# Sector update
# Care services

JUNE 2020

## Covid-19 shining a spotlight on the care services sector

The care services sector has galvanized itself since the start of the Covid-19 crisis as owners, staff, residents and their families have demonstrated the ability to adapt quickly and respond effectively to the daily operational and emotional challenges that have emerged since mid-March.

The response of the care services ecosystem to this international health crisis has been truly remarkable and has created a favourable impression of the sector amongst the public that is hoped will be long-lasting.

The focus on the sector is acting as a catalyst for change. There is clear encouragement for operators, politicians, payors and the regulator to think through (some might say not before time) the evolution of models of care, both in terms of consumption and delivery.

### UK government providing support

The UK government and devolved authorities are emphasising the long-term value and importance of the sector. This attention is already manifesting itself in several ways:

- increased funding flowing from certain local authorities
- partnership models forming between health and social care with significant collaboration amongst industry experts
- adoption and further use of technology to improve the service user experience
- improvements to existing infrastructure and deployment of significant capital into future-proofing stock.

The care home sector is, alongside the NHS, at the forefront of the response to the virus, and the sector is likely to emerge stronger, better funded and, potentially, with an improved care model.

## In focus: Elderly care

### Demographics still favouring growth

The age demographic of elderly care has sadly meant this part of the market has been, and continues to be, at most risk of significant excess deaths caused by the virus. This contrasts with the specialist care sector, where the use of smaller homes and the lower average-age profile of residents has mitigated the impact of the virus to some extent.

In elderly care, some local authorities have reacted to the crisis quickly and there is some evidence of fee increases to the tune of five to ten percent, helping operators with incremental PPE spend and the purchase of additional beds to create guaranteed supply to support those patients being discharged from hospital settings.

Whilst new placement demand from private payors in all settings has understandably tailed off, operators with local authorities as their main customer are seeing strong demand, stable occupancy as beds are recycled, and higher quality earnings through the crisis.

> “Despite the enormous short-term challenges, the long-term fundamentals are probably stronger today than they were before the Covid-19 crisis. Social care is now firmly at the top of the political agenda with the UK government clearly emphasising the value and importance of the sector and evidence that some local authorities are increasing fees paid to operators.

JUSTIN CROWTHER,
PARTNER – HEALTHCARE

## Locking down demonstrates sector's robustness

Operators that have successfully traded and protected residents (to the best of their ability) through this period are seeing public confidence return. Recent official statistics are reporting that 60 percent of care homes in England have had no outbreak of Covid-19 and our recent conversations with elderly care operators suggest that enquiries and home occupancy from private payors are on the up.

Staffing shortages have, in the main, been temporary. The pool of labour has grown dramatically as other sectors closed for business. Individuals out of work have actively looked to support our health and social care services by reallocating their human capital.

Operators have expressed hope this trend is not a short-term phenomenon and those reallocated workers continue their development into a highly skilled career in care. The sector benefits are vast; it will reduce the dependency on agency staff and potentially also mitigate some of the perceived risk around Brexit, especially given the sector's reliance on the EU workforce.

## Investor behaviour shows a flight to quality

Compared to the global financial crisis in 2008-09, the funding market is well capitalised and there is significant appetite to invest in counter-cyclical markets such as care services. In fact, the attractiveness compared to other asset classes has grown as a result of the pandemic, which is likely to mean valuations remain robust.

The range of investors is broad and includes UK and international trade, private equity, family offices, REITs, credit funds and infrastructure funds. This creates competitive tension for high-quality platforms, providing owners with flexibility and optionality either to raise growth capital to continue to develop a business or look to realise value through a full or partial exit.

UK market access remains a priority for larger US, European and Asian investors who see an opportunity to consolidate a fragmented market which is underpinned by sustainable tailwinds.

It is important to emphasise there is likely to be a flight to quality. Investors and acquirers will set the bar high in terms of the physical and operational quality of businesses in which they may look to become involved.

Traditional debt lenders are being supportive of the sector in the current period and are showing willingness to deploy further lending into the market, especially development debt. It will be interesting to see whether pricing and lending ratios are adjusted to the same extent as other industries. For example, the price of development debt reflects the view that the sector will return to normality sooner rather than later.

## Future-proofing stock could trigger a development boom

Our recent industry conversations point to an underlying desire for the perception of quality to shift from the adherence to regulatory standards and demonstration of sustained profitability or high-quality earnings to a model that places the service user first. Whilst regulation and operational excellence remain critical, best-in-class infrastructure, enhanced customer experience and technology also need to be at the forefront of evolving quality care models.

It has been reported that over half of the UK's care home stock is at least 20 years old, implying a requirement to refurbish or even potentially replace as many as 250,000 beds in the medium term. Additionally, there remains a considerable supply and demand imbalance with new bed registrations marginally outpacing de-registrations and ageing demographics fuelling the need for modern, fit-for-purpose stock. Operators backed by institutional investors have an opportunity to reshape the social care landscape by supporting the commissioning, development and registration of these homes for future service users.

In the short-term, this may require adaptations to ensure operators can cope with future outbreaks of viruses without damaging the homely atmosphere by becoming clinical-style environments. The use of glass pods for family visits or virtual conference rooms to connect families to residents being examples. In the longer-term, more significant changes to home layouts may occur, with floor plans potentially being altered to allow for infection control and other technologies to be deployed.

The role of technology has long been mused as the solution to the daily challenges operators in the residential care market experience. The pandemic has had a transformative effect on the use of technology and perhaps more crucially, it has also transformed the public's acceptance of that change.

Effective use of technology has the ability to transform the traditional ways of operating and managing care homes and we fully expect to see the further adoption of digital and virtual solutions across the market, specifically remote diagnostics, connectivity, big data, and virtual training/recruitment practices to name but a few.

"Our conversations reinforce our view that investor appetite remains strong across the care service spectrum with investors looking for high-quality operators and well invested, fit for purpose infrastructure. Development activity will accelerate as operators come under pressure to upgrade old stock.

**HOONG WEY WOON,**
PARTNER – REAL ESTATE

# Selected care services deals

MAR 2020
KORIAN
ACQUISITION OF
5SANTÉ
RÉHABILITATION DES MALADES CHRONIQUES

NOV 2019
QUADRIGA CAPITAL
RECAPITALISATION
DoreaFAMILIE

DEC 2018
Ignite
ACQUISITION OF
CORNERSTONE HEALTHCARE

DEC 2018
KORIAN
ACQUISITION OF
GROUPE OMEGA
La vie continue ensemble

DEC 2018
DoreaFAMILIE
SALE TO
GROUPE MAISONS de FAMILLE
chez nous, vous êtes chez vous

MAR 2018
Residalya
SALE AND LEASEBACK
ICADE

NOV 2017
CHEQUERS CAPITAL
ACQUISITION OF
EMVIA LIVING

APR 2017
COLISEE
SALE TO
IK Investment Partners

FEB 2017
Raphael Healthcare
SALE TO
Elysium Healthcare

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ALANTRA

POSSIBILITY IS IN THE ASCENT

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