# Elderly Care Sector Market Snapshot

## A huge opportunity to replace lower tier stock

**November 2013**

> “Can deliver strong and sustainable returns”

The care sector has faced some real challenges surrounding its image, reputation and perception in recent years, namely:

- The negative press coverage regarding the self inflicted problems at Southern Cross
- High gearing issues for many group providers
- Abuse at Castlebeck Bristol and a further Panorama investigation
- Negative press reports regarding the Care Quality Commission
- Government fiscal tightening on Local Authorities funding
- Judicial reviews
- Reported increase in care home Administrations
- Radical and untested proposed reforms to the NHS
- The Dilnot review
- Potential financial regulation of larger care groups
- Proposed £75,000 cap on the cost of what an individual will have to pay towards their social care in England.

Despite an unprecedented set of challenges the care sector has strong demographic pressures, it is a growing part of the UK economy and if you get it right (which many operators do) delivers strong and sustainable returns.

Capacity rose in 2009 for the first time in 13 years. This reflects the availability of more affordable land for care development following the difficulties in the residential and commercial property markets. We still have a theoretical oversupply but these beds are made up in part by bedrooms without en suite and a greater density of homes mostly in the north of England and certain coastal locations.

The reality is that in many parts of the UK there remains an undersupply of quality beds particularly for nursing care and dementia

The key trends which will impact the sector in the future are; the expansion of the very elderly population (over 85's), changes in the willingness of family members to provide informal (unpaid) care and changes in health and dependency levels of very old people.

When you consider that there are over 17.7 million people over the age of 50 in the UK owning £1 trillion of housing equity, the expectation of older consumers will be key.

Savills is seeing pressure on fees around the UK but it is mixed and very much depends on regional location. Whilst private fee rates have not fallen below the cost of inflation, Local Authority fee rates certainly have.

According to market analysts Laing and Buisson baseline Local Authority fees only increased by an average of 1.6% in 2012/2013. This compares to an estimated requirement of 2.5% to keep pace with care home cost inflation. This along with inflationary and other increased costs such as VAT, utilities and National Minimum Wage has caused operator distress in lower fee paying parts of the UK. This is particularly the case for those homes that might be highly geared and dependent on state funded residential care referrals.

In affluent areas in the south and south east nursing fees of £800 - £1,300 per week are not unusual for quality care beds and we are seeing less fee pressure in the south and south east.

As at April 2012 an estimated 49% of independent sector care home residents were having their fees paid in part or in full by Local Authorities. Self pay is 43% and rising.

The comprehensive spending review and cuts in central government grants to Local Authorities has put severe pressure on council budgets. Council's financial positions vary widely but we have not seen placements reduce significantly but many have sought to peg fee inflation rather than reduce fees.

A number of care home companies have been successful in obtaining a judicial review of the amount of fees payable to them by Councils. Some Council have ordered reviews of their fees under threat of a judicial review challenge. Funding of care is an emotive and politically charged subject.


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# Case Study

## To buy or to build new?

### What are the current drivers for new build?

- Creating future proof product
- Getting what you want and not taking on someone else's problems
- Demographics and care need within the catchment area
- Economies of scale from staffing to energy costs and maintenance
- Added value from land to trading entity (but it is playing the long game)
- Product that meets the wish lists of the market

The increased availability of residential land that has been put to care home operators in recent times has made those operators much more choosey.

Secondary sites backing on to industrial land or very rural sites are out.

Operators in our experience want a minimum of 0.8 and up to 1.5 acres in a McCarthy & Stone type location namely a residential area, a prominent position with good access to public transport and a catchment population of 50,000 plus.

We are starting to see the residential developer back in the market and many care sites that were originally consented for residential housing 2 or 3 years ago are now selling back into the residential market and at stronger prices than care operators/ developers will typically pay.

In certain southern locations this is starting to impact on the availability of quality land.

### What do we look at when assessing the viability of a site?

We focus on the 80 plus age group and projected population growth within the catchment and we compare this to the quality of existing care homes. We pay particular attention to the lower - middle tier homes but also the level of purpose built accommodation, C2 planning permissions and applications as well as affluence indicators. We then use the demand indicators to calculate the potential under or oversupply of beds.

There is a huge opportunity to replace lower tier stock and many of the corporates are pursuing what they call a build and kill strategy. An area that appears to have a high level of competition might not be a non starter particularly if stock levels are lower tier.

### New Build Case Study

Our clients Northstar developments have provided us with their most recent development case study for a new 64 bed dementia care home in the east of England.

It was a 12 month design and built contract for a private operator client and a development of 3160 sq m. Bedrooms are 16 sq m plus en suite wet room. Construction is traditional brick and block with no internal studwork all block work:

- Construction costs amounted to £2,698,693
- Clients direct costs £160,000
- Total costs £2,858,693
- £44,667 per bed build cost
- Add 5% contingency costs
- £46,900 per bed overall for a quality build (excluding finance costs and soft furnishings)
- The land was purchased at £875,000 (£13,671 per bed) with planning
- GDV for loan security was £4,800,000 turn key (£75,000 per bed)
- Mature value (trading) is £5,500,000 (£85,937 per bed)
- The home opened in January of this year and as at 28th February had 12 residents in occupation
- Fees are averaging £700 - £750

### What are the current drivers for acquisition as opposed to new build?

Typically they are location, size, quality, sustainability, potential regulatory matters and can we improve or reposition and what are the risks and timeline.

The key for new development is land price, build and financing costs blended with timescale. It can take 3 years from planning to project conclusion but you end up with a sustainable high quality product. Equally acquisition is all about the purchase price blended with potential and risk. If you get it right the results and financial rewards are achievable much faster.w

The opportunity to purchase 1980's and 1990's purpose built homes at realistic prices has certainly increased and we do expect to see more opportunities coming forward this year either as a result of Administration, Receivership or corporate/institutional disposals and prices in the mid and lower tiers are at an all time low.


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