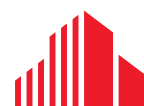


SENIOR LIVING THE IMMINENT DEMAND & EMERGING OPPORTUNITY

DECEMBER 2020



**CUSHMAN &
WAKEFIELD**



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INTRODUCTION AND KEY FINDINGS

The Baby Boomer generation is ageing and set to enter the senior housing market imminently, bringing vast wealth, growing expectations and a volume of seniors not seen before in the sector.

In this report we have analysed not only the demographic tailwinds that are clearly demonstrated by our ageing population but also the key wealth component that this section of society will bring in unprecedented numbers. The expectations and desires of the Boomer generation are key drivers behind the innovation seen in recent years by the operators and developers shaping the future of retirement living in the UK.

New operating models are allowing for choice and diversity in the market and superior products with effective care components are proving to be the only sustainable way to begin to correct the supply and demand imbalance. We have explored the reasons behind why there is a vast void in the market for quality senior living product and where those immediate opportunities lie for operators, developers and investors.

KEY FINDINGS



THE POPULATION OF

OVER 75s

IS SET TO INCREASE BY **56%**
OVER THE NEXT **20 YEARS**

HOUSING WEALTH BACKED
BUYING POWER OF **OVER 75s**
HAS INCREASED

321% IN THE LAST
20 YEARS



PROJECTED COMBINED
HOUSING WEALTH FOR
THOSE **75+** TO REACH

£2.4TRN
BY **2040**

19 MEMBERS

OF THE **OVER 75** COMMUNITY FOR
EVERY **ONE RETIREMENT HOME**
DELIVERED IN THE LAST
10 YEARS*



*Data as of 2018

THE SOUTH COAST IDENTIFIED
AS THE **STRONGEST AREA**
OF OPPORTUNITY



SOUTH HAMS HAS

142 CITIZENS

AGED **OVER 75**
FOR EVERY **ONE**
RETIREMENT UNIT

UK RETIREMENT LIVING – TODAY'S PROVISION

At present, the provision for senior living accommodation across the UK is severely limited, leaving the older population who wish to improve their standard of living in their later years with very few properties that are appealing and fit for purpose.

As it stands, the choices available to most seniors are to remain within their family home, to move in with immediate family, to move abroad, or to live in mainly state funded senior living housing. The latter is what is now perceived to be outdated in its offering in most markets as many schemes provide a generally basic level of accommodation with care provisions to match, giving the current elderly population the perception and expectation that this type of accommodation is the norm.

As the sector evolves, we are seeing new innovative operators changing the course and evolving senior living accommodation into aspirational, lifestyle and care driven communities to provide the future elderly population with superior and more desirable options. However, the supply of the UK's quality senior living provision still falls very short of the growing demand across the country.



THE DEMOGRAPHIC TIDAL WAVE

WE MUST LOOK BACK TO MOVE FORWARD

Our current retirement population mainly hails from the Silent Generation, whose ages as of 2020 would be between 75-92.

This generation was born and spent their early formative years in the midst of the extreme hardship of both the second world war, and the Great Depression. Their general personality traits are often considered to be 'frugal', 'disciplined', and with an appreciation for the simple things in life. When considering this, it is perhaps easier to understand why the marketplace currently looks like it does and the existing provision for senior housing is considered substandard and grossly under supplied, as historically the UK provision has been positioned to attract a much different generation.

These traits also appear to show through in how this group tend to live, with lone living hugely prevalent. At present, nearly half (42%) of all the UK's residents aged over 75 live alone, with this group containing twice as many women as men. The damage this isolation brings to mental health is only now being fully understood, and it is essential that the case for encouraging more social existences is strongly put forward. This has been compounded by our recent experiences regarding Covid-19, where we all experienced first-hand the damaging effects of isolation, making retirement living schemes even more desirable than before.

42%

OF MEN AND
WOMEN **OVER**
75 LIVE ALONE



Fuelled by a 34% increase in the number of over 75s since the turn of the millennium, investor, developer and operator interest in the senior living sector has grown rapidly in recent years. Operators and developers have specifically paid attention to the higher-end retirement housing with care, providing superior amenities and a focus on the occupant's standard of living, wellbeing, and socialisation opportunities within their communities. Number of over 75's set to increase by 56% in the next 20 years, this interest from key investors and operators will undoubtedly continue to grow.

While current ordinary retirement housing options have been deemed adequate for our current occupants, the Silent Generation, they are almost certainly not suitable for the cohort joining the sector in the next 30 years* - [Enter the Baby Boomers.](#)

(*based on this group entering the sector between the ages of 74 and 86).

THE BABY BOOMERS

Rarely has there been such sharp differences between the characteristics of two neighbouring demographic groups as there are of the 'Silent Generation' and the 'Baby Boomers'.

In stark contrast to the frugality and selflessness of the Silent Generation, the Baby Boomers represent the new world, with their lives running in parallel with a historic period of economic growth, and its associated sustained period of standard of life improvement. They are comfortable with consumerism, personal growth and gratification, and characterised as being 'social', 'indulgent' and in their early years almost invented the 'spend now, worry later' approach to life.

As highlighted in Figure 1, the end of the Second World War gave rise to an increase in birth rates,

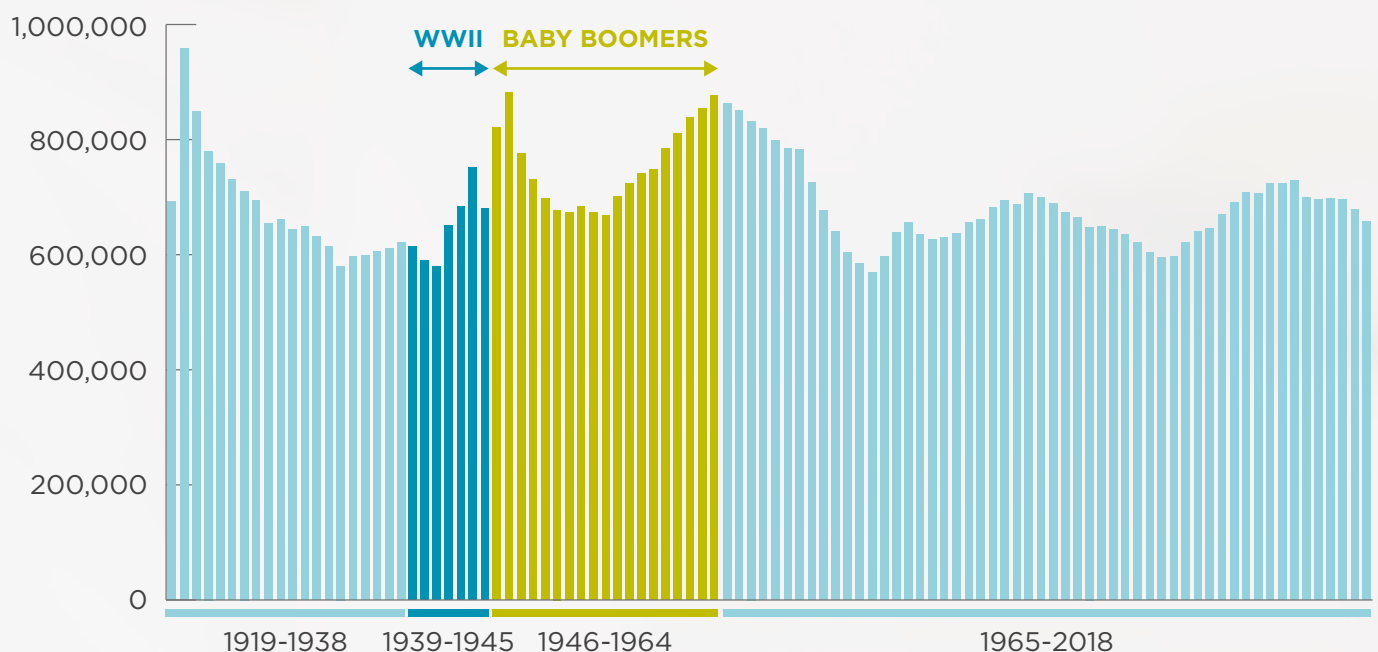
with the resultant Baby Boomer generation being more numerous than those that both preceded and followed it. However, we strongly feel this is only part of the picture as the first of this generation, those currently aged 74, now begin to enter the senior living marketplace.

The ageing Baby Boomers are set to have a major impact on the senior living market due to three key factors;

- Rapidly growing group
- Habitually indulgent and social group – perhaps the bedrock of the future retirement living market
- Extremely wealthy in comparison to preceding generations.

The wealth profile and social characteristics of the ageing population are set to shape not only the amount of money available to spend for a senior living product, but also determine how operators will design and cater to a much wealthier and social demographic.

FIGURE 1: NUMBER OF BIRTHS (ENGLAND & WALES)



Source: Office for National Statistics (ONS)

BOOMER WEALTH AND BUYING POWER

There are two distinctive differences between the Baby Boomers and the preceding generations:

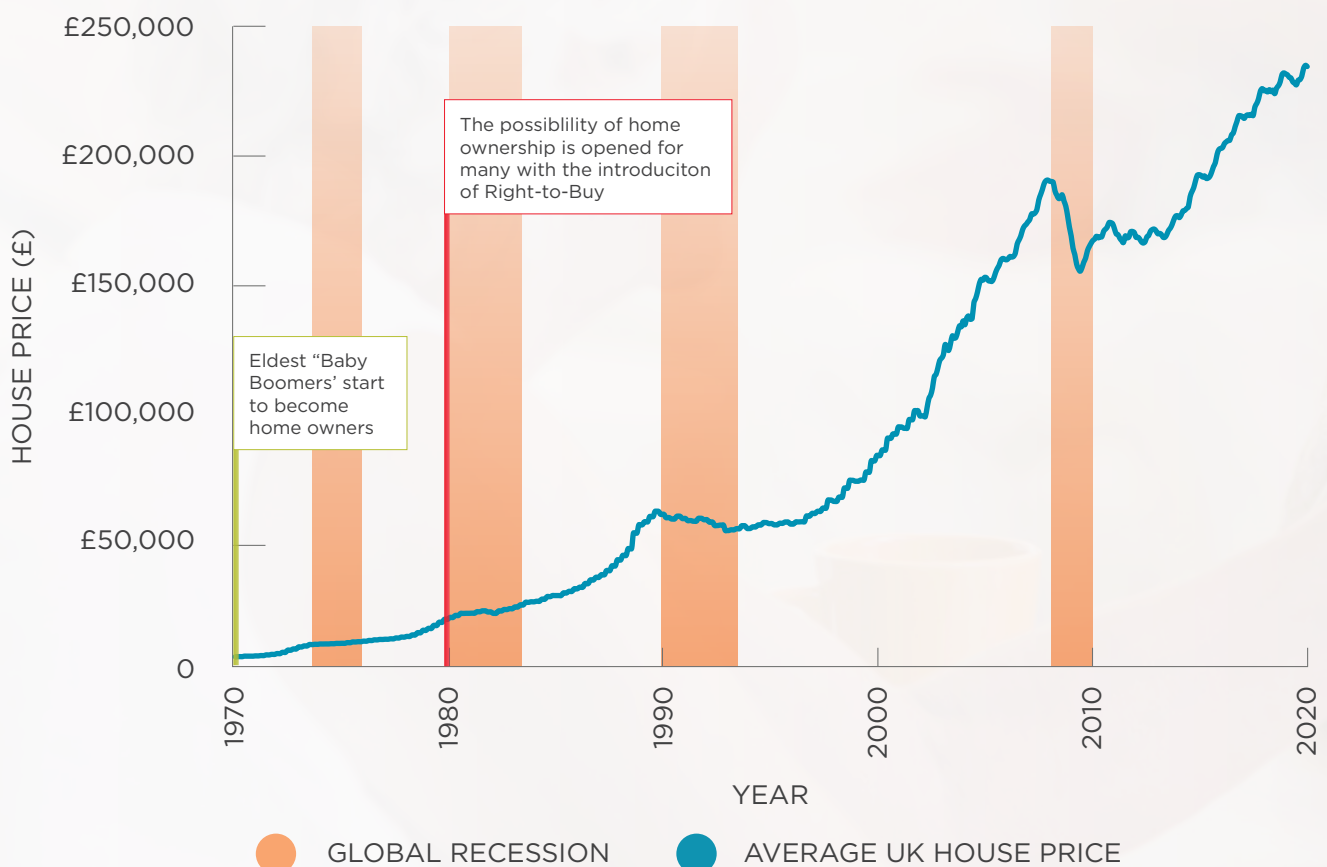
- Their attitudes towards money
- Their significantly higher average personal wealth compared to the Silent Generation.

This is due to a sustained period of economic growth during the 'Boomers' formative adult years, a period of rapid house price growth in the UK which has led to older homeowners sitting on substantial housing wealth.

The Boomers wealth is a key factor when analysing the senior housing market as growth on this scale has not been seen in recent history.

As highlighted in Figure 2, annual rates of house price inflation during the Baby Boomers home ownership years have ran at a far higher level than general inflation. In 1970, the average UK home cost £3,920, meaning that if house price inflation had tracked overall inflation, that home would currently be worth £61,095. However, the actual current average UK house price is £231,855.

FIGURE 2: BABY BOOMERS & HOUSE PRICE INFLATION



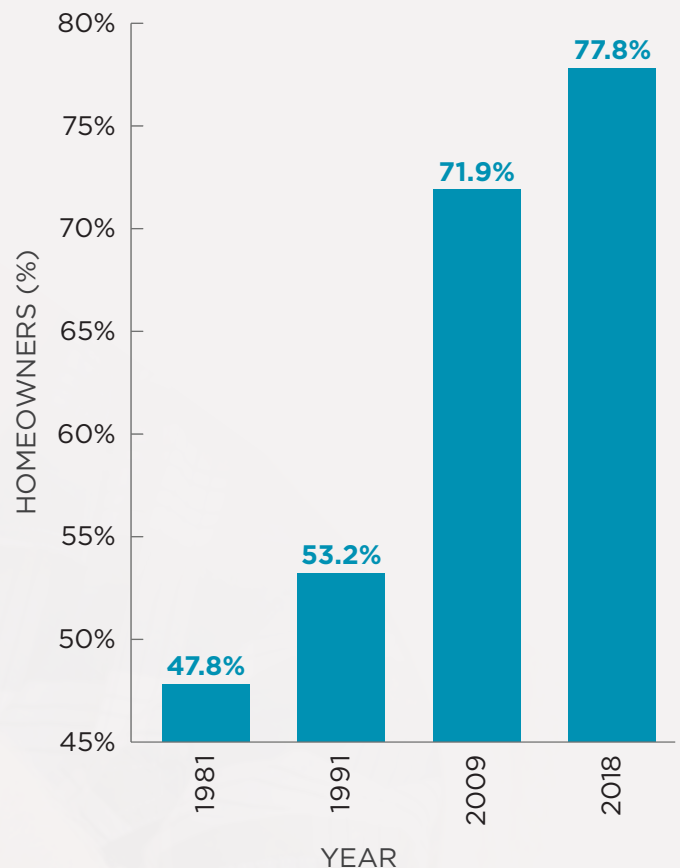
Source: ONS/UK House Price Index (UK HPI)

Due in-part to the 'Right-to-Buy' scheme of the early 80's, the Baby Boomer Generation are also more likely to own a home than the Silent Generation.

Since its introduction in late 1980, the 'Right-to-Buy' scheme has allowed 1.8 million households to buy their previously council owned homes, with around 1 million of these sales coming in the decade following its introduction (1980-1990). These peak years of the scheme coincided with the Baby Boomers being aged between 16 to 44. The scheme entitled council tenants to buy their home at between 33-50% of market value (before being capped at a £25k discount in the late 90s), using a very low deposit, with guaranteed, state-backed mortgages.

This led to entire sections of society experiencing home ownership for the first time in their family's histories. Figure 3 clearly highlights how this scheme has subsequently fed through into high home ownership rates in elderly groups, with the legacy of the scheme sure to see this trend continue in the near-term.

FIGURE 3: PERCENTAGE OF HOMEOWNER OVER 75s



Source: English Housing Survey

78%

OF **OVER 75s**
ARE HOMEOWNERS*



*Data as of 2018

There are significant factors of consideration when analysing the Baby Boomer Generation.

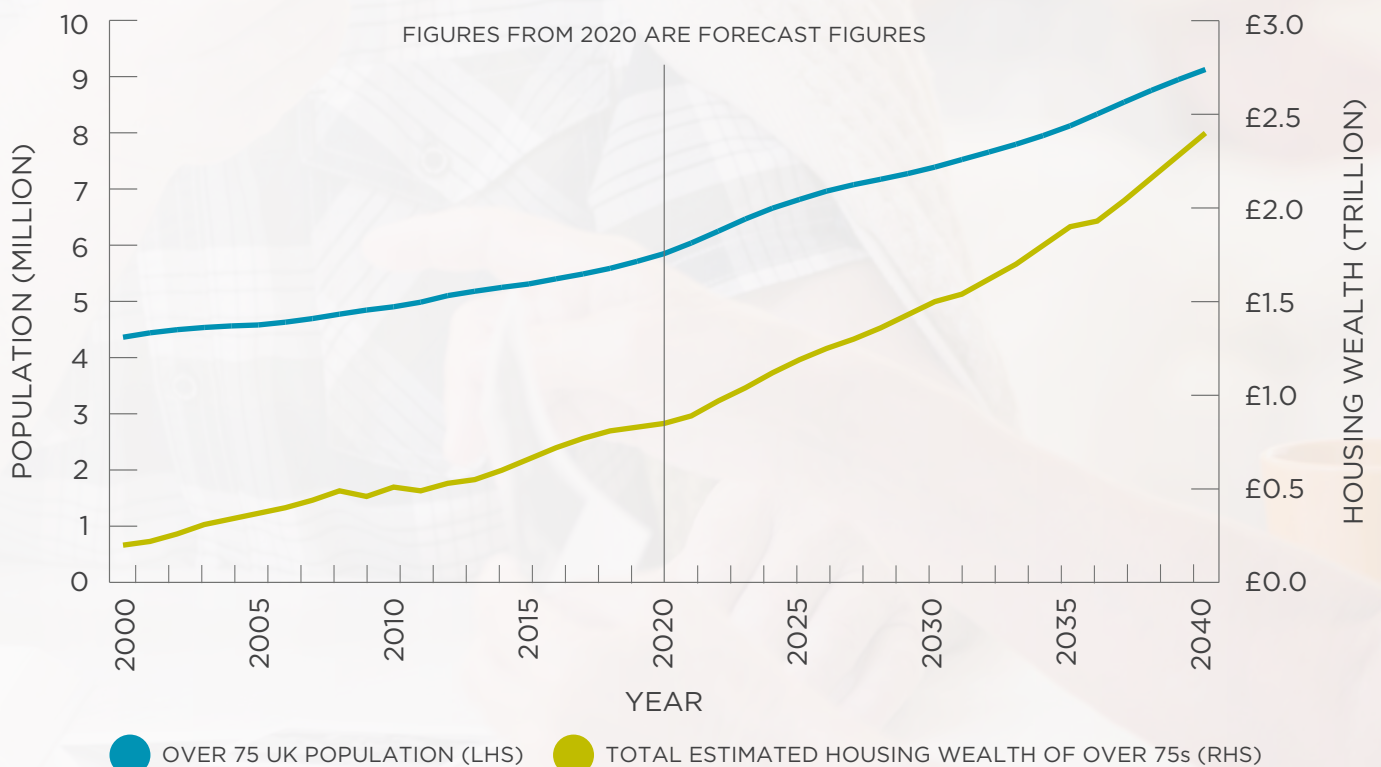
- This generation is growing rapidly in number
- They are more likely to own a home creating wealth in an appreciating asset
- Their buying power is multiplied and grows significantly.

When accounting for these three elements, we can see that while the over 75 population has grown 34% in the previous 20 years, their buying power increased by a staggering 321% in that same time period.

Latest forecasts from Oxford Economics show that, despite rates of house price inflation expected to cool somewhat in the coming 20 years, this 'super-charge' effect is still evident, with the next 20 years (2020-2040) forecast to see a 56% increase in the number of over 75s, and a huge 182% increase in their combined housing wealth/later retirement living buying power. This brings the projected combined housing wealth of people aged over 75, to £2.4trn by the year 2040.

BY 2040 **BUYING POWER**
IN OVER 75s IS FORECAST
TO INCREASE BY
182%

FIGURE 4: HOUSING WEALTH OF OVER 75s POPULATION



Source: ONS/UK HPI/Oxford Economics

ASSESSING WEALTH & INHERITANCE DEMANDS

While we've established that the Baby Boomer Generation are larger in number, wealthier, and more comfortable spending, there is one final factor to acknowledge. They also have a far greater need (and desire) to access, what is in most cases, their very illiquid housing wealth.

This trend is born out in housing equity release data, where latest figures from the Equity Release Council show in Q1 2020, a record £1.1bn of equity was released, which was a 14% increase on Q1 2019, and the second quarter in a row that over £1bn had been accessed, with the average customer initially choosing to withdraw the not inconsiderable total amount of £107,000. Whilst this data isn't available in age segments, it would be safe to assume due to the modelling of equity release, that a large proportion of this released wealth is by older people. There are many reasons why older people choose to release wealth. Largely anecdotal and survey-based evidence

suggests that around a quarter of equity releasers are doing so to pass cash onto a family member. As highlighted in Figure 5, whilst the Silent Generation's offspring hails largely from the wealthy Baby Boomer group, the offspring of the Boomers themselves come mainly from the older end of the far less wealthy Generation Y/Millennial groups, meaning they are in some need of inheritance or wealth passed on from their parents.

Baby Boomers are entering a new stage of their life and are set to revolutionise retirement living. Figure 6 shows the combining factors that differentiate people now entering retirement living, from the generations that preceded them:

PERFECT STORM (2020-2053)

The group now entering retirement living are:

- Wealthier than previous generations
- They need to release this wealth to pass to less well-off offspring
- Have more liberal attitudes to spending/ prepared to spend released housing wealth.

FIGURE 5: DEMAND MATRIX

| | 2020 ages | Their relative wealth | | Average age of children | Wealth of offspring* | | Need to pass wealth to offspring | | Combined ability and need to pass wealth |
|--------------------------|-----------|-----------------------|---|-------------------------|----------------------|---|----------------------------------|---|--|
| Silent Generation | 75 to 92 | Low | | 56 (Boomers) | High | | Low | | Low |
| Boomers | 56 to 74 | High | → | 38 (Gen Y) | Low/Medium | → | High | = | Very high |
| X | 41 to 55 | Low/Medium | | 19 (Gen Z) | Low | | Very high | | Very high |
| Y/Millennials | 24 to 40 | Low | | Eldest 11 (Gen Z) | Low | | Very high | | Low/Medium |

*AT PARENTS TIME OF ENTERING RETIREMENT LIVING

Source: ONS

PERFECT STORM
c. 30 year trend 2020-2053

HIGH QUALITY HOMES FOR SENIORS REQUIRED TO FREE UP MUCH NEEDED FAMILY HOUSING

The wealth held by the Baby Boomer generation and their need to release equity creates much pent-up demand.

At this crucial period, the ability to have access to, and identify a senior living product that is high quality, desirable, and provides the option for care is a key factor in the decision-making process for the elderly to sell larger assets, like the family home, reposition their investments to pass on wealth to their children, and move into a senior living scheme. Ensuring attractive and desirable options are available and suitable for seniors lies in the hands of operators and developers and it is vital to the wider future of the UK housing market. Seniors who sell their larger properties and move to developments specific for senior living will free up much needed family housing.



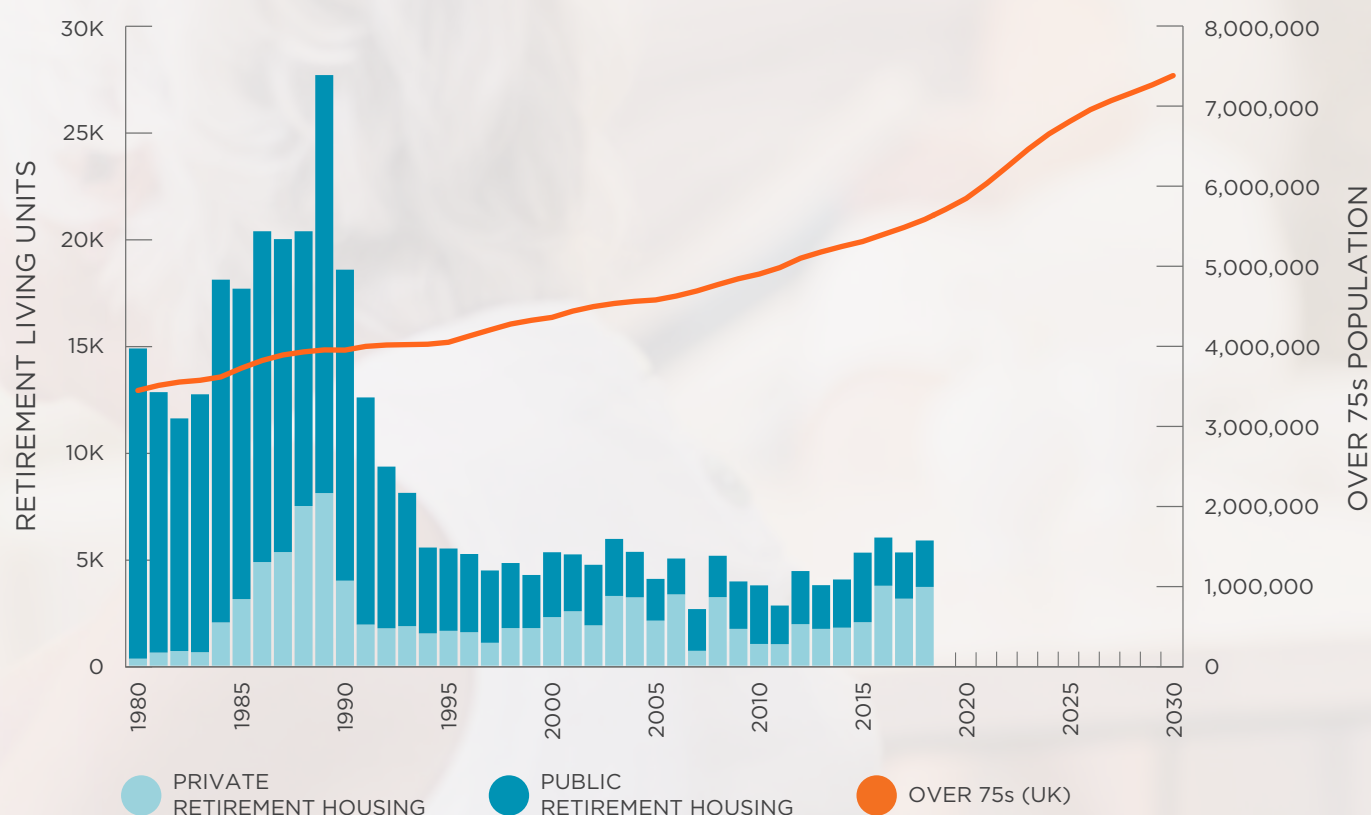
AREAS OF VAST UNDER SUPPLY

Now that we understand the demand profile, we must analyse the supply, the other half of the opportunity within the sector.

In the following analysis, we have focused on housing with support and housing with care, excluding care homes themselves. As highlighted in Figure 6 and on previous pages, the last 40 years have witnessed steady growth in the UK's population aged 75 and over, but while development in the 80s largely met demand, the same cannot be said of the 90s to present day.

Much like mainstream council housing, state-built homes for older people has largely disappeared, and even though private sale delivery has experienced some growth, overall annual delivery has struggled to break 10,000 units. A far cry from the mid-to-late 80's, where the delivery of over 20,000 units per year was commonplace. With the number of over 75s forecast to break 7 million within the next decade, supply is lightyears away from demand.

FIGURE 6: UK RETIREMENT HOMES AND OVER 75s POPULATION



Source: Elderly Accommodation Counsel (EAC)/ONS/Oxford Economics

*The number of over 75s is set to break **7 million** in the next decade*

THE EXPANDING SUPPLY-DEMAND IMBALANCE

The supply-demand imbalance continues to expand across the UK.

A method of measuring this changing imbalance is to compare numerical growth in both over 75s and additional units supplied. As we can see from Figure 7, this ratio in the early 80's to mid-90's averaged 2.6 more people in the over 75s cohort for every new retirement property constructed.

However, what Figure 7 also shows is that the figure has risen dramatically in recent years.

In the 10 years to the last reliable data (2018), there were on average 19 new members of our over 75 community for every additional retirement home delivered, proving the severe supply/demand imbalance that exists. Even when we ignore the pent-up demand from the previous year's under-supply, there would need to be around 58,000 new retirement homes and housing with care units, delivered each year to achieve the early 80's to mid-90's ratio of 2.6.

As documented in C&W's report published with the BPF, there are only 74,000 housing with care units in the UK today. This yields a penetration rate of only 0.9%, which is significantly lower than international benchmarks of approximately 6%.

FIGURE 7: THE NUMBER OF PEOPLE OVER 75 FOR EVERY ONE RETIREMENT HOME DELIVERED



Source: EAC/ONS

19 new members join the over 75s community for every additional retirement home (2008 - 2018)

A close-up photograph of an elderly woman with short, curly grey hair and glasses. She is smiling slightly as she knits a purple fabric using yellow knitting needles. She is wearing a dark red top with white polka dots and white earbuds. The background is blurred, showing shelves with various items. In the top right corner, there is a decorative graphic of white diagonal lines on a dark background.

*The greatest barrier to the emergence of senior living in the UK, is also its biggest opportunity – **supply***

AREAS OF OPPORTUNITY

It is clear that there is a dire need for more senior living accommodation throughout the UK in order to meet the growing demand, but the question remains: Where are the major opportunity zones in the UK?

In the following analysis we have identified areas where not only the current and future foundations are strongest, but also where these areas are least supported by retirement living options.

Our initial unweighted scoring system for foundations was based around five key metrics:

- The current proportion of residents who are aged over 75 (current customer base)
- The long-term forecast growth in the number of over 75s (growth of customer base)
- Current house prices (housing wealth)
- The current proportion of residents aged of 75 (future customer base)
- Long term house price inflation (housing equity, wealth growth).

FIGURE 8: RETIREMENT LIVING SUITABILITY RANKING

| Overall ranking | Region/name | Long-term house price inflation | Housing wealth | Forecast growth of over 75's pop. | Proportion of over 75's in pop. | Forecast proportion of over 75's in pop. |
|-----------------|----------------------|---------------------------------|----------------|-----------------------------------|---------------------------------|--|
| 1 | Chichester | 197 | 259 | 227 | 300 | 302 |
| 2 | Rother | 227 | 218 | 199 | 315 | 316 |
| 3 | Cotswold | 149 | 251 | 294 | 284 | 287 |
| 4 | South Hams | 225 | 228 | 188 | 304 | 299 |
| 5 | Folkestone and Hythe | 250 | 168 | 263 | 264 | 272 |
| 6 | Isle of Wight | 190 | 132 | 271 | 307 | 314 |
| 7 | East Devon | 128 | 201 | 257 | 314 | 309 |
| 8 | Torridge | 199 | 151 | 256 | 296 | 297 |
| 9 | Horsham | 172 | 248 | 279 | 238 | 252 |
| 10 | Wealden | 216 | 243 | 156 | 288 | 284 |

HIGH RANKING LOW RANKING

Source: ONS/UK HPI/Oxford Economics/Cushman & Wakefield

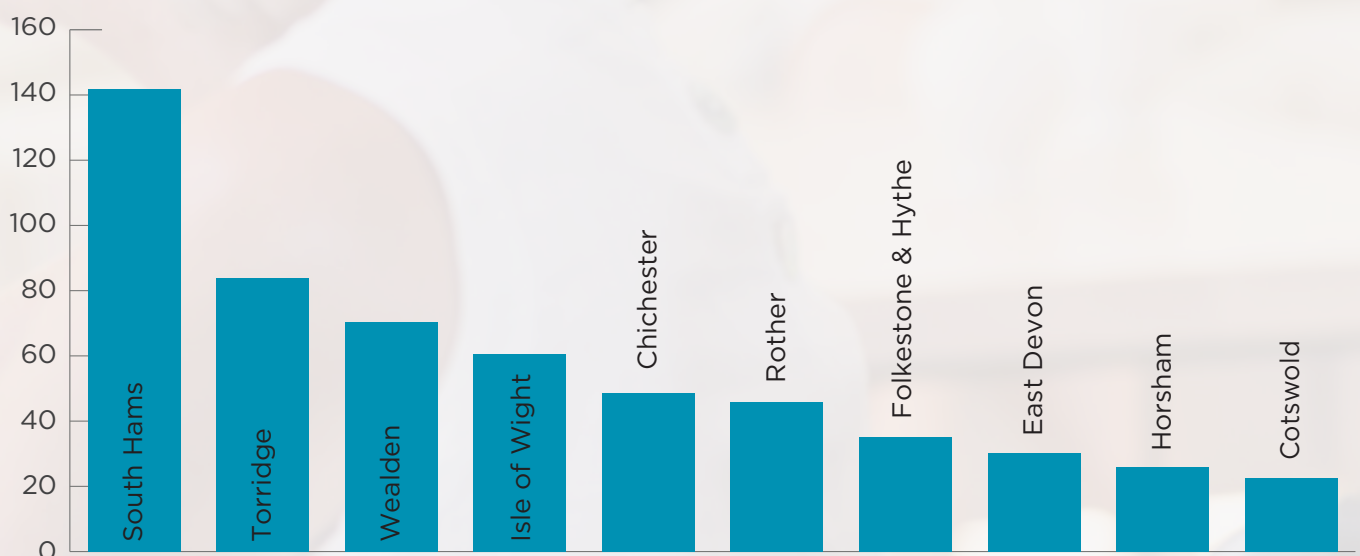
TOP SCORING AREAS

Our results highlighted England's South coast as the major hotspot, and while this result is largely expected, the degree of this concentration was significant with 70% of the top-10 scoring areas located directly on this coast, with only Cotswold located North of London's latitude.

We then took these 10 areas with the strongest fundamentals, and cross referenced over 75s populations, with the current stock of private retirement and supported housing units. As highlighted in Figure 9, the South Hams Local Authority stood out. South Hams (the area between Plymouth & Torquay) has a remarkable 142 citizens aged over 75 to every one private retirement property, compared with the Cotswolds, where this figure is just 22. To place this into perspective, for South Hams to reach the same level of provision as the Cotswolds, the size of the retirement housing stock would need to increase by seven times.



FIGURE 9: OVER 75S TO PRIVATE RETIREMENT UNIT RATIO



Source: EAC/ONS

THE FUTURE LANDSCAPE OF SENIOR LIVING

Whilst demographic factors have already led to a rapidly growing amount of interest in the UK retirement living market due to the approaching demographic boom, we feel only part of the story has been fully covered, with the additional supercharging factors of;

- Increased home ownership
- House price inflation
- The arrival of an experience-focused group.

While a simplified response of building 'boxes in the sky' has often been the mainstream housing markets' response to shortages, mediocre offers in the retirement living space will not entice the Boomers away from their family homes. Only the combined offer of a far superior physical space, with a complex and fulfilling social infrastructure, and access to care services on-site, will enable investors/developers to effectively tap into this £2.4trn market. The enhanced amenity, social and digital offerings, will be transparent to this savvy group of potential occupiers.

The sector is rapidly developing to fill the vast void in the market for good quality housing for seniors. Whether the product is for the affordable, the mass affluent or the high-end market, one continued thread and main factor to ensure the success of the emerging sector is sustaining the wellbeing of the residents. Enabling seniors to live independently with a clear support system in place, and still maintain the standard of living they are accustomed to, will be paramount to ensure the demand will always outstrip supply for the foreseeable future. In the world where we all accept a 'new normal', seniors will be better placed in a residence that will be fit for purpose and will ensure they are not isolated as has been the case in recent times.

Architecturally designed homes specifically for seniors, with expansive amenities, based around wellbeing and care, and socialisation, ensure residents will be able to age in place and build a community on their doorstep. Operators who understand the needs and requirements of their residents will know it is integral to ensure a high quality of care and support is provided, and that these standards must be maintained and improved upon as the sector evolves in the future.

The potential for the sector is clear. There is a rapidly expanding and wealthy demand pool that is significantly under provisioned.

Only superior products with a complex and fulfilling social structure, as well as on site care services, will enable developers and operators to effectively tap into this £2.4trn market

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