RESEARCH

UK HEALTHCARE

DEVELOPMENT OPPORTUNITIES **2019**

HIGHLIGHTS

The number of new homes being built continues to be counterbalanced by the number of home closures (de-registrations)

Failing care standards are the main reason for home closures while new developments are predominantly focused on the private-pay market

South Glamorgan and London remain the top development hotspots for England and Wales, but the South East region continues to look favourable as a whole

THE UK CARE HOME INVENTORY

As of April 2019, the UK elderly care home market was made up of 12,250 homes and 477,100 beds.

Although there is some cross-over with the adult care sector, these numbers aim to exclude homes specialising in care for vulnerable adults below the age of 65.

Over 90 percent of homes are owned by private operators (many of which are small scale operations) while less than 10 percent are publically owned by local authorities or the NHS. There are 7,520 personal care homes and 4,730 nursing care homes, the latter designed for high dependency residents who require full-time care delivered by qualified nurses. With elderly people entering full-time care at a higher level of acuity, the number of nursing beds exceeds that of personal care. Furthermore, with calls for better care quality for those with dementia, two-thirds of all homes are now registered with the CQC to provide specialist dementia care.

In line with the UK's demographics, the largest regional care home markets are the South East, North West and Midlands (east and west combined) while Scotland accounts for 7% of the UK market in bed numbers. As shown in Figure 2, the majority of homes in the UK are less than 40 beds. We expect this share to decrease over the next 20 years as the market looks to replace smaller period-style properties with larger, high specification care homes fit for future demand.

The Hamptons, Lytham St Annes, New Care

FIGURE 1
UK elderly care inventory

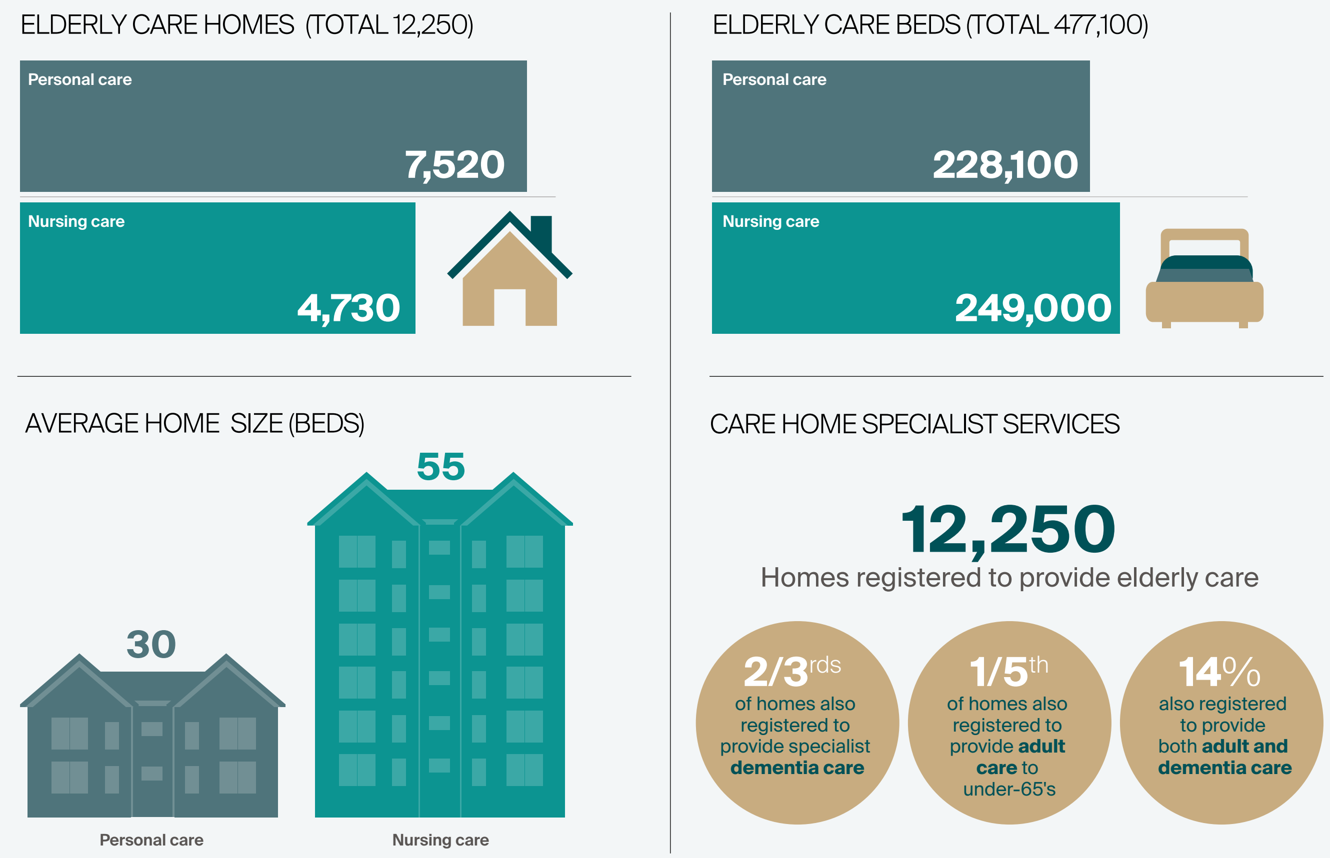
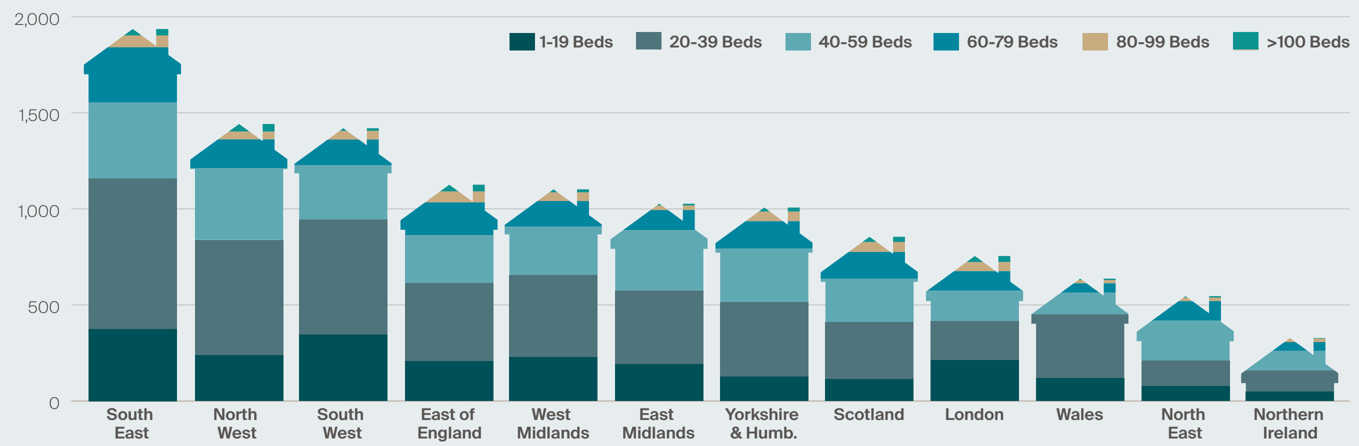


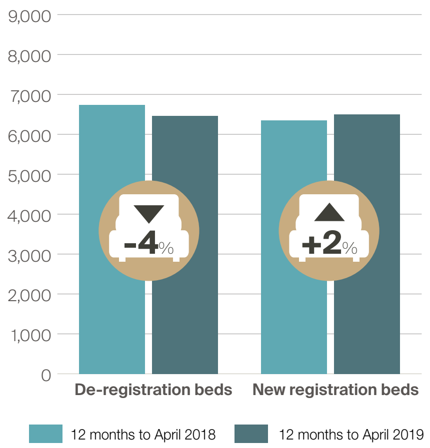
FIGURE 2
UK elderly care home stock by home size (beds)



Source: Knight Frank Research, Tomorrow's Guides

DEVELOPMENT TRENDS

FIGURE 3
De-registration vs new registration (beds) year-on-year



Source: Knight Frank Research, Tomorrow's Guides

The number of new homes being built (new registrations) continues to be counterbalanced by the number of home closures (de-registrations)

As shown in Figure 3, the UK care home market saw a slight decrease in the number of de-registered beds (down -4%) and a slight increase in the number of new registered beds (up 2%) in the 12 months to April 2019. The data shows that 219 existing homes and 6,459 beds were de-registered and a total of 133 new homes and 6,502 beds were added to the market. While this resulted in a net loss of 86 homes, the larger scale of new homes delivered meant the UK saw a marginal net gain of 43 beds.

Broadly speaking, the number of new beds being added is being counteracted by the number of homes being removed – a trend we have witnessed over the last few years. However, it is worth noting that a number of existing homes are also opting to extend (and refurbish) their existing sites and increase bed numbers. As of April 2019, Glenigan data show that 450 operating homes are in the process of extending. This level of capital expenditure helps to explain why our estimate of total UK care home stock has increased from 472,000 in 2018 to 477,000 in 2019.

Net gains and losses by region

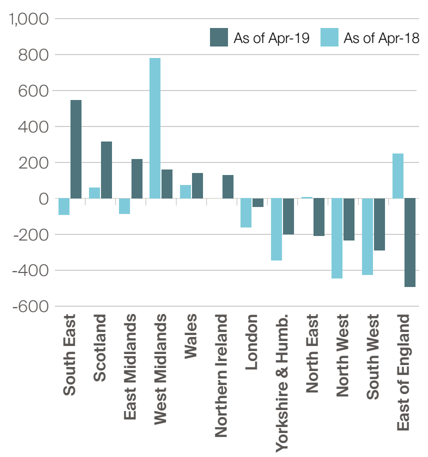
Figure 4 shows the net gain or loss of each region over the last year compared to 2018. The South East has seen a slight reversal, seeing net gains of 550 beds in the 12 months to April 2019, despite the fact that as many as 45 homes were de-registered in the region. The gains can be attributed to the delivery of a number of large scale homes sized over 60 beds in both the personal care and nursing care segments. In contrast, most of the stock removed from this region was over 25 years old and less than 40 beds in size – a profile that is typical of obsolete stock. As shown in Figure 5, three out of top five counties for new registrations were situated in the South East.

Scotland saw a net gain of 320 beds in the 12 months to April 2019 with the addition of several homes in Glasgow and Edinburgh. Greater levels of wealth and substantial over 65 populations are seemingly encouraging developers to build in these areas.

The West Midlands, which has the second highest population of over 65's after London, saw a slowdown from April 2018 when the region saw more new registrations than any other market. However, there were still a significant number of large-scale homes brought to market, as indicated in Figure 5. The East Midlands also saw some moderate gains thanks to some new large-scale care homes, a reversal of the bed losses seen in 2018.

The East of England has seen a large amount of de-registrations, with a net loss of 500 beds in the year to April 2019. The majority of the homes de-registered were in the counties of Essex and Suffolk and were rated 'Inadequate' by the CQC. Net bed losses were also seen in the South West and across the Northern regions of England, with Merseyside and North Yorkshire among the top five counties for de-registration.

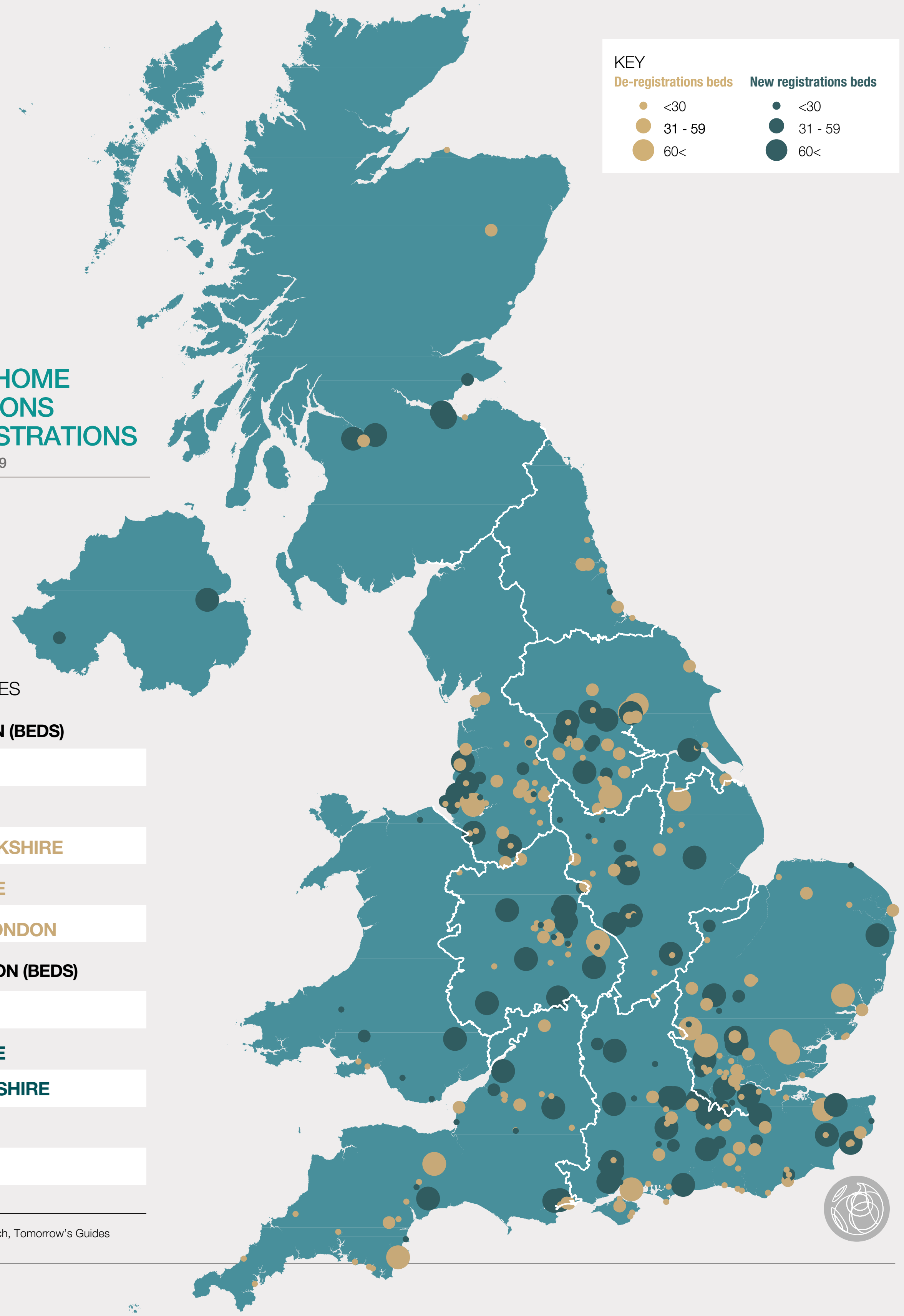
FIGURE 4
Net gain/loss of beds (2018 vs 2019)



Source: Knight Frank Research, Tomorrow's Guides

> "Three out of the top five counties for new registration were situated in the South East.

FIGURE 5
NEW CARE HOME REGISTRATIONS VS DE-REGISTRATIONS
12 months to April 2019



TOP FIVE COUNTIES

DE-REGISTRATION (BEDS)

1. KENT
2. ESSEX
3. NORTH YORKSHIRE
4. MERSEYSIDE
5. GREATER LONDON

NEW REGISTRATION (BEDS)

1. KENT
2. MERSEYSIDE
3. WEST YORKSHIRE
4. SURREY
5. HAMPSHIRE

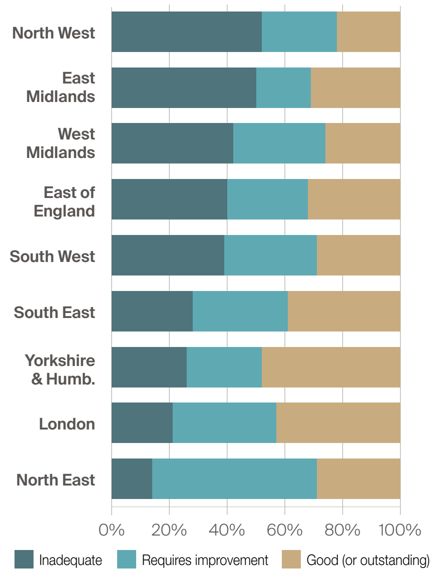
Source: Knight Frank Research, Tomorrow's Guides

Home closures: What are the reasons?

Through analysing the pool of de-registered homes, we can identify three main reasons for closure:

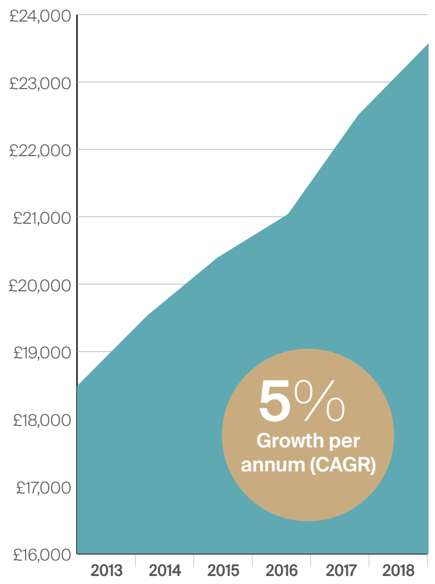
1. Failing care standards: Two-thirds of closed homes were rated ‘inadequate’ or ‘requires improvement’ and this was unanimous across England as shown by Figure 6. The quality of care is also impacted by the availability of care staff, a shortage of which can often force homes in more remote locations to close.
2. Financial stress: The remaining third of closed homes were rated ‘good’ (or ‘outstanding’) by the CQC, implying alternative reasons for closure. In most of these cases, increasing costs and dwindling profitability have been a catalyst for closure. As shown in Figure 7, staff costs have seen particular increases over recent years as a result of increases in the National Living Wage. This has impacted many homes, particularly those dependent on local authority-funded residents which are less able to raise fees to mitigate increasing costs.
3. Redevelopment: A small number of homes will temporarily de-register in order to redevelop, making sure their residences are fit for purpose and can match increasing standards of care.

FIGURE 6
CQC ratings for de-registered homes (2018/19)



Source: Knight Frank Research, Tomorrow’s Guides, CQC

FIGURE 7
Average staff costs per resident per year (2013-2018)



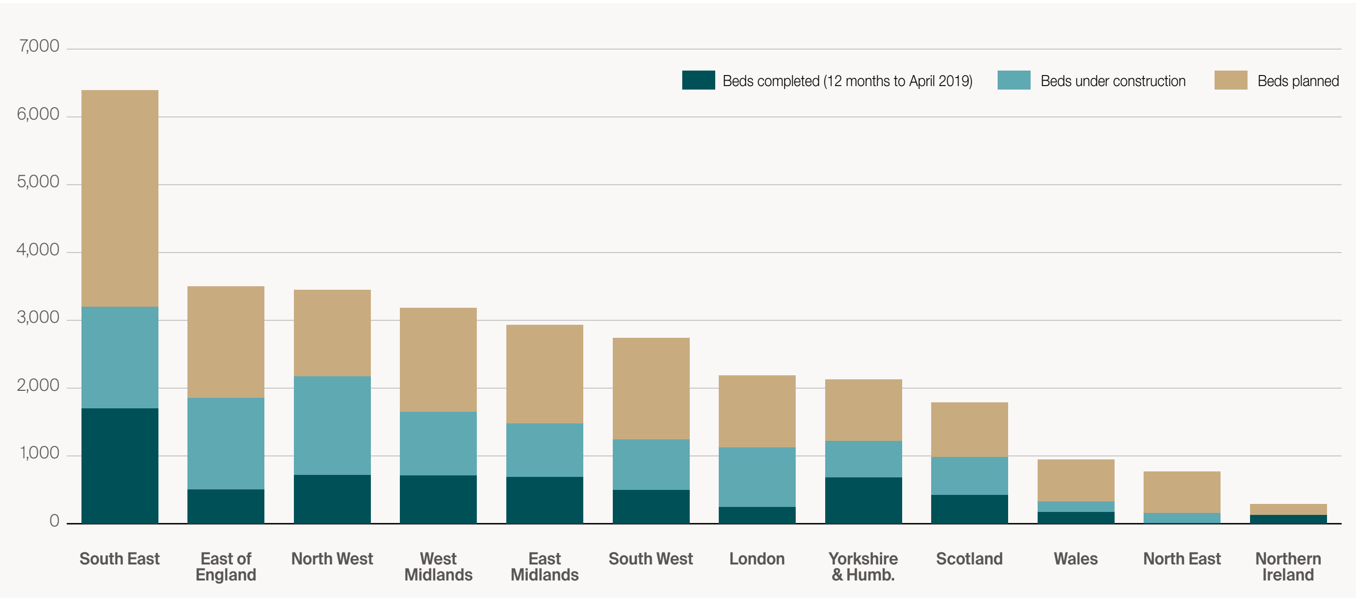
Source: Knight Frank Trading Performance Index

New homes: Development activity

At an absolute level, many of the new developments that completed in the 12 months to April 2019 were concentrated in the South East with 1,700 new beds built (Figure 8). Strong activity is expected going forward with a further 1,500 beds currently under construction and a further 3,200 beds in the planning process.

This data is supported at a county level, indicated by Figure 10 (page 8) which illustrates the counties that have the highest levels of future supply. Here we show beds in the pipeline per 1,000 people over 65 so that counties can be compared on a like for like basis. The top eight counties are all situated towards the South and Eastern regions of the UK as well as Northamptonshire which is in the East Midlands.

FIGURE 8
Development activity: Beds completed, under construction and planned

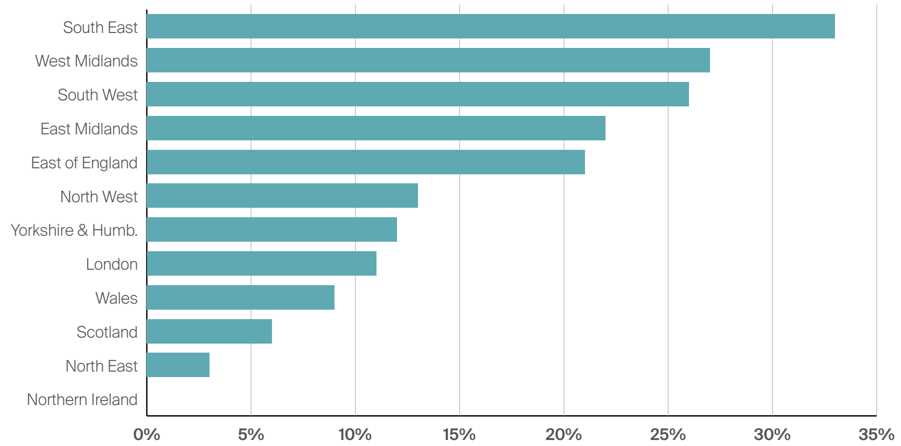


Source: Knight Frank Research, Glenigan

Gracewell of Ascot, Gracewell Heathcare & Sunrise Homes

By analysing the development pipeline against Knight Frank’s Trading Performance Index, we can see that new developments are focused on markets that have the greatest levels of self-funded (private-pay) residents. Comparing Figures 8 and 9, we can see that the South East, Midlands regions, South West and East of England have the greatest share of privately funded homes and also the greatest amount of development activity. In contrast, developers are more hesitant to build homes in regions that rely heavily on publically-funded residents with Wales and the North East being prime examples. The prevalence of private-paying residents is just one factor for developers to consider – the purpose of our hotspots analysis is to give a more comprehensive assessment of where the opportunities are.

FIGURE 9
Share of private-pay homes in the market*



Source: Knight Frank Trading Performance Index
*Private pay homes derive 70% or more of their income from self-paying residents

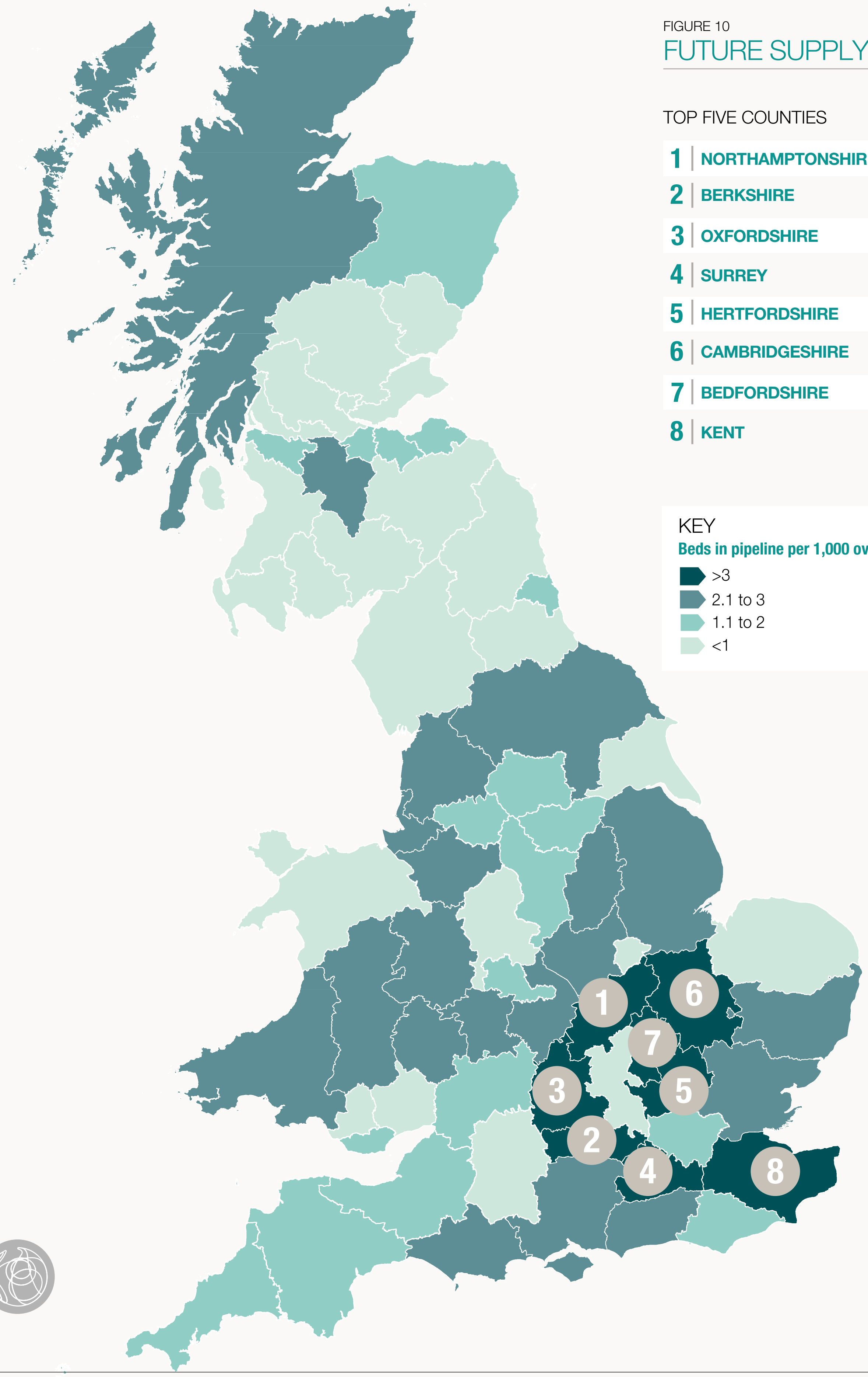
> “New developments are focused on markets that have the greatest levels of self-funded (private-pay) residents.

FIGURE 10
FUTURE SUPPLY

TOP FIVE COUNTIES

1 | NORTHAMPTONSHIRE
2 | BERKSHIRE
3 | OXFORDSHIRE
4 | SURREY
5 | HERTFORDSHIRE
6 | CAMBRIDGESHIRE
7 | BEDFORDSHIRE
8 | KENT

KEY
Beds in pipeline per 1,000 over 65s
- >3
- 2.1 to 3
- 1.1 to 2
- <1



Source: Knight Frank Research, Glenigan

HOTSPOTS

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 analyses 50 counties in England and Wales and 12 in Scotland, based on eight equally weighted variables comprising demographic and economic projections, levels of wealth, existing bed supply, the future supply pipeline, land values and operational performance.

Theoretically, the 'perfect' development location would have a rapidly growing over 65 population, a growing local economy, high levels of wealthy residents, limited current and future supply, elevated fee rates, and low staff costs.

The rankings in tables one and two indicate a county's score on each variable, relative to other counties in the analysis. Index scores indicate a county's total score relative to the national average with indices above one implying above average scores.

South Glamorgan and London remain the top two hotspots in our analysis, after swapping over first place on several occasions in recent years. South Glamorgan, located adjacent to the city of Cardiff, is experiencing strong economic growth and relatively limited levels of new supply despite the cheap cost of land compared to elsewhere in the UK. For these reasons, the region is expected to present attractive development opportunities.

In contrast, Greater London has the most expensive land values and competition from other development uses is putting limits on the current level of supply in the region. While this could represent a potential challenge to development looking forward, the population of over 65's in London is expected to grow by an astonishing 500,000 in the next 15 years. More developments will be needed to service such growth in demand, particularly in the private-pay segment where there is a limited number of care homes.

Gracewell of Ascot, Gracewell Heathcare & Sunrise Homes

DEVELOPMENT INDEX VARIABLES

Source: Knight Frank Research, Experian, Tomorrow's Guides, Glenigan

TABLE 1
Care home development prospects – top 12 counties of England & Wales in 2019 (50 counties in the analysis)

2019 RANK	FORECAST GROWTH (in 65+ population)	FORECAST ECONOMIC GROWTH	WEALTH	CURRENT SUPPLY	FUTURE SUPPLY	LAND VALUES	AVERAGE WEEKLY FEES	STAFF COSTS	CHANGE IN RANK	TOTAL SCORE INDEX
1. South Glamorgan	18	8	15	13	12	10	14	35	↑ 1	1.63
2. Greater London	1	1	1	4	22	50	12	44	↓ 1	1.51
3. Buckinghamshire	5	3	4	18	8	47	1	50	↔	1.49
4. Wiltshire	3	17	14	29	4	34	10	43	↑ 4	1.32
5. Berkshire	6	2	2	9	49	46	2	41	↓ 1	1.29
6. Bedfordshire	2	9	20	11	44	34	16	24	↔	1.27
7. Cambridgeshire	8	7	9	10	45	45	20	25	↓ 2	1.20
8. West Yorkshire	26	20	23	34	16	7	40	6	↑ 2	1.18
9. Essex	16	11	28	16	31	38	29	9	↑ 2	1.14
10. Avon & Somerset	25	14	12	14	20	38	21	34	↑ 11	1.14
11. Cornwall	35	15	43	8	13	10	9	48	↓ 4	1.12
12. Leicestershire	15	27	21	15	32	28	30	15	↑ 2	1.11

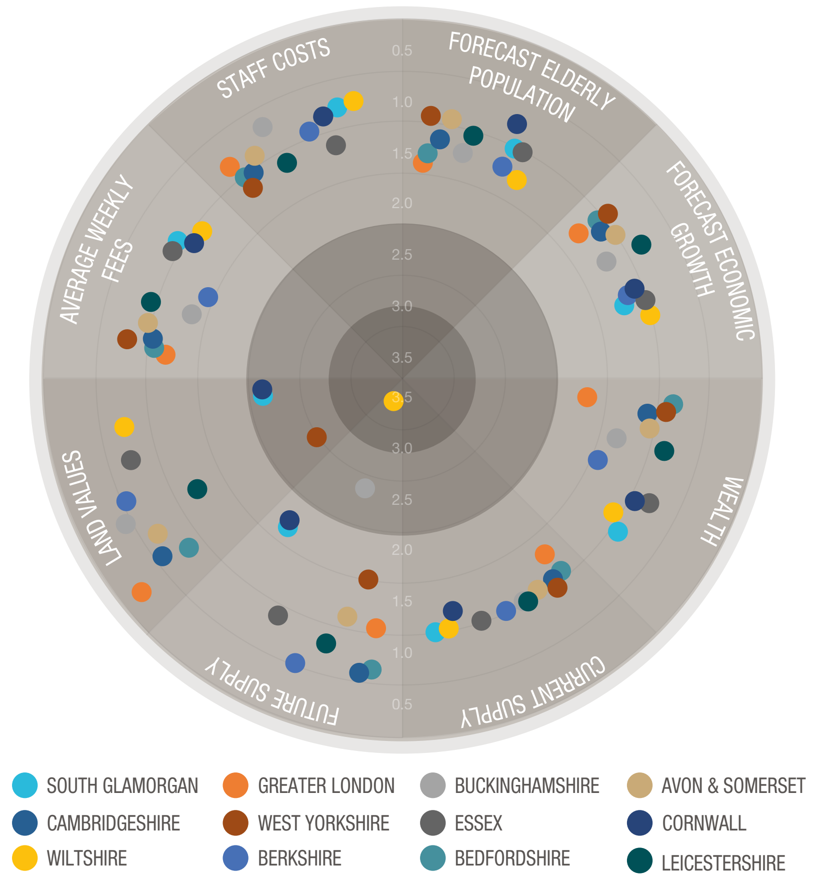
Source: Knight Frank Research

Other significant movers in the index this year include Wiltshire and Avon & Somerset, both counties within the South West region. Wiltshire's prospects were improved by the fact that the region has the 3rd strongest forecast for growth in its elderly population in England, but a very limited level of new homes in the pipeline for 2019 and beyond – this is shown in our hotspots chart in Figure 11. Rural counties like Wiltshire require careful site selection, but developers may find opportunities in catchments where there is a sufficient elderly population.

Avon & Somerset moved into the top 12 counties this year, although its index score of 1.14 still looks relatively moderate compared to other regions. The large jump was due to broad improvement across all variables, but developers should note the strong forecast for economic growth (driven by the city of Bristol) and the high levels of wealth among over 65's in this region.

West Yorkshire was the only county of Northern England to feature in the top 12 for 2019, but this is not to say that there aren't development opportunities in the North of England. Broadly speaking, Northern counties rank lower on GDP growth, wealth and average fee levels - the latter partly influenced by greater prevalence of local authority-funded residents in the region. However, wealthier towns and smaller localities of the North of England that contain larger private-pay markets represent a very different prospect with higher fee rates, low staff costs and reported profitability in excess of 40% in some cases. Lower land values than the alternative affluent regions of Southern England, mean that these carefully selected Northern locations represent significant development opportunities.

FIGURE 11
Top 12 hotspot counties of England & Wales split by eight variables (Indices)

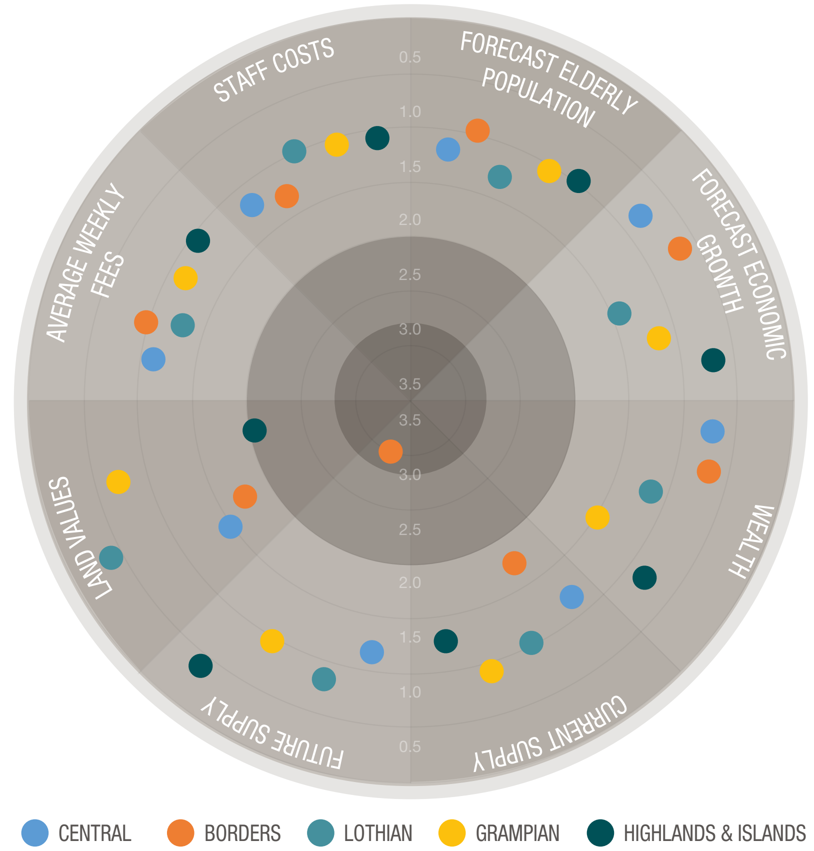


Source: Knight Frank Research

The Central area of Scotland (comprising the areas of Stirling, Falkirk and Clackmannanshire within our analysis) had the highest index score in Scotland of 1.32, which was actually more moderate than the 1.47 recorded in 2017/18. The region is expected to be undersupplied going forward with a strong forecast for elderly population growth and very limited levels of new supply hitting the market. Cheaper land costs relative to the adjacent county of Lothian, is another reason that the Central area maintains the number one spot.

The Borders region and Lothian share second place with an index score of 1.20, but for entirely different reasons. Lothian (including the city Edinburgh) is forecast to see the most robust economic growth and elderly population growth within Scotland. The wealth of the region also translates into higher fees creating significant opportunities for developers willing to pay the premium for land.

FIGURE 12
Top five hotspot counties of Scotland split by eight variables (Indices)



Source: Knight Frank Research

In stark contrast, the Borders region has much cheaper land costs but does not enjoy the same pool of wealthy elderly people. The Highlands and Islands also moved down to fifth place due to the greater level of new supply now in the pipeline. It may be worth noting that much of this is still in planning phase.

TABLE 2
Care home development prospects – top five counties of Scotland in 2019 (12 counties in the analysis)

201 RANK	FORECAST GROWTH (in 65+ population)	FORECAST ECONOMIC GROWTH	WEALTH	CURRENT SUPPLY	FUTURE SUPPLY	LAND VALUES	AVERAGE WEEKLY FEES	STAFF COSTS	CHANGE IN RANK	TOTAL SCORE INDEX
1. Central	3	5	6	4	7	4	5	5	↔	1.32
2. Borders	8	7	10	1	4	2	10	1	↑ 1	1.20
3. Lothian	1	1	3	5	9	12	1	11	↑ 1	1.20
4. Grampian	5	2	1	7	8	10	3	9	↑ 1	1.15
5. Highlands & Islands	9	8	4	3	11	1	4	8	↓ 3	1.08

Source: Knight Frank Research

MANDIP BHOGAL
Associate Development Consultant

KNIGHT FRANK'S FORWARD VIEW

"DEVELOPERS, INVESTORS AND OPERATORS ACTIVE IN THE CARE HOME MARKET OR LOOKING FOR ENTRY ROUTES, WILL NEED INCREASING AMOUNTS OF DUE DILIGENCE TO UNDERSTAND THE RISKS AND BENEFITS AT PLAY."

With much of the UK's existing care home stock outdated and elderly population growth expected to drive unprecedented levels of bed demand going forward, it is clear that more care homes need to be built. Our analysis shows that the UK is already short of 100,000 market standard beds and this will worsen over the next two decades unless existing stock is upgraded and the rate of new builds increase. The care home market certainly presents an opportunity but an equal understanding of the challenges is required.

THE OPPORTUNITIES

- Elderly population growth is driving demand for larger, purpose-built homes in the UK.
- Softening residential and retail markets are opening up development opportunities, allowing for care home developers to bid more competitively on development sites.
- The level of aged and obsolete stock in the care home market is also creating opportunities to redevelop and reposition.

THE CHALLENGES:

- Sourcing land is tough, particularly in the South East. We are now seeing developers looking at more challenging sites, such as those in the green belt.
- We are witnessing a substantial increase in planning needs assessment reports required by the local planning authorities.
- Building costs continue to inflate and a shortage of skilled labour exists through the construction industry.
- Higher care standards mean that developers need the expertise to create more technical fit-outs and designs.

CONSULTANCY

Developers, investors and operators active in the care home market or looking for entry routes, will need greater amounts of due diligence to understand the risks and benefits at play. Whether you require expertise on sourcing suitable development sites, require acquisition due diligence or needs assessments or need strategic advice on asset management, Knight Frank have range of services to suit.

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.

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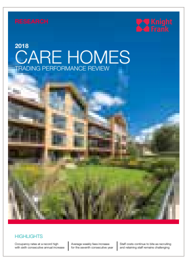

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The case for Retirement Living 2018

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