

# UK HEALTHCARE PROPERTY MARKET OVERVIEW

SPRING / SUMMER 2020





## MARKET SUMMARY

### Time to applaud our NHS and social care workforce

It's been a whirlwind couple of months for everyone involved in the healthcare sector, but especially so for our NHS workforce and our 1.6 million strong adult social care workforce. While we should rightly applaud the NHS professionals working to save lives in hospitals, we cannot forget the role played by the adult social care sector and its various forms outside of hospitals. This includes the 685,000 people, mostly women, working in the residential care home sector. We can't yet say what the total death toll will be among our elderly population, but we can recognise the huge role being played by care home staff working to ease the burden on the NHS. Hopefully this recognition will become a positive legacy of this pandemic.

### What are care operators telling us?

At the time of writing, many care operators are still in need of more testing kits and personal protective equipment. The routine risk of seasonal flu outbreaks means that many providers are highly skilled in infection prevention but COVID-19 is a far different story. The quarantining of residents and staff means that homes have been battling to uphold their usual levels of care, and operators have been unable to send sick residents to hospital or accept the same level of new residents. Excuse the obvious point, but effective testing will be vital in supporting operators to keep workers active, maintain occupancy levels and fundamentally limit further deaths. It's no surprise industry leaders have been putting continuous pressure

on the government to better support the sector – the government has made some assurances and hopefully this has manifested in a more adequate response throughout all regions of the UK.

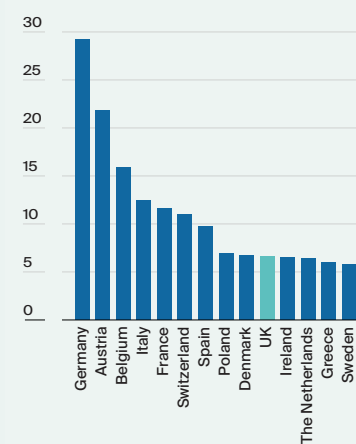
### Data and accurate reporting

Knight Frank have always put emphasis on the importance of data and analysis, but that emphasis has never been more critical. From a pure health and well-being perspective, we all need to best understand the scale and impact of this virus. While the government can more accurately record the number of COVID-19 deaths from hospitals, there have been difficulties in doing the same for deaths in the community and in care homes. Greater transparency will ultimately be helpful for everyone and both operators and the government are now expected to take a more collaborative approach to reporting deaths. Not forgetting financials, this data will also be vital in helping the sector to digest the damage to trading performance and plan for the future.

### Short-term impact, long-term view

While we are still in the process of digesting the effect on our sector, there is clearly going to be a short-term impact. Some homes will likely see a significant fall in resident numbers; construction of much needed new care homes has paused; and transaction activity will fall as it has done across global sectors. As we switch from dealing with the pandemic to focusing on economic repair, it will be important to keep a long term view. While the care sector will make the headlines for some horrific reasons in 2020, the long-term fundamentals of this property sector

### Critical care beds per 100,000 people



Source: Rhodes, A., Ferdinande, P., Flaatten, H. et al. The variability of critical care bed numbers in Europe Intensive Care Med (2012), NHS Digital for UK data

will remain. A lot of care homes will need building to service the baby boom generation as they reach old age and even more investors will be attracted to the secure long-term income provided by healthcare assets. It's probably too early to be talking about the legacy of COVID-19, but the outbreak has already fostered greater recognition of the importance of both the NHS and private healthcare sector. The level of collaboration has been refreshing, but let's hope there is more centralised action beyond this pandemic.



**Julian Evans, FRICS**  
Partner, Head of Healthcare



## ASSESSING THE IMPACT OF COVID-19

### How prepared was our healthcare system?

Both the NHS and the government should be commended for the speed at which they armed the NHS to deal with the COVID-19 pandemic. As of January 2020, NHS England reported a total of 4,123 adult critical care beds. Yet in the space of a few months a number of key responses have occurred, including a major deal struck to block book a further 8,000 beds from the private sector and operation Nightingale, which introduced a potential 8,000 beds in temporary COVID-19 hospitals across the UK.

Despite the rapid response, looking at hospital bed provision compared to other advanced countries in Europe suggests the UK is undersupplied. The total number of hospital beds managed by NHS England has fallen 23% in the last 20 years, while the population of the country has increased by 15%. Furthermore, critical care bed provision in the UK equates to around 6.5 beds per 100,000 people compared to 29 beds in

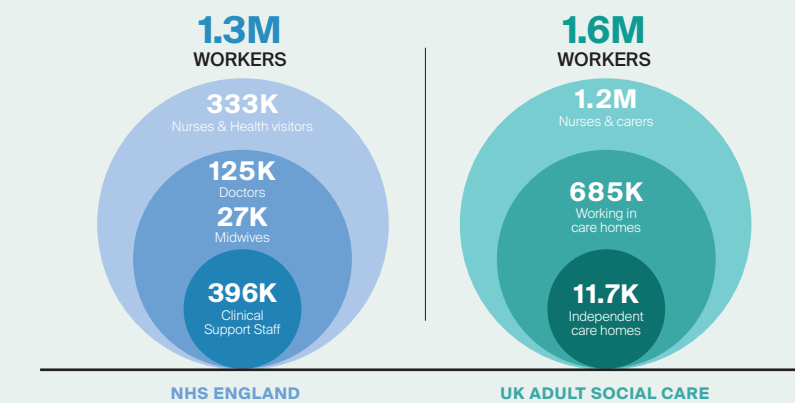
Germany. The downward trend in bed provision is partly because of the policy to move long-term care and mental health care provision away from hospitals and into the community, but declines look out of sync with demand and a number of metrics suggest a strained and inefficient healthcare system.

The increase in delays for transfer of care, normally referred to as "bed blocking" is one sign of inefficiency. This is when a

patient is ready for discharge from acute or non-acute care but is still occupying a bed in a hospital facility.

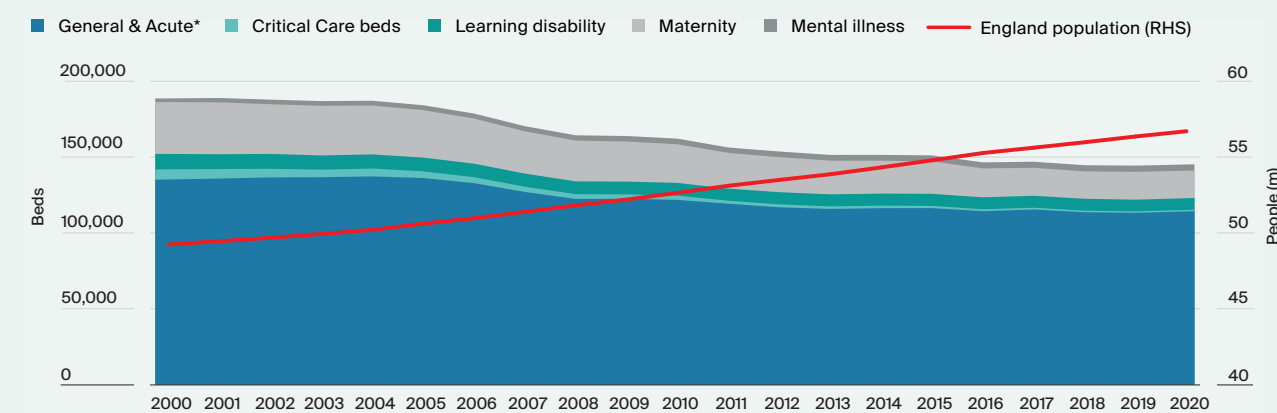
In 2010, NHS England was losing around 115,000 days a month to bed blockers and this number measured around 148,000 in 2020, after peaking in 2016 amid austerity measures. Perhaps more relevant are the reasons patients are blocking beds and here we can see that close to half (47%) are those

### The NHS and adult social care workforce



Source: NHS Digital, Skills for Care

### NHS England hospital beds vs population

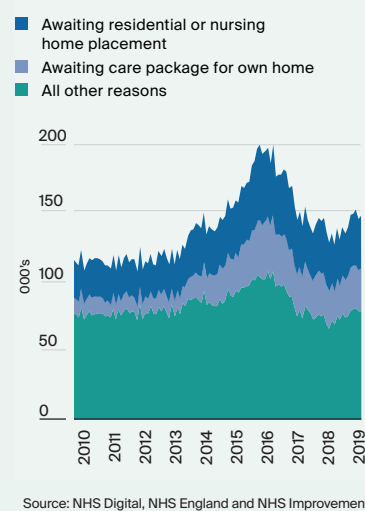


Source: NHS Digital, NHS England

\* Includes overnight and day beds

waiting for placement in a residential or nursing home or those awaiting a care package in their own home. While this is a complicated issue, part of the problem lies in poor lines of communication between the NHS and our adult social care system. With hospitals now a hotbed for COVID-19, it will be interesting to see how bed blocking numbers change during the pandemic – hopefully this crisis will help to foster greater efficiency in the system.

#### Delayed transfer of care by reason, days delayed per month



#### Impact on the care home sector

Initial global estimates suggested a mortality rate of 15% for those aged 80 and over, with even greater risks reported for those with severe health conditions. These estimates should be approached with caution, but naturally there is serious concern for residents in elderly care homes and the businesses that support them. Major operators are well-equipped to deal with seasonal flu, as well as diseases such as dementia and Alzheimer's, but COVID-19 is an unprecedented safety challenge. The death toll will impact occupancy in many individual care homes, but it is likely to have a more pronounced effect on smaller independent care homes, especially those that are not purpose built and without en suite facilities. Our current stock check shows that there are over 6,500 homes below the 40 bed marker – many of

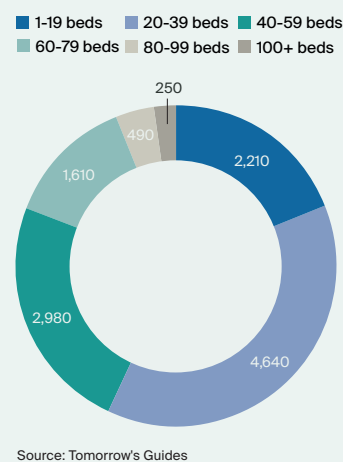
these homes are even less than 30 beds, do not have the security of a large group backing and were not fit-for-purpose even prior to the pandemic. Hopefully, COVID-19 will elevate calls for an upgrade of much of the market.

The outlook for care homes situated near major hospitals could be more positive, with the NHS looking to keep elderly people away from hospitals or discharge them sooner where possible. While many care homes operate at full occupancy, there are around 79,000 vacant care home beds in the UK and many of the most vacant will be situated near major UK hospitals. These homes may be able to maintain or bolster their occupancy by closely supporting the NHS, assuming that testing kits become more readily available. Other real estate assets such as hotels and student accommodation have also been identified to help accommodate NHS staff and outpatients although this may subside now that the peak of the virus has passed.

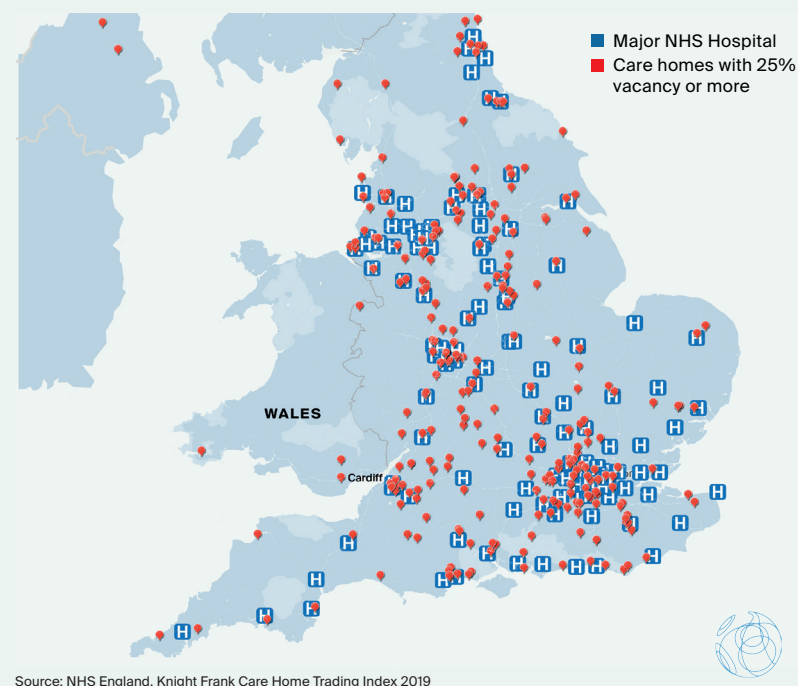
Adequate staffing is often a challenge for the sector, but even more so at present. With the workforce anxious about their own health and having to isolate when

symptomatic, absenteeism is an obvious outcome. Operators will also have to absorb another rise in the National Living Wage (NLW), effective in April 2020. The lack of personal protective equipment and testing kits available to the care sector, which relies on highly skilled but low-paid nurses and carers has been highly controversial. Adequate provision of testing kits would be a huge support to the sector, allowing them to reassure staff and admit new residents without fear of putting existing residents at risk.

#### UK care homes by size

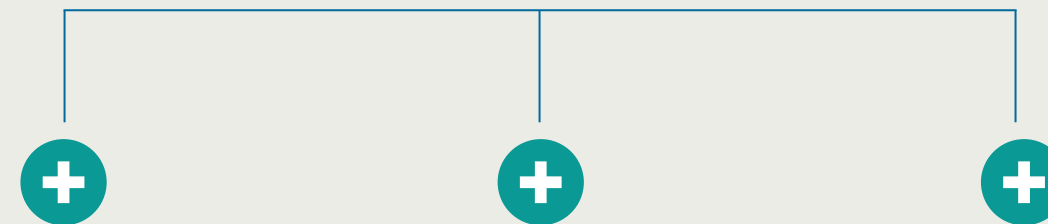


#### Major NHS hospitals and care homes with vacant space



## KEEPING A LONG-TERM VIEW ON UK HEALTHCARE

*Healthcare operators like most businesses are facing a very difficult year, but there are some key factors that will support long-term growth in the sector, beyond COVID-19. This is not to underestimate the challenge ahead, but to remind stakeholders that the fundamentals for this property sector are still robust.*



#### The demographics will not change

Although the pandemic will have an effect on our elderly population, even the worse-case scenarios will not be enough to derail the growth in the number of over 85's in the approaching decades. As the current baby boom generation (currently aged 55-75) enters old age we will see the over 85 population grow from 1.6 million in 2020 to 2.8 million by 2040. As a share of total population, 4% of the UK will be over the age of 85 in 2040, compared to 2.5% at present. This astonishing growth will propel the demand for residential care facilities, among other healthcare property classes.

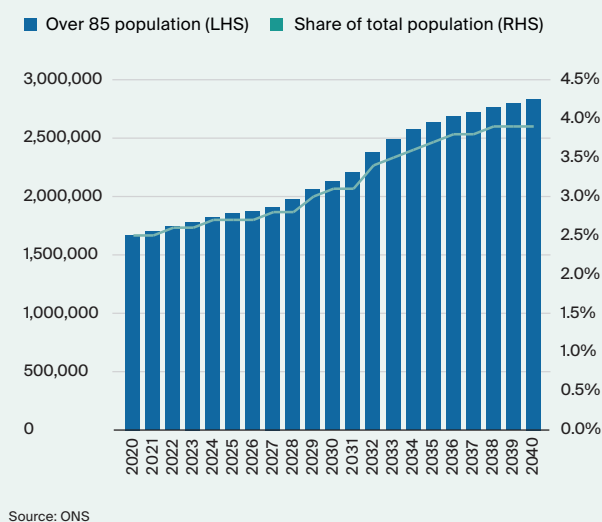
#### New development is a huge opportunity

Construction sites have been on hold and planning applications subject to delays, but the building of new care homes and other healthcare facilities will be vital in servicing the demands of our ageing population. Demand for greater standards of care, combined with greater awareness of diseases such as dementia and Alzheimer's have already transformed care home design and fit out. The potential for recession is likely to have further implications for the investment market. We expect to see a flight to quality among healthcare investors and new developments will be a vital way to access the prime end of the market.

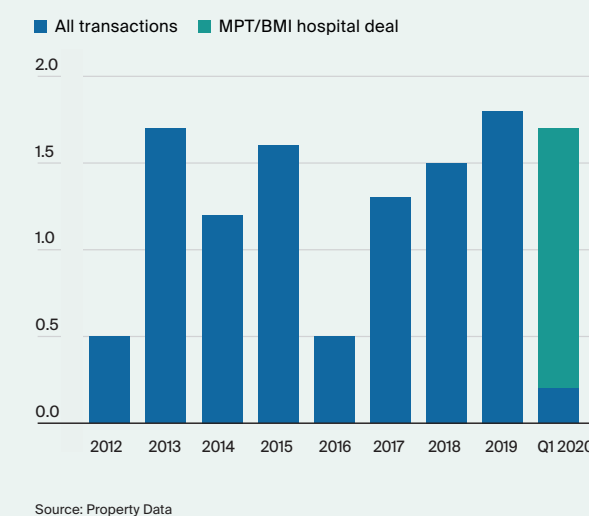
#### UK healthcare has a global reputation

Despite the pandemic and the hotly discussed underfunding of the NHS, it's important to keep in mind the UK's strong global reputation, both as a healthcare market and a destination for global capital. This was epitomised at the start of the year when U.S. based Medical Properties Trust (MPT) acquired a portfolio of 30 BMI hospitals (soon to be Circle Health) for record-breaking fee of £1.5 billion. There will inevitably be significant economic challenges as a result of the pandemic, but we should expect to see continued appetite from well capitalised domestic and global investors looking to de-risk from hotels and leisure backed assets into healthcare.

#### UK over 85 population growth projection



#### Recorded healthcare property investment





## KNIGHT FRANK: HEALTHCARE SERVICES

*Knight 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.*

### Healthcare property specialists

The healthcare industry remains one of the fastest growing markets across the globe. Knight Frank's Healthcare team is valuer to the majority of the UK's major operators, funds, investors and lenders in the sector. Our network of UK offices enables our team to act for care providers, investors, developers and lenders to offer real estate services to the healthcare industry that are second to none. Knight Frank's dedicated and highly experienced team provides a discreet and efficient consultancy service, advising on the full spectrum of healthcare assets including:

#### Our specialisms

- Care homes and day centres
- Specialist adult care homes
- Independent hospitals
- Acute hospitals
- GP Surgeries
- Dentists and pharmacies
- Schools and day nurseries
- Supported living and retirement villages
- Development sites

#### Our services

- Strategic consultancy
- Development consultancy
- Sales & acquisitions
- Valuation

- Portfolio consultancy
- Research and feasibility studies
- Building consultancy and surveys
- Planning consultancy
- Lease advisory
- Property asset management

### Why choose us?

Our award winning Healthcare team continues to be recognised as leaders in their field. In taking time to understand the needs and objectives of our clients, we continue to provide uncomplicated property advice and solutions that add value at every stage.

## RECENT MARKET-LED RESEARCH PUBLICATIONS

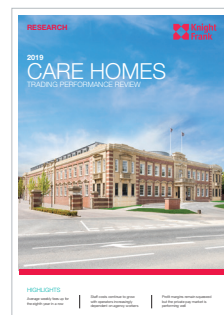
Knight Frank Research Reports are available at [knightfrank.com/research](https://knightfrank.com/research)



Healthcare Capital Markets - 2020



European Healthcare - Elderly Care Market - 2020



Care Homes Trading Performance Review - 2019



UK Healthcare Development Opportunities 2019

## OUR EXPERTISE

*We believe personal interaction is a crucial part of ensuring every client is matched to the property that suits their needs best – be it commercial or residential.*

Operating in locations where our clients need us to be, we provide a worldwide service that's locally expert and globally connected. As a partnership, we are independent, debt free and not beholden to external shareholders.

We believe that inspired teams naturally provide excellent and dedicated client service. Therefore, we've created a workplace where opinions are respected, where everyone is invited to contribute to the success of our business and

where they're rewarded for excellence. The result is that our people are more motivated, ensuring your experience with us is the best that it can be.

## OUR GLOBAL SERVICES

### Residential

#### Prime Sales

Our prime sales network is involved with the most prestigious residential properties around the world. Our integrated global network and ability to identify unique investment opportunities, combined with our unrivalled access to HNWIs, places us in an unparalleled position of strength.

Whether it is sovereign wealth or the upwards of 3,000 individuals we have dealt with personally with a net worth of more than US\$100 million, our record of selling trophy homes is second to none and has enabled us to act for more than 600 billionaires.

#### Project Marketing and International Project Marketing

Through our Project Marketing service we provide developers of mid- to high-end projects with research, consultancy, marketing and sales. Unit values targeted are those in excess of US\$350,000, in locations where long-term value is ensured, such as London, Hong Kong,

Singapore, Vancouver, Melbourne, New York, Miami and Dubai.

### Occupier services & commercial agency

At Knight Frank we offer a different approach, providing expert advice to tenants and landlords across the global office market. We deliver real value through carefully formulated property strategies and robust negotiation, in prime business districts for landlords, multinational businesses and local occupiers.

### Corporate Services

Global Corporate Services (GCS) provide a full suite of portfolio management, consulting and transactional services to multimarket corporate occupiers, globally. Our account teams in London, New York and Hong Kong manage service delivery through the expertise in our local offices, across all service lines.

### Capital markets

Our Global Capital Markets Group has a reputation for acting on the most high

profile property transactions around the world. We act for institutional, private equity, family offices, sovereign wealth and real estate companies in the cross-border acquisition and disposal of property globally.

### Valuation & advisory

Our Knight Frank Valuation experts provide a comprehensive range of single and portfolio valuations, market appraisal and consultancy services across both the commercial and residential sectors.

With a wide skill-set spanning from retail to student property, we have the ability to draw upon our significant global network of Capital Markets, Leasing, Occupier and Research industry specialists, allowing us to add value for our clients, rather than merely reporting. We provide extensive valuation services to financial institutions, private individuals, funds, property companies and the public sector.

**For a full list of services, please visit [knightfrank.co.uk/property-services](https://knightfrank.co.uk/property-services)**



# OUR MISSION

A fully integrated global healthcare and senior living real estate advisory team. Globally connected, locally expert.



**Mark Gallagher**  
Executive Managing Director



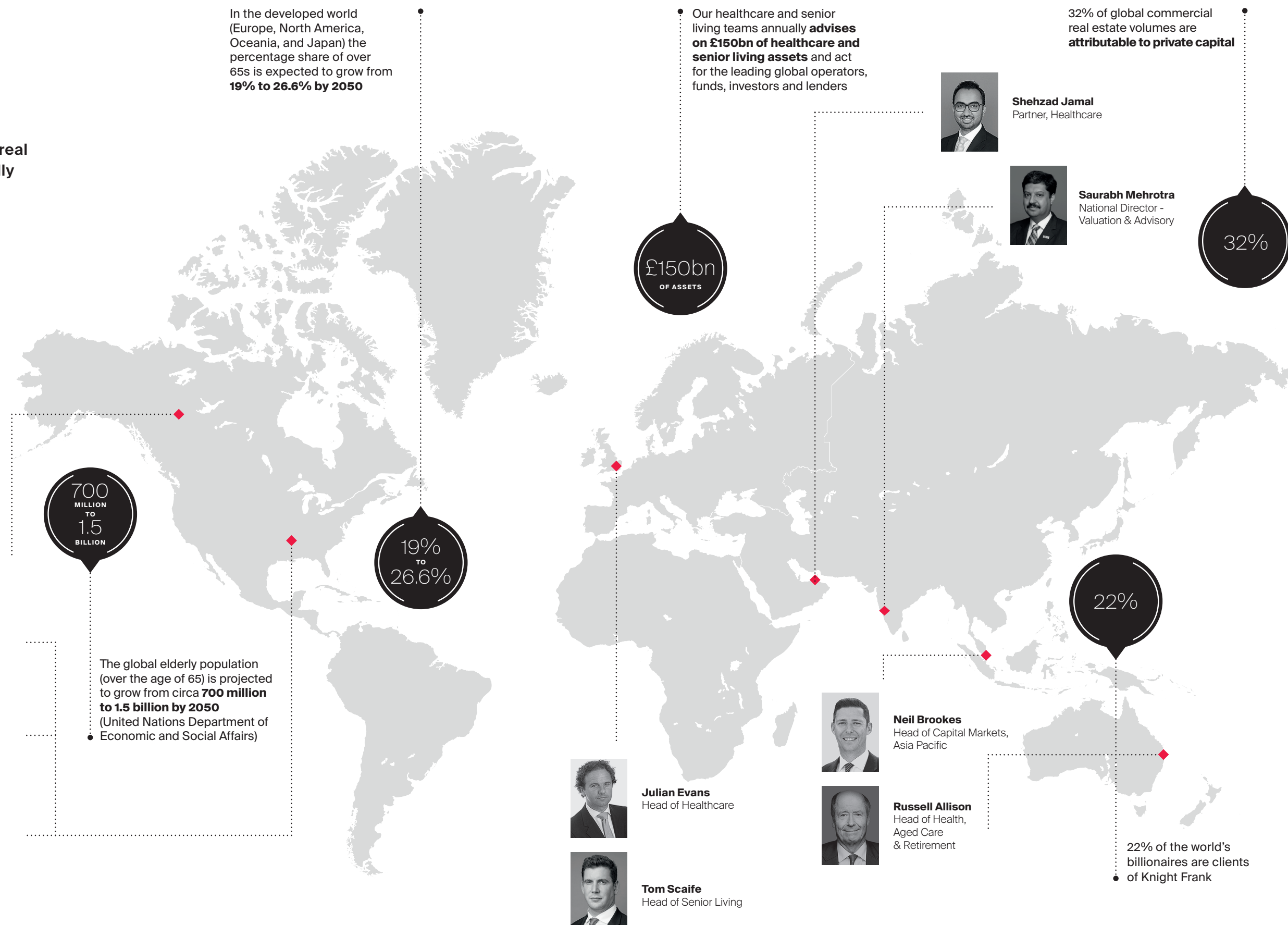
**Todd Perman**  
Vice Chairman, Global Healthcare Services



**Chad Lavender**  
Vice Chairman, Healthcare & Alternative Real Estate Assets



**Norm LeZotte**  
Senior Managing Director





## OUR PEOPLE

### Agency and Development



**Julian Evans, FRICS**  
Head of Healthcare  
+44 20 7861 1147  
julian.evans@knightfrank.com



**Nick Kempster, MRICS**  
Associate  
+44 20 7861 5265  
nick.kempster@knightfrank.com



**Joe Munro**  
Graduate  
+44 20 3866 7816  
joe.munro@knightfrank.com



**Mandip Bhogal, ACCA**  
Associate, Development Consultant  
+44 20 3869 4702  
mandip.bhogal@knightfrank.com



**Robert Stott**  
Analyst  
+44 20 7861 1152  
robert.stott@knightfrank.com



**Julian Woolgar, MRICS**  
Partner, West End  
+44 20 7861 1008  
julian.woolgar@knightfrank.com



**Alyssia Clare**  
Personal Assistant  
+44 20 3967 7124  
alyssia.clare@knightfrank.com

### Corporate Consultancy



**Patrick Evans, MRICS**  
Partner  
+44 20 7861 1757  
patrick.evans@knightfrank.com



**William Freston, MRICS**  
Senior Surveyor  
+44 20 7861 1564  
william.freston@knightfrank.com



**Danielle O'Connor, MRICS**  
Senior Surveyor  
+44 20 7861 5394  
danielle.oconnor@knightfrank.com



**Deborah Joynt, MRICS**  
Consultant  
deborah.joynt@knightfrank.com



**Bianca Moore**  
Team Secretary  
+44 20 3826 0604  
bianca.moore@knightfrank.com

### Commercial Valuations



**Kieren Cole, MRICS**  
Partner  
+44 20 7861 1563  
kieren.cole@knightfrank.com



**Rick Tarver, MRICS**  
Partner  
+44 20 7861 1534  
rick.tarver@knightfrank.com

### Commercial Valuations Cont.



**Mark Tyler, MRICS**  
Partner  
+44 20 3826 0686  
mark.tyler@knightfrank.com



**Iain McGhee, MRICS**  
Partner  
+44 141 566 6026  
iain.mcgee@knightfrank.com



**Bela Chauhan, MRICS**  
Associate  
+44 20 3897 0037  
bela.chauhan@knightfrank.com



**Joseph Hardy, MRICS**  
Associate  
+44 20 3897 0018  
joseph.hardy@knightfrank.com



**James Mohsen**  
Graduate  
+44 20 3995 0770  
james.mohsen@knightfrank.com



**Genevieve Lewis**  
Team Secretary  
+44 20 7861 1164  
genevieve.lewis@knightfrank.com



**Jenny Noble**  
Office Manager  
+44 20 3866 8040  
jenny.noble@knightfrank.com

### Research



**Joe Brame**  
Senior Analyst  
+44 20 3967 7139  
joe.brame@knightfrank.com

### Senior Living



**Tom Scaife, MRICS**  
Partner  
+44 20 7861 5429  
tom.scaife@knightfrank.com

### Building Consultancy



**Charles Ingram-Evans,**  
BSc Hons, MRICS  
Partner, Project & Building Consultancy  
+44 20 3826 0688  
charles.ingramevans@knightfrank.com



**Michael Brownsdon, MRICS, ATT**  
Capital Allowances Advisor  
+44 20 3866 8046  
michael.brownsdon@knightfrank.com

### Debt Advisory



**Lisa Attenborough, DipFS**  
Partner, Head of Debt Advisor  
+44 20 3909 6846  
lisa.attenborough@knightfrankfinance.com

### Institutional Consultancy



**Emma Cleugh**  
Head of Institutional Consultancy  
+44 20 7861 5427  
emma.cleugh@knightfrank.com

### Retail



**Andrew Thatcher**  
Partner, Retail Advisory  
+44 20 7861 1657  
andrew.thatcher@knightfrank.com



[Knightfrank.co.uk](https://knightfrank.co.uk)

Connecting people & property, perfectly.

---

**Important Notice:** © Knight Frank LLP 2020.

This report is provided strictly on the basis that you cannot rely on its contents and Knight Frank LLP (and our affiliates, members and employees) will have no responsibility or liability whatsoever in relation to the accuracy, reliability, currency, completeness or otherwise of its contents or as to any assumption made or as to any errors or for any loss or damage resulting from any use of or reference to the contents. You must take specific independent advice in each case. It is for general outline interest only and will contain selective information. It does not purport to be definitive or complete. Its contents will not necessarily be within the knowledge or represent the opinion of Knight Frank LLP. Knight Frank LLP is a property consultant regulated by the Royal Institution of Chartered Surveyors and only provides services relating to real estate, not financial services. This report was researched and written in April 2020 based on evidence and data available to Knight Frank LLP at the time. It uses certain data available then, and reflects views of market sentiment at that time. Details or anticipated details may be provisional or have been estimated or otherwise provided by others without verification and may not be up to date when you read them. Computer-generated and other sample images or plans may only be broadly indicative and their subject matter may change. Images and photographs may show only certain parts of any property as they appeared at the time they were taken or as they were projected. Any forecasts or projections of future performance are inherently uncertain and liable to different outcomes or changes caused by circumstances whether of a political, economic, social or property market nature. Prices indicated in any currencies are usually based on a local figure provided to us and/or on a rate of exchange quoted on a selected date and may be rounded up or down. Any price indicated cannot be relied upon because the source or any relevant rate of exchange may not be accurate or up to date. VAT and other taxes may be payable in addition to any price in respect of any property according to the law applicable. © Knight Frank LLP 2019. All rights reserved. No part of this publication may be copied, disclosed or transmitted in any form or by any means, electronic or otherwise, without prior written permission from Knight Frank LLP for the specific form and content within which it appears. Each of the provisions set out in this notice shall only apply to the extent that any applicable laws permit. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934 and trades as Knight Frank. Our registered office is 55 Baker Street, London W1U 8AN, where you may look at a list of members' names. Any person described as a partner is a member, consultant or employee of Knight Frank LLP, not a partner in a partnership.