Senior Living - The Asset Class for the Future

JUNE 2022

ZENZIC CAPITAL

Contents

Overview

SPEED READ

- The immediate development opportunities in the senior living sector are clear, with policy initiatives, delivery targets, and an ageing population indicating a prosperous future
- Recent estimates forecast an annual increase of c.190,000 of UK residents aged over 65, increasing the relevance of senior living
- Retirement Communities offer a great combination of various income streams alongside capital growth opportunities, compared to other traditional asset classes
- Senior living appears resilient to the impact of Covid 19 and has not diminished investor appetite, with attractive yields still apparent
- Recent research by Knight Frank detailed a £1.40bn investment in the UK for housing with care in 2021 – an increase on the previous year – and a further £1.85bn has been committed for investments in the sector in 2022

We have been tracking the latest investment developments in the retirement communities sector and are excited by the growth potential of the asset class

Senior living has been a recurring discussion for a long time and while it may seem as though it is progressing more slowly than it should, the appetite from the investment community combined with the positive market dynamics will inevitably lead to it becoming one of the most critical asset classes globally from a socio-economic standpoint.

In the UK, where the penetration rate (access to senior housing) is particularly low, the immediate development opportunities are obvious. Policy initiatives, the delivery targets, and the ageing population are clear indicators of the prosperous future for the sector.

What is Senior Living?

Quite often the various types of senior living - as well as the complex jargon - create confusion for investors when it comes down to which asset class has the most prospects of future value appreciation and which ones follow the global trends regarding the ageing population and its needs.

ARCO (Associated Retirement Community Operators), the main body representing the UK retirement sector, defines senior living - or more correctly - “Retirement Communities” as follows:

Retirement Communities – also known as extra care, retirement villages, housing-with-care, assisted living or independent living – combine high quality housing options for older people with tailored support services. They allow residents to rent or own a property and to maintain their privacy and independence, with the reassurance of 24-hour on-site staff, communal facilities, and optional care and support as needed.

They include a range of facilities such as a restaurant or café, usually alongside leisure and wellness facilities such as gyms, hairdressers, activity rooms, residents’ lounges, and gardens. They typically consist of 60-250 units, often self-contained homes for sale, shared ownership or rent.

Other living options for older people include:

1. Retirement Housing

- Also known as sheltered housing or retirement flats
- Self-contained homes for sale, shared-ownership or rent
- Part-time warden and emergency call systems
- Usually have a lounge, laundry facilities, gardens, and a guest room
- Typically 40-60 units

2. Care Homes

- Also known as Nursing Homes, Residential Homes, Old People’s Homes
- Communal residential living with residents occupying individual rooms, often with an en-suite bathroom
- 24-hour care and support (including meals)
- Range of facilities and activities, including gardens, lounges, and dining rooms
- Sizes vary considerably

An easy way to distinguish between asset classes is for one to think of the level of care provided in each of the categories:

- **Standard Residential Housing** – No care
- **Retirement Housing** – Housing Support
- **Retirement Communities** – Housing with care
- **Care Home** – 24-hour Care

Quite often the various types of senior living - as well as the complex jargon - create confusion for investors

Source: arcouk.org (ARCO)

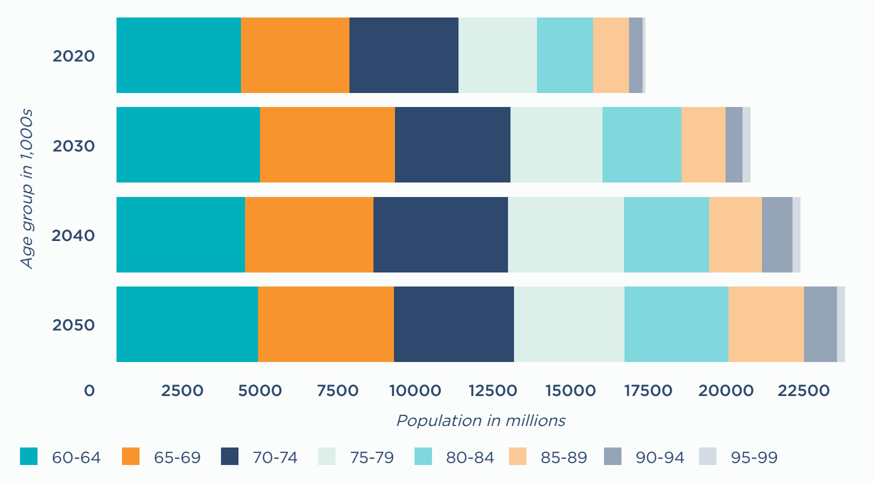
Most interestingly, housing with care, or as described previously "retirement communities", has a wide range of care offerings, therefore adaptable to each community resident.

The Opportunity

Lack of housing supply has traditionally been the main driver for the UK government and local councils to push for policies that would allow rapid property developments. The number of senior citizens (over 65s) is now over 12m with the 2040 projection being over 17m (statista.com.) A move towards the easing of the regulations currently constricting the construction of residential developments specifically addressed to that age group is the obvious and necessary path to follow as a society; both from an ethical and a financial standpoint.

We believe that the senior living sector could become one of the strongest asset classes in the years to come

Figure 1: Age Groups in Population [1]



We believe that the senior living sector could become one of the strongest asset classes in the years to come, benefiting from changing policies, the arrival of more specialised property development firms, and a wide range of peripheral services.

The above figures show an annual increase of UK residents aged over 65 of c.190,000. As councils continue to struggle to meet their target, a focus on senior living stock becomes more relevant than ever.

According to ARCO, only 70,000 housing with care units exist in the UK, servicing approximately 90,000 people. Comparing this to 440,000 units of traditional housing without on-site support and 456,000 care home beds, shows an under-supplied asset class.

In addition, earlier research from Knight Frank concluded that in the UK housing-with-care is forecasted to grow by c.50% in the next 5 years, which is unlike any other asset class addressed to this age group. Considering the key fundamentals driving the demand and developers pushing forward with larger schemes, it is unlikely that the forecasted figure will deviate significantly from its original level.

[1] ONS

Figure 2: Penetration Rate [2]

New Zealand

Retirement Villages Act 2003

5.5% of over-65s live in a Retirement Community

Australia

State-based (e.g. Retirement Villages Act New South Wales 1999)

5% of over-65s live in a Retirement Community

United States

State-based (e.g. Continuing Care Retirement Communities Act in North Carolina

6% of over-65s live in a Retirement Community

UK

No sector-specific regulations in the UK

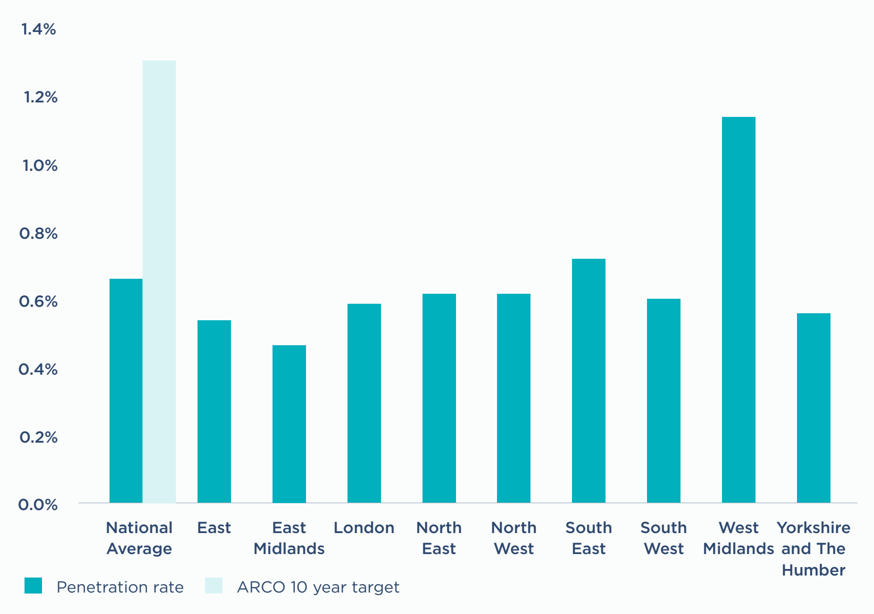
0.6% of over-65s live in a Retirement Community

The West Midlands is the most served UK location

The above percentages show the "penetration rate" highlighting just how underdeveloped the sector is in the UK when compared to similar markets and the opportunity for growth.

JLL Research provides interesting research showing the rate per region for the housing-with-care type:

Figure 3: Housing with Care Penetration Rate [3]



As observed, the West Midlands is the most served location, with the South East, while providing the higher property values in the UK, is substantially underserved thus providing the greatest opportunities for retirement communities.

[2] www.arcouk.org/key-sector-facts
[3] JLL, ARCO, EAC, ONS

Income Streams

Compared to other traditional asset classes, Retirement Communities offer a great combination of various income streams alongside the growth opportunity described above. Income streams include:

- Property
- Facilities management
- Common activities and amenities
- Food and beverage services
- Mental health support
- Care

Compared to traditional asset classes, Retirement Communities offer a great combination of various income streams

Figure 4: Components of Income (gross p.a. 2019/20) [4]

	Ground Rent	Service/ Management Charge	DMF	F&B	Care and Wellness	Other
Schemes with third party care	2.7%	65.9%	22.5%	6.8%	1.5%	0.7%
Schemes with operator delivered care	2.1%	58.7%	20.2%	5.9%	12.5%	0.4%

We recognise the significant value-add generated by various ancilliary income streams which distinguish it from closely related asset classes such as care homes which serve a more specific purpose and typically target a narrower age demographic.

Major Developers

Some of the most well know names in the industry are as follows:

Audley Villages - www.audleyvillages.co.uk

McCarthy Stone - www.mccarthyandstone.co.uk

Inspired Villages - www.inspiredvillages.co.uk

Retirement Villages Group - www.retirementvillages.co.uk

Anchor Hanover - www.anchorhanover.org.uk

Riverstone - www.riverstoneliving.com

Churchill Retirement Living - www.churchillretirement.co.uk

New entrants from last year include Blackrock, Macquarie, M&G, and Natwest [5]

[4] Knight Frank Research
[5] Knight Frank

The COVID-19 Impact in Europe

After the first UK lockdown of 2020, Savills Research reported the limited impact it had on the Senior Living sector. The limited impact follows the below logic:

1. The strong fundamentals of the asset class as described above persisted:

- Shortage of housing supply;
- Ageing population;
- Need for good quality senior living stock;
- Sector growth opportunities.

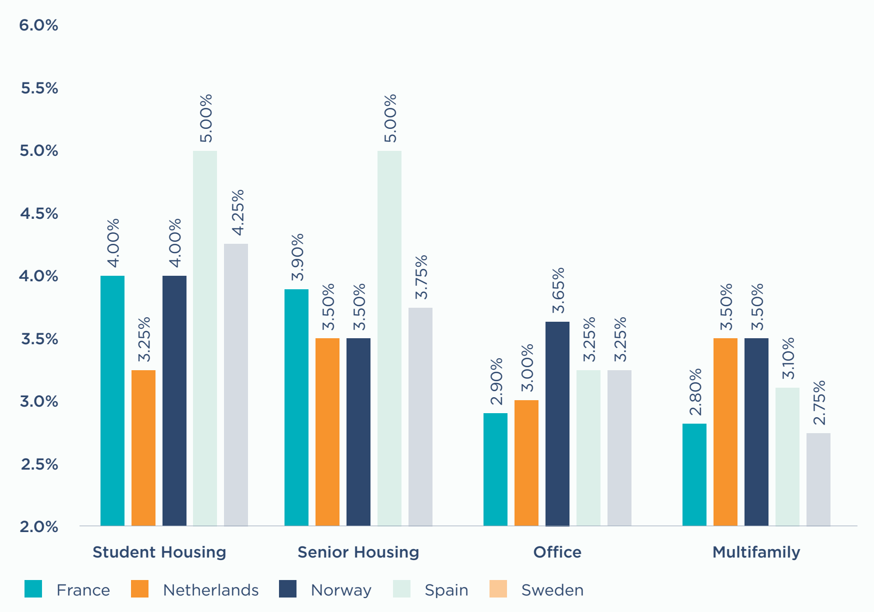
2. A shared concern in senior living communities translated into a more careful approach towards locking down and pausing of the respective activities, with fewer visits from outside parties as compared with other care-related asset classes.

Following the COVID-19 pandemic, there is no indication of investors' interest diminishing

Senior Living in Europe

Savills reported a 25% increase in European investments in the first half of 2020, at €515m lead by the UK and France. The achievable prime yields per country are as follows:

Figure 5: Prime Yields per Country [6]



There is currently no indication of investors' interest diminishing, once again due to the traditionally limited supply. Despite a yield compression expected for prime assets, the sector still offers relatively better yields than some other asset classes; albeit there may be some time before we experience any significant downward push.

[6] Savills research

Conclusion

The ageing population to delivery ratio continues to increase each year

As discussed above, we believe the next few years will see a substantial effort to deliver more 'housing with care' units in the UK and that the current supply-demand imbalance represents significant investment opportunity

The supply deficit largely due to the ageing population to delivery ratio which continues to increase each year; noting that c.80% of current residents are over 80 years old. The impact on asset prices is already being felt. The average senior living unit price vs average local residential house price as was presented by Knight Frank research in 2021:

Figure 6: Downsizing Premium [7]

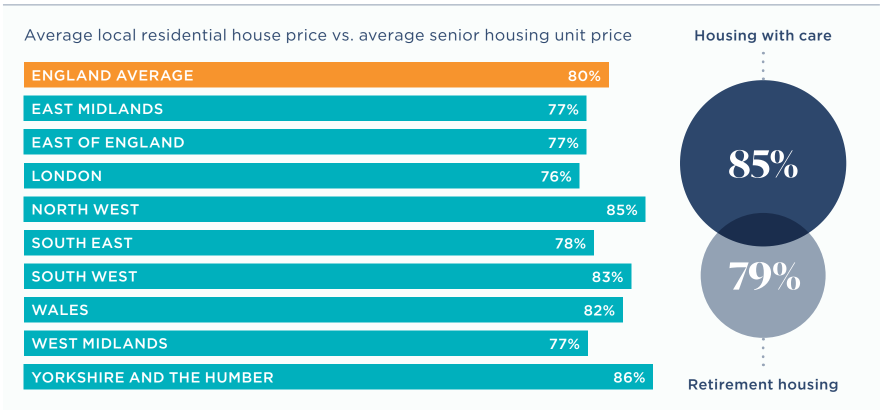
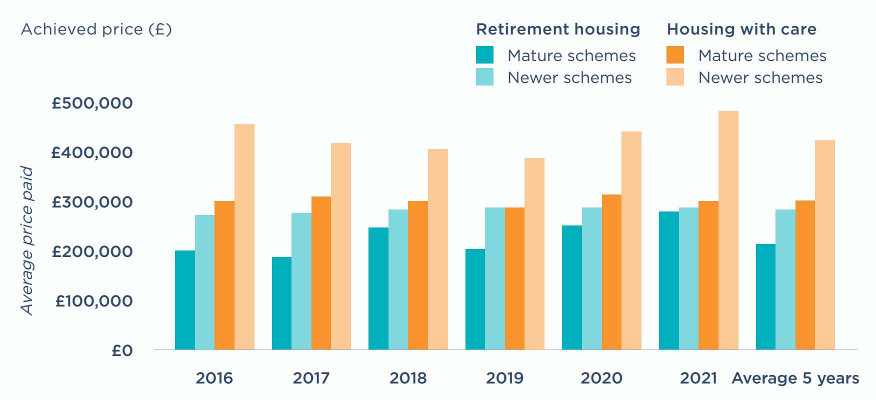


Figure 7: Average Price Paid per Annum for Senior Housing Units in England [8]



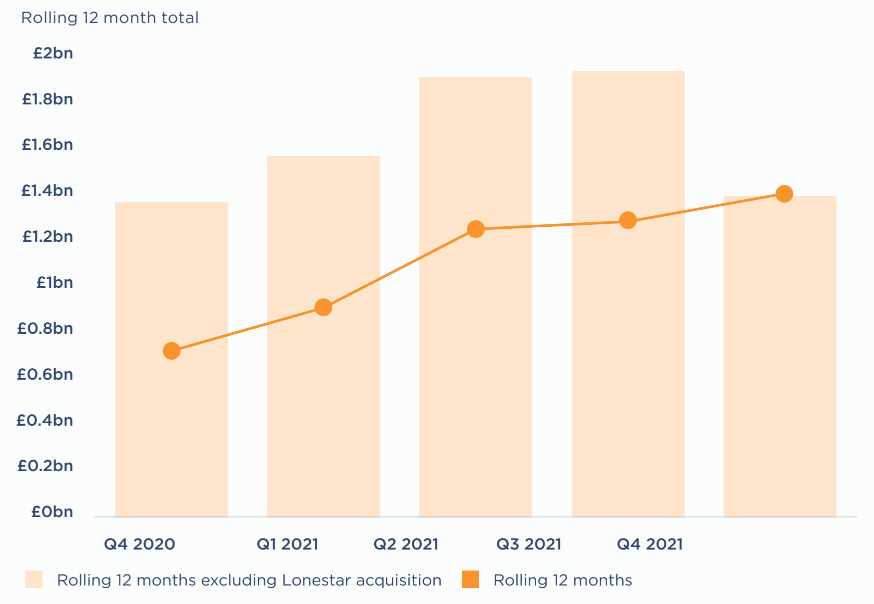
[7] Knight Frank
[8] Knight Frank

Investors are beginning to take note. Recent research by Knight Frank detailed a £1.4bn investment in the UK for housing with care in 2021 - a 2.2% increase compared to 2020. Not only was there a greater amount of capital deployed, deal flow saw an increase of 15% over the same period.

An estimated further £1.85bn has been committed for investments in the sector in 2022 with a significant number of planning applications having been submitted in late 2021.

There remains an active interest in the sector given its excellent combination of the relevant macroeconomic dynamics and strong fundamentals

Figure 8: Senior Housing Investment Volumes [9]



Zenzic has an active interest in the sector given its excellent combination of the relevant macroeconomic dynamics and strong fundamentals. Having been underserved for a very long time, there is demonstrated ongoing interest from large developers and their funders.

We will keep monitoring the sector with special focus on retirement communities and are confident that we will see significant growth in the near future.

[9] Knight Frank

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