



RETIREMENT LIVING: THE POST- PANDEMIC OUTLOOK

Experts debate
what the future
holds for the
UK sector



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COVID REDRAWNS THE LANDSCAPE FOR LATER LIVING

■ *Property Week* and Dentons assembled a panel of leading figures from all sides of the sector to debate how Covid-19 has affected the development of retirement living in the UK and its prospects for post-pandemic growth

Our roundtable panel discussed topics including:

- >> The impact of Covid-19 on retirement living
- >> What customers want from developments
- >> How the pandemic will effect future design
- >> How the government could help the sector
- >> Rental v home ownership business models
- >> The lessons to be learned from overseas

OUR PANEL OF EXPERTS

Phil Bayliss CEO of later living, Legal & General

Lord Richard Best Life peer and social housing expert

Patrick Bone Fund manager, Schroder UK Retirement Fund

Jenny Buterchi Partner, PRP Architects

Deepa Deb Head of UK real estate and partner, Dentons

Marc Gilbard CEO, Moorfield Group

Jason Leek CEO, Riverstone

Eugene Marchese Co-founder and director, Guild Living

Jessica Patel Tax partner, Grant Thornton

Justin Shee CEO and founder, The Kohab

Liz Hamson Editor, *Property Week* (chair)

Emma Shone News editor, *Property Week*

The retirement living sector was going from strength to strength as an asset class in the early months of 2020 and being touted as the next student accommodation. Then Covid-19 struck and the priority became to ensure that accommodation was secure and its residents were safe.

With attention slowly turning back towards the medium and long-term future, *Property Week* and Dentons gathered a virtual roundtable of some of the industry's biggest names to discuss the challenges and opportunities the market faces post lockdown and into the future.

Liz Hamson: What impact has Covid-19 had so far?

Phil Bayliss: For the past seven months, our residents have been delighted with their choice. And as far as retirement communities can have a good pandemic, we've had a terrific one. There's been no cross infections, the built form has shown

that it's built to drive terrific health outcomes to residents. So that is the most important point for me; it's about great customer outcomes and everything else will look after itself if people are living great lives in our communities.

What we have also noticed is that the conversation we were all hoping would happen about where you live and how your surroundings impact you is now happening more often. Across the population, all of us have experienced social isolation now and we all have a better understanding of what that feels like.

So that mentality of "I'm going to stay here in my home until they carry me out in a box" is starting to subside. A more nuanced conversation on the lines of "hey, I could live a better life somewhere else that is more suited to my needs" is starting to come through, which has been an unexpected upside of Covid.

LH: Were there no downsides at all?

Phil Bayliss: Not being able to sell any homes for four months was a particular downside, but our inquiries are at record highs. We have bounced back stronger than we have ever experienced before. I'm more positive than I was in January.

Marc Gilbard: I think Covid has raised awareness of the sector in general and it has differentiated retirement living from care homes, which is key. It has highlighted the benefits of containment in a village setting; you might not be mixing inside, but you have large grounds and you are able to walk around, so it is a proper community experience while you're locked down and kept safe.

As a sector we didn't get caught by the same issues the care homes faced – we were very careful in how we gated the arrival of people, both new occupiers and visitors.

Lord Richard Best: There were one or two negatives, before we get carried



Deepa Deb



Jason Leek



Lord Richard Best



Phil Bayliss

away with how Covid has improved everything. From a sample of one's elderly friends, the idea of going to somewhere much smaller than you live in at the moment – particularly somewhere without the garden that everybody has made such big use of during the national lockdown – has become a less attractive proposition.

So I think there is going to be quite a lot of resistance to the McCarthy & Stone end of the market. Smaller places for suburbanites are going to be a harder sell

than they were before.

The other issue is that ordinary people muddle in their minds care homes and downsizer specialist accommodation. Anything that even slightly smacks of an institutional building with other old people who will spread Covid is a downer.

Also, we have been arguing for stamp duty relief for pensioners buying, because the treasury would make more money if it could unblock the logjam in the market and get people moving. But we have got a

stamp duty holiday now for everyone, so we have just taken a step back from getting that relief for pensioners.

However, there are certainly some pluses too. The value of the kind of homes occupied by people who might think about rightsizing – the suburban house with a garden – will have risen as a result of Covid, with more people moving out of cities into the suburbs.

So people are going to find it easier to sell their home. And some people will have

been very lonely, so will appreciate the idea of living in a place where there are other people to keep them company. So I'm not all gloomy. But let's not forget the pressures we face now.

LH: What are the design ramifications of Covid-19?

Jenny Buterchi: We've been in touch with our operators to try to understand how the buildings have

functioned during this time. There were some nuances that we would like to change but I think, overall, the outcome was positive.

We are seeing a real shift in the importance of technology, which has obviously been invaluable in keeping people in connection with families and neighbours, but also allowing operators to keep in touch with residents. And as the NHS is starting to catch up, we are seeing telecare being used too.

I'm also really hopeful that discussions will change from "Should we allow balconies?" – because some providers query that – to "of course you should have balconies". Everyone should have their own private space as well as access to a wider garden space.

LH: What about the rental vs home ownership side of things? Generation rent is going to be generation retire before they know it and then they will have different needs.

RB: There are 450,000 people who are over pension age currently in the private rented sector. There will be over one and a half million in 20 years time, because generation rent is getting to the age when they are not going to buy.

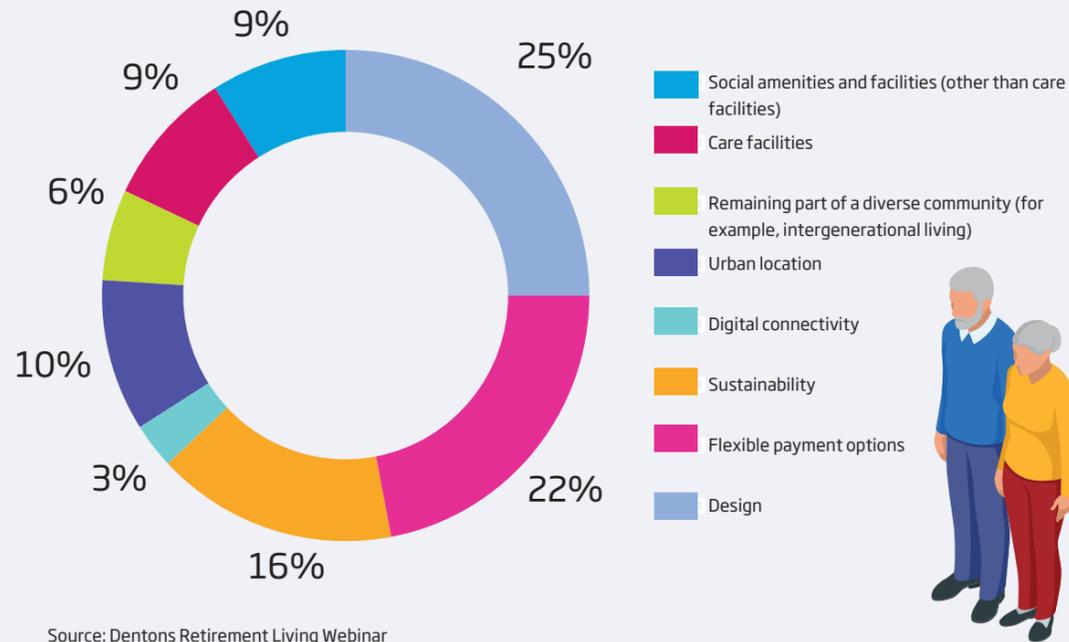
And they are going to hit the buffers, because they are spending 35% of their income on rent. When their income halves, that becomes 70%. That is not clever. We have got a big problem coming. Politicians won't wake up to this until we are a couple of years out and it is a big crisis.

Eugene Marchese: If we assume the cultural nuances are very similar between Australian and British psyches in terms of home ownership, rental failed to get off the ground in the much more mature market of Australia and that was mainly due to the cultural desire to own your own home. It's coming through now, but slowly and we are behind them in the UK. I'm not saying rental won't work, but I don't think it is going to be the dominant preferred ownership model in the UK for a few years to come.

Phil Bayliss: The real estate industry is so egotistical about property and its design and is so removed from customers. People have a journey in life. Some will end up in acute care, the vast majority won't. The way we think around rental and for sale – just put the spreadsheets away and go and talk to customers.

Does UK senior living offer attractive lifestyle choices for the older generation?

If you were considering senior living options for yourself or relatives, which of the following would be most important to you?



Is senior living in the UK something to get excited about as an investment opportunity?



LH: What would you identify as the key challenges to turning this into a mainstream asset class?

Patrick Bone: The key challenge is the perception of the product. There are still a lot of negative connotations, which I think is to do with the association with care homes and that institutional setting, which is not that appealing. It is important that we get across the hospitality focused elements of retirement villages – that it is an aspirational product, not somewhere you just move for the end of your life.

MG: There is international capital playing in this sector already and taking it very seriously as an asset class. But we have to be patient. We were in student accommodation in 1997, we were in build-to-rent in 2012.

Something that is very important in this – and it goes for the wider property market as well – is the fact that leases are shortening. They have a much greater operational exposure than many traditional real estate investors are used to and some will struggle with that.

We have been doing this for over 20 years and it is a skill you have to learn. It is not just about buying the building and putting it on a shelf. You have to be very consumer-focused and provide the right type of services at the right price.

Deepa Deb: I think Marc makes a very good point about the time these things take, but unfortunately, I am not sure, given the demographic trends, that we, as an industry, have the luxury of that time.

On the topic of consumer confidence, one of the things we have heard when talking to colleagues in New Zealand, Australia and the US is that a key difference between those jurisdictions and the UK is that we don't have sector-specific legislation, which would go a long way to helping instil confidence.

Student accommodation really took off in the UK because of government intervention and a new use class, whereas we are stuck between C2 and C3. I hope the focus the pandemic has created around elderly experience means the government will step up. Equally, the people around this table need to take some responsibility for educating not just the end consumer, but local authorities, planners and government as to the wider contribution the sector can make.

LH: What do you think the government should be doing to incentivise older people

LH: What are your customers telling you they want from schemes in light of this pandemic?

Phil Bayliss: It's mixed. In general, we are getting more inquiries, and we are getting more visits than we have ever had before. So overall there is more interest rather than less.

Lockdown helped people realise what the alternative is when you are in lockdown and stuck between your own four walls. And even if there is a garden out the back, it's not so attractive. Life is a combination of where you live, but also the people you are around. So overall, people have more enthusiasm to consider where they live and how that contributes to their overall well being.

LH: What do you think about this sector as an emerging asset class? Has it been derailed by Covid or is it going to pick up again?

I think Covid has accelerated the trend to having everything as a service and that will only continue
Justin Shee

Justin Shee: In terms of long-term interest, I think Covid has accelerated the trend towards having everything as a service. And service is something that is only going to continue in this space.

We are going to see different brands coming through that each have their own USP and that creates an opportunity for us with what we are doing with intergenerational living: we are we creating a different way of looking at communities. We have all the service you would get with a retirement living scheme and the customer has access to all of the amenities, but it's not exclusively for older

people. We have younger people living in our scheme and everyone interacts and engages in the communal spaces.

We hope that creates a niche within the asset class, which we would like to keep growing, and that provides another choice for older people.

Jason Leek: There is a massive supply and demand imbalance. It is incumbent on us as operators to make sure there are different brands and businesses in the sector to provide great options for every consumer out there. If the options are there, more people will take it up. There is some education and some market positioning to be done, but that should absolutely be a positive discussion.

LH: Do you think it is going to become more than a niche over time?

JS: Sure we do. Everything starts as a niche, it has to begin somewhere. Ultimately we are making a business out

of this. And we think it is going to be massive.

Jessica Patel: On investment prospects from a real estate perspective, it is clear that investors are seeing retirement living as a sound investment opportunity given the current imbalance between supply and demand. This in a climate where there are challenges for other sectors such as retail, hospitality and offices, where there is not only a huge degree of uncertainty and volatility surrounding future demand, but also we are seeing much shorter leases and new turnover-based rent models for those asset classes. Where that is the case, investors will inevitably be seeking to balance their risk across portfolios.

There is bound to be a significant distressed property element over the course of the next year, and that could give rise to opportunities from a real estate perspective to acquire the right site in the right locations, either to repurpose existing buildings or build new buildings.

The lead times for retirement villages are quite long so the returns are not crystallised for a certain length of time, so I think institutional capital is really important for the sector.

I would also say that the sector needs more trusted partnerships to be formed between specialist asset managers who can obtain that institutional funding from UK and overseas, and experienced operators with a proven track record.

LH: Patrick, what are your views on the strength of retirement living as an asset

Investors see retirement living as a sound investment opportunity given the supply and demand imbalance
Jessica Patel

class in the short versus medium and long term?

Patrick Bone: We have obviously seen a lot of distress in traditional commercial real estate sectors, particularly those hospitality focused sectors such as leisure and retail. We have allocated more capital to retirement living during the pandemic because we recognise the long-term structural benefits of this investment.

The customer experience is key. I went down to visit our first investment during the summer and I was greeted by 30 people out on their balconies doing a Zumba class. That really brought the benefits of this communal living home to me compared to the isolation that, unfortunately, is being experienced by a lot of the elderly population.

We really see this as the next student accommodation; we are forecasting the same sort of growth over the next decade that we have seen for student accommodation over the past 10 years. So for us, it is a key strategic market.

to downsize from their largely owned properties?

DD: It is absolutely crucial that we look at how we free up homes and presenting this as a positive life choice, as opposed to something that happens to you when you have a care need. There is work to be done around capital gains and stamp duty; it needs to be a package to persuade people that when the five-bed house is no longer suitable, something else will be. But you also have to protect people's aspirations to leave inheritance for their families.

RB: The government is worried about *Daily Mail* headlines saying it is forcing old people out of their homes into the snow. And their perception is that there aren't the votes in retirement living that there might be in other things. At a local level, the urgency for government is always to house families.

The argument we were putting to the treasury was that one older person deciding to downsize frees up 2.7 properties down the line. So the treasury loses the stamp duty from that one elderly person, but they gain it from 2.7 other people. But that is on the back burner while everyone gets £500,000 relief.

LH: Will that be reprioritised as we come out of this, knowing they are freeing up family homes?

RB: We will have to pay for Covid, sooner or later. And one of the ways that we are likely to have to do that is through property taxes. If you are still living in a five-bedroom house, it suddenly becomes rather foolish to sit there and pay a lot of tax. So I think property taxes might, in an indirect and negative way, begin to apply some pressure.

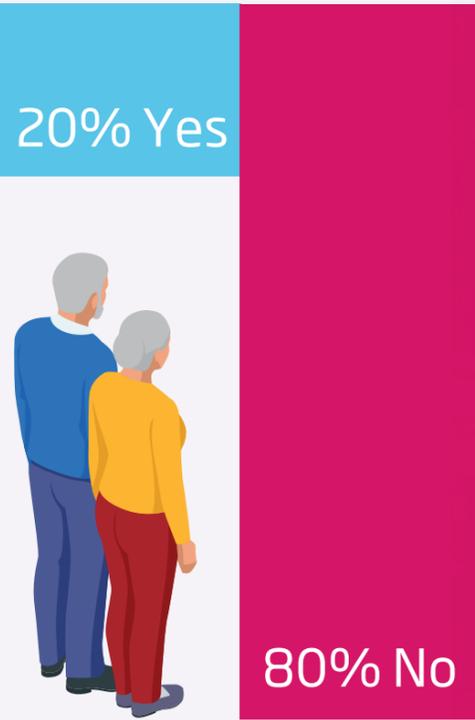
On planning, central government does have a very heavy steer as to how local planning authorities operate. It costs them nothing to put out guidance and a little bit of pressure.

LH: Would you want to see more use classes coming in?

LB: You need C2 and a half! I think there is work to be done on the planning side.

JB: We talk about changing aspirations and marketing the sector, but when there is insufficient choice in the market and insufficient units – it is hard to achieve progress on that. There isn't a lot of choice

Do you think that there is sufficient choice of products in the UK senior living sector?



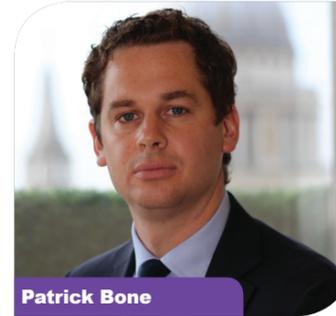
Source: Dentons Retirement Living Webinar



Jessica Patel



Marc Gilbard



Patrick Bone



Justin Shee



out there because of the delivery rates.

At the moment, our clients are bidding on sites against housebuilders and it is not a level playing field for them. We have a white paper that has just come out on planning that mentions young people five times but doesn't mention older people once. The policies on that white paper are still to come. We should perhaps be writing and lobbying and commenting on the fact that the white paper is completely silent on this demographic, because the policies may touch further on it.

The C2/C3 issue is something we have been talking about for years. I would love to see a C2 and a half, where one side was housing and the other residential care, because most of our projects sit somewhere in the middle. Housebuilders will always win on sites because this is a different model.

Phil Bayliss: Another hurdle when it comes to planning is time. It takes so long

to buy a site, clear all the planning hurdles, build it and then have customers. The planning commissions take 12 months to two years on average. If we had a more certain outcome, you would get a plethora of capital that would solve the public issue. Private capital will come in here in droves if we have a more certain outcome.

LH: What other lessons can we learn from overseas that would drive the sector?

■ The planning white paper mentions young people five times but doesn't mention older people once
Jenny Buterchi

EM: I think sometimes you have to be careful what you wish for. There is a role for government to play, to provide a safety net. But a succeeding market attracts a lot of players and people don't always do the right thing. We are all about people so first and foremost we need to protect them.

Regulation can set a lowest common denominator approach; as long as you are meeting the minimum requirements, then you are supposedly doing a good job. They have just had a royal commission of the care home industry in Australia and parts of it were damning.

LH: What was going wrong?

EM: One of the key lessons was that there weren't enough conversations happening with older people. Take this roundtable. We all sit around and talk about what we think older people want, and yet we actually don't ask them.

We have to stop making assumptions and start listening. And I think that will then mould the customer proposition that makes it then compelling for them to leave the family home. Because that is the competition – not the other players in the market, the competition is from the family home.

JS: I think it is very important to learn lessons from other sectors overseas and at Kohab we have spent a lot of time in Europe learning. But we have also taken a lot from looking at how other businesses and sectors outside of real estate look at product development and how they deal with customers, before you even build the product. At how you can start testing little elements of your product, pivoting on them, and then getting a much larger picture of what the customer actually wants.

What we heard time and time again from people was: "I didn't want to live with old

people, because I don't feel old." We realised that people saw there was value to a retirement home environment, but they were nervous about living just with other older people, it was a mental block for them. That was the key insight for us that led to this venture.

LH: To finish off, I'd like each of you to say what is in store for you and the wider sector in the next 12 months?

JS: We are very close to launching our first scheme, which we are really excited about. We are a new venture, we are only two years old, and we have spent a long time securing the right funding partner and long-term capital. So we will take baby steps for 12 months while we launch something, then take over the world in five to 10 years.

MG: We will continue to promote the benefits to the occupiers and promote the product to those in the capital stack. And I say capital stack, because it is not just about investors. One of the greatest issues we face is providing debt for these assets. It can't be all capital equity, it has to have debt in place as well.

We will build more product, which I think we are woefully under supplied with, which is one of the reasons I think that it is hard to get that visibility and attention to it. For

■ One of the greatest issues we face is providing debt for these assets. It can't be all capital equity
Marc Gilbard

the next 12 months, there will be ongoing avoidance of infection and preparing retirement villages in case anything like this happens again.

JP: I think the recession and stagnation of house prices could mean a more rental focused model comes into force, while home sales and cash flows are a concern. I think making sure the move into a new home is a smooth transition is key; that journey needs to be made really easy.

It can be a really daunting process to move house, particularly later on in life where you've got a routine and a familiar setting around you. And this needs to be combined with other factors, for example don't make tax the reason not to move.

I also believe we will see more innovation within the industry with state-of-the-art properties being designed in a way that appeals to more people. They will create a place of living that really focuses



on wellbeing and mental health. That could really reduce the impact on the social care system, because people are able to lead healthier lives, independently, for longer.

JL: I feel very upbeat about the next 12 months. Obviously, there are risks. But we are launching our first two schemes in the next 12 months, which we are super excited about. We think they are entirely customer focused. But we will listen and learn – no one has all the answers at the beginning. We will also be continuing to pursue growth opportunities. We are not waiting for government change and white papers; we are getting on with driving our growth opportunities – and we are seeing more of them than we were 12 months ago.

Patrick Bone: We are increasing our allocations to the sector. We have got a very exciting pipeline and are pleased to be one of the first institutional funds in this area. Our clients are increasingly asking us to invest in areas that have a clear, demonstrable and positive social impact.

■ We are changing the way people live their third age and providing them with an environment to thrive in
Eugene Marchese

And in retirement villages, that is quite apparent.

Phil Bayliss: I am very positive about customer appetite, but I would also say watch out. Because banks are behaving badly, there is very limited debt and availability. There is going to be a real separation between those who have access to cash and those without it.

EM: The excitement in our businesses is palpable. Through conversations with older people we are changing the way people live their third age and providing them with a platform and an environment to thrive. That is why I get up every morning. Having a partner like L&G does give us

the opportunity to engage with the best researchers in the world to really dive deep into how we can address major issues such as loneliness. What excites us is that we are going to be part of the solution.

JB: We want to keep the conversations with clients and customers going and convert those into innovative designs that really promote wellbeing, combat social isolation, but keep people safe as well.

One of the trends that we are seeing more, and we have got some very exciting projects on the drawing board, is placing retirement villages in the centre of high streets. It will bring a vibrancy and support our struggling high streets, but will put old people at the heart of the community, and they have a lot to contribute to that.

RB: It is really encouraging to hear from the private sector that everyone is positive and thinks the market is going to grow. That's all great. It is worth bearing in mind that this is probably for the top third of the population in terms of income and assets.

But that doesn't bother me. Because if we are going to make a product aspirational for everybody, then we need to start with rich people. It then becomes something you aspire to, so people say: "If only we could afford to be in a retirement community. If only we could afford these downsizer flats." That is good. So I'm not bothered that we start at the top, work down and cover the whole of society sooner or later.

DD: Thank you so much everyone, this has been a fascinating discussion. I love Eugene's point that the UK is almost a blank canvas; as we know, too much regulation can stifle growth and opportunity.

Over the course of the next 12 months, as an industry and the big players that you are, let us look to create an aspirational sector where the focus is on the customer experience – not just the real estate.

ABOUT THIS FORUM...

This event was chaired by *Property Week's*

Liz Hamson

If you are interested in hosting or participating in future events, please contact **Niki Kyriacou**, events & client solutions sales director, *Property Week*.

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