

Primary Care



KEY POINTS



Investment into UK primary care rose 173% between 2019 and 2020



Healthcare investors raised £500m of 'Green finance' in the past 12 months



The average GP surgery size is increasing, as practices relocate to larger, purpose-built facilities



Larger surgeries can serve more patients per GP, making them more efficient



Population growth estimates suggest we will need more than 239 new GP surgeries by 2031



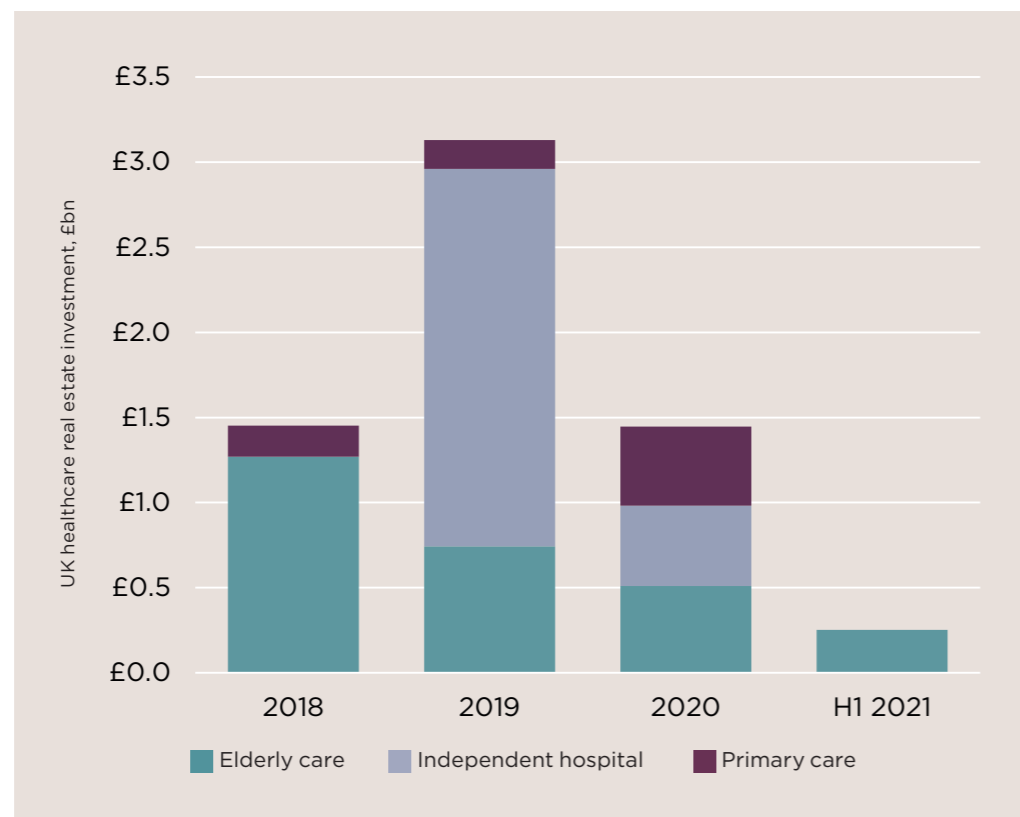
The rise of digital primary care reinforces the need for more modern facilities



Current demand means there is still capacity for the largest primary care investors to increase their market share

Primary care investment

Investment volumes into UK healthcare real estate



Source Savills, Co-Star, HealthInvestor, LaingBuisson

Investor appetite for stable, secure returns has increasingly driven them towards healthcare assets. With quasi-government-backed tenancies and long leases, primary care is well placed to benefit from this investor demand.

Investment into UK primary care property rose to £466 million in 2020, a 173% increase on the year before. The return of the REITs drove much of this growth: they were largely absent from the market in 2019, but spent £187 million on primary care in 2020. Investment from healthcare specialist investors, such as Assura plc, almost doubled in 2020.

More build than buy?

Primary care has seen less investment activity in the first half of 2021. We attribute this more to a lack of available stock than to a lack of appetite. Assura's acquisition of primary care developer Apollo earlier this year shows there is still plenty of demand for new, high-quality surgeries and medical centres.

Increased focus on ESG

Healthcare real estate is also benefitting from the growing demand for ESG-friendly assets. In addition to the deals described above, healthcare investors raised half a billion pounds in ESG debt finance in the last twelve months. Assura raised a £300m, 10 year sustainability bond in September 2020 and elderly care provider Korian issued £200m of debt under its green bond framework in June 2021.

Large institutions are under pressure to improve their environmental, social and governance credentials. We expect growing interest in healthcare from socially conscious investors, looking for environmentally sustainable assets that deliver tangible community benefits. That competition will help healthcare developers and investors secure more attractive funding terms.

💡 Investment into UK primary care property rose to £466 million in 2020 📈

Market Outlook

Primary care yields remain the lowest among the major healthcare asset categories, averaging just 3.85% in the first half of 2021

That means primary care yields' margin over the risk-free rate is shrinking. Both gilt and swap rates rose over the first half of this year. They'll continue to rise through 2022 and beyond, according to forecasts from Oxford Economics.

We believe primary care assets have the capacity to shrink their premium to the risk-free rate further, as the population ages and need for GP services grows. The ONS projects the population in England aged under 10 and over 65 will rise by 1.8 million by 2031. That implies a need for 2,686 additional GPs over the next decade.

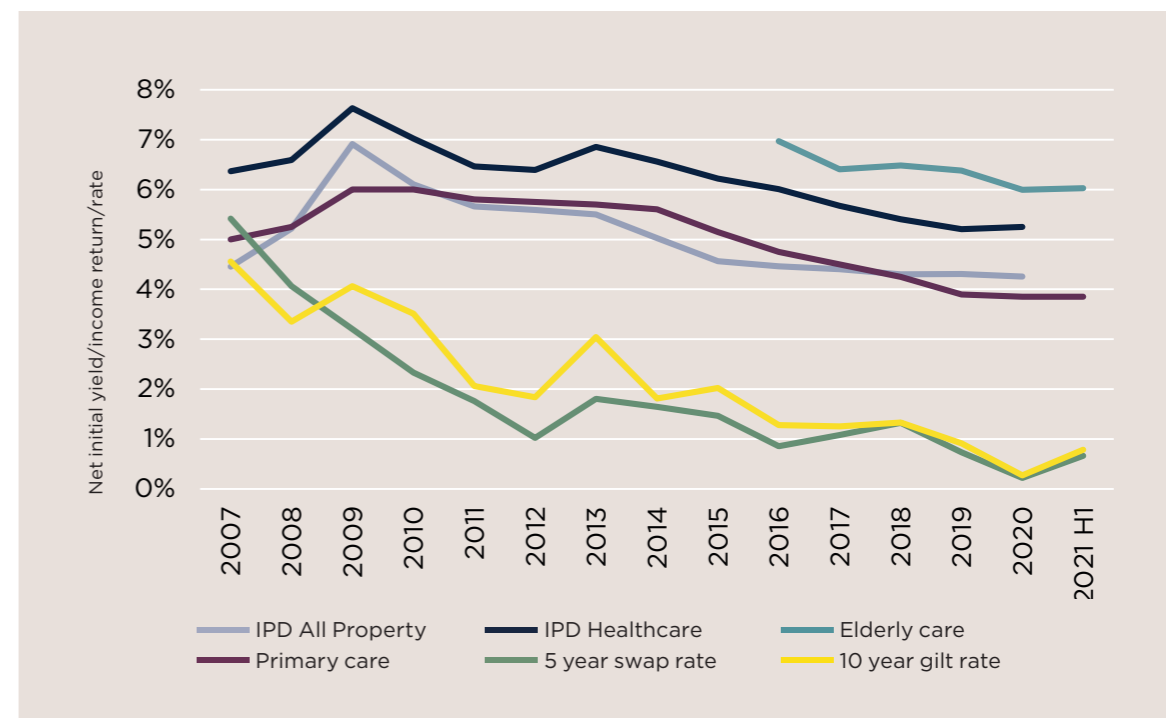
How that translates into need for surgeries will depend on the size of those buildings. The average English GP surgery has 5.3 full-time equivalent GPs. If we built new surgeries at

their current average size, rising demand for services would require 510 new surgeries. However, that same need could be accommodated within 239 larger surgeries: facilities with 15,000 or more patients employ 11.2 GPs on average.

GP surgeries will need to run more efficiently to serve the ageing population. Some 'quick wins', such as greater use of telephone consultations, can work across all types of surgeries. But other changes require significant investment and will only be viable at larger surgeries.

We predict this will create a divergence in returns: larger, more modern facilities will continue to perform well, while smaller, legacy assets will become less attractive.

Net initial yields for UK healthcare real estate



Source Savills, MSCI, Oxford Economics

Transaction types

Single asset transactions took a growing share of primary care investment in 2020: 56%, versus 46% in 2019 and just 29% in 2018.

For now, these single assets trade at a premium. Net initial yields for single asset deals in 2019 and 2020 averaged 4.0%, compared to 5.3% for portfolio deals.

This premium reflects the security of the income attached to the asset. Single assets are likely to have been let recently, and so have many years' income secured. Portfolios, by

contrast, take time to accumulate. They tend to include stock with less time left until lease expiry.

The portfolio discount may also reflect the sizes of portfolio on offer. In the student accommodation sector, for example, portfolios over £150 million often attract a premium. This reflects the appeal of these larger lot sizes to international institutions. As we see larger primary care portfolios come to the market, we may start to see deals attract such a portfolio premium.

Characterising the Primary Care Universe

There are 7,928 GP surgeries registered across Great Britain, serving a total of 69.8 million patients

The number of GP surgeries is in decline as larger, specialist surgeries replace smaller, older ones. Surgeries served an average of 8,809 patients in 2021, up 23% from 2015 (7,187). In 2015, 10.5% of surgeries had fewer than 2,500 patients; in 2021 that figure was down to 5.5%. Over the same period, the proportion of surgeries with more than 15,000 patients rose from 5.0% to 10.8%.

Consolidation opportunities

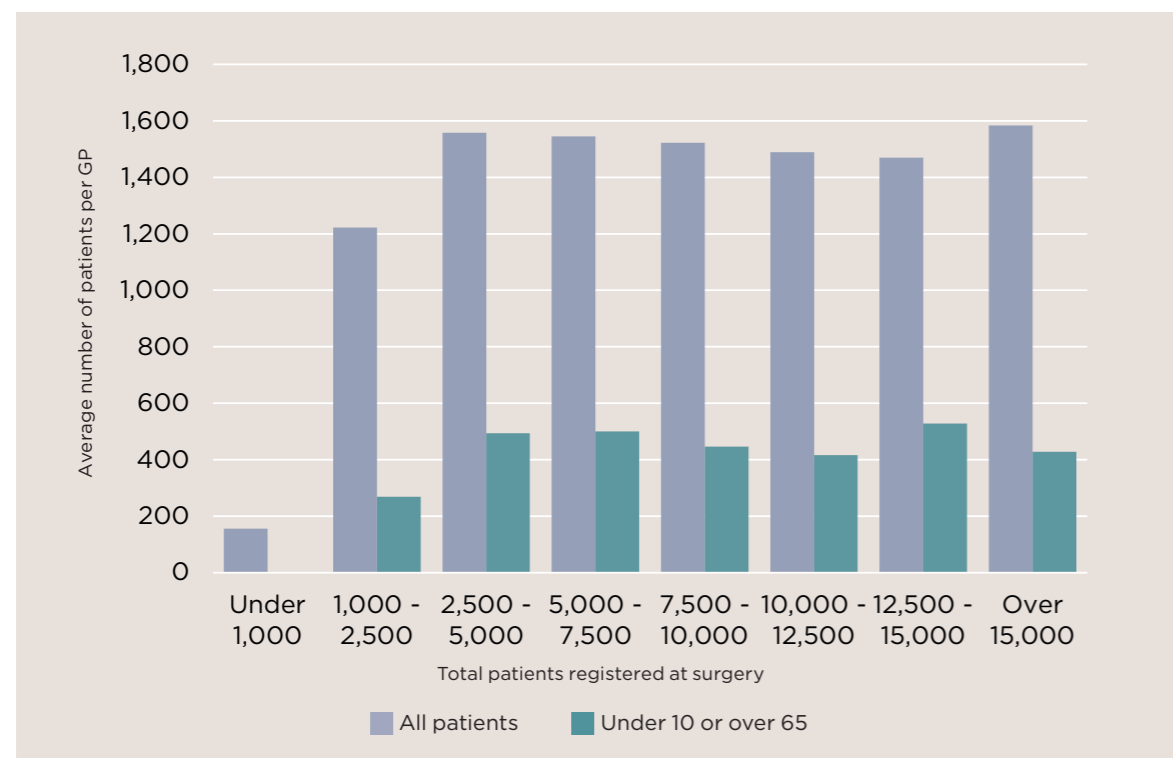
Each full-time equivalent (FTE) GP has responsibility for 2,435 patients on average across England. But there is a great deal of variation in that figure across different sizes of surgery and around the country. This suggests there are still opportunities to consolidate smaller surgeries.

GPs at medium and large practices (more than 2,500 registered patients) care for between 2,009 and 2,927 patients on average. By contrast, GPs at surgeries with between 1,000 and 2,500 patients care for just 1,798 patients each, -26% fewer than the national average.

The pattern holds up when looking just at patients aged under 10 or over 65, who are most likely to use GP surgeries. The average GP has 686 registered patients aged below 10 or over 65. For GPs at surgeries with 1,000 – 2,500 patients, that ratio is -28% lower, at just 493 patients per doctor.

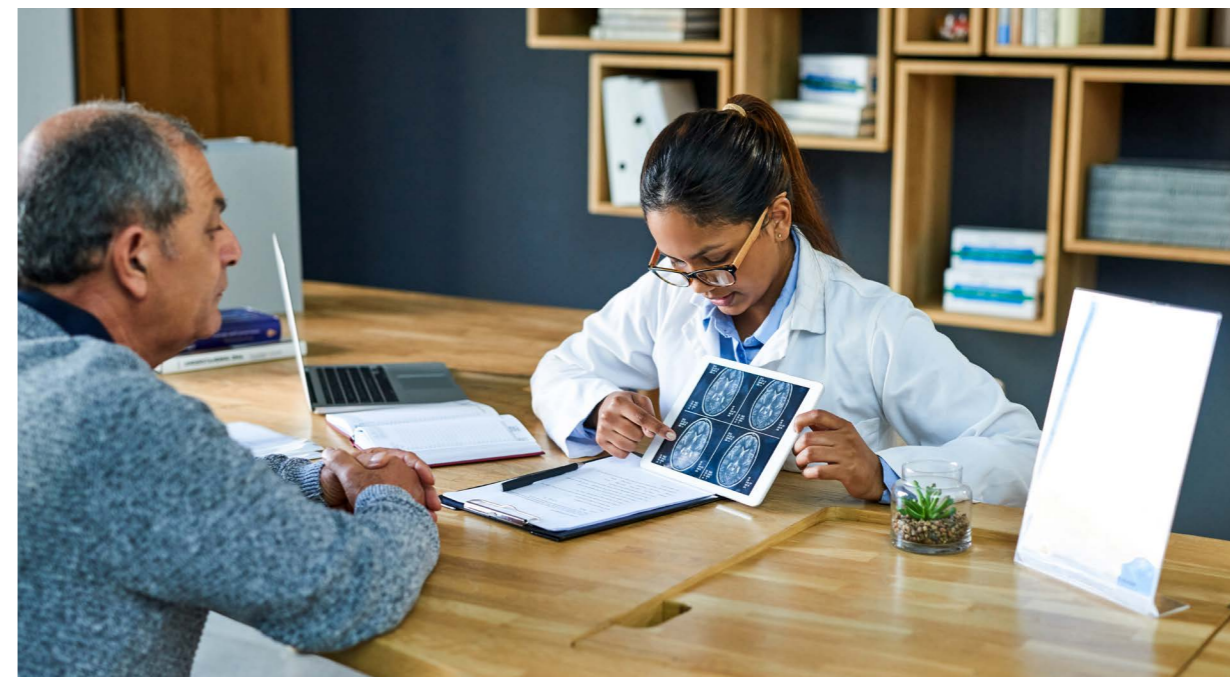
There are 11 local authorities with at least five small surgeries (fewer than 2,500 patients). Surgeries in these areas have just 493 registered patients per GP FTE, suggesting there is an opportunity to consolidate these surgeries more efficiently in newer, larger facilities.

Consolidated care GPs at larger surgeries in England care for more patients



Source NHS England

“The number of patients registered at large surgeries doubled between 2015 and 2021”



Improving the quality of care

Increased space in surgeries is needed in order for GPs to provide high-quality care. A survey in 2020 by the British Medical Association found only half of GP practice buildings in England were ‘fit for purpose’. The survey of more than 1,000 practices in England asked doctors and practice managers about their experiences with property ownership and management.

When asked what would make premises more suitable for present needs, most practices noted that more space is

needed by either extending the premises and/or adding more consulting rooms to manage growing patient lists. Others cited improving access, including for disabled patients and expanded and improved patient waiting and reception areas.

In some cases, these improvements are possible within a surgery’s existing footprint. More often, fixing these shortcomings means moving to new, purpose-built facilities.

Ownership

UK primary care stock ownership is fragmented. The two largest investors, Assura and PHP, own 8% and 6% of surgeries, respectively.

These large investors have a much greater share of the market across the regions than in London. Combined, they have a market share of 10% of London surgeries, compared to 15% across the rest of England. This is likely due to higher land values and greater competition for Section 106 funding in London.

Assura has 609 properties in its portfolio, to PHP’s 513. However, PHP slightly edges out Assura in terms of the number of patients it serves through its buildings, with 5.9m to Assura’s 5.8m. Combined, around 17% of the UK’s 69.8 million patients are served by either an Assura or PHP owned GP surgery.

In terms of ‘patients per surgery’, Assura has an average of

around 9,700 across its entire portfolio, 10.1% higher than the British average. PHP is around 17% bigger, at 11,300 patients per surgery, some 28.3% higher than the national average. Both of these are likely to grow over time as they develop more, larger surgeries. For context, over the past year Assura has completed 12 new GP surgeries with an average of 14,200 patients each.

The need for high-quality, purpose-built surgeries shows that there is capacity for larger investors to grow their share of the UK primary care market through development. Moreover, as Assura, PHP and others grow, the supply of suitable standing stock for them to buy will diminish. This may also encourage those investors to set their sights overseas: to the Republic of Ireland, for example, where PHP invested in two surgeries for €30m in 2020.

Covid accelerates changes to primary care

The pandemic forced surgeries to conduct many more consultations remotely. The number of telephone appointments grew by almost 6 million between the year to March 2020 and year to March 2021.

Covid-19 accelerated this change, but the NHS has been committed to providing more care remotely for some time. In its 2019 Long-Term Plan, it promised every patient the right to digital primary care services by 2024.

While telephone consultations are here to stay, we don't predict this will lead to a fall in demand for bricks and mortar surgery space.

Instead, we are seeing a triage system emerge. Staff assess patients' needs over the phone: for simple cases, this is enough to diagnose the problem and prescribe a solution. In more ambiguous cases, they can call people into the surgery for a follow-up in person.

We also anticipate continued demand for the host of services that cannot be offered over the phone or online, such as early years vaccinations and minor outpatient surgery.

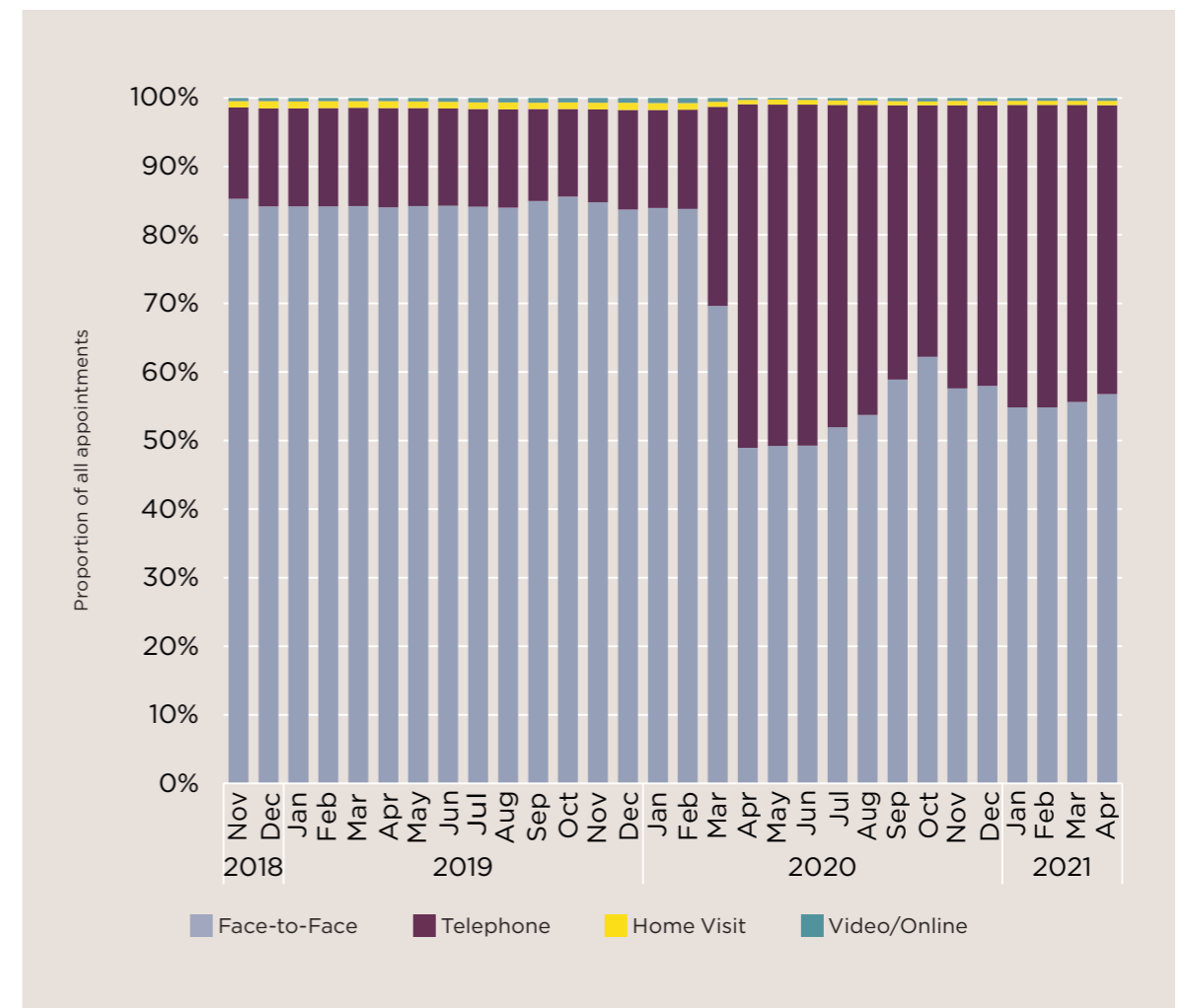
Digital primary care providers and their consultation offerings

Provider	Low acuity consultation services	High acuity consultation services	Scale
Babylon	Yes	Yes	24 million patients globally
Push Doctor	Yes	No	5.4 million UK patients
Ask My GP	Yes	No	2 million UK patients
Emis health	Yes	No	4,519 GP practices
LIVI	Yes	No	4,000 GP practices
Econsult	Yes	Yes	3,330 GP practices

Source Company websites

🗨️ Telephone consultations grew by almost 6 million from March 2020 to March 2021 🗨️

GP consultations by mode



Source NHS Digital

Remote care: competition or collaboration?

It's not just traditional GPs offering greater choice in how patients access care. Private providers, such as Babylon and Teledoc, are also competing to be patients' first port of call when seeking medical advice.

Digital healthcare is not new. Babylon, a digital-first health service provider, was founded in the UK in 2013. It claims to have reduced UK A&E visits by 25% by providing on-demand access to GPs. Its 'GP at Hand' service offers NHS-funded appointments on-demand, 24/7, a good example of new technology addressing the NHS promise of a right to digital care. However, even Babylon has physical brick-and-mortar surgeries, showing that not everything can be done online.

A Department of Health and Social Care report from

summer 2020 found that there were longstanding issues to address in the digitisation of primary health services. Among them was access to adequate hardware and WiFi in surgery practices. That suggests we will see a growing need for GP practices in older buildings to relocate to new facilities.

The GP practices that offer the best patient experience will be those offering a choice of in-person, telephone and video/online appointments at the right times. More than that, technology needs to be intuitive and, crucially, joined-up with other services. That is far easier to achieve in purpose-built medical centres than in older, converted stock.

🗨️ Even Babylon has physical brick-and-mortar surgeries, showing not everything can be done online 🗨️

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