Knight Frank

Healthcare Property Market Overview 2022/23

knightfrank.com/research

MARKET OVERVIEW

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The Healthcare Property Market Overview 2022/23 will take a look at market trends over the past year as well as presenting a forward view. Whilst 2022 presented a number of standout factors which have continued to shape the sector, it is paramount to consider how the year ahead will play out with matters such as inflation and cost of debt playing a key part in the sector's future.

Market overview

Operator occupancies continue to recover from their pandemic lows, currently trending around the mid-eighties with a number of operators reporting occupancies in the nineties. Inflationary pressures remain a point of concern due to the possible impacts to operator trading with our recent research highlighting that utilities account for c.34% of property costs. All care fees are up 3.3% on the year with private-pay homes achieving around 8.5% fee growth. The main question that emerges is to what extent can fees rise to allow operators to offset inflationary pressures and the resulting cost of care provision. Overall, EBITDARM as a percentage of income has grown from last year's level of 26.2% to 26.3%, as seen in Figure 1. Whilst a relatively modest increase, it should certainly be considered a move in the right direction for the sector. The fact that the sector managed to keep margin compression to a minimum during the pandemic and has now begun to progress back towards normalised levels should provide further confidence in the sector's resilience and underlying fundamentals.

Occupancy

Following the dip experienced at the start of the pandemic and subsequently the levels held to the end of the 2020/21 financial year, there has been a clear emphasis on trends in average occupancy with a view to understanding the sector's distance to a normalised state.

Average occupancy levels are up to 84.3% in comparison to the previous year's 79.4%. Though this is still short of pre-pandemic levels, there are a number of operators with homes across the UK now trading well above these levels.

Investment

Rolling four quarter volume to Q4 2022 sits at approximately £2.1bn, down by approximately £200m for the same period last year. This, however, is an example of a more organic transaction volume than we have seen in recent years due to the absence of any outlier large portfolio transactions as in previous years with overseas REITs taking the Priory and BMI assets.

Whilst the sector remains active with yields softening in line with stronger gilt rates, investors are wisely gauging pricing level. We are now seeing yields across the sector pushing out by circa 50bps on average.

Bed supply

In 2022, approximately 10,000 new beds were granted via planning applications, this is via a mix of refurbishment and extensions to existing stock as well as new build schemes. Whilst completion of these schemes will provide a substantial addition to circa 480,000 existing bed supply, an important consideration is the type of scheme and the potential of delivery. A number of the potential new beds are by way of mixed-use schemes with the option for an on-site care setting, which may not reach build out due to social and economic factors impacting feasibility. It is also key to note the extent to which these new beds will be considered future proof with a vast percentage of pre-existing beds no longer considered wholly fit for purpose due to the lack of features, such as full wet room inclusion. Therefore the delivery of further beds in any capacity will be a welcome addition to both pure availability and the quality of overall stock moving forward.

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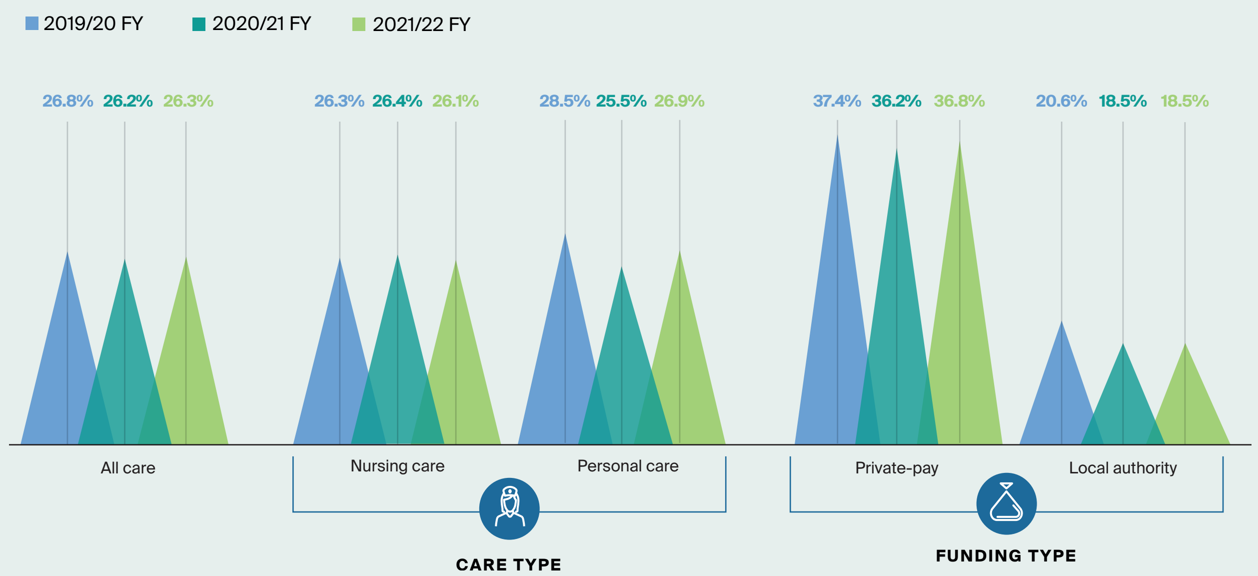
Staff costs

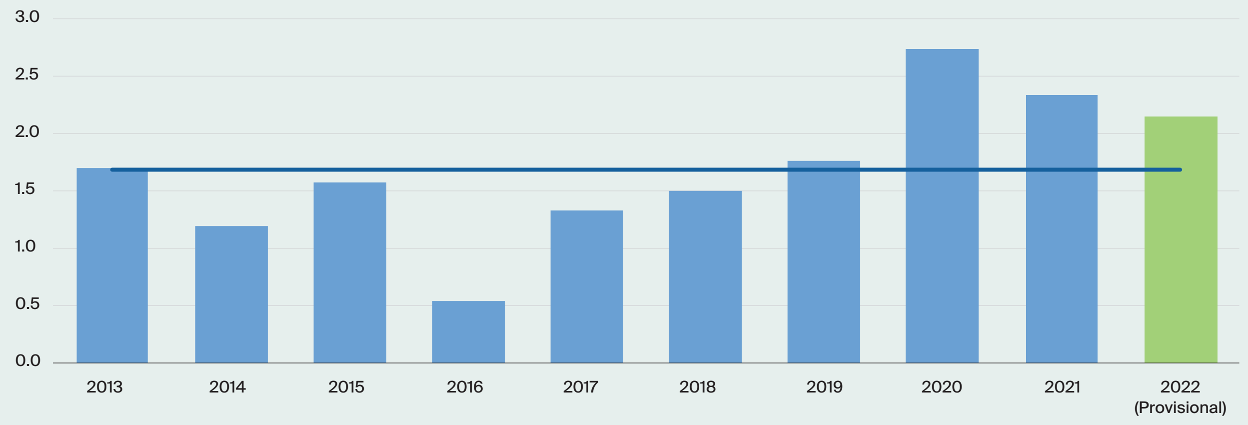
As with previous years, our 2022 Care Homes Trading Performance Survey presented a growth in wages of both carers and nurses. In accordance, the average hourly pay for nurses increased by 4.1% to £18.10 and by 5.2% (£9.71) for carers, in comparison to 2022. Despite significant increases, these rates still lag behind the 6.6% increase in the National Living Wage (currently at £9.50 per hour) that is due to rise further to £10.42 by April 2023. As sectors such as retail and hospitality continue on their own respective recovery

Fig 1: EBITDARM margins, FY 2019/20, 2020/21 & 2021/22



Source: Knight Frank

Fig 2: Recorded healthcare property investment



Source: propertydata.com

journeys, the healthcare sector must remain attractive to staff especially at the more fluid healthcare assistant, carer and ancillary staff levels.

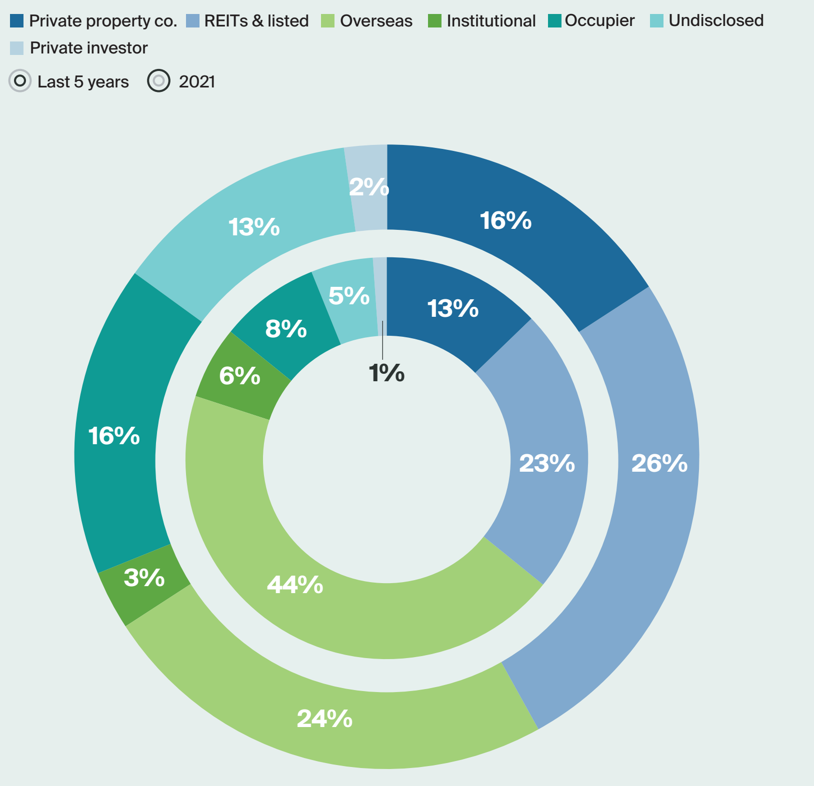
Agency use across staff costs grew to 9.6% in 2022. Despite this jump, it is important to consider the outlier of previously reduced agency use in follow up to the pandemic (more in line to levels we are used to seeing).

Forward view

A key concern to the sector is the extent to which operators can absorb rising costs and subsequently pass onto residents via fee increases. Where we have arguably hit a ceiling in annual percentage increases, investors will continue to monitor this during underwriting and as these changes filter into operator trading.

Rising rates and a higher cost of debt may lead to a shift in the composition of capital for private equity capital to emerge more than previous years. The two key factors include a need for such funds to deploy committed capital to be more active on

Fig 3: Healthcare property transactions by buyer type



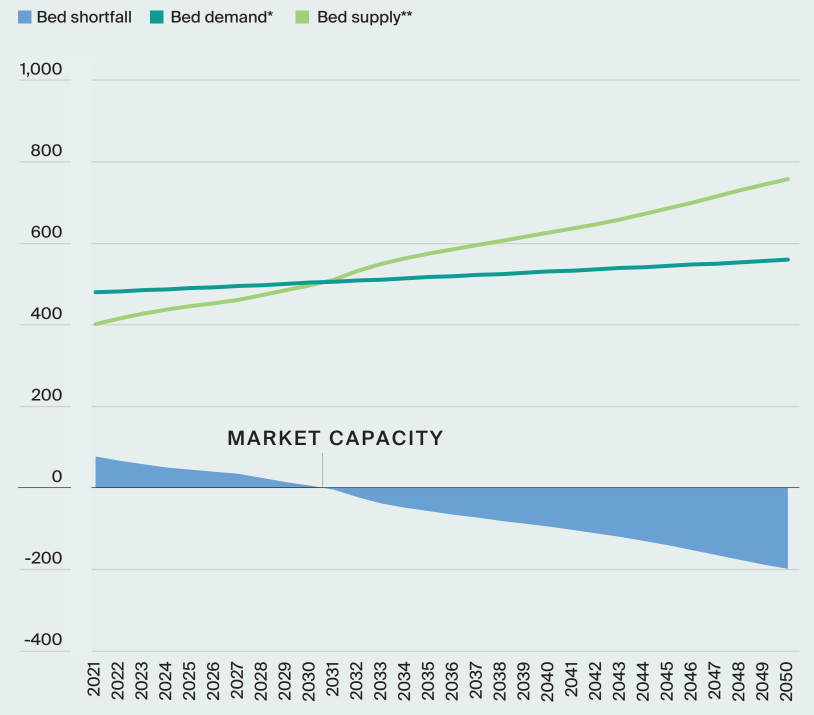
Source: propertydata.com

Rising rates and thus a higher cost of debt may lead to a shift in the composition of capital whilst private equity capital may emerge more than previous years.

the debt side as opposed to pure real estate plays. Secondly, investors that historically utilised gearing may become more cautious in their deployment.

We will no doubt continue to see interest in the sector due to its ESG credentials whilst investors chase more than conventional returns.

Fig 4: Projected shortfall of elderly care beds (000s)



Sources: Knight Frank, Laing Buisson, Tomorrow's Guides, ONS, BMJ.
* Excess deaths in 2020 have been built into this projection.
** Future supply is based on the growth rate seen between 2011 and 2021.

Fig 5: Schemes with granted planning

Source: Knight Frank

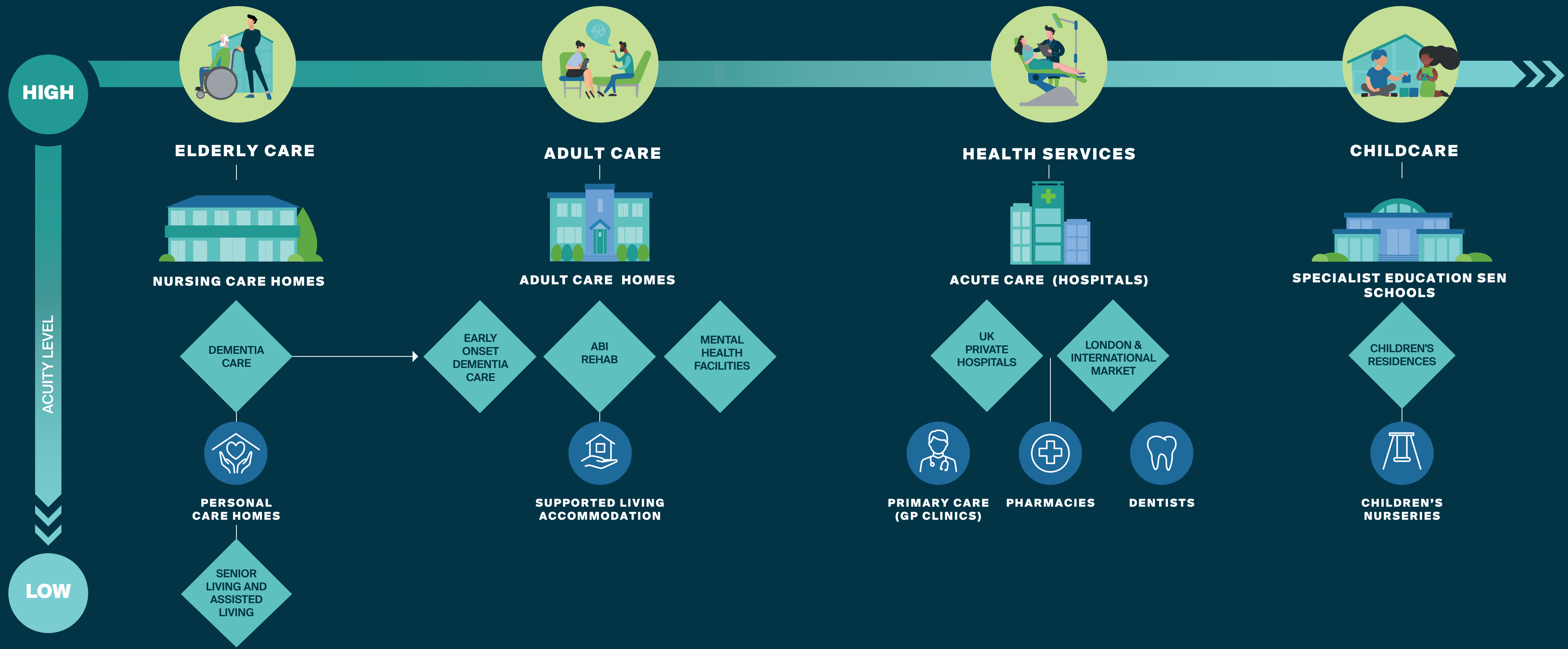
HEALTHCARE PROPERTY MARKET STRUCTURE

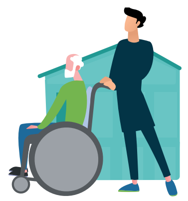
As a sector, Healthcare encompasses several subsectors spanning a range of acuity levels. From more conventional settings such as elderly care and residential settings to elderly and residential care, including nurseries and special educational needs (SEN).

Broad in its coverage, the case for investment remains consistent across the various subsectors. Firstly, the emergence of a global pandemic highlighted not only the robustness of healthcare as an asset class but also its genuine significance as a sector. Government intervention, nationwide appreciation of the NHS and a backlog of admissions further leveraged ever-steady demand. As private equity, REITS and institutional investors continue to chase the strong, long income generated, there is growing interest in healthcare's capabilities to aid ESG investing strategies.

Figure 2 below presents a visual representation of the market's broadness, including any relevant overlaps respective to acuity levels.

The emergence of a global pandemic highlighted not only the robustness of healthcare as an asset class but also its genuine importance as a sector.





ELDERLY CARE

Ranging acuity levels in this space has resulted in elderly care homes that are either nursing or personal care focused, both with the capability to support residents in need of dementia care.

With 480,072 beds across 12,034 homes in supply currently, elderly care continues to attract investors in search of an asset class with timeless demand. With the UK's over -65s population set to reach 15.3 million by 2030 and 18.8 million by 2050, a predicted under supply suggests investors can feel confident in the demand for both real estate and operational businesses.

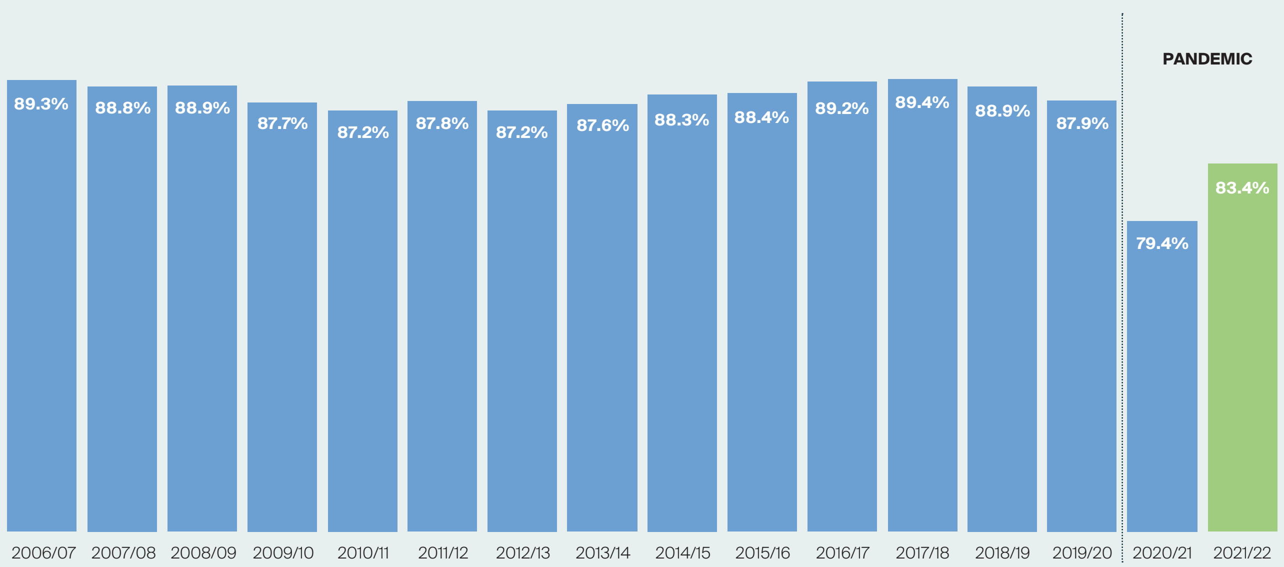
Figure 6 from the Knight Frank Care Homes Trading Performance Survey 2022 demonstrate the continued recovery of operator occupancies from their pandemic lows, currently trending around 85% with a number of operators reporting occupancies at 90%.

All care fees are up 3.3% on the year with private pay homes achieving around 8.5% fee growth as shown in Figure 7.

TABLE 1:

ELDERLY CARE	NIY%
Prime	4.25 - 4.5
Prime (SPV)	5.5
Secondary	5.5 - 6
Tertiary	7-7.6

Fig 6: UK care home occupancy rate



Source: Knight Frank

With the UK's over -65s population set to reach 15.3 million by 2030 and 18.8 million by 2050 a predicted under supply suggests investors can feel confident in the demand for both the real estate and operational businesses.

2022 REPORTED DEAL EXAMPLE

DATE
Q2 2022

PRICE (£M)
78.5

PURCHASER
Impact Healthcare REIT

VENDOR
Overseas

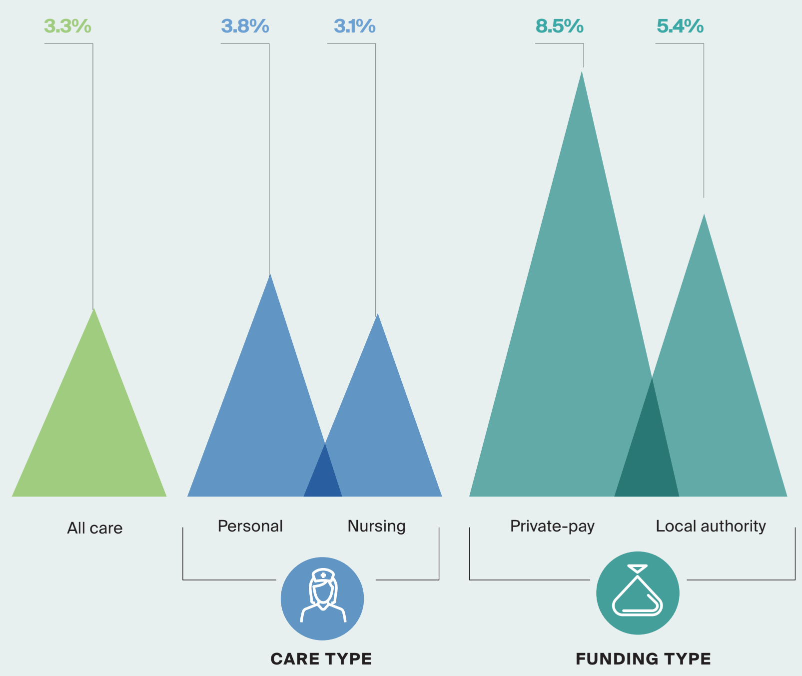
DEAL TYPE
Portfolio

NOTES
Project Royal Portfolio

PURCHASER TYPE
REITS & Listed

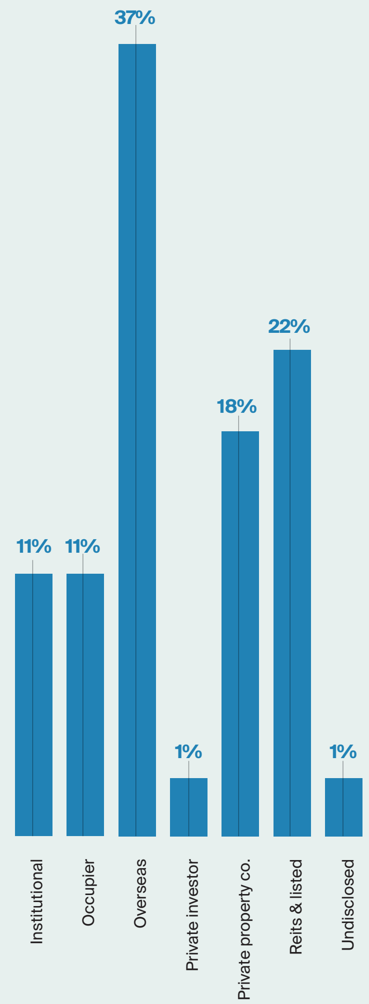
VENDOR TYPE
Overseas

Fig 7: Average weekly fee uplifts for 2021/22



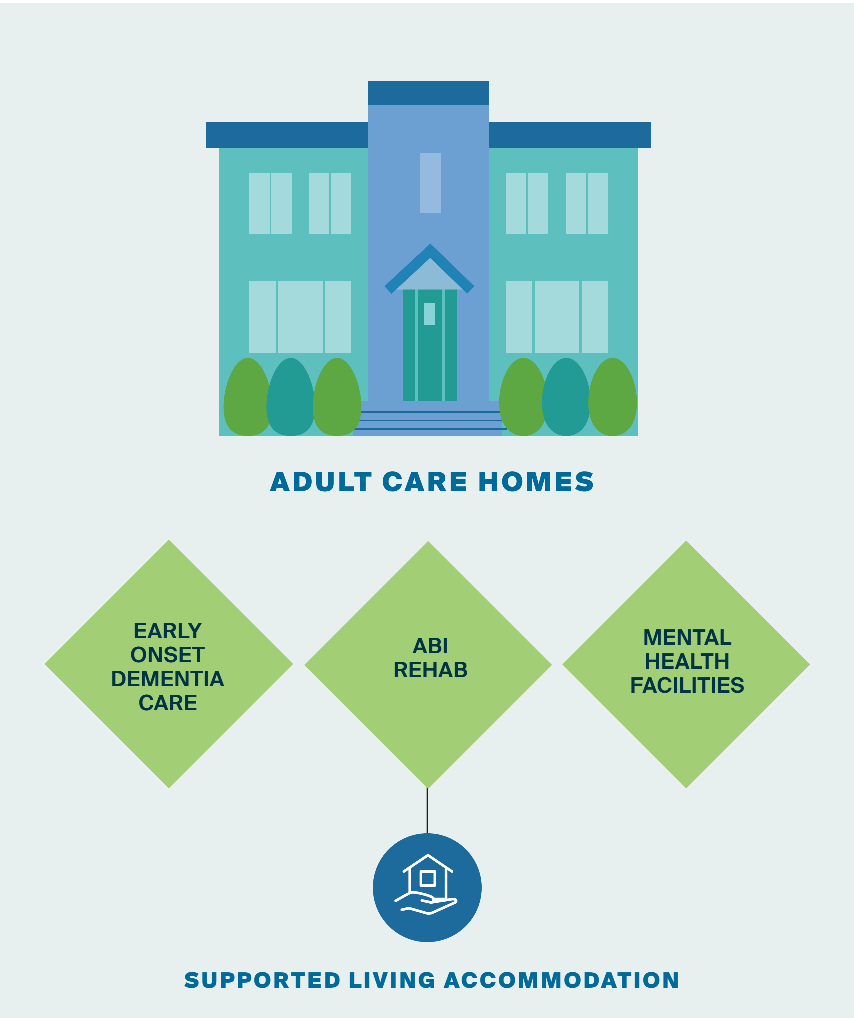
Source: Knight Frank

Share of elderly care transaction volume by investor type (1999 – 2022)



Source: Knight Frank

ADULT CARE



2022 REPORTED DEAL EXAMPLE

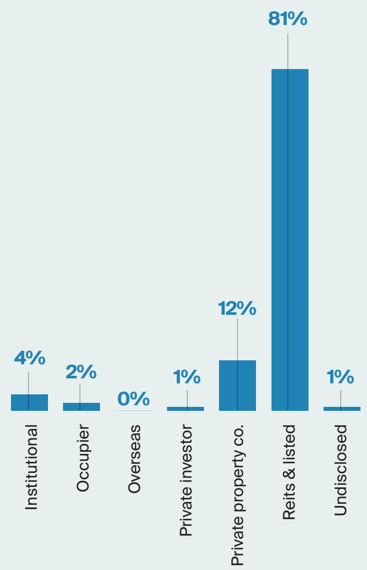
DATE Q4 2022	**PRICE (£M)** 200	**PURCHASER** Civitas Social Housing	**VENDOR** Care Tech Holdings PLC
DEAL TYPE Portfolio	**NOTES** UK Care Homes	**PURCHASER TYPE** REITS & Listed	**VENDOR TYPE** Occupier

Adult care focuses on the delivery of services including but not limited to, Learning Disability, Mental Health and acquired brain injury (ABI) to those of working age (currently 18-64). As a sub-sector it is heavily lead by independent operators who account for over 90% of the market.

TABLE 2:

ADULT SUPPORTED LIVING	NIY%
Prime	5.5

Share of adult care transaction volume by investor type (1999 – 2022)



Source: Knight Frank

HEALTHCARE PROPERTY MARKET OVERVIEW 2022/23

RESIDENTIAL CARE

- Users receive full-time care in a residential facility, delivered by nurses or qualified carers.
- Care homes are typically around 10 beds but can be more or less depending on the speciality of care provided.
- Care homes are subject to registration under the Health and Social Care Act 2008.
- The local authority pays the full cost of care.

NON-RESIDENTIAL CARE

SUPPORTED LIVING

- Users occupy supported living accommodation, with rental payments supplemented by housing benefit.
- Supported living accommodation is not subject to registration under the Health and Social Care Act 2008.
- Support/care services are provided through separate contracts, registered to deliver homecare.
- The local authority only pays for the social care element.

HOMECARE

- User receives care in their own home or privately rented accommodation.

DIRECT PAYMENTS

- Users are assigned a personal budget with the freedom to allocate funds on residential or non-residential care.
- Users will typically spend this money on supported living or homecare.

HEALTH SERVICES

Health services as a subsector focuses foremost on hospitals at the higher end of the acuity scale, with lower acuity services such as GPs, pharmacies and dental practices thereafter.

The pandemic saw a growth in the remote consultancy-based service provision, predominately as a response to infection control. In addition, GPs demonstrated a shift towards telephone consultations as a first line of contact with patients whilst the emergence of digital pharmacies shows continued growth.

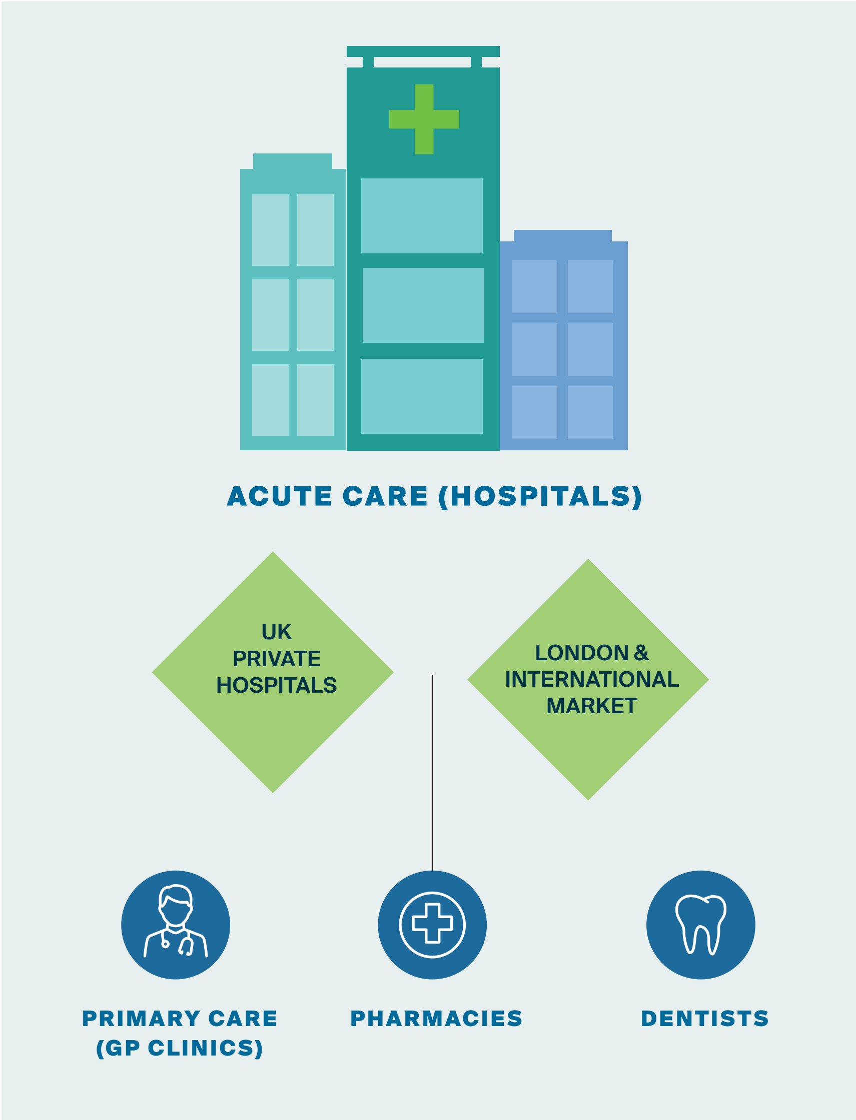
Despite tighter yields than other areas of healthcare, primary care facilities continue to attract the interest of key players in the space, such as Primary Health Properties and Assura.

TABLE 3:

PRIVATE HOSPITALS	NIY%
Prime	4.5

TABLE 4:

PRIMARY CARE	NIY%
Prime	4.25 - 4.5

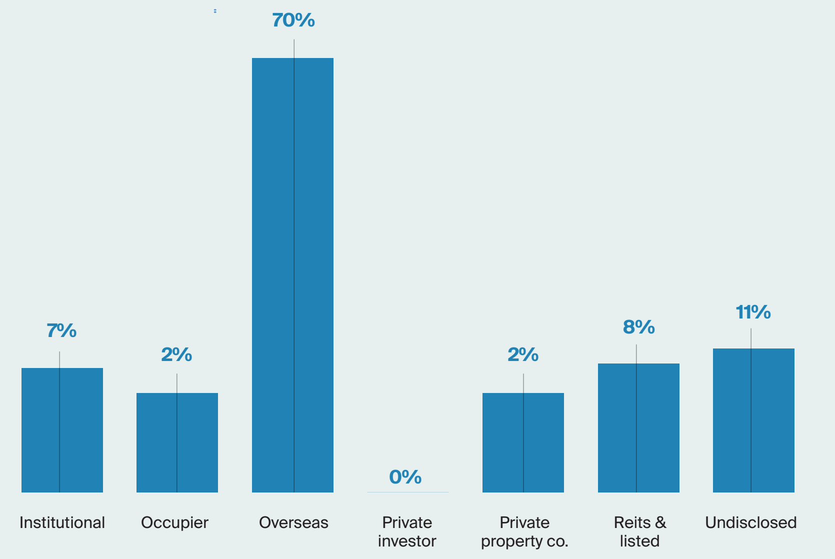


Despite tighter yields than other areas of healthcare, primary care facilities continue to attract the interest of key players in the space, such as Primary Health Properties and Assura.

2022 REPORTED DEAL EXAMPLE (PRIMARY CARE)

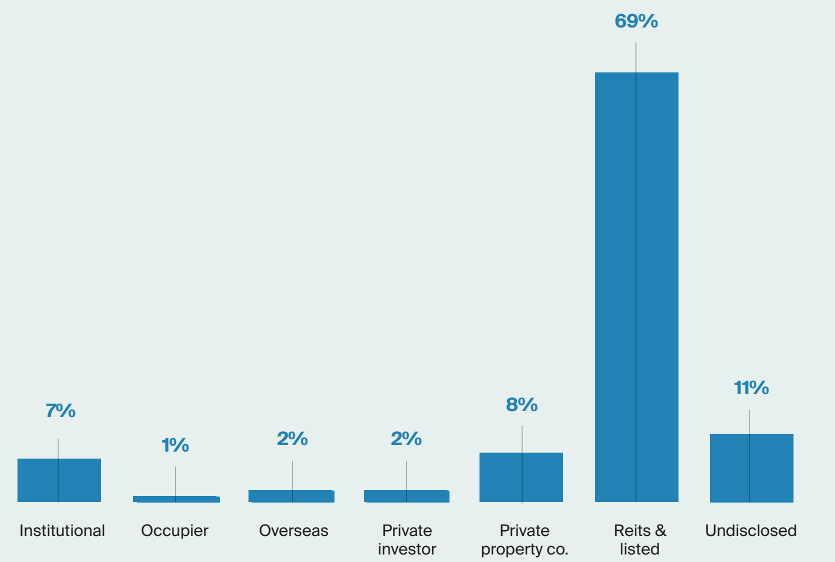
- **DATE:** Q1 2022
- **PRICE (£M):** 11.5
- **DEAL TYPE:** Single asset
- **NOTES:** Derriford Care Centre
- **PURCHASER:** PJ Livesey
- **PURCHASER TYPE:** Private Property Company
- **VENDOR:** Sisters of Notre Dame
- **VENDOR TYPE:** Occupier

Share of private hospital transaction volume by investor type (1999 – 2022)



Source: Knight Frank

Share of primary care transaction volume by investor type (1999 – 2022)



Source: Knight Frank

CHILDCARE

Special Educational Needs (SEN) relates to the provision of services to pupils with high learning needs. This is likely to be structured into smaller groups than that of standard schools. For-profit providers account for circa 75% of total independent school places, whilst college places are dominated by not-for-profit providers.

Special Educational Needs demand is driven by the growing number of young individuals identified as requiring additional educational support paired with general population growth.

Similarly, demand for nursery care continues to strengthen due to the growth in the general population. The sector continues to see interest in both the smaller independents and larger group operators from private equity capital.

TABLE 5:

CHILDCARE (NURSERIES)	NIY%
Prime	4.5 - 5
Secondary	5.75 - 6.5
Tertiary	7+

Special Educational Needs demand is driven by the growing number of young individuals identified as requiring additional educational support paired with general population growth.

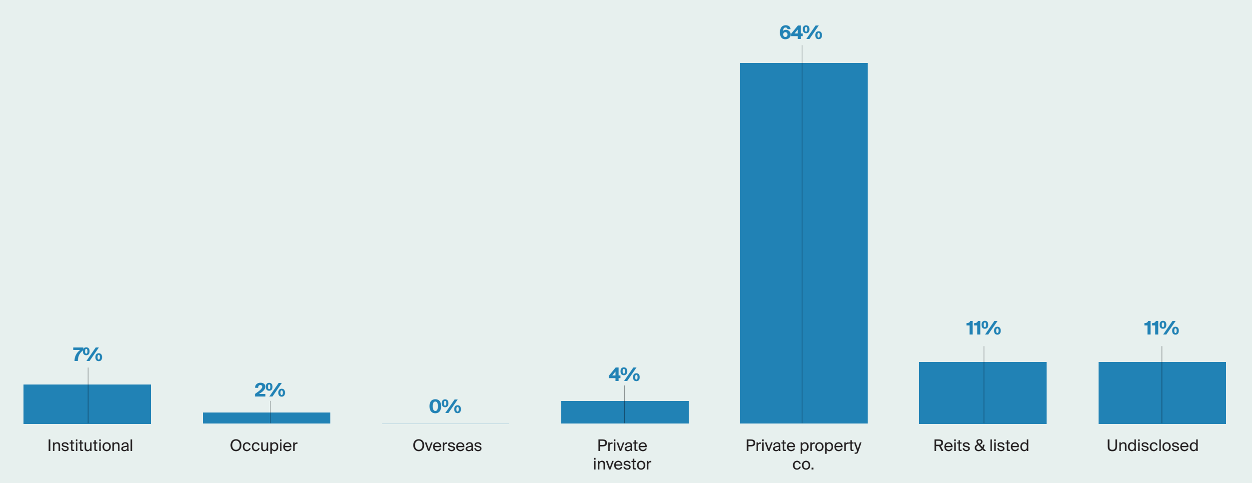
Over
150,000
pupils in schools focused on special educational needs

523
independent SEN schools

117
independent colleges

Over
£4bn
in market value (*as of 2020)

Share of childcare transaction volume by investor type (1999 – 2022)



Source: Knight Frank

EUROPEAN SPOTLIGHT

KEY THEMES FROM OUR 2022 EUROPEAN HEALTHCARE REPORT

Once again, the European Union and the UK's rapidly ageing population remains a key theme

Nordic nations continue to emerge as a key market to watch

Lack of consolidation across a number of countries may present both investors and operators with significant opportunities

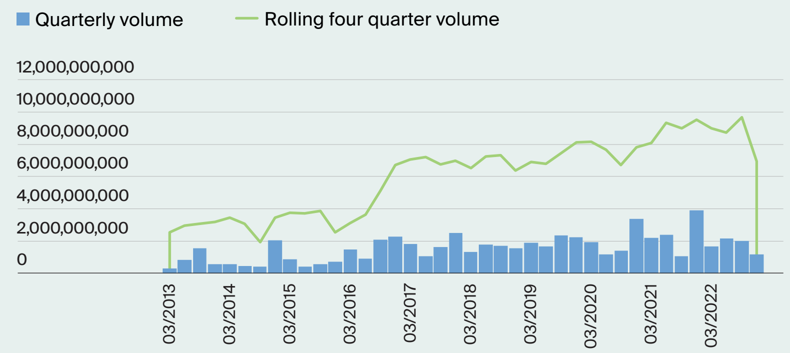
Key operators hold significant presence in six out of seven major markets

European healthcare transaction volumes for 2022 closed at circa 7bn EUR which is approximately 27% down in comparison to 2021. This closely reflects trends seen across European real estate volumes which fell by 23% in 2022.

Despite this, the composition of capital remains consistent with previous years with cross-border investment still relatively prominent. REITs also played an active role with year-to-date volumes accounting for approximately 60% of capital. It is expected the share of transactions attributed to REITs will contract as the year progresses and cross-border capital filters through.

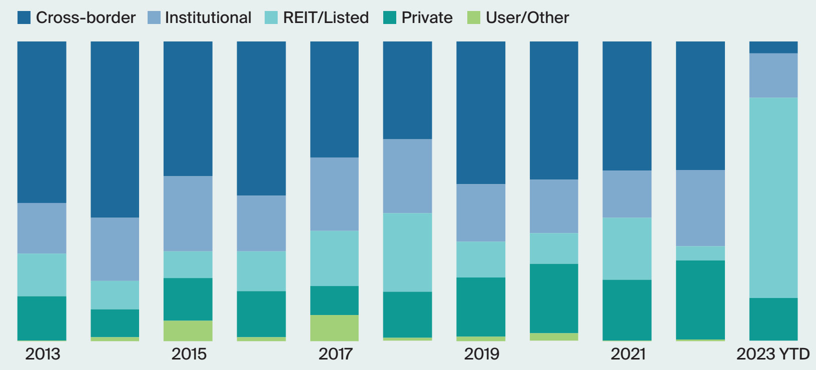
The composition of capital remains consistent with previous years with cross-border investment still relatively prominent.

Fig 8: Transaction volume (EUR)



Source: Knight Frank

Fig 9: Buyer composition



Source: Knight Frank

TABLE 5: KEY EUROPEAN TRANSACTIONS 2022

DATE	DEAL NOTES	PRICE (€)	OWNER/BUYER	SELLER
Dec 2022	CareTech UK Care Home Portfolio 2022	231,753,910	Civitas Investment Management	CareTech Holdings
Oct 2022	Cofinimmo DE Senior Housing Portfolio 2022	61,000,000	Cofinimmo	Undisclosed
Oct 2022	Aedifica acquires UK Care Homes Portfolio 2022	30,641,088	Aedifica	Undisclosed
Sep 2022	Ehpad	33,900,000	Euryale AM, Pierval Sante SCPI	Care Concern Group
Sep 2022	LNT Group UK Care Home Portfolio 2022	52,599,535	Aedifica	LNT Group
Sep 2022	Berkley NL Senior Housing Portfolio 2022	62,150,220	Pierval Sante SCPI, Euryale AM	Rosewood Group, Berkley Investments (LUX)
Sep 2022	Hadrian Healthcare Yorkshire Care Home Portfolio 2022	58,524,208	Anchor Hanover Group	Hadrian Healthcare Group
Sep 2022	Estea NL Senior Housing Portfolio 2022	58,834,863	Berkley Investments (LUX), Rosewood Group	Estea Capital (NL)
Aug 2022	Project Channel UK 2022	66,121,308	Korian	Cinnamon Care Capital
Aug 2022	Project Sapphire Portfolio 2022	161,000,000	Aedifica	Bartra Capital
Jul 2022	SBB i Norden SWE Care Portfolio 2022	128,663,956	Northern Horizon	SBB i Norden
Jul 2022	SBB SWE Nursing Care Portfolio 2022	65,169,876	Hemso	SBB i Norden
Jun 2022	Impact Healthcare acquires UK Care Home Portfolio 2022	29,373,205	Impact Healthcare REIT	Undisclosed
May 2022	Avery Healthcare UK Care Home Portfolio 2022	33,390,554	Rynda	Avery Healthcare
May 2022	Project Biscayne	121,679,947	Octopus Real Estate	Hamberley Group

Source: Real Capital Analytics

OUR VIEW FOR 2023

ESG / social impact will remain a top priority and a growing area across the healthcare sector

Inflationary pressures, such as food and energy costs remain a key concern for operators as they manage bottom lines and the amount that can be passed onto consumers approaching capacity.

The upgrading, refurbishment or repurposing of standing assets i.e. older, smaller and less fit-for-purpose buildings, may present viable value strategies for operators and investors across the sector.

HEALTHCARE PROPERTY MARKET OVERVIEW 2023

Despite the current climate presenting uncertainty, there will be great opportunity for savvy investors and operators with significant cash piles or those less reliant on debt (in respect to the origin of their capital).

Debt and financing may become more creative and present in a number of different forms in line with the return of private equity and the need to deploy committed capital.

Despite clear headwinds, the underlying drivers for healthcare will support demand and performance. As in previous times of uncertainty, the sector's resilience will transpire in the coming year.

KNIGHT FRANK: HEALTHCARE SERVICES

Knight Frank's Healthcare team annually advises on in excess of £12bn 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 and acquisitions
- Valuation
- Portfolio consultancy
- Research and feasibility studies
- Building consultancy and surveys
- Planning consultancy
- Lease advisory
- Property asset management

Why choose us?

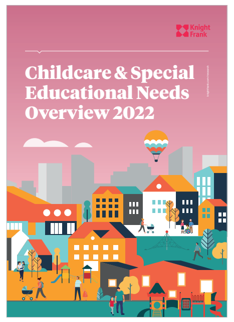
Our award-winning Healthcare team continues to be recognised as leaders in the field. In taking time to understand the needs and objectives of our clients, we continue to provide uncomplicated property advice and solutions that add value at every stage.

RECENT MARKET-LED RESEARCH PUBLICATIONS

Knight Frank Research Reports are available at knightfrank.com/research

Healthcare Capital Markets 2022

European Healthcare 2022



Childcare & SEN Overview 2022

Care Home Trading Performance Review 2022

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

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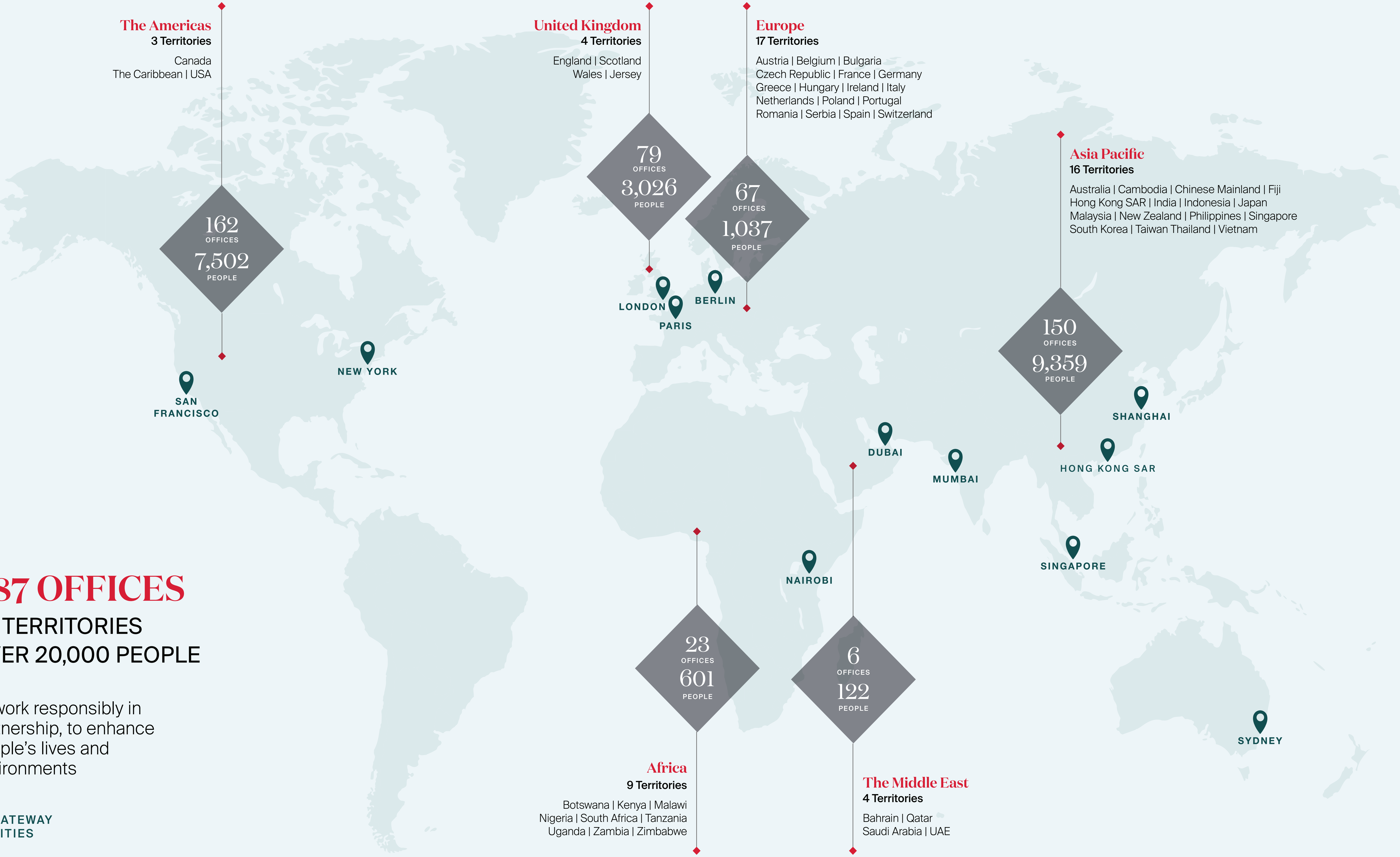
HEALTHCARE PROPERTY MARKET OVERVIEW 2022/23



487 OFFICES

53 TERRITORIES
OVER 20,000 PEOPLE

To work responsibly in partnership, to enhance people's lives and environments

GATEWAY CITIES

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Connecting people & property, perfectly.