



## Unlocking the retirement opportunity in a post-pandemic world

Highlighting the gap between supply and demand for retirement real estate

**octopus** capital  
A brighter way



# Find it fast

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# Foreword

One of my long-held ambitions is to see the UK's retirement market flourish. So, it is reassuring to discover that the overwhelming response to our survey is that many people feel retirement will provide their best years – and living in a retirement community will put many older people in a position to make this a reality.

As a real estate investor, Octopus Capital invests in both retirement communities and care homes, and we take an active role in measuring their social, health and care impact. Perhaps unsurprisingly to me, as the head of the retirement investment team at Octopus Capital, the need for quality retirement communities is obvious. We have continued to make significant capital deployments during the pandemic and are working on further opportunities, because we see huge potential for growth in the retirement community market, given the wide disconnect between the untapped demand and supply.

Our survey focused on people over the age of 55, of which there are around 20 million in the UK. This number is set to grow substantially – the 1960s baby boomers are now in their 50s and 60s, and **it's estimated that there will be a further 7.5 million UK residents aged 65 and over by 2069.**<sup>1</sup> Baby boomers don't live the sedentary lifestyle that many of their parents or grandparents did. They are more active and social – many have no intention of slowing down. It's a lifestyle that retirement communities encourage and embrace.

**If we can replicate the growth of the US and Australasia markets, the UK's retirement community sector has the potential to be a significant market delivering benefits to millions of retirees while providing social and economic gains**

At present, fewer than 1% of UK retirees live in retirement communities. This compares with around 6% of populations living in retirement communities in the US and Australasia.<sup>2</sup> But the positive response from the over-55s in our survey gives a strong indication that this gap will close. The demographics, economies and consumption habits of these regions are closely comparable to the UK.

If we can replicate the growth of more mature markets, as I believe we will, the UK's retirement community sector has the potential to be a significant market, delivering benefits to millions of retirees while providing social and economic gains.

<sup>1</sup>ONS Overview of the population January 2021.  
<sup>2</sup>US & Australasia retirement community penetration rates. <sup>3</sup>IPF.

## The investment opportunity

The investment fundamentals, underpinned by supporting demographics, certainly look favourable. For starters, institutional investors have been reducing their exposure to traditional real estate assets in recent years. This was evident in the pandemic, with asset allocators reducing their weightings to the retail sector given the rise of online shopping, as the Amazons of this world transformed the way we shop.<sup>3</sup> The pandemic acted as a catalyst to accelerate this change across other traditional real estate sectors too.

Subsequently, institutional investors have little choice but to broaden their horizons and start thinking about deploying capital to alternative real estate assets. The opportunities that retirement communities offer investors have been highlighted in the current economic climate of low bond yields and interest rates, along with **the sector's ability to generate strong financial and social impact for investors.**







Octopus Capital estimates that there could be as many as 2.5 million UK retirees who would desire retirement properties, as Covid-19 highlights the benefits of community living.\*

\*According to the **Office for National Statistics** (ONS) 9.2 million over 65s own homes. Based on our research, we found that 27.3% of 65+ year olds would definitely or maybe be more likely to move to a retirement community after seeing more information on them, resulting in an estimated total of just over 2.5 million people potentially requiring a home in a retirement community.

**Several major financial institutions are looking to capitalise on the potential growth of the sector.** In 2017, Axa acquired Retirement Villages Group; Legal & General announced a development plan for its Guild Living initiative; and, two years ago, Schroders entered the fray through a joint venture with Octopus Capital to develop retirement villages. Last year, Goldman Sachs added its weight behind the burgeoning-yet-undersupplied retirement community sector, by announcing it was building a £2 billion portfolio of luxury units in London.

### Rising up the political agenda

The retirement community sector is increasingly appearing on the public policy radar. The Mayhew Report published in July 2020 said that if more “people lived in retirement communities, there would be a boost to health and wellbeing, as well as savings in the cost of health and social care”.<sup>4</sup> Examining the UK’s dysfunctional housing market, the report revealed that many over-65s live in houses that are simply too big – with millions of bedrooms lying empty – which is hampering families who are trying to get on the property ladder. **The report suggested that increasing numbers of older people will have to downsize to prevent a housing crisis** and called for the supply of good-quality, age-friendly housing to increase substantially.

The Mayhew Report’s findings came just weeks after the Minister for Care, Helen Whately, publicly praised the “phenomenal effort” of the retirement community sector in tackling the coronavirus pandemic.<sup>5</sup>

<sup>4</sup>The Mayhew Report. <sup>5</sup>Minister for Care letter.

### Increased demand; significant opportunity

The positives are abundant – this survey even shows that event fees, which are a deferred payment charged by the operator when a resident leaves the retirement community, aren’t the sticking point that they are perceived to be. Event fees are built into the lease agreement to pay for construction costs and ongoing maintenance of communal facilities. **We are not suggesting that all retirees (both now and in the future) will want to make the move to a retirement community** – the majority of older people will always want to stay in their existing home for a variety of reasons. **But that doesn’t undermine the growth opportunity that exists for retirement communities in the UK.**

Our research this year clearly highlights the potentially rising demand for retirement community living, and with this comes a significant opportunity for developers, operators and investors. What is clear, though, is that **there is still some work to be done on how retirement communities are perceived, and to raise awareness of their existence**, if the industry is to capitalise fully on the huge investment potential retirement communities offer.



Many people are unaware of the empowering lifestyle retirement communities offer, with the community often having the feel of a members’ club. **A retirement community is more than just a home to enjoy your retirement in – there are huge health benefits associated with living in one.**

**Our research clearly highlights the potentially rising demand for retirement community living, and the opportunity for developers, operators and investors**

I vividly recall last summer, walking up the grand drive toward the terrace that fronts the beautifully restored 17th century building at Audley’s newest community, Stanbridge Earls, before almost being trampled on by over 40 residents enjoying a Zumba class outside one of its restaurants.

**The global pandemic has been a catalyst for people re-evaluating their living arrangement – and the lockdowns have highlighted the benefits that retirement communities offer.** I am unashamedly passionate about the benefits of retirement communities, and I firmly believe the sector can contribute towards our build-back-better recovery as well as the wellbeing of those enjoying their later years. There is a real need to continue to develop retirement communities at pace, creating a brilliant opportunity for developers, operators and investors too.



Kevin Beirne

Director, Head of Retirement at Octopus Capital





# Retirement communities offer a lifestyle that fits the bill

## A lifestyle retirees want

The UK's population is getting older. Go back to 1999, and around one in six people were 65 years and over; this increased to one in five in 2019, and is now projected to reach around one in every four people (23.9%) by 2039.<sup>6</sup>

It doesn't stop there. The Office for National Statistics (ONS) forecasts that, by 2041, the 1960s baby boomers will have aged into their 70s and 80s, and **by 2069 there are projected to be an additional 7.5 million people aged 65 years and over in the UK**, compared with 2019's figures. This would take the UK's 65-years-and-over age group to 19.8 million people, accounting for 26.2% of the projected population.

Our research shows that, today, more than one in four of homeowners aged over 65 surveyed would "definitely or maybe [be] likely to move to a retirement community", after being shown the lifestyle and facilities on offer – based on the latest population numbers for over-65s, this already equates to **more than 2.5 million people potentially wanting a retirement community home**.

## Increased awareness boosts demand

There is already strong demand for retirement real estate in the UK, despite it being a nascent market. The qualitative part of our research highlighted that many people were not fully aware of what a retirement community can offer them.

**Over a fifth of respondents believed they were similar to care homes.** However, once respondents were given an insight into the stylish designs of the homes, the number of services available and the wide range of amenities on offer, increasing numbers were interested in considering this type of lifestyle for their retirement.

**More than 1 in 4 of homeowners aged over 65 surveyed would "definitely or maybe [be] likely to move to a retirement community", after being shown the lifestyle on offer**

## Retirement communities in a nutshell

A retirement community is a purpose-built, age-exclusive residential development. Each home is self-contained and has been specifically designed for people enjoying their retirement, incorporating age-adjusted design elements. Residents live independently but there are community services and management available, including individual care or household support for those who need it. There are significant communal and lifestyle services such as restaurants, gyms, spas, landscaped grounds and a variety of clubs and social activities.

<sup>6</sup>ONS Overview of the population January 2021.





Life begins at retirement

For many, retirement is an opportunity to embrace a renewed zest for life. According to our research, **almost two in three of over-55s surveyed believe that retirement will be the best years of their life.** When asked what those surveyed wanted to support their retirement lifestyle, restaurants and coffee shops came top of the list, followed by social areas and activities such as exercise classes and swimming. This matches the very lifestyle that comes with being part of a retirement community. All communities have managed communal facilities, which typically include landscaped gardens, spas, swimming pools, gyms, restaurants, bars and hair salons. And they all run social activity programmes, which are particularly attractive for those who worry about loneliness in later life.

\*Painting classes, sports and dance clubs, crafts and social evenings



What retirees want most

53%

Restaurants

50%

Coffee shops

45%

Socialising areas

43%

Activities\*

42%

Swimming pool

Baby boomer boon

It’s noticeable that the 1960s baby boomer generation have a different approach to retirement than older retirees. They are redefining what retirement means – they are living longer and want a more active lifestyle. **Our research highlighted that younger respondents would be more likely to consider living in a retirement community in later life,** suggesting that retaining their independence in a social and active environment is an attractive option. With a further projected 8.6 million UK residents aged 65 and over by 2066, the industry has the time to invest and build to meet this future demand.

8.6 million  
UK residents aged 65  
and over by 2066

Living environment must-haves

The top priorities for retirees include feeling safe and secure, an easy-to-maintain home and being in close proximity to a town centre and other outside amenities. They also want to have enough space to invite friends and family over to stay – that isn’t going to be a problem. After all, a home in a retirement community will typically be built on modern and stylish age-adjustment design principles including wider access doorways; wet rooms; and height-adjusted switches, sockets and appliances. It will probably be oversized compared to ordinary market apartments, but with a similar number of bedrooms and generous living space, alongside kitchens and bathrooms that have been ergonomically designed to adapt to frailty as residents age.



The top priorities for a living environment in retirement

49%

Feeling safe and secure

42%

Easy maintenance of home

40%

Being close to a town centre

35%

Space for family and friends to stay over



## Changing perceptions of retirement living

The retirement community industry needs to raise awareness and, in doing so, address the current misconceptions about the sector. In short, not enough people know about retirement communities.

### Dispelling retirement community myths

We found that **almost four in five respondents had not even considered moving to a retirement community**, even though the lifestyle offered ticks many boxes on their wish list for a happy retirement, such as restaurants and healthy activities.

**There are still negative connotations to what retirement communities actually are, with many people associating them with care homes** and a rigid, institutional setting, rather than a lifestyle that is independent, active and flexible. Perhaps this explains why many of those people who are aware of the modern, active lifestyle communities can offer are wary of discussing this with their family, because they don't want them to think they are too frail and old to cope.

We know that, for the majority, retirement communities won't be the answer. But to meet the growing demand of those that are interested, more communities need to be built – and **the industry needs to work together to educate and ensure the option is better understood.**

**Almost 80% of respondents had not even considered moving to a retirement community**

#### What people think about retirement communities

79%

have never considered living in a retirement community

33%

couldn't identify what a retirement community was

21%

thought a retirement community was similar to a care home, just with more independence

50%

of those who don't feel they can talk to their family about moving to a retirement community say this is because they don't want them to think they are old and unable to cope



Event fees a non-event

The opaqueness of event fees has long been perceived as a barrier to people moving into retirement communities – after all, they were subjected to an Office of Fair Trading investigation that ended in 2013. However, a report by the Law Commission in 2017,<sup>7</sup> which has, in the main, been taken onboard by the government, may have had a reassuring effect on the current perception of event fees. According to our survey, **only 12% of respondents who would not consider moving to a retirement community said this was because they didn't understand or trust the fees.**

Event fees: A definition

- Event fees are a deferred payment mechanism that are built into the lease agreement, which pay for the construction costs and ongoing maintenance of communal facilities
- This is a distinct, established and regulated feature of the retirement village sector and allows the residents to defer the payment for the communal facilities they use
- The leaseholder is charged a deferred fee as an annually accruing small percentage of the value of the property, typically capped between 10%–20%; payable upon the resale of the property

Event fees: what people really think

85%

of those considering a move to a retirement community said fees (either a lack of understanding or trust of them) had not prevented them moving

12%

of those who would not consider a retirement community said this was due to not understanding or trusting the fees



<sup>7</sup>Law Commission event fees.





# Retirement considerations in a post-pandemic world

## Reappraising life in retirement

The global pandemic has had a profound effect on people's lives, with many reappraising the type of lifestyle they want to live – and this is no different for those either retired or thinking about retirement.

**Many respondents in our survey feel differently about their retirement living arrangements as a direct result of the Covid-19 pandemic.** Perhaps, not surprisingly, being able to travel and spend time with friends and family is at the top of their agendas.

**Only 32% would see health concerns and the option of additional health and care support as a catalyst for moving to a retirement community**

But **the pandemic has also focused minds on the emotional side and practicalities of living in retirement.** Many of those surveyed were forced to shield during the heightened social restrictions, and felt lonely as a result, while everyday household maintenance was stressful for many, with almost half of those surveyed feeling they will be unable to, or being unsure if they will be able to, keep up with maintaining their home as they get older.

**Top three experiences to be enjoyed or looked forward to in retirement**

64%

Freedom to travel

61%

Relaxation

60%

Spending time with their family

## Empowered lifestyle decisions driving demand

Moving to a retirement community is an empowering lifestyle decision rather than giving in to vulnerabilities. Only a low number of respondents said they would move to a retirement community for health or care needs – in fact, double the number of people said a swimming pool was a must-have. **Our research highlighted retirees' appetite to maintain an active and engaged lifestyle during retirement.** Retirement communities need to continue to be built and designed across the UK to support this lifestyle, and they need to be better understood by future retirees. Communicating the opportunity, benefits and choice that retirement communities provide will attract would-be retirees, as evidenced in our survey.

**Impact of Covid-19 pandemic on retirees living environment**

42%

have missed socialising in lockdown

40%

have missed going to restaurants

37%

have shielded in lockdown

47%

have felt lonely

28%

have found arranging or doing home maintenance during lockdown stressful



# The investment opportunity for retirement community living

## The investment case

The retirement community market arguably has some of the strongest fundamentals of any alternative asset class in terms of its potential – stronger than student accommodation and build-to-rent, for example. The differentiating denominator is that demographics are hugely supportive. Figures from the ONS show that there were 12.3 million people aged 65 and over in the UK at its last count in 2019.<sup>8</sup> In our survey, 27.3% of those aged 65+ said they would or may consider moving into a retirement community – in order to meet this demand, enough homes would have to be built for 2.5 million people.

As we mentioned earlier in the report, large financial institutions are looking to capitalise on the potential opportunity, and several have announced ambitious plans to invest billions of pounds in developing new retirement communities. This emergence of new players comes at a time when **real estate investors are migrating from core areas such as retail and offices; this area offers a major deployment opportunity.**

Asset allocations to retail and offices could fall another 20% by 2030, according to the Investment Property Forum, if our love of online shopping continues unabated.<sup>9</sup>

The grounding of need in an ageing demographic also provides risk cover against more purely market-driven assets, in addition to **the potential to generate strong financial and impact returns.**

**In our survey, 27.3% of those aged 65+ said they would consider moving into a retirement community – in order to meet this demand, enough homes would have to be built for 2.5 million people**

The opportunity to invest in modern real estate assets for the older demographic plays into underpinning environmental, social and governance (ESG) credentials and institutional investors' increased desire to 'invest with purpose'. Industry research suggests that retirement community living promotes wellbeing and provides tangible benefits for residents and society (see graphic below).

Opposite:  
Audley Cooper's Hill,  
Englefield Green

## ESG credentials for investment in retirement community living

### Retirement community living

promotes wellbeing and has tangible health benefits for residents and society

**10.1% improvement**

in memory in 18 months

**38% reduction**

in NHS costs

**14.8% reduction**

in depressive symptoms in 18 months

**46% reduction**

in doctor visits

**19% of residents**

who were frail, returned to stable health

**Only 1–2 days**

unplanned hospital stays, reduced from 8–14 days

Source: Octopus, ARCO, ONS, June 2018. C Holland, 2015, B Berach, 2015, T Snell, 2012.

<sup>8</sup>ONS Overview of the population January 2021. <sup>9</sup>IPF.





As it stands, retirement communities in the UK have a market penetration rate of just 0.82%. To get an idea of the opportunities and potential, we can look to Australia (5%)<sup>11</sup> and the US (6%)<sup>12</sup> where retirement community models have a firmer foothold. Market penetration rates in both countries are larger despite a lower percentage of over-65s (15%, respectively). The UK would require nearly 400,000 additional homes to match those figures.

<sup>10</sup> JLL Housing Care Index. <sup>11</sup> IPF. <sup>12</sup> The Mayhew Report.

Just under a third (32%) of respondents said that they were likely to be triggered to move to a retirement community in order to best manage health and care needs. Furthermore, beyond improving health outcomes, **it is clear retirement communities will also continue to help the NHS manage demand and cost**, a point noted in the Mayhew Report last year.

The retirement property itself is an attractive investment for residents. Some **80% of re-sales in retirement communities increase in value over local house prices** and have an average annual price growth of 6% per annum.<sup>10</sup>

The retirement community asset class is a growth market, as highlighted by our research and supported by the demographics of an ageing population. Although retirement communities aren't new, they're not as well-established in the UK as elsewhere, but this gives an insight into the potential growth that lies ahead. There is a need to create desirable homes that retired people want, but there isn't sufficient supply to meet this untapped demand. An investment opportunity beckons.

Opposite: Rangeford Villages





# Conclusion

The case for more retirement communities is clear. Our research highlights the opportunity for more people to benefit from retirement living. The investment case, buoyed by changing demographics and the increasing appetite for more active social living in retirement, is fundamentally strong.

The baby boomer generation, which will swell the number of over-65s by close to 8 million over the next 50 years, is redefining the concept of retirement – people are living for longer and they want to live an active life to the full.

The coronavirus pandemic and the subsequent lockdowns have taught us all a lot, highlighting the value of isolating safely while still feeling part of a community. During the Covid-19 outbreak, we continued to invest and completed some significant deals.

Real estate investors with portfolios allocated to the more traditional property sectors of office, retail and leisure will be undergoing structural changes given the recent pandemic – and we do expect more investment to come into the retirement sector as part of this reallocation process.

## Investors, operators and developers are the facilitators in unlocking potential for retirement communities

As an industry, **we need to work together to ensure we can meet the future demand** and highlight the benefits of retirement communities to investors, developers and future residents. We also need to influence public opinion and turn the current latency into demand. Customers need to buy into the retirement community concept – every time we build a new retirement community, the more people will know about it, which will snowball and help address the knowledge gap.

Education is going to be key. What is striking in our research is the number of respondents who were unaware that the lifestyle they desire in retirement is at the very heart of retirement communities. And **once they were made aware of what living in a retirement community was like, their perceptions changed.**

With the retirement sector, it's not about 'build back better', but rather building in the knowledge that the sector can contribute towards our economic recovery as well as the wellbeing of those enjoying their later years. Now is a time for homeowners over the age of 55 to think differently when it comes to considering where to live during retirement – and for the industry to create quality and choice for them. **Investors, operators and developers are the facilitators in unlocking potential for retirement communities.**

We all need to work together to champion retirement communities as a credible residential asset for future investment and an aspirational lifestyle choice. Because we all deserve the right to say our last home is our best home.



Opposite: Audley Cooper's Hill, Englefield Green





### About our research

The research was conducted by Opinion Matters, with 2,005 UK homeowners (either mortgagees or outright homeowners) who do not currently live in a retirement community, are aged 55+ and guaranteeing at least 250 per age group 55–59, 60–64, 65–69, 70–74, 75+. The research was conducted between 20–26 January 2021. Opinion Matters abide by and employ members of the Market Research Society, which is based on the ESOMAR principles.

### Opinion Matters

Opinion Matters is an award-winning insight agency that creates bespoke market research solutions for businesses, organisations and agencies worldwide. Opinion Matters is expert in creating concepts, implementing and managing projects, analysing results and reporting. As communications specialists, with a wealth of experience in research, PR and marketing, they unlock information that helps you hit the right note in understanding and communicating with your market.

By providing specialist sector knowledge and access to niche research panels and audiences, Opinion Matters research will empower you with knowledge to provide your brand with a competitive edge.

Image source: Elysian Residences

# About Octopus Group

Octopus is a group of companies that invests in the people, ideas and industries that will help to change the world.

### About Octopus Group

We currently manage more than £9.2 billion on behalf of our customers. Octopus Energy, Octopus Investments, Octopus Capital, Octopus Renewables and Octopus Ventures are all part of Octopus Group. Of the £9.2 billion we manage, £2.5 billion is on behalf of institutional investors. We are a specialist investor in real assets, private credit and high-growth small businesses. We offer institutional investors access to sterling-denominated investments in mainstream sectors of the economy. Our assets are long term in nature, cash-yielding and resilient to economic headwinds. The Octopus team is made up of over 125 investment professionals and we have almost two decades' experience of operating in our chosen markets.



### About Octopus Capital

Octopus Capital, part of Octopus Group, is a leading specialist real estate investor, with over £2 billion in real estate assets and secured lending, and a highly experienced team of over 80 professionals. We focus on the property lending and healthcare sectors.

The healthcare team manages over £1 billion of investments, with a focus on care homes and retirement communities – sectors requiring significant investment given the UK's ageing population. Octopus Capital also creates strategic partnerships with leading operators, to deliver exceptional healthcare facilities you'd choose for your loved ones.

The property lending team provides bespoke, customer focused financing solutions across the UK residential, commercial and development sectors. The team has lent more than £4.8 billion across over 3,800 loans, providing competitively priced financing throughout the UK and spanning the property investment lifecycle, with loans typically ranging from £100,000 to £50 million.



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