A SOLUTION TO ANOTHER

Assisted living properties are specifically designed or adapted for people who require a specialised service to enable them to live independently, as an alternative to a care home, while still being able to access comparable levels of support. This sort of housing is offered by private registered providers under an agreement with the NHS.

Population projections by the Office of National Statistics reveal that this space is going to see more demand in decades to come. The proportion of those aged 85 years and over in the UK is forecast to almost double over the next 25 years. To put this into context, in mid-2018, there were 1.6 million people in this demographic. By mid-2043, this is set to increase to three million.

Looking at other nations, such as the USA, Australia and New Zealand, the percentage of older people in assisted living is around 5%. In the UK, the figure stands at just 0.5%. Savills attributes the disparity to an undersupply, noting that the UK property sector has prioritised other areas of the market.

With investors attracted by the demographic projections and current undersupply, Savills reports that investment levels within the assisted living sector are on the rise.

Elsewhere, magnifying the need for

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With demand for assisted and supported living strong and projected to grow exponentially over the next two decades, many stakeholders now treat the conversion of traditional residential property into this type of leased housing as "gilt-edged investments"—and a seemingly perfect niche for bridging finance. To find out more about this area, we decided to uncover the risks and rewards—so you don't have to

supported living property is the growing demand from people with a disability. Mencap research predicts that this is likely to increase by more than 35% by 2030.

Opportunity for specialist brokers

The facilities required in assisted living properties are, in many cases, fairly similar to traditional residential, which is why this could be a sound option for landlords, and their brokers, looking to convert or sell their stock. They are largely self-contained flats with their own front door and staff on call to provide personal care and support services. Ranjeev Kumar, partner and head of real estate finance at Watson Farley & Williams, claims he has seen a "boom" in this space due to assisted and supported living schemes being backed by public policy, a regulatory framework, a maturing private sector provision and a growing number of funding options and exit strategies. He says that the need for only light or cosmetic refurbishment (which often does not require planning), and the prospect of quick turnarounds, landlord-friendly leases and clear exit options, the sector is of growing interest to specialist lenders. "[Bridging] finance is absolutely perfect for assisted living and supported living schemes because the turnaround is so quick and the exit is very well defined."

Higher yields

Leases entered into with registered providers, which offer accommodation with assisted living facilities and services to tenants, can typically bring in much higher rents compared with traditional BTL properties. Ranjeev explains that while some of this housing is commissioned by local authorities, the majority is now run by lease-based registered providers such as housing associations. These organisations operate a model where they lease the converted properties from private landlords. Anecdotally, a landlord may receive £600 per month from renting a property on the traditional rental market, or lease to a housing association and potentially receive, on average, £250 per tenant per week. These leases are typically long

SHORTAGE?

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term (20 to 25 years), usually without any breaks, and incorporate regular upward-only rent reviews. Ranjeev says they can make assisted living properties look like "gilt-edged investments" to REITs (real estate investment trusts)—which landlords may choose to sell them on to once the leases are in place.

Chris Oatway, managing director at LDNfinance, notes that bridging finance can often be pivotal for assisted living conversions. "Funding can be challenging on these types of assets and bridging finance can often be crucial when commercial lenders are not able to provide funding on acquisition. This can often be the case if it is a new business with no track record, if the property needs work to convert it or if the asset was bought in a situation where speed is essential."

Triple Point Social Housing REIT buys assisted living sites, many of them conversions from traditional residential properties. Of the 365 properties it owns, over 200 have been repurposed for specialised supported housing. According to Alexander Precious, investment manager at Triple Point, the conversions are supporting the expanding health and care space. "The urgent nature of local demand can mean that it is more practical to adapt existing properties." He adds that, in some locations, limitations or local restrictions mean they can't be built at all. Alexander claims that converting properties can save vulnerable tenants from staying in less appropriate and often more expensive accommodation, such as long-stay hospitals, for more time than they should. Triple Point has facilities for over 2,000 people with learning disabilities, autism, mental health issues or physical disabilities.

Alexander says that there does need to be capacity to install assistive technology where required to support a resident's independence, and sometimes they need to have wider corridors for easier access. David Higson, investment director at Blackfinch Property, explains that the demand isn't necessarily universal, as local authorities often have specific requirements. "...It needs to be in an accessible location for any support, ie probably not in a very remote rural location." He says that the accommodation also needs to be fairly discreet, so as to ensure privacy for vulnerable adults and to provide a degree of protection. Tony Throp, investment director at Puma Property Finance, adds that, generally, being near to local amenities, such as shops and transport links, is important, as is having outside space. Locations where residents can be easily integrated into the local community have real value.

While the Regulator of Social Housing acknowledges that private investment plays an important role in supporting much-needed growth and sustainable development of the specialised supported housing sector and "positively impacts the lives of very vulnerable people in our society", it is resolute that only a well-maintained property that meets all the appropriate health and safety standards and is fit for purpose with the necessary adaptations to suit a specific tenant's needs can be occupied.

A number of different lenders I contacted stated that they did not lend on assisted living conversions. This was due to it being an unusual asset type, and they preferred to deal with ground-up developments in the sector—or they simply haven't been introduced to such cases.

A more secure exit?

Longer leases and the underlying income associated with social government-funded rents give these types of conversions well-established exits, according to Ranjeev. This is especially so if the lender can assess and prove councils' demand beforehand. Tony says that, from a lending perspective, if a scheme has an exit from a buyer prior to providing a loan, this naturally de-risks the refinancing.

It is a growing niche area that Stephen Wasserman, former managing director at West One Loans, is taking a closer look at and aiming to move into. He says he has seen the assisted conversion space grow in the wake of the challenges that housing associations are facing in finding suitable accommodation and specialist requirements for different tenants.

Despite the attractiveness of the sector, Ranjeev advises caution. He claims that this sector has come under close scrutiny with regard to the quality of accommodation and care provided to who are, often, vulnerable people. More regulation may be on its way. Ranjeev adds that expert advice is essential. There is a well-developed eco-system which requires specialist understanding and input: developers, investors, residents, suppliers, employees, lenders, registered providers, operators, local authorities and the Care Quality Commission all have their own particular requirements, and the challenge is to be able to navigate these myriad interests as safely and efficiently as possible.

While tighter regulation could be on the horizon for assisted living housing, demand is certainly going to grow. I am told that forward funding new-build accommodation alone cannot address the deficit. Therefore, conversions—with the help of bridging finance—could become an even bigger part of the solution. Brokers that can spot the feasibility of this can add value to clients who are looking for an opportunity to offload their BTL portfolios or earn more on underperforming assets—in addition to providing much needed housing to those with complex needs. ■