OakNorth Sector Pulse
July 2026

CARE

OakNorth

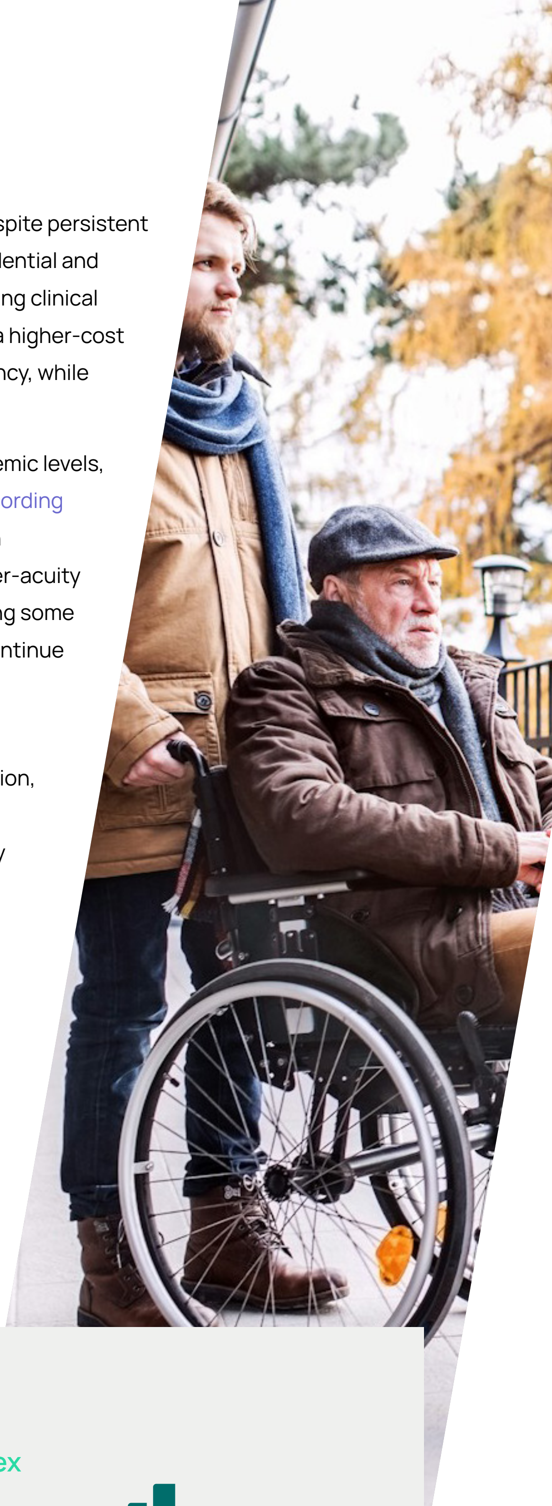
Industry overview

The UK care sector has continued to demonstrate resilience through the first half of 2026 despite persistent cost pressures, workforce challenges and an evolving regulatory landscape. Demand for residential and nursing care remains structurally strong, underpinned by the UK's ageing population, increasing clinical acuity and continued pressure on NHS services. At the same time, operators are adapting to a higher-cost environment through investment in specialist care, digital technology and operational efficiency, while investors continue to be attracted by the sector's long-term defensive fundamentals.

Occupancy across elderly care homes remains broadly in line with or slightly above pre-pandemic levels, with demand increasingly shifting towards nursing, dementia and complex-care services. According to ADASS, 94% of directors report that NHS pressures are causing adult social care to take on responsibilities previously delivered by the NHS, highlighting the growing importance of higher-acuity care provision. Meanwhile, Funded Nursing Care rates increased by 5.4% for 2026/27, providing some support to provider revenues, although operators with significant local authority exposure continue to face pressure where fee uplifts lag underlying cost inflation.

Supply remains one of the sector's greatest challenges. UK care-home bed numbers have increased by only 2.4% over the past decade, significantly below growth in the older population, while much of the existing estate is ageing and increasingly requires investment to meet modern care expectations. Planning constraints, elevated construction costs and regulatory complexity continue to restrict new development, reinforcing the value of modern, purpose-built care homes.

Labour costs also remain a defining issue. The National Living Wage increased to £12.71 per hour from April 2026, while higher employer National Insurance contributions continue to impact operating margins. Although workforce vacancies have improved to 7.0%, tighter immigration rules have significantly reduced international recruitment, placing greater emphasis on domestic recruitment, retention and workforce productivity. Alongside these operational challenges, providers continue to prepare for evolving CQC inspection frameworks while accelerating investment in digital care records and technology that supports compliance, governance and care quality.



Key trends of the last six months

Demand remains resilient as care needs become increasingly complex

Underlying demand for residential and nursing care has remained robust, with occupancy broadly in line with or slightly above pre-pandemic levels. Increasing NHS pressures continue to drive greater demand for nursing, dementia and specialist care services, allowing operators with the appropriate staffing, governance, and clinical capabilities to command stronger fees and maintain healthy occupancy.

Occupancy broadly at or above pre-pandemic levels.

Limited new supply continues to strengthen high-quality assets

Despite growing demand, care-home supply remains constrained. Bed numbers have grown by just 2.4% over the past decade, while around 79% of homes are more than 20 years old, 38% are converted properties and almost a third of beds still lack en-suite facilities. These trends continue to widen the performance gap between modern, purpose-built assets and older stock requiring significant investment.

2.4%

Bed growth over the past decade, despite rising demand.

Workforce pressures evolve beyond recruitment

Labour remains providers' largest operating cost. While vacancy rates have improved to around 7.0% and agency reliance has eased, the combination of higher wage costs, employer National Insurance contributions and reduced overseas recruitment continues to pressure margins. Increasingly, operators are focusing on workforce retention, operational productivity and efficient rota management rather than simply filling vacancies.

7.0%

Vacancy rate — improving, but wage and NI costs persist.

Digital transformation becomes central to care quality

Digital adoption continues to accelerate across adult social care, with Digital Social Care Records now used by 83.7% of CQC-registered provider locations, covering 92% of people receiving care. Beyond improving efficiency, digital technologies are strengthening medicines management, audit trails, quality assurance and inspection readiness. Preparations for the UK's analogue network switch-off in January 2027 are also driving investment in telecare and remote monitoring technologies.

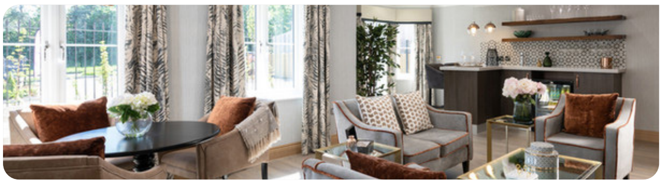
Digital records now cover 92% of people receiving care.

Retirement living gains momentum as demand for later-life housing grows

The retirement living sector has continued to strengthen as growing numbers of older people seek high-quality housing that supports independent living for longer. Demand for Integrated Retirement Communities (IRCs) remains robust, underpinned by an ageing population and increasing recognition of the role specialist housing can play in reducing pressure on health and social care services. Operators are also expanding rental and mixed-tenure models, providing greater flexibility for residents while creating more predictable income streams. Although planning constraints and development costs continue to limit new supply, institutional investors remain attracted to the sector's long-term demographic fundamentals.

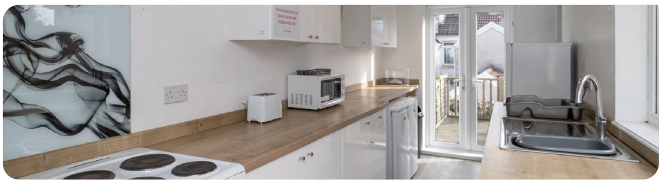
Institutional investors remain drawn to long-term demographic fundamentals.

Sector spotlight



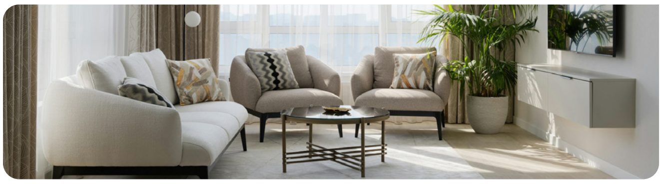
£15m Loan to Aspire LPP to Develop 74-Bed Care Home in Surrey

In May, we provided a £15m loan to specialist care home developer, Aspire LPP, to develop a new 74-bed care home in Surrey.



£28.5m Loan to D2 PropCo to Expand Supportive Housing Portfolio

In April, we provided a £28.5m loan to D2 PropCo, a specialist provider of short-term supportive housing across Wales, to support the company's expanding accommodation portfolio across Wales and England.



CHRYSALIS HOMES

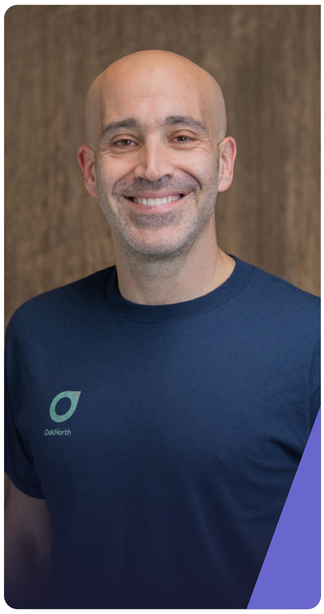
£8.3m loan for retirement development in Renfrewshire, Scotland

In January, we provided an £8.3m loan to Chrysalis Homes Limited for a major new retirement development in Renfrewshire, Scotland.

CHATHAM WATERS
CARE HOME

£10.8m loan to open 75-bed care home in Kent

In December last year, we provided a £10.8m loan to Chatham Waters Care Home Limited, a joint venture between Montpelier Estates and Hervines Group, to open a new 75-bed care home in Kent.



> The UK care sector continues to demonstrate exceptional resilience. While providers are navigating ongoing cost pressures, workforce challenges and evolving regulation, the long-term fundamentals have rarely been stronger. Demand continues to outpace supply, creating significant opportunities for operators investing in modern facilities, specialist care and operational excellence.
>
> At OakNorth, we're proud to support ambitious businesses that are helping expand high-quality care provision across the UK. Our recent financing for Aspire LPP, D2 PropCo, Chrysalis Homes and Chatham Waters Care Home reflects our continued commitment to backing experienced management teams investing in new care homes, retirement communities and specialist accommodation, helping to expand high-quality later-life living options across the UK. As demographic demand continues to grow, we remain confident in the sector's long-term outlook and committed to providing the flexible funding businesses need to scale."

Ben Barbanel
Chief Lending Officer at OakNorth

Outlook for the next six months

Demographic demand will continue to underpin sector growth

Long-term demand fundamentals remain exceptionally strong. The UK's pensionable-age population is projected to grow from 12.4 million to 15.3 million by mid-2049, while the 85+ population is expected to more than double. Rising dementia prevalence and continued NHS discharge pressures will reinforce demand for residential, nursing and specialist care, supporting long-term sector growth despite ongoing operational challenges.

The 85+ population is set to more than double by mid-2049.

Fee recovery will remain the key profitability challenge

Although the latest Local Government Finance Settlement provides greater funding certainty for councils, uncertainty remains over whether provider fee uplifts will keep pace with wage inflation, National Insurance costs and wider operating expenses. Homes with significant local authority exposure are therefore likely to remain under the greatest margin pressure.

£0

Fee uplifts failing to keep pace with rising costs.

Consolidation will continue to reshape the sector

Investor appetite for the UK care market remains strong, supported by resilient demand and attractive long-term demographics. However, larger transactions are expected to receive greater scrutiny following recent Competition and Markets Authority reviews, encouraging more detailed due diligence while continuing to support consolidation among well-capitalised operators.

M&A

CMA scrutiny is reshaping deal activity across the sector.

Workforce reform will remain firmly in focus

Employment reforms and the proposed Fair Pay Agreement continue to shape workforce planning across adult social care. While intended to improve recruitment, retention and professionalisation over the longer term, providers will remain focused on understanding how future employment reforms and funding arrangements translate into operating costs.

Fair Pay Agreement set to reshape care sector employment.

Development activity is likely to remain selective

Planning constraints, rising construction costs and evolving sustainability requirements continue to limit new care-home development. Operators and developers are therefore expected to focus investment on locations with strong demographic demand, viable planning routes and modern, energy-efficient assets capable of delivering long-term operational resilience.

Low supply constraints are keeping new care-home development selective.

Retirement living will play an increasingly important role in the care ecosystem

Retirement living is expected to become an increasingly important part of the UK's wider care and housing landscape as demographic demand continues to build. The supply of specialist later-living accommodation remains well below projected need, while operators continue to explore rental-led and mixed-tenure models that improve affordability and reduce reliance on traditional housing chains. With policymakers placing greater emphasis on housing that supports healthier, more independent ageing, the sector is expected to attract continued institutional investment despite ongoing planning and development challenges.

Later-living supply remains well below projected need.

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