

Sector update: Real Estate

Senior living: significant market opportunity in a Covid world



MAY 2020

As the UK's population continues to age, the imbalance between supply and demand in the retirement housing market is rapidly becoming acute. Despite some immediate uncertainty due to Covid-19, the medium to long-term fundamentals remain very positive. By 2038, it is estimated that the number of Britons over the age of 65 will account for around 24% of the population, up from 18% in 2018. This represents an elderly population of around 17.5 million, with the continuing demographic shift a result of declining fertility rates and increasing life expectancies.

Favourable supply/demand dynamics

The baby boomer generation has built up considerable wealth in savings and pensions, as well as an estimated £1 trillion in UK housing equity. This demographic is now looking to downsize, encouraged by government policy aimed at releasing underutilised housing stock, and many are considering retirement options that allow them to live independently while accessing care when required.

There is, however, a severe shortfall of appropriate retirement housing. Most older people favour home ownership over renting, and recent research suggests that while 25% of older people would like to buy a retirement home, only 2.7% will find a suitable property from available housing stock. Industry trade body ARCO's target for 250,000 over-65s to be living in retirement communities by 2030 would require 11,130 housing with care units to be built per year, far above the ten-year average of 3,260 units. Even if this were achieved, the UK would still lag significantly behind the more mature markets of the US, Australia and New Zealand.

Operational-led assets increasingly attractive

These underlying dynamics create a significant opportunity for investors to explore a new frontier in operational-led real estate, particularly in nascent areas such as retirement villages and care facilities offering a combination of housing, leisure facilities and care and support.

Indeed, over the past year the UK senior living sector has seen record levels of investment. In August, Riverstone Living completed the sector's largest transaction recorded to date with the forward purchase of the Royal Warwick Square development in Kensington for £300m, which will be converted into 190 premium for-sale senior living apartments. In the same month, Audley entered into a £400m joint venture with Octopus and Schroders to develop four retirement villages that will deliver over 500 units.

Another record-breaking transaction was Aviva's acquisition of five care homes from super-prime developer Hadrian Healthcare, which, at over £100m, is the highest per-bed valuation on record. The luxury homes, which offer high-end facilities such as cinemas and in-house chefs, will be let to Anchor Hanover on a 35-year lease.

In terms of current transactions, high-end retirement housing developer Auriens has recently launched a £500m capital raise process to fund the build out of its £1.6bn four-site London portfolio, which will deliver 368 luxury apartments.

In addition, new entrants are coming to the market. In mid-2019, Legal & General launched Guild Living, a new offering with plans to deliver 3,000 new urban homes over the next five years equating to a gross development value of around £2 billion. AEW UK is also looking to develop a senior living proposition following its success in the US market.



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The medium to long-term fundamentals of senior living remain very positive, despite some immediate uncertainty.

HOONG WEY WOON,
PARTNER, UK

Range of UK and international investors attracted to senior living

Pre-Covid-19 there was rising accessibility to debt funding for development and acquisition, and a growing range of domestic and overseas investors looking to diversify away from traditional real estate asset classes. Post-Covid-19, we expect investment to increase and further consolidation.

Private sector investment has helped to change the perception of retirement housing and communities and, combined with positive underlying demographics, this will continue to fuel growth in the sector in the long-term.

Impact of Covid-19 on the senior living market

In the more immediate future, it remains to be seen what impact the Covid-19 pandemic

will have on the senior living market. Where operators are able to “lock down” (by accommodating sleep-in staff and keeping ventilators on-site) there is potential for a spike in demand as gated, self-sufficient retirement villages are viewed as safe havens during any future outbreaks. Sites which offer additional benefits such as automated health and wellbeing facilities, technology which enables residents to connect to the outside world, and specialist suites whereby friends and family can visit in a safe way, will be especially attractive to older people in the “high risk” category. This may further fuel demand for senior living in the medium term.

Real Estate & Hospitality Team

The Alantra Real Estate and Hospitality team includes real estate experts with significant M&A, advisory and industry experience. Over the past decade, the Alantra team have completed more than 100 transactions including M&A, equity capital markets, debt capital markets and distressed debt.



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