

UK

HEALTHCARE
PROPERTY
MARKET
OVERVIEW

AUTUMN / WINTER 2019



2018 / 2019 RESULTS AT A GLANCE



Source: Knight Frank 2019 Care Homes Trading Performance Review.



Foxhunters Care Community, Abergavenny, Dormy Care



Market Summary

Reading between the lines

Q1 2019 started off in limp fashion with a number of major healthcare portfolios not selling, simply due to Brexit. Ironically in Q3 2019, Knight Frank has experienced a record flurry of activity selling or exchanging on circa £500 million of healthcare care assets (across 3,000 plus beds) and advising on circa £4 billion. Four Seasons Health Care continues to dominate the headlines as it goes into administration, and as a sector and for their residents, the situation needs resolving as quickly as possible. This aside, many care operators are posting solid financial results and expanding their operations, while CQC figures show that 80% of care homes are currently rated “Good” or “Outstanding”. The healthcare market is awaiting a resolution to Brexit and government action on social care reform, but this is nothing new and for many operators it’s business as usual as we head into 2020.

The future is about supply

Data from our 8th care home trading index, which surveys the key group operators in the elderly sector, shows that average occupancy rates currently sit at 88.9%. Although a marginal drop from the 89.4% recorded in 2018, there is no cause for concern. Our analysis suggests that by 2040, the UK will need to provide over 800,000 elderly care beds to service its rapidly growing elderly population. Inevitably, the risk for elderly care is not on the demand side. The key question is, can we build enough care homes to meet future demand? And can we grow the workforce to service this demand and uphold standards of care?

Development ramps up

Developers are taking note of the shortage of beds and the business opportunity in the care sector. 75 new

purpose-built homes were registered in the first three quarters of 2019, delivering 5,000 new beds to the market. Add to that a certain amount of redevelopment and renovation across existing care homes and it’s clear that the supply issue is being tackled. New registrations are up, but we are still seeing a lot of homes being de-registered too. Failing care standards and financial stress are the main reasons for closure and the two often go hand in hand. While the level of new development is encouraging, supporting the existing pool of struggling homes is also vital to the sector’s future.

Staffing is an issue for all healthcare sectors

Care home staff costs increased once again in 2019, up 10% to £25,938 per resident annum. Costs are one thing, but recruitment and retention is arguably the bigger issue. Increasing pay is one way to attract new nurses and carers into the sector, but operators agree that workers need to see clear routes of career progression if they are to stay in the sector. Many are taking steps to facilitate this. The government also has a role to play in addressing the nursing shortage, something not helped by the removal of the university bursary and the uncertainty created by Brexit regarding migrant workers. Staffing issues are relevant to all healthcare services including adult care, acute care and hospitals and must be addressed as demand for healthcare services and property soars.

Data, data, data

Knight Frank has for over a decade produced world class Healthcare research and increasingly the market is now about data, data, data. This is because the Healthcare market is actively looking to improve client care either via technology and/or operational

performance i.e. Key Performance Indicators. We are now also starting to see a North American operator style model percolate into the market via technology such as Alexa type bedroom products that help reduce client isolation but that have the client’s personal preferences on (music, food, photos etc), virtual sales assistants via websites to market bed sales, ipads for medical records but also academy style training for staff and also a focus on managed care and creating a positive culture. The UK healthcare market is catching up with its North American cousins and certainly becoming more sophisticated with infrastructure.

Investor appetite continues to gather steam

If investor sentiment is anything to go by, the healthcare property market is looking very strong. Preliminary numbers show that as of September 2019 the healthcare property market had seen £1.2 billion of transactions. This would suggest we are on track to reach the £1.5 billion seen in 2018, all in the midst of a very uncertain economic environment. Admittedly, conditions have been uncertain for a number of years now, but healthcare property assets continue to look robust against the core property markets, favoured for the long-dated income and demand story on offer. In 2019 we saw a record low yield at the prime end of the care home market – a clear indication of investor appetite at present.



Julian Evans, FRICS
Partner. Head of Healthcare

Elderly Care Homes: Market Performance

UK CARE HOME AVERAGE WEEKLY FEES



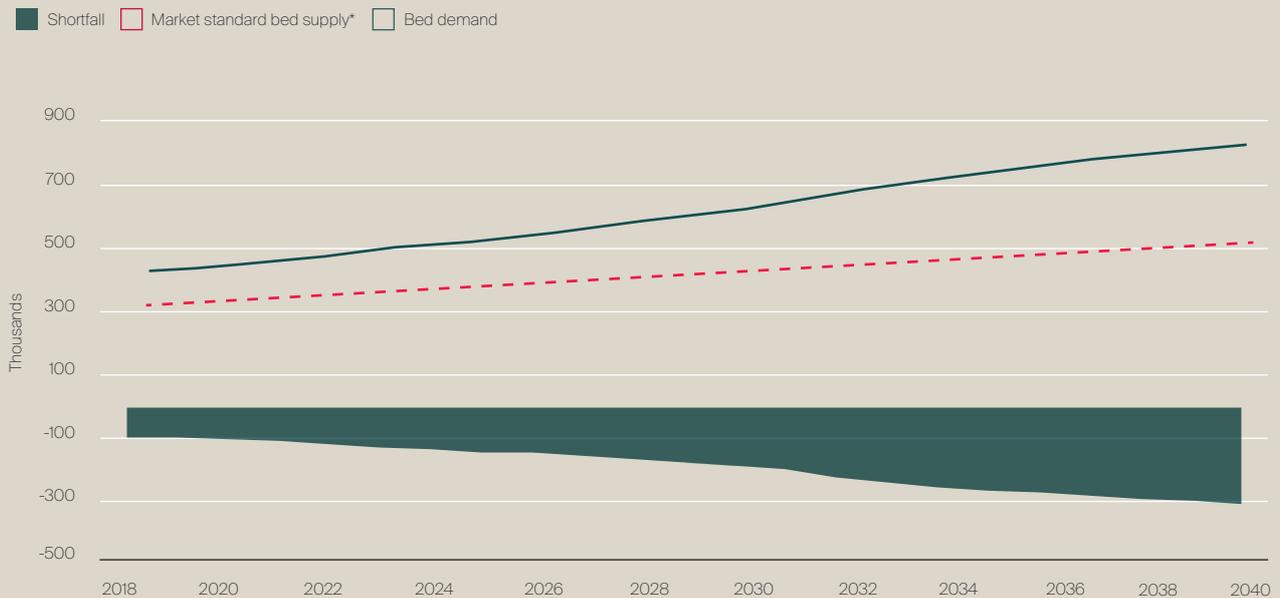
Source: Knight Frank Care Home Trading Index 2019

PROFITABILITY 2018/19 (EBITDARM % OF INCOME)



Source: Knight Frank Care Home Trading Index 2019

POTENTIAL SHORTFALL OF ELDERLY CARE BEDS



Source: Laing Buisson, Tomorrow's Guide, Knight Frank

*Based on current rate of completions. Market standard refers to beds with en suite facilities.



3 Trends to Watch in Specialist Health Care Sectors

Privatisation of hospital and acute care

The outsourcing of NHS services has recently made the national newspaper headlines with figures showing a 185% increase in the number of NHS patients having surgery in private hospitals since 2010. In 2018 alone, the NHS outsourced as many as 613,833 procedures, at a significant cost. While this may reflect badly on the NHS, it is arguably a boon for the private hospital and clinic market which generates a third of its revenue from the NHS. This has helped many private operators to replace the slowdown in private medical insurance cover which has long been the dominant source of income and a slowdown in demand from international patients, especially in London. Major operators and investors in the acute sector will no doubt be keeping a close eye on the next UK government and how they approach NHS spending. This could have a huge influence on future operator performance and their real estate assets.

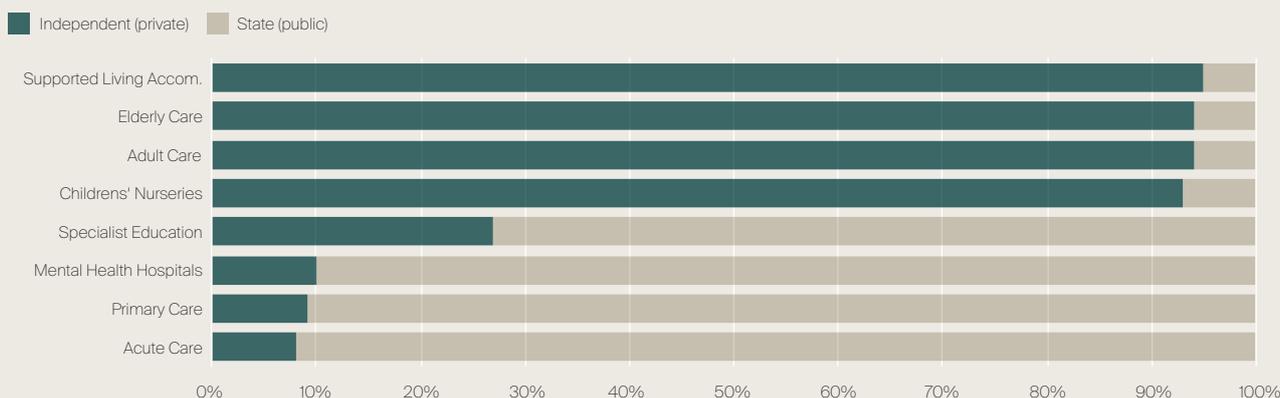
Growth in the supported living market

The UK adult care sector (focused on people aged 18-64) is currently undergoing a period of change with smaller community-based 'supported living' residences replacing outdated larger institutional care homes that typically housed those with a mix of learning disabilities, mental health disorders and other cognitive or physical impairments. This is partly because of changing views on how vulnerable adults should be cared for and partly because the supported living model is cheaper for budget constrained local authorities, the principle funders of adult care. Smaller and more specialised assets make the market more fragmented but a number of specialist investors have emerged and are growing their portfolios rapidly by acquiring properties from housing associations. While the sector has been dominated by specialist REITs, a number of new investors have entered this market in 2019.

Childrens nurseries: a market to watch

The nursery and day care market appears small at circa £5.5 billion when compared to other healthcare sectors. But when you consider that independent private operators account for close to 93% of the market (Laing Buisson, 2017), there is ample opportunity for investors looking for alternative investment opportunities. Unlike elderly care where we can predict future demand based on the existing population, childcare is difficult to forecast due to unknown birth rates. That said, demand fundamentals look very strong with a growing number of working mothers and dual income households. The government-backed 30 hours childcare scheme also aims to increase access to childcare for working parents, but has had a mixed reception among operators. Real estate investment opportunities are few in number, but prime yields are often below 5% and we expect to see more interest as the market continues to consolidate going forward.

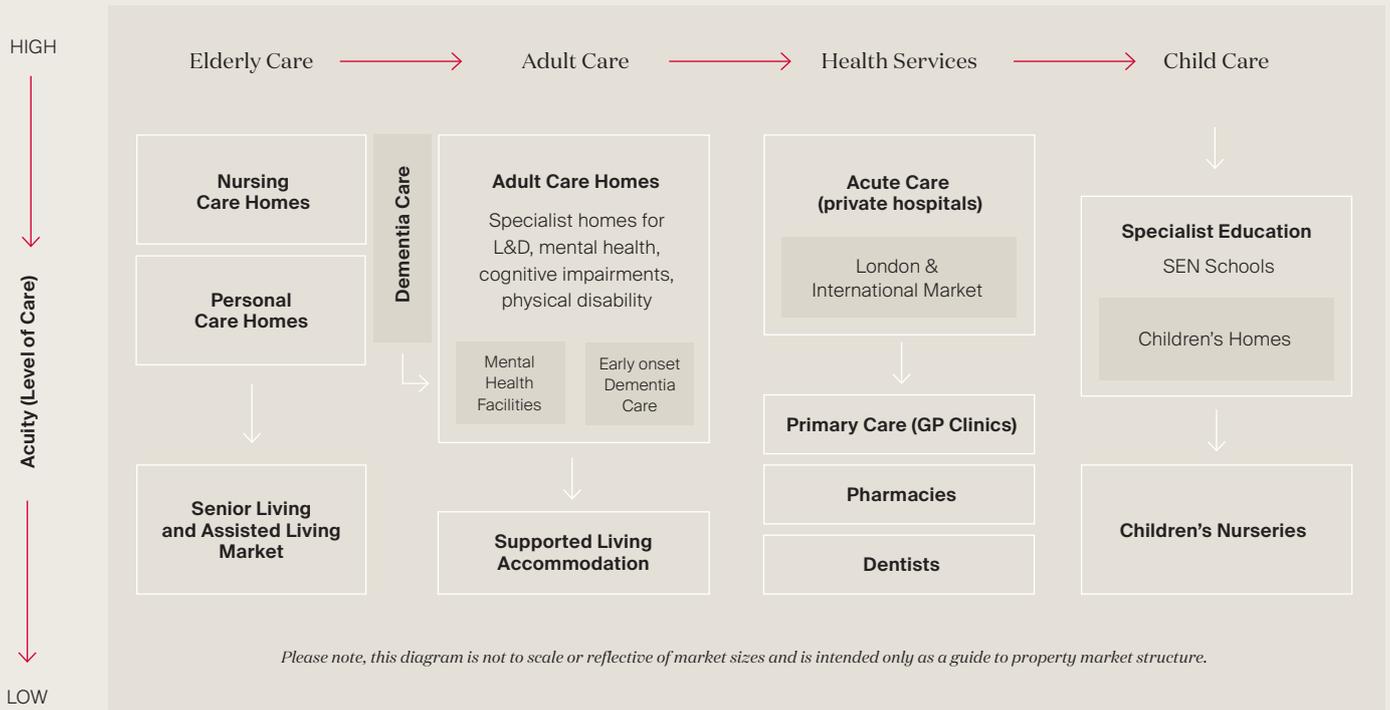
HEALTHCARE MARKETS: PRIVATE SECTOR SHARE OF OWNERSHIP



Source: Laing Buisson, Tomorrow's Guide, Knight Frank

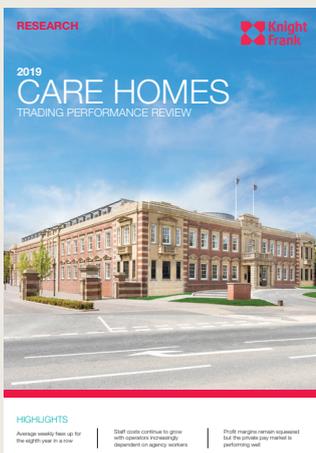


Healthcare Markets: UK Healthcare Market Structure



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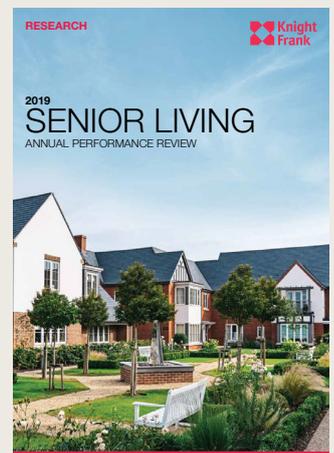
Care Homes Trading Performance Review 2019



Healthcare Capital Markets 2019



UK Healthcare Development Opportunities 2019



Senior Living Annual Performance Review 2019

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Mark Gallagher
Executive Managing Director



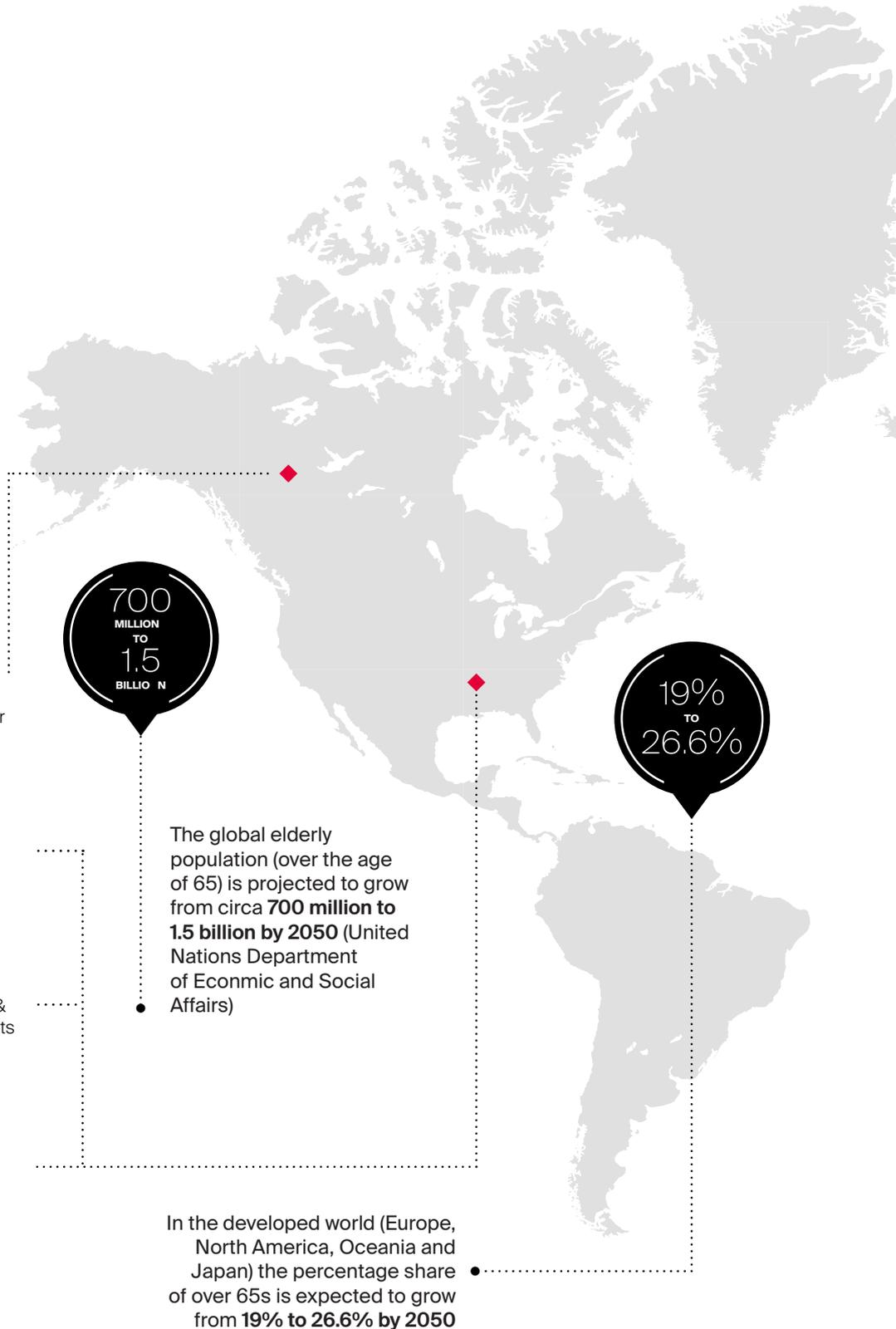
Todd Perman
Vice Chairman, Global
Healthcare Services



Chad Lavender
Vice Chairman, Healthcare &
Alternative Real Estate Assets



Norm LeZotte
Senior Managing Director



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Shehzad Jamal
Partner, Healthcare



Saurabh Mehrotra
National Director,
Valuation & Advisory



Neil Brookes
Head of Capital Markets,
Asia Pacific



Russell Allison
Head of Health,
Aged Care
& Retirement



Julian Evans
Head of Healthcare



Tom Scaife
Head of Senior Living

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Our People

Agency and Development



Julian Evans, FRICS
Head of Healthcare
+44 20 7861 1147
julian.evans@knightfrank.com



Nick Kempster, MRICS
Associate
+44 20 7861 5265
nick.kempster@knightfrank.com



Joe Munro
Graduate
+44 2038 667816
joe.munro@knightfrank.com



Mandip Bhogal, ACCA
Associate, Development Consultant
+44 20 3869 4702
mandip.bhogal@knightfrank.com



Robert Stott
Analyst
+44 20 7861 1152
robert.stott@knightfrank.com



Julian Woolgar, MRICS
Partner, West End
+44 20 7861 1008
julian.woolgar@knightfrank.com



Alyssia Clare
Personal Assistant
+44 20 3967 7124
alyssia.clare@knightfrank.com

Corporate Consultancy



Patrick Evans, MRICS
Partner
+44 20 7861 1757
patrick.evans@knightfrank.com



William Freston, MRICS
Senior Surveyor
+44 20 7861 1564
william.freston@knightfrank.com



Danielle O'Connor, MRICS
Senior Surveyor
+44 20 7861 5394
danielle.oconnor@knightfrank.com



Deborah Joynt, MRICS
Consultant
deborah.joynt@knightfrank.com



Bianca Moore
Team Secretary
+44 20 3826 0604
bianca.moore@knightfrank.com

Commercial Valuations



Kieren Cole, MRICS
Partner
+44 20 7861 1563
kieren.cole@knightfrank.com



Rick Tarver, MRICS
Partner
+44 20 7861 1534
rick.tarver@knightfrank.com

Commercial Valuations Cont.



Mark Tyler, MRICS
Partner
+44 20 3826 0686
mark.tyler@knightfrank.com



Iain McGhee, MRICS
Partner
+44 141 566 6026
iain.mcghee@knightfrank.com



Bela Chauhan, MRICS
Associate
+44 20 3897 0037
bela.chauhan@knightfrank.com



Joseph Hardy, MRICS
Associate
+44 20 3869 7816
joseph.hardy@knightfrank.com



James Mohsen
Graduate
+44 20 3995 0770
james.mohsen@knightfrank.com



Genevieve Lewis
Team Secretary
+44 20 7861 1164
genevieve.lewis@knightfrank.com



Jenny Noble
Office Manager
+44 20 3866 8040
jenny.noble@knightfrank.com

Senior Living



Tom Scaife, MRICS
Partner
+44 20 7861 5429
tom.scaife@knightfrank.com

Research



Joe Brame
Senior Analyst
+44 20 3967 7139
joe.brame@knightfrank.com

Building Consultancy



Charles Ingram-Evans, BSc Hons, MRICS
Partner, Project & Building Consultancy
+44 20 3826 0688
charles.ingramevans@knightfrank.com



Michael Brownsdon, MRICS
Capital Allowances Advisor
+44 20 3866 8046
michael.brownsdon@knightfrank.com

Debt Advisory

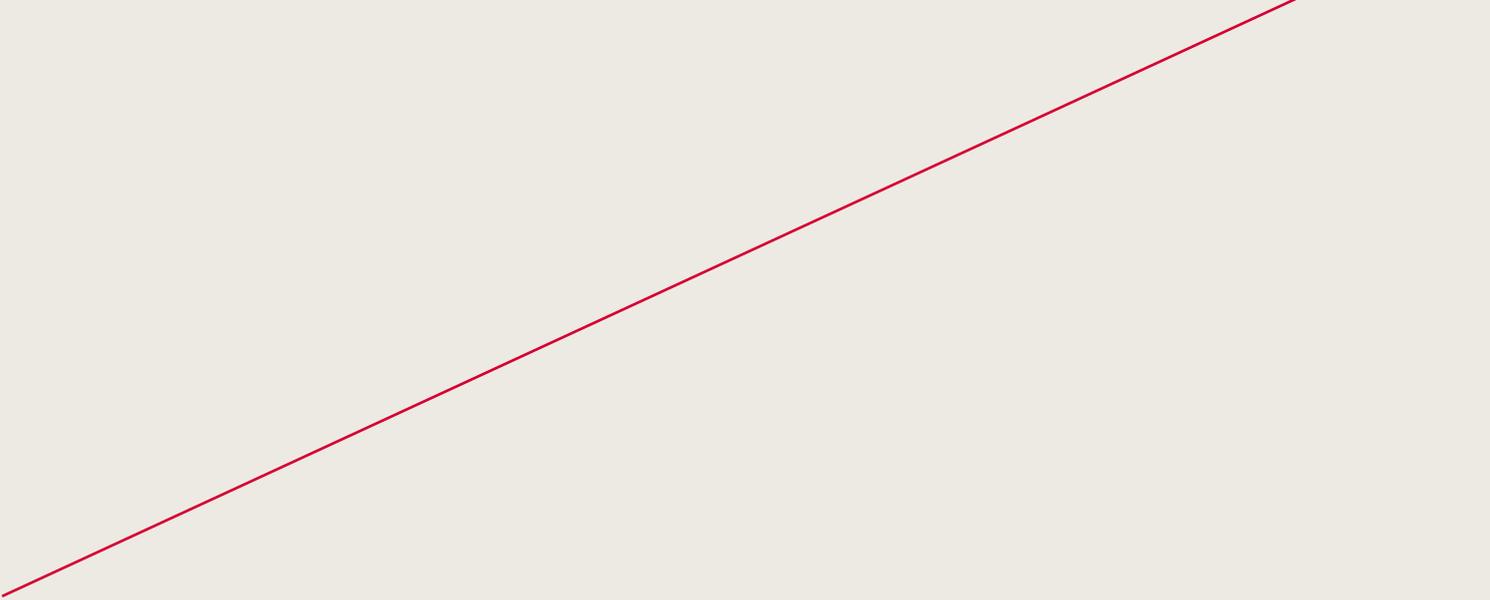


Lisa Attenborough, DipFS
Partner, Head of Debt Advisor
+44 20 3909 6846
lisa.attenborough@knightfrankfinance.com

Institutional Consultancy



Emma Cleugh
Head of Institutional Consultancy
+44 20 7861 5427
emma.cleugh@knightfrank.com



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