

# Savills Healthcare Market in Minutes

August 2018

Prime Markets Continue to Strengthen With Increased Market Activity



- Investor appetite for care homes with strong covenants at an all time high
- Bolt on acquisitions for expanding care home groups back in strong demand
- A number of major care home groups presented to market
- Consolidation of retirement developers and new entrants fuelling demand for new schemes
- Gathering momentum for retirement PRS product from investors and an increase of private rental units
- Highly competitive bidding in the primary care investment market
- CCG's driving the development of new health centre development

## Care & Nursing Homes

Pricing for premium elderly care product as either trading entities or fixed income investments has maintained upward movement in H1 2018. From a fixed income perspective pricing of 3.75% for an Anchor tenanted home in Surrey and 3.8% NIY for MHA in Stratford upon Avon demonstrates the appeal of strong covenants, setting landmark pricing levels.

Potentially looking to take advantage of this market buoyancy, US REIT HCP Inc has entered in to definitive agreement to sell a 51% share in their UK holdings which includes a portfolio of 70 homes let to HC-One and MMCG equating to a price of £394 million. A number of major WholeCo platforms have also been presented to the market including Barchester, Care UK and HC-One, the latter being owned by a consortium which includes HCP.

Savills also continues to see strong appetite for group targets from operators looking for good quality bolt-on acquisitions. While there remains strong interest in development opportunities in affluent locations, many new developments are being offered to operators on a lease basis and with operators often keen to keep a balanced portfolio of freehold/leasehold assets well-funded groups are firmly back on the acquisition trail, seeking good quality freehold operating homes. Established platforms which provide 250-500 bed places appear particularly sought-after with the strongest pricing being achieved where a high proportion of self-funded residents can be achieved.

Availability of well located sites for care home development has tightened as competition for land from developers of care homes and residential uses vie for opportunities. Much of the product for new development is now being offered to operators on a leasehold basis as developers look to benefit from the strong investment market which, assuming a good operator covenant, can often achieve higher pricing on this structure compared to a straight freehold sale.



CGI of Baycroft Watford - acquired by Savills Healthcare on behalf of Aviva Investors

## Retirement Housing

The retirement and senior housing market witnessed some of the most significant activity in the last 12 months. Following the acquisition of platforms from insurance giants AXA and Legal & General in 2017, continued expansion has been the trend for H1 2018 including private equity backed Pegasus Life acquiring Renaissance Retirement Living taking the combined business to a portfolio of 71 developments, the third-largest retirement developer in the UK.

The sector has witnessed some challenges, not least the implications of the London Mayor's affordable housing strategy which would require all retirement housing developers to provide 35% affordable homes on the same site or 50% if off-site. This potentially has significant repercussions on developers viability for schemes in Greater London and McCarthy & Stone, Churchill Retirement, Pegasus Life and Renaissance have lobbied against the ruling, which if not overturned, could result in a drop in the number of developments in the Greater London area. This, coupled with the Government's announcement on ground rents, comes on the back of McCarthy & Stone's announcement that profits more than halved in the first six months of 2018 citing increased construction costs and incentives being offered to purchasers.

This however hasn't damped interest in the sector as a whole with competitive bidding between developers for well-located sites and 2018 looking likely to deliver more senior housing units than any previous year.

The senior private rental model is an area of significant discussion with investors showing strong interest if development and operational platforms become available. This is looking more probable with 2.2% of new senior housing units developed in 2018 being offered as private rented compared to just 0.7% in 2017.



Site of proposed Care Village, Former Stag Brewery, Mortlake – marketed in Q2 2018 by Savills Healthcare

## Primary Care

The primary care investment market witnessed continued appetite during the first half of 2018, with the majority of the investors bidding aggressively on large fully let health centres. In addition there has been a small number of portfolio acquisitions which has meant some of the specialist medical investors are rapidly growing their portfolios.

Savills have seen a number of new entrants in the market, to include infrastructure funds, seeking to diversify their portfolio from the traditional PFI models. With a limited amount of new PFI schemes being developed, these investors are seeking to place their funds in alternative investments, whilst still maintaining the covenant strength of Government backed income.

It is positive news about the increase spending budget for the NHS but we wait with anticipation on where and how the additional £20bn shall be spent. Within the last 12 months Savills has witnessed a large number of new health centre developments being approved for construction. Generally there appears to be much more drive and appetite from the Clinical Commissioning Groups to improve health services in their areas and therefore it appears the additional funding is having an overall effect on the health infrastructure. Savills recently secured funding a new health centre in South Woodham Ferrers, Essex, where three existing practices in the town centre are re-locating into one new large health facility.



Primary Care Investment, Cheshire – sold by Savills Healthcare

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