RESEARCH

UK HEALTHCARE

DEVELOPMENT OPPORTUNITIES **2017**

HIGHLIGHTS

There was a net loss of 2,612 care home beds in the UK, with bed losses most severe in Greater London.

South Glamorgan topples Greater London from top spot in the 2016 Care Home Development Index.

On a per capita basis, pipeline development activity continues to be most prevalent in the southern regions.

FIGURE 1

New care home registrations, by region

Oct 15 - Sep 16

New beds (LHS) and new care homes (RHS)

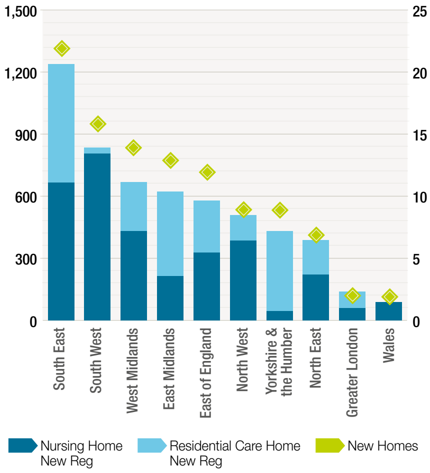


FIGURE 2

Net loss/gain of beds, by region

Oct 15 - Sep 16

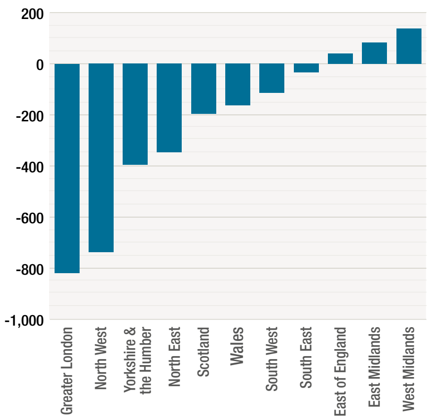
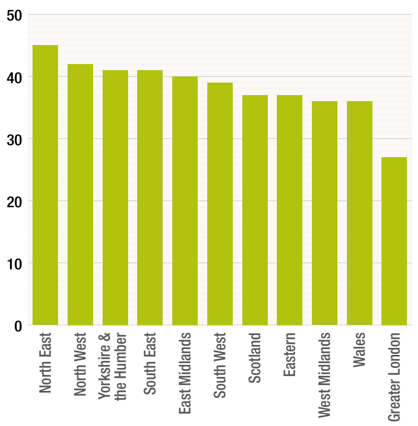


FIGURE 3

Current care home supply (2016), by region

Beds per 1,000 of over 65s



Source: Knight Frank, LaingBuisson, 2016

DEVELOPMENT TRENDS

Our latest analysis reveals a net loss in UK care homes and beds.

The number of new care home registrations stood at 106 in the 12 months to September 2016 and brought a total of 5,497 new beds into the UK market. This represents a fall in both the number of new homes and new beds when compared to the previous corresponding year (2015: 119 new registrations: 5,805 beds).

However, it should be noted the average size of a newly registered care home has risen from 49 beds in 2015 to 52 beds in 2016 – suggesting that the pressing need for bed capacity will be addressed through the provision of larger homes.

The 12 months to September 2016 saw a relatively even split between the supply of new nursing homes and new residential care homes (49% vs. 51%). This comes despite nursing homes, particularly larger ones, facing growing challenges in terms of profitability, as reported in Knight Frank's 2016 Care Homes Trading Performance Report.

Outside of this national trend, there are some nuances. Yorkshire and the Humber saw eight newly registered residential care homes recorded from October 2015 to September 2016, in contrast to only one new nursing home over the same period. This was also evident in the East Midlands, with 11 residential care homes registered in contrast to only three nursing homes (Fig 1). However, other regions saw less of a disparity.

Despite the inflow of new beds to market, the narrative of a net loss in care homes and beds remains. Our latest analysis reveals a net loss of 166 homes and 2,612 care beds across the UK market.

Bed losses were most severe in Greater London, with the losses mainly attributed to the conversion of care homes to alternative uses (Fig 2).

Given the implementation of the National Living Wage (NLW) in April 2016 and the UK's decision to exit the European Union in June 2016, there is the likelihood that income statements of a number of existing care homes could be further strained. As a result, the number of new care home registrations could slow as the UK enters a new period of uncertainty.

The market has yet to witness a sharp rise in deregistrations following the implementation of the NLW and the Brexit vote. Yet, with the Chancellor's recent Autumn Statement indicating a further rise of the NLW from £7.20 per hour to £7.50 per hour (for workers aged 25 and over) from April 2017, the further closure of care homes looks all but inevitable.

The erosion of supply, coupled with the underlying demographic trends for over-65s, which is forecast to rise from 11.6m in 2016 to 12.9m by 2021, will nonetheless spark development interest. While there are a number of headwinds which include the extensive funding gaps and the rising cost of construction and labour, there still remains a significant opportunity for developers and investors to capitalise.

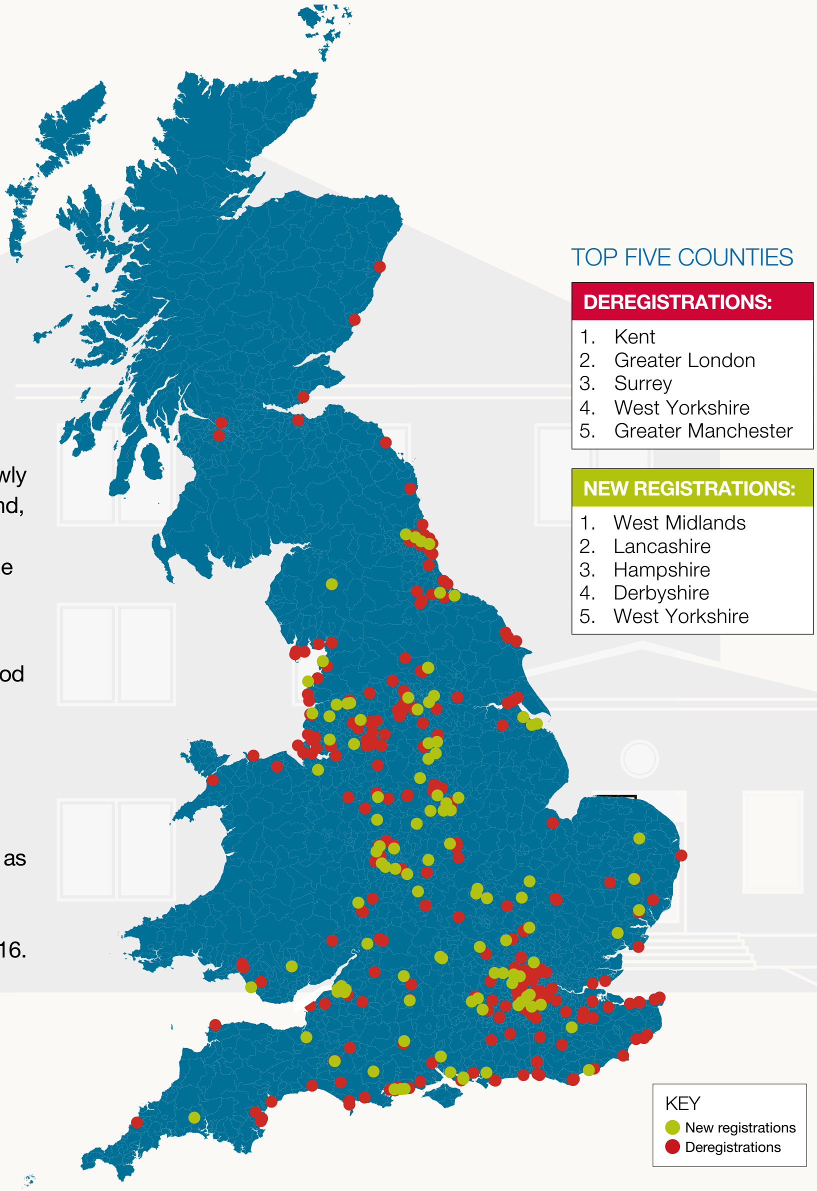
Linden House, Lymington - operated by Colten Care

NEW CARE HOME REGISTRATIONS VS DE-REGISTRATIONS

Oct 15 - Sep 16

The map to the right captures the concentration of newly registered and deregistered care homes across England, Scotland and Wales from October 2015 to September 2016. It depicts the long-term trend which has seen the number of deregistrations exceed the number of new registrations that have come to market.

However, there are some noticeable patterns. This period saw a clustering of closures in and around the South East, with Kent, Greater London and Surrey leading the list of deregistrations, while the West Midlands and neighbouring counties saw a raft of new openings. This observation could indicate a change in location requirements for developers and investors. Cities such as Nottingham and Derby have been beneficiaries, with a total of eight new homes opening in their respective counties in the 12 months to September 2016.



TOP FIVE COUNTIES

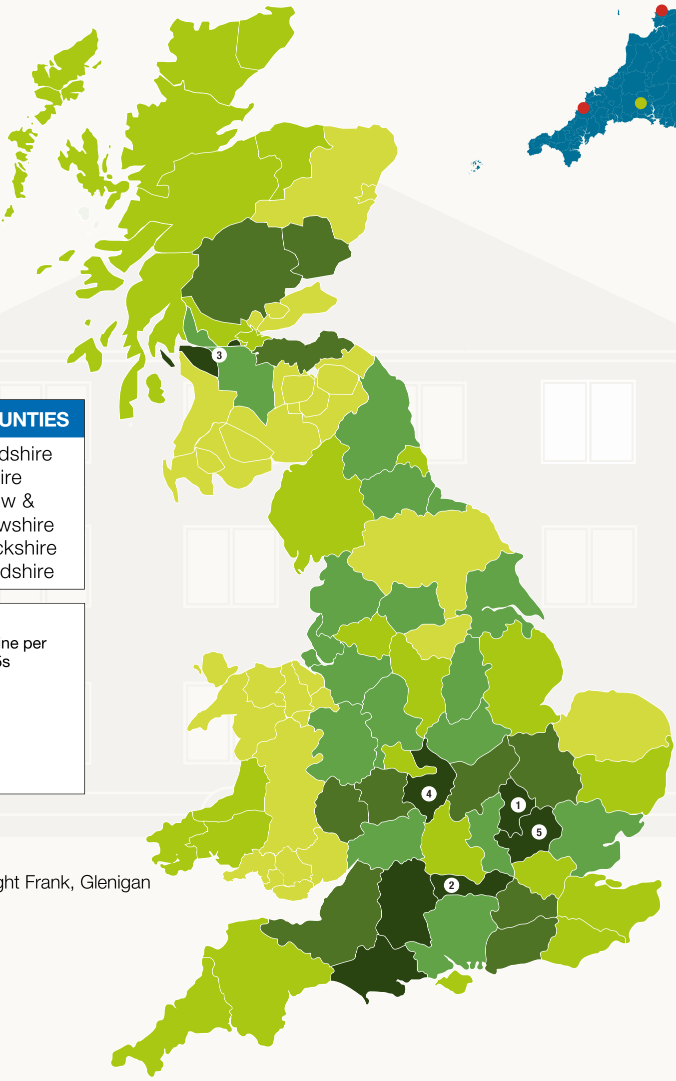
DEREGISTRATIONS:

1. Kent
2. Greater London
3. Surrey
4. West Yorkshire
5. Greater Manchester

NEW REGISTRATIONS:

1. West Midlands
2. Lancashire
3. Hampshire
4. Derbyshire
5. West Yorkshire

Source: Knight Frank, LaingBuisson, 2016



TOP 5 COUNTIES

1. Bedfordshire
2. Berkshire
3. Glasgow & Renfrewshire
4. Warwickshire
5. Hertfordshire

KEY

Beds in pipeline per 1,000 over 65s

- >4.0
- 3.0-4.0
- 2.0-3.0
- 1.0-2.0
- <1

Source: Knight Frank, Glenigan

FUTURE SUPPLY

The map to the left illustrates the recorded development pipeline across the UK on a county level, using a bed per capita measure to describe the proportion of new beds coming to the UK market relative to the over-65 population.

Bedfordshire, located in the east of England, topped the list, with eight beds per 1,000 expected to be delivered. This was followed by Berkshire, which topped the list in our 2015 report, and by Glasgow and Renfrewshire, which have seen notable increases in development activity since our last report. While this activity will come as a boost to Glasgow and Renfrewshire, other Scottish counties continue to experience low levels of development in the pipeline, which is already placing further strain on current capacity.

The latest results for Greater London remain largely unchanged, with just over one bed per 1,000 expected to be delivered in the coming years, a reflection of greater competition for land which is essentially driving increased land values and making the economics for care home provision more challenging.

Hotspots in England & Wales

The key functionality of Knight Frank's Care Home Development Index, is to identify those locations that are considered to present the best future prospects for care home investment and development. Using a county-level model, eight equally weighted variables are observed, covering economic and demographic projections as well as other care home trading performance measures.

South Glamorgan topples Greater London from the top spot in our 2016 analysis, with the county benefitting from a highly favourable labour market, an absence of future bed supply and strong future economic prospects (Table 1). The uptick to top spot may come as a surprise to many, but its position as a top three county in the 2015 and 2014 Index does indicate an area which has been ripe for care home investment and development for some time.

Greater London, while falling one place to second in this year's analysis, still remains a market which will continue to maintain its position as one of England and Wales's most desirable locations for care home investment and development. Its strong economic fundamentals are unrivalled and as supply continues to narrow to one of the lowest in England and Wales, there will be growing need to replenish the loss of beds. While the economics of developing and investing in care homes within Greater London continues to remain challenging, most notably from the high cost of labour and land, the analysis results prove that the opportunity at play should not be underestimated.

Seven of the top 12 counties featured in the 2015 Index solidified their top 12 status in this year's update, with Suffolk in particular continuing its upward surge in the rankings from 21st in 2014, 11th in 2015 to third in 2016. This is mainly attributable to the relatively low bed pipeline coming through to market as well as the long term forecasted growth in both GDP and the over 65 population, which is creating favourable conditions for market entrants.

As has been seen over the last few years, the majority of the top 12 hotspots in this year's model are from southern counties, which have tended to fare better against their northern counterparts. Long term demographic trends, which point to a faster rise in the South when compared to the North, coupled with strong economic prospects, remain two of the many significant factors that have boosted the South's desirability. However, as the Government continues to recognise the fragmented nature of the UK economy and drive efforts to build the profile of the 'Northern Powerhouse', future indices could well see northern counties feature more prominently.

"South Glamorgan topples Greater London from the top spot in our 2016 analysis, with the county benefitting from a highly favourable labour market, an absence of future bed supply and strong future economic prospects."

TABLE 1

Care home development prospects

– top 12 counties of England & Wales in 2016 (50 counties in the analysis)

			SELECT INDICATORS			
2016 Rank	**Forecast growth in 65+ population)**	**Forecast economic growth**	**Current supply**	**Future supply**	**Change in rank**	**Total score index**
1. South Glamorgan	14	12	14	3	▲ 1	1.96
2. Greater London	5	1	2	10	▼ 1	1.71
3. Suffolk	19	19	19	7	▲ 8	1.33
4. Buckinghamshire	4	3	15	37	▲ 2	1.28
5. Norfolk	42	15	23	2	▲ 25	1.26
6. Berkshire	6	2	8	49	▲ 1	1.24
7. Cambridgeshire	7	6	12	39	▲ 15	1.21
8= Cornwall	34	14	9	13	▼ 3	1.20
8= Northamptonshire	2	22	24	42	▼ 5	1.20
10. Oxfordshire	11	16	21	20	▲ 7	1.18
11. Leicestershire	13	27	10	28	▲ 13	1.17
12. Wiltshire	1	17	17	45	▲ 1	1.11

Ranked positions of 50 counties assessed **Source:** Knight Frank Research


Bryn Ivor Lodge in Newport - operated by Barchester Healthcare


Moore Place in Esher - operated by Anchor

KNIGHT FRANK VIEW

The care home sector is facing a national crisis due in part to a toxic mix of bed shortage, derisory local authority funding levels and an acute shortage of nurses. The funding gap is now dissuading operators from providing services for local authority funded nursing beds and they are increasingly repositioning their care homes to service self-pay residential care beds.

The National Living Wage has yet to fully impact the sector, but Knight Frank estimates that circa 6,000 beds are at risk of closure over the next five years, as sub 25-bed care facilities become increasingly vulnerable to economic pressure.

However, over the last 12 months, the imbalance in care bed supply and demand has attracted significantly more investors in to the arena, as they recognise the opportunity and requirement for future proof new build care facilities. Moreover, June's referendum announcement triggered a wider global appetite for healthcare investment opportunities, with Asia-Pac investors now actively seeking and competing for UK assets.

Knight Frank anticipates continuation of new entrants in to the sector, both operators and investors alike. Healthcare is likely to be the stellar performing asset class of 2017 and is now attracting a truly global audience.

Knight Frank estimates that circa 6,000 care beds are at risk of closure over the next five years, as sub 25-bed care facilities become increasingly vulnerable to economic pressure.

Hotspots in Scotland

This year's analysis of Scottish hotspots saw a familiar set of results when compared with last year.

The Central area of Scotland, which encapsulates Stirling, Falkirk and Clackmannanshire, shared the top spot with Borders, marking the second consecutive year the area has topped the list.

The retention of the top spot was driven by low cost of labour, a weak development pipeline and the above average growth of the over-65 population, which is providing the ideal environment for additional care home development activity.

Borders on the other hand, reached the top of the rankings for the first time since 2013. Its low bed supply and weak development pipeline is favourable but given its comparatively low population, there are issues surrounding the scalability of care home development which will have a diluting effect on the potential opportunity in the Borders area.

Lothian and Grampian which combined have a total over-65 population of 200,000 people benefited from strong demand-side indicators. The growth of the over-65 population, together with the boost in economic prospects puts both areas in healthy positions. However, with the relatively strong levels of new supply projected to come to market and some of the highest land values in Scotland, it is clear why Grampian and Lothian are not featured higher up the index.

The most notable omission in the top five hotspots in Scotland is Glasgow & Renfrewshire. Marginally the largest economy in Scotland, the area has been the focus of much of the care home development activity in Scotland over the last few years. The level of new supply forecast to come to market is superior to any other area, which is playing a considerable part in limiting the opportunities for new market entrants.

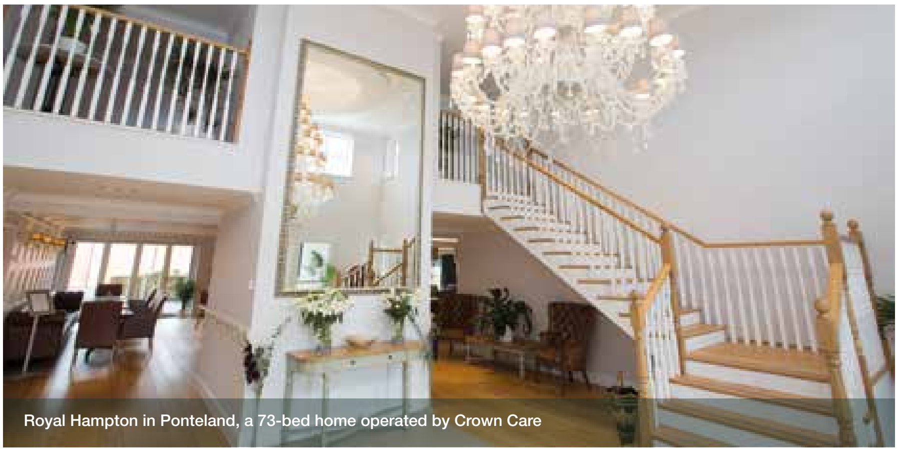
TABLE 2

Care home development prospects

– top five areas of Scotland in 2016 (12 counties in the analysis)

			SELECT INDICATORS			
2016 Rank	**Forecast growth in 65+ population**	**Forecast economic growth**	**Current supply**	**Future supply**	**Change in rank**	**Total score index**
1= Central	3	4	3	1	◀▶	1.43
1= Borders	6	5	1	4	▲ 1	1.43
3. Highlands & Islands	5	7	4	6	◀▶	1.35
4. Grampian	4	2	7	5	◀▶	1.22
5. Lothian	1	1	6	11	◀▶	1.09

Ranked positions of 12 counties assessed **Source:** Knight Frank Research



Royal Hampton in Ponteland, a 73-bed home operated by Crown Care

COMMERCIAL RESEARCH

Paul Modu
Analyst, Commercial Research
+44 20 7861 1673
paul.modu@knightfrank.com

Dr Lee Elliott
Partner, Head of Commercial Research
+44 20 7861 5008
lee.elliott@knightfrank.com

HEALTHCARE

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

Patrick Evans MRICS
Head of Corporate Valuations
+44 20 7861 1757
patrick.evans@knightfrank.com

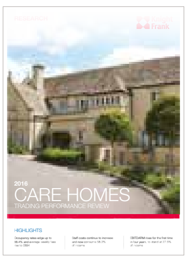
Kieren Cole MRICS
Head of Commercial Valuations
+44 20 7861 1563
kieren.cole@knightfrank.com

Front cover image: Wellington Grange in Chichester - operated by Colten Care

LaingBuisson retains ownership of all LaingBuisson data used within this report, www.laingbuisson.co.uk

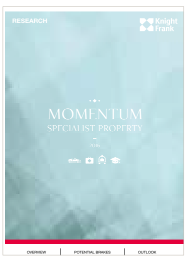
Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



Care Homes Trading Performance Review - 2016

Healthcare Capital Markets - 2016



Specialist Property Report 2016 - Momentum

Knight Frank Research Reports are available at **KnightFrank.com/Research**

Newmark Grubb Knight Frank