SPOTLIGHT
Savills Research

UK Senior Living

The Inflection Point

Investment volumes ● Penetration rates ● Growth forecasts

KEY POINTS

43%

The total value of owner-occupied homes owned by over 65s in the UK

£4.6bn

Invested in and committed to UK senior living in the last 18 months

1.0%

The penetration rate of over 65s in Integrated Retirement Communities (IRC's), compared to 6.5% in the USA

64%

Proportion of households moving into senior living that are downsizing

17%

£psf premium for IRC homes over the wider new build market

325,000

More IRC homes required if the penetration rate increases to 5%

£125bn

Scale of the IRC opportunity if the penetration rate increases to 5%

Integrated Retirement Communities now dominate, but delivery remains low

Over the past decade, Integrated Retirement Communities have become the UK's predominant form of senior living provision.

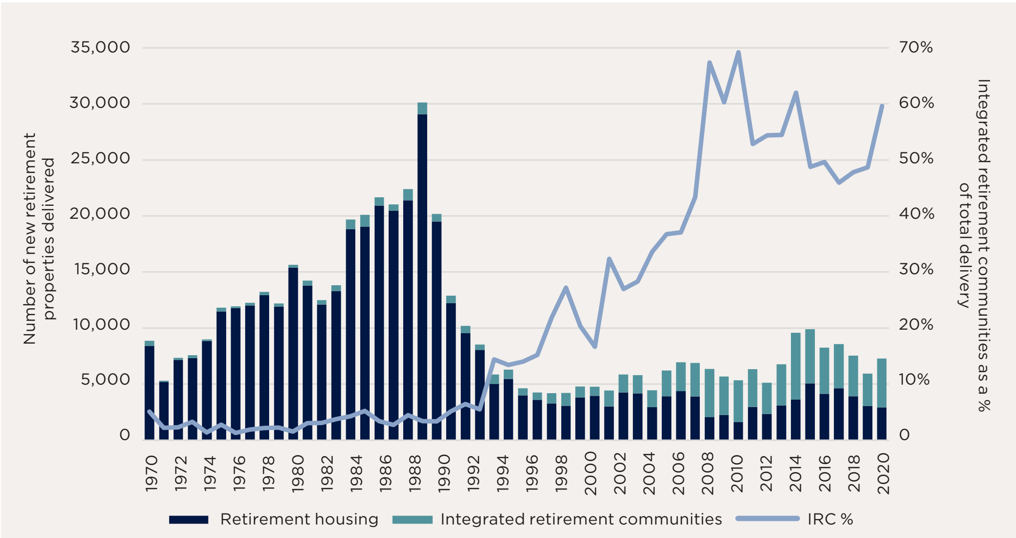
Often referred to previously as 'housing with care', the new term "Integrated Retirement Community" (IRC) coined by ARCO (Associated Retirement Community Operators), the body representing the sector, seeks to better define the senior living offering which sits between retirement housing (age-restricted but with limited amenity or care: often referred to previously as 'sheltered housing') and care homes.

The delivery of new senior living homes in the UK is a story in three parts. Between 1970 and 1990, the UK saw an acceleration in delivery, from around 7,500 completions per year to 20,000. This was largely down to local authorities, who developed and operated stock, much of which is now out of date and unattractive to the current generation of retirees.

Between the early 90s and the Global Financial Crisis (GFC) in 2007/8, only around 5,000 new retirement homes were completed, the vast bulk of which was retirement housing, with little care provision.

Since the post-GFC low, delivery has marginally increased – albeit from a small base. What has been delivered in this period has largely been Integrated Retirement Communities with communal spaces and care facilities, in order for occupants to 'age in place'. Over the past decade around 4,000 Integrated Retirement Communities have been delivered annually, which amounts to a little over half of the stock delivered each year.

Total delivery of senior living homes



Source EAC

Defining the sector

Senior Living		Care Homes
Retirement Housing	Integrated retirement communities (IRC)	
Often referred to previously as 'sheltered housing'. Age-restricted housing with minimal amenity or care facilities	Previously referred to as 'housing with care'. Offers a highly serviced product with amenities and access to care when needed, allowing residents to age in place	Often referred to as 'nursing homes', with high levels of care and support, 24-hours a day

Least care ⟷ Most care

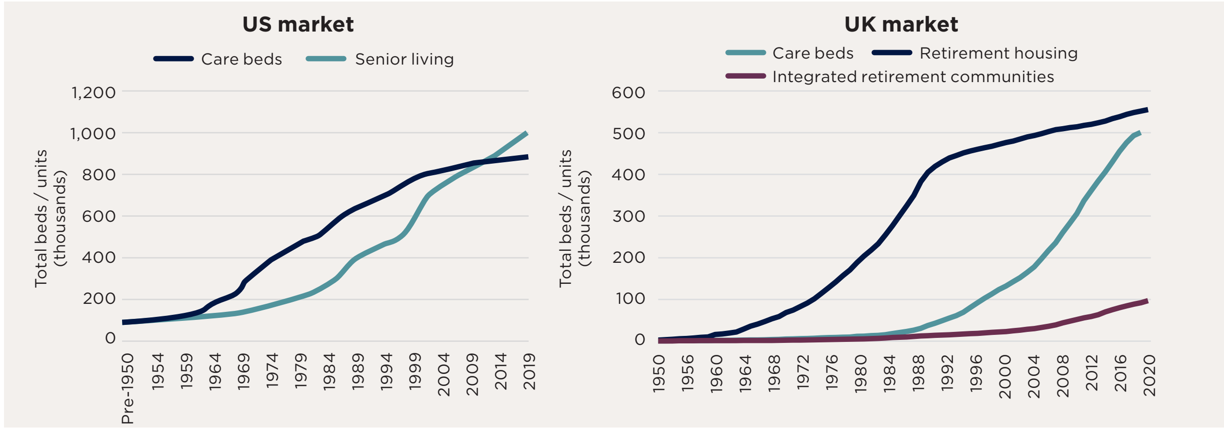
The UK is about 20 years behind the US market in terms of Integrated Retirement Communities

Whilst Integrated Retirement Communities have been around for a while in the UK, it is only more recently that they have started to capture the attention of the public and of investors. As a result, other markets such as the USA and Australia are around 20 years ahead of the UK in terms of development of this sector.

The US passed an inflection point in 2013, where the total number of seniors housing (independent living, assisted living and dementia care) units passed the number of nursing home units. The former has then continued to accelerate, whereas the latter has seen little growth over the past two decades.

Now, the UK market is starting to see a boom in the delivery of Integrated Retirement Communities. Compared to the US market, the UK has a long way to go to catch up, but there are signs that we may be at the beginning of a similar inflection point.

Comparing the UK to the US market



Source EAC, AEW

The UK has scope for considerable growth as it currently lags behind other markets

The UK's penetration rate, measured by the number of Integrated Retirement Communities as a proportion of over 65s, is far below that of other western countries. Just 1.0% of those in the UK aged over 65 live in Integrated Retirement Communities (otherwise known as 'housing with care'), compared to 6.5% in the USA and 5.5% in the US and Australia, respectively.

This does, however, mean that the UK has considerable scope for growth. If the UK's provision rate were to reach 5%, a little less than the US and Australian markets, the Integrated Retirement Community sector would grow to around 415,000 homes. That equates to an extra 325,000 homes and around £125bn in value.

The opportunity will grow further as the UK's population continues to age

By 2030, the number of over 65s in the UK is projected to total over 15m, which is 2.4m more than today. Put another way, in ten years' time, the population of over 65s will be increasing by 300,000 people every year.

If the Integrated Retirement Community sector continues to add around 4,000 homes each year, as it currently does, the provision rate would only increase from 1.0% today, to 1.3% by 2030, underscoring the need and potential for significant continued growth in the sector.

Integrated Retirement Communities – penetration rates and UK growth potential

	UK	US	Australia
No. of Integrated Retirement Community homes	85,000	1,952,000	170,700
Number of people aged over 65	12,409,160	54,100,000	4,055,300
Average household size (over 65s)	1.5	1.8	1.3
Penetration rate	1.0%	6.5%	5.5%
How many 'IRC' homes if penetration rate were 5%?	413,639		

Source Savills Research, Oxford Economics, ABS, NIC, ARCO, BPF

Buyers of senior living homes are willing to pay more and move further

We examined the 40 largest senior living schemes (a mixture of IRCs and retirement housing) to complete in the UK between 2016 and 2020, all with c.100 homes or more and with over 6,000 homes in the total sample.

Our analysis revealed that the average purchaser of a home in a new build senior living scheme is prepared to move 76% (3.8 miles) further than the average residential new build buyer.

Homes in Integrated Retirement Communities commanded a premium of 17% over their wider local new build market. Retirement housing (age restricted but with minimal amenity or care facilities) commanded a smaller premium, of 4% above their wider local new build market.

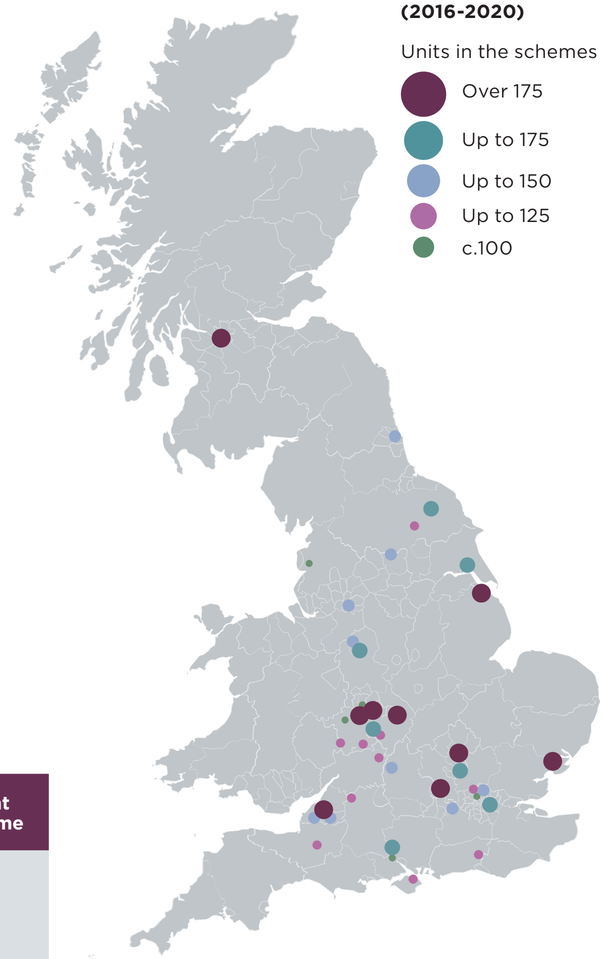
The vast majority (64%) of movers into senior living homes were downsizers. The proportion of people moving into larger properties or a property of a similar size (less than 10% larger or smaller) was the same, at 18% each.

Movers into Integrated Retirement Communities also move from larger properties than those moving into retirement housing, with households who move into IRC's moving into homes that are 22% smaller on average than their previous home.

Those moving into our sample of senior living homes were also willing to move further than those moving in the wider residential new build market.

The median distance moved by buyers of senior living homes was 8.8 miles, compared to only 5 miles for other new build homes. Moreover, some are willing to move much further than this, with 12% of senior living movers relocating over 100 miles.

Location of large senior living schemes completed between (2016-2020)

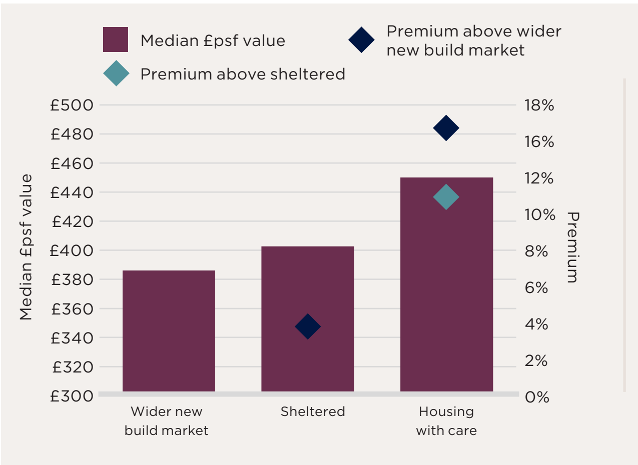


Retiree size of home

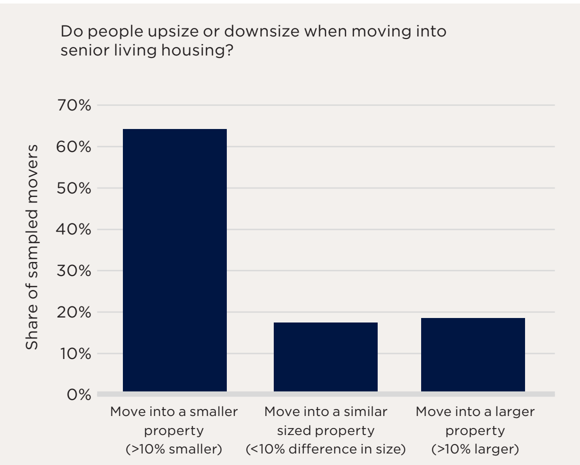
	Integrated Retirement Community home	Retirement housing home
Previous home (sqft)	1,335	1,152
New senior living home (sqft)	1,044	1,012
Difference (sqft)	-291	-140
% Change	-22%	-13%

Source Savills using HM Land Registry, DLHUC, EAC, Experian

Prices and premia for senior living homes



Proportion of households downsizing



Source Savills using HM Land Registry, DLHUC, EAC, Experian

Housing wealth is concentrated in the hands of the over 65s

The total value of homes in England and Wales owned by those aged over 65 totals nearly £2.0trn. 37% of that is in London and the South East, even though the two regions account for only 25% of all homes.

It is no secret that previous generations in the UK were able to get a foot on the housing ladder at a much younger age and then benefited from strong house price growth. As a result, 42% of total homeowner equity is now held by those aged over 65.

The 2020 English Housing Survey revealed that 65% of owner-occupied homes aged 65+ are 'under-occupied', with 'two or more bedrooms above standard', (essentially surplus to requirements), equating to around 3.5m under-occupied homes.

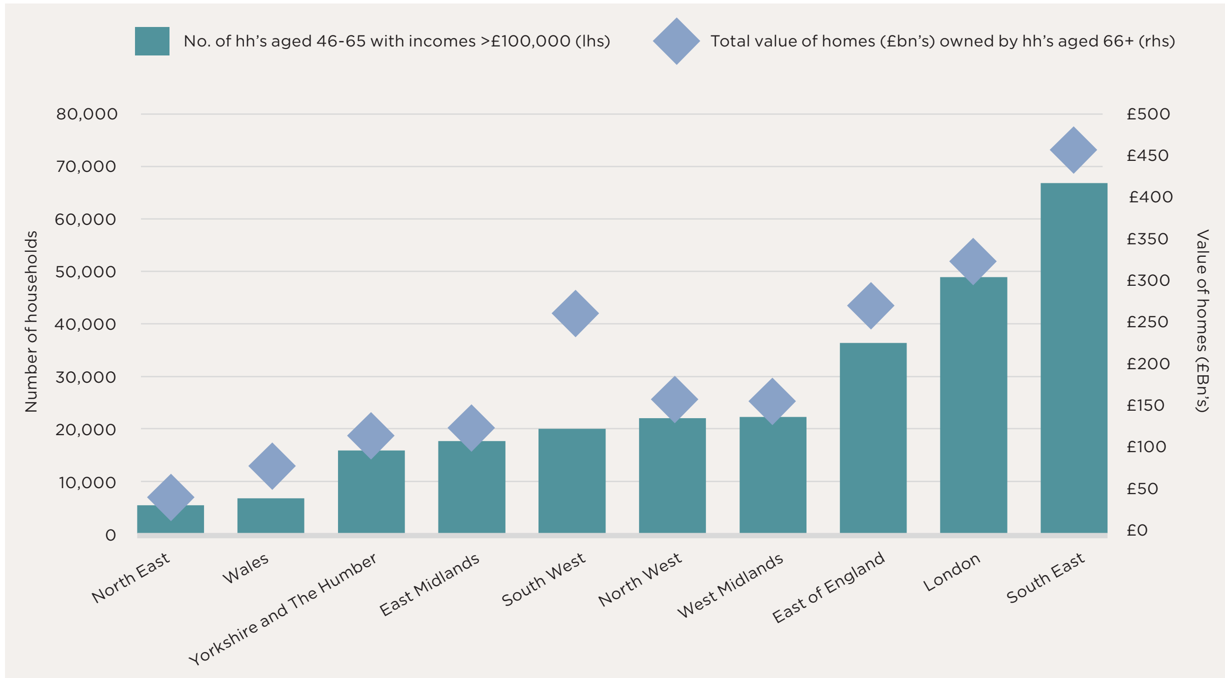
Whilst there is no shortage of equity amongst the target market for senior living homes, encouraging older homeowners to downsize into senior living is still a big challenge in the UK.

In time, and with the new generation of Integrated Retirement Communities, which offer a far superior product to what has come before, we expect demand to increase and in turn, accelerated delivery to follow.

This will also positively impact the wider housing market, by freeing up much needed housing stock for growing families, sharers and those currently priced out of the market with limited stock available.

The US market saw increased demand for senior housing when the model expanded to be an aspirational residential and service led model, offering hospitality services, attractive amenities and access to a continuum of care.

Wealthy households by age band and region



Source Savills using Census, English Housing Survey, Experian, HM Land Registry, UK Finance

Diversifying the mix of tenures

The rental IRC market in the UK is evolving, with Birchgrove and Auriens focusing solely on rental and many of the major players such as Inspired Villages and Retirement Villages Group delivering a range of housing types and tenures, including a small but increasing quantity of rental homes.

As we have seen in the US, which has an established rental senior living sector, one good indicator of demand for senior housing is wealth and high incomes amongst those aged 46-65 – i.e. the children of the people that will live in Integrated Retirement Communities.

This is because many retirees want to move closer to their children as they age, and studies have shown that the eldest daughter is often a key participant in a resident's decision to move into a retirement community.

Across England and Wales there are a total of 262,000 owner-occupied households aged 46-65 with household incomes greater than £100,000. Moreover, 44% of these households are located in London and the South East – a not dissimilar figure to the proportion of UK housing equity in the hands of the over 65s, which is also in London and the South East.

This indicates that not only are there wealthy over 65s driving demand in London and the South East, but the children of retirees are also amplifying the demand profile of that region.

Investors pile into Integrated Retirement Communities

2021 saw an abundance of deals struck and equity pouring into the sector. In the 18 months since the onset of Covid-19, the amount of investment committed to the UK senior living sector totalled £4.6bn. The vast majority of this was committed to the Integrated Retirement Community sub-sector.

The profile of investors is varied and includes UK pension funds such as Legal & General, Royal London and NatWest Group Pension Fund, banks like Goldman Sachs, investment managers such as Fore, Nuveen and Blackrock, family offices such as Capreon, and private equity cash from the likes of Lonestar and The Carlyle Group.

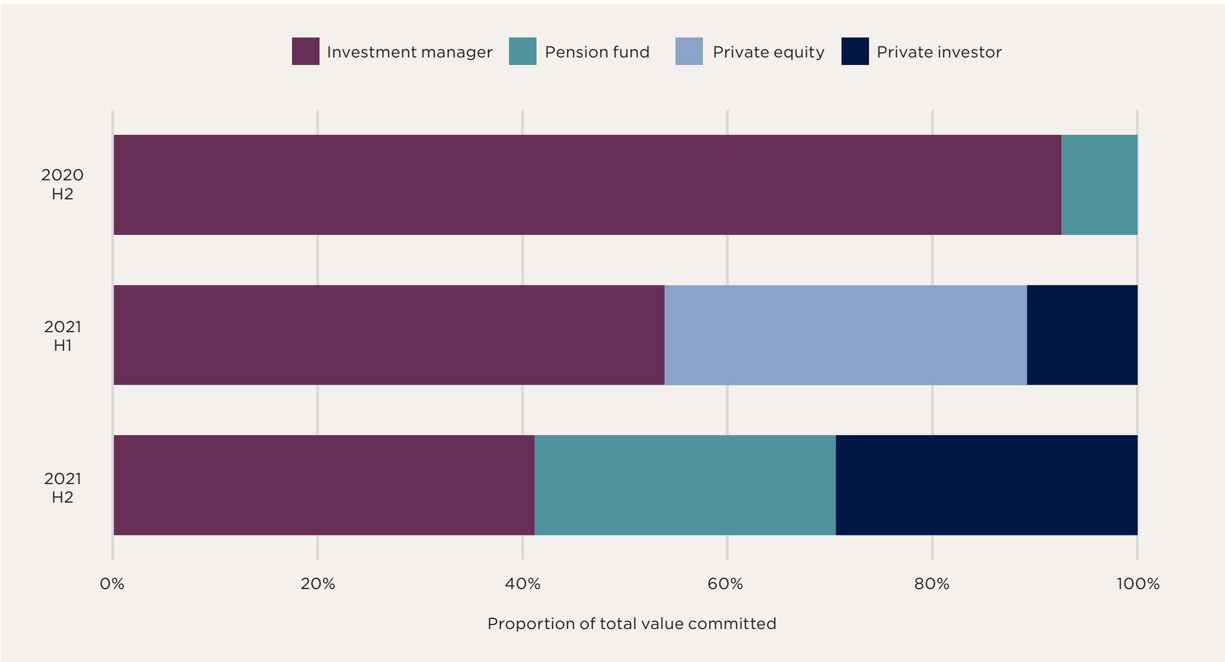
The investment has diversified in a short period of time. Whereas in 2020 almost all investment was by investment managers, in 2021 funding committed to the sector was split fairly equally between investment managers, pension funds, private equity and private investors.

As ESG (Environmental, Social and Governance) criteria also rise up the agenda across real estate, senior living looks set to benefit, as it offers favourable attributes under all three 'pillars' of ESG. For example, Legal & General and NatWest's joint venture in Inspired Villages will see the delivery of net-zero carbon schemes. Amicala will also develop ultra-sustainable net-zero Integrated Retirement Communities, with the backing of Fore Partnership.

With funds from investors like Legal & General and M&G, there is also the potential to combine other residential use classes like multifamily, single family, co-living, student housing and affordable housing into what is known as "intergenerational living", often found in Scandinavia. These schemes can aid community cohesion, increases diversity across tenures and can increase absorption rates.

With M&G investing in Birchgrove, there is also strong investor sentiment supporting the rental model, and with a mix of capital backing major operators such as Inspired Villages, Audley, and Riverstone, the extra firepower they are now armed with will continue to help accelerate delivery and grow the sector.

Investment into UK senior living by investor type



Source Savills

> "There are clear indicators that we could be at the beginning of an inflection point for investment into Integrated Retirement Communities, much like we saw in the USA over a decade ago"

Caryn Donahue
Head of Senior Housing Transactions, Savills

Selected major UK senior living transactions - 2020 to 2021

Year	Quarter	Developer / Operator	Investor	Value Committed	Details
2020	Q3	Audley Group	Royal London Pension Property Fund	£80m	RLPPF enter the market with an £80m investment into a JV with Audley Villages
		Riverstone Living	Goldman Sachs	£1bn	Goldman Sachs invests a further £1bn into Riverstone Living, having initially invested £2bn in September 2018
		Beechcroft	The Carlyle Group	Unknown	Carlyle acquires Beechcroft for an undisclosed sum
2021	Q1	McCarthy Stone	Lonestar	£656m	McCarthy Stone is taken over by US private equity group Lonestar, valuing the company at £656m
	Q2	Amicala	Fore	£300m	Fore Partnership commits £300m to provide 1,000 housing with care homes through Amicala with a focus on sustainability
		McCarthy Stone	Brigid Investments*	£200m	Brigid Investments invests £200m to develop McCarthy Stone's retirement living rental portfolio
		Elysian Residences	Schroders Real Estate / Octopus Real Estate	£200m	Elysian Residences, Schroders Real Estate and Octopus Real Estate join forces to develop £200m in luxury retirement housing
		Audley Group	Blackrock	£500m	Audley and BlackRock Real Assets form a multi-site JV with £500m gross development value
	Q3	Inspired Villages	L&G / NatWest	£500m	L&G enters into a 15-year JV with NatWest Pension Trustee Limited (NWPTL), to invest £500m of equity into Inspired Villages
	Q4	Preferred Homes	Nuveen	£500m	Nuveen in talks to back later living platform from Preferred Homes with £500m of equity
		Birchgrove	M&G	£200m	M&G partners with premium rental-only 'Housing with Care' developer/operator
		Revere Life	Capreon	£500m	Capreon and Revere Life enter a JV with a target to build £500m pipeline in Home Counties and Midlands
		ActivumSG Real Estate Fund VII	ActivumSG Capital Management	Unknown	ActivumSG established platform with senior management of Richmond Villages to develop and operate retirement villages

*JV between John Laing and Macquarie Capital

Source Savills

Savills Research

We are a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all property sectors throughout the UK, continental Europe, the Americas, Asia Pacific, Africa, India and the Middle East.

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