

Care homes for the elderly: where are we now?





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Foreword

We are at a pivotal moment for social care. How we care for older people reflects the values of any civilised society, making it imperative that we get it right.

Thriving communities are not a luxury—they are essential to building a vibrant economy. Sustainable growth cannot occur if businesses are disconnected from society, which is why we need to frame social care as a key driver of growth.

The sector is far from a burden; it employs more people than the NHS, fosters technological innovation, and plays a vital role in connecting communities. We must begin to view social care as a valuable asset and invest in it accordingly.

There are significant opportunities to invest in innovative solutions that provide tailored care packages to meet the needs of our ageing population.

At Grant Thornton, we are passionate about data insights and connecting narratives around the complex issues in social care.

The Government is currently considering long-term funding solutions for care for older people. With better data and insight, we can inform public debate and ensure that decisions are made based on sound evidence.

This report contributes to that debate. We've drawn on our extensive experience and expertise in this sector to create a comprehensive overview. It addresses some of the key challenges facing the industry and explores the potential now and in the future.

Care services are at the heart of every community, and dignity in old age is something to which we all aspire. At Grant Thornton, we are committed to providing the tools to make this vision a reality.



Daniel Smith

Partner

Head of Private Sector Healthcare

Market structure

The UK care home market for the over 65s is an integral part of the British service economy. It is a relatively fragmented sector offering a rich and varied mix of businesses, from large corporate operators providing in excess of 10,000 beds to sole traders with one or two homes.

As of December 2024, the size of the market in the UK was £26.2 billion. The independent sector accounts for 90% of the total supply: 78% being for-profit organisations and 12% not-for-profit.

The sector has experienced significant deconsolidation over the past 15 years. For example, as of January 2024, the 10 largest for-profit providers made up 18.8% the market, down from 27.2% in 2006. The vibrant small-to-medium provider segment, operating as local, regional or multi-regional clusters, has expanded, constituting 52.7% of total UK bed capacity.

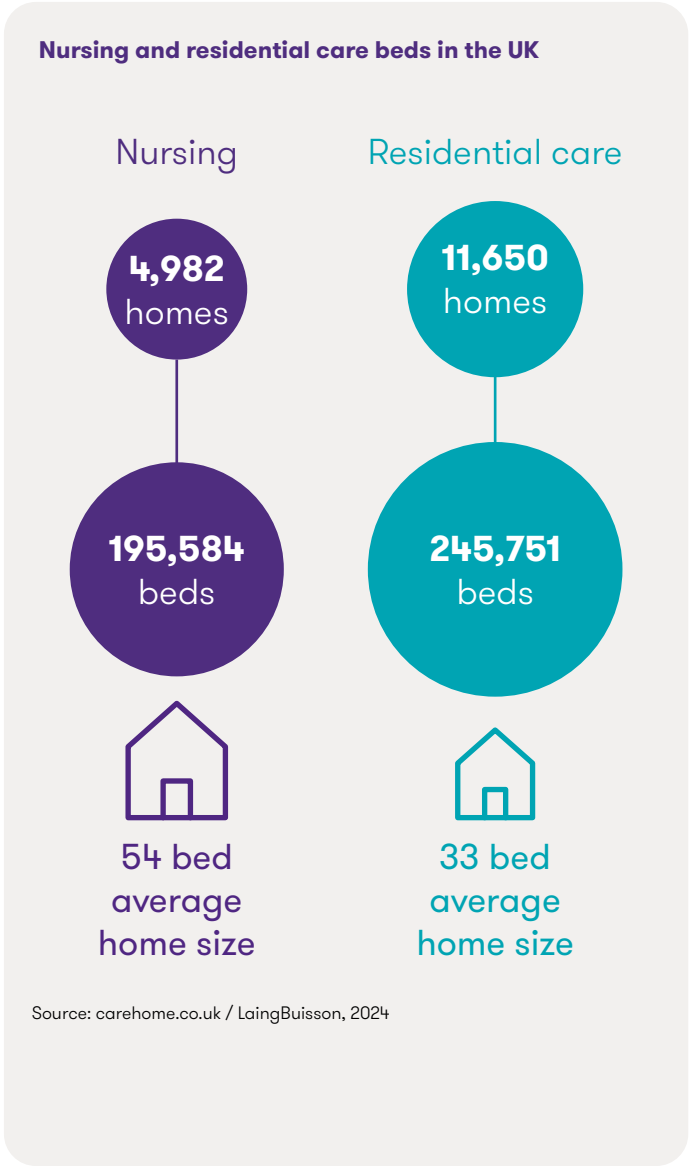
The remaining 28.5% of the market is owned by operators with one or two homes.

Care homes for older people have been traditionally split between those that provide nursing care (30% of UK homes) and those that do not (70% of UK homes). Fees at the former tend to be higher - an average of £1,267 per week compared to £949 for solely residential care - due to the NHS-funded contribution for nursing care.

Approximately 160,000 residents are in receipt of ‘dementia care’ needs, at an estimated cost of £9.5 billion, representing 40% of the full market value.

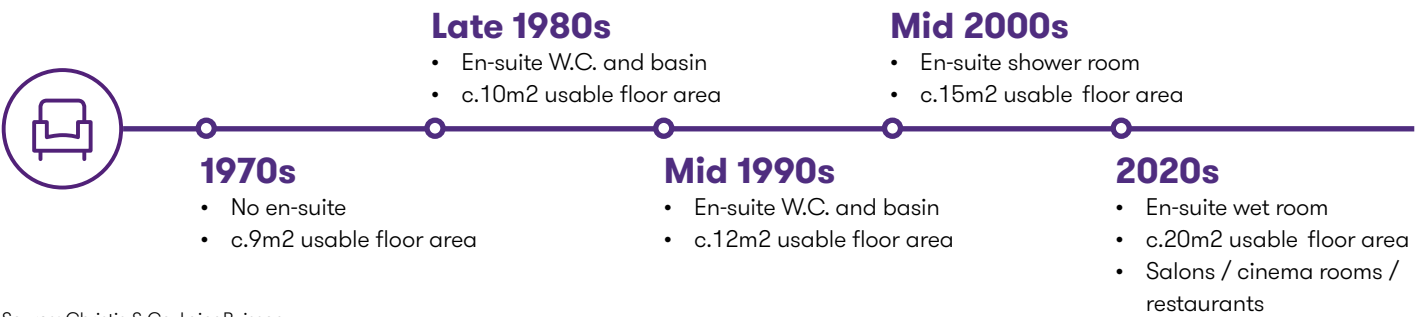
The market has grown organically, meaning there is no uniform model for successful homes, but new-build and recently converted homes now come with en-suite wet rooms and more spacious accommodation.

Over the last decade, a two-tier market has emerged with operators whose income is predominantly from self-paying clients consistently being more profitable than those with high exposure to income from local authority or NHS placements.












































































































































































































































































































































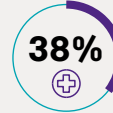
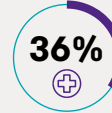
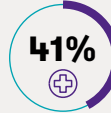
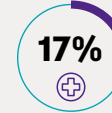







Care home evolution

Evolution of room design – what does good look like?



Sources:
Carehome.co.uk: Care home stats: number of settings, population and workforce
Care homes for older people, UK market report (34th edition), LaingBuisson 2024

Overview of care home providers in England, 2024

# CQC providers in segment	8	27	42	58	436	1,359	4,516
	A	B	C	D	E	F	G
No. of beds in portfolio	>3,000                                                   	851 – 3,000         					
							
                                     	501 – 850                      						
							
                    	301-500                                       						
							
   	101-300                                            	50-100            					
							
                              	<50                             						
							
             							
Market share based on no. of beds							
% of homes offering nursing							
Average beds per home	58 	41 	51 	40 	37 	41 	20 
CQC rating							
Outstanding	5.30%	4.50%	3.60%	5.70%	4.20%	5.40%	3.70%
Good	81.20%	77.70%	77.80%	75.60%	76.90%	74.30%	77.10%
Requires Improvement	13.30%	16.60%	17.60%	17.80%	18.00%	18.90%	18.40%
Inadequate	0.10%	1.20%	1.00%	0.90%	0.90%	1.50%	0.70%

Source: Grant Thornton. CQC data for England only

Funding

The private pay share of the independent sector has grown over the last 15 years, as illustrated below.

In 2024, 46% of residents in the UK independent sector were self-pay (up from 41% a decade ago). A further 46% of residents have their fees paid fully or partially by local authorities (down from 52% a decade ago). The remaining 8% were NHS funded.

The downward movement of local authority care home placements has been driven by the preference of local authorities for commissioning homecare services, where fees are lower as there are no accommodation costs.

The emergence of ‘housing with care’, where residents own or rent the property and care is provided at an additional cost, is also competing with care homes for clients. In response, care home operators have moved further up the acuity chain, for example, accommodating people with severe dementia.

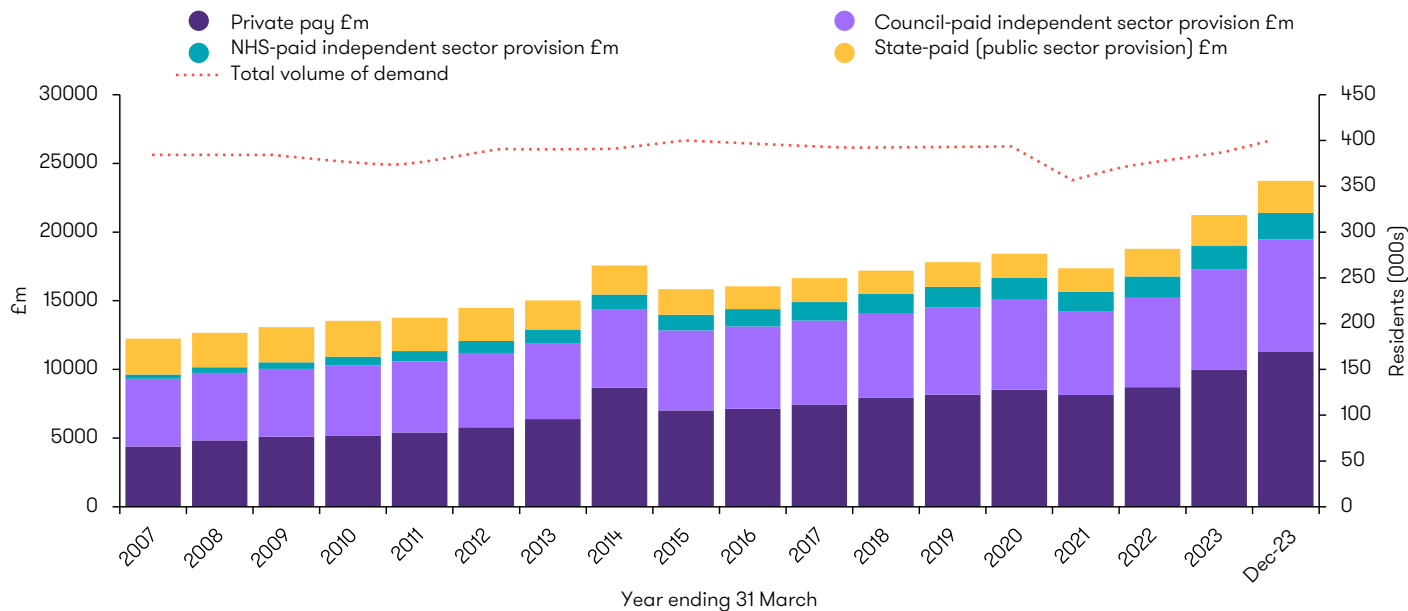
A major concern for operators with a high proportion of residents supported by local authorities is the level of fees paid. The national Fair Cost of Care assessment in 2022 confirmed that there was a substantial shortfall in the fees offered by councils in the great majority of local authority areas. As a result, independent operators rely on cross-subsidisation by private payers.

While it is difficult to obtain the relevant data, we estimate that the average private pay fees in England for 2023/24 were 23% higher than the average council paid fees for nursing care, and 37% higher for residential care.

Care home fee inflation has outpaced that of the economy. For example, from 2021/22 to 2023/24, weighted average fee rates in England are estimated to have risen by 18% to £1,267 per week for nursing care, and by 19% to £949 per week for residential care.

However, it should be noted that fee inflation has not necessarily kept pace with increases in operating costs.

Trends in market value by payor group (self-pay and state-pay), nursing, residential and long-stay hospital care of older people and people with dementia (65+), UK, £m, annualised 2007-2023





The majority of care homes have a mix of private pay vs local authority paid residents.

Data from before the pandemic shows that:

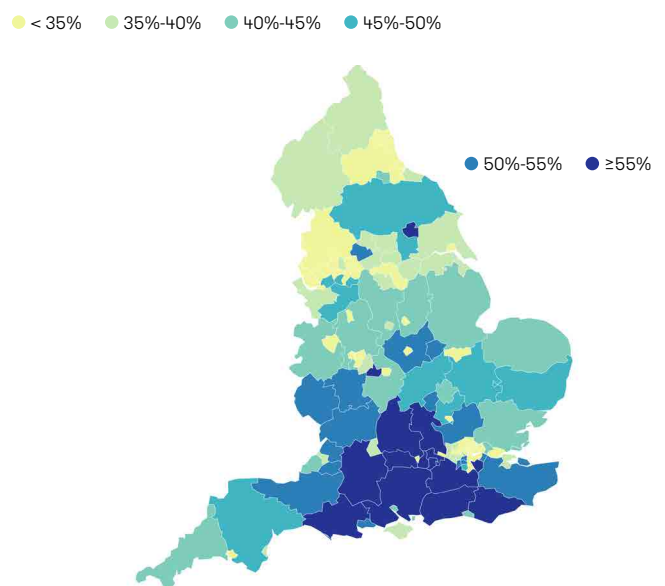
- Approximately 30% of care homes had less than 10% of residents being funded by councils
- Less than 5% of care homes had more than 90% of residents being funded by councils

However, the variation in the proportion of residents being private pay vs those having their fees paid by the local authority is not as great as might initially be expected.

Even in less affluent areas, the penetration of owner-occupation does not vary much. Owning a property typically makes people admitted to care homes ineligible for council support as there are very few properties which are worth less than the £23,250 upper asset threshold.

Those people in less affluent areas are more likely to run down their assets to qualify for council support.

Private pay share among care homes for older people, by local authority, 'heat map' of England, 2023/24



Source: LaingBuisson, 2024

Projected demand

Recent demographic movements have not translated into increased demand

The demographic case for investment in the UK elderly residential care sector is well rehearsed.

In mid-2022 there were 1.7 million people aged 85+, representing 2.5% of the UK population. By mid-2047 this is projected to have nearly doubled to 3.3 million (4.3% of the population in that demographic).¹

This ageing population will require access to care services, including residential care.

However, although the growth rate in the 85+ population is forecast to accelerate, this will not necessarily impact the numbers of people in residential care to the same degree.

While the ageing population has increased, the proportion of the population in long-term residential accommodation has declined.

In 2023 it was estimated that 12.6% of the 85+ population was in elderly residential accommodation. In 1996 the proportion was 25.2%.²

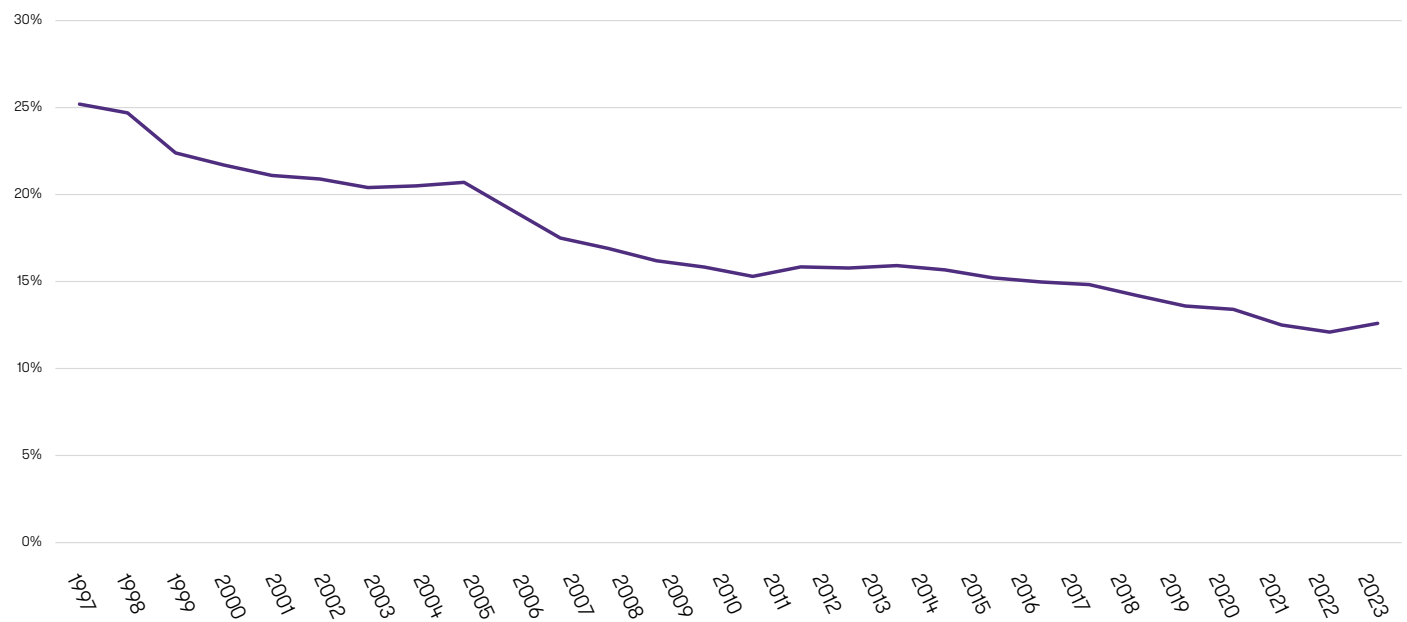
If the proportion of over 85s in long-term residential care had remained constant since 1996, we estimate that in 2023, an additional 39,690 individuals would be in long-term residential care, an increase of 18.4%.

Longer life expectancy will have played a part in reducing the proportion of over 85s in long-term residential care. However, the impact is likely to be marginal. After all the most common age of death in the UK is 86 for a male and 89 for a female.

Substitutes for long-term residential care, including housing with care, visiting home care and live-in care are also important factors which are constraining demand for care homes.

Another key driver of this trend is the tightening of local authority budgets.

Proportion of the 85+ population in residential care, UK



Sources: LaingBuisson and Grant Thornton, 2024

1 Office for National Statistics, data released 28 January 2025
2 LaingBuisson

Can this trend continue?

Two key factors suggest that this trend cannot continue indefinitely:

- The proportion of the 85+ population in care homes cannot continue to decline at the level it has done.
- The rate of increase in the over 85 population is set to accelerate over the next 20 years.

Between 1996 and 2008, the proportion of over 85s in long-term elderly residential care fell by 0.75% per year on average. However, in the period 2008 to 2023 the rate of decline fell to 0.24% on average per year, as illustrated by the graph showing the proportion of the 85+ population in residential care on the previous page.

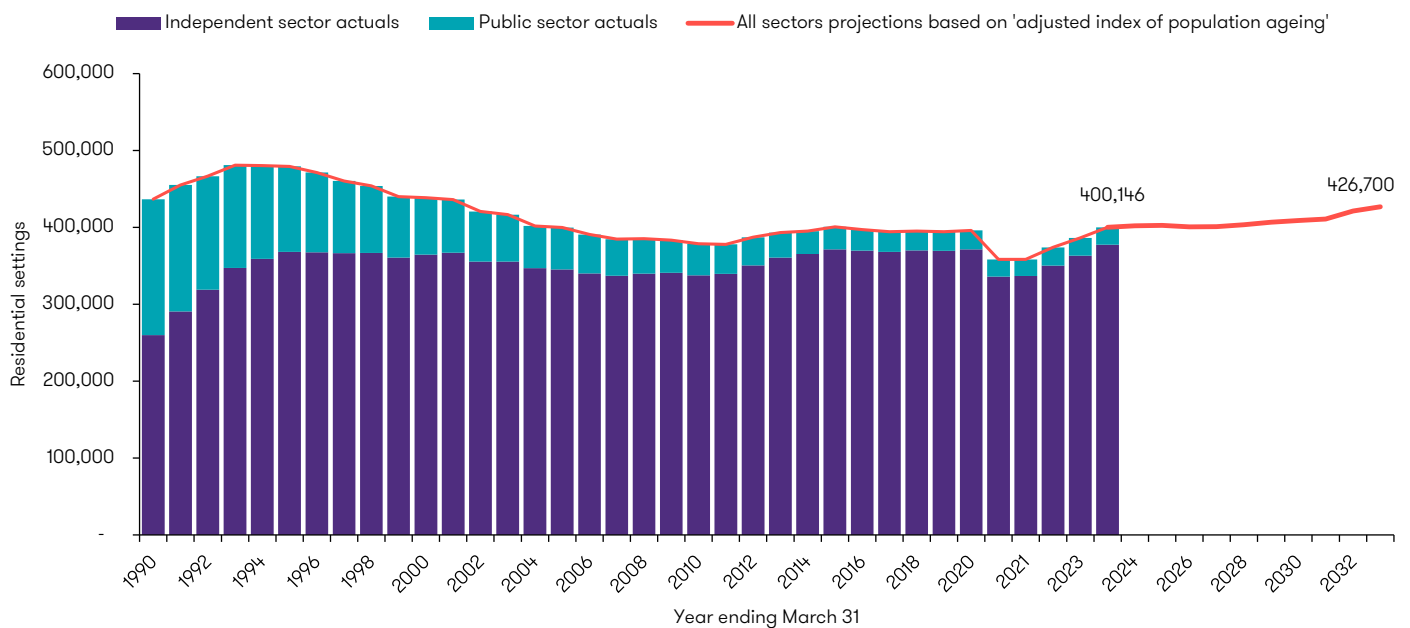
This has increased the pressure on care home operators who face the increasing acuity of service users requiring more intensive care. This comes at an additional cost to the care home operator.

At the same time, the proportion of the over 85s in long-term residential care is stabilising and the absolute UK population of over 85s is projected to grow at an increased rate. In the 15 years between 2009 and 2024, the over 85 population increased by c.383,000 (28%). Over the next 15 years, this population is forecast to grow by c.929,000 (53%).

Based on recent trends in the proportion of the elderly population in residential care, there will be a forecast additional demand of around 26,000 residents in the UK over the next decade.

Due to the decline in public sector provision, this new demand will need to be catered for by the independent sector. There will also be the ongoing requirement to build new care homes to replace legacy stock. The replacement of legacy stock is likely to be a larger driver of new development than population ageing.

Volume of demand for care in all (independent and statutory) residential settings for older people and dementia (65+), UK actuals 1990-2024 and projections to 2033



Source: LaingBuisson, 2024

Bed supply

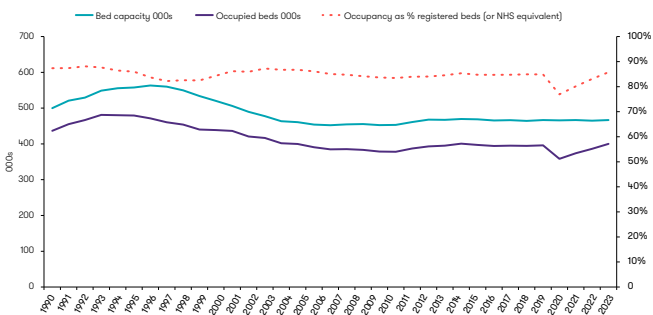
The supply of elderly care home beds has been broadly stable since the early 2000s, with a marginal overall decline.

However, this trend masks anecdotal evidence of a material variance between the self-funder focused private pay care homes and local authority-funded focused homes. The focus for new stock coming to market is self-funders, with care home closures focused on local authority-funded markets.

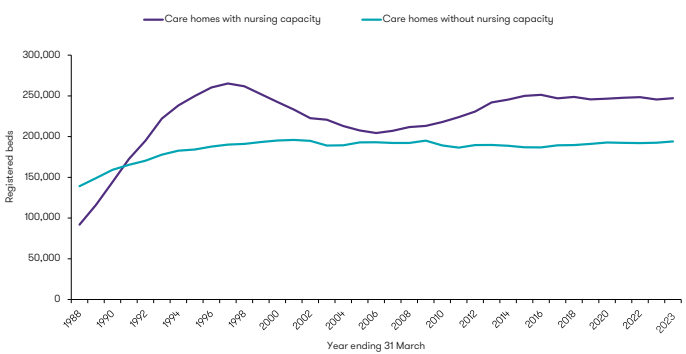
Additionally, given the difficulties in recruiting and retaining nurses, as well as generating sufficient fees to deliver high quality nursing care, there is also a shift from nursing to residential provision, with many homes being repositioned as residential (often with a dementia focus).

Most data shows that nursing home capacity has always been greater than residential home capacity. However, around 20% of people in nursing homes are receiving residential care only.

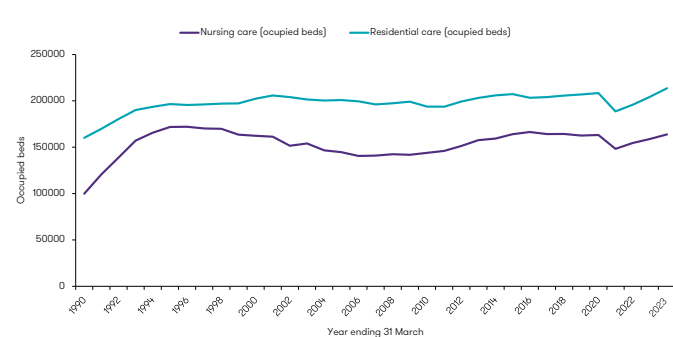
Total bed capacity and estimated residents in residential settings for older people and dementia, independent and statutory sectors combined, UK 1990-2023



Capacity trends by registration type (nursing homes vs. residential homes) in independent sector (for-profit and not-for-profit) care homes for older people and dementia (65+), UK 1988-2023



Demand trends (occupied beds) by type of care (nursing care vs. residential care) in independent sector care homes for older people (65+) and dementia, UK 1990-2023





Occupancy

Maintaining occupancy rates is important for care home providers, to keep steady income streams, and ensure the most efficient use of resources. The pandemic saw a dramatic decline in occupancy rates, more than 10% in many homes, but these have recovered steadily over the last three to four years. In 2024, 88.3% of beds in care homes were occupied.

UK care home occupancy rate



Source: Knight Frank: UK care homes, trading performance review, 2024



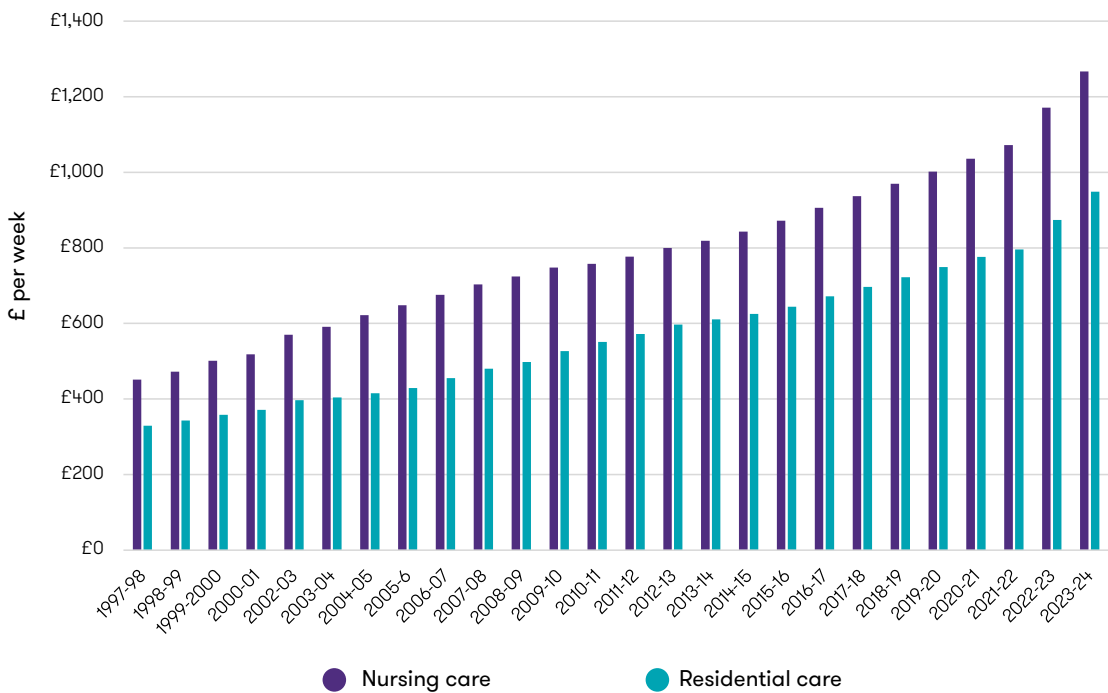
Fee rates

Care home fees are different for private and public payers, a trend that has been entrenched in the market for a long time.

For example, the average weekly private pay fee for *nursing care* in England was £1,409 in 2023/24, over 23% higher than the average local authority fee rate of £1,267 per week.

The average weekly private pay fee for *residential care* in England was £1,136 per week, 37% higher than the average local authority fee rate of £949 per week.

Weekly fee rates 1997-2024

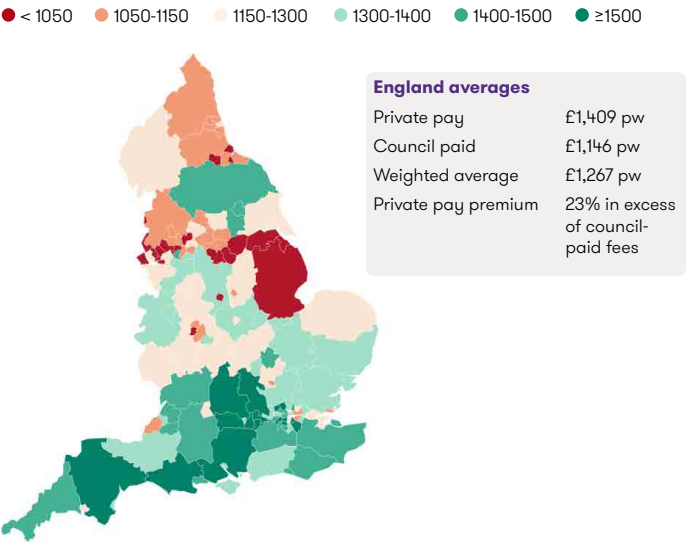


Source: LaingBuisson, 2024

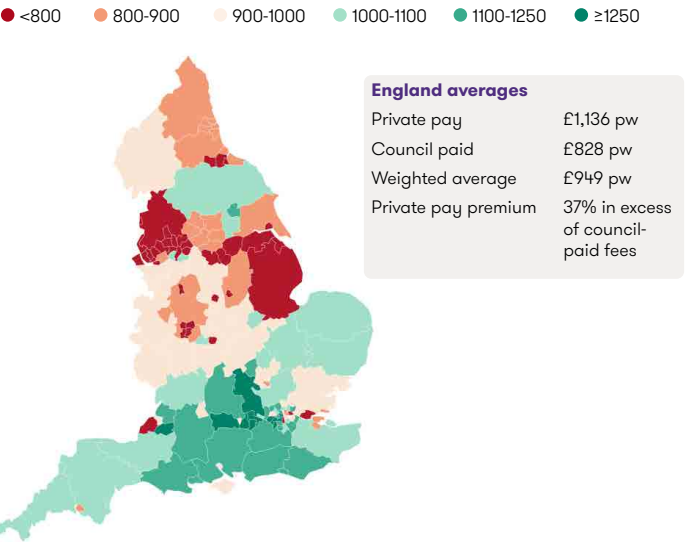
There is also wide regional variance in the weighted average fee levels payable, depending on private pay penetration and affluence, as the heat maps below illustrate.

As might be expected, the highest fee levels are seen in the South-East and other areas of affluence throughout England, and the lowest fees in a belt of highly populated post-industrial areas across the North-East Midlands, South Yorkshire and the North-West.

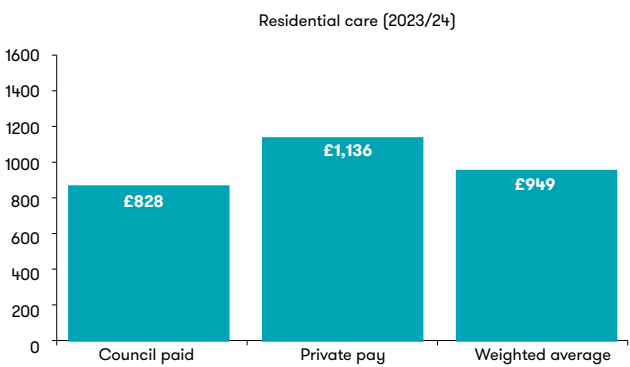
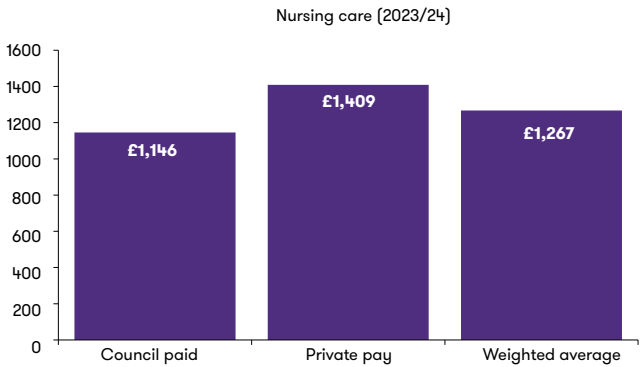
Weighted average weekly fee rates (all funding sources) for nursing care or older people



Weighted average weekly fee rates (all funding sources) for residential care or older people



Average weekly fees in independent (for-profit and not-for-profit) care homes for older people and dementia by source of funding, England, 2023/24



Source: Care homes for older people UK market report (34th edition), LaingBuisson, 2024

Profitability of sector

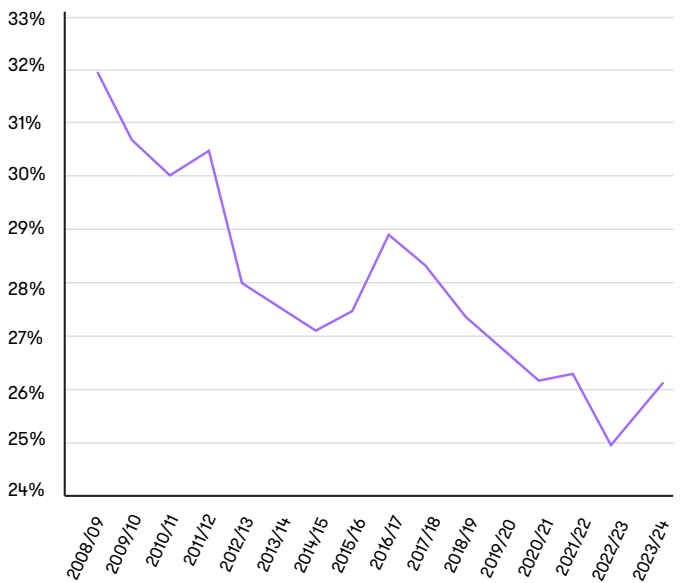
There was an upward trend in the profitability of care homes from the early 2000s, due to local authorities re-aligning their baseline fee rates. This trend was reversed in the early 2010s with the introduction of austerity politics by the then Conservative government.

Earnings before interest, tax, depreciation, amortisation, rent and central management costs (EBITDARM) as a percentage of income among care home providers has fallen from 32% in 2008/09 to 26.1% in 2023/24.

However, the 2023/24 figure of 26.1% is an uptick from the previous 12 months (2022/23: 25%), confirming signs of improved profitability in the sector, albeit not universally for all operators.

There is a significant difference in profitability depending on rating assigned by the CQC to a care home. As the tables illustrate, care homes with an ‘inadequate’ rating had an EBITDARM margin of only 2%, compared to a 30% margin for homes with an ‘outstanding’ rating.

EBITDARM as a % of income



This is to be expected. When a care home receives an ‘inadequate’ rating, there will be local authority embargoes and reduced revenue as families and individuals seek care elsewhere. Costs can also increase as investment is needed to address required improvements, for example hiring additional staff, training them or upgrading facilities. Although rare, the CQC can also impose fines or other financial penalties (including those for health and safety issues) on providers who fail to meet the required standards.

Homes between 60 and 100 beds are the most profitable, operating an an average EBITDARM of 29%. This reflects the in-home economies of scale.

EBITDARM margin per CQC band, 2024

CQC Rating	EBITDARM (% of income)
Outstanding	30%
Good	27%
Requires improvement	20%
Inadequate	2%

EBITDARM margin per size band, 2024

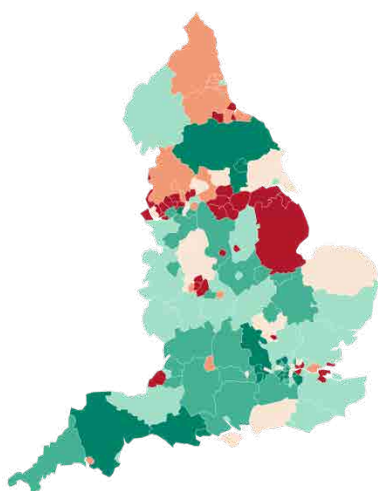
Size band	EBITDARM (% of income)
1-39 beds	21%
40-59 beds	23%
60-79 beds	29%
80-99 beds	29%
100+ beds	26%

There is a divergence in profitability between providers depending on their exposure to public pay. Those with a high exposure are impacted by the constrained finances of local authorities.

As expected, the heat maps below illustrate that profitability is higher in more affluent areas where private pay rates are higher, and a clear North/South divide can be seen. However, there are some exceptions.

Illustrative operating profitability (EBITDAR as a % of revenue) of nursing care for older people, England by local authority, 2023/24

● < 5% ● 5-10% ● 10-15% ● 15-20% ● 20-25% ● ≥25%



Source: LaingBuisson 2024

In 2025, the profitability of the sector is expected to be impacted by rising business costs associated with the Government's Autumn Budget 2024, including a rise in employers national insurance contributions (NIC) and increase in national living wage. We estimate that a typical care home will see increases in costs of over £125,000 in respect of the NIC costs alone.

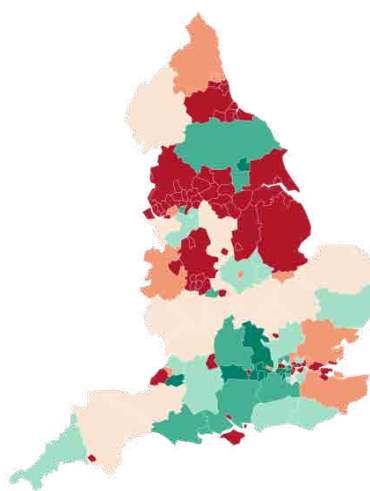
A survey by the Care Provider Alliance in November 2024 showed that 77% of care and support providers interviewed would have to draw on reserves, and 64% would have to make staff redundant.³

For example, the city of York and North Yorkshire stand out as highly profitable compared with the densely populated neighbouring urban areas. In the South, Medway is an island of low profitability in the South East – they have high exposure to public pay residents, and data shows that this area has the lowest council paid fee rate in 2023/24 at £731 per week for residential care.

Illustrative operating profitability (EBITDAR as a % of revenue) of residential care for older people, England by local authority, 2023/24

● < 5% ● 5-10% ● 10-15% ● 15-20% ● 20-25%

● ≥25%



Analysis by the Nuffield Trust confirmed that independent care providers expected to face an additional £2.8 billion in costs by 2025/26 due to wage and tax increases.⁴

Smaller providers who operate on narrow profit margins will be disproportionately affected and are most likely to face financial pressure.

³ Care Provider Alliance: urgent call to address devastating impact of Budget on care and support

⁴ The Carer UK: Insolvency warning as care providers in England face financial pressure from rising costs, December 2024

Staff costs

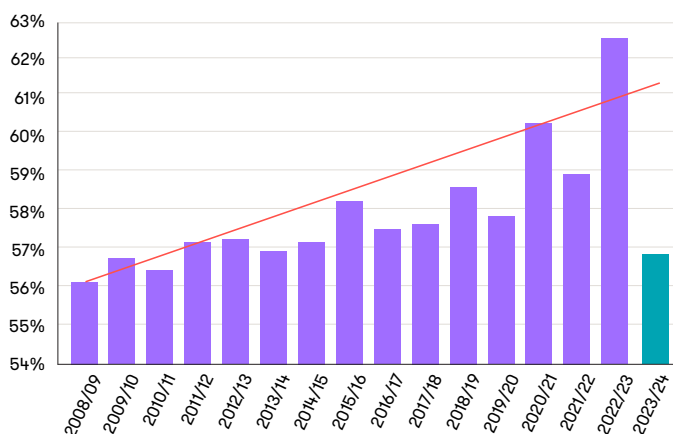
Staff costs are one of the biggest pressures on the sector, representing approximately 60% of care home income.⁵

Based on 2023/24 pay rates, costs across the UK were estimated to be £12.1 billion, including agency costs. Agency costs to care homes were estimated at £1.59 billion a year in 2023/24.⁵

Until 2023, the cost of agency staff as a percentage of total costs in the UK steadily increased, constituting 13.9% of total staff costs in 2023.⁶ However, in 2024 agency usage declined as a direct result of the overseas employee sponsorship scheme (see 'Staffing shortfall pressures' for more details) for more details) with 60% of operators saying they had experienced a reduction of agency usage.⁷ This has led to a fall in agency use as a percentage of staff costs in 2024, decreasing to 6.8% for residential care, and 7% for nursing care. This explains the drop in staff costs as a percentage of income in 2023/24 illustrated in the graph below.

The recruitment of trained nurses is a problem across the NHS and independent sector. While nurse training capacity is being increased by government initiatives, according to LaingBuisson there is some doubt as to whether the expanded nurse training programme will be effective. In the meantime, many nurses realise that they can earn much more by working as agency staff, than they can as employees.

Staff costs as % of income, UK



Source: Knight Frank

In April 2024, the national living wage (NLW) increased by 10% to £11.44 per hour, and the threshold to receive the full NLW reduced from 23 to 21 years of age. At the time this represented the largest ever cash increase to the NLW, equating to a £1,800 annualised pay increase for an NLW-eligible individual working full-time.

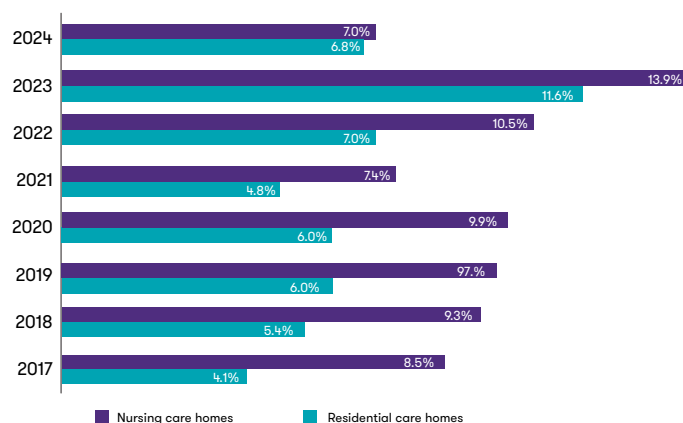
In April 2025, the NLW will rise again by 6.7% to £12.21 for those aged 21 and over. Additionally, National Insurance (NI) contributions will increase from 13.8% to 15%, and the earnings threshold for businesses to start paying NI will drop from £9,100 to £5,000. Operators will need to either absorb these costs, further tightening margins, or find ways to cut costs and/or increase fees.

Care England has advocated for a rise in the minimum wage to £15 per hour for care sector workers. However, salary is not the sole staff-related expense that operators must take into account. They also need to allocate resources to train, develop and support staff, especially considering the increasing acuity of patient/resident care situations they often encounter.

Given the magnitude of the recent NLW increases as well as NIC budget changes, local authority austerity is likely to add to margin pressures, with average fee increases unlikely to fully compensate these increases.

However, some local authorities have flexed the way they set fee increases for 2024, by linking them directly to staff pay increases.

Agency staff costs as % of total staff costs, UK



⁵ Carehomes for older people (34th edition) LaingBuisson 2024

⁶ UK Care homes, Trading performance review, Knight Frank, 2024

⁷ Care Market Review, Christie & Co, 2024

Food and property costs

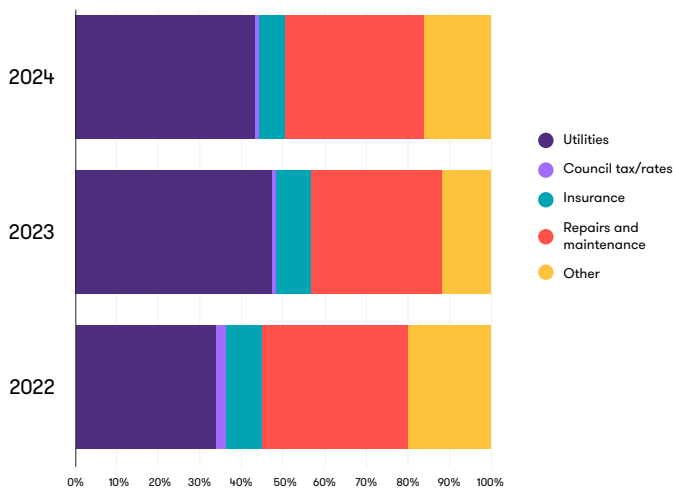
As well as a huge increase in staffing costs, care homes have had to absorb increases in food and property (including utility) costs.

Since 2018, food costs per bed in the UK have risen 87% and property costs have risen 52%.⁸

In 2024 food costs rose to £2,222 per bed (or £6.09 per resident / day), a 13% increase year on year. Property costs were £3,794 per bed, a fall of 1% year on year.

Research from Knight Frank drills down further into property costs, illustrating the impact of higher utility prices. In 2024, the percentage share of property costs attributed to utilities was 43%, compared to 34% in 2022.

All UK property costs



Source: Knight Frank

Operational cost analysis 2021 vs 2023

The period of high inflation seen between 2021 and 2023 had a significant impact on care homes.

The wider economic challenges with labour supply and rising energy costs at that time hit the sector particularly hard due to the sector’s higher exposure to these costs.

During this period, registered managers’ salaries increased on average by 13%, head cook wages increased by 14%, maintenance wages increased by 18% and utility costs per occupied bed increased 19%.



Source: Christie & Co: Care market review, 2023

⁸ UK Care homes, Trading performance review, Knight Frank 2024

As might be expected, the table below shows that newer homes, as well as purpose built homes are more efficient in terms of average utility costs per bed, and as a percentage of income.

Comparison of property costs by type and age, UK

	Utility costs as % of property costs			Utility costs per bed (£)			Utility costs per bed/per day (£)			Utility costs as % of income		
Utility costs by property type	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024
Conversion	30.20%	42.70%	40.7%	1213	1990	1970	3.32	5.45	5.40	2.30%	3.50%	3.10
Purpose built	30.70%	35.00%	41.1%	990	1544	1710	2.71	4.23	4.68	1.90%	2.80%	2.75
Utility costs by property age	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024
0-10 years old (opened after 2010)	20.30%	36.40%	37.6%	971	1648	1647	2.66	4.51	4.51	1.70%	2.80%	2.40
10-20 years old (opened 2000-2010)	28.50%	49.80%	44.9%	920	1976	1927	2.52	5.41	5.28	1.80%	3.90%	3.20
20-30 years old (opened 1990-2000)	32.00%	47.60%	43.4%	1003	1930	1673	2.75	5.29	4.58	2.00%	4.10%	2.80
30 years+ (opened prior to 1990)	28.70%	41.40%	38.4%	1102	1399	1783	3.01	3.83	4.89	2.20%	3.00%	3.10

In 2024, inflationary cost pressures on food, energy and property costs stabilised, but staff costs have continued to dramatically increase, as illustrated in the next section.

Staffing shortfall pressures

There are currently 1.59 million people working in adult social care in England.

The recruitment and retention of care workers has been a persistent and ongoing problem for the sector. While the vacancy rate has decreased from a peak of 10.6% in 2021/22 to 8.3% in 2023/24, this rate remains much higher than the vacancy rate for the wider UK economy (2.8%), and more specifically, the NHS in England (6.9%).⁹

The sector is characterised by:

- **High staff turnover rates** – over the 12 months to March 2024 the staff turnover rate was 24.2%. The turnover rate for younger staff (aged 25-29) was much higher at 44.6%.
- **A significant proportion of workforce on zero-hours contracts** – 22% of independent and local authority sector workers in England in 2023/24 were employed on a zero-hours contract. This is a slight decrease from 25% in 2020/21.
- **Reliance on staff from overseas** – in 2023/24, the proportion of British workers in the independent and local authority sectors was 73%, down from 83% in 2021/22.

During the pandemic, there was a temporary surge in applicants for the care sector as other sectors were locked down. However, as the economy started to reopen workers were attracted back to the hospitality and retail sectors instead of social care.

The Health and Care workers visa scheme had a positive effect on staffing levels during 2022 and 2023, as it significantly boosted overseas recruitment.

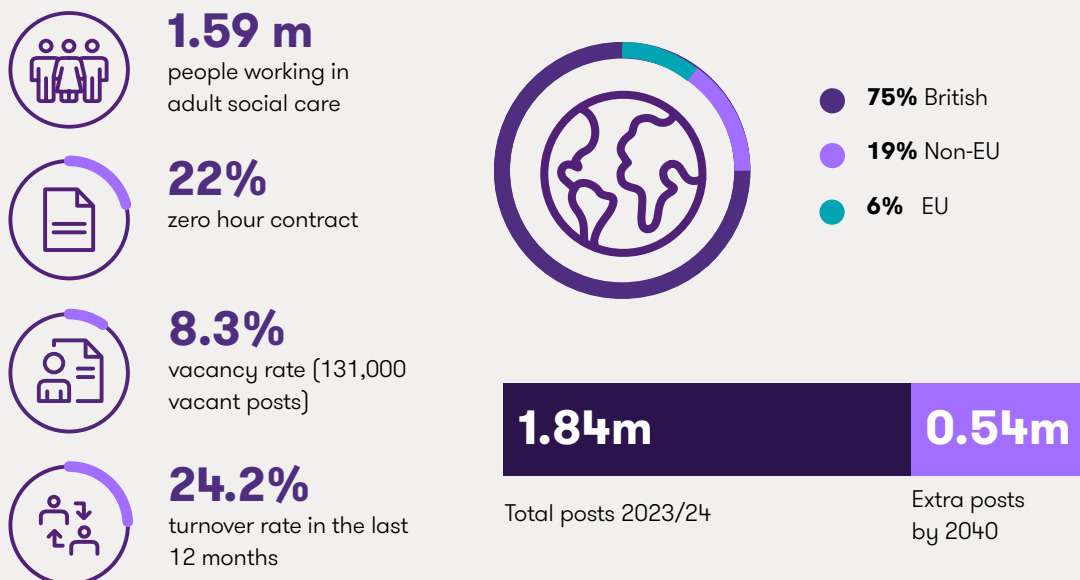
However, since March 2024, overseas care workers and senior care workers are no longer able to bring dependents when they migrate to the UK. Between April and June 2024, there were an estimated 8,000 international recruits joining the adult social care workforce in direct care roles in the independent sector. This is a substantial decrease from 2023/24 where there was an average of 26,000 per quarter.

Consecutive governments have struggled to balance the need for overseas staff to fill roles that cannot be filled domestically with political pressures to limit immigration.

Skills for Care has projected that the adult social care workforce will need to grow by 540,000 posts – a 29% increase – by 2040.

In our experience, around 10% of care homes do not have a registered manager. Given the pivotal role of this function in overseeing the culture and key relationships with the regulator and local authorities, and thus profitability, this remains a concerning statistic.

Key workforce statistics for adult social care, England, 2024



Source: Skills for care

⁹ Skills for Care: The state of the adult social care sector and workforce in England, 2024, CBRE

The quality and regulatory agenda

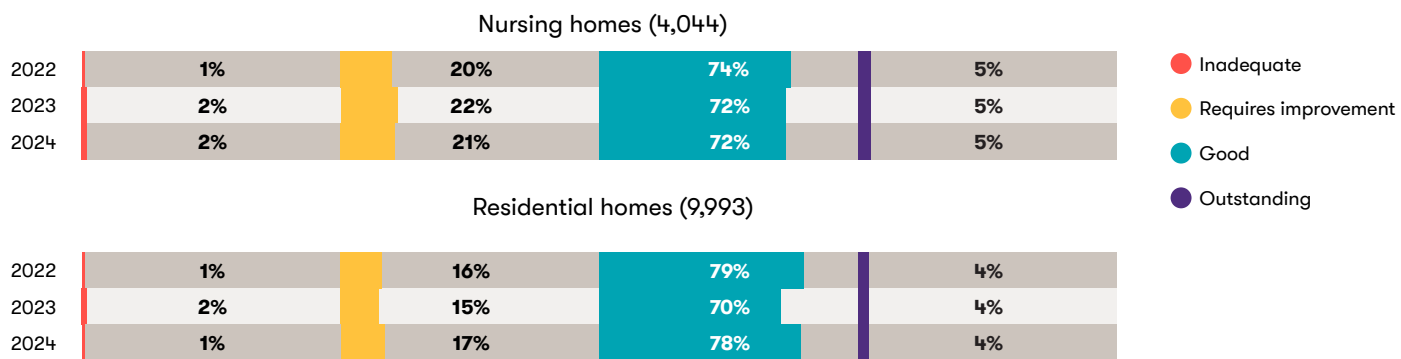
All care homes in England must be registered with the Care Quality Commission (CQC). In Scotland, it is the Care Inspectorate; in Wales, the Care Inspectorate Wales and in Northern Ireland it is the Regulation and Quality Improvement Authority.

In England, the care regulator conducts inspections which results in facilities receiving one of four gradings, dependent on how well the care home is graded against five key lines of enquiry: is it safe; effective; caring; responsive to people’s needs; and well-led?

As of August 2024, 5% of nursing homes were rated outstanding, 72% were good, 21% required improvement and 2% were considered inadequate.

For residential homes, 4% were rated outstanding, 78% were considered good, 17% required improvement and 1% were inadequate.

Adult social care in England, overall ratings by service type, 2022, 2023 and 2024

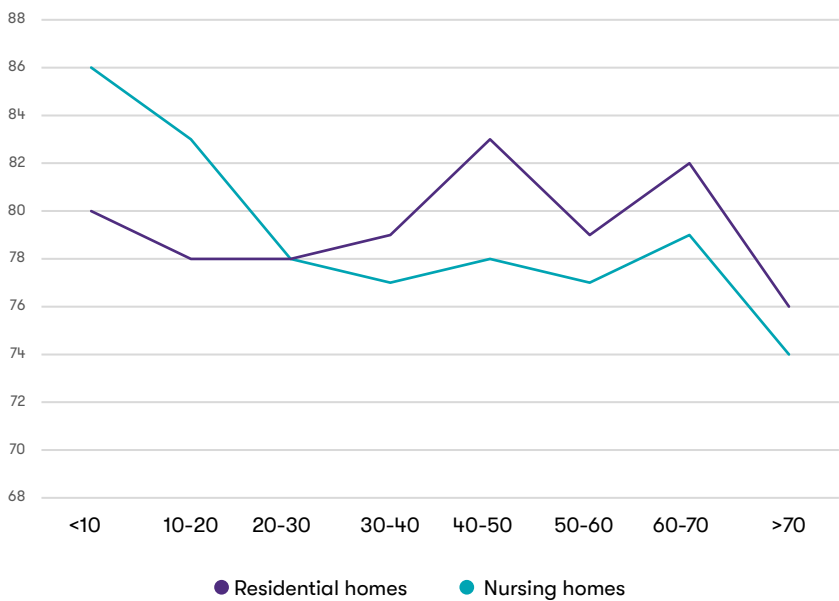


Source: CQC

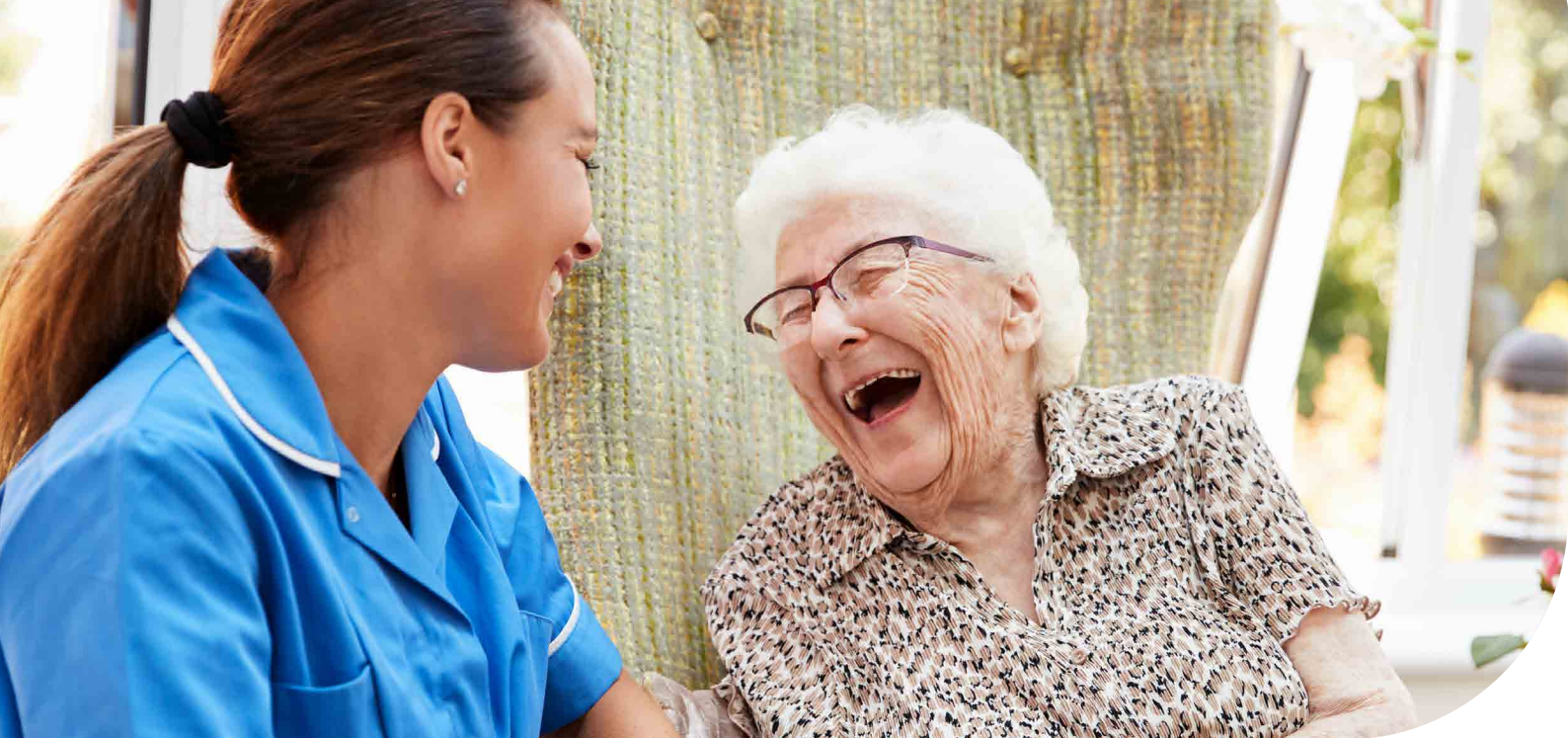
There is an inverse correlation between the size of a home and the CQC rating, particularly for nursing homes: the larger care homes tend to have a lower CQC rating compared to smaller nursing homes, as illustrated below.

This is an interesting trend to watch, particularly as most of the new care homes entering the market follow the large scale corporate model, and are usually 60+ beds.

Percentage of care homes for older people and dementia rated ‘Good’ or ‘Outstanding’ by size of home (number of registered beds), all provider sectors, latest CQC rating, England at January 2024



Sources: LaingBuisson analysis of latest CQC ratings, January 2024

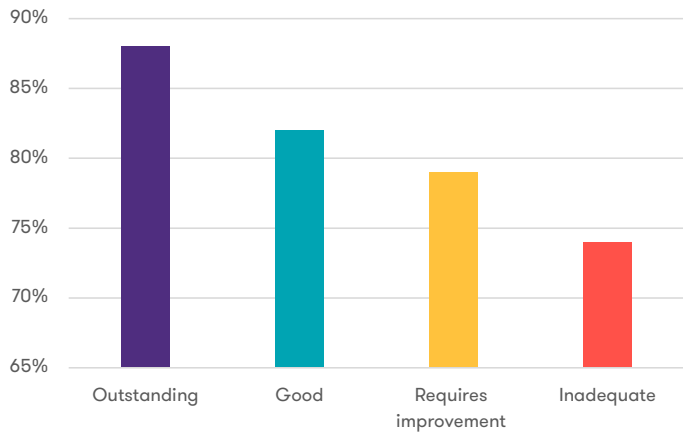


Relationship between CQC rating and occupancy

There is a relationship between the rating attributed by the CQC and occupancy rates. There is therefore strong financial incentive to maintain or improve CQC ratings, which will improve occupancy leading to more income to invest in improving service quality.

There can be significant and long-term financial ramifications when a care home is rated as inadequate by the CQC. This would normally mean ‘special measures’ and an automatic embargo on new residents. The home will typically have to deal with declining occupancy at the same time that its costs are increasing in order to address CQC concerns. This can also lead to problems with recruitment and staff retention.

Relationship between occupancy rates and ratings for care homes for older people January 2024



Source: Care Quality Commission

Relationship between CQC rating and profitability

While the impact of declining occupancy and increasing costs on financial performance and cash flow is considerable, the resulting impact on value can be even more dramatic as a result of declining multiples associate with under-performance.

The table illustrates this point, showing that the average EBITDARM margin in 2024 for ‘outstanding’ care homes was 30%, decreasing to 27% for those with ‘good’ ratings and 20% for those ‘requiring improvement.’ Care homes with an inadequate CQC rating had an average EBITDARM margin of 2%.

EBITDARM margin per CQC band, 2024

CQC Rating	EBITDARM (% of income)
Outstanding	30%
Good	27%
Requires improvement	20%
Inadequate	2%

Source: Knight Frank

Sources: Care Quality Commission, 2023
 Knight Frank UK Care Homes Trading Performance Review 2024
 LaingBuisson, Care homes for older people (34th edition)



Relationship between CQC rating and fees

CQC ratings also impact the level of fees – as expected, homes rated outstanding quote higher fees than their counterparts. The table illustrates that in England in 2024, homes with an ‘outstanding’ CQC rating quoted on average 16% higher fees for nursing care and 17% higher fees for residential care (personal care) than all other ratings.

Quoted self-funded fee rates by CQC rating and category of care

Rating	Nursing care			Personal care		
	Average fee (£)	Change 2023-2024	Change 2022-2023	Average fee (£)	Change 2023-2024	Change 2022-2023
Outstanding	£1,797	7.3%	8.7%	£1,392	8.7%	9.7%
Good	£1,589	7.3%	10.0%	£1,199	8.7%	11.9%
Requires improvement	£1,492	6.6%	10.1%	£1,125	8.8%	11.7%
Inadquate	£1,446	3.1%	14.9%	£1,090	9.9%	15.8%
All	£1,576	7.0%	9.6%	£1,190	8.7%	11.6%

Source: Carterwood: Self-funded fee inflation slows in 2024, September 2024

The investment, capital and financing landscape

Acquisitions/M&A activity

The last two years have seen a strong level of M&A activity, with the majority of activity coming from small to medium buyer groups along with a couple of larger groups trading. There have been a few private equity exits and some new entries along with increased REIT activity from both UK and international parties.

Healthcare transactions have been steadily increasing over the past few years. Investors see it as a market that offers multiple opportunities and one that has shown great resilience.

Up to 2022 we saw increased activity from REITS investing in care homes as the yields were attractive and the market suited longer term investors. However, following the mini budget in September 2022 many of these investors took a step back as yields were low and the op co/prop co proposition was not as appealing.

During 2024 we have seen REITS pick up momentum and invest in elderly care portfolios. Examples of these are Omega acquiring Akari Care and Welltower acquiring Springfield Healthcare Group. REITS such as Elevation and Aedifica have acquired land and provided forward funding for luxury developments across the country.

During the same time period we saw PE return to the elderly care market with key investments including Deer Capital and Foundation Partners acquire Hartford Care for a consideration of £100million, H.I.G invest in Lovett Care and Warwick Capital acquire Danforth Care Partners.

Over the last 2 years the market has seen smaller providers such as Malhotra, Agincare and National Care Consortium acquire smaller groups and single sites, building up their portfolios. Many of the smaller acquisitions were some of the final assets that the Four Seasons Group carved out of their business giving buyers plenty of opportunities through the year.

Key deals in 2024

Deal	Date	Deal type	Acquirer	Vendor	Assets	Beds
Confidential	Dec 2024	PropCo	Omega	Confidential	10	795
Yorkare x 3	Nov 2024	PropCo	Elevation	Yorkare	3	190
Melksham	Nov 2024	PropCo	RLAM	Aspire	1	82
New Care	Oct 2024	OpCo	Lovett Care	McGoff	15	1,057
Anavo Hampshire	Oct 2024	PropCo	Elevation	Anavo	1	78
Notaro	Oct 2024	WholeCo	Care Concern	Notaro	11	480
Henbrook House	Oct 2024	PropCo	Elevation	Connaught Care	1	69
Project Forest	Oct 2024	WholeCo	Swiss Life	Neem Tree	1	57
Havant	Oct 2024	PropCo	Elevation	Anavo	1	78
Care UK	Oct 2024	WholeCo	Welltower	Bridgepoint	162	11,445
Springfield Healthcare	Oct 2024	WholeCo	Welltower	Springfield Healthcare	6a	556
Confidential	Oct 2024	PropCo	Welltower	Confidential	3	187
Confidential	Oct 2024	WholeCo	Omega	Confidential	3	175
Churchlake Care	Sept 2024	WholeCo	Kara Healthcare	Churchlake in Admin	6	280
St Quentin Homes	Sept 2024	WholeCo	HMT	St Quentin Care Homes	3	74
Country Court x3	Sept 2024	PropCo	RLAM	Country Court Care	3	200
Simply x2	Sept 2024	PropCo	Elevation	Simply	2	160
Confidential	Sept 2024	PropCo	Welltower	Confidential	16	1,043
Oyster Portfolio	Sept 2024	PropCo	Aedifica	LNT	4	264
Worksop	Sept 2024	PropCo	Octopus	Torwood	1	70
West Malling	Sept 2024	PropCo	Abrdn	Perseus	1	70
Confidential	Sept 2024	WholeCo	Euryale	Confidential	1	70
Project Ice	Jul 2024	PropCo	Omega	Cindat JV	62	3,346
Durham	Jul 2024	PropCo	Octopus	Torwood	1	74
Hartford Care	Jul 2024	WholeCo	Foundation Partners	Hartford Care	20	774
Signature	Jul 2024	WholeCo	PGIM & Elevation	Revera	13	1,200
Target Portfolio	Jun 2024	PropCo	Confidential	Target	4	326
Penylan House	Jun 2024	WholeCo	Hallmark	Linc Cymru HA	1	75
Danforth	Jun 2024	WholeCo	Warwick Capital Partners	LNT	18	1,188
St Helens	Jun 2024	WholeCo	Lovett Care	Angela Swift	1	64
Green Tree Court	May 2024	WholeCo	Somerset Care	Lexicon Healthcare Limited	1	68
Lydney	May 2024	PropCo	RLAM	LNT	1	66
Akari Portfolio	May 2024	PropCo	Omega	Carlyle	32	1,704
Confidential	May 2024	PropCo	Welltower	Confidential	1	80
Project Denver	Apr 2024	WholeCo	Avano	Silverline (in admin – FRP)	5	290
Confidential	Apr 2024	WholeCo	Lovett Care	Angela Swift	1	74
The Oaks, Rubery	Mar 2024	PropCo	Octopus	Zephyr X	1	71
The Maples, Telford	Mar 2024	PropCo	Octopus	Zephyr X	1	70
Rosewood House	Mar 2024	PropCo	Aedifica	Hamberley	1	90
Confidential	Mar 2024	WholeCo	Confidential	Octopus	1	66
Confidential	Mar 2024	WholeCo	Confidential	Octopus	1	66
Project Redwood	Mar 2024	WholeCo	Sculptor	Forest Healthcare	13	768
Midlands Portfolio	Mar 2024	WholeCo	SpringCare	Confidential	4	224
Reading	Mar 2024	PropCo	Target REIT	LNT	1	66
Berkley Care/Clariane	Feb 2024	WholeCo	Elevation	Clariane	11	727
New Southgate	Feb 2024	Vacant	Care Concern	Barnet Council	1	107
Henley House	Jan 2024	PropCo	Royal London	Greensleeves	1	66
Project Darwin – St Ives	Jan 2024	PropCo	Nuveen/Southwark Council	Blackrock	1	72

Investment landscape

There were £1.6 billion confirmed healthcare transactions in 2024, which is lower than 2023 when there were £2.4 billion of transactions. Some transactions did complete in 2025 due to slower processes and businesses having to incorporate the NI and NLW increases to their costs.

In the UK market, older homes tend to be sold off to neighbouring providers, especially if they are in a good location, the land is high-quality and new properties are developed.

We are also seeing an increasing demand for new high-quality homes and operators partnering with REITs to acquire land and build rather than acquire older care homes.

US and European REITs are still investing in the UK and have been successful with these longer-term investments. Where we have seen private equity enter the market it has been for larger, high-quality groups.

With April 2025 seeing capital gains tax on assets with business asset disposal relief rise from 10% to 14%, we expect to see an uptick in activity in Q1. That said some buyers are taking a step back as they want to see how businesses cope with the increases to NI and NLW which has been reported may lead to the possible closing of a quarter of care businesses.¹⁰

Selected recent exits

Date	Disposer	Care home group	Acquirer
October 2024	Bridgepoint	Care UK	Undisclosed real estate investor
May 2024	Carlyle	Akari Care Group	OMEGA Healthcare Investors
March 2023	August Equity	Sonnet Care Homes	Gold Care

Selected recent exits

We can see that for 2022 to 2024 the yields for each sub sector has steadily increased at a similar rate.

Property investors were hit by high interest rates which affected yields in 2023. Reduced activity due to the higher cost of capital was a key issue for investors and sellers, but 2024 saw the market stabilise and activity increase.

Elderly care yield increases have moved at a similar rate to other healthcare sectors and we see activity from a core of national and international investors.

Sub sector	Yield (%), 2022	Yield (%), 2024
Elderly Care (Prime)	3.25	4.50-4.75
Elderly Care (Prime SPV)	nd	5.50
Elderly Care (Secondary)	nd	6.00+
Elderly Care (Tertiary)	nd	7.5+
Primary Care	3.50	4.75-5.00
Private Hospitals	4.25	4.50-4.75
Adult Supported Living	5.50	5.75-6.00
Childcare (Prime)	4.75	5.50-5.75
Childcare (Secondary)	nd	6.50-7.00
Childcare (Tertiary)	nd	7.00+

Source: Knight Frank Healthcare Capital Markets 2024

¹⁰ Caring Times: What will social care M&A look like in 2025? 20 January 2025

While there is a lot of appetite and capital to deploy to accelerate further market consolidation, there continues to be a reduced rate of suitable platforms coming to market.

Smaller operators continue to buy one or two home care businesses to grow their portfolios and geographical footprint, whereas some of the larger operators and groups are developing their own new homes. Up-and-coming REITs are partnering with operators on ready built homes and forward funding sites to build on.

Identifying and acquiring suitable land is now just as competitive as the M&A market.

We have seen some mid-sized groups who now have reached their preferred size and are looking for onward investment or an exit plan. We have also seen groups look to carve out non-core homes or areas of business allowing the group to focus on core and geographic activities, giving opportunities to smaller investors.

The consolidation drivers that we have seen elsewhere in healthcare are still prevalent in the elderly care sector, namely increased regulation, higher specialism/care acuity requirements, challenges in recruiting and NI and NLW increases. There has also been developing appetite from new entrants who see opportunity from increasing future demand among the ageing population, along with private international investors looking at healthcare as a key investment for them in the UK.

Future outlook

The sector remains highly dependent on funding from the public purse, with around 56%¹¹ of all placements funded from this source principally by local authorities.

In addition, by far the largest expense in any care home is the payroll cost, representing around 60%¹² of turnover which in turn includes many care workers on National Minimum Wage and qualified nursing staff whose remuneration base line is driven by reference to NHS pay scales. It is not therefore surprising that government sentiment and future policy has a huge impact on the viability and attractiveness of the sector.

Social care reform has long been relegated to the “too difficult” box by successive governments. Care England has published a number of recommendations and actions it would like the current government to adopt to achieve the required changes, not least the adoption of a comprehensive approach that transcends the pitfall of fixating solely on short-term funding, and so construct a system that is robust, enduring, and adaptable in the face of future challenges.

This will necessitate a greater integration between the health and social care systems, which in itself will require a change in culture and constructive engagement between these parties. Enhanced coordination between the NHS and social care will streamline hospital discharges, bolstering NHS capacity and elevating outcomes for individuals. If this is truly addressed this will provide greater fees and occupancy for operators.

Labour’s commitments in its first Budget to agree multi-year funding settlements for local authorities and a review of the carers allowance are positive and much needed measures. However, the increases in national insurance contributions announced in its first Budget, together with national minimum wage increases will increase labour costs by an average of 14%, which will make the position untenable for many operators in the absence of double digit fee increases.

Government policy around overseas workforce visas is another area of significant concern for operators. Since 15th February 2022, it has been possible to recruit, via a sponsorship arrangement, overseas care workers. This delivered a substantial benefit to the sector, with an estimated 200,000 care vacancies being filled and markedly reducing the reliance on agency staffing and its crippling effects on profitability. Agency staff costs per hour are often more than three times more expensive than employed staff and, in many cases, deliver poorer care outcomes.

Since 11th March 2024, changes around the overseas workers ability to procure visas for their family and dependents has changed such that they must now travel alone. This has already had an adverse impact on overseas recruitment and consequently it is possible that crippling agency costs will once again become a feature for many operators, particularly those in remote areas.

The workforce vacancy rate is far higher than the NHS and the wider UK economy. More needs to be done domestically to develop a workforce plan that not only makes sure roles are valued financially but offers clear pathways for development.

Staff turnover levels across the sector at 24.2% are not commensurate with high quality and efficient care. It remains the case that high quality care home managers are pivotal in delivering optimal financial outcomes and high quality and caring standards within a home.

As many of the larger care home groups have experienced, no amount of head office intervention can ameliorate any shortfalls in this area. Recruiting and retaining a competent care home manager will remain a commercial imperative, potentially leading to generous bonus packages for professionals who can drive quality and deliver budgeted financial performance.

¹¹ LaingBuisson, Care homes for older people (34th edition)

¹² Knight Frank UK care homes trading performance review, 2024

The ESG credentials of the sector are yet to be fully realised. For the higher end private pay homes, it is already very much a feature of the market. Homes that are not at, or have the potential to get to, an energy efficiency rating of B or above, will not meet the investment criteria of investment funds and REITS. This is likely to become a feature transcending the entire market in years to come, further accelerating a flight to quality assets and rendering certain homes unsaleable as going concerns without substantial refurbishment and capex. It is already difficult to fund homes through mainstream banking channels where the efficiency rating of the home is E or below.

Financial institutions have been criticised in the past for creating financial structures, overburdened with debt and/or onerous leases, which become highly sensitive to changes in the external environment and can quickly become unviable. Southern Cross and Four Seasons Health Care are perhaps the highest profile examples of such corporate distress.

Since June 2020, a new restructuring tool has been added to the armoury of restructuring professionals, namely a Part 26A Restructuring Plan. Restructuring plans can be an efficient method of right sizing debt/lease structures particularly in regulated industries. In our view, future material financial restructurings in the sector will all be dealt with via this route over a period of a few months to avoid the type of protracted process which has been played out over the last five years, or more, with the demise of Fourseasons.

Concluding remarks

The investment fundamentals for the sector remain compelling; ageing population; strong resilient cash flows (pandemic and recession proof); and asset rich. We remain cautiously optimistic about the future outlook.

Businesses are likely to face wage driven margin pressure and there will be a watchful eye on how local authorities approach the up-and-coming fee rate increases. Operators focussing on digital innovation to help drive operational and quality improvement, focus on prevention and efficient use of staff time are likely to be best placed to navigate the future landscape.

We expect existing operators to continue to expand with small group acquisitions, REITS to remain active and some privately owned groups to consider investment to support exiting elderly shareholders.

With construction costs stabilising, we believe that the developer/operator model will yield some of the biggest returns in the sector, albeit continued planning delays and availability of sites, many of which compete with residential housing schemes, could prove to be a limiting factor.

The market remains attractive to hedge funds, property investors, infrastructure funds and private equity who, crucially, are prepared to speculate that despite a lack of funding and the UK's fiscal challenges, the government will find the money from somewhere and adopt supportive policies to ensure that a vibrant future social care system prevails.

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- Supporting lenders and borrowers with a financial assessment or impact analysis to support lending

Directorships

- We can take formal directorships to improve a company's performance and ensure compliance with loan requirements
- We help find experienced and qualified external persons to sit on a company's board, providing guidance, oversight, and accountability

Debt advisory and refinancing

- Raising new or replacement financing from traditional sources such as banks and ABL, non-bank sources such as direct lenders and credit funds, and other alternative funding sources
- Negotiating with existing funders, refinancing debt facilities and the restructuring of debt and equity to provide financial stability and protect value

Cash flow monitoring

- Review of short term or medium-term cash flow forecasts to assess funding requirements, as well as ongoing cash flow monitoring

Merger and Acquisition

- Mergers and Acquisitions (M&A) involve the consolidation of companies or assets through various financial transactions, including merger, acquisitions, consolidations, tender offers, purchase of assets and management acquisitions

Restructuring

Turnaround services, operational and financial restructuring

- Providing support to create financial stability
- Advising on loans in default, assessing cash flow, and identifying other means of improving short-term liquidity or addressing drivers of underperformance
- Provide support to realise significant business process improvement, implement new business strategies, divest non-core businesses, and design new capital structures

Independent Business Reviews (IBR)

- An independent assessment of the financial health and viability of a business, with a view to protecting lender's position or to assist a refinancing
- It is a comprehensive evaluation of a company's or group's operations, financial position and prospects
- It covers a range of areas, including financial performance, cash flow, debt structure, asset quality, management effectiveness and market dynamics

AMA processes

- An accelerated sales process, used to realise value for key stakeholders Accelerated mergers and acquisitions typically involves:
- Conducting due diligence on potential acquisition targets to identify risks, opportunities, and potential synergies
- Developing a targeted acquisition strategy and identifying potential buyers or sellers to accelerate the M&A process
- Negotiating favourable terms and conditions for the acquisition and managing the transaction process to ensure a smooth and efficient closing

Insolvency

Contingency Planning

- Advising on the options available to stakeholders in the event of a crisis or financial distress, including an assessment of outcomes in various scenarios
- We help firms explain alternative scenarios to relevant stakeholders and provide clarity over what any implementation would mean
- This can include the preparation of an estimated outcome analysis for lenders, directors and regulators and practical preparation for a formal insolvency, eg employee, supplier, customer analysis and planning

Corporate insolvency appointments

- Statutory insolvency appointments (typically following a contingency planning exercise, or as part of a rapid enforcement exercise), including administrations, prepacks, liquidations, receiverships
- We utilise formal insolvency appointments to support directors or lenders in the restructure or wind down of firms while maximising returns to creditors

Formal creditor compromises

- A court-based restructuring process provides a structured approach to restructuring under court supervision
- It offers protection from legal actions by creditors and the ability to restructure debt obligations
- This process can help to ensure a company's long-term viability by providing a legally binding framework for restructuring (eg Scheme of Arrangement, Restructuring Plan)

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