1

C-19 only a short-term disrupter to construction

2

Upgrading the market has never been more important

3

New development and re-development will be essential

Knight Frank

Healthcare Development Opportunities

Research 2020

CARE HOME STOCK CHECK

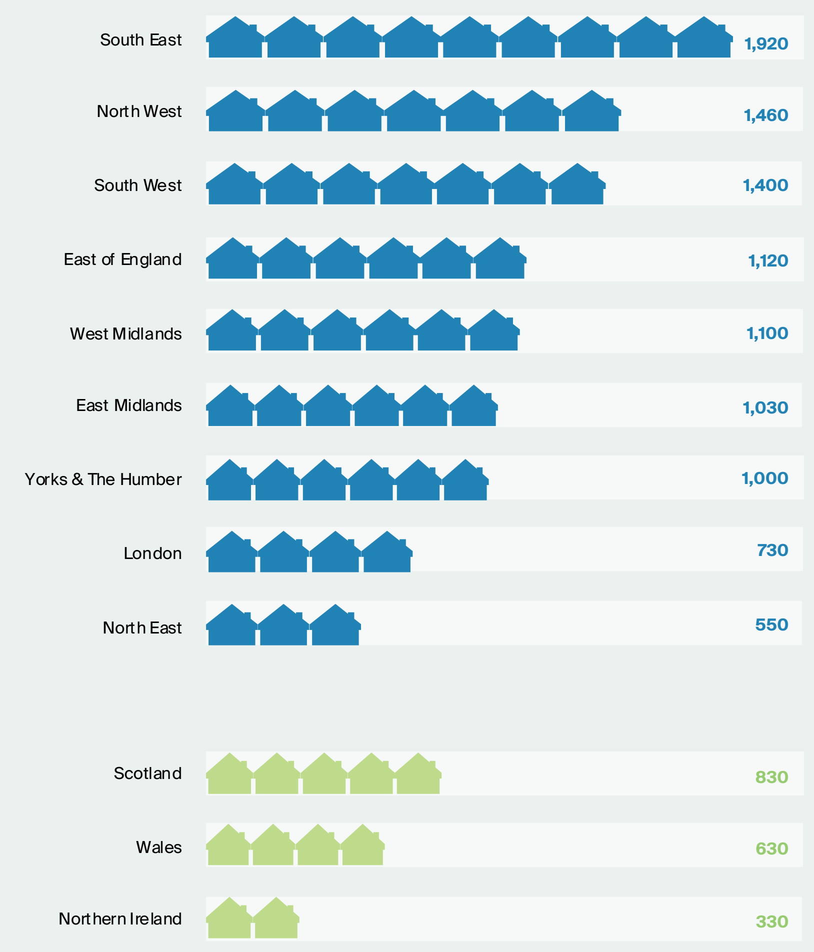
Our annual analysis of UK elderly care stock shows that the market totalled 12,170 homes and 479,600 beds, as of April 2020.

While the number of homes has fallen marginally from the 12,250 homes measured last year, the number of beds increased by 2,500. The growth is partly because larger purpose-built homes are beginning to replace smaller outdated homes; partly because many existing homes are adding beds to meet demand and maximise income; and partly down to better data coverage.

The pace of building needs to increase to keep pace with our rapidly ageing population.

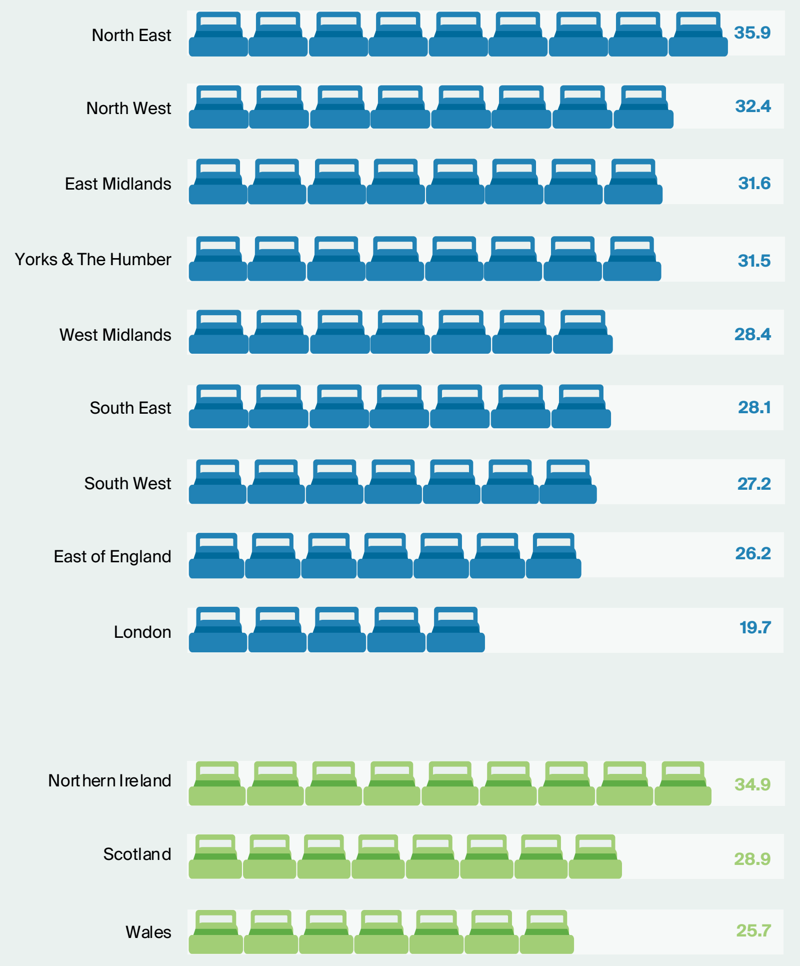
While the UK care home market is growing in absolute terms, it is shrinking in relative terms. As shown in Figure 3, the number of care home beds per 100 people over the age of 85 has fallen from 33.7 to 28.7 since 2010. If the same rate of growth in beds (0.6% CAGR) is applied to the next decade, bed provision will fall much further unless new development increases to keep pace with our rapidly growing elderly population.

Fig 1: Number of care homes by region, total = 12,170



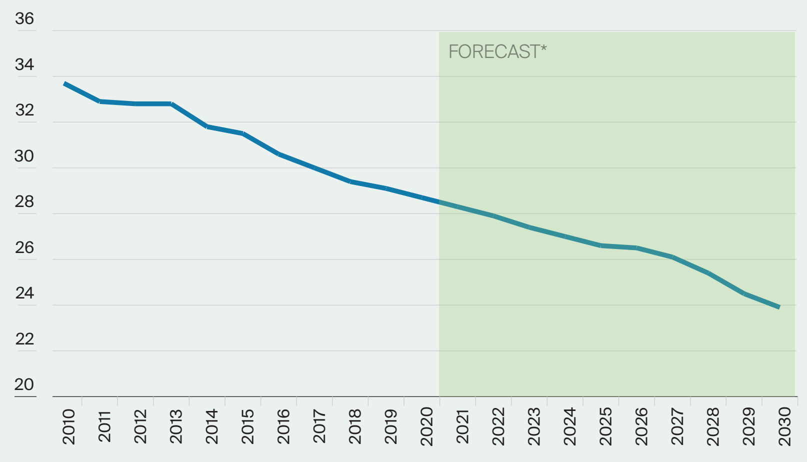
Source: Tomorrow's Guides

Fig 2: Elderly care beds (per 100 people aged 85+), by region in 2020



Source: Tomorrow's Guides, ONS

Fig 3: UK elderly care beds (per 100 people aged 85+)



Source: Knight Frank, Tomorrow's Guides, ONS
*Forecast calculated by applying CAGR growth rate for beds from 2010-2020 (0.6%) to ONS population projections

480k
Total care beds in the UK

12,170
Total care homes in the UK

40 beds
average home size in the UK

2.1m
over 85s by 2030 (1.6m in 2020)

ASSESSING THE IMPACT OF COVID-19

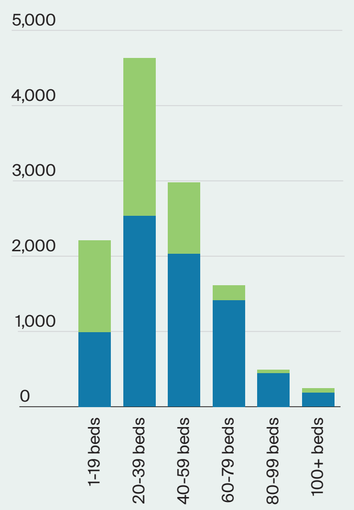
Moderate impact to occupancy: The higher risk of mortality among the elderly population has inevitably put the care sector in the spotlight. While mortality rates have been elevated and individual homes have suffered, operators have collectively dealt with the pandemic incredibly well. Knight Franks' tracking of major operators shows that occupancy has typically declined between 6-10% – much less than what many feared at the onset of COVID-19. Crucially, mortality rates have now normalised and new admissions are also steadily returning. Additional waves of the virus are a possibility, but the strict infection control demonstrated by the sector so far suggests most operators are well-prepared.

Long-term drivers won't change: While its been a difficult period for many, it's important to remember that even a worse case death toll will not be enough to derail the growth in our elderly population 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 3.7 million by 2050. Inevitably, the long-term demographics will continue to drive bed demand.

Which homes are at risk? We expect the pandemic to have a more pronounced effect on smaller independent homes that lack the scale to cope with occupancy loss, or the building design and management infrastructure to better protect against the virus. As shown in Figure 4, there are over 6,500 homes below the 40-bed marker and half of these homes lack the en suite or wet room provision – one of many things needed to support social distancing. This outdated stock is at risk and while nobody wants to see care homes struggle, COVID-19 may act as a reminder that changes are desperately needed to better fund the care sector and future-proof the market.

Design implications: This pandemic will also have a significant impact on care home design and specification. This includes wider corridors to help enable social distancing; larger rooms with full en suite and wet room facilities (as pictured below) as standard to promote resident isolation; adapted fixtures and fittings to limit touch points; and safer visitor areas with enhanced communication systems. While care is fundamentally about people, hopefully the virus will promote a more widespread use of technology (E.g. acoustic monitoring) both to protect residents against outbreaks, but also to drive efficiency and assist care staff.

Fig 4: UK care homes by size and en suite provision



Source: Knight Frank, Tomorrow's Guides

Market-leading en suite facilities, Hallmark Care

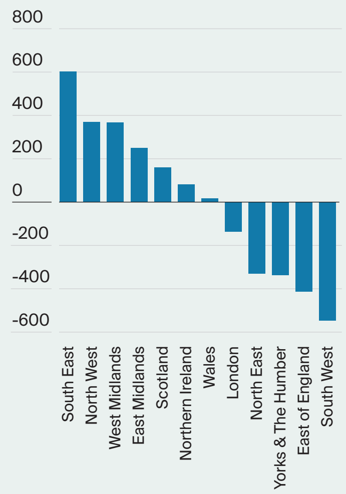
CLOSURES AND OPENINGS

In the 2019/20 financial year, a total of 7,058 beds (122 homes) were newly registered and 6,789 (233 homes) were de-registered.

As has been the case in recent years, the level of home closures continues to offset the building of new homes (Figure 6). That said, many existing homes are now adding beds through extensions and redevelopments, helping somewhat to grow the number of beds.

As evidenced by Figure 5, regions with higher urban concentrations have reported greater net gains in care beds over the last three years. This is the case for the South East, North West and Midlands regions but London is an exception because of the barriers to new development in this region. The Southwest has lost the most beds, with many outdated and rurally located homes closing.

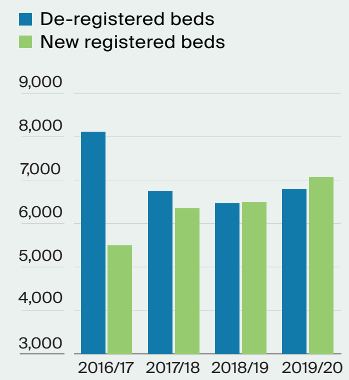
Fig 5: Net gain/loss of beds by region (last three years)



Source: Knight Frank, Tomorrow's Guides

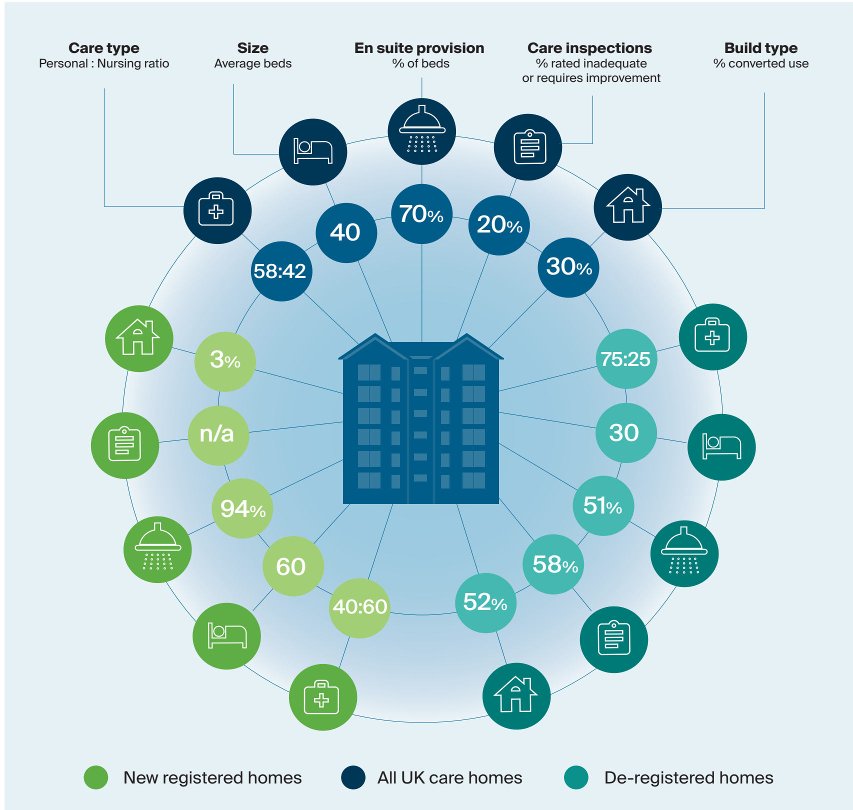
Why is the level of home closure so high? With 58% of de-registered homes rated as 'inadequate' or 'requires improvement' by the Care Quality Commission (CQC), failing care standards are a clear cause of closure. Financial stress is an equally significant cause of closure. Increasing costs, especially staffing costs, have impacted many care homes in recent years at a time when fee levels derived from local authorities have been frozen. The COVID-19 pandemic will add to the financial pressures for many smaller independent homes not ready for a severe hit to occupancy.

Fig 6: De-registration vs new registration (beds)



Source: Knight Frank, Tomorrow's Guides

Profiles of de-registered and new registered homes

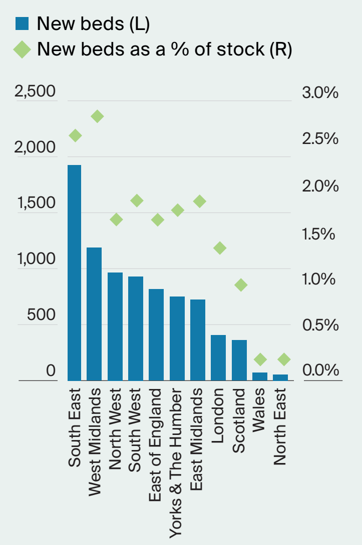


NEW BUILD DEVELOPMENT

Care home developers have been active in recent years, adding around 5,000 new care beds per annum to the market since 2015.

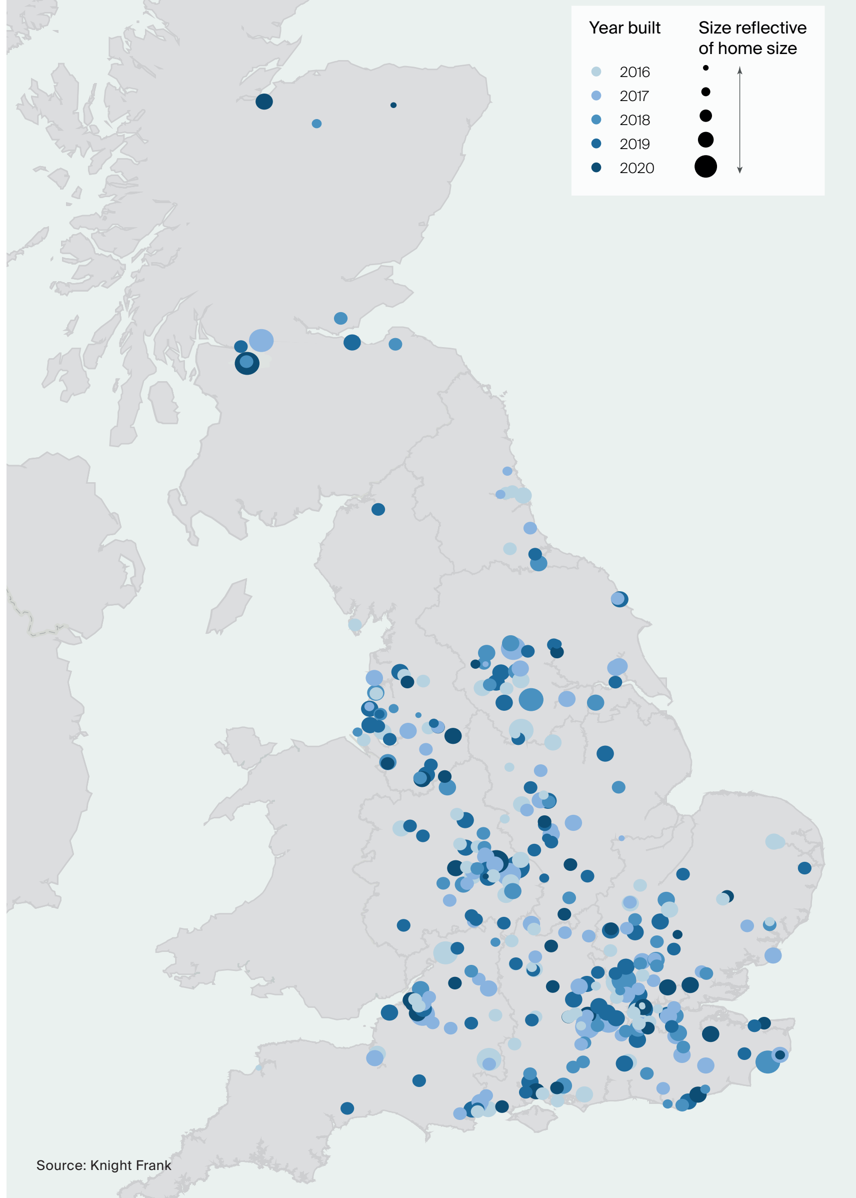
Our tracking of new builds shows that 79 new homes completed in 2019, while 2020 was on course to post a similar number until construction sites were frozen in the COVID-19 outbreak. A quarter of new builds are occurring in South East of England where the demand fundamentals are strongest, owing to a large elderly population and an affluent one at that. Despite this, new build activity is widespread across the UK with opportunities for development across all regions (Figure 8).

Fig 7: New beds completed
(16 months to April 2020)



Source: Knight Frank, Tomorrow's Guides

Fig 8: New build care homes (2015 to April 2020)



Source: Knight Frank

Table 1: Specification and costing of care home classes

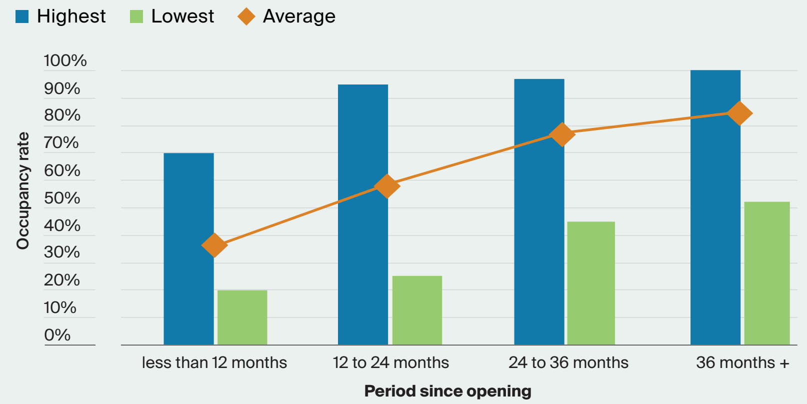
		TERTIARY (CONVERSIONS)	SECONDARY (OLDER PURPOSE-BUILT)	PRIME (INCLUDING REDEVELOPMENTS)	SUPER PRIME NEW BUILDS
SPECIFICATION	Build type	Converted use	Purpose built	Modern purpose built	Modern purpose built
	Age	pre 1990	1990 to 2000	2000 to present	2015 onwards
	Size (beds)	25 to 40	40 to 80	60 to 80	60 to 80
	Room Size	c.12m2	12 to 15m²	c.16m²	17m² +
	Bathrooms	Shared facilities or en suite rooms (WC & wash basin only)	Shared facilities or en suite (WC, wash basin and sometimes wet room)	En suite (WC and wet room)	En suite (WC and wet room)
	Land size	Mixed	0.5 to 1 acre	1 to 1.2 acres	1 to 2 acres (regional) 0.5+ acres (London)
	Typical Resident	Lower income / high dependency	Average income / high and low dependency	Higher income / high and low dependency	Higher income / low dependency / dementia care
COSTINGS*	Build cost (per bed)*	n/a	n/a	£100K+	£125k+
	Average weekly fees	£550 to £950	£650 to £1,050	£850 to £1,250	£1,300+
	EBITDARM (at maturity)	20% to 25%	25% to 30%	30% to 35%	35% to 45%
	Yield (net initial)	6% to 7%	6% to 7%	4% to 5%	3.5% to 4%

Source: Knight Frank *Please note: costings will differ according to region, funding type and care type

As shown in figure 9, most new care homes take at least 24 months to reach mature levels of occupancy. However, there is huge variation between new homes – some reaching maturity after only 12 months and others only 50% occupied after three years of trading. This highlights the importance of careful site selection and due diligence for new sites so new homes can reach optimal income as soon as possible.

Higher expectations of care quality are also driving improvements in design for new build care homes. Leading prime quality homes have an exceptional range of facilities and amenities that aim to improve the quality of later living. Of course, many homes and communities do not possess the levels of income required to fund such facilities – a separate matter. Nevertheless, it's important that we showcase the homes at this end of the market in order to inspire innovation across the broader care sector.

Fig 9: Fill rates, occupancy since opening



Source: Knight Frank

What makes a care home property super prime?

Rooms: Apartment-style suites with full wet room facilities and private space

Dining: Restaurant & café as well as private dining and bar areas

Leisure: Cinema rooms and activity rooms

Wellbeing: Fully landscaped gardens, salon, spa or therapy rooms

Visitors: additional visitors areas and crèche facilities

Memory Care: Dementia care suites, assistive technology and decorative adaptations

Finish: luxury hotel quality furnishing and decoration

The retirement village or CCRC model is in its infancy in the UK, but is an established concept in the US and Australia.

THE CARE VILLAGE: SYNERGIES BETWEEN HEALTHCARE & SENIOR LIVING

The senior living (or retirement living) sector is typically seen as a separate sector from that of care homes, but there are some increasing synergies. Top-end care homes are beginning to adopt the "living" element by incorporating more leisure and lifestyle facilities as well as luxury hotel style furnishing and decoration. Similarly, senior living developments also focus on the "care" element by branching out their models to include assisted living, memory care and personal care packages for residents.

These synergies are best displayed through the emergence of the retirement village or CCRC (Continuing Care Retirement Community) model. While in its infancy in the UK, CCRC's are already an established and successful concept in the US and Australia. These large scale retirement schemes offer elderly people a pathway from downsizing from their family home into an assisted living or extra care property with the further option of part-time home care packages, all the way through to the option of full-time care within a care home on the same site. While this all-encompassing model targets a more affluent demographic, developers are moving into the affordable space and there is a huge opportunity.

Retirement Village Letcombe Regis, Richmond Villages (part of Bupa), Castloak Development

WHERE TO BUILD? – KNIGHT FRANK DEVELOPMENT HOTSPOTS INDEX

Knight Frank's Care Home Development Index identifies locations that are considered to present the best future prospects for care home 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. The next two tables show a county's ranking on each variable. The Index score indicates a county's total score relative to the national average with indices above one implying above average scores.

Care home development prospects – top 15 counties in England and Wales out of 50 in analysis

COUNTY	REGION	ELDERLY POPULATION*	ECONOMIC GROWTH*	WEALTH	CURRENT SUPPLY	FUTURE SUPPLY	LAND VALUES	AVERAGE WEEKLY FEES	STAFF COSTS	TOTAL SCORE INDEX
1. Buckinghamshire	South East	5	3	4	16	8	46	3	47	**1.54**
2. Greater London	Greater London	1	1	1	3	23	50	11	43	**1.53**
3. South Glamorgan	Wales	19	8	15	11	12	10	17	44	**1.49**
4. Berkshire	South East	6	2	2	8	46	46	2	42	**1.32**
5. Cambridgeshire	East of England	9	7	9	10	36	44	16	25	**1.30**
6. Essex	East of England	16	11	27	15	13	38	30	15	**1.23**
7. Hampshire	South East	14	10	10	22	34	43	8	38	**1.14**
8. Bedfordshire	East of England	2	9	20	14	35	36	28	35	**1.14**
9. Cornwall	South West	35	15	43	7	7	14	9	50	**1.13**
10. Avon & Somerset	South West	26	14	12	12	26	40	21	29	**1.13**
11. West Midlands	West Midlands	36	32	24	1	16	25	31	19	**1.10**
12. Cumbria	North West	48	43	16	9	3	10	36	20	**1.10**
13. Warwickshire	West Midlands	30	30	7	31	1	33	32	21	**1.10**
14. Northamptonshire	East Midlands	4	26	18	29	44	31	26	9	**1.09**
15. West Yorkshire	Yorks & The Humber	25	21	23	30	28	9	40	11	**1.09**

Source: Knight Frank
*Based on 15 year projection, 2020 to 2035

Top rank — Bottom rank

Care home development prospects – top 6 regions of out of 12 in analysis

COUNTY	ELDERLY POPULATION*	ECONOMIC GROWTH*	WEALTH	CURRENT SUPPLY	FUTURE SUPPLY	LAND VALUES	AVERAGE WEEKLY FEES	STAFF COSTS	TOTAL SCORE INDEX
Lothian (Edinburgh)	1	1	3	5	7	12	1	12	1.23
Grampian (Aberdeen)	5	2	1	8	4	10	3	10	1.20
Borders	8	7	10	1	3	2	11	1	1.20
Highlands & Islands	9	9	4	2	6	1	5	8	1.17
Central (Stirling & Falkirk)	4	5	6	4	12	4	2	9	1.12
Glasgow & Renfrewshire	3	3	2	12	10	11	4	5	1.03

Source: Knight Frank
*Based on 15 year projection, 2020 to 2035

Top rank — Bottom rank

Counties in the South East and East of England score highly because of projected economic growth, elderly population growth and wealth, the latter measured as average levels of income. Prospects for care home development are strong in these markets, especially for those homes targeting the more affluent private pay market. The main challenges to development in these regions are high land and build costs, as well as staff costs which are typically above average for England and Wales.

Cumbria and Warwickshire were the biggest climbers in the index this year.

Both counties rank in the top 15 for levels of wealth, but also have a limited amount of new developments in the pipeline. Lower land values in localities such as these may present developers with significant opportunities to exploit any supply-demand imbalance.

The case for redevelopment: TLC's Candlewood House

Candlewood House (Cricklewood, London), TLC Care, DWA Architects

REFURBISHMENT AND REDEVELOPMENT

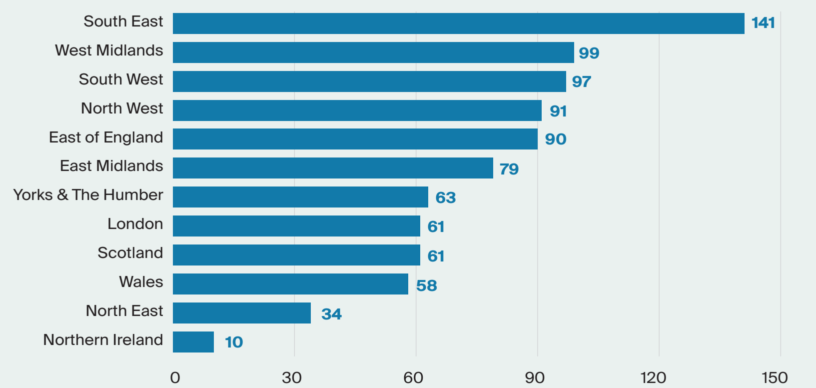
Building enough new care homes is one challenge for the sector, but what about existing stock? With 70% of UK care home facilities built prior to 2000, the more pressing issue for many operators is how to upgrade their existing portfolio.

This process is certainly underway with 884 UK care homes undergoing refurbishment or extension, as of March 2020 according to Glenigan. While COVID-19 may cause some disruption to refurbs already underway, the need to upgrade will increase with operators having to adapt and re-design homes for future pandemics.

The right refurbishments not only improve the quality of care, but can dramatically improve financial performance. Data from Knight Frank's annual *Trading Performance Review* shows that homes refurbished in the last five years, including both conversion and purpose build, are able to generate fees 10% higher while maintaining similar occupancy levels. This results in a significant uplift to profitability, with refurbished homes generating an additional £3,000 of EBITDARM per bed per annum, according to our sample.

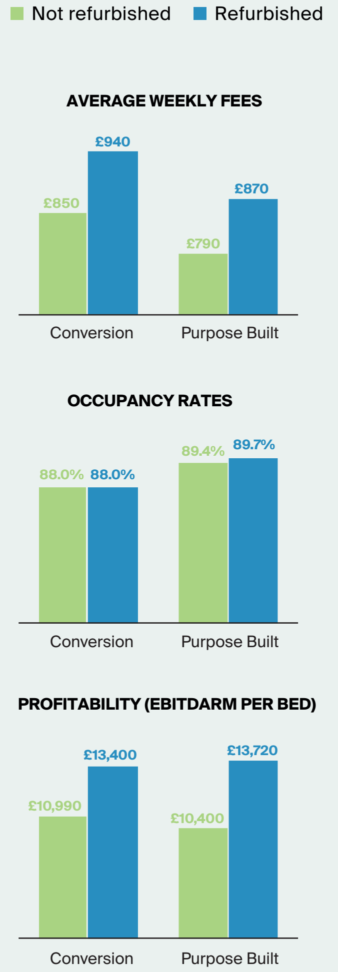
In some cases, a much larger redevelopment may be required to take an underperforming home and turn it into a prime quality care home. There are some exciting examples of this, including Candlewood House (pictured), which transformed a stressed facility into a luxury home with full en suite rooms, outstanding indoor and outdoor space, an orangery and a retro music room. While every redevelopment location is different, carefully planned, well designed and well located developments such as this one have been able to transform into prime future-proofed homes with fee rates that reflect this.

Fig 10: Homes undergoing refurbishment or extension, as of April 2020



Source: Glenigan (April 2020)

Fig 11: Trading data for refurbished care homes vs non-refurbished



Source: Knight Frank Trading Performance Index 2019

Refurbished includes homes refurbished in the last 5 years; Not refurbished includes all homes in the index opened before 2000

FORWARD VIEW

Mandip Bhogal, Healthcare Development Consultant

Demand for modern purpose-built and future-proof care facilities will only continue to increase, owing to our ageing population and the national care bed crisis we face with many care homes in the market currently not up to standard. Although the rate of care home closures may accelerate in the aftermath of COVID-19, construction activity has returned and the long-term demand story is unchanged.

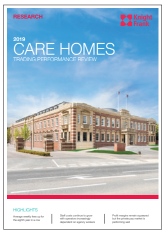
In the next 18 months, we expect to see the repositioning of existing care homes as they look to adapt to a post-COVID-19 environment. As part of a broader high street revitalisation, we also expect to see the re-purposing of well-located alternative use property classes into healthcare or retirement living residences.

Developers, investors and operators active in the care home market will require a greater level 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, Knight Frank have range of services to suit.

Front cover photo: Windsor Court, Wetherby, Ideal Carehomes, LNT Group (Chris Wallbank Photography)

Case study – Candlewood House (page 10): TLC Care, DWA Architects, MP Brothers Construction, John Cobb Consulting and Hide and Seek Studios for interior design.

Recent Publications



Trading Performance Review

Healthcare Capital Markets

UK Healthcare Overview

European Healthcare Report

Please get in touch with us

Healthcare

Julian Evans FRICS
Head of Healthcare
+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
Head of Commercial Valuations
+44 20 7861 1563
kieren.cole@knightfrank.com

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

Commercial Research

Joe Brame
Senior Analyst (Healthcare)
+44 20 3967 7139
joe.brame@knightfrank.com

Senior Living

Tom Scaife
Head of Senior Living
+44 20 7861 5429
tom.scaife@knightfrank.com

Lauren Harwood
Head of Senior Living Research
+44 20 7268 2599
lauren.harwood@knightfrank.com

Project & Building Consultancy

Puneet Vedhera
Associate, Project & Building Consultancy
+44 20 7861 1101
puneet.vedhera@knightfrank.com

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