



AUTUMN 2011 UK HEALTHCARE

Development opportunities

Knight Frank

HIGHLIGHTS

- Despite the negative publicity generated by the recent failure of Southern Cross, demand for new build care homes remains strong, albeit focused in relatively affluent areas which are less exposed to local authority care funding.
- The care home development pipeline in England & Wales has increased by 9.7% over the last 12 months. The reverse is true in Scotland, however, where the pipeline is down 20%.
- Knight Frank's Healthcare Development Hotspots model reveals Berkshire as 2011's top ranked county in England & Wales, rising from third place in 2010. Northamptonshire, last year's top ranked county, slipped to fifth place in the 2011 rankings.
- Following the launch of the Scotland Hotspots assessment in 2010, this year sees Lanarkshire replacing Lothian as the top ranked area in Scotland for care home development.

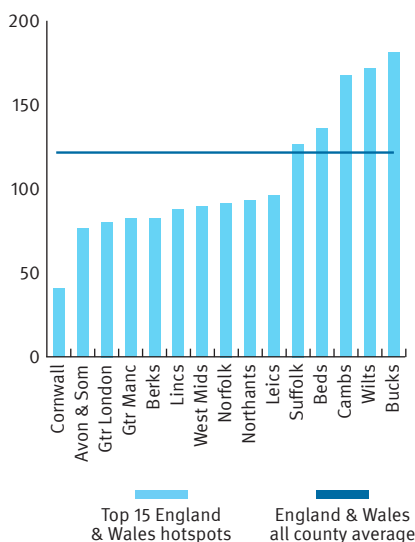
Market overview

The well publicised failure of Southern Cross, the UK’s largest care homes operator, has undoubtedly put the sector under the spotlight in recent months. While this has been an uncertain period, there is no escaping the fact that our ageing population will continue to underpin demand for the development of new, high quality care homes.

The break up of Southern Cross’s 750 care home portfolio has provided an opportunity for other operators to step in and expand their market share. Nevertheless, recent events have not dampened operator demand to develop new care homes as a means of expansion. New build care homes provide a higher quality of care environment and, given their typically more efficient trading levels, this will ultimately drive operator performance moving forward.

Since we reported a year ago, the care home development pipeline has increased by 9.7% in England & Wales, and by 13.6% in the wider South East (i.e. London, East and South East). This rise could be explained by the lag in applications between residential and care home use seen shortly after the credit crisis

Figure 1
Care home development pipeline
sq m per 000 over 65s (as at Sept '11)



Source: Knight Frank

“Care quality and the built environment are vital ingredients to successful care facilities. We have an exciting UK development program where Bupa continually strives to build best in class facilities.”

Lyth Watson

Property and Development Director, Bupa

in 2007/8. However, with a partial revival in interest towards residential development being seen in more affluent areas, moving forward we anticipate greater competition between the two land uses.

Demand for care home development has become increasingly polarised. Relatively affluent locations, particularly those offering an advantageous economic profile, remain the most sought after. In the current climate of austerity, the vast majority of local authorities have frozen or reduced their baseline fee levels, meaning many operators are much more focused on developing in areas where unsubsidised care is the rule rather than the exception.

With limited availability of development finance, operators continue to seek alternative routes to fund new build care homes. In contrast with the position a decade ago, a far greater number of new facilities are being developed on a pre-let basis. Typically, specialist funds provide the finance for site acquisition and construction of the home, which is leased to the operator on a long-lease, often linked to RPI. MedicX, Castleoak, Quercus and Aprirose are some of the major players in the sector at present.

There has also been a notable increase in ‘speculative’ applications for C2 development, whereby outline C2 consent is sought to attract more reliable interest from prospective operators. On occasion, developers have actually proceeded with construction on a speculative basis, confident in their ability to attract a willing operator to lease the facility or purchase on a turnkey basis. Here, the level of risk is clearly on the developer to ensure the quality of design meets the requirements of an operator.

The different types of care provision in the market still cause difficulty for the planning system. Planning practitioners at times appear overly concerned with packaging schemes as C2 or C3, depending on the level of care. Section 106 obligations, which are often sought by local authorities, are based on residential schemes, so a detailed knowledge of the care sector and models of operation can significantly reduce the cost of the planning process to applicants.

When a site is deemed appropriate for care home development by an operator or developer, the scale and massing of the scheme can often be a difficult barrier to securing planning permission, particularly for larger proposals. Planning authorities have to weigh up the ‘pros’ of generating employment and meeting elderly care demand against the ‘cons’ of permitting a potentially unpopular large-scale development, often in close proximity to residential areas.

One of the key planning benefits of new build elderly care is that it can free up dwellings in the housing cycle. A new care facility of circa 80 beds has been known to release 35 family dwellings in a local area, these having previously been occupied by a single elderly occupant. With housing supply becoming such an issue, this is a strong material consideration of any planning proposal and should be promoted.

England & Wales hotspots

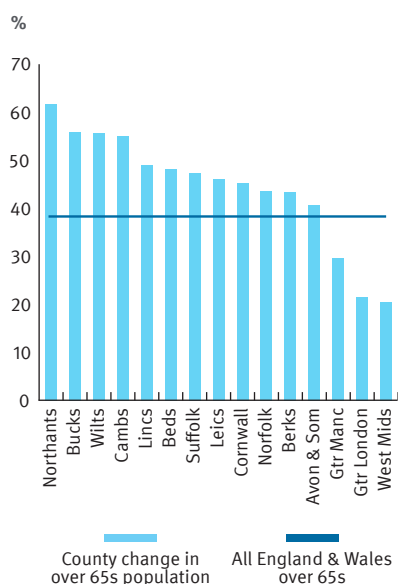
In addition to the current trends influencing the development market, a key means of identifying future opportunities is an



Warrens Lodge, Ashford in Kent, opened by Bupa in 2011



Figure 2
Forecast growth in 65 + population 2010-2026



Source: Experian

understanding of the main drivers for successful care home development. The Knight Frank Healthcare Hotspots model was developed in 2007, with the objective of identifying which locations may offer the best prospects for C2 development.

The model is a county based assessment which employs a matrix of eight criteria incorporating economic, demographic and commercial factors specific to the healthcare sector, including care home bed values and the typical cost of land for development. A key focus is the anticipated growth in elderly care demand relative to current and future supply and therefore the prospects for both development and investment.

Berkshire is the top ranked county for 2011, up two places from a year ago and beating the all county average for England & Wales by 80%. Berkshire also scored higher than the all county average in all except one of the eight criteria, namely the typically high land values associated with the county's location in the South East. In contrast with other Home Counties, Berkshire also has a much more restricted development pipeline per head of over 65s.

The top five counties which, in addition to Berkshire, comprise Buckinghamshire, Cambridgeshire, Bedfordshire, and Northamptonshire, all appeared in the top 12 in 2010. However, last year's top ranked county, Northamptonshire, drops to fifth place. Despite retaining the forecast for the strongest growth in over 65s to 2026, Northamptonshire has been downgraded significantly on its economic and employment growth prospects, based on data obtained from Experian.

There are different reasons as to why each of the top 12 hotspots rank so highly against our matrix of criteria. For example, a number of counties in this year's top 12 owe much of their performance to being tightly supplied with care homes on a per capita basis, either in terms of existing bed supply (e.g. Berkshire, Suffolk and Greater London), or in terms of future supply of care beds in the pipeline (e.g. Avon & Somerset and Cornwall).

2011 sees four new entrants rising into the top 12, namely Avon & Somerset, Cornwall, Suffolk and Norfolk. Avon & Somerset is of particular interest, as we have noted an acute level of unsatisfied demand for care home sites in the area around Bath over the past 18 months, in part due to the tight supply of land and restrictive planning in the area.

In contrast, the counties of Buckinghamshire, Bedfordshire and Cambridgeshire benefit in the rankings in terms of demand for care homes, with above average growth in the over 65s forecast and/or relatively strong economic and employment growth prospects.

Having been placed 2nd in each of the previous two years, Warwickshire lost its place in the top 12 this year. This results from a downgrade in the forecast for both over 65s population and a more constrained economic outlook, combined with a notable four-fold increase in the county's care home development pipeline over the last 12 months.



Lent Rise House in Burnham, Bucks opened in July 2011. The 60 bed care home was developed by Castleoak and is operated by Housing Solutions in partnership with the Fremantle Trust.

Table 1

Care home development prospects – top 12 counties of England & Wales in 2011

2011 Rank		Forecast growth in 65+ population	Forecast economic growth	Current supply	Future supply	Change in rank	Total score index
1	Berkshire	21	2	6	15	up 2	1.80
2	Buckinghamshire	2	1	9	32	up 2	1.67
3	Cambridgeshire	4	9	11	39	up 4	1.55
4	Bedfordshire	9	4	16	34	up 1	1.48
5	Northamptonshire	1	16	41	20	down 4	1.41
6	Avon & Somerset	27	15	29	8	up 8	1.37
7	Cornwall & Isles of Scilly	15	26	17	2	up 9	1.28
8	Suffolk	10	12	5	31	up 10	1.27
9	Norfolk	20	7	26	19	up 6	1.25
10	Greater London	49	5	7	12	no change	1.21
11	West Midlands	50	21	10	17	down 3	1.18
12	Lincolnshire	8	28	33	16	down 3	1.17

Source: Knight Frank

AUTUMN 2011 UK HEALTHCARE

Development opportunities

Scotland hotspots

In contrast with the rest of the UK, Scotland's care home development pipeline has fallen, down 20% in the year since we last reported. A possible explanation derives from Scotland's different approach to the funding of care for the elderly, with home care services provided free of charge since 2002. Indeed, recent research by Office for National Statistics reveals that 1,000 fewer people resided in Scottish care homes between 2004 and 2010, set against a 13,000 (39%) rise in the number of people using home based care services over the period.

Following the launch of the Scotland hotspots assessment in 2010, this year sees Lanarkshire as the top ranked area in Scotland for care home development in 2011. The former Scottish county, which includes the towns of Motherwell, Hamilton and East Kilbride, pushes last year's highest ranked area of Lothian into second place in the rankings, with a total score at 44% above the average for the 12 areas of Scotland.

Lanarkshire draws much of its strength on the demand side, being ranked third for both economic and employment growth, while also benefiting from relatively low land values. Lothian, with Edinburgh as its urban heart, shares some of Lanarkshire's positive attributes, and is in fact ranked top for forecast economic growth. However, relatively high levels of existing and pipeline supply impact negatively on Lothian's overall ranking.

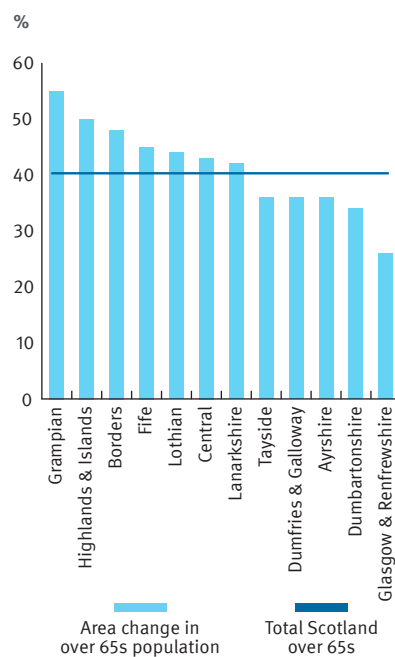
Apart from the reversal of first and second placings between Lothian and Lanarkshire, the top five ranked areas for 2011 all made up last

year's top five, with Fife (3rd), Borders (4th) and Dumfries & Galloway (5th) all unchanged in the Scotland rankings from 2010.

For the second consecutive year, Grampian finds itself outside the top five ranked areas of Scotland for care home development. This is perhaps surprising, given two clear supporting factors for care home development, namely the high bed values seen around the Aberdeen market and Experian's forecast for 54% growth in the 65+ population over the next 15 years (Figure 3). However, relatively high land values and high per capita bed supply are among a number of the criteria which impact negatively on Grampian's ranking.



Figure 3
Forecast growth in 65+ population
2010-2026



Source: Experian

Table 2

Care home development prospects – top five areas of Scotland in 2011

2011 Rank		Forecast growth in 65+ population	Forecast economic growth	Current supply	Future supply	Change in rank	Total score index
1	Lanarkshire	6	3	10	5	up 1	1.44
2	Lothian	5	1	8	9	down 1	1.39
3	Fife	4	2	6	10	no change	1.20
4	Borders	3	5	4	3	no change	1.14
5	Dumfries & Galloway	9	10	2	1	no change	1.08

Source: Knight Frank

Contacts

Research

Oliver du Sautoy

Associate, Commercial Research
+44 (0)20 7861 1592
oliver.dusautoy@knightfrank.com

Healthcare

Christopher Wishart

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

Planning

Richard Walters

Partner, Head of Planning
+44 (0)161 833 7717
rich.walters@knightfrank.com

Commercial Research

© Knight Frank LLP 2011

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank LLP for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Research.

www.knightfrank.com