Why investors shouldn’t overlook UK social supported housing in the Covid-19 environment

We outline why we believe social supported housing in the UK offers investors much needed stability as the wider real estate market experiences falls in income and value due to Covid-19.

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The real estate investment market is undeniably experiencing turbulence and uncertainty due to COVID-19. With major falls in rental income expected this year, consequent falls in valuations also seem inevitable. However, social supported housing (SSH) in the UK remains a sector which we believe offers resilient return potential. There are a number of key reasons the sector looks so robust.

The drivers of SSH returns

Under the Care Act 2014, the UK Government has a statutory responsibility to provide the existing and future population of working-age adults with life-long care needs with long-term, safe accommodation. These are primarily adults with mental health illnesses.

This category of social housing is separate from registered care homes, sheltered housing, hostels for homeless people and affordable housing. The key difference being that the costs are fully-backed by the UK government.

Moreover, there is a chronic lack of suitable, modern accommodation that is designed with integrated technology specifically for SSH residents’ requirements. SSH in a community setting supports residents’ increased independence which, in turn, has a positive impact on their quality of life, wellbeing and reduces their reliance on National Health Service (NHS) services.

The government does not have the funding or borrowing capacity to build this accommodation and it is closing older units which are no longer fit for purpose. It is therefore seeking private sector capital to build new accommodation. The government will then indirectly lease them on a long-term, “FRI/NNN” basis; lease structures that absolve the landlord of more risks than other lease types. Such arrangements offer a significant saving to the public purse with typical cost reductions of 11% and 55%, respectively, compared with registered care home and in-patient alternatives[1].

With such a favourable demand and supply dynamic the long-term, high-quality and inflation-linked nature of the cashflows make the economic investment case highly compelling. Moreover, the cashflows are not correlated with the economic or property cycle.

SSH’s resilience to Covid-19

SSH involves the development or major refurbishment of properties that are considered suitable for the delivery of mid-to-higher acuity care. This is an essential service and non-discretionary from the UK government‘s perspective.

SSH supports the NHS by enabling people to be cared for outside of NHS facilities, thereby relieving pressure on the NHS itself which is more critical at this time than ever before.

SSH properties are always in very high demand but, at the current time any bedrooms which do become vacant are being filled much more quickly than normal, typically by younger residents who never enter a traditional NHS in-patient environment. Some local governments are even providing rent guarantees to providers of SSH facilities because they require the capacity so urgently.

The average age of SSH residents is about 32 years old, which is one of the most resilient age cohorts to the Covid-19 virus, when compared with care homes, typically occupied by more vulnerable residents in their 70s or 80s.

SSH schemes are designed and operated for mid-to-higher acuity care provision which necessitates higher staffing numbers. In the context of Covid-19, this helps with contingency planning compared to lower staff levels in lower acuity care, such as care homes. Where there are lower staffing numbers, it can become challenging to provide cover when staff inevitably become ill or are required to self-isolate.

In care homes, all space other than the bedrooms is communal to reduce loneliness, encourage socialising and thereby delay the onset of dementia. By contrast, SSH residents have their own apartments with their own front door, as this is critical to their specific care needs. This has proved beneficial in both preventing infection and isolating any residents who might become infected.

The standard levels of hygiene practices in mid-to-high acuity care facilities like SSH is very high and these have been further augmented as a result of Covid-19.

SSH facilities are designed to control and monitor access to the properties at all times and this has enabled a restricted regime of access to be implemented.

SSH is legislated for and paid 100% by the Government to enable the most vulnerable people in society to live in a normal community setting in the most cost effective manner. The nature of the care and the properties make the underlying cashflows resilient at the current time and, with demand far exceeding supply for the foreseeable future, we believe it could represent a compelling income-focused opportunity for investors seeking more defensive long-term strategies.

FOOTNOTE

1 Mencap and Housing LIN Report, April 2018 (care and accommodation combined).