

Korea - October 2022

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SPOTLIGHT
Savills Research

Korea Senior Housing



“Plenty of Growth Potential Exists in the Senior Housing Market as Rapid Aging Increases Demand for Retirement Housing”

OVERVIEW

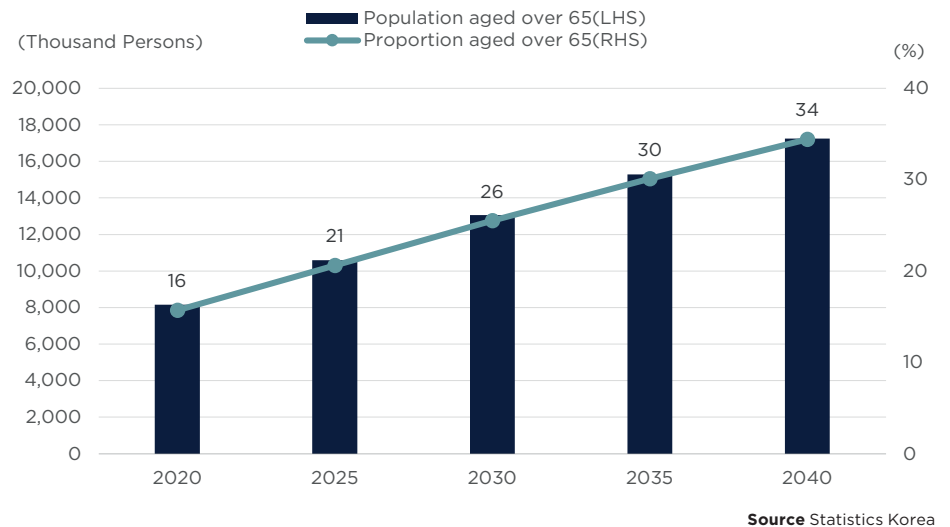
Korea is already considered to be an aging society now and is projected to become a super-aging society in three years' time. As of July 2022, fully 17.6% of the Korean population was 65 or older (Statistics Korea). By 2025, this number is expected to surpass 20% and by 2035, more than 30% of the population will be over 65.

As the overall population of over 65s increases, so will the percentage of elderly who live in independent households. The 2020 Senior Survey Report from the Ministry of Health and Welfare found that 78.2% of the over 65s live in single households (living alone or with their spouse), an 11.4% increase compared to 2008 survey data. On the other hand, those who reported they were “living with children” fell from 32.5% in 2008 to 12.8% in 2020.

Accumulated economic power signifies that those who are newly categorized as elderly are rapidly demonstrating potential as active consumers. Incomes for those aged over 65 increased by 10% to 20% from 2017 to 2020 and continue to rise. A 2021 survey of asset status by age revealed those in their 60s were the third wealthiest, following those in their 40s and 50s (who were wealthiest with assets averaging KRW 5.7 billion). Furthermore, the wealthy people aged 65 or more are not stingy when it comes to spending their cash. The Seoul Research Institute’s “2020 Online and Offline Card Consumption Growth Rate Survey” found that increase in online card consumption was highest among those in their 50s (22.3%), with those in their 60s following at 18.8% and those in their 70s at 17.7%. In addition, those in their 60s and 70s were the only age groups to demonstrate increased offline card consumption, with 10.4% and 1.2% growth respectively. Going forward, those in their 50s and 60s are expected to demonstrate increased consumption power on the bases of a strong financial foundation.

In the housing sphere, the number of over 65s who wish to be admitted to senior citizens' facilities is increasing as awareness about senior housing has spread, and soaring housing prices in conjunction with government policy has made owning homes more difficult. The proportion of over 65s who wish to live in senior housing rose from 0.2% in 2017 to 4.9% in 2020. As a result, planning is underway in the construction industry for more senior homes, while large corporations and financial institutions alike are turning their attention to services and residential facilities targeted at people aged over 65.

GRAPH 1: Senior Population Projections, 2020-2040F



GRAPH 2: Senior Population Source of Income by Age Group, 2017 vs 2020

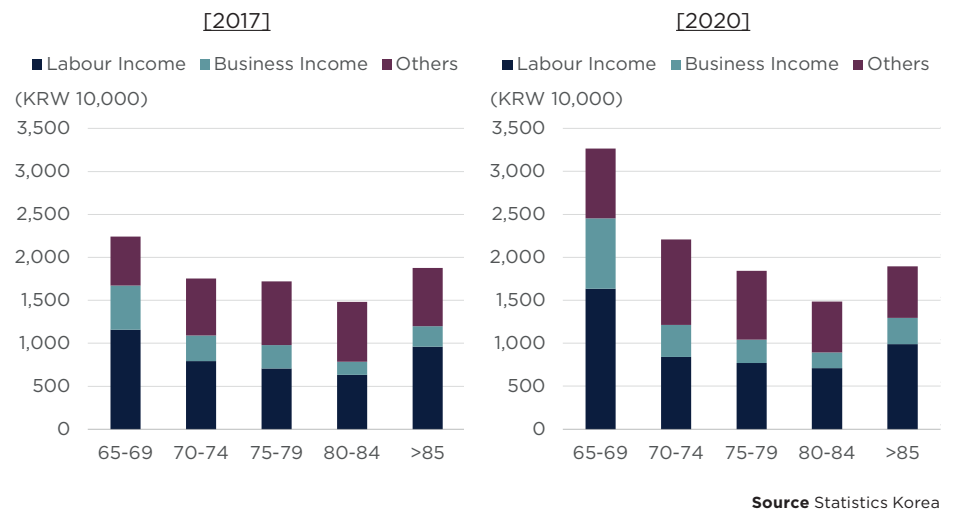
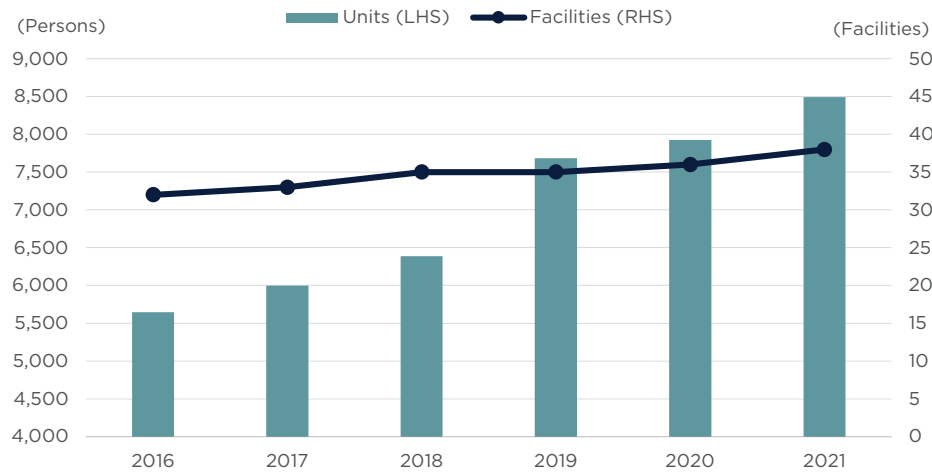


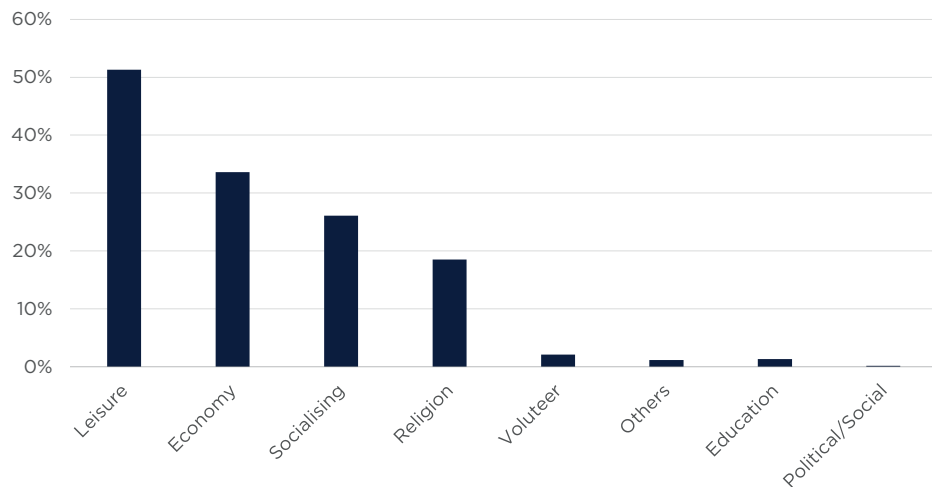
TABLE 1: Type of Senior Housing Facilities

	Purpose	Scale
An institution for senior citizens	An institution intended to provide senior citizens admitted thereto with meals and other conveniences necessary for their daily life	10 people or more
A communal living home for senior citizens	An institution intended to provide senior citizens with home-like residential environment, meals, and other conveniences necessary for their daily life	5-9 people
A welfare house for senior citizens	An institution intended to provide conveniences necessary for their daily life, such as convenient residence, guidance of life and advice, and safety management, through a lease of a residential institution to senior citizens	More than 30 houses

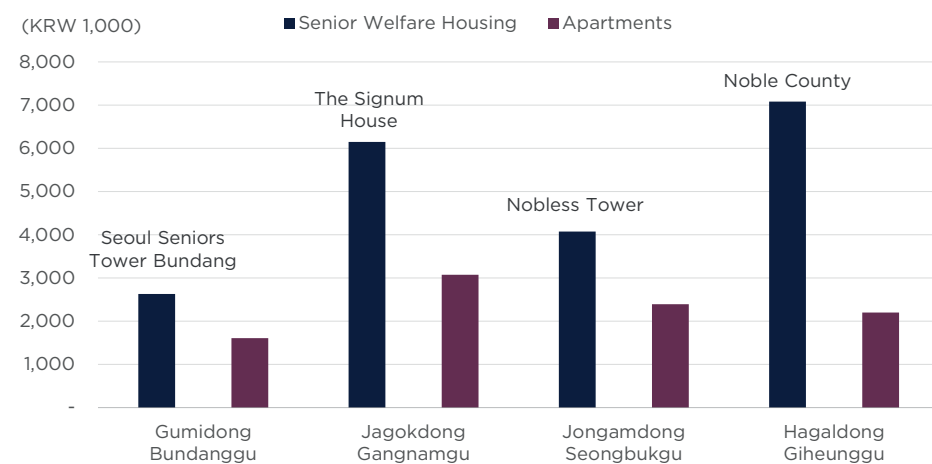
Source: Welfare of Senior Citizens Act

GRAPH 3: Senior Welfare Housing Supply, 2016 - 2021

Source Ministry of Health and Welfare

GRAPH 4: Preference of Senior Population's Leisure, 2020

Source Ministry of Health and Welfare

GRAPH 5: Prices of Senior Welfare Housing VS Nearby Apartments, 2022.09

Source Savills Korea

DEFINITION OF SENIOR HOUSING

As defined by the Ministry of Health and Welfare, residential welfare facilities for over 65s include an institution for senior citizens, communal living home for senior citizens and welfare housing for senior citizens, of which only the last can be rented. Welfare housing for the elderly is a type of rental housing that provides the conveniences necessary for daily life, including living guidance, counselling, and security. Each welfare housing unit is at least 30 households in size. Welfare housing for people aged over 65 differs from other senior facilities in that it is regulated under the [Housing Act] and [Multi-family Housing Management Act], with the exception of regulations related to installation, management and housing supply. The housing facilities are 100% self-paid and only those aged 60 or older with the ability to live independently are eligible. A variety of locations are available, with facilities divided by location into urban, suburban, and rural categories. Recently, these living facilities have been witnessing a gradual upgrade. In addition to providing basic services for the elderly, many have begun to offer additional services such as meal management, medical care, and leisure programs.

MARKET SUPPLY

Currently, only 0.1% of the population aged over 65 resides in welfare housing for the elderly. Despite additional construction in recent years, supply remains insufficient. Six new facilities were supplied over the five-year period from 2016 to 2021, increasing the total number of facilities from 32 to 38 and total capacity from 5,648 to 8,491 residents (Ministry of Health and Welfare). However, this is a drop in the ocean compared to the 1.9 million increase in the senior population from 6.8 million in 2016 to 8.7 million in 2021.

Existing welfare housing for the over 65s are distributed across the Seoul metropolitan area. Except for the Daejeon facility, all have a high occupancy rate of more than 90%. This popularity is firstly due to the facilities accessibility to hospitals. Personal preference plays a role as well, as the senior population prefer the cities they are familiar with and in which they may enjoy a wider range of leisure and cultural activities.

As seen by the elderly's preference for metropolitan locations, the Korean population aged over 65 places great importance on leisure, economic and social activities. The Ministry of Health and Welfare provides a deeper dive by examining the senior population's preferences for paid services. Overall, medical services were most in demand, with 68% wishing for additional paid medical services when using residential facilities. The second most sought after service was senior care, followed by hospital outreach services,

exercise and culture/leisure services, cleaning, and laundry services and finally meal services.

In response to the needs and preferences of the Korean population aged over 65, the market has welcomed the introduction of high-end welfare housing. Samsung Noble County is located in Yongin, a mere 30-minute drive from Seoul. Operated by the Samsung Life Public Welfare Foundation, the facility includes various cultural and sports activity centers, and has medical services provided by the Samsung Medical Center. Seniors Tower has six branches in total and most of them are connected to secondary or tertiary hospitals, and they can therefore offer rapid medical services.

Rising demand for welfare housing for the over 65s has prompted a wealth of projects currently under development. By 2024, Lotte E&C Consortium plans to build a senior town in the MICE complex in Magok-dong. VL LeWest, a high-end welfare housing facility for the elderly with a capacity of 810 households, is expected to provide services including medical care and concierge services. The neighborhood is expected to be filled with conventional centers as well as cultural, retail and business facilities. Similarly in Busan, the Osiria residential (tourism medical) complex is expecting the addition of senior housing facility VL LHour. Envisioned as the largest senior residential complex in Korea, cultural and community facilities, a hospital and other health facilities will also be built in the neighborhood. Implementation of the project is overseen by Suncity, a project finance company (SPC) invested in by Hi Investment & Securities. Hanwha E&C will be responsible for construction, and Hotel Lotte will be the operator. Meanwhile in Cheongna, Incheon, a Medical Complex Town has a

completion data in 2028 and is being realized by a partnership of Asan Medical Center, KT&G and Hana Bank.

The new high-end senior facilities are correspondingly high-priced. The monthly cost of urban welfare housing is 1.37 times more expensive than the monthly rent of nearby apartments (as of September 2022). Samsung Noble County has an even higher rate at 2.19 times more than nearby apartments. The high price do not show any signs of deterring residents, however, with occupancy rates of 97% on average.

OUTLOOK

With more than 500,000 people expected to be categorized as elderly every year over the next 10 years, the population is rapidly aging. Accompanying the aging society is an increase in single elderly households, especially those with strong purchasing power. However, the supply of welfare housing to meet the demands of the financially stable aged over 65 remains insufficient despite various ongoing development projects. The supply facilities especially in metropolitan areas is expected to increase further in the future due to high demand for senior welfare housing that provides direct medical services and various convenience-, leisure- and culture- related services.

The hotel investment market witnessed remarkable growth when the sector initially attracted institutional capital by securing long-term master lease contracts with operators. There is plenty of growth potential for senior housing, as they may be also structured similarly as investable assets once there are established companies dedicated to operating retirement homes.



For more information about this report, please contact us

Savills Korea

Crystal Lee
CEO
South Korea
+82 2 2124 4163
csjlee@savills.co.kr

Savills Research

Simon Smith
Regional Head of Research
& Consultancy, Asia Pacific
+852 2842 4573
ssmith@savills.com.hk

JoAnn Hong
Director
South Korea
+82 2 2124 4182
jhong@savills.co.kr

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