RESEARCH

Knight Frank

UK HEALTHCARE

DEVELOPMENT OPPORTUNITIES **2018**

HIGHLIGHTS

Compared with last year's review there was a much lower net bed loss of 388 this year as new openings are double the size of home closures

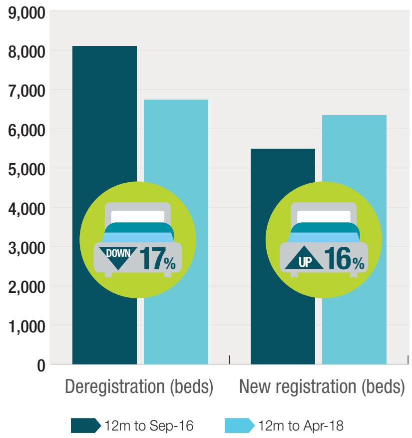
Greater London leads the hotspots list in England & Wales whilst the Central area of Scotland remains stubbornly in top place for the third consecutive year

On a per capita basis, pipeline development activity is most prevalent in the South East region

DEVELOPMENT TRENDS

Although our latest analysis reveals a net loss in UK care homes and beds, year-on-year a positive trend has emerged.

FIGURE 1
Deregistration vs new registration (beds) Year-on-year



Source: Knight Frank Research, Tomorrow's Guides

The number of new care home registrations in the 12 months to April 2018 stood at 109 homes and 6,352 beds with deregistrations at 226 homes and 6,740 beds for the same period resulting in a net loss of 117 homes and 388 beds. When compared with the analysis carried out in 2017 (net loss of 166 homes and 2,612 beds) as shown in Figure 1, deregistrations are down by 17% and new registrations are up by 16%.

Although there was a net loss of 117 homes, the net loss in beds was only 388, driven by smaller care homes closing and larger, more efficient and viable schemes opening. This is also evident in the mapping shown in Figure 6, which illustrates deregistered and newly registered homes by care home size.

The South West region saw several home closures with 30 or fewer registered beds and the picture is very similar on the south coast where family owned properties are typically conversions and over 40 years old. Home closures exceeded new openings in these areas. London witnessed many home closures with 30 or fewer registered beds, and homes that closed above 30 registered beds were nursing homes only.

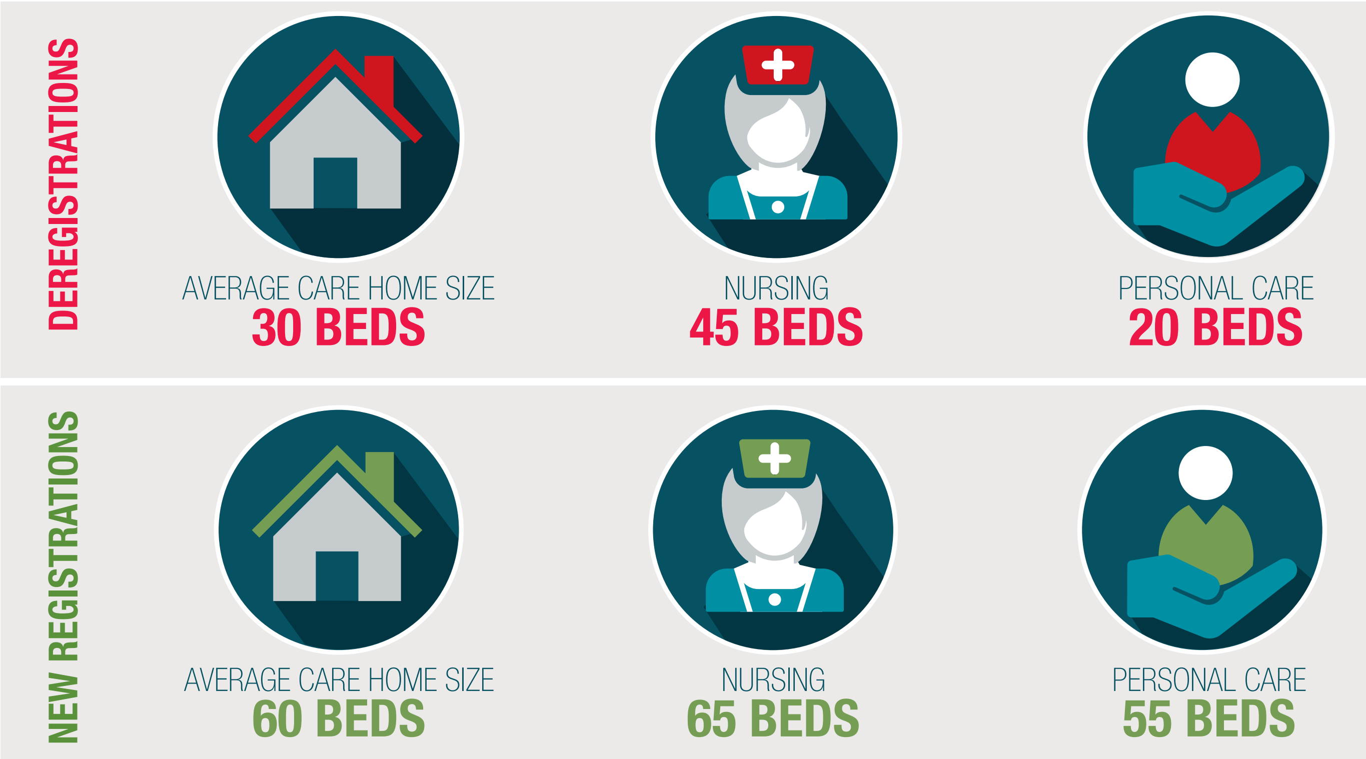
The mapping also shows an influx of new care home openings in the Birmingham area, the majority of which comprised 60 or more registered beds. The North West paints a similar picture to the South West with a higher percentage of home closures to new openings.

Kingsclear, Camberley (Caring Homes Group)

FIGURE 2

Deregistration vs new registration

Average care home size by care type



Source: Knight Frank Research, Tomorrow's Guides

What are the main reasons for home closures?

Some of the reasons for deregistrations in this year's review were as follows:

- Continued impact of the National Living Wage on profit
- Homes suffered from nursing and care staff shortages
- The majority of home closures were rated either 'Requires Improvement' or 'Inadequate' by the Care Quality Commission before they deregistered
- Buildings not being fit for purpose
- Insufficient funding being available for reinvestment into their properties

While it is safe to say that financial stress was one of the key drivers to home closures, some homes closed due to buildings being redeveloped to provide modern care facilities fit for the 21st century.

What was the size of home openings and closures?

New homes that opened were double the size of those that closed, as shown in Figure 2. This is being driven by operator demand for larger, more efficient schemes meeting current spatial requirements. On average personal care homes were smaller in size when compared with nursing homes.

What was the net effect of bed gains or losses by region?

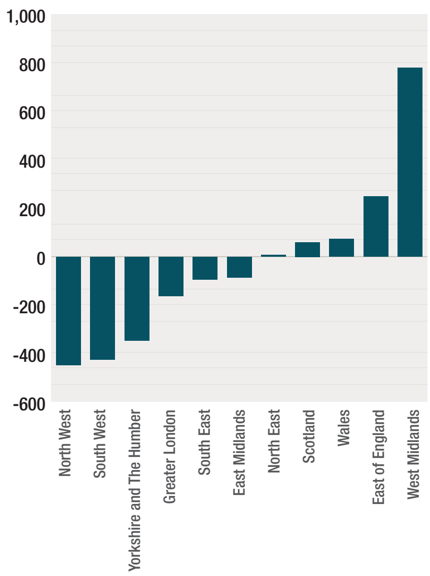
Figure 3 illustrates that the West Midlands had a net gain of 780 beds, which was 469% higher than the prior period. This was driven by its lower than national average existing bed provision, lower land values, build and operational costs.

The East of England's net gain of 249 beds represented a substantial increase of 507% when compared with the prior period, so what were the main drivers? As per our recent care homes trading performance index, homes in the East of England achieved profit margins of 28% which was above the national average (25%). Staff costs were also better controlled at 55% of income when compared with the national average of 58%. This is coupled with lower land values, inviting savvy developers to explore areas outside of the recently over-heated South East market.

FIGURE 3

Net gain/loss of beds, by region

May 2017 – April 2018



Source: Knight Frank Research, Tomorrow's Guides

The highest number of net bed losses was witnessed in the North West (446) where the majority of the deregistrations were personal care home stock built in the last century. The net loss however was down 39% from the prior period.

The South West saw a substantial loss of 425 beds, which was 273% higher than the prior period. The deregistration rate was similar to the prior period but the driving factor was the 40% fall in new registrations in this region.

As illustrated in Figure 4, across the board there is an even split between personal care beds and nursing beds coming into the market. However, there are some nuances to this in some regions.

When we analyse the new registrations by care homes on a national level, a larger number of personal care homes have opened, which as mentioned earlier, simply means that new nursing homes are larger in regards to bed numbers when compared with personal care homes.

Figure 5 analyses the existing care home beds per 1,000 over 65s. By region, the West Midlands has the lowest ratio which is a key driver of the current year's increase in bed numbers and is likely to attract further developments in the coming years.

The highest number of beds per 1,000 people was recorded in the North East region, which has retained its position since the previous year's review.

What is the development pipeline looking like?

The development pipeline is strong for the year ahead and appetite for the South East remains resilient. Of all beds with planning consent, 22% are in this region. At the other end of the spectrum, the North East region has the weakest development pipeline comprising 2% of beds.

Figure 7 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.

Surrey, located in the South East topped the list, with five beds per 1,000 elderly people. Oxfordshire, in the South East, followed this with four beds per capita. Bedfordshire has been demoted from the top place to sixth when compared with the prior year's analysis, and this year's review comprises a higher proportion of South East counties within the top 10 ranking. This indicates a change in market dynamics where more opportunities are becoming available in the South East where the market has been over-heated over the past few years. This is partly due to the softening of the residential market, making competition for sites less intense.

Similar to the prior year, development activity remains strong in Glasgow and Renfrewshire, while development activity remains static in London at one bed per 1,000 elderly people.

Again, similar to the prior year, Welsh and North East counties remain at the other end of the spectrum. This is supported by a majority of the North Eastern counties having an over-provision of bed supply.

FIGURE 5

Current care home supply by region

May 2017 – April 2018 (Beds per 1,000 of over 65s)

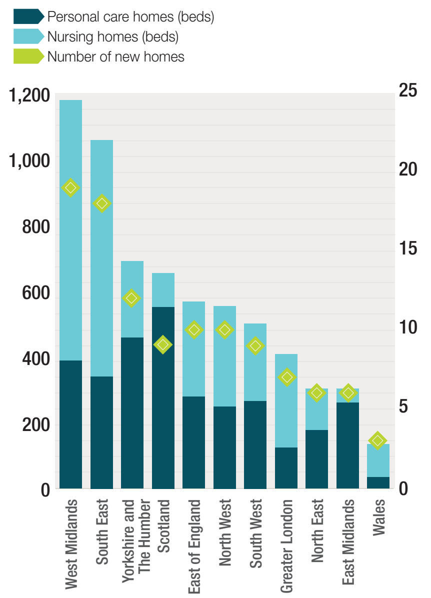
Source: Knight Frank Research, Tomorrow's Guides

FIGURE 4

New care homes registrations by region

May 2017 – April 2018

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



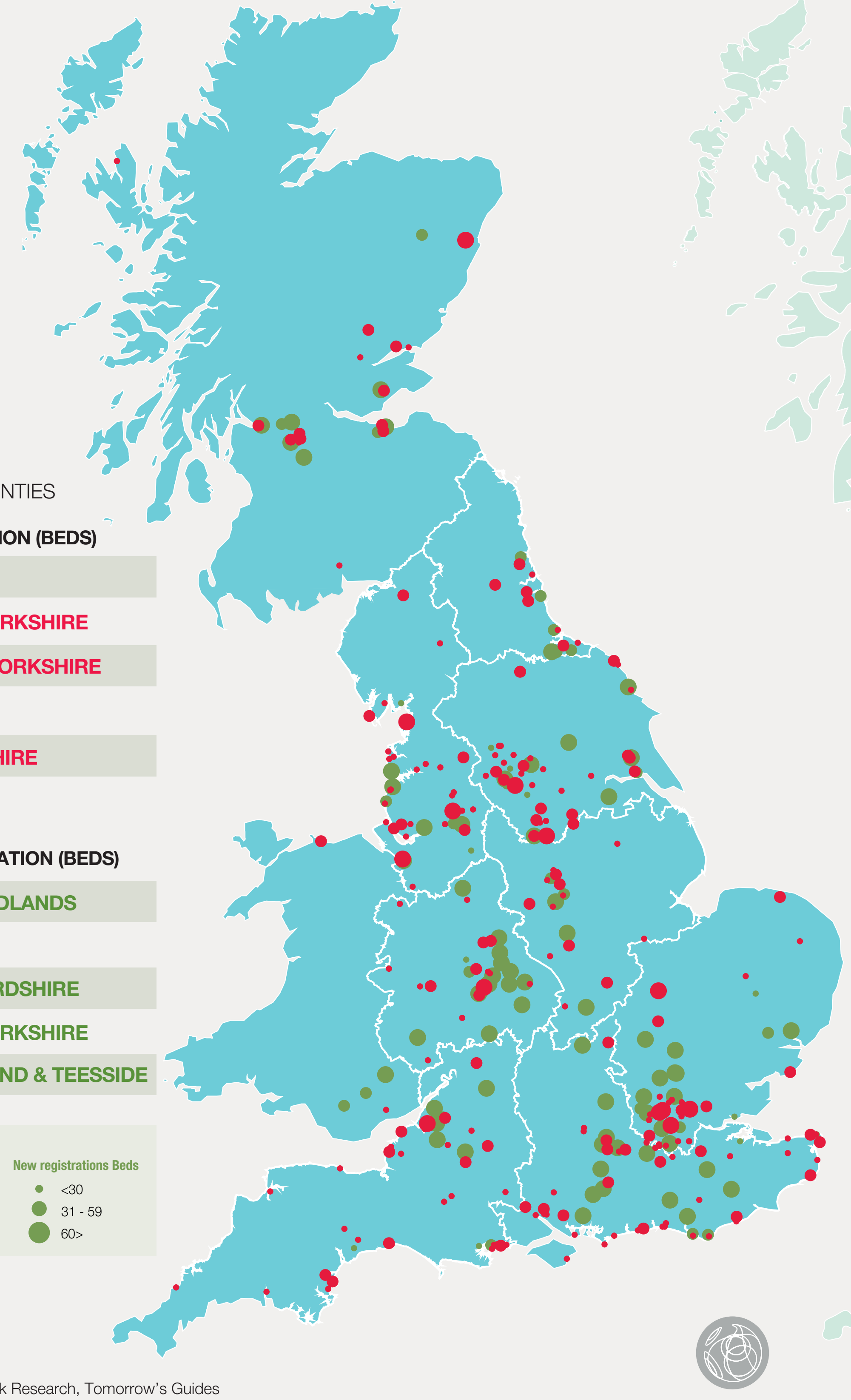
Source: Knight Frank Research, Tomorrow's Guides

Ashlands Manor, Sale (New Care Projects)

FIGURE 6

NEW CARE HOME REGISTRATIONS VS DEREGISTRATIONS

12 months to April 2018



TOP FIVE COUNTIES

DEREGISTRATION (BEDS)

1 | LONDON
2 | WEST YORKSHIRE
3 | SOUTH YORKSHIRE
4 | KENT
5 | LANCASHIRE

NEW REGISTRATION (BEDS)

1 | WEST MIDLANDS
2 | LONDON
3 | HERTFORDSHIRE
4 | WEST YORKSHIRE
5 | CLEVELAND & TEESSIDE

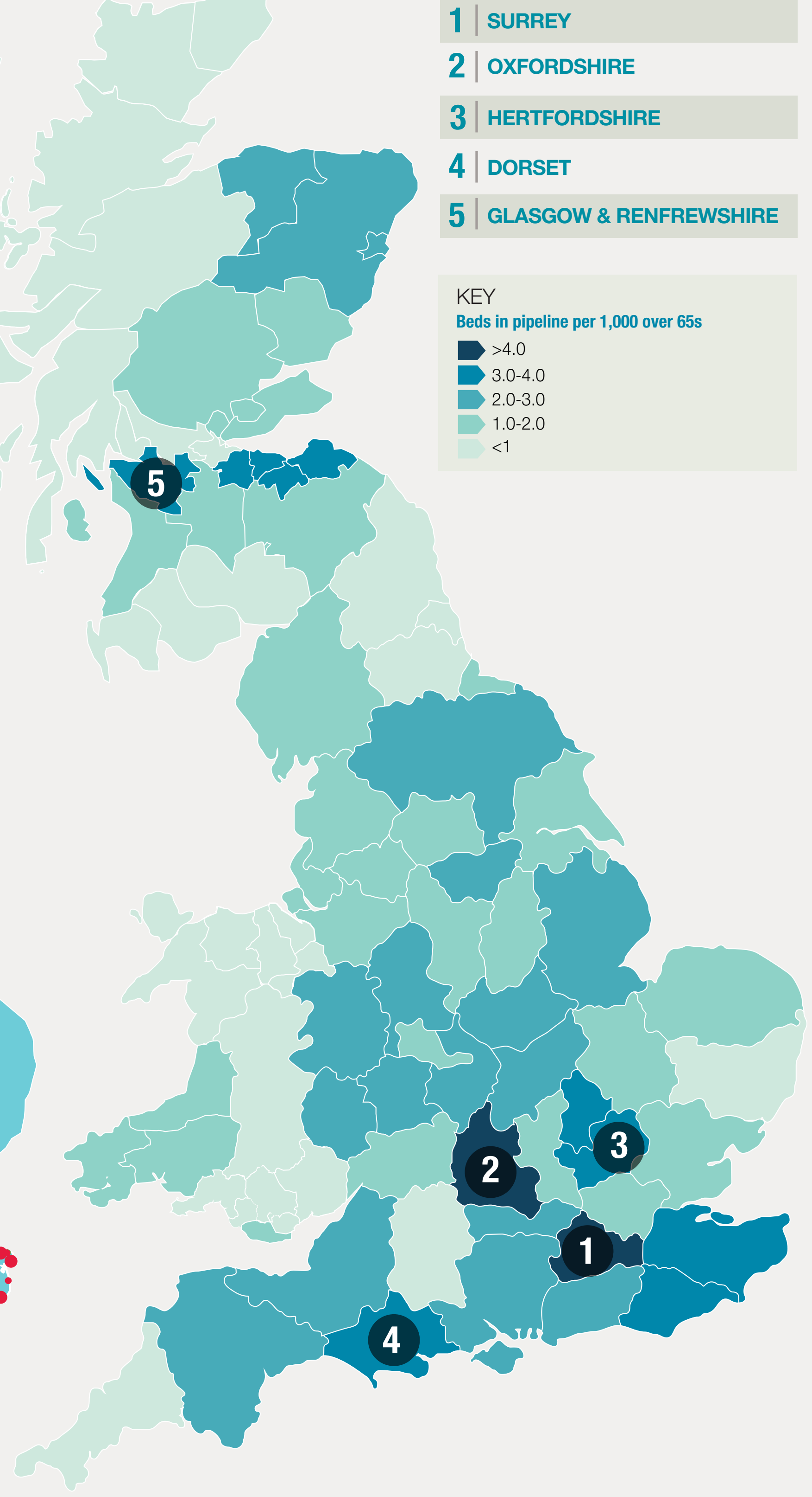
Source: Knight Frank Research, Tomorrow's Guides

FIGURE 7

FUTURE SUPPLY

TOP FIVE COUNTIES

1 | SURREY
2 | OXFORDSHIRE
3 | HERTFORDSHIRE
4 | DORSET
5 | GLASGOW & RENFREWSHIRE



Source: Knight Frank Research, Glenigan

HOTSPOTS

England & Wales

Knight Frank's Care Home Development Index identifies locations that are considered to present the best future prospects for care home investment and development. The index uses a county-level model, analysing 50 counties, and eight equally weighted variables comprising economic and demographic projections, wealth profiles, existing bed supply and future supply pipeline, land values and operational performance.

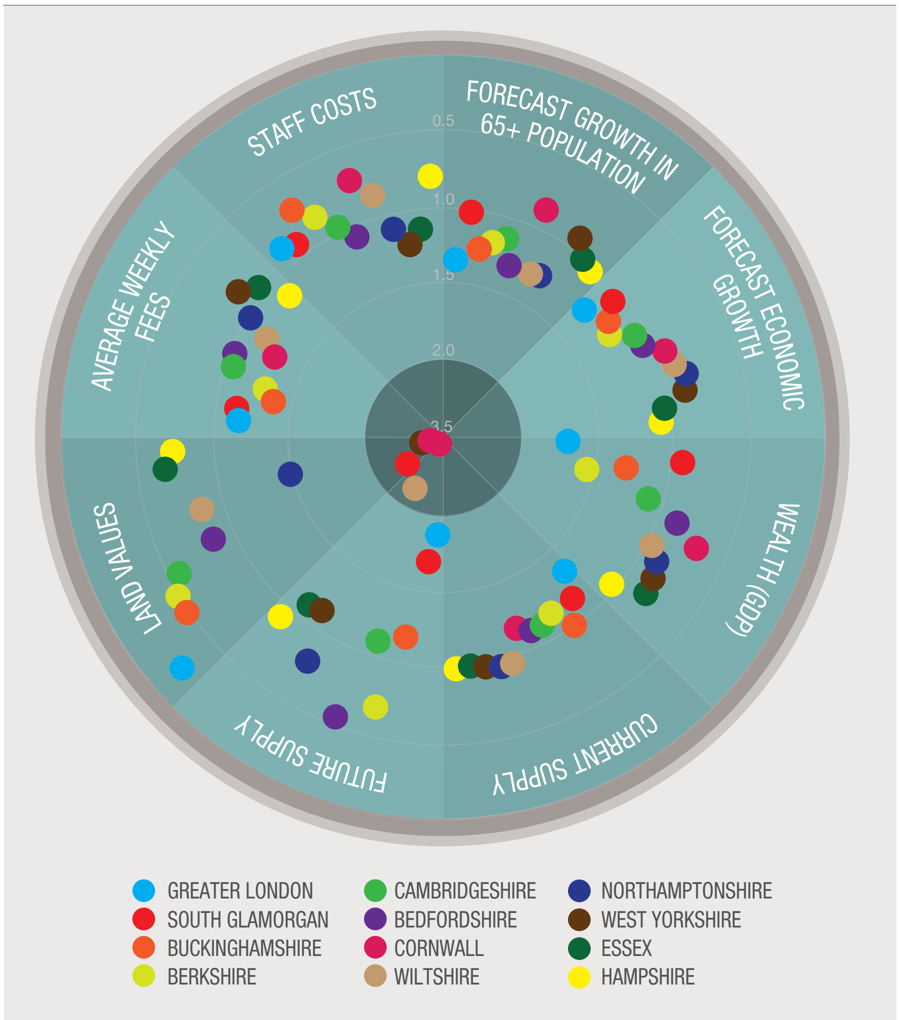
As illustrated in Table 1, Greater London topples South Glamorgan from the top spot in last year's review. The region benefits from a projected elderly population growth of 46% in the next 15 years and 38% projected GDP growth in the same period, which are well above the national averages, and the need to replenish the loss of beds, as shown in Figure 3. The main challenges to development in Greater London will be the cost of land and competition from other development uses. However, the strong average weekly fees will assist the development appraisals accordingly.

While South Glamorgan fell by one position to second place in this year's analysis, it presents attractive opportunities, with low existing and future provision, low land values and strong future economic prospects.

Eight of the top 12 counties featured in the 2017 index solidified their top 12 status in this year's update. The largest leap was witnessed by Bedfordshire (up by 14 positions) driven by the second strongest

FIGURE 8

Top 12 hotspot counties of England & Wales split by eight variables (Indices)



Source: Knight Frank Research


Mayflower Court, Southampton (Anchor)

TABLE 1

Care home development prospects – top 12 counties of England & Wales in 2018 (50 counties in the analysis)

2018 RANK	FORECAST GROWTH (in 65+ population)	FORECAST ECONOMIC GROWTH	WEALTH (GDP)	CURRENT SUPPLY	FUTURE SUPPLY	LAND VALUES	AVERAGE WEEKLY FEES	STAFF COSTS	CHANGE IN RANK	TOTAL SCORE INDEX
1. Greater London	1	1	1	4	11	50	12	38	▲ 1	1.72
2. South Glamorgan	17	8	15	10	14	11	14	34	▼ 1	1.65
3. Buckinghamshire	5	3	4	17	21	47	1	50	▲ 1	1.37
4. Berkshire	6	2	2	9	40	46	2	43	▲ 2	1.35
5. Cambridgeshire	8	7	9	12	24	45	18	29	▲ 2	1.34
6. Bedfordshire	2	9	19	11	46	34	20	19	▲ 14	1.27
7. Cornwall	34	16	43	8	3	5	3	49	▲ 1	1.26
8. Wiltshire	3	18	14	34	8	34	11	41	▲ 4	1.25
9. Northamptonshire	4	26	18	33	34	23	21	14	▼ 1	1.17
10. West Yorkshire	27	20	23	28	23	8	39	6	▲ 13	1.17
11. Essex	18	11	28	22	25	40	27	11	▲ 11	1.12
12. Hampshire	14	10	10	23	31	38	13	45	▲ 1	1.10

Source: Knight Frank Research

projected elderly population growth after Greater London, and low existing bed provision, which continues to strengthen its future supply pipeline. West Yorkshire stood at tenth place, up 13 positions, mainly due to lower future supply in the pipeline.

Figure 8 illustrates the top 12 hotspots, split by eight variables to stimulate the area selection process further and to gaze into the future of development prospects. As each developer or investor will analyse the sites to suit their individual development strategy, some variables may be more significant than others to assist in their decision-making process.

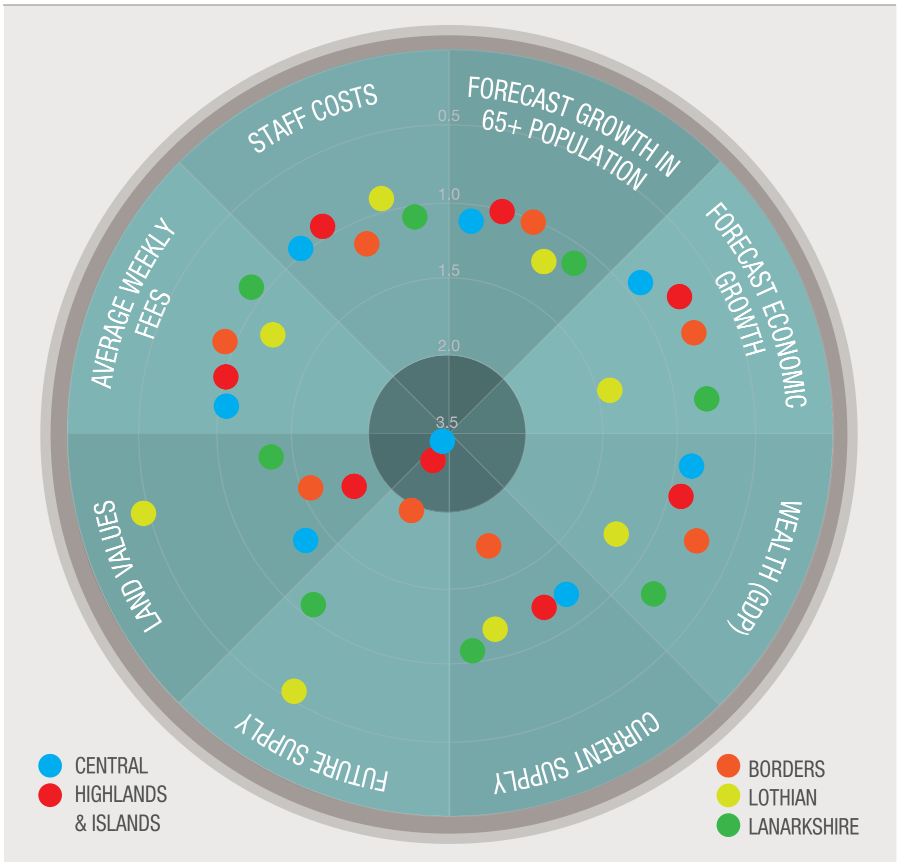
When assessing the list from a north south divide perspective, there is clearly a disproportionate weighting to the south, with only one northern county listed in Table 1. This is triggered by lower GDP growth forecasts for the northern counties coupled with lower average weekly fees, which is supported by LaingBuisson's Care Markets report, 2017, illustrating lower local authority fee rates in the northern regions when compared with those in the south.

Nevertheless, Knight Frank has witnessed several modern purpose-built developments in the wealthier enclaves of the north, which are generating strong average weekly fees and occupancy rates, albeit targeting the private pay market.

Scotland

FIGURE 9

Top five hotspot counties of Scotland split by eight variables (Indices)



Source: Knight Frank Research

After reviewing eight variables over 12 Scottish counties, the Central area of Scotland stubbornly remains on top for the third consecutive year as shown in Table 2. Its resilient current and future performance is driven by forecast elderly population growth of 35% in the next 15 years, which is above the national average, and its lack of any future development.

Highlands & Islands shifted up one position to reach second place mainly due to lower land values when compared with other counties in Scotland. Lanarkshire made a leap of four positions to stand in fifth place due to favourable labour markets reducing their staff costs per bed.

The most noticeable omission in the top five hotspots in Scotland is Glasgow & Renfrewshire which has one of the largest economies in Scotland. However, its proactive market in recent years has led to higher than national average bed provision per 1,000 elderly people and a strong development pipeline, leading to average land values almost double the national average.

Similarly to Figure 8, Figure 9 illustrates the top five hotspots, split by eight variables to stimulate the area selection process further.

TABLE 2

Care home development prospects – top five counties of Scotland in 2018 (12 counties in the analysis)

2018 RANK	FORECAST GROWTH (in 65+ population)	FORECAST ECONOMIC GROWTH	WEALTH (GDP)	CURRENT SUPPLY	FUTURE SUPPLY	LAND VALUES	AVERAGE WEEKLY FEES	STAFF COSTS	CHANGE IN RANK	TOTAL SCORE INDEX
1. Central	3	5	6	5	1	4	3	8	↔	1.47
2. Highlands & Islands	8	8	4	3	4	1	4	9	↑ 1	1.26
3. Borders	7	7	10	1	5	2	9	1	↓ 2	1.23
4. Lothian	1	1	3	4	11	12	1	11	↑ 1	1.17
5. Lanarkshire	2	6	7	6	8	4	11	5	↑ 4	1.05

Source: Knight Frank Research

KNIGHT FRANK'S VIEW

With a national crisis in regards to the shortfall of bed provision and an ageing population, appetite for care home developments remain strong. The hotspots analysis highlights great opportunities in an array of counties, allowing investors and developers alike to target locations accordingly. Knight Frank can assist in the acquisition due diligence process by providing market-leading feasibility studies on development opportunities to support the underwriting or planning process.

WE ENVISAGE THE FOLLOWING DISRUPTERS AND OPPORTUNITIES:

CONSTRUCTION

The shortage of a skilled labour force, and building material cost inflation will continue to impact the sector, leading to longer build periods and thus additional costs incurred and disputes. With high demand for care homes fit for 21st century care, given that the majority of the existing care home provision is over 40 years of age, specification requirements have been enhanced, leading to higher build costs.

PLANNING

The Community Infrastructure Levy (CIL) is a potential disrupter to be aware of, which is a planning charge introduced by the Planning Act 2008 to help local authorities in England and Wales to deliver infrastructure to support the development of their area. The charge is often on residential developments but depending on the local authority, a healthcare development could also be subject to charges, which could have an impact on the development viability.

TYPES OF SCHEMES AND THE MARKET

Due to the challenges of recruiting nursing staff, we will continue to see a higher proportion of personal care home developments. Although finding suitable care home development sites is a challenging process (coupled with strong competition for good sites) there remains a reasonable number of sites coming to the market, albeit slowly. We estimate that we require in excess of £15 billion to upgrade existing beds in order to future-proof and that approximately 6,500 care homes are at risk of closure over the next 5 years, which equates to 140,000 beds.

COMMERCIAL RESEARCH

Mandip Bhogal, BSc (Hons)
Associate
+44 203 869 4702
mandip.bhogal@knightfrank.com

William Matthews
Partner, Head of Commercial Research
+44 203 909 6842
william.matthews@knightfrank.com

HEALTHCARE

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

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

Nick Kempster MRICS
Senior Surveyor
+44 20 7861 5265
nick.kempster@knightfrank.com

Front cover image: Gracewell of Bookham, developed by Hamberley Development

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 – 2017

Healthcare Capital Markets – 2018

Specialist Property Report – 2018 – The Human Factor

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