1

Occupancy down 8.5% by mid-year 2020

2

Operators adapt quickly and show resilience

3

Additional government funding until March 2021

2020 UK Care Homes Trading Performance Review

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INTRODUCTION

2020 has been a year like no other, and especially so for the UK care home sector which has adapted immensely well to a challenging operating environment

This year, we have adapted our annual Care Home Trading Performance Index to incorporate the usual industry-leading benchmarks for the 2019/20 financial year, but also any changes in performance that occurred from April onwards when the pandemic emerged. This has allowed us to measure the impact of Covid-19 across the sector. A special thank you this year to all the operators that have helped to keep the survey sample as robust as ever.

As you can see from Figure 1, our survey includes care homes spread far and wide across the UK. Nursing care homes account for two-thirds of the sample, versus one-third for personal (residential) care homes. This reflects the survey's weighting towards the corporate market, with most group-owned homes registered to deliver full-time nursing care, including dementia care. Figure 2 also shows how the regional split of this year's sample mostly mirrors the total UK market. The only clear exception being Wales, where our sample is slightly underweight.

THE SURVEY IN NUMBERS

112k Care beds

1/4 of UK care home market

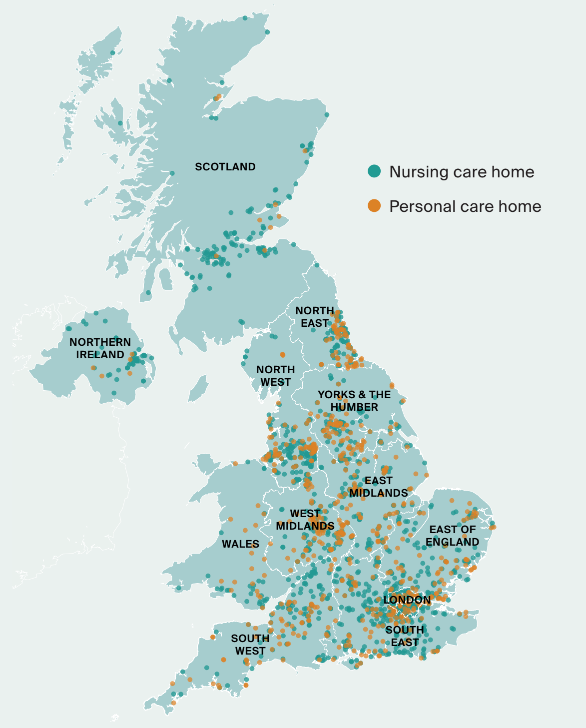
71% of the corporate group market

67 Counties and island dependencies

819 UK towns and cities

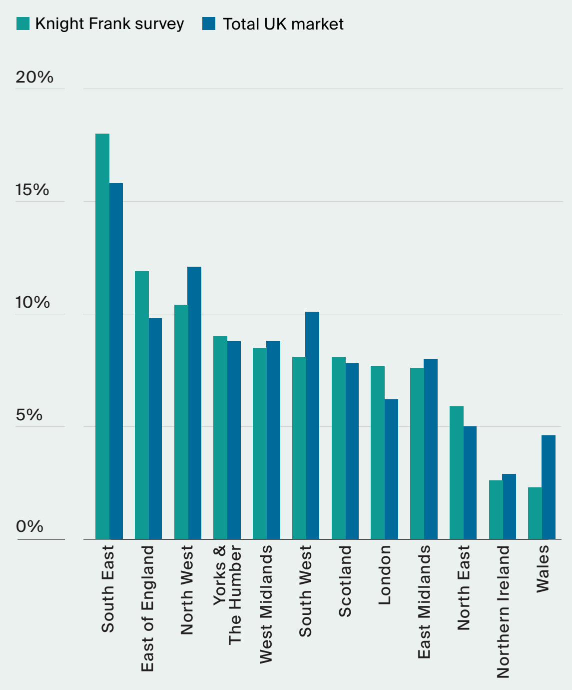
CARE HOMES TRADING PERFORMANCE 2020

FIG 1 | Regional spread of 2020 survey



Source: Knight Frank

FIG 2 | Regional share – Knight Frank survey vs Total UK stock



Source: Knight Frank, Tomorrow's Guides

FIG 3

2020 RESULTS AT A GLANCE

	OCCUPANCY			AVERAGE WEEKLY FEES			STAFF COSTS (% OF INCOME)			EBITDARM (% OF INCOME)		
FINANCIAL YEAR 2019/20	87.9% ▼ All Care	89.2% ▼ Personal	87.4% ▼ Nursing	£889 ▲ All Care	£766 ▲ Personal	£953 ▲ Nursing	58.0% ▼ All Care	55.1% ▲ Personal	59.0% ▼ Nursing	26.8% ▼ All Care	28.5% ▼ Personal	26.3% ▼ Nursing
Q2 2020	▼ 79.4%			▲ £938			▲ 61.3%			▼ 26.2%		

Occupancy declines by 8.5% between March and June, but recovers 1.2% by October 2020 **(more on pages 4 and 5)**

Fees increase for the 10th consecutive year and a further 5.6% is showing in the 2020/21 financial year. **(more on pages 6 and 7)**

COVID-19 adds to staffing challenges, but the *Adult Social Care Infection Control Fund* provides a buffer. **(more on pages 8 and 9)**

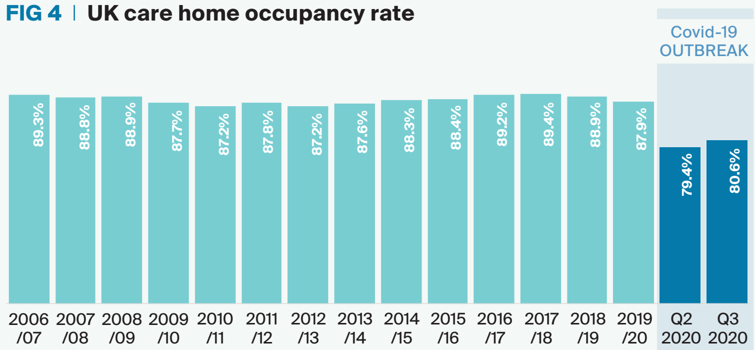
Limited impact on profitability thus far in the pandemic, but a challenging period ahead. **(more on pages 10 and 11)**

Tracking the pandemic

Following the outbreak of Covid-19 in March there was a clear concern for care operators regarding the direct threat of the virus to residents and staff, but also concern surrounding the tracking and monitoring of the situation. Since then, we have been working with many major operators to provide an objective weekly measure of occupancy levels. While this is separate from the annual Care Home Trading Performance Survey, the data collected provides a timely indication of occupancy levels across the market and will serve to track the pace of recovery in months to come.

Figure 4 shows how occupancy fell by 8.5% across our main survey respondents during the second quarter of 2020. However, our additional weekly tracking shows an estimated recovery of 1.2% in the third quarter as death rates normalised and operators have begun to confidently admit new residents. There remain concerns over a second wave, but rigid testing procedures are now in place among large group operators, who report being in a much stronger position than in March. As of the end of October, we had not seen a meaningful increase in care home fatalities.

FIG 4 | UK care home occupancy rate

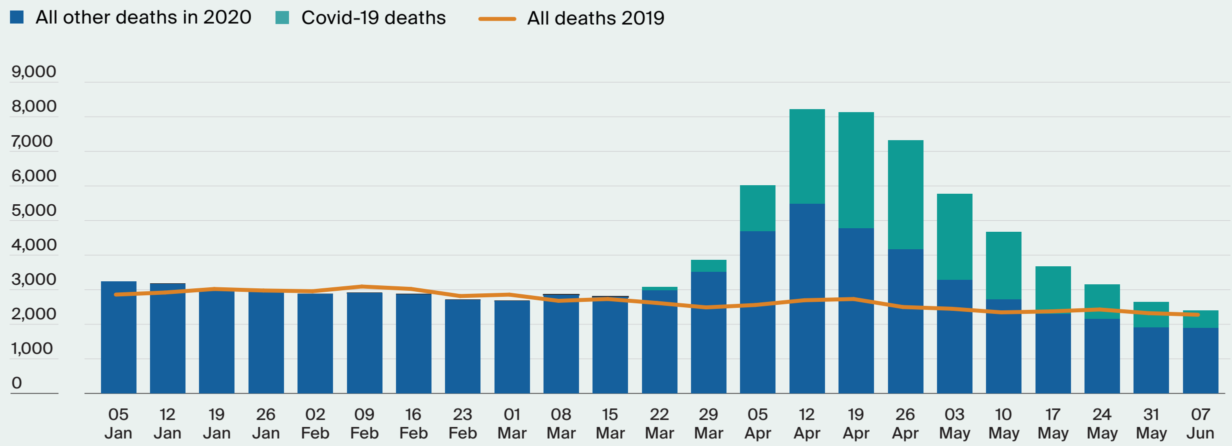


Source: Knight Frank

OCCUPANCY

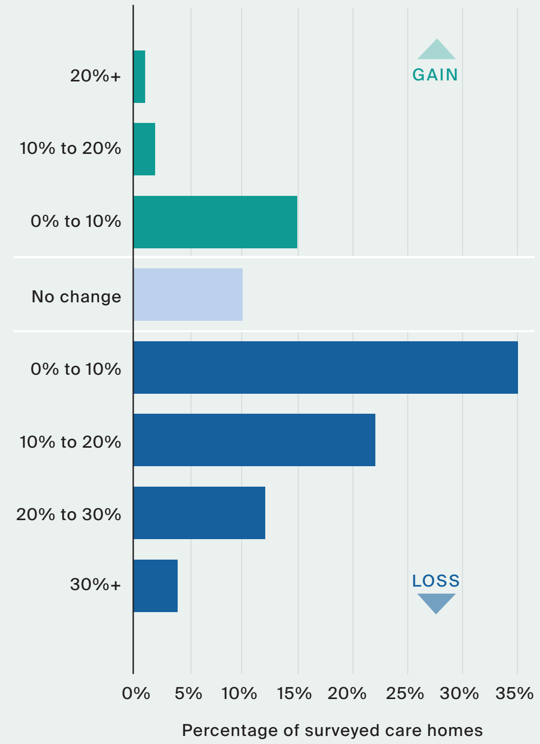
Despite the challenges, the data shows how resilient major care providers have been over the summer period

FIG 5 | Care home deaths registered in England & Wales



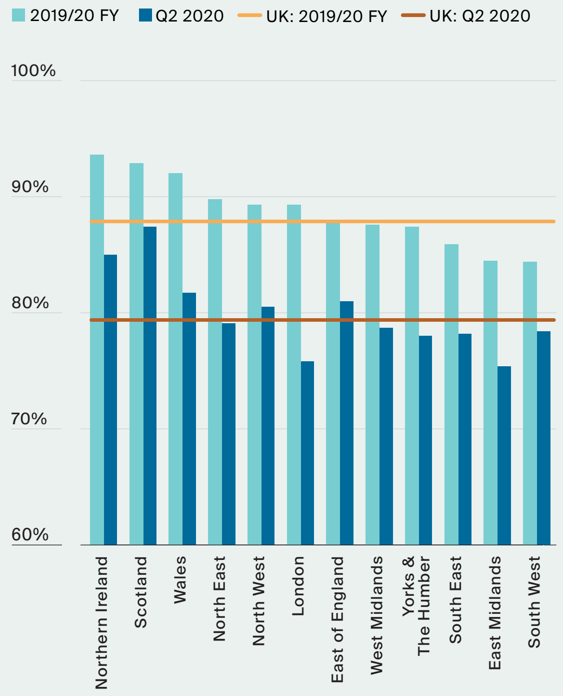
Source: ONS, General Register Office

FIG 6 | Occupancy changes during Q2 2020



Source: Knight Frank

FIG 7 | Average occupancy by region, 2019/20 financial year vs Q2 2020



Source: Knight Frank

Major operators are equipped to deal with outbreaks of seasonal flu and diseases such as dementia and Alzheimer's, but Covid-19 has been an unprecedented challenge.

Fears of substantial occupancy loss seemed justified in March, when academic studies were suggesting case fatality rates of 15-20% for those over the age of 80, and higher for those with multiple health conditions. The rapid discharge of vulnerable elderly people from NHS hospitals and into care homes also posed an additional challenge.

Over six months on, we can retrospectively assess the impact of the outbreak on the care home sector. ONS data, compiled from the General Register Office, shows that from 1st March to 7th June there were approximately 29,178 excess deaths (over and above 2019 levels) across care homes in England and Wales (Figure 5). Close to 2,000 Covid-19 deaths were also recorded in Scottish care homes in this period [1], suggesting that Covid-19 has directly and indirectly resulted in over 30,000 excess deaths across the UK care home sector.

What has this meant for occupancy rates?

As shown in Figure 4, the uptick in mortality produced an 8.5% decline in occupancy across the UK. Encouragingly, mortality rates normalised by early June and we have since seen a steady rise in new admissions, helping to stabilise occupancy levels. Pent up demand is expected to support a recovery in occupancy, but stringent testing procedures for new residents and some hesitancy among enquiring relatives may soften the pace of recovery.

There are varying stories across providers and individual homes. As shown in Figure 6, 28% of homes surveyed have experienced either no change in occupancy or even made gains over the summer. This section of the survey has excluded homes that received block bookings from the NHS, and therefore any gains reflect usual business. Figure 6 also shows that of the homes that lost occupancy in Q2 2020, most lost between 0% and 10%. In many cases, declines were less than 5%.

Regional comparison

No region of the UK has been sheltered from the virus, although occupancy has generally dropped lower in more densely populated and urban regions. This has been the case in London and the East Midlands where occupancy has slipped to 75-76%. Densely populated regions have seen more severe outbreaks, but greater demand for care beds could facilitate a swifter recovery in occupancy as new admissions return.

FEES AND FUNDING OF CARE

2019/20 saw care home fees increase across our index by a further 6% year-on-year, averaging £889 per week across all care types.

Steeper rises in recent years look less dramatic in real terms when adjusted for inflation. As shown in Figure 8, care home fees have increased 50% in nominal terms since 2008/09, but inflation-adjusted growth amounts to only 8% over the same period.

Operators continue to adjust fees to counterbalance a number of increasing costs, in particular staffing costs. Furthermore, with much of the care home real estate market older than twenty years, extra revenue is increasingly needed to fund refurbishments and upgrades. We expect this trend to continue going forward as many existing homes will need to adapt the design and layout of their facilities as a legacy of the pandemic.

What determines fee levels?

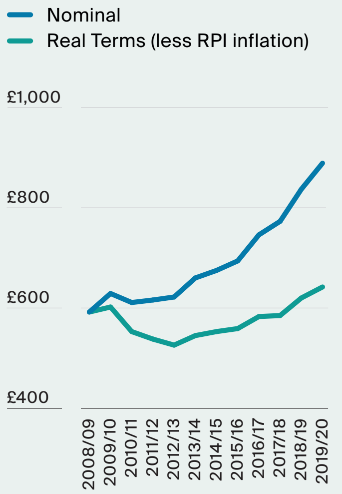
Care type: The average weekly fee for a nursing home in the UK in this year's index was £953, compared to £766 per week for personal care homes. The premium is due to the level of care provided, with nursing homes typically designed for higher-dependency residents requiring full-time medical care delivered by qualified nurses.

Region: As shown in Figure 9, there is significant variation in fee levels across regions and more granular localities within the UK. Fee levels in Southern England tend to be higher than the North of England, matching the higher staff costs seen in the South. In the 2019/20 financial year, fee increases were seen across all regions of the UK, except Wales, where average fees for the personal care segment held flat at £650 per week.

Funding type: The majority of care homes derive their funding from a combination of local authorities and private-paying residents (self-funded). As you can see from Figure 10, the split varies significantly across regions. In the North East and London, a significant amount of residents qualify for full local authority support, or at least part-funding. In contrast, more affluent areas like the South East and South West of England derive more of their income from private-paying residents. Average weekly fee rates in the UK private-pay market measured £1,086 in 2019/20, compared to £746 a week for local authority funded fees.

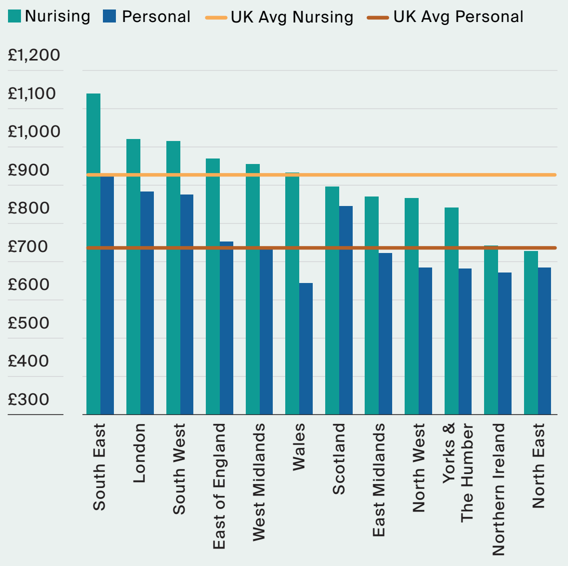
Further fee uplifts have occurred in the new financial year, recorded from April to June 2020

FIG 8 | UK Average weekly fee growth



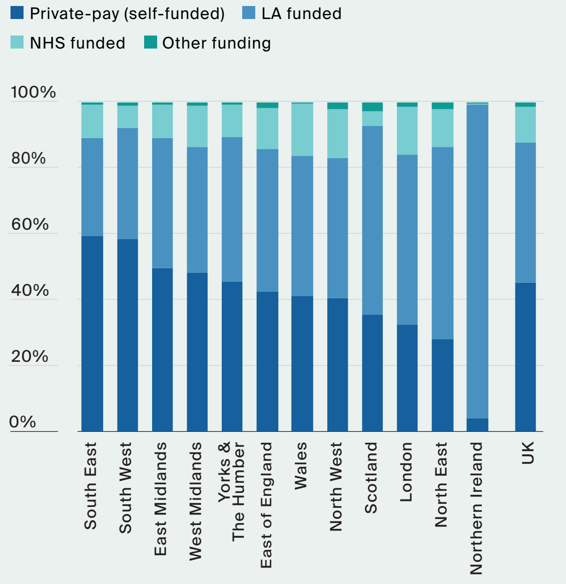
Source: Knight Frank

FIG 9 | Average weekly fees, by region and care type 2019/20



Source: Knight Frank

FIG 10 | Funding split by region

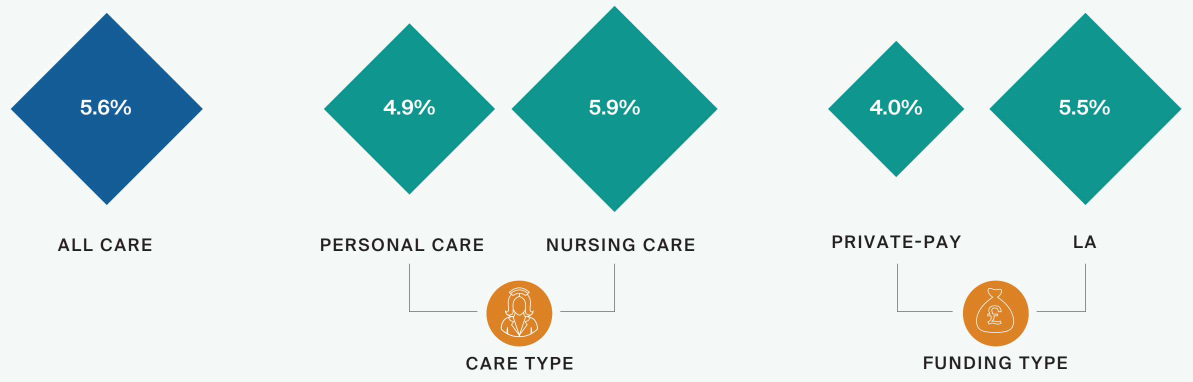


Source: Knight Frank

Fee uplifts in the 2020/21 financial year (preliminary)

This year we are also able to report preliminary data on changes in fee levels in the new financial year. As shown in Figure 11, further fee uplifts have been unanimous across both care types and funding types. Homes in our sample that are primarily funded by local authorities have seen a 5.5% rise in fees in Q2 2020, suggesting that some of the additional £3.2 billion funding supplied to local authorities by the government is making its way into the residential care sector. It is not yet clear if these rises will be permanent or temporary, with the government yet to finalise a long-term solution to the care funding crisis.

FIG 11 | Average weekly fee uplifts for 2020/21 financial year (Q2 2020)



Source: Knight Frank

COSTS

As operators look to support their workforces during the pandemic, increasing staff costs remain a significant challenge

Staffing

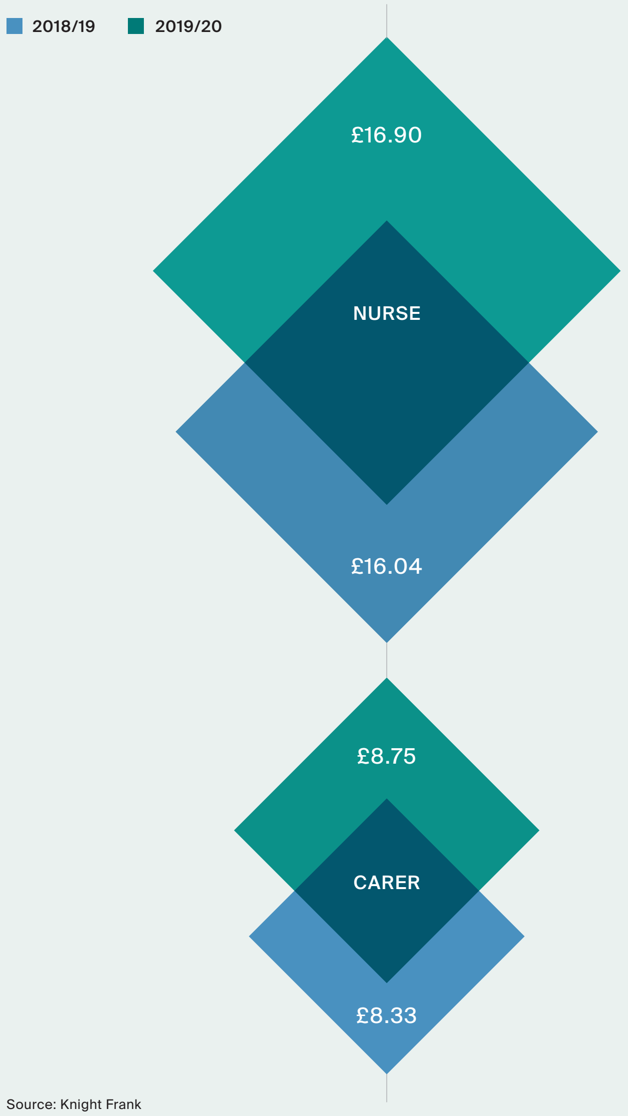
Following the trend in recent years, staff costs across the index increased 3.7% to an average of £26,956 per resident per annum for the 2019/20 financial year. Further increases to the National Living Wage (NLW) have contributed to this, especially for personal care homes. For those over the age of 25, the NLW increased by 4.9% in April 2019 followed by a further increase of 6.2% in April 2020, to reach £8.72 per hour.

As a percentage of income, staff costs represented 58.0% of income in the 2019/20 financial year and are especially high in the nursing care sector. There are a number of reasons for this. Pay scales are significantly higher for skilled nurses, with the hourly rate almost double that of a carer (Figure 12); Workforces are larger – our index shows that for every nursing home resident, there are approximately 0.85 full-time nurses or carers employed to ensure the appropriate level of care (Table 1); Finally, nursing homes are more heavily reliant on agency staff, whose use always costs a premium (Table 1).

Property and food costs

Property costs (which we define as utilities, council tax, insurance, repairs and day to day maintenance) increased by 3.7% across the UK in 2019/20, reaching on average £2,399

FIG 12 | Average wage rates, per hour



Source: Knight Frank

per registered bed per annum. We suspect certain property costs to jump in the new financial year as a result of Covid-19. Soaring indemnity insurance premiums have been reported since the outbreak and this could turn a relatively small outlay into a larger one unless more support is given to operators. Food costs also increased by 3.1%, measuring on average £1,629 per occupied bed across the UK. Our index shows some noteworthy variation across countries in the UK with food costs in Scotland (£1,489 per bed) close to 10% lower than food costs in England (£1,646 per bed).

TABLE 1 | Staff costs, agency costs and resident to staff ratios 2019/20

	STAFF COSTS, PER RESIDENT P.A.	YEAR-ON-YEAR CHANGE	STAFF COSTS, % OF INCOME	AGENCY COSTS, % OF STAFF COSTS	RESIDENT: STAFF (RATIO*)
Nursing Care	£29,322	4.0%	59.0%	9.9%	0.85
Personal Care	£21,351	4.1%	55.1%	6.2%	0.58
All care	£26,956	3.9%	58.0%	9.0%	0.76

Source: Knight Frank *Includes all nurses and carers. Part-time staff calculated as half a staff member

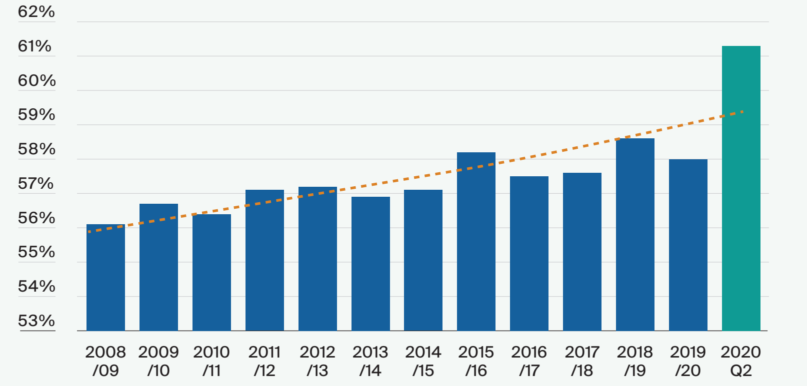
Additional costs prompt Adult Social Care Infection Control Fund

The most obvious additional cost resulting from the pandemic is that of personal protective equipment (PPE)[2]. To gauge the extent of these costs we asked operators to detail spending on PPE before and during the pandemic. While noting significant variation across operators, our analysis shows that operators spent an average of £160 per bed per annum on PPE during the 2019/20 financial year, compared to £260 per bed during the second quarter of 2020 alone. While these numbers may seem small, PPE will represent a significant extra cost to operators over the course of the pandemic and even beyond.

As well as PPE, irregular spending on staffing will have added to existing high staff costs. Many care homes have had to remunerate and support existing staff during periods of isolation, while at the same time recruiting new staff to fill gaps in the workforce. Our survey shows that operators spent as much as 61.3% of income on staffing in the second quarter of 2020 (Figure 13). This partly reflects a reduction in income, but is also down to increasing staffing costs.

Any further escalation of staff costs may be contained by the *Adult Social Care Infection Control Fund.* Introduced on the 13th May, the fund will inject a much needed £1.15 billion to support infection control and related staffing and recruitment costs. Local authorities must ensure that 80% of the grant goes directly towards care homes within their geography, including private homes. This will certainly provide a lifeline for many homes.

FIG 13 | Staff costs as % of income, since 2009/09



Source: Knight Frank

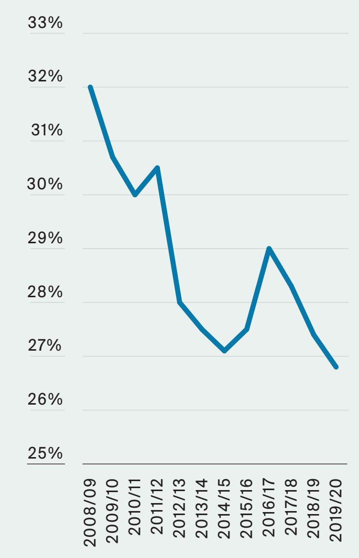
PROFITABILITY

Care operators have demonstrated an ability to limit the human and financial impact of the virus so far

As shown in Figure 14, profitability has been on a downward trajectory over the last decade. The 2019/20 financial year was no different with average EBITDARM margins declining to 26.8%. Despite the broad story, there is a huge amount of variation within the market. As illustrated by Figure 15, a third of group-owned care homes traded at EBITDARM margins in excess of 30% in 2019/20, while only 5% made a loss.

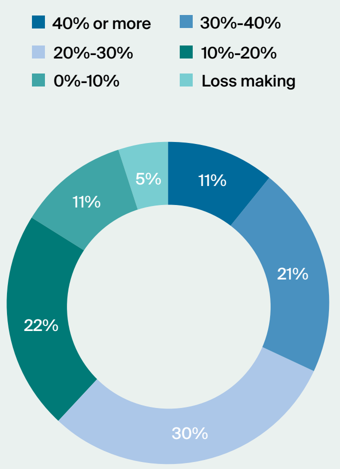
In most regions, profit margins are higher across the personal care sector, as shown in Figure 16. High staff costs are weighing on margins in the nursing care segment of the market, which is challenged to deliver 24/7 nursing care to residents. The South East, London, Wales and Scotland are the only exceptions to this trend. A larger private-pay market, supported by higher fees, has helped to raise profitability in the South East, while occupancy rates well in excess of 90% are supporting earnings in the Scottish and Welsh nursing segments.

FIG 14 | **EBITDARM as % of income, since 2008/09**



Source: Knight Frank

FIG 15 | **Distribution of EBITDARM margins, 2019/20**



Source: Knight Frank

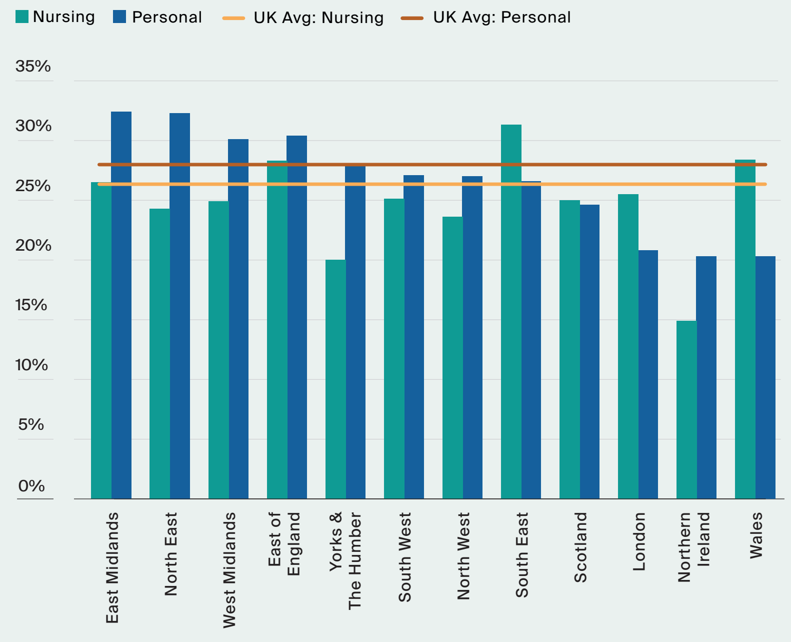
Summarising the financial impact of Covid-19

As shown in Figure 17, EBITDARM margins have seen little decline so far, falling by only 0.6% in the second quarter of 2020. Limited declines are also consistent across care types and funding models. A lot of this must be credited to care operators and the social care workforce who have rallied to protect residents, support the wider healthcare system, and made significant personal sacrifices in the process.

Fee uplifts in the new financial year and additional government support have also helped to support trading performance across the sector. The additional funds provided via the *Adult Social Care Infection Control Fund* may only partially show up in our mid-year numbers, but will be a vital cushion against the additional cost of the pandemic for many care homes.

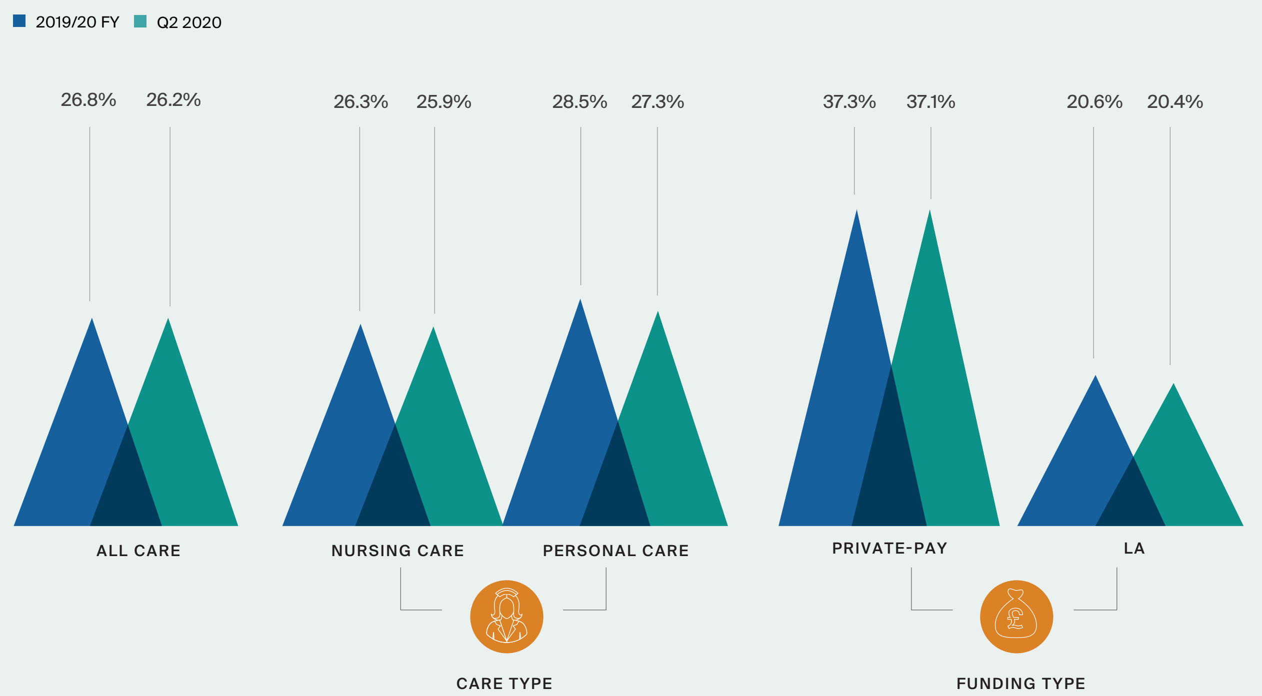
The challenge of Covid-19 is by no means over, but operators have demonstrated an ability to limit the human and financial impact of the virus so far and are in a strong position as we approach winter. Going under the radar are the broader long-term issues of the funding crisis in care and Brexit, the latter of which serves to reduce the pool of migrant carers and nurses at a time when they are desperately needed. Hopefully a legacy of the pandemic will be to raise the profile of these issues.

FIG 16 | **EBITDARM as % of income, by region and care type 2019/20**



Source: Knight Frank

FIG 17 | **EBITDARM margins, 2019/20 financial year vs Q2 2020**



Source: Knight Frank

CARE HOMES TRADING PERFORMANCE 2020

FORWARD VIEW

Julian Evans FRICS
Head of Healthcare

This year's trading performance survey has made two things even clearer to me. Firstly, this crisis has demonstrated the resilience and capability of our residential care sector. Undoubtedly, the pandemic has tested and will continue to test operators financially well into next year, but it's critical that we continue to champion the incredible performance of care home operators and their workforces during the pandemic. While the British media has at times conveyed a hysterical image of care homes, an occupancy loss of only 8.5% across a sector that deals in caring for the most vulnerable demographic in society is an incredible feat, and testament to operators. Looking forward, group operators are now in a much stronger position, and for a whole host of reasons.

Secondly, the crisis has demonstrated the huge importance of reliable, real-time data across the broader healthcare sector and within residential care. This is something we certainly recognise as advisors, but the willingness of many providers to contribute in our surveys confirms that you do too. I'd like to thank all the operators that have once again submitted their data for the purposes of our annual Trading Performance Review. In particular, I would like to thank those operators that have participated in our weekly occupancy and mortality tracking since March 2020. Thanks to you, our datasets have provided valuable intelligence to the market in 2020 and creating better and more usable healthcare data will form a key part of our strategy for 2021.

Front Cover: Graysford Hall, Leicester, Sanders Senior Living

Footnotes:

(1) 1,973 Covid-19 deaths were registered with the National Records of Scotland (NRC) between 22nd March and 27th September 2020.

(2) Our survey is based on PHE definition of PPE, including disposable gloves, fluid-repellent masks, and eye protection. Please note additional costs may have been incurred through the purchase of cleaning products, hand sanitiser and temperature checking instruments.

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