



2012 UK HEALTHCARE

Development opportunities
Knight Frank

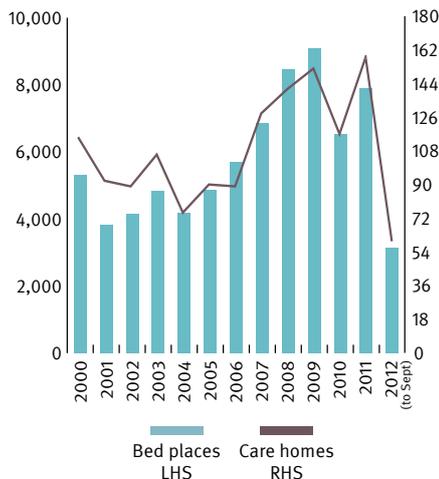
HIGHLIGHTS

- There remains strong appetite among several major operators to develop new care homes, albeit focused in relatively affluent areas offering strong demographics.
- However, the restricted availability of debt finance has slowed development, and operators are increasingly turning to pre-let arrangements to satisfy their requirements.
- Knight Frank's Healthcare Development Hotspots model reveals Berkshire is again the top-ranked county in England and Wales, having also taken this spot in 2011. This year's rankings also reveal that 11 of the top 12 counties are located in England's Southern and Midlands regions.
- The Scotland Hotspots assessment reveals the Borders as 2012's top ranked area in Scotland for care home development.

Development trends

Knight Frank's analysis of Laing & Buisson's database reveals that the number of new care home registrations in 2012 is likely to be down significantly on recent years (Figure 1). With only 60 homes registered in 2012 to September, this slowdown in new registrations reflects the dramatic change to the availability of development finance since 2008. Assuming a typical three year lead time in the development of a new care facility, it is clear that this change is now being borne out in the number of completions now being seen.

Figure 1
New elderly and dementia care registrations



Source: Knight Frank, Laing & Buisson

Although care home trading performance has been shown by Knight Frank to be strongest in Greater London, the South East and Eastern regions, barriers to entry for development are typically higher in these regions compared with elsewhere. Consequently, developers have historically followed a 'path of least resistance', building homes in areas where land values are lower or where competition with alternative land uses (i.e. residential) is less intense.

This is partly reflected in the variable levels of new supply seen between the UK regions over the past five years (Figure 2). Since 2008, the North East and South West have seen the delivery of more than five new beds per 1,000

over 65s, while the South East, Scotland and the West Midlands have seen less than two beds per 1,000 delivered over the period.

Set against a drop in new registrations, the total UK development pipeline for care homes expanded for a second successive year, rising by 15.2% over the 12 months to September 2012. While this growth could be interpreted positively, it is more likely to reflect a degree of 'backing up' in the pipeline, with the restricted lending environment preventing weaker proposals from moving beyond the drawing board.

Nevertheless, there remains decent appetite among a number of operators to construct new facilities. A notable proportion of the newly registered homes in 2012 were realised through pre-let agreements. With finance restricted, alternative routes to development funding such as pre-letting and forward funding arrangements are evidently becoming more mainstream. Those care providers who stand to benefit most are the larger established players with a track record of delivering profitable care facilities.

There are a number of specialist funds in the market providing finance for site acquisition and care home construction. Some of the main sources of capital to the sector presently include MedicX, Bridges Ventures and

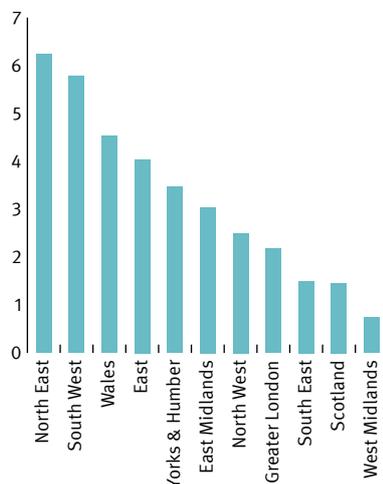
Aprirose. Typically, the new developments are leased to the operator on a long lease, with rental levels linked to RPI with a collar and cap. We have noted increasing instances of buy-back options being incorporated into pre-let deals, allowing the operator to take the facility into full ownership at a pre-agreed date if it so chooses.

"Finding an attractive care home site is a combination of art and science: demographic and local fee analysis, prominence, suitability of surroundings, site characteristics, planning considerations, access to a pool of staff and then, of course, is it available at the right price? But good sites are out there – they just take a lot of diligent and patient effort to secure."

*Melville Knight
Chief Executive,
Castleoak Group*

Figure 2
Bed registrations per 1,000 over 65s (2008 to 2012)

Beds per 1,000 persons

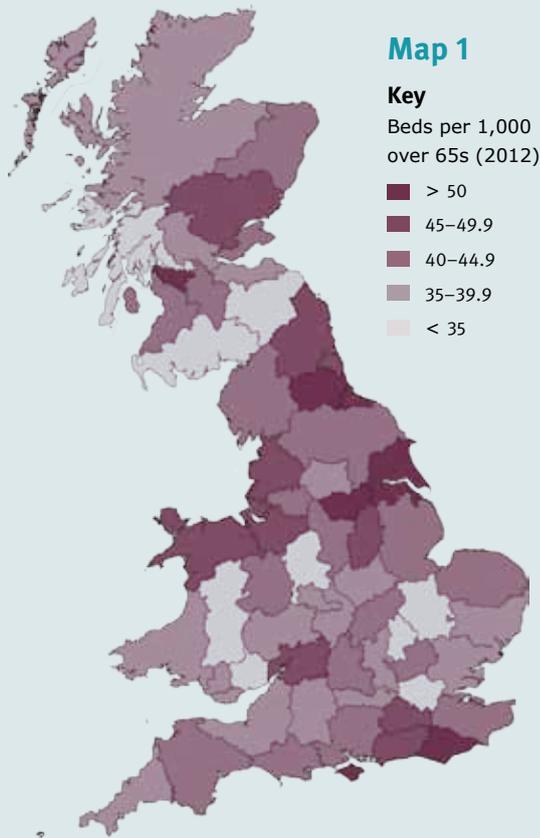


Source: Knight Frank, Laing & Buisson

Planning authorities have a very important role to play in ensuring new care homes can be delivered in areas where operator demand is strongest and/or in areas of greatest need. Following adoption of the National Planning Policy Framework, the Coalition Government continues to streamline the planning process through the introduction of further planning measures and provisions that aim to speed up the system.

One of the key requirements is for Local Planning Authorities to have an up to date Development Plan. It is important that Councils consider the care sector in these plans and clarify the areas of uncertainty surrounding care home development. Such arrangements will be particularly important in areas where barriers to care home development are high, namely strong competition from C3 residential use.

Underlying supply and demand considerations



Bed supply

The current supply of care beds is unevenly distributed throughout the UK (Map 1). In theory at least, care home development prospects should be strongest in the most undersupplied parts of the UK, with low supplied areas including Greater London, the West Midlands conurbation and counties in the East of England.

In contrast, the North of England has a group of counties with a relatively high supply – South Yorkshire, Cleveland, County Durham and Humberside each have over 50 beds per 1,000 over 65s. Likewise, The South East of England also has a number of counties with relatively high levels of bed supply, including the Isle of Wight, East Sussex and Surrey.

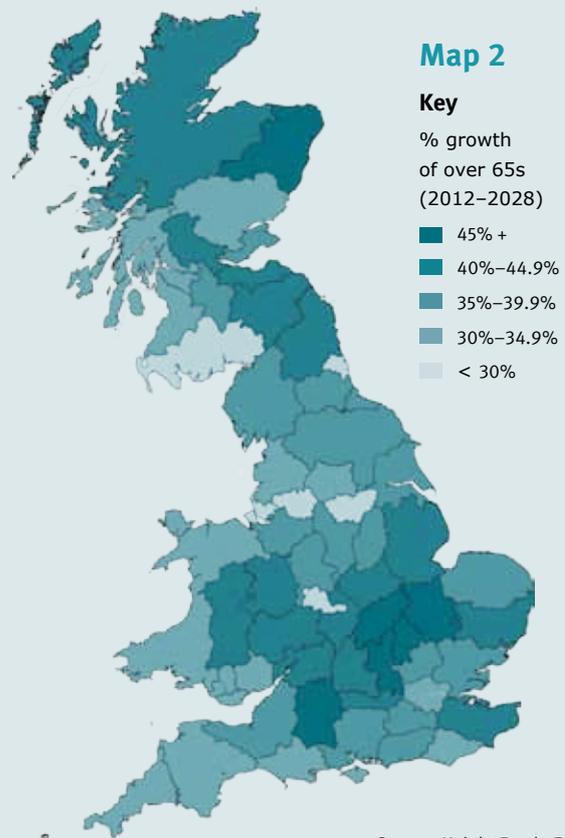
In addition to the current quantum of bed supply, the quality of supply is an equally important consideration. A substantial proportion of the UK’s care homes are either period conversions or first generation purpose-built which may, in time, fail to adequately meet care standards.

Growth in over 65s population

Latest forecasts from Experian point to a 35% growth in the UK over 65s population in just 15 years, a trend which underpins the long-term opportunity for care home development. However, the geographical distribution of this growth varies significantly, and should be considered in any locational decision-making (Map 2).

While there are numerous exceptions, the counties with the strongest projected growth in over 65s population are, generally, in the South East, East and Midlands regions of the UK, with the Northern regions of England containing few counties where the projected over 65s population growth exceeds the national average.

Unsurprisingly, a number of the UK’s major conurbations, such as London, Birmingham, Manchester and Merseyside are projected to see below average growth in over 65s.





England & Wales Hotspots

Further to current bed supply and projected demand, there are of course other factors which either lend support to, or count against, the development of a new care facility. To this regard, the Knight Frank Healthcare Hotspots model was developed in 2007 with the objective of identifying which locations offer the best prospects for care home development and investment, assessing each county on a matrix of eight equally weighted criteria. In addition to current supply and population projections, the model incorporates economic and healthcare specific factors, such as prevailing bed values and the typical cost of land for development.



Juniper House, Brackley, Northamptonshire. The 60-bed care home is operated by Barchester and opened in 2012.

As shown in Table 1, for the second year running, Berkshire is the top ranked county for 2012. The county has also strengthened its grip on first place, with its overall index score rising to 136% above the all-county average in 2012 and significantly ahead of second-placed Northamptonshire, whose overall index score is 72% above average. Berkshire also scores above average in all but one of the eight criteria, namely the typically high land values associated with the county's location in the South East.

The order of the top five ranked counties has seen limited movement from last year, with Greater London being the sole new entrant to this year's top five, rising five places from 2011. London's overall ranking benefits particularly from it having both the highest bed values and the lowest per capita bed supply of any England and Wales county. Meanwhile, Northamptonshire's ranking rose from fifth to second place, benefitting this year from a stronger economic growth forecast while continuing to be forecast with the strongest growth in over 65s population of any county.

The key drivers of performance for the top 12 ranked counties vary. Some counties benefit more on the supply shortfall side with, for example, Cornwall ranked in the top 10 for both current and pipeline supply, propelling it to 10th place overall. In contrast, Bedfordshire's and Buckinghamshire's strong performance

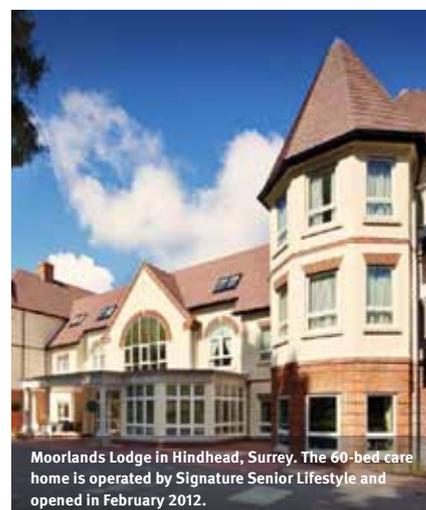


Acer House Care Home, Somerset. The 60-bed care home is operated by Avery Healthcare and opened in 2011.

is largely explained by demand side factors, with both counties ranked in the top five for the population projection and economic growth criteria.

Viewed in broad terms, it is notable that none of the top 12 ranked counties are located in the North of England, with England's South Eastern and Eastern regions providing the majority of 2012's top-performers. This is closely in line with our expectations, as it is in these areas that demand is typically strongest, with relatively high bed values together with stronger economic and population growth prospects.

Wales has an area in the top 12 for the first time since the Hotspots rankings were established, with South Glamorgan rising nine places to eighth in the 2012 rankings. This rapid improvement in care home development prospects is driven by its relatively low current and pipeline supply together with an improved economic forecast.



Moorlands Lodge in Hindhead, Surrey. The 60-bed care home is operated by Signature Senior Lifestyle and opened in February 2012.

Table 1

Care home development prospects – top 12 counties of England & Wales in 2012

2012 Rank		Forecast growth in 65+ population	Forecast economic growth	Current supply	Future supply	Change in rank	Total score index
1	Berkshire	9	1	8	11	same	2.36
2	Northamptonshire	1	12	29	23	up 3	1.72
3	Bedfordshire	5	3	3	37	up 1	1.63
4	Buckinghamshire	2	2	10	47	down 2	1.57
5	Greater London	36	5	1	19	up 5	1.50
6	Cambridgeshire	4	8	6	42	down 3	1.49
7	Avon & Somerset	32	14	21	17	down 1	1.41
8	South Glamorgan	35	10	13	18	up 9	1.30
9	Leicestershire	7	26	19	21	up 4	1.28
10	Cornwall and Isles of Scilly	34	25	9	5	down 2	1.21
11	Kent	15	16	27	22	up 14	1.19
12	West Midlands	50	23	7	16	down 2	1.17

Source: Knight Frank

Scotland Hotspots

This year sees the Scottish Borders region as the top-ranked area for care home development (Table 2) for the first time since the launch of the Scotland Hotspots analysis in 2010. The predominantly rural area, which includes the towns of Hawick, Jedburgh and Kelso, rose three places from last year's rankings, and effectively demoted 2011's top three ranked counties of Lanarkshire, Lothian and Fife by one place each.

The Scottish Borders draws most of its strength on the supply side, having the lowest level of both current care bed supply and development pipeline per 1,000 over 65s of any of Scotland's 12 areas. Borders also performs relatively well on the demand side, placed third and fourth for over 65s population growth and economic growth respectively. However, given the relatively sparsely populated nature of the Borders area, there is unlikely to be significant scope for a concerted development of new care homes.



Parklands in Alloa, Clackmannanshire. The 62-bed care home is operated by Meallmore and opened in January 2012.

Table 2

Care home development prospects – top five areas of Scotland in 2012

2012 Rank		Forecast growth in 65+ population	Forecast economic growth	Current supply	Future supply	Change in rank	Total score index
1	Borders	4	3	1	1	up 3	1.30
2	Lanarkshire	6	4	8	7	down 1	1.27
3	Lothian	2	1	6	10	down 1	1.23
4	Fife	7	2	7	11	down 1	1.23
5	Central	5	5	4	8	up 1	1.11

Source: Knight Frank

With regard to the more densely populated parts of Scotland, it could be argued that greatest overall level of opportunity lies in Lothian, which was 2010's top ranked area. With Edinburgh as its urban heart, Lothian's prospects are mostly linked to the demand side criteria, being ranked 2nd for over 65s population growth and first on economic growth. However, supply side factors weigh down on Lothian's performance, with the area showing relatively strong levels of pipeline supply and high land values compared with other areas.

While the top four ranked areas of Scotland this year all featured in 2011's top five rankings, the Central area of Scotland makes its debut appearance in the top five in 2012. However, its performance can be thought of as broadly 'steady', neither ranked highly or lowly across the eight criteria employed in the model.

"UK healthcare property requires significant investment and modernisation. This represents a clear opportunity to develop future-proofed facilities that not only meet the required physical standards, but importantly, also meet the needs of their clients. The key to success is innovative design and solutions for all care home registration types and client groups, which in turn creates an efficient working environment albeit within a domestic style residence."

*Malcolm Foulkes-Arnold,
Corporate Architecture Limited*

Knight Frank view

- Despite the growth in the development pipeline and strong demographic support for new facilities, restrictions on development finance will continue to impact upon the rate of new-build care home development into 2013 and beyond.
- Overseas capital, such as US REITS and sovereign wealth funds, will continue to be a key source of finance for healthcare development in the UK.
- Operators with strong covenants will have greater access to alternative sources of finance, providing them with a clear advantage over other operators as they seek to expand their portfolios of future-proofed facilities.
- With government austerity impacting on local authority care funding, the most sought after sites will continue to be in affluent locations with a relatively higher exposure to privately funded residents. There will be an ever-increasing focus on due diligence and site analysis from both an operational and planning perspective.

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