

Resources:

Guide to Buying a Care Home

**Business
sale REPORT**

Thinking of buying a Care Home?

Buying a care home can be a highly profitable business venture as well as a rewarding lifestyle choice. In Britain, we as a population are getting older - in his 2006 budget, Gordon Brown projected that the number of people between the ages of 65 and 84 will increase by more than 50 per cent over the next 30 years, while the number of people aged 85 and over will more than double. These statistics demonstrate that the care industry will have an increasingly important role to play over the coming century.

Confidence in the market is currently running high. The industry has recovered from the huge impact of both the 2000 Care Standards Act, which caused the closure of many homes as owners struggled to accommodate the new regulations, and from the nursing shortages and wage increases of 2002-3. The cost of development land is high, preventing widespread construction of new care homes, and elderly people are in a better position than ever to pay for their own care, due to the rise in property prices. This is all very good news for care home owners, occupancy rates are now higher than they have been for many years, and profit margins are good.

In addition, the Inland Revenue have just announced that care homes are now deemed to be acceptable investments in SIPP's (Self Invested Personal Pensions). If you own a SIPP, you can now use it to buy and run a care home. A SIPP brings with it the same tax relief as other forms of pension investment.

Richard Lunn, head of the Health Care division at Christie & Co. says of the new ruling:

"We have experienced strong growth in the care home sector over the past three years and this will only increase demand."

Is it for me?

Running a care home is a big undertaking and will not suit everyone. The initial financial commitment is substantial, you will need to be prepared to put in long hours and the work can be emotionally draining.

Andrew Long, director of specialist healthcare business brokers GLP, and John Read, a partner of healthcare finance specialists Chandler & Co, recommend that a successful care home purchaser should:

- *Have a genuine desire to care for the elderly.*
- *Possess good management skills and be able to organise staff effectively.*
- *Be able to create a good working atmosphere that will impact on the residents.*
- *Be practical in the event of a client dying, but also show compassion, tact and sympathy.*
- *As a general guide, be able to put at least £100,000 towards securing the necessary finance.*

Choosing the right care home to buy

Decide on what your requirements are. When looking at prospective care homes there are many different options, so think about what will suit your individual situation and consider if you require owner's accommodation. This can often make a big difference to the asking price, decide how much personal space you need.

What is your budget?

You are likely to be required to put down 25-30% of the asking price which can either be cash or in the form of property. Generally speaking, if you can show proven success in the care industry, then the initial percentage you have to pay will be lower.

What type of care home do you want to buy?

After considering the all the criteria listed above, the next stage is to decide what type of care home you want to buy. The two main types of home are Residential Homes and Nursing Homes (sometimes referred to as residential homes with nursing).

Residential homes

- These are essentially retirement homes for elderly people who can no longer manage in their own homes.
- These homes provide meals and accommodation. Basic help with personal care such as bathing and dressing, as well as emotional and physical support.
- They can care for patients through short illness.

Residential homes currently make up about 70% of the care homes in the UK

Nursing Homes

- These types of homes are equipped with the staff and facilities for long term or serious health problems.
- They are for elderly people who need around the clock care.
- A qualified nurse will be on duty 24 hours a day.
- Nursing homes are subject to more stringent regulations and standards.

Nursing homes currently make up about 20% of the care homes in the UK

The remaining proportion of care homes fall under the specialist category. Providing services for a range of specific needs. Examples include homes for children with emotional, behavioural and learning difficulties, or homes for those with acquired brain injury, alcohol/ substance abuse or acute psychiatric problems. These homes can command very high fees per patient, but breaking into in this market is very tough as you will need a high level of expertise.

What are your qualifications/experience?

If you are new to the industry, you will not be able to register a care home under your ownership unless you employ a care manager. The care manager is responsible for the day to day care of your residents, and must have certain medical or care qualifications. In this situation, you will concentrate on the management issues and not be involved in the actual care provision. Is this what you want? If not, then research how to obtain the necessary qualifications before you think about making a purchase. Whether or not you need a care manager will also affect the size of care home you can buy – a small care home (usually defined as less than 20 beds) is unlikely to generate the income needed to employ a care manager. When looking at homes for sale, find out if the current care manager and any other staff are prepared to stay on. A change in ownership will always cause a certain amount of upheaval, and ongoing management can make the transition much smoother.

What locations will you consider?

Look at the population of the area you choose. How far would you have to relocate from friends and family? Remember that you will often need to be available 24 hours a day for your residents and staff, especially to begin with.

Prices in remote areas can be tempting, but think seriously before committing yourself to a care home miles away from your connections. In addition, you need to think about where your staff will come from - will they be prepared to travel miles to work every day?

Alan Matthews of Savills Healthcare advises that when deciding on a location you should consider:

- *The distance from nearby housing areas.*
- *The distance from amenities such as bus stops, shops, recreational facilities and medical services.*
- *The competition - How close is it? What type of service is being provided? How is it being presented and advertised?*

Does the care home comply with existing legislation?

In 2000, a Care Standards Act was passed stating that all care homes must be registered with the CSCI (Commission for Social Care Inspection, formerly the National Care Standards Commission).

Does the home comply with this legislation? Look carefully at the National Minimum Care Standards, especially the environmental standards (standards 19 to 26). These can be found on the Department of Health website.

Does the building meet all the health and safety requirements? If an expansion is planned, has permission been granted? How much money will you need to factor in for work that needs doing?

How has the vendor arrived at the asking price?

Care homes are usually valued by their turnover. You should expect to pay an asking price of four to five times the home's annual turnover. If the price is significantly more/less than this, find out why.

Property prices have forced up the value of many care homes beyond this marker, or it could be that other attractions or facilities such as large grounds or a swimming pool have increased the asking price. Location will also affect the price you pay, with homes in the South generally being more expensive.

An alternative guideline is to allow at least £20,000 per bed, e.g. a 20 bed home would cost you from £400,000. However, with property prices continuing to rise, this figure is increasing all the time.

When you express serious interest in a care home, a good vendor should make a set of recent accounts available to you. Study these carefully, and look at the profit margins. What fees do the home currently charge? Is it full to capacity? What are the costs involved?

What will it cost?

As well as the already mentioned down payment of 25-30% of the asking price, there are other charges that should be factored in.

The main ones are:

- *A business valuation fee, for an independent valuation carried out by a valuer approved by the bank.*
- *An arrangement/ setting up fee (often negotiable).*
- *Any consulting fees if you have used a specialist broker*
- *Stamp duty on the property.*
- *Solicitor's fees.*
- *Registration fees to register with the CSCI. This is currently between £2,000 and £2,500, depending on the specifications of your care home.*

It is also a good idea to have some capital for when you start running the business, although as your residents will be paying their fees in advance while you pay your staff in arrears, you shouldn't experience cash-flow problems.

Financing the purchase?

Once you have found a home that you would like to buy, the next stage is to approach a bank or care finance specialist. Make sure that you are fully prepared before meeting with a financier. They will be looking for you to demonstrate a comprehensive knowledge of the industry and have a well thought out business strategy. Take along detailed information about the accounts, sales particulars and management figures. Banks will have a lot of flexibility when it comes to the rate of loan they can offer you, and one of the most important ways that they decide on this is through your experience. If you don't have any, then it is especially important that you have a well thought out and realistic proposal in order to secure the best rates.

Alan Matthews, of management journal Care Management Matters, advises that:

“All banks are willing to lend on cast iron business propositions: those with good cash flows and accounts, solid inspection reports, highly experienced applicants, with a proven track record, together with a favourable loan to value and a reasonable chance of future success. Offer these and you are almost guaranteed a positive response.”

When deciding who to approach with your proposal, it is advisable to shop around. Specialist healthcare finance brokers will have a high level of knowledge and expertise and be able to identify the best lender for your proposal. They offer a great range of services, from an initial consultation to helping you fine tune your proposal for submission, and can provide you with a wealth of insider knowledge and advice. They are not cheap, but the expert help they will give you could make the difference between the success or failure of your business venture. However, whether you choose to use a broker or go direct to a bank, the most important thing is that the organisation is a healthcare specialist with a good reputation in the industry. Brokers such as Christie & Co, Chandler & Co, GR Patrick & Co (Finance) Ltd, MHJ Finance and banks such as the Royal Bank of Scotland and the Bank of Ireland all fall into this category.

How much money will I make?

Once you have got over the initial hurdle of finding the deposit, profit margins are very good. An averagely successful home should record an EBITDA (Earnings before interest, tax, depreciation and amortisation) of around 25-30%, and a very successful one could reach the mid to high 30s.

What are the risks?

Although on the whole the outlook is good, it is prudent to bear in mind the following risks for care home owners:

- Increased competition from new builds. This is not widespread at the moment, but could pick up in the future.
- Competition from other forms of care, such as care agencies who provide home visits, sheltered housing or warden controlled accommodation. The opinion that more care should be available to enable the elderly to remain in their own home is becoming more popular as a solution to the problem of increasing numbers.
- Keeping up with the strict regulations and meeting the standards required. This can be particularly hard for small care homes with limited funds to make changes.
- Funding, in recent years, the government has struggled to keep pace with the ever increasing numbers of elderly who need care. A recent report carried out by Derek Wanless, a former chief executive of NatWest on behalf of a health think tank, warns that the amount spent on caring for sick and disabled elderly people will need to double by 2026.
- Staff shortages, this is connected to the regulation changes, which specify that at least 50% of care staff must be trained to NVQ Level Two in Care and Management.
- Too much management time being taken up by logistics or refinancing following a change in ownership.

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Further Information?

Magazines Care Management Matters and Care Monthly are a good way to familiarise yourself with the care industry. They contain advice on a range of current issues from specialists in the field.

Care Monthly is also affiliated to The Care Show, a bi-annual exhibition for care home owners and managers. It features over 150 different exhibitors, as well as seminars and workshops. Find out about it at www.careshow.co.uk

For the latest legislation, visit www.csci.org.uk and look in the section “Information for Service Providers”. You can download all the regulations, including the National Minimum Standards, and find out about registration, inspection and CRB checks.