The affordability of retirement housing

8 million
people over 60,
in 7 million homes,
are interested in 'down-sizing'

Homes built specifically for older people have decreased from 30,000 p.a. in the 1980s to **8,000** p.a. today

Up to **50%** of older people in some areas are priced out of the retirement housing market

An inquiry by the
All Party Parliamentary Group
on Housing and
Care for Older People

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Summary

This paper presents the conclusions and recommendations from the inquiry of the All Party Parliamentary Group on Housing and Care for Older People into the affordability of retirement housing. We are aware that the Department for Local Government and Communities is looking at the issue of older people's housing more broadly, and as such this inquiry confines itself to the narrower question of affordability for those who would like to downsize. We hope this report will serve as a useful contribution to the DCLG's ongoing work.

Politicians and policy makers across the political spectrum are concerned with the plight of first time buyers getting onto the housing ladder, as house prices continue to climb. Much less attention is focused on those at the other end of the ladder — older people living in family homes. But many of these households occupy homes which are too large, difficult to maintain, and expensive to run. Some would be keen to move, if appropriate housing were available and at the price they could afford.

The APPG is concerned with whether such older people can afford to move to appropriate housing, and if not, how they can be helped to afford to move. This could help ease the pressure on the entire housing market: if older people were able to downsize, or rather 'right size' to appropriate housing, many large family homes would be made available for growing families to move into, which in turn would free up smaller properties for first time buyers.

Through this inquiry,
the inquiry members have learnt:

1 Some 8 million people over 60, in 7 million homes, are interested in 'down-sizing'.[1]

2 If half did so, 3.5 million homes — of which two thirds are family homes with three or more bedrooms — would become available.[2]

3 Homes designed for those retiring or in their 'extended middle age' achieve cost savings and have significant benefits in health and well-being, while also releasing capital to improve the incomes (and quality of life) of older people.

4 However, the number of homes built specifically for older people has decreased from 30,000 p.a. in the 1980s to around 8,000 p.a. today.[3]

5 As well as the need to build homes of sufficient quality to entice older people to move, the new homes must be affordable.

6 83% of over 60s are owner occupiers and, in most regions, 50–60% of these could afford to buy a purpose-built retirement apartment or bungalow. But this means that 40–50% of older people in some local areas are priced out of the retirement housing market.[4]

7 Many older people in modest homes and in particular in the North of England cannot afford to purchase a retirement property outright, but equally may not want to rent in later life. This group is currently under-served in the retirement housing market.

1
C Wood (2013) *Top of the Ladder* http://www.demos.co.uk/files/TopoftheLadder-web.pdf?1378922386

2
Ibid

3
Sizing up the situation: the advantages of downsizing. PWC (2014), Available from Hanover Housing

4
ONS reference tables, cited below

They have also concluded:

8 To fill the affordability gap for those with lower value properties, greater use could be made of financial instruments like shared ownership; but these present problems for most house-builders and it is the housing associations who could and should expand the market using these tools (and can offer the homes for rent if there is a downturn in the market).

9 Government could also help kick-start an expansion of new housing for older downsizers by enabling them to access a 'Help to Move' package, along similar lines to Help to Buy but also including tax incentives and comprehensive financial advice.

10 The transaction costs of moving could also be reduced through Stamp Duty exemption for older movers in low value properties: this would create a net gain to the Treasury thanks to the subsequent moves this would generate.

11 Good advice services can explain the value of service charges by showing the corresponding savings (eg in fuel bills and maintenance). More sophisticated arrangements — as in some other countries — for deferring some service charges until the property is sold should also be made available more widely.

12 To stimulate supply, Local Plans should be more specific in seeking development that meets the requirements of older people, including through public land being earmarked to meet these needs.

Introduction

This paper presents the findings and conclusions from the inquiry of the All Party Parliamentary Group on Housing and Care for Older People into the affordability of retirement housing. The inquiry members included:

Lord Richard Best (chair)
Baroness Kay Andrews
Baroness Liz Barker
Baroness Valerie Howarth
Nick Raynsford MP
Lord Ben Stoneham

The inquiry team greatly appreciated the input of Claudia Wood of Demos who acted as secretariat to the inquiry and principal author of this report.

The APPG invited a range of experts to provide evidence to this inquiry, including for-profit and not-for-profit retirement housing developers, academics and financial services specialists. The experts who gave evidence were:

Andrew Burgess
Managing Director, Planning issues
(Churchill Retirement)

Gary Day
Land and Planning Director, McCarthy and Stone

Jenny Pannell
Consultant (JRF, Housing LIN, NPI)

John Payne
Matters Grey

Les Mayhew
CASS Business School

Matt Campion
Director for Social Impact, Viridian Housing

Michael Voges
Executive Director, ARCO

Nick Abbey
CEO, ECCT

Nick Kirwan
ILC-UK

It also drew on a variety of sources including the work by Jenny Pannell for the Joseph Rowntree Foundation and the NPI, academic research commissioned by McCarthy and Stone from the universities of Reading and Oxford Brookes, a variety of grey literature kindly shared with us by the experts above, and research undertaken by Demos for its report, *Top of the Ladder.*

In undertaking this inquiry, the APPG hoped to address the following questions:

- What is the scale of the problem of affordability for retirement housing?

- What action, including through existing financial instruments, can bridge this affordability gap?

- What new measures are needed to enable older people to move to more suitable housing?

Background

What do we mean by retirement housing?

Retirement housing is a term used to describe specialist housing reserved for (usually) the over 55s, which includes apartments, town houses and bungalows. Some are 'pepper potted' among general needs housing, often in city centres, some are located in low-rise apartment blocks, while some will be found in specialist developments or retirement villages.

The quality of retirement housing varies — a considerable amount is so-called 'sheltered housing' or warden-assisted housing, owned by local authorities and housing associations, the bulk of which was built in the 1960s and '70s. Some of these homes are now outdated, with inaccessible or difficult to use bathrooms and kitchens. The local authorities and housing associations which own such stock are working to refurbish these homes, recognising that the tired exteriors and old-fashioned design will not meet the standards of the next generations of older people.

At the other end of the spectrum, newly built developments (both private and not for profit) are built to adaptable or adapted housing standards, with wider doors, level floors, and many conform to the HAPPI building standards of maximizing natural light, having generous internal and flexible space, and so on.[5]

5 https://www.homesandcommunities.co.uk/ourwork/happi

Some retirement housing will include care services on site, but most will have warden assistance or alarm systems, and communal space (lounges, dining areas, sometimes cafes). For example, a mainstream development of residential flats provides on average 16% communal floor space. For sheltered accommodation and Extra Care accommodation, this is 30% and 40% respectively.[6]

The benefits of retirement housing

Evidence shows older people who move to specialist retirement housing enjoy a higher quality of life and improved social networks. Evaluations also show positive outcomes in terms of health, safety and well-being, while moving to smaller, more energy efficient accommodation can help older people to stay warm and save money on energy bills. One survey carried out among the owner occupiers of McCarthy and Stone retirement properties found that:

- More than eight in ten residents reported that they generally feel happier in their new home.
- Almost 45% of residents reported having better or much better contact with family and friends; a further 48% reported no change.
- Half of residents said their energy bills were lower
- Residents reported spending less time in hospital and nearly a third felt that their health had improved since moving[7]

Older research includes a 2004 survey of over 300 residents in sheltered housing which found that more than 50% believed that their housing helped to promote good health,

6 *Retirement Housing and the Community Infrastructure Levy:* (2014) Briefing Paper, Churchill Retirement and McCarthy and Stone

7 Ball, (2011), *Housing Markets and Independence in Old Age: Expanding the Opportunities.*

while 55% considered their health to be good or very good. The average age of this group was 79, and in the wider population only 41% of 65–74-year-olds feel their health is good, falling to 32% for those aged 75+. Another study by Biggs et al suggested that on average the residents in a retirement scheme they reviewed saw an improvement of more than 35% in mobility and 20% in functions of daily living. They also found a 25% reduction in the use of medication by residents after admission. Finally, research undertaken by the Extra Care Charitable Trust found that superficial physical assessment scores improved by an average of 50%, mobility by 35%, daily living functions by 20%, sensory ability by 10% and a 25% reduction in medication use.[8]

However, the benefits are not just related to health and wellbeing — there is also a potential financial benefit. Ball found over 40% of the study group moving into McCarthy and Stone properties were able to withdraw £25,000 or more in housing equity as a result.[9] Downsizing in general can reap higher gains: analysis of housing markets by the NPI suggests £100,000 of equity would be released on average, across most areas of the UK, by moving from a detached home to a semi-detached or apartment.[10] Policy Exchange considered London and the South East specifically, and found potentially greater gains, explaining that:

> *An older couple moving from an average detached property in London to a semi-detached property in London would move from a £751,184 property to a £459,182 property, gaining nearly £300,000. In the South East, downsizing from a detached to semi-detached property would mean moving from a property worth £438,891 to a property worth £259,922, gaining around £180,000*[11]

Beyond the initial equity gain of selling a family home and moving somewhere smaller, there are then ongoing cost savings linked to maintenance and utilities — retirement housing tends to be far more energy efficient, for example. McCarthy and Stone's Local Area Economic Impact Assessment, which estimated that people living

8 *IPC Oxford Brookes (2012), Identifying the Health Gain from Retirement Housing.* http://ipc.brookes.ac.uk/publications/pdf/Identifying_the_health_gain_from_retirement_housing.pdf

9 Ball (2011).

10 J Pannell, H Aldridge and P Kenway, Older People's Housing: Choice, quality of life, and under-occupation, Joseph Rowntree Foundation, 2012

11 Alex Morton (2013) *Housing and Intergenerational Fairness* http://policyexchange.org.uk/images/publications/housing%20and%20intergenerational%20fairness.pdf

in one of their retirement developments saved £1,419 in direct costs on average per person, on things such as utility bills and maintenance.[12] Analysis by PWC using Hanover Housing stock came to similar conclusions, as we describe further below.

A final point worth considering is the impact of more older people moving on the wider housing market. Around two thirds of residents currently living in retirement properties have moved from homes with three or more bedrooms. This means that for every 5,000 retirement units sold, property to the value of around £1.1bn would be released into local housing markets.[13]

Earlier Demos analysis of the English Longitudinal Study of Ageing (ELSA)[14] shows that 83% of the over 60s living in England own their own homes, 64% without a mortgage. Rates of home ownership peak in the 76–80 age bracket (at 91%), before sharply dropping (this may be the point at which people generally enter residential care). This equates to £1.28 trillion in housing wealth being owned by the over 60s, of which £1.23 trillion is unmortgaged. The 33% of the over 60s interested in downsizing, according to the Demos survey, are therefore sitting on £400 billion of housing wealth.[15] Analysis from the NPI suggests 200,000 older people (defined as over 55) move each year, while 271,000 die. This releases 189,000 owner occupied properties back onto the market for other (non-older person) families: 43,000 2 bedroom properties, 101,000 three bedroom and 21,000 4+ bedroom properties each year, once any moves by older people into the properties have been taken into account.

Combining this NPI analysis with Demos' analysis of ELSA, we can conclude that if just half of those interested in downsizing were able to do so, 4 million older people would be able to move, freeing up 3.5 million homes, of which over 2 million would be 3 bedroom properties. This would create a 'whole chain' effect, where families would be able to move into larger homes, freeing up 'second stepper' properties, and in turn, freeing up property at the bottom of the housing chain for first time buyers.

12 PWC (2014)

13 Ball (2011)

14 C Wood (2013)

15 33% of £1.23tn

The affordability problem

As we have seen above, moving to a retirement property can, for many people, release considerable amounts of equity and boost financial wellbeing in later life. However, the term 'downsizing' can be misleading. It implies moving to a smaller, and therefore cheaper home. Retirement developments, with their one or two bedroom apartments, usually represent a reduction in size for older people moving from family homes. But size and cost do not always (or indeed, in some parts of the country often), go hand in hand. For some people, downsizing does not release any equity at all. In fact, some older people with very low levels of equity cannot afford a retirement home, and selling their homes will not cover the purchase price of a new private retirement apartment, or one meeting HAPPI standards.

Data from McCarthy and Stone provided to Oxford Brookes University, regarding owner occupiers purchasing their retirement properties over the 2007–2010 period found that the average housing equity of people moving in was just under £220,000, just under the national average for the period in question. Over 40% released £25,000 or more in housing equity by moving (suggesting average prices of the properties they purchased was around the £195,000 mark). However, almost 30% of purchasers had less housing equity than the cost of their new home. For some, the deficit was relatively modest but almost 20% of purchasers had to pay over £10,000 more. However, older people are less able to access loans and mortgages for such expense. Jane Vass from Age UK commented that, due to commonly used age limits in the lending market, older people are often refused mortgages. Around 40,000 older people retire each year with an outstanding mortgage but cannot secure a new mortgage deal. Low equity older people may need to take out a mortgage to cover the shortfall between the home they sell and the new retirement home they buy, but very few will manage to do so. Indeed, very few of the McCarthy and Stone residents with inadequate levels of equity had secured a mortgage to make the move — most used savings, or had help from family members (some reported re-mortgaging themselves in order to help their older relative move).

The researchers at the university concluded:

> *At present, homeowners in a locality with a house valued in the lower 40% of the price distribution are going to have to find other sources of funds if they want to move into owner-occupied retirement housing. Aggregating across the country, that percentage totals millions of elderly homeowners being currently excluded from a living option that may greatly benefit them.*[16]

Andrew Burgess, Managing Director, of Planning issues (a consultancy run by Churchill Retirement), provided further evidence on this point to the APPG. He told the APPG members that 63% of older people purchasing Churchill's sheltered housing were doing so at a cost lower than their home, while for 21%, this move represented an increase in price. Around 10% were moving from 1 to 2 bedroom flats, while 11% were moving from 2 to 3 bedroom flats. At the other end of the spectrum, 22% were moving from 3 to 5 bedroom detached homes. Mr Burgess pointed out, however, that these averages varied significantly by location. For example, 62% of purchasers in Canterbury were buying retirement homes which were more expensive than their current home.

The latest ONS regional household wealth analysis[17] of the net housing wealth (i.e. housing wealth minus outstanding mortgage) of the over 65 age group shows how much housing equity older people have, by region. From this, we can see that while most pensioners have net housing wealth in the £100k to £250k range, there is significant regional variation — with the North of England and Scotland significantly over-represented in the zero equity group (these will be both renters and those with homes, but in negative equity) as well as owner occupiers who have below £100k.

16 Ball (2011)

17 http://www.ons.gov.uk/ons/dcp171776_313608.pdf

From these sources of evidence, we can estimate that between 40 and 50% of owner occupiers (depending on region) over 65 would not be able to afford to purchase a retirement property outright. These will be predominantly those living outside of London and the South East.

This may make areas where many older people have low levels of equity unattractive for private developers building apartments or town houses for purchase — simply because they will be building outside of the local population's price range. Even with lower land prices in these areas, the additional building costs (which we describe below) mean retirement developments are not significantly cheaper in these (predominantly northern) regions. It is perhaps unsurprising that Pannell found that 90% of retirement apartments in the North East are available to rent, not purchase, compared to 62% in the South East.

Gary Day from McCarthy and Stone's evidence to the APPG added weight to this point, by commenting there were some areas which continued to be economically unviable for private developers due to the low house prices, which explains why some cities have very little supply of private sector retirement housing. However, Michael Voges, the Executive Director of ARCO, qualified this — he felt the problem was less one of affordability per se,

Net housing wealth of over 65 age group, by region

	North East	North West	Yorkshire & The Humber	East Midlands	West Midlands	East of England	London	South East	South West	Wales	Scotland	Total GB
<£0–£0	36%	25%	29%	19%	20%	21%	33%	18%	19%	18%	30%	24%
£1–£99,999	18%	14%	13%	11%	8%	3%	3%	3%	4%	15%	24%	9%
£100,000–£249,999	36%	46%	46%	48%	54%	44%	23%	40%	44%	52%	34%	42%
£250,000–£499,999	8%	12%	10%	18%	15%	26%	29%	28%	26%	12%	9%	19%
£500,000+	2%	3%	2%	3%	3%	6%	12%	10%	7%	2%	2%	5%

and more an issue of liquidity: older people with house prices below the purchase price of new retirement properties may still have substantial levels of equity, and alternatives to buying these new homes outright therefore represented an important option.

A further issue that was touched upon by many of the expert witnesses: the affordability problem was associated with the 'middle market', i.e. home owners with modest levels of equity, a group which lies between social renters — who are relatively well catered for in terms of volume of supply, and affluent older people. This is linked to a relative lack of diversity in the market, with a small number of larger private developers catering to more affluent older people at one end, and housing associations at the other, leaving a supply gap in the middle. Mr Voges gave as an example that of the 50,000 units of extra care operated by ARCO members, two thirds were social housing — so the 'very affordable' end of the market was well catered for. As we describe in the following section, the bias towards rented properties seems to cross the entire retirement stock. The duality of the market was touched upon by various experts, with opinions differing as to the need to encourage more mixed developments.

The drivers of high prices for retirement housing

Lack of supply

Some of the experts we spoke to felt affordability was in part a result of constrained supply in the market, leading to substantial demand, keeping prices high. Nick Abbey, the chief executive of the Extra Care Charitable Trust (ECCT) felt there was little incentive for developers to build more affordable retirement villages given the products currently on offer were hugely popular. He also saw a gap (mentioned above) in supply for older people with modest amounts of equity, which lay between homes for affluent older people, and social renters.

The lack of supply to meet the demand for retirement housing has become increasingly apparent. At the present time, the stock of retirement housing in the UK is fairly small: there are around 560,000 units of retirement housing in the UK. The DCLG's live housing tables state that England alone has 23m homes in total, so all specialist retirement housing represents just 2.4% of this stock. The NHF estimate that only around 5%of older people now live in retirement housing.[18]

Previous polling carried out by Demos points to a substantial level of latent demand that would significantly outstrip the current level of supply. Of the 1,500 over 60s surveyed, a third said they would like to downsize (increasing to three quarters of over 60s in 4 and 5 bedroom homes, with only 1% of those with five bedrooms or more did not want to downsize). A quarter expressed an interest in buying retirement housing specifically (increasing to 41% of the

18 National Housing Federation (2011) *Breaking the Mould*: http://www.extracare.org.uk/media/45052/breakingthemould.pdf

76–81 age group and 34% of the over 81s), and 25% also said they would be interested in renting one on an assured tenancy (which gives tenants the right to live in the property as long as they wish). This equates to over 2 million people nationally — dwarfing the half a million units currently on the market.

Unsurprisingly, this means current stock has very low vacancy rates, while homes in newly built developments are being snapped up. For example, Nick Abbey explained to the APPG that six of the ECCT's latest villages sold out within 12 months of completion of building. The latest development, their fourth Birmingham village (being developed with the Bournville Village Trust, 212 apartments of which 170 are either for sale or shared ownership) already has potential buyers who have paid a £500 deposit for all of the sales properties that have not been reserved for people with care needs, even though the development does not open until October 2015. As of 31 April, 2014, of the Extra Care Charitable Trust's 2,179 rental homes, only 41 (1.9%) were unoccupied.

Michael Voges, the Executive Director of the Associated Retirement Community Operators (ARCO) was able to provide similar anecdotal evidence from many of the organisation's members, where vacancy rates of less than 3% were widespread and the longest period of time properties were left empty among the members was 34 days (and more commonly around two weeks). He cited one provider in the North West where there were five times the number of people waiting for notification of a vacancy than there were available properties. Unsurprisingly, all but one ARCO member associations he had consulted has stated that all of their properties were sold at no less than 95% of the asking price. Interestingly, many reported that apartments are increasingly being sold off-plan — something older people had previously been reluctant to do.

In spite of this demand pressure, PWC calculated for Hanover Housing that the number of retirement properties constructed per annum had decreased from 30,000 in the 1980s to around 8,000 today.[19]

Alongside a lack of supply seems to be a lack of diversity. Only around 105,000 (less than 20%) of retirement units are available for sale (the rest are rental), while Jenny Pannell's analysis[20] found that over half of the stock are one bedroom homes while two thirds are apartments, and 60% are owned by a housing association. When one considers 80% of older people are owner occupiers and may not want to return to tenancy in later life, and polling consistently shows that those interested in downsizing are predominantly seeking two bedroom homes, it's clear the current range of retirement housing stock might not be meeting the needs of those interested in moving.

Andrew Burgess, the Managing Director of Planning Issues, a consultancy sitting within Churchill Retirement, mentioned a forthcoming piece of research by Churchill which has identified 18 different characteristics among older people which highlights the diversity and different choices and aspirations that this brings. The current range of housing may be too homogenous to cater to this range of needs. Baroness Barker recognised this issue, referring to some work undertaken by Age Concern which highlighted that the typical design of retirement housing is tailored towards females or couples, whereas (as Professor Les Mayhew confirmed when discussing demographic change with the APPG members), catering to an increasing proportion of older men had not been considered — in particular, that access to a garden shed in their new home can be very important to some people.

As outlined above, this lack of diversity is also associated with a relative gap in provision for owner occupiers who are interested in purchasing a property (and are not eligible for or interested in social housing), but whose modest amounts of equity price them out of the private purchases. It is worth noting that the ECCT — whose developments seem to be in such demand from the evidence shared with the APPG by Nick Abbey — offers purchase options for owner occupiers whose homes are worth around £100,000. They therefore seem to be fulfilling the demand for at least part of this middle market, but are primarily based in the Midlands and north of the country (while private providers are more active in the south).

19
PWC (2014), ibid

20
Pannell, J. and Blood, I. (2012) *Supported Housing for Older People in the UK: An Evidence Review*, York, Joseph Rowntree Foundation

Another potential driver of high costs is the building standards to which most new retirement housing adheres. Lifetime home and/or HAPPI standards are widely used, requiring substantial living space, adaptability/telecare readiness, and modern and accessible kitchens and bathrooms. This means that even if land can be purchased cheaply (which we address in the next section), the per unit prices of retirement housing cannot be squeezed without sacrificing quality.

Gary Day, the Land and Planning Director at McCarthy and Stone, addressed this point by telling the APPG that McCarthy and Stone had now started exploring new markets and new products through an offshoot company — 'Ortus Homes'. This company is seeking to target the overlooked 'middle market' outlined above, and those people for whom existing retirement housing does not appeal. It seeks to encourage people to make aspirational, rather than needs-based moves. As such, the customer profile is younger — 65–75 — more likely to be couples, and more active than a core McCarthy & Stone customer, and car owners. Referring to 'extended middle age' as the target market, this customer profile has implications for the design and associated cost of developments. Market research indicates that apartment living, 'bungalows in the sky,' aimed at the middle market are the most viable new product for McCarthy & Stone. The model therefore assumes 100% car ownership with allocated spaces and some visitor parking. Ortus Homes currently has two schemes on the market, with more in the pipeline.

However, in order to make the new, lower-value product a sustainable model, it has been necessary to reduce some communal facilities. For example, there is no day warden in these developments, and to reduce the size of the individual units, apartments are smaller with less storage space. While compromising on the core design features opens up greater opportunities to reach new customers, it does represent a reduction in quality.

Mr Day pointed out that around 70% of all McCarthy & Stone retirement housing is designed to lifetime homes standards, with intelligent design to assist in periods of increased frailty. But he felt these design specifications do not provide a form of housing that will be able to meet the needs of older people through each stage of their later years. In this regard, it is difficult from a design perspective to overcome an institutional feel if all the facilities for the later years of an older person's life are included. The average age of a McCarthy & Stone resident is 79, and the average age of a resident who needs assisted care is 83. Yet a person who is 79 perceives those who are 83 as 'old'; people are not prepared to pay for facilities they are not ready to use, and may regard such a home as 'a downsize too far.' Mr Day has seen potential customers put off by communal facilities and the idea of sharing things (particularly access to parking spaces). Mindset and lifestyle, not age, are often deterring factors.

Mr Day's comments suggest, therefore, that part of the affordability problem is the high specification to which retirement housing needs to be built — using lifetime home or HAPPI standards, being adaptation-ready or linked up to telecare networks, and so on. This increases build costs, but importantly, may not be a pull factor for older people looking to purchase these properties. If people are unwilling to pay for facilities they do not yet need (and perhaps think they never will) their willingness to pay for them will be lower — making retirement housing look less 'good value'.

Land prices

Aside from build costs, the other key factor in the price of property is the cost of land. While build costs are more or less the same across the country, land prices are a varying factor. Land values are lower in areas with cheaper housing, but this land could also be sold for uses for other than housing so has a non-residential value — meaning there is not a straight correlation between house prices and land values. So even in low equity areas, there may be a highly competitive market for land acquisition which raises the prices for sites. Mr Day, Mr Burgess and Mr Voges all agreed that house builders regularly lost out to commercial developers (such as large retailers, or for car showrooms, drive-throughs and so on) who had lower overheads and, therefore, were able to offer higher prices for the land. If retirement developers were to increase their land purchasing costs in areas with low priced housing, they would need to recoup this cost in the sale or rent of their apartments — placing them outside of the price range of local home owners in some parts of the country.

Mr Day stated that this model means that there will continue to be areas that are economically unviable for McCarthy & Stone due to land prices (in the locations and with the space they need for developments) making unit prices in excess of local house prices. He said this explains why a city such as Hull has very little supply of private sector housing; with local house values around £125,000, the economics of a development with total costs of £100,000 per unit are very challenging to sell.

Reducing costs for buyers

For many older people, the retirement housing they are interested in purchasing may only be a small step beyond their price range. The 'Help to Buy' scheme has targeted young home buyers in similar situations, enabling them to borrow to fill the gap between the purchase price and the maximum loan they can obtain. Many older people also face an affordability gap between, in their case, the funds they can raise from the sale of their existing property and the price they must pay for a retirement apartment or bungalow. There seems no reason why the Help to Buy facility of an addition loan, on the same favourable terms, might not be made available to older people to kick-start an enlarged house building programme for older downsizers and those in their extended middle age.

A final issue related to the affordability of purchasing retirement housing is one of transaction costs associated with moving. An older person might be able to afford to buy a new property with the equity in their home, but surveyors, legal fees and stamp duty can make the process too costly. Les Mayhew, Professor of Statistics at Cass Business School, commented that inheritance and gifting laws may affect downsizing decisions, and financial constraints from still owing on a mortgage and decreasing pension pots, legal and stamp duty costs associated with moving can, together or collectively, present insurmountable barriers to moving. He told the APPG of work carried out by six London boroughs which had identified a significant number of people (more than 100,000) aged over 65 living alone in a council tax band D property. These people are potential downsizers, but approximately half have been identified as receiving means-tested benefits. For these people, the one-off costs of moving would be too significant.

Both Mr Day and Mr Voges also mentioned stamp duty as a particular barrier to would-be downsizers, the latter as part of the 'liquidity problem' he felt more pressing than affordability per se.

Upfront versus ongoing costs

Through the course of this inquiry, it became clear that it is not simply the initial purchase price which may present an affordability problem for older people interested in specialist retirement housing. Ongoing costs — in the form of service charges to maintain communal areas or services on site (ranging from the presence of a warden through to support services and meals) are also a considerable concern for older people, as these have to be paid from any equity released by the sale of their home or, alternatively, from savings or pensions income.

The experts interviewed for this inquiry recognised that the unpredictability of these charges (which may increase rapidly in coming years) could discourage older people on modest, fixed incomes. Jenny Pannell, a housing consultant working with the Housing LIN, JRF and others, explained to the APPG that this could also be a greater issue, therefore, for those in their 50–60s, rather than the older old, as the younger generation may have more time ahead during which to cover these costs and therefore greater uncertainty regarding their financial futures. She felt the affordability issue was less about 'can I afford to move here?' and more about 'can I afford to stay here?' — with costs outside of people's control which may well increase faster than pensions income. For couples, if one person dies, there is a question of whether the remaining partner can afford to stay on. Many older people moving to specialist housing might be looking for a 'final move' and the prospect of moving again if their money runs out is a considerable disincentive.

Ms Pannell also commented that the discrepancies between the benefits that are received and the charges that can be covered between those who are under and over the pension age makes this situation even more complex and uncertain, with the younger old (below 65) less able to access support to meet care costs.

However, while these costs are a concern for older people and may not seem affordable, the APPG heard clear evidence to suggest that they represent value for money.

Matt Campion, the Director for Social Impact at Viridian Housing, told the APPG that although Viridian retirement housing is targeted at those who are choosing to downsize to address the suitability, rather than the affordability, there are notable cost savings from energy efficiency standards of their properties. He estimated there was a potential for £500–600 annual savings on utilities (depending on energy use and the size of the previous home) in Viridian properties. The APPG's attention was also drawn to research carried out by PwC on behalf of Hanover Housing, which concluded that the average service charges represent value for money when compared to the average upkeep (and usually considerably higher utility bills) associated with living in mainstream housing. They calculated, for example, that moving from a three bed property (without mortgage) to a two bed retirement property (leasehold) would save on average £1,530 per year (including utilities, insurance and grounds maintenance).[21] This level of annual saving is similar to McCarthy and Stone's local area assessment research, cited above, which estimated that people living in a particular McCarthy and Stone retirement development saved £1,419 in direct costs on average per person, on things such as utilities bills and maintenance.[22]

This suggests, therefore, that ongoing costs may not be an affordability problem as much as a perceived affordability problem among older people who are not well informed regarding the cost-savings to be made. Moreover, John Payne from Matters Grey commented that older people are also poorly informed about the help available to pay these charges. Many pensioners (he estimated around 62–68%) are entitled to receive pension credit to help cover daily living costs. Helping people to claim benefits they are entitled to is key, therefore, to making retirement housing more affordable, particularly as leaseholders are not aware that they can get help with housing costs.

21
PWC (2014)

22
PWC (2014)

How might retirement housing become more affordable for older people?

While older people on the lowest incomes are likely to access appropriate housing in later life through the social rented sector, owner occupiers with modest amounts of housing equity — who do not want to rent, but buy in later life — might find it difficult to purchase a property in the area they want to live. The following solutions were raised by the experts consulted by the APPG.

Shared ownership

Shared ownership was identified as a key vehicle through which older people with low equity could purchase retirement properties. Shared ownership allows people to purchase part of a property (usually between 25% and 75%) and rent the remaining portion, and the APPG was told this was widely offered by housing associations. Nick Abbey pointed out that around 70% of older people with low equity opting for shared ownership would be eligible for housing benefit to cover the rent on the non-purchased portion of their home, making this option highly affordable. Mr Abbey explained to the APPG that the ECCT caters to home owners whose homes may be worth around £100,000, and an average ECCT development would be composed of 20% social renters, 40% owning their homes with shared ownership, and 40% owning their properties outright at market value. The schemes are viable through cross-subsidy from sales at market value — the shared ownership scheme is not grant subsidised, though people receive assistance with their rent through housing benefit. He also told the APPG that the ECCT have a successful track record of supporting mortgage applications for those who need additional resources to purchase a retirement property. In his view, providing a sufficiently flexible ownership scheme is required to ensure affordability, for example through both shared ownership and mortgage arrangements.

Viridian Housing also offers shared ownership — Mr Campion told the APPG that a typical Viridian Housing development is composed of 50% units for social rent and 50% for shared ownership and discount market sale. Of those units for purchase, typically, 95% of owners opt to buy outright, while around 5% take advantage of the shared ownership scheme.

However, purchasers of Viridian retirement properties tend to have significantly more equity that ECCT's customers — Mr Campion estimated that the average sale price of the previous homes of his customers was around £350,000, and £425,000 in London and the South East, but ranging from £117,000 to £800,000. The assumption is that those at the bottom of this scale tend to opt for the shared ownership option. The lowest equity share offered under the shared ownership scheme is 25%; under this arrangement, service charges and rent are higher, but — as among ECCT customers — housing benefit can typically cover a large share of rent and service charges. However, Mr Campion explained that only a very few shared owners purchase less than 75% of their property.

Viridian work with local authorities to identify potential residents, for example those on waiting lists for housing, including ex-Right to Buy owners. Mr Campion felt these groups may be suited to the discounted market sale offer; and acknowledged that there is a need to market to lower income and lower asset households.

Shared ownership might not be the only alternative ownership option available to older people. Mr Abbey also felt that in order to make retirement schemes more attractive to those with less financial capital, there should be a product that lies between social rent and purchase, for example, a shared equity growth model. The Joseph Rowntree Housing Trust's shared equity model was mentioned as a good example of this, giving older people some benefit of the growth of their equity but also a guaranteed return if house prices go down. Mr Burgess also mentioned a deferred payment plan offered by Churchill — this enabled older people to pay up to £40,000 of the original purchase price of their retirement home when they sell or die, with no interest charged on this deferral for the first three years. However, this was not a widely offered scheme, and used occasionally as an incentive for a prospective buyer rather than a move to make homes more affordable.

This points to the wider issue: that shared ownership and other potential methods of making homes more affordable are not widely offered by private developers but remain the preserve of housing associations. Mr Day reflected that this is linked to the pressure faced in the private sector from shareholders to provide an efficient and speedy return on capital. It's clear to the APPG that a product such as shared ownership which slows this return — in the form of older people renting a portion of the homes they purchase — may not be acceptable to such investors. Mr Voges also commented that banks do not see adequate returns from retirement developments, specifically given the costs associated with building and maintaining 'unsellable' communal areas. Housing associations are in a better position to borrow off-balance sheet in this regard, which may also give them greater flexibility in offering shared ownership type options.

Deferral of charges

Matt Campion mentioned that Viridian had looked into (but were not currently offering) a financial structure for people with lower retirement incomes, which enables them to defer service charges and to pay these on exit. But this would incur additional costs related to compound interest and inheritance tax and has not been pursued. However, Michael Voges told the APPG such an approach was very popular in New Zealand, where older people simply defer some of the fees and pay them from the sale of their property when they move or from their estate if they die, as a 20 or 30% exit fee. However, in New Zealand it is often the case that providers take this exit fee as well as the capital growth of the home when it is then sold — something that would seem unreasonable in the UK where the majority of housing providers do not claim the capital growth of their customers' properties on sale. A fixed service charge model (i.e. giving people certainty of costs over a set number of years) may also encourage more people to move, but does mean that housing operators are taking on the risk of having to fund any shortfalls in the service charge account — and would recoup these via exit fees. However, Mr Voges felt the biggest problem facing housing providers in this country was not the size of the fees per se, but rather the unclear or opaque way these have been communicated to buyers, which has given some retirement providers, mainly in the retirement housing sector, a bad reputation. Upfront transparency, so prospective buyers know what they will be paying, when and for what, is clearly vital — and, given the variety of ways fees might be charged (e.g. where a lower risk of unexpected costs might be achieved for a higher fee), prospective buyers need advice on this aspect of their purchase alongside the other aspects associated of moving. Mr Voges informed the APPG of the 'ARCO charter' which its members sign up to — this requires them to clearly articulate fee structures, what and when fees are due, and how to access further information regarding the accounting of these fees for the services delivered.

Information and advice

It became clear over the course of this inquiry that a lack of awareness among older people of housing options, and a lack of advice to help them make financial and housing choices, exacerbates the affordability problem. Many of the experts we consulted raised this issue.

Jenny Pannell pointed out that the range of models of older people's housing — even within the sub-category of extra care — are difficult to explain to people. Many people receive little or no formal advice, help or support which can make decision-making difficult. In particular, advice from solicitors when buying leasehold properties is not informed by a detailed knowledge of retirement issues. Ms Pannell felt that free advice on retirement planning should be made available earlier, to pre-empt crisis-based decision-making.

Michael Voges agreed, telling the APPG that improving public awareness of the choices on offer and the value of these would be helpful, as would reducing the number of terms used to refer to 'retirement communities' to tackle current confusion. He felt the public needed better independent reassurance, particularly when looking into financial products. ARCO have an arrangement with the Citizens Advice Bureau (CAB) where the CAB provide one free hour of advice to individuals interested in moving into ARCO members' developments.

Nick Kirwan, director of the care funding network at the International Longevity Centre, also told the APPG that people lack the impetus to move — to overcome this, social norms need to be developed to emphasise the benefits of downsizing. One way to support this could be to target information and advice to people upon application for Attendance Allowance. Mr Kirwan commented that applying for Attendance Allowance is typically two years before needing greater care; this could be an effective way to trigger planning ahead (but may not be early enough given Ms Pannell's point above).

Finally, John Payne also identified a need for more information and efforts to explain benefits to older people, perhaps through the role of welfare assistants with qualifications in retirement issues and care packages.

Overall, the consensus was that improved information for older people in respect of moving to retirement housing can help tackle the affordability problem — in identifying financial products to make purchasing properties more viable, to make people aware of the range of housing options available, to discuss concerns regarding service charges (making the cost savings which offset these charges clearer), and to ensure older people claim the benefits to which they are entitled.

Recommendations

Spread the use of alternative ownership models

Shared ownership, and other ownership options and payment plans — such as lifetime leases, deferred payment plans, shared equity and so on — which enable low equity owner occupiers to purchase retirement properties need to be made more available.

These schemes are more commonly offered by not for profit housing associations. Nick Abbey's comments were encouraging that shared ownership can be offered without an injection of grant funding, but rather through cross subsidisation from market price purchasers. Some passing of costs to more affluent older people is to be encouraged in mixed developments. However, this should not be an excuse for the entire removal of grant funding for housing associations to help them offer both rented and shared ownership products more widely and build in low equity areas where cross-subsidisation is likely to be less easily achieved.

Shared ownership and deferred payment does not seem to be available in private provision. This may well be due to the way in which private developers are financed, through private investment where shareholders understandably expect fast returns on their capital. Encouraging private developers to offer staggered payment schemes for older people with low equity or limited incomes as standard may require an entire rethink of how these developers are financed. Longer-term private investors, as well as Government or social investment (for example through social impact bonds), willing to accept slower rates of return (or, as Gary Day suggested, willing to 'gap fund' the delay between investment and return) need to be secured. This could be a significant challenge for private developers and underlines the likely prominence of housing associations in achieving more affordable retirement housing.

Tackle land costs

An alternative to enabling more developers to accept staggered or partial payments for their homes is to try and reduce the overall purchase price of these homes in the first instance by tackling the cost drivers of retirement housing — build costs and land prices. The APPG recognises that build costs cannot be easily reduced — nor should they if this means compromising the quality of housing on offer. The high specifications to which retirement housing is now built is vital for older people's wellbeing and to ensure the homes can adapt to older people's changing care needs. Lower standards will not entice older people to leave their current accommodation.

Land costs, on the other hand, are a different matter. Evidence from Gary Day and Andrew Burgess suggests high land costs — even in areas of low cost housing — make private developments unviable in some areas because the unit costs outstrip the local population's equity.

Mr Day suggested that local authorities might allocate land for older people's housing — perhaps public land, or land designated in Local Plans — so that retirement developers do not have to compete with commercial developers (who can pay significantly higher prices) for the same plots. He felt local authorities needed to value land in more than monetary terms, evaluating the best use of land, accounting for the social and economic benefits within communities that come from private housing as well as social housing, for example by understanding the link between good housing and health. The sale by York City Council of over 50 acres of land for development to the Joseph Rowntree Housing Trust suggests this approach can work well.

Helping developers secure land could reduce unit costs — making private retirement housing more affordable (without resorting to shared ownership) for a larger number of people, as well as making more developments viable in previously unviable locations, thereby tackling the supply problem simultaneously.

Reduce costs for buyers — 'Help to Move'

The Inquiry feels a new package of support is required to help older people move. This should have three elements:

- An equity loan offer, based on the Help to Buy approach for younger people

- Stamp duty exemptions for older people in lower value homes

- Comprehensive financial advice, linked to the new duty on local authorities to provide advice under the Care Act from April 2015, and which should incorporate guidance on newly introduced pensions freedoms

The Inquiry would like to see such a package piloted to establish its success in helping those older people to move who are interested in downsizing, but unable to afford to do so.

The equity loan

While the current 'Help to Buy' scheme has no age criteria, it is nonetheless targeted at younger, often first time buyers. The Prime Minister's recent pledge to extend the scheme should the Conservatives win the General Election includes a 20% discount on purchase prices for those under 40. Yet the equity loan element of Help to Buy (which enables people to borrow up to 20% of the purchase price of their property to fill the gap between the purchase price and the maximum loan they can obtain) would be of huge benefit to many older people who face an affordability gap between the sale price of their current home and the purchase price of the retirement property they want to move to.

The Inquiry sees no reason why the Help to Buy facility of an additional loan, on the same favourable terms, might not be targeted more directly at older people (e.g. through improved awareness raising and advice schemes) to kick-start an enlarged house building programme for older downsizers and those in their extended middle age. The difficulties older people encounter in accessing mortgage lending, even when they can afford the repayments, excludes many older people from moving. A 'Help to Move' equity loan would address this problem.

Stamp duty exemption

Several of the experts who gave evidence felt that one-off upfront costs (legal and surveyor fees, stamp duty and so on) discouraged older people from moving, even if they could afford the purchase price of a retirement home. The most commonly mentioned method of tackling these costs would be to exempt older people from stamp duty, which would significantly reduce transaction costs, stimulate moves, and therefore lead to a net gain for the Treasury. Those most likely to be unable to afford to downsize are older homeowners whose homes are worth less than £250,000. With this in mind, removing the 1% rate of stamp duty land tax (applied to those buying homes valued between £125,000 and £250,000) could prove a modest, but important additional financial boost for older home owners looking to move.

Research from Oxford Brookes University has shown that a relaxation on stamp duty could stimulate more people to move, with the potential for a further 20% of people moving (generally among the over 65s). Critically, this research showed that such a change would not be a loss to the Treasury, since it would act as a catalyst for subsequent moves in the housing chain. This research estimates that the move of one older person would lead to three subsequent moves. Stamp duty from these additional moves, as well as VAT from greater spending on decoration and refurbishment would lead to a net increase in total tax revenues, estimated at £644 million p.a. Michael Voges felt that a stamp duty exemption would also send a clear message from the government that older people moving to more appropriate housing is a socially positive act and might encourage more older people to consider their housing options in later life, rather than feel the stigma or association with frailty and illness.

Improve financial advice and information

The third and final element of the 'Help to Move' package outlined above is a comprehensive advice offer. The dominant consensus from the experts consulted by the Inquiry was that more information on the housing opportunities available to people and the financial implications, both upfront and ongoing, was necessary. Most people who could benefit from the long-term, annual utility savings and lower maintenance costs are not aware of this, and may only see the barrier of the upfront cost. Equally, the reality of ongoing service charges versus the ongoing savings is often not transparent enough to allow customers to make a well-informed decision.

Advice regarding benefits eligibility, payment schemes and the housing choices on offer may also do much to encourage older people to consider their options earlier on and better understand how they might afford a move.

The Inquiry believes there is an opportunity to wrap financial and housing advice into new duty laid out in the Care Act 2014 for local authorities to provide advice to older people regarding their care and wellbeing, as well as the new 'guidance guarantee' as part of recent pensions reforms, which will mean the over 55s have more freedom regarding the spending or investing of their pensions pots. These pensions freedoms could represent another source of finance to help people meet the transaction costs of downsizing, and advice on such a decision would be needed. A seamless advice offer — covering care, housing and pensions — would be hugely valuable for older people who invariably will need to make decisions on each of these fronts over the course of later life.

The Help to Move package — an illustration

Mrs Smith, age 64, owns a three bedroom, unmodernised house with garden, valued at £108,000. She would like to downsize to a retirement apartment, which is worth £135,000.

As she cannot afford to cover the shortfall from her savings or find a mortgage lender who will give her a mortgage for the outstanding £27,000 she decides to take advantage of the Help to Move package. She obtains:

- A 20% equity loan to bridge the gap between the sale price of her old home and the purchase price of her new home

- A stamp duty exemption on the purchase of her new home, worth £1,350

- Advice on the cost-savings of moving, reducing care costs, and how else she might manage the costs of moving, which led to her drawing down £2,000 from her pensions pot (using new freedoms) in order to cover the legal fees for her move.

Concluding thoughts

To conclude, we revisit the initial questions posed by the APPG:

What is the scale of the problem of affordability for retirement housing?

The evidence gathered suggests the affordability problem is very real for the 'middle market' — owner occupiers who will not move to socially rented accommodation but whose limited equity may not be enough to purchase a retirement home outright. This is a highly regionally variable but is likely to be 40 to 50% of the local owner occupiers. As more older people retire with an outstanding mortgage, this is likely to become more of a problem, not less.

What action, including through existing financial instruments, can bridge this affordability gap?

Deferred payments, shared ownership and lifetime leases were all identified as effective tools to make purchasing retirement properties more viable. Housing associations would seem capable of greatly expanding their role for older people and potential downsizers in extended middle age, particularly through the provision of affordable share ownership homes.

However, the private sectors' house builders' contribution is also essential. Given the pressures of private developments to make fast returns on capital investment, it's clear some areas simply won't have a range of housing choices on offer. Access to mortgages for older people seems to be restricted due to age limits prevalent in the lending market, closing this potential avenue for older people in need of some additional equity to buy a new home.

What new measures are needed?

If financial instruments cannot be deployed in most private developments, then it will be necessary to find investment alternatives (such as government loans or social investors), or to look at ways to reduce the cost of retirement housing per se and stimulate supply. Build prices may be fixed but land prices can be tackled by partnership working with local authorities to allocate land for retirement development, justified by the strong cost-benefit argument of reduced health and care costs, the 'grey pound' in the local economy and the freeing up of local family homes.

Finally, steps to enable older people to afford retirement housing are a promising area for investigation: a package of Help to Move measures, including stamp duty exemptions which could be a cost free option for the Treasury — could assist the whole market; improved financial advice linked to care and pensions could change attitudes, particularly around benefits eligibility in relation to shared ownership and the cost savings associated with a move, challenging the perceived poor value of service charges, communal space and adaptations; and more sophisticated ways of deferring the payment of service charges could be of significant help to some older people.

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This paper presents the conclusions and recommendations from the inquiry of the All Party Parliamentary Group on Housing and Care for Older People into the affordability of retirement housing.

Copies of this report can be downloaded from the Housing Learning and Improvement Network website at:

www.housinglin.org.uk/APPGInquiry_AffordableDownsizing

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