The past twelve months has represented a stern test for the UK healthcare market. Operators have had to react to staffing challenges ahead of Brexit, social care funding crises, the introduction of, and subsequent increase in, the National Living Wage and rising food and property costs. 2017 also witnessed a shift toward personal care home developments targeting the private pay market in response to the shortfall of qualified nurses within the UK.

In spite of these operational challenges, occupancy rates for UK care homes rose for the fifth consecutive year, while average fee levels outstripped RPI inflation for the fourth year running. In addition, one-third of homes within the UK achieved EBITDARM as a percentage of income surpassing 30%. The disrupters also have not fettered investor appetite as Knight Frank advised on a record volume of circa £12bn of Healthcare deals in 2017, most notably transactions in relation to Bupa Care Homes, Helen McArdle Care, Porthaven Care Homes and Regard Group.

Furthermore, 2017 has seen a significant shift in investment volume as demand for the sector is now at its highest level for over 20 years. Strong fundamentals underpinning the sector continue to make healthcare an attractive investment proposition. Key trends have included an increased demand for long-dated healthcare assets, appealing to pension funds and both domestic and international investors, attracted by the circa 30 years unexpired leases linked to RPI/CPI when compared with the average commercial property lease length of 7 years. The sector's institutional appeal is furthered by current bond market conditions, with gilts producing lower returns.

Meanwhile, further shaping the market has been the wide availability of capital to specialist funds that have taken a more holistic approach to healthcare investment. Notably, Impact Healthcare REIT purchased The Seed Portfolio for a handsome value of £149m in 2017. With investors becoming more accustomed to the sector, we envisage a strong appetite for investment to continue in the year ahead. We will also continue to see a strong interest from overseas investors, taking advantage of the weak sterling.

A further trend set to continue in 2018, is the growing demand for care beds, driven by ageing population and given the estimated shortfall of 148,777 market standard beds by 2021 coupled with 6,600 care homes at risk of closure over the next five years.

In the longer term, as is the case across all real estate markets, technology will play an ever greater role in the sector's evolution, both in terms of operational care provision, as well as the design of the physical assets.
**TYPES OF HOUSING FOR OLDER PEOPLE**

- **GENERAL HOUSING**: Houses designed with older people in mind.
  - OVER 55 DEVELOPMENTS
  - RETIREMENT VILLAGE
  - SHELTERED RETIREMENT COMMUNITY
  - EXTRA CARE / AGED CARE HOMES

- **RETRIEVAL HOUSING**
  - OVER 55 DEVELOPMENTS
  - RETIREMENT VILLAGE
  - SHELTERED RETIREMENT COMMUNITY
  - EXTRA CARE / AGED CARE HOMES

- **HIGH DEPENDENCY**
  - RESIDENTIAL & NURSING CARE HOMES

**DASHBOARD HEADLINES**

**ELDERLY CARE HOMES**

<table>
<thead>
<tr>
<th>Grade</th>
<th>Construction</th>
<th>Beds</th>
<th>En Suite</th>
<th>Location</th>
<th>Competition</th>
<th>Build Cost</th>
<th>YP</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SUPER PRIME</strong></td>
<td>Future proof</td>
<td>&gt;70</td>
<td>100%</td>
<td>Excellent</td>
<td>Very limited</td>
<td>c.100k – 200k</td>
<td>&gt;12</td>
<td>&gt;4%</td>
</tr>
<tr>
<td><strong>PRIME</strong></td>
<td>Purpose built (pb)</td>
<td>60</td>
<td>100% en suite</td>
<td>Good</td>
<td>Restricted</td>
<td>c.80k – 100k</td>
<td>8.5-10</td>
<td>&gt;5-6%</td>
</tr>
<tr>
<td><strong>SECONDARY</strong></td>
<td>1st generation and 1990’s pb</td>
<td>40</td>
<td>Part en suite</td>
<td>Average</td>
<td>Reasonable</td>
<td>c.40k – 80k</td>
<td>7-8.5</td>
<td>6-7%</td>
</tr>
<tr>
<td><strong>TERTIARY</strong></td>
<td>Period conversion</td>
<td>&lt;30</td>
<td>No en suite</td>
<td>Marginal</td>
<td>High</td>
<td>c.20k – 40k</td>
<td>&lt;5</td>
<td>&lt;7%</td>
</tr>
</tbody>
</table>

*Source: Knight Frank Research*
**2016/17 CARE HOME RESULTS AT A GLANCE**

<table>
<thead>
<tr>
<th>Measure</th>
<th>ALL CARE</th>
<th>PERSONAL</th>
<th>NURSING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy</td>
<td>89.2%</td>
<td>90.2%</td>
<td>90.2%</td>
</tr>
<tr>
<td>Average Weekly Fees</td>
<td>£746</td>
<td>£651</td>
<td>£798</td>
</tr>
<tr>
<td>EBITDA (%) of Income</td>
<td>25.2%</td>
<td>28.4%</td>
<td>24.0%</td>
</tr>
<tr>
<td>Staff Costs (%) of Income</td>
<td>57.5%</td>
<td>54.8%</td>
<td>58.5%</td>
</tr>
</tbody>
</table>

**MARKET RENT COVERS**

- **UK & Specialist Funds**: up to £250m
- **Middle East Funds**: up to £150m
- **US REITS**: up to £1.5bn
- **Asia Pacific Funds**: up to £1bn
- **Private Equity from All Areas**: up to £500m
- **US REITs**: up to £150m
- **Middle East REITs**: up to £500m
- **Asia Pacific REITs**: up to £1.5bn

**Source**: Knight Frank Research
**Elderly Care Beds**

<table>
<thead>
<tr>
<th>Bed Size</th>
<th>Number of Homes</th>
<th>Number of Registered Beds</th>
<th>Number of En Suite Beds</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-35 beds</td>
<td>6,690</td>
<td>142,207</td>
<td>71,004</td>
<td>53%</td>
</tr>
<tr>
<td>36-59 beds</td>
<td>3,759</td>
<td>168,671</td>
<td>109,106</td>
<td>30%</td>
</tr>
<tr>
<td>60-79 beds</td>
<td>1,503</td>
<td>99,402</td>
<td>84,621</td>
<td>12%</td>
</tr>
<tr>
<td>80-99 beds</td>
<td>457</td>
<td>39,500</td>
<td>34,927</td>
<td>4%</td>
</tr>
<tr>
<td>100+ beds</td>
<td>242</td>
<td>29,709</td>
<td>22,694</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>12,651</td>
<td>479,489</td>
<td>322,352</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Source**

Tomorrow's Guides, ONS, LaingBuisson

*Average weekly fees

**Head of Healthcare, Hotels & Leisure**

**Valuation**

- **Healine Kjeldgaard**, MRICS
- **Jonathan Allen**, MRICS
- **James Haines**, MRICS
- **Kerry Coler**, MRICS
- **Dhruv Malhotra**, MRICS
- **Edwin Walker**, MRICS
- **Benjamin Wood**, MRICS

**Research**

- **Jaspreet Bhogal**, Senior Analyst
- **Kimishka Naidoo**, Analyst

**Agency & Development**

- **Merrick Rimmer**, MRICS
- **Michael Brownsdon**, MRICS

**Building Consultancy**

- **Merrick Rimmer**, MRICS
- **Michael Brownsdon**, MRICS

**Property Asset Management**

- **Clarke Math**, MRICS
- **Thomas Begg**, MRICS

**Knight Frank Finance**

- **Lisa Attenborough**, Partner
- **Lisa Attenborough**, Finance Director

**Our People**

Knight Frank's dedicated and highly experienced team provides a discreet and efficient consultancy service advising on the full spectrum of healthcare assets. Our award winning team continues to be recognised as leaders in their field. In taking time to understand the needs and objectives of our clients, we continue to provide uncomplicated property advice and solutions that add value at every stage.
ABOUT THE GROUP

There’s a human element in the world of property that’s too easily overlooked. At Knight Frank we build long-term relationships, which allow us to provide personalised, clear and considered advice on all areas of property in all key markets. We believe personal interaction is a crucial part of ensuring every client is matched to the property that suits their needs best – be it commercial or residential. Operating in locations where our clients need us to be, we provide a worldwide service that’s locally expert and globally connected.

We believe that inspired teams naturally provide excellent and dedicated client service. Therefore, we’ve created a workplace where opinions are respected, where everyone is invited to contribute to the success of our business and where they’re rewarded for excellence. The result is that our people are more motivated, ensuring your experience with us is the best that it can be.

FULL LIST OF SERVICES

COMMERCIAL

SECTORS
- Automotive
- Energy
- Healthcare
- Hotels
- Industrial & Logistics
- Leisure
- Office
- Retail
- Retail Warehouses
- Student

SERVICES
- Asset Management
- Building Consultancy
- Business Rates
- Business Services
- Capital Markets
- Development
- Facilities Management
- Lease Advisory
- Leasing
- Planning
- Project Management
- Property Management
- Retail
- Residential Capital Markets
- Sales
- Tenant Representation
- Valuations

TRANSACTIONAL

- Development Marketing
- International Residential Sales
- Investment & Lettings Management
- Lettings
- Private Client Acquisition
- Private Rented Sector
- Residential Asset Management
- Residential Mortgage Broking

RESIDENTIAL

- Corporate Services
- Corporate
- Interiors
- Litigation
- Residential Mortgage Broking
- Residential

PROFESSIONAL SERVICES

- Building Consultancy
- Corporate Services
- Consultancy
- Corporate
- Interiors
- Litigation
- Residential Asset Management
- Residential Mortgage Broking
- Workplace Consultancy
- Valuations

413 OFFICES

60 COUNTRIES