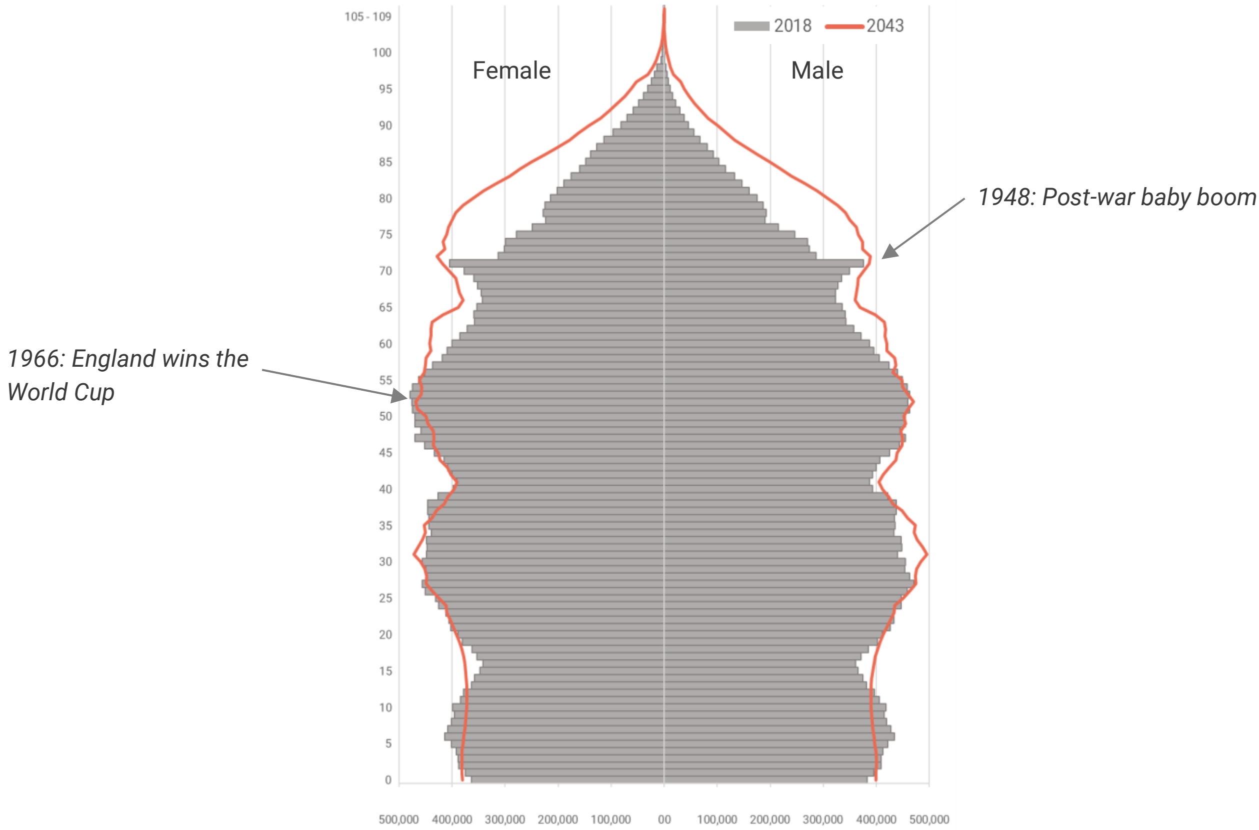
Property and the Ageing Population

"The best thing about the future is that it comes one day at a time."
— Abraham Lincoln

Property investing is centred upon people: where they live, work, play and are provisioned has a direct bearing on the properties required to service their basic needs. And so the key to successful property investment is to get ahead of any changes in human behaviour and capitalise on new property trends as they emerge. Whilst 2020 has accelerated some changes in human behaviour which were already underway, there are other behavioural and demographic shifts which have been ongoing for some time. One such trend is the changing age profile of the UK's population. As the chart below illustrates, the average age of the UK is increasing and although glacial in pace, it is relentless; by mid-2041 it is expected that the proportion of people aged over 85 will double to some 3.2 million, and treble by 2066 (ONS, 2018). For the property investor, the trick is to recognise these behavioural and demographic shifts, determine the types of property most likely to benefit, and then wait patiently for the inevitable changes to occur.

It is good news that life expectancy in the UK has increased dramatically over the last few years, however this is going to have a huge impact on the properties required to provide for a larger and longer living society, as the demographics of the nation change.

In this Chapter, the first of four, we will explore the effect of our ageing population on property investment.

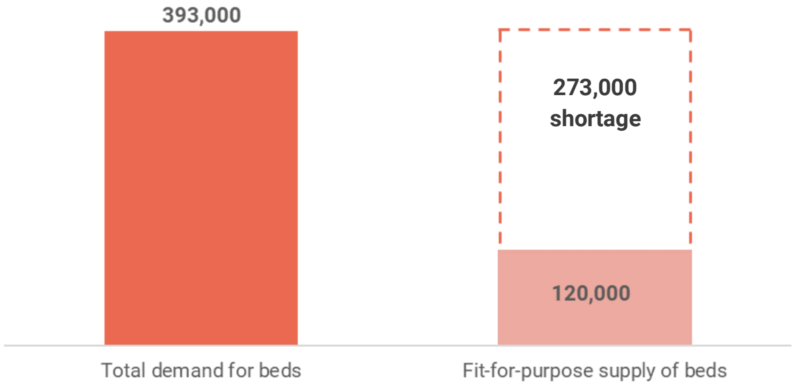


Source: ONS 2018

People over 85 will, on average, visit their GP 13 times each year and as this cohort expands in number, demand for the services they depend upon will naturally increase. GPs in the UK currently handle 340 million consultations each year, up from 170 million in 2008. The Naylor review of the NHS property found that 42% of NHS-owned real estate is more than 35 years old, and 62% is more than 25 years old. The Naylor recommendations, which are widely supported, suggest that £10bn of government investment is required to improve NHS-owned real estate. Private sector owners of publicly available medical facilities already play a vital role in the provision of much needed medical and care facilities and with the increase in prospective users, the participation of the private sector is rapidly becoming a necessity for the provision of appropriate and fit for purpose modern facilities.

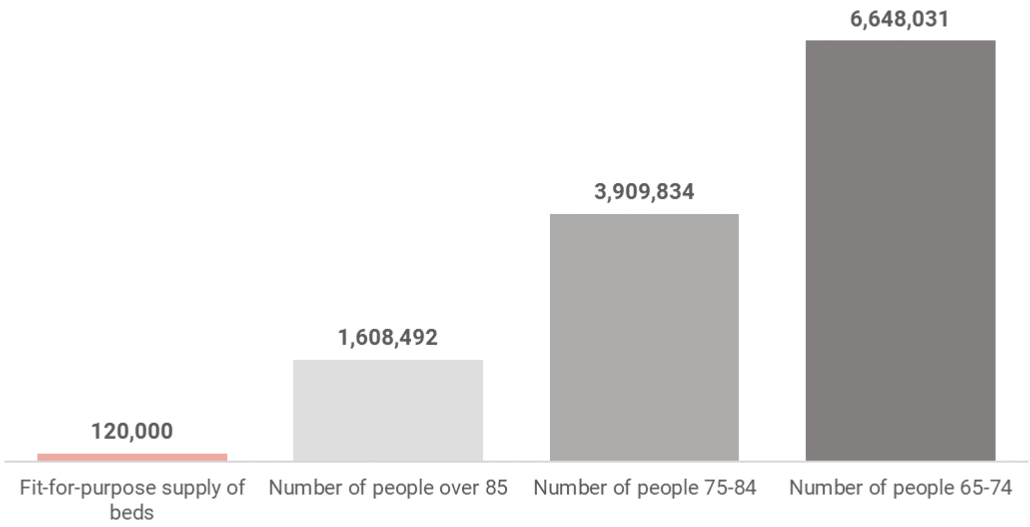
The increase in demand, and outdated NHS amenities, means that GPs are increasingly turning to the private sector for modern purpose-built premises offering not just treatment rooms but also pharmacies, physiotherapists and social care on site. Practices are increasingly encouraged to work together with community health and social care staff to provide a joined-up service for patients. Over the next five years, investment in primary medical and community services will grow faster than the overall NHS budget, with a ring-fenced fund, worth at least an extra £4.5bn each year by 2023/24, helping to develop better services and facilities.

Equally the need for more and better-quality care homes is clear. Demand already significantly outstrips supply for spaces that are fit-for-purpose. Increased investment in the sector is desperately needed and the private sector has stepped up to support efforts to improve the housing stock needed for the care of the elderly.



Source: Target Healthcare REIT & ONS 2018

The number of people aged 85 and over is likely to double by 2041, exacerbating the problem exposed by the shortage of fit-for-purpose care home beds currently available.



Source: Target Healthcare REIT, ONS 2018

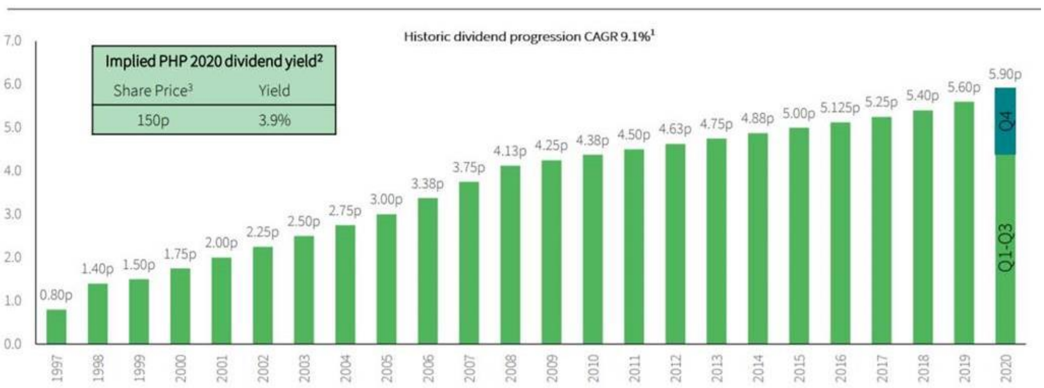
The social benefit of investment in the primary care and care home sectors is clear. REITs with specialist management teams and focused investment strategies are well-placed to provide the capital needed to develop modern and effective social care infrastructure in the UK that offers true benefits to patients and residents.

The opportunity for age and healthcare related REITs

Significant and increased investment in the healthcare related real estate sector is clearly required, and we are faced with a market that is supported by high demand and which benefits from broad political support. For REITs, owning healthcare assets provides long-term, sustainable and growing rental income, often backed by secure government funding. Coupled with the demographic shifts that work to support the long-term case for investment in the healthcare sector, and the far-reaching social benefits, the investment case becomes increasingly compelling.

The long-term nature of real estate in the sector, with demand for both care homes and primary care facilities offering forecastable growth, means that the income from such assets is, for the most part, highly predictable and dependable. Primary Healthcare Properties (PHP) owns a portfolio of 510 GP surgeries with a weighted average unexpired lease length of 12.5 years, and around 90% of the rent from its assets backed directly or indirectly by government bodies. Similarly, Assura's portfolio consists of 565 practices where nearly two-thirds (64%) will remain under contract until 2030.

Such long-term security in lease lengths and rental income results in strong and predictable dividend growth for investors in these REITs, marking them out as opportune entry points to gain exposure to a real estate sub-sector supported by strong underlying fundamental drivers. PHP's dividend has increased every year since 1997, whilst Assura reported an attractive net initial yield of 4.6% for its financial year ending in March 2020. In a year where the 'hunt for income' has hit headlines as traditional dividend payers cut or scrapped payments entirely, it is the sector once considered alternative where one of the strongest cases for investment returns is now to be found.



1. CAGR: 1997 to Q3 2020 2. Based on Q1-Q3 2020 dividend of 1.475p declared per share annualised and is illustrative only 3. Share price is the closing mid-market price on 27 July 2020
Source: Primary Health Properties

Property ownership in the healthcare sector is fragmented, creating an environment for landlords to consolidate their position with acquisitions and developments. Of 9,000 primary care centres, currently only around 1,200 are owned by REITs such as PHP and Assura. In the care home sector, Impact Healthcare REIT owns around 1% of the operational beds in the market and has openly stated its intention to continue to add to its portfolio. The opportunity for specialist property management teams to expand their portfolios in the coming years is significant and will serve to benefit those invested in this property sub-sector

Healthcare related real estate is a sector which is supported by strong fundamentals, in particular a need to provide high-quality care and support for a steadily ageing population. The specialist REITs investing in care homes and GP surgeries understand that ensuring the quality of the accommodation they provide will be crucial not only for residents, but also for the longevity of each of the assets they own. For an investor, specialist health care REITs offer an opportunity to secure exposure to a varied and diverse sector, whilst participating in efforts to secure more modern and sustainable social care infrastructure for the UK's steadily ageing population.

Exposure to REITs benefiting from the ageing population trend, such are those owning care homes and GP surgeries, offers reliable income and steady returns that are lowly correlated to equity markets over the long term. The **VT Gravis UK Listed Property (PAIF) Fund (GULP)**, gains exposure to the ageing population megatrend by investing in these REITs, ensuring liquid exposure to a highly-specialised sector where expert knowledge is at a premium.

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