MARKET OVERVIEW

UK HEALTHCARE PROPERTY

SPRING **2015**

CONTENTS

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EXECUTIVE SUMMARY

Q1 of 2015 started with a flurry of major transactions, Knight Frank selling in excess of £200m of care facilities in February alone.

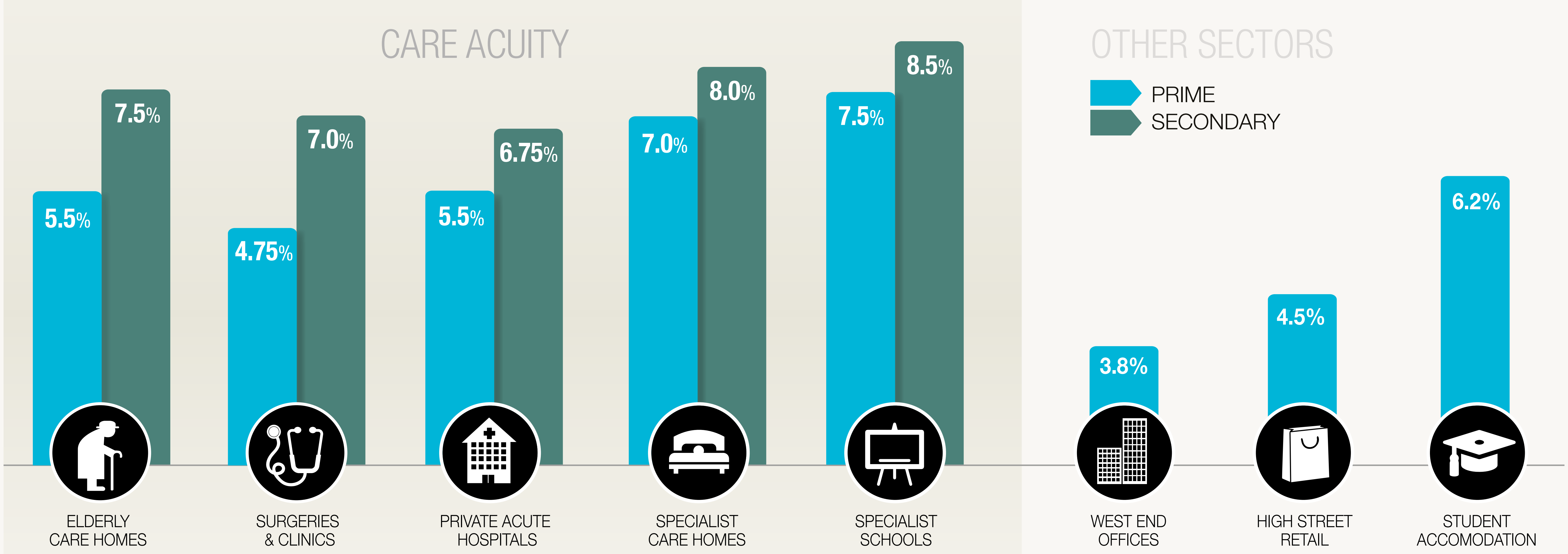
Investment yields hardened further with a care home leased to Care UK in Chelmsford for 4.75% and a portfolio selling close to 5%, all to UK institutional buyers. The prime covenant market has compressed, hotly pursued by mid cap group operators and charitable covenants at 5.5%.

Key transactions include the acquisition of Restful Homes (1,130 beds) for c.£140m by Avery Healthcare and HC-One and Formation Capital's acquisition of Meridian Healthcare, brokered by Knight Frank at over £100 million, Ventas' acquisition of Canford Healthcare, two individual prime care home assets selling to Health Care REIT in excess of £230,000 per bed and Duke Street Capital's acquisition of Voyage.

As predicted by Knight Frank, the UK specialist sectors (mental health et al) are now courting interest from both domestic and overseas capital, in part driven by the paucity of available elderly care platforms. REITs are also moving up the acuity curve and are on the acquisition trail for "post-acute care". Furthermore we estimate there is approximately £2BN of private equity earmarked in 2015 for healthcare portfolios. However UK pension funds and institutions are both active lenders and buyers in to the sector and a plethora of funding opportunities now await best in class operators with scaleable platforms.

Operator and investor sentiment is, in general, irreverence to the Care Act, which came in to effect, in part, in April 2015.

Heathcare yields

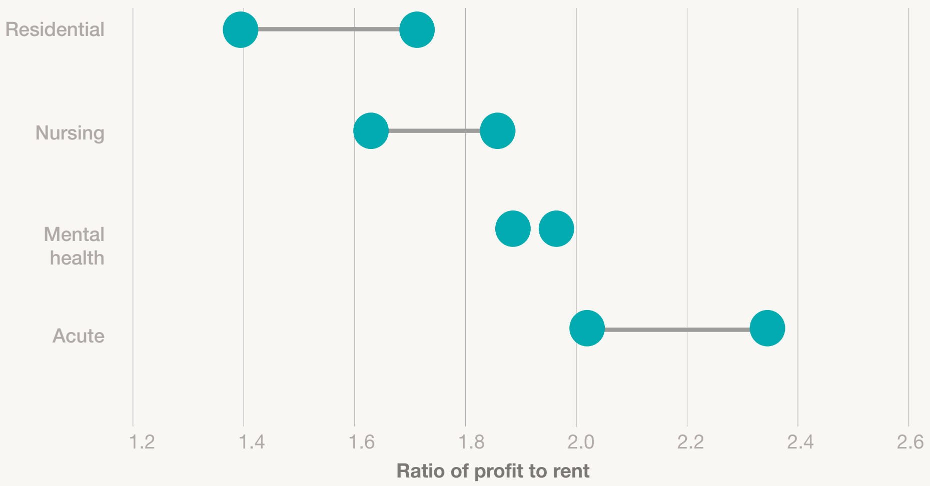


Source: Knight Frank Research

MARKET STATISTICS

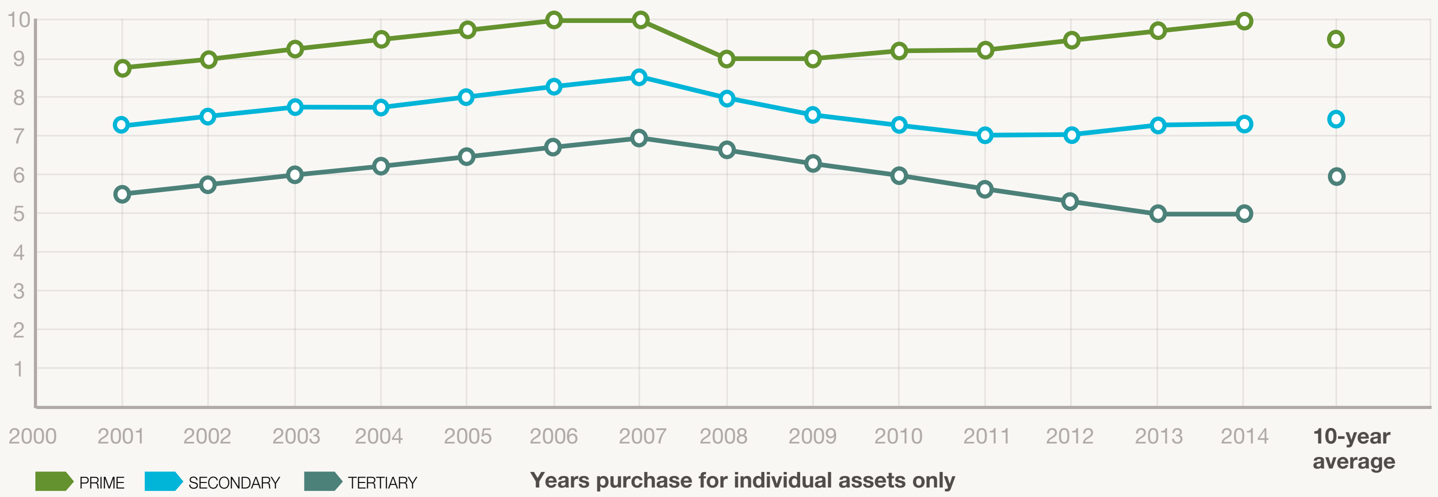
A detailed snapshot of the Healthcare market within the United Kingdom.

Indicative rent cover for care homes



Source: Knight Frank Research

Knight Frank UK care homes years purchase index



Source: Knight Frank Research

YEARS PURCHASE

9-10+ x Prime

7.5-8.5 x Secondary

INVESTMENT YIELDS

5.00-5.50% Prime

7.00-7.50% Secondary

ELDERLY CARE

Activity in the sector continues with transactions, albeit many of them slowly. NHP now appears to have been acquired while the undoubted star of the summer was the sale of Gracewell for an unconfirmed, but allegedly impressive multiple, another leading care home group falling to a US REIT. A number of distressed portfolios are also attracting bids as buyers see attractive turnaround potential.

Perhaps the most significant movement this quarter has been in the investment market as UK institutions continue to seek long-term, index linked income, consequently moving yields significantly, particularly on Care UK and charitable covenants which are now trading between 5.00% and 6.00%, a yield shift of c.50 BPS. Given the supply demand dynamics of institutional grade assets, we expect to see further hardening of yields.

ACUTE HOSPITALS

Pre General Election calm has perhaps muted the acute healthcare battleground with the exception of the issues surrounding Hinchingbrooke and the ‘process’ adopted for the award of the original contract to Circle with repercussions that are likely to follow for private sector involvement. Trading hospital assets let to good quality operators are finding that they are being snapped up due to the dire shortage of healthcare assets generally even though the private acute sector has been regarded as more risky. As NHS tariffs will broadly remain flat the sector will continue to exploit private pay but this will require investment for those who have the capex. It is interesting to note that Kent is the hotbed for new developments with yet another facility getting the go ahead.

YEARS PURCHASE

10-12+ x Prime

7.0-8.0 x Secondary

INVESTMENT YIELDS

5.00-5.50% Prime

6.00-6.75% Secondary

YEARS PURCHASE

9-10+ x Prime

6.5-8.5 x Secondary

INVESTMENT YIELDS

5.50-7.00% Prime

7.00%-8.00% Secondary

SPECIALIST CARE HOMES & INDEPENDENT HOSPITALS

The last six months has seen the resurgence of the UK specialist markets from a purchaser demand perspective. This has resulted in the PIC and Cygnet acquisitions in mid-2014 looking like good deals, particularly when the USD/GBP exchange rate is taken into account. A number of deals since have seen increasing multiples including Duke Street Capital's acquisition Voyage, Cambian's acquisition of Woodleigh Care and Cygnet's purchase of Orchard Portman.

From a trading perspective we understand that most operators are seeing improved trading performance with Priory and Cambian both reporting increased revenues, albeit profit levels have grown less as patient acuity has increased. A similar story is reported by a number of other providers with occupancy and fees increasing albeit patient acuity is also more challenging. However there remains a reasonable sentiment in the market that, despite concerns over mental health budgets, flexible operators will see an improved trading environment.

CHILDREN'S DAY NURSERIES

YEARS PURCHASE

6.0-7.5 Prime

5.0-6.0 Secondary

INVESTMENT YIELDS

6.50-7.50% Prime

8.00-10.00% Secondary

The CDN market hasn't seen the same polarisation as the general care homes market and the sector hasn't had any of the interest from funds and REITs, like the elderly sector has. The market has expanded (and is projected to continue for the rest of the decade) with figures of 4% in real terms from 2013. Demand for places have also increased year on year from 2012 and although market consolidation has been modest we would expect small scale expansion in 2015 and 2016. The market is reporting that leasehold and freehold sales have increased year on year (assisted by increased funding levels by the banks).

SPECIALIST SCHOOLS

YEARS PURCHASE

9-10 x Prime

7.5-8.5 x Secondary

INVESTMENT YIELDS

7.00-7.50% Prime

8.00-8.50% Secondary

A relatively quiet sector of the market in the last six months. Trading appears to be stable with a number of schools seeing a marked increase in performance and a number of operators now actively looking for new sites. Deals have been relatively sparse other than Priory acquired Castle Care Group for £12.7 million in November 2014.

YEARS PURCHASE

N/A Prime

N/A Secondary

INVESTMENT YIELDS

4.25-4.75% Prime

6.75-7.00% Secondary

SURGERIES & CLINICS

The funded development pipeline is at a snail's pace with the demand for services increasing and as a result yields are at record levels for the very best assets that become available. For the secondary GP practices there are less options as any move to improve facilities is limited. For these older style converted properties the residential market could prove an option to take especially with so many GPs getting close to retirement. There is subsequently likely to be a crises on the horizon and this will need to be addressed by the new Government.

PHARMACIES

Interest in pharmacies has continued strongly from the end of 2014 especially as there are a number of potential additional services that could be encouraged through the various NHS initiatives (under the 'Five Year Forward View') taken place across the UK to try and address improved health delivery and reduce drug costs/items dispensed. This increased use of pharmacies will assist the most proactive and those that invest, or that have the potential, will be snapped up as demand has been at record levels in some cases to acquire the best potential trading units. There is no shortage of buyers or funders at present and therefore we expect demand and pricing to remain strong.

YEARS PURCHASE

7.5-8.5+ x Prime

4.5-6.5 x Secondary

INVESTMENT YIELDS

5.00-6.00% Prime

6.50-7.50% Secondary

YEARS PURCHASE

1.0-3.0 Prime

N/A Secondary

INVESTMENT YIELDS

8.00% Prime

N/A Secondary

VETERINARIES

As the economic conditions of recent years ease, the veterinary industry continues to see growth, albeit slow. A nation of pet lovers, 2010-2014 were years that saw the biggest challenge being the financial situations of their vet's clients. It is not surprising that the annual revenue growth over this period was less than 1%. Research now suggests that some vets have reported improved increases in income over the past year, which is reflective of the continuing positive economic conditions. Key factors now are PMI, and for smaller practices, presentation of facilities. Increasingly popular is a hub surgery with satellite clinics. The industry still stands with revenue at circa £3bn, which is not surprising with more that 14 million cats and dogs kept as pets in the UK and 43% of all households owning a pet of some kind.

DENTISTS

2015 is likely to see the continued high level of demand for dental businesses with banks keen to lend to the sector. Demand continues to outstrip supply particularly for NHS practices especially as newly qualified dentists are unable to find places in existing practices.

Practices with NHS contracts tend to sell for more than those which are private or mixed practices. Generally, due to the lack of supply, practices are achieving levels of goodwill of up to 100% of turnover and up to 200% in London and more affluent parts of the South East.

YEARS PURCHASE

Assessed as % of turnover Prime

Assessed as % of turnover Secondary

INVESTMENT YIELDS

N/A Prime

N/A Secondary

YEARS PURCHASE

7.5-8.5+ x Prime

4.5-6.5 x Secondary

INVESTMENT YIELDS

5.00-6.00% Prime

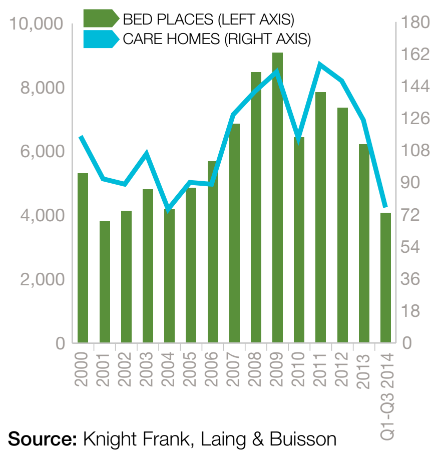
6.50-7.50% Secondary

AGENCY AND DEVELOPMENT

The availability of good quality care homes remains restricted creating unprecedented levels of demand for profitable, fit-for-purpose facilities. The limited number of the very highest quality homes continues to lift the prices being paid for homes of a lower standard, although purchasers still aspire to acquire homes with full en suite provision and a proven trading history. The low number of new homes being built has further heightened demand.

The underlying demographics and in particular the high proportion of self paying target market continues to result in developers and operators targeting south east England for new build opportunities. However the competition for land particularly from the residential housing market is reducing the number of opportunities readily available, especially in the M4 corridor, and we are now seeing operators seeking sites and homes in good regional locations. Furthermore, homes which are marginal in terms of profitability and compliance are once again finding that closure and sale for an alternative use may produce a higher value.

New elderly and dementia care registrations



Source: Knight Frank, Laing & Buisson

Agency & development benchmarks

ELDERLY CARE HOMES

Grade	Construction	Beds	Physical standards	Location	Competition	Build cost £ (per bed)	Land value £ (per bed)	AWF* £	YP
A	Purpose built (pb)	c.60	Exceeded	Excellent	Limited	c.80k-100k	c.30k-60k	750-1400	8.5-10>
B	1st and 2nd generation pb	c.40	Compliant	Average	Restricted	c.45k-60k	c.15k-20k	650-750	7-8.5
C	Period conversion	c.25	Do not meet	Marginal	High	c.40k-45k	c.5k-15k	400-500	5-7

SPECIALIST CARE HOMES

Grade	Construction	Beds	Physical standards	Location	Competition	Build cost £ (per bed)	Land value £ (per bed)	AWF* £	YP
A	Pb or high quality conversion	10-20	Exceed	Excellent	Very limited	c.100k>	c.25k>	1.5k-3k>	8.5-10>
B	1st and 2nd generation pb or conversion	c.10	Compliant	Average	Restricted	N/A	N/A	650-1.5k	7-8.5
C	Period conversion	<5	Do not meet	Marginal	High	N/A	N/A	350-650	6-7

Source: Knight Frank Research

OUR PEOPLE

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Our award winning team continues to be recognised as leaders in their field. In taking time to understand the needs and objectives of our clients, we continue to provide uncomplicated property advice and solutions that add value at every stage.

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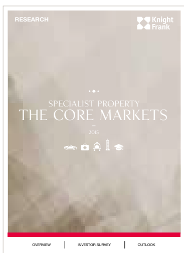
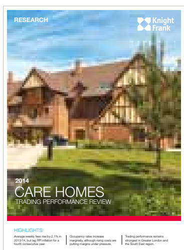


Specialist Property Report - The Core Markets - 2015

Healthcare Development - 2014



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