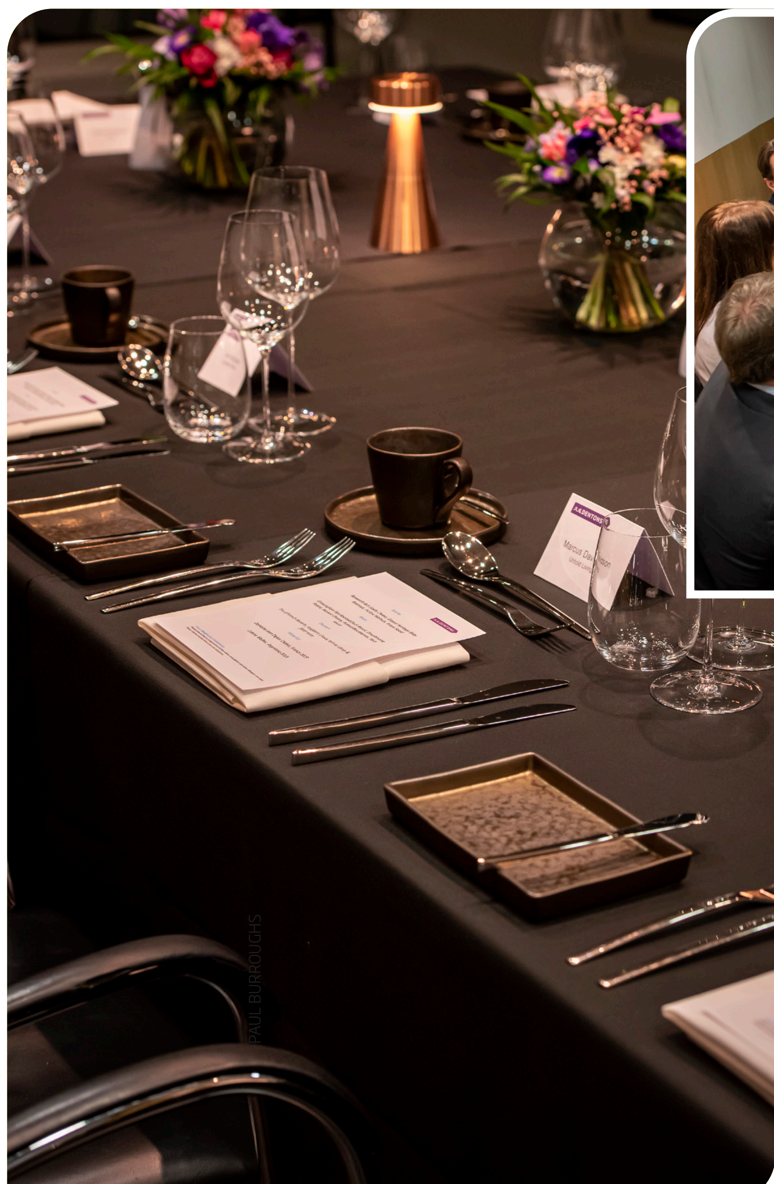
THE OUTLOOK FOR UK LATER LIVING

Property Week and Dentons brought together an expert panel from across the later-living sector to discuss the need to educate investors, occupiers and council planning teams about the sector's key role. **Tim Clark** reports



PAUL BURROUGHS

Honor Barratt, chief executive, Birchgrove
Kevin Beirne, director of retirement, Octopus Real Estate
Jamie Bunce, chief executive, Inspired Villages
Tim Clark, legal and professional editor, *Property Week*
Marcus Davidson-Wright, chief financial officer, Untold Living
Caryn Donahue, head of senior housing transactions, operational capital markets, Savills
Andrew Muckian, real estate partner, Dentons
Andrew Ovey, head of healthcare real estate, AXA IM Alts
Jose de Pablo, director of healthcare acquisitions, Harrison Street
Lem Bingley, editor, *Property Week* (co-chair)
Roy Pinnock, planning partner, Dentons (co-chair)

Lem Bingley

Roy Pinnock

Andrew Ovey

Honor Barratt

"The challenge we have is that people stigmatise any sector they don't know," observed Jamie Bunce, chief executive of Legal & General later living business Inspired Villages, at a recent *Property Week* roundtable, sponsored by law firm Dentons.

Bunce was one of a group of experts who came together to assess the opportunities and challenges facing the sector. He sees a lack of knowledge about business models in the sector as a particular stumbling block.

Others at the roundtable concurred. "The thing I've always said about the sector is that nobody has a clue what it is," observed Andrew Ovey, head of healthcare real estate at AXA IM Alts. He added that ideas about later living held by property professionals outside the sector are often coloured by negative stereotypes.

Similar views were aired by Marcus Davidson-Wright, chief financial officer of developer and operator Untold Living. "We need people to understand what the product is [if we're going] to stimulate demand," he said. "The more people who understand it, the more investors want to go into it, then the more debt providers, developers and operators will go into it."

These hurdles are not unique to the UK. Andrew Muckian, real estate partner at Dentons, said the later living sector in Ireland faced entrenched negative attitudes that are only slowly beginning to shift.

"There are a lot of nursing homes [in Ireland] that are not fit for purpose," Muckian said, adding that Irish retirees typically expect to stay in their existing home well into their 80s and beyond. "The future is very much an open question. If we get more retirement villages built, we could get people selling their existing homes, and positively affecting [housing] supply that way."

Ageing will be probably the biggest macro-economic influence on the developed world in the next 25 years

Kevin Beirne

Kevin Beirne, director of retirement at Octopus Real Estate, voiced similar concerns. "Ageing will be probably the single biggest macro-economic influence on not just us, but the rest of the developed world over the next 25 years," he said. "There must be a more cohesive answer [to later living] than we've managed so far."

According to Beirne, most older people are well aware of the demographic changes affecting the UK, even as they stay on in big, under-occupied family homes. But those same people are often very unsure about the prospect of selling up or downsizing into a retirement rental or a 'last-time buyer' home.

"They are not happy with the status quo," he added. "If you talk to older people, they are quite anxious about what they should do next."

Solving the later-living riddle would certainly ease pressure on constrained housing supply, but as AXA IM Alt's Ovey pointed out, the current scale of the UK's dedicated retirement sector is barely big enough to make a dent. "There are only 70,000 or 80,000 [integrated retirement community] units across the whole country today – we can't meet the demands of five million over-75s," he pointed out.

According to the November 2022 Mayhew »

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Caryn Donahue


Kevin Beirne


Jamie Bunce


Jose de Pablo

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Review – a comprehensive assessment of elderly care and housing needs conducted by Professor Les Mayhew – the UK will need to allocate up to a quarter of all new homes to later living if it is to cater for the estimated 17 million people who will be aged over 65 by 2040. In raw numbers, that means adding around 50,000 new homes for older people every year.

While a spiralling population of older people may be a daunting prospect for society, it underscores the scale of the opportunity for the real estate sector. The government has recognised the need for a step change in focus, and in February last year it pledged to set up an older people's housing taskforce, with the aim of boosting provision across the country. However, roundtable participants questioned whether any real progress had been made in establishing the taskforce.

There is no shortage of topics for the taskforce to tackle. Roundtable participants cited a range of urgent issues: changes to leaseholds; removing barriers to institutional investment; reviewing payment models; and easing blockages caused by property taxes such as stamp duty, among others.

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Jamie Bunce

Planning is another big sticking point. Attendees suggested tweaks to the planning framework could help normalise the retirement village as a class of development, which in turn could have an impact on development pipelines – in much the same way that measures to help the build-to-rent sector have stimulated a plethora of rental schemes.

Clear guidelines needed

It was agreed that clearer guidelines about how local authorities should approach projects were needed. Currently, a scheme classed as C2 (a residential institution) does not have to include affordable housing, but a scheme put into the C3 (general residential) bracket does. Decisions are often inconsistent across different local authorities, resulting in unpredictable costs.

"There is often a lack of clarity about how a late-stage review [of Section 106 contributions] would be calculated," Beirne said. "Lack of clarity can make it difficult for investors to back specific schemes. There should be no room for misinterpretation [of planning rules] about how different distributions will be made as a result of different scenarios, if late-stage reviews are to be successful in the UK."

Inspired Villages' Bunce added that putting the sector on a similar planning footing as other use classes would boost investor confidence and spur the development of more integrated retirement villages.

"Then investors will feel more comfortable moving into a normal use-class instead of a nascent sector," he said. "If we can get a level playing field, especially when comparing what benefits are created by retirement communities versus open-market housing or build-to-rent, we can start to deliver much-needed supply to meet the growing demand."

Potential investors may also lack an understanding of how income is generated in the sector, such as through 'event fees' or deferred management fees (DMFs) – where monthly bills for later living care and other services are kept low by agreeing a


Marcus Davidson-Wright


Andrew Muckian


Tim Clark

contribution from a person's estate.

"When it comes to event fees, there is still a lot of uncertainty about how the fee structure works," agreed Roy Pinnock, planning partner at Dentons. "Explaining it to a planning authority is difficult; and explaining it to a funder is particularly tricky, especially if you have a viability review mechanism within the planning agreement."

Pinnock noted that some local authorities, in particular the Greater London Authority (GLA), had begun to explore how funding mechanisms prevalent in different parts of the property sector affect the success of housing developments.

"The GLA is now looking very closely at that, [as well as how] the co-living or the student sector is funded," Pinnock added. "They want to get right under the bonnet and understand exactly how funding coming in affects [housing delivery]."

Attracting corporate backers

Jose de Pablo, director of healthcare acquisitions at investment firm Harrison Street, said that mechanisms such as DMF, once liquidity is proven, can help to make later living investments attractive to corporate backers.

"It still requires a lot of education in general with most investors," de Pablo said. "But there is a much better understanding of the value proposition in that there is a cost of providing services that the deferred management fee in effect provides."

However, he added that DMF cash flows were only predictable across a large pool of occupiers and the structure "needs to take into consideration the alignment of interests between operators and residents, and, in the case of an exit, continue to align investor and operator".

Given current trends in commercial property, investors may decide to give later living a closer look. According to Savills' head of senior housing Caryn Donahue, the sector often figures as one of the most resilient areas of the real estate market.

In the US in 2007 to 2008, for rental growth, senior housing was one of the only non-negative sectors

Caryn Donahue

"In the US in 2007-08, when you looked at rental growth, senior housing was one of the only non-negative [sectors] when compared to other asset classes," Donahue said. "Which demonstrates that it is somewhat insulated from uncertain economic times."

She added that backing strong and experienced operators would help solve the riddle of expanding the sector, while ensuring quality isn't compromised.

"Historically, the sector in the UK has been led by developers that didn't have operational capabilities and were mainly focussed on development returns; however, this is changing as more quality operators have entered the space," she observed. "In more mature markets, such as the US, it's the opposite – operators have by default become developers."

So could an operator-led model become the key to expanding the sector?

"Most people here would welcome more people coming into the sector," said de Pablo. "We are on the tipping point. There are operators and investors who will pivot towards the sector as that tipping point becomes more obvious. Hospitality operators, for example, still have not entered the UK market, as they have in other countries around the world."

De Pablo said he expected more operators, especially care home operators and hotel chains, to move into retirement schemes, as an evolution from the developer-led interest seen to date. Although the development aspect is clearly important, especially as the sector grows, he believed the sector would thrive in the long term as more operational platforms were established.

Honor Barratt, chief executive of later-living provider Birchgrove, said: "One of the things I've seen in the last quarter is people coming into this market thinking, 'This looks right,' but then doing it wrong." She added that an influx of rogue operators could pose a risk to the whole sector.

The industry is currently self-regulated by the Association of Retirement Community Operators (ARCO), which has a remit to ensure that the quality of later living developments is kept consistently high. Its status as a voluntary regulator means it may lack bite, however.

Ovey shared concern that one "bad apple" could unleash problems for the entire sector: "One of my biggest fears is that a new entrant sours a nascent market for everybody who is trying to do it right," he concluded.