CAPITALISING ON CARE

Inflation, ageing and the decline of the high street are usually the stuff of negative headlines. But they can be opportunities for the care sector, as Freeths Care Team heads Phil Baigent and Thomas Golding and Alantra experts Justin Crowther and Hoong Wey Woon revealed in a webinar on 24 May 2022.

Appealing to investors

There is a lot of liquidity in the market and increasingly investors are moving away from the high street and retail to other sectors – retail's share in the Investment Property Databank has halved, with sectors like healthcare real estate filling the gap. The care sector offers investors stable cashflow; we have an ageing population and good operators maintain good occupancy and fee levels. Well-run care businesses offer both cashflow and a property portfolio, which is attractive to investors.

International opportunities

The options for investment have gone global. Fifteen years ago, it was a UK market with a few businesses or funds you could go to. Today it is international, whether that be mergers and acquisitions, infrastructure funds or Real Estate Investment Trusts (REITs) with multiple options. Day-to-day Alantra are speaking to over 100 players in mergers and acquisitions. Where high street banks were once the only option for debt funding (borrowing), now there is a proliferation of sources looking for a stable income stream.

A range of options

Care businesses can win investment from different jurisdictions (Europe, USA and beyond) and gain the ability to grow - with the right funding stream and partner - from a group of three or four homes to 25 homes in 10 years. And there is a wealth of options for funding: opco (operating company), propco (property company), ground rent sale, private equity, debt funding, development funding, forward funding, REITs and mergers and acquisitions. Indeed, most of Freeths' clients are mixing and matching to raise financing that works for them.

Quality matters

The experts highlighted the major changes in the care sector that drive success. Above all, quality matters – there is a positive correlation between CQC (Care Quality Commission) rating and valuation. Environmental, social, and governance (ESG) criteria are also increasingly important, with some investors willing to pay more if a business is ESG compliant.

How we live our older years is changing and so are care homes. There is a shift towards seeing residents as customers rather than patients and providing a fulfilled life and better later-living. The quality of a facility, and the quality of care provided, matter to investors.

Predictions for the next 12 to 24 months

The panel acknowledged challenges for operators including rising construction costs, staffing and inflation. However, taking into account the ageing population and that some 50% of care homes need to be replaced over the next 20 years, the panel were cautiously optimistic about the future. They predicted:

- more opco sales reflecting what is already happening in Europe and the US where opcos are trading at healthy multiples
- private equity becoming more involved in elder care
- an increase in joint ventures whether between institutions and operators, or between operators with other capital providers, or between people to bring a business to market.

Tips for care operators seeking funding

- Get a well-prepared, clean set of financials showing past, present and future performance.
- Present the information in the format the investor needs it in to get the right result; institutions, banks, funds all have very sophisticated risk-underwriting systems. It's a lot of work, don't underestimate the process.
- Be prepared for scrutiny, especially of property and get help if you need it.
- Look at your quality indicators and address any issues.
- Be clear about what funding you are asking for and why.

If you need help to navigate opportunities in the care sector, contact Phil Baigent (phil.baigent@freeths.co.uk 0345 634 9799) or Thomas Golding thomas.golding@freeths.co.uk 0345 050 3647) in the Freeths Care Team or Justin Crowther (https://www.alantra.com/team-member/justin-crowther) or Hoong Wey Woon (https://www.alantra.com/team-member/hoong-wey-woon) at Alantra.

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