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CGI: KWL Architects

CARE MARKET REVIEW 2024

AN INSIGHT INTO THE UK HEALTHCARE MARKET

CHRISTIE & CO

Regulated by RICS

CONTENTS

Welcome to our Care Market Review 2024.

In this edition, we are pleased to provide you with our latest insight into the healthcare transactional market against a backdrop of normalising economic conditions and an evolving political landscape.

How has this affected transaction volumes and buyer appetite in the sector?

Capturing the breadth of Christie & Co's market-leading activity across the healthcare sector, we provide an overview of the trends we have seen across the transactional landscape, ranging from investment and development to WholeCo individual asset and group transactions.

Over the last 12 months, operators have seen improved occupancy and a reduction in agency costs. Our operator survey also looks to understand wider market sentiment over the next 12 months.

We are also delighted to share the thoughts of Matt Lowe, Chief Executive Officer at LNT, who provides his insights on developments within the sector.

Our investment and development team presents their views on the market, and our Head of Healthcare in Germany provides an insight into the German healthcare market.

At Christie & Co, we have the largest, most experienced healthcare team in the sector, with a collective 500+ years of experience in brokerage, valuation, consultancy, investment and development. If you would like to know more about our services, you'll find our contact details on page 37 to 39.

HEALTHCARE CAPITAL MARKETS

Healthcare remains a highly attractive asset class to investors due to the strong needs-driven underpin and defensive characteristics of the sector. Through 2023 and into 2024, real estate investment activity has been impacted by the wider macroeconomic environment although, as we move into the second half of 2024, there are clear signs that yields have stabilised with market activity picking up.

2023 was a relatively benign market environment as investors adjusted to a range of factors including higher interest rates, inflationary pressures, and an upward movement in government gilts.

A number of sector specialist investors who had been particularly active over prior years largely paused their investment activity to focus on asset management and capital raising with others being selective in targeting higher-yielding investments.

The higher cost of capital has been a key issue for investors. This is illustrated at a macro level by the increase in the Bank of England base rate from 3.5% at the start of 2023 to 5.25% at the end of the year. This increase was driven by wider inflationary pressures with other important metrics like 10-year UK Government gilt yields increasing to a high of 4.6% in August 2023.

As we moved into the start of 2024, Bank of England base rates remained at 5.25% but 10-year gilt yields had reduced to 3.7% before increasing a little with a Q1 average of 4.03%.

At the end of July 2024, the 10-year gilt yield was at 3.8% having seen some fluctuating upward movement during the first half of the year. August 2024 also saw the Bank of England make its first base rate cut for over a year with a quarter point reduction to 5% which follows the trend of reducing inflation over prior months. The transactional market environment for UK healthcare largely reflects these trends.

AVERAGE UK 10-YEAR GILT VS BANK OF ENGLAND BASE RATE TRENDS

HEALTHCARE CAPITAL MARKETS

2023 was a more benign market environment than prior years, with a lower level of transactional activity and a changing landscape of market participants.

At the start of the 2023, yields were adjusting to reflect the higher costs of capital and a reduced pool of active buyers with capital to invest. Those funds with capital to deploy during 2023 remained active with this illustrated by the activity of OMEGA REIT, a listed sector specialist investor from the US, coupled with UK-based funds including Royal London/Shoreline, BlackRock and Elevation Advisors. By the second half of 2023 and moving into 2024, there were clear signs that yields were beginning to stabilise with new capital also looking to enter the market.

Positively, 2024 has seen a steady increase in the volume of investment activity with a number of major processes being launched and more funds looking to actively participate as buyers. This reflects a combination of new capital entering the market and existing funds becoming more acquisitive. It is illustrated well by both real estate investment activity and wider corporate/private equity transactions.

As we go past the mid-point in the year, there have already been a notable number of substantial transactions including the sale of NorthWest Healthcare's UK hospital portfolio to Assura for £500 million and PGIM Real Estate's acquisition of Signature Senior Lifestyle in partnership with Elevation Advisors.

With a number of other processes ongoing, ranging from larger portfolios to single asset deals, we expect the trend of increased deal activity to continue through the autumn and into 2025.

Whilst investors will carefully observe the economic policies that the new Chancellor announces in the forthcoming Autumn Budget, sentiment suggests that yields have now stabilised and may start to gradually compress if the current trajectory of improving market sentiment remains. A further cut in the Bank of England base rate, as anticipated by some commentators, will help in this regard.

In summary, we are positive about the market opportunity moving forward with healthcare being seen by many investors as a key target sector.

YIELD TRENDS – UK HEALTHCARE

Since the Truss mini-budget in autumn 2022, yields have seen a notable outward adjustment, albeit latest market sentiment suggests that yields have stabilised with competition for assets increasing as new capital enters the market. The graphic below sets out Christie & Co's assessment of yield ranges from H1 2022 to H1 2024 across different segments of the investment market (defined by covenant strength, lease structure/rental security and asset quality)

	SUPER PRIME	PRIME	SECONDARY	SPV	TERTIARY	UK GILTS (AVERAGE)	BoE BASE RATE*
H1 2022	3.0% - 3.25%	4.0% - 4.5%	5.0% - 5.75%	5.25 - 5.75%	7.0 - 8.0%	2.20%	1.75%
H1 2023	4.25% - 4.5%	4.5% - 5.25%	5.25% - 6.0%	5.75% - 6.25%	8.0% - 9.5%	4.90%	5.0%
H1 2024	4.5% - 5.0%	4.75% - 5.75%	6.0% - 7.5%	5.75% - 7.0%	8.0% -10.0%	4.6%	5.25%

*Average over period

LAND AND DEVELOPMENT

PLANNING

The planning system has continued to be unpredictable and protracted, with refusals occurring at a local level often for political reasons or simply poor processing of applications due to under-resourced planning departments. Market participants are also now having to navigate recent planning policies such as Biodiversity Net Gain (BNG) and Nitrate Neutrality which can be both challenging and costly to adhere to. In addition to this, a recent update to Part L Building regulations is placing more onerous standards relating to the energy performance of new buildings which has also increased construction costs.

The net result of an ever-more complex planning process is a continued restriction of supply for 'oven-ready' consented care home sites in the UK market. The new Government intends to improve the planning process, but it remains to be seen if they will be successful and how much time it may take to change a system, that has been inadequate for so long.

CONSTRUCTION COSTS

Positively, we have seen a general stabilisation of construction costs following a period of significant inflation, and recent tender pricing has pointed to a settling down of this key component which is allowing confidence to return to the sector.

Developers and operators have been agile to new cost levels by incorporating more efficient spatial standards and larger densities in the latest schemes. Many operators are now targeting a Gross Internal Area (GIA) of 50 to 52 square meters per resident, which can provide an optimal balance on construction cost efficiency without compromising on generous resident spatial standards or associated fee levels.

A trend is emerging for new build schemes of an increase in size, with Christie & Co's average size of transacted new build schemes now sitting at 70 bedrooms, up from 66 bedrooms in 2021.

FUNDING

Property-wide investment yield shifts driven by wider economic conditions have caused challenges with Propco and Opco deal structures. Yields have not moved out to the extent of many traditional commercial property sectors due to the excellent fundamentals the care sector offers investors.

In our 2023 report, we highlighted that we expected to see rental growth, and this has proven to be the case. At an operational level, a high proportion of private pay-focused operators have reported significant fee increases and occupancy returning to pre-pandemic levels. This is now positively flowing through into an upward trade performance trajectory, and improved levels of EBITDA have allowed for rental growth to take place without negatively affecting sustainable rent cover ratios.

Rental growth has counterbalanced yield shifts and is allowing for viable development economics to return in the sector.

CASE STUDY

Cardiff
South Wales

Bluecrest Land secured planning consent for an 81-bedroom care home with best-in-class resident amenities.

Purchased by Hallmark Luxury Care Homes, which plans to begin construction in summer 2025.

LAND AND DEVELOPMENT

ECONOMIC INFLUENCES

The capital markets have remained cautious over the past 12 months, but deal activity has been steadily increasing.

As economic and political conditions stabilise, there is a renewed appetite emerging for good quality care home investment opportunities. Investors are attracted by the defensive characteristics of needs-driven Operational Real Estate, stable long income profile, and the excellent ESG credentials purpose-built care homes provide. UK 'risk-free' 10-year gilts are now trading below 4% and we expect to see more investors returning to the sector and pricing to improve as confidence returns.

Further forecast reductions in the Bank of England base rate should also act as an additional catalyst for liquidity in the sector for both domestic and international investors.

LAND VALUES

Despite a correction in land values across many property sectors, we have seen land values for care home development sites fare better, with operators increasingly recognising the value in the certainty that consented sites provide to the sector and the supply continuing to be constrained by the planning system.

Additional value creation continues to take place in the UK by way of Opco multiples being achieved by high-quality leasehold platforms, and we anticipate seeing more evidence of transactions to support this over the coming 12 months.

In some instances, Opco values are providing additional Gross Development Value which, again, has assisted in supporting land values.

OUTLOOK

The underlying business case for purpose-built care homes remains robust and the need for future-proof market-standard beds in many locations across the UK is unchanged. Due to the variety of reasons above, we have a positive outlook for the care home development sector and expect deal volumes to steadily increase over the next 12 months, barring any other economic or political shocks to contend with.

We transact circa **1,200** new to industry care home beds per annum, equating to circa **£300 million** Gross Development Value per year.

CASE STUDY

Ewell
Surrey

Planning consent was achieved by our client for an 81-bedroom care home with resident amenities including 100% en suite wetrooms and community facilities.

Purchased by Morrison Care Community Group with the construction process now underway.

The approaching tidal wave of the UK's ageing demographic is well documented. According to stats from Christie & Co's analysis, 19.4% of the population is currently aged 65 years or over, equating to circa 13.2 million people. By 2034, this demographic is due to increase in size by 21% to over 16 million people.

Supply for purpose-built senior housing is significantly behind that of other developed countries where retirement housing models are more established, including Australia, New Zealand and the US, but delivery volumes and planning activity are now steadily increasing in the UK.

Recent schemes in the UK have generally catered for either the luxury or affordable ends of the market, but newer entrants are targeting the mid-market where there is the attraction of mass demand. Whilst traditional 'for sale' models remain the largest tenure offering, there is an increasing availability of rental options, presenting consumers with more choice.

CASE STUDY

CGI: Aspire Design

Cowbridge
South Wales

Mercian Developments Limited identified the site as being suitable for retirement living, as it is close to the amenities of Cowbridge high street and has underlying positive demographics.

The site was purchased by McCarthy & Stone which has achieved planning consent for 50 retirement living apartments (C3) with communal facilities.

LAND AND DEVELOPMENT - SENIOR LIVING

Established retirement living providers have continued to bring forward schemes of 50 to 80 units in urban areas close to high street amenities. However, we are increasingly seeing successful applications for larger Integrated Retirement Communities (IRC) products. These models typically comprise "placemaking" development schemes of 100 to 150 units, with on-site resident and community amenities.

IRC schemes benefit from efficiencies of scale in construction and operations, taking a longer-term approach to viability by way of deferred management fee structures.

The senior housing sector has experienced the same challenges as the care home sector with regards to inflated construction costs and the protracted planning process, however it also has has had the added headwind of a softer residential housing market which is relied on for the liquidity of their purchasers.

The recent cut in the base rate signals the end of the tightening cycle and will assist with increasing confidence in the wider residential market which, coupled with construction cost stabilisation, should result in an uptick in delivery volumes to cater for the undeniable demographic demand trend going forwards.

CASE STUDY


CGI: Rangeford Villages

Chertsey
Surrey

A leading specialist healthcare developer achieved full planning permission for a high-specification retirement village scheme in Surrey. The scheme was bespoke and comprised 115 one and two-bedroom apartments and luxury communal spaces.

Practical completion of the development is anticipated to be in 2024.

We are pleased to showcase our recent mandate to market the Four Seasons Health Care Group's portfolio trading under the Four Seasons and brighterkind brands.

We were instructed in respect of this high-profile mandate and launched the sale process in the summer of 2022. Our instruction covered the freehold estate of 111 assets with a brief to invite offers on an individual asset, sub-group, or whole portfolio basis with the over-riding objectives of maximising price whilst ensuring good continuity of care.

This is one of the most complex and high-profile divestment projects undertaken in the sector and involved our national healthcare brokerage and consultancy teams along with our in-house design, marketing, PR and IT teams. The process had to navigate several challenges including the end of the COVID-19 pandemic coupled with the difficult financing environment following the Truss mini-budget in September 2022.

Despite these challenges, strong interest was achieved, with our team engaging with over 800 prospective buyers and conducting more than 800 accompanied viewings. Following three rounds of bidding, we received offers across all assets and subsequently completed deals on 64 care homes with the client deciding to retain the remaining assets to capitalise on trading upside potential.

PROJECT OAK: THE SALE FOR FOUR SEASONS HEALTH CARE GROUP

KEY PROJECT HEADLINES:

Original instruction across **111** assets

Engaged with over **800** prospective buyers

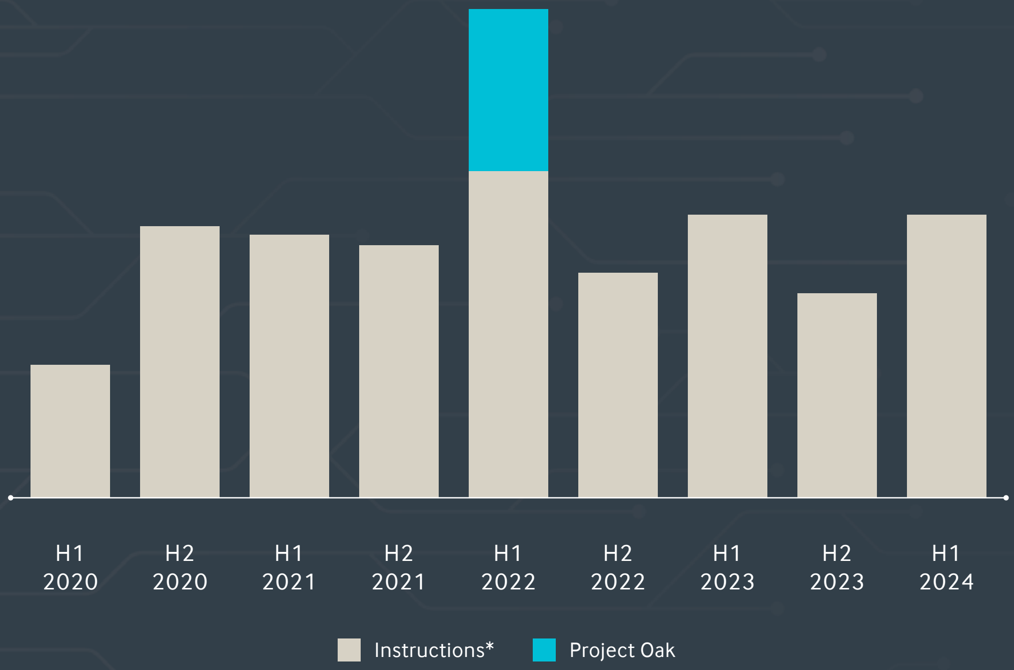
Circa **800** accompanied viewings

2,361 offers generated

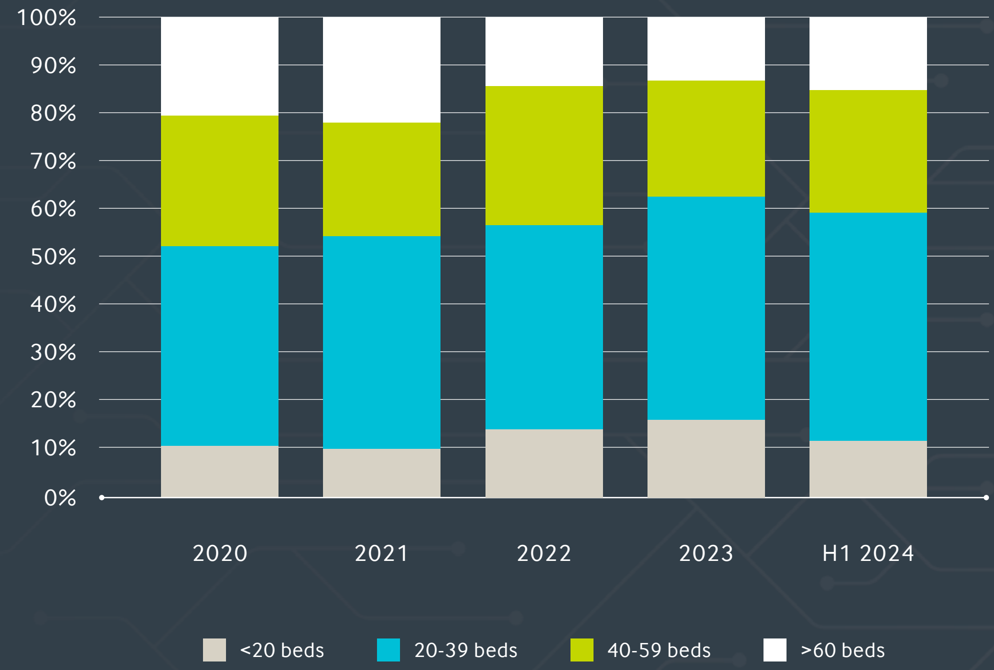
64 completions

TRANSACTIONAL ANALYSIS - INSTRUCTION VOLUMES

INSTRUCTION VOLUMES



INSTRUCTIONS BY CARE HOME SIZE



Instruction volumes in the first half of 2024 were comparable to the same period in 2023 and **39%** ahead of the second half of 2023.

2022 was a standout year for instruction volumes at Christie & Co due, for the most part, to Project Oak which led to instruction levels in the first six months some **86%** ahead of the same period in 2021. This substantially increased the number of opportunities in the market as we emerged from the pandemic.

Excluding Project Oak, a clear pattern is emerging with instruction levels. On average, they were **30% lower** in the second half of 2022 and 2023 when compared with the first six months.

The profile of care homes coming to the market in 2024 is broadly similar to 2023.

We have seen a slight reduction in the number of smaller care homes coming to the market in 2024, comprising **12%** of the total, compared with 16% in 2023. At the other end of the scale, **15%** of our instructions were for care homes with a capacity of over 60.

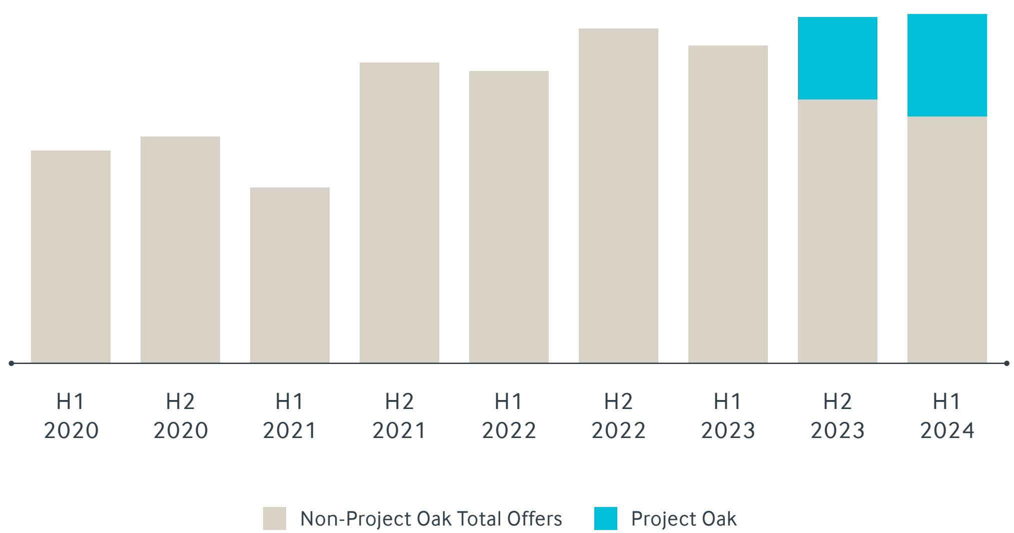
The proportion of care homes coming to the market with a capacity of between 20 and 59 remains consistent at a little over **70%** of the total.

**Excluding Project Oak*

A REVIEW OF THE UK ELDERLY CARE GOING CONCERN MARKET

OFFER VOLUMES AND AGGREGATE VALUES

CHRISTIE & CO COMPLETION VOLUMES



Offer volumes on privately owned care homes have remained relatively consistent since 2023. In the second half of 2022, we saw a reduced number of offers on privately owned stock as investors shifted their focus to Project Oak which generated a huge level of interest from existing providers seeking to expand their portfolios. Including Project Oak, offer volumes in the second half of 2022 were **239% ahead** of the same period in 2023. In total, we generated over 2,250 offers across the Oak portfolio, which was around **55%** of the total offer volumes across two years.

Aggregate offer values have followed the same pattern. Including Project Oak, we generated almost £6 billion worth of offers in the second half of 2022, clearly illustrating the strength of demand in the market. Excluding Project Oak, aggregate offer values have remained relatively consistent, showing a decline of 4% in the first half of 2024, compared with the same period in 2023.

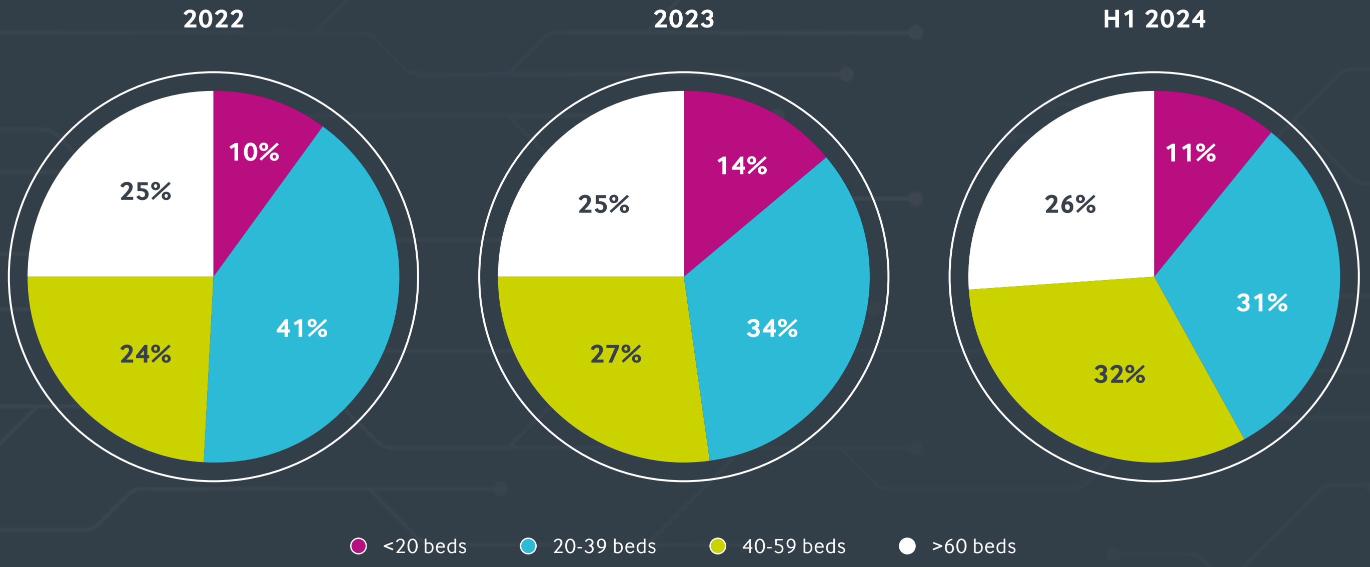
Including **Project Oak**, completion volumes in the first half of 2024 were **10% ahead** of the same period in 2023.

This chart shows a steady increase in completion numbers across the period, with volumes in the first half of 2024 being **98% ahead** of the same period in 2021, at the height of the pandemic.

Excluding Oak, we saw a slight decline in completion volumes in the first half of 2024 compared with the prior year. This is not a reflection of buyer hesitancy, but can be attributed to protracted deal timelines and challenges with CQC re-registrations. Our pipelines are 12% ahead of last year and we have put 20% more deals into solicitors' hands when compared with 2023, underlying the strength of the market.

A REVIEW OF THE UK ELDERLY CARE GOING CONCERN MARKET

CHRISTIE & CO COMPLETIONS BY CARE HOME SIZE

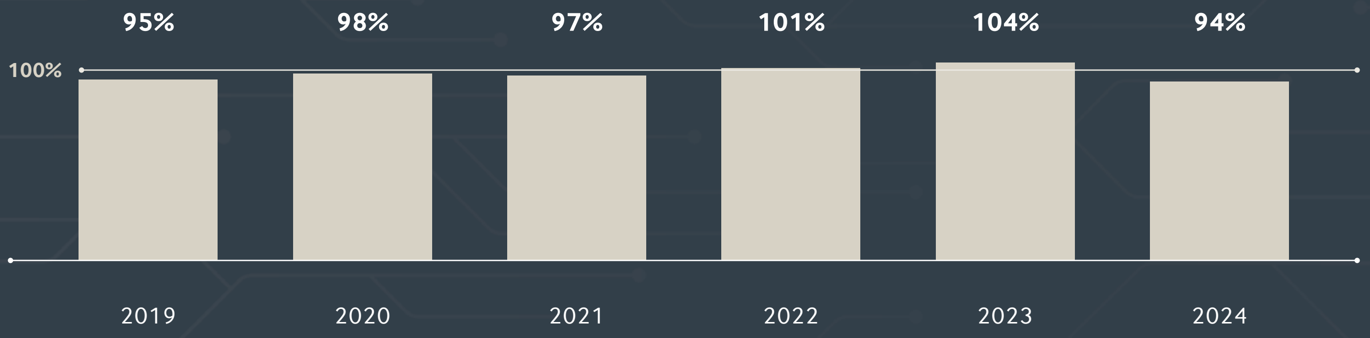


The profile of completions across our network has remained fairly consistent over the past three years.

There was a slight increase in the proportion of larger care home completions in the first half of 2024, with sales of assets over 40 beds comprising 58% of the total, compared with 52% in 2023 and 49% in 2022.

Following an increase in the number of care home sales with under 20 beds in 2023, we have seen this drop back to 11% of the total, broadly similar to 2022.

COMPLETIONS AS % OF ASKING PRICE

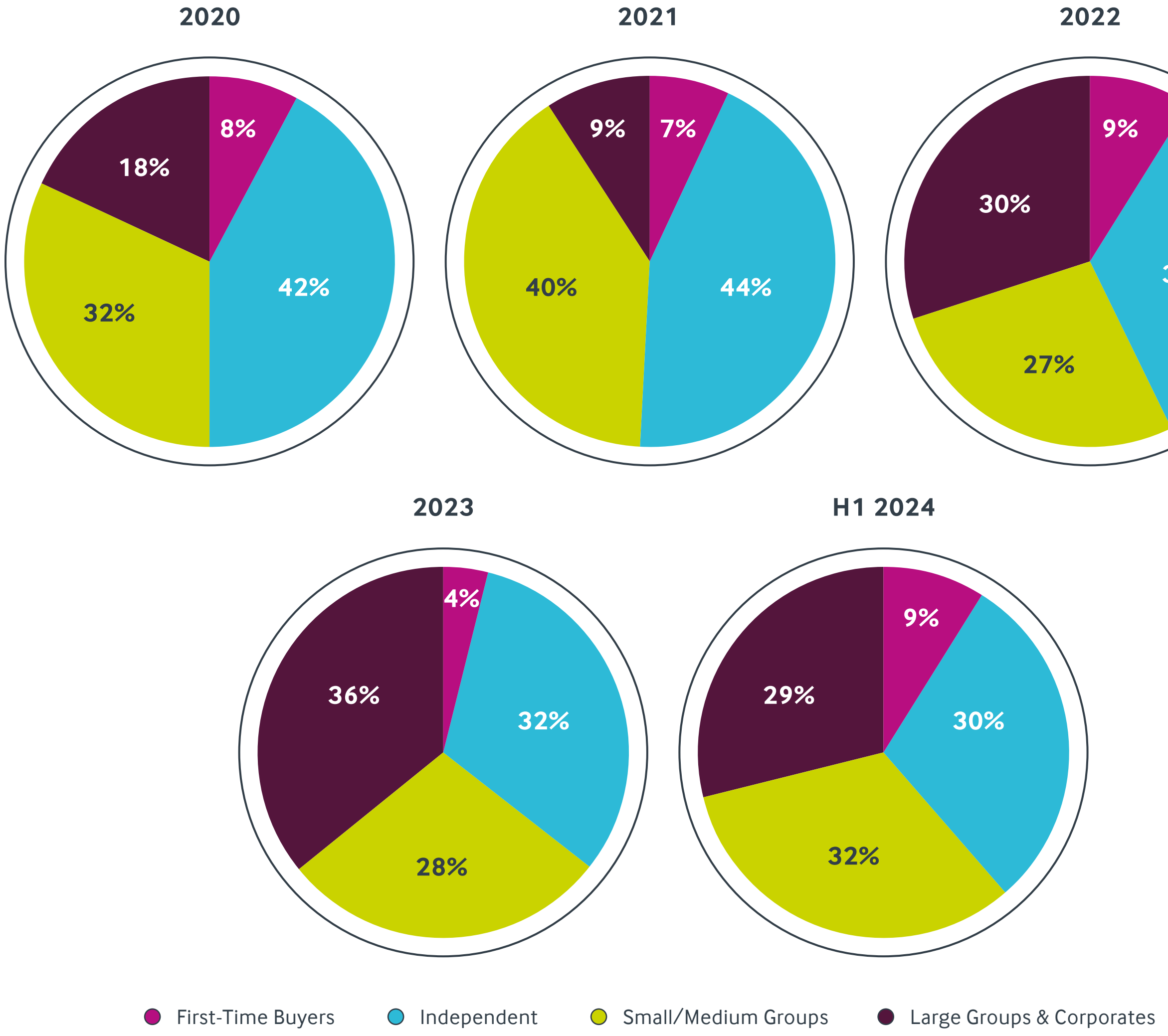


Following two years of completion values being ahead of asking price, our deals in the first half of 2024 were concluded at an average of **94%** of the guide price.

These deals concluded will have been brokered with significantly higher interest rates than in prior years and this is likely to have impacted offer levels.

A REVIEW OF THE UK ELDERLY CARE GOING CONCERN MARKET

CHRISTIE & CO COMPLETIONS BY BUYER TYPE



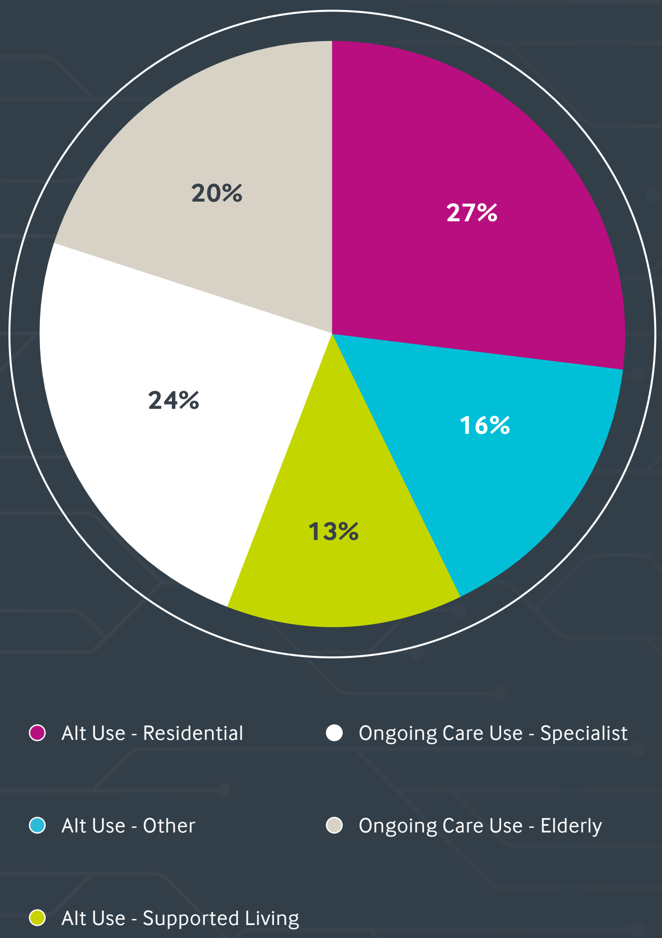
The proportion of transactions we concluded to new entrants in the first half of 2024 was over double that of 2023, at 9%. The number of first-time buyers was at an all-time low in 2023, reflecting a tough lending environment in 2022 together with a sector that was still recovering from the pandemic.

Small and medium groups were the most active buyer group in the first half of 2024, representing 33% of our completions.

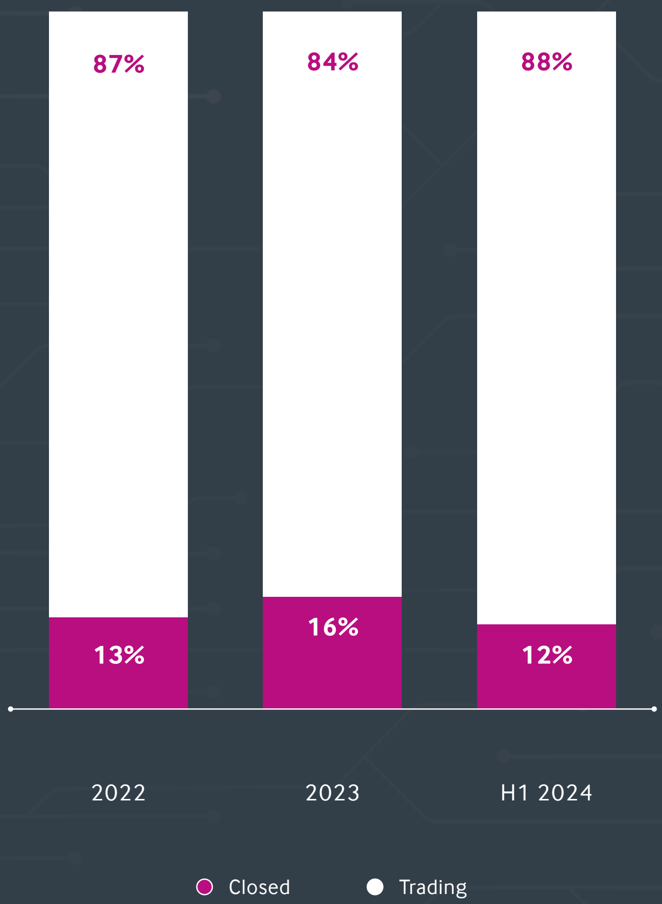
The number of deals we concluded to larger groups has declined, shifting from 36% in 2023 to 29% in the first half of 2024. This is likely to be due to the softening of yields in 2023, reducing activity in the sale and leaseback market.

**Analysis excludes Project Oak, the sale of the 111 Four Seasons Health Care Group care homes*

ANALYSIS OF ONGOING PURPOSE



PROPORTION OF SALES ON A CLOSED BASIS



12%

16% of our transactions in 2023 were on a closed basis, an increase from 13% in 2022. In the first half of 2024, this dropped back to **12%** of our total deal volumes.

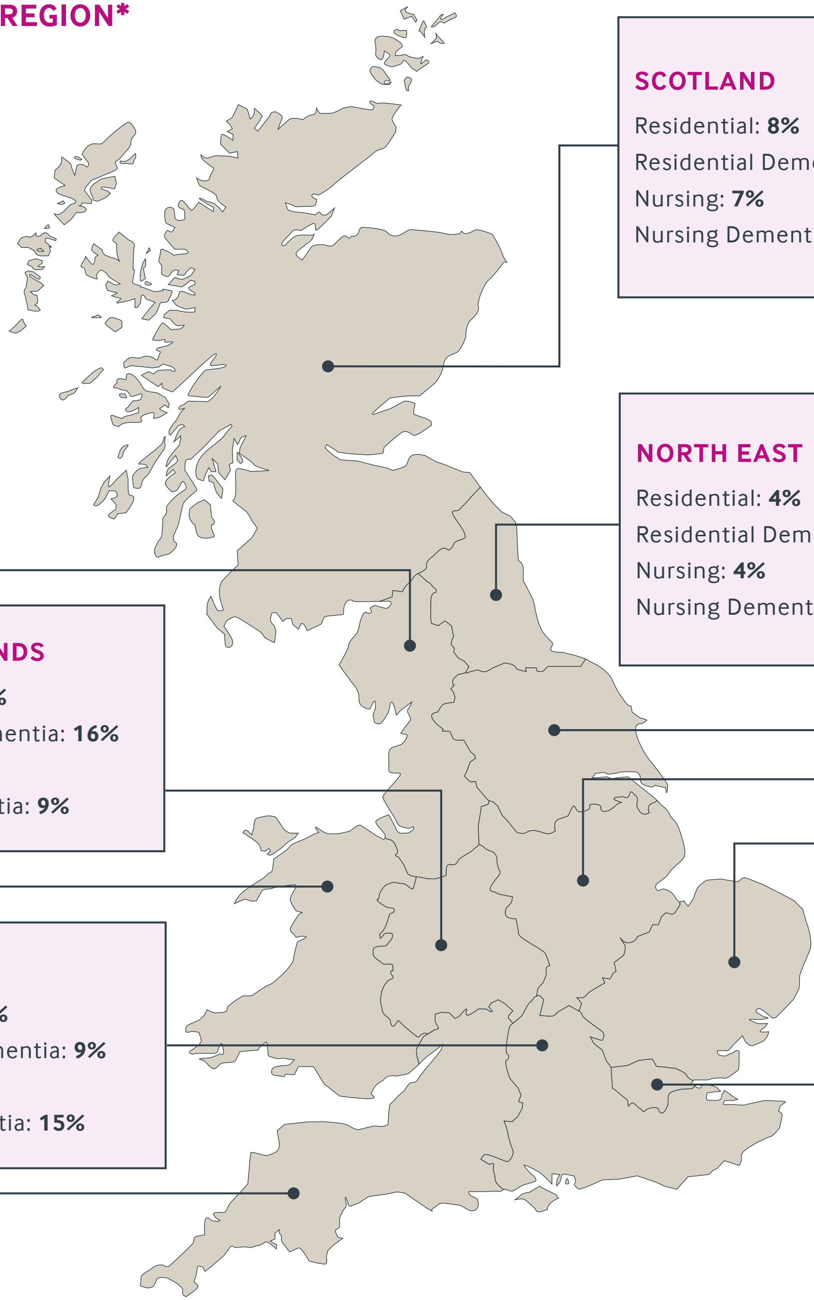
57%

An analysis of the vacant possession deals transacted in 2023 shows that **57%** were sold to care-related buyers. **24%** of the transactions were to buyers seeking to convert the property to a specialist care facility, and **20%** of buyers sought to reconfigure the property and re-open as an elderly care facility.

27%

27% of our closed care home deals were sold to residential developers.

AVERAGE FEE INCREASES 2024/25 - BY REGION*



NORTH WEST
Residential: **8%**
Residential Dementia: **8%**
Nursing: **7%**
Nursing Dementia: **8%**

WALES
Residential: **7%**
Residential Dementia: **6%**
Nursing: **7%**
Nursing Dementia: **7%**

WEST MIDLANDS
Residential: **12%**
Residential Dementia: **16%**
Nursing: **12%**
Nursing Dementia: **9%**

SOUTH WEST
Residential: **6%**
Residential Dementia: **6%**
Nursing: **6%**
Nursing Dementia: **6%**

SOUTH EAST
Residential: **13%**
Residential Dementia: **9%**
Nursing: **14%**
Nursing Dementia: **15%**

SCOTLAND
Residential: **8%**
Residential Dementia: **8%**
Nursing: **7%**
Nursing Dementia: **7%**

YORKSHIRE AND THE HUMBER
Residential: **9%**
Residential Dementia: **9%**
Nursing: **13%**
Nursing Dementia: **10%**

NORTH EAST
Residential: **4%**
Residential Dementia: **8%**
Nursing: **4%**
Nursing Dementia: **6%**

EAST MIDLANDS
Residential: **9%**
Residential Dementia: **6%**
Nursing: **12%**
Nursing Dementia: **8%**

EAST OF ENGLAND
Residential: **12%**
Residential Dementia: **8%**
Nursing: **9%**
Nursing Dementia: **10%**

LONDON
Residential: **7%**
Residential Dementia: **7%**
Nursing: **13%**
Nursing Dementia: **5%**

Excludes FNC

	Median increase England	Median increase UK	Average increase England	Average increase UK	Average fee 2024/25 England	Average fee 2024/25 UK
RESIDENTIAL	9%	8%	9%	9%	£713	£731
RESIDENTIAL DEMENTIA	8%	8%	9%	8%	£754	£777
NURSING	12%	9%	10%	9%	£910	£935
NURSING DEMENTIA	8%	8%	9%	8%	£931	£963

*Excludes FNC

We conducted and analysed a Freedom of Information Act survey, covering all 174 local authorities across England, Wales, and Scotland.

We found an average residential fee increase in England of 9% compared with 9.5% in 2023/24.

Fee rate levels remain a challenge in some areas, with the increases being insufficient to offset inflationary cost pressures.

The burden on the self-funded client base is likely to rise, with the majority of providers achieving private fee increases of between 5% and 10% or more.

In the summer of 2024, we interviewed a cross-section of local and regional providers throughout the UK.

Q

How has agency use changed over the last 12 months?

A

60%

60% of operators reported a reduction in agency usage over the last 12 months

In our Care Market Review 2023, we reported that 46% of operators had little or no agency staff usage, and 28% have widespread usage.

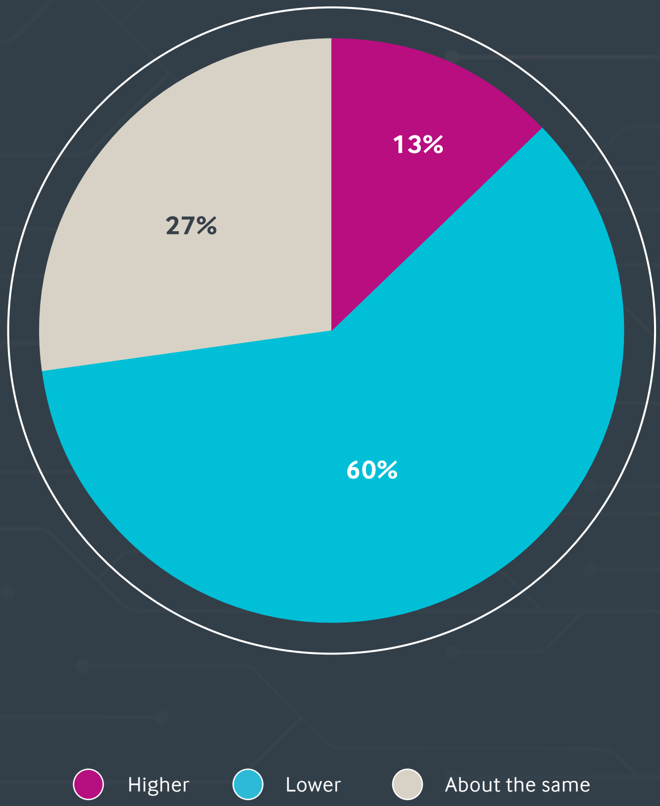
Results of our 2024 survey show that 60% of operators have experienced a reduction in agency usage over the last 12 months, whereas only 13% stated agency usage had increased.

75% of providers in Wales reported a reduction in agency usage with only 56% of Scottish providers reporting a decline.

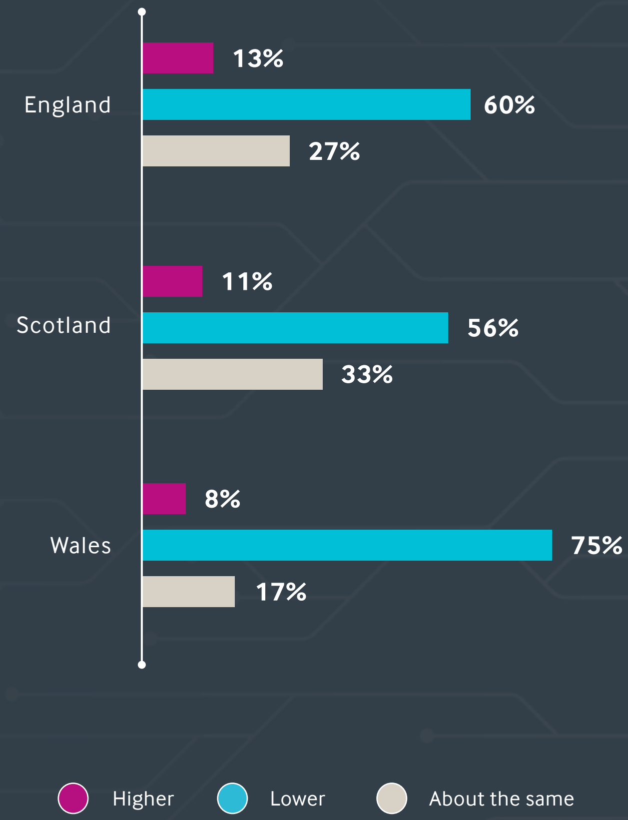
This significant reduction in agency staff has only been possible due to the widespread use of the UK sponsorship licence. Providers have had little choice but to sign up to this scheme, though it has not addressed the chronic shortage of UK-based staff in the sector.

The ban on care workers bringing dependents into the UK took effect in March 2024, resulting in a significant reduction in visa applications.

TOTAL RESPONSES



% OF RESPONSES BY COUNTRY



Q

How have local authority fee rates changed?

A

59%

59% of operators reported an increase in local authority fee rates, with the majority of both elderly and specialist operators noting an increase of between 5% and 10%

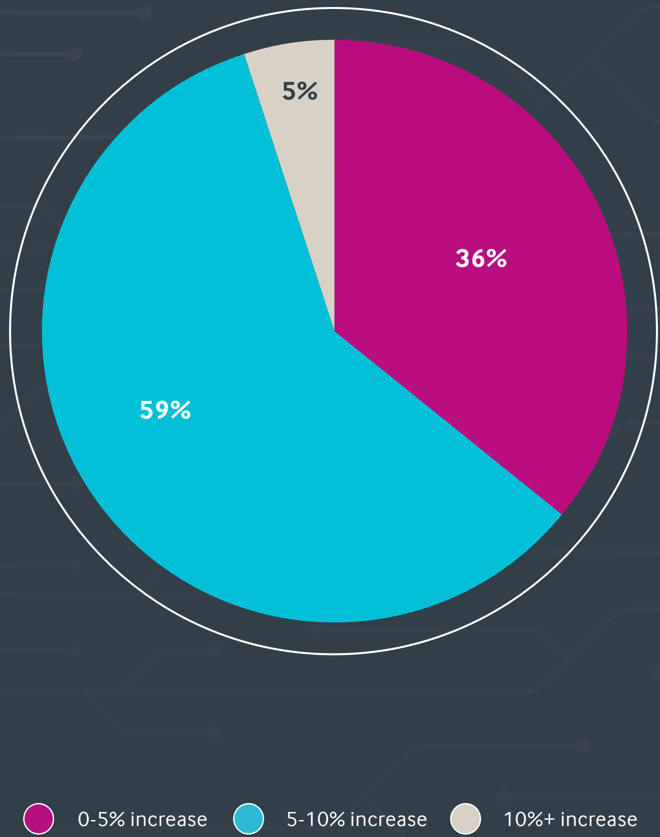
In line with the findings from our local authority Freedom of Information request on pages 17 and 18, operators reported notable local authority fee increases.

59% of operators noted an increase of 5% to 10%, and 36% of respondents had their local authority fees increased by over 10%. However, these gains have been largely offset by the increase in the National Living Wage of 10% in April 2024.

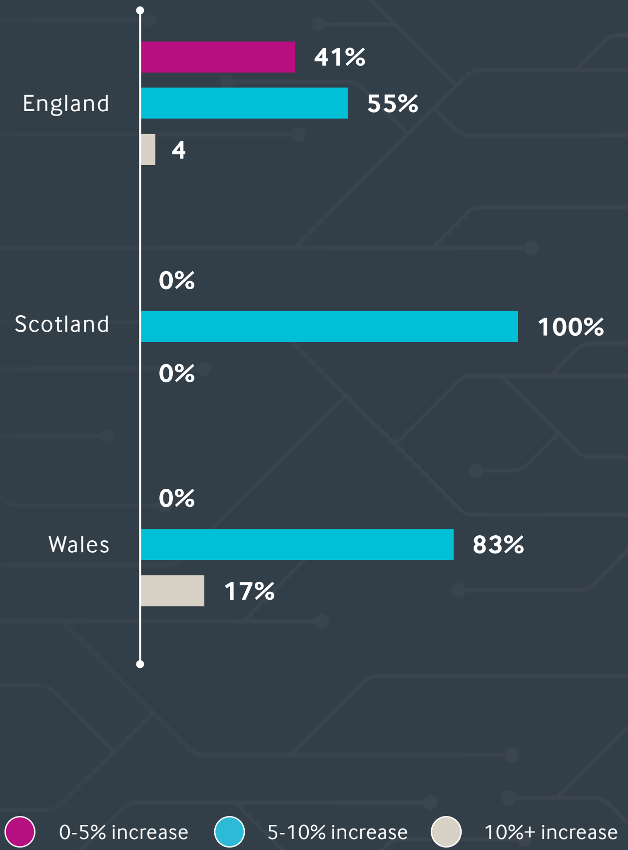
In Wales, 83% of providers reported local authority fee increases of between 5% and 10%. As in England, there is a huge disparity in baseline local authority fees, with a 29% difference between the highest-paying authority in Wales to the lowest.

In Scotland, under the National Care Home Contract (NCHC), fees for nursing care increased by 6.8% and 8.3% for residential care*. This was on the condition that all providers pay a minimum of £12 per hour to workers who are giving direct care.

TOTAL RESPONSES



% OF RESPONSES BY COUNTRY



**Source: Glasgow City Integration Join Board, National Care Home Contract Increases (2024/25), 15 May 2024*

Q

How have your private fee rates changed?

A

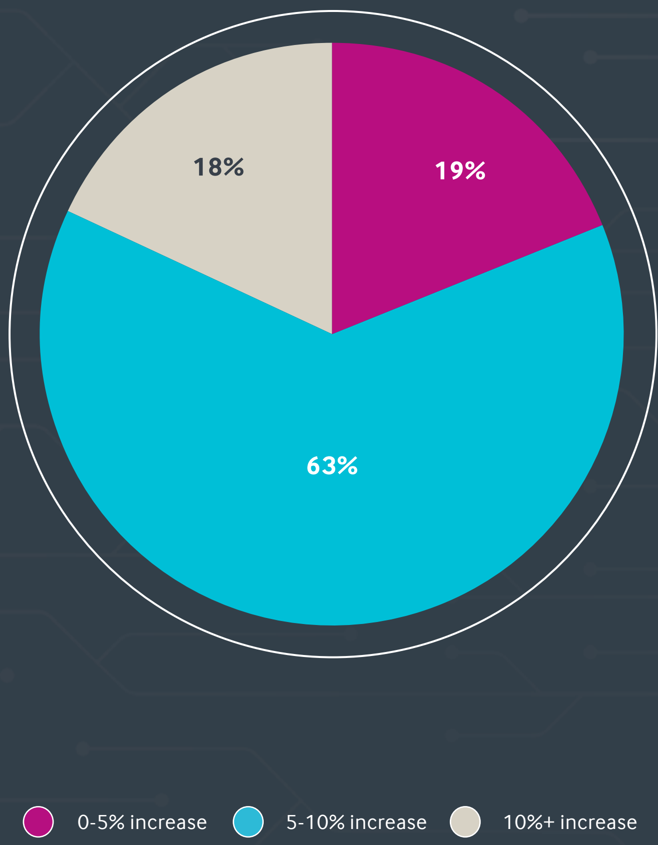
93%

93% of operators have increased their private fee rates, with 63% of those reporting increases of 5% to 10%

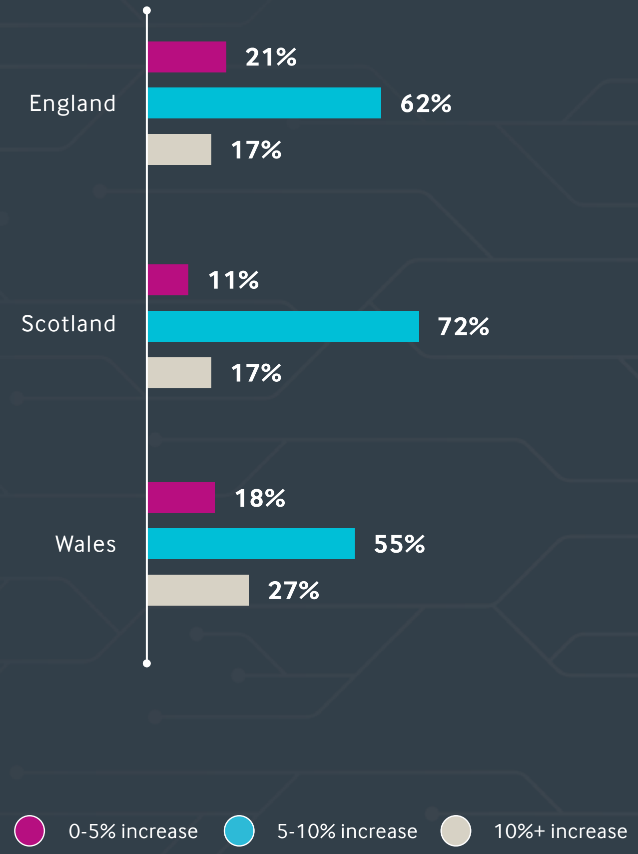
Private fee rates have risen across all regions, with 63% of operators noting a 5% to 10% increase. Additionally, 18% of respondents reported increases exceeding 10%, whereas only 5% of operators observed similar increases in local authority fee rates. This indicates that local authorities need to improve their fee rates to match the pace of private fee rate increases.

In England and Scotland, some 17% of surveyed providers reported private fee increases of over 10%, with 27% of providers in Wales reporting the same.

TOTAL RESPONSES



% OF RESPONSES BY COUNTRY



Q

Do you have plans to buy or sell over the next 12 months?

A

43%

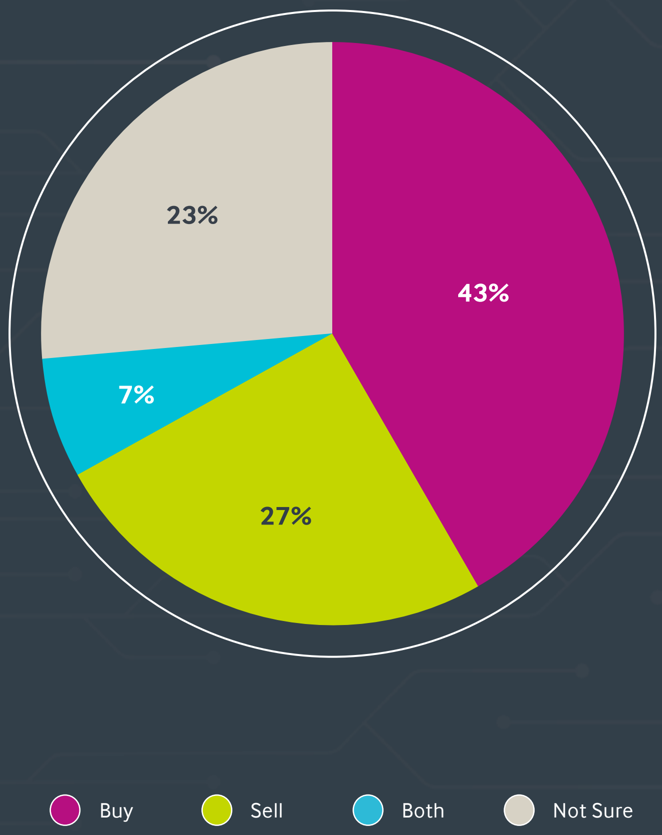
43% of respondents are planning to acquire a care business over the next 12 months

General sentiment is positive across England, Scotland, and Wales.

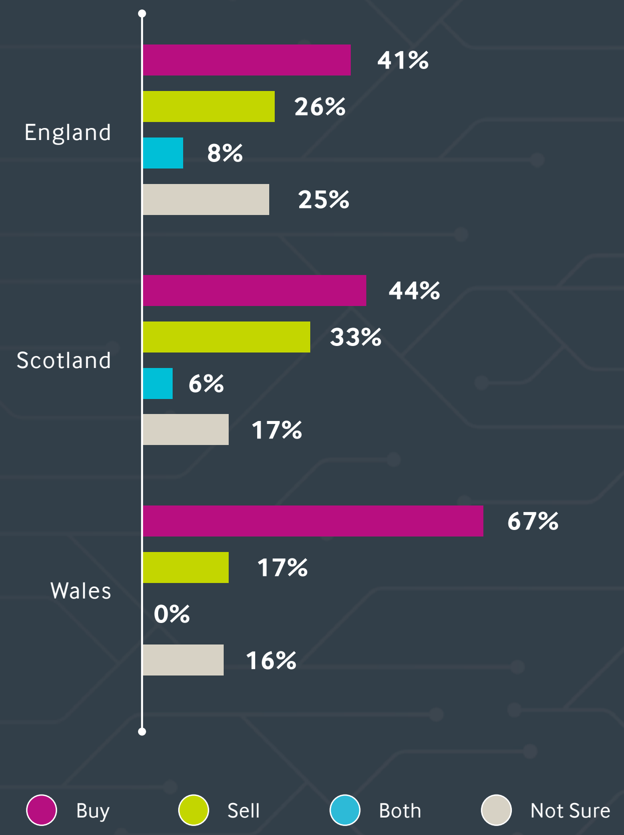
In England and Scotland, over 40% of respondents are looking to expand their portfolios, whilst sentiment is stronger in Wales where 67% of respondents are looking to acquire in the next 12 months.

Given the uncertainty around interest rates, there remained some degree of caution from operators, with around a quarter still unsure over their appetite going forward.

TOTAL RESPONSES



% OF RESPONSES BY COUNTRY



Matt Lowe is the Chief Executive Officer at LNT, one of the UK's leading scale suppliers of care homes operating on a carbon-zero basis. He has led the business since 2015, having joined the group in 2012 as Commercial Director, and is now one of the UK's most highly regarded industry experts. Matt has outstanding market knowledge from working at an operational level and at board level across the entire ecosystem of Operators, Developers and Funders, and has a unique ability to apply his knowledge right across the sector, working tirelessly to grow LNT to its market-leading position today.

We spoke with Matt about his views on the sector in 2024...

Q

What is the impact of the new technology on operating efficiencies?

A

New technology in our latest generation of care homes is multi-faceted across ESG and in-home design. The benefit of ESG design is easy to understand - the increased use of self-generated energy reduces utility bills for operators of course. Standardisation and monitoring across our homes help this further by identifying any system problems early.

The in-home technology is more difficult to financially quantify, but we focus on using technology to directly improve resident and colleague experience (comfort cooling, improved lighting systems, usable high-speed Wi-Fi etc.), and also the less obvious indirect areas that fall off the back of the infrastructure e.g. digital support to our teams, improved call bell systems, and other preventative systems that rely on handheld devices and stable Wi-Fi.

Our thinking is that any time savings we create through the use of technology should be reinvested in more personalised quality care for our resident families.

Q

Can you outline how your care home design has evolved over the last two years, particularly from an ESG/environmental efficiency and net zero perspective?

A

We've been building environmentally aware homes for some time now, having started with the use of heat pump technology almost 10 years ago.

Solar and battery technology then followed; an area that we are constantly evolving as technology improves and becomes more affordable, further embedding the technology into the design. We're so confident with this technology that we have now removed gas from our buildings altogether. We don't yet think we've maximised self-generation, but our team spend as much time now considering how to reduce usage across our homes.

Q

Have build costs materially increased with the new technologies that you are installing alongside the recent inflationary pressures?

A

Cost inflation has impacted everyone over recent years, albeit that same inflation has increased operator fees, in turn having an upward impact on rents ensuring both operations and development remain sustainable. We have seen inflationary increases in construction costs fall away more recently, with some areas even moving into reverse where supply has caught up with demand. I think the investment costs of installing ESG technology are important for the operator if the building is to be fit for purpose throughout its life.

You could note that like-for-like ESG technology has become more affordable over the years as the industry has become more established and producers have scaled up to meet demand, however, we want to stay at the cutting edge of what's possible, so we will keep pushing. We think it's the right thing to do, the team enjoy the engineering challenges it brings, and it will benefit operators and residents for many years to come.

Q

How do you think care home design and technologies will evolve over the next five years and what will a new build home in 2030 look like?

A

I'd love to have a crystal ball! The technology providers will constantly evolve and find more and more efficiencies which we will try to incorporate where it makes provable sense to do so. Thinking more broadly, AI or Gen Tech are easy things to point toward in terms of the next steps in technology and design, but I do believe we are only scratching the surface of how this will be able to help throughout the life cycle of a home, and for those living and working within it.

The predictive ability of machine learning and Gen Tech allied to healthcare and energy technology could create some very exciting opportunities to save time, improve quality and make further efficiency gains across the industry. I don't yet see any different models emerging that can use technology to substitute human companionship, rather that technology will enable increased human-to-human connections to be formed.

Q

Where do you see the opportunities for growth in the market?

A

The Office for National Statistics (ONS) shows the data relating to different age ranges across the UK. The ageing population has been a discussion point in the industry for some time, but the statistics very clearly show that the growth in older citizens is shortly to be upon us and that the supply side of our industry is not producing nearly enough to meet this demand.

This swell of an ageing population, who have a higher likelihood of requiring care support, also arrives with much higher expectations of quality and service than those that have come before. Our team have built a very strong land pipeline and we're ready to build it to meet this future demand. I think this demographic opportunity allied with the changes in technology suggests exciting times ahead.


CGI: LNT Care Developments

CASE STUDIES: REGIONAL TRANSACTIONS

NORTH OF ENGLAND

Park Hills
Oldham

- Converted care home
- Registered for 17
- Sold to C24 Healthcare Limited

Cherry Trees Nursing Home
Barnsley

- Purpose-built care home
- Registered for 89
- Sold to a regional operator

MIDLANDS

Limewood
Staffordshire

- Purpose-built care home
- Registered for 59
- Sold to a specialist elderly dementia care provider

Herondale/Kingfisher
Birmingham

- Two purpose-built care facilities
- Registered for 79
- Sold to Bondcare Group

SCOTLAND

Project Beach
Ayrshire

- Group of four purpose-built care homes
- Registered for 181
- Sold to Enhance Healthcare

Southpark Residential Home
Edinburgh

- Purpose-built care home
- Registered for 30
- Sold to an expanding local operator

CASE STUDIES: REGIONAL TRANSACTIONS

SOUTH OF ENGLAND

Green Tree Court
Exeter

- Purpose-built nursing home
- Registered for 68
- Sold to Somerset Care

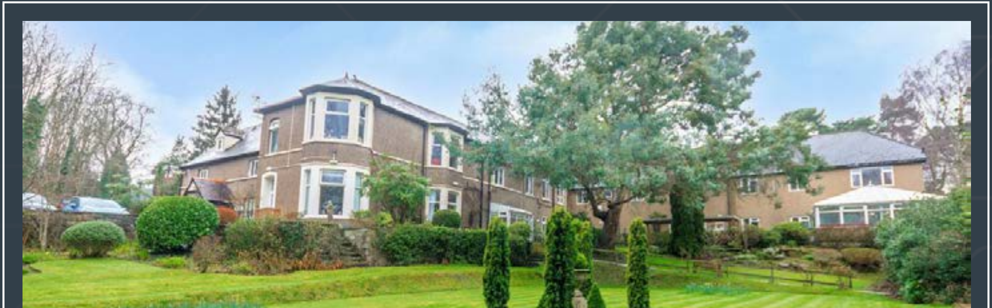
Lakeside Care Centre
Aylesbury

- Purpose-built nursing home
- Registered for 48
- Sold to a regional operator

WALES

Penylan
Cardiff

- Purpose-built care home
- Registered for 75
- Sold to Hallmark Luxury Care Homes



Ty Ceirios
Gwent

- Converted care home
- Registered for 40
- Sold to a first-time buyer

MARLON SCHRAMM
Head of Healthcare – Germany

MARKET OVERVIEW AND ACTIVITY

The German healthcare real estate market shows remarkable dynamism despite economic challenges and increased financing costs.

Fewer large portfolio transactions are being concluded in the market, with activities focusing more on single-asset transactions and portfolio optimisations. This shift reflects efforts to minimise investment risks and maximise operational efficiency, and is particularly relevant in an environment where economic uncertainties and increased financing costs influence investment activities.

Transactional activity over the last six months of 2023 and the first six months of 2024 showed a mixed picture. While the transaction volume in 2023 amounted to around €1.1 billion, a volume of approximately €430 million was observed in the first half of 2024.

NURSING HOMES
Q3/Q4 2023: 51
Q1/Q2 2024: 24

NURSING HOME BEDS
Q3/Q4 2023: 4,710
Q1/Q2 2024: 2,051

ASSISTED LIVING
Q3/Q4 2023: 28
Q1/Q2 2024: 72

ASSISTED LIVING APARTMENTS
Q3/Q4 2023: 648
Q1/Q2 2024: 219

DAY CARE
Q3/Q4 2023: 26
Q1/Q2 2024: 14

DAY CARE PLACES
Q3/Q4 2023: 388
Q1/Q2 2024: 120

HOME CARE
Q3/Q4 2023: 21
Q1/Q2 2024: 24

PATIENTS (OUTPATIENT)
Q3/Q4 2023: 2,809
Q1/Q2 2024: 4,303

CARE COMMUNITIES
Q3/Q4 2023: 16
Q1/Q2 2024: 8

CARE COMMUNITY APARTMENTS
Q3/Q4 2023: 159
Q1/Q2 2024: 77

The data shows that the number of transactions and capacity in some segments, such as nursing homes and day care, has declined, while other areas, such as assisted living and outpatient care, have seen a significant increase.

Source: Pflegemarkt.com: 'Diverse Marktberichte 2023-2024' & Christie & Co data

BUYER INTEREST

Interest is characterised by a variety of different buyers, with special funds being among the most important. These funds have established themselves as key players in the market due to their long-term investment strategies and stable capital. Particularly noteworthy is the high number of strategic acquisitions, indicating targeted growth and consolidation within the industry.

Additionally, value-add investors are very active in the market, developing ESG-compliant facilities and equipping them with new operator contracts. These investors focus on modernisation and sustainability to increase the value of the properties while meeting environmental, social, and governance (ESG) criteria which allows them not only to achieve higher returns but also ensures the long-term success and attractiveness of the facilities.

CURRENT YIELD EXPECTATIONS VARY DEPENDING ON THE TYPE OF NURSING HOME:

Value Add Nursing Homes: 7.4% to **8.3%**

Core+ Nursing Homes: 6.3% to **7.1%**

Newly Built Nursing Homes: **5.4%**

IN THE AREA OF ASSISTED LIVING, YIELDS ARE AS FOLLOWS:

Existing Properties in A-Cities: 4.4% to **5.9%**

Newly Built Properties in A-Cities: 4% to **5.1%**

Existing Properties in B-Cities: 5.3% to **7.7%**

Newly Built Properties in B-Cities: 4.4% to **5.7%**

KEY MARKET TRENDS

- Investors are increasing their demand for outpatient care centers and medical office buildings to prevent concentration risks and operator failures. These properties offer high flexibility and stability by bundling various medical services.
- The focus on ESG-compliant properties is growing, driven by regulatory requirements and increasing awareness of sustainability. Investors are increasingly relying on environmentally friendly construction methods and social responsibility to secure long-term stable returns.
- Demographic change is leading to an increased demand for nursing home places and assisted living forms. This creates a stable demand base and long-term investment opportunities, especially for specialised nursing facilities and assisted living.
- Market consolidation continues as larger players acquire smaller companies and facilities to achieve economies of scale and strengthen their market position.

CONCLUSION

The German healthcare real estate market remains attractive due to increased demand for diversified nursing properties, ESG-compliant projects, and demographic developments. These trends offer diverse opportunities for investors and promote the stability and attractiveness of the market.

THE FINANCE LANDSCAPE

JIMMY JOHNS
Director of Healthcare - Corporate Debt Advisory

At the start of 2024, the economic outlook was positive, with most economists forecasting rate cuts from mid to late Q2.

These optimistic views were supported by a decrease in the cost of funds and falling mortgage rates, as commentators reported on lenders cutting residential mortgage rates.

However, economists quickly changed this opinion early in Q1, as the country had a "technical" recession and slightly stubborn inflation which led to the potential reduction in the second half of the year or later.

At the end of Q2 2024, we saw inflation fall to be within reach of the government's target of 2%.

The subsequent announcement of a general election and change in government likely influenced the Monetary Policy Committee's decision to hold any rate changes until the new government established itself in power, meaning that the 5.25% Bank of England base rate has been held for longer than expected.

Despite this protracted view of reductions in rates, the general sentiment of funders remains positive. We reached out to a range of lenders to understand their sentiments.

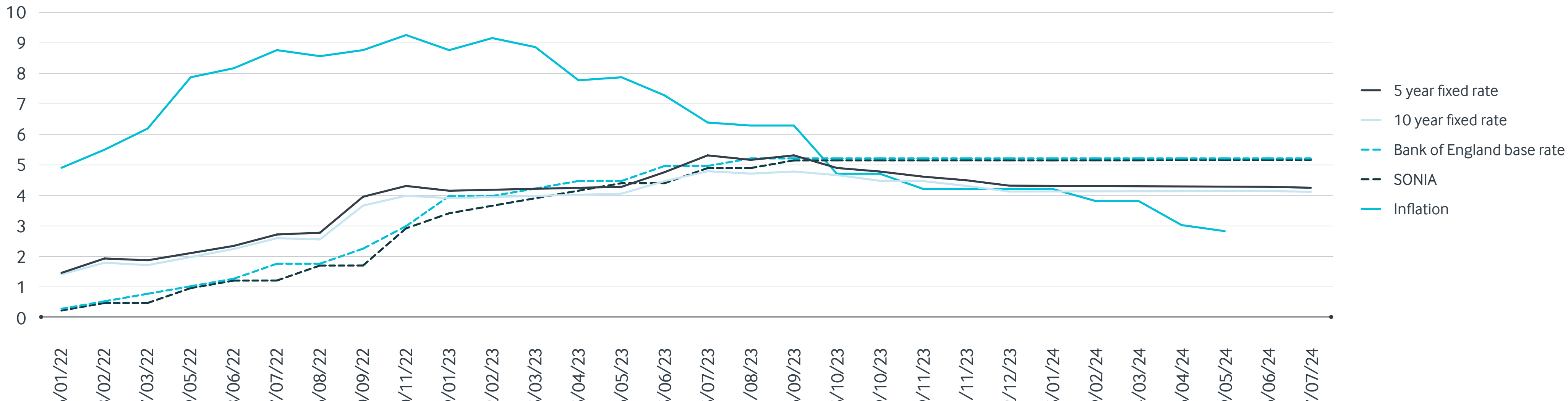
Of those surveyed 65% believed the economy is set to grow in 2024 and, so far this year, have seen a 38% increase in new business activity.

The increased desire to seek funding to either acquire or enter the care sector continues to be strong, with Christie Finance completing 23% more transactions in the first half of 2024 against the 49% increase in offers of finance.

A sentiment survey of operators conducted by Christie & Co further supports this renewed activity, showing that, of those operators with a desire to grow, 43% plan to seek funding support.

Now, three years on from the perceived end of COVID-19, we have continued to see strengthening demand in the requirements for funding and, since 2022, offers of finance volumes have increased by 65%.

INTEREST RATES



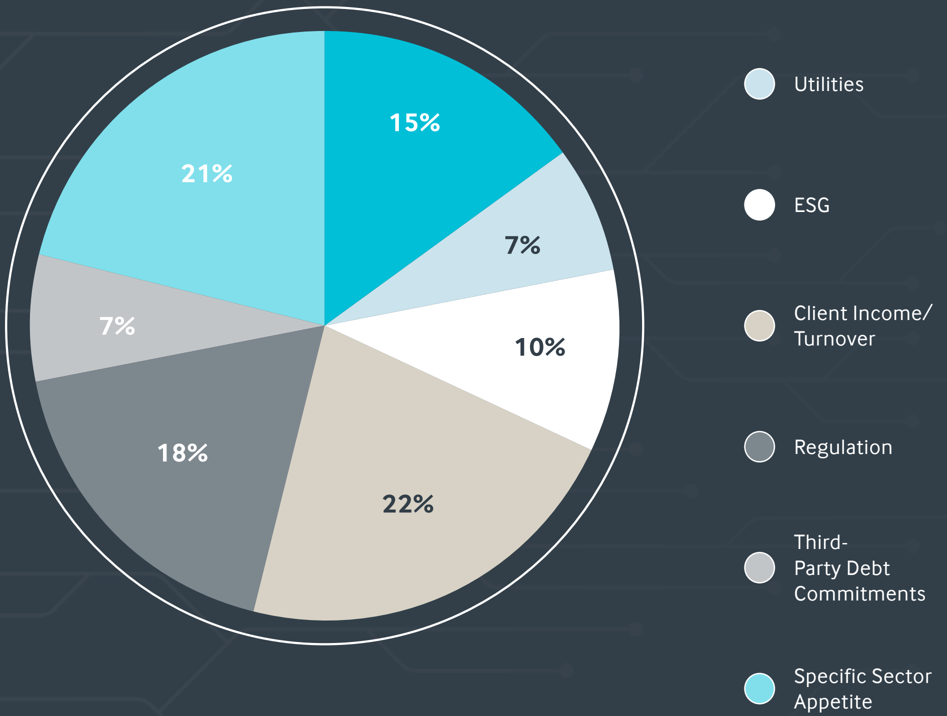
Source: Christie & Co (2024)

In the summer of 2024, we interviewed a cross-section of lenders within the care sector.

Q

When underwriting a transaction what are the key challenges that are raised?

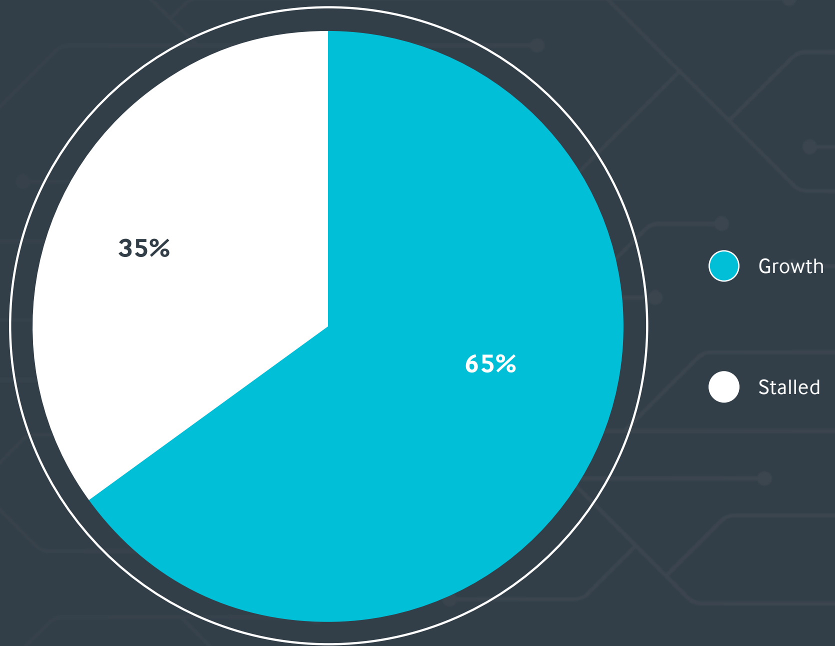
A



Q

What is your bank's opinion of the UK economy over the coming 12 months?

A



THE FINANCE LANDSCAPE

Since 2021, lender margins have remained steady, with only the Bank of England base rate making debt more costly. However, moving through 2024, we have started to see margins fall within the care sector. This means that historic deals could now be renegotiated on better terms with alternative lenders.

The same key challenges face the sector with staffing, continuing regulatory changes, and cost pressures being the focus of lenders' attention. Lenders state that the key three challenges when approaching a funding application are turnover/income pressures and regulations, along with the banks' own appetite or policy within the sector.

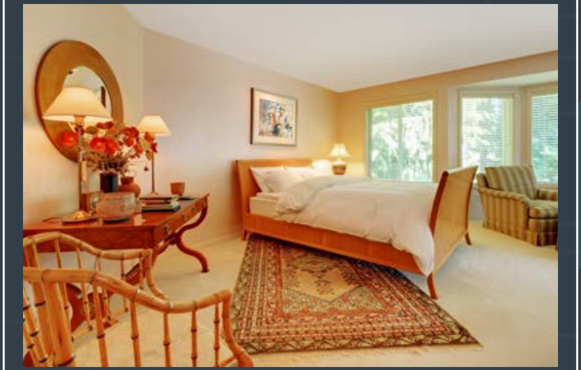
Given that these challenges are somewhat outside of an operator's control, they make navigating through the funding process difficult.

The approach clients take toward debt and structures of finance within their business has continued to evolve. There are various options beyond traditional methods, including unsecured, real estate, mezzanine, or a mix of debt and equity.

Being able to fully understand and deploy the correct instrument can be complex, and we are seeing an increase in niche lenders offering unique financing solutions to clients. As we enter a new horizon under a different government, it will be fascinating to see how the markets and economy continue to adapt, recover, and hopefully grow.

CASE STUDIES

Accurocare



PH Care Group

Accurocare is an established operator seeking specialist care sector funding to allow them to continue on their desired growth strategy. We ran a full Debt Market Appraisal, presenting them with several options that would enable them to acquire two care homes in Wales. With the success of the Debt Market Review and support to acquire the two homes, Accurocare has gone from strength to strength, with better debt terms and building on the new relationship with their new lenders.

PH Care Group is a long-standing client who we have supported over six years to grow from three homes to eight. In 2023, the company continued its rapid expansion with a new senior management team. They sought to reposition their debt, allowing them freedom to continue expansion. Through our knowledge of the sector and strong relationships with our clients, we ran a highly competitive process to support this growing group.

UNSECURED FINANCE & ASSET LOANS

TONY HOWARD
Director – Unsecured
Christie Finance

The last 12 months have continued to be challenging for the sector.

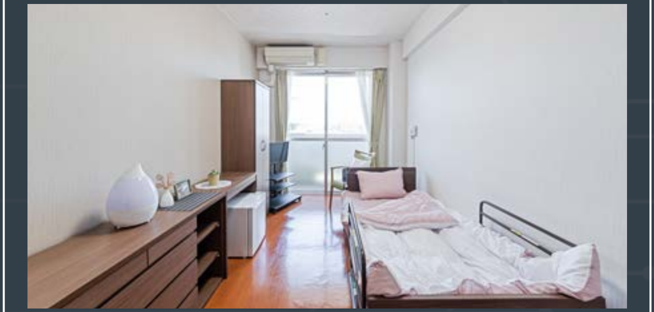
The recent change in government includes a commitment to undertake a programme to create a National Care Service, underpinned by national standards, to deliver consistent care across the country, with a principle of 'home first' supporting people to live independently for longer reducing some of the pressure on elderly care sites and their staff.

We have seen an increase in operators seeking unsecured business loans and asset finance to support refurbishment, upgrade and improvement projects which, in some cases, have been put off due to external pressures and a perceived lack of access to finance of this nature. These types of projects made up **40%** of lending within the sector in H1 2024.

+16% **Number of applications for finance**

+20% **Number of offers of finance**

CASE STUDY



We supported an existing operator to increase the capacity of this home with the addition of three double rooms. The deal was split between an unsecured loan to fund the renovation works, and a hire purchase to cover the equipment and all fixtures and fittings. This expansion enabled an increase in revenue at full occupancy of circa 20%.

1 week of celebrating UK care homes

We were a headline sponsor for Care Home Open Week (CHOW) 2024, a nationwide event led by Championing Social Care, where the public and the care sector come together to celebrate the care home community and its fantastic workforce.

The week-long event took place between 24 and 30 June 2024, and our Regional Director, Lee Howard, spoke a few words at the event's launch in Eden Court Retirement Village in Battersea.

For the second year running, Championing Social Care also held its Great British Care Cycle Relay in tandem with CHOW, where cyclists, including our Head of Healthcare Consultancy, Hannah Haines, travelled across the country and visited care homes on the way!

As always, this was a fantastic event to be involved with and whether you're a care home operator or a member of the community, we encourage you to consider getting involved in next year's event.

According to data on carehome.co.uk, we sell over 70% of individually transacted care homes in the UK.

70%

Established in 1935, we are the only specialist firm of agents and RICS (Royal Institution of Chartered Surveyors) Registered Surveyors dealing with both the valuation and sale of care businesses in the UK.

Regulated by RICS

WE OFFER A FULL RANGE OF PROFESSIONAL SERVICES TO CLIENTS SELLING, BUYING, OR RAISING FINANCE IN THE CARE SECTOR, INCLUDING:

BROKERAGE

- Care sales and acquisitions
- Investment brokerage
- Care and later living development sites
- Capital markets

CONSULTANCY & ADVISORY

- Lease & investment advisory services and dispute resolution
- Commercial due diligence
- Feasibility studies and performance benchmarking
- Holistic planning needs assessment
- Research

VALUATIONS

- RICS-accredited valuations for loan security
- Lease and rent reviews
- Expert witness

FINANCE

- Finance raising for acquisition, refinance, unsecured, and asset finance

INSURANCE

- Business & life insurance and employee benefits across numerous sectors

Our consultants provide an integrated suite of services designed to support clients through every stage of their investment.

OPPORTUNITY SEARCH AND EVALUATION

- Research commissions
- Market screening
- Feasibility and needs analysis
- Mystery shopping
- Brand/operator identification
- Acquisition target search

ACQUISITION ADVICE

- Commercial due diligence
- Sector/market review
- Operational performance analysis
- Head office review
- Trading performance review
- Benchmarking
- Business plan review
- Forecasting
- Opportunity evaluation
- Strategic planning
- Pricing advice
- RICS valuation

INVESTMENT ADVICE

- Strategic reviews and options analysis
- Performance monitoring
- Revenue and cost optimisation
- Lease consultancy
- Contract negotiations
- Repositioning advice
- CAPEX review
- Operator search and selection

DISPOSAL ADVICE

- Disposal strategy formulation
- Pricing advice
- Vendor due diligence
- PropCo/OpCo/JV structures
- Sell-side mandates
- Sales collateral preparation
- Management presentation preparation
- Sales and PR strategy
- Data-room management

HANNAH HAINES
Head of Healthcare Consultancy

> Christie & Co's Consultancy proposition is unique. We pride ourselves on being able to respond quickly and deliver advice which is bespoke, innovative, high-quality and adds real value.

INSIGHTS WHICH UNDERPIN OUR DETAILED ANALYTICS SYSTEM AND PRODUCTS

- **Operational Benchmarking**
- **Demographics**
- **Market Composition**
- **Transaction and investment comparables**
- **Market activity / investment trends**

GLOSSARY OF TERMS & SOURCES

TERMS

Article 9 funds: Funds with a clearly defined sustainable investment objective

B-Cities: 'B-cities' are often regional centres with good economic performances, infrastructures and quality of life

BPS: Basis points

BoE: Bank of England

C-Cities: 'C-cities' are smaller and municipalities. They are typically not the main economic centres but often have significant local or regionalimportance

COSLA: Convention of Scottish Local Authorities

ESG: Environment, Social, and Governance

FOI: Freedom of Information

FTB: First-time buyers

LA: Local Authority

M&A: Mergers and acquisitions

NCHC: National Care Home Contract

NYSE: New York Stock Exchange

Opco: Operating Company

Purpose-built: Property built for the purpose of elderly care

Project Oak: The portfolio sale on behalf of Four Seasons Care Home Group

REIT: Real estate investment trust

Sales mandates: A contract that binds the owner of a property for sale and the real estate agent

SPV: Special purpose vehicle

Top-7 Cities: The 'Top-7 cities' are Berlin, Hamburg, Munich, Cologne, Frankfurt, Stuttgart, and Düsseldorf

WholeCo: Whole company

YTD: Year to Date

SOURCES

Christie & Co's benchmarking data

carehome.co.uk

Freedom of Information Act (2024) to a list of 174 local authorities across the UK

Glasgow City Integration Join Board, National Care Home Contract Increases (2024/25), 15 May 2024

Pflegemarkt.com: Diverse Marktberichte 2023-2024

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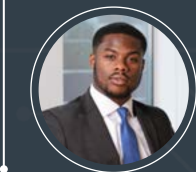

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