Healthcare Development Opportunities

Research 2020
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 The growth is partly because larger purpose-built homes are beginning to replace smaller outdated homes; partly because many existing homes are adding beds to meet demand and maximise income; and partly down to better data coverage.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.

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

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Care Homes</th>
</tr>
</thead>
<tbody>
<tr>
<td>South East</td>
<td>1,820</td>
</tr>
<tr>
<td>North West</td>
<td>1,460</td>
</tr>
<tr>
<td>South West</td>
<td>1,400</td>
</tr>
<tr>
<td>East of England</td>
<td>1,120</td>
</tr>
<tr>
<td>West Midlands</td>
<td>1,100</td>
</tr>
<tr>
<td>East Midlands</td>
<td>1,030</td>
</tr>
<tr>
<td>Yorks &amp; The Humber</td>
<td>1,000</td>
</tr>
<tr>
<td>London</td>
<td>790</td>
</tr>
<tr>
<td>North East</td>
<td>550</td>
</tr>
<tr>
<td>Scotland</td>
<td>830</td>
</tr>
<tr>
<td>Wales</td>
<td>630</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>330</td>
</tr>
</tbody>
</table>

Source: Tomorrow’s Guides, ONS

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

- North East: 35.9
- North West: 32.4
- East Midlands: 31.6
- Yorks & The Humber: 31.5
- West Midlands: 28.4
- South East: 28.1
- South West: 27.2
- East of England: 26.2
- London: 19.7
- Northern Ireland: 34.9
- Scotland: 28.9
- Wales: 25.7

Source: Tomorrow’s Guides, ONS

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

- 2010: 34.9
- 2020: 25.7
- 2030: 19.7

*Forecast calculated by applying CAGR growth rate for beds from 2010-2020 (0.6%) to ONS population projections

Source: Tomorrow’s Guides, ONS
**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 Frank’s tracking of major operators shows that occupancy has remained incredibly well. Knight Franks’ tracking of the sector so far suggests most operators are well-prepared.

Long-term drivers won’t change: While the COVID-19 pandemic will add to the financial pressures for many 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 and wet room facilities (as pictured below) as standard to promote resident 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 social distancing; larger rooms with full en-suite and wet room facilities (as pictured below) as standard to promote resident social distancing; larger rooms with full en-suite and wet room facilities (as pictured below) as standard to promote resident social distancing. 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 social distancing; larger rooms with full en-suite and wet room facilities (as pictured below) as standard to promote resident social distancing. 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 social distancing; larger rooms with full en-suite and wet room facilities (as pictured below) as standard to promote resident social distancing. 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 social distancing; larger rooms with full en-suite and wet room facilities (as pictured below) as standard to promote resident social distancing.

**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 and 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.

**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 more widespread use of technology (E.g. acoustic monitoring) both to protect residents against outbreaks, but also to drive efficiency and assist care staff.

**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.**
**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).

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.

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### Table 1: Specification and costing of care home classes

<table>
<thead>
<tr>
<th>SPECIFICATION</th>
<th>TERTIARY (CONVERSIONS)</th>
<th>SECONDARY (OLDER PURPOSE-BUILT)</th>
<th>PRIME INCLUDING REDEVELOPMENTS</th>
<th>SUPER PRIME NEW BUILDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Build type</td>
<td>Converted use</td>
<td>Purpose built</td>
<td>Modern purpose built</td>
<td>Modern purpose built</td>
</tr>
<tr>
<td>Age</td>
<td>pre 1990</td>
<td>1990 to 2000</td>
<td>2000 to present</td>
<td>2015 onwards</td>
</tr>
<tr>
<td>Size (beds)</td>
<td>25 to 40</td>
<td>40 to 80</td>
<td>60 to 90</td>
<td>60 to 90</td>
</tr>
<tr>
<td>Room size</td>
<td>≤32m²</td>
<td>12 to 15m²</td>
<td>≤30m²</td>
<td>≤30m²</td>
</tr>
<tr>
<td>Bathrooms</td>
<td>Shared facilities or en suite rooms (WC &amp; wash basin only)</td>
<td>Shared facilities or en suite (WC, wash basin and sometimes wet room)</td>
<td>En suite (WC &amp; wet room)</td>
<td>En suite (WC &amp; wet room)</td>
</tr>
<tr>
<td>Land size</td>
<td>Mixed</td>
<td>0.5 to 1 acre</td>
<td>1 to 1.2 acres</td>
<td>1 to 2 acres (regional)</td>
</tr>
<tr>
<td><em>Typical Resident</em></td>
<td><em>Lower income / high dependency</em></td>
<td><em>Average income / high and low dependency</em></td>
<td><em>Higher income / high and low dependency</em></td>
<td><em>Higher income / low dependency / dementia care</em></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CAPITAL COSTS*</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Build cost (per bed)*</td>
<td>n/a</td>
<td>n/a</td>
<td>£100K+</td>
<td>£125K+</td>
</tr>
<tr>
<td>Average weekly fees</td>
<td>£650 to £950</td>
<td>£850 to £1250</td>
<td>£950 to £1250</td>
<td>£1,300+</td>
</tr>
<tr>
<td>EBITD ARM (at maturity)</td>
<td>20% to 25%</td>
<td>25% to 30%</td>
<td>30% to 35%</td>
<td>35% to 45%</td>
</tr>
<tr>
<td>Yield (net initial)</td>
<td>6% to 7%</td>
<td>6% to 7%</td>
<td>4% to 5%</td>
<td>3.5% to 4%</td>
</tr>
</tbody>
</table>

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*Please note: costings will differ according to region, funding type and care type*
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.

The Care Village: Synergies Between Healthcare & Senior Living

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

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

<table>
<thead>
<tr>
<th>COUNTY</th>
<th>REGION</th>
<th>ELDERLY POPULATION*</th>
<th>ECONOMIC GROWTH*</th>
<th>HEALTH</th>
<th>CURRENT SUPPLY</th>
<th>FUTURE SUPPLY</th>
<th>LAND VALUES</th>
<th>AVERAGE WEEKLY FEES</th>
<th>STAFF COSTS</th>
<th>TOTAL SCORE INDEX</th>
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</thead>
<tbody>
<tr>
<td>Buckinghamshire</td>
<td>South East</td>
<td>5</td>
<td>3</td>
<td>15</td>
<td>18</td>
<td>16</td>
<td>46</td>
<td>3</td>
<td>47</td>
<td>1.54</td>
</tr>
<tr>
<td>Greater London</td>
<td>Greater London</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>23</td>
<td>70</td>
<td>11</td>
<td>63</td>
<td>1.53</td>
</tr>
<tr>
<td>South Glamorgan</td>
<td>Wales</td>
<td>16</td>
<td>16</td>
<td>15</td>
<td>11</td>
<td>12</td>
<td>10</td>
<td>17</td>
<td>54</td>
<td>1.49</td>
</tr>
<tr>
<td>Berkshire</td>
<td>South East</td>
<td>6</td>
<td>2</td>
<td>12</td>
<td>16</td>
<td>14</td>
<td>46</td>
<td>4</td>
<td>80</td>
<td>1.32</td>
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<tr>
<td>Cambridgeshire</td>
<td>East of England</td>
<td>9</td>
<td>7</td>
<td>19</td>
<td>20</td>
<td>16</td>
<td>45</td>
<td>16</td>
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<td>1.30</td>
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<td>11</td>
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<td>19</td>
<td>18</td>
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<td>2</td>
<td>15</td>
<td>1.26</td>
</tr>
<tr>
<td>Bedfordshire</td>
<td>East of England</td>
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<td>1</td>
<td>23</td>
<td>13</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>15</td>
<td>1.26</td>
</tr>
<tr>
<td>Cornwall</td>
<td>South West</td>
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<td>12</td>
<td>19</td>
<td>18</td>
<td>45</td>
<td>14</td>
<td>50</td>
<td>1.20</td>
</tr>
<tr>
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<td>South West</td>
<td>25</td>
<td>15</td>
<td>12</td>
<td>12</td>
<td>16</td>
<td>45</td>
<td>12</td>
<td>30</td>
<td>1.00</td>
</tr>
<tr>
<td>Kent</td>
<td>South East</td>
<td>22</td>
<td>12</td>
<td>25</td>
<td>11</td>
<td>16</td>
<td>35</td>
<td>15</td>
<td>30</td>
<td>1.00</td>
</tr>
<tr>
<td>South Yorkshire</td>
<td>West Midlands</td>
<td>14</td>
<td>11</td>
<td>25</td>
<td>14</td>
<td>16</td>
<td>45</td>
<td>13</td>
<td>30</td>
<td>1.00</td>
</tr>
<tr>
<td>East Midlands</td>
<td>West Midlands</td>
<td>12</td>
<td>12</td>
<td>15</td>
<td>12</td>
<td>11</td>
<td>35</td>
<td>12</td>
<td>30</td>
<td>1.00</td>
</tr>
<tr>
<td>Warwickshire</td>
<td>West Midlands</td>
<td>10</td>
<td>10</td>
<td>12</td>
<td>10</td>
<td>10</td>
<td>35</td>
<td>10</td>
<td>30</td>
<td>1.00</td>
</tr>
<tr>
<td>Northamptonshire</td>
<td>East Midlands</td>
<td>2</td>
<td>8</td>
<td>15</td>
<td>8</td>
<td>9</td>
<td>45</td>
<td>9</td>
<td>15</td>
<td>1.00</td>
</tr>
<tr>
<td>West Yorkshire</td>
<td>Yorks &amp; The Humber</td>
<td>25</td>
<td>21</td>
<td>23</td>
<td>20</td>
<td>19</td>
<td>45</td>
<td>9</td>
<td>40</td>
<td>1.00</td>
</tr>
</tbody>
</table>

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

Retirement Village, Letcombe Regis, Retired Village (part of Bupa), Castleton Development
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.

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.

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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.

The case for redevelopment: TLC’s Candlewood House

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

Fig 10: Trading data for refurbished care homes vs non-refurbished
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 ranges of services to suit.

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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