



Fortem Global

*The Buy-To-Let Investment Specialists*

# 2017 Guide to Investing in UK Care Property

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The buy-to-let investment specialists

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## 1. Introduction

*Welcome to the Fortem Global 2017 guide to investing in UK care property.*

When people think about property investment, the UK care industry may not be on most people's radar or at the top of a portfolio wish list, and yet care home investments can offer a great alternative buy-to-let opportunity, with assured returns and the opportunity for capital growth.

There are many great opportunities to purchase property in the UK care sector, which is increasingly becoming a popular choice for investors seeking strong yields and a stable long-term investment.

Savvy UK and international investors have already awakened to the excellent property opportunities present in the healthcare market in 2016, brought about by the growing need for high-quality care within the sector in 2016.

New research from Cushman & Wakefield<sup>1</sup> predicts that the sector will enjoy substantial growth in 2017, as healthcare assets become more mainstream among investors, and the sector becomes recognised as its own property investment class.

In this guide you'll learn about The UK social care system and the growing need for care, the pressures on traditionally-funded care and innovation within the sector.

You'll also learn how the social care sector is currently performing for investors and why now is a good time to invest in care. We explain an increasingly popular model for investment and how to find the right investment opportunity for you.

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### RESOURCES

1. [\*Cushman & Wakefield - Investor Appetite for UK Healthcare Assets Widens\*](#)

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## 2. The UK social care system

*The scope of social care in the UK is wide ranging and can include anything from providing help to people to get up in the morning in their own homes, to round-the-clock support in a residential, nursing or specialist dementia care home.*

In England individuals are assessed on their care needs and are means-tested to determine whether they qualify for financial support from their local council - which pays a fee to the social care provider - or whether they have sufficient funds to pay for their own care.

During the past decade, councils across the UK have embarked on a widespread programme of care home closures. The rationale behind this has been efficiency – it is simply much cheaper for a local authority to pay privately owned care homes to provide care than to provide that care themselves in council run homes.

The majority of care homes are now privately rather than publically owned. There remains a small number of local authority owned and run care homes, however the much larger private care home sector is the area that offers opportunities for investment.

Due to the highly sensitive and important nature of care, the health and social care sector is a highly-regulated industry. The Care Quality Commission (CQC)<sup>2</sup> are the independent regulator responsible for monitoring, inspecting and regulating health and social care services in England.

All care providers in England are inspected by the CQC. The findings are published on both the CQC and operator's website, allowing the quality of care offered by each provider to be reviewed on a home-by-home basis.

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### RESOURCES

2. [The Care Quality Commission](#)

### 3. The growing need for care

*The issue of social care in the UK – and how best to provide it – is never far from the news headlines.*

The UK’s population is growing – and growing older. Estimates from the Office for National Statistics (ONS) suggest that by 2050 one in four people will be aged 65 and over (a 56 per cent increase from 2012), with 8 million people aged 80 and over.<sup>3</sup>

At the same time the UK population is projected to increase by 9.7 million over the next 25 years, from an estimated 64.6 million in mid-2014 to 74.3 million in mid-2039 (ONS).

Although medical advances are extending our lives, it doesn’t necessarily follow that we all live with good health as we age. This is reflected in the rising levels of dementia in the UK, with more than 850,000 now living with dementia costing the UK £26 billion a year.<sup>4</sup>

280,000 people with a dementia live in care homes in the UK. 70% of care home residents are living with a dementia.<sup>5</sup>

In summary, the demographic need for specialist and quality care provision remains strong in the long term.

#### Key Figures



#### RESOURCES

3. [Office for National Statistics](#) 4. [Alzheimer’s Society Dementia UK: Update 2014](#) 5. [Alzheimer’s Society Fix Dementia Care NHS and care homes](#)

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## 4. Pressures on traditionally-funded care

*Traditional models of social care are under increasing pressure.*

English councils are facing growing numbers of elderly and disabled people who require care, whilst facing a lack of funding to pay social care fees. To meet the growing need all but four councils in England are planning to increase council tax by the maximum allowed to help pay for social care.

The implementation of the National Living Wage<sup>6</sup> in 2016, coupled with financial pressures on local authorities has put added strain on the care industry. Rises in providers' costs and the squeeze on local councils' budgets are leaving some care providers in an unsustainable position.

It's been well publicised that several high-profile care providers have already gone out of business or were forced to sell off care homes in recent years, weighed down by debt and hefty interest payments. Many local authorities across the UK have also closed their care homes due to the government's squeeze on public sector funding.

The combination of both privately and publically-owned care home closures, and increasing numbers of people requiring social care, means there are big opportunities for well-run providers of care to expand the development and refurbishment of care facilities in areas of high demand.

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### RESOURCES

6. [Gov.uk - National Minimum Wage and National Living Wage rates](#)

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## 5. The solution for sustainable care

*Different providers of care have adopted different business models and strategies in response to the current situation in care.*

Whilst some care home providers have consolidated their offering into key locations focused on attracting self-funded private fee paying residents, other providers have remained committed to publically-funded care residents, becoming more efficient and capitalising on gaps in the market driven by local authority need.

The way in which care providers grow, acquire and fund new care property and the sources of funding providers use for new acquisitions has become increasingly important.

Following the financial crisis in 2008 some care home providers have struggled with paying back bank debt, which has contributed to home closures with 380 businesses declared insolvent since 2010.<sup>7</sup>

As an alternative to bank debt, some developers of care property choose to raise funds through a familiar sales and leaseback model whereby an investor may purchase a care room – or even a whole facility – on a long leasehold, in return for an annual rental income.

For an investor looking for a commercial property investment, this represents a way to invest in care, similar to a hotel or student property where an operator assumes responsibility for both the ongoing occupancy of the property and the day-to-day management of the facility.

When returns are designed to be sustainable, this model provides a win-win situation for purchasers who have an income-generating asset that delivers a respectable return on investment, and benefits entire communities with revitalised care facilities that provide much-needed social care over the long term.

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### RESOURCES

7. [The Guardian - Care homes in crisis as revised figures reveal surge in insolvencies](#)

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## 6. Why invest in care now?

*Social care offers an attractive investment opportunity, particularly at a time when other asset classes such as residential buy-to-let are susceptible to a range of downward pressures.*

Residential buy-to-let properties have been viewed as cast-iron investments as interest rates hit historic lows. But recent government changes such as a new stamp duty on buy-to-let purchases, plans to phase out all tax relief on mortgage interest by April 2020 and new affordability checks for landlords have made this market much tougher.

In contrast, opportunities from care developers offer investors a familiar sales and leaseback model for long-term investment that generates good rental yields and capital growth, with the bonus of no stamp duty to pay.

As care is a fully-managed asset, purchasers also benefit from owning a property that will usually have a buy-back option, making it straightforward to resell a room or facility at the end of a chosen term.

Perhaps best of all is the knowledge that by choosing to invest in care, an investors property purchase has a positive impact on communities and people in need of care.

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### RESOURCES

8. [This is Money - Chancellor confirms extra 3% stamp duty](#)

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## 7. Social care a ‘stellar’ performer

*Healthcare is likely to be the ‘stellar performing asset class of 2017’ and is attracting a truly global audience, according to a report by leading property consultancy, Knight Frank.<sup>9</sup>*

Knight Frank’s 2017 Healthcare Development Opportunities says a decline in care home beds across the UK, coupled with rising demand due to an ageing population, will increase interest in Britain and overseas.

The report says: “The erosion of supply, coupled with the underlying demographic trends for over-65s, which is forecast to rise from 11.6m in 2016 to 12.9m by 2021, will spark development interest.

“Over the last 12 months, the imbalance in care bed supply and demand has attracted significantly more investors in to the arena, as they recognise the opportunity and requirement for future-proof new build care facilities.

“Moreover, June’s (Brexit) referendum announcement triggered a wider global appetite for healthcare investment opportunities, with Asia-Pac investors now actively seeking and competing for UK assets.”

In its Care Homes Trading Performance Review for 2015-16, Knight Frank says that although the care industry is facing increased capital pressures – particularly from increased staffing costs – sustainable care providers remain an attractive, stable proposition for investors, particularly for international investors thanks to the recent fall in sterling.

The report also highlights how profitability levels in the care industry have risen for the first time in four years, up from 27.1% in 2014/15 to 27.5% of income in 2015/16 financial year. Occupancy rates in care homes have also edged up to 88.4% – the fifth consecutive year of growing occupancy and the highest rate since 2008.

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### RESOURCES

9. [Knight Frank UK Healthcare Development Opportunities 2017](#) 10. [Knight Frank Care Homes Trading Performance Review 2015-16](#)

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## 8. An increasingly popular model for investment

*Private investment through a sale and leaseback model is a well-established funding method in the property sector that allows developers to raise funds to purchase new property (acquisitions) without the need for large bank loans and the subsequent bank interest debt.*

This successful model is increasingly being adopted and adapted as an alternative to bank debt to help provide much-needed additional investment in the care sector.

The investment funds raised through private equity for care developments can be used by the developer to make renovations to improve care facilities, and to support the new operational company as it works towards increasing service quality, profitability and the efficiency of homes.

Often, the resulting improvements to the property, combined with the service improvements of the operator, allow the operational company to attract higher public and private fees which then makes them more profitable and sustainable and provides a service to communities in most need.

A percentage of the operational profits can then be paid back to the developer, who then pays investors their returns. Investors receive an annual rental income and capital uplift at the end of their chosen term. The key is sustainability, with a model that works well for investors who provide the initial capital, developers and operators who are able to improve the quality and quantity of available care.

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## 9. Finding the right investment opportunity

*For the private investor, now is an excellent time to consider investing in UK care. There are a growing number of innovative developers offering great buy-to-let investment opportunities within the UK care sector.*

With the unitised sales model, finding an ethical, sustainable investment that delivers stable returns and prospects for capital appreciation is no longer the preserve of large institutional investment, and is increasingly becoming an attractive option for individual investors thanks to the security of long leasebacks and long-term cash flows.

Selecting the right combination of developer and operator is key. The performance and financial situation of both operators and developers are important factors to consider when conducting due diligence to determine the viability of a commercial property investment.

The ethos of the homes - and how they are operated - are also vital. Providers who are committed to both delivering high standards of care provision and to safeguarding the long-term operational stability of homes represent a good opportunity for investment.

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## 10. How to purchase a care home property

*As a leading buy-to-let investment property consultancy Fortem Global specialises in identifying opportunities in the UK care sector.*

With an experienced team committed to finding investors a range of buy-to-let opportunities, we have several care opportunities in our property portfolio alongside more established student and residential options.

We hope you have enjoyed reading this guide. Our team of portfolio managers is here to help answer any questions you may have and to guide you through the process of purchasing a buy-to-let investment opportunity that's right for you.

To find out more about the latest opportunities in UK care, contact us today.



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