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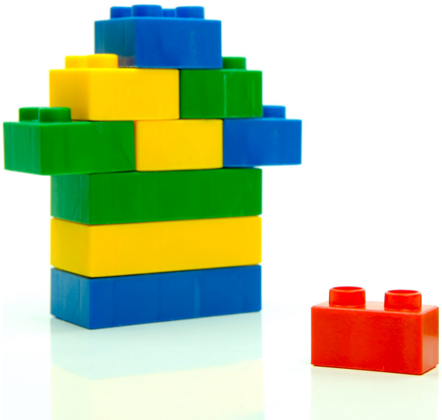
Healthcare Newsflash December

To Build or Not to Build



Care Homes
The market for established care homes is still reasonable though there is a notable lack of transactional activity. Over the past six months, homes coming to the market have tended to be the older, smaller and non-compliant stock and as such are of limited appeal. Understandably most good homes are being retained by operators with no reason for disposal at present.

However there is still activity in the sector as many operators are looking to upgrade/extend their existing homes. We have also experienced an increase in the number of enquiries from developers/operators considering the possibility of new build.

To indicate the level of activity across the country, we set out below a table showing the number of planning permissions granted for new care homes over the past six months (March to October) by region.

Region	No of Planning Consents
East Anglia	2
East Midlands	5
London	4
North	5
North West	5
Northern Ireland	0
Scotland	9
South East	20
South West	13
Wales	3
West Midlands	10
Yorkshire & Humberside	12
Total	88

The advantages of a new build are obvious and include the following:

- Fully compliant;
- The design should be future proof;
- New build provides greater opportunity for premium fees;
- Occupancy rates should be higher as new build homes will appeal to both service users and their families;
- The ability to provide for wider care categories such as YPD.

When designing a new home the recent announcement from CQC that all care homes will have to reapply for regulation by 1 October 2010 will muddy the waters; especially as the National Minimum Standards will be reviewed with an expectation that they will rely more on interpretation and fitness for purpose than actual dimensions that architects can work to. Whilst some areas can only support modest accommodation we strongly urge operators to build to as high a specification as possible – in the long run it is normally worth it!

This could be........

This!

At the onset of the credit crunch many enquiries were received from residential developers seeking an alternative use for their residential land. Over time the majority of these enquiries fell away due to site constraints and the land being in the wrong location for a care home. A great many of them also did not appreciate the need to have an established operator on board to make the home work.

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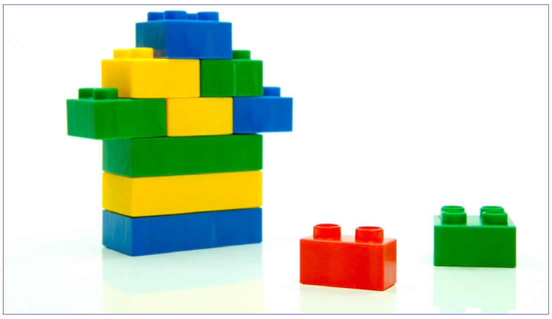

To Build or Not to Build

The care home market at present could be compared to the hotel market over 20 years ago, when the market was populated by older individual hotels under a group banner such as Trusthouse Forte.

The hotel companies embarked on a flight to quality churning their older, dated stock to raise funds for new build or extensively refurbishing existing hotels to create a market now dominated by brands within clearly defined sectors such as Holiday Inn and Hilton at the upper end, and Travelodge and Premier Inns in the budget sector.

Nasty old office building to you maybe but a 49 bed fully compliant nursing home to our client

Funding for new build care homes can be difficult due to the time needed to indentify and purchase a site, obtain planning permission, go to tender and then build it and 2-3 years for this phase is quite typical. An allowance then has to be made for trade build up which typically is 1–2 years giving a total commitment of up to 4-5 years until the new home is mature. For most operators this will be a difficult decision to make, albeit softened by land values being comparatively low at this time.

Several operators and developers are currently refining their approach to find a way to bridge the gap between a bare site and the value of the home when its mature. One such model is to charge a turnover rent until the stabilised year is achieved. The operator can then either buy the freehold with a proven income stream so funding can be secured; enter into a longer term lease agreement; or even sell to a third party, taking a share of the uplift in value. However, this is not seeking to repeat the PropCo/OpCo model of 2005-2007 that has fallen out of favour. Developers are simply looking to provide a product which fits in with the current constrained credit world we find ourselves.

There is much merit in leasehold care homes in our experience and the sectors aversion to them should be challenged. For operators unable or unwilling to put the time and effort into finding sites, obtaining planning and then building out the answer is to outsource this to a developer with the expertise and contacts to complete a quality build and agree a pre let or pre sale that will give the developer and its funder the certainty they need to start buying land and building. We are successfully putting together several such partnerships at present and expect others to follow.

In terms of design we are keen to see more flexibility in design to allow the same building to switch between different client categories and even between care home and extra care though the use of knock out panels and pod type bathrooms and kitchens. Typically larger rooms are the way ahead but in certain areas we accept that the extra costs of construction will be unsupportable due to low fees.

The sector almost certainly needs additional high quality facilities and this means development one way or another so we urge operators with a long term intention for the sector to give thought to the ways in which they can get involved. We are here to help.

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