



CARE



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Care

There is a lot to be positive about in the care sector despite the challenges highlighted in our latest Adult Social Care report.

From 2016 to 2018, average size of homes grew from 37.7 beds to 39.3

Having published our Adult Social Care report last year, many of the challenges facing care operators, including staffing and funding, were highlighted. However, there is a lot to be positive about in the sector. Investor interest and opportunities continue to grow and market demand is very strong for the year ahead.

INVESTMENT & ACTIVITY

Although still a highly fragmented market with some strong local independent provision, competition for prime sites increases, with high demand for quality assets with strong operational performances in locations with robust service user supply. Significant corporate development activity has put pressure on some smaller operators, as the Regulator and operators focus on quality of operations as well as the physical environment.

Diverse global capital providers now consider healthcare as a favourable investment class and the market is seeing a greater range of buyers and investors than ever before. The sector, having developed with entrepreneurial individuals and family run businesses funded through traditional debt, has moved through private equity providers, and now international real estate and infrastructure funds are joining the market, along with other alternative sources of capital. With high street retail investment challenged by online sales, investors are increasingly seeking investment in operational real estate where the physical property is required to deliver the service and is therefore less likely to be affected by growth of internet services.

DIVERSE MARKETS

The Care market continues to consolidate with a reduction in the number of homes, despite the number of beds increasing overall. This reflects the shift in market standards, where smaller, non viable assets are closing and being replaced with larger, new build developments which provide greater economies of scale.

Variance of homes and beds between 2016 and 2018:



Location and demographic factors continue to influence the value and performance of care settings and the attractiveness of investments. The South East of England maintains leading levels of supply and demand, with one of the largest elderly populations and concentrations of newer, purpose built provision. Many other regions still have an undersupply of market standard beds (i.e. with ensuite provision), therefore competition is most relevant on a localised market basis. Given the cost of developing new facilities, even with record investment yields, operators are predominantly focusing on building in locations where a significant proportion of residents will be self funded rather than reliant on local authority fees.

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FACING OPERATIONAL CHALLENGES

The key challenges facing operators, large and small, across the UK relate to staffing, funding, and a tougher regulatory environment. These challenges were highlighted in our 2018 Adult Social Care report which showed a deficit of 20,000 nurses currently in the UK, and with a 13% drop in nurse registrations in 2018, the availability of nurses looks set to shrink further. This has been a constant focus for operators who have been developing programmes to help recruit and retain trained staff.

Agency staffing costs continue to affect many operators, quite often in specific homes which are challenged rather than across the entire portfolio. While operators will inevitably look to offset these costs with increases in private fees, these increased costs will still significantly impact profitability. Our research has shown substantial work is being undertaken by operators to manage

these costs, as 69% of elderly care operators surveyed were able to reduce or maintain their agency cost in 2018. However, specialist care providers in the learning disability or mental health markets have struggled to offset these costs and often require greater use of agency staff, and therefore fee negotiations with Local Authorities in 2019 will be very important.

BREXIT

As a needs-driven market, demand is growing with the aging population. Brexit, if achieved, could further exacerbate existing challenges particularly around workforce. With an 87% decrease in EU nurse registrations from 2016/17 to 2017/18, uncertainty over immigration rules post-Brexit looks to be discouraging talent from the continent. This, combined with the current nurse shortage in the sector, is unlikely to improve in the immediate post-Brexit environment.



CASE STUDY **Croft Lodge and The White House**

This pair of adjacent, high quality care homes in Devon were sold in May 2018 through Christie &

Co to Centrum Group an Outstanding rated domiciliary care agency looking to grow their care home portfolio. The care homes were sold off a guide price of £1,950,000 for the freehold interest of the pair following an open marketing campaign, which generated multiple offers, showing the high demand in the market.



CASE STUDY **John-Edwards Care Homes Ltd**

The sale of this specialist care business in the South West of England in August 2018 required combined input from Christie &

Co's Care and Childcare team, as the business provided care services for both children and adults across three facilities. Comprising three care facilities, the business was purchased by the Montreux Group, a healthcare fund which invests in the UK specialist care space.



CASE STUDY

Andover Care Home

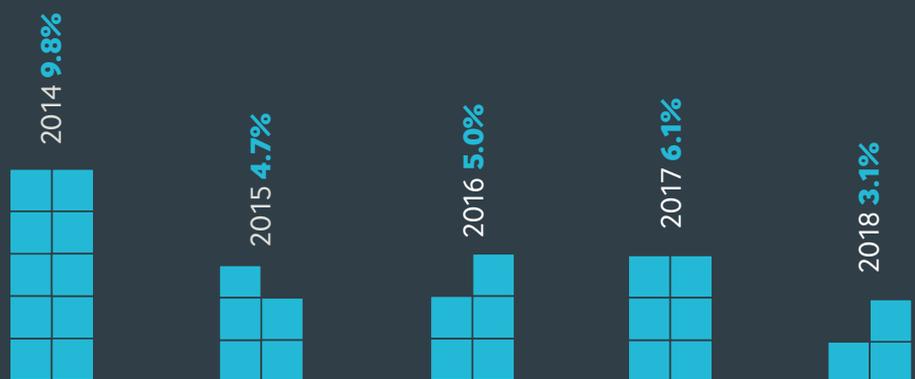
Having been instructed on the sale of the substantial, 87 bed Andover Nursing Home in Hampshire, Christie & Co undertook a confidential marketing campaign on behalf of the owners, two brothers who were looking to retire having operated the home for the past 16 years. The business garnered a high level of interest resulting in several competitive bids and was ultimately sold to a growing local group operator, Andover Care Ltd in May 2018.

MARKET PREDICTIONS

Quality still remains the key driver of value and operational effectiveness – we will see continued regulatory pressure on all operators to improve services.

The care sector still awaits the Government's Green Paper into the future of funding of social care which was due in 2018. This could have a significant impact on the sector upon its publication.

We predicted the sale of a major OPCO in 2018 – this is still yet to be achieved but likely in 2019, along with further consolidation of quality providers.



Movement in average prices, year on year