Supported living for property investors

White Paper

What is supported living?

Supported living falls under a specific sector of social housing and refers to the living arrangements of tenants with a diverse range of both long- and short-term support needs. It is a vital service that enables some of the most vulnerable people in our society to live independently, thus improving both the quality of their lives whilst also relieving pressure (and costs) on hospitals or other institutions where many of these individuals may end up being housed otherwise.

To date, supported living has been a very under-developed sector of the property industry with a lack of public investment hindering progress – demand for suitable properties remains high, but there is a real shortfall of suitable accommodation available.
Consequently, a lease-based model that suits both supported living providers and investors alike represents a strong way forward.

What are the benefits of supported living for property investors?

Supported living can be one of the most hands-off property strategies out there and as close to that much-vaunted passive income as you're likely to get.

The lease

One of the main benefits of this investment strategy is that leases on supported living properties can be as long as two to ten years and with the added advantage of no void periods to consider and no letting agent fees.

Moreover, under a supported living lease, care providers will often manage any maintenance work to ensure it doesn't interrupt with the tenant's support. Supported living leases are comparable to their commercial equivalents, only without market fluctuations.

The rents

Rents broadly fall into three main categories:

- Local housing allowance (LHA) rates
- Market rent
- Above market rent

The majority of supported living providers offer market rate rents, but sometimes you can yield above market rents in cases where there has been a high level of adaption or change to the property.

Let's compare a property rented on the open market at a rate of £500pcm to a supported living lease on the same rent:

For the open market let, you need to subtract:

- 10% letting agent fees
- 10% voids
- 10% damages/wear and tear

Leaving you with an income of £350pcm or £4,200/year.

On the supported living lease, there are no additional costs, therefore your income is £500pcm or £6,000 a year.

That's £1,800 a year more than on a standard rental which, over a five-year lease, amounts to £9,000.

	Private rental	Supported living lease
Monthly rent	£500	£500
Letting agent fees (10%)	-£50	-
Voids (10%)	-£50	-
Damages/wear and tear (10%)	-£50	-
Annual income	£4,200	£6,000

That's £1,800 a year more than on a standard rental which, over a five-year lease, amounts to £9,000.

Be aware that a supported living property may have a higher mortgage rate, but this is usually more than offset by the savings elsewhere.

SSAS pensions

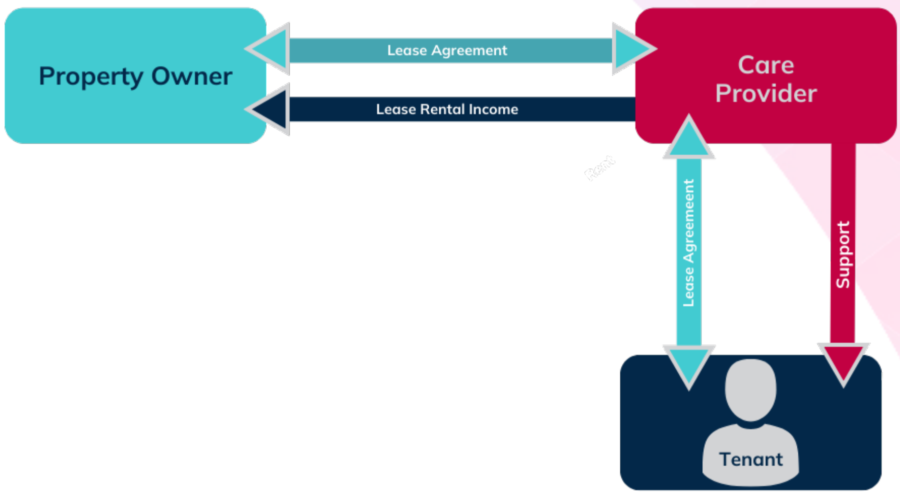
Ordinarily residential properties aren't permitted in your SSAS. However, the ***Pensions Tax Manual*** makes an exception for some properties operating under a supported living lease.

Who would I be leasing to?

Care providers

Care providers are the direct link to tenants, supplying the care required by each individual – be that as little as a few hours a week or anything up to 24-hours a day, live-in support from as many as three care givers.

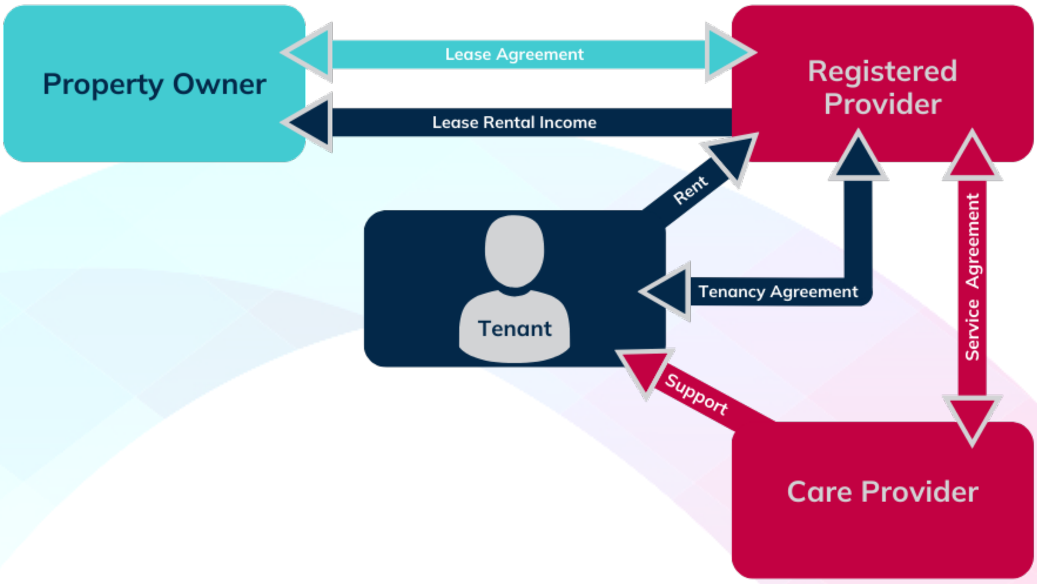
Care providers come in many shapes and sizes. They may operate as charities, private businesses or perhaps as community interest companies (CICs) – businesses that exist to benefit the community rather than private shareholders. Many care providers work directly with investors.



Registered providers/registered social landlords

In some cases, registered providers (also known as RPs or registered providers of social housing) will work with landlords on behalf of care providers.

These are housing associations registered with the Regulator of Social Housing in England. In Wales and Scotland they are called registered social landlords (RSLs) and must be registered with the Scottish housing regulator in Scotland, and the Welsh government housing regulator in Wales.



RPs/RSLs will often negotiate and take on the lease to a property, sometimes applying for higher levels of rent from the local authority in recognition of the fact that a tenant with support needs may require an adapted or larger property to accommodate some of their support staff.

What about the tenants?

Whilst landlords won't be working directly with tenants, it's important to understand the market in order to select appropriate properties. Broadly speaking, tenants fall into two categories:

Long-term support needs

These individuals may require support for life – such as people with learning or physical disabilities, mental health problems or autism.

Shorter-term support needs

These individuals may only require support for a finite period of time before they can take on their own tenancy and live more independently. These tenants may include:

- People fleeing domestic abuse
- Teenage parents
- Teenagers transitioning out of the care system
- People recovering from addiction
- Veterans, perhaps in particular those who have experienced some PTSD, or who have been homeless

- Asylum seekers
- People who have been homeless
- People who've been in the criminal justice system

What type of property is suitable for supported living?

Owing to the vast array of support needs, it stands to reason that there is also a significant variation in the types of property tenants will require. Here are some of the more common:

- One-bed flats: often requested by providers who support people with learning difficulties requiring just an hour or two of support each day.

- Blocks of flats: blocks of one-bed flats are always in demand to allow providers to support individuals with long-term mental health needs. Of the block, perhaps one flat is used as a staff base with the rest reserved for tenants.

- Bungalows: another popular option owing to the floor space a bungalow can provide. Perhaps this would suit an individual with complex or challenging behaviours who requires privacy and space, or maybe a group of young people with physical disabilities who require an adapted property on one level.

- Houses of multiple occupation (HMOs): these might vary considerably in both size and facilities – from all en-suite, to shared bathrooms and other amenities. This will depend on the tenant type and the provider. Some providers prefer that their tenants integrate to try and avoid them becoming too insular, others might need more space for office and support staff.

Is my property suitable for supported living?

When you're looking at a property, think about who will be living in it and what needs they might have. Here are some tips to get you started:

- Location: there's a balance to be struck here between your tenants feeling safe and finding a neighbourhood that isn't ***too*** smart or overly quiet at night.

- Amenities: think also in terms of proximity to shops etc so tenants can easily pop out for supplies, or arrange to meet friends.

- Parking: whilst not always essential, it is worth thinking about whether parking will be needed for support staff, mobility vehicles, visiting relatives and friends, therapists. And don't forget some tenants will have their own vehicles.

- Outdoor space: we all need access to decent outdoor space, but again your end user will dictate the amount of space you need. For example, if you are planning on housing a vulnerable family then consider a large outdoor play space for the children.

- Proximity to public transport: always advantageous in allowing tenants more freedom to socialise and making it easier for support staff to get to work.

- Neighbours: a significant factor – not all neighbours are understanding and some take some careful management.

- Property requirements: if the property will be listed as a long-term dwelling, then it must meet national space standards of 37–40m^2 for a one-bed flat. That said, some providers may consider smaller units as advantageous for short-term tenants because they prioritise the tenant having their own front door, plus a smaller space should mean less cleaning.

- Regulations: be aware that fire regulations may be more stringent than they are for properties on the open rental market. For example, you may require fire doors where you wouldn't normally as well as additional smoke alarms. As with all rentals, gas and electrical safety certificates plus an energy performance certificate are required.

Why supported living?

Whilst the initial set up of a supported living property may feel more complex than other strategies, taking this route offers investors a secure, long-term income stream that's relatively hands-free.

Moreover, creating a safe home for someone is an opportunity for you as a property investor, to make a real difference to an individual's life, providing a secure home for someone who may otherwise be unable to live independently. From an investor perspective, it's also a great way to hold property for the long term. If you combine this with a buy-refurbish-refinance strategy, and the long-term capital growth of the asset, it really is a very powerful wealth-building tool.

Set up correctly, this is ethical property investing at its best and the ultimate win-win situation.