

Healthcare Advisory

# Transforming the UK Primary Care Estate

REPORT

JULY 2022

**CBRE**





This paper brings together a selection of themes and trends within the UK primary care market, and makes recommendations on enabling the transformation of the GP estate to meet future primary care demands and deliver on policy objectives.

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## Key takeaways

# 01

### DEMAND AND SUPPLY IMBALANCE

Demand for primary care services is driven by an ageing population with increasingly complex care needs. This growth in demand is compounded by the expectation that primary care services will take pressure off acute hospitals. While the current supply pipeline is already limited, current stock of GP estate is found to be not fit for purpose. Modernisation of the GP estate is much needed, otherwise it will be unlikely to meet various policy targets.

# 02

### SUPPRESSED PRIMARY CARE RENTAL GROWTH

Falling rents in real terms and rental growth lagging other sectors made investing in transforming the GP estate less attractive. The semi-regulated nature of primary care rents is well intended but could limit investments in areas where transformation is needed the most.

# 03

### SOARING CONSTRUCTION COSTS

Over the last decade, construction costs have increased significantly ahead of primary care rental growth. There has been significant construction cost growth in recent years due to high inflation growth rates, expanding sustainability requirements, and material and labour shortages which have been compounded by Brexit and COVID-19.

# 04

### LIMITED THIRD PARTY DEVELOPMENT INCENTIVES

Past developments were made viable due to yield compression. With investment yields stabilising and construction costs rising ahead of inflation, there are limited return incentives for third party development (3PD). Developers could likely be drawn to other property sectors for better returns.

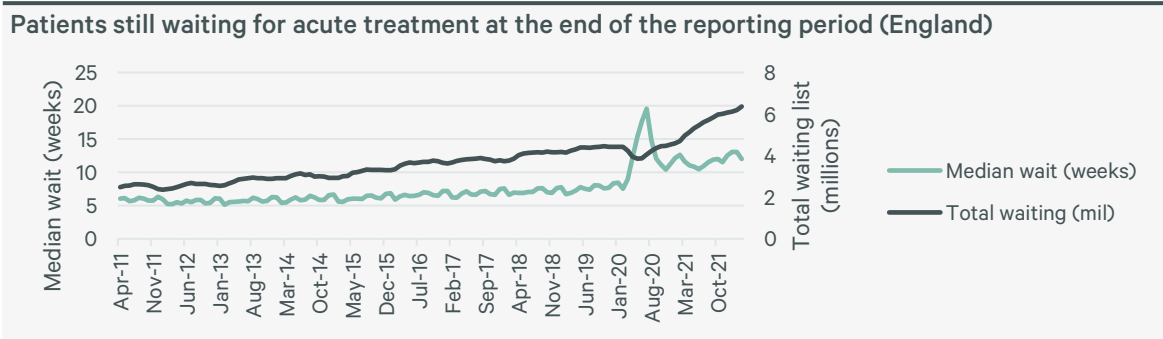
# 05

### RESPONDING TO SUPPORT THE NHS – CONSIDERATIONS SHOULD BE GIVEN TO:

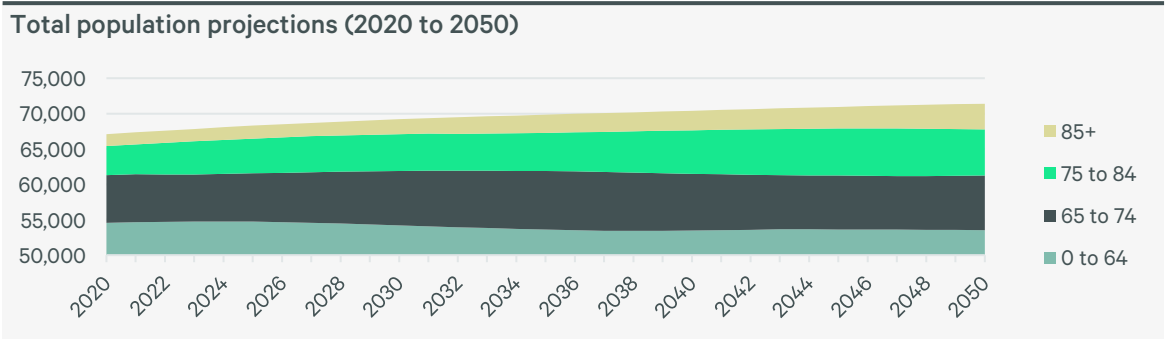
- a) Investing in the primary care estate to deliver better value for money for the NHS overall.
- b) Ensuring balanced judgement on rents in specific micro locations to reflect the underlying site value and to support policy objectives, including Levelling Up, Net Carbon Zero and local health requirements.
- c) Greater expectation for Clinical Commissioning Groups (CCGs)/Integrated Care Systems (ICSs)/NHS Property Services to budget higher rental growth on purpose-built GP estate.
- d) Engaging in continuous open dialogues between government bodies and the industry to keep abreast of the fast-changing landscape of the market.

# Demand for GP services is set to continue increase with ageing population

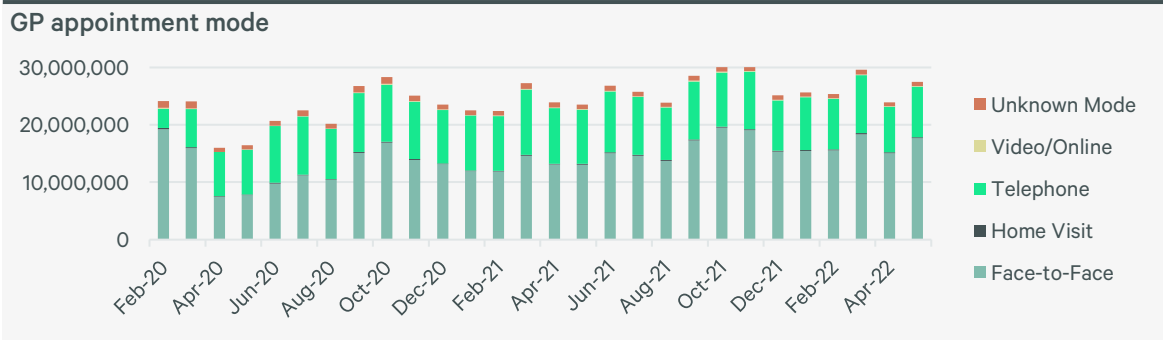
Increased NHS waiting lists show NHS acute services are struggling to meeting demand. In 2021/22 26.5% of patients avoided making GP appointments because they found it too difficult.



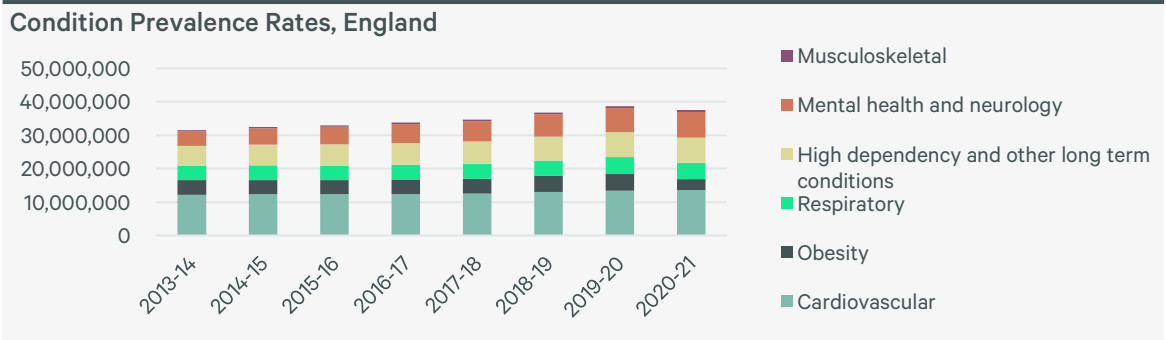
Demand is being driven by a rising population, an ageing population (groups with high care needs).



Face to face consultations remain a key way of delivering primary care despite disruptions during Covid-19 lockdown.



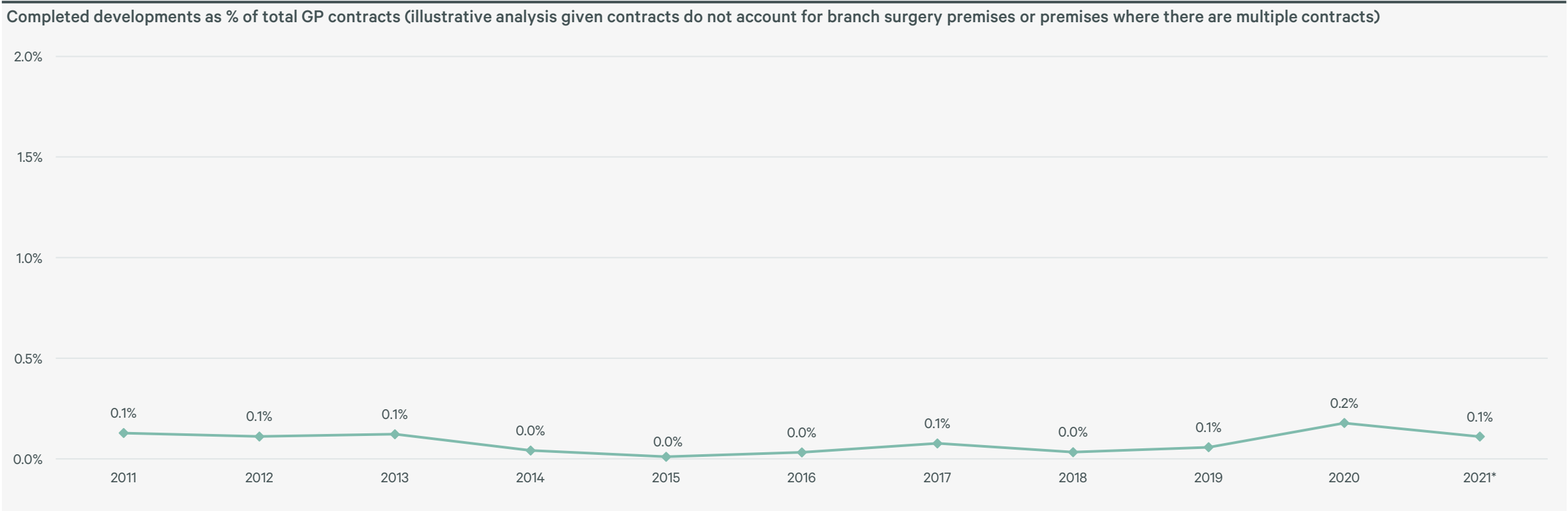
Higher incidences of chronic disease and mental health issues add to the reliance of GP services.



Source: Office of National Statistics, NHS Digital, NHS GP Patient Survey 2022

# Current supply pipeline will unlikely materially alter the current capacity and meet the future increases in demand

Only 83 new developments have completed since 2011 by the two listed third-party developers in the sector expanding the GP estate by only c.1%.



\*Assura data dated 9 months to December 2021

Source: PHP Annual Reports, Assura Annual Reports, NHS Digital, IDS Scotland, NHS Wales SSP, OpenData NI



# Survey found much of the current GP estate is not fit for purpose and will not meet the demands of the future

Below are some key findings from the British Medical Association (BMA) GP Premises Survey 2018 and while this survey dates from 2018, with COVID, there have been no material changes to the primary care estate that we consider would have demonstrably improved this situation.

57%

of respondents  
owned their  
premises

35 years

The results showed that GP  
premises are on average 35  
years old

20%

Only half of practices considered  
their premises to be fit for present  
needs, falling to 20% taking account  
of future population growth

2005

The last significant modification /  
extension was on average in 2005,  
pre-dating growth in patient  
demand in the past decade

More space

When asked what would make  
premises more suitable most  
practices noted that more  
space is needed

Source: British Medical Association

# Unless transformed, it is unlikely that the primary care estate will be able to meet the policy targets set by the Government and the NHS

- The NHS have identified the requirement for developing new primary care models to deal with delayed transfers of care in hospitals and have committed to being net zero by 2040.
- Without significant investment to improve and expand GP premises and to build new facilities, these targets will not be met.
- Schedule 2 (Premises Development and Improvement) of the Premises Cost Direction 2013 lists projects that may be funded with premises improvement grants and this only refers to improving existing premises and does not include new works.

## October 2014

### The NHS Five Year Forward View (5YFV) was published

The 5YFV concluded that major investment is required to develop new models of primary care that will be capable of dealing with the growing numbers of older patients with chronic illnesses and the increasing problem of delayed transfers of care.

## March 2017

### The Naylor Review was published

The review explored how the NHS could use its buildings and land to support its 5YFV.

The review recommended that NHS England and the NHS Property Board should link payments to the quality of facilities while taking advantage of private investments since the sector is largely privately owned.

## January 2018

### The government responded to the Naylor Review

The government response accepted the recommendation on primary care. The response stated that strategic estate advisors would continue to provide expert advice to Clinical Commissioning Groups and local primary care commissioners to optimise alternative sources of finance, where these provided value for money for the taxpayer.

## October 2020

### The NHS made an announcement to become a net zero organisation by 2040

Given the age and poor quality of the existing GP premises, many practices will need improvement to make them fit for the future.

Reducing a practice's carbon footprint should be considered in making these improvements.

## Today

### The need for increased and more appropriate space remains

There is limited evidence of the improvement of GP facilities so far. The demand for services has only increased with hospital waiting times rising through COVID.

NHS Property Services are currently reviewing how to make their new health centres and GP surgeries net zero.

“

Primary Care is indeed one of the only routes where third party finance can still be invested – these schemes are GP led so do not fall within the NHS capital regime. Given the pressure on the NHS due to backlog maintenance and the New Hospitals programme, it would make sense that more third party solutions, such as health centre development or privately funded health facilities, be encouraged, rather than private investment being funnelled into a single project type.

**British Property Federation 2022, “Naylor Review 5 Years On”**

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# In addition to increasing capacity and achieving government targets, new primary care facilities also bring the following benefits including system cost efficiency:

<p><b>Sustainability</b></p> <p>In line with the governments net zero strategy to decarbonise all sectors for the UK economy, new primary care developments will need to be designed with systems that help to reduce energy consumption. This will also translate to a reduction in GP operational costs.</p>	<ul style="list-style-type: none"><li>• <b>2040</b> is the target year to achieve Net Zero Carbon by the NHS. Both PHP and Assura target all new buildings to be NZC by 2025/2026 and all budlings by 2040</li></ul>
<p><b>Capacity and efficiency</b></p> <p>New, purpose-built primary care facilities have the specification and flexibility to provide more services more efficiently, helping to relieve demand pressures from the growing population with increasing care needs.</p>	<ul style="list-style-type: none"><li>• <b>£77</b> cost of appointment at an urgent care centre and receives the lowest level of investigation and treatment – The King’s Fund.</li><li>• <b>£359</b> cost of A&amp;E investigation and treatment – The King’s Fund. It is cost efficient to provide more services through primary care.</li></ul>
<p><b>Relieving pressure on NHS hospital services</b></p> <p>High NHS hospital waiting times have been exacerbated by COVID and expanding primary and community care services and facilities will help to relieve this pressure in line with the NHS long term plan.</p>	<ul style="list-style-type: none"><li>• A PSSRU study found that, in 2020, the average 9-minute GP consultation <b>only costs £39</b>.</li></ul>
<p><b>Tackling health inequalities</b></p> <p>Encouraging third party development in more deprived areas will increase capacity and take pressure off local hospital services helping to address healthcare inequalities.</p>	<ul style="list-style-type: none"><li>• <b>7%</b> less funding per need adjusted registered patient than those serving less deprived populations currently according to The Health Foundation.</li></ul>
<p><b>Infection control</b></p> <p>The COVID-19 highlighted primary care as a key service and the practices best placed to deliver services were those that could adapt their buildings to allows for hot clinics, vaccine clinics, conference meetings/remote consulting and a flexible layout that could feature one-way-systems.</p>	<ul style="list-style-type: none"><li>• The Code of Practice on the prevention and control of infections and related guidance states that <b>good infection prevention is essential</b> to ensure that people who use health and social care services receive safe and effective care.</li></ul>
<p><b>Accessibility</b></p> <p>Compliance with the Equality Act is essential for new developments and provides better accessibility for both patients and staff.</p>	<ul style="list-style-type: none"><li>• The Equality Act 2010 places a duty on employers and service providers to make reasonable adjustments for disabled people <b>to ensure they are not disadvantaged</b> compared with non-disabled people.</li></ul>

Source: NHS England, The King’s Fund, PSSRU, The Health Foundation, Code of Practice on the prevention and control of infections and related guidance, Equality Act 2010

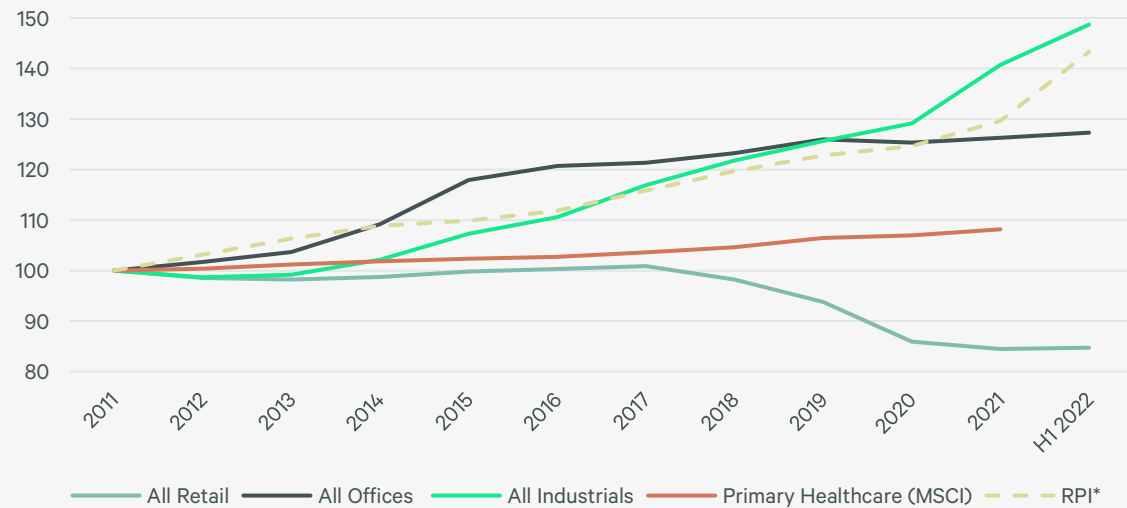


# Investing in transforming GP estate is becoming less attractive due to falling rents in real terms over the last 10 years

- The real estate development market in the UK has faced some significant headwinds in recent years. With inflation and competition for material, labour and sites driving costs across all asset classes, development and investment will be drawn to sectors where there are stronger return opportunities and no rent control.
- Primary care rental growth lags behind not only other commercial property sectors but also inflation and has been decreasing in real terms over the last 10 years.

## Rental growth by sector

2010 to H1 2022



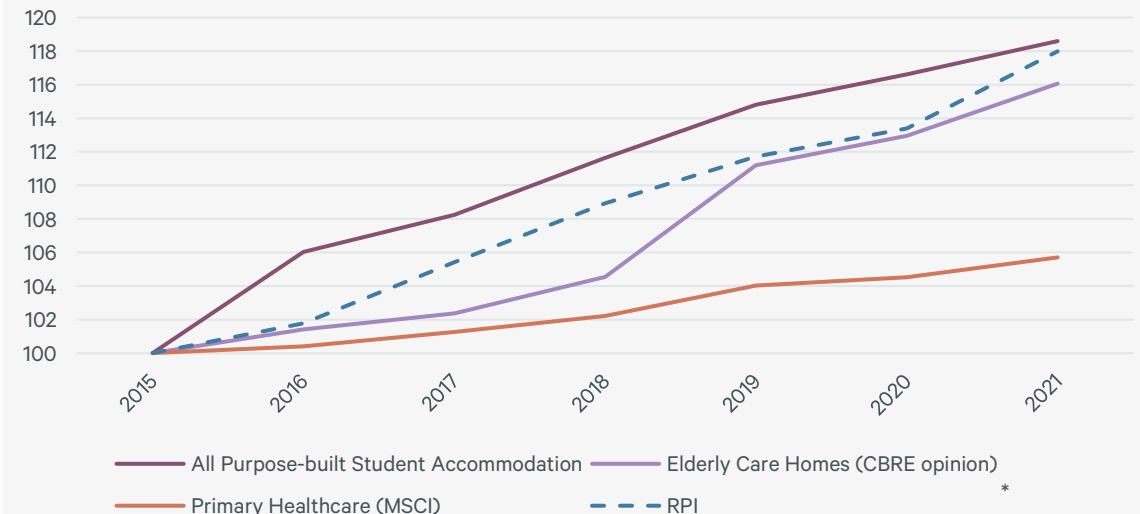
\*H1 2022 RPI at May 2022

\*\*This is not an index but is based on transactions and valuations that CBRE have been involved in and are aware of

Source: CBRE Research, MSCI Analytics

## Rental growth by alternative sector

2015 to 2021



# Value for money is often focussed on costs rather than wider policy objectives leading to unintended consequences

- The market is quasi-regulated with District Valuers (see RHS mechanics of rent setting procedures) playing an important part to provide value for money for taxpayer.
- HM Treasury Green Book (Supplementary guidance: Value for Money) defines value for money as a ‘balanced judgement about finding the best way to use public resources to deliver policy objectives’.
- In practice, economic value for money often supersedes wider policy objectives. An unintended outcome is a feedback loop that means people who most need healthcare are least likely to receive it (The Inverse Care Law).

## Negative feedback loop: Unintended outcome of pursuing economic value for money in rent setting

A lack of infrastructure to alleviate deprivation

Limited incentive to transform primary care estate



Low market rent in deprived area

Market evidence for rental level is low

“ Breaking this chain to invest in areas where transformation is needed the most could help levelling up and alleviate deprivation. ”

**Sam Wright**

Senior Director, Healthcare, CBRE

## Summary of mechanics of rent setting in primary care

### Notional Rent or Current Market Rent (“CMR”)

is the rent that GP practices are reimbursed from NHS England under the National Health Service (General Medical Services – Premises Costs) (England) Directions 2013. Similar Directions apply in Scotland, Wales and Northern Ireland.

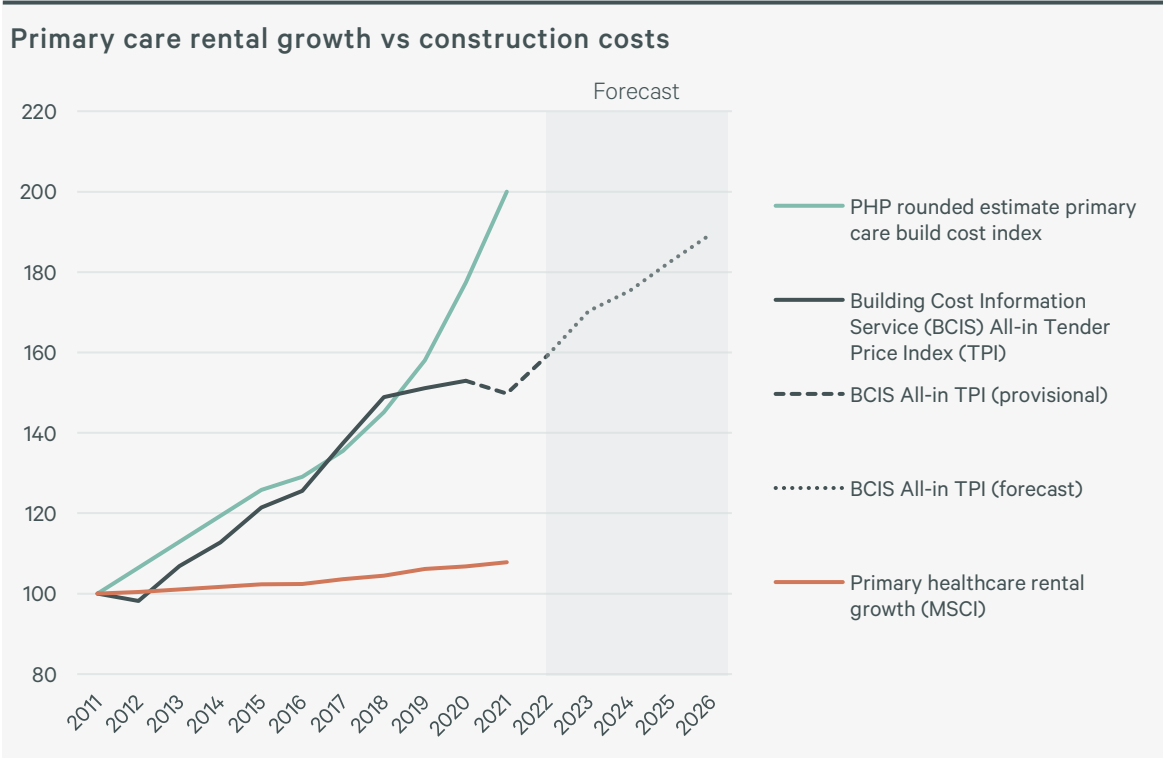
CMR is assessed in accordance with the lease’s rent review frequency (commonly three years) and other provisions, which normally specify hypothetical **open market lease terms**, although RPI-linked rent reviews have also been introduced in recent years driven by investor’s requirements.

The NHS reimburses rents at the lower of the CMR or the actual passing rent, so that the reimbursed rent could be below the actual contracted rent. The CMR value of the premises is as **assessed by an independent valuation conducted by the District Valuer (DV)**.

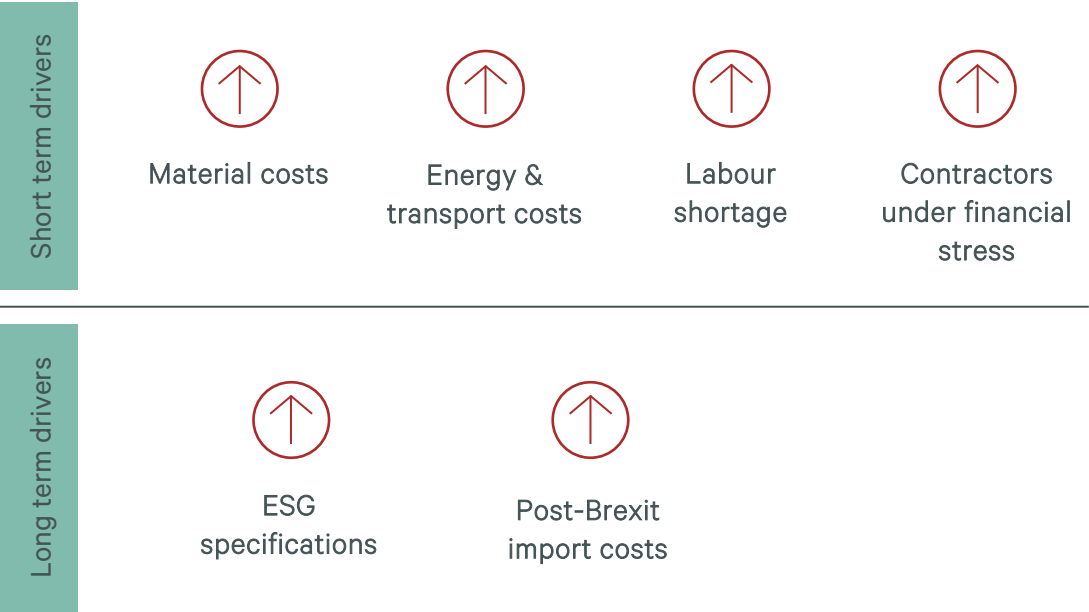
District Valuers ensure rents are set at market value and that the NHS gets value for money.

# Furthermore, inflation in construction costs have made primary care development less attractive

- Construction costs have increased significantly ahead of primary care rental growth over the last 10 years.



- Whilst innovation (such as modular construction) has helped to mitigate cost increases, inflation is likely to continue to increase build costs.
- This trend has accelerated in recent years as a result of high inflation growth rates, driven by:

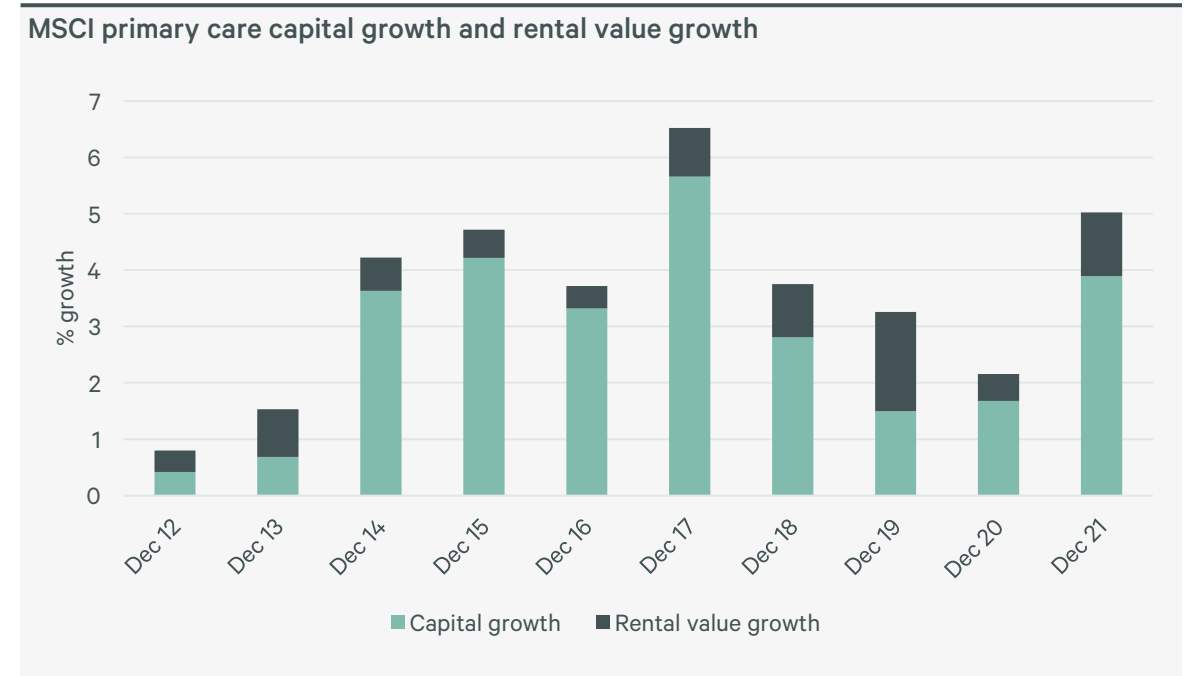
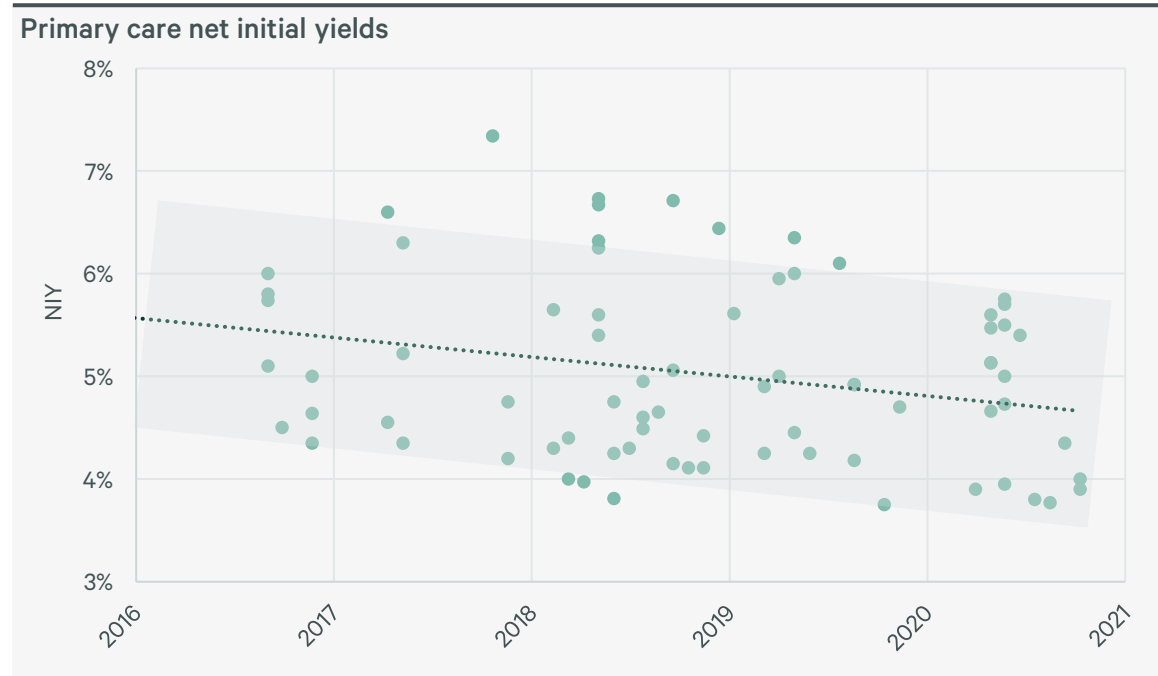


See page 13 for case study on impact of rising cost on returns of a development

Source: Building Cost Information Service, Turner & Townsend, PHP annual reports, Assura annual reports, MSCI

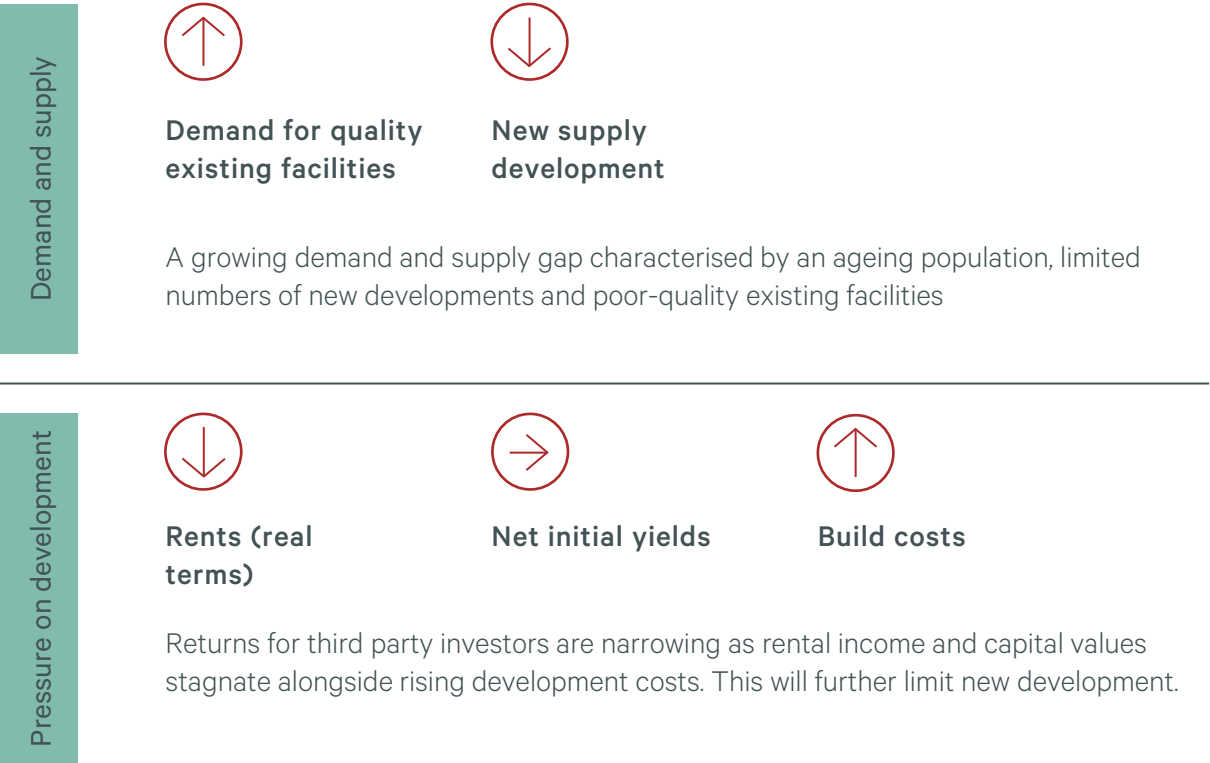
## Past developments were made viable due to yield compression despite a lack of rental growth. Without continued yield compression this will cease to be the case.

- Primary care investment yields strengthened (reduced) across the prime/super prime and markets over 2018-19 and remained stable in 2020 and 2021.
- The upward pressure on bond pricing by rising interest rates, is unlikely to contribute to significant inward yield movement.
- Primary care capital growth has been a key driver of total returns with rents having shown little growth to encourage development over the period.



Source: CBRE Research, MSCI

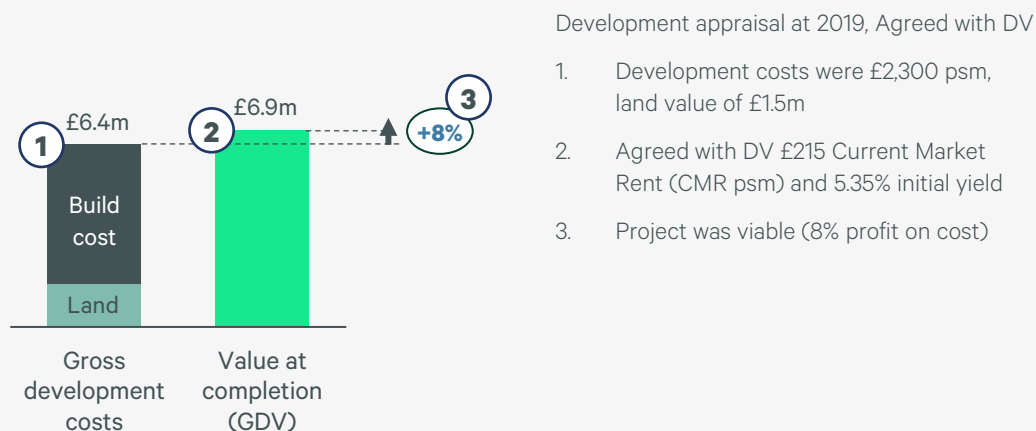
# Market dynamics indicate demand fundamentals for GP services will not be sufficient to encourage continued investments in transforming the GP estate without rental growth in real terms



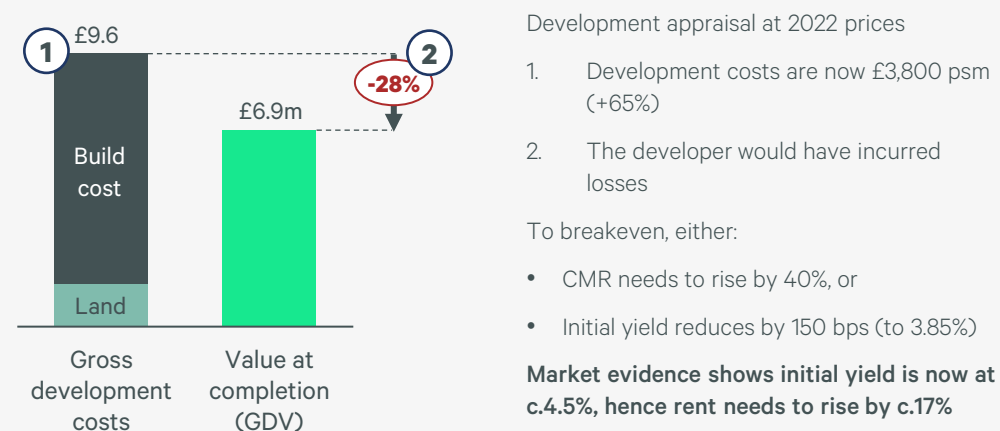
# Third party developers are facing real challenges to continue investing in refurbishments or developments

Case study on the development appraisal of Eastbourne Primary Care Centre, Victoria Drive (PC 2021)

## Project was viable in 2019 at sign off



## At 2022 costs, project would not have been viable



Source: PHP

“With development costs and outward pressure on yields rising, primary care developments are becoming unviable. In the current economic environment, without additional funding, this will not change.”

**Sam Wright**

Senior Director, Healthcare, CBRE





# Recommendations

Real estate plays a major role in the delivery of primary care and the sector is poised to face multiple challenges. To facilitate third party development to meet increasing demand for primary care services in a sustainable way which offers value for money, considerations should be given to:

- 1 Investing in the primary care estate to deliver better value for money for the NHS overall in accordance with the Treasury's definition**
  - This could be justified by cost savings from relieving pressure on NHS hospital and social care services.
- 2 Ensure balanced judgement on rent setting to deliver policy objectives including at rent review**
  - This includes Levelling Up, Net Carbon Zero and local health requirements.
  - This could be achieved by a widening of performance metrics, for example energy performance standards, Health Building Note (HBN) compliance.
- 3 Greater expectation for CCG/ICS/NHS Property Services to allocate higher rental budget on purpose build medical centres to support the transformation of the primary care estate**
- 4 Government bodies and industry continue to engage in open dialogues to keep abreast of the fast-changing landscape of the market**

A photograph of a male doctor in a white lab coat using a stethoscope to examine a young child with curly hair. The child is wearing a white button-down shirt. A woman, presumably the mother, is smiling and watching the doctor. The background is a blurred interior with a bookshelf.

“

Without foreseeable benefits of further yield compression, rising build cost and inflation should lead to higher rental tone in primary care.

”

Tom Morgan

Executive Director, Healthcare, CBRE

# Contacts



**For more information or to discuss any of the points raised in this report, please contact:**

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