

Healthcare

Spring 2007

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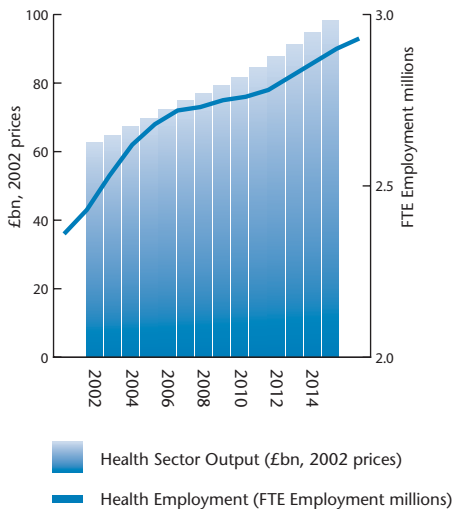


Prime Life's award winning care home Charnwood Oaks, Leicestershire.

Executive summary

- The Healthcare sector is forecast to experience significant growth in the next decade and beyond. The sector's output is set to rise by 67% by 2020 and its employment by 17%. Meanwhile, the number of retirement age UK residents is also forecast to grow substantially, increasing by over 50% by 2028.
- Demand for quality Healthcare development sites has outstripped supply. At the prime end of the market, prices in excess of £45,000 per bed have been achieved where end values are in excess of £120,000 to £150,000 per bed. This has led to strong demand from operators for development opportunities and the potential to buy fully compliant trading homes is limited.
- Knight Frank Research has developed a model to analyse the future development implications of this dynamic sector. The results provide a valuable insight into the regional Healthcare markets in England and identify those areas which offer the most potential for successful development in the future.

Figure 1
Projected Healthcare Sector Output and Employment



Source: Experian Business Strategies

“Prices well in excess of £30,000 per bed have been achieved.”

Economic overview

Overall economic conditions in the UK are very positive with inflationary pressures expected to ease, despite having risen above the Monetary Policy Committee’s (MPC) target level to 2.8% in April. Expectations are growing in the market that interest rates will rise again in the current cycle. Although consumer spending slowed markedly at the start of the year following strong pre-Christmas spending, the housing market has remained buoyant.

In terms of economic output, the UK enjoyed stronger than expected annual growth of 2.7% during 2006. The main driver behind the robust performance was an improvement in the service sector which finished the year strongly. Forecasts from Experian Business Strategies suggest that GDP growth in the UK will remain healthy in 2007 and 2008 totalling 2.5%.

The latest projections from Experian Business Strategies suggest that the Healthcare sector will also continue to grow at a robust rate moving forwards. The sector currently employs 2.7 million people and this is forecast to rise 17% by 2020, an increase of 450,000 jobs. Reflecting the significant rises in employment there are also positive indications for sector output growth. The Healthcare sector output in 2005 totalled circa £70bn. This is forecast to increase rapidly moving towards 2020 reaching £117bn in 2020, an increase of 67%.

In addition to the positive forecasts for strong employment and output growth, demand for Healthcare services is also projected to increase as the trend towards an ageing population continues. The number of people aged 65 and over in England is currently in excess of 8 million. This figure is expected to increase significantly over the next 20 years and, by 2028, projections suggest there will be in excess of 12 million English residents over pensionable age, representing an increase of around 50%.

Market overview

In line with improving economic sentiment and growing confidence witnessed within the wider investment arena, demand for quality stock in the Healthcare sector has outstripped supply over the last year. Despite increased interest, a two-tier market has continued to become evident within the sector with larger homes of over 40 beds in core locations representing the top tier and the smaller non-compliant conversions of 25 beds or less representing the lower tier. The entrance of the corporate sector in addition to pension funds, institutions and property companies keen to spread risk and diversify portfolios has focused investor attention towards the top tier and resulted in premiums for prime quality stock. Consequently, the consolidation that began in late 2005 has become increasingly evident within the sector over the last year as larger-scale investors have acquired significant lot sizes. However, in comparison with the traditional property sectors, the care home sector remains relatively fragmented.

Average care home land values in the UK are in the range of £17,000 to £22,000 per bed although, at the prime end, prices well in excess of £45,000 per bed have been achieved where end values are in the region of £120,000 to £150,000 per bed. There has been a strong demand from operators for development opportunities as the potential to buy, upgrade and extend existing care facilities diminishes. However, target development areas are often where residential prices are high and operators are competing against house builders rather than the traditional commercial uses.

A sub-sector of the trend towards new development has seen a number of corporate investors and property companies investigating the concept of Retirement Villages. These are developed on approximately three to five acre sites and offer an independent residential ‘lifestyle’ with differing levels of care services available to the resident. Care homes complement the Retirement Village concept and are therefore expected to increasingly feature in tandem on large-scale developments.

The Learning Disability (LD) sector continues to attract increasing demand for trading units from mid-tier and corporate care providers. The key drivers are a current under supply of LD bed care provision and operators looking to diversify their business from mainstream elderly care while barriers to entry into the LD sector are lower compared to other Healthcare sectors. For example, lot sizes and consequently land prices are cheaper.

“The over 65 population is forecast to increase by in excess of 50% by 2028.”

Analysis of future Healthcare hotspots

Given the diversity of factors that impact upon the Healthcare market, Knight Frank Research has developed a ranking model to review the current state and future implications of this dynamic sector. The model employs a number of key variables including demographic, economic and Healthcare sector specific factors. Eight different factors were evaluated and weighted, such as forecast growth in the elderly population, bed values, land values, the current number of beds and the development pipeline. The results provide a valuable insight into the diverse regional Healthcare markets in England as well as identifying those areas which offer the most potential for successful development in the future. While the full findings lying behind this analysis are not presented in this report, a summary is set out below.

Demographic Projections

Utilising Government population projections, we have identified the areas of the UK where the older population is forecast to see the most growth. Significantly, the over 65 population is set to increase by in excess of 50% across the UK by 2028. This translates to an average increase of 456,211 citizens over the age of 65 across each of the nine government regions. On a regional basis the South East is forecast to have the greatest number of pensioners by 2028, with almost 750,000. However, it is the East Midlands region which is projected to experience the greatest proportional increase over the same period, with a 64% increase in the number of over 65s by 2028.

Of greater interest to the Healthcare industry is the population aged over 85, which is expected to increase from 1.2m in 2005 to 4.2m by 2056. Given that rates of dependence and disability increase with age it is clear that demand for Healthcare provision will rise dramatically moving towards 2056. From the regional statistics it would appear likely that, while the issue of an ageing population effects the whole of the UK, the impact upon Healthcare provision should be most evident in the South East and East Midlands.

For the purposes of analysis in the model, we ranked the proportional change in population of residents aged over 65 by 2028 for each English county. Lincolnshire, Cambridgeshire and Northamptonshire are set to experience the greatest proportional increases in elderly residents by 2028. There are some counties which are projected to witness a greater actual change in the number of pensioners, most notably in the larger conurbations of Greater London, Merseyside and Manchester. However given that each of these centres has a significant amount of the population already over 65, the impact on the market moving forwards is expected to be reduced. In certain counties, the number of pensioners is projected to increase by over 50% which should have considerable implications on Healthcare demand and future provision.

Economic Performance

As well as reviewing the demographic profiles, the model also takes into account future GDP growth as a measure of each county's expected economic viability, identifying those areas which are forecast to experience the greatest improvement in economic wealth in the period to 2028. Our economic analysis revealed that the top five counties are all located in the South of England. Greater London is forecast to be the leading location in England, followed by Buckinghamshire, Wiltshire, Cambridgeshire and Surrey.

As we are analysing the potential for private Healthcare provision, which must be paid for either by the individuals themselves or by their children, we also took account of forecast employment growth as a further measure of future economic viability for each county. Once again, the South is forecast to be the



Knight Frank sold a 1.57 hectare disused sports field site in Worcester for Healthcare development off a guide price of £3m.



Knight Frank sold a 0.33 hectare development in Aberdeen with planning permission for a 78 bed care home off a guide price of £1.5m.

principal driver of English employment growth in coming years, with Essex, Cambridgeshire, Surrey, Wiltshire and Hampshire expected to see the most employment growth.

Land Values

Another key element of the model involved a detailed analysis of appropriate land values across England, which have an obvious direct impact on potential development activity. Counties were ranked based on the relative affordability of the land per hectare, with those that were most expensive ranked the lowest. Based uniquely on this criterion and with the highest relevant land value, Greater London was regarded as the least attractive development location. Those counties identified as most attractive to potential developers based on affordability of land were Northamptonshire, Leicestershire, Tyne & Wear, Nottinghamshire and Cumbria, the first of which has already been highlighted as a key opportunity based on a forecast substantial rise in the projected number of pensioners.

Existing Supply

Of course, the relative cost of land and projected growth in the older population is of less relevance if there already exists a significant supply of Healthcare provision. We analysed the number of nursing and residential beds currently available within each county in order to assess existing provision, ranking highest those counties with a low supply of beds relative to its population. This analysis identified Northumberland, Cumbria, Bedfordshire, Warwickshire, Shropshire and Oxfordshire as experiencing a comparative under-provision within the Healthcare sector, while major urban areas such as Greater London, Greater Manchester and West Yorkshire were ranked as having relatively high levels of existing supply.

Healthcare Development Pipeline

Existing provision was then counter-balanced by an assessment of future supply with a review of the current development pipeline for Healthcare accommodation within each county. Northamptonshire and Oxfordshire, previously identified as experiencing a current under-supply, are both amongst the counties with the most substantial level of pipeline Healthcare development and received lower rankings accordingly. The top counties where the level of anticipated development was the lowest included Northumberland, Buckinghamshire, Kent, Warwickshire and Surrey.

Average Bed Values

The model also identifies current bed values across the counties in order to assess potential returns for developers, with those with the highest average bed values ranked the highest. As might be expected, and in line with the cost of living, London was the highest ranked centre followed by Cambridgeshire and Essex. Those counties which could be expected to achieve the lowest bed values, and thus were ranked lowest, included Northumberland, Norfolk and Merseyside.

Final Overall Rankings

The objective of the Knight Frank Healthcare Hotspot model is to provide an assessment of development opportunities and investment prospects in the Healthcare sector across England based on fundamental economic, demographic and property market criteria. For each county in England, therefore, the model takes into account the forecast growth in demand for Healthcare provision and the relative economic viability of that demand, current and future supply, the cost of buying land for development and the anticipated return each bed may generate.

Based on the comparative merits of all these variables, we have identified Cambridgeshire as the top development hotspot for Healthcare provision. The county has very positive economic and demographic data and, although Cambridgeshire has comparatively high land values, its high bed values and relatively

“Highest average bed values are achieved in London, Cambridgeshire and Essex.”

limited current and pipeline supply led to it being ranked first. Buckinghamshire was ranked second by the model, reflecting a strong performance across the majority of criteria although relatively expensive land and a healthy development pipeline impacted upon the final score. Cornwall & the Isles of Scilly also ranked highly, not coming top in any category but featuring in the top quartile across many of the key criteria. Despite its strong development pipeline, Northamptonshire secured fourth place, followed by Wiltshire. The lowest ranking counties based on available data were Merseyside, South Yorkshire and Norfolk.

Healthcare Hotspots

A Sample of Comparative Rankings

County	Growth in 65+ population	Economy	Current Supply	Future Supply	Final Rank
Cambridgeshire	2	4	8	8	1
Buckinghamshire	30	2	7	=1	2
Cornwall & Isles of Scilly	7	9	14	7	3
Northamptonshire	3	15	9	37	4
Wiltshire	8	3	11	26	5
Leicestershire	10	23	17	25	6
Warwickshire	12	25	4	4	7
Essex	21	10	30	20	8
Surrey	35	5	28	5	9
Shropshire	13	31	5	11	10
Oxfordshire	22	11	6	38	11
Lincolnshire	1	16	32	14	12
Bedfordshire	17	30	3	16	13
North Yorkshire	14	17	18	10	14
Somerset	11	24	15	17	15
Hampshire	9	6	33	31	=16
Devon	16	12	36	21	=16
Hertfordshire	33	7	19	30	18
Dorset	19	28	20	9	19
Northumberland	18	41	1	=1	=20
Greater London	40	1	41	13	=20
Kent	25	20	37	3	22
Tyne and Wear	39	36	26	6	23
Worcestershire	4	38	10	33	24
Gloucestershire	29	26	16	23	25
Cheshire	23	18	23	32	26
East Sussex	28	19	29	18	27
Nottinghamshire	26	32	24	29	28
Suffolk	15	29	12	27	=29
Greater Manchester	37	14	40	19	=29
Cumbria	24	39	2	22	31
West Midlands	36	22	38	15	=32
West Yorkshire	41	13	39	12	=32
Derbyshire	20	33	21	28	34
Durham	31	35	13	41	35
West Sussex	32	8	27	39	36
Staffordshire	6	40	25	36	37
Lancashire	27	21	35	40	38
Norfolk	5	37	22	34	39
South Yorkshire	34	27	31	35	40
Merseyside	38	34	34	24	41

“We have identified Cambridgeshire as the top development hotspot for Healthcare provision.”



On behalf of a client, Knight Frank acquired a development site in Salisbury with planning permission for an 86 bed care home for £2.1m.

Source: Knight Frank Research

Note: The above represents only a sample of the variables which contributed to the final rankings.

Research

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