



Purpose Built Senior Living Assets

Care Homes
Due Diligence Checklist

June 2023

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LLP

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Key Considerations

FUNDING

Debt vs. Equity ratio: [per Development]	Cost of capital for lenders	<input type="checkbox"/>
	High entry costs? Viability of establishing a joint venture with an established market participant	<input type="checkbox"/>
	Feasibility of sale and leaseback structures	<input type="checkbox"/>
Single asset vs. portfolio:	Concentration of reputational risk in a single asset	<input type="checkbox"/>
	Rating of Operator / track record of effective management of corrective actions	<input type="checkbox"/>
	Maturity of portfolio (cross-collateralisation of operational assets)	<input type="checkbox"/>
	Importance of single asset quality (e.g., ESG and room size / configuration; focus on 'S' and 'G')	<input type="checkbox"/>
	Diversity of portfolio (e.g., freehold, leasehold, ground leases, propco / opco)	<input type="checkbox"/>
Valuation:	Integrated modelling	<input type="checkbox"/>
	EBITDA / cash flow	<input type="checkbox"/>
	Availability of informed and sophisticated data (e.g., Carterwood Analytics report)	<input type="checkbox"/>
	Impact of "alternative use" valuation (single asset vs. portfolio)	<input type="checkbox"/>
Competition:	CMA clearance and impact on timing	<input type="checkbox"/>
Joint Ventures ('JV'): [Covenants]	Considerations for facility / security documents – ensuring bankability	<input type="checkbox"/>
Debt vs. Cost of Development (LTC ratio): [per Development]	Build cost – external economic factors	<input type="checkbox"/>
Opco / Propco:	[Y] / [N] If Y, are they in common ownership?	<input type="checkbox"/>
Tax:	Structure-specific considerations	<input type="checkbox"/>



Repayment	Business Plan	<input type="checkbox"/>
	Forward funding structure	<input type="checkbox"/>
	If value placed on freehold or long leasehold, sale of freehold or long leasehold	<input type="checkbox"/>
	Long-term income from ground leases / importance of compliance with tenant lease covenants / RPI / CPI / inflation linked rent reviews	<input type="checkbox"/>
	Competence / track record of Operator	<input type="checkbox"/>
Risk appetite of potential lenders:	Variable; consider blend of finance providers and alternative sources of capital	<input type="checkbox"/>

CONSTRUCTION & DEVELOPMENT

Procurement Route: [per Development / Pooled]	Traditional	<input type="checkbox"/>
	Design-and-Build ('D&B')	<input type="checkbox"/>
	Construction Management	<input type="checkbox"/>
Developer:	Track record	<input type="checkbox"/>
	Covenant	<input type="checkbox"/>
	Professional team	<input type="checkbox"/>
	Programme <i>[NB. PC for entire building must be achieved before Operator can register with CQC as a new provider]</i>	<input type="checkbox"/>
	Effect of COVID-19 on design of building / variations for future proofing	<input type="checkbox"/>
Key Contractors:	Track record	<input type="checkbox"/>
	Covenant	<input type="checkbox"/>
	Professional team	<input type="checkbox"/>



Other Construction Costs:	Party wall award[s]	<input type="checkbox"/>
	Building control	<input type="checkbox"/>
	Construction, Design and Management ('CDM') Regulations	<input type="checkbox"/>
	Energy Performance Certificates ('EPC')	<input type="checkbox"/>
Collateral Warranties:	<i>[NB. Full suite required for optimal financing options. Build delivery upfront into contractual arrangements]</i>	<input type="checkbox"/>
Funding Security: Options	Performance Bond	<input type="checkbox"/>
	Parent Company Guarantee ('PCG')	<input type="checkbox"/>
	[Others – Deal Specific]	<input type="checkbox"/>

PLANNING CONSIDERATIONS

Planning Costs:	Section 278 [Highways Act 1980]	<input type="checkbox"/>
	Section 38 [Highways Act 1980]	<input type="checkbox"/>
	Section 106 [Town and Country Planning Act 1990]	<input type="checkbox"/>
	Section 184 [Town and Country Planning Act 1990]	<input type="checkbox"/>
	Section 104 [Water Industry Act 1991]	<input type="checkbox"/>
	Community Infrastructure Levy ('CIL')	<input type="checkbox"/>

INSURANCE REQUIREMENTS

NB. Requirements will differ depending on whether the borrower is also the Operator, or if operations are outsourced to a third party.

Buildings and Contents:	[Y] / [N] If Y, Key Terms should cover inflation, professional fees, debris removal	<input type="checkbox"/>
Business Interruption:	[Y] / [N]	<input type="checkbox"/>
Terrorism:	[Y] / [N]	<input type="checkbox"/>



Employer's Liability:	[Y] / [N]	<input type="checkbox"/>
Public and Products Liability:	[Y] / [N]	<input type="checkbox"/>
Professional Liability (including medical malpractice):	[Y] / [N]	<input type="checkbox"/>
Cyber Liability:	[Y] / [N]	<input type="checkbox"/>
<i>NB. Where there is development, the following are also key requirements:</i>		
Construction All Risks ('CAR'):	[Y] / [N] If Y, Key Terms should cover full value of development, including debris removal, shoring and propping up, inflation and professional fees	<input type="checkbox"/>
Delay in Start Up ('DSU'):	[Y] / [N] If Y, Key Terms: [•]	<input type="checkbox"/>
Public Liability:	[Y] / [N] If Y, Key Terms: [•]	<input type="checkbox"/>
Non-negligent Liability:	[Y] / [N] If Y, Key Terms: [•]	<input type="checkbox"/>
Terrorism:	[Y] / [N]	<input type="checkbox"/>
Professional Indemnity:	[Y] / [N] If Y, Key Terms: [•] Professionals: [•] Design Team: [•]	<input type="checkbox"/>
Latent Defects:	[Y] / [N] If Y, Key Terms: [•]	<input type="checkbox"/>
Environmental Risk:	[Y] / [N] If Y, Key Terms: [•]	<input type="checkbox"/>
<i>NB. • Consider 'No Diligence' Title Insurance for portfolios of properties • Consider employing an insurance broker at the outset to produce a report on the business and title insurances.</i>		



TITLE ISSUES

Development Constraints Audit:	[Y] / [N] If Y, Key Terms: [•]	<input type="checkbox"/>
Certificate of Title:	[Y] / [N] If Y, Key Terms: [•]	<input type="checkbox"/>

MACRO-ECONOMIC FACTORS

Real Estate:	Location	<input type="checkbox"/>
	Demographics. Flexibility to flex e.g. 'accessible and adaptable' quotient	<input type="checkbox"/>
	Staffing	<input type="checkbox"/>
Build Value:	[•]	<input type="checkbox"/>

VALUATION

Land:	Compliance with sustainability / environmental laws	<input type="checkbox"/>
Operational Asset:	Valued on the basis of compliance with RICS methodology for land	<input type="checkbox"/>
Other Considerations:	Lender appointed independent valuer	<input type="checkbox"/>
	Feasibility study	<input type="checkbox"/>

OPERATIONS

Asset characteristics:		<input type="checkbox"/>
Management:	Reputation and experience / track record of working with local authority	<input type="checkbox"/>
Capacity of Management:	Platform of Operator	<input type="checkbox"/>
Concentration of Outsourced Contractors:	Impact on variable overheads	<input type="checkbox"/>



Costs:	Business Plan and ongoing Capex requirements	<input type="checkbox"/>
	Set-off / coverage from Deferred Service Charges for episodic overheads	<input type="checkbox"/>
CQC:	Rating of Operator at other sites / track record in effective management of corrective actions	<input type="checkbox"/>

INTELLECTUAL PROPERTY













Branding:	Single site versus Multi-site	<input type="checkbox"/>
Technology:	Any 'in-house' apps and 'hidden tech' solutions	<input type="checkbox"/>
	Third party technology developer? Terms of contract and ownership of IP rights	<input type="checkbox"/>
	Cost of upgrade of technology over time	<input type="checkbox"/>
	ESG data collection	<input type="checkbox"/>

DATA PRIVACY

Data Management:	Policy details	<input type="checkbox"/>
	Enhanced security for 'special category' data	<input type="checkbox"/>

Appendix

Definitions of Senior Living Provision

 <h3>Retirement Housing</h3> <p>Also known as sheltered housing, retirement flats or communities</p>	 <h3>Integrated Retirement Communities</h3> <p>Also known as extra care, retirement villages, housing-with-care, assisted living or independent living</p>	 <h3>Care Homes</h3> <p>Also known as Nursing Homes, Residential Homes, Old People's Home</p>
 <p>Offers self-contained homes for sale, shared-ownership or rent.</p>	 <p>Offers self-contained homes for sale, shared-ownership or rent.</p>	 <p>Communal residential living with residents occupying individual rooms, often with an en-suite bathroom.</p>
 <p>Part-time warden and emergency call systems. Typically no meals provided.</p>	 <p>24-hour onsite staff. Optional care or domiciliary services available. Restaurant / Cafe available for meals.</p>	 <p>24-hour care and support. Meals included.</p>
<p>Typical facilities available:</p> <ul style="list-style-type: none"> • Communal lounge • Laundry facilities • Gardens • Guest room 	<p>Typical facilities available:</p> <ul style="list-style-type: none"> • Restaurant and Café • Leisure Club including: gym, swimming pool, exercise class programme • Communal lounge and/or Library • Hairdressers • Gardens • Guest room • Activity (Hobby) rooms • Social event programme 	<p>Typical facilities available:</p> <ul style="list-style-type: none"> • Dining room • Communal lounges • Activities • Gardens
 <p>Typically 40 - 60 homes.</p>	 <p>Typically 60 - 250 homes.</p>	 <p>Sizes vary considerably.</p>

Source: ARCO

