

SPRING
MARKET OVERVIEW



UK HEALTHCARE PROPERTY 2018



Wetherby Manor,
Wetherby (Hadrian Healthcare)

RECORD YEAR FOR UK HEALTHCARE



JULIAN EVANS FRICS
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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 crisis, 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 uplift 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.

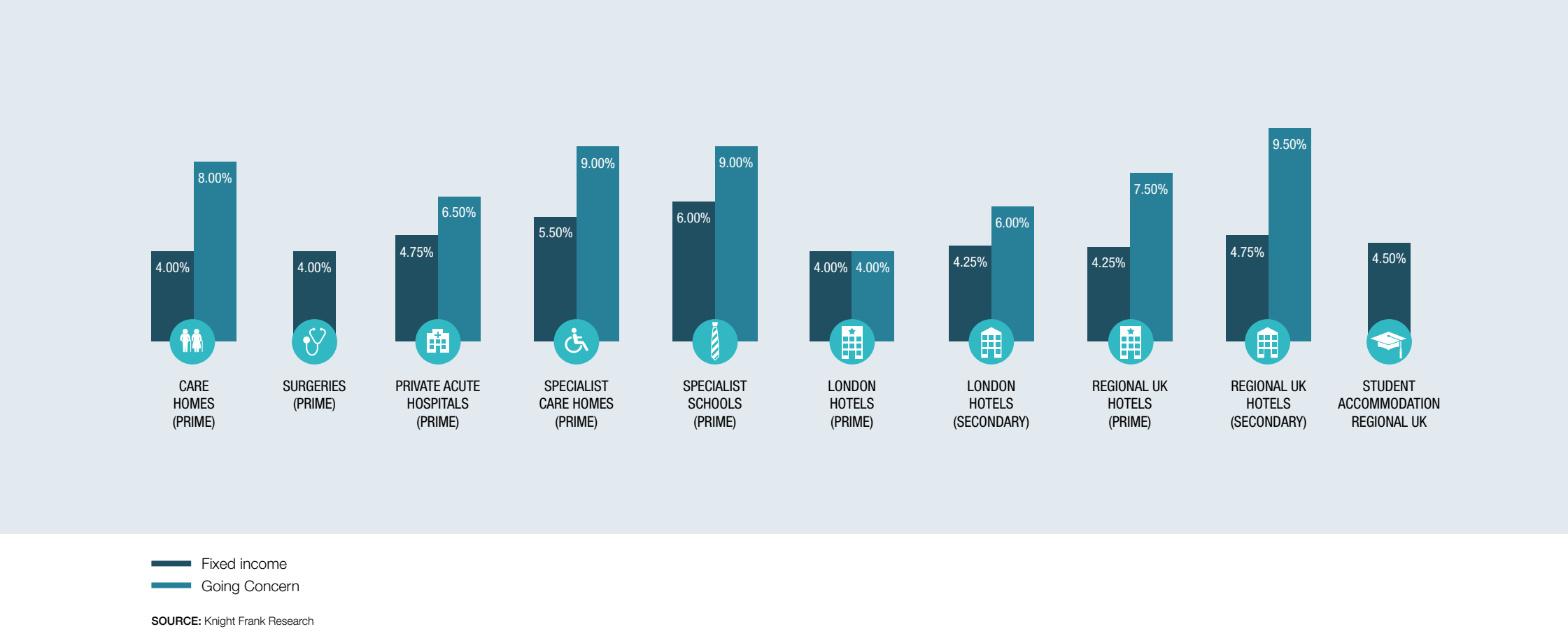
Meanwhile, further shaping the market has been the wide availability of capital to specialist funds that have taken a more holistic approach to healthcare investment. Notably, Impact Healthcare REIT purchased The Seed Portfolio for a handsome value of £149m in 2017. With investors becoming more accustomed 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.

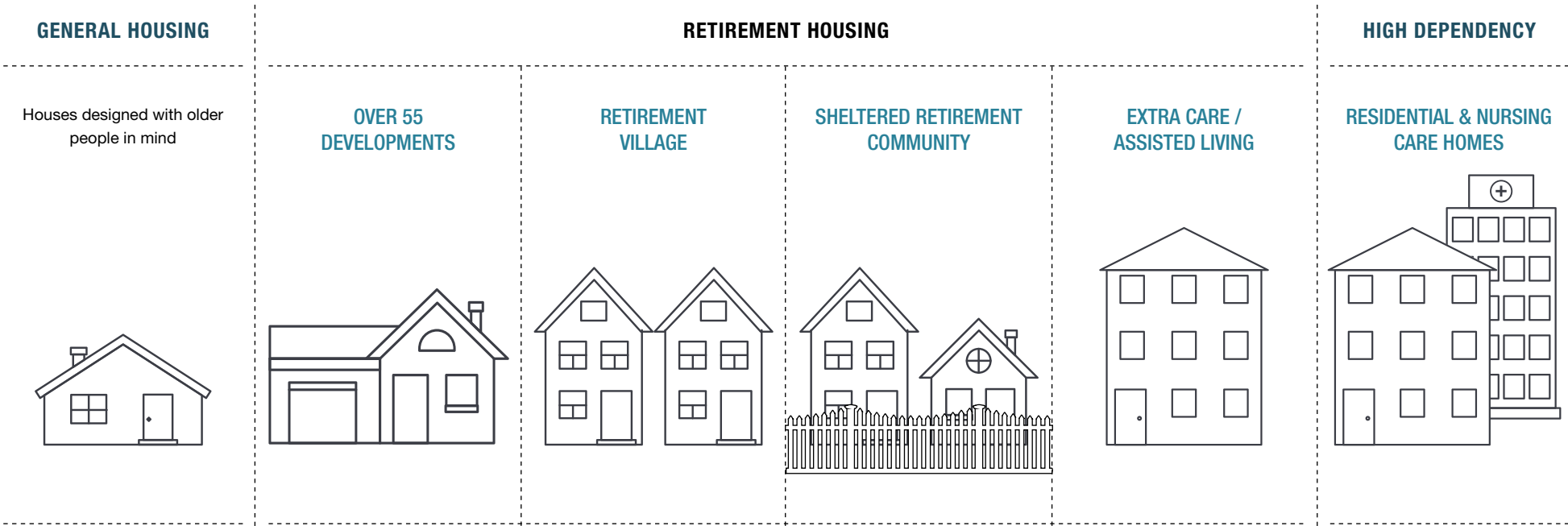
A further trend set to continue in 2018, is the growing demand for care beds, driven by ageing population and given the estimated shortfall of 148,777 market standard beds by 2021 coupled with 6,600 care homes at risk of closure over the next five years.

In the longer term, as is the case across all real estate markets, technology will play an even greater role in the sector's evolution, both in terms of operational care provision, as well as the design of the physical assets.

HEALTHCARE YIELDS V OTHER SPECIALIST SECTORS – Q4 2017



TYPES OF HOUSING FOR OLDER PEOPLE



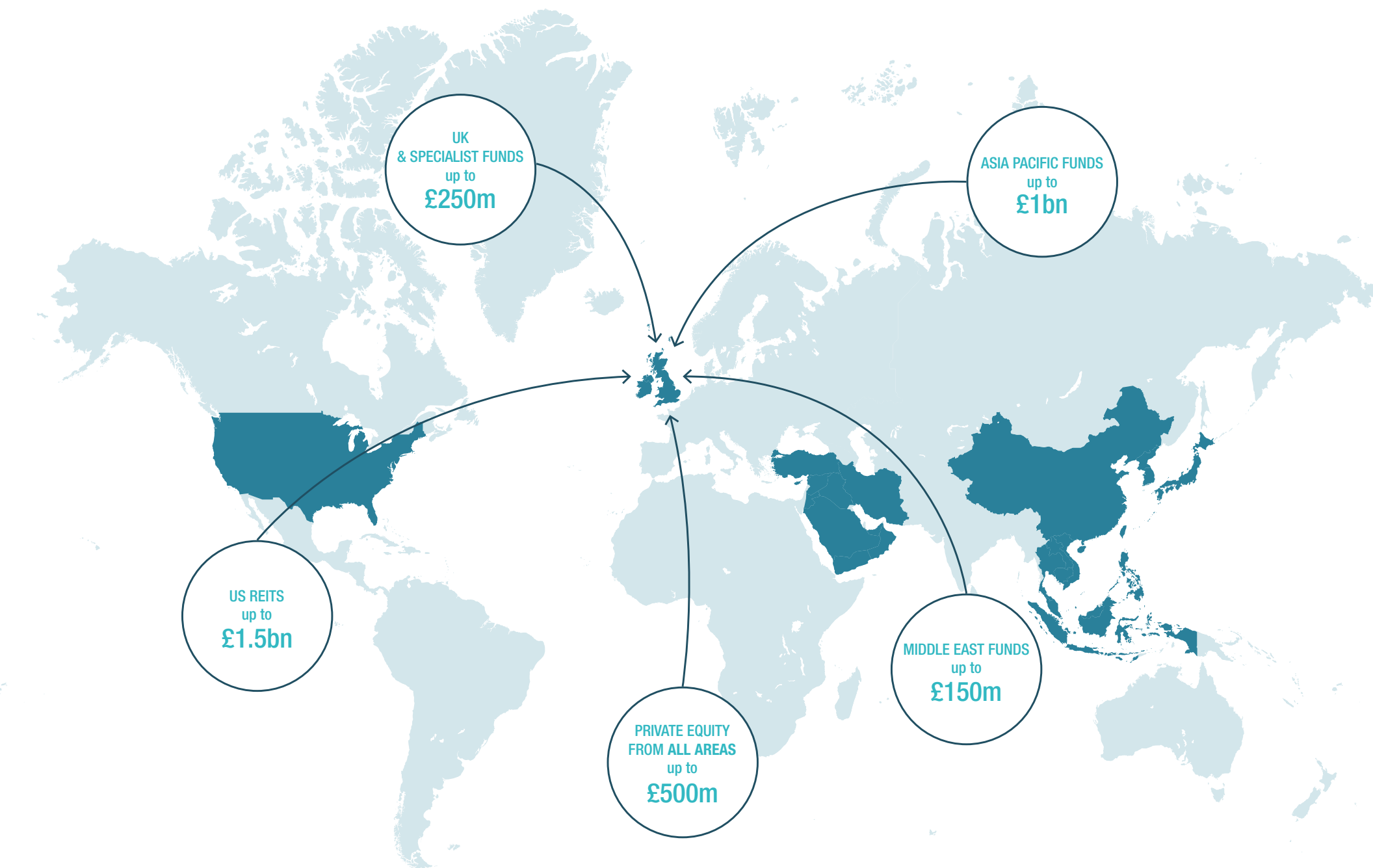
DASHBOARD HEADLINES

ELDERLY CARE HOMES

								
GRADE	CONSTRUCTION	BEDS	EN SUITES	LOCATION	COMPETITION	BUILD COST	YP	YIELD
 SUPER PRIME	Future proof	c.70>	100% wet rooms	Excellent	Very Limited	c.100k – 200k	12>	4%>
 PRIME	Purpose built (pb)	c.60	100% en suite	Good	Restricted	c.80k – 100k	8.5-10>	5-6%>
 SECONDARY	1st generation and 1990's pb	c.40	Part en suite	Average	Reasonable	c.40k – 80k	7-8.5	6-7%>
 TERTIARY	Period conversion	< 30	No en suite	Marginal	High	c.20k – 40k	<5-7	<7%

SOURCE Knight Frank Research

* Average weekly fees



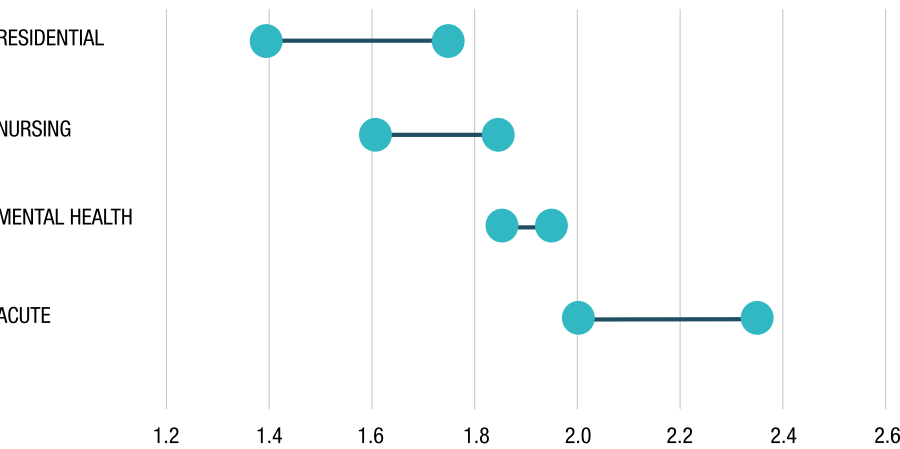
2016/17 CARE HOME RESULTS AT A GLANCE

OCCUPANCY			AVERAGE WEEKLY FEES		
89.2%	90.2%	88.7%	£746	£651	£798
▲	▼	▲	▲	▲	▲
+	🌡️	👤	+	🌡️	👤
ALL CARE	PERSONAL	NURSING	ALL CARE	PERSONAL	NURSING
STAFF COSTS (% OF INCOME)			EBITDARM (% OF INCOME)		
57.5%	54.8%	58.5%	25.2%	28.4%	24.0%
▼	▲	▼	▼	▼	▼
+	🌡️	👤	+	🌡️	👤
ALL CARE	PERSONAL	NURSING	ALL CARE	PERSONAL	NURSING

SOURCE Knight Frank Research

MARKET RENT COVERS

INDICATIVE RENT COVER FOR CARE HOMES



SOURCE Knight Frank Research

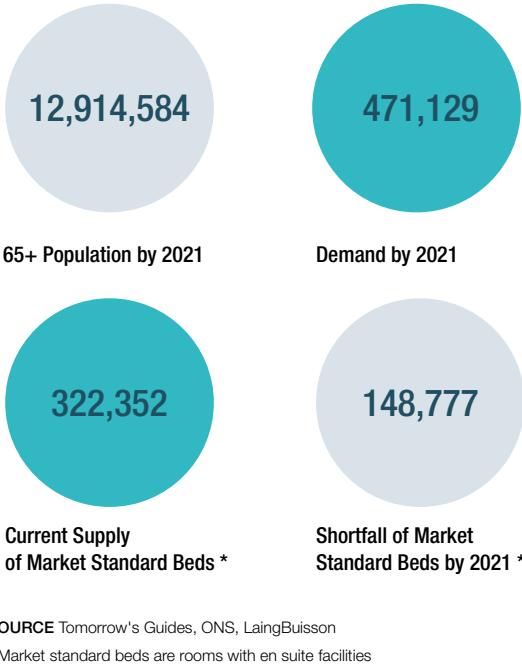
BED DEMAND AND SUPPLY

ELDERLY CARE BEDS

CARE HOME SIZE	NUMBER OF HOMES	NUMBER OF HOMES %	NUMBER OF REGISTERED BEDS	NUMBER OF REGISTERED BEDS %	NUMBER OF EN SUITE BEDS	% OF EN SUITE BEDS
1-35 beds	6,690	53%	142,207	30%	71,004	50%
36-59 beds	3,759	30%	168,671	35%	109,106	65%
60-79 beds	1,503	12%	99,402	21%	84,621	85%
80-99 beds	457	4%	39,500	8%	34,927	88%
100+ beds	242	2%	29,709	6%	22,694	76%
Grand Total	12,651	100%	479,489	100%	322,352	67%

SOURCE Tomorrow's Guides
* Average weekly fees

DEMAND AND SUPPLY




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.

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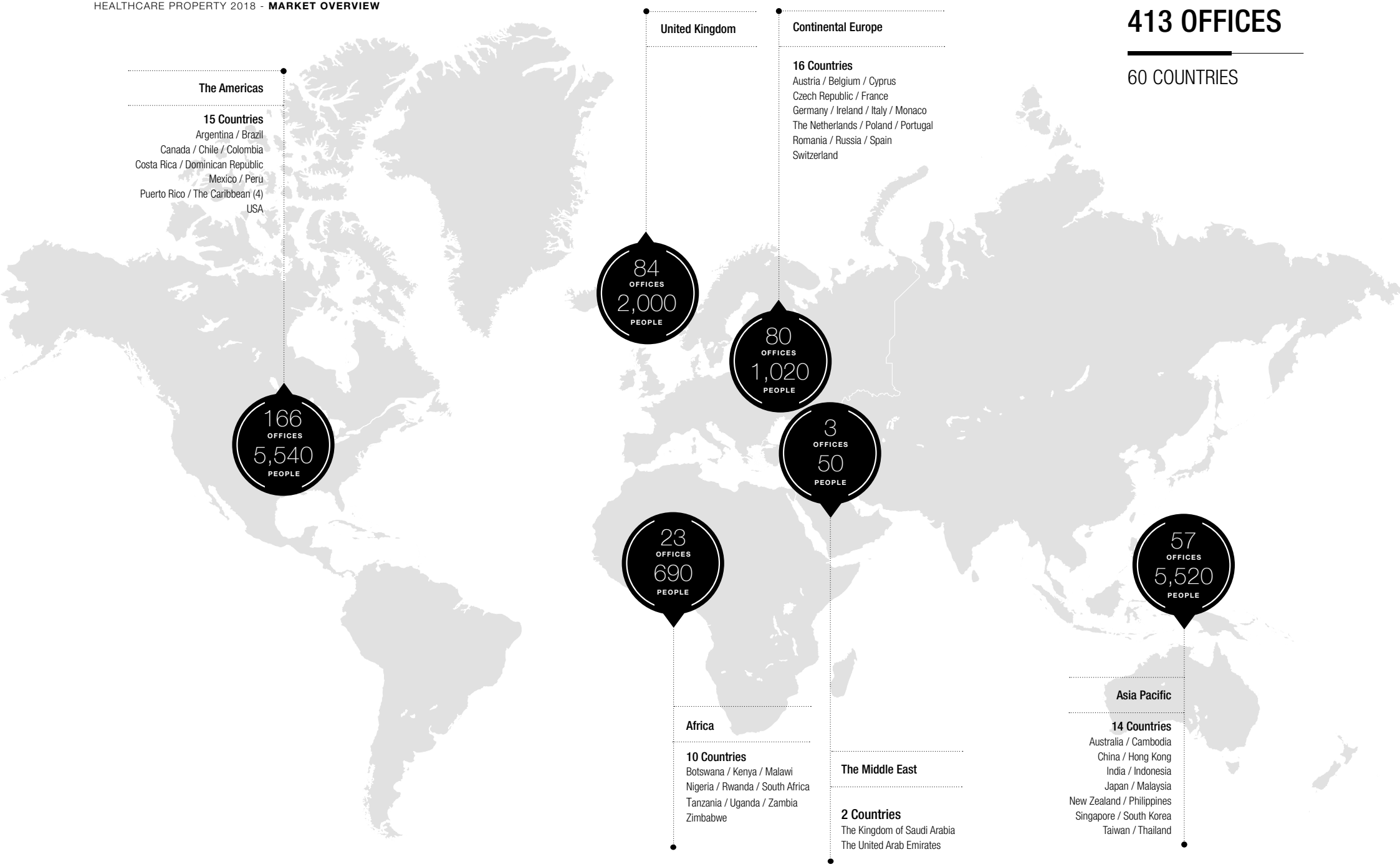
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ABOUT THE GROUP

There's a human element in the world of property that is 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

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