

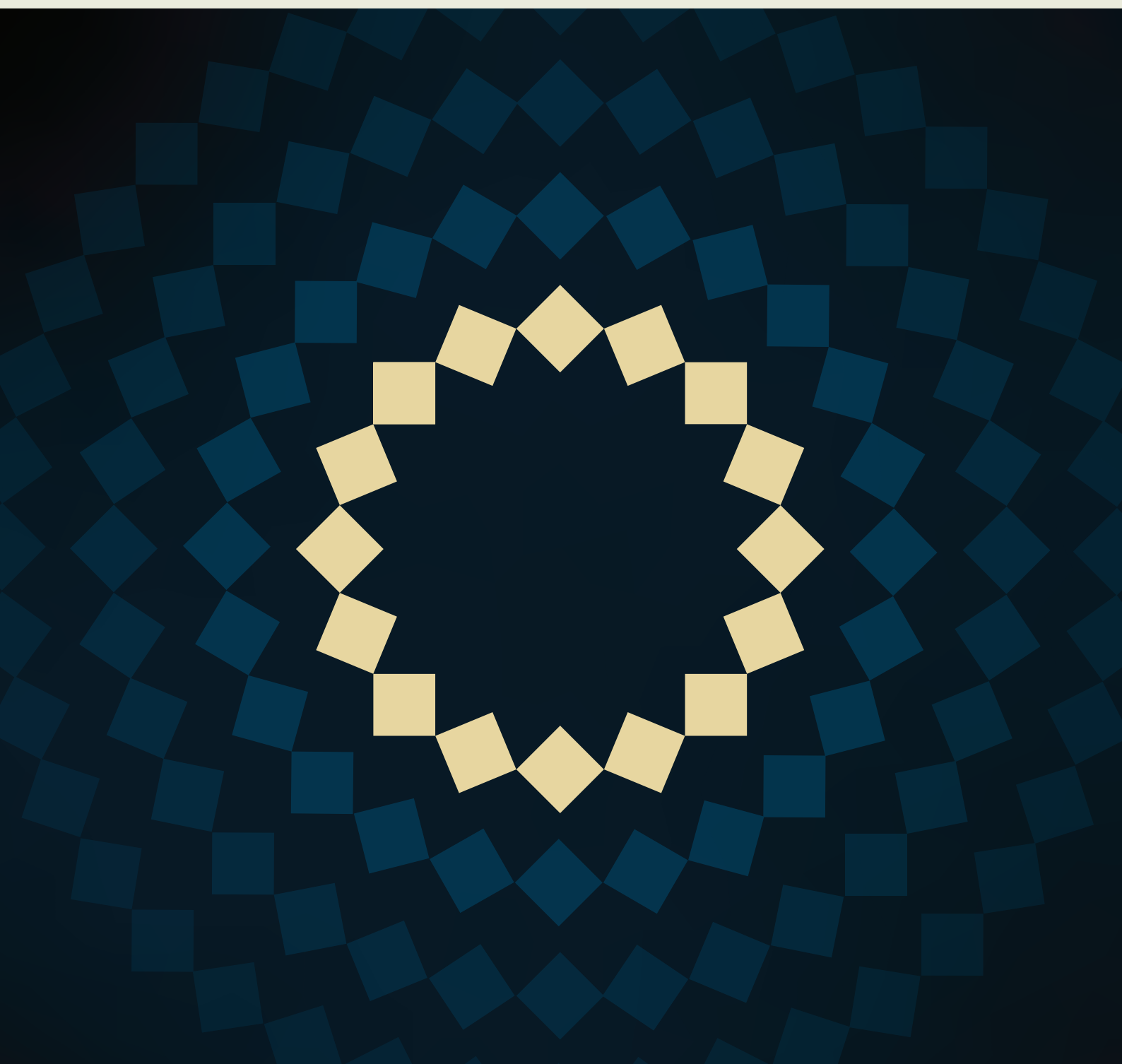
Healthcare Development Opportunities



2025

A deep dive into the state of healthcare's ageing supply

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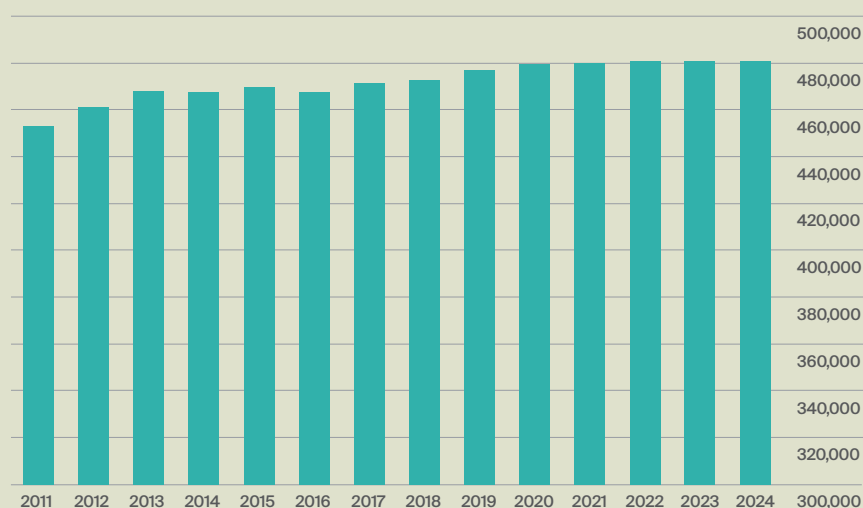


Spotlight on the UK care home supply

The UK healthcare market continues to attract interest based on strong fundamental drivers such as the ageing population, secure income and consistency of returns. It is, therefore, crucial to understand current and future supply levels. This year, we provide a deep analysis of the current state of supply and pipeline while considering the factors contributing to our annual development hotspots index.

We begin our analysis with Figure 1, which shows the evolution of bed supply. Since our last analysis, supply has grown by just 86 beds. Whilst this has been a combination of period adjustments and more in-depth analysis splitting out outright new beds instead of reopened ones, it suggests we still have some way to go in combating any future bed deficit. Even more noteworthy is that while bed supply has only grown 2.9% over the last decade, the over-65 population has grown by approximately 20.7% over the same period, demonstrating the flatness in supply growth. Figure 2 points to a continuation of the trend for greater deregistrations over the last five years. This is because much of the deregistered stock consists of smaller and older assets, naturally replaced by newer, larger, purpose-built homes. It is also important to note that improvements in the data pool and sources have maintained the level of beds captured among the losses. Figure 3 further assesses these deregistrations, suggesting that, on average, there is a leakage of approximately 1.3% of supply. Moving on to Figure 4, two key themes emerge. Firstly, the Midlands (both East and West) have attracted the most new beds regionally despite the second trend of us not building enough.

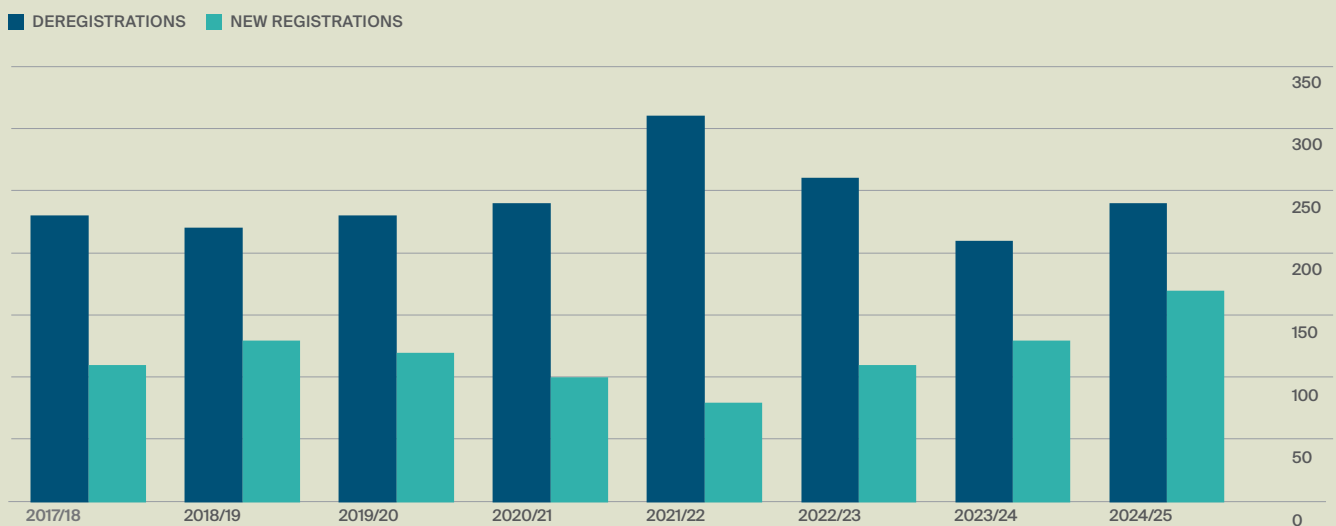
Fig 1: UK elderly care home beds



Source: Knight Frank Research, Tomorrow's Guides



Fig 2: Deregistered homes vs new-registered homes, 2017 - 2024



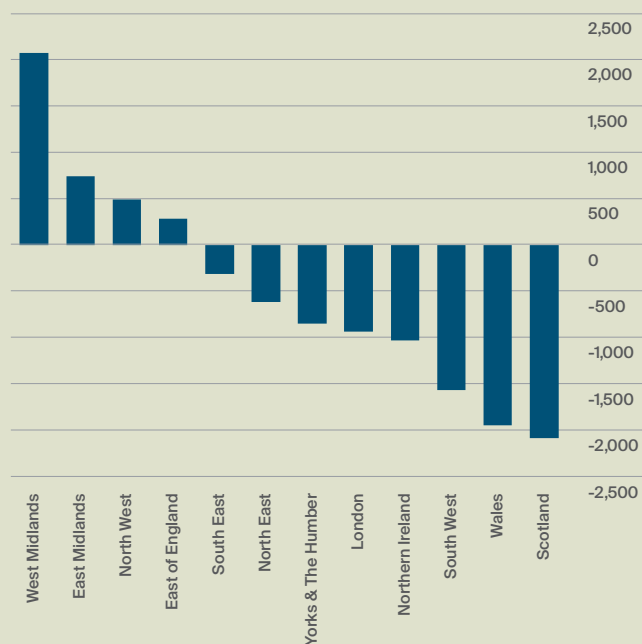
Source: Knight Frank Research, Tomorrow's Guides

Fig 3: Deregistrations (12 months to December 2024) as % of total stock



Source: Knight Frank Research

Fig 4: Net gain/loss of beds by region (2017 to 2025)



Source: Knight Frank Research

Something old... Something new...

As in previous years, the market is in a position where most of the supply requires an upgrade, as seen in Figure 5. The pre-existing supply consists of mainly older, purpose-built homes that, in some cases, may be considered obsolete. This comes down to size and lack of en suite or full wet room facilities. With this in mind, an opportunity exists for those willing to repurpose and reposition the current supply. Virus control and wellbeing were highlighted as key areas of focus after the COVID-19 pandemic, while ESG pressures continue to play a role in the direction of future supply. Overall, there is a general need for the sector to pay attention to the weak points in the current supply and, together, work to find an efficient resolution.

In Figure 6, we look at the number of new homes completed over the last nine years. 2024 saw a dip of 36% in the number of new builds compared to 2023. However, it is worth noting that 2024 presented 17% more planning schemes than 2023. Therefore, the pipeline looks promising depending on the percentage of schemes that reach full build-out.

Fig 5: Why the UK care home market needs upgrading

AGE



Approximately 76% of homes are older than 20 years.

BUILD TYPE



Approximately 27% of homes are converted from other use and many will be outdated.

EN SUITE



of beds lack en suite facilities.
70% lack full wet room.

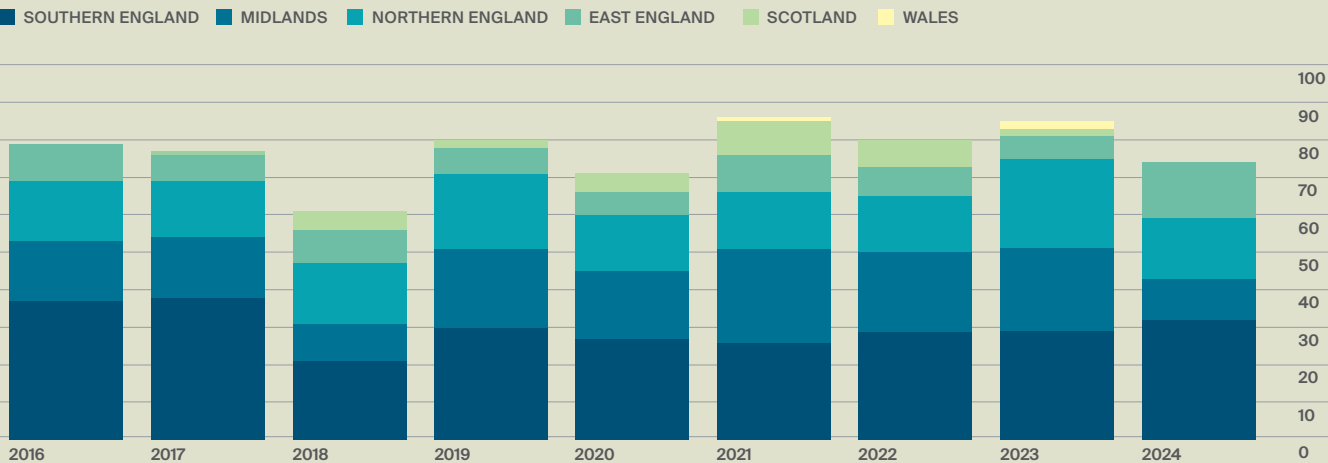
REGULATION



of homes are currently rated by the CQC as “requires improvement” or “inadequate”

Source: Knight Frank Research

Fig 6: UK new purpose-built care homes completed



Source: Knight Frank Research

Homes
11,352

Beds
480,664

Fig 7: % of homes by ownership



Fig 8: Homes by size

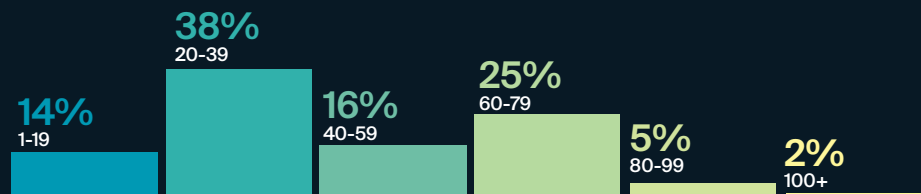


Fig 9: % all en suite beds/
% en suite wet room beds

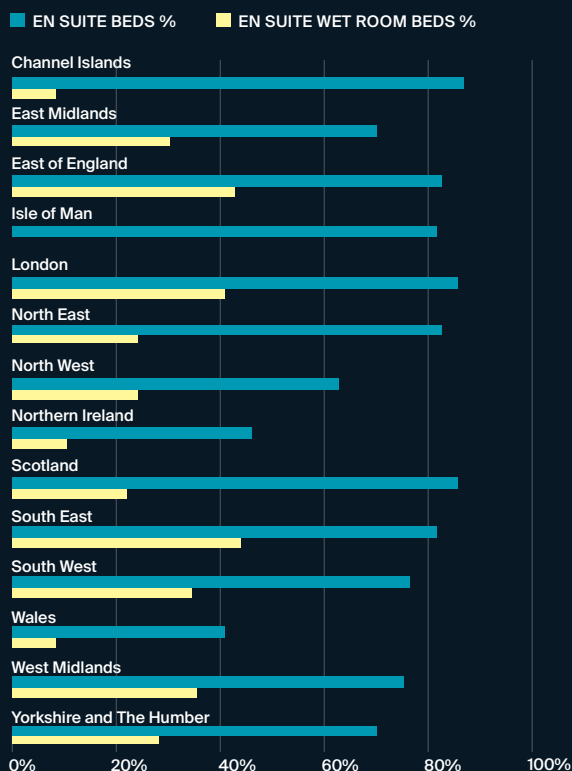


Fig 10: % of homes over
20 years old

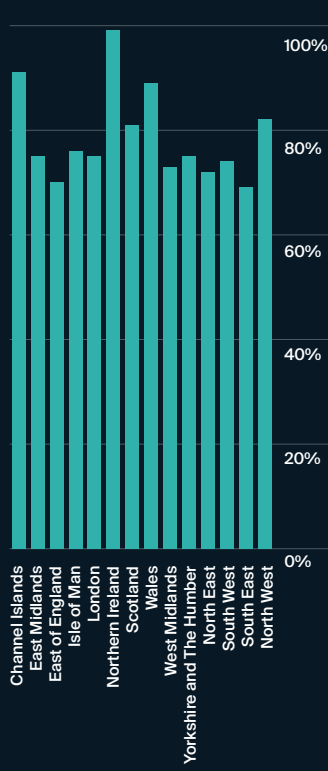


Fig 11: % conversion or
purpose-built by region

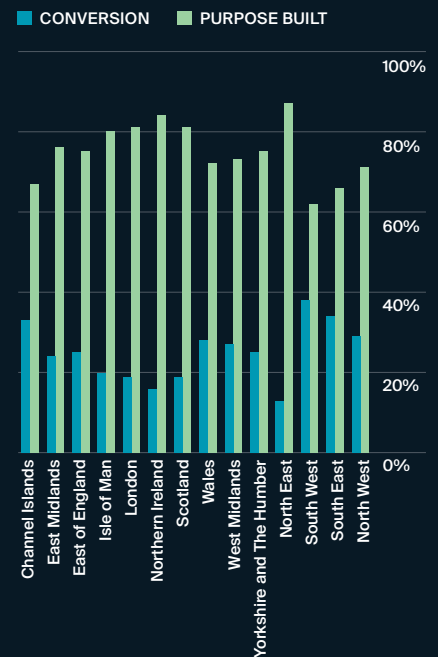


Fig 12: Beds by region

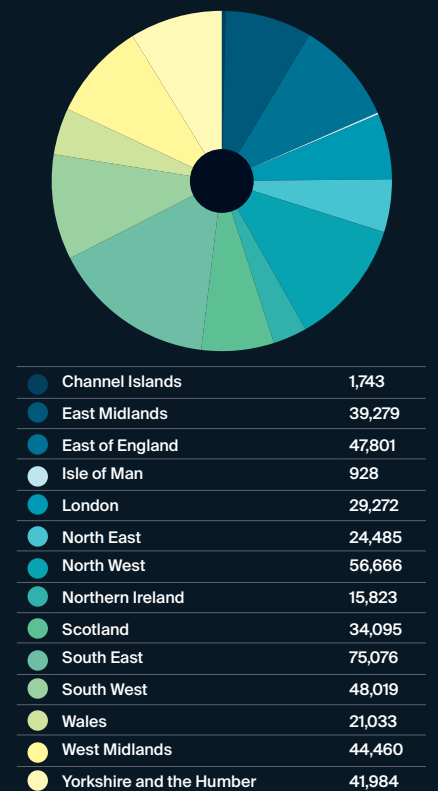
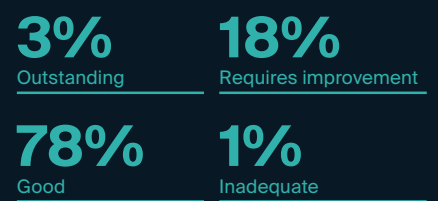


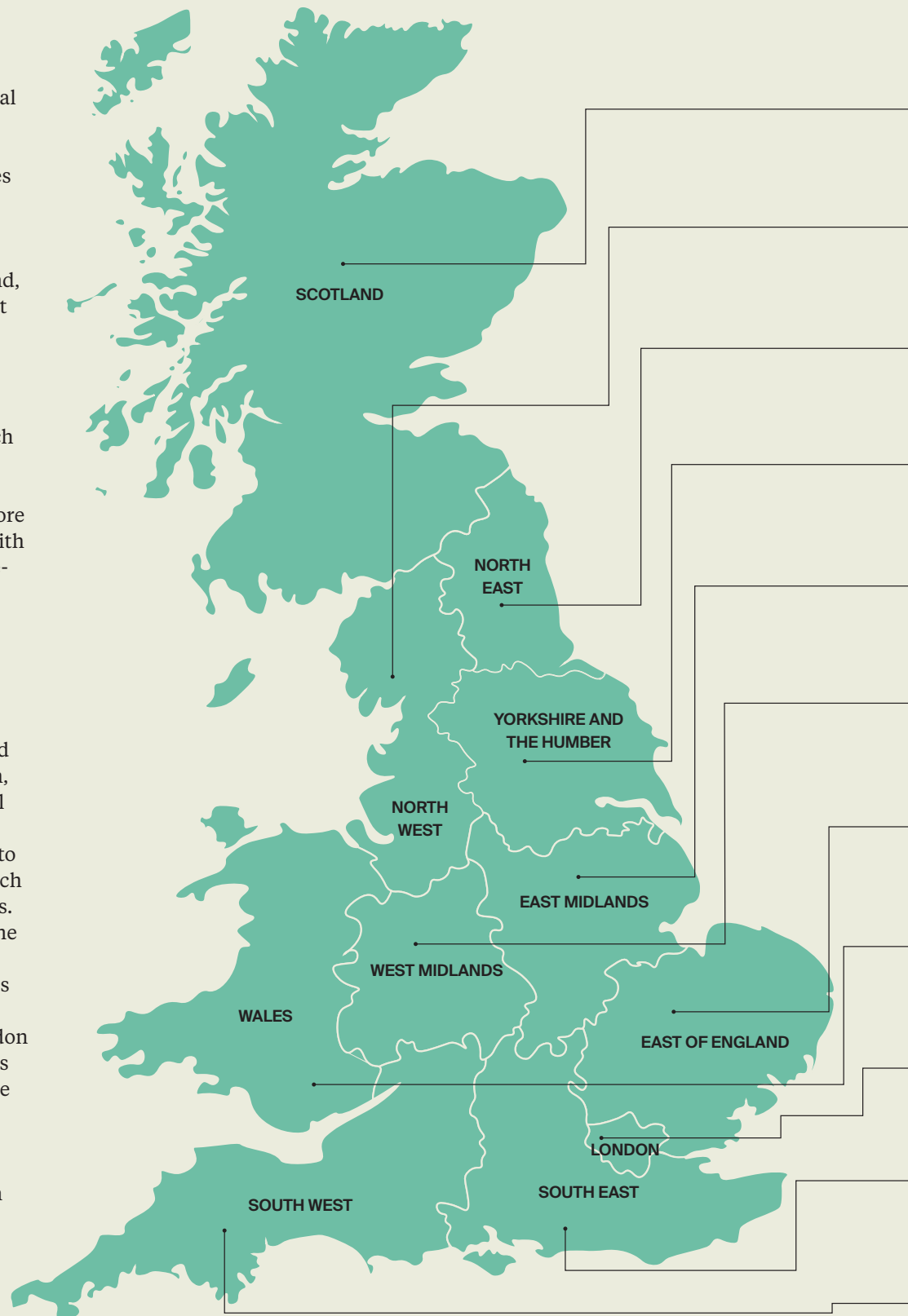
Fig 13: CQC rating



Supporting site selection: Knight Frank Development Hotspots Index

Careful and well-informed data-driven research is a vital part of the site selection process, while access to market insight is essential for any prospective care home development. Knight Frank's Development Hotspots Index gives a simplified insight into which locations offer the best prospects for care home development. The index analyses counties in England, Wales and Scotland based on eight variables, including demographic and economic projections, levels of wealth, future supply pipeline, land values, and operational performance. The table shows each county's ranking against each of these variables. The total index score indicates a county's total score relative to the national average, with indices above one implying above-average scores.

The index has historically highlighted the dominance of the South and East of England and London. These counties tend to score well due to the expected demand for care beds, as indicated by high elderly population growth, economic growth, and wealth – all drivers of bed demand for self-funded residents. It is also useful to consider the barriers to supply, such as current and future supply levels. This year, however, to recognise the spread of opportunity across the sector, we have refined our process firstly by splitting the data for London into inner and outer London and by presenting the top counties regionally. As you will see from the index graphic, this has resulted in London no longer being in the top five areas of opportunity. This year, in England and Wales, South Glamorgan and Cambridgeshire have taken the first and second spots, respectively.



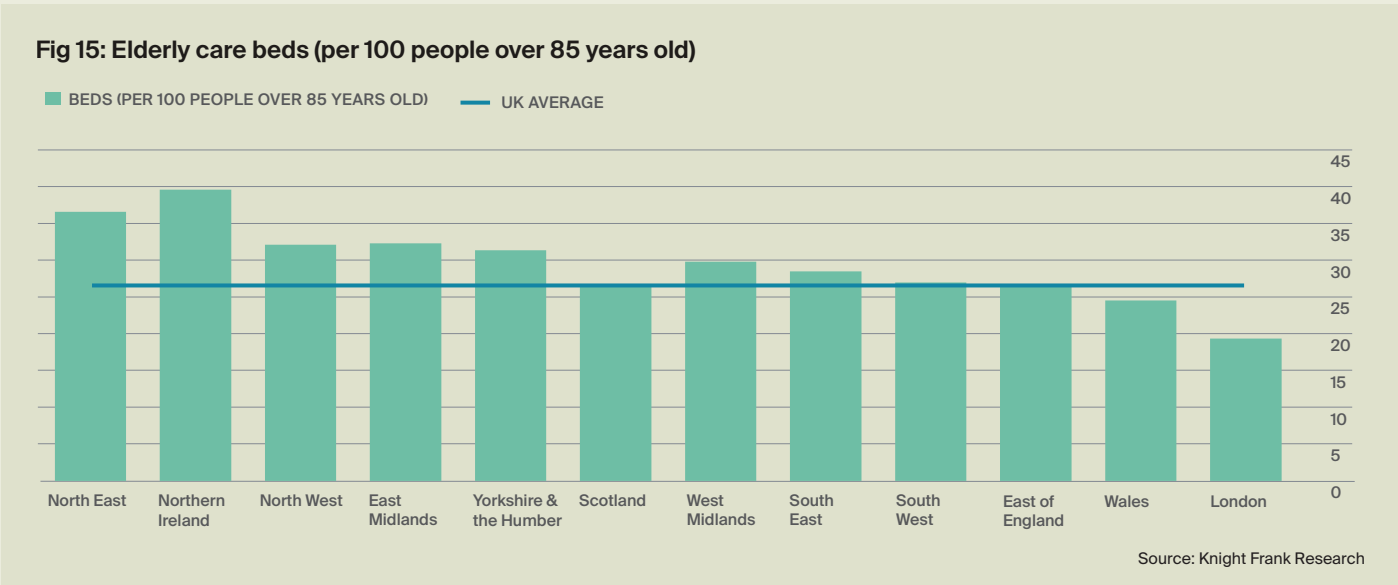
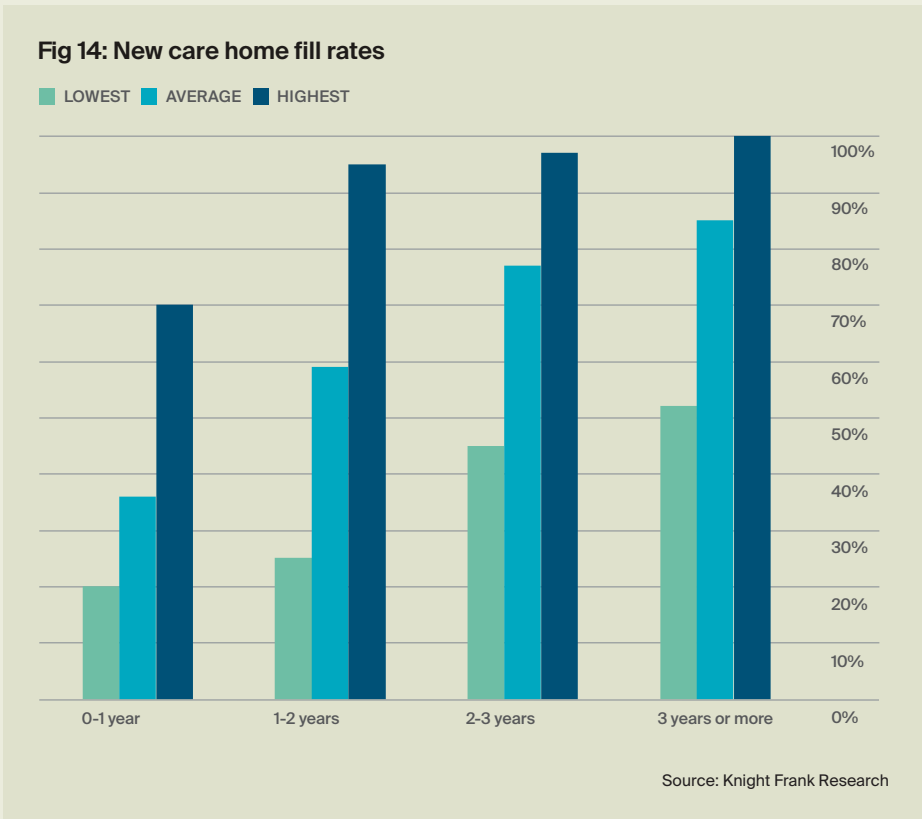
INDEX RANK	REGIONAL RANK	Top rankBottom rank									
		County	Total score index	Demand			Supply			Operation	
				Elderly population growth*	Economic growth*	Wealth	Current supply	Future supply	Land values	Average weekly fees	Staff costs
1	1	LOTHIAN	1.23	1	1	3	9	8	12	2	11
2	2	GRAMPIAN	1.20	5	2	1	10	7	10	3	7
5	1	GREATER MANCHESTER	1.24	19	26	21	4	20	21	41	15
13	2	CUMBRIA	1.10	49	39	16	10	6	9	30	30
28	1	TYNE & WEAR	0.98	44	38	26	43	4	9	44	3
39	2	NORTHUMBERLAND	0.90	47	47	51	24	8	1	46	6
20	1	WEST YORKSHIRE	1.05	24	21	24	16	45	9	39	19
34	2	SOUTH YORKSHIRE	0.93	32	28	43	25	21	17	49	8
7	1	NORTHAMPTONSHIRE	1.17	4	24	19	22	27	31	28	22
21	2	LEICESTERSHIRE	1.05	18	25	22	20	35	27	34	17
27	1	WARWICKSHIRE	1.00	31	32	6	47	12	33	37	9
32	2	SHROPSHIRE	0.96	20	36	33	28	47	16	13	23
2	1	CAMBRIDGESHIRE	1.32	12	4	9	30	28	44	2	28
3	2	BEDFORDSHIRE	1.28	3	6	23	18	19	36	32	25
1	1	SOUTH GLAMORGAN	1.52	25	8	17	13	14	9	21	29
13	2	GWENT	1.10	34	45	49	1	5	6	1	48
7	1	INNER LONDON	1.17	1	51	1	2	7	51	15	49
24	2	OUTER LONDON	1.02	2	50	15	8	18	50	16	45
4	1	BERKSHIRE	1.26	6	1	2	14	44	46	4	47
6	2	BUCKINGHAMSHIRE	1.19	8	2	4	12	48	46	3	51
10	1	GLOUCESTERSHIRE	1.13	16	25	14	19	18	29	19	43
11	2	WILTSHIRE	1.11	5	17	15	15	40	34	24	36

Source: Knight Frank Research. * Based on 15 year projection, 2025 to 2040

Demand for care

The importance of understanding local supply and demand characteristics before embarking on new developments is demonstrated in Figure 14. Our research shows that the average new-build care home can take around two years to reach full occupancy. Fill rates, however, can vary, with high-quality sites running at a mature occupancy within 18 months, while others take as long as four years. In several regions, higher weekly fees are achievable by new-build homes. Still, there is the risk of a slower ramp-up due to the care provision already in place and available to prospective residents. This potential variation can translate into income gains or losses over a given period, highlighting the importance of investing time and money in site selection. The UK bed supply can be broken down into an average of 26.7 beds per 100 people over 85 years old, as per Figure 15. This analysis can further demonstrate demand by considering our care usage multipliers. Considering that approximately 13.5% of people over 85 will utilise care, they will, therefore, account for circa 51% of the demand for available beds despite only accounting for 13% of the over-65 population.

“The UK bed supply can be broken down into an average of 26.7 beds per 100 over 85 year old”





Freddie Richards

Shoreline Partners

Freddie has over 20 years experience in UK healthcare real estate, with a deep focus on elderly care homes. In his career to date he has acquired over 100 Elderly Care Homes with a combined value of over £1 bn and in doing so he has worked with over 50 different operators and developers. Over half of all of these transactions have been pre-let developments acquired via forward funding.

Q: What are your thoughts on the current state of the sector's supply of stock?

I have been in the care home sector for my entire career and the headlines here have remained the same. We are simply not building enough new homes to meet the growing demand.

This is concerning in itself, and even more so considering a large proportion of the existing stock is not fit or safe to promote the delivery of quality care to some of the most frail and vulnerable people in our society. We need to see much more stock come online to expedite the closure of sub-standard homes that have been on the brink of closure for so long now.

Q: Is there a sweet spot in terms of home sizing?

The general market view is that the sweet spot is between 60 and 80 beds. In reality, that is not set in stone; I know some smaller and larger homes that trade very well. Equally, in Europe the norm in many countries is for materially larger homes.

For us, there are two key considerations. The first one is what size of home facilitates the delivery of great care? The second one is what size of home will have the broadest possible appeal to the operator community? For the time being, that probably leaves us generally avoiding homes much over 80 beds and below 60 beds.

Q: Is there a specific operator type that is ideal to work with in the case of a new care home?

Yes. Commissioning a new care home requires a different skill set to running a mature home. Ten years ago it felt as if many operators took the 'build it and they will come' approach. This worked to a degree but there are now some excellent commissioning teams in the market and naturally we are drawn to them.

Q: What does the future of quality healthcare provision look like to you?

In terms of the real estate, the elderly care homes we are building today are very much fit for the future. I would, however, like to see more focus on external areas given the benefits of using outside space can bring to residents. In addition, I would also like to see more thought being put into care home design to promote community engagement.

Q: What makes a deal attractive?

Security of the income is a key component for us. We are very fortunate in the care sector that we have 35 year leases which normally gets investors 'leaning in'. However, when assessing security of income, we look beyond the lease. For us, ultimate security of income comes from the knowledge that if an operator was to hand us back the keys to a property, we could re-let it and

preserve value. We call it the 'Keys Back Test' – any and every investment must pass this test.

Q: Within your strategy, is there more emphasis/focus on new builds or standing investments with the opportunity to refurbish and why?

We are seeking to drive the quality of the built environment and care delivery, so we are naturally focused on new builds, but also acquire standing investments selectively. This is a function of the paucity of quality existing stock, as mentioned above.

Q: How can healthcare as a sector better incorporate ESG into current strategies?

The healthcare sector is clearly strong on the Social element.

In terms of Environmental, it is still in its infancy and lags behind other commercial real estate sectors. In general, it is only meeting minimum standards in terms of energy efficiency and it needs to be better at reporting Scope Three emissions for new developments and in use. In terms of external areas, there should be more focus on maximising biodiversity net gain and ecological value.

Investors can show leadership here. We have found over the past 3 years, that with a clear approach on our side and engagement from operators and developers, it is possible to push above and beyond minimum standards. We all have a responsibility to do this.

Q: Where do the opportunities lie for healthcare in terms of geography?

The state of existing stock means the opportunities are nationwide and arise on a market by market basis. I do not think that this is going to change anytime soon. In terms of operator demand trends, we are seeing less of an obsession with the South East, which is of course a positive.

Q: How can investors, developers and operators manage the rise in build costs resulting from current inflationary pressures?

This situation is clearly problematic, and there is no easy fix. Outward yield movement has added to the problem in respect of pre-let forward funding deals, although this has in part been offset by the material resident fee increases and in turn strong rental growth that we have seen in recent years. However, the trees don't grow to the sky, and there will be a limit to both fee and rental growth.

Our approach has been to work selectively with high quality developers and operators on an open-book and collaborative basis. Taking this approach, we work through the detail of projects and find a landing zone for all parties. There is no magic to it, but we have found that collaboration, attention to detail and a reasonable approach from all parties regarding financial returns can get many projects over the line.

Q: What are the Key points for consideration in site selection?

We will be seeking to tick as many of the standard boxes as possible including things such as population density, availability of staff, prominence and competition. However, site selection is an art not a science and an exceptional operator in a compromised site has the potential to trump the usual metrics.

Q: How do you envision the cost of debt impacting the sector's ability to provide new, future-proof care beds?

I do not think there is a direct link to the number of beds delivered and the cost of debt. The shortage of quality

sites with planning permission is the key issue that is slowing things down.

Of course, the cost of debt has an impact on development viability for some parties. However, many of the current investors in the sector are lowly geared. Indeed, for quality operator management teams, there has never been a greater choice of alternative development funding options.

Q: We have continued to see a trend of deregistrations in smaller homes. Do you think there is a route to retaining such homes to support bed supply growth instead of maintaining a flat growth trend?

Yes, there is potential to refurbish / extend some of the older assets and we are seeing some operators doing this with great success. The slow pace of new developments is enhancing the opportunity here. However, the bottom end of the market needs to go as it is

incapable of delivering high quality care and frequently offers poor value to residents. I would like to see a lot more closures than we have seen to date. Perhaps the recent changes to NIC will meaningfully accelerate what has been a slow and steady trend of closures to date.

Q: What are your thoughts on the current lender pool and the possible shift from conventional debt to the need for more innovative funding? Especially with active debt funds, private equity houses and investors adopting forward funding deal structures.

I think it is mainly a case of the market maturing. In years gone by, if you wanted development funding for a new care home, you would be fortunate to even get a meeting with anyone. With investors and lenders drawn to the compelling market case, there is greater choice of funding options than ever before.



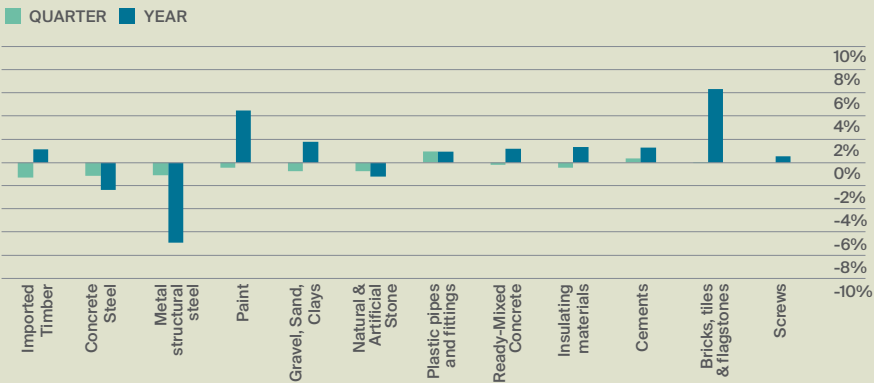
Signature Senior Lifestyle, Signature at Highgate

But at what cost?

Whilst construction costs have moderated at a new normal instead of retracting as per Figures 16 and 17, we have suggested that land values be held constant this year. This is because there is still the influence of material and labour cost inflation on end values and a lack of evidence in market activity to support the contrary. London presents as having the highest values, overlapping slightly with the South East. However, we have revised London’s spread this year to recognise the breadth of land values due to its various zones. Figure 18 highlights our view of regional land values and their respective ranges.

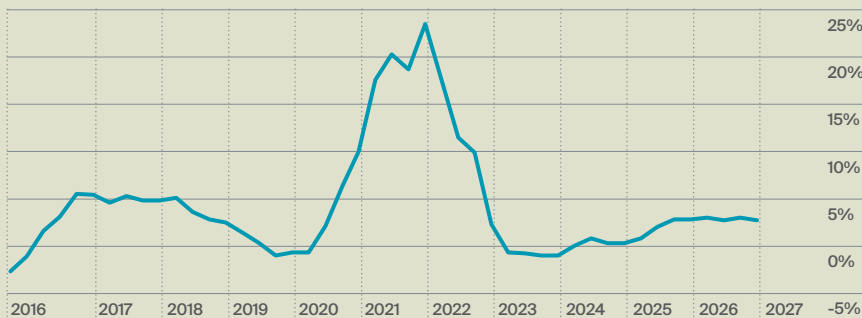
“London presents as having the highest values, overlapping slightly with the South East.”

Fig 16: Price indices of construction materials



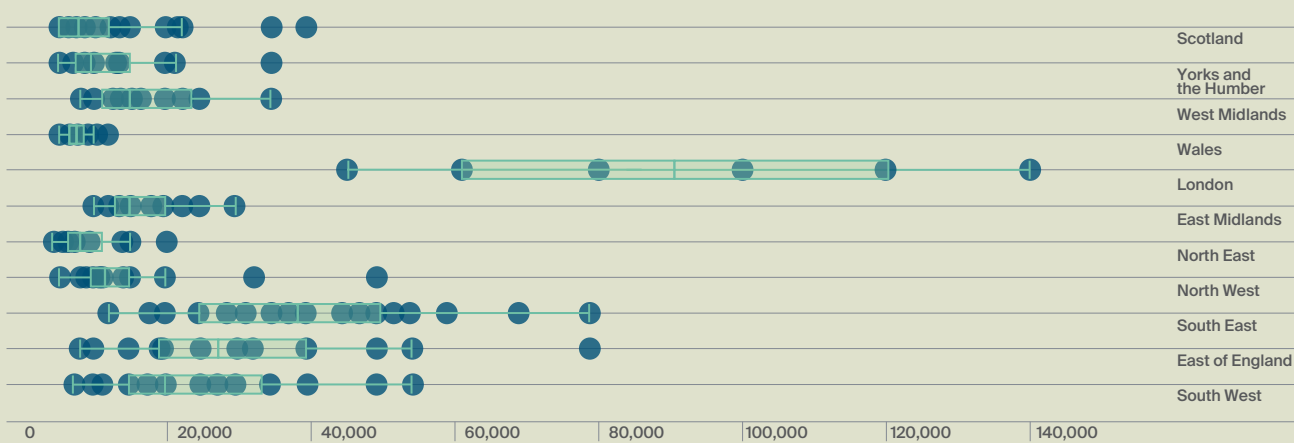
Source: BCIS, Knight Frank Research

Fig 17: BCIS UK materials cost index, % change year on year



Source: BCIS, Knight Frank Research

Fig 18: Regional land values (per bed)



Source: Knight Frank Research

Looking ahead



MANDIP BHOGAL, BSC
PARTNER, DEVELOPMENT CONSULTANCY

The market has taken minimal steps towards mitigating the risk of reaching capacity by the end of the decade due to slow supply growth coupled with a rapidly ageing population. Two immediate courses of action are to build more care homes and to pay attention to the potential of standing stock to reduce the level of home closures, which continues to counteract the delivery of new homes, resulting in a relatively minuscule net gain.

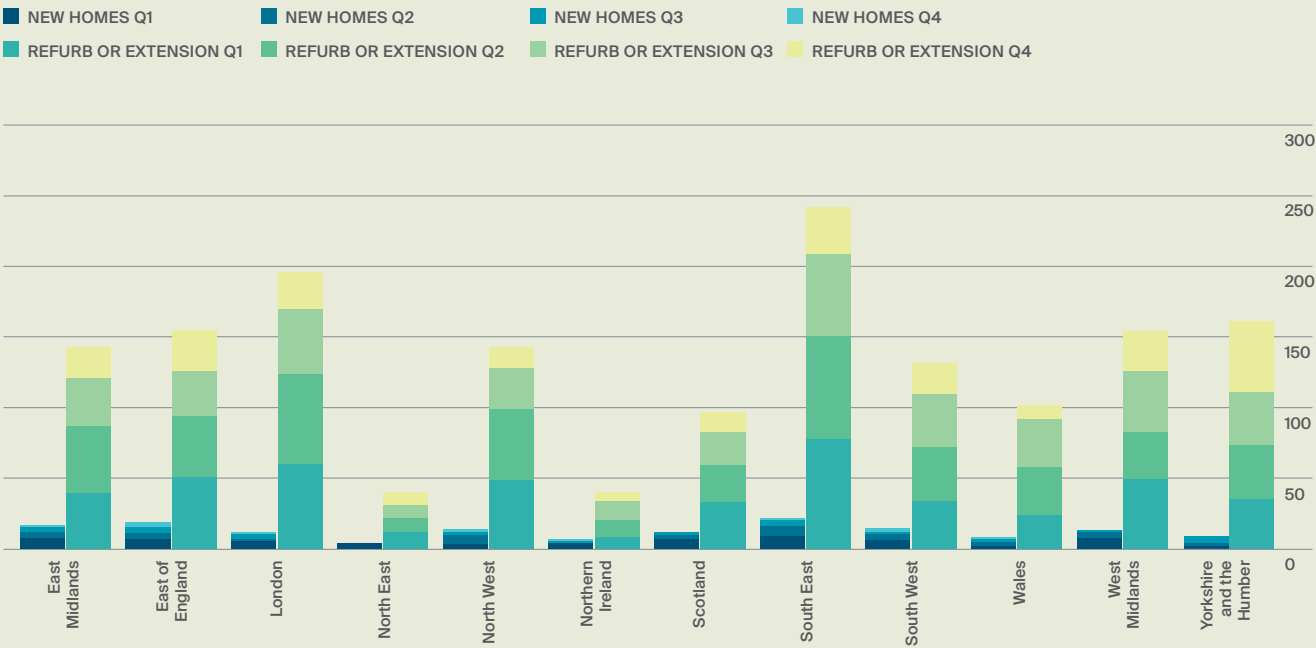
While completion of the granted schemes presented in Figure 19 will be a significant addition to the current bed supply, the scheme type and delivery potential are essential considerations. Many potential new beds are via mixed-use schemes, with the option for an on-site care setting, which may not reach build-out due to social and economic factors impacting feasibility. It is also vital to note the extent to which these new beds will be considered future-proof, with a vast percentage of pre-existing beds no longer considered wholly fit for purpose due to the lack of features, such as en suite wet room inclusion. Again, while new beds are being developed, the current level of home closures means that demand is outpacing supply.

However, any new bed delivery will be a welcome addition to stock availability and quality. Figure 20a

highlights our projections for the overall shortfall in bed supply. The demographic shift, alongside the minimal growth in supply numbers, is such that by 2050, we will likely see a shortfall of around 200,000 beds. Taking this a step further and drilling into the supply of en suite beds in Figure 20b, we can see that we are already in a deficit.

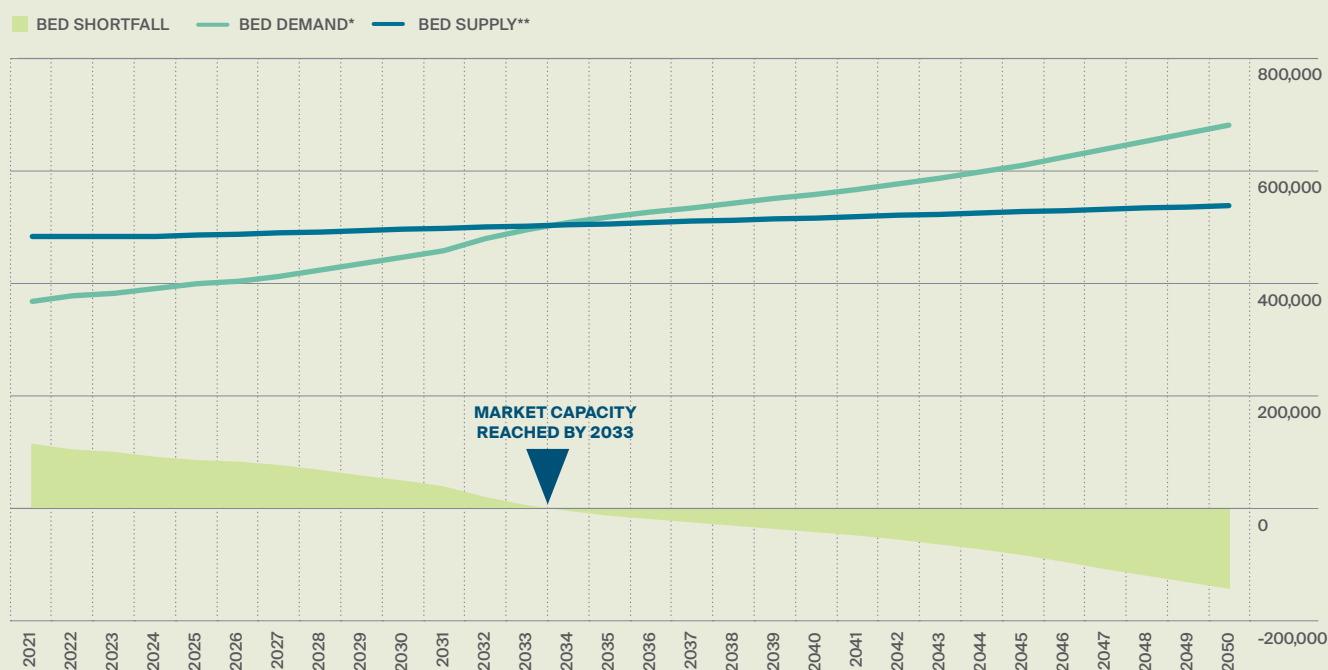
“The market has taken minimal steps towards mitigating the risk of reaching capacity by the end of the decade due to slow supply growth coupled with a rapidly ageing population.”

Fig 19: Schemes with granted planning permission



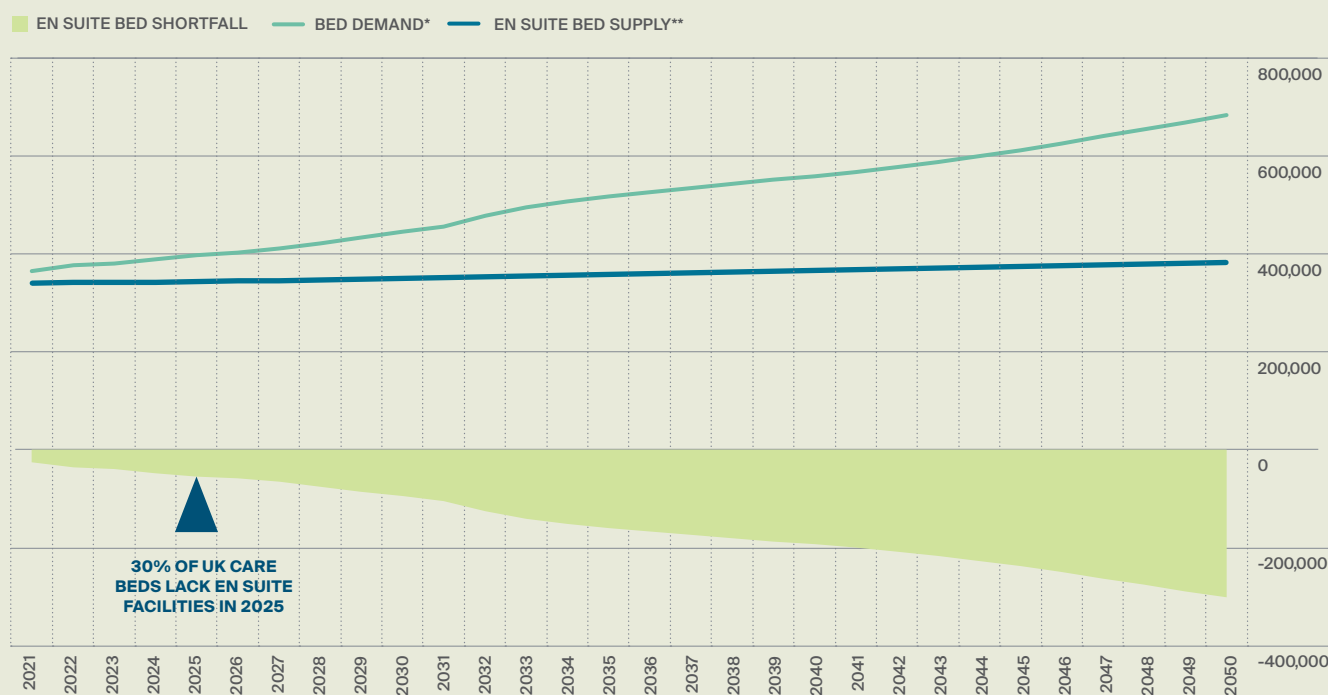
Source: Knight Frank Research, Glenigan

Fig 20a: Future shortfall of elderly care beds



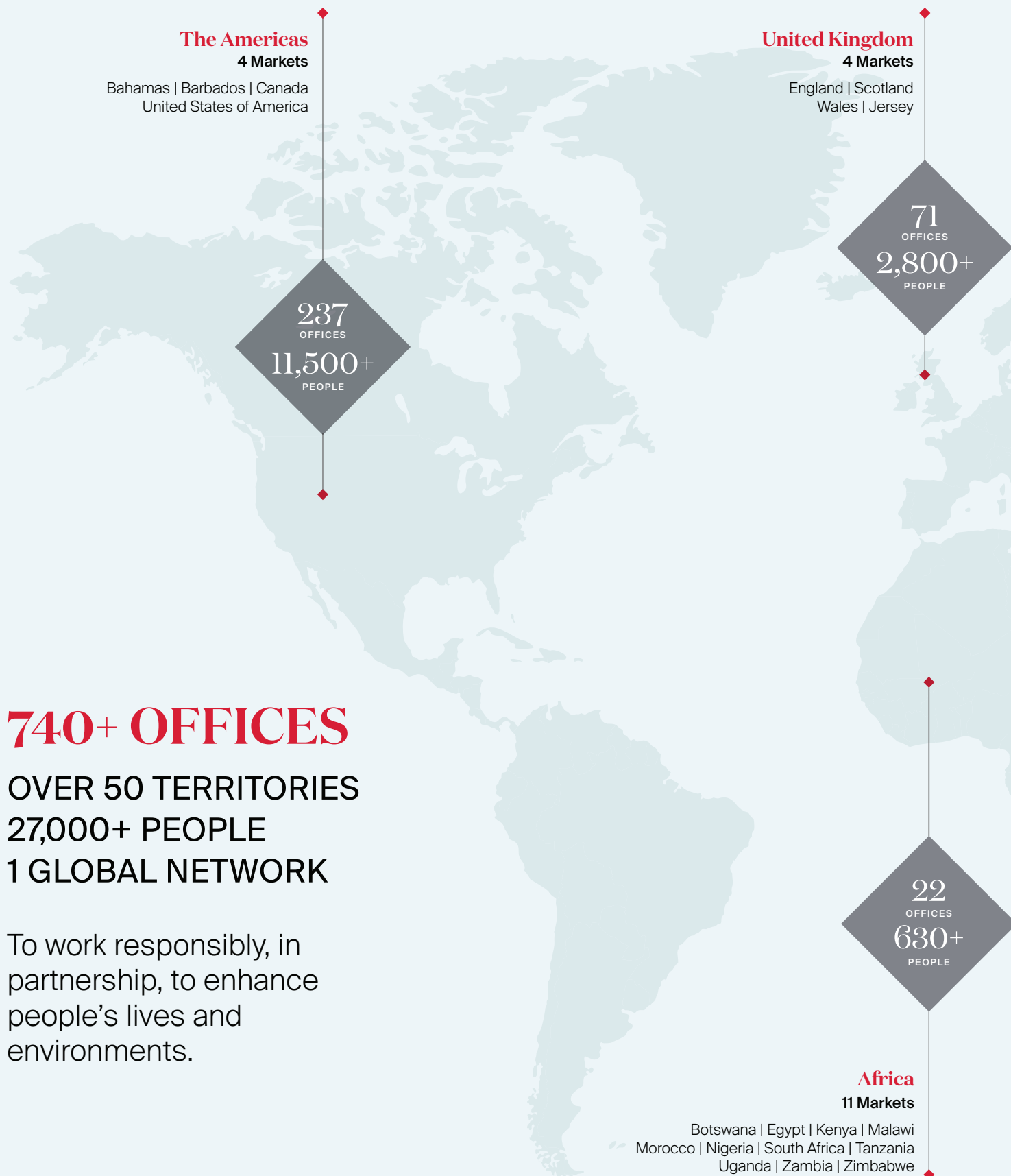
Sources: Knight Frank Research, Laing Buisson, Tomorrow's Guides, ONS, BMJ.
 * Bed demand calculated by applying ONS population projections to Knight Frank care usage multipliers. We have also subtracted 80,000 excess deaths in 2020 that resulted from the pandemic. ** Bed supply forecast calculated by applying the Compound Annual Growth Rate of care home supply between 2011-2024 (0.46%)

Fig 20b: Future shortfall of en suite elderly care beds



Sources: Knight Frank Research, Laing Buisson, Tomorrow's Guides, ONS, BMJ.
 * Bed demand calculated by applying ONS population projections to Knight Frank care usage multipliers. We have also subtracted 80,000 excess deaths in 2020 that resulted from the pandemic. ** Bed supply forecast calculated by applying the Compound Annual Growth Rate of care home supply between 2011-2024 (0.46%)

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We like questions, if you've got one about our research,
or would like some property advice, we would love to hear from you.

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