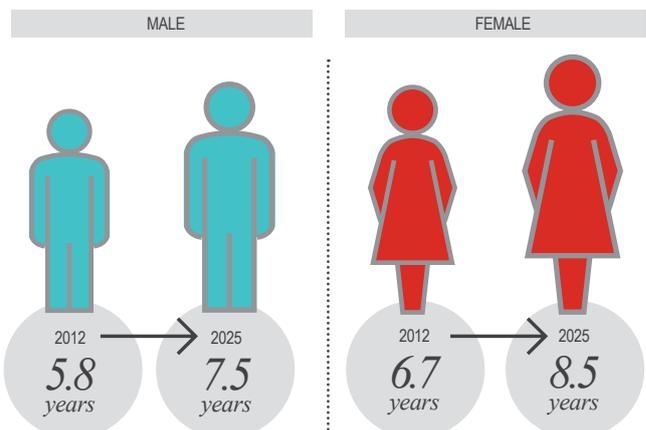
Source: ONS

Figure 3 – Average life expectancy at 65



Source: ONS

Average life expectancy at 85

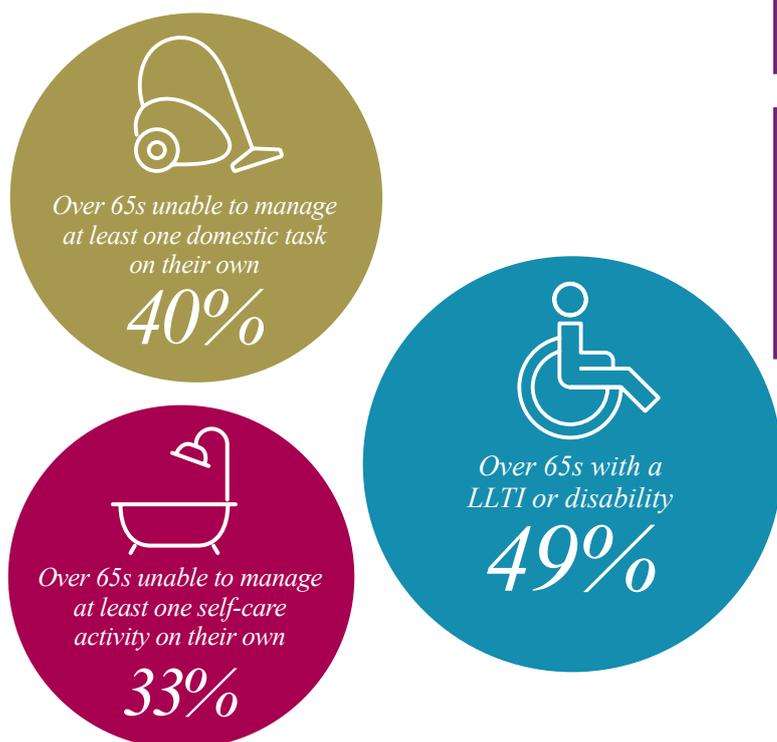


Rising care needs

Whilst people are living longer and the number of older people is rising, the advances in healthy life expectancy are not keeping track. Healthy or disability free life expectancy for those over 65 averages roughly 10.5 years, whilst for those over 85 it falls to less than three years.

The number of older people that have some form of care need is significant, with almost half of today's over 65s are living with a Limiting Long Term Illness (LLTI) or disability (Figure 4). It is forecast the number of over 65s with an LLTI whose day-to-day activities are significantly limited will hit three million by 2025, a rise of almost 30%. These individuals would not be sufficiently ill to live in a care home, but conventional residential or Housing with Support would struggle to cope with their care needs.

Figure 4 – Over 65s care and support needs



Source: POPPI

Reduced state funding

The National Audit Office (NAO) found that care needs of older people have risen by 30% since 2005 and will continue to do so, but that the numbers of older people receiving support from the Government has fallen at the same rate. This means that more people will need to fund any care needs themselves. These care needs could be better managed in a Housing with Care setting where residents will often experience a better quality of life (Figure 5).

Figure 5 – Support provided versus the need



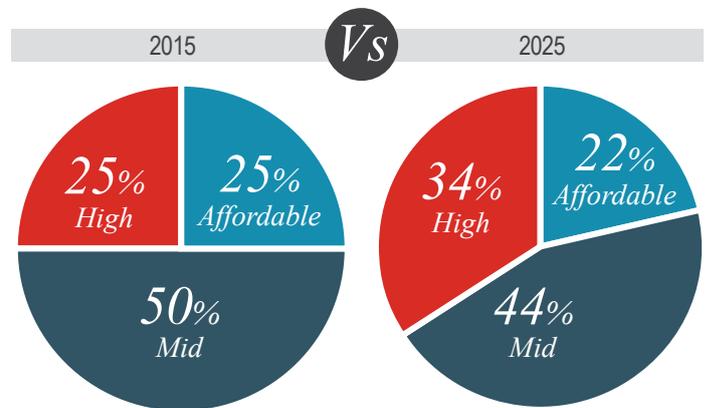
Source: NAO

Affluence of over 65s

Wealth is the key factor providing the Baby Boomers with the ability to demand changes to their care and accommodation options. This generation has benefited from inflation like no other generation in history with house price growth of over 4,300% since 1970 (Figure 6). We estimate that over 65s currently own a total of £800 billion of housing equity, which when combined with pension wealth provides a huge capital pool for retirement and means they will be less price sensitive for the right product and concerned more by lifestyle. This offers significant opportunity for investment.

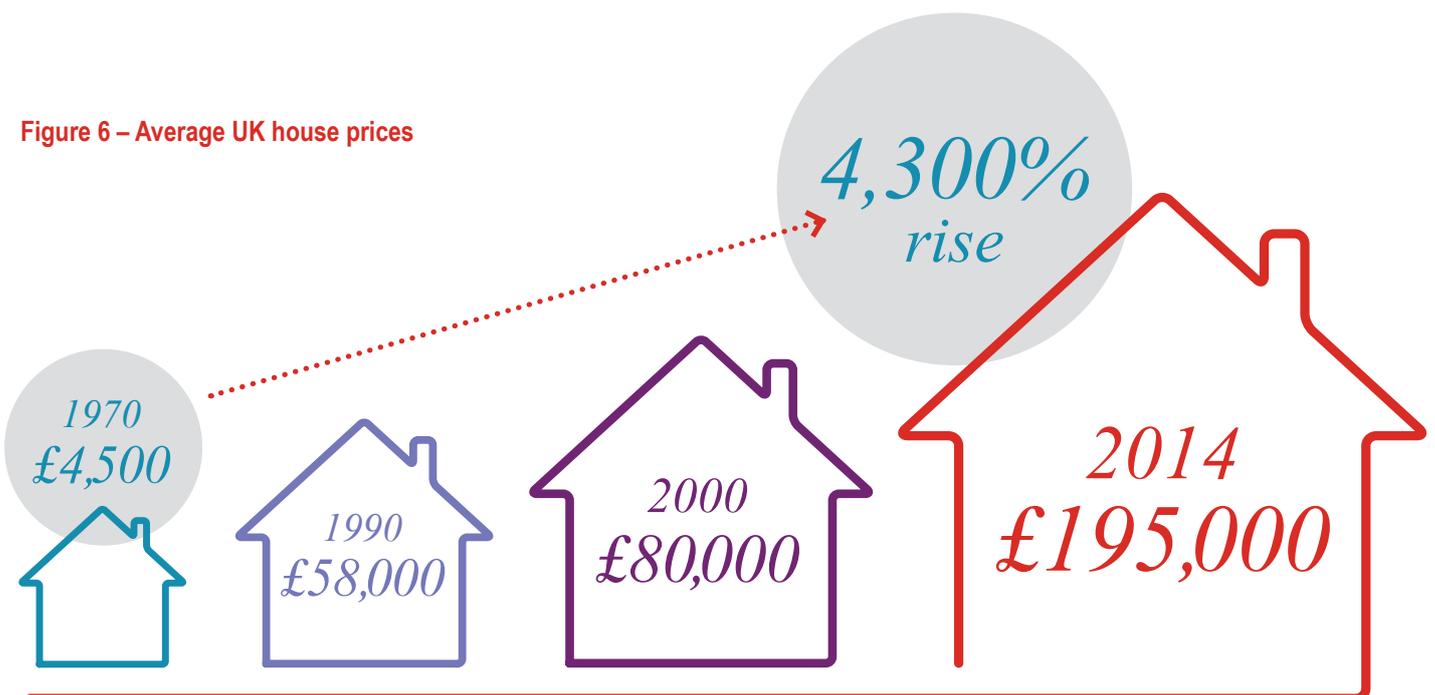
As we look ahead to 2025, the current 55-65 age bracket is more affluent which makes the future over 65s the richest we have seen to date (Figure 7).

Figure 7 – Over 65s population affluence



Source: JLL, ONS

Figure 6 – Average UK house prices



Source: Nationwide

Changing tastes of occupiers

The traditional purchaser of retirement housing is changing. The Baby Boomer generation has different expectations from their predecessors; keen on maintaining their pre-retirement lifestyle, with the majority wanting to remain independent and active in a high quality environment. They have benefited from a better diet and healthcare than their predecessors and consequently are able to manage their health much better than before.

McCarthy and Stone 'The Colour Report', 2015

 **77%**

77% saying that living life to the full is more important than leaving an inheritance.

 **50%**

Over 50% are on Facebook.

 **32%**

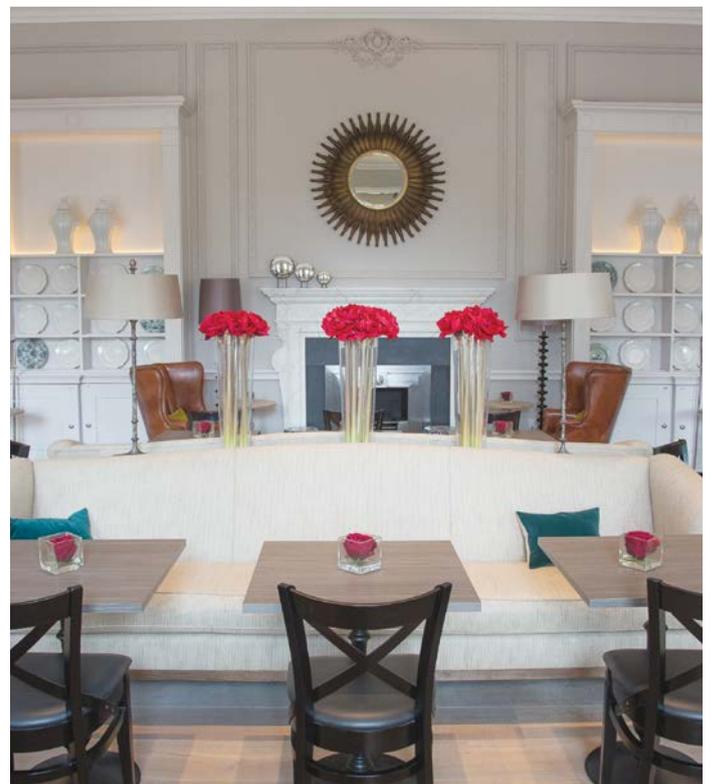
32% are interested in fashion.

 **20%**

20% want to go on a round-the-world trip.

“We are witnessing many existing developers and operators adapting to this change in mind-set from their customers, with a greater emphasis on building larger, better specified properties that are aspirational and with a variety of on-site facilities.”

Philip Schmid
JLL – Alternatives



Source: Audley Retirement

Current supply mismatch

In the last 10 years, Housing with Care has moved to become the fastest growing portion of the retirement market (Figure 8), however the overall size of the existing market remains small.

Figure 8 – Percentage of new units built in the retirement living market

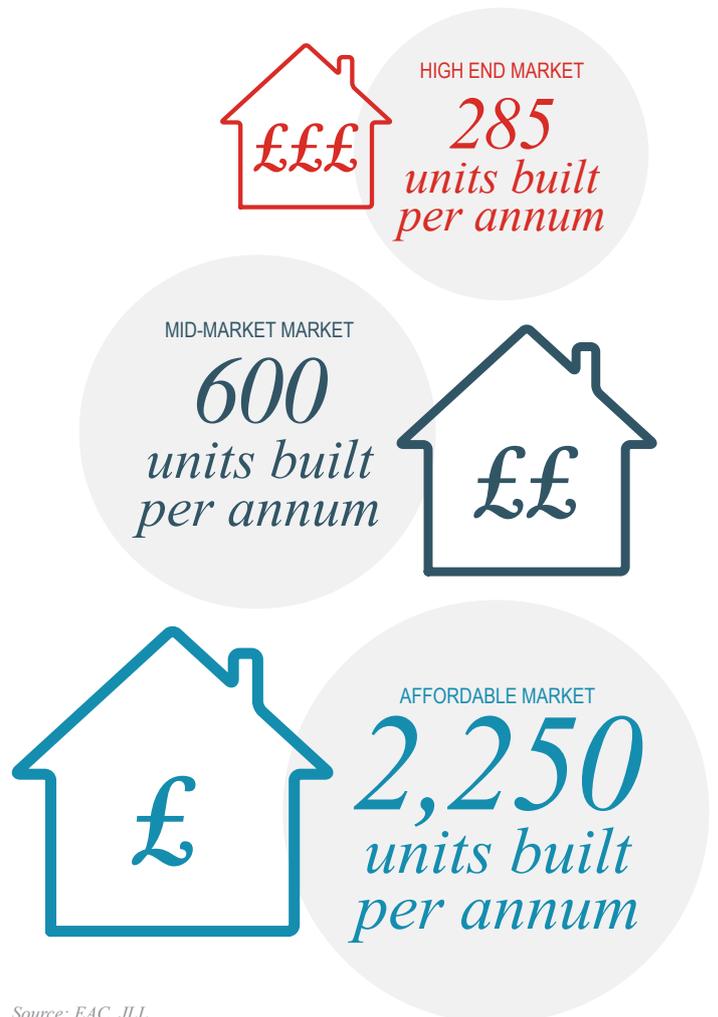
	LETTING	SALE
 <i>Housing with Care</i>	2000 0%	2000 0%
	2015 41%	2015 24%
<hr/>		
 <i>Housing with Support</i>	2000 42%	2000 58%
	2015 3%	2015 31%

Source: EAC

In the last 10 years supply growth rates in Housing with Care have been modest (Figure 9), with the sector pioneered by the affordable providers, as support from social services has grown.

In 2015, affordable providers built as many units as those targeted at affluent purchasers in the last 10 years, but the market is still well behind the historic growth seen in the Housing with Support market of the late 1980s.

Figure 9 – Housing with Care 10 year build rate

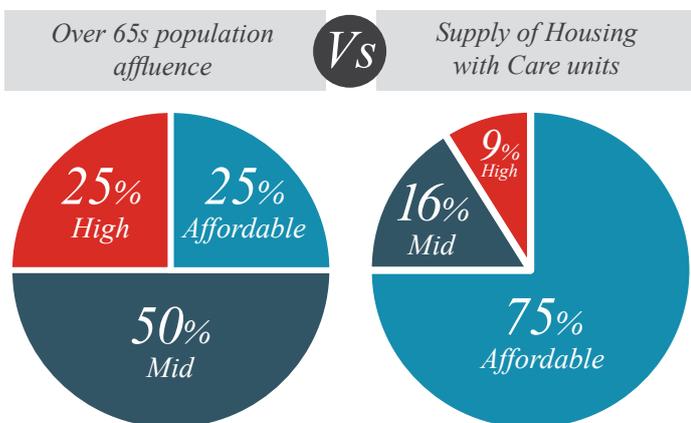


JLL have identified that there is currently a chronic imbalance between the supply of Housing with Care units in the UK, and wealthier older people who fall outside of state funded support (Figure 10). Utilising the latest ONS wealth report, JLL calculate that 75% of over 65s fall into the mid to high end of the wealth spectrum (i.e. they have more than £150,000 in wealth). If we compare this to current supply of Housing with Care, we can see that 75% of the supply is aimed at the affordable sector, with only 25% catering to the mid to high end market.

When the provision of accommodation is benchmarked against the more established care home market and Housing with Support, the gaps in supply are emphasised further (Figure 11). As a whole it is almost one tenth of the supply compared to Housing with Support.

The data shows that the proportion of Housing with Care units available to mid and high affluent older people (c.1:500) is roughly one tenth of that currently available (per capita) for the lowest affluent older people (c.1:50) (Figure 12).

Figure 10 – Affluence Vs Supply



Source: EAC, ONS, JLL

Figure 11 – Proportion of over 65s population to existing accommodation

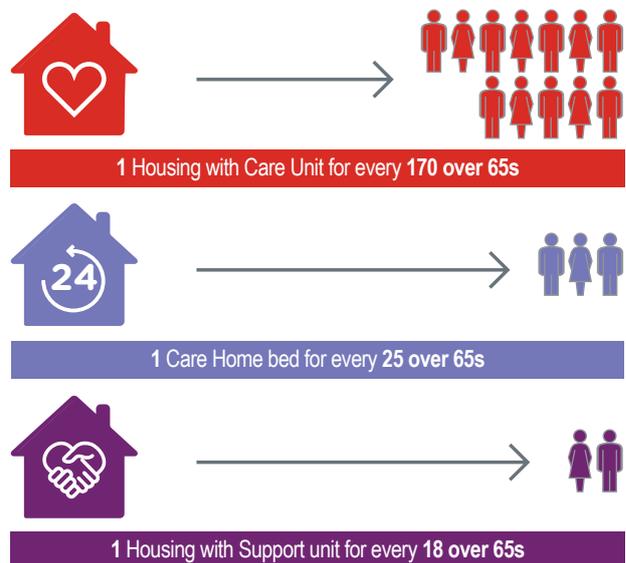
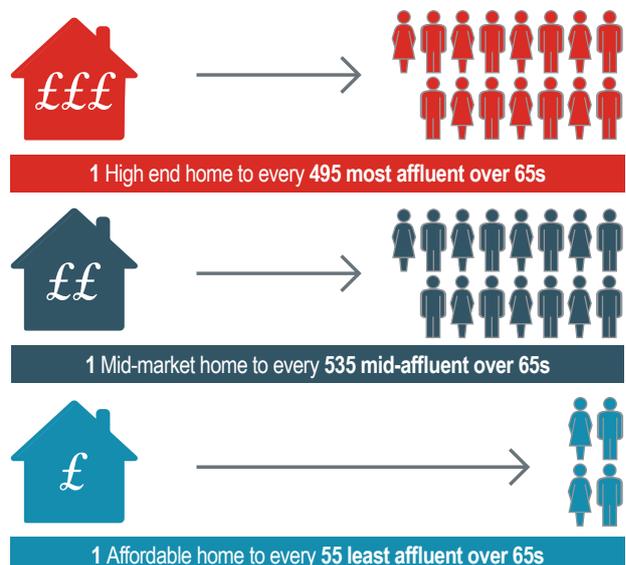


Figure 12 – Proportion of Housing with Care accommodation split

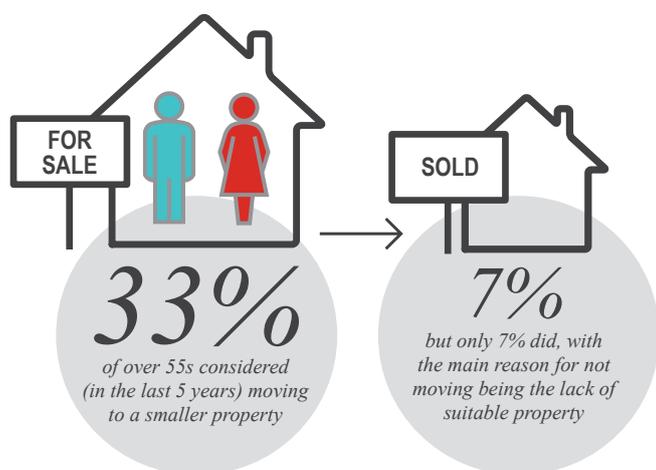


Source: JLL, ONS, EAC and carehome.co.uk

Demand

Whilst the supply has been slow to increase as the market has developed, demand for accommodation is now accelerating as the Baby Boomer generation hit retirement. The issue in the retirement housing sector is that we have a chronic undersupply of new accommodation to satisfy the demand, especially in the mid and high end markets which will be fuelled by housing wealth which is set to increase.

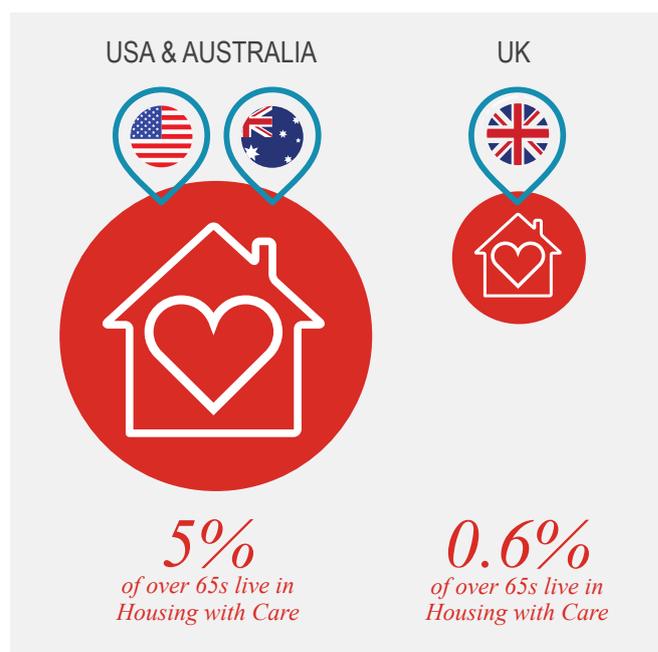
Figure 13 – The L&G Last Time Buyers Report 2015



Source: L&G Last Time Buyers Report – 2015

Compared to more mature retirement living markets in the USA and Australia, where more than 5% of over 65s live in Housing with Care, that figure is only 0.6% in the UK (Figure 14).

Figure 14 – UK Vs USA and Australia



Source: MHA – Fitzwarren Court

Sales rate within existing Housing with Care schemes 2015



“Our experience from working with a number of the leading developers and operators shows that the units that are available are selling in record time and that the biggest issue is building them fast enough. There is a clear opportunity for developers and investors to capitalise on these market trends, lack of supply and pent up demand.”

Anthony Oldfield
JLL – Alternatives

Rebalancing market supply – 2025 outlook

JLL forecast that this imbalance will be compounded unless there is a very significant increase in additional supply. The outlook for the sector will be shaped by three main factors

- The significant growth of over 65s by 2025 (14.3 million – a 22% rise)
- £800 billion of housing wealth in the retiring cohort gives them significant capital
- Increasing care and support needs of the over 65s that can be managed outside of institutional care settings.

Baby Boomers are more aware of the deficiencies of their family homes as they age and are planning for future care needs.

They are also seeking alternatives to traditional care homes wanting to remain independent and active for as long as possible with a focus on a fulfilling retirement.

Whilst they are looking to downsize, their housing equity means they are seeking better specified accommodation and larger units. They are seeking facilities, services and care packages that fit around their lifestyles, which can be improved as a result of freeing up equity from their house.

JLL forecasts that approximately 190,000 additional Housing with Care units will be required by 2025 to keep up with the rising older population. The majority will need to target those in the mid and high end parts of the market in order to match the future wealth profile of the over 65s.



Source: LifeCare Residences – Battersea Place

If we benchmark supply per capita for Housing with Care against the more developed Housing with Support segment of the market, we forecast a potential unmet need of 725,000 units by 2025 (Figure 15). This translates into 72,500 Housing with Care units to be built every year over the next decade. At current build rates in the residential market, this means approximately half of all new build homes in the UK could be Housing with Care units over the next 10 years (Figure 16) which would release stock back into the mainstream housing market.

Figure 15 – Forecast needs to 2025



Figure 16 – Completion of UK mainstream housing units



Regulation enabling market

With the Care Act 2014, the Government has placed housing at the heart of the definition of Wellbeing. This will force Local Authorities to be proactive in shaping and developing the market, particularly in alternatives to institutional care such as Housing with Care, meaning they will no longer be able to bury their heads in the sand on the issue.

The principal aim of the Act is “to prevent, postpone and minimise people’s need for formal care and support... built around the simple notion of promoting people’s independence and wellbeing”. Local authorities must have regard to ensuring sufficient capacity and capability to meet anticipated needs for all people in their area needing care and support – regardless of how they are funded with housing options now right at the centre.

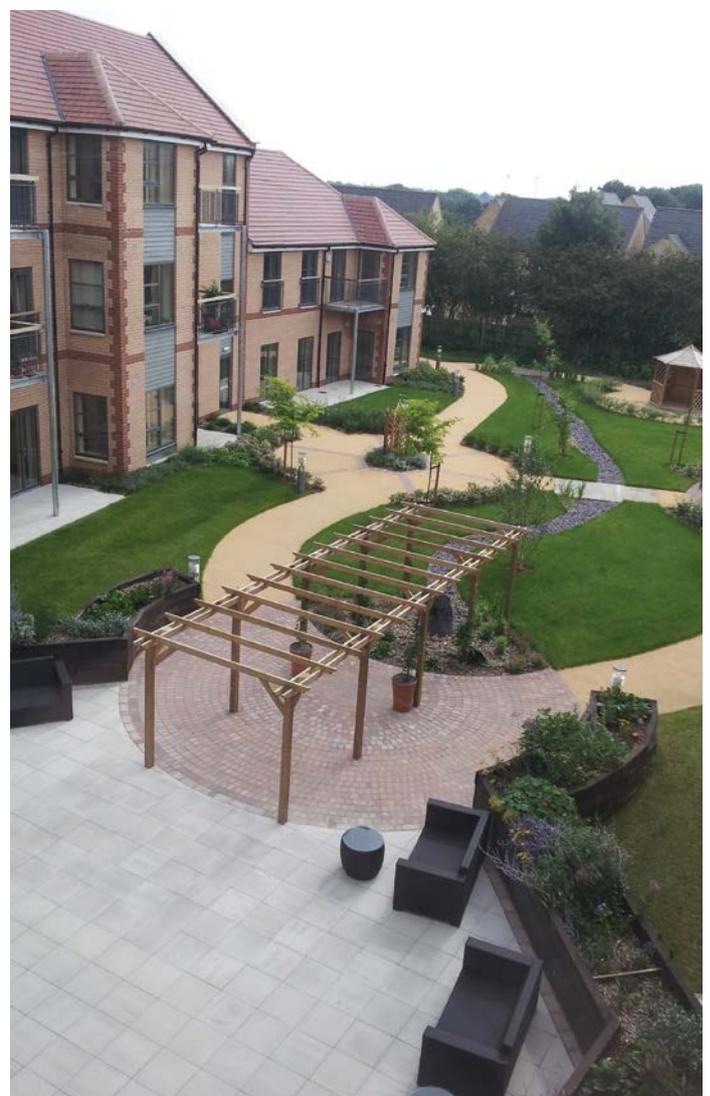
It will force engagement with developers and operators to ensure sufficient variety and supply of accommodation to match the local population. The Act will force local authorities to encourage a variety of different types of services to shape the market, not just at the lower end which has historically been their focus, which should stream-line the planning process.

Pension reforms

Recent changes to pensions allow pensioners to access thousands of pounds more cash from their retirement funds, making it easier to fund specialist accommodation or lifestyles.

Planning

Housing with Care is usually treated as C2. This is important because with a C2 use class it is not necessary to provide affordable accommodation or often to pay the Community Infrastructure Levy. For developers and investors this is compelling, because Housing with Care schemes can then compete with conventional residential sales, even once the care infrastructure is factored in.



Source: Abbeyfield Griton Green

Benefits of an expanded retirement living sector

An expanded retirement living sector not only has a positive effect on the wellbeing of the occupying households, but can also reduce dependence on government services and boosts supply in the mainstream housing sector.

Greater independence – In line with government policy, and recent legislation, retirement living can promote greater independence for older households and provide greater choice in planning for later life than would otherwise be available.

Reduce social isolation – Recent data from the ONS suggests there are 3.5 million over 65s living alone. This can adversely affect the wellbeing of individuals and lead to social isolation. Retirement living with its communal environment has the potential to reduce social isolation. A recent survey by the International Longevity Centre showed respondents reported lower loneliness than those in the community, giving further support that retirement housing plays a role in reducing loneliness among its residents, compared to what might be experienced if they stayed in mainstream housing.

Reduced burden on public health services – A recent survey by the ExtraCare Charitable Trust showed that residents in retirement homes experienced a significant reduction in the duration of unplanned hospital stays from 8-14 days to 1-2 days.

Increasing supply in the mainstream housing sector – There is a severe lack of supply in the residential housing market and apart from building more homes, another way to get more homes on the market is reducing the under-occupation of existing homes. Addressing this issue in the older owner-occupier market (which has some of the highest rates of 'under-occupied' homes), by giving them more choice in the specialist housing markets will help release larger and under-occupied properties back onto the market and effect a movement throughout the housing market.

RICS believes up to 2.6 million homes could be released onto the market if older households chose to move into specialist housing



Source: ONS



Source: RICS



“Our members are seeing unprecedented levels of interest, with off-plan sales at a record high. The public debate about downsizing is intensifying, and we all know that demographic projections show a huge increase in the number of older people. With investor interest picking up significantly, our view is that the Housing with Care sector is set for considerable expansion. This is urgently needed: supply is struggling to keep up with the growth of our older people’s population.”

**Michael Voges, Executive Director –
Associated Retirement Community Operators (ARCO)**



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