

# Healthcare Development Opportunities



2023

With the sustained demographic shift, understanding supply levels is becoming increasingly important.

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# Spotlight on the UK care home supply

The continued interest in UK healthcare markets is based on strong fundamental drivers such as demographic shifts, secure income and consistency regarding performance – so understanding current and future supply levels is becoming increasingly important. This year’s report dives into the current state of supply and pipeline, while considering the factors that contribute to our annual development hotspots.

We begin our analysis with figure 1, showing the evolution of bed supply. This year, for the first time, we have seen bed numbers shrink, with a loss of 177 beds. Even more compelling, while bed supply has grown just 2.7% over the last decade, the over-65 population has grown by around 19% over the same period.

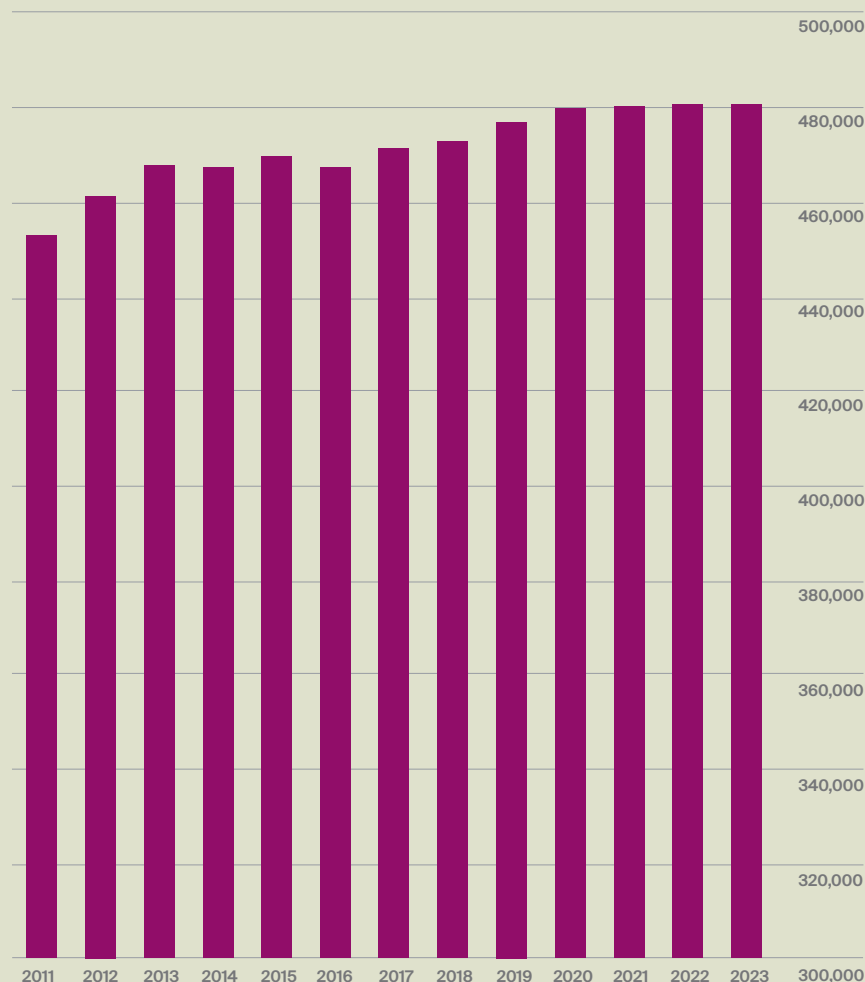
Figure 2 points to a continuation of the trend for greater deregistrations over the last five years. This is due to the fact that much of the stock consists of smaller, older assets which are naturally being replaced by newer, larger purpose-built homes. It is also important to note that improvements in the data pool and sources have maintained the level of beds captured among the losses.

Figure 3 further assesses these deregistrations, suggesting that, on average, there is a leakage of approximately 1.7% of supply when assessed on a regional basis.

Moving on to figure 4, two key themes emerge. First, we are simply not building enough, with net losses for the period in question growing. And second, the Midlands is the region attracting the most new beds.

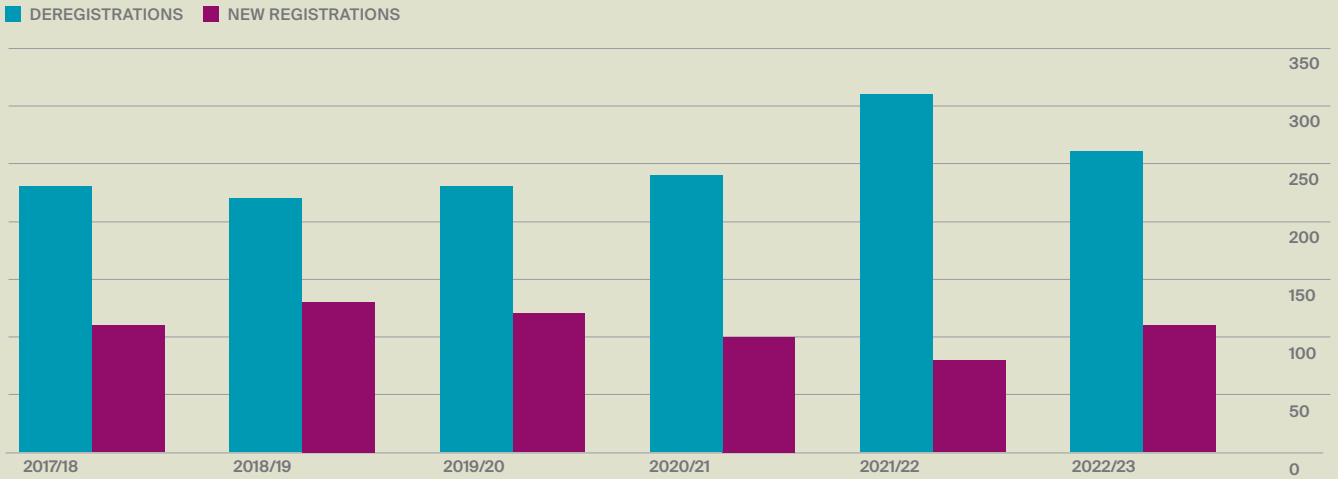
**“This year, for the first time, we have seen bed numbers shrink, with a loss of 177 beds.”**

Fig 1: UK elderly care home beds



Source: Knight Frank, Tomorrow's Guides, Laing Buisson

**Fig 2: Deregistered homes vs new-registered homes, (2017/18 to 2022/23)**



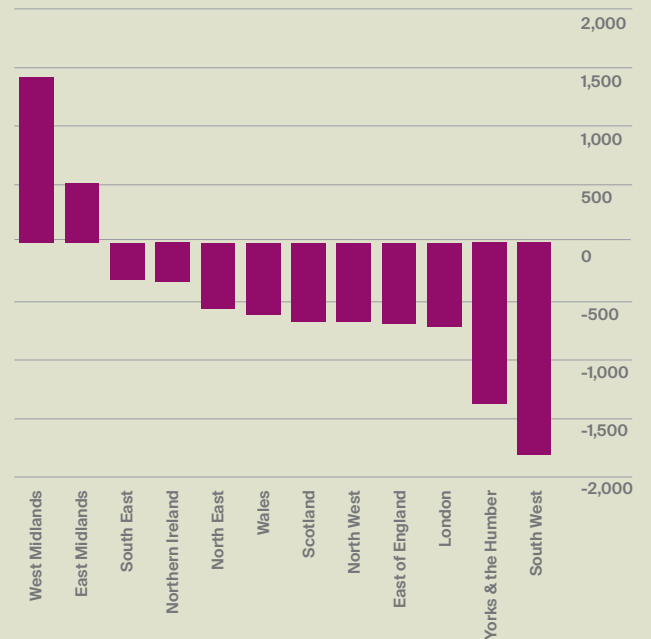
Source: Knight Frank, Tomorrow's Guides

**Fig 3: Deregistrations (12 months to April 2023) as % of total stock**



Source: Knight Frank, Tomorrow's Guides

**Fig 4: Net gain/loss of beds by region (2017/18 to 2022/23)**



Source: Knight Frank, Tomorrow's Guides

# The state of current supply

As shown in figure 5, most of the market requires an upgrade. The UK care home market mainly consists of older, purpose-built stock that, in some cases, may be considered obsolete. This comes down to size, and lack of en suite or full wetroom facilities. With this in mind, an opportunity presents itself to those willing to repurpose and reposition the current supply. The Covid-19 pandemic highlighted the need to focus on virus control and wellbeing, while ESG and net zero pressures will also play a role in the direction of future supply. However, what is apparent now more than ever is the need to pay attention to the weak points in the current supply and, as a sector, work to rectify these.

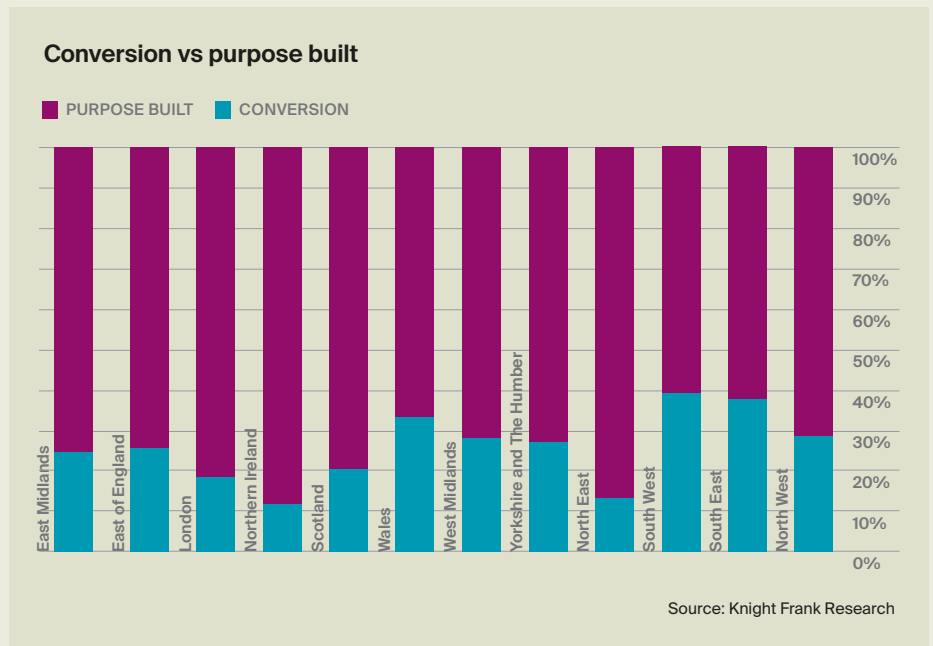


Fig 5: Why the UK care home market needs upgrading



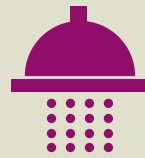
**81%**

of homes are older than 20 years



**40%**

of homes (approximately) are converted from other use and many will be outdated



**29%**

of beds lack en suite facilities

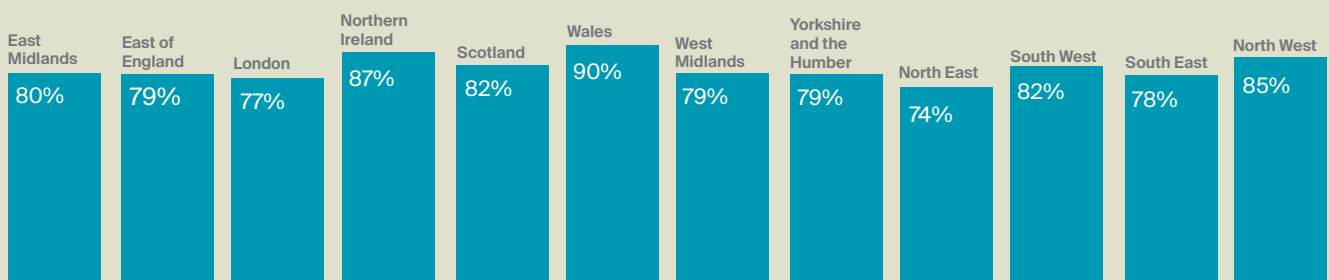


**21%**

of homes are currently rated by the CQC as "requires improvement" or "inadequate"

Source: Knight Frank Research

% over 20 years old



Source: Knight Frank Research

Homes **11,907**

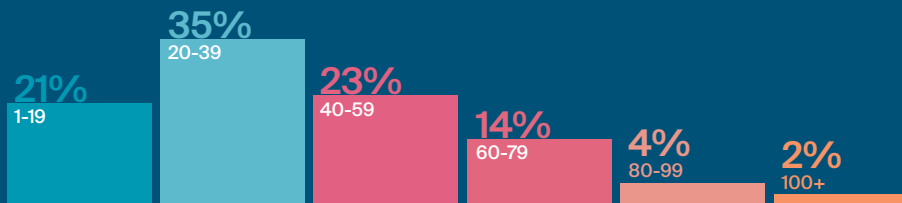
Beds **480,578**

### % of homes by ownership

LOCAL AUTHORITY NHS/PCT TRUST PRIVATE VOLUNTARY/CHARITY



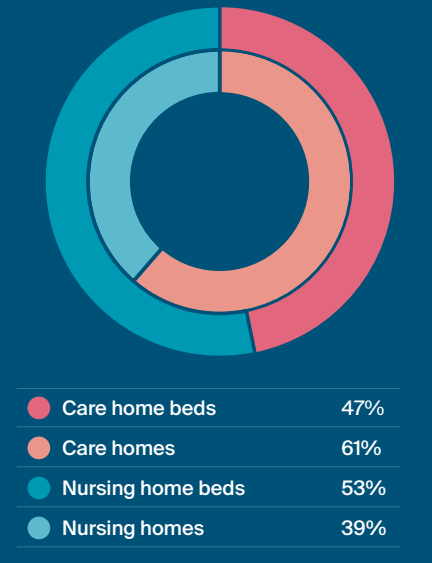
### Homes by size



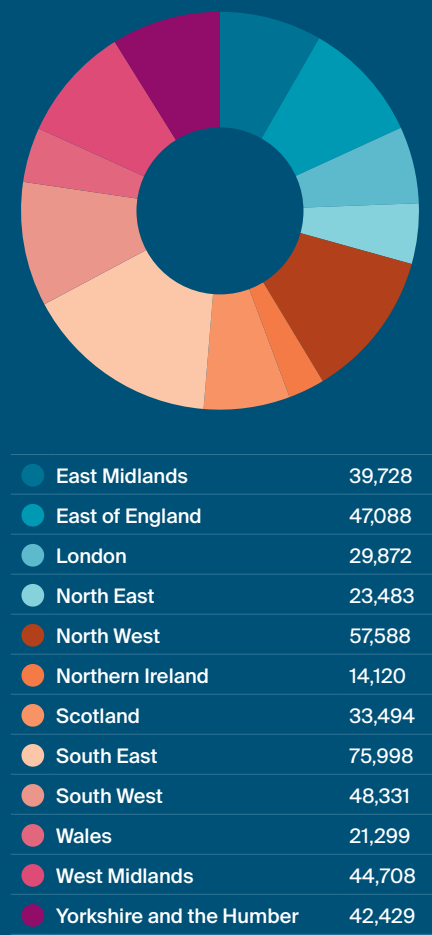
### En suite beds %



### Care type



### Beds by region



### CQC rating



# New-build care homes

In figure 6, we look at the number of new homes completed over the last seven years and the number completed in 2023 to date. While 2022 saw a circa 15% dip in the number of new homes completed, we have seen a promising start to 2023, which is likely to have benefited from the delayed completion of some of the homes that had been due to complete last year.

Careful and well-informed research is a vital part of the development process. Knight Frank’s Development Hotspots Index gives a simplified insight into which locations offer the best prospects for care home development. The index analyses 50 counties in England and Wales, and 12 in Scotland, based on eight variables including demographic and economic projections, levels of wealth, existing bed supply, the future supply pipeline, land values, and operational performance. The table shows each county’s ranking against each of these

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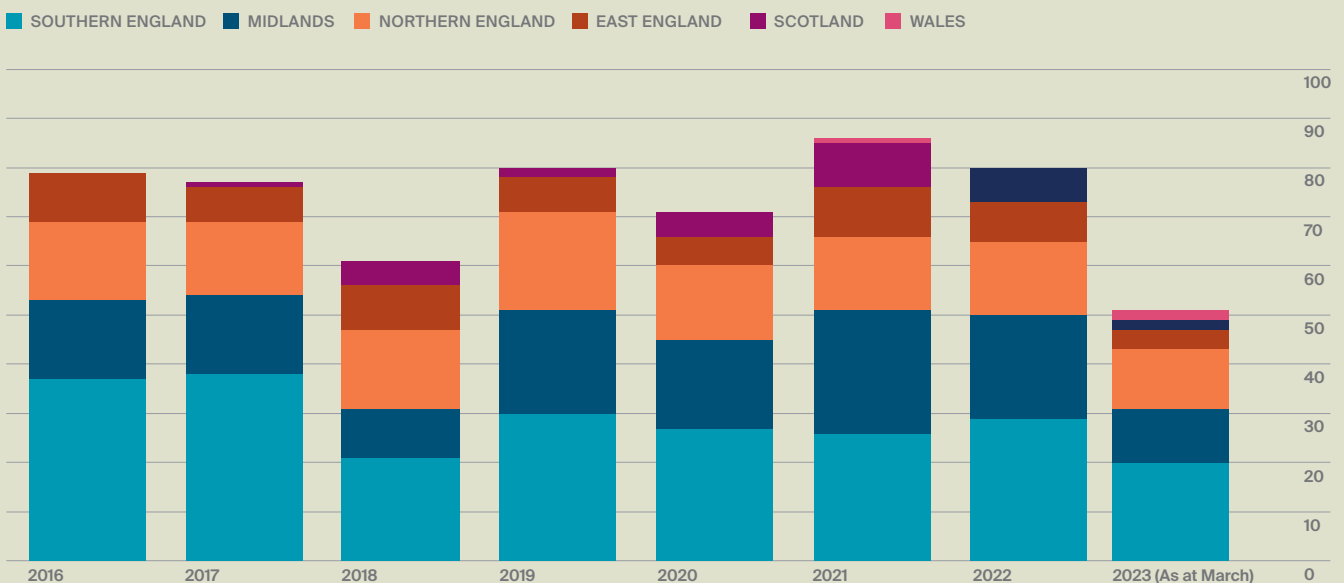
variables. The total index score indicates a county’s total score relative to the national average, with indices above one implying above-average scores.

The index highlights the dominance of the South East and East of England, with seven of the twelve hotspots falling into these regions. This also includes Greater London, which has the second-highest index score this

year. These counties tend to score well due to expected demand for care beds, indicated by high elderly population growth, economic growth and wealth – all of which are drivers of bed demand for self-funded residents. It is also useful to consider the barriers to supply, such as current and future supply levels.

Data is instrumental in the site selection process, and access to market insight is essential for any prospective care home development. Benchmarking chosen locations against broader regional metrics allows investors and developers to address demand and supply imbalances, and provides vital intelligence into local fee levels, staff costs and much more. Our development consultancy team can take your research even further, providing market-leading feasibility studies that take due diligence and research to greater levels of detail.

**Fig 6: UK new purpose-build care homes completed**



Source: Knight Frank

## Supporting site selection: the Knight Frank Development Hotspots Index

Rank	County	Region	Total score index	Demand			Supply			Operation	
				Elderly population growth*	Economic growth*	Wealth	Current supply	Future supply	Land values	Average weekly fees	Staff costs

### England and Wales - top 12 counties out of 50 in analysis

1	South Glamorgan	Wales	1.75	22	8	16	9	7	9	1	44
2	Greater London	London	1.49	1	1	1	4	18	50	14	47
3	Buckinghamshire	South East	1.43	6	3	4	15	47	46	2	19
4	Wiltshire	South West	1.42	4	16	14	16	12	34	20	27
5	Cambridgeshire	East of England	1.37	10	6	9	18	24	44	22	15
6	Greater Manchester	North West	1.35	19	27	21	1	13	21	43	6
7	Northamptonshire	East Midlands	1.26	3	26	18	27	15	31	27	14
8	Berkshire	South East	1.22	5	2	2	13	49	46	4	46
9	Hampshire	South East	1.15	16	10	10	25	36	43	8	28
10	Suffolk	East of England	1.13	23	22	17	26	17	28	18	29
11	Hertfordshire	East of England	1.13	7	12	7	40	21	48	15	30
12	Bedfordshire	East of England	1.09	2	9	22	14	48	36	25	31

### Scotland - top 6 counties out of 12 in analysis

1	Lothian	Scotland	1.39	1	1	3	5	7	12	4	4
2	Highlands & Islands	Scotland	1.26	8	10	4	3	2	1	8	5
2	Lanarkshire	Scotland	1.26	3	6	8	6	1	3	12	2
4	Grampian	Scotland	1.17	5	2	1	8	6	10	3	9
5	Central	Scotland	1.14	2	5	6	4	12	3	1	12
6	Borders	Scotland	1.05	7	7	10	2	8	1	7	7

Top rank

Bottom rank

Source: Knight Frank \* Based on 15-year projection, 2021 to 2036



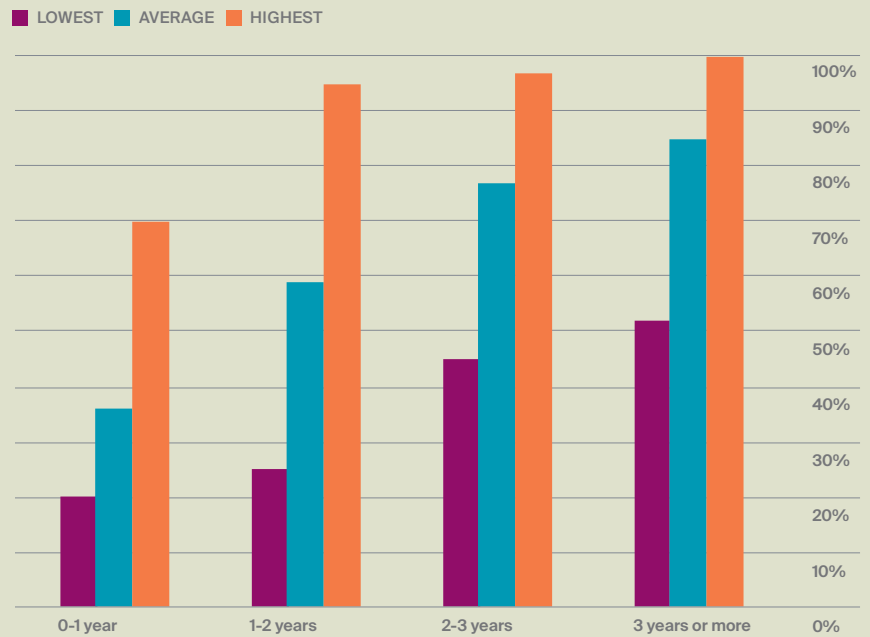


# Demand for care

Figure 7 demonstrates the importance of understanding local supply and demand characteristics before embarking on new developments. As per our research, the average new-build care home takes at least two years to reach full occupancy. However, fill rates vary, with high-quality sites running at 70% occupancy within one year, while others can take longer to reach maturity – in some cases as long as four years. In regions such as the South East, new-build homes are able to command higher weekly fees but ramp-up is slowed due to there already being care provision in place and available to prospective residents.

Such differences can translate into income gains or losses in the millions over a three-year period, highlighting the importance of investing time and money into the site-selection process.

**Fig 7: New care home fill rates**



Source: Knight Frank

**Fig 8: Elderly care beds (per 100 people over 85)**



Source: Tomorrow's Guides



# Land values and build costs

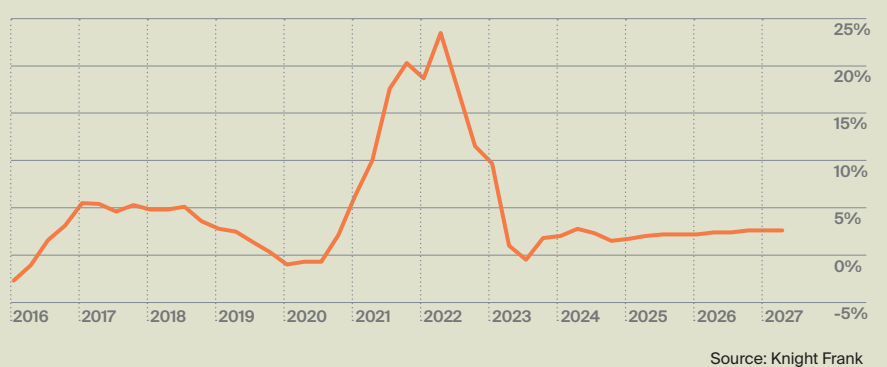
Figure 9 highlights our view of regional land values and their respective ranges. London presents as having the highest values, overlapping slightly with the South East. However, we have revised our spread of values this year due to the understanding that there will need to be some movement in line with rising build and material costs to support current end values. An example of this can be seen in figures 10 and 11. Figure 10 highlights the average spike in building materials at around 15%, with a high of approximately 40%. Figure 11 then highlights the circa 20% increase in import costs for materials during 2022.

**“London presents as having the highest values, overlapping slightly with the South East.”**

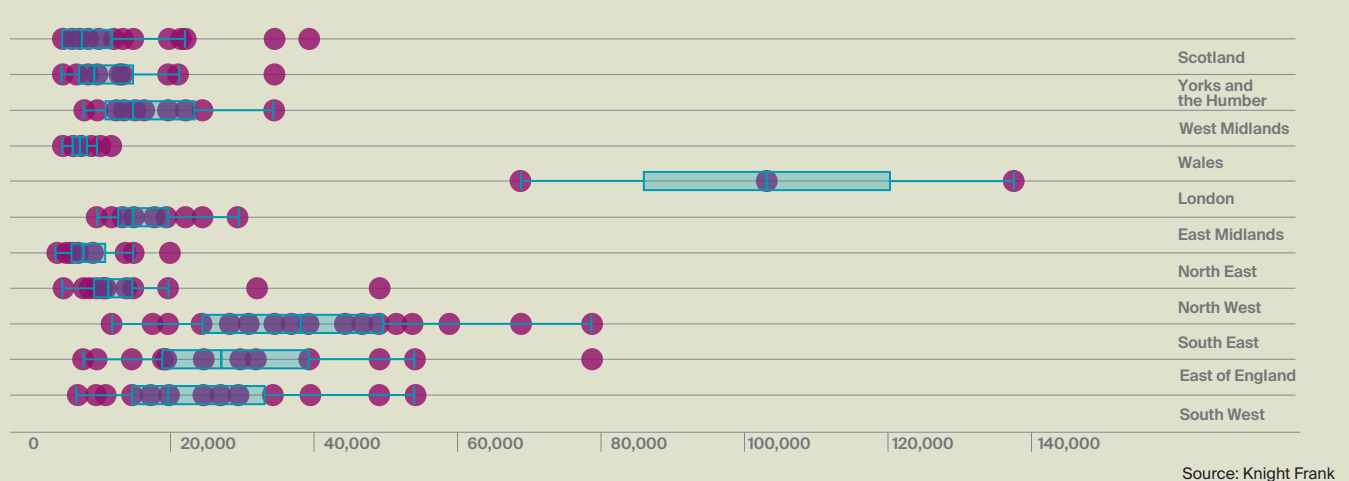
**Fig 10: Price indices of construction materials**



**Fig 11: BCIS UK materials cost index, % change year on year**



**Fig 9: Regional land values (per bed)**



# Futureproofing elderly care



## James Gant, Development Director, Cinnamon Care Collection

Cinnamon Care Collection is an exclusive group of luxury care homes and retirement developments in beautiful locations throughout the UK.

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### Q. What are your thoughts on the sector's current supply of stock?

Roughly 15 years ago, it was very much a “flight to quantity”. Many care home operators were looking to purchase as many properties as they could, as quickly as they could, in order to expand their portfolios. Over the years, this has turned 180 degrees and has now become a “flight to quality”, with the calibre of a portfolio being the key driver rather than the number of beds across the estate. Therefore, over time the quality of stock has improved vastly and, as such, the old matrix of how many of the competitors have en suite wet rooms is now mostly redundant. The quality and size of space per resident in the new care homes coming to the market is much further forward than, say, five years ago. The quality of the new stock is better and better, but operators are going to face challenges keeping old stock going, with increased running and refurbishment costs.

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### Q. How can developers and operators move forward in incorporating ESG into their current strategies?

By adopting a wider and more holistic approach to the ESG strategy of the whole business. ESG seems to be broadly spoken about in terms of energy savings within new-build and refurbished properties above the minimum standards required by building control and the local planning

authority. While it may be the choice of developers and operators to go beyond these minimum requirements, there is a much larger piece of work that could be undertaken by the whole business to expand their ESG policy into the social and governance aspects as well as the environmental.

### Q. How can developers and operators manage the rise in build costs resulting from current inflationary pressures?

It is unclear whether developers and operators are able to manage and have any impact on the rise in current build costs. One option is to value engineer the product downwards, reducing build costs to bring them in line with pre-inflation levels. However, in many cases this simply isn't possible, as it is a case of “keeping up with the Joneses”. While you may reduce the quality specification, your competitor may not, and you run the risk of having



Watermeadow Grange, Topsham. This home comprises of 70 single bedrooms and 8 suites. Awaiting practical completion, with home opening scheduled for Summer 2023.

an inferior product. Another option is to hold off commencing building works until such time as the construction industry enters a recession and build costs come down. However, the hold cost may mean this is simply not an option.

It is likely that most developers and operators are having to absorb the additional costs and have a reduced return on the investment in the longer term.

**Q. What are the key points to consider when selecting a site?**

Population density. Age profile. Market size. Average house price. Availability of staff. Strength of the competition.

**Q. How do you envision the cost of debt impacting the sector's ability to provide new, future-proofed care beds?**

We see this as a similar challenge to rising build costs. If developers/

operators want to continue their estate, then either the business will have to absorb the costs or value engineer the product downwards. As with build costs, this can either be achieved either through changes to specification and finishes, or by maximising bed numbers and offsetting this with a reduction in the GIA per resident.

**Q. What are your thoughts on the current lender pool and the possible shift from conventional debt to more innovative funding?**

The shift from conventional debt funding to more innovative sources of funding was already happening, even while the interest rates were low. This was driven by reduced appetite from conventional lenders forcing developers to look at other options. In a low interest environment, it was an option for a developer to go to innovative

funders, as the higher interest rate could be absorbed.

However, we could possibly see a shift back to conventional lenders who are still willing to engage with quality developers/operators, as their interest rates will be lower than the innovative funders. It's also possible that the conventional lenders could be forced back to taking on quality developers and operators, as they are losing business.

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# Forward view



JULIAN EVANS,  
HEAD OF HEALTHCARE

In 2022, approximately 10,000 new beds were granted via planning applications, as seen in figure 12. This is via a mix of refurbishment and extensions to existing stock and new-build schemes. While completion of these schemes will substantially add to the circa 480,000 existing bed supply, an important consideration is the scheme type and delivery potential. Many potential new beds are by way of mixed-use schemes, with

the option for an on-site care setting, which may not reach build-out due to social and economic factors impacting feasibility. It is also vital to note the extent to which these new beds will be considered future proof, with a vast percentage of pre-existing beds no longer considered wholly fit for purpose due to the lack of features, such as full wet room inclusion. Therefore, delivering additional beds in any capacity will be a welcome addition to pure availability and overall stock quality moving forward.

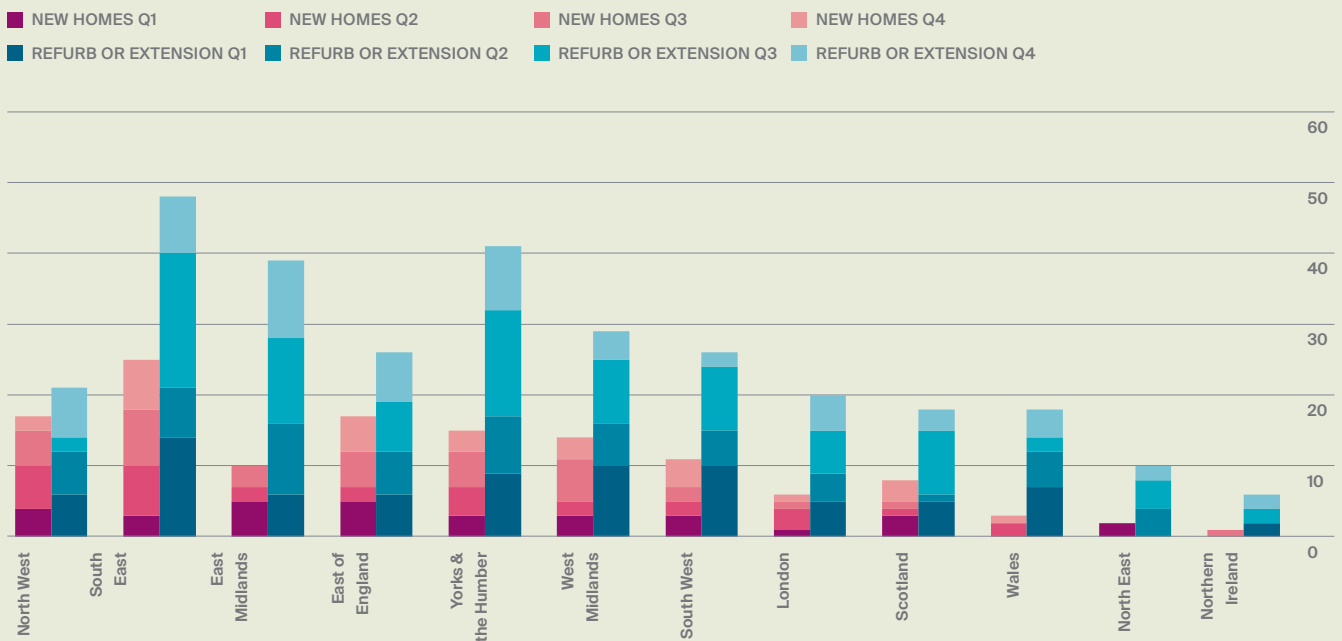
Beyond this, figure 13 highlights our projections for the overall shortfall in bed supply. Considering the slight dip in this year’s supply numbers, it is more than clear that we need to build more homes to service our ageing population. The demographic shift is such that by 2050 we anticipate a shortfall of more than 200,000 beds.

Again, while new beds are being developed, the level of home closures means that supply cannot keep up with demand.

The UK elderly care market is at risk of reaching capacity by the end of the decade, and this is a worrying projection. Not only must we build more care homes, but we must take action to support standing stock to reduce the level of home closures, which continues to work against the delivery of new homes as we attempt to grow the supply level.

**“The demographic shift is such that by 2050 we anticipate a shortfall of more than 200,000 beds.”**

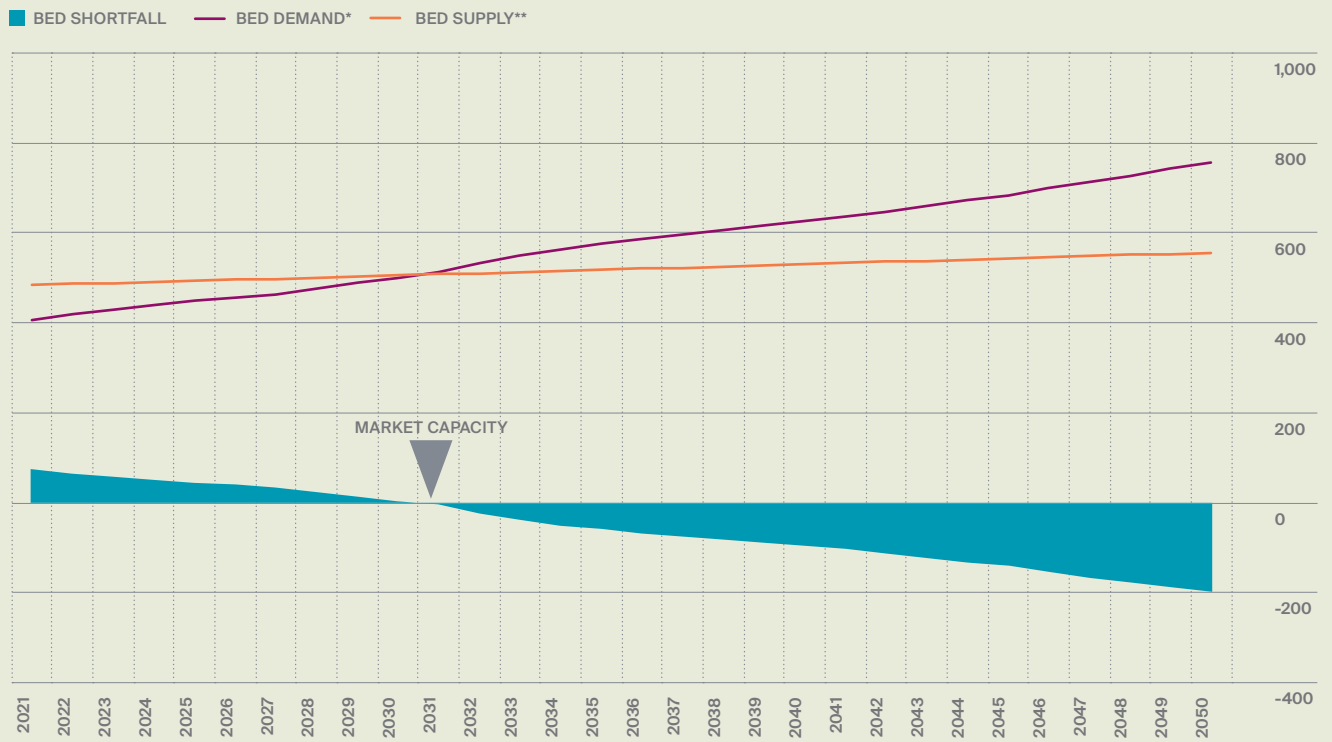
Fig 12: Schemes with granted planning



Source: Glenigan



**Fig 13: Projected shortfall of elderly care beds ('000s)**



Sources: Knight Frank, Laing Buisson, Tomorrow's Guides, ONS, BMJ.  
 \* Excess deaths in 2020 have been built into this projection. \*\* Future supply is based on the growth rate seen between 2011 and 2021.



Angmering Grange Care Home, Hallmark Care Homes

We like questions. If you've got one about our research, or would like some property advice, we would love to hear from you.

## Healthcare



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