

Investing in later living

Roundtable



Contents

- 3 Foreword
- 4 Sector background
- 5 Demographics
- 6 Market dynamics
- 7 Management expertise
- 8 The C word... care (where?)
- 9 Regulation
- 10 Blurring the lines
- 11 Education - drawing distinctions and defining sectors
- 12 Conclusions – A huge opportunity



Foreword

The retirement sector continues to attract high levels of interest from investors and we expect it to grow rapidly over the next 10 years into a firmly established part of the living market. One challenge to and opportunity for growth is the need for more management and operating expertise. We wanted to explore this in the context of care home operators as a potential source of key management skillsets both in delivering new villages and their operation. Given the importance of care as a part of the overall package of services and amenities offered to retirement village occupiers, particularly in Integrated Retirement Communities (IRCs), there seems to be obvious alignment.

We wanted to cover ideas such as: similarities and differences between the two sectors and strategic implications; target markets; barriers to entry and opportunities in overcoming them; regulatory environments. A key theme was the role care home operators can play in the delivery of strong IRC propositions – both financially and operationally – in order to grow this nascent sector to the levels we see in other western countries with similar age and wealth distribution demographics.

In order to explore these ideas in more detail we brought together a group of experts from the retirement and care home sectors to discuss them.

Attendees

David Whiteley	Whiteley Consulting
Charlie Cutler	HC-One
Debbie Harris	Autumna
Sanjay Kaushal	Castlemeadow Care
Samantha Rowland	BNP Paribas Real Estate
Steve Nelson	Hallmark Care Homes

That led to a wide ranging and deeply insightful conversation, from which a number of themes emerged. We have explored these themes in more detail here, before offering some concluding thoughts from Trowers & Hamlins. This review is very much our interpretation of the discussion and no particular element of it should be attributed to our fantastic participants, save where a quote is specifically noted as theirs.


















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Sector background

IRC proposition - ARCO

 Retirement Housing Also known as: • Sheltered housing • Retirement flats or communities	 Integrated Retirement Communities Also known as: • Extra care • Retirement villages • Housing-with-Care • Assisted living • Independent living	 Care Homes Also known as: • Nursing Homes • Residential Homes • Old People's Home
 Offers self-contained homes for sale, shared-ownership or rent	 Offers self-contained homes for sale, shared-ownership or rent	 Communal residential living with residents occupying individual rooms, often with an en-suite bathroom
 Part-time warden and emergency call systems. Typically no meals provided	 <ul style="list-style-type: none"> • 24-hour onsite staff • Optional care or domiciliary services available • Restaurant / Cafe available for meals 	 24-hour care and support. Meals included
 Typical facilities available: <ul style="list-style-type: none"> • Communal lounge • Laundry facilities • Gardens • Guest room 	 Typical facilities available: <ul style="list-style-type: none"> • Restaurant and Café • Leisure Club including: gym, swimming pool, exercise class programme • Communal lounge and/or Library • Hairdressers • Gardens • Guest room • Activity (Hobby) rooms • Social event programme 	 Typical facilities available: <ul style="list-style-type: none"> • Communal lounge • Laundry facilities • Gardens • Guest room
 Typically 40 - 60 homes	 Typically 60 - 250 homes	 Sizes vary considerably

Demographics

The UK is experiencing a demographic shift, with a significant increase in the number of older adults. The number of people aged 65-79 is predicted to increase by nearly a third (30%) to over 10 million in the next 40 years, while the number of people aged 80 and over – the fastest growing segment of the population – is set to more than double to over 6 million. This rise is driven by the “baby boomer” generation who are currently aged 60-78. By and large they have only recently begun to engage with options for older people’s housing and related services and lifestyle/wellbeing options, bearing in mind that the average occupancy of an IRC is around 80. This demographic has a set of expectations about how they will live out their lives very different to those preceding them, including an emerging “enjoy now, pay later” mentality which suits the IRC fees model. They also – accepting that of course there is a wide range of realities at the individual level – are at a macro level very capable of meeting the cost of doing so, particularly from the £2.5tn+ of net housing wealth they own. In the longer term, the market will need to be able to adapt to changing outlooks on property ownership and retirement planning as future generations will have had very different experiences.

Current options for older people encompass a broad spectrum of services and accommodation, from independent living in age-restricted communities, through to more service driven IRCs and then into the needs-based, care focused settings of traditional care and nursing homes. Within this spectrum, IRCs in our view represent a particularly attractive option, offering a blend of independent living, assisted living, and (potentially high acuity) care in a person’s own home within a single, cohesive community. This model supports the concept of aging in place, where residents can transition between different levels of care as their needs evolve without having to leave their community.

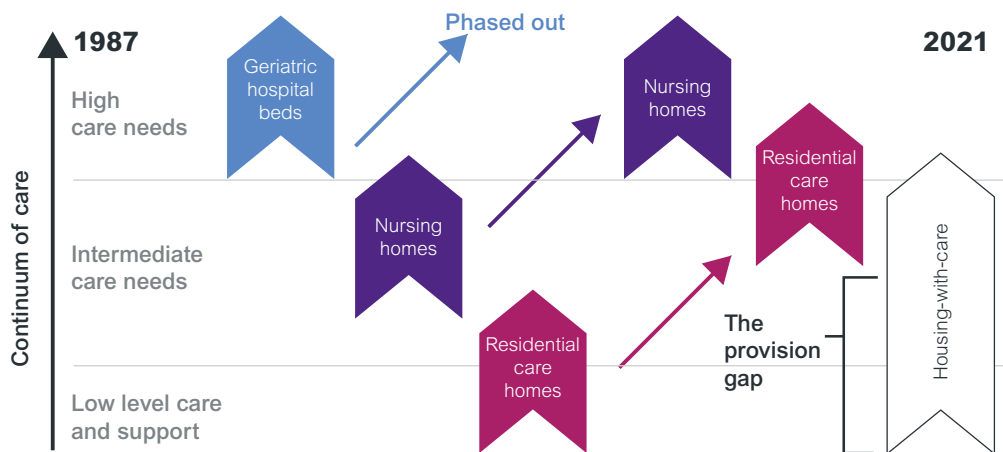
In the UK, thus far, it is the age restricted retirement housing market which has led, and we expect that to continue to be a strong market serving an important role along the spectrum of options by delivering age-appropriate housing for significant numbers of older people. There are options for care providers to engage here, in many of the ways outlined below.

The IRC market is much smaller but is also seeing the most rapid growth and is attracting major sector investment, off the back of a recognition that operational retirement living – for rent, or for sale – appears to be the model of choice (for operators, investors and customers) in other jurisdictions with established retirement markets. For many, retirement living, focused on creating communities that provide both lifestyle amenities and care services to maximise wellbeing have the potential to offer a more financially sustainable model which delivers strong positive outcomes for occupiers. It also has the potential to offer strong returns while meeting many ESG expectations for investors. Research commissioned by the Department for Health and Social Care also shows that this model can create significant savings to the public purse by relieving pressure on the state health and social care systems.

There was a clear recognition from participants in our discussion that although there remain some macro headwinds across many parts of operational real estate internationally, and specific challenges to the UK retirement sector, there is still a very high level of investor appetite to engage with this market, with further rounds of acquisitions of existing platforms at various stages in their evolutionary cycle expected in coming years from some. The current position of the UK market is in many respects similar to earlier parts of the cycle that the US and New Zealand markets – which are much more established in the culture of those countries and have much stronger market penetrations - have undergone.

Market dynamics

The provision gap: The changing continuum of care and support – ARCO

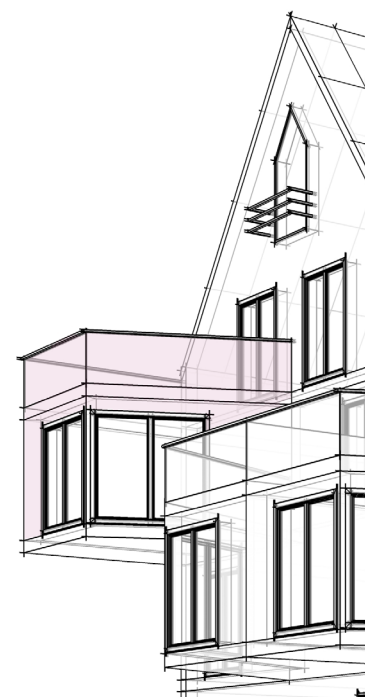


The market dynamics are also important to the sector alongside the demographic trends.

In acute settings, NHS hospital bed numbers have fallen by close to half over the last three decades, driven by the closure of beds for the long-term care of older people. Meanwhile the numbers treated or awaiting treatment has increased. This is a similar theme to many other jurisdictions although the UK has lower acute bed numbers than many comparators.

At the same time, the number of residential and nursing home beds in the UK has been fairly static for the last ten years though the mix of nursing vs residential has increased as care homes become increasingly higher acuity, end of life settings. Care homes have become increasingly larger and more modern as older stock is replaced. This is an essential part of the overall market for meeting the needs of older people and that will continue. However, it is notable that this trend towards higher needs leaves ground vacated for other solutions to evolve. One of the discussion points among participants was around the role the care home sector plays now and where it might conceivably fit in future if the retirement market evolves as expected. In the New Zealand market, which is significantly more mature, new care beds are typically now delivered only alongside retirement village units to offer a continuing care pathway for the smaller proportion whose needs reach a level requiring that setting. This is facilitated by such schemes typically having more non-care units than those in the UK. The UK market has a long way to go to challenge care home operators in this way. However, there is a natural logic to a larger retirement living sector both preventing a degree of need for care home beds and providing those beds to those who do end up needing them.

It is probably fair to say that participants felt that the challenge of delivering sufficient numbers of retirement units to “pinch” the supply line for care home occupiers was some considerable way off – but judging by other jurisdictions it is something to aspire to. In the meantime though, there was definite appetite for closer working between the care home and retirement sectors in order to provide people with a continuum of care. We see this being achieved initially for example through co-location of facilities within wider masterplan developments and we have (and had within our discussion group) examples of this concept of continuing care settings and/or development of co-located care home and retirement settings in the wider sector. Participants noted that this approach can also ease the “sell” to planners.



Management expertise

One key challenge for the UK sector, particularly the growth of new platforms, is experienced management teams. The integration of care services with broader community living models represents a significant shift from the traditional care home model, notwithstanding the ongoing importance of care provision in the overall offer, particularly within IRC's. This was highlighted in our discussion and is a frequent member of the "risks and opportunities" discussion around the sector – new and effective management teams are not easy to create, but it can be done and this challenge creates a positive effect around the quality of the teams we see coming together in successful platforms. Success in this evolving market will require a proactive approach to overcoming these barriers and a commitment to innovation and excellence in both care delivery and wider service delivery and to community building. It will also require an outward looking approach to recruitment and consideration of other sectors, such as hospitality.

The skillset required is broad – covering land and planning, development, finance and operations including both hospitality and care, among others. Bringing together that breadth of experience with the overlay of some of the customer proposition, regulatory and other nuances is a delicate balance.



The C word... care (where?)

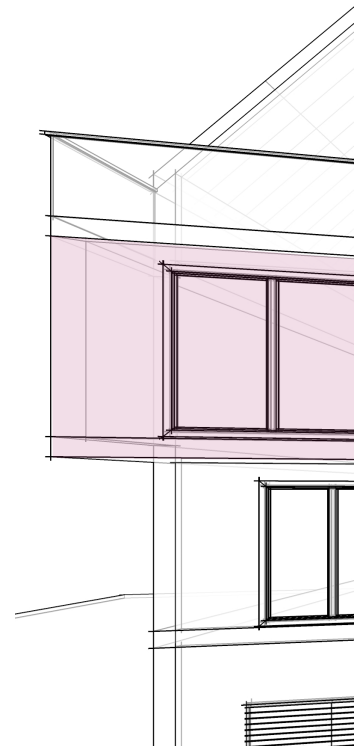
The view around our discussion seemed to be that care is core to the overall proposition, but will be much less directly presented than in a care home setting. One helpful description was that the culture switches from assessing what is best for the resident and structuring around that (in what is an inevitably more institutional setting) to being much more led by what the resident is telling you about what they want and how they want to live their lives.

A fascinating part of the discussion focused around this area and the way a care offer is presented in a retirement setting, compared to care homes where it is very much front and centre of the discussion. A central tenet of a retirement village offer is the concept of wellbeing, which is a holistic one extending beyond care provision and into all sorts of other key areas around active living, socialising, participation – but also acknowledging that this is all optional and those who want less of it can have just that if they choose, temporarily or permanently. However, there was a strong feeling that a fully rounded offer – and another benefit of the IRC model – is the regulated care offer they tend to provide. Views expressed suggested that there were strong levels of interest from prospective customers about the availability of care – even if they didn't need it just yet, noting that 64% of enquirers have no care needs and 30% have only minimal care needs (Autumna, 25 July 2024) – and that the ability to subtly weave in the availability of this service could help offset the lingering subliminal concern that some have about the longevity and permanence of a hoped last move to this setting.

We think this distinction is crucial as a retirement village in essence is a group of people living in their own homes, in a place they have chosen for its wellbeing offer, amenities and services. As such care is integral and for some it will become a critical driver of their ongoing wellbeing and ability to enjoy those amenities and services. The care offer must therefore be comprehensive but is a much more subtle part of the overall offering than in a care home. Management teams will therefore have to have strong care expertise either within the group or contracted in, in a sustainable way, while seeking to strike that balance.

“Strategically, the smart operators will invest in the care pathway, rather than just in the care home at the end of that path.”

David Whiteley, Whiteley Consulting



Regulation

It's hard to have a conversation about the role care providers might play in the evolution of the retirement market without talking about the regulation of care. CQC regulation came up a number of times in the discussion. The regulatory category differs between the two sectors, because of the distinction noted above – in a care home the real estate is part of the operational business and is regulated, in a retirement setting people live in their own homes and so only the care delivered to customers is subject to the CQC's remit. A number of potential routes into the retirement sector were mooted for care home operators. One was simply to partner within retirement operators to provide the specialist care element of the overall service delivery model, as they have the expertise to do this where some operators may not have this, at least initially. This approach is (for now) also desirable to some investors who find the CQC regulatory risks associated with the model a challenge. Ringfencing that risk outside of an opco/propco structure so far as possible by contracting in an outside specialist can help. Over time though as the sector grows our view is this concern will lessen.

There was also speculation that this might ultimately lead some care home operators, over time, to evolve their businesses into the assisted living/IRC market within retirement as they learn more about it from working with incumbent operators as care provider partners. That would align with a move back to the space they previously occupied further down the acuity chain, and potentially lead to a retirement led market for older people's accommodation including care home beds of the kind discussed above at some stage in the future. In a sense this becomes a potentially two-directional process. By engaging with the retirement sector as specialists in the provision of regulated care, the care home sector can add value, expertise and insight but can also learn. By embracing collaboration with hospitality-focused partners and leveraging their existing knowledge and skills, care home operators can help to create vibrant, supportive communities that cater to a wide range of needs and preferences which offer a continuum of care but also provide a rich array of lifestyle amenities that enhance the quality of life for residents. They may also evolve their own thinking about the best ways to operate in the retirement sector themselves.



Blurring the lines

This idea of care providers only being able to offer care expertise is something of an over simplification in itself. It was clear from the discussions - as we also know from our deep engagement in both the retirement and care home sectors - that the latter is increasingly offering a more hospitality driven approach particularly at the higher value end of the affordability spectrum. Modern care homes can look and feel like high end hotels in many respects – a similar goal to many retirement operators. Many high end care home developments are becoming increasingly niche and allocating a proportion of the home to the “value add” living experience. As such, there could be more subtle cross sector fertilisation than a straight “care expertise for hospitality expertise” trade off in many instances. Both sectors have a lot to offer each other around the wider wellbeing and quality of service proposition which could blur the lines between the two products, but likely only at the higher end as the economics are less viable moving down the affordability spectrum.

There are, having said that, obvious differences. As noted above, regulation is very different, as is the fundamental charging model. Care home occupiers occupy as licensees with all services (save a few optional items) wrapped into a single weekly fee. In a typical retirement setting occupiers are either owners (usually of long leases) or tenants. The accommodation and any care provision are entirely separated. The nearest approximation to a care home model is probably a tenanted unit where the occupier pays a weekly or monthly rent and has a tailored home care package to suit their individual needs.

This part of the discussion led us into a conversation about operational and charging structure options. Tenure is one element of this and we covered the obvious options – rental, for-sale and part rent part/buy or shared ownership. With a for-sale model one aspect which will be less familiar to care home operators, but is essential to delivering viable projects, is sales rates. This is a discussion in itself but some of the areas of obvious focus include the inevitable pressure from funders to achieve effective sales rates and avoiding this adversely impacting the quality of the operational and overall customer proposition. In other markets internationally there is an alignment between the expectations of the investors at both development and operational stage of a retirement village which has tended to mean the proposition is both very customer focused while also creating long term income streams for operators to reinvest.

The wider issue here is the overall customer proposition. Whether for rent or for sale, operators in retirement will need to develop attractive overall offers to market. Investors also need to be on board – but if a model is proven as strongly attractive to the customer base that tends to be more straightforward. One element of this, which the UK is evolving toward, is deferred or event fees which are highly prevalent in some other jurisdictions such as New Zealand and Australia. In one sense these look expensive for customers, but when drilled into and modelled, it becomes apparent fairly quickly that the level of certainty provided to customers and the consequent level of risk assumed by operators justifies them in a majority of cases. In those jurisdictions that justification is secured at least in part through high degrees of sector-specific regulation. This too is an area of potential significant movement in the UK with the Older People’s Housing Taskforce report to Government concluded just prior to the calling of the 2024 parliamentary election – we expect to see some movement on this in due course, but that process is for now at a pause. We have already seen an element of movement as the recently passed Leasehold and Freehold Reform Act includes a first statutory definition of an event fee.

Education - drawing distinctions and defining sectors

Linked to much of the above is the ongoing need to educate the customer base about the nature of the product, the benefits of it, and the rather significant differences it holds to care homes. Both sectors are, as we have noted, fundamental to a fully functional market providing for all the needs of older people but they do fill different positions in that market. At present, the relative scarcity of retirement, particularly IRC, units compared with the established proposition of care homes means the average potential retirement village resident doesn't readily draw the distinction, and conflates the two models. This is until they begin to seek out alternatives to care homes and thus become aware of the IRC product as a distinct offering.

Retirement settings, in contrast to care homes, are a choice not a necessity for most. The market is at the stage of building brand awareness at product level, after which it can build brand consideration at operator level where customers understand the product and are focused on differentiating which version of it provides them with the best individual outcomes across tenures, financials, operations and service delivery – and the offer around care and wellbeing.

Although it is accepted this remains a work in progress for the UK market there is definite traction building, particularly as the models tip further and further into mainstream and midmarket affordability which we are now beginning to see. There was a feeling amongst the group that the increasing focus on wellbeing coupled with the enhanced buying power and desire for enjoyable, experience based retirements will begin to catalyse this recognition, alongside increasing numbers of platforms as investors begin to deploy capital in a post recessionary environment.

The power of social media was observed to be a factor here as it can help to disseminate information widely about options available to older people to them and to their families, though it was also noted that while technology can absolutely help with wellbeing and personal connections it is only part of any solution which is another reason why retirement settings which can create a community environment have such potential. In a world where large numbers of older people have perhaps only one human interaction a week and the World Health Organisation has declared loneliness to be a pressing global health threat, with the US surgeon general saying that its mortality effects are equivalent to smoking 15 cigarettes a day, there is a compelling social benefit to creating more of these settings alongside giving a discerning client group what they want.

Another feature of other jurisdictions is the coalescence of the overall proposition around a broadly similar set of themes. This has resulted in a movement from brand awareness because all brands are offering broadly the same concepts, to brand consideration as nuances within those options are considered more or less attractive to specific individuals based on their wants, needs and resources. The group noted that the care home market is a relatively well understood one because of its longevity and market penetration but also its operational and charging structure are (in simplistic terms) universal across that sector. The UK retirement market is in our view at least trending towards this degree of coalescence around a set of themes as to the customer proposition, which can only be a benefit.

Conclusions – A huge opportunity

As the UK's population continues to age, the demand for diverse and flexible retirement living solutions is on the rise. This evolving market presents a significant opportunity. With investors showing a keen interest in the potential of the UK's retirement living sector, attracted by its potential for stable, long-term returns, there is ample opportunity for growth and innovation. The UK market is still in its infancy but the overseas comparators and the demographics create a compelling case.

For care home operators there is a genuine ability to expand their role and influence within the retirement living sector. They are well-positioned to contribute to the development of IRC's which offer a continuum of care from independent living to more intensive support, leveraging their expertise in care provision but also the wider concept of delivering wellbeing to the operation of integrated, flexible retirement communities.

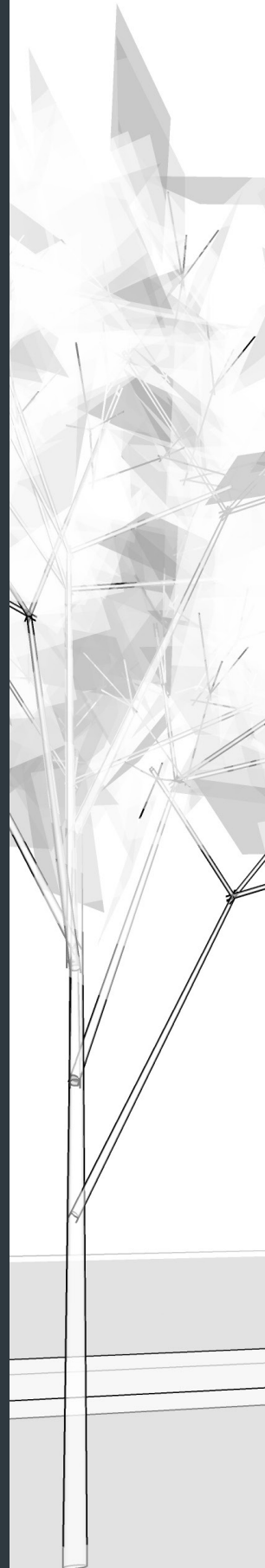
In the longer term we can see rich opportunities for care home operators to expand their own offer to a mid-acuity assisted and potentially independent living products, leveraging their existing infrastructure and knowledge to deliver these models.

This market will never be for everyone. Even in very well penetrated retirement markets internationally the vast majority of older people live in their own homes. However, with the UK retirement market significantly underserved by comparison there is a huge opportunity to create a vastly beneficial model both for individuals and for society, relieving pressure on public services and enabling better health and wellbeing outcomes, alongside the ever relevant and important care home market. To satisfy the urge of customers to remain in their own home, they will need to know that there is community, amenity and a care pathway when they need it.

Overall we see that the future of the UK retirement living sector is bright, with a growing demand for innovative, integrated living solutions. Care home operators, by leveraging their strengths and embracing new opportunities, can play a pivotal role in shaping this future, creating communities that not only meet the needs of an aging population but also enrich the lives of their residents.

“ It was great to be part of this thought-provoking discussion about some of the options available to people as they enter their later life and begin their care journey. ”

Charlie Cutler, HC-One





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