RESEARCH

UK HEALTHCARE

DEVELOPMENT OPPORTUNITIES **2014**

HIGHLIGHTS

The demand for new care home development is expected to improve going forward, driven by strong growth prospects in the UK's population of over 65s and as current stock approaches obsolescence.

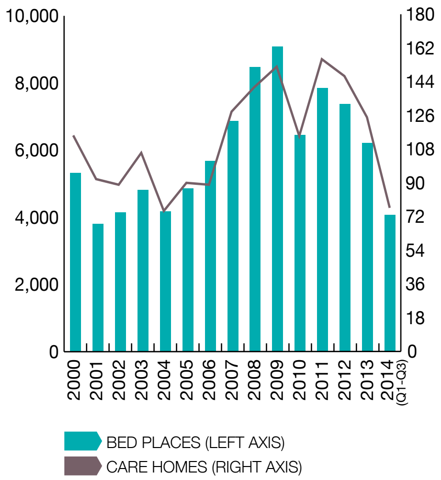
Our analysis reveals that more than half of the top 12 counties in England and Wales are located in the UK's southern regions. This year sees Greater London climbing to the top spot.

The Scotland Hotspots analysis reveals that Highlands & Islands has replaced Borders as the top ranked county for care home development.

DEVELOPMENT TRENDS

The registration of new elderly care homes in the UK is starting to level off (Figure 1). A total of 77 new care homes were registered during the first nine months of 2014, down from 90 homes registered during the same period last year. This suggests that new registrations for the whole of 2014 are likely to fall below last year's level and will be lower than the ten-year average of 122 care homes.

FIGURE 1
New elderly and dementia care registrations



Source: Knight Frank, Laing & Buisson

With new registrations slowing and a large number of de-registrations in 2014, the market has seen a net decrease of nearly 4,600 beds since we last reported. However, long-term prospects for new-build developments are robust, with forecasts suggesting that the UK's population of over 65s will grow by 35% over the next 15 years. Moreover, while an increasing proportion of the UK's care home stock approaches obsolescence, there is a need to increase the current rate of new care home development.

As reported last year, the catalyst for development within the prime sector is being driven by forward funding and pre-let agreements. In addition, the influx of overseas investment, particularly from US REITS, has bolstered the financial positions of a number of larger groups, making them more appealing to other investors but also providing additional development finance for new-build opportunities.

The closure of facilities which are deemed no longer fit for purpose are, in some instances, providing new opportunities, particularly where redevelopment of the site for a new care home is often considered an option. However, the resurgence of the residential property market has in many cases led to higher land values if a change of use can be obtained. Local Authority provision has seen an increasing rate of activity as councils seek to re-develop ageing stock. Much of this has been undertaken by the private sector, although some Local Authorities prefer to provide Extra Care Housing rather than traditional care homes.

In terms of the current provision, areas of relatively high per capita supply are evident in the North following the high level of development during the last decade. The North East, North West and Yorkshire & Humber regions all offer more than 40 beds per 1,000 of over 65s. Meanwhile, the South East also has relatively high supply – around 39 beds per 1,000 of over 65s. This compares with less than 30 beds per 1,000 of over 65s in Greater London. Supply in London remains restricted by the intense competition from C3 residential use, which acts as a barrier to entry for care home development.

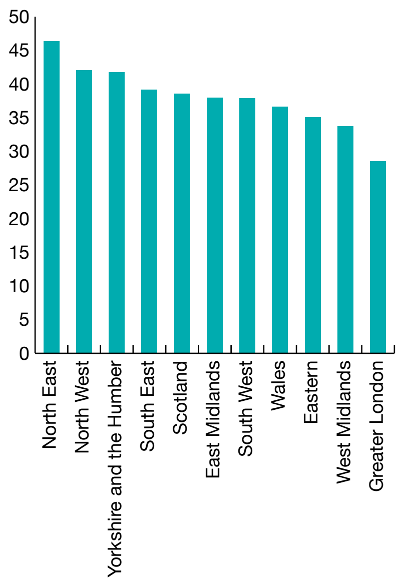
Last year we identified a number of Councils which updated their Local Plans and placed a greater emphasis on the care sector. This has continued into 2014 with a number of Authorities developing supplementary guidance to clarify their approaches.

We are seeing large strategic allocations that acknowledge the need to provide care and sheltered accommodation and set out key financial obligations that such schemes would need to make. This is a significant change and follows the objectives set out in the National Planning Policy Framework (NPPF) that we identified previously.

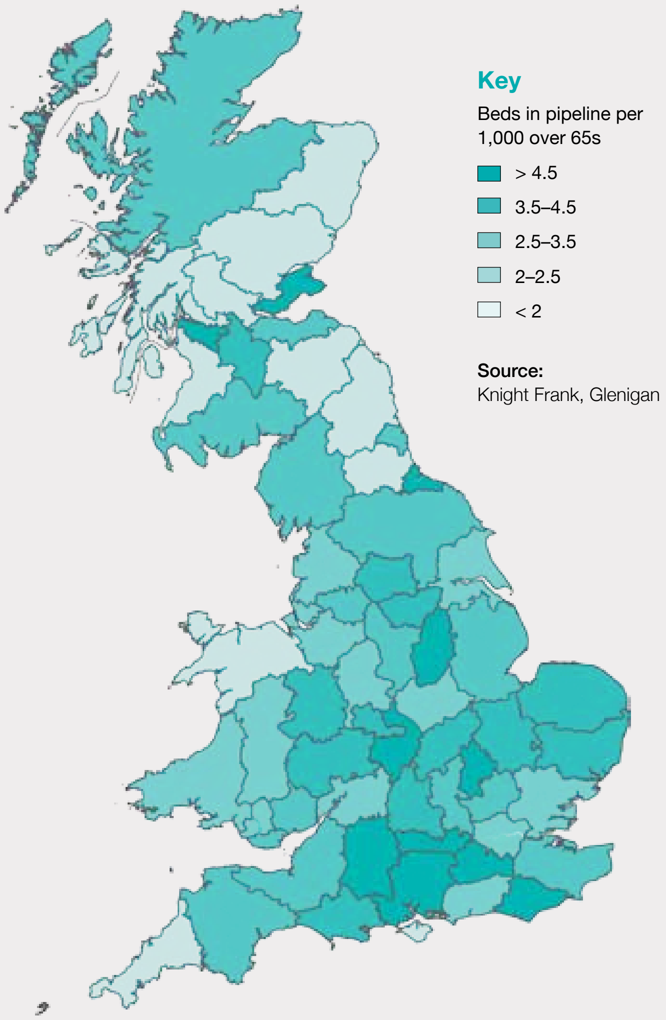
Forward funding and pre-let agreements remain the catalyst for development.

This year's report sees some changes to methodology. Following Knight Frank's 2014 Care Homes Trading Performance Review, we have incorporated average weekly fee levels and staff costs per bed in to our ranking system. Wealth per capita as measured by GDP per 1,000 total population has also been added to the analysis.

FIGURE 2
Current supply
Beds per 1,000 of over 65s



Source: Knight Frank, Laing & Buisson



Map 1

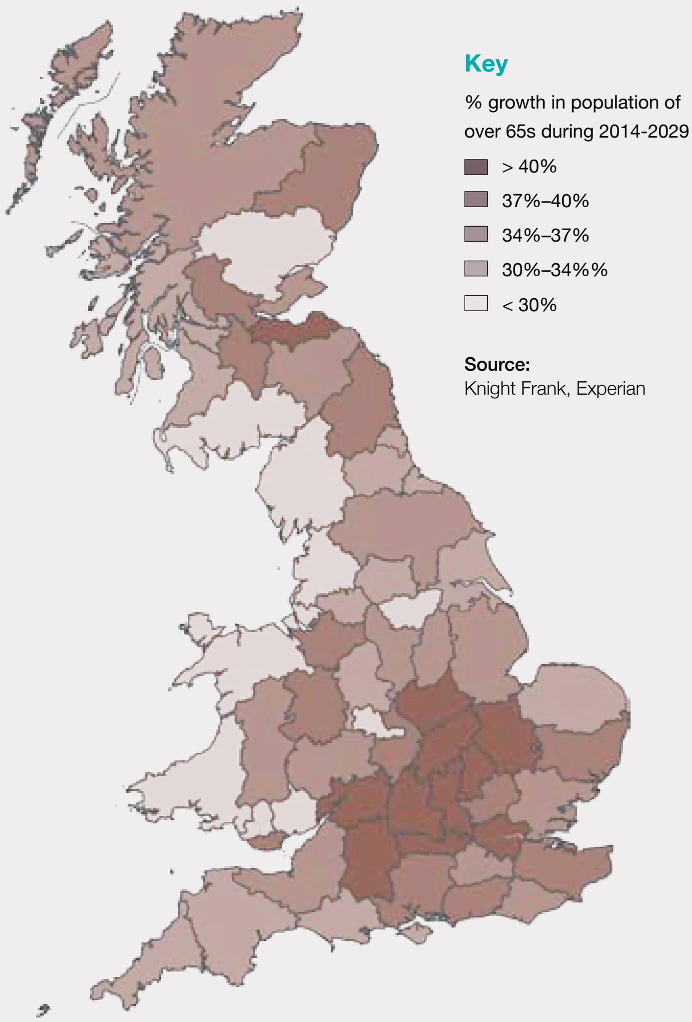
The adjacent map displays the development pipeline across the UK, expressed on a beds per capita basis. Care home development continues to focus on the locations which are characterised by a strong self-pay market and where higher fees provide investors with a stronger return on capital.

With regard to new-build developments, East Sussex tops the rankings, with nearly nine beds in the pipeline per 1,000 over 65s population. This is followed by Wiltshire and Glasgow & Renfrewshire, with around seven beds per 1,000 of over 65s in the pipeline. Areas with a low supply pipeline include several Scottish regions and regions such as Durham and Northumberland, where there are fewer than two beds per 1,000 of over 65s in the pipeline. Meanwhile, the limited supply pipeline in Greater London is a result of strong competition from C3 residential use.

Map 2

This map displays forecast population growth of over 65s over the 15-year period to 2029 across the UK counties. The strong growth in population of over 65s combined with limited supply in a number of regions suggests an increased level of development going forward.

Nevertheless, growth will not be uniform around the country. Buckinghamshire, Wiltshire and Northamptonshire are expected to record the strongest growth in population of over 65s – in excess of 45% between 2014 and 2029. On the other hand, there are counties such as South Yorkshire, Cumbria and West Midlands where growth of less than 30% is expected over the next 15 years.



England & Wales hotspots

In addition to outlining current development trends, the Knight Frank Healthcare Hotspots model seeks to identify those locations which may offer the best future prospects for care home investment and development. The county-based model employs a matrix of eight equally weighted criteria, incorporating revised economic and demographic projections plus other care home trading factors such as fees and staff costs.

As shown in Table 1, Greater London was the top ranked county in England & Wales for care home development in 2014, rising from the second place last year. The capital benefits in particular from strong economic fundamentals, such as forecast economic growth and wealth per capita, and relatively limited supply. However, while Greater London scores highly above the average for most criteria, its performance is partly compromised by having the highest land values, which acts as a barrier to development.

As shown in the table below, six out of the top 12 hotspots are located in the UK's southern regions. Interestingly, however, two Welsh markets made it into the top 12 this year, driven in particular by limited supply, but also by low land values and relatively high fees.

As in previous years, the main drivers of performance for the top 12 counties vary between those on the demand side and those on the supply side. For example, Buckinghamshire (2nd), Berkshire (7th) and Oxfordshire (12th) owe much of their performance in the rankings to demand side factors – each of them ranked in the top ten counties for economic prospects and forecast population growth in over 65s. In contrast, Cornwall and Staffordshire benefit from a limited current supply and development pipeline. Greater London, meanwhile, is an exception as it scored highly on both demand and supply side criteria.

In 2013, the top 12 spots were dominated by England's southern regions, although 2014 saw a significant change. A number of regions in the Midlands area and Welsh regions made it into the top 12, driven in particular by supply side indicators and relatively low land values.

Greater London climbed to the top spot in 2014, achieving a significantly higher score than other areas, driven by the strength of underlying demand and shortage of supply.

TABLE 1
Care home development prospects – top 12 counties of England & Wales in 2014

2014 Rank		Forecast growth in 65+ population (2014-29)	Forecast economic growth (2014-29)	Current supply	Future supply	Change in rank	Total score index
1	Greater London	8	1	1	14	↑1	1.63
2	Buckinghamshire	1	2	12	28	↑4	1.38
3	South Glamorgan	15	23	10	29	↑10	1.36
4	Essex	21	13	13	5	↑7	1.29
5	Cornwall	33	26	5	1	↑12	1.26
6	Northamptonshire	3	11	23	33	↓1	1.23
7	Berkshire	5	3	9	46	↓4	1.22
8	Leicestershire	7	34	15	7	↓2	1.17
9	Gwent	45	30	2	18	↑11	1.14
10	Staffordshire	32	47	7	8	↑9	1.11
11	Hampshire	13	9	19	44	↓1	1.10
12	Oxfordshire	9	5	28	40	↑4	1.09

Source: Knight Frank


Parker Meadows in Fareham. The 80-bed care home is operated by Gracewell Healthcare.


Chesterton Lodge in Staffordshire. The 64-bed care home was developed by LNT Group and is operated by Ideal Care Homes.

In 2014 the Highlands & Islands moved up the rankings to first place, with the Borders region falling closely behind in second place. While both areas continue to benefit from relatively low bed values, there are severe supply constraints in the Borders region. In terms of demand side prospects, the more densely populated Lothian and Grampian areas continue to offer the greatest opportunities.

Scotland hotspots

Highlands & Islands replaced Borders as the highest ranked area for care home development prospects in Scotland in 2014 (Table 2). The region scored above the all-country average for most criteria and benefits in particular from the lowest land values of all the Scottish regions. While the Borders area (which came a close second) also benefits from relatively low land values, its strength comes mostly from the supply side. The Borders region has the lowest amount of care beds per capita as well as the smallest development pipeline of any area in Scotland.

Looking at demand side indicators, it could be argued that the greatest level of opportunities continues to lie in Lothian and Grampian. Lothian – one of the most densely populated parts of Scotland and, with Edinburgh as its main urban centre, ranks first for the economic prospects and forecast growth in over 65s. Meanwhile, Grampian came second and fourth for the same factors. The main drag on Lothian's overall ranking are the key supply side factors, with the area continuing to show some of the strongest supply pipeline and the highest land values of all the Scottish regions.

The top four ranked areas of Scotland for 2014 all featured within the top four in 2013. Interestingly, Glasgow & Renfrewshire, Scotland's most populous area, is yet to feature in the top spots, largely due to the relatively high supply in the region.

TABLE 2

Care home development prospects – top five areas of Scotland in 2014

2014 Rank		Forecast growth in 65+ population (2014-29)	Forecast economic growth (2014-29)	Current supply	Future supply	Change in rank	Total score index
1	Highlands & Islands	5	7	4	7	↑1	1.26
2	Borders	6	11	1	1	↓1	1.23
3	Lothian	1	1	6	8	⇨⇦	1.22
4	Central	2	8	5	2	⇨⇦	1.13
5	Grampian	4	2	10	3	↑3	1.12

Source: Knight Frank

Mugdock House in Bearsden. The 64-bed care home is operated by Bupa Care Homes.

KNIGHT FRANK VIEW

- The development of new care homes realised via forward funding arrangements continues to be the catalyst for growth, particularly with the larger group operators. However, driven by increased levels of overseas investment, additional funds for development have been offered to a number of major healthcare providers.
- The increase in residential land values and construction/labour costs has impacted on the availability of land and competitiveness of care home pricing. This in turn potentially reduces the number of new care homes being developed.
- Investors remain focussed on affluent locations, predominantly in the South East of England where the self-funding market remains strong and average fee levels can support higher land costs.
- The disposal of public sector land for care-led development is expected to continue, however high alternative use values may result in properties being sold for residential rather than care home use.

RESEARCH

Nejc Jus
Senior Analyst, Commercial Research
+44 (0)20 7861 1547
nejc.jus@knightfrank.com

HEALTHCARE

Julian Evans
Partner, Head of Healthcare
+44 (0)20 7861 1147
julian.evans@knightfrank.com

Christopher Wishart
Partner, Healthcare
+44 (0)20 7861 1076
chris.wishart@knightfrank.com

PLANNING

Richard Walters
Partner, Head of Planning
+44 (0)7775 704259
rich.walters@knightfrank.com

Front cover image: Green Tree Court Care Home, Exeter (Lexicon Healthcare)

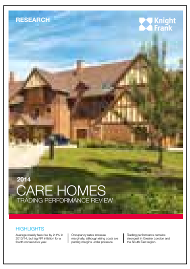
Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT HEALTHCARE RESEARCH PUBLICATIONS

UK Healthcare Property – Summer 2014

European Healthcare – Care Homes 2014

Healthcare – Investment 2014



Care Homes – Trading Performance Review 2014

Knight Frank Reports are also available at **www.knightfrank.com**

Newmark Knight Frank Global