Healthcare Development Opportunities
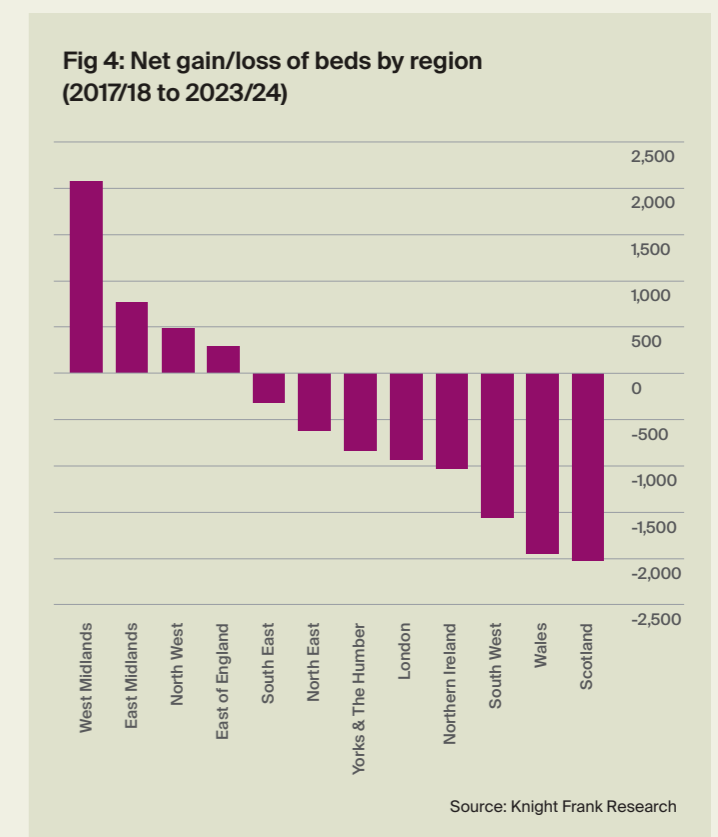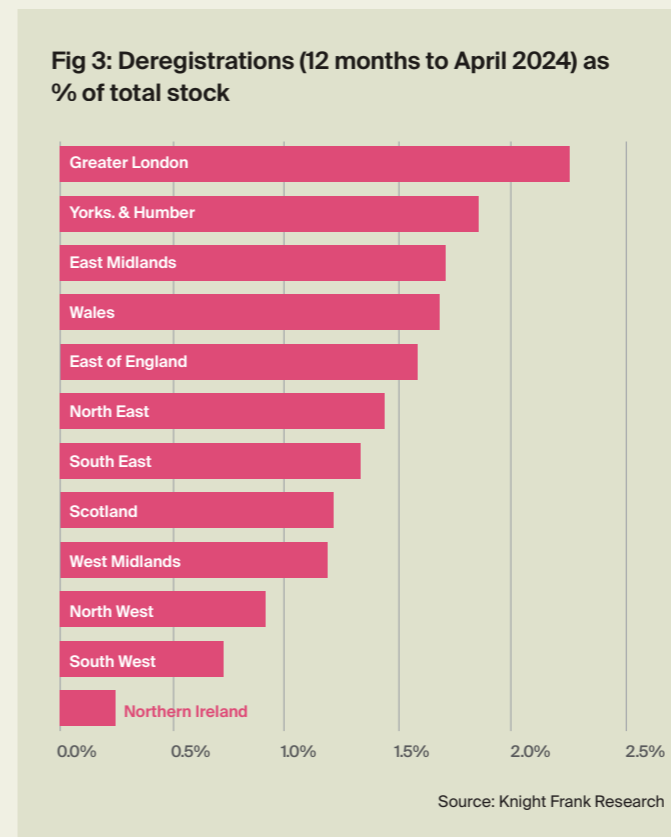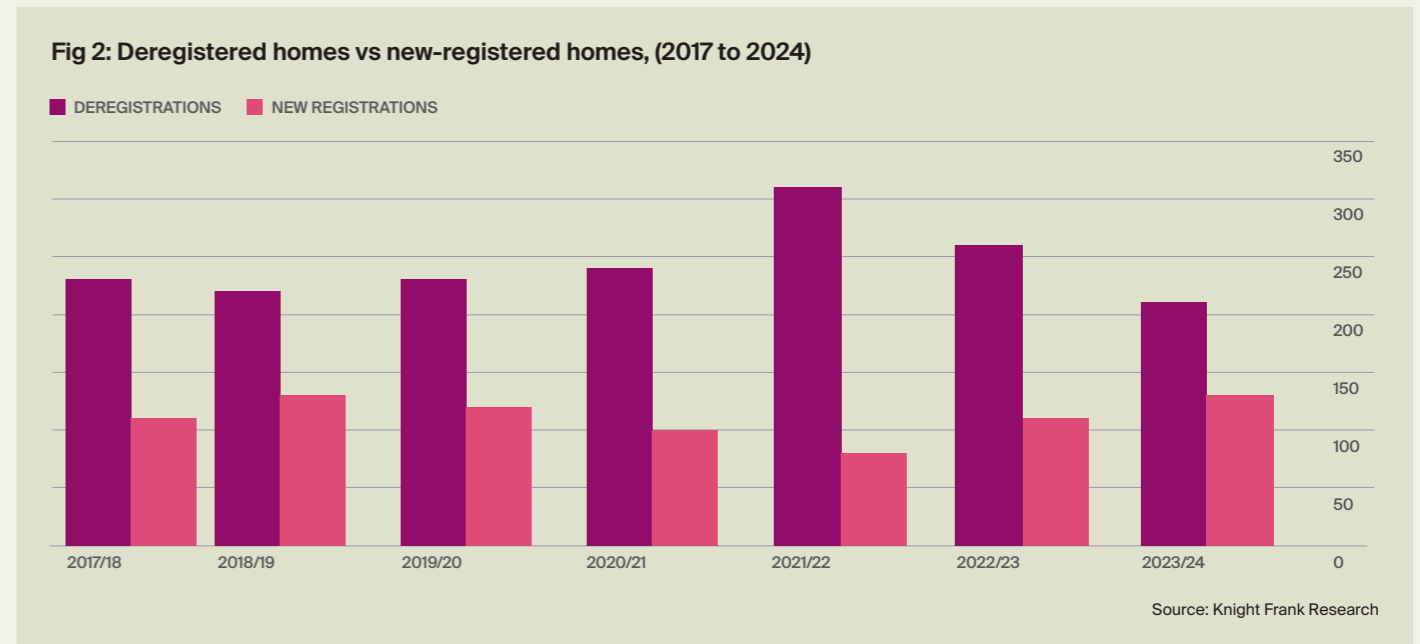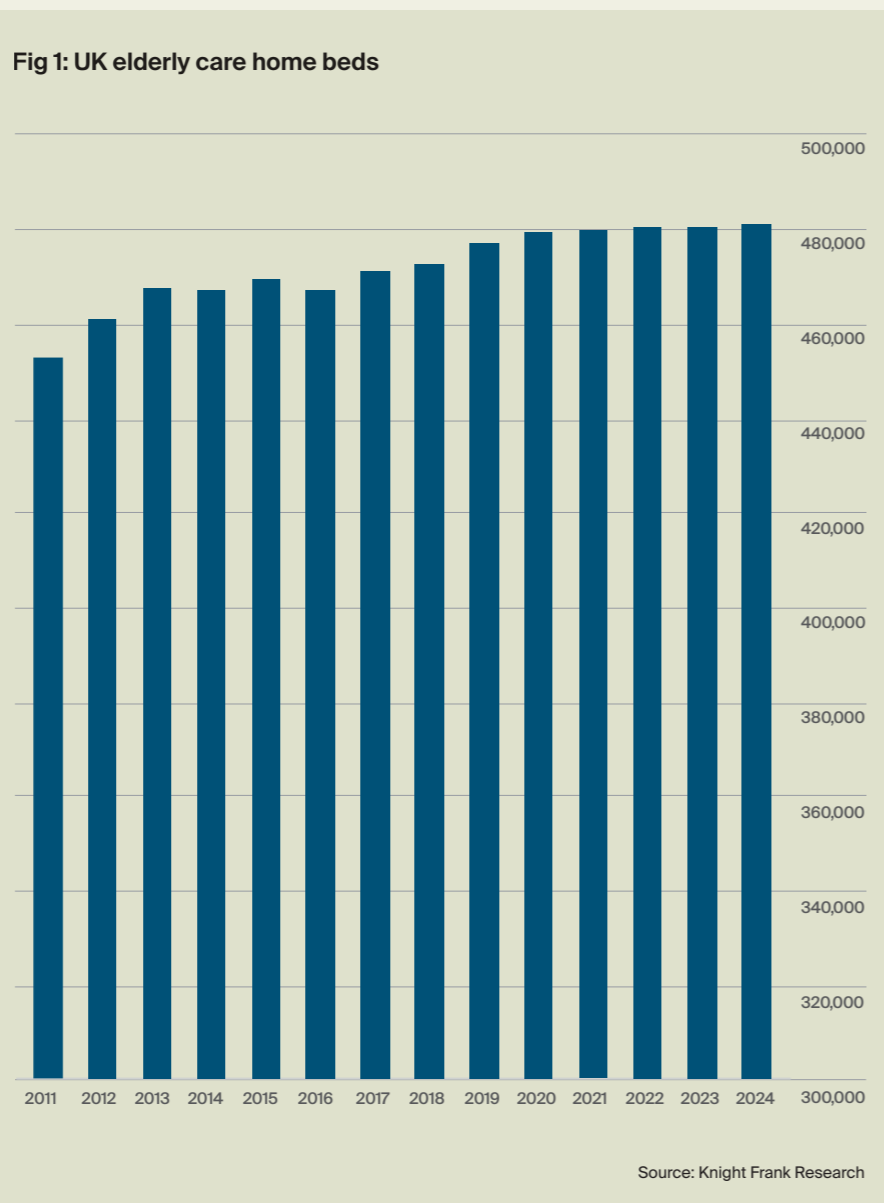
Knight Frank

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. Therefore, understanding current and future supply levels is becoming increasingly important. This year, we will take a deep dive into the current state of supply and pipeline while considering the factors contributing to our annual development hotspots.

We begin our analysis with Figure 1, showing the evolution of bed supply. This year, we have seen bed numbers grow by 519 beds. Even more compelling, while bed supply has grown 3% over the last decade, the over 65 population has grown by around 16% over the same period. Figure 2 points to a continuation of the trend for greater deregistrations over the last five years. This is because much of the deregistered stock consists of smaller, and 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 1.4% of supply when evaluated on a regional basis. Moving on to Figure 4, two key themes emerge. First, we are not building enough, with net losses for the period in question growing. Second, the Midlands is the region that attracts the most new beds.

> "This year, we have seen bed numbers grow by 519 beds."

Fig 1: UK elderly care home beds

Source: Knight Frank Research

Fig 2: Deregistered homes vs new-registered homes, (2017 to 2024)

■ DEREGISTRATIONS ■ NEW REGISTRATIONS

Source: Knight Frank Research

Fig 3: Deregistrations (12 months to April 2024) as % of total stock

Source: Knight Frank Research

Fig 4: Net gain/loss of beds by region (2017/18 to 2023/24)

Source: Knight Frank Research

Current supply composition

As shown in Figure 6, 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 exists for 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.
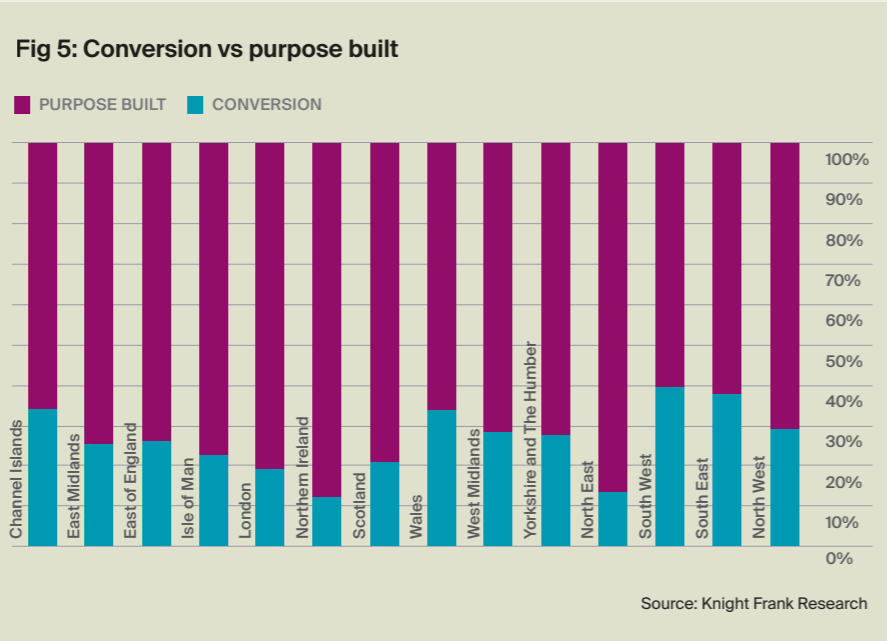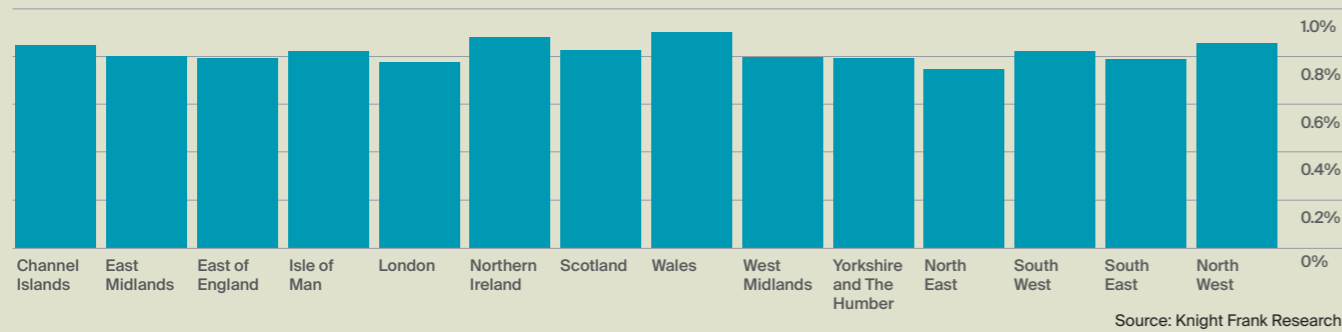
Fig 5: Conversion vs purpose built

PURPLE BUILT / CONVERSION — (Channel Islands, East Midlands, East of England, Isle of Man, London, Northern Ireland, Scotland, Wales, West Midlands, Yorkshire and The Humber, North East, South West, South East, North West)

Source: Knight Frank Research

Fig 6: Why the UK care home market needs upgrading

80% of homes are older than 20 years

36% of homes (approximately) are converted from other use and many will be outdated

23% of beds lack en suite facilities

20% of homes are currently rated by the CQC as "requires improvement" or "inadequate"

Source: Knight Frank Research

Fig 7: % over 20 years old

(Channel Islands, East Midlands, East of England, Isle of Man, London, Northern Ireland, Scotland, Wales, West Midlands, Yorkshire and The Humber, North East, South West, South East, North West)

Source: Knight Frank Research

Homes 11,730 **Beds** 481,267

Fig 8: % of homes by ownership

LOCAL AUTHORITY · NHS/PCT TRUST · PRIVATE · VOLUNTARY/CHARITY

Channel Islands, East Midlands, East of England, Isle of Man, London, Northern Ireland, Scotland, Wales, West Midlands, Yorkshire and The Humber, North East, South West, South East, North West

Fig 9: Homes by size

21% 1-19 · 35% 20-39 · 23% 40-59 · 14% 60-79 · 4% 80-99 · 2% 100+

En suite beds %

Channel Islands, East Midlands, East of England, Isle of Man, London, Northern Ireland, Scotland, Wales, West Midlands, Yorkshire and The Humber, North East, South West, South East, North West

Fig 10: Care type

Care home beds	49%
Care homes	64%
Nursing home beds	51%
Nursing homes	36%

Fig 11: Beds by region

Channel Islands	1,725
East Midlands	39,661
East of England	47,232
Isle of Man	928
London	30,008
North East	24,141
North West	57,553
Northern Ireland	15,533
Scotland	33,182
South East	74,918
South West	48,161
Wales	21,272
West Midlands	44,680
Yorkshire and the Humber	42,273

Fig 12: CQC rating

4% Outstanding

76% Good

19% Requires improvement

1% Inadequate
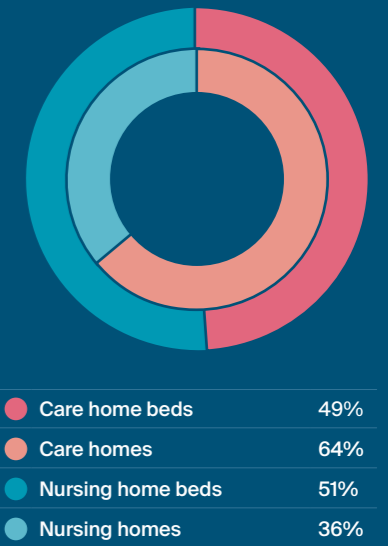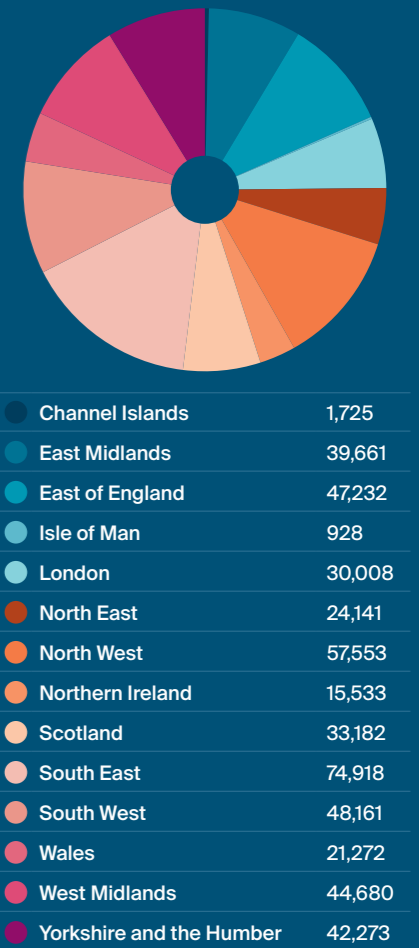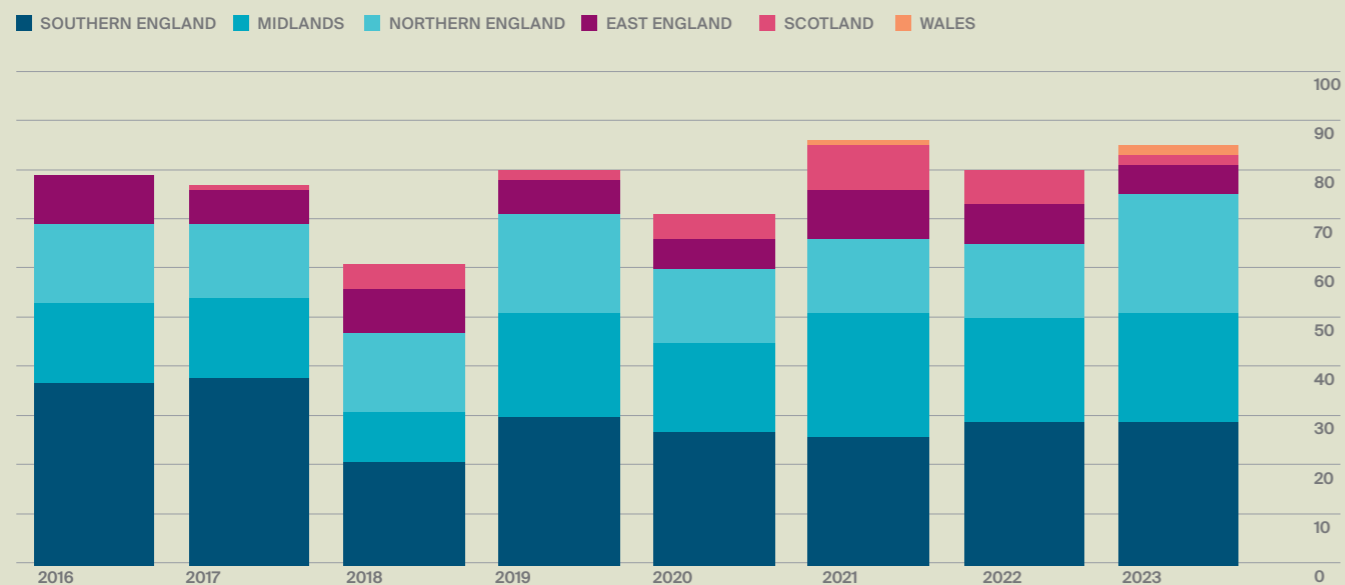
New-build care homes

In Figure 13, we look at the number of new homes completed over the last seven years and the number completed in 2023. 2023 saw an improvement of 6.25% in the number of new builds compared to 2022. The only year we have seen higher completion numbers is 2021. Last year is likely to have benefited from the delayed completion of some of the homes due to be completed in 2022. 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

"2023 saw an improvement of 6.25% in the number of new builds compared to 2022."

future supply pipeline, land values, and operational performance. The table shows each county's ranking against each of these 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 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 again this year. These counties tend to score well due to the expected demand for care beds, as indicated by high elderly population growth, economic growth, and wealth – all

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 14: 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	Buckinghamshire	South East	1.54	6	3	4	11	47	46	3	12
2	Greater London	Greater London	1.52	1	1	1	1	19	50	17	44
3	South Glamorgan	Wales	1.37	22	8	16	10	32	9	1	50
4	Cambridgeshire	Eastern	1.32	10	6	9	19	36	44	4	26
5	Greater Manchester	North West	1.29	19	27	21	2	15	21	36	17
6	Berkshire	South East	1.27	5	2	2	12	41	46	6	46
7	Gloucestershire	South West	1.26	13	24	13	16	2	29	16	48
8	Cornwall	South West	1.17	36	15	43	8	5	14	12	40
9	West Midlands	West Midlands	1.15	30	32	24	3	10	25	32	21
10	Wiltshire	South West	1.15	4	16	14	15	44	34	23	27
11	Suffolk	Eastern	1.12	23	22	17	18	23	28	18	32
12	Northamptonshire	East Midlands	1.11	3	26	18	26	34	31	29	16
Scotland - top 6 counties out of 12 in analysis											
1	Lothian	Scotland	1.23	1	1	3	9	8	12	2	11
2	Grampian	Scotland	1.20	5	2	1	10	7	10	3	7
2	Borders	Scotland	1.20	7	7	10	3	9	1	5	3
4	Highlands & Islands	Scotland	1.17	8	10	4	5	2	2	9	6
5	Central	Scotland	1.12	2	5	6	8	12	3	4	9
6	Glasgow & Renfrewshire	Scotland	1.03	4	3	2	12	5	11	1	12

Top rank ▬ Bottom rank   Source: Knight Frank * Based on 15-year projection, 2023 to 2038

Fig 13: UK new purpose-built care homes completed

■ SOUTHERN ENGLAND ■ MIDLANDS ■ NORTHERN ENGLAND ■ EAST ENGLAND ■ SCOTLAND ■ WALES

Source: Knight Frank

Sleaford Manor - Yorkare Homes

Demand for care

Figure 15 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 can command higher weekly fees, but ramp-up is slowed due to the care provision already being 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.
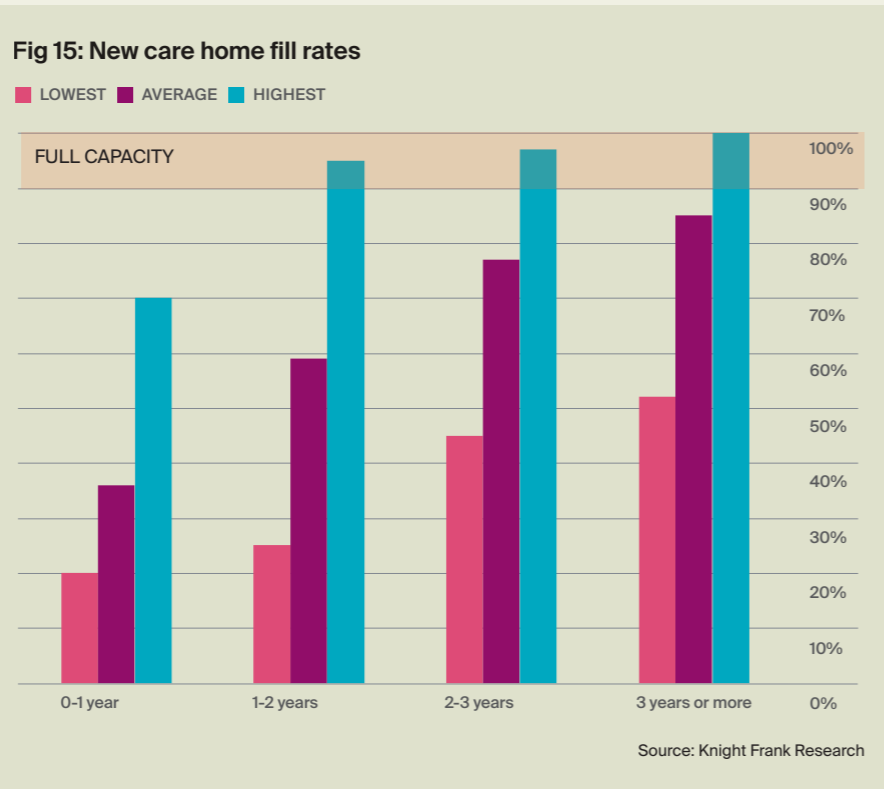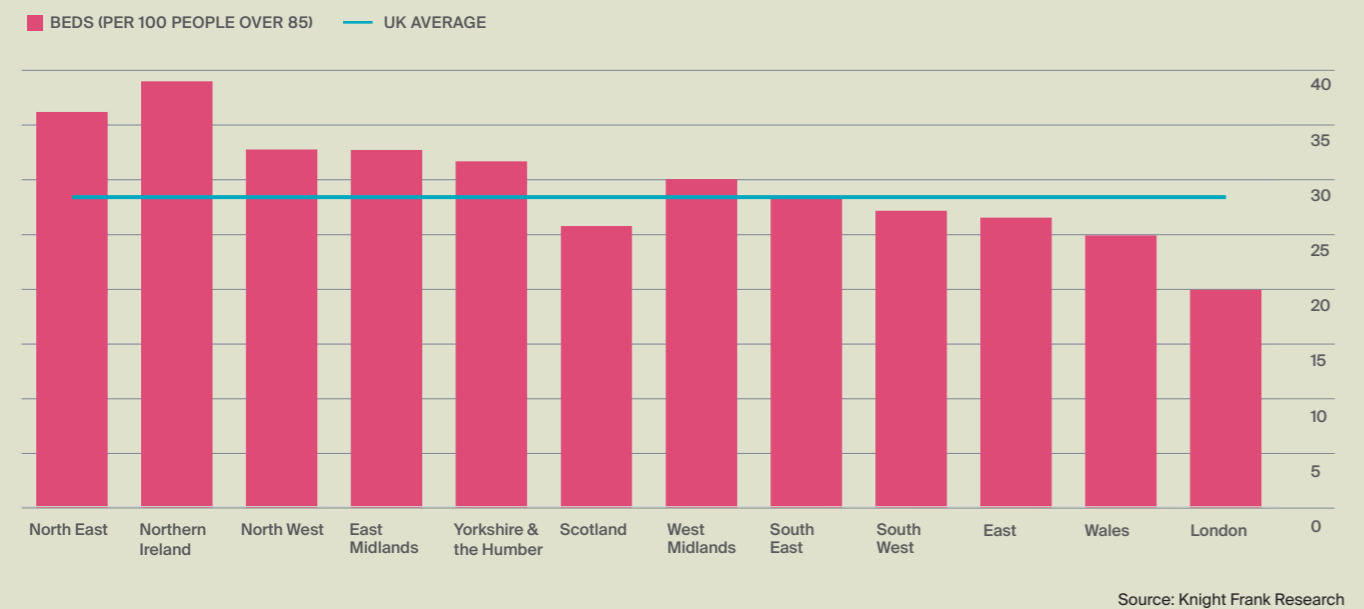

Fig 15: New care home fill rates

LOWEST   AVERAGE   HIGHEST

Source: Knight Frank Research

Fig 16: Elderly care beds (per 100 people over 85)

BEDS (PER 100 PEOPLE OVER 85)   —— UK AVERAGE

Source: Knight Frank Research

Land values and build costs

Figure 19 highlights our view of regional land values and their respective ranges. This year, in line with higher construction costs, which are not due to fall but instead moderate, we have suggested that land values be held constant. 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 17 and 18. Figure 18 highlights this moderation of build costs.
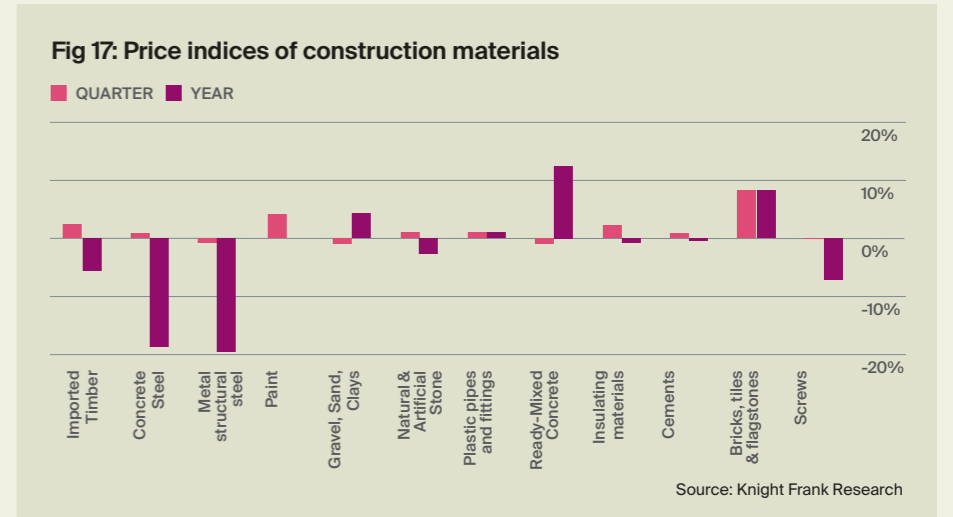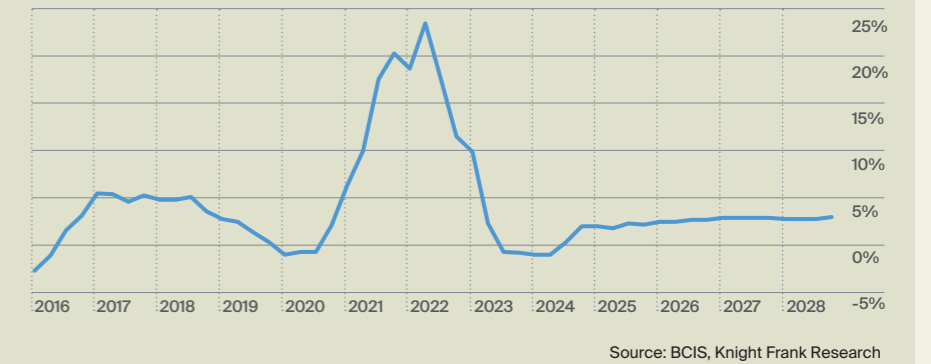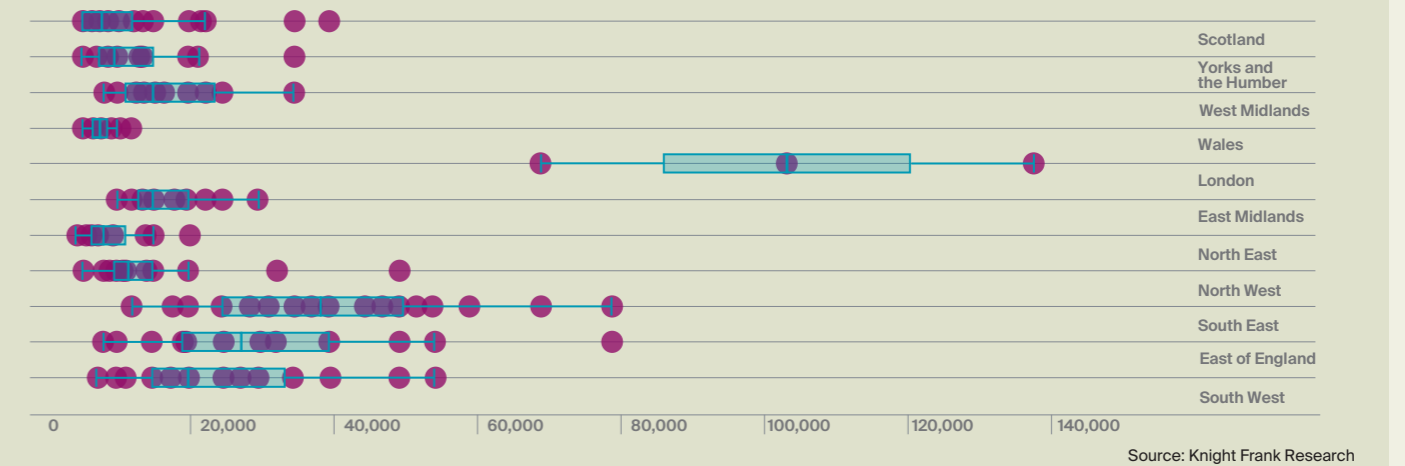

Fig 17: Price indices of construction materials

QUARTER   YEAR

Source: Knight Frank Research

Fig 18: BCIS UK materials cost index, % change year on year

Source: BCIS, Knight Frank Research

> "London presents as having the highest values, overlapping slightly with the South East."

Fig 19: Regional land values (per bed)

Source: Knight Frank Research

Forward view

JULIAN EVANS, FRICS
GLOBAL HEAD OF HEALTHCARE

While completion of new build schemes will substantially add to the circa 480,000 existing bed supply, the scheme type and delivery potential are essential considerations. 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.
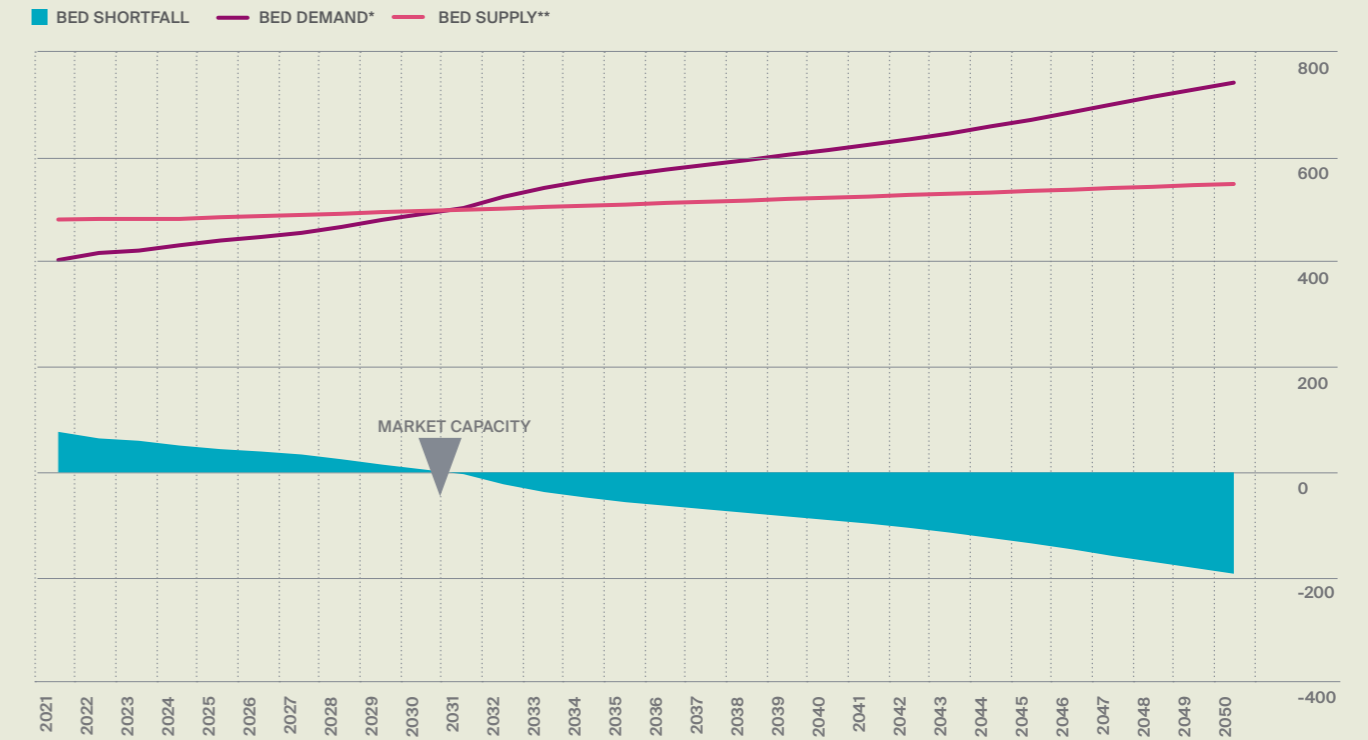
Again, while new beds are being developed, the level of home closures means that supply cannot keep up with demand. The UK elderly care market is at risk of reaching capacity by the end of the decade, and this is a worrying projection. Not only must we build more care homes, but we must take action to 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.

Therefore, delivering additional beds in any capacity will be a welcome addition to pure availability and overall stock quality moving forward. Beyond this, figure 21 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.
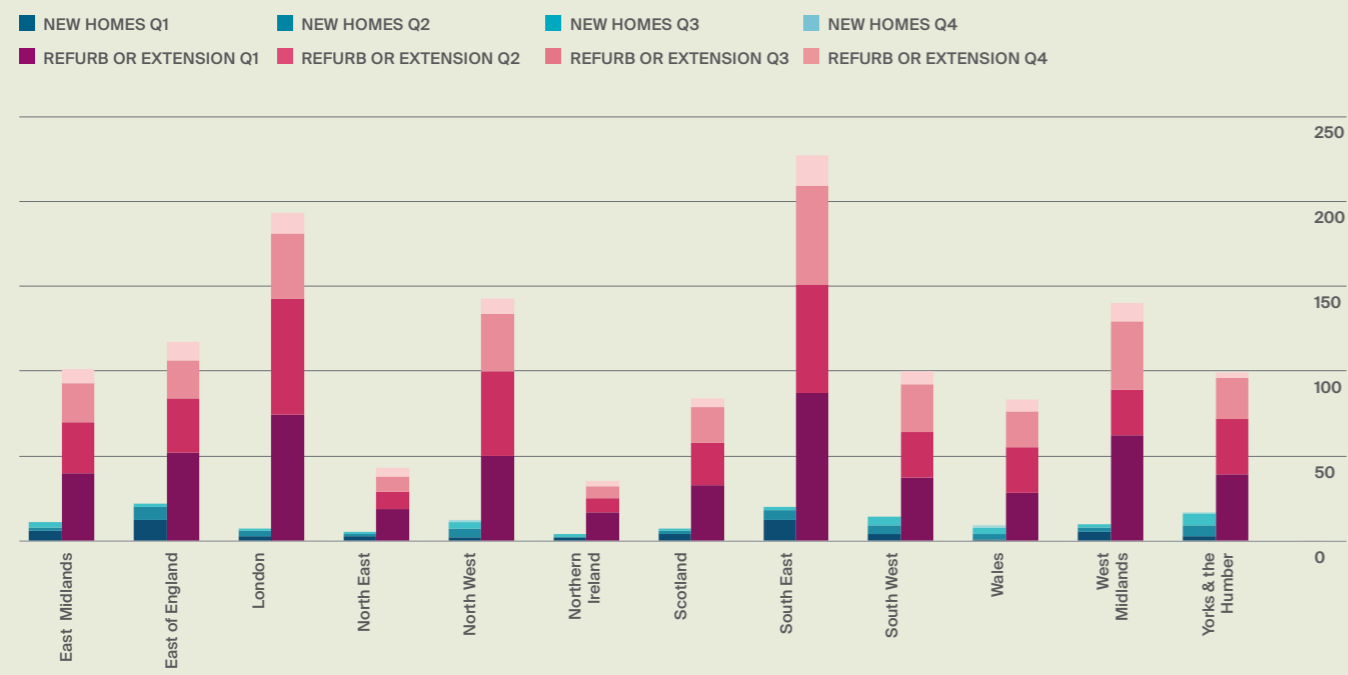
> "The demographic shift is such that by 2050 we anticipate a shortfall of more than 200,000 beds."

Fig 20: Schemes with granted planning

- NEW HOMES Q1
- NEW HOMES Q2
- NEW HOMES Q3
- NEW HOMES Q4
- REFURB OR EXTENSION Q1
- REFURB OR EXTENSION Q2
- REFURB OR EXTENSION Q3
- REFURB OR EXTENSION Q4

Source: Knight Frank Research, Glenigan

Fig 21: Projected shortfall of elderly care beds ('000s)

- BED SHORTFALL
- BED DEMAND*
- BED SUPPLY**

MARKET CAPACITY

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.

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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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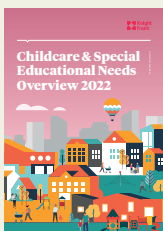
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