

UK
HEALTHCARE
PROPERTY
MARKET
OVERVIEW

WINTER 2020/21





MARKET SUMMARY

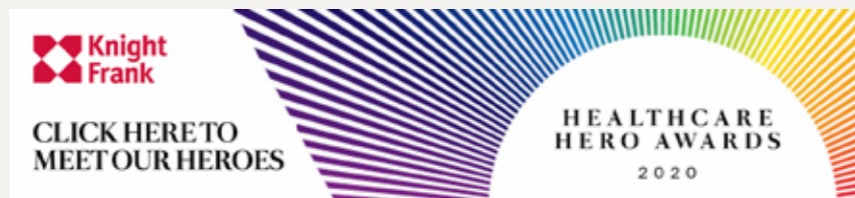
Vaccination programme in full flow

As the vaccination programme ramps up across the country, there is a sense of optimism in the air. This is particularly so for the elderly care home sector, whose residents and workforces have now received immunisation. Care home operators have already done an incredible job at protecting their existing residents, but the vaccine will provide vital reassurance to a backlog of prospective residents and their families seeking residential care in the coming months.

As we are all aware, the rest of the healthcare sector, and especially NHS hospitals, are still battling the pandemic. New variants of the virus have regrettably forced a return to a tougher set of social restrictions and provide a nasty tail end to a difficult year. While the logistics of delivering the biggest vaccination programme in our history are clearly going to be challenging, the government expects to offer vaccines to all over 70's and frontline health and social care workers by mid-February. A huge reason to be positive as we start the New Year.

Preparing for the aftermath of the pandemic

Once the number of Covid-19 patients filling our hospitals begins to diminish, it is vital that we very quickly turn our attention to non-Covid patients whose care has largely been withdrawn. The pandemic has resulted in both the cancellation of treatment as well as fewer people presenting for treatment



in both general practice and A&E. Experts are therefore predicting a monumental backlog in cancer treatment, chronic illnesses and also a rise in mental health problems in the aftermath of the pandemic. This is clearly not something to be celebrated, but is likely to be a boon for the private healthcare sector which will need to support the NHS more than ever. We are seeing significant investor interest in specialist healthcare sectors, as epitomised by the recent exchange of the Priory Group, the UK's biggest mental health clinic provider, for a sum over £1bn after multiple bids were received in early 2020.

Investors are looking beyond the short-term

This pandemic could have easily dissuaded investors in 2020, but I'm encouraged to see that many have looked beyond the media headlines and taken a long-term view of healthcare. Transaction activity has remained buoyant and preliminary numbers suggest that 2020 will actually be a record year for healthcare property investment, thanks to some very significant deals. These large transactions have been dominated by overseas investors who continue to see the strength of our private healthcare system, and continue to see UK healthcare as an attractive global play. With the unfolding of the

worst economic downturn in decades, we expect to see continued interest in the long-dated secure income provided by healthcare going forward.

Recognising our healthcare heroes

It saddens me to say that before the pandemic broke in early 2020, the British government was largely ignorant of the challenges of social care. Care workers and nurses have certainly proved their worth and much more over the last year. Risking their own lives, forfeiting PPE in the line of duty, working double shifts, not seeing their families for weeks on end; these are all news worthy stories and very real sacrifices that the extraordinary individuals working within social care have made. This year, we have recognised all their efforts through our *Healthcare Hero Awards*, asking operators to nominate individuals who have gone above the call of duty, so we can share their heroic stories and give them the respect and recognition they deserve.



Julian Evans, FRICS
Partner, Head of Healthcare



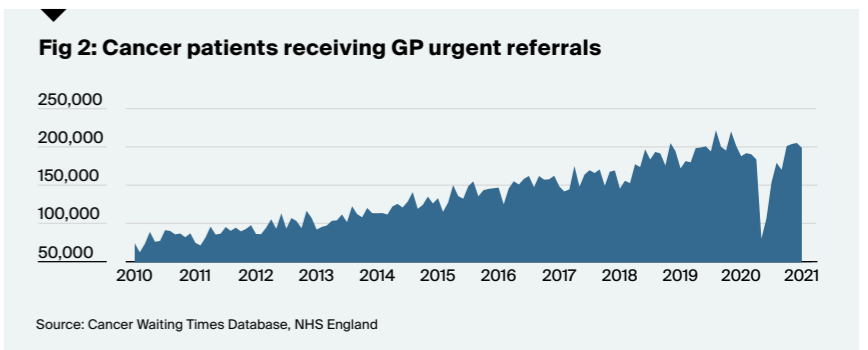
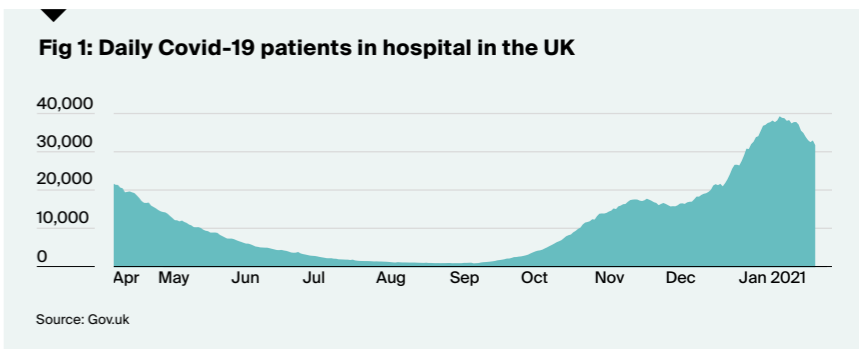
THE STATE OF PLAY IN THE PANDEMIC

Reasons to be positive in the winter wave

With infection rates, hospital admissions and mortalities rising again in the first month of 2021, the country was forced into another full lockdown to protect the vulnerable and prevent the NHS from being overrun. Looking at the number of Covid-19 patients in hospital confirms the severity of the situation, peaking at 39,000 in mid-January. Despite this, there are some key reasons to be positive looking forward. All those over the age of 70 and the clinically vulnerable are on course to receive vaccination by the end of February; the private care home sector has been incredibly resilient over the last year; and the diverse healthcare property market has remained very active despite the pandemic.

The vaccine paths a road to recovery

The vaccination programme will be a logistical challenge but the government has signalled that the care home sector is a number one priority and has largely delivered on this with every care home resident offered a vaccine by the end of January – a huge relief to those involved in the sector. As for the wider health and social care system, predictions about when we will gain control of the virus and ease the strain on our hospitals are in progress. Once the vaccine has been rolled out, the next phase of the recovery will be to deal with the indirect cost of the pandemic – including a backlog of cancer patients, a surge in the number of people awaiting operations, and the forecast rise in mental health issues. Demand for healthcare services and accommodation will continue well beyond the vaccine

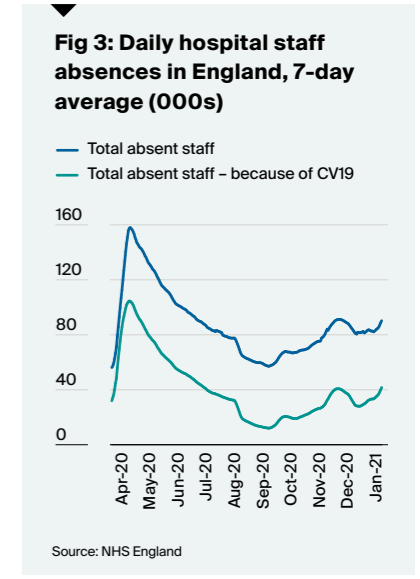


programme and the private sector has a critical role to play in supporting the NHS.

Nurses and carers have felt the strain

The strain on NHS and private sector healthcare staff has been unprecedented during this pandemic. At the height of the first wave in April 2020, NHS hospital staff absence rates were around three times the norm with 160,000 employees off due to sickness, self-isolation as well as stress and anxiety (Figure 3). The strain on staff has also been observed in the private care sector and the government has had to step in with extra funds to support operators with a multitude of staffing issues, via the *Adult Social Care Infection Control fund*. The vaccine is therefore of particular relief to the nurses and carers who have been on the front line for 12

months now. Hopefully the pandemic will drive greater recognition of the role these workers play in propping up our healthcare system.



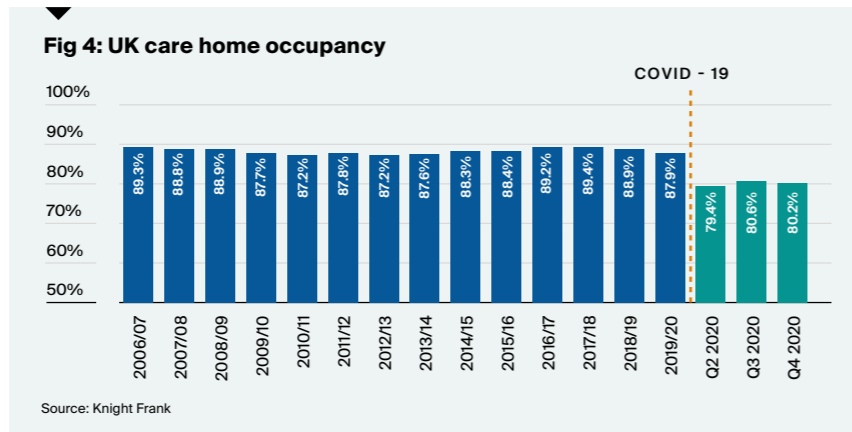


CARE HOME SECTOR HOLDING STRONG

With Covid-19 posing the greatest risk to people over the age of 80, the elderly residential care sector has been in the spotlight over the last year. Fears of substantial occupancy loss seemed justified in March 2020 when there were so many uncertainties surrounding the virus, but retrospective data shows how resilient the sector has been. The first wave of the virus directly and indirectly resulted in over 30,000 excess deaths across the UK care home sector and produced an 8.5% decline in the market-wide occupancy rate, according our 2020 *Care Homes Trading Performance Survey*. Encouragingly, major care providers regained control as early as June when we saw a return to 'normal' rates of mortality and the stabilisation of occupancy rates – as shown by Figure 4.

While the financial impact is yet to fully play out, our research showed relatively little impact on earnings as of mid-year 2020. As shown in Figure 5, EBITDARM margins saw limited decline across care types and funding models. Much of the credit for this goes to operators and their staff whose professionalism and commitment has undoubtedly helped to protect residents and therefore occupancy. Fee uplifts and additional government support in the form of the *Adult Social Care Infection Control Fund* have also helped to cushion against the additional cost of the pandemic. These funds are available until March 2021 when the vaccine is expected to have been fully distributed to both staff and residents.

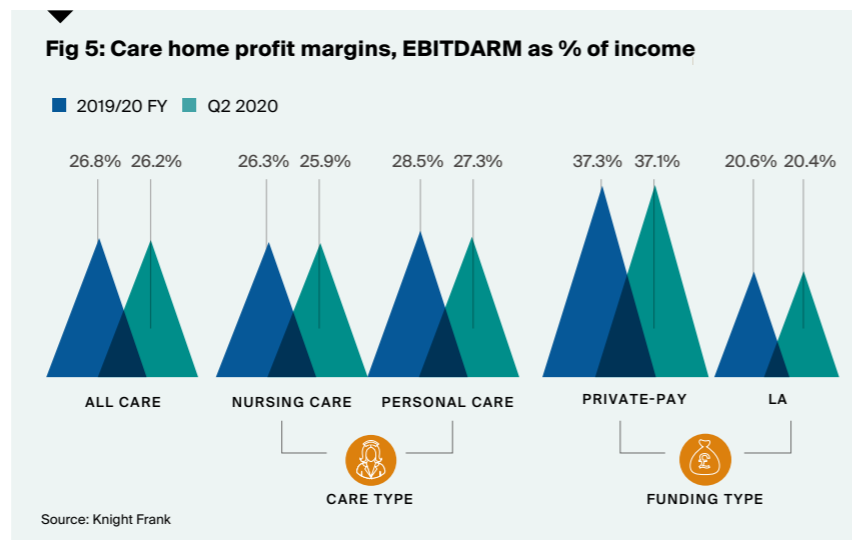
The pace of sector recovery has so far been gradual with new resident admissions down on the level needed to help occupancy fully recover. While we have seen a severe second wave of the virus in



the general population, mortality levels in the independent care home sector have been much lower than what we saw in Spring 2020. We should expect the pace of recovery to improve substantially in 2021 now that a vaccine is being deployed as a priority across the sector, giving prospective residents and their families the vital reassurance needed.

In terms of legacy, the pandemic will undoubtedly have a lasting impact. It has drawn attention to the hugely important role that the adult social care sector and

its workforce plays within our wider healthcare system and will hopefully force greater levels of integration. From a real estate perspective, there is now a greater need to future-proof and refresh the UK's care home stock to ensure that all homes are fully prepared for any future pandemic. Economic conditions will be tough, but we expect to see a considerable amount of new construction and refurbishment across the sector in 2021 and beyond as the care home market continues to evolve and commercialise.



HEALTHCARE PROPERTY PERSPECTIVE

Investment appetite undeterred

Investor interest in healthcare real estate hasn't faltered over the last year, even though there was a pause in transaction activity in mid-2020. Provisional data suggests that there were £2.4 billion of recorded healthcare property transactions in 2020, making it a record year (Figure 6). We should point out that £1.5 billion of this occurred via Medical Property Trust's acquisition of a large BMI private hospital portfolio prior to the pandemic. Excluding this large deal, recorded transaction volumes amounted to circa £900 million, mostly made up of acquisitions in the elderly care and primary care sectors.

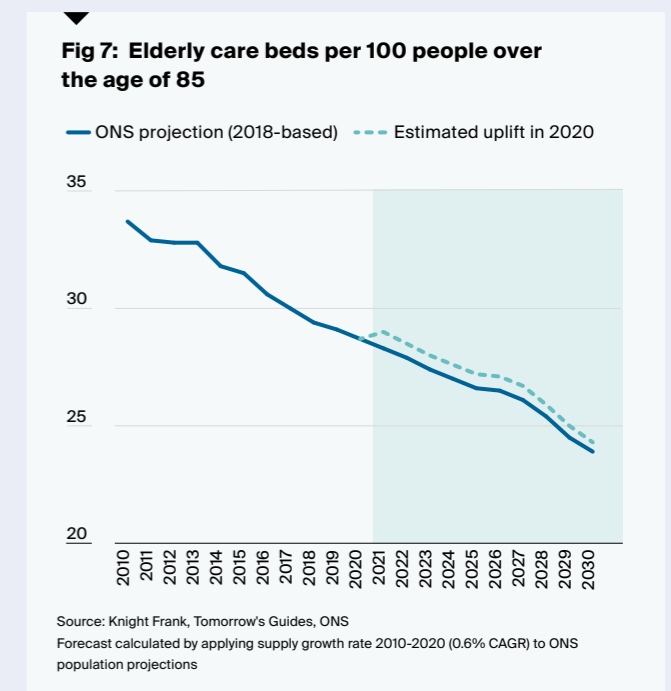
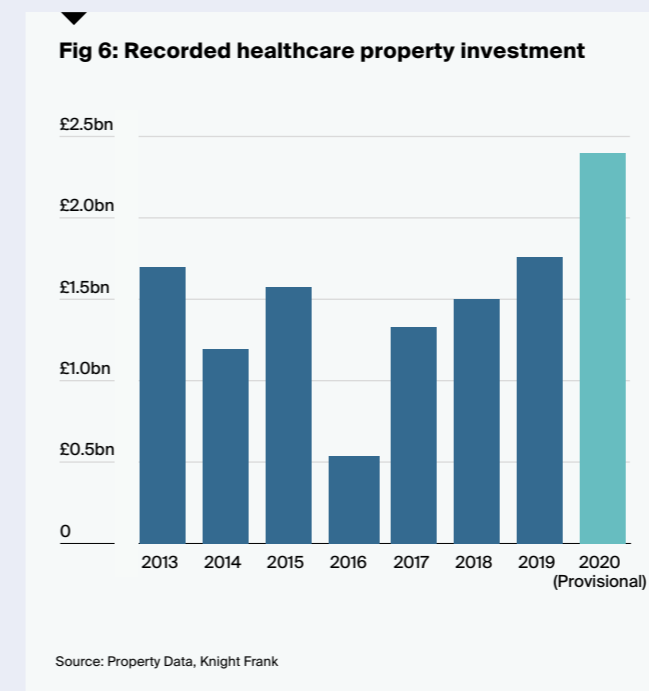
Healthcare has faced challenges like any other sector, but looks attractive when compared against other property classes.

Most care homes and portfolios have only seen single-digit falls in occupancy, which is moderate compared to the drop off in demand within other sectors. Furthermore, sub-sectors like mental health provision and private hospitals, are expected to see increased demand for their services in the aftermath of the pandemic as the UK attempts to deal with the backlog of illness. As such, we have seen significant interest from well-capitalised domestic and global investors looking to de-risk from alternative assets into healthcare – a trend expected to continue going forward.

New development remains essential to the care home sector

The economy is expected to undergo a period of significant repair from 2021

in the aftermath of the pandemic and a post-Brexit trading environment. We expect to see a flight to quality among real estate investors, attracted to the secure long-term income provided by prime assets in the healthcare sector. Moreover, the long-term need for care homes remains unquestionable with much of the baby-boom generation approaching old age. Looking at projections for growth in the over 85 population (2.5% per year) against the current and expected rate of new building (0.6% per annum), the level of supply in the market will continue to diminish unless more projects break ground, despite the impact of Covid-19 (Figure 7). Developers and investors therefore have an important role to play in providing the expertise and the capital to ensure we build enough quality care homes for the future.





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Knights Frank's Healthcare team annually advises on in excess of £12 billion of healthcare assets and act for the vast majority of the UK's major operators, funds, investors and lenders in the sector.

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Healthcare Capital Markets - 2020



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Mark Gallagher
Executive Managing Director



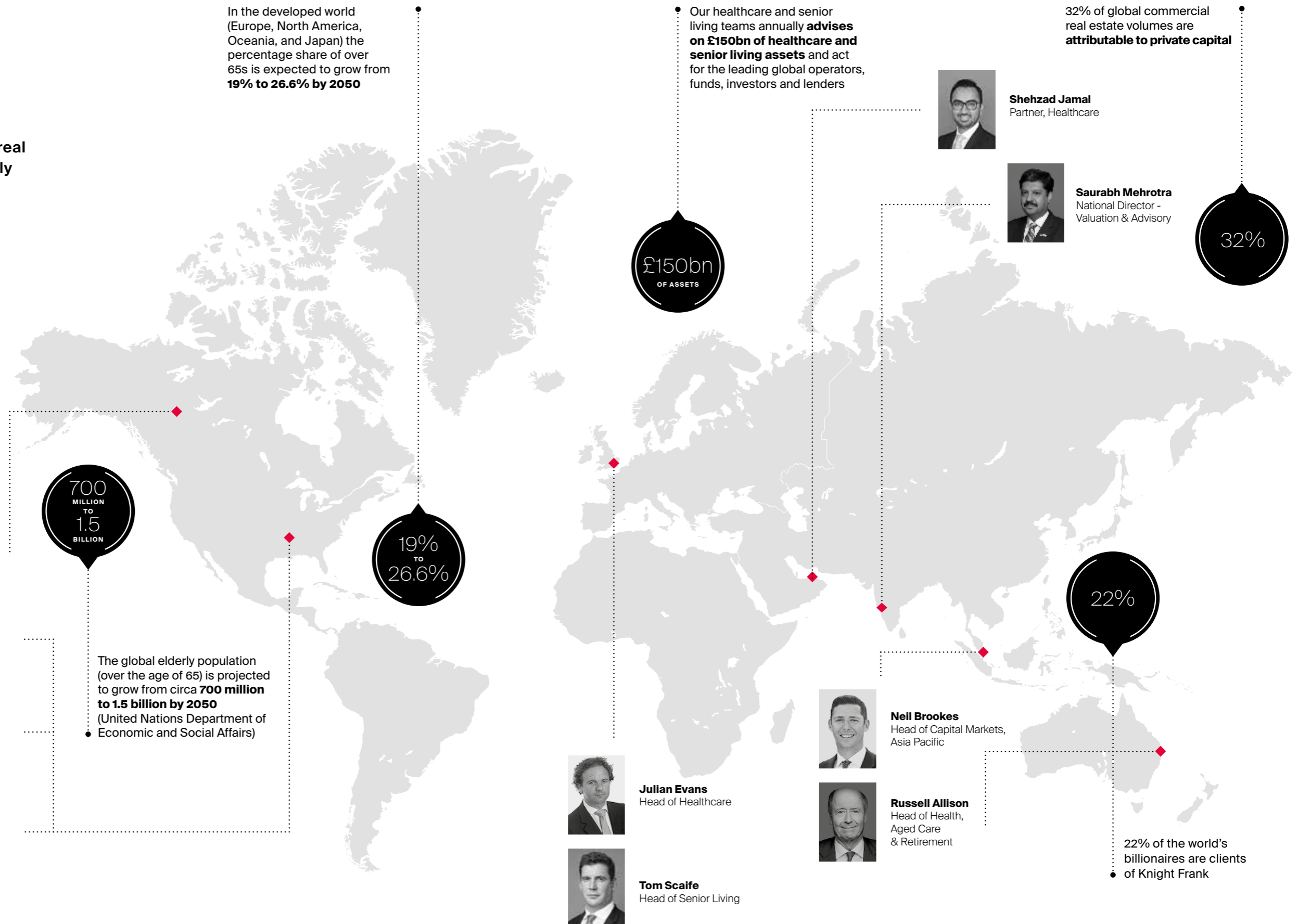
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