Credit: LNT Care Developments

CARE MARKET REVIEW 2023

AN INSIGHT INTO THE UK HEALTHCARE MARKET

CHRISTIE & CO Care

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CONTENTS PAGE

INTRODUCTION

Welcome to our Care Market Review 2023, which captures the trends and sentiments that have shaped the sector in the 12 months to June 2023.

In this edition, we provide you with our latest insight into how the healthcare transactional market has held up in the face of markedly increased interest rates. Following a benign interest rate environment since 2009, we have seen steadily increased debt costs across the whole economy with inflation rising for much of 2023 and gilt yields fluctuating.

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

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

Operators have faced rising costs in other areas of their business. We provide a high-level analysis of the change in utility and staffing costs in the sector and share the results of our most recent operator sentiment survey.

Finally, with the continued evolution of cross-border activity between healthcare operators and investors in Europe, we are pleased to introduce Marlon Schramm, our new Head of Healthcare in Germany. Historically, we have undertaken a significant amount of healthcare advisory work in Germany and, with Marlon's appointment, we are excited to be able to develop our transactional services further.

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 31.

HEALTHCARE CAPITAL MARKETS

The first half of 2022 reflected the peak of the market, with the economy in an optimum low interest rate environment and UK Bank of England base rates at 1.75%. UK Government gilt yields were tracking at 2.2%, and super-prime yields within the UK care home sector had compressed to record low levels for best-in-class assets.

Performance in other segments of the market was equally strong, with UK and European sector specialist funds driving activity in the prime, secondary and SPV space. Furthermore, sale and leaseback finance from UK and US REITS was responsible for a number of transactions involving regional providers. The below table reflects the yield metrics that we observed during this period, alongside the UK gilt and Bank of England Base Rate comparators.

The period following Kwasi Kwarteng's mini-budget on 23 September 2022 heralded a materially different macro-economic environment, with UK Government gilts rising to 4.5% by the end of September. Many investors made the decision to pause M&A activity through Q4 2022 whilst markets stabilised.

The most notable impact was seen at the prime and super-prime end of the market, where the increase in gilt yields led to a number of deals being paused or re-priced. At the other end of the spectrum, the impact was less pronounced. This is illustrated by the successful completion of a £24 million sale and leaseback transaction involving Park Lane Healthcare. This deal was brokered by Christie & Co in September 2022, at the height of the economic turmoil and without renegotiation of price.

Entering 2023, the market began to adapt, with buyers returning albeit with yields adjusting to reflect higher costs of capital and the changing market environment. Transactions that launched in 2022 and completed in early 2023, along with bids received for new transactions brought to market in early 2023, suggest an outward yield movement of typically between 50bps and 100bps, relative to the peak of the market. This has been most pronounced at the sharpest end of the yield range, with the movement less pronounced elsewhere. Much, however, depends on the circumstances surrounding each deal.

Positively, despite the macro-market challenges, there is good demand for care home opportunities, with investors attracted by the strong needs-driven underpin of the sector coupled with long-term index-linked cashflows.

C&CO INDICATIVE YIELD METRICS

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

 Source: Christie & Co research and analysis

*Average over period

LAND AND DEVELOPMENT

There is no doubt we have experienced significant headwinds in the development markets over the 12 months to June 2023. A combination of construction cost inflation and the cost and availability of capital has resulted in a challenging environment for the delivery of new build schemes. The underlying business case for purpose-built care homes, however, remains robust and the need for future-proof market-standard beds in many locations across the UK is unchanged.

Exiting the pandemic, it is evident that retrofitting infection control measures in older converted assets with shared facilities is challenging. The latest generation of care home designs and specifications are far better positioned to deal with similar events in the future, further underpinning the need for purpose-built accommodation.

The planning system has become increasingly unpredictable, with refusals being more commonplace which is restricting the supply of sites with planning permission available to the operator market. Whilst correction has taken place in many property sectors, land values for high-quality sites with planning permission in the care market have held firm driven by a lack of overall 'oven-ready' supply. Additional value creation is also taking place in the UK by way of Opco multiples being achieved by good quality leasehold platforms, which has also assisted in supporting land prices to an extent.

We are starting to see more domestic and international capital entering the market, attracted by the defensive characteristics of needs-driven Operational Real Estate and the excellent ESG credentials new care homes offer to investors. This additional liquidity, accompanied by the continued imbalance between demand and supply of market-standard beds to cater for the rapidly ageing demographic, will support sustainable levels of transactional activity for consented care home development sites in both the short and long-term.

The care home development market continues to be active, as we transact a high proportion of new-to-market beds within the UK. Sentiment remains good, with more operators prepared to take leases on new build assets as a way of achieving growth, resulting in an upward movement in rental levels over the 12 months to June 2023.

Image credit: Harrison Irwin

CARE DEVELOPMENT SITE IN BRENTWOOD, ESSEX

- Fairview New Homes achieved planning consent for a 70-bedroom state-of-the-art care home
- Purchased by a national care provider in June 2023

Image credit: Broadway Malyan

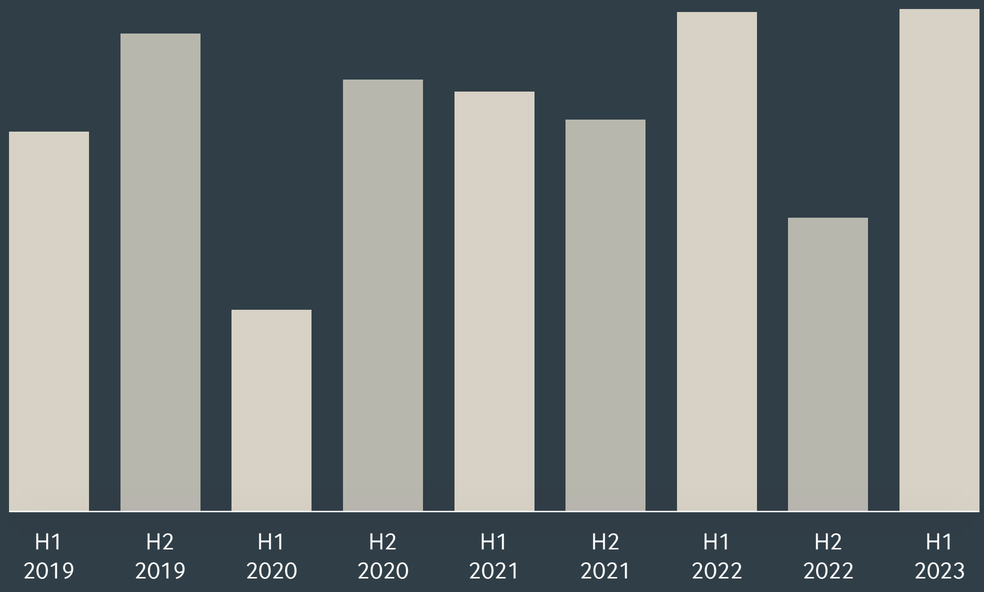
CARE DEVELOPMENT SITE IN SHIRLEY, WEST MIDLANDS

- GNM Developments achieved planning consent for a 72-bedroom care home (Use Class C2)
- Purchased by MACC Care Group in June 2023

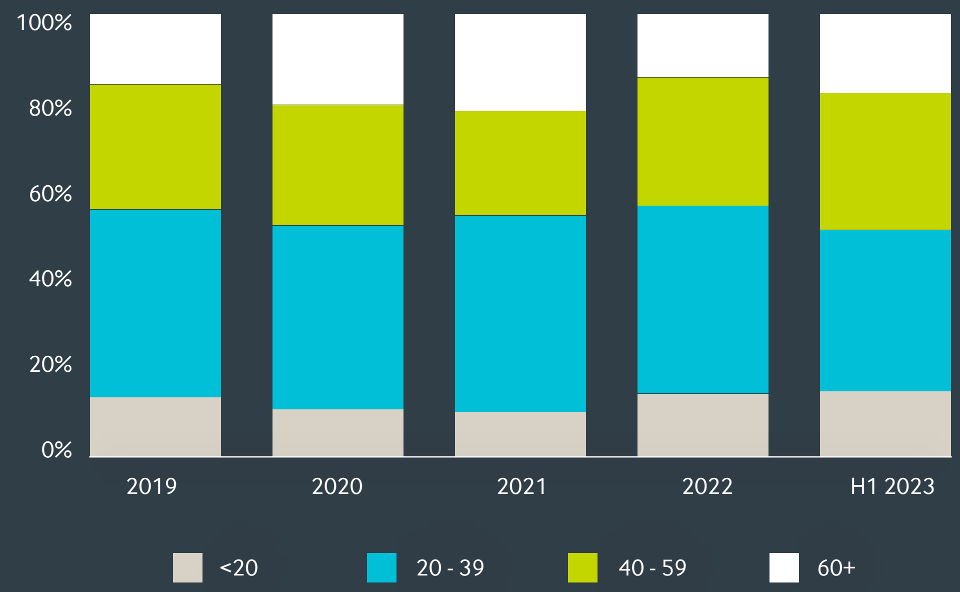
TRANSACTIONAL ANALYSIS - INSTRUCTION VOLUMES

REVIEW OF THE UK ELDERLY CARE GOING CONCERN MARKET*

INSTRUCTION VOLUMES



INSTRUCTIONS BY CARE HOME SIZE (BEDS)



INSTRUCTION VOLUMES

As we emerged from the worst of the pandemic and occupancy levels started to recover, we saw a marked increase in the number of providers looking to sell in early 2022, with instruction levels rising by 22% from the second half of 2021.

The economic turbulence triggered by the mini-budget in September 2022 had a material impact on our transactional markets and new sales mandates were significantly lower in the second half of the year.

Positively, instruction volumes rebounded in the first half of 2023, sitting 70% ahead of the second half of 2022.

INSTRUCTIONS BY CARE HOME SIZE

In the first half of 2022, 37% of our sales mandates were for care homes with over 40 bedrooms and 14% were for care homes with a capacity of fewer than 20.

In H1 2023, we saw a greater volume of larger care homes come to the market. In the first six months of the year, 18% of our sales mandates were for care homes with a capacity of over 60, and 49% for care homes with over 40 bedrooms.

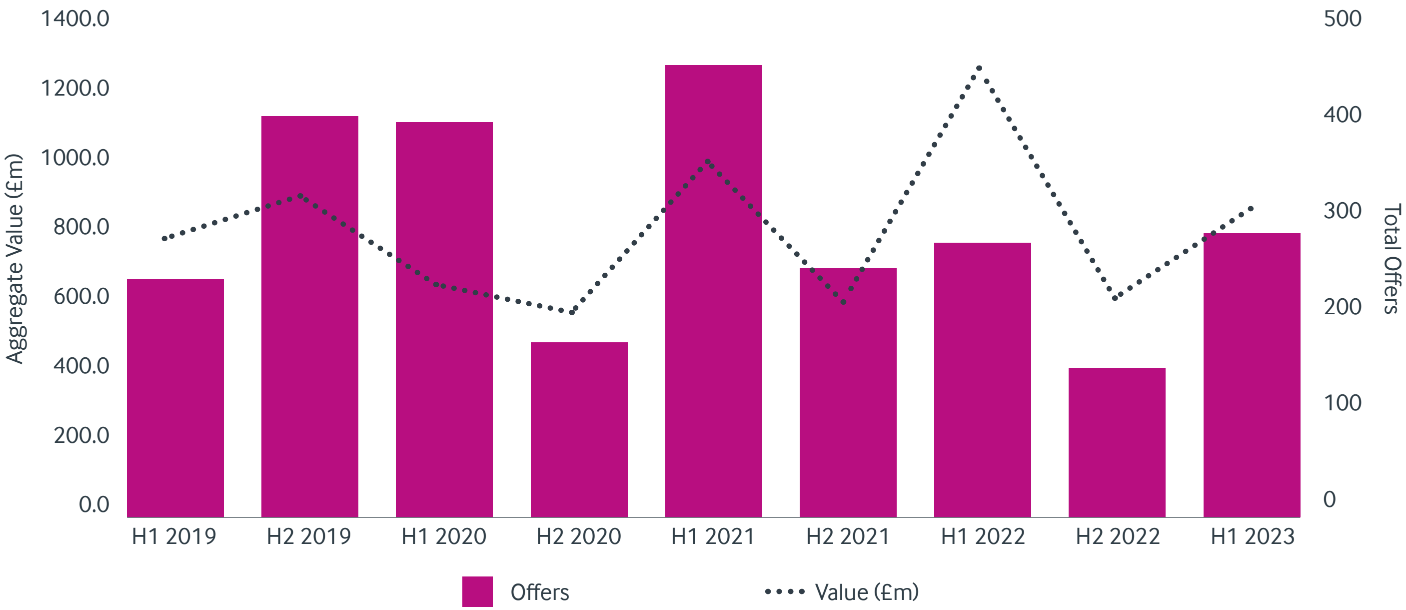
The volume of instructions for smaller care homes with a capacity of fewer than 20 remained relatively static, at 15%.

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

TRANSACTIONAL ANALYSIS - VALUE AND VOLUME OF OFFERS

REVIEW OF THE UK ELDERLY CARE GOING CONCERN MARKET*

OFFER VOLUMES AND AGGREGATE VALUES

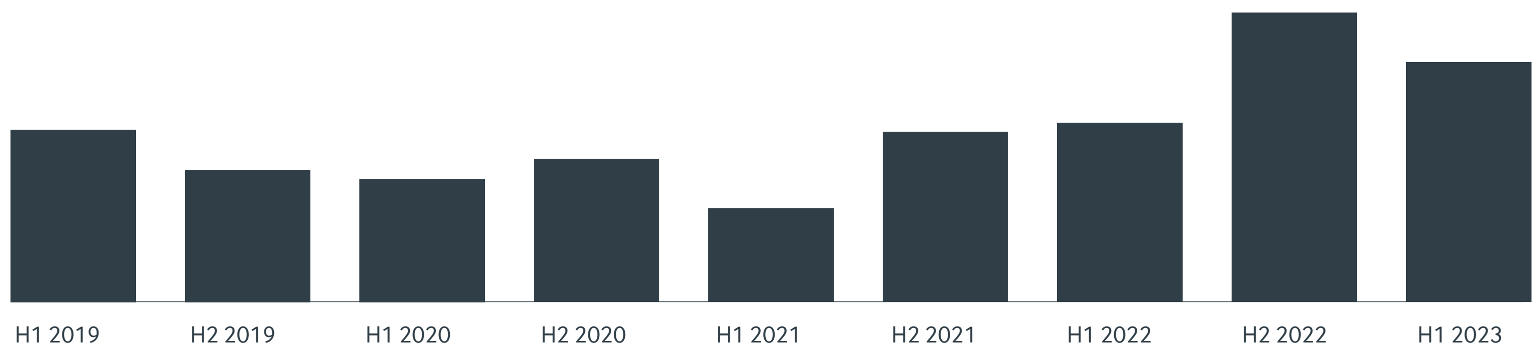


The number of offers we generated for our clients for the first half of 2023 was **3% ahead** of the same period in 2022, excluding Project Oak. This buyer demand underlines the ongoing appetite in the sector despite wider economic challenges.

However, when comparing the aggregate value of these offers, there is a material **reduction of some 31%**, largely due to the rising costs of debt and softening yields which has curbed activity at the higher end of the market.

Following a decrease in offer numbers in the period after the 2022 mini-budget, offer volumes have since rebounded, **rising 89%** in the first half of 2023.

CHRISTIE & CO COMPLETION VOLUMES



From 2021 to 2022, completion numbers **increased by 74%**, as pent-up investor demand drove transaction volumes across all types of care home assets.

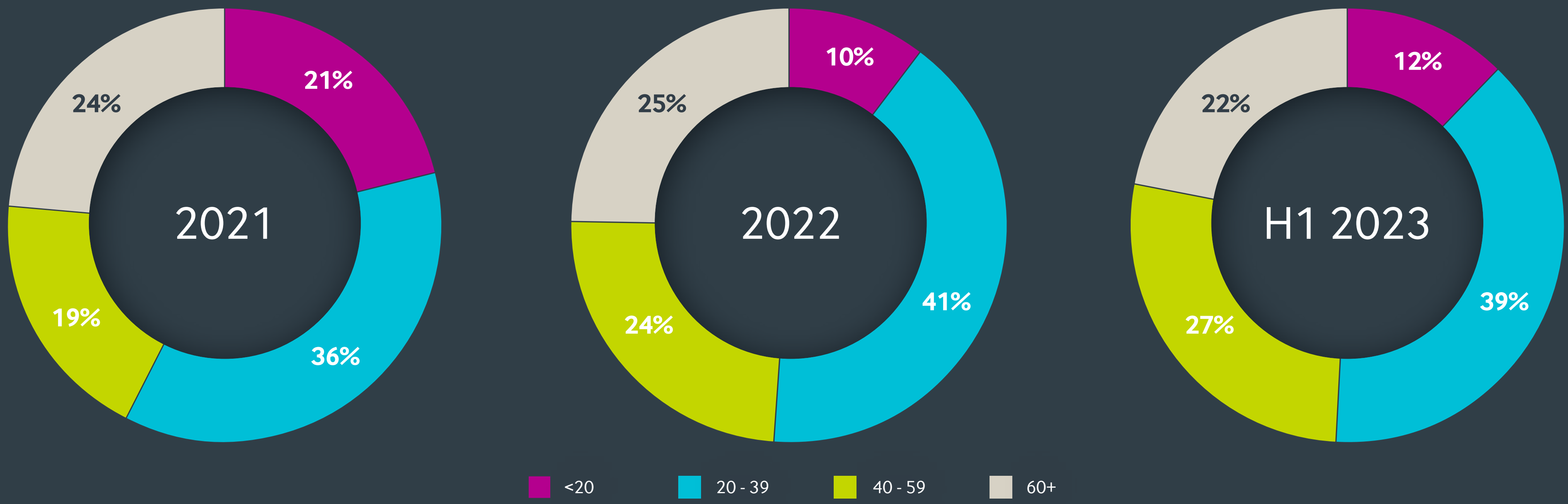
Completion volumes in the first half of 2023 were **34% ahead of the same period in 2022.**

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

TRANSACTIONAL ANALYSIS - EXCHANGES AND COMPLETIONS

REVIEW OF THE UK ELDERLY CARE GOING CONCERN MARKET*

EXCHANGES AND COMPLETIONS BY BEDROOM NUMBERS



PERCENTAGE OF CARE HOMES SOLD WITH <20 ROOMS

21%	10%	12%
2021	2022	H1 2023

There has been an increase in the number of smaller care homes sold. In the first half of 2023, 12% of our completions were with care homes of fewer than 20 bedrooms compared with 10% in 2022.

PERCENTAGE OF CARE HOMES SOLD WITH 60+ ROOMS

24%	25%	22%
2021	2022	H1 2023

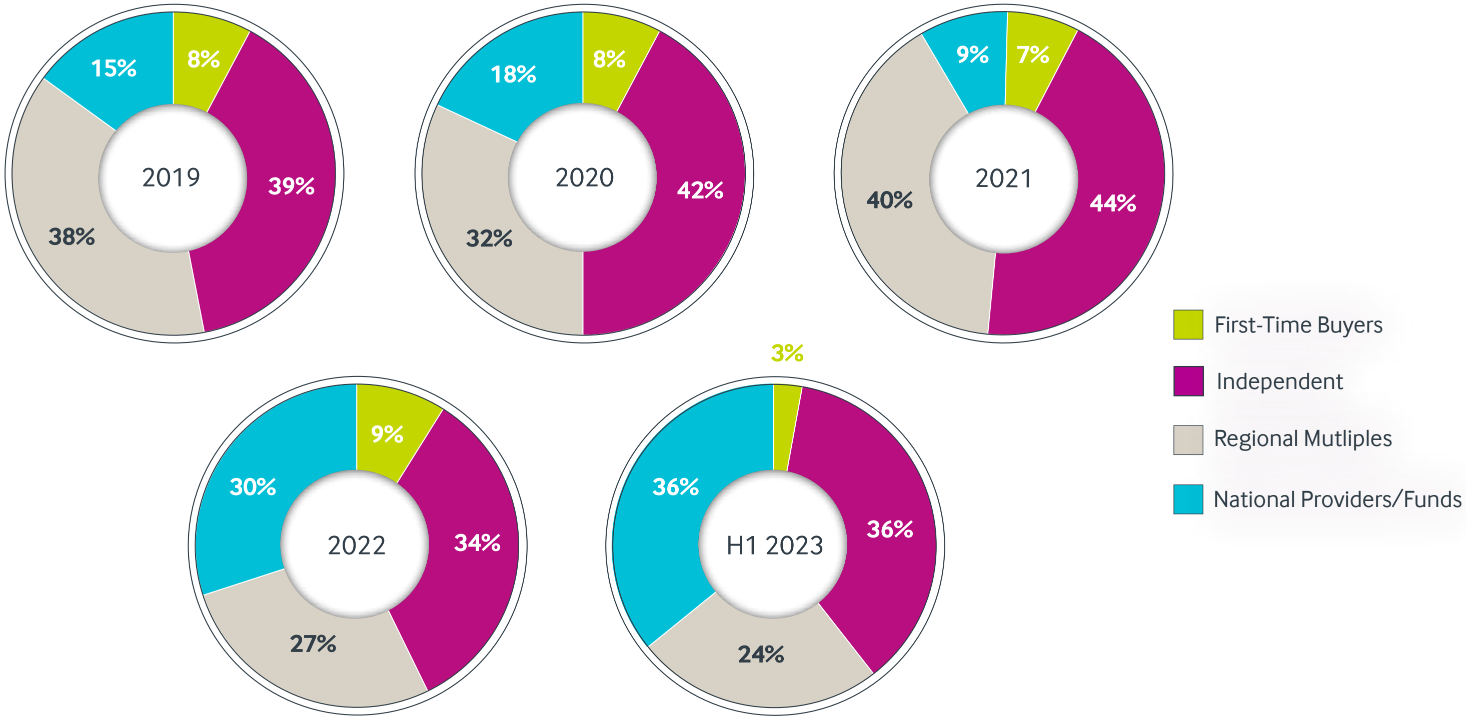
At the other end of the scale, the proportion of our deals with care homes over 60 beds has remained relatively static at 22% of the total in the first half of 2023 compared with 25% in 2022.

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

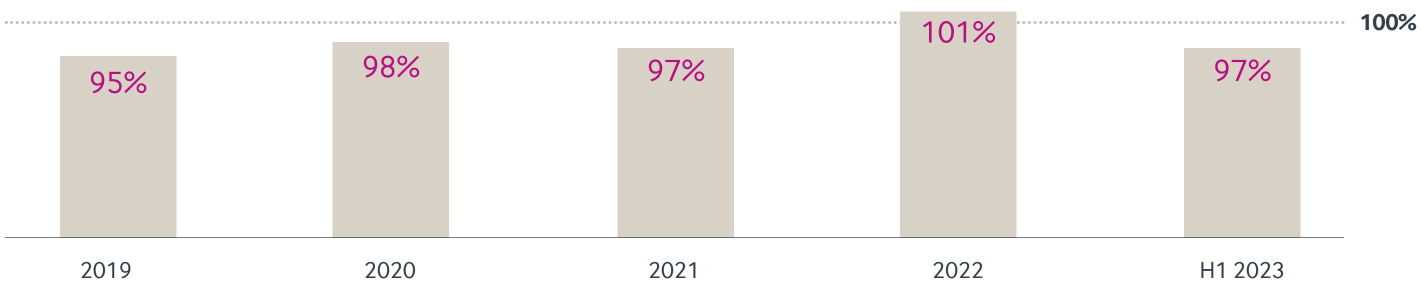
TRANSACTIONAL ANALYSIS - BUYER TYPES

REVIEW OF THE UK ELDERLY CARE GOING CONCERN MARKET*

BUYER TYPE, BY YEAR



COMPLETIONS AS % OF ASKING PRICE



Only 3% of our transactions in the first half of 2023 were to first-time buyers, around a third of the proportion in 2022. This reflects the increasing challenges facing buyers with little experience, both in terms of funding and the regulator.

The other notable trend is the volume of deals concluded by the national providers in the first half of 2023, accounting for around 36% of our completions. Independent buyers remain our most active buyer group, accounting for 34% of our deals last year and 36% in 2023.

> The most notable trend from our analysis of deals in 2023 is the ongoing decline of new entrants into the sector.

In 2022, we concluded deals, on average, at 101% of the asking price. Deals in H1 2023 concluded at 97% of asking price, on par with 2021.

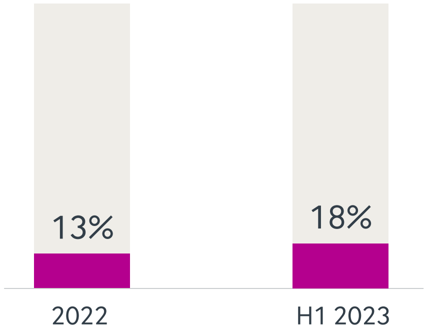
In the first half of 2023, we generated over five offers on 34% of our instructions, and 55% of our sales mandates have three or more offers.

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

TRANSACTIONAL ANALYSIS: CLOSED CARE HOME SALES - ONGOING PURPOSE, 2023 ONLY

REVIEW OF THE UK ELDERLY CARE GOING CONCERN MARKET*

PROPORTION OF SALES THAT ARE CLOSED CARE HOMES:



CLOSED CARE HOME SALES

An analysis of our transactions supports the ongoing challenge of care home closures in the sector. In 2022, **13% of our completions** were on a closed basis, **this increased to 18%** in H1 2023.

The sector is facing an increased number of closures, primarily due to higher debt costs, eroding margins, and regulatory challenges.

ANALYSIS OF ONGOING PURPOSE

A review of all our vacant possession sales since 2020 shows that **60% of these transactions** were sold for ongoing care home use. For the larger care homes, this can be for ongoing elderly use and for smaller assets conversion to specialist use or supported living is commonplace.

In the first half of 2023, **45% of our closed care home deals were sold to care providers** for ongoing care use and **55% were purchased for residential conversion**.

OPERATIONAL COST ANALYSIS

2021 VS 2023:

+13%	+14%	+18%	+19%
MANAGER SALARY	KITCHEN SALARY (HEAD COOK)	MAINTENANCE SALARY	UTILITY COSTS

Analysis of our consultancy data – which looks at profit and loss accounts from the hundreds of formal valuations conducted by our network of healthcare valuers - shows a large increase in costs for care home providers over this period. This clearly reflects the wider economic challenges with labour supply constraints and rising energy costs. The care sector has a greater exposure to a material shift in these costs.

Our data shows that registered managers' salaries, on average, increased by 13% . There are even greater wage pressures on kitchen staff, with head cook wages increasing by 14%, on average. The situation with maintenance staff is also acute, with wages rising by 18%.

An analysis of utility costs shows that heat and light costs have also increased by an average of 19% on a per-occupied bed basis.

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

LOCAL AUTHORITY FEE RATES

AVERAGE FEE INCREASES 2023/24 - BY REGION*

NORTH WEST

Residential: 11.3%
Residential Dementia: 10.4%
Nursing: 3.8%
Nursing Dementia: 3.9%

WALES

Residential: 12.1%
Residential Dementia: 11.8%
Nursing: 9.0%
Nursing Dementia: 8.5%

WEST MIDLANDS

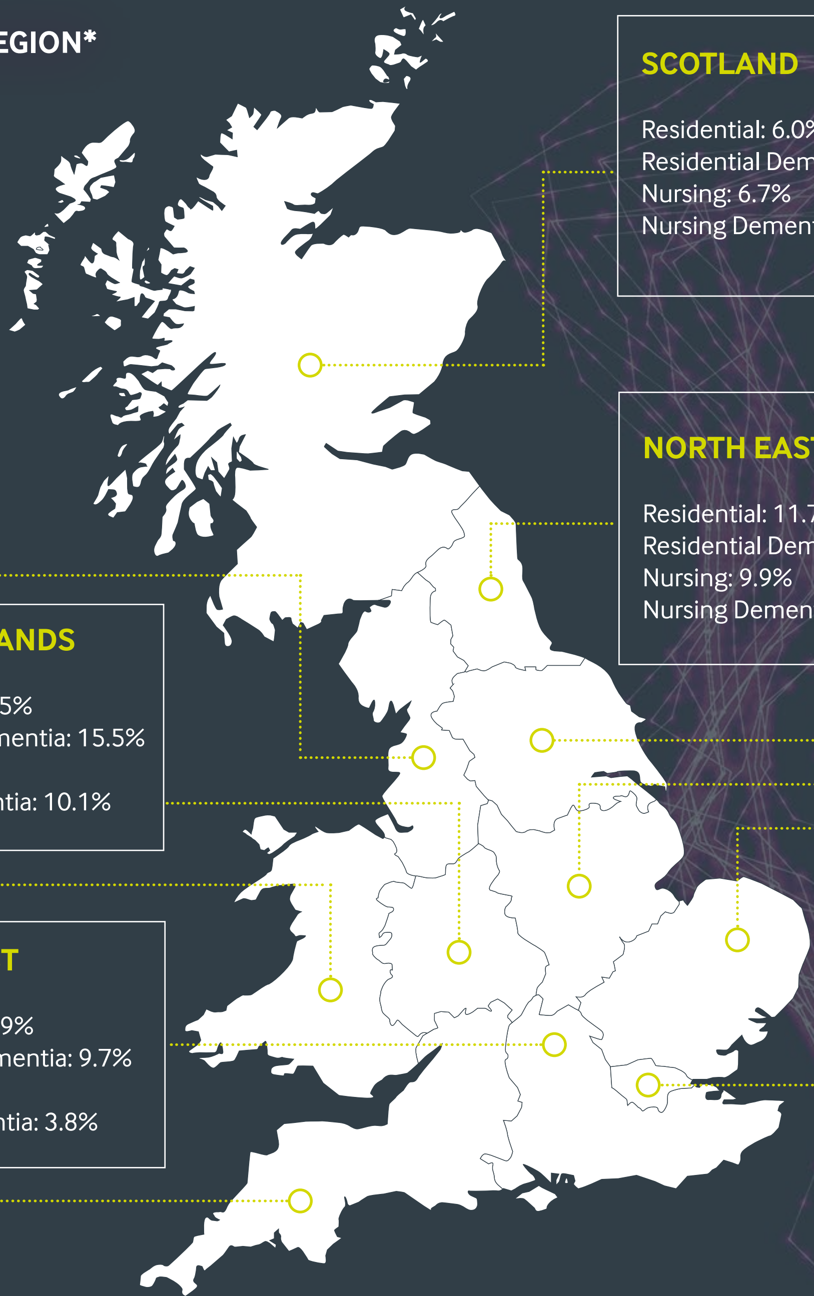
Residential: 14.5%
Residential Dementia: 15.5%
Nursing: 7.6%
Nursing Dementia: 10.1%

SOUTH WEST

Residential: 3.5%
Residential Dementia: 10.6%
Nursing: 5.9%
Nursing Dementia: 12.6%

SOUTH EAST

Residential: 11.9%
Residential Dementia: 9.7%
Nursing: 9.0%
Nursing Dementia: 3.8%



SCOTLAND

Residential: 6.0%
Residential Dementia: 6.0%
Nursing: 6.7%
Nursing Dementia: 6.7%

YORKSHIRE AND THE HUMBER

Residential: 12.0%
Residential Dementia: 11.2%
Nursing: 11.7%
Nursing Dementia: 10.4%

NORTH EAST

Residential: 11.7%
Residential Dementia: 13.1%
Nursing: 9.9%
Nursing Dementia: 10.7%

EAST MIDLANDS

Residential: 11.2%
Residential Dementia: 8.4%
Nursing: 8.9%
Nursing Dementia: 10.3%

EAST OF ENGLAND

Residential: 8.3%
Residential Dementia: 10.4%
Nursing: 9.7%
Nursing Dementia: 11.8%

LONDON

Residential: 1.4%
Residential Dementia: 3.7%
Nursing: 6.3%
Nursing Dementia: 5.7%

LOCAL AUTHORITY FEE RATES

AVERAGE FEE INCREASES 2023/24*

	Median Increase	Average Increase	Average Fee 2023/24
RESIDENTIAL	11.3%	9.5%	£655
RESIDENTIAL DEMENTIA	10.4%	10.3%	£695
NURSING	8.9%	8.1%	£828
NURSING DEMENTIA	10.3%	8.8%	£858

*Excludes FNC

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

- Average residential fee increase in England of 9.5% compared to 5.4% in 2022/23
- Average nursing fee increase in England of 8.1% compared to 6.8% in 2022/23
- Many increases conditional on Real Living Wage adoption
- 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 10% or more

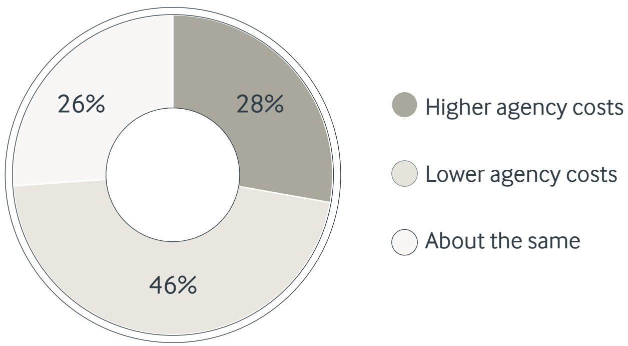
OPERATOR SENTIMENT SURVEY

In the summer of 2023, we interviewed a cross-section of local and regional providers throughout the UK.

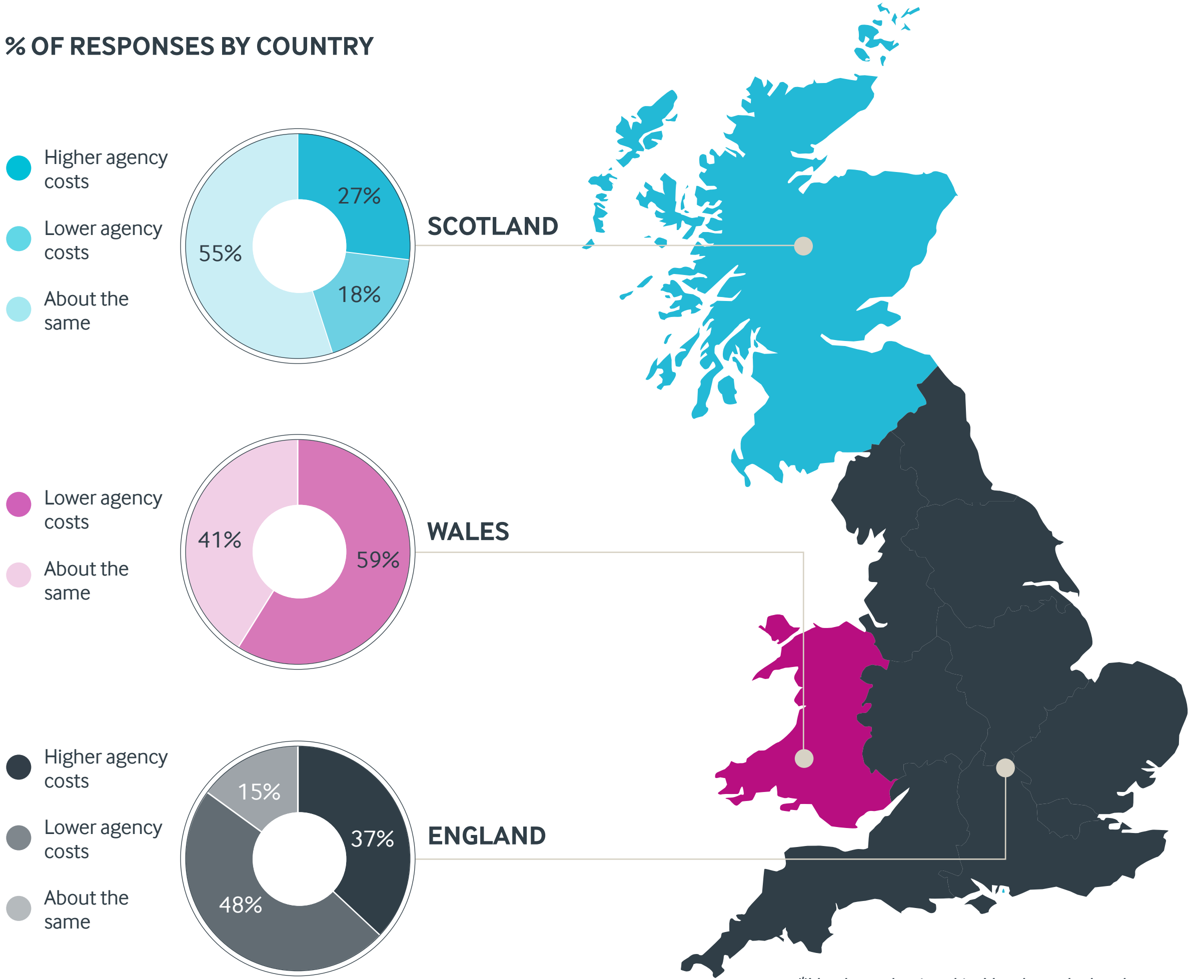
Q HOW HAS AGENCY USAGE CHANGED IN THE LAST 12 MONTHS?

Operators observed reduced agency costs over the last 12 months.

TOTAL UK RESPONSES



% OF RESPONSES BY COUNTRY



No data obtained in Northern Ireland

In our previous Care Market Review, published in 2022, we reported that 48% of operators said they have little or no agency staff usage, and 52% said they have widespread usage.

Results of our 2023 survey show 46% of operators have a reduction in agency usage over the last 12 months, whereas 28% stated agency usage had increased. This 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.

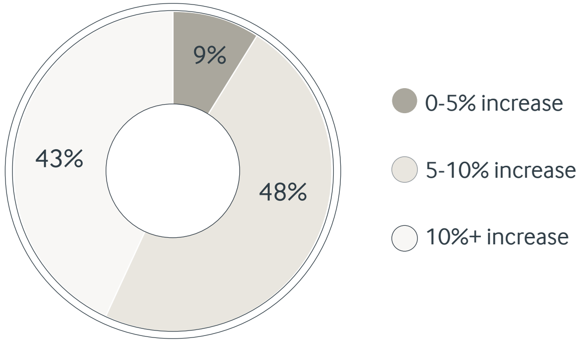
Interestingly, no respondents from Wales reported an increase in agency usage.

OPERATOR SENTIMENT SURVEY

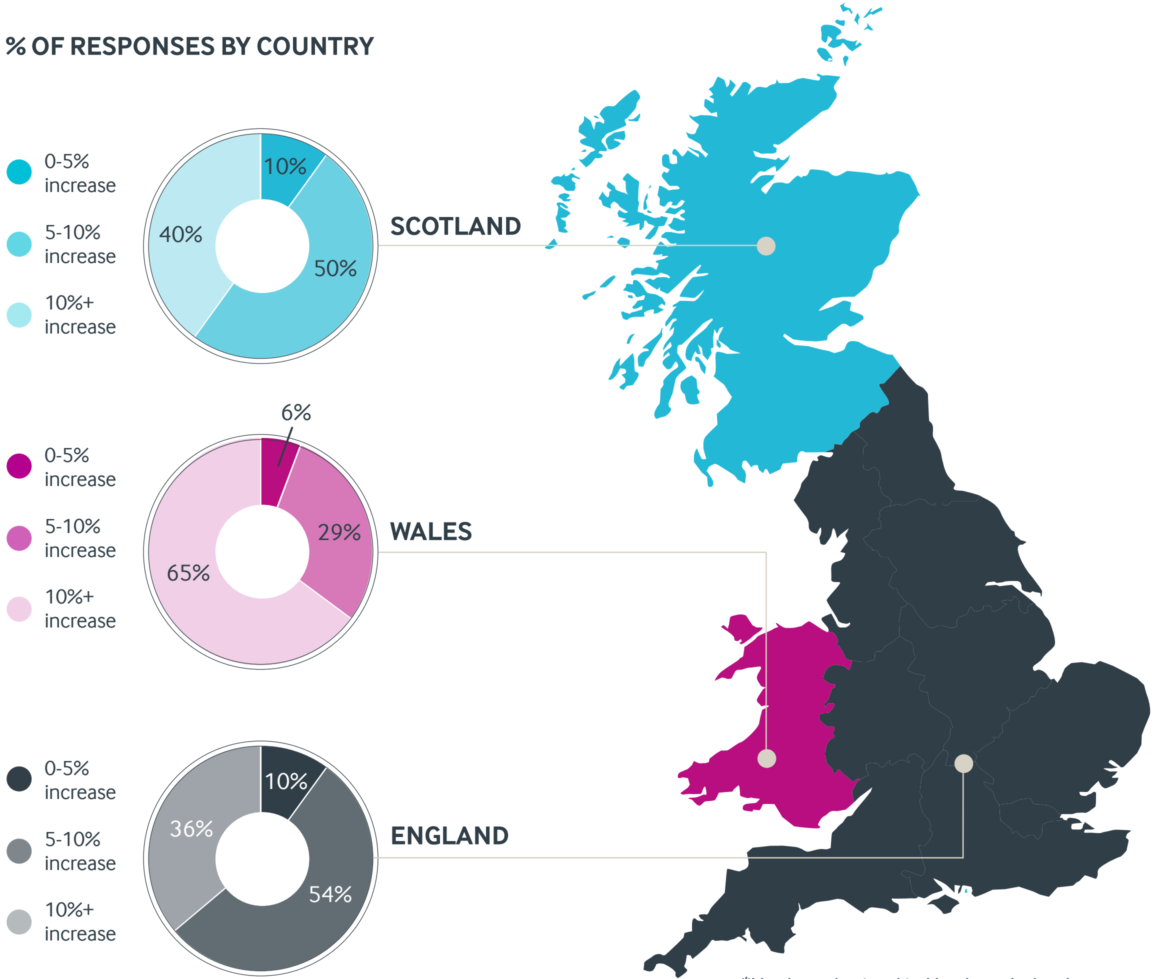
Q HOW HAVE YOUR PRIVATE FEE RATES CHANGED?

Private fee rates increased across the regions, with most operators opting to raise fees.

TOTAL UK RESPONSES



% OF RESPONSES BY COUNTRY



*No data obtained in Northern Ireland

Private fee rates increased across all country regions, with 43% of operators reporting a 10% + increase in private fee rates. Only 9% of respondents reported increases of under 5% compared with 31% with local authority fees, suggesting the self-funded market continues to subsidise the sector at a time of rapidly increased costs.

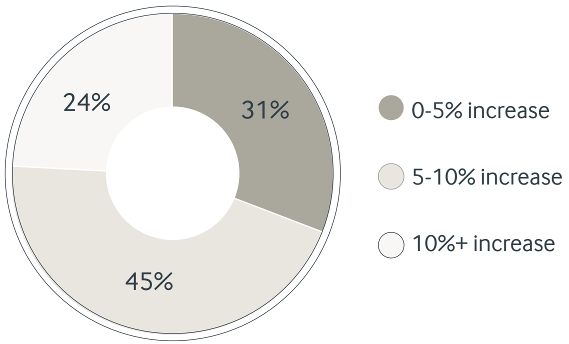
54% of surveyed operators from England reported a 5% to 10% increase in private fee rates and 65% of Welsh based providers surveyed increased their private fee rates by over 10%.

OPERATOR SENTIMENT SURVEY

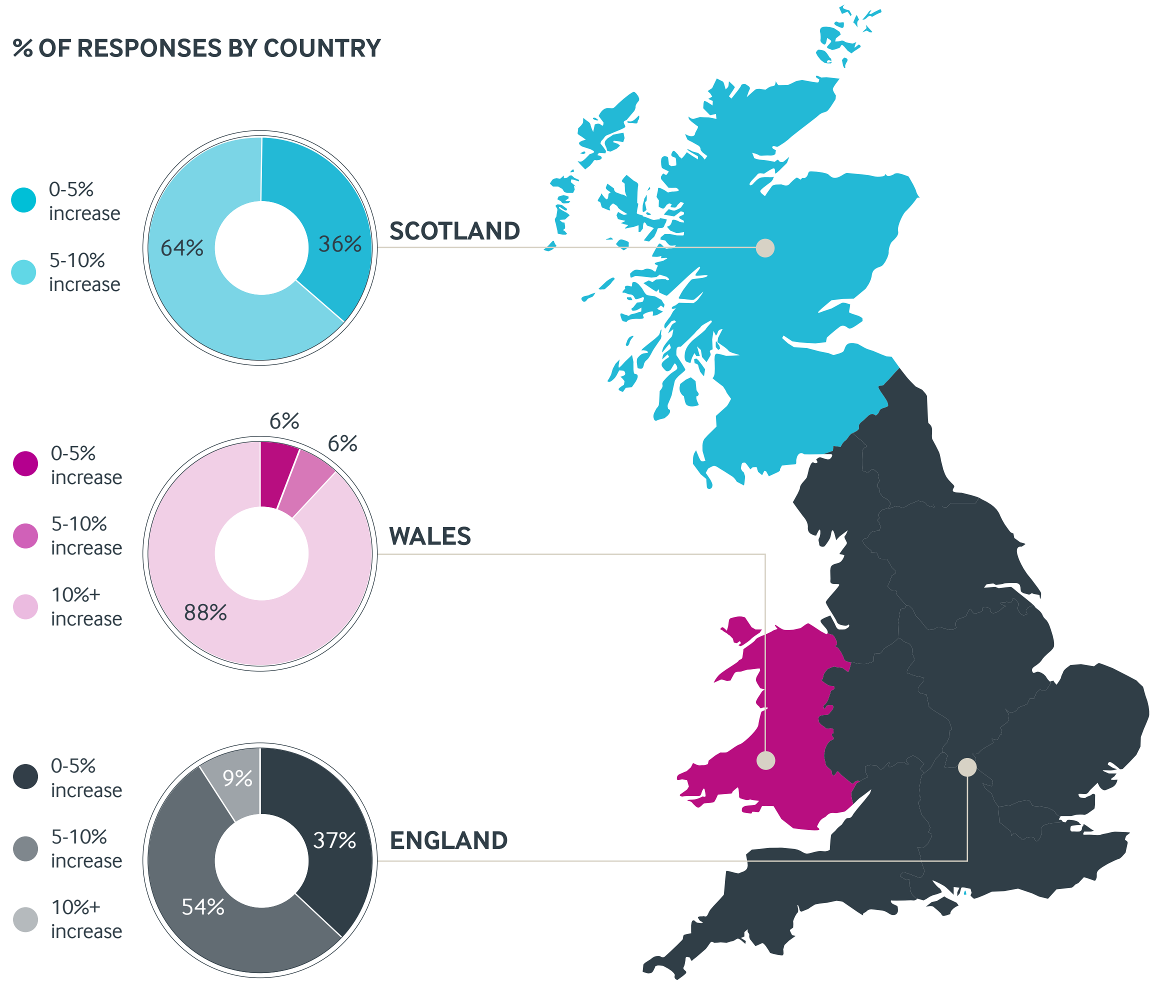
Q HOW HAVE LOCAL AUTHORITY FEE RATES CHANGED?

Operators observed significant local authority increases.

TOTAL UK RESPONSES



% OF RESPONSES BY COUNTRY



In line with the findings from our local authority Freedom of Information request on page 13, operators reported notable local authority fee increases.

45% of operators reported an increase of 5% to10%, and 24% of respondents had their local authority fees increased by over 10%, which is significantly higher than the long-term average.

In Wales, 88% of providers reported local authority fee increases of over 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, the National Care Home Contract was rejected by its members unanimously for the first time since its creation. The consequential stand-off with the Scottish Government resulted in Scottish Care members accepting a 6% increase, which is well below the true cost of care.

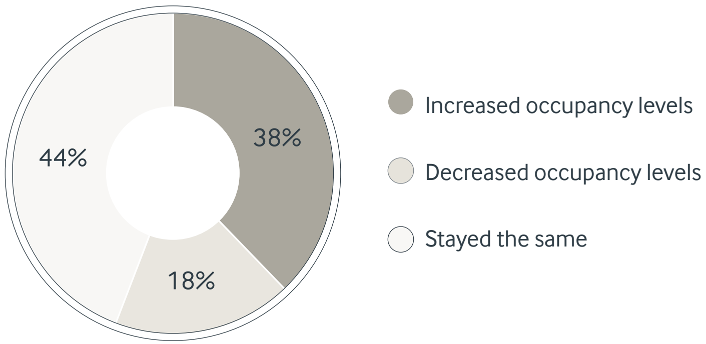
No data obtained in Northern Ireland

OPERATOR SENTIMENT SURVEY

Q HOW HAS OCCUPANCY CHANGED OVER THE LAST 12 MONTHS?

Occupancy broadly stayed the same for the majority of operators. 70% of respondents stated that occupancy has returned to pre-pandemic levels.

TOTAL UK RESPONSES

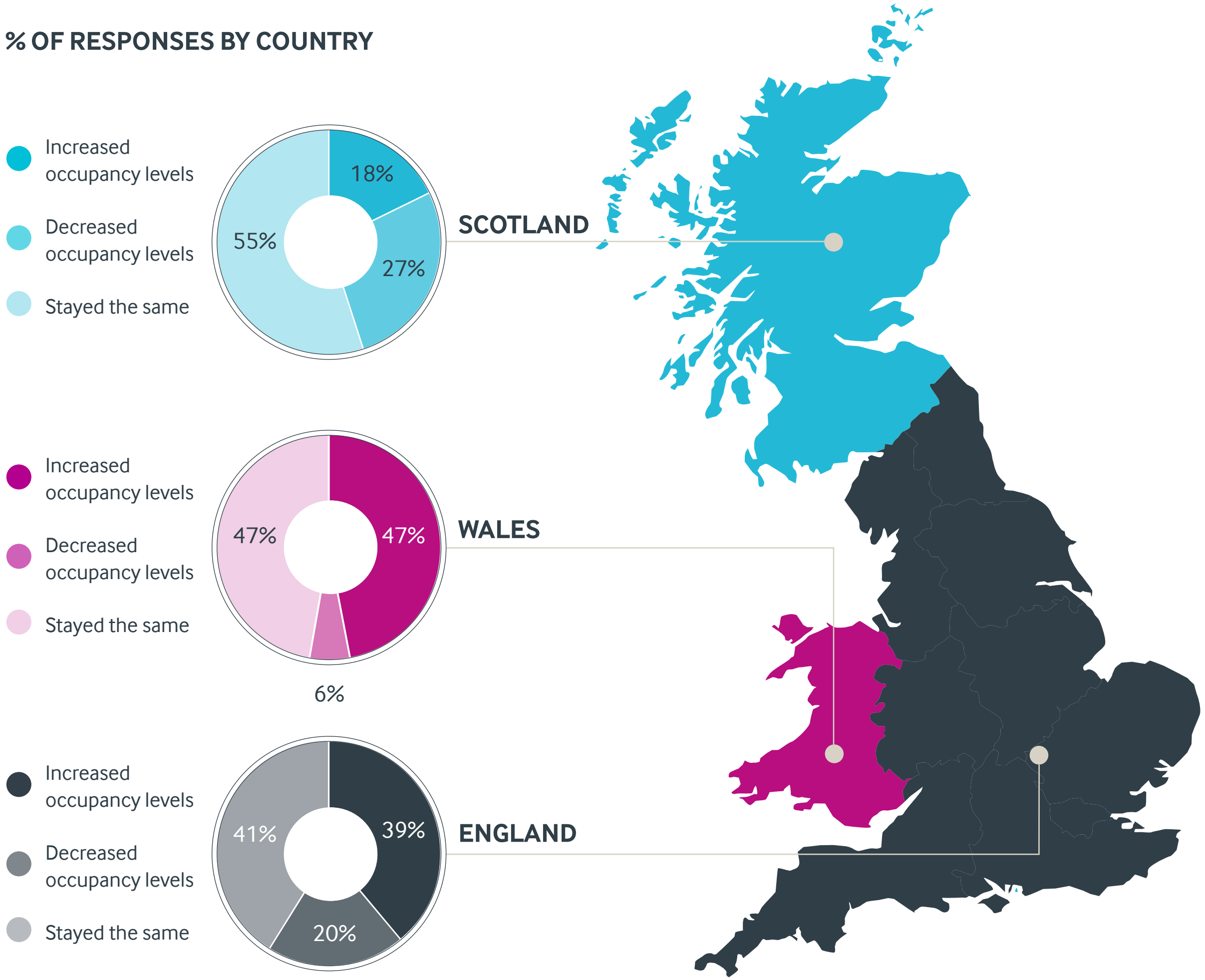


HAS OCCUPANCY RETURNED TO PRE-PANDEMIC LEVELS?

Results of the survey for our Care Market Review 2022 revealed that 57% of operators were still experiencing recovering occupancy levels, while 43% of operators said occupancy had returned to pre-pandemic levels.

Encouragingly, in this year's survey, 38% of operators said that occupancy has increased and 70% stated it had returned to pre-pandemic levels.

% OF RESPONSES BY COUNTRY



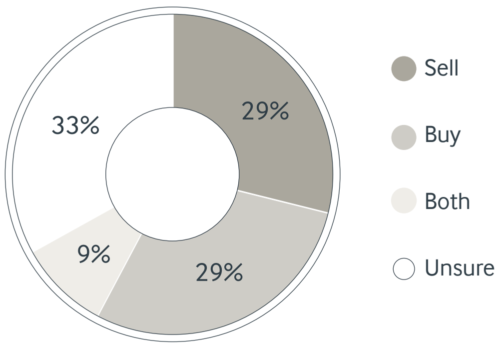
*No data obtained in Northern Ireland

OPERATOR SENTIMENT SURVEY

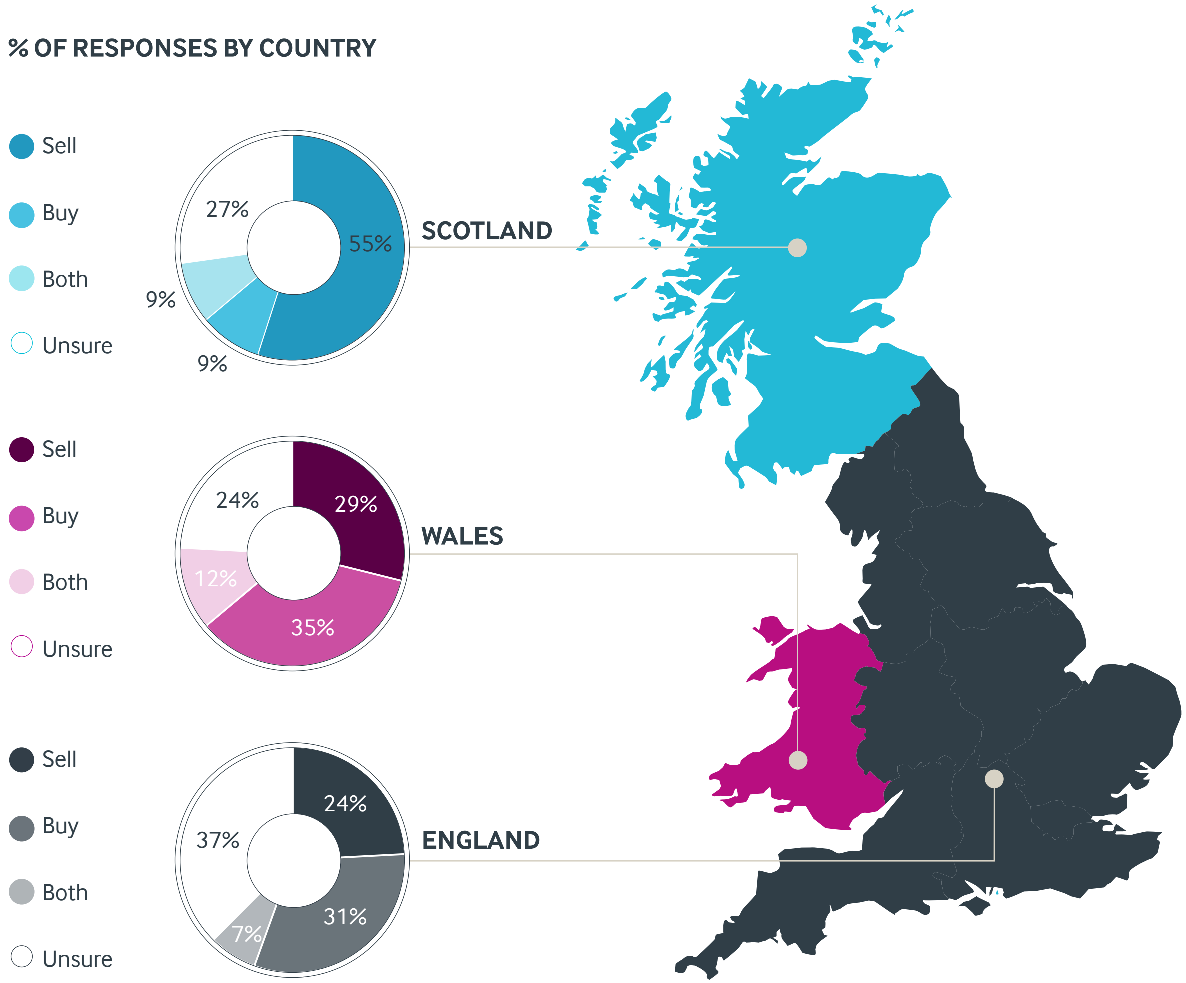
Q DO YOU HAVE PLANS TO BUY OR SELL OVER THE NEXT 12 MONTHS?

Buyer appetite is robust in England and Wales with more caution in Scotland.

TOTAL UK RESPONSES



% OF RESPONSES BY COUNTRY



General sentiment is positive in England and Wales with around a third of providers seeking to expand their portfolios. There is a surprising proportion looking to both sell and acquire, clearly demonstrating the resilience of the market in the face of higher debt costs.

Buyers in Scotland remain cautious as they continue to face challenges in the wake of the poor percentage increase in the National Care Home Contract.

**No data obtained in Northern Ireland*

Credit: LNT Care Developments

THE GERMAN HEALTHCARE MARKET

MARLON SCHRAMM, HEAD OF HEALTHCARE – GERMANY

THE GERMAN HEALTHCARE MARKET

In June 2023, we expanded our international presence through the appointment of Marlon Schramm as Head of Healthcare in Germany. The primary objective of this role is to build on our established team that provides comprehensive services to clients in the healthcare sector. This includes brokerage services for buying, selling, and leasing care homes, as well as strategic consulting to help clients optimise their operations and navigate the complexities of the German healthcare market, and valuation services to ensure clients have accurate and reliable information for investment decisions.

Marlon shares an overview of the market in Germany, and what we might expect to see in H2 2023 and as we move into 2024.

SECTOR OVERVIEW

The diverse and complex German care market can be divided into several areas, such as:

- Inpatient care in nursing homes
- Outpatient elderly care
- Assisted living
- Day care
- Home care solutions

In recent years, the market has experienced a big change with a rapidly growing need for inpatient nursing home places in the next 10-year period but no material increase in the number of beds to meet this need.

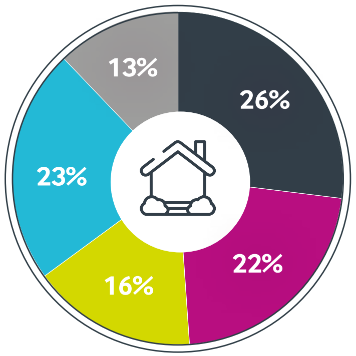
This is largely due to stagnating construction activity because of the increased cost of financing and construction, as well as operator insolvencies caused by exogenous market factors such as increased energy costs, high inflation rates and staffing challenges. In recent years there have also been a number of structural changes as the specification of older homes has had to adapt to meet new market standards.

The strong need dynamics and an undersupply of suitable nursing home provision does, however, create a compelling case for investment; with the majority of care home operators leasing rather than owning their real estate, there is a great opportunity for real estate investors.

MARKET ACTIVITY

According to the report by pflegemarkt.com - 'M&A-Transaktionen in der Pflege – Q1 2023' - the German care home market in the first quarter of 2023 was particularly active, with a total of 45 business and real estate transactions, of which, 26 were business acquisitions and 19 were real estate acquisitions.

Interestingly, in the first three months of 2023, a large number of smaller acquisitions characterised the market with a total of 64 facilities transacted, including:



NURSING HOMES
17 Transactions | circa 1,397 beds

ASSISTED LIVING FACILITIES
14 Transactions | circa 315 residential units

DAY CARE FACILITIES
10 Transactions | circa 160 places

NURSING SERVICES
15 Transactions | circa 1,481 care units

RESIDENTIAL COMMUNITIES
8 Transactions | circa 65 places

However, when comparing this with activity in the same period in 2022, there are some clear changes. Most notably, the number of care home sales has significantly decreased, especially in the area of nursing homes and outpatients. At the same time, semi-inpatient care - such as day care - accounted for a larger share of market activity, while assisted living increased separately.

THE GERMAN HEALTHCARE MARKET

BUYER APPETITE

Buyers in the German care market can be divided into:

OPERATORS OF CARE FACILITIES

REAL ESTATE INVESTORS

Of those who invest in healthcare properties, open real estate funds and special funds continue to be the dominant groups accounting for the largest share of the healthcare property market in Germany. Real estate companies, real estate corporations and REITs (Real Estate Investment Trusts) also play a significant role, collectively contributing to shaping the healthcare property market.

Geographically, investors in nursing homes typically focus on B-cities or C-cities. Those interested in assisted living look at the underserved B-cities and the top seven cities in Germany. For doctors' houses and medical care centres, the focus continues to be on the top-7 cities, with B-cities also gaining significant investor interest. B-cities are in focus for rehabilitation clinics due to lower land prices and good infrastructure connections.

KEY MARKET TRENDS

Some key trends that are emerging in the German care market include the shift from inpatient to outpatient care following the principle of 'outpatient before inpatient', the drastic reduction in the length of stay in nursing homes to an average of about 14 months, the decline in nursing home places, the increase in those in need of inpatient care, and the rise in the resident quota with social assistance, and the associated liquidity problems for operators.

TOP-7 CITIES

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

B-CITIES

'B-cities' are often regional centres with good economic performances, infrastructures and quality of life. They often offer attractive investment opportunities, as real estate prices are lower compared with the Top-7 Cities yet still present solid growth potential.

C-CITIES

'C-cities' are smaller and municipalities. They are typically not the main economic centres but often have significant local or regional importance. Investments in C-Cities can be attractive as real estate prices are often lower and there are opportunities for growth, especially if the city is a specialised industrial or service centre.

WHAT CAN WE EXPECT FROM THE MARKET IN THE NEXT 12 MONTHS?

In the 12 months to H2 2024, the German care market is expected to continue to face challenges. The demand for care places will carry on rising while construction activity remains at a record low, and the liquidity crisis among operators could worsen if no immediate measures are taken. This is a good time for well-capitalised investors to enter real estate operations. A gradual stabilisation of inflation is expected over the course of 2024 and 2025, and a long-term inflation rate of 2% is anticipated. Increasing capital inflows into Article 9 funds will also be seen, which will fuel transactions around the scarce objects in the market.

Meanwhile, the care market in Germany continues to create a compelling case for investment with very similar demand trends to the UK in terms of an ageing demographic and an undersupply of market-standard beds.

THE FINANCE LANDSCAPE

JIMMY JOHNS
Director - Corporate Debt Advisory
Christie Finance

Since December 2021, we have seen 14 successive Base Rate increases that, as expected, have directly impacted margins in a sector that is typically quite debt hungry.

Historically, whilst in low interest rate margins, lenders have applied a higher interest rate or a 'stressed margin' to calculate affordability, allowing this level of Base Rate. However, we are now operating in a new stressed rate environment, **with Base Rate currently at 5.25%.** This has made lenders look in greater detail at a business's ability to service their current levels of debt, as well as any potential increases.

There are varying schools of thought on what future rate changes might be. Though one aspect is certain - unless there is an external shock to influence the economic environment, the Bank of England will not return to the low Base Rates we have seen for the last 15 years.

The alternative funding market continues to take a more pragmatic approach to supporting the care sector. We have seen more single or standalone acquisitions in H1 2023 than in the same period in 2022, with 70% of our completions in H1 2023 being a single purchase, versus 20% in 2022.

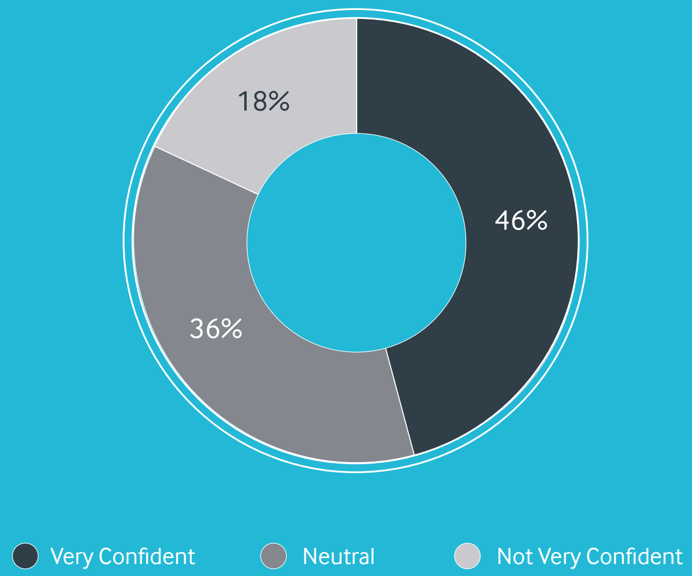
Refinance remains strong, as operators either seek to reset their debt or are looking for alternative funders to support their plans. This is echoed by **a 15% increase in our transactions with straightforward refinances for existing operators in 2023.**

The future of commercial funding in the sector will continue to evolve and face new challenges. The emphasis now, more than ever, is preparing appropriately for any funding application process.

> We have seen more single or standalone acquisitions in H1 2023 than in the same period in 2022, with 70% of our completions in H1 2023 being a single purchase, versus 20% in 2022.

In July 2023, we interviewed a cross-section of local and regional providers throughout the UK to gain insight into some of the operational challenges they're facing.

Q HOW CONFIDENT ARE YOU THAT YOUR LENDER WILL SUPPORT YOUR PLANS?



RCC Business Mortgages plc, trading as Christie Finance, is authorised and regulated by the Financial Conduct Authority. Our Firm Reference number is 709982. Not all types of business we undertake is authorised and regulated by the Financial Conduct Authority. Christie Finance operates as an intermediary and is not a principal lender.

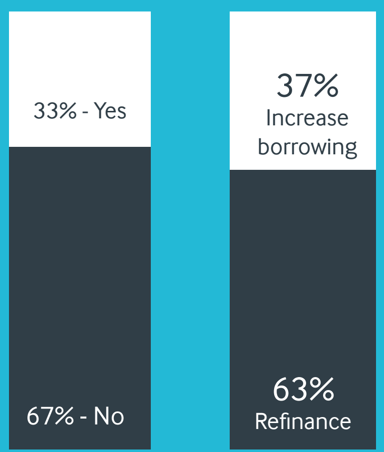
Our sentiment survey revealed that 38% of respondents are looking to buy a care business in the next 12 months, 30% of which will seek finance to do so. However, almost half of these are not confident that they will be supported by their lender.

In a sector that is heavily influenced by external factors, operators are having to continually adapt to the rapidly changing economic environment to maintain profitability.

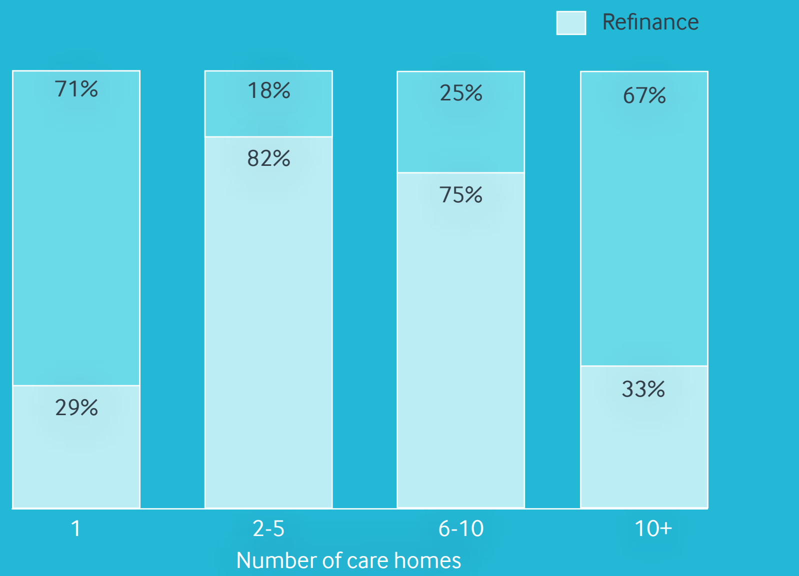
The pace of these changes - including the increasing Bank of England Base Rate, stubbornly high inflation, continued staffing challenges, changing regulatory process and further ESG pressures - have made 2023 unrecognisable to last year and meant that more people are seeking support to refinance their portfolios, fund growth, or re-capitalise.

Q ARE YOU LOOKING TO RESTRUCTURE YOUR DEBT OVER THE NEXT 12 MONTHS?

IF YES, REFINANCE OR INCREASE BORROWING?



% OF RESPONSES BY OPERATOR SIZE



39% of operators in our sentiment survey who are looking to buy in the next 12 months, will do so via borrowing.

RCB HEALTHCARE, KENT

Using the increased value in the client's portfolio of five homes allowed them to more than double the capacity of their portfolio and capitalise on an interest-only period to support increased cash flow demands of such a large expansion.

We secured highly competitive funding terms, allowing the client to complete this sophisticated, high-level purchase.

CROFT AVENUE CARE HOME, CUMBRIA

With this portfolio of six care homes, we were able to use the uplift in value in the client's existing care home portfolio.

We identified a lender that provided flexibility and strong pricing to allow our client to complete the acquisition of Croft Avenue Care Home.

HEALTHCARE INSURANCE MARKET

WALTER MURRAY
Managing Director
Christie Insurance

The elderly care insurance market remains a challenging environment for both existing operators and new entrants.

Traditionally, numerous insurers entered the sector but most soon left, as the claims costs versus the average premium made it an unprofitable area for insurers.

The COVID-19 pandemic compelled insurers to re-evaluate their involvement in the sector against a predicted disaster of mass litigation from staff, service users, and visitors. The insurance market froze – it stopped underwriting all new business which delayed and frustrated clients acquiring businesses.

The sector is still seen as underpriced for the risk that insurers take on. Until the insurance market gets to grips with what it considers to be the 'right price' for cover, it is unlikely that the limited number of insurers in this sector will change.

There are some indications that, with ambitious growth targets set, some less experienced insurers will begin to soften their view of the sector, as is usually the case within the cycle of the insurance market. Evaluating what they consider to be the 'right premium' will only, as before, be a short-lived experience, as, once the claims roll in, those insurers may exit as quickly as they arrived.

Other factors in the insurance sector are the return of inflation alongside supply chain delays - including lack of labour – which have led to an increase in the cost of repairs and delays in undertaking them. Insurers will be looking at the true value at risk, be that the cost of rebuilding the 'bricks and mortar' or the time it takes to rebuild the revenue of the business which may have been understated by a combination of lack of attention, inflation, and an understandable desire to control the cost of insurance. This can result in an insufficient claim pay out to restore a business to its pre-loss position.

All business clients with the right risk management approach in terms of reducing their claims will always be attractive to the insurance market, it is key where our clients have a relationship with their insurer, they build on that rather than abandon it for a short-term gain.

> The sector is still seen as underpriced for the risk that insurers take on. Until the insurance market gets to grips with what it considers to be the 'right-price' for cover, it is unlikely that the limited number of insurers in this sector will change.


Credit: LNT Care Developments

CHRISTIE & CO

CASE STUDIES

CASE STUDIES: MAJOR TRANSACTIONS

Despite cost of capital increases, we completed a number of notable transaction since our 2022 market review, with a number of other deals agreed and at an advanced stage in legals.

CARE HOME GROUP

- Group of six care homes
- Sale and leaseback transaction
- Sold to NYSE listed REIT for $28.2 million
- Completed in September 2022

ZERO THREE CARE, ESSEX

- Leading provider of specialist care in the south-east
- Portfolio of 12 assets
- Sold to Montreux Capital Management
- Completed in February 2023

Image credit: White Crow Studios

DEVELOPMENT SITE, BUCKINGHAMSHIRE

- 78-bedroom care home development
- Pre-let agreed to leading national operator
- Investment sold to leading UK pension fund
- Completed in March 2023

- Sale & leaseback transaction on regional group
- Sold to NYSE listed REIT
- Completed in March 2023

- Investment portfolio of care homes
- Let to Care UK on institutional leases
- Acquired for leading UK institutional investor
- Completed in June 2023

CASE STUDIES: REGIONAL TRANSACTIONS

SOUTH OF ENGLAND

KINGFISHER AND AUSTENWOOD NURSING HOMES
BUCKINGHAMSHIRE

- Registered for 75 across two properties
- Period conversions
- Sold to expanding regional provider in June 2023

SIDMOUTH RESIDENTIAL NURSING HOME
DEVON

- Registered for 29
- Period conversion with purpose-built extension
- Sold to local provider in April 2023

WALES

PARKSIDE HOUSE
PENARTH

- Registered for 35
- Substantial period conversion
- Sold to local provider in February 2023

CRICK CARE HOME
MONMOUTHSHIRE

- Registered for 49
- Conversion with purpose-built extension
- Sold to regional provider in July 2023

CASE STUDIES: REGIONAL TRANSACTIONS

MIDLANDS

THE LEYS RESIDENTIAL HOME
WEST MIDLANDS

- Registered for 20
- Located in desirable Worcestershire town
- Sold to first-time buyer in August 2023

GREY FERRERS
LEICESTER

- Registered for 120
- Located in central Leicester
- Sold for alternative care use in September 2023

NORTH

CHAPEL VIEW AND FIELD VIEW CARE HOMES
BARNSLEY

- Registered for a total of 79
- CQC rated 'Good'
- Sold to Wood Care Group in February 2023

SNYDALE
WEST YORKSHIRE

- Registered for 48
- Family ownership since 1987
- Sold to an existing operator in August 2023

SCOTLAND

NORTHGATE HOUSE
GLASGOW

- Registered for 59
- Quiet residential location
- Sold to a regional operator in February 2023

ARCADIA GARDENS
GLASGOW

- Registered for 72
- City-centre location
- Sold to a regional operator in February 2023

SPONSORSHIP & EVENTS: CARE HOME OPEN WEEK (CHOW)

We were a headline sponsor for Care Home Open Week (CHOW) 2023, a nationwide event led by Championing Social Care, where the public and the care sector come together.

We were a headline sponsor for CHOW 2023, a nationwide event led by Championing Social Care, where the public and the care sector come together.

The week-long event, which took place between 28 June and 2 July, more than doubled in size in 2023, with over 5,200 care homes opening their doors to the public and getting involved in various activities; from BBQs, bake sales and bouncy castles, to music concerts and Caribbean-inspired festivals (as seen at Bishops Manor in Sutton Coldfield), celebrating residents, staff and all involved in the care sector was at the heart of each event.

This year, CHOW also introduced the Great British Care Cycle Relay, where over 300 cyclists and volunteers travelled a 300-mile journey over five days, stopping off at 12 care homes across the country along the way.

In addition to families, friends, and local residents, various local MPs also made appearances including Deputy Leader and Chair of the Labour Party, Angela Rayner, and messages from the Prime Minister and Kensington Palace were released to show their support.

We are already looking forward to the 2024 event and encourage anyone who is considering signing up to do so.

2 weeks | **5,200** care homes

OUR SERVICES

According to data on carehomes.co.uk, we sell over 60% of individually transacted care homes in the UK.

Established in 1935, we provide a 'whole of market' approach ranging from single assets to the largest portfolios and capital markets.

RICS 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
- Leasing

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
- Corporate Debt Advisory Service

INSURANCE

- Business & Life Insurance and Employee Benefits across numerous sectors

Credit: LNT Care Developments

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GLOSSARY OF TERMS & SOURCES

TERMS

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

BPS:
Basis points

BoE:
Bank of England

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

NYSE:
New York Stock Exchange

Opco:
Operating

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

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

WholeCo:
Whole company

YTD:
Year to Date

SOURCES

- Freedom of Information Act (2023)
- Pflegemarkt.com, M&A-Transaktionen in der Pflege – Q1 2023 (M&A transactions in nursing – Q1 2023)


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