



UK HEALTHCARE

DEVELOPMENT OPPORTUNITIES 2015

HIGHLIGHTS

There was a net loss of 189 elderly care homes in the UK during the 12 months to September 2015

Greater London remains the top ranked county in England & Wales for care home investment and development

A North-south divide exists in per capita supply of beds, with the Northern regions offering a higher supply for the over 65s than the Southern regions

“The growing shortage of care homes in the UK presents opportunities for developers and investors.”

DEVELOPMENT TRENDS

Our analysis of the data reveals a growing shortage of elderly care homes in the UK.

Although the number of new care home registrations increased to 119 in the 12 months to September 2015 - up from 115 in the previous year - there were significantly more de-registrations over this period, up from 231 in 2014 to 308 de-registrations in 2015. This resulted in a net loss of 189 elderly care homes in the 12 months to September 2015, equating to 2,200 fewer beds in the UK. Almost half of the beds lost were located in the South West region, while the East Midlands and Eastern regions saw a net gain of 273 and 513 beds, respectively (Figure 1).

The data also confirms a clear North-south divide in terms of care home capacity. Northern regions continue to offer a relatively high per capita supply of beds for the over 65s population. In fact, the North East currently has the highest level of supply with over 47 beds per 1,000 of over 65s, compared with just 28 beds per 1,000 of over 65s in the Greater London area. This reflects differences in land and construction costs that have underpinned the high level of care home development in Northern regions relative to the South and Greater London in particular, where supply is also constrained by strong competition from C3 residential use.

Notwithstanding the potential impact of the new National Living Wage on such a labour intensive industry, there is concern over rising staff costs and the number of larger operators currently seen to be consolidating their position (refer to our latest Care Homes Trading Performance Review 2015). This shortage will however provide opportunities for both care home developers and investors in the future.

FIGURE 1
Net loss/gain of beds across regions
Oct 14 - Sep 15

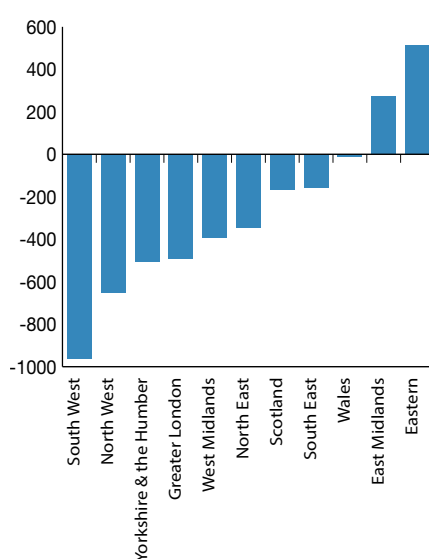
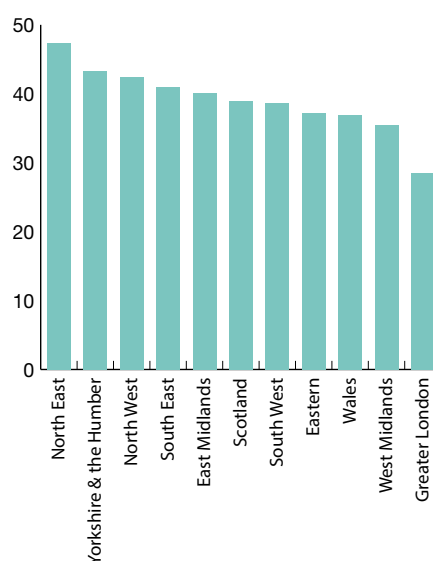
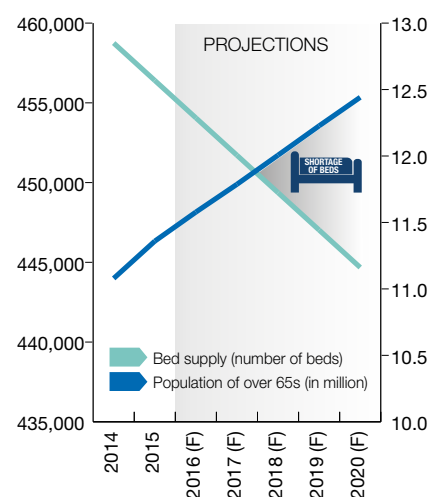


FIGURE 3
Current supply 2015
Beds per 1,000 of over 65s



Source: Knight Frank, LaingBuisson, 2015

FIGURE 2
Bed demand and supply
Bed supply (LHS) Population of over 65s (RHS)



Source: Knight Frank, Experian, LaingBuisson, 2015

Source: Knight Frank, LaingBuisson, 2015

While the supply of care beds is diminishing, underlying demographic trends point to an increase in demand for elderly residential care, with the UK's population of over 65s forecast to grow by 10% over the next five years. If current trends continue the existing bed supply of 456,400 is forecast to fall to 444,700, while the population of over 65s will rise from 11.4 million to 12.4 million, resulting in an acute shortage of care beds by 2020 (Figure 2).

NEW CARE HOME REGISTRATIONS VS DE-REGISTRATIONS

Oct 2014-Sep 2015

The spread of new registrations versus de-registrations across the UK is demonstrated by the accompanying map which clearly shows the concentration of new registrations in the South East and Eastern parts of the country compared with the predominance of de-registrations in the South West, South East and North Western parts of the country.

However, there are differences across the counties. With regard to the number of new care homes registered, Surrey tops the table (10 new care homes), followed by Greater Manchester (8 new homes) and Greater London (7 new homes). In contrast, the highest number of de-registrations was recorded in Devon (24 care homes), followed by Greater London (17 homes). The Greater Manchester area and Lancashire follow in third position with 14 care homes de-registered each in the 12 months to September 2015.

Top 5 counties in de-registrations:

1. Devon
2. Greater London
3. Greater Manchester
4. Lancashire
5. Kent

Top 5 counties in new registrations:

1. Surrey
2. Greater Manchester
3. Greater London
4. Hampshire
5. Norfolk

KEY
● New registrations
● De-registrations

KEY
Beds in pipeline per 1,000 over 65s

- >3.0
- 2.5-3.0
- 2.0-2.5
- 1.5-2.0
- 1.0-1.5
- <1
- <0.5

Top 5 counties:

1. Berkshire
2. Lothian
3. Wiltshire
4. Surrey
5. Bedfordshire

FUTURE SUPPLY

This map shows the known development pipeline across the UK, expressed on a beds per capita basis. Berkshire tops the rankings, with more than six beds per 1,000 persons of over 65 in the development pipeline, closely followed by Lothian, Wiltshire and Surrey who have between four and five beds per 1,000 persons of over 65. Areas with a negligible supply pipeline of less than one bed per 1,000 persons of over 65 include a number of Scottish and Welsh regions, whilst Greater London has a limited supply of just over one bed per 1,000 persons of over 65.

Source: Knight Frank, Glenigan

Source: Knight Frank, LaingBuisson, 2015

England & Wales hotspots

The Knight Frank Healthcare Hotspots model identifies those locations which offer the best future prospects for care home investment and development. The county-based model employs a matrix of eight equally weighted criteria, incorporating economic and demographic projections plus other care home trading factors such as fees and staff costs.

Our analysis of this year's data shows that Greater London remains the top ranked county in England & Wales, despite having the highest land values, benefiting from the strength of underlying demand and shortage of supply. Greater London continues to benefit in particular from strong economic fundamentals, such as forecast economic growth and wealth per capita, while it also has the lowest current supply of all the counties assessed (Table 1). With a relatively limited supply pipeline, Greater London is expected to maintain its position as one of the best locations for care home investment and development.

There were however, some surprising results this year – some Northern counties, such as West Yorkshire for example, benefitted from lower land values and made it into the top ten. Two Welsh markets, South Glamorgan and

Powys, were also ranked in the top ten this year. South Glamorgan climbed to second place, up from third position one year ago. Both counties benefitted from limited supply and low land values, however Powys is constrained by weak demand side indicators.

The majority of the top 12 hotspots remain located in the UK's Southern regions with the main drivers of performance varying between those on the demand side and those on the supply side. For example Buckinghamshire (6th), Berkshire (7th) and Kent (12th) benefitted from strong demand side indicators such as economic prospects and forecast growth in the 65+ population. This contrasts with Cornwall (5th) and Devon (9th) where economic prospects are less favourable but scored highly on supply side criteria.

Construction costs are a major contributory factor affecting the development pipeline of care homes; these are estimated to be 10% higher in the South compared with the North and Central regions of the UK. Furthermore, labour migration to London and the South East is creating trade skill shortages and forcing local labour costs up in other parts of the UK.

“Greater London remains the top ranked county in England & Wales, benefiting from the strength of underlying demand and shortage of supply.”



Ivy Court in Norwich – operated by Caring Homes Group.



De Lucy House in Norfolk. 60-bed care home, operated by Greensleeves, provides residential, nursing and specialist dementia care.

TABLE 1

Care home development prospects

– top 12 counties of England & Wales in 2015 (50 counties in the analysis)

		SELECT INDICATORS					
2015 Rank		Forecast growth in 65+ population (2014-29)	Forecast economic growth (2014-29)	Current supply	Future supply	Change in rank	Total score index
1	Greater London	7	1	1	23	◆	1.55
2	South Glamorgan	15	13	11	16	▲ 1	1.49
3	Northamptonshire	3	22	25	14	▲ 3	1.48
4	Essex	17	12	16	7	◆	1.38
5	Cornwall	36	17	5	2	◆	1.35
6	Buckinghamshire	1	2	10	35	▼ 4	1.34
7	Berkshire	5	4	6	50	◆	1.27
8	Powys	31	50	4	1	▲ 2	1.21
9	Devon	40	27	14	4	▲ 15	1.17
10	West Yorkshire	35	24	15	24	▲ 8	1.12
11	Suffolk	19	19	17	22	▲ 10	1.09
12	Kent	13	5	24	41	▲ 5	1.09

Ranked positions of 50 counties assessed

Source: Knight Frank Research

In 2015, the Central area of Scotland moved up the rankings to first place driven in particular by low levels of supply. Meanwhile, the Highlands & Islands, the top ranked county in 2014, slipped to third position.

Scotland hotspots

This year's analysis of Scottish hotspots shows a greater disparity in the rankings than last year.

The Central area of Scotland moved up the ranks to first place achieving an above average score of 1.47 in 2015, while the Borders area retained its position in second place. Both benefited from relatively low levels of supply and a weak development pipeline. However, given the sparsely populated nature of the Borders area this is unlikely to present significant scope for development of new care homes.

Conversely, the more densely populated Lothian area, which includes the capital city of Edinburgh, and Grampian area, both ranked high on the demand side in terms of both future economic growth and forecast growth in the over 65s population. However, the supply side factors bring down the Lothian area which has one of the strongest supply pipelines and the highest land values of all the Scottish areas.

The Highlands & Islands moved down the rankings to third place in 2015 due to both demand and supply factors, though this area continues to benefit from relatively low land values.

TABLE 2

Care home development prospects

– top five areas of Scotland in 2015 (12 counties in the analysis)

2015 Rank		SELECT INDICATORS					Total score index
		Forecast growth in 65+ population (2014-29)	Forecast economic growth (2014-29)	Current supply	Future supply	Change in rank	
1	Central	3	5	5	1	▲ 3	1.47
2	Borders	6	6	1	2	◆	1.32
3	Highlands & Islands	5	9	4	11	▼ 2	1.20
4	Grampian	4	2	10	5	◆	1.10
5	Lothian	1	1	6	12	▼ 2	1.10

Ranked positions of 12 counties assessed

Source: Knight Frank Research



Ridley Park in Blyth, Northumberland – operated by Hadrian

KNIGHT FRANK VIEW

The Chancellor's Spending Review provided some positive news for the UK Health Sector. The Chancellor indicated that the Health budget in England will rise from its current level of £101bn to £120bn by 2020-21; the NHS in England received an upfront cash injection of £6bn in 2016 as part of a wider £10bn package of additional funding; and the social care "precept" of up to 2% in council tax revenue will allow local councils to raise £2bn for social care provision. We are now witnessing first hand local authorities in some locations increasing their baseline fee levels by 4.5%, although many of the major providers are now only accepting a minimum of 6.5% fee

uplift from the local authorities. While renewed financial commitment to the UK Health Sector is welcome, there remains a significant funding gap and a structural under provision of care beds. The Living Wage will likely put homes with less than 30 beds at risk of being unviable businesses – this equates to circa 100,000 care beds. To further compound the issue, this report has illustrated a net loss of 2,200 care beds in the UK over the last 12 months. This represents good news for the stellar operations as their occupancy levels should increase but it does also further the need for more investors to enter the sector to meet growing demand levels.

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Front cover image: Camberley Manor in Camberley - operated by TLC

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