CHRISTIE & CO
Care

CARE MARKET REVIEW 2022

INSIGHT INTO THE UK HEALTHCARE MARKET

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Included in this edition of our Care Market Review...

Welcome to the 2022 edition of our Care Market Review, in which we analyse the transactional UK healthcare market.

At the time of publication, we have brokered 42% more care home deals in 2022 than last year, but who are the buyer groups, and are values holding up? In this review, we look at the deals concluded by our national team of agents and assess whether the transactional market and investor demand have recovered from the challenges and uncertainty presented by the pandemic.

We have also summarised the local authority fee rate increases for the current fiscal year, assessing whether, with ongoing inflationary challenges in the economy, the local authorities have increased fee rates to match the increased cost base in the social care sector.

The review includes results from our sentiment survey, where we asked UK providers two questions: has occupancy yet returned to pre-pandemic levels, and are staffing pressures easing?

For more detailed information, please contact our Consultancy team, or our network of healthcare agents based throughout the UK. Contact details can be found on page 16.

42%

WE BROKERED 42% MORE CARE HOME DEALS IN 2022 THAN LAST YEAR

ROB KINSMAN
REGIONAL DIRECTOR
SOUTH

LEE HOWARD
REGIONAL DIRECTOR
NORTH & MIDLANDS

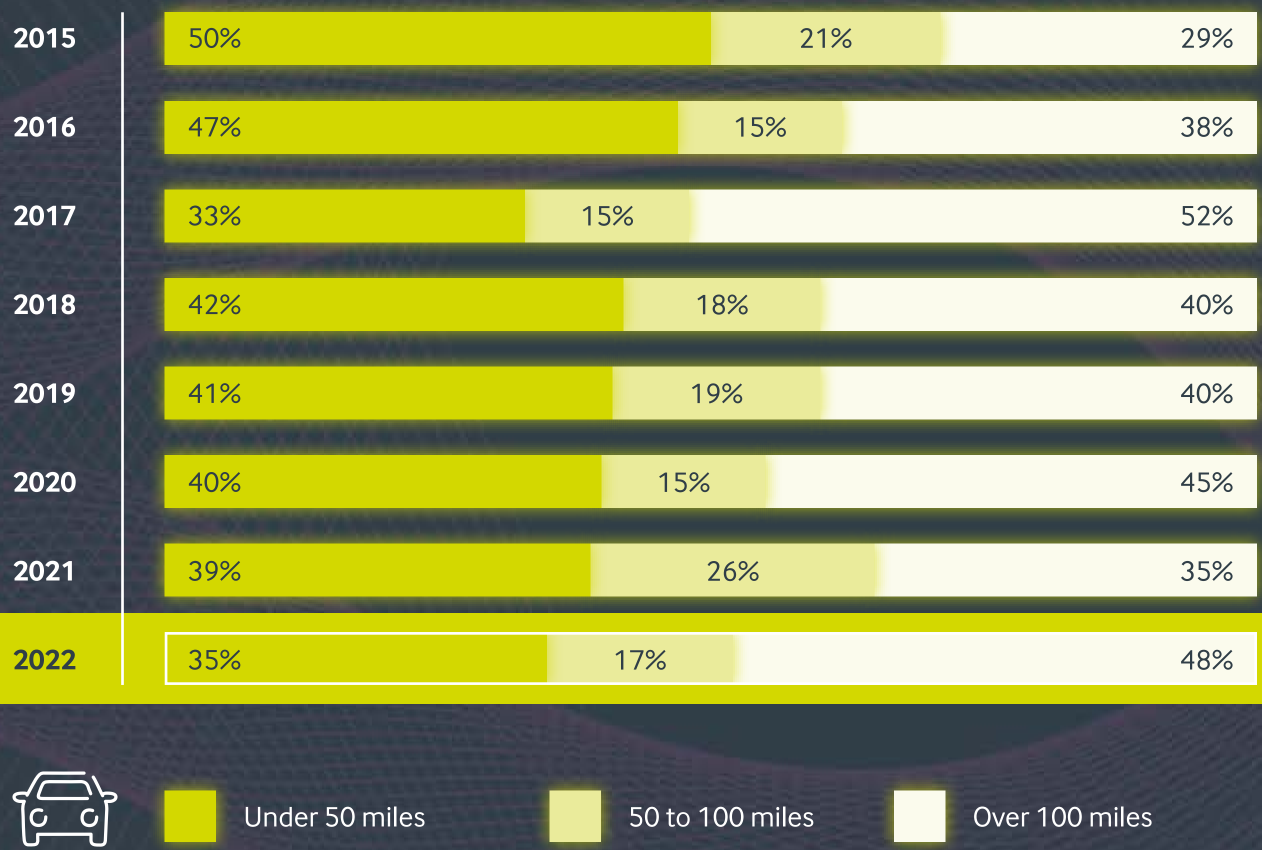
MARTIN DAW
SENIOR DIRECTOR
SCOTLAND

BUYER APPETITE

REGISTERED BUYER NUMBERS BY LOCATION

We currently have over **13,500 registered buyers** on our database, highlighting the strong demand for care home opportunities throughout the UK. These buyer numbers are on par with pre-pandemic levels.

CARE HOME DISTANCE FROM BUYER

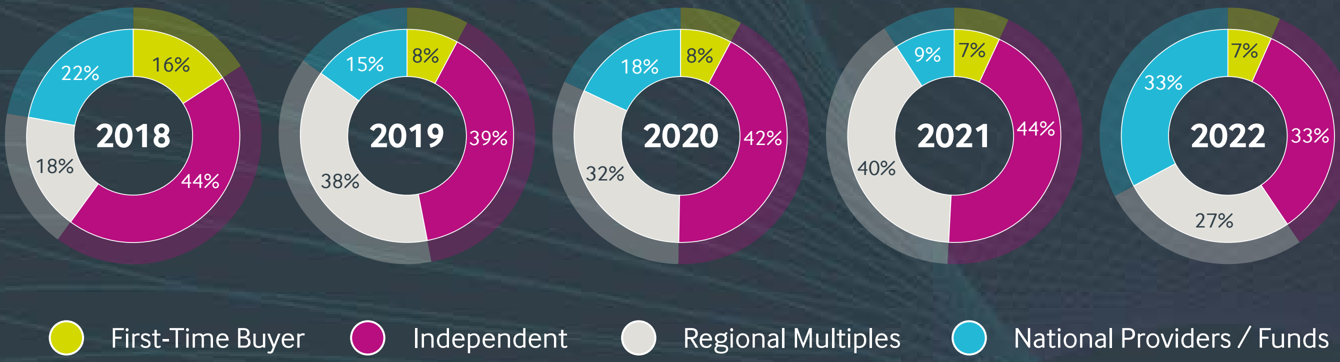


This chart illustrates the distance between where a buyer is based and the care home that they acquire.

In 2015, **29%** of our deals were concluded to buyers who are based over 100 miles from their target business, a proportion that has risen to **48%** in 2022. This suggests buyers are increasingly willing to look further afield to expand their portfolios, a trend that can be attributed to an increasing proportion of buyers looking to build portfolios over a wider geographic area, coupled with the increase in transactions which have been concluded to investors and buyers who operate on a national and international basis.

BUYER APPETITE

PROPORTION OF TRANSACTIONS BY BUYER TYPE, 2018 TO 2022



From 2018 to 2022, there has been a decline in first-time buyers, which accounted for **16%** of our transactions in 2018, dropping to only **7%** in 2022. This is likely to be reflective of the increasing funding challenges for first-time buyers, and the regulatory burden of the CQC. The decrease can also be attributed to an increase in quality, higher value stock coming to the market.

The proportion of deals completed to corporate operators and investors stood at **22%** in 2018. This dropped down to just **9%** in 2021, when larger providers and investors paused their acquisitions due to the pandemic.

This year, the number of deals concluded to this buyer group has risen to **33%**, as the market has recovered from the pandemic and larger providers and investors once again eye up the long-term potential of the sector.

Independent operators (those owning one or two homes) have been the most active buyer group over this period, demonstrating the ongoing appeal of the sector to local providers who understand the market dynamics in their locality.

Over the past five years, on average, independent operators transacted on **41%** of our deals and remained active throughout the pandemic.

The larger, regional multiple groups increased their market presence in 2021, accounting for **40%** of our transactions, up from **32%** in 2020, showing that these groups remained keen to expand their portfolios even though the sector was battling with the pandemic.

As a percentage of the overall total, deals brokered to regional multiple groups have dropped in 2022.

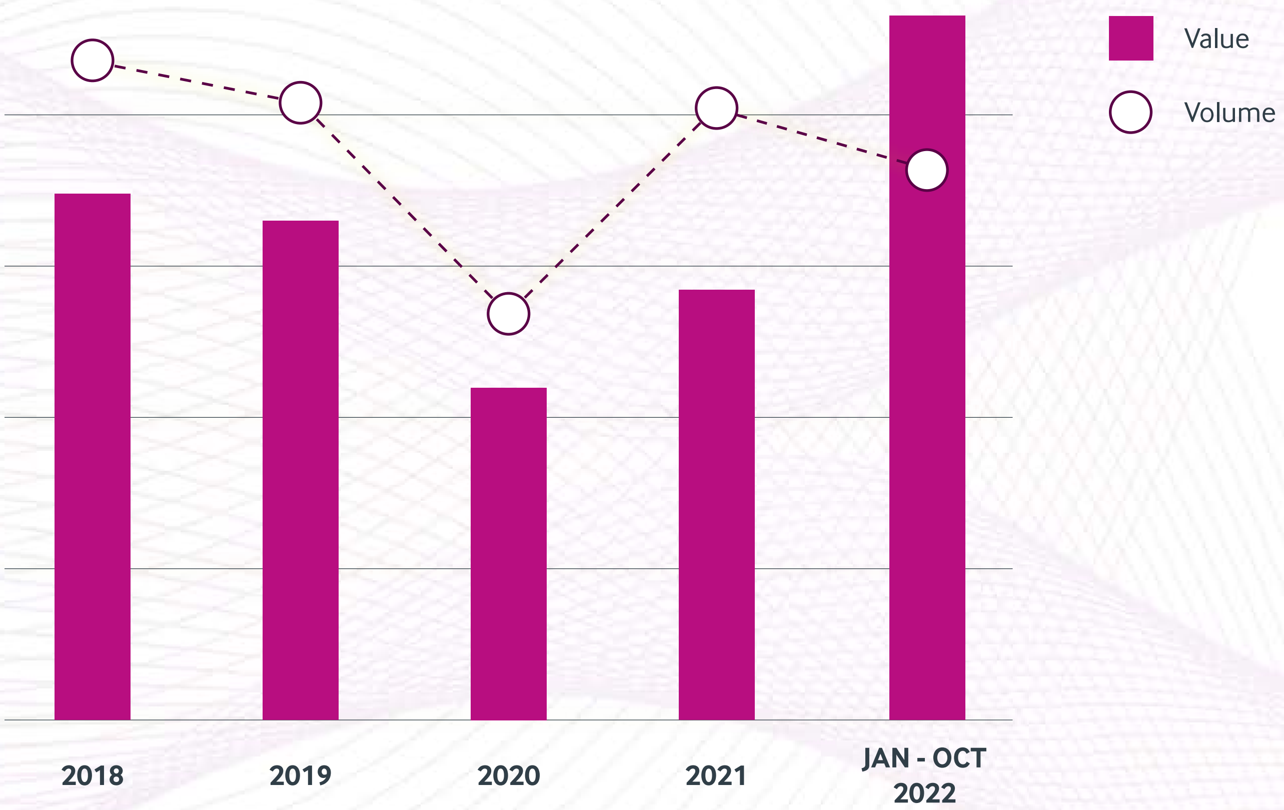
We have brokered transactions across a wide variety of care home assets, illustrating the strength of demand - from new entrants seeking smaller, more affordable assets, through to international healthcare funds looking to increase their presence in the UK healthcare real estate market.

DEALS BROKERED BY CHRISTIE & CO 2015 TO 2022

Analysis of our transactional data shows that a greater number of deals were concluded in and around urban centres, but we have seen an increasing number of care homes transact in rural and coastal areas, as buyer demand strengthened following the lifting of pandemic-related restrictions.

TRANSACTIONAL ANALYSIS

VALUE AND VOLUME OF OFFERS



This chart not only shows the strength of the transactional market in 2022, but also how it was negatively impacted by the pandemic.

Excluding the major portfolio assignments currently for sale through Christie & Co, the value of offers received in 2022 has grown by over 110% compared with 2020.

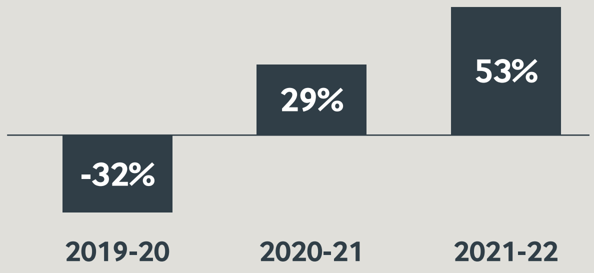
Offer numbers recorded from January to October 2022 are slightly down on last year, but this excludes Project Oak (the sale of 111 Four Seasons Health Care Group homes) and other major corporate assignments. The number of offers generated by our network of care agents this year for locally owned care home businesses is 35% ahead of 2020.

NUMBER OF SALE MANDATES

PANDEMIC IMPACT
2020

In 2020, new instructions from locally owned care home owners dropped to below 70% of pre-pandemic levels.

ANNUAL VARIANCE IN NEW INSTRUCTIONS



Volumes have since recovered strongly, with instruction levels in 2021 increasing by around 30%.

PANDEMIC RECOVERY
2021

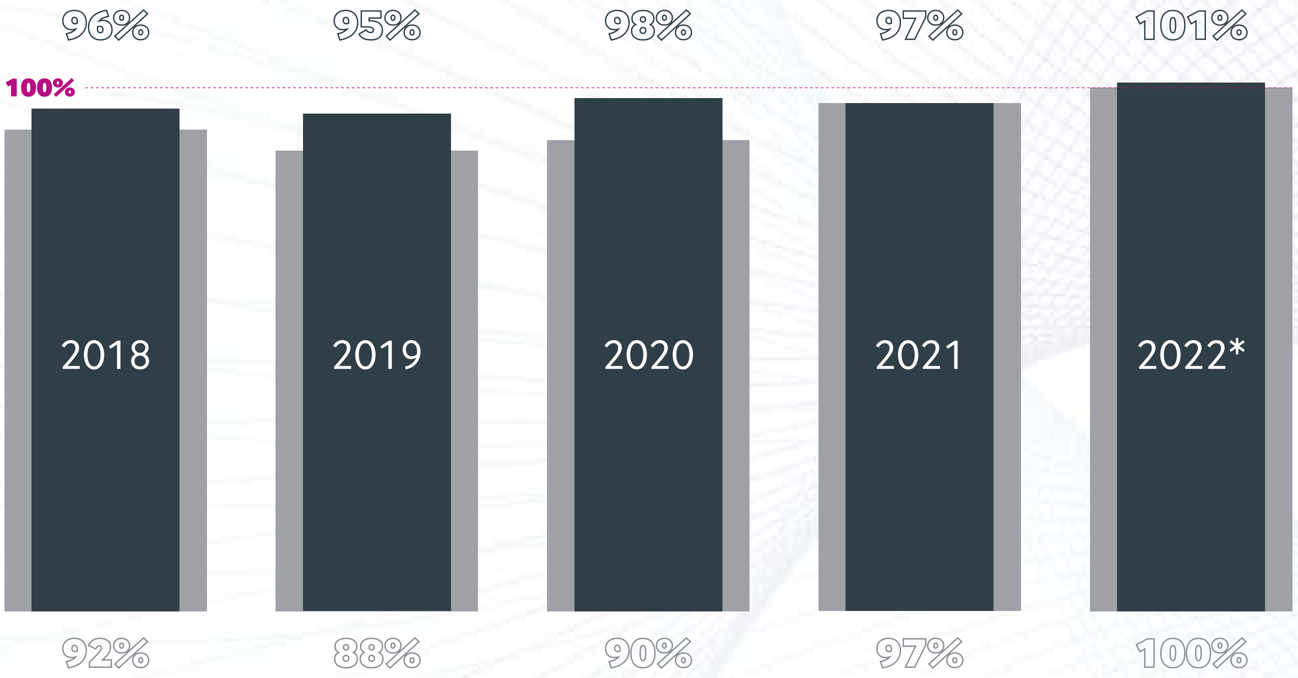
PANDEMIC RECOVERY
2022

This continues to grow as operators seek to capitalise on the buoyant market conditions and strong values being achieved.

We have also seen an increase in providers looking to exit the market due to the challenges faced during the pandemic.

TRANSACTIONAL ANALYSIS

COMPLETIONS AS % OF ASKING PRICE



2022 reflects year to date. With the changing macro-economic landscape, the trend moving forwards will be driven by a number of factors, including the availability of capital and the alignment of vendor's pricing expectations relative to prevailing market conditions.

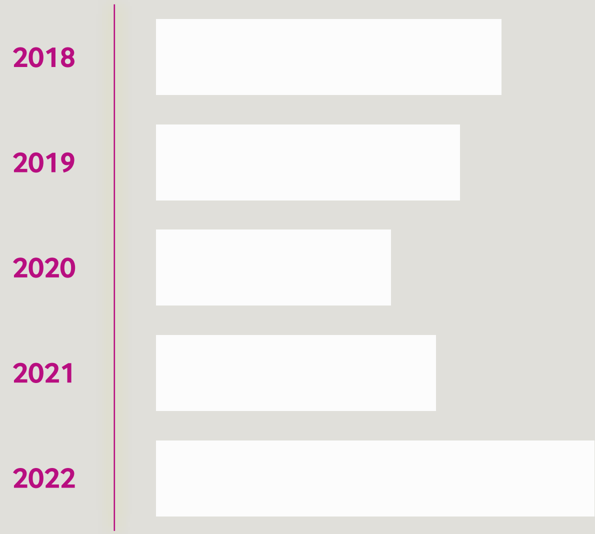
Before the pandemic, we saw offers accepted at around 95% of asking price.

In 2020, this figure increased to **98%** when activity bounced-back post-lockdown and there was an exceptional level of pent-up demand in the market.

In 2022, we have seen deals struck at an average of **101%** of asking price, underlining that strong investor appetite coupled with competitive bidding is commonplace.

We generated over six offers on **25%** of our marketing campaigns in 2022, with **48% of processes generating three offers or more**, further highlighting the strength of the market and the levels of interest being achieved.

COMPLETIONS THROUGHOUT CHRISTIE & CO NETWORK 2018 TO 2022



This chart shows the depressed market activity at the start of the pandemic in 2020.

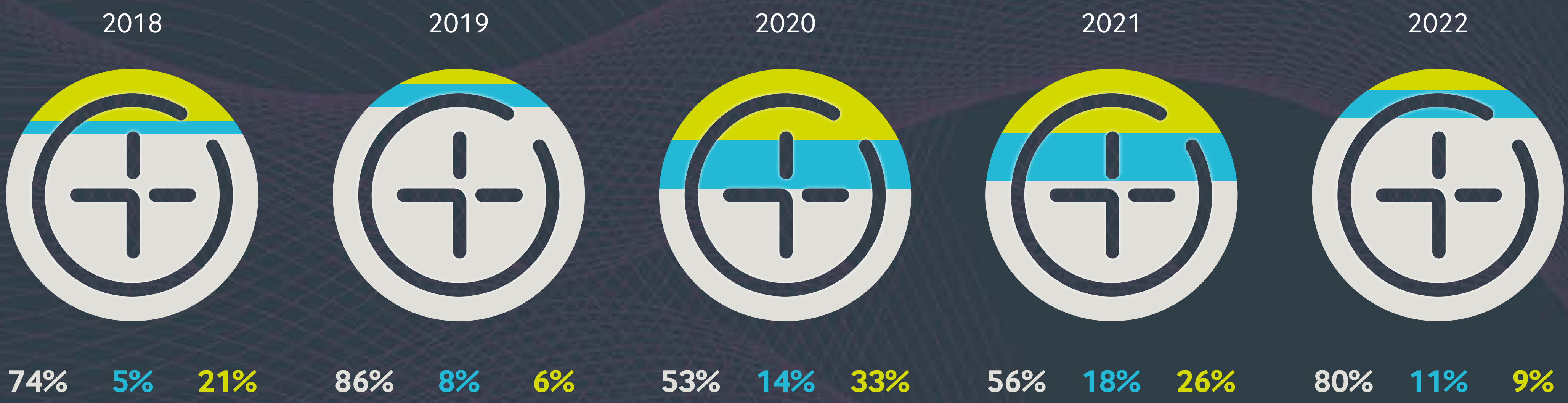
There has been a marked re-bound in transaction volumes since, with completion levels in 2022 sitting **78% ahead of 2020**, and deal numbers significantly ahead of pre-pandemic levels. Our pipeline of deals suggests completion volumes will remain strong well into 2023.

Generally speaking, the majority of our deals are bank-funded, but we saw this shift in 2020 when, with bank lending tightening due to the pandemic, **61%** of our deals were cash-funded.

CLOSED CARE HOMES

PROPORTION OF TOTAL SALES ON A CLOSED AND INTENDED-USE BASIS

Ongoing care use | Alternative use - other | Alternative use - residential



There is a notable increase in the number of care home closures throughout the UK, which is a worrying trend given the well-established need for elderly care home beds and the rising demand for such essential services.

Our Healthcare Consultancy team is regularly engaged to support investors, developers, and operators to identify the areas with bed supply shortfalls, as well as to analyse the strength of the private-pay market in any given location, offering invaluable insight at a granular level.

Between 2015 and 2020, over 1,500 care homes ceased trading. This was not solely linked to CQC ratings, as over 40% of care home closures in 2020 had 'Good' ratings and were closed for a range of reasons, including margins and cost pressures.

In 2021, a record 31% of the care homes that Christie & Co sold were on a closed basis. 56% of these sales were to a care provider for ongoing healthcare use, whilst 26% were sold for residential conversion.

The number of closed care home transactions we brokered dropped in 2022, accounting for just 13% of deals. However, an increasing proportion (80%) of these closed homes were sold to care home providers.

Where the sale is for ongoing use, the larger homes are commonly sold to elderly care providers seeking to reposition the care home in the market. Smaller homes are often acquired by specialist care providers and supported living operators.

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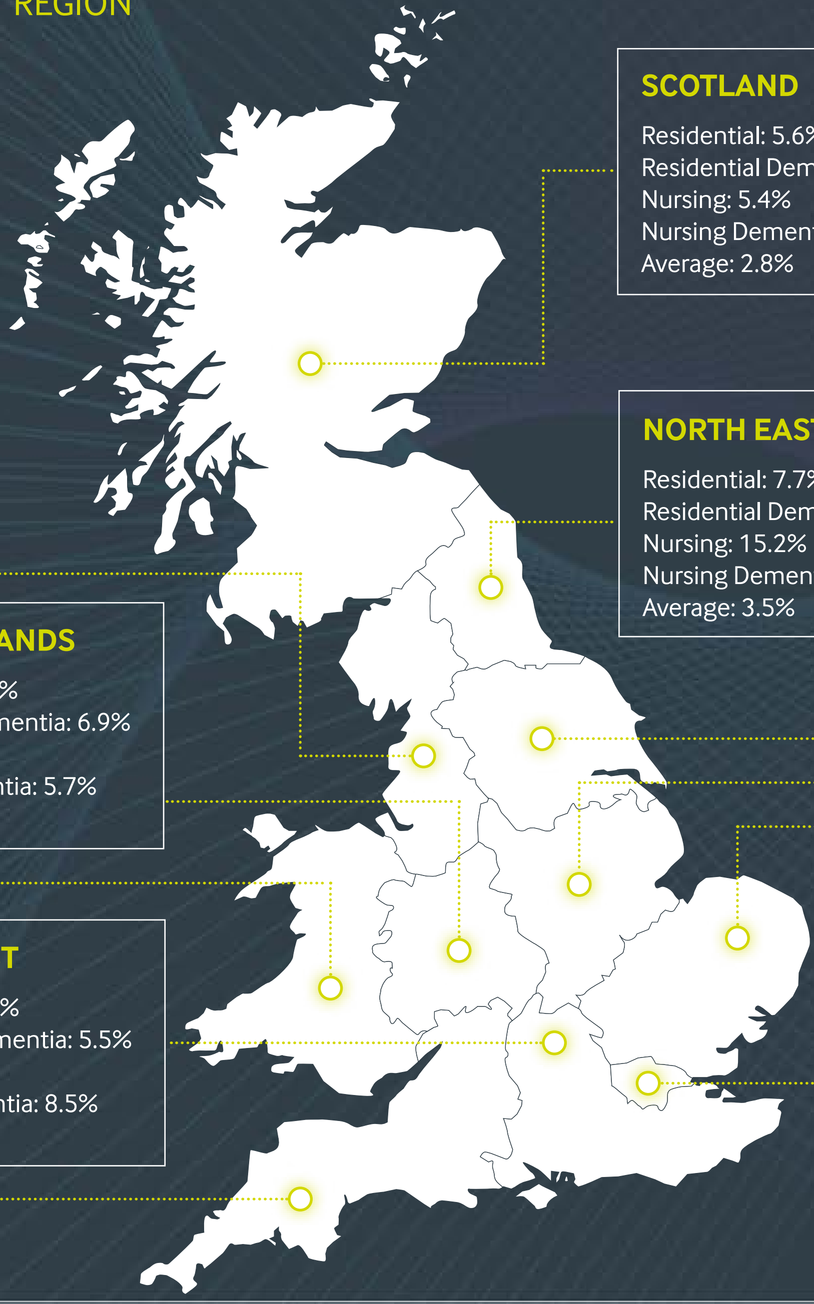
LOCAL AUTHORITY FEE RATE INCREASES

AVERAGE FEE INCREASES 2022/23 - BY REGION



NORTH WEST

Residential: 5.2%
Residential Dementia: 4.7%
Nursing: 4.6%
Nursing Dementia: 9.7%
Average: 3.9%

WALES

Residential: 12.8%
Residential Dementia: n/a
Nursing: 11.9%
Nursing Dementia: n/a
Average: 3.7%

WEST MIDLANDS

Residential: 4.3%
Residential Dementia: 6.9%
Nursing: 5.3%
Nursing Dementia: 5.7%
Average: 3.2%

SOUTH WEST

Residential: 6.0%
Residential Dementia: 10.0%
Nursing: 6.2%
Nursing Dementia: 4.9%
Average: 5.4%

SOUTH EAST

Residential: 4.3%
Residential Dementia: 5.5%
Nursing: 5.5%
Nursing Dementia: 8.5%
Average: 4.3%

SCOTLAND

Residential: 5.6%
Residential Dementia: n/a
Nursing: 5.4%
Nursing Dementia: n/a
Average: 2.8%

NORTH EAST

Residential: 7.7%
Residential Dementia: 7.8%
Nursing: 15.2%
Nursing Dementia: 7.1%
Average: 3.5%

YORKSHIRE AND THE HUMBER

Residential: 5.4%
Residential Dementia: 6.1%
Nursing: 4.6%
Nursing Dementia: 6.3%
Average: 5.0%

EAST MIDLANDS

Residential: 4.2%
Residential Dementia: 7.3%
Nursing: 9.4%
Nursing Dementia: 12.3%
Average: 3.8%

EAST OF ENGLAND

Residential: 8.5%
Residential Dementia: 3.6%
Nursing: 4.9%
Nursing Dementia: 6.7%
Average: 3.2%

LONDON

Residential: 3.1%
Residential Dementia: 8.0%
Nursing: 15.5%
Nursing Dementia: 8.4%
Average: 2.6%

LOCAL AUTHORITY FEE RATE INCREASES

UK AVERAGE FEE INCREASES 2022/23*

	Median Increase	Average Increase	Average Fee
RESIDENTIAL	5.2%	5.4%	£594.09
RESIDENTIAL DEMENTIA	6.9%	6.7%	£603.00
NURSING	5.5%	6.8%	£648.97
NURSING DEMENTIA	7.1%	7.7%	£659.39

*excludes FNC

When analysing local authority fee rate rises across the UK for the 2022/23 fiscal year, we found:

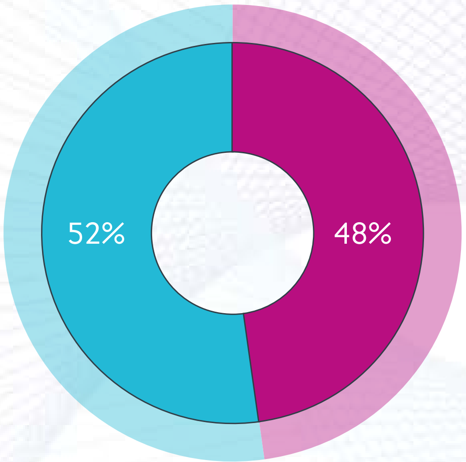
- A large disparity of fee increases, from 3.1% to 12.8%
- An average residential fee increase in England of 5.4%
- Average nursing fees have risen by 6.8% since April 2022
- Many increases are conditional on the adoption of the Real Living Wage
- Local authority fee increases fall short of inflationary cost pressures in the sector
- The burden on the self-funded client base is likely to increase
- Interim uplifts are evidenced by both local authorities and providers

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.

AGENCY STAFF

48% of operators said they have little or no agency staff usage

52% of operators said they have widespread use of agency staff

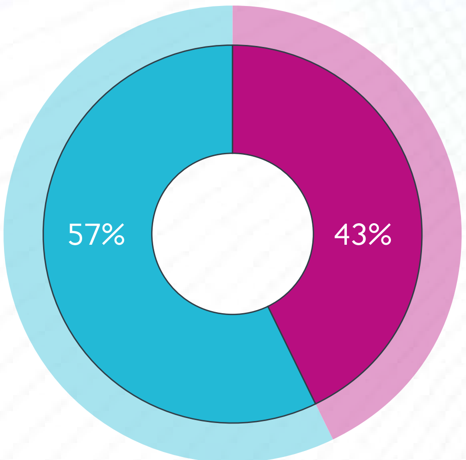


Resourcing in the sector has placed a strain on care home operators. Those that have obtained a sponsorship licence to recruit staff from abroad have been able to tap into new markets for their recruitment needs and this has been successful for many. However, over half of providers are still having to use agency staff to fill their rotas, increasing the costs in their business.

OCCUPANCY

43% of operators said occupancy has returned to pre-pandemic levels

57% of operators said occupancy is still recovering



There is a wide variation in occupancy trends across the UK. Many smaller regional operators report that their homes are largely back to pre-pandemic levels, while larger providers are generally reporting lower overall average occupancy rates. Positively, the majority of operators report good enquiry levels, which suggests that occupancy rates will continue to re-build in 2023.

CASE STUDIES

PROJECTS

Project Oak: Four Seasons Healthcare
UK Wide

We are currently engaged in the high-profile mandate to sell 111 freehold care homes for Four Seasons Health Care Group with the assets being offered for sale on a portfolio, sub-group, or individual basis.

Significant interest has been generated with a busy period of diligence currently underway, including a programme of guided site visits with multiple potential purchasers.

Halcyon Care Homes Topco Limited
East Midlands and the South of England

England's largest not-for-profit provider of care and housing for older people, Anchor, acquired the entire share capital of Halcyon Care Homes Topco Limited in a transaction brokered by Christie & Co.

The sale comprised a high-quality new build leasehold platform of 11 residential care homes in the East Midlands and the South of England. It is particularly significant as it is only the third OpCo transaction of scale in the UK care home sector, thereby creating an important transaction precedent.

Cornwall Care
Cornwall

We facilitated the acquisition of Cornwall Care by Sanctuary Care.

Cornwall Care is the largest elderly care provider in the region, operating 15 residential, nursing, and dementia care homes as well as providing assisted living support, taking Sanctuary's portfolio to 111 care homes across England and Scotland.

Cornwall Council and Sanctuary Care have now agreed a long-term Strategic Partnership as part of the acquisition.

DEVELOPMENT & LAND

Care Home Development Site
Kent

Acting for leading care home developer, Aspire LPP, we brokered the sale of a development site in Tenterden, Kent, with planning consent for a 64-bedroom care home to Barchester Healthcare.

The consented care home will benefit from 100% en suite wet rooms, café, hair salon, activity room, cinema, lounge and dining rooms, rooftop bar with a summer lounge, balconies, and a screened roof garden.

Care Home Development Site
Shropshire

Acting for leading care home developer, Frontier Estates, we brokered the sale of a development site in Battlefield, a suburb of Shrewsbury in Shropshire.

The 1.97-acre site has planning consent for a 70-bedroom care home, and was sold to Rotherwood Group.

CASE STUDIES

REGIONAL CASE STUDIES

Hill House
Wiltshire

- Residential care home
- Registered for 42
- Sold to Cedar Care

Woodbay Limited
North Ayrshire

- A group of two care homes
- Registered for a total of 74
- Sold to a Scottish group operator

Eastleigh Care Homes
Devon and Somerset

- Group of three care homes
- Registered for a total of 184 beds
- Acquired for IMPACT Healthcare REIT and Welford Healthcare

Care Without Compromise
South West Wales

- Specialist learning disability group
- Registered for 18 across three settings
- Sold to Choice Care Group

Millbrook House
Dorset

- Residential care home
- Registered for 33
- Purchased by R & G Quality Care Ltd

Fairways Care Limited
North Wales

- Group of five care homes
- Registered for a total of 236
- Sold to a leading care home provider

FBC Care Homes Ltd
East Midlands

- Two purpose-built care homes
- Registered for a total of 92
- Sold to an existing operator

Woodleigh Christian Care Home Ltd
Nottinghamshire

- Two care homes
- Registered for a total of 110
- Sold to a corporate operator

THE FUNDING LANDSCAPE

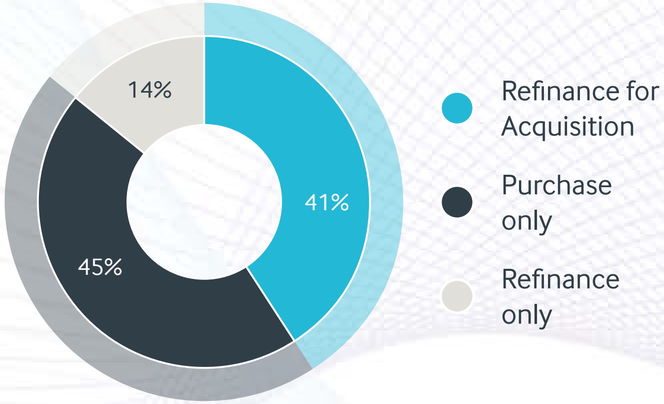
From January until September 2022, there was a **7.1% increase** in debt drawn, and a **5.8% increase** on the average loan balance for the same period.

2022 presented further challenges to the care market as businesses learnt to cope with the effects of COVID-19 and manage life with the virus still in circulation.

Operators are implementing new systems and policies and finding that costs have increased as compliance needs are met.

The funding market looks to find solutions to these problems for those operators finding themselves under increasing pressure.

CARE HOME TRANSACTIONS IN 2022



A major talking point this year has been the cost-of-living crisis and, in particular, the cost of utilities.

In the first quarter of 2022, with the headwind of a cost-of-living crisis and increasing utility bills, lenders began focusing on these lines of expenditure when assessing transactions. How operators are managing margins and costs moving into 2023 and beyond will remain a focal point on any debt-led transaction.

Despite this scrutiny, with good management and forecasting we have still successfully secured debt, enabling operators to acquire or expand their portfolios.

Funding has remained challenging; the high street continues to prefer the larger operators, typically with a portfolio of newly built homes, whilst a strong alternative market exists for the transactions that do not tick all the boxes for the traditional high street lending model.

CASE STUDIES

Westerfield House Care Home
Ipswich

- Refinance to build a 17-bed extension
- Existing operator
- Accessed the CBILS loan to build
- Multiple highly competitive offers of finance achieved

Project Beethoven
Pottles Court and Summercourt
Devon

- First-time buyer and foreign investor
- Purchased two homes in one acquisition
- No previous care home experience

CHRISTIE FINANCE

Throughout 2022, we have seen both margins and the cost of debt rise, with the Bank of England increasing the base rate. This is adding to the other rising costs within the sector which are making current and future affordability the focus for both borrowers and lenders alike.

8.33%

We have seen 8.33% fewer funded deals in the sector during the course of 2022, as operators look to their portfolios to release cash to expand or restructure their existing debt to ease cashflow.

Despite the volume of debt decreasing, the average loan size has increased by 5.8% in the same period which suggests that funding in the sector is evolving to provide more refinance to buy or expand.

This, pivoting towards supporting operator refinance and acquisition, has been coupled with fewer first-time buyers taking the decision to offer on care businesses. This to due to the perceived difficulties in raising finance which, despite their inquisitive nature, is a 3% fall, from 48% in 2021 to 45% in 2022.

This area of the market has indeed proved more challenging as the recognised lenders retrench to service existing operators with proven track records.

With lenders' attention pivoting away from COVID-19 and towards the cost-of living, the focus is now on how operators control costs, in particular utilities and staffing.

From the beginning of September, there have been varying opinions from funders on how operators can forecast this line of expenditure in the years ahead, with some forecasts set to triple current costs and reports of operators seeing real time tenfold increases.

However, the utility cost question has only been prevalent in the latter part of this year as, prior to this, the cost-of-living increase was relatively new and not yet truly felt.

As we approach the end of the year, the sector remains debt hungry and, despite new challenges, we continue to deliver competitive terms to our clients.

Throughout 2022, we have continued to support our clients in achieving various types of finance, whether it be secured funding to expand or develop existing sites, re-mortgage to acquire additional units for a more competitive structure, or unsecured debt for refurbishment, tax, or equipment.

CASE STUDY

RCB Healthcare Group
Kent

- Acquisition of a corporate disposal
- Used their existing portfolio to leverage acquisition
- Single unit which doubled company bed capacity from 176 to 352
- Funding supported through government-backed COVID-19 loan scheme

JIMMY JOHNS
DIRECTOR
CHRISTIE FINANCE

TONY HOWARD
ASSOCIATE DIRECTOR
UNSECURED

> Throughout 2022, we have seen both margins and the cost of debt increase, with the Bank of England increasing the base rate.

CHALLENGES IN THE CARE INSURANCE MARKET

A key challenge in the care insurance market is poor underwriting, what is the right premium to be charged? This is all set against the known facts within the sector that the price of the insurance risk in care has been understated by insurers for many years.

Despite under-pricing, various new insurers have appeared in the care sector over the years, ensuring premiums remained deflated; they were soon 'burnt' by the claims and left the sector. From our perspective the poor underwriting of the sector is not to be laid at our client's doors to resolve; insurers are experts at risk assessment: and they deem what the 'right premium' is to cover their costs and claims.

When COVID-19 occurred, the insurance market within days, found itself facing the issue that perhaps mass litigation from staff, service users, and visitors would land on them. The insurance market froze, stopped underwriting all new business, and delayed and frustrated clients taking on new homes.

It would appear these concerns about litigation are now receding but the insurance market has yet to reopen. The reason can be attributed to the pre-COVID-19 issue; the premiums across the sector are not sufficient to cover the risk. Until the insurance market gets to grips with this, it's unlikely the limited number of insurers in the sector will change.

Our view at Christie Insurance is that clients with the right risk management approach in terms of reducing their claims will always be attractive to the insurance market until this temporary freeze is over.

Our advice to clients in the care sector is to use the old adage **"you can only control what you can control"**; clients can only control the number of claims and the monetary value paid by insurers and ensure that is communicated to their insurers.

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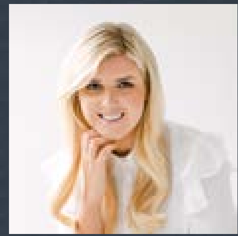

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