**Real estate debt: Later living takes centre stage**
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*03 February 2025*

Featured

# Real estate debt: Later living takes centre stage

*Against a backdrop of ageing populations and changing retirement dynamics, how are real estate investors accessing the later living sector as it evolves?*

**Jon Yarker** - 11 hours ago

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Later living accommodation is proving to be an increasingly interesting area for the real estate sector, with demand for additional facilities exceeding supply. In the UK, an ageing population and a contracting care sector has highlighted the need for real estate debt funding – according to the UK government, more than 1.42 million UK households will be headed by someone 85 or over by 2037 – a 161 percent increase over 25 years. Meanwhile, estimates from the Opus Business Advisory Group suggest the shortfall of care home beds in the UK sits at between 57,300 and 64,300 beds as of December 2024.

Broadwood Capital is one firm that has traditionally lent to assets in the sector, but chief executive officer Dan Smith says many lenders still choose to ignore the space. This, he explains, "is often down to be a misplaced stigma tied to reputational risks relating to older assets due to some historic high profile insolvencies".

"We have always been vocal proponents of the later living sector and believe that it currently represents see a significant opportunity for debt investors."

However, these fundamentals, and the potential they have for boosting yields, are drawing greater attention from fixed income investors. Guy Brocklehurst, relationship director at Leumi UK, is seeing a “clear uptick” in the demand for these opportunities.

“There is an increasing supply-demand imbalance in later living; while on the one hand there is a shortage of quality stock, on the other we have an ageing population in the UK, with a relatively affluent and healthy older generation looking for developments that allow them to maintain their independence and lifestyle,” says Brocklehurst.

“In that context, the decision to downsize tends to be more needs-based rather than discretionary, so there is clear demand for high-quality, aspirational sites that provide a sense of community.”


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The specific characteristics of the UK care home industry mean that the market represents “an increasing opportunity” for consolidation, according to Shayan Ratnasingam, senior research analyst at Gravis Capital.

“The owner-operator [care home] market in the UK is still quite fragmented, with small operators (typically one to two homes) representing a significant portion of the market,” says Ratnasingam. “Concurrently, we have seen a reduction in supply due to the closure of homes driven by regulatory burdens and operational challenges, causing smaller operators to exit the market.”

#### Finding the right opportunities

Retirement villages and care homes have historically been viewed as sombre places to spend later years. However, Ben Barbanel, head of debt finance at OakNorth Bank, says these expectations are changing. In London and the Southeast, where households have been able to benefit most from growing property values in recent decades, many retirees are able to downsize with comfort in mind.

“People are prioritising their quality of life more – these communities are evolving into vibrant spaces where residents can embrace an exciting new chapter of their life,” says Barbanel. “This has led to an increase in demand for ‘luxury’ later living, akin to what we see throughout much of the US and Australia.”

This means that properties with on-site restaurants, cinemas, gyms and salons are increasingly being financed, as well as those with high-quality health services, concierge facilities and round-the-clock security.

> *64,300*
>
> *Estimated shortfall of care home beds in the UK as of December 2024*
>
> *Source: Opus Business Advisory Group*

Attitudes toward the sector are similarly shifting among the investor set. Broadwood’s Smith has seen this first-hand with firms looking to acquire portfolios, adding that this is being reflected in how opportunities are being presented: “The care home sector has evolved over the past 10-15 years and the modern new-build care home is typically 60-90 beds over three storeys. Operationally, the sector is maturing, with established operating models becoming more acceptable to institutional investors.”

There is also support at policy level. In 2024, the UK’s newly-elected Labour government recognised the strain an ageing population would put on public resources such as the National Health Service.

Government officials have since removed the cap on care costs and have outlined plans for formation of a Royal Commission to find long-term solutions for elderly care. A recent report into the state of the NHS estimated that 13 percent of hospital beds could be freed up if patients had the option of better care home facilities – an argument that Gravis's Ratnasingam is seeing come through in investments.

"We have seen robust operational performance from tenants and care operators, with rent cover in excess of 2.0x, occupancy reaching 90 per cent and operators demonstrating their ability to absorb and pass on increasing staff and utility costs through higher fees," explains Ratnasingam. "This speaks to the attractive counter-cyclical characteristics of this real estate subsector.

"Once a resident is in the system, they tend to require long-term care. These long-term structural demand drivers and the structural undersupply have underpinned valuations over recent years compared with other sectors that have seen more significant yield shifts."

### Making investments work

Investors may increasingly be committing to later life real estate opportunities, but lending to these deals is easier said than done. Leumi UK's Brocklehurst says that lenders cannot rely on favourable supply and demand dynamics alone and that understanding changes in lifestyle and demographics is fundamental to investing successfully in the sector.

"The market is clearly focused on a specific buyer pool, so recognising shifts in trends and expectations is crucial, says Brocklehurst. "That enables you to identify which types of property are likely to benefit from stronger demand. While some buyers will prefer rural schemes which tend to be highly amenitised, others will look for the independence offered by urban schemes located a short walk from shops and restaurants."

Aside from attractive benefits like amenities and the lure of luxury settings, there are also sensitive healthcare considerations that need to be accommodated. Longer life expectancies can also mean a greater likelihood of tenants living with cognitive conditions common in later life – a factor that lenders and asset owners alike are recognising.

"We have seen more of a shift and focus on dementia in the past 10 years," says Broadwood's Smith. "People are living longer with dementia and, by definition, are staying in care homes for longer. We are starting to see concepts for more dementia-only facilities, where residents are still very active and physically healthy."

There is also the fact that the market will want more choice when it comes to their real estate. Typically speaking, younger individuals will buy property with a view to see it become more valuable. In contrast, those who are retirement-age are more likely to decumulate assets and may be less comfortable with buying property outright in their later years. According to Leumi UK's Brocklehurst, this is translating into a stronger rental market.

"[This is] underpinned by an increasing acceptance of the benefits of renting over owning, with stamp duty prohibitive when the typical resident will stay in a later living scheme for a relatively short period of their life," he adds. "As a result, we're seeing more mixed tenure developments coming forward, typically with the rental element focused on designated blocks."