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SPOTLIGHT

*Savills Research*

# UK Care Home Development 2023

**A Social Imperative**

savills

# KEY POINTS

**144,000 ADDITIONAL CARE HOME BEDS NEEDED**

to meet population growth in the next 10 years

The number of people aged over 80 years in the UK is forecast to increase by 1.1 million between 2022 and 2032, to 4.5 million.

With life expectancy no longer increasing, the ratio of over 80s to care home beds is a good proxy for demand and indicates the need for an additional 144,000 care home beds over the next 10 years, or 14,400 new beds per annum, just to keep pace with population growth.

**ONLY 14,500 CARE HOME BEDS DELIVERED**

since 2020, and the sector remains significantly undersupplied

Across the country around 300 new care homes have been completed since 2020, adding an additional 14,500 beds. Close to half of these new beds are in London, South and East England.

The new delivery equates to an average of c.3,900 beds per annum, which is less than one-third of the 14,400 beds needed to maintain current ratios, given population growth.

**C.30,000 CARE HOME BEDS IN DEVELOPMENT**

pipeline by 2032

There are currently 132 care homes, comprising c.5,900 beds, under construction, of which 65 are expected to complete in 2023. Looking further ahead, there are an additional c.23,300 beds at different stages in the planning system.

It is estimated that 95% of these beds will be delivered by 2032, which will equate to c.3,000 per annum and help meet the mounting need. However, there remains a significant lack of new supply coming forward to meet future demand, highlighting the very strong case for increased development.

**C. TWO-THIRDS OF NEW DEVELOPMENT PLANNED**

in London, South and East England

The majority of pipeline is coming forward in South and East England, driven by higher levels of housing wealth, which underpins the ability of residents to pay for private care.

However, this also highlights a challenge facing the sector in terms of how to deliver much needed care homes in less affluent markets.

**175 DAYS TO SECURE PLANNING PERMISSION IN 2022**

although the planning process is getting faster, it still presents a hurdle

In 2022 there were 221 applications for new care homes across the UK: 46% of these have secured planning permission to date and on average took 175 days to progress from application to permission.

This is down from an average of 252 days in 2017, indicating some progress in reducing planning timelines.

**61% OF CARE HOMES HAVE AN EPC C OR ABOVE**

The majority of existing care home stock has an EPC Grade C or above, putting the sector in an advantageous position compared to the broader residential market, where only 40% of homes meet or exceed EPC Grade C.

In the short term, this positions care homes favourably to comply with forthcoming energy efficiency regulations, which are slated to mandate a minimum EPC Grade C by 2027.

However, regulations are then expected to tighten further to require an EPC Grade B from 2030, which will create a need for further investment in, or potentially the replacement of, approximately 70% of existing care home stock, intensifying the focus on ESG and Sustainability standards for new developments.





# New delivery is focused on private pay in London and the South

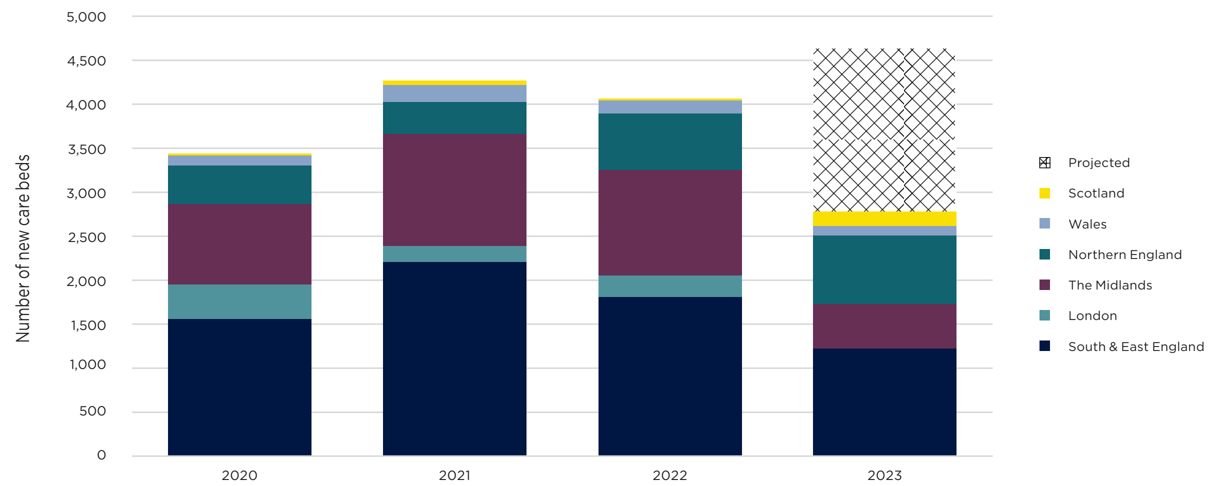
Between 2020 and 2022 there were on average 89 new care homes developed each year, equating to c.3,900 care beds, with 2021 seeing a high of 100 new care homes and c.4,300 new beds. The number was similar in 2022, with c.4,000 new beds completed across 96 homes. But we have seen a strong start to 2023 with a total of c.2,800 new beds across 62 homes delivered already during the first seven months of the year. Since 2020 there have been over 14,500 new beds completed across the country.

Breaking down the national figures highlights significant regional differences in where new care homes are coming forward.

Since 2020, close to half of all new care homes have been built in London, South & Eastern England, while only 15% of new care home beds have been built in Northern England. Both Scotland and Wales have seen limited delivery, further exacerbating the lack of care home beds, especially in Wales which has one of the highest ratios of over 80 year olds vs existing beds.

The imbalance towards southern parts of England is perhaps unsurprising given the higher levels of housing wealth there, which is a significant factor underpinning the ability of residents to pay for private care. However, it does highlight a key challenge facing the sector over the coming years – namely, how can care homes be delivered in these other markets, in particular Local Authority funded markets.

**Fig 1: Over 14,500 new care home beds have been built since 2020**




**Source:** Savills using Glenigan | 2023 is to July

We anticipate a strong and sustained increase in new care home constructions in the near future, as our analysis reveals that there are 132 schemes currently under construction across the nation. Amongst these, 65 are projected to reach completion by the end of 2023. Assuming that these estimated completion dates are accurate it would mean that 2023 would see 127 new schemes and c.4,600 beds completed this year, which would be a high point in recent years.

Following the same pattern as recently delivered care homes, the majority of the pipeline coming forward is found in London and Southern England, with around 60% of schemes under construction and expected to deliver in the next three years being located here.

> **A key challenge facing the sector is ensuring new care homes are delivered throughout the country, not just in the South.**

**Craig Woollam**
Head of Healthcare, Savills

# Care bed pipeline

### Fig 2: There are close to 30,000 care beds in the pipeline


**Source:** Savills using Glenigan

Looking at where the next wave of development is likely to come forward, with schemes that have secured detailed planning permission, shows a more balanced spread of delivery.

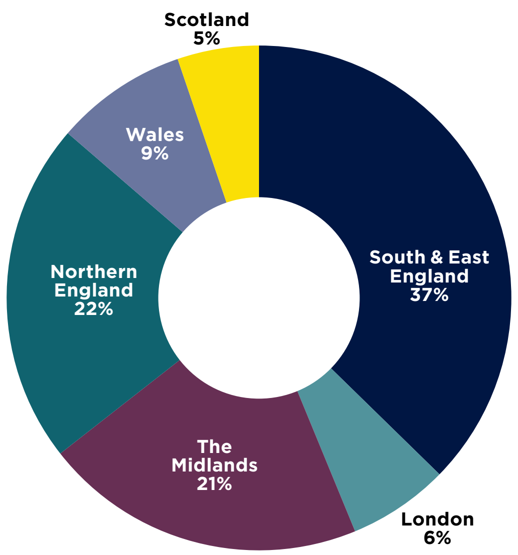
While London, South & Eastern England still lead the way, with over 40% of schemes, both the Midlands and Northern England account for just over 20% of schemes each.

### Fig 3: 43% of care homes with planning permission are in Southern England

In the regional breakdown, there are specific areas where a higher number of homes are successfully securing planning permission.

For example in South & East England, notable hotspots include Cornwall, Wiltshire, and the local authority areas of Bournemouth, Christchurch, and Poole.

In the Northern regions, Cheshire, York, and East Yorkshire stand out as having the most extensive pipelines for care home development.



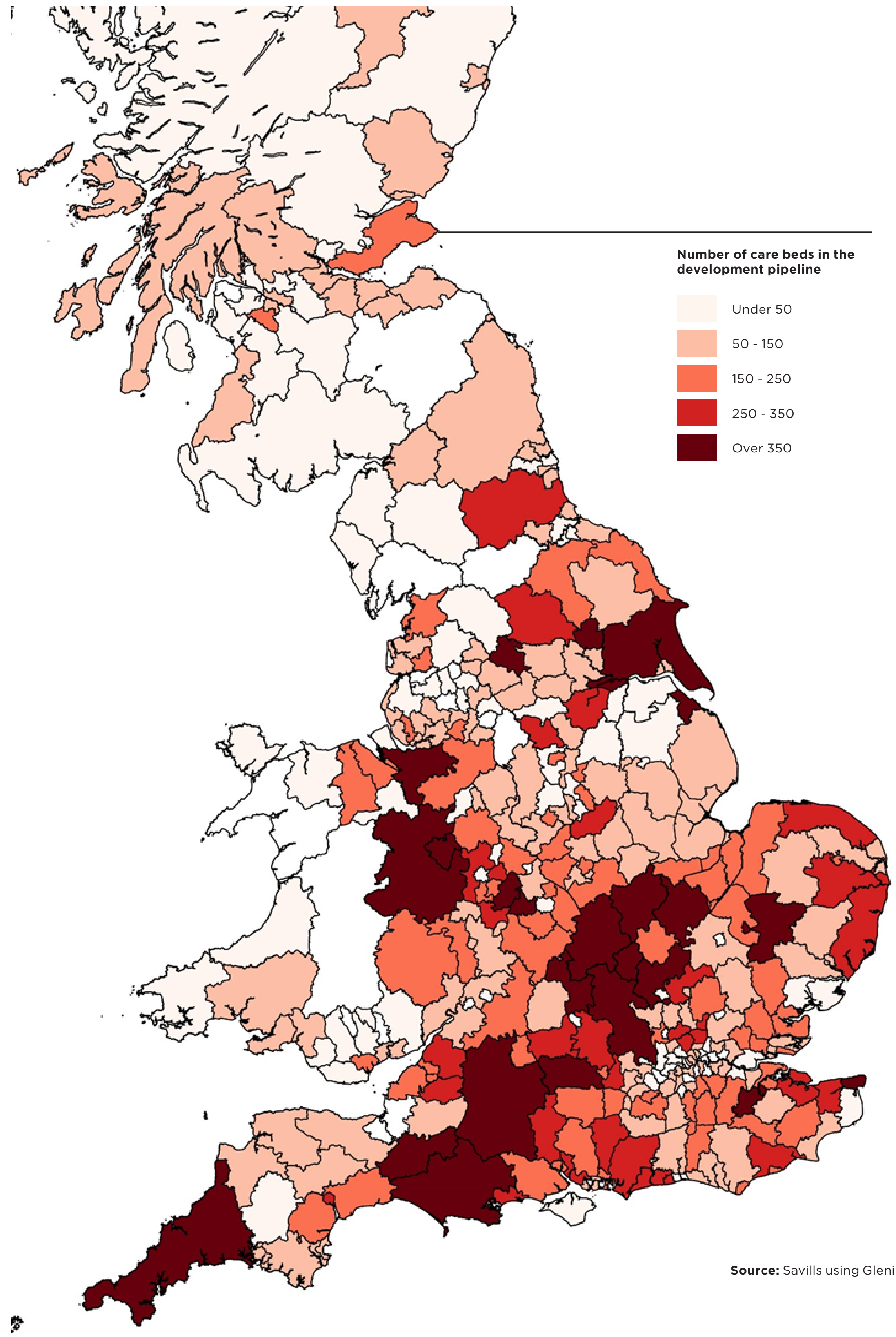

**Source:** Savills using Glenigan





# Care Homes regional hotspots

### Fig 4: There are current development hotspots in the North and Midlands




**Source:** Savills using Glenigan

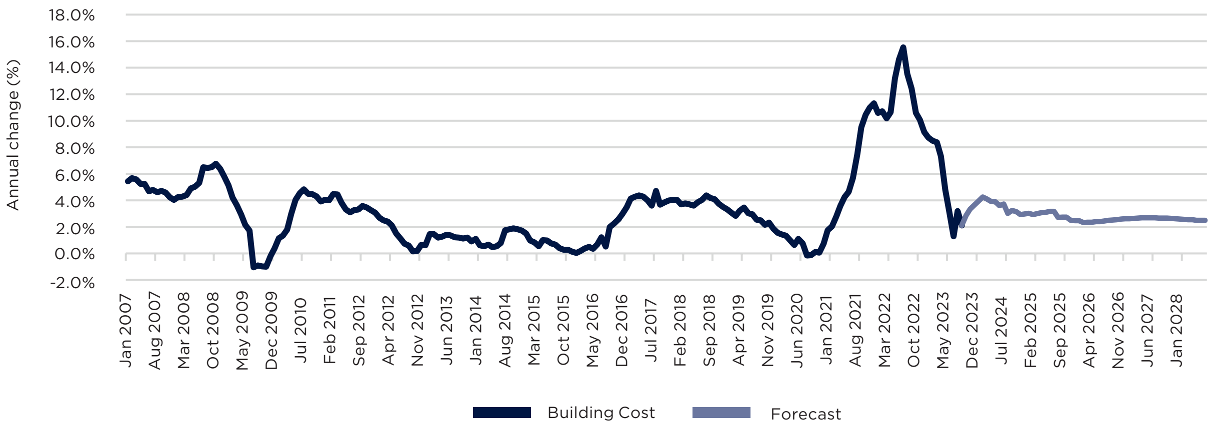
# Cost pressures are easing, but challenges persist in advancing new Care Home developments

## Construction cost inflation is easing

A key challenge facing development of all kinds over the past few years has been the continual rise in the cost of delivering new schemes. During the 2010s the average annual rate of build cost inflation was 2.3%, according to the BCIS General Building Cost Index. However, the rate of cost inflation skyrocketed through 2021 and 2022, averaging 6.9% and 11.6% respectively, with a high watermark of 15.5% annual growth in June 2022.

This dramatic rise was primarily fuelled by the increased cost of materials, which rose at an average annual rate of 13.5% during 2021 and 17.9% in 2022, according to the BCIS Material Cost Index. With a lot of this growth being driven by significant inflation in the cost of insulation materials (+43%), screws (+30%) and bricks and tiles (+23%) during 2022, according to figures from the ONS.

**Fig 5: Build cost inflation peaked in August 2022 and has since eased**




**Source:** BCIS – General Building Cost Index

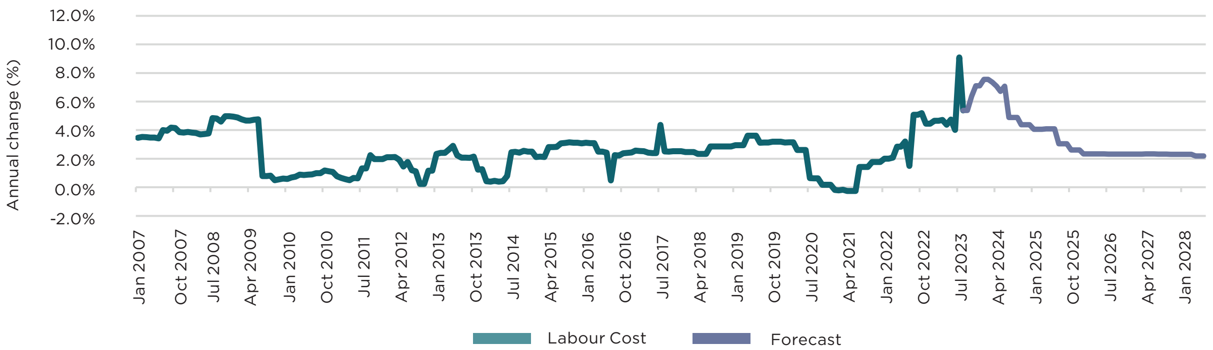
However, this period of double-digit material cost inflation has now passed, with the latest BCIS Materials Cost index showing prices falling by -0.1% in the year to August 2023. Moreover, further evidence from the ONS shows that the cost of some materials has fallen over the first seven months of this year as well. Looking ahead, BCIS is forecasting that the rate of material cost inflation will continue to slow in the coming months, before returning to an average of 2.1% per annum over 2024.

While the falling cost of materials is a huge benefit for the development sector, the cost of labour is expected to remain a challenge in the near term.

On aggregate, labour costs remained relatively muted through 2021 and early 2022, although competition for contractors with other sectors, including residential, which was seeing strong demand for homes, caused some competition.

Looking forward, the BCIS is now forecasting that labour cost inflation will peak at 8.0% in early 2024 and remain at an elevated level for much of the year. However, this is down from over 10% inflation forecast in May 2023, highlighting the impact of the lower competition for labour due to the weaker economic backdrop and slowing housing market.

**Fig 6: Labour cost inflation is forecast to peak at the start of 2024**




**Source:** BCIS - Labour Cost Index





# National planning policy edges towards care home need

Planning is seen as a challenge for all development, as years of underfunding for local authority planning departments and regularly shifting policies make it more difficult and more time-consuming to navigate the process. The care home sector is no different and in many ways is hampered even more by the lack of clear national planning policy guidance.

The current National Planning Policy Framework (NPPF), which was last revised in 2021, sets out policies that apply to the preparation of local and neighbourhood plans and to decisions on planning applications. A key part of this is around how local authorities need to understand and plan for different types of housing needs. But the current NPPF makes little more than a passing reference to housing for older people, including care homes, and many local authorities lack specific policies to address the need for this type of housing.

It was therefore positive to see that in the consultation for the next draft, which closed earlier this year, there was greater emphasis placed on the need for local authorities to think about specific provisions of housing for older people. The proposed draft of the new NPPF included in the consultation showed the updated requirement to assess the needs of various groups, "including for retirement housing, housing-with-care and care homes".

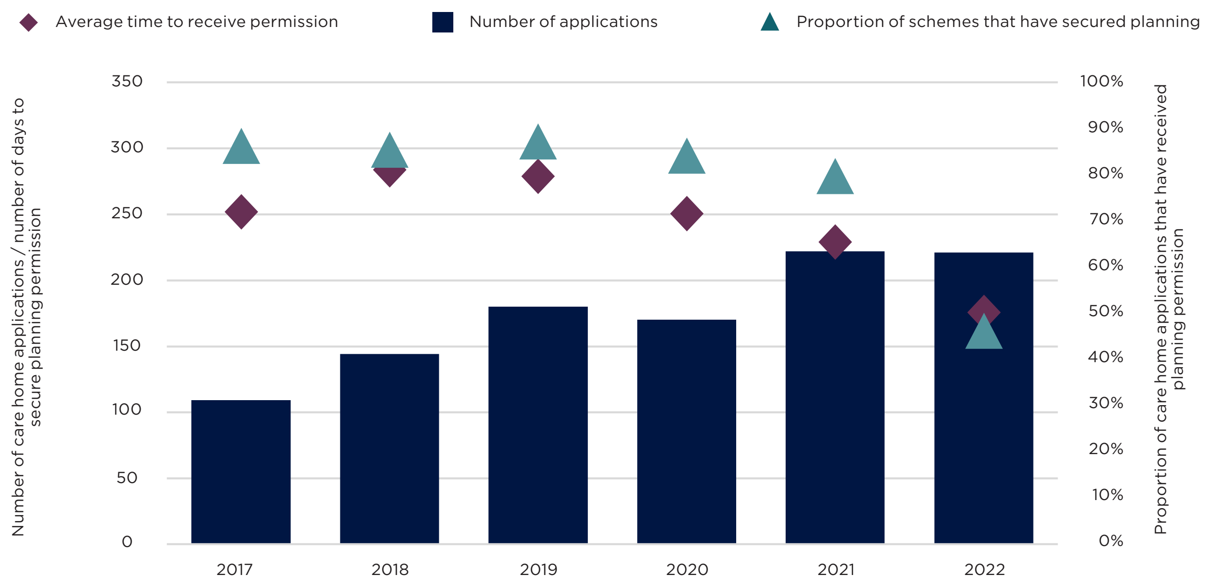
It is hoped this will encourage local authorities to think more clearly about what they need to deliver in their areas, but as local planning policy moves slowly, it is unlikely we will see any material changes in the short term.

## On a positive note, planning applications are up and the time to reach a decision is down

Despite the challenges facing the sector, over the past six years, there has been a steady increase in the number of care home applications being made by new and existing operators and developers across the country, rising from 109 in 2017 to 221 in 2022, totalling c.36,000 beds over the period.

This is a positive development for the sector and is evidence of the growing need to deliver more stock to house the elderly, despite the general challenges that new development is facing. There is further good news in that while the number of applications is going up, the average time that it takes for an application to receive permission has started to fall in recent years. For schemes that submitted applications in 2017, it took on average 252 days for them to progress through to permission - in 2022 this had fallen to 175 days.

**Fig 7: Over 200 care home planning applications for c.8,700 beds were submitted in 2022**



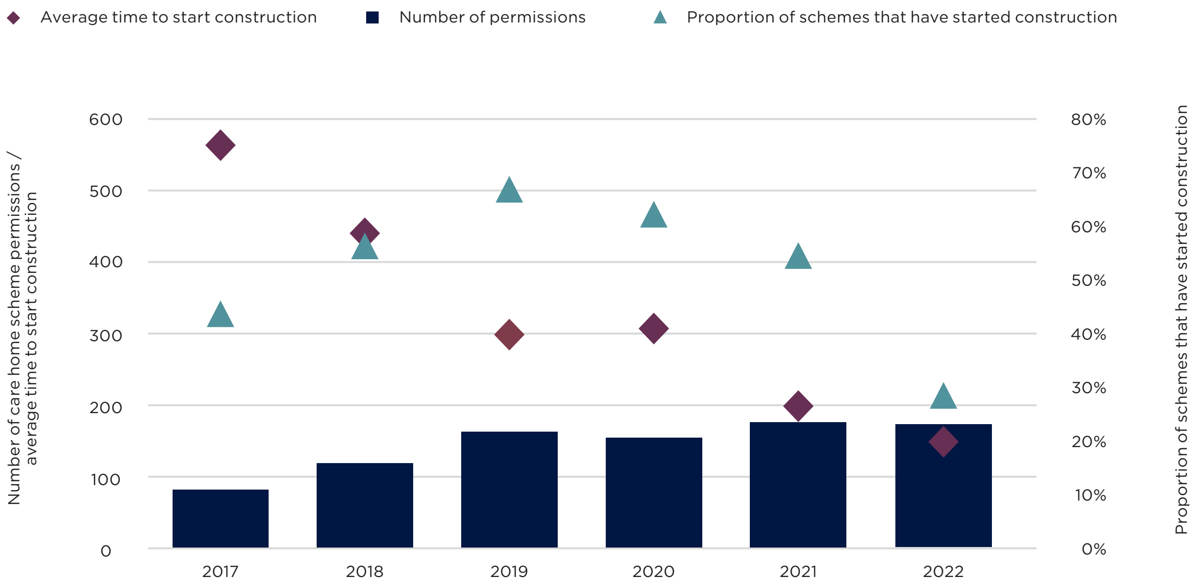

**Source:** Savills using Glenigan

# Care Home planning permissions

There has also been a reduction in the time it takes for care home schemes to progress from achieving planning permission to commencing construction. For schemes receiving planning consent in 2017, it took on average 563 days for them to start build out, with only 43% ever getting to the building phase. By 2022, the time from planning to construction start had dropped to an average of just 144 days.

While the dramatic reduction in time to start construction is partly due to the shorter time period between when permission could have been given in 2022 and August 2023, when our data was collated, it is similar to the 197 day average seen for schemes that secured permission in 2021, indicating that there is an improving trend.

**Fig 8: 4,900 beds across 160 care homes secured planning permission in 2022**




**Source:** Savills using Glenigan

# 144 days

Average time from achieving planning to starting construction in 2022, down significantly from 563 days in 2017





# Debt appetite in the Care Home sector

**The Real Estate Debt markets are increasingly bifurcated, as lenders turn away from Retail and Offices to focus on more in favour sectors such as Living and Logistics.**

Low investment volumes, combined with lender's focus on these preferred sectors, means that demand to lend is actually outstripping the new opportunities available.

With higher interest rates making existing investment loans hard to structure due to cashflow, many lenders are focused on the development finance markets, and so we are generally seeing strong conditions in this sub-sector of the market.

Debt appetite for the Care Home sector has traditionally been more selective than for other Living sectors such as BtR and PBSA.

However, lenders are increasingly recognising the strong supply and demand fundamentals that make this a key growth asset class.

As well as traditional banks and debt funds, we are seeing an increasing number of investors with hybrid capital that are looking to support development opportunities.

Whilst lenders do remain selective in the Care Home sector, strong appetite for development finance more generally should increase debt liquidity for the sector.

As always, Sponsor track record, asset quality and location remain key, particularly for lenders looking to enter the sector for the first time.

**Charlie Bottomley**
Director, Savills Capital Advisors

# Opportunities to align Care Home development with ESG principles

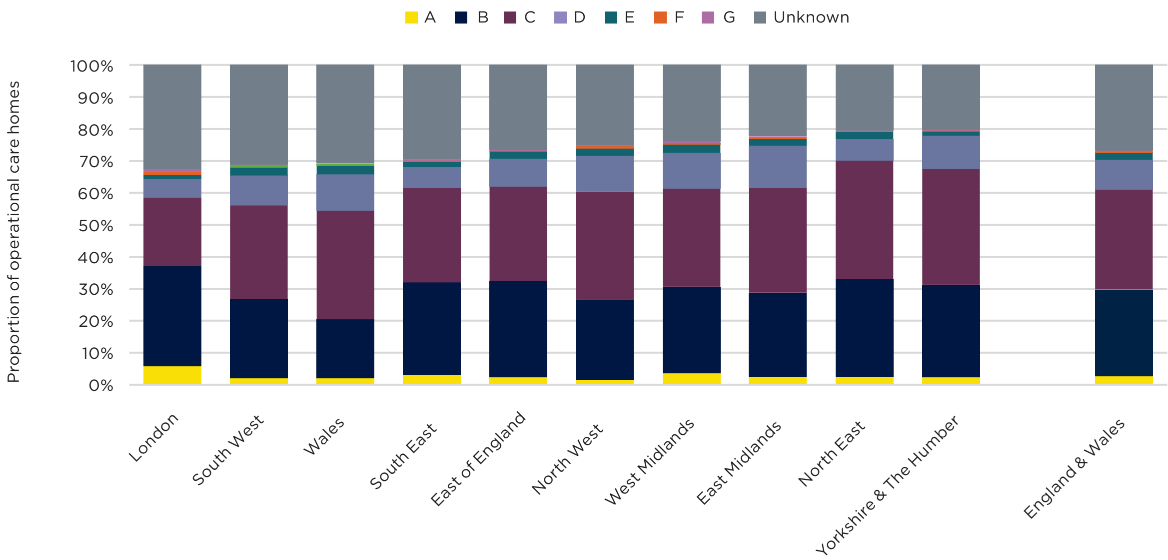
ESG is a subject on everyone's lips. We have made significant progress in developing our technical design to allow our operating assets to be operationally carbon zero, reducing annual energy costs by as much as 70%. This has been an iterative process over many years, and one we are focused on continuing over the coming years.

**Matthew Lowe**
CEO, LNT

The built environment accounts for a large proportion – around 40% - of global carbon emissions. This has led to tightening regulations within the sector, aimed at improving the energy efficiency of properties. The current minimum energy efficiency standards (MEES) set the minimum EPC requirement at a rating of Grade E in order for a property to be legally let out. The distribution of the current EPC ratings of care homes across the country shows that the sector is already performing well above this minimum level – 61% of homes have an EPC rating of Grade C or better, which compares favourably with wider residential, where only 40% of properties do, albeit still leaving a large need for upgrading.

Looking at the regional picture, while on average there is a relatively low proportion of EPC ratings below Grade E across England & Wales overall, some regional markets such as London (34%), the South West (32%) and Wales (32%) have a higher proportion of properties below this level, or with an unknown rating. In contrast, Yorkshire & the Humber and the North East only have 21% of properties below EPC rating Grade E or unknown. This highlights the challenge that lies ahead for operators in some regions, who will have to undertake capital investment to meet ever tightening energy efficiency and environmental standards, or perhaps be forced to exit the sector.

**Fig 9: 30% of care homes in England & Wales have an EPC A or B**




**Source:** Savills using EAC, MHCLG

Looking ahead, the government is consulting on further tightening of the MEES. If the new regulations were brought in as proposed, this would see the minimum EPC rating requirement raised to Grade C in 2027, before rising further to a minimum of a Grade B by 2030.

As shown in Figure 9, the first milestone (EPC C) would result in significant investment required to upgrade existing stock or in up to 141,000 beds needing to be closed due to non-compliance, further exacerbating the already stark supply and demand imbalance in the sector.

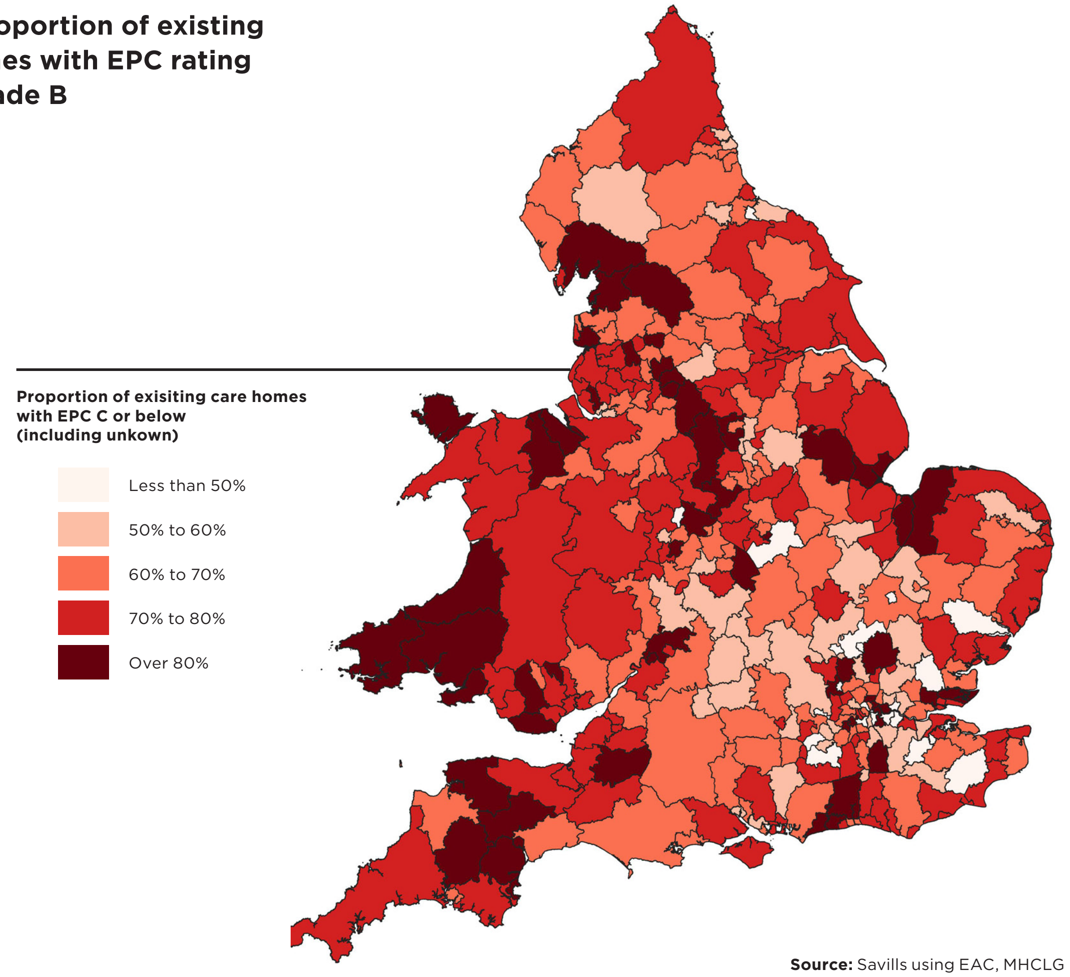
Across the country, moving to a requirement of EPC Grade B would require drastic action in the sector, with up to 70% of all current care home stock needing to be upgraded, totalling close to 257,000 beds nationally. This is especially true for some local authorities across the Midlands, North, London and Wales, where over 80% of existing stock fails to reach EPC Grade B.





# Care Home EPC ratings

**Fig 10: Proportion of existing Care Homes with EPC rating below Grade B**




**Source:** Savills using EAC, MHCLG

## CASE STUDY

### Luxury Retirement Villages

Savills Social Sustainability team worked with a prominent developer of luxury retirement villages to build them a Sustainability Strategy targeting the 'S' (social) aspect of ESG. As part of this, we put in place a series of social value objectives, targets and KPIs bespoke to our client's needs, and from this used their social value efforts to drive additional outputs. Our client was looking to incorporate social value efforts into several areas of their business, such as supply chain, staff provisions, charitable efforts and through creating links with local communities to ensure their developments become an integral part of their wider communities.

We found that aligning their business with social sustainability was a natural fit, given the nature and purpose of their developments and operations, namely providing high-quality, secure and amenitised accommodation for their residents. For example, they had already considered travel links to local town centres, utilising garden areas as public realm space, hosting public events, partnering with local educational and healthcare providers, and more.

For our client, it was clear that a social focus is a vital component of their developments. They have been able to deliver on a strong social sustainability strategy which we believe will become a benchmark for the sector.

We were able to help our client, a developer of luxury retirement villages, deliver on a strong social sustainability strategy which we believe will become a benchmark for the sector.

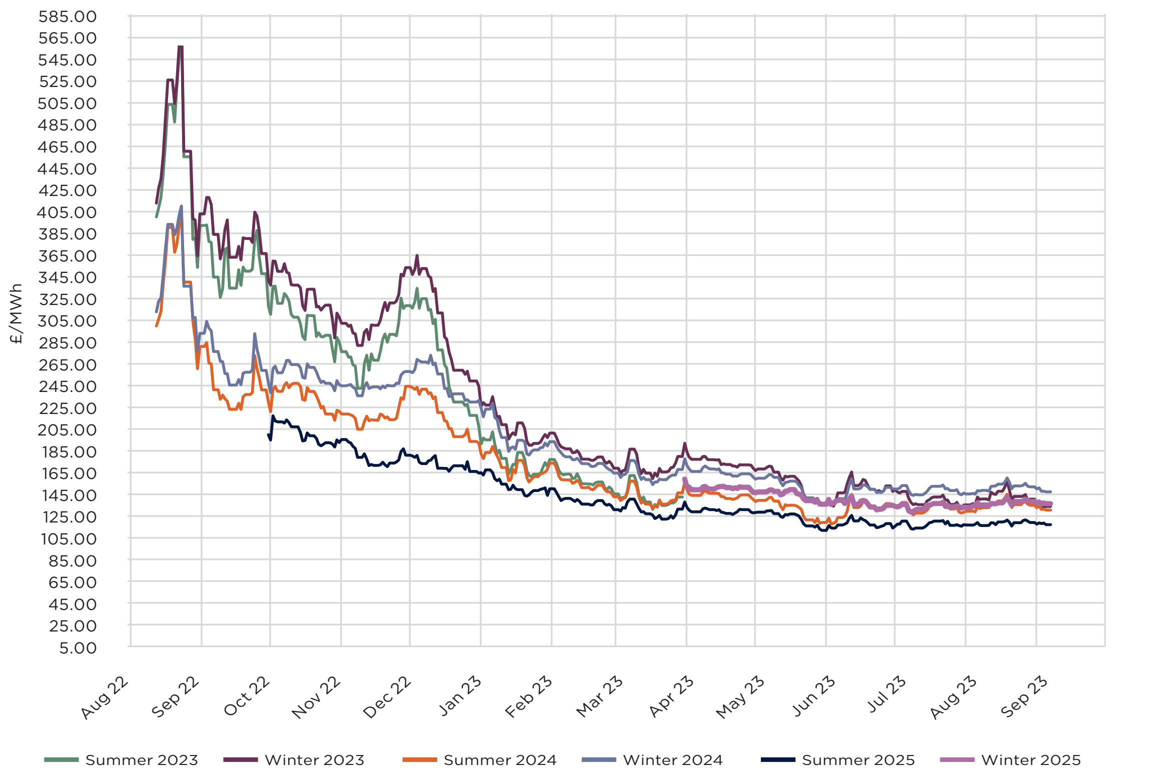
**Maria Garcia**
Director, Sustainability Consultancy - Savills Earth

# Spike in electricity prices

The sharp rises in energy prices over the past 18 months have brought the need to improve the energy efficiency of care homes into sharp focus. During the 2010s the spot price of electricity and gas saw little to no change, with prices typically around £50 per Megawatt hour (MWh) for electricity and 49p per therm for gas.

However, the invasion of Ukraine by Russia contributed to a surge in prices, with electricity prices peaking at over £585 per MWh for the Winter 23 season and gas at over 712p per therm for the Winter 23 season in August 2022. Since then prices have been on a downward trend, falling to £110 per MWh for electricity and 121p per therm for gas in September 2023.

### Fig 11: Forward electricity prices, Summer 2023 to Winter 2025




**Source:** Savills

This spike in energy prices added significant pressures to the costs for care home operators during 2022. Analysis from Box Power CIC and Care England estimated that on 31 August 2021 a care provider would pay £660 per bed per annum to secure gas and electricity, but this had increased to £5,166 per bed per annum by 24th August 2022, a 683% increase. This increase in energy costs, alongside the necessary capex to improve energy efficiencies is likely to lead to some care homes closing, as they will be unable to operate profitably. For those that have the capital to do so, the cost-benefit calculation to invest in energy improvements has been significantly shifted towards undertaking works. There are a range of options for operators to consider to improve energy efficiencies, with the most common EPC recommendations for properties with an EPC rating of Grade C or below being installation of solar water heating, installing solar photovoltaics, changing fluorescent lighting to LEDs and installing wind turbines.

### A shift towards net zero development

As energy costs rise and investors are increasingly focused on creating sustainable real estate portfolios, we are witnessing a shift in the type of developments being delivered. Many new developments are incorporating a range of technologies, such as solar panels, air and ground source heat pumps and battery storage, to reduce the level of emissions created through the operation of the schemes and target operational net zero carbon.

One of the leaders in this space is LNT Care Developments, who in recent years, have shifted all their developments away from using gas to renewable energy sources and are now delivering operationally net zero care homes. Others are following in their footsteps, with Octopus Real Estate committing to all new care homes being net zero by 2030, alongside investing in their existing estate to retrofit properties to be net zero by 2040.





# Opportunities to improve the S and G of operations

It is not just the need to improve energy efficiency that matters for the care home sector in terms of ESG alignment. In fact, the provision of high-quality care is equally, if not more, important.

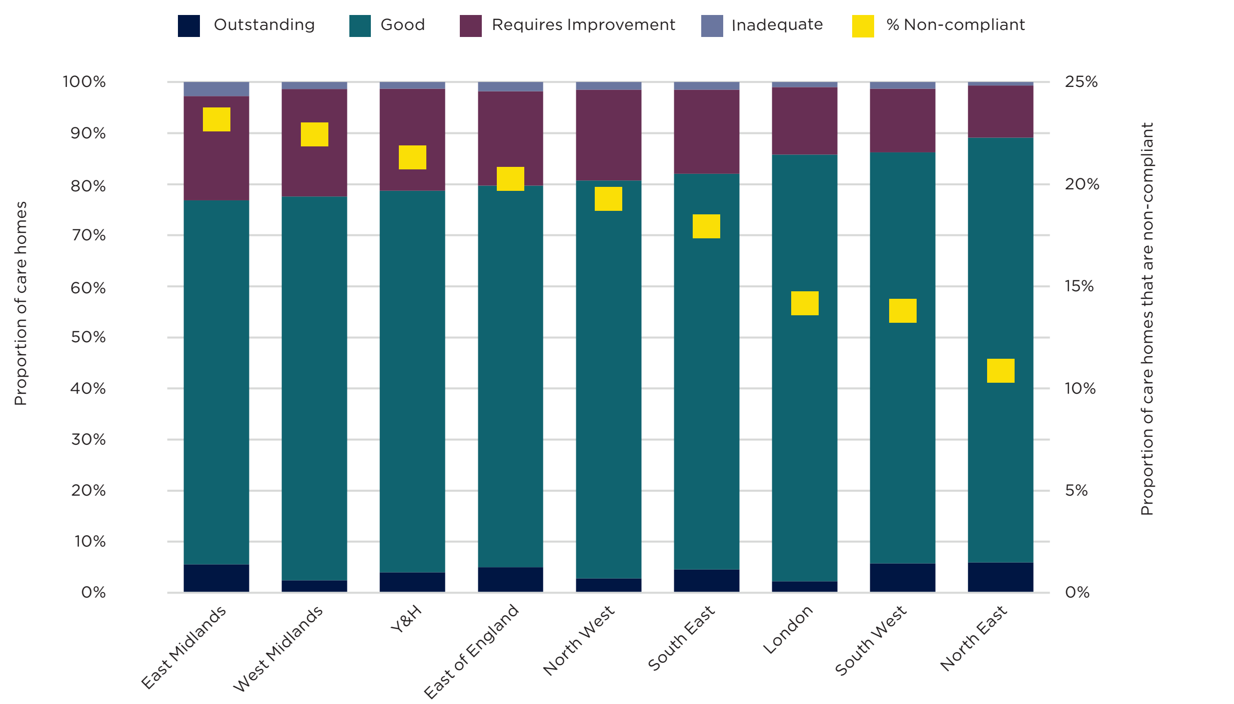
Here there is positive news: the majority of care homes across the country are compliant and have an overall rating of Good (77%) from the Care Quality Commission (CQC), with a further 4% rated as Outstanding, the highest rating available and hardest to achieve.

However, this still leaves close to 20% of homes that are non-compliant and are rated either as Requires Improvement (17%) or Inadequate (2%).

This highlights the need for all stakeholders to maintain a focus on the quality of care, alongside the delivery of new facilities, to ensure they are delivering on the Social and Governance aspects of ESG objectives.

Breaking down the national numbers shows that the Midlands has the most homes that are non-compliant (Requires Improvement or Inadequate), with close to a quarter of homes in both East and West Midlands failing to meet Good or Outstanding ratings. By contrast, the North East and South West have the lowest proportion of non-compliant homes, with only 11% and 14% of homes respectively being rated as either Requires Improvement or Inadequate.

### Fig 12: Over 80% of care homes have an overall CQC rating of Good or Outstanding




**Source:** CQC | Non-compliant defined as care homes that are rated as 'Requires Improvement' or 'Inadequate'

**77%**

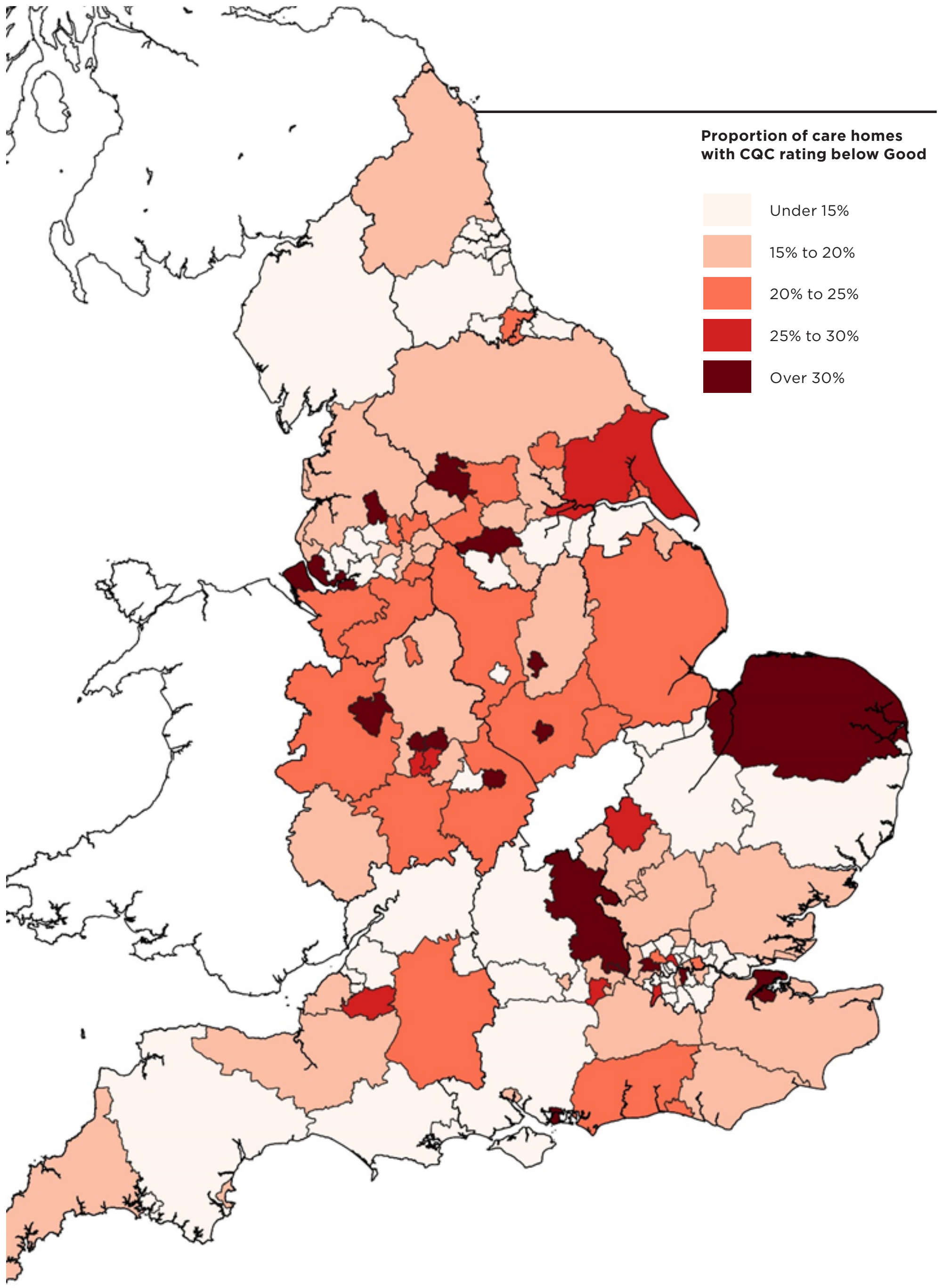
of Care Homes across the England & Wales have a CQC rating of 'Good'

# England & Wales Care Homes - CQC ratings

As shown in the map in Figure 13, it is also important to note that regional-level figures for CQC ratings can mask areas with particular challenges.

For example, the highest concentrations of care homes that are non-compliant are found in the Wirral, Liverpool, Halton and Southwark.

**Fig 13: Some parts of England have more than 30% of care homes with CQC ratings that are non-compliant**




**Source:** CQC | Non-compliant defined as care homes that are rated as 'Requires Improvement' or 'Inadequate'





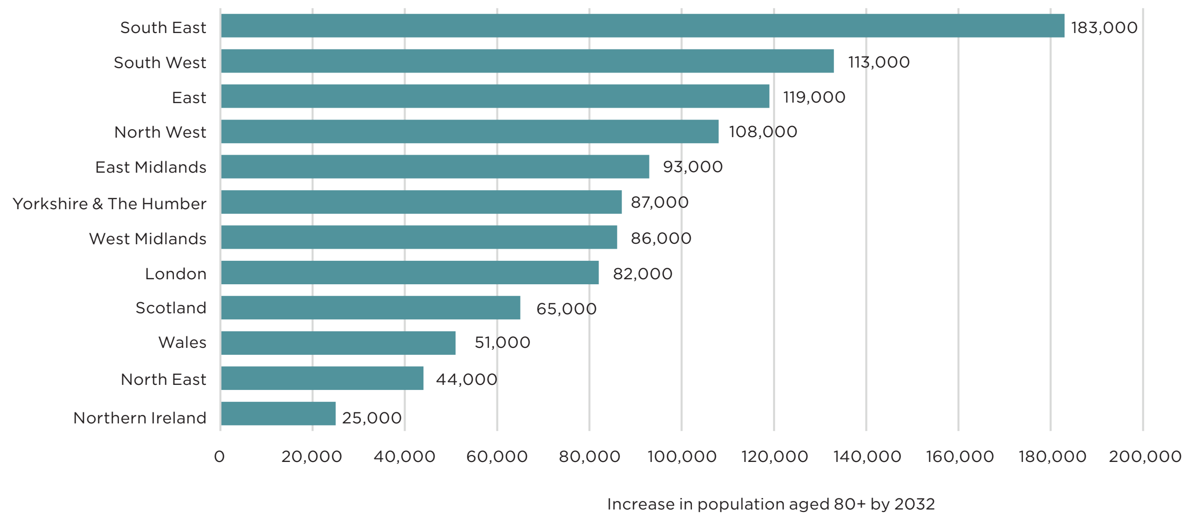

# An ageing population will drive further demand over the coming decade

While there are positive signs in terms of a rising number of care home beds coming through the planning system, the rate of new delivery still remains far below the future need for the sector.

There are currently an estimated 3.4 million people in the UK aged over 80 years, and only c. 455,000 care home beds, equating to a ratio of 7.45 elderly people per care home bed.

Over the next decade the number of people aged over 80 is forecast to rise by a further 1.1 million to reach close to 4.5 million, representing a 32% increase. The majority of this population growth is expected to come in the South East (17%), South West (12%) and East of England (11%), which combined will see an additional 435,000 residents aged over 80 years by 2032 compared with 2022. This level of growth would see the number of people over 80 years old in these regions rise by between 35% and 40% over this period.

**Fig 14: There will be an additional 1.1 million people aged over 80 years old by 2032**




**Source:** Oxford Economics

This continued growth will put even greater pressure on the existing care home infrastructure and drive demand for increased new delivery. To maintain the current ratio of 7.45 over 80s for every care home bed by 2032, we would need to see the delivery of c.144,000 additional beds over this period. This compares to the current pipeline of c.30,000 beds, highlighting the dramatic shortfall we are likely to continue seeing. The situation is even more stark if we were to try and reduce the ratio – targeting a reduction to a 5:1 ratio would equate to a total of c.440,000 additional beds needed by 2032 and to bring it down to 3:1 would require over 1 million new beds.

Furthermore, this is likely to be an under-estimate, if we are to consider that existing older care homes also naturally drop out of the market over the course of time and / or that market forces (including increasingly strict requirements around EPC ratings for example) may result in further closures.

> **While the number of care home beds coming through planning is increasing, there is still a stark shortfall, with 7.45 people aged 80 years or over per UK care home bed.**

**Caryn Donahue**
Head of Senior Housing Transactions, Savills

# A social imperative: ensuring sufficient, quality homes for the elderly

The underlying demographic trends, existing shortfall in stock and limited future pipeline highlight an extremely strong requirement for increased care home development.

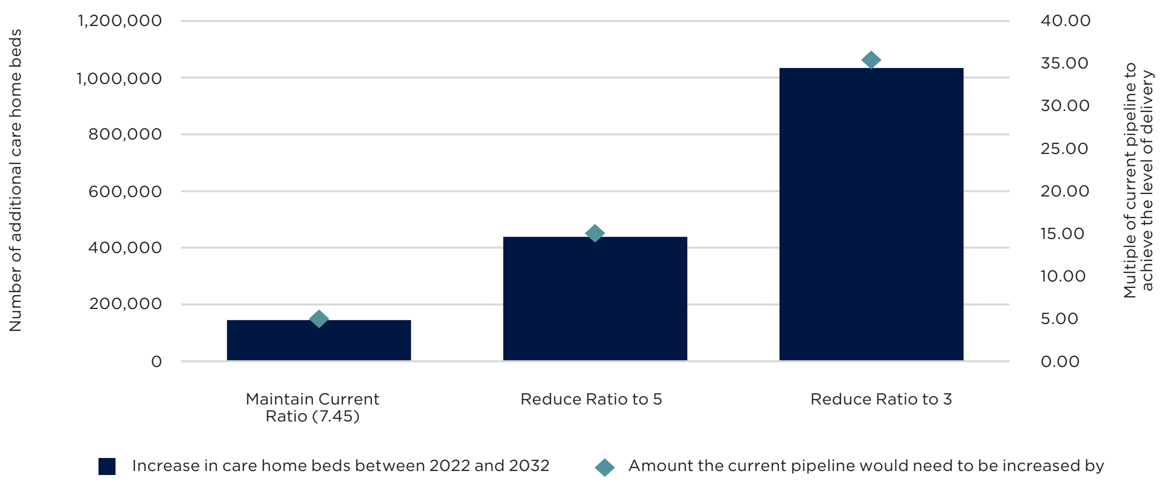
However, there remain significant challenges for developers and investors to overcome, including planning frameworks time delays, as well as the cost of development and increasingly strict ESG regulations.

In addition, the sector will need to find ways to address the imbalances in where care homes are coming forward across the country, as the Northern and Midland regions, for example, remain largely underserved.

If we are to meet the needs of a growing elderly population then we would need to see the rate of new development increase substantially in the coming years. Between 2022 and 2032, 14,400 new care home beds per year would need to be built, yet delivery in 2023 is projected to be less than one third of that, with c.4,600 new beds.

While the ongoing evolution and expansion of the Senior Living market offers a potential solution for addressing the care home gap through alternative care delivery methods that facilitate longer stays in more suitable accommodations, the overriding takeaway for the sector is that there continues to be a pressing need to substantially accelerate the pace of new care home development.

**Fig 15: To reduce the over 80 year old to care home bed ratio to 5:1 by 2032 would require the delivery of c.440,000 additional beds**




**Source:** Savills using Oxford Economics, EAC

## Savills Earth

We help our clients develop energy and sustainability strategies and then make them a reality through measurable actions at every level, from organisational direction to individual asset strategies.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