

EAHSA/EDE-
CONFERENCE, PRAGUE

SEPTEMBER 2018

UK CARE HOME
MARKET

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PORTFOLIO MANDATES

KNIGHT FRANK ACTS FOR THE UK'S TOP 40 OPERATORS,
ADVISES ON **C. £12BN** OF HEALTHCARE ASSETS & INSPECTS
OVER 3,000 FACILITIES PER ANNUM.



PORTFOLIO MANDATES

 LONE STAR FUNDS

 PORTHAVEN
CARE HOMES

 MHA
bringing quality to later life

 SUNRISE
SENIOR LIVING

 Sanitas

 New Century Care

 Gracewell
HEALTHCARE

 BOND CARE

 MERIDIAN
HEALTHCARE LIMITED

 Helen McArdle Care

 Signature
setting the standard for senior care

 Avery

 REGARD

 Retirement
VILLAGES®

 MMC
Multi-Member Care Group

 A
AUDLEY

 Cygnets Health Care

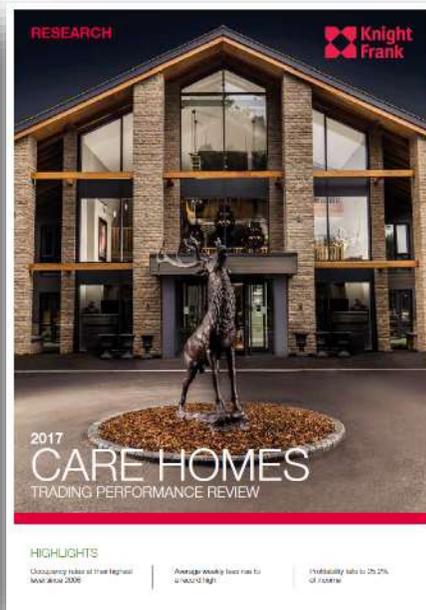
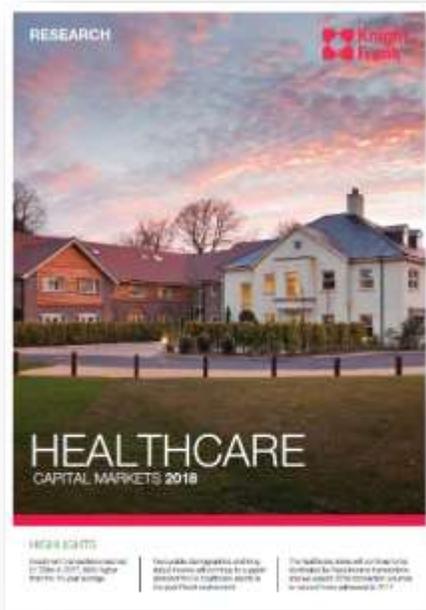


 exemplar
health care

 SCHÖN
KLINIK

MARKET LEADING RESEARCH

OUR MARKET INTELLIGENCE ENABLES US TO PROVIDE UNRIVALLED STRATEGIC AND ASSET MANAGEMENT ADVICE, INCLUDING DETAILED SWOT ANALYSIS OF HEALTHCARE ASSETS.



GLOBAL COVERAGE

We have an extensive global network which allows us access to key occupiers across the world.

411 offices
59 countries
14,000+ people



UK Care Home Market Overview



Currently **12.2m** of the population are over 65 representing 18% of the overall population in the UK



Projected over 65 years population to rise to **14.7m** by 2027 representing a 20% increase



Shortfall of en-suite (market standard) beds by 2027 = **245,600**



480,000 projected bed capacity by 2035



12,650 care homes



Shortfall of all beds by 2027 = **88,500**



85% of care homes over 40 years old



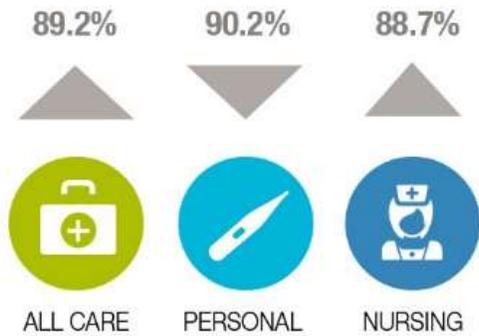
67% of beds have en-suites



Care home market value **£45BN**



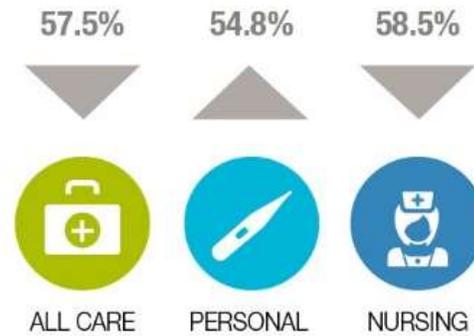
UNDERLYING PERFORMANCE: 2016-2017 KPIS



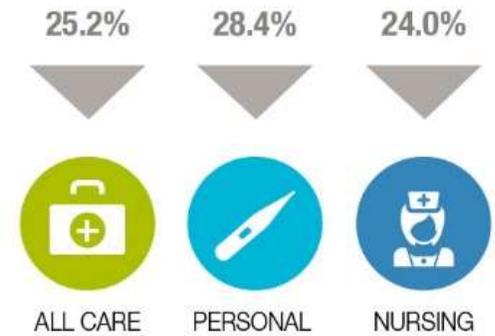
OCCUPANCY



AVERAGE WEEKLY FEES



STAFF COSTS (% OF INCOME)

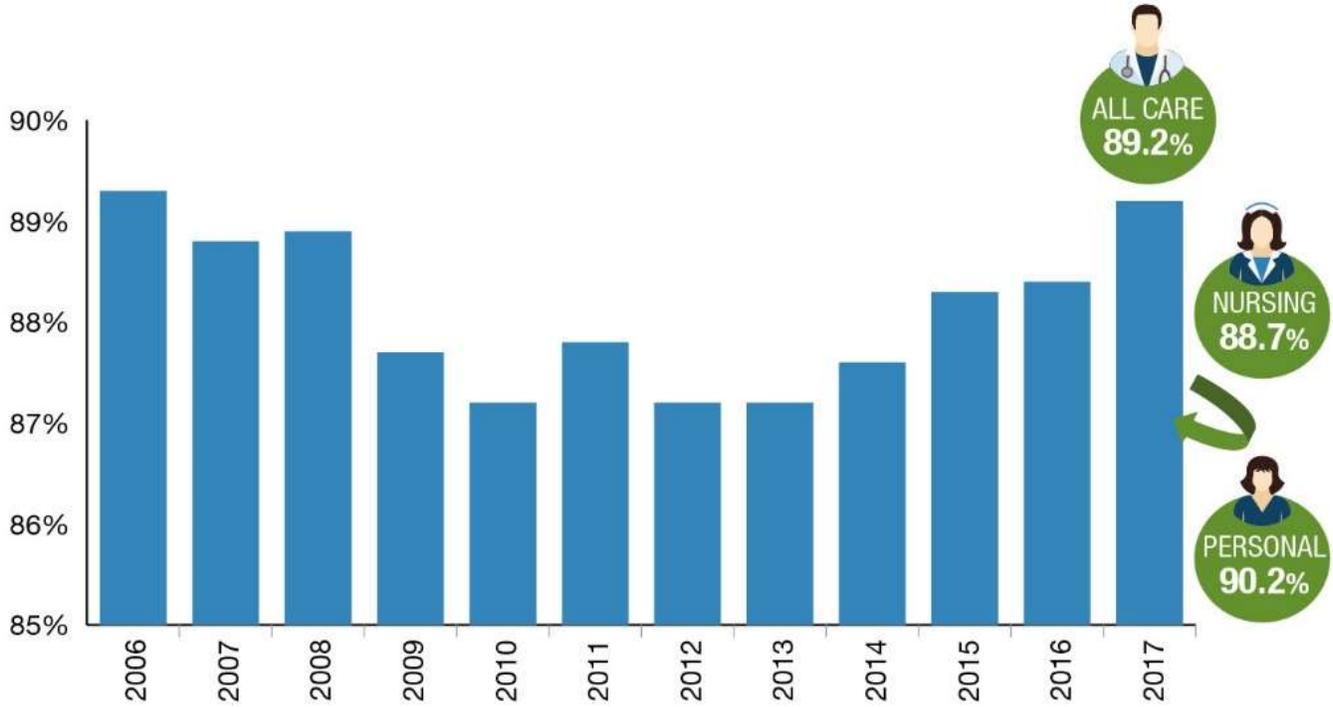


EBITDARM (% INCOME)

Source: Knight Frank Research

OCCUPANCY AT HIGHEST RATE SINCE 2006

FIGURE 3
UK care home occupancy rate %



- 0.8% uplift in occupancy from last year's reporting period.
- National crisis regarding shortage of care beds in the UK.

Source: Knight Frank Research

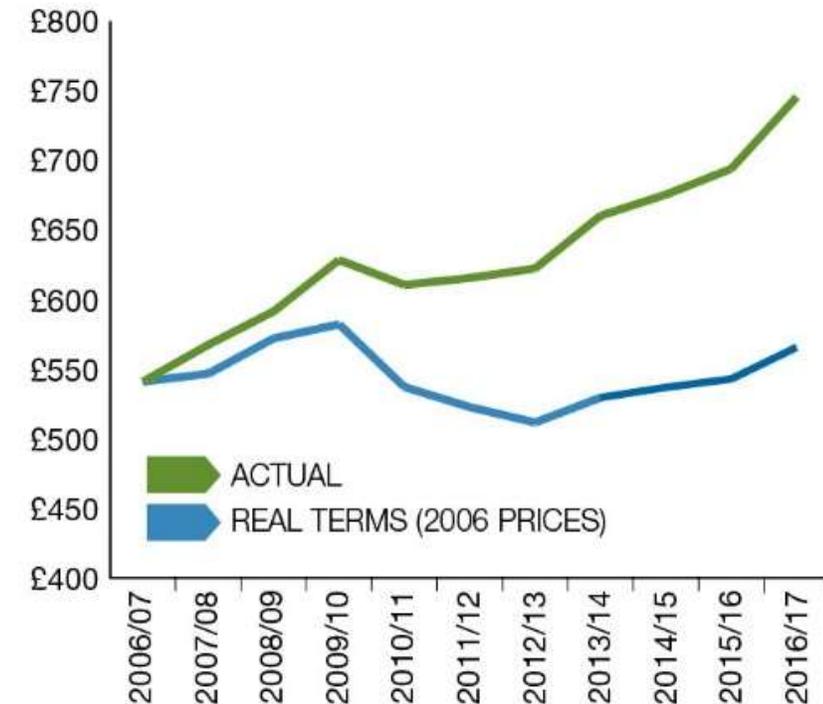
AVERAGE WEEKLY FEE (AWF)

SIXTH CONSECUTIVE YEAR OF GROWTH & A RECORD HIGH

- AWF increased by 7.4%, above RPI inflation of 3.1% to £746.
- Nursing AWF increase driven by 40% increase in NHS funded nursing care (FNC).
- Continued shift towards private pay market.

FIGURE 6

AWFs £ per week



Source: Knight Frank Research

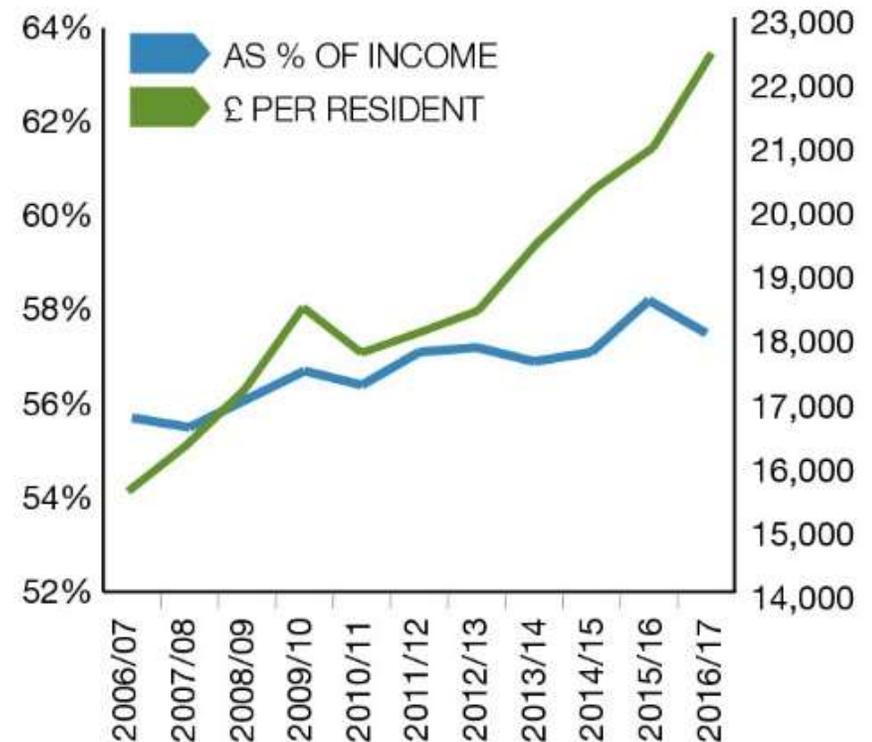
STAFFING COSTS CONTINUE TO RISE

- Influenced by National Living Wage (NLW) and shortfall of qualified nurses.
- Staffing costs rose by 7% to £22,512 per resident.
- Fee inflation compensated for rising staff costs reducing staff costs as a percentage of income from 58.2% to 57.5%.

FIGURE 10

Staff costs

As £ per resident (RHS) vs % of income (LHS)



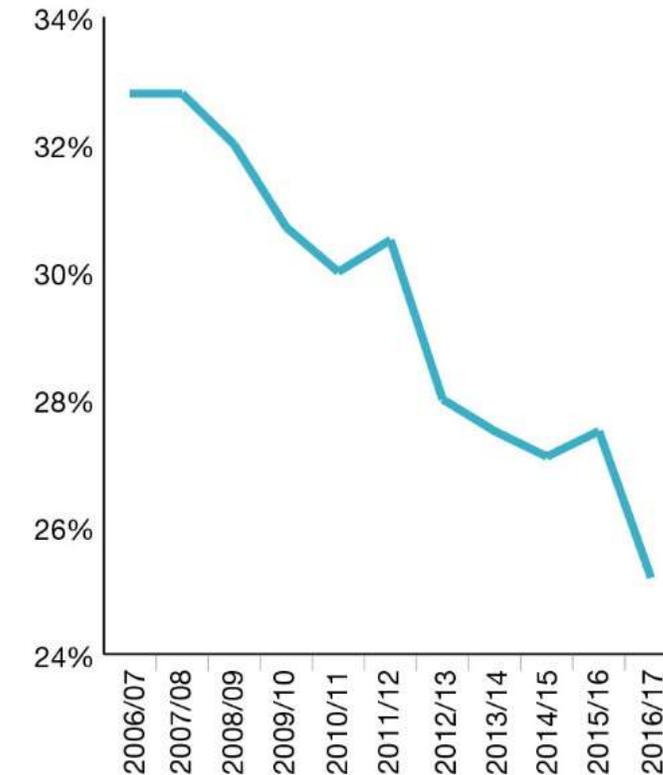
Source: Knight Frank Research

PROFITABILITY MARGIN FELL TO 25.2%

- Fall in EBITDARM per resident mainly due to insufficient fee uplifts in personal care homes to cover increasing staff costs influenced by NLW.
- EBITDARM per resident marginally up for nursing homes.
- Fall in EBITDARM due to rises in food and property costs across all care types.

FIGURE 14

EBITDARM as a % of income



Source: Knight Frank Research

RACE FOR THE PRIZE: RISING COMPETITION FOR QUALITY ASSETS

Signature
We make it as unique as you

Moorlands
Lodge
Senior Living
Signature

Moorlands
Lodge
Senior Living
Signature

Welcome Home



HUMAN DESIGN FACTORS & BRAND



HEALTH & BEAUTY



SENSORY



AUTHENTICITY



COMFORT



CLARITY



INSPIRATION



SENSE OF WELCOME



SCALE

**HOME OF COMPASSION,
THAMES DITTON**



HOME OF COMPASSION,
THAMES DITTON



**HOME OF COMPASSION,
THAMES DITTON**



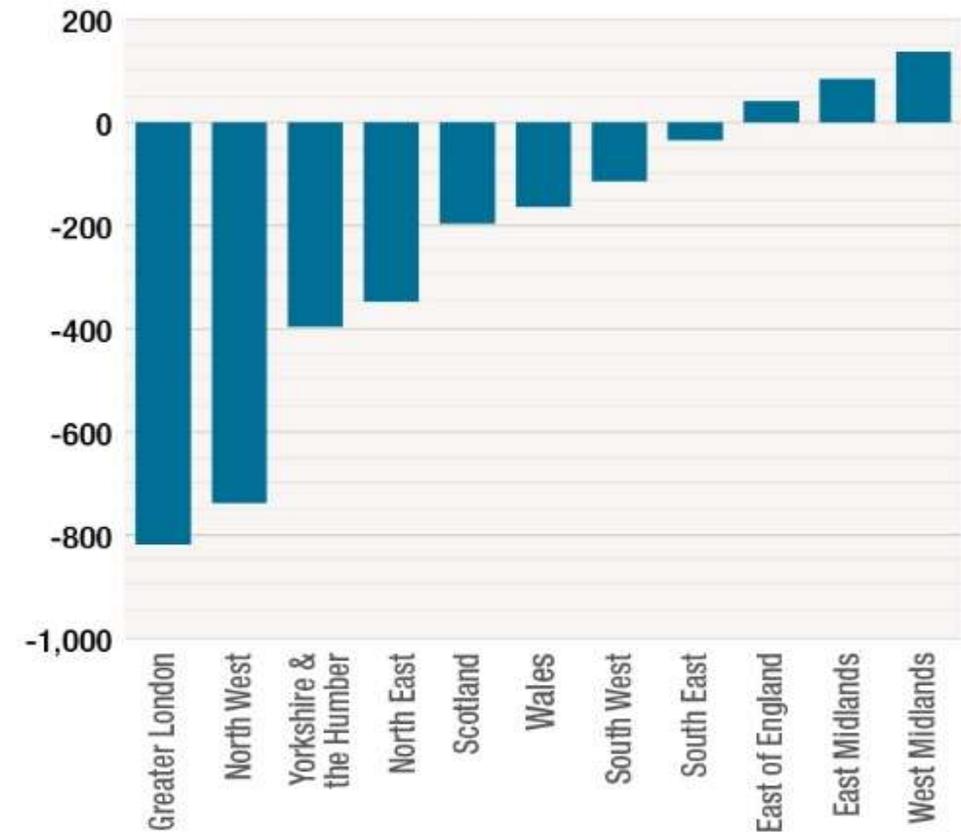
**HOME OF COMPASSION,
THAMES DITTON**





Net loss/gain of beds, by region

Oct 15 - Sep 16



85% of U.K. care homes are > 40 years old

KF estimate 6,600 care homes at closure risk in the next 5 years

IS THERE A LINK BETWEEN PROFITABILITY AND PROPERTY AGE?

FIGURE 18
EBITDARM profitability by property age (FY 2016/17)



Source: Knight Frank Research

SIZE MATTERS

Key Performance Indicators by size of care home (FY 2016/17)

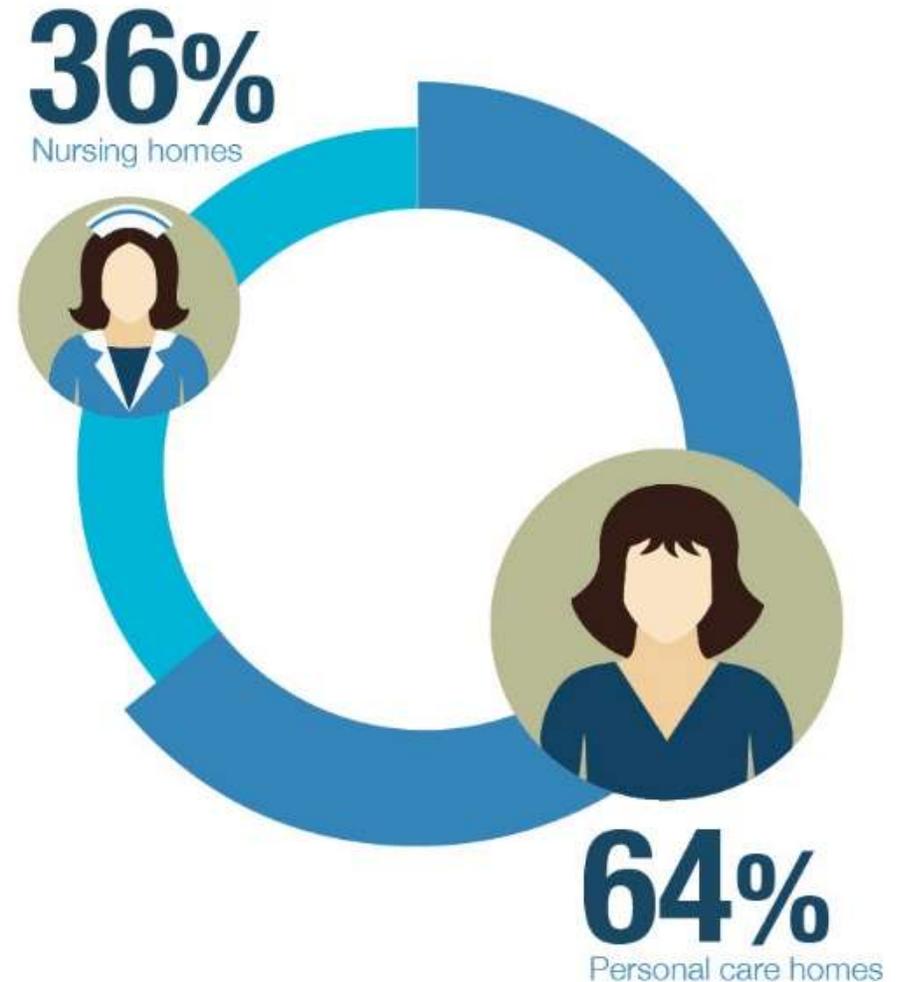
		AVERAGE WEEKLY FEE	OCCUPANCY	STAFF COST % INCOME	EBITDARM PER BED
1-39 beds		£739	91.9% 	58.9%	£9,031
40-59 beds		£713	89.9%	58.5%	£8,915
60-79 beds		£765	88.1%	56.9%	£10,431
80-99 beds		£833 	87.6%	55.1% 	£11,694 
100+ beds		£791	89.7%	57.4%	£9,758
ALL CARE HOMES		£746	89.2%	57.5%	£9,863

Source: Knight Frank Research

SHIFT TOWARDS PERSONAL CARE DEVELOPMENTS



NEW OPENINGS
(FY 2016/17)



VALUES



CONSTRUCTION



BEDS



EN SUITES



LOCATION



COMPETITION



BUILD COST



YP



YIELD

		CONSTRUCTION	BEDS	EN SUITES	LOCATION	COMPETITION	BUILD COST	YP	YIELD
GRADE	 SUPER PRIME	Future proof	c.70 >	100% wet rooms	Excellent	Very limited	c.100k – 200k	12 >	4% >
	 PRIME	Purpose built	c.60	100% en suite	Good	Restricted	c.80k – 100k	8.5 - 10 >	5 – 6% >
	 SECONDARY	1 st generation & 1990s purpose built	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 LLP

GLOBAL CAPITAL: INTERNATIONAL INVESTMENT INTO THE UK MARKET – COOLING OFF OR MORE TO COME?



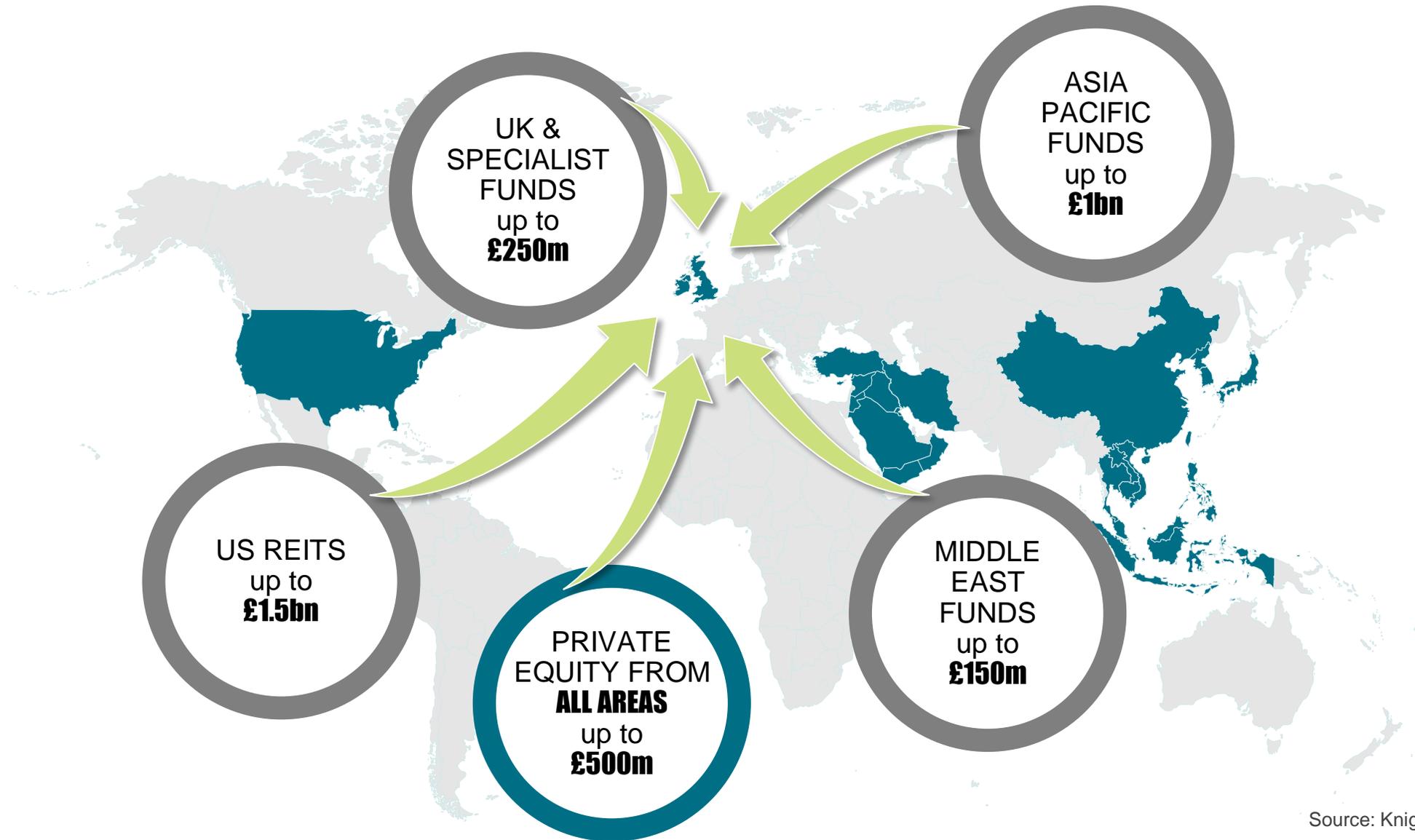
NEW INVESTORS



Vs.



GLOBAL INVASION



Source: Knight Frank Research

FIXED INCOME ACTIVITY

OPERATOR COVENANT

Ground Rents



Sale & Leaseback of EBITDARM



Sale & Leaseback of Land



Pre - Lets on Developments



FIXED INCOME & OPCO VALUES

Home/Site	Nice Home
No. of Beds	70
Average Weekly	£850
Occupancy	95.0%
Fee Income	£2,939,300
Wage Costs	£1,350,000
Food Costs	£78,886
Operating Costs	£70,000
Establishment	£60,000
Repairs	£52,500
Admin Costs	£55,000
Total Expenditure	£1,666,386
EBITDARM	£1,272,914
Rent	£727,380
Rent Cover	1.75
EBITDA	£545,535
Yield	4.00%
Costs	2.80%
Investment Value	
	£17,675,325
Say	£17,700,000

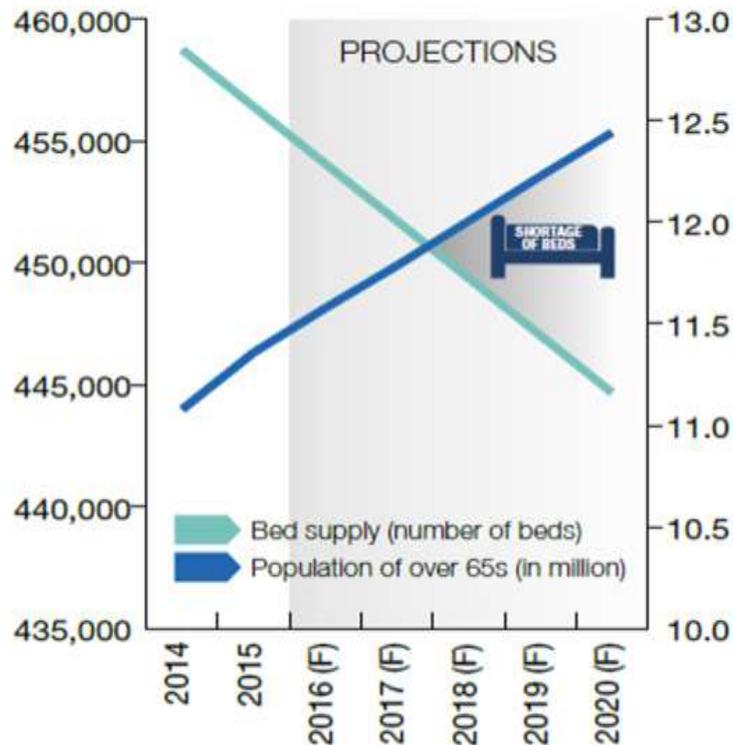


OpCo Value	
YP	8.0
	£4,364,278
Say	£4,400,000
Marriage Value	
	£22,100,000

FUTURE OF U.K. CARE HOMES

Bed demand and supply

Bed supply (LHS) Population of over 65s (RHS)



Source: Knight Frank, Experian, LaingBuisson, 2015

- Good sector fundamentals.
- Focus on private pay residential care.
- Flagship sale & leasebacks.
- Forward funding opportunities
- Increasing appetite from the institutions & funds.
- Emergence of new healthcare funds.
- USREITS, Asia-Pac, Middle Eastern funds will invest.
- Bond markets driving appetite for fixed income and ground rents.
- Yield compression for prime assets and scalable EBIT
- Precedent will be set with a premium paid for an opco.

THANK YOU QUESTIONS?

Julian Evans FRICS
Head of Healthcare
Knight Frank LLP