THE GROWING MARKET FOR SENIOR LIVING ACCOMMODATION

INTRODUCTION

BY DAC BEACHCROFT

The concept of housing specifically aimed at older people has many benefits. Improved quality of life and releasing larger, underutilised homes into the market for younger generations are just two. With numbers in the 65 plus sector of the population only expected to grow, senior living is an expanding asset class. We asked Dr Margarethe Theseira to look further into the demographics and economics around this asset class, into new and emerging models and into further changes required to support this expanding market.

Tailored housing that is accessible, well designed and well located for local facilities offers the opportunity for an easier life in retirement. Bespoke retirement villages may reinvigorate a person's social life through their offer of a wide range of activities and communal areas that provide opportunities for making new friends. There is evidence that residents in senior living units have better health outcomes than older people living elsewhere; designs that minimise the risk of falling, for example, and social facilities that reduce feelings of loneliness.

There is the added advantage that by providing an attractive alternative, older homeowners may benefit from releasing equity from their existing properties which they can use to fund their retirement years. Senior Living accommodation can also contribute to addressing wider housing market concern, by enabling older people to downsize and release their homes onto the market for growing families.

This article explores the changing structure of the UK's population, wealth levels and housing tenure to demonstrate a strong foundation for investment into alternative options for senior living. It highlights specific policy interventions that the public sector is being urged to make to enable the growth of the sector and highlights how investors are moving into this increasingly popular alternative residential asset.

Demographic change

In common with global trends, people in the UK are living longer than ever before. There are nearly 12 million residents in the UK aged 65 years and older and the growth in older persons is set to continue. By 2030, one in five people in the UK will be aged 65 years and older, 6.8 per cent will be over the age of 75 and 3.2 per cent will be over the age of 85 years.[1]

Older people are more likely to live in rural areas and by the coast than in urban areas. Figure 1 shows how the distribution of the proportion of older people is set to change by 2039.

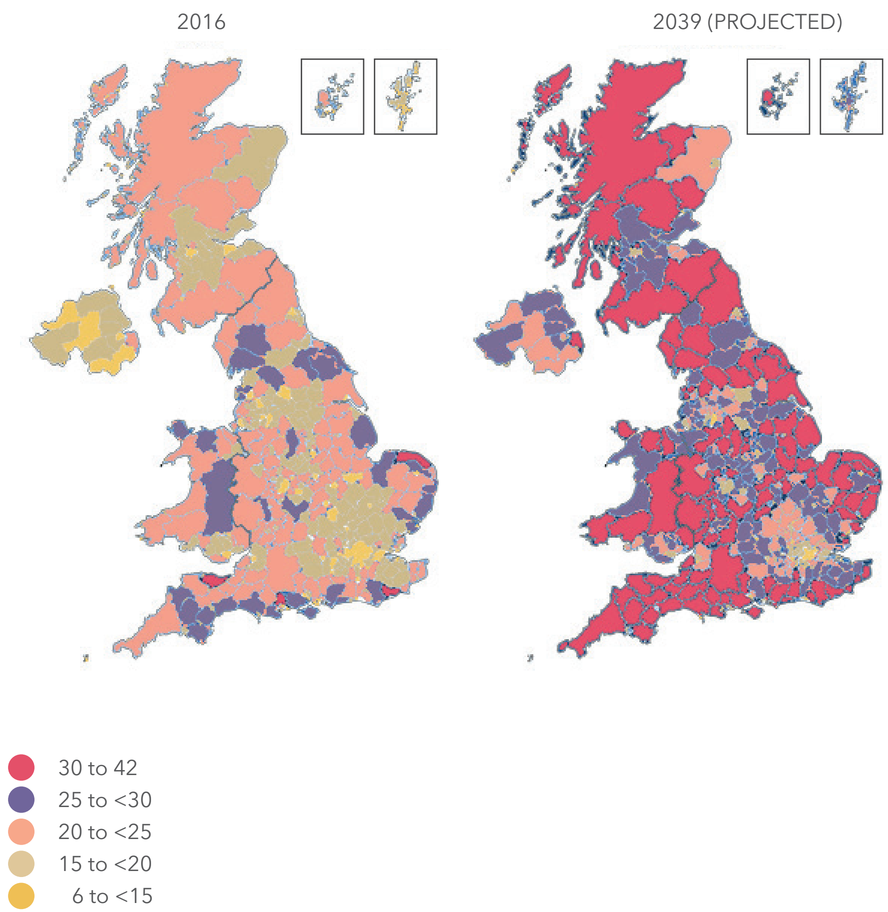
An ageing population brings a range of opportunities and challenges at both the individual and societal level. There are implications for pensions, social care, housing and well-being. For example, what are the consequences of older people working longer and how will vital caring roles evolve when people in their 60s may be providing care for their parents who are in their 90s, as well as providing care for their grandchildren?

As people age, they are more likely to be disabled and/or experience multiple chronic and complex health conditions. Across the UK, men reaching 65 years are expected to have an average of 10.3 further years of healthy life and women 10.9 years.[2]

This article does not cover changes to the housing market sector catering specifically for people who require medical interventions i.e. housing with care and care homes, but instead will focus on the growing group who may wish to have reassurance that someone is available to provide assistance should it be required, but do not require attention 24 hours a day.

1 Living Longer: How Our Population is Changing and Why It Matters, Office for National Statistics, 13 August 2018
2 Health State Life Expectancies, UK: 2015 to 2017, Office for National Statistics, 12 December 2018

FIGURE 1. PROPORTION OF PEOPLE AGED 65 AND OLDER IN THE UK, 2016 AND 2039



Source: ONS, 2018

Employment rates, wages and wealth of older people in the UK

Older people are staying in work for longer which will potentially impact on the ideal location of where people would like to live. Given that there are more job opportunities in urban areas there may be a growing preference of Senior Living Units based in towns and cities rather than in the countryside.

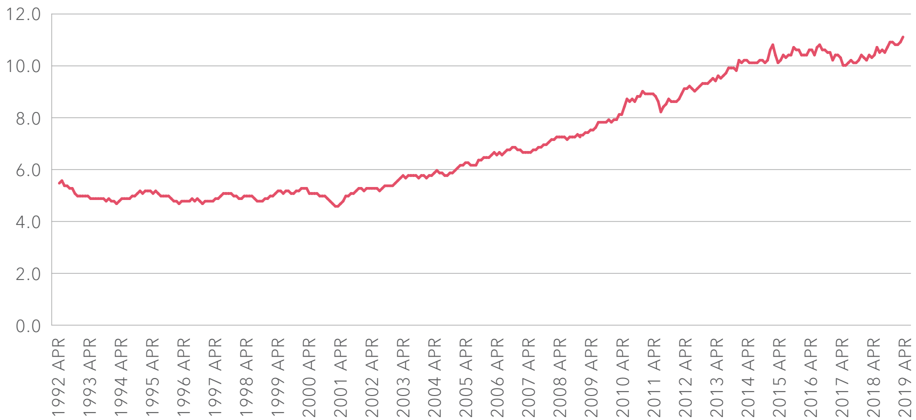
The number of people in work in the UK has been reaching record high levels in recent years with more women in work than ever before. This is in part due to changes in the State Pension age, resulting in fewer women retiring between the ages of 60 and 65 years.

The average age of retirement for women in the UK was 63.9 in 2018, 3.3 years older than 3 decades previously when they retired at an average age of 60.6 years. For men, in 2018 the average retirement age was 65.1, 2 years older than in 1998 when it was 63.1.[3]

There has been a steady increase over the past few decades of older people remaining in work with 11 per cent of over 65s in employment as of April 2019 (Figure 2). Older workers (those aged between 65 and 74 years) are more likely to work part time filling 8 per cent of part time jobs and 1.5 per cent of full-time jobs.

3 Department of Work and Pensions, Economic labour market status of individuals aged 50 and over, trends over time: October 2018 (experimental), published 11th October 2018

FIGURE 2. EMPLOYMENT RATE OF PEOPLE AGED 65 YEARS AND OLDER



Source: ONS, Employment Rate 65+ People, July 2019

Table 1 shows that the salaries of older employees (those aged 60 years and above) is lower for employees who are full time but higher for part time employees than for employees of all ages across the wage spectrum.

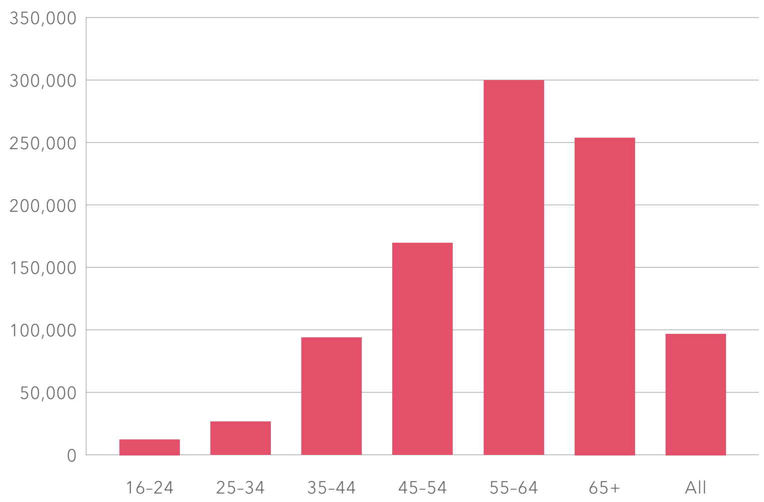
TABLE 1. HOURLY PAY OF EMPLOYEES BY AGE AND BY HOURS WORKED.

	Hourly Pay – Gross (£)			
Hours worked	**Age of employee**	**Bottom 20% of earners**	**Median earners**	**Top 20% of earners**
Full Time	All	9.70	14.37	22.89
	60+	9.45	13.36	21.71
Part Time	All	7.86	9.35	15.81
	60+	8.07	9.89	16.97

Source: Office for National Statistics, Annual Survey of Hours and Earnings 2018.

As would be expected, given that wealth can be accumulated over time, older generations are richer than younger generations. Those aged between 55 and 64 years old have the highest median wealth levels at £298,500 followed by those aged at least 65 years old with £252,900.

FIGURE 3. MEDIAN WEALTH OF INDIVIDUALS IN THE UK BY AGE, JULY 2014 TO JULY 2016

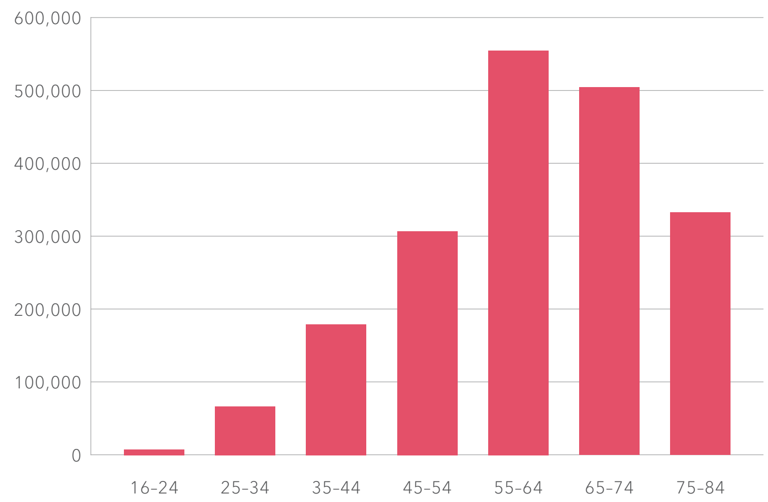


Source: Wealth and Assets Survey which defines total net wealth as the sum of four components and is net of all liabilities: net property wealth, net financial wealth, private pension wealth and physical wealth

However, housing decisions are typically made for a household rather than at an individual level. Figure 4 shows the median wealth of households are above £500,000 where the household reference[4] person is aged between 55 and 74 years old.

4 The Household reference person (HRP) is defined as: the sole householder if a person lives alone or where there are joint householders the person with the highest income is the HRP and if both householders have exactly the same income, the older is taken as the HRP.

FIGURE 4. MEDIAN WEALTH OF HOUSEHOLDS IN THE UK BY AGE OF HOUSEHOLD REFERENCE PERSON, JULY 2014 TO JULY 2016

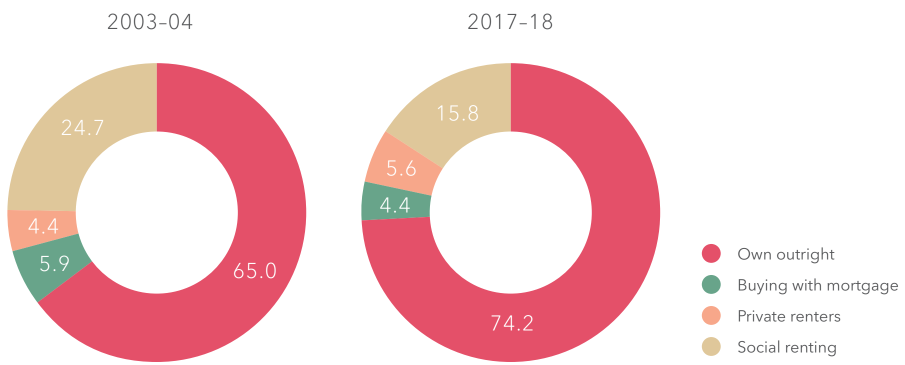


Source: Wealth and Assets Survey which defines total net wealth as the sum of four components and is net of all liabilities: net property wealth, net financial wealth, private pension wealth and physical wealth.

Housing tenure of older people in the UK

One third of households in the UK, some 6.5 million homes, are headed up by a person aged 65 years or older. In England, there has been a substantial shift in tenure over recent years. In 2017/18, three quarters of older households owned their homes outright, up from 65 per cent in 2003/04. However, there were fewer households in social housing at 15.8 per cent in 2017/18, down from nearly a quarter 15 years before. This provides more opportunities for older home owners to release equity from their property by moving into different accommodation, should they desire to do so.

FIGURE 6. CHANGES IN THE TENURE OF OLDER HOUSEHOLDS BETWEEN 2003/04 AND 2017/18



Source: Ministry of Housing, Communities and Local Government, English Housing Survey 2017 to 2018, published in 2019.

Likelihood of moving home and reasons why fewer people actually do than would like to

There is evidence that many older households are in accommodation that is bigger than their current circumstances require. There are 1.1 million homes in England, with two or more spare bedrooms, that are owned and occupied by a person aged 65 or over who lives alone.[5] Survey results suggest that while the majority of older people would prefer to remain in their own homes, a sizeable minority would choose to move into different accommodation. In 2016, 64 per cent of people with disabilities and 62 per cent of non-disabled people aged 65 years and older reported that they would choose to remain in their own home with some adaptations.[6]

Of those that do choose to move homes the main reasons cited for wanting to do so was to reduce the cost of maintenance and the potential for releasing equity. However far fewer people move homes than would be expected. Of the 10.3 million households where the oldest resident was aged 55 or over, just 0.87 million households (8.4%) had moved in the three years up to 2014/15.[7] According to RIBA the reason behind this is that while a quarter of over 55s are considering moving home, 49 per cent feel that the housing options available are inadequate.

5 ONS, Census 2011
6 Ipsos Mori, Accessible Housing Survey 2016
7 DCLG, English Housing Survey 2016 to 2017: Headline report

International comparators

Compared to other countries, the senior living market in the UK is still nascent, accounting for only 1 per cent of the population. There is plenty of opportunity to grow this share which reaches as high as 17 per cent in America and 13 per cent in Australia.[8]

The USA has a large and growing market with more than 10,000 Americans celebrating their 65th birthday each day. Projections show that by 2040, the population aged over 65 will grow by 90 per cent.[9] Tenures of older Americans are also changing, in the last 10 years there has been a 28 per cent increase in renters aged over 55.

Price growth in Senior Living Units supplied by large scale investors has outperformed the apartment investment market over the last 1, 5 and 10 year investment horizon.

Price growth (percent per annum)		
Investment horizon	**Senior Living Units**	**Apartments**
1 year	6.9	2.0
5 year	8.4	4.1
10 year	3.7	1.0

Source: Dataloft using NCREIF Data to Q1, 2018

Given the level of returns on investment, it is unsurprising that investor interests remain strong in the USA. 62 per cent of respondents to a recent CBRE survey indicated that they are expecting to increase the size of their portfolios over the next 12 months.[10]

8 Dataloft Consult and Elysian Living, Aspirational Later Living, Q1 2019
9 US Bureau of Labour Statistics
10 CBRE, Summer 2019: US Seniors Housing and Investors Survey

Changing the focus of Public Sector Policy to support the Senior Living Sector

Recent Government policies such as the Help to Buy scheme and relief on Stamp duty are very much aligned with supporting first time buyers into the market. This support has been successful in meeting its aims as first-time buyer levels are now near levels reported prior to the financial crisis. However, there is a wider risk to blocking the housing market arising from fewer older people moving choosing to downsize. A senior 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 older people could have a sizeable impact on the overall supply of homes and will boost the market by enabling more transactions[11].

Around 6,000 Senior Living Units came to market last year, but estimates are that there is annual demand for three to five times that number. At the upper end of the market there are a growing number of developments with high-end facilities providing high quality amenities, some domestic assistance and a rent that includes all utilities and maintenance. Extending the provision to an intermediate market aimed at serving older people unable to afford the higher end of the housing market, market but not eligible for social housing.[12] requires a supportive legal and regulatory framework which enables new models of retirement housing and a wider range of providers.

11 JLL, Delivering the opportunity for retirement living
12 Jack Airey, Building for the Baby Boomers: Making a housing market for an aging population, Policy Exchange, December 2018

The Royal Institute of British Architects has put out a call to deal with "England's Hidden Housing Crisis" relating to the lack of supply of Senior Living Units. Their recommendations include:

RIBA Recommendations[13]

'Mainstreaming' age-friendly design so that all new build housing is accessible and adaptable by

- Adopting the M4(2) Category 2 immediately for all housing that receives public financial support and in the longer-term aim to reach this standard for all mainstream housing (excluding those where step-free access is not feasible)
- Homes England should consider the local requirement for specialised old-age housing and ensure that this is catered for in development proposals it provides funding for
- Government should expand the Community Housing Fund to encourage community-led housing schemes that specifically meet housing need for older people.

Removing barriers in the planning system that restrict the delivery of age-friendly homes by

- Reviewing planning use classes to account for the range of current and emerging age friendly options and ensure that Section 106 obligations and Community Infrastructure Levy are applied appropriately
- Local Authorities should ensure sufficing specialised housing for older people through local plans
- Government should remove the requirement for 'Category 3' (wheelchair user) housing to be subject to viability testing where need can be demonstrated.

The Government should provide better information and support for people who want to move home by

- Making it a legal duty for Local Authorities to maintain an Accessible Housing Register
- Supporting the development of a new standard that makes accessible housing easily identifiable in the sales and lettings markets.
- Consulting on reforms to the equity release market to encourage "rightsizing"
- Pilot the introduction of fiscal incentives for older people moving, such as the removal of Stamp Duty when moving to a smaller home

Introducing Government funded design awareness training for planners and local councillors and new settlement programmes incorporating Lifetime Neighbourhood principles

13 Daniel Stern, Ian Warren and Andrew Forth, A Home for the Ages: Planning for the Future with age-friendly design, Royal Institute of British Architects & Centre for Towns, July 2019

Investing in Senior Living Units

There has been a large expansion of investment into the residential sector over recent decades and this is anticipated to continue growing. Knight Frank estimate that the UK residential sector will reach £146 billion by 2025. Much of this investment is currently within student housing which has around 600,000 units, followed by 30,000 units in the Build to Rent sector and just 4,000 units within developments catering for Senior Living.

Investors seeking to diversify their investments within the broader residential sector are aware of the opportunities arising from the UK's newly establishing Senior Living sector with increasing interest from investors not only from UK investors but also from overseas including the USA and Canada. Of the three residential sub-sectors, mean annual rental growth rates were expected to be the highest for senior living units rising by 3.5 per cent in London and 3.2 per cent in the regions to 2024.[14]

The Associated Retirement Community Operators has set out in their vision statement the desire to invest £40 billion with the aim of increasing the numbers of people living in retirement communities from 75,000 today to 250,000 by 2030.[15]

Senior Living Unit providers are changing their business models by offering more flexible buying options including shared ownership options as well as rental and home ownership. These alternative buying methods can help to reduce the amount of stamp duty due, thereby reducing the penalty for older people who are downsizing.

14 Residential Investment Report 2019, Knight Frank
15 http://www.arcouk.org

Conclusion

The growth in numbers of older persons and their relatively higher levels of wealth make this an attractive sector for investors. The improving and diversifying ranges of facilities and services on offer by providers is growing the appeal of senior living units for its target market as is the greater range of tenures now on offer. There is a recognition within the public sector that there are wider societal benefits to supporting the delivery of bespoke homes for older residents. Senior Living Units can demonstrably improve people's health and wellbeing as well as help to stimulate the wider housing market by freeing up family sized units for younger generations. A growing convergence of public and private sector players will boost the provision of Senior Living Units in the UK to levels in line with international comparators.

About Dr Margarethe Theseira

Dr Margarethe Theseira is an independent consultant specialising in urban economics. She has extensive experience in providing investment, policy and strategy advice working with clients spanning the private, public and charity sectors. Margarethe spent over a decade managing the economics and intelligence functions for the Mayor of London and Greater London Authority Group. She served as the Chief Advisor to the London Fairness Commission, is a Principal Fellow at University College London and holds a PhD in modelling from Cranfield University.

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