OakNorth Sector Pulse
June 2024

CARE

OakNorth

Industry overview

Over the last six months, the care sector has continued to face immense headwinds. One in 10 open staff positions remain unfilled – a challenge that is only likely to get worse in the short-to-medium term, following the ban on newly arriving care workers bringing immediate family which took effect from 11th March.

In July, the country will vote for its next Prime Minister and if the polls are to be believed, it's Labour that will be victorious next month. In its manifesto, Labour has promised to undertake a programme of reform to create a National Care Service, underpinned by national standards, delivering consistency of care across the country. Whether Labour ends up winning or not, it is clear that government will need to prioritise these staffing challenges, as well as improvements to existing care infrastructure, and accelerating development activity through an overhaul of planning laws to ensure the supply of new beds can keep up with demand.

As a needs-driven sector, income potential and cashflow have remained reliable. We're seeing several of our customers in this sector building strong cash reserves and seeking funding to pursue operational improvements in their existing real estate assets and acquire new high-quality stock. With construction labour shortages, increased material costs, ongoing supply chain issues, and lacklustre planning processes, these trends are only set to become more prominent in the months and years ahead.

Key trends of the last six months

Government funding boost

Following a consultation in January 2024, the Government announced an additional £500mn for the Social Care Grant. While the news was generally welcomed by the care community, they warned that a £4bn funding gap remains in local social care budgets, so much more support is needed. Meanwhile, the Department of Health and Social Care announced a 7.4% rise to the standard rate and higher rate of NHS-funded Nursing Care from 1st April 2024, enabling eligible care home residents with specific nursing needs to benefit from NHS-funded nursing care. Again, the news was generally welcomed with Care England declaring it a "win for the sector".

£500mn

In 2024, the Government announced an additional £500mn for the Social Care Grant

Increasing cost pressures and staffing challenges

Operating margins continued to be under pressure over the last six months due to elevated costs (including wages, utilities, and supplies). This was amplified by the sector's increasing reliance on costly agency staff, as a result of tightening migration policy which prevents healthcare workers from bringing dependents. While we've generally seen smaller/converted care home assets being most heavily impacted by this, even the largest providers are noting these as some of their most significant challenges.

Elevated costs

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Growth of luxury later living in the regions

An ageing population means demand for luxury later living has increased significantly in recent years. While currently most prevalent in London and the South East, over the last six months, we've seen an increase in demand for growth finance from providers of luxury later living offerings in places such as: the Cotswolds, Bath, Edinburgh, and Cheshire, where there the grey pound is growing and affluent.

£320bn

The value of the grey pound in the UK is over £320bn a year

“There’s a tendency to believe that “care” is a recession-proof industry, and that no matter where a country is in its economic cycle, care will be fine as people continue to age and become ill, and therefore demand stays constant. However, if there’s not enough supply of care workers, beds, or funding available to meet this demand – especially when 55% of it comes from local authorities and the NHS – then there will be hundreds of thousands of people who simply aren’t getting the speed or quality of care they need. Over the last six months, we’ve supported many of our existing customers in this sector with additional capital to ensure they can take advantage of opportunities that may arise to expand their portfolio, improve their existing assets, or do both.”

Ben Barbanel
Head of Debt Finance at OakNorth

Sector spotlight

LOVETT CARE

An award-winning dementia and nursing care provider

In January, we completed a loan to Lovett Care, the award-winning provider of dementia and nursing care in the North West and Wales. The loan will support the development of a new purpose-built care home in Manchester, consisting of 59 ensuite rooms, lounge and dining facilities, a hair and beauty salon, a café, and an activity room.

MAYFAIR GROUP

A new state of the art medical centre

In November, we completed a £3m loan to Mayfair Group Investment, a leading developer, investor, and manager of healthcare, commercial, and residential properties, to develop a new state-of-the-art, purpose-built medical centre in Leeds. The new three-storey Harehills Medical Centre, located along Harehills Lane in Leeds, will consist of a GP surgery, retail pharmacy, and 35-space car park, spread across a 1,400 sq. m site.

MY CHOICE HEALTHCARE

LNT CARE DEVELOPMENTS

SPRINGFIELD HEALTHCARE

Follow-on funding to existing customers

Since January, we’ve completed transactions with several of our existing customers in the healthcare, social care, and retirement living space, including My Choice Healthcare, LNT Care, and Springfield Healthcare. This demonstrates there is clear demand from the sector for capital to support the extension or refurbishment of existing sites, the acquisition of new sites, and working capital.

Outlook for the next six months

Persistent staffing challenges

While overseas staff sponsorship programs have helped, new immigration policies effective from March 2024 which prevent overseas care workers from bringing family members, means the need for better recruitment and retention strategies will become even more important in the months and years ahead. We're already seeing this with Skills for Care running a campaign throughout May and June to help inform social care providers on how to retain staff through improved onboarding and training, while some providers such as Signature Senior Lifestyle are taking more direct measures, announcing a 18% bump to its staff pay in June.

Investment focus

Over the next six months, the trend towards high-quality healthcare assets is expected to persist due to the difficulties real estate investments face amid high interest rates. Improved operational performance, especially in terms of increased occupancy and higher fee rates, is creating new opportunities for seasoned healthcare investors who can adeptly navigate and price operational risks in an increasingly dynamic market. Investment is likely to be driven by higher yields, robust underlying cashflows, well-defined ESG characteristics, and the potential for value creation through capital expenditures.

Sustainability focus

In recent years, we've seen a growing number of care operators turning their attention to sustainability. LNT Care for example, who we've supported multiple times over the years, is currently working on developing up to eight new carbon-zero care homes with funding it received from OakNorth. As noted above, ESG characteristics will be a key driver of investment in the sector, with many aiming for sustainability in design and operations. Investing in energy efficiency and renewable energy is also becoming increasingly important to help drive price premiums and lower operating costs. Strategies include sustainability in design, certifications like BREEAM and Fitwel, and aiming for net zero operations.

M&A

For the remainder of the year, we expect M&A activity to be centred around the largest, most well-capitalised groups which have their sights set on established and expanding platforms. While collaborations between M&A and real estate investors have traditionally been common in the sector, we've seen this decline in recent month with real estate investors instead choosing to focus on mature, stable operational platforms and new high-quality assets.

Get in touch with the team at questions@oaknorth.co.uk or visit oaknorth.co.uk for more information.