

A guide to buying and selling a care home

Protecting your investment: a buyer's guide

There are several stages to buying and selling a care home that involve a number of different parties. This guide helps to set out each stage of the transaction process and offers some top tips for protecting your investment.

Our five part guide is aimed at the participants in a care home sale or purchase to give them the heads up on what to expect. The transactions often have many factors to consider from commercial, regulatory, legal and due diligence perspectives. This guide helps to give you a clear idea from the outset of the care home sale process, giving you the peace of mind that your business will be protected from any unexpected issues.

Explore the various elements of the transaction from different perspectives, including the following:

- Who will be involved and what their roles are
- The stages of a transaction
- Enhancing the value of your business – tips for sellers
- Protecting your investments – a buyers guide
- Care homes in financial distress and safeguarding your business

We hope that this guide is useful and always welcome questions and enquiries from existing and future clients. This is an evolving guide and much of the content is derived from working on transactions, and we are open to suggestions to further enhance its usefulness.

If you would like any further advice on buying or selling care homes please get in touch with Dominic Travers or Alexander Wood directly.



Dominic Travers

**Partner
Corporate**

01273 034761
dominictrovers@coffinmew.co.uk



Alexander Wood

**Partner
Restructuring and Insolvency**

020 3002 2892
alexanderwood@coffinmew.co.uk

Protecting your investment: a buyer's guide

Set out below are some practical suggestions as to how buyers can protect their investment or otherwise smooth through the process and get the right deal done. Many of the examples have cropped up on transactions in which we have been involved.

The property

The buyer's solicitor will check the title to the property and that planning consents were obtained. Buyers also need to decide if they want to expand the care home. Again, the solicitor will check whether there are any restrictions on the land which might prevent this.

Is the property likely to be future proof? For example, are there any proposed regulations that will require building works and expense?

Check the condition of the fabric of the building and factor in any works required. It's also worth checking the age and condition of higher value equipment such as boilers, lifts, ovens, fridges and playground equipment.

Check the asbestos report and that all necessary works have been completed. Be sure to take time to understand what the parking situation is like, both on the property and locally.

Funding

To obtain funding, the buyer will need to have a due diligence pack available, which sets out the business plan, financial projections including profit margins, and a three to five year strategy.



| Benchmarking

A buyer will need to benchmark the financial costs and expenses of the business against the sector and locality.

| Reputation

What is the reputation of the care home or its group? Has there been any positive or negative press?

| Local demographics

Local registered care home and domiciliary care providers can be checked with local authorities. The catchment area is likely to be quite local to the residents' previous address or those of family members who visit them. An area with a large school age population may not be a happy hunting ground. The sweet spot would be a large, wealthy, aged population.



The right demographics are vital for a successful business.

Buyers need to be aware of the existing local competition, and of any new care home facilities being built or opening in the catchment area that would be a source of competition.

Consider how easy it is for residents to walk or take transport into a local village or town for amenities such as doctors, entertainment, gardens and shopping facilities.

Buyers also need to think about whether staff recruitment and retention within the catchment area (and factoring in Brexit effects) is going to be difficult, and also take into consideration how convenient the public transport facilities are.

| Occupancy levels

What are the occupancy levels of the care home and how long do residents tend to stay?

Buyers should also find out if the levels have varied over time, and be on the look out for a downward trend or sudden upwards trends pre-sale.

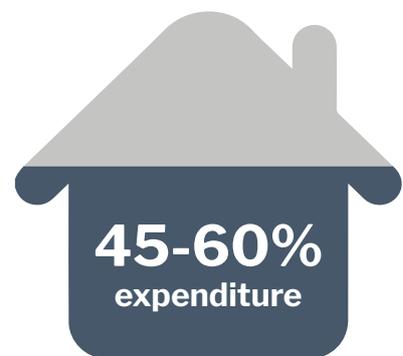
Fees

What is the average weekly fee level for the care home, and are there trends to be made aware of?

Look into how these fees benchmark against comparable care homes, and if they are lower, consider the fact that there may be scope for an increase.

Staff and workers

- What is the overall staff cost and how does it compare with other care homes?
- What are the costs of non-staff members (e.g. book keepers and handymen)?
- Is the registered manager staying with the business? Factor in the time and cost to recruit, if not.
- What is the staff turnover? If it is high, why is that?
- Is it easy to recruit, or does the business have to rely upon more expensive agency staff?
- Is the business under staffed (a potential future cost), or is there some slack where savings might be made?
- What would be the impact on the operating margin of an increase in the national living wage?
- Have staff undergone necessary DBS and other checks?
- Have they undergone sufficient training and are the training certificates available? Any gaps could be a post-completion expense and time out the business.



Understandably, staff costs account for around 45-60% of a care home's expenditure. Good staff are vital.

Contracts

Are all necessary contracts in place with local authorities, residents and those responsible for placing residents? Are they up to date in terms of compliance? Some contracts contain a “change of control” “provision” which enables a party to end the contract if the seller sells a company. Suitable waivers would be required.

There are a number of different stages involved in the process of selling or purchasing a care home, and each stage links to the next one. For more information on buying and selling a care home, you can download our full guide to care home sales and purchases on our website: coffinmew.co.uk/carehomeguide

