Unlocking the housing market

Helping first time buyers by helping later life buyers

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EXECUTIVE SUMMARY

The housing shortage is now one of our top domestic political issues, at the forefront of the government's and opposition's positioning during the 2017 general election and party conferences. However, policy development has thus far been focused on first time buyers and affordable housing – to the detriment of an appreciation of the wider problem. A shortage of even greater magnitude[1] is now being experienced among older people, a large proportion of whom cannot find suitable homes to downsize into. There is a dearth of specialist retirement housing, so hundreds of thousands of older people are stuck in unsuitable homes, which has a negative impact on their health. This is also stagnating the housing market by thwarting growing families (and, in turn, first and second time buyers) from moving up the housing ladder.

The housing white paper, published in February 2017, identified this as one of the many issues associated with what it described as 'the broken housing market'.[2] It alludes to the need for a 'conversation' with a range of stakeholders, including specialist retirement developers, to help develop strategies to support older people in making the right housing choices as well as improve the volume and range of housing options – in other words, 'demand' and 'supply'. In this paper, we speak directly to this issue in anticipation of such a conversation. We consider how to support older people in their move to retirement housing, through a combination of financial incentives, and practical and emotional support. We also explore the ways in which current barriers to the building of more retirement developments (everything from downsizer housing through to extra care options) can be overcome through an exemption to affordable housing and Community Infrastructure Levy (CIL) contributions.

Supporting older people to move into retirement housing

We carried out focus groups with middle-aged and older people to test a variety of policy ideas and developed a support package we consider to have the most impact. This helps older people move into retirement developments and boost their local visibility.

We recommend that the government should:

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[1] The UK currently builds around half of the general needs housing it needs annually, but one can argue that the retirement housing market is supplying less than a quarter of

[2] DCLG, *Fixing Our Broken Housing Market*, Cm 9352, Dept for Communities and Local Government, 2017, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf (accessed 26 Oct 2017).

- consider introducing a stamp duty exemption for older people moving to retirement housing targeted (at first) on those with lower value homes, to establish its efficacy; in a subsequent extension use some of the increased revenue for a progressive reduction of stamp duty for other age groups
- offer an equity loan targeted at older people with lower levels of housing equity to bridge the gap between the sale price of their home and the purchase price of a retirement property – mirroring the highly impactful Help to Buy scheme
- integrate advice on downsizing and retirement housing options (recognising the key role housing assets play in tackling pensioner poverty and paying for care) into wider pensions and care funding advice, to coincide with new care funding proposals that may come about after a green paper next year

We recommend that the industry should:

- offer practical help packages for prospective buyers, as some already do, including help to pack, move, connect utilities etc, overseen by a 'key person' to provide reassurance and consistency throughout the move
- provide wider outreach to the community, including where possible 'try before you buy' stays by developers who can manage such a scheme, and/or social opportunities for local older people to boost awareness of developments and to help form social networks

However, one of the key messages from our research is that helping older people overcome their reluctance to downsize would not resolve all the problems facing the retirement housing market. If anything, it could have a negative effect while supply remains so constrained. Unlocking barriers to supply is fundamental to the future health of the market.

Improving the supply of retirement housing

There are two main barriers to supply in the current market: lack of recognition of the housing needs of older people in local plans and a planning charges regime that renders retirement developments inherently uncompetitive against general needs housing and retail developments. The result is that retirement developers are often out-bid for land for their sites, or spend excessive amounts of time and money negotiating and appealing planning decisions and/or affordable housing contributions.

The housing white paper announced a review of national planning guidance that would ensure local plans included a proper assessment of older people's housing needs.[3] This is a very welcome step and long overdue, but the charging structures underpinning these plans remain in place. In this report, we present our findings from economic modelling carried out to establish the impact of the current planning charges regime on different types of retirement development. The findings are conclusive: affordable housing contributions, and CIL charges, fundamentally undermine the viability of retirement developments in all their forms. Their presence also paves the way for protracted negotiations and costly appeals, local discretion and uncertainty in the market – regardless of the level at which they are set.

Our modelling was based on land and build prices in the South East in 2017. The South East tends to be more viable for building retirement housing than other regions of England where land prices are often just as high but the house prices of potential customers (and therefore their spending power) are considerably lower. We used a conservative CIL rate of £140 per square metre – a quarter of what it can be in some areas. Even under this favourable environment, a 50 per cent reduction in section 106 contributions (see explanation in Box 10) is the bare minimum needed for some developments, while others still need a full exemption to be viable.

With these points in mind, we recommend that there should be an exemption to section 106 contributions and CIL for retirement developments. Although extra care housing is often already exempt from these charges because it has the planning category C2, creating a new planning category (eg C2b) for *all* retirement developments eligible for this exemption would provide clarity in local plans and planning processes.

We recommend this policy for two reasons:

- The social value case for retirement housing is overwhelming. If one considers the cost savings to health and care services, the wider benefits to loneliness rates and social networks built, the assets released to tackle pensioner poverty, and the number of family homes that can be freed up (and housing chain moves created) when older people can move to more appropriate property – it is clear that, as we argued in *The Top of the Ladder*, retirement housing has the same social value as affordable housing.
- Build volumes have been sluggish for years, meeting the needs of only a fraction of a percentage of the older people interested in

[3] Ibid.

> buying a retirement property. While nearly 3 million older people are interested in retirement housing, necessitating an estimated 30,000 new units per year,[4] current retirement developers have only been managing to build on average 7,200 units per year for the last five years.[5] Unsurprisingly, sizeable waiting lists are common, and yet very few new entrants to this market are forthcoming – in part due to the difficulty in making developments viable under the current section 106 and CIL system. Only a radical shift in policy on this front will enable the market to expand at the rate necessary to meet demand.

An exemption policy responds to the clear evidence of the choke hold planning charges have on the market and is justified both by the considerable social value and the hard economic benefits of retirement developments. Only such a step would provide the shot in the arm the market needs to boost build volumes rapidly (via current providers, and in attracting new providers) to help meet the government's wider housing targets. It is also the only step that would also overcome the very real problems of local variability and unpredictability of the current planning landscape, creating a consistent approach nation-wide, while also doing away with the costly and lengthy negotiation and appeals processes related to section 106 contributions that currently hamper the building of developments.

The housing white paper stated that it would look closely at the older people's housing market, and that policy makers were open to conversations with the industry on how best to grow supply and demand.[6] We hope that these findings – a combination of insights from older people themselves regarding their views of retirement housing, as well as economic modelling, both informed by insights from retirement developers – will provide a good starting point on which to build future dialogue.

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[4] Knight Frank, 'Retirement housing 2016', 2017, https://kfcontent.blob.core.windows.net/research/696/documents/en/2016-3770.pdf (accessed 24 Oct 2017).
[5] Inspired Villages, *The Right Size Report: Mapping the supply and demand of Britain's retirement housing in 2017 and beyond*, 2017, https://www.inspiredvillages.co.uk/right-size-report/ (accessed 24 Oct 2017).
[6] DCLG, *Fixing Our Broken Housing Market.*

INTRODUCTION

Britain's housing shortage is never far from the top of the political agenda. Pledges to build new housing were at the forefront of this year's general election campaigns by all parties, as well as a prominent feature of both Jeremy Corbyn and Theresa May's party conference speeches. As analysis has shown that some of the biggest swings to Labour during the general election were in areas with high proportions of private renters,[7] the national housing shortage has become a key political priority. To accommodate a growing population and the changing nature of households, 200,000–300,000 new houses need to be built nationally every year, and yet we have managed to build around half that figure in recent years. (In 2016 there were 163,000 new builds, making it the best year for new house building since 2007.)

However, public, policy and political debate on the housing crisis focuses almost exclusively on the shortage of affordable housing, and homes for first time buyers (who are primarily adults in their 20s or 30s trapped in a high rent cycle or living with their parents). This is fundamentally short sighted. The terms 'housing ladder' and 'housing chain' encompass the different stages of property ownership and implies that shortages or blockages in one area do not occur in isolation, but rather are caused by problems elsewhere, which can in turn cause problems somewhere else.

This paper builds on work Demos has carried out over a number of years looking at the 'top of the ladder' – older people's housing. It is here that the shortage of housing is most pronounced, although it rarely ever features on policy agendas. This shortage has a stagnating effect on the entire ladder by trapping older people in large family homes, when many are seeking to downsize into suitable or specialist retirement property. In turn, growing families in the 'middle' of the ladder are unable to move into larger homes, occupying too many first- and second-buyer homes, and therefore leaving those at the bottom of the ladder with few affordable options. The government's focus on the situation at the bottom of the ladder has led to a swathe of policies that only tackle the symptom – not the cause – of the problem. As a result, even if the government were to achieve its ambition of building significantly more homes at the bottom end of the housing ladder, the market would become unbalanced in the longer term, with an oversupply of the wrong type of home as first time buyers eventually start families and seek larger houses.

[7] S Akehurst, 'Housing and the 2017 election: what the numbers say', blog, Shelter, 21 Jun 2017, http://blog.shelter.org.uk/2017/06/housing-and-the-2017-election-what-the-numbers-say/ (accessed 24 Oct 2017).

The hidden housing crisis: the lack of retirement housing

The shortage of homes for older people is, in fact, greater than the shortage for first time buyers. Evidence suggests that there is significant demand for retirement properties, with surveys by Demos, Shelter and others finding that between a third and a quarter of older people in the UK are interested in downsizing generally, and a quarter are interested in retirement housing specifically – this equates to at least 2.95 million people aged over 65.[8] Yet there are only 720,000 of such properties in England and Wales. Analysis suggests that 30,000 new retirement properties need to be built just to meet current demand, and yet the number of these properties is increasing at a rate of just 7,200 per year – a level that has been relatively stable over several years, with only a handful of retirement developers in the market struggling to keep apace of this growth in interest from our rapidly ageing population.[9] Unsurprisingly, just 1 per cent of British people in their 60s are living in retirement housing, compared with 17 per cent in the USA and 13 per cent in Australia and New Zealand.[10]

Furthermore, the majority of retirement properties in this country are for rent, rather than to buy – an option unappealing to many older people, who are predominantly owner-occupiers and want to continue to own should they move.[11] Inspired Village's 2016 analysis of the market concluded that only 186,000 retirement properties out of a total of 720,000 (26 per cent) were owner-occupied, enough to house the equivalent of 27 per 1,000 older home owners. Successive polling suggests that around 25 per cent of older people say they would like to buy a retirement property, but Inspired concluded there are only enough units for 2.7 per cent to do so in the current market. In short, the supply of

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[8] C Wood, *The Top of the Ladder*, Demos, 2013, https://www.demos.co.uk/files/TopoftheLadder-web.pdf?1378922386 (accessed 24 Oct 2017); N Hughes and D Lyndsay, 'Taking stock', policy briefing, Shelter, Apr 2011, http://england.shelter.org.uk/__data/assets/pdf_file/0008/346796/Shelter_Policy_Briefing_-_Taking_Stock.pdf (accessed 24 Oct 2017).

[9] Inspired Villages, *The Right Size Report*.

[10] Savills, *Housing and Ageing Population*, 2015 https://www.housinglin.org.uk/_assets/Resources/Housing/OtherOrganisation/housing-an-ageing-population_reduced.pdf

[11] R Best and J Porteus, *Housing Our Ageing Population: Positive ideas*, All Party Parliamentary Group on Housing and Care for Older People, Jun 2017, https://www.housinglin.org.uk/_assets/Resources/Housing/Support_materials/Other_reports_and_guidance/HAPPI3_Report_2016.pdf.

retirement properties is simply not large enough to meet existing demand – demand which will only grow as the population ages.[12]

Box 1 What do we mean by retirement housing?

In this report we use 'retirement developments' as an umbrella term to cover all types of specialist housing for older people. Key features include individual dwellings with their own front door (whether for rent, sale or shared ownership), communal areas such as lounges and restaurants, scheme managers (or other types of support service) and varying levels of personal care or support. There are no official definitions for a spectrum of housing options (something we consider in chapter 3) and there are often overlaps between different types.

For the purposes of this report, we are considering four broad types of retirement housing:

- *Downsizer* Typically for those aged 55 or above and the more active elderly. Often flats or bungalows, though some developers build houses with shared amenities such as communal gardens or coffee lounges. On-site staffing is limited typically to just the maintenance of the development and its grounds.
- *Retirement living* Typically for those aged 60 and above. Formerly known as sheltered housing, these developments contain more shared amenities than downsizer schemes, such as a shared laundries and guest suites, and on-site support is provided by a warden or house manager who is dedicated to running the development.
- *Extra care housing* Typically for those aged 70 and above. The term is used for a complex of retirement housing that also provides care in a style that can respond flexibly to increasing need while fostering independence as far as possible. Significant shared services are provided, such as a residents' lounge, a restaurant with on-site kitchen, a function room, a laundry, guest suites, a wellbeing centre, hairdressers and staff rooms.
- *Care (retirement) villages* Typically for those aged 70 and above. Generally used to describe large scale extra care developments (often 200+ units), with a range of accommodation and tenure options on site, allowing for transfer within the development as the individual's needs progress – eg from an independent flat or bungalow to a specialist unit or care home.

[12] Inspired Villages, *The Right Size Report*. It is projected that by 2021 there will be 10.6 million over 60s in England – an increase of 13 per cent since 2005. See Hughes and Lyndsay, 'Taking stock'.

Why is retirement housing so important?

The benefit to the housing chain

The shortage of retirement housing is primarily as a social problem – hundreds of thousands, and potentially millions, of older people stuck in unsuitable housing. They are interested in downsizing or moving into more suitable retirement properties, but are thwarted in their choice due to a shortage of properties to move in to. This shortage is no less serious than the housing shortage for first time buyers, but it rarely receives the same policy attention. People do not consider older people who are secure in their own homes – even if they are fundamentally unsuited to their needs and contribute to their poverty, ill health, loneliness and social isolation – to be as serious a problem as that of young renters who are unable to save for a deposit.

However, the solving of the former would in fact help solve the latter problem: a growth in supply of retirement housing would have significant positive implications for the rest of the housing chain. Analysis by Demos has shown 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. Over 2 million of these would be three-bedroom properties.[13] Polling by McCarthy & Stone this year found 48 per cent of older people would consider downsizing now, or would do so if a stamp duty exemption were on offer (see below). This is the equivalent of 5.7 million people freeing up £720 billion worth of property.[14] This could set off a property chain reaction: by freeing up homes that are currently under occupied by older people, families would be able to make their second or third move into a larger home, which would in turn boost availability of properties at the bottom of the housing chain for first time buyers. More recent analysis of McCarthy & Stone developments by the Housing LIN (Learning and Improvement Network) found that a typical 41 unit development generated an additional 92 housing sales in the local market – showing a clear housing 'chain effect'. When investigating a sample of 19 housing chains generated by moves into a development, the Housing LIN found 11 of the 19 generated opportunities for first time buyers, while eight generated opportunities for families with children.[15]

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[13] Wood, *The Top of the Ladder*.

[14] McCarthy & Stone, 'Downsizing exodus: 5.7 million elderly eye a move now, rising to 11 million in under 20 years', 2 Aug 2017, https://www.mccarthyandstone.co.uk/media-centre/national-press/downsizing-exodus--57-million-elderly-eye-a-move-now-rising-to-11-million-in-under-twenty-years/?showbacklink=true (accessed 24 Oct 2017).

[15] Housing LIN, 'The positive impact on the housing chain of moving into retirement housing in later life', 2017.

This is therefore a win–win situation – by improving the supply of older people's housing, we can meet demand among older people and then, in turn, for families looking for larger homes, and first time buyers. However, this is not just simply a matter of boosting the housing market. There are also significant additional benefits for older people.

Financial benefits for older people

Moving into retirement property enables older people to free up cash from their home, which can be used to pay for other expenses, leading to a higher quality of life and retirement. Analysis of a group of retirement property owners in 2011 found 40 per cent of the group studied were able to withdraw £25,000 or more in housing equity as a result of moving into retirement property,[16] while polling in 2017 found the average amount an older person estimated they could release as equity if they downsized was nearly £80,000.[17]

Second, the bills, insurance and maintenance costs of retirement properties are typically lower than the costs associated with mainstream properties from which people move. Evidence heard by the All Party Parliamentary Group (APPG) on Housing and Care for Older People suggests that a person moving from a three-bedroom semi-detached property to a two-bedroom extra care apartment saves on average £600 in annual household energy bills.[18] This is due to the property being smaller and design features that enable older people to take greater control over their home environment, eg through heat metering. Once insurance and grounds maintenance are factored in, evidence suggests that the cost savings can be as high as £1,530 per year.[19]

Evidence also suggests that the 'grey pound' – the increased disposable income enjoyed by older people moving into retirement properties – is mainly spent in local shops and on local services, creating an economic

[16] M Ball et al, *Housing Markets and Independence in Old Age: Expanding the opportunities*, Henley Business School, 2011,
[17]
https://www.mccarthyandstone.co.uk/documents/research%20and%20policy/oorh%20full%20report%20may%202011.pdf/ (accessed 24 Oct 2017).
[18] C Wood, *The Affordability of Retirement Housing*, All Party Parliamentary Group on Housing and Care for Older People, 2014, https://www.demos.co.uk/files/Demos_APPG_REPORT.pdf?1415895320 (accessed 24 Oct 2017).
[19] PWC, Sizing up the situation: the advantages of downsizing, Hanover Housing, 2014.

boost in the areas immediately surrounding retirement developments.[20] One person we spoke to in our focus groups put it like this:

> *But that's quite the way forward, particularly if you live in an affluent area so the property that you had got very high in valuation – you move into and buy a retirement home, put money in the bank and live a higher quality life.*

Male, Leeds

Improvements to health, social care and wellbeing, and associated cost savings

There is also a substantial body of evidence which suggests that older people living in all types of retirement housing enjoy better health and wellbeing than those who do not. At the most basic level, owing to their specialist design, retirement properties reduce the likelihood of falls among older people (the biggest cause of emergency hospitalisation and broken hips) and the health complications of living in a cold home. Some of the most compelling studies include a three-year project by Aston University, which identified a reduction in unplanned hospital stays – from an average of 8–14 days for those not living in retirement properties to 1–2 for those who were.[21] Similarly, in 2012 the Personal Social Services Research Unit found that older people living in adapted housing were 1.5 to 2.8 times less likely to fall in their home than those in unadapted surroundings.[22] Cook et al found that tenants of one sheltered housing site who went to hospital stayed on average 8.2 days following an emergency admission,[23] compared with 12.9 days among older people in general needs housing.[24] This is because discharge can

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[20] Institute of Public Care, *Local Area Economic Impact Assessment*, 2014, https://www.mccarthyandstone.co.uk/documents/research%20and%20policy/eia%20report%20-%20mcs%20final%20july%202014.pdf/ (accessed 24 Oct 2017).

[21] Aston Research Centre for Healthy Ageing, 'Better lives, health, future', Jun 2015, https://www.extracare.org.uk/media/1168260/18239-brochure-210x210-166.pdf (accessed 24 Oct 2017).

[22] T Snell, J-L Fernandez and J Forder, *Building a Business Case for Investing in Adaptive Technologies in England*, Personal Social Services Research Unit, 2012, www.pssru.ac.uk/pub/dp2831.pdf (accessed 24 Oct 2017).

[23] G Cook et al, 'Older UK sheltered housing tenants' perceptions of well-being and their usage of hospital services', *Health and Social Care in the Community*, 2016.

[24] National Audit Office, 'Discharging older patients from hospital', 2016, https://www.nao.org.uk/wp-content/uploads/2015/12/Discharging-older-patients-from-hospital-Summary.pdf.

be made more easily for those who live in appropriate housing and where follow-up care can readily be arranged on-site.

Benefits are not simply related to physical health: Demos research found that only 49 per cent of over 55s compared with 85 per cent of people living in a retirement housing development felt a sense of community in their neighbourhood.[25] It is unsurprising, then, that the International Longevity Centre (ILC) found that a retirement village resident experiences half the amount of loneliness (12.17 per cent) as those in the community (22.83 per cent).[26] Research also shows that lonely people use health services more frequently than others. They are 1.8 times more likely to visit a GP, 1.6 times more likely to visit a hospital emergency department and 1.3 times more likely to experience an emergency admission than those who are not lonely,[27] clearly demonstrating the link between reduced loneliness in older people and health and care savings.

Drawing on such evidence, savings to the NHS and care systems generated by retirement developments have also been calculated by numerous robust studies. For example, research by Frontier Economics for the Homes and Communities Agency showed that for each person aged 60 or over who lives in a retirement property, £3,525 a year when updated to reflect inflation[28] is saved by the NHS and local authorities in health and social care costs, thanks to some of the variables outlined above (eg reduced inpatient stays and emergency hospitalisations).[29] Similarly, a report by the Strategic Society Centre in 2016 suggests that a single new specialist retirement housing unit results in long term savings to the state of £9,700 in health and care needs and £18,600 in local authority social care entitlement.[30] The aforementioned study by Aston

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[25] C Wood and J Salter, *Building Companionship: How better design can combat loneliness in later life*, McCarthy & Stone and Demos, 2016, https://www.demos.co.uk/wp-content/uploads/2016/04/Building-Companionship-Report.pdf (accessed 24 Oct 2017).

[26] B Beach, *Village Life, Independence, Loneliness and Quality of Life in Retirement Villages with Extra Care*, International Longevity Centre – UK, 2015, https://www.housinglin.org.uk/_assets/Resources/Housing/OtherOrganisation/ILC-UK_Village_Life_FINAL.pdf (accessed 24 Oct 2017).

[27] L Fulton and B Jupp, *Investing To Tackle Loneliness*, Social Finance, 2015, www.socialfinance.org.uk/wp-content/uploads/2015/06/Investing_to_Tackle_Loneliness.pdf.

[28] Financial benefits of investment in specialist housing for vulnerable and older people, HCA, 2010 figure updated for 2010-17 using CPI inflation to reach £3,525 a year https://www.frontier-economics.com/documents/2014/06/financial-benefits-of-investment-frontier-report.pdf

[29] S Ota, *Housing an Ageing Population (England)*, Commons briefing paper, 2015, http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7423.

[30] J Lloyd, *Valuing Retirement Housing: Exploring the economic effects of specialist housing for older people*, Strategic Society Centre, 2016,

University found that there were considerable savings of £1,115 per person, per year, to the NHS when older people live in retirement housing, the equivalent of a spend reduction of 38 per cent.[31]

Unlocking the supply of retirement housing

In *The Top of the Ladder*, Demos suggested that increasing the supply of retirement housing was a 'win–win–win' for government – in that it eased pressure in the housing market, generating new and multiple moves; it helped tackle pensioner poverty and improved health in later life; and, critically, it could be achieved without significant financial outlay.[32] This is because in the vast majority of cases, older people's (not inconsiderable) housing equity would be used to buy retirement housing from one of the variety of current providers, from standard age-exclusive 'downsizer' type housing through to retirement village or extra care apartments. So why is there such unmet demand in this market? Why is there so little supply of retirement housing to meet the potential number of buyers and compared with other comparable countries?

The answer is complex, with a number of supply- and demand-side factors at play. On the one hand, the very features of retirement housing that make it well designed for older people and lead to the cost savings outlined above (eg large communal spaces, more lifts, technological features and accessible layouts) have the negative effect of making it uncompetitive in the land market. Capital outlay is high and revenue is often slow, as few older people buy off-plan but they want to see an entire development completed before they opt to buy. Many retirement housing providers (typically those building downsizer and retirement housing developments) must also meet the same planning obligations as general needs house builders, such as affordable housing or section 106 contributions and the CIL, even though retirement housing clearly offers additional and distinct social value (we return to this point in chapter 3). Even builders of extra-care-style developments – which offer health and care facilities and services on site – are often subjected to the same charges as mainstream house builders, even though they ought to be classified as health institutions (C2 use class) and exempt from such charges. Our economic modelling (chapter 3) supports previous analysis in showing that when these factors are combined, and when meeting the local authority's required affordable housing contribution, a conventional house builder can typically offer a landowner around

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http://strategicsociety.org.uk/wp-content/uploads/2016/08/Valuing-Retirement-Housing.pdf.

[31] Holland, C: Collaborative Research between Aston Research Centre for Healthy Ageing (ARCHA) and the ExtraCare Charitable Trust, 2015 http://www.aston.ac.uk/EasySiteWeb/GatewayLink.aspx?alId=245545

[32] Wood, *The Top of the Ladder*.

£600,000 more on a 0.4 hectare brownfield site in South East England than a retirement developer who wants to build a downsizer or retirement living development on the same site.

In addition to the costs of land and development charges, many local authorities still lack a clear policy for retirement housing in their local housing plans, with some actively discouraging the building of such housing (perhaps believing that this would encourage more older people to move the area, creating a burden on local GPs; these misperceptions have been soundly refuted[33]) through denying planning permission. Recent analysis by Irwin Mitchell found that only 22 per cent of local authorities have an older person's policy in their local plans.[34] However, the housing white paper has signalled this is likely to change imminently (see box 2).

House builders regularly engage in appeal processes regarding refused planning permission, excessive charges levied on them, and other obstacles to development. While often successful, the costs, delays and uncertainty for investors of such an approach further dampens supply.

Yet there are also constraints on the demand side. While it has been shown that a significant proportion of older people would be interested in moving into a retirement property, those wanting to move can be readily put off by the prospect of the practical, emotional and financial strain of moving in later life, while retirement housing continues to be poorly understood by the public and suffers from being associated with residential care.

This report

In this report we do not seek to make a detailed case for the need for more retirement housing based on its considerable social value or its beneficial impact on the housing market. Beyond the brief recap in the introduction, we feel it is unnecessary to revisit these arguments simply because so much compelling research has already been published in this field. The need for more retirement housing of all types is undisputable, the benefits cannot be contested, and the constraints to supply and demand have been thoroughly evidenced. For those unfamiliar with these wider issues, we recommend *Valuing Retirement*

[33] Ibid.

[34] K Roberts, 'Two thirds of local authorities failing to prioritise housing for older people in local plans', Irwin Mitchell, 24 Jul 2017, www.irwinmitchell.com/newsandmedia/2017/july/two-thirds-of-local-authorities-failing-to-prioritise-housing-for-older-people-jq-25948 (accessed 24 Oct 2017).

Housing (2016), *Housing Markets and Independence in Old Age* (2011) and of course *The Top of the Ladder* (2013) as good summaries.[35]

The purpose of this paper is to respond directly to the housing white paper's call for greater dialogue between the housing sector and government policy makers to work out *exactly how* to ensure demand remains healthy, and to improve the supply of retirement housing in response to that demand. We recognise that now is the time genuine progress might be made – the government has indicated its intention to issue new planning guidance placing clearer expectations on local authorities to plan how they will meet the housing needs of older people, review and reform the current tax system, and take some other significant steps, outlined in box 2. These each present opportunities to reform a section of the housing market that is very clearly unbalanced and undersupplied.

Box 2 Recent policy developments

There have been three recent policy developments:

- *Introduction of new national planning guidance* In the housing white paper, the government proposed to 'strengthen national policy so that local planning authorities are expected to have clear policies for addressing the housing requirements of groups with particular needs, such as older and disabled people'.[36] The Department for Communities and Local Government is in the process of producing a guidance note that will outline expectations of local government in this regard.
- *Proposed replacement of the CIL and section 106 system with a new development tax, the Local Infrastructure Tariff (LIT)* An independent CIL review group made up of sector experts was established in 2015 to assess the extent to which the CIL does or can provide an effective mechanism for funding infrastructure, and to recommend changes that would improve its operation in support of the government's wider housing and growth objectives. The group reported in 2016, recommending that local authorities should set a low level LIT, which would apply to all development (with virtually no exceptions). The LIT would be calculated using a national formula based on local market value set at a rate of £ per square metre. Larger developments, which require direct mitigation to make them acceptable in planning terms or very specific major infrastructure on or close by the development, would be subject to an additional section 106 charge. Under the new system, local authorities would lose discretion over

[35] Lloyd, *Valuing Retirement Housing*; Ball et al, *Housing Markets and Independence in Old Age*; Wood, *The Top of the Ladder*.
[36] DCLG, *Fixing Our Broken Housing Market*.

the rate of the LIT and their power to exempt developments, with the aim of making the system less haphazard and arbitrary.

- *For the first time it is official policy to review demand-side incentives* In the housing white paper the government recognised that enabling older people to 'move at the right time and in the right way could also help their quality of life at the same time as freeing up more homes for other buyers'.[37] It committed to exploring the barriers that prevent older people from moving further and to identifying sustainable solutions through consultation with the sector. This report has been prepared as part of this commitment.

Reflecting on these three areas of policy development, it seems that the first (the issuing of new national guidance to inform local plans) is the most advanced, with work under way and new guidance imminent, although no date has yet been set for publication. We look forward to this new guidance – and hope it will be implemented as a matter of urgency to resolve a major constraint on the supply of retirement developments of all types, as currently only around a fifth of local authorities have any older people's policy set out in their plans,[38] and many ignore or actively discourage older people's housing.

This paper seeks to contribute to the second and third policy areas outlined in box 2 – as these remain live policy debates and are some way from implementation. We focus on:[39]

- the exact combination of incentives that are needed to help overcome the range of demand-side factors (practical, emotional and financial) that older people report when explaining their reservations about moving into retirement housing
- the way the current charges associated with section 106 affordable housing contributions and the CIL could be reformed and replaced with a charging scheme which levels the playing field – enabling retirement developers to build viable schemes on land that is currently beyond their reach and unlocking much needed supply

[37] Ibid.

[38] Knight Frank, 'Retirement housing 2016'.

[39] Research for this project took place between July and September 2017. Our methodology is outlined in appendix 1.

This report is structured as follows:

- Chapter 2 outlines a range of demand-side incentives that could encourage older people to move to retirement housing of all types. These include incentives designed to address the financial, practical and emotional barriers that prevent some older people from moving into retirement housing even when they would like to. The chapter presents insights from focus groups with older people in order to set out the advantages and disadvantages of each incentive, and concludes with a suggestion of which combination of incentives would make the biggest difference in supporting older people to make the move.
- Chapter 3 presents new economic modelling setting out the impact of existing section 106 and CIL charges on different types of retirement development as outlined in box 1, comparing this with other forms of housing and retail developments before considering alternative charging structures.
- Chapter 4 draws together our conclusions from demand and supply incentives and makes a number of recommendations to government and other stakeholders based on our findings.

2 SUPPORTING OLDER PEOPLE TO MOVE TO RETIREMENT DEVELOPMENTS

This chapter explores the advantages and disadvantages of a range of possible incentives to encourage more older people to consider retirement housing as an option, and supporting those already keen to move in do so. We consider:

- financial incentives
- measures to address practical barriers
- measures to address emotional barriers

Financial incentives

Financial incentives of varying types are frequently discussed in policy circles. The focus groups we hosted (see appendix 1 for further details) with older people show that this is for a good reason, as many of those living in general needs housing raised (unprompted) the issue of financial barriers to moving – indeed, in one of the groups, every participant said that financial incentives (rather than practical or emotional incentives) would play the biggest part in their decision on whether or not to downsize or move into a retirement property.

Our research focused on three types of financial incentive: stamp duty exemption or deferral, a lowered 'care cap' (see explanation below) and an equity loan offer. The sector experts we interviewed (see appendix 1 for a list of experts) emphasised that the financial incentives used would need to be adapted over time to reflect older people's changing circumstances – for example, as more people begin to retire with a mortgage, having the option to transfer the mortgage to a retirement housing property or using other forms of equity loan could be an effective incentive in the future.

Option 1 Stamp duty exemption

People who move property incur a range of transaction costs, such as surveyor fees, solicitor fees and stamp duty. These costs can quickly add up – indeed, the average cost of moving is almost £11,000 in the UK, and over £31,000 in London.[40] The scale of the costs involved may put off older people from moving, or prevent those who simply cannot afford it from doing so. Paying stamp duty may be a particular problem for older people who are asset rich but cash poor – this group may find themselves unable to afford to pay stamp duty when they are required to pay it, before the sale of their current property completes, even though they would be able to pay for it after making the move.

The government could therefore offer a one-time exemption for older people who move into retirement housing. There are several advantages to this measure. First, if enough older people moved, the exemption would deliver a net benefit to the Treasury, more than paying for itself, because of the additional transactions generated further down the property ladder, which would not have otherwise occurred and on which stamp duty would be levied as usual. Modelling by the Institute of Public Care shows that if the numbers of older people moving increased by 10 per cent in response to being exempted from stamp duty, the net benefit to the Treasury would be £186 million, while a 20 per cent increase would bring a net benefit of £353 million and a 30 per cent increase would bring a net benefit of £730 million.[41] A survey by McCarthy & Stone in 2017 38 per cent of older people stating they would consider downsizing now, but this rose to 48 per cent if a stamp duty exemption was on offer.[42]

[40] McCarthy & Stone, *Stamp Duty and Housing for Older People*, Oxford Brookes University, 2016, https://ipc.brookes.ac.uk/publications/IPC%20Stamp%20Duty%20and%20Housing%20for%20Older%20People.pdf (accessed 24 Oct 2017).

[41] Ibid.

[42] McCarthy & Stone, 'Downsizing exodus'.

Second, it would also send a clear signal from the government to older people that downsizing is a sensible step and that it supports those who choose to make the move. Participants in our focus group conceived a possible exemption in transactional terms, suggesting that the government 'ought to do it because you are releasing your home to other people who can buy so there are more properties available' (female, Birmingham). As suggested in previous Demos research,[43] this measure may help to rid downsizing and retirement housing of their associations with old age or frailty – a barrier we discuss further in the section on emotional incentives.

However, some older people in our focus groups were not convinced that a reduction in stamp duty would persuade them to move. These are two typical comments:

> *I don't think it would make any difference between the two houses, well the two flats I was going for. I'd go for the one [that] really had [the] most convenient location for me.*
>
> Female, Birmingham

> *It would be a bonus but wouldn't make any difference.*
>
> Male, London

If the policy did not result in sufficient numbers of older people downsizing, the Treasury could experience a net loss: according to modelling by the Institute of Public Care, if the exemption resulted in 5 per cent more older people moving then the Treasury would lose £90 million, and if just 1 per cent more older people moved the loss would amount to over £300 million,[44] though there would be social gains by encouraging people to downsize. Another potential risk of this policy is that while the exemption would likely prove popular among older people, the general public as a whole may not support younger people and families paying stamp duty and older people not, as the latter group is typically much wealthier than the former one. Indeed, while the

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[43] Wood, *The Affordability of Retirement Housing*.

[44] McCarthy & Stone, *Stamp Duty and Housing for Older People*.

majority of the participants in our focus groups felt the policy would be justified, some perceived it to be unfair. In the words of one of our participants: 'What about the aspirational young people who want to get a deposit together?' (male, London).

Out of all the possible incentives that could be introduced, stamp duty exemption is perhaps the most frequently suggested – it was mooted for inclusion in the housing white paper released in February 2017, although it did not feature in the final publication. Nonetheless, it might be wise to proceed with caution (at least at first) on such a measure – while the polling on this subject is encouraging, we do not know for sure how sensitive older buyers (and our housing market generally) is to stamp duty exemptions. We might start then by making the exemption only applicable to less wealthy older people, such as those living in properties valued below £250,000 (as previously suggested by the APPG on Housing and Care),[45] or those receiving Pension Credit (as proposed by the Chartered Institute of Housing[46]). It could also be piloted in particular regions at first to assess the impact on local housing markets.

The exemption could then be progressively levied above the threshold – for example, a 1 per cent stamp duty for homes worth between £250,000 and 500,000 and if these prove effective, then a 5 per cent duty for homes worth more than £500,000. Not only would this policy be less risky to the Treasury than an immediate or blanket exemption, but it may also help make it more publicly acceptable.

There is also much to be said for directing the extra revenue generated by a stamp duty exemption (whether for all older people or just those in lower value properties) into reducing stamp duty rates for people of all ages, or increasing the threshold at which people are currently exempt. In other words, the increased volume of house moves spurred on by an older people's exemption could allow for lower rates across the board, without the Treasury losing revenue. This would certainly tackle the public acceptability of such a policy. Box 3 explains how this works in Victoria, Australia.

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[45] Wood, *The Affordability of Retirement Housing*.

[46] Chartered Institute of Housing, 'Remove stamp duty to help older people downsize says CIH', 21 Feb 2014, www.cih.org/news-article/display/vpathDCR/templatedata/cih/news-article/data/Remove_stamp_duty_to_help_older_people_downsize_says_CIH (accessed 24 Oct 2017).

Box 3 Victorian pensioner Stamp Duty concession[47]

Most states in Australia have stamp duty exemptions for first time buyers, but in Victoria the offer is open to older people too. Eligibility is based not on the value of one's current home, but on having health or other pensioner concession cards, which in turn have income based eligibility requirements – making this exemption available primarily for lower income older people. Older people can receive the following stamp duty concessions – the banding of which would benefit those at the lower value end of the housing chain, or those downsizing into the lowest value (perhaps therefore the smallest) homes.
These are the bands:

- under AU$330,000 = exempt from stamp duty
- between AU$330,000 and AU$750,000 = part concession
- over AU$750,000 = no concession

Option 2 Extending Help to Buy

The government's Help to Buy scheme, and in particular the equity loan element (which enables people to borrow up to 40 per cent of the purchase price of their property to fill the gap between the purchase price and the maximum loan they can obtain) has had a huge impact on the mainstream housing market – one in three new build houses outside London were bought with the aid of an equity loan, and between 2013 and the end of 2016 over 100,000 equity loans were taken out (81 per cent of those who did so were first time buyers), totalling nearly £5 billion.[48] It has been extended on several occasions as a key plank in successive Conservative governments' policies to boost housing supply.

As the APPG on Housing and Care recommended in the 2014 report *The Affordability of Retirement Housing*,[49] there is a valid case to be made to extend Help to Buy to older people who face a similar 'affordability gap' as first time buyers: some older people may wish to move into retirement housing, but the amount they sell their home for may fall short of the cost of retirement properties (which are often in better locations and built to the latest design standards) in their local area. The APPG concluded that they saw

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[47] State Revenue Office, Victoria, 'Pensioner duty exemption or concession', 2017, www.sro.vic.gov.au/pensioner-duty-exemptions-or-concessions (accessed 24 Oct 2017).
[48] D Wainwright, 'Help to Buy scheme's impact revealed', BBC News, 15 Feb 2017, www.bbc.co.uk/news/uk-england-38330552 (accessed 18 Oct 2017).
[49] Wood, *The Affordability of Retirement Housing*.

> *no reason why the Help to Buy facility… on the same favourable terms, might not be targeted more directly at older people… to kick-start an enlarged house building programme for older downsizers... The difficulties older people encounter in accessing mortgage lending, even when they can afford the repayments, excludes many older people from moving.*[50]

This could certainly help many older people on the 'cusp' of affordability (those whose own homes fall just short of the purchase price of a retirement property) to be able to move to more appropriate housing, and could therefore stimulate the retirement housing market in areas where not much is currently being built – the same APPG report commented on a North–South split in the retirement properties available for rent rather than for sale, and cited developers who had given expert evidence saying that it was economically unviable to build in some areas. In areas where older people have smaller amounts of housing equity, an equity loan option could encourage many more older people planning to buy and the subsequent spread of retirement housing options – and with it the benefits to older people's health and wellbeing, and a boost to entire local housing markets.

This policy would come at a cost – but there is no reason to think this would not have the same impact on the retirement housing market as Help to Buy has had on the mainstream housing market, where the cost is viewed as entirely justified. A boost of new build *at any point* in the housing chain is of benefit to the UK given the extent of the shortages we face, but the case to target such stimulus at the top of the ladder cannot be disputed: there is clear evidence of unmet demand and significant latent interest among older people, and for every older person who is able to move into retirement housing thanks to an equity loan, there will be a domino effect of moves as they vacate their family-sized property. Evidence suggests these chains usually end in a first time buyer being able to move into a vacated property – helping 'generation rent' and reinforcing the government's objective of the original Help to Buy policy.[51]

Option 3 A lower cap on care costs

An overhaul of the care system is on the horizon. Local authorities are struggling to cope with an ageing population, with greater levels of social care need than ever before. In his influential 2011 report, Andrew

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[50] Ibid.

[51] Housing LIN, 'The positive impact on the housing chain of moving into retirement housing in later life', 2017.

Dilnot suggested a cap on care costs – a limit on an individual's spending – such that when a person reaches the cap amount the state covers all remaining care costs.[52] Dilnot had suggested a cap of £35,000, but a £75,000 cap was pledged by the Cameron government and nevertheless postponed ahead of its introduction. The policy is being reviewed under May's leadership following scrutiny of the policy during the 2017 general election, however an anonymous 'senior government source' told the *Daily Mail* in October 2017 that the cap policy was likely to be postponed for several years, with the government looking at care insurance options instead. A green paper is said to have been delayed until summer 2018.[53]

One option is that if a care cap is indeed introduced in the longer term, then people who move into retirement developments could have their care costs capped at a lower level – if they need care they would not have to pay as much out of their own pocket before the state stepped in to foot the bill. Alternatively, should a state authorised 'care insurance' model be developed, those who move into retirement developments could have their contributions reduced. Both of these measures would be justified by the proven inverse relationship between the use of all forms of retirement housing and the need for social care. As discussed in the introduction and further in chapter 3, retirement housing has been shown to reduce a person's health and social care needs. For example, people living in retirement housing are less likely to have accidents (such as falls) in the home, they experience fewer unplanned hospital admissions and are able to return home more quickly from any unplanned stays than older people in mainstream housing. Ultimately this delays their possible need for residential care, and for every year a person postpones moving into residential care the state saves on average £28,080.[54]

Older people could be incentivised to move, and rewarded for moving, into retirement housing by being given a lower care cap or insurance premium than the rest of the pensioner population. As with a stamp duty exemption, a lowered care cap or insurance premium for people who move to retirement housing is a policy that could pay for itself. Chapter 1 sets out some of the findings from various studies quantifying the health and care savings associated with different types of retirement

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[52] A Dilnot, *Fairer Care Funding: The report of the Commission on Funding of Care and Support*, 2011.

[53] D Martin and J Groves, 'Tories ditch plan to cap care home fees by 2020: scandal of bills eating into inheritance to continue as policy is officially abandoned', *Mail Online*, 8 Oct 2017, www.dailymail.co.uk/news/article-4961110/Tories-ditch-plan-cap-care-home-fees-2020.html (accessed 18 Oct 2017).

[54] Wood, *The Top of the Ladder*.

development. The Frontier Economics study on retirement housing estimates that £3,525 is saved per year to the care system for each person living in this type of development.[55] A reduction of an older person's cap of say £10,000 – clawed back by less than three years of an older person living in retirement housing – seems entirely feasible.

However, research has shown that there is strikingly low public awareness of the likelihood of needing care in older age, of the potential costs of that care, and of the division of responsibility for meeting those costs between the state and the individual.[56] Over 40 per cent of respondents to a Demos survey of the general public in August 2017 believed that if they needed care in the future that it would be free, or did not know if it would be free or not – despite the significant coverage the issue gained this summer as part of the coverage of the Conservative government's controversial manifesto election pledge. Unless there is a significant increase in the levels of awareness of the likelihood of needing care and scale of the payments one might have to make, these measures will not encourage many people to make the move into retirement housing. We return to the issue of advice, information and general awareness raising among the older population in the following section.

Measures to address practical barriers to moving

Although they are less frequently discussed in existing research and in policy circles, practical barriers often play a significant role in preventing older people from moving. Many people consider moving house to be one of life's most stressful events. The practical process of selling one's current home, clearing out unwanted items, dealing with utility companies and making the move can be physically and mentally exhausting. Moving to a new house can be particularly demanding for older people, who may have to deal with a vast amount of possessions, might not be in good health and may lack family and friends to help them.[57] One participant in our focus groups who lived in mainstream housing said that his wife was already worried about what would happen if he died and she needed to move. In polling conducted for *The Top of the Ladder*, we found this practical barrier to moving became more significant as the respondent aged – suggesting the basic physical

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[55] Financial benefits of investment in specialist housing for vulnerable and older people, HCA, 2010 figure updated for 2010-17 using CPI inflation to reach £3,525 a year https://www.frontier-economics.com/documents/2014/06/financial-benefits-of-investment-frontier-report.pdf

[56] L Mayhew and D O'Leary, *Unlocking The Potential*, Demos, 2014, https://www.demos.co.uk/files/Unlocking_potential_-_web.pdf?1393180449 (accessed 18 Oct 2017).

[57] Wood, *The Top of the Ladder*.

exertion of moving property was a major stumbling block. In that polling, the main reasons why people felt it would be difficult to move were as follows:

- The process of packing up all my belongings would be too stressful (50 per cent).
- It would be too expensive (45 per cent).
- I would find it physically difficult (29 per cent).
- There are no suitable properties available (26 per cent).

Physical difficulty and stress of moving were highlighted more by older people, while expense was highlighted more by younger people. The process of packing and moving seemed to put people off the idea the most, with 63 per cent of people who would not choose to move highlighting this as a barrier, compared with only 41 per cent of people who would consider moving.[58] Comments in our focus groups echoed these sentiments:

> *We might all be able to do a move now but in another five or ten years... Things then start, what appears to be easy now will become difficult.*
>
> Female, London

Option 1 Practical assistance with the selling and moving process

Retirement housing providers could offer practical assistance with the moving process to those moving in, at low or no cost. This package could include help with 'rightsizing' (choosing what to keep and what to dispose of in the downsizing process), arranging disposal of unwanted items, a packing and unpacking service, help connecting utilities and even overseeing the sale of the current home.

Many developers – such as Renaissance Retirement, PegasusLife, Churchill Retirement Living and McCarthy & Stone – already offer a free of charge moving service for every customer buying one of their new homes, offering assistance with packing, removals, delivery and unpacking.[59] Parallels can be seen in many other industries – such as

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[58] Ibid

[59] McCarthy & Stone, 'Moving home is easier with Smooth Move', 2017, https://www.mccarthyandstone.co.uk/how-we-help/smooth-move/ (accessed 24 Oct 2017); Renaissance Retirement, 'SmoothMove – free national moving service, 2017,

banks and utility companies who help arrange the transfer of accounts and oversee the administrative side of swapping providers for new customers. It seems entirely logical for retirement housing staff, with considerable experience of the practical and administrative practicalities of moving home, to offer an assistance package to prospective customers as another way to encourage them to purchase a new home.

Practical assistance could also reduce the financial burden of moving. As discussed in the previous section, moving can be costly – solicitor's and estate agent's fees, removals services, stamp duty and so on quickly add up, so people on lower incomes can be put off simply by the costs involved. Indeed, one participant in our research who had made the move into retirement housing said that he had paid £45 an hour for two people to help him decide what to keep and what to dispose of when he downsized, but not everyone can afford these services. By offering them as part of the purchase of a property, older people would no longer be put off by all of the small one-off costs – which may not be unaffordable per se, but which contribute to their reluctance to move.

Box 4 What older people would most like help with if they moved into a retirement property

Older people in our focus groups were asked to consider what they would most like help with if they moved into a retirement property. In order of importance, these were:

1 Packing and unpacking:

I would want help packing

Male, Birmingham

2 Notifying energy suppliers and other utility companies:

They can write to everyone who needs writing to 'cause that is just most people continuing to live in the same place because they just cannot face the thought of, even begin to face the thought of, moving.

Female, London

3 Rightsizing (decluttering, helping to choose what to keep and what to get rid

https://www.renaissancegroup.co.uk/smooth-move-making-your-move-easy (accessed 24 Oct 2017).

of):

I wouldn't want to take everything with me, I'd want it sorted and it would only be me who would want to sort it. I don't want any pressure.

Male, Leeds

4 Selling current property:

I think that the buying and selling is not so bad because you got time on that but the physical thing of going from A to B is worse.

Female, London

Two other activities that appealed to some were cleaning of the property after the move and arranging disposal of unwanted items.

Flexibility is key to making the most of this incentive. Our evidence shows that people's preferences regarding what they would want assistance with varies enormously, although a packing and unpacking service and assistance with notifying energy suppliers, banks and others were found to have the widest appeal (see box 4). Developers could offer a wide range of assistance, allowing people to opt in and out of different elements according to their preferences. More thought could be given to practical help that would incentivise the younger old to move (or be less concerned by the physical process of moving), as well as the older old.

Boxes 5–7 give some examples of practical assistance offered by some developers.

Box 5 An example of practical assistance already offered – Churchill Retirement Living

Churchill offers a range of services, some free and some at a cost.
Move With Ease
This is a removals service offering a range of options, including:

- a packing and unpacking service
- a personal move coordinator
- guidance on rightsizing
- support on moving day

Selling Made Easy
Through this service Churchill can take charge of liaising with estate agents on behalf of the customer, aiming to achieve a sale on the existing property in six weeks by ensuring that it is well marketed and that viewings are arranged as quickly as possible. It also offers £2,000 towards the estate agent's fees, £500 towards the solicitor's fees and a free energy performance certificate.

Home Exchange
Churchill provides this service as an alternative to selling the current property on the open market. Churchill obtains independent valuations of the property and makes the customer an offer based on them. The customer therefore has a guaranteed buyer, there is no possibility of buyer withdrawal and the estate agent's fees are eliminated, although the offer made is below market value.

Box 6 An example of practical assistance already offered – Renaissance Retirement SmoothMove

Renaissance offers the complementary removals package SmoothMove for everyone who purchases one of their apartments. It includes:

- assisting in organising and planning the move
- helping to de-clutter, under their guidance, the individual's current home
- planning and organising furniture removal, including ensuring it will fit in the new property
- changing addresses and utility providers
- planning travel arrangements, including booking overnight stay in the retirement community's guest suite if necessary
- unpacking, putting away belongings, making the bed, setting up the TV, putting clothes in wardrobes and unpacking the kitchenware and food stuffs

Box 7 An example of practical assistance already offered – PegasusLife

PegasusLife offers a removals service – House to Home – which includes packing and unpacking, de-cluttering and so on. They also offer two additional services designed to help older people sell their homes:

- The scheme Assisted Move, in conjunction with Savills, whereby Savills arranges an independent appraisal of the purchaser's property along with their own market research and pricing recommendations and provide purchasers with a comprehensive report. Once agreed, Savills appoints two estate agents to market the property and get the best price possible.
- The scheme Home Exchange, which allows people to sell their current properties without putting the house on the open market. PegasusLife's partner PXP contacts the seller, values the property and carries out local market research, and then makes an offer. If the older person decides to accept the offer there is no chain, but a guaranteed buyer and completion date, and a saving on estate agent fees.

Option 2 Information, advice and raising awareness

General awareness raising

Awareness and understanding of retirement housing in the UK is low, with different terminology used (eg retirement homes, sheltered or warden assisted housing) and often conflation between these and residential care (care homes). At the start of our focus groups with older people living in mainstream housing, we asked participants to rate their knowledge of retirement housing out of 5, where 0 indicated that they knew nothing about it and 5 indicated that they thought they were well informed about it. Of 22 participants 10 gave scores of 0/5 or 1/5, and only 4 out of 22 rated their knowledge at 4/5 or 5/5. Furthermore, many people downgraded their scores once the Demos researcher explained the concept of retirement housing, as they realised that they had been mistaken about what it was (eg some thought that retirement housing was another term for residential care).

However, evidence suggests that with better understanding comes more positive views of this type of housing, and interest in it as an option for the future. In two of our three focus groups with people not living in retirement housing, the number who said they would consider moving into it increased over the course of the discussion (and in the third the number stayed the same). One participant commented in the middle of a discussion:

> *Can I just say this – it's definitely not for me now, but I'm definitely going to go and find out how much these places cost… I want to have a figure in my head.*

Male, Leeds

To boost the currently limited understanding of retirement housing options, the government needs to consider seriously the role of housing within wider pensions and financial planning. With the forthcoming care green paper, there may well be a new care funding settlement on the horizon –which would likely require most older people to pay for most of their care up to an upper limit. This requires substantial investment by the government in awareness raising and an up-scaling of advice services, so that older people can prepare financially for paying for their care in later life. Housing options need to be a central feature of this advice. Options to enable people to pay for care include care insurance and equity release products, and the possibility of downsizing in some way. Indeed, forthcoming polling by Demos has found that when asked 'how would you pay for care in later life?' downsizing was the single most popular option, chosen by 30 per cent of respondents.[60] We know, however, that only a fraction of this number ever do downsize (whether into a retirement development or not) so this avenue to pay for care in later life is closed off to them. When promoting pensions and care cost planning, the government needs to recognise the vital role of housing assets in supporting retirement costs. Equity release will go some way to unlocking this capital, but is not for everyone. Standard housing advice – options for downsizing and retirement housing – will be just as, if not more, important as a form of financial advice in later life.

Housing developers also can do their part. Specialist housing needs to become more visible in general: local authorities, mainstream estate agencies, even aspirational lifestyle magazines and television shows could all give retirement developments greater prominence in the public psyche. With this in mind, retirement developers could enhance their links with and 'visibility' among local communities and professionals who come into contact with older people. For example, before a new

[60] S Vibert and C Wood, *A Good Retirement*, Demos, 2017 (forthcoming).

development opens the developer could hold an open evening for local stakeholders and professionals – including mainstream estate agents, local councillors, advice centres, relevant local charity branches (eg Age UK), GPs, health and social care commissioners, and more – so that this wide range of professionals have a better understanding of what the development is and what it offers in the local community. Guided tours for older people, and opportunities to use a development's facilities, are two further more direct ways of using word of mouth to spread awareness of what developments have to offer – we consider these further in the following section.

Providers could also develop a briefing document that explains retirement housing for professionals who advise older people. This sort of document has been produced by Churchill Retirement Living for planning and development professionals, and has been well received.[61] A version that included an explanation of all forms of retirement development (the Churchill report focuses mainly on retirement housing, rather than downsizer, extra care or village developments) for mainstream estate agents and older people's advice services would be a valuable addition.

With greater familiarity with retirement housing, local stakeholders and professionals would be able to speak more confidently about it to older people who might not have otherwise considered it. For example, when an older person is considering a move and has their house valued, their estate agent would be more aware of retirement homes up for sale or rent in the area. Similarly, equity release providers (who are required to promote alternatives to their products) could discuss the merits of downsizing into different types of retirement development versus equity release. The aim would not be to encourage stakeholders and professionals to *promote* retirement housing per se, but simply to enable them to have a conversation about it – something currently prevented by lack of awareness.

There is potential for simple awareness raising to widen considerably the pool of people interested in retirement housing. Elevating its status, breaking associations with loss of independence and old age, and making it something to aspire to are all elements of a shift in public thinking, which is desperately needed. Information and guidance about how to choose a retirement property, its terminology and so on of course add value, but it is important also that not just niche groups but all older

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[61] S Clark, *Retirement Living Explained: A guide for planning and design professionals*, Churchill Retirement Living, 2017, https://www.churchillretirement.co.uk/assets/Retirement-Living-Explained-Planning-Report-web.pdf (accessed 24 Oct 2017).

people consider the possibility of moving into specialist retirement property in later life.

Unfortunately, awareness raising is no simple task. Without significant investment and/or government support, it is a gradual and piecemeal process, relying on the cumulative impact of a range of small-scale, often local activities. In the immediate term, developers can do their part by encouraging a 'porous' and 'visible' relationship with their communities – inviting everyone from estate agents to financial advisers and GPs into developments, as well as making development facilities accessible to older people living in the community (as we explain below).

Tackling perceptions of service charges

Older people considering a move into retirement housing are sometimes dissuaded by the prospect of service charges, which are used to pay for buildings insurance, maintenance and cleaning of communal areas and grounds, and any extra services provided (eg support staff on site). Service charges are not unique to retirement developments, but they are typically higher than in mainstream housing as communal areas and grounds are more extensive and additional services are provided (extra-care-type developments have particularly high service charges).

Older people who would be motivated to move into retirement housing partly to free up cash may consider it self-defeating if they then have to pay a significant amount of this cash back each week or month in service charges – more than one participant in our focus group likened them to 'having another mortgage'.

However, evidence shows that these charges are consistently lower than the equivalent heating and upkeep of an average older person's home and garden (box 8). It is vital to disseminate this information, be transparent about what service charges are used for, and demonstrate value for money in a range of accessible ways (eg using cost calculators) in order to tackle misconceptions about service charges and to encourage more older people to move to retirement housing. For example, McCarthy & Stone has a 'budget planner', which identifies everyday costs covered by service charges and allows potential customers to fill in their other costs to make like for like comparisons. The company also has a list of items included in service charges and explanatory videos to give people a clearer idea of how service charges work.[62]

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[62] McCarthy & Stone, 'What's included in your service charge', 2017, https://www.mccarthyandstone.co.uk/how-we-help/service-charge/ (accessed 24 Oct 2017).

Box 8 The value for money of service changes demonstrated by the estimated annual savings of downsizing to a retirement property

Research by PWC, commissioned by Hanover, found that downsizers could benefit from annual savings of between £1,530 and £5,765. This was based on downsizing from a typical three-bedroom house to a typical Hanover retirement housing property. The range depends on whether their previous property was owned outright, had a mortgage or was rented.

In a typical three-bedroom home, without a mortgage, costs amount to an average of £604 per month. These can be broken down into regular and cyclical costs:

Regular monthly costs = £387, made up of:

- home insurance £17
- council tax £124
- utilities (gas, electric and water) £147
- boiler and heating cover £11
- phone and broadband £20
- TV licence £13
- digital TV £13
- grounds maintenance £43

Cyclical monthly costs = £218, made up of:

- day to day small repairs or jobs £24
- external decoration £37
- internal decoration £30
- major works £114
- adaptations £13

In a two-bedroom leasehold Hanover property costs amounted to an average £477 per month. These can be broken down as follows:

Regular monthly costs = £304, made up of:

- home insurance £5
- council tax £97
- utilities (gas, electric and water) £114
- boiler and heating cover £11
- phone and broadband £20
- TV licence £13
- digital TV £13
- service charges £33

Cyclical monthly costs = £173, made up of:

- day to day small repairs or jobs £24
- external decoration £18
- internal decoration £30
- major works £93
- adaptations £8

The difference between the combined monthly costs results in an overall monthly saving of £128 per month, equating to an annual saving of £1,530.

Savings rose to £3,930 a year if the previous property had a mortgage of £200 per month. Savings rose further to £5,795 per year if the downsizer was moving from a privately rented three-bedroom house to a rented two-bedroom Hanover property.

Developers need to make the information presented in box 8 far more widely known – a concerted effort needs to be made to show potential customers that developers are transparent on this issue and that the numbers speak for themselves: people who downsize reduce (often radically) the maintenance and utility costs they would otherwise be spending on the upkeep of their mainstream family homes, and that the care packages offered by housing with care developers are good value thanks to economies of scale that can be achieved. Engaging more fully with older people on the issue of service charges is likely to reap significant rewards. Our focus groups show that when asked to weigh up a move into retirement housing, people are more put off by service charges than they are attracted to a stamp duty exemption. Misconceptions and suspicion can be combated through transparency and openness about how charges work and what they cover.

> *But there was bad press about this recently, wasn't [there], about what you pay for.*

Male, London

If this sort of information was combined with the outreach measures outlined above, it could have a big impact. Developers could also work with independent and trusted advice services (such as First Stop, Citizen’s Advice or even Which?) in designing an information sheet or cost savings calculator regarding service charges to disseminate this information more widely. See box 9.

Box 9 Information and advice that is helpful to older people

These are the kinds of information and advice our research suggested would be helpful to older people:

- a summary of what retirement housing is, its advantages and disadvantages, and a guide to the terminology used
- a discussion of service charges, as perceptions of service charges are a big concern for many older people, and widely considered to offer poor value for money; service providers should state clearly why service charges are typically higher in retirement housing than mainstream housing, for example setting out what additional services are provided, break them down clearly and justify them so that people can judge for themselves whether or not they provide value for money
- factors to consider when deciding whether or not retirement housing is right for them, including financial and care-related considerations, including information on the benefits that can be used to make retirement housing more affordable (eg Pension Credit, which is frequently under-claimed)
- personalised assistance in picking the correct property

Measures to address psychological barriers

Research has shown that there is a range of psychological barriers that can prevent people from considering a move into retirement housing. These barriers include the sentimental value attached to their current property and local area, the association of retirement housing with institutionalisation, old age and frailty, and straightforward fear of the unknown. For example, in *The Top of the Ladder* (2013) Demos found that 1 in 5 people would rule out a move to retirement housing because of their attachment to their existing property or local area, with similar findings reported in research by the ILC.[63]

Policy makers do not frequently discuss measures to address emotional barriers that prevent people moving into retirement housing in policy research in this field, although they are aware of them. This is most likely a reflection of the difficulty of the task, but there are some existing innovations that could help. First and foremost, it is worth bearing in mind that some of the practical measures outlined above, such as help with moving and providing transparent information about service charges and so on, does much to ease people's misgivings. Having someone to oversee the moving process, tackling seemingly overwhelming jobs and

[63] Beach, *Village Life, Independence, Loneliness and Quality of Life in Retirement Villages with Extra Care*? http://www.ilcuk.org.uk/files/Village_Life_ILC-UK_Report.pdf

‘holding your hand’ during this period should not just be seen as a form of giving practical help, but as an important way to provide emotional support. This aspect of the support could be emphasised more – perhaps with a ‘key person’ assigned to prospective buyers who provides end to end support, from initial viewing through the purchasing and moving phase, and helping after a move with the settling-in process and ironing out any niggles.

Further options may include enabling older people to ‘test drive’ retirement properties and to become part of the community life of particular developments, as discussed below.

Option 1 Enabling older people to ‘test drive’ retirement properties

Providers could offer older people interested in specialist property the opportunity to have a short stay in a property or guest suite of a retirement village, downsizer apartment, extra care village or so on of their choice. This would give people first-hand experience of what it would be like to live there. People looking into retirement housing typically attend viewings of different properties to decide whether this kind of housing is right for them. However, viewings can only do so much in addressing a person’s apprehension of living in such a setting day in, day out. Being able to stay in the property for a few days could offer a greater opportunity for these fears to be addressed, enabling people to experience daily life and some of the upsides to retirement housing that they might not have previously considered. It may help people to visualise themselves living in the property in a way that a short viewing cannot. Retirement developers frequently report that people who move into their developments state they ‘wished they had made the move years ago’ – an insight that can only be made once someone moves in and lives there, but a short ‘taster’ visit could potentially provoke that feeling and help reassure and encourage older people interested in, but perhaps slightly wary of, a move into new type of accommodation.

This idea had almost universal appeal in our focus groups, with comments such as it being a ‘really positive idea’ (male, Leeds) and that it would ‘eliminate a lot of preconceived ideas’ (male, Birmingham) being typical. This measure was even very popular among those who had initially said that they definitely would not consider moving into retirement housing, as there was nothing to lose but something to possibly gain:

A week, I think that is an excellent idea. I would, I would definitely be willing to try that because you would either walk out saying definitely not, or actually that wasn't too bad.

Female, Birmingham

One person commented on the poor logic of being able to test drive a car, but having to decide on 'the biggest expense of your life in 12 seconds' (female, London).

However, such an offer may prove logistically challenging, given most retirement developments are full and operate waiting lists. Properties are not often furnished (by their very nature, downsizing older people bring more than enough furniture with them), which may make it difficult for visitors to stay in empty properties unless they were furnished as show homes of some sort. However, many development have guest suites, which could possibly be used for such a purpose when not being used by guests of people who already live there. Some developers may even see there being value in keeping one property reserved precisely for the use of prospective purchasers – perhaps in one development per region. McCarthy & Stone has a 'Try Before You Buy' scheme, which does just this. The company has a furnished apartment kept free in each new development which is offered to people for a complimentary two-night stay to 'experience the lifestyle'.[64]

Out of all the possible incentives discussed in this report, allowing people to 'test drive' retirement housing has the greatest potential to encourage people to make a move. It tackles people's lack of understanding of this form of housing and overcomes fears of the unknown – making it both informative and reassuring. However, the cost and logistical challenge of maintaining an empty furnished apartment, staffing the scheme and so on could be a barrier to its implementation, though some providers' developments may make this more feasible than others.

Option 2 Enabling people to become part of community life

Rather than having potential customers to stay, housing developers could offer the opportunity for older people in the local community to participate in some of the social activities taking place in their developments. When deciding whether to make the move into

[64] McCarthy & Stone, 'Try before you buy and experience the lifestyle for yourself', 2017, https://www.mccarthyandstone.co.uk/how-we-help/experience-the-lifestyle/ (accessed 24 Oct 2017).

retirement housing, or when settling on a particular property, an important aspect of an individual's decision concerns whether they will 'get on with' the other people living in that development. Our research found that given one of the selling points of retirement housing is that there is a social side to the experience, facilitated by large communal areas, people would want to be reassured that they would enjoy the company and get on with other people living in the development: 'You don't want the neighbours from hell, do you' (female, London).

Most developers offer tours, but these may provide prospective buyers with limited opportunity to engage with people currently living in the development. Greater opportunities for people to meet current occupiers and weigh up whether they would enjoy the community aspect of life in the development could make people feel more fully informed and confident about their decision-making, and therefore more willing to make a move.

Importantly, this ought to be offered not as a 'tour for prospective buyers', but as a social offer to older people in the surrounding areas – inviting people through other social clubs (everything from U3A to the British Legion and local groups) to come in for particular events. It would be a relatively low cost way for providers to improve local awareness, word of mouth and visibility of developments among older people living in the surrounding area. The majority of people in our focus groups felt this approach would be a positive step, providing a new opportunity to socialise for older people living in the community (whose options may be limited in some areas) as well as enabling them to see daily life in retirement developments first hand. Previous Demos research found that 38 per cent of the over 55s in the study felt there were adequate social opportunities for people their age in their community, compared with 73 per cent of McCarthy & Stone residents asked the same question.[65] One focus group participant commented that it would 'give a good flavour of the place' (female, Birmingham) while another participant liked the idea of being able to 'talk to people who are already there, and get their input' (male, Birmingham).

Those who have never considered moving into specialist housing (and who perhaps would not opt for a formal tour or a 'try before you buy' stay) might come into contact with developments through these social engagements, so they would have greater impact than traditional outreach activity. This could also help those already living in retirement developments to form new social networks with their contemporaries in the community, for mutual benefit. For those developments where it would not be viable to keep a furnished apartment free for interested

[65] Wood and Salter, *Building Companionship.*

customers to have short stays, this could be a good alternative to raise awareness and give many more older people a flavour of the life in their developments. Of course, there is a chance that older people living in retirement developments may not want an influx of people from the local area coming in to use communal facilities and gardens or take part in their activities, particularly where strong social bonds have been formed internally. Consulting on what exactly would be appropriate and desirable with residents' committees would be essential.

Conclusion: our recommended package of support for older people

In this chapter we have discussed seven incentives or measures that encourage and support older people move into retirement property:

- financial incentives:
  - giving a stamp duty exemption
  - providing equity loans
  - offering a lower cap on care costs
- practical support:
  - giving practical assistance with the selling and moving process
  - raising awareness and providing advice
  - making comprehensive information and advice around service charges more readily available
- emotional support:
  - enabling older people to 'test drive the property'
  - giving further opportunities for people to engage with the community inside developments

We can broadly divide the above into policy suggestions the government would need to consider (financial incentives), actions the retirement housing industry could implement (practical and emotional support) and areas where a combined effort would be more effective (providing information and advice).

In line with previous research, our evidence suggests that none of these measures in isolation will encourage older people to move into retirement housing – government and industry need to work together to create a holistic package for older people.

We believe the government ought to consider *as a priority*:

- a trial implementation of stamp duty exemption (for those older people on lower value properties first)
- a regional trial of equity loans (again, in areas most likely to benefit from this option)
- rationalisation of older people's advice in line with future new care funding rules so that pensions, care funding, and housing advice on downsizing and retirement housing (and the role of housing assets) are all part of a combined advice offer.

We believe developers should:

- explain how service charges provide value for money of service in an accessible, transparent way; this is a low cost and highly effective step that can be taken immediately
- expand practical moving services across the sector
- consider providing 'try before you buy' offers where feasible
- prioritise more open and 'porous' developments where there is greater awareness and word of mouth among not just older people living nearby, but also GPs, estate agents and so on

3 UNLOCKING SUPPLY

In this section we consider what is arguably the more critical aspect of the retirement housing policy challenge – barriers to greater supply. By that, we mean both the rate at which retirement housing is built by current developers, and the lack of new developers coming into this market.

As we outline above, in many areas demand for retirement housing is already outstripping supply. Many developers have waiting lists for their developments and struggle to build new ones quickly enough to meet demand. Indeed, some told us through the course of this project that while considering how to encourage older people to move to retirement housing was all well and good, the reality was that without concrete action to unlock barriers to supply such 'demand-side' measures would be moot, perhaps even unhelpful.

So what is the scale of the problem? As outlined in chapter 1, build rates have levelled off in recent years to around 7,200 units per year,[66] a fraction of a percentage of the total housing volume built and a drop in the ocean when compared with the number of older people who

66 Inspired Villages, *The Right Size Report*.

express an interest in retirement housing. As successive polling shows that around 25 per cent of older people say they would like to *buy* a retirement property, analysis suggests there are only enough units for 2.7 per cent to do so in the current market. This 25 per cent is the equivalent of 2.95 million people; if they were all to be accommodated in retirement housing, around 30,000 units would need to be built annually.[67] The current market delivers less than a third of what is needed, so the gap between demand and supply is growing each year.

With that in mind, we must conclude that while encouraging interested older people to move into retirement housing is beneficial *per se* (given the financial and health benefits to the individual, and the fact that it eases the housing pressure on the working age population), policy makers must prioritise measures to free up supply.

In *The Top of the Ladder*, we identified two main factors that constricted supply. The first was the omission of older people as a distinct housing need group in the national guidance for local authorities' local development plans. As a result the vast majority of local plans are full of references to affordable and first time buyer properties and the need to prioritise these when granting planning permission, making no mention of older people's housing requirements. As a result, developers can struggle to gain planning permission without specific local guidance to refer to, often having to appeal against planning decisions. While the majority of these appeals are successful, the process delays building, adds to costs, and generates uncertainty for investors. An additional planning class – such as C2b – could help give retirement developers their own distinct status within local plans and planning documentation, with specific conditions or exemptions attached (see below).

The second factor constricting supply is the current charging structure – for many retirement housing developers this comes in the form of the CIL and affordable housing contributions (section 106 contributions). Some housing with care providers are eligible for C2 planning status – the same category as care homes – exempting them from these charges. However, we heard from some experts that developments designated C2 status in some areas were classed as C3 (the same as general needs housing) elsewhere, while some of those classed at C2 were still being charged CIL and/or section 106 contributions, at the discretion of the local authority.

[67] Knight Frank, 'Retirement housing 2016'.

Box 10 The Community Infrastructure Levy and section 106 agreements

The Community Infrastructure Levy (CIL) and section 106 agreements are legal obligations placed on new developments by local planning authorities. They are both designed to ensure that developers are contributing to the wider implications of new housing developments.

The Community Infrastructure Levy
The CIL is a tax charged on new developments. This includes new houses, new flats and any development that creates net additional floor space exceeding 100 square metres. The purpose of the levy is to help local authorities to deliver infrastructure support for new developments. Levy rates are expressed in pounds per square metre and are set by charging authorities, most commonly the local authority.

Section 106 agreements
These are obligations placed on developers under section 106 of the Town and Country Planning Act 1990. The section is usually used by local planning authorities to:

- secure affordable housing
- specify the type and timing of the housing
- secure financial contributions so the local authority can provide infrastructure and/or affordable housing

The purpose of the agreements is to ensure that new developments fit within existing plans for the local area or neighbourhood. In 2014, the government's planning practice guidance was amended to exempt development of ten units or fewer and developments of less than 1,000 square metres from the requirements to contribute to affordable housing. This measure was introduced with the aim of increasing housing supply. However, local councils objected to the loss of income these exemptions were expected to bring. The policy was temporarily withdrawn in August 2015 after a judicial review judged it incompatible with the statutory planning framework. However, the government reintroduced it in May 2016 after winning an appeal against the ruling.

Another recent development has been the Housing and Planning Act 2016. The legislation is designed to speed up section 106 negotiations by providing a dispute resolution process between developers and local planning authorities.

Which developers must meet CIL and section 106 obligations?
Developments with C3 planning status are normally required to meet CIL and section 106 obligations, while those with C2 planning status are often not required to do so. Retirement housing can have either C2 or C3 status – those with fewer facilities and shared areas (such as downsizer and retirement living apartments) are typically C3 while extra care and care village developments are often C2 (the same status given to residential care homes). Although C2 developments are often exempt from the CIL and section 106 contributions, this is at the discretion of

the planning authority.

The charging structure set out in box 10 disadvantages retirement developments disproportionately. The CIL is calculated per square metre, and retirement developments tend to have higher square meterage than general needs housing. This is in part due to the design of apartments (often following guidance from Housing our Ageing Population: Panel for Innovation (HAPPI),[68] which strives for natural light, lots of storage and space for older people), but more importantly because communal areas are included in retirement developments. Resident lounges, guest accommodation, cafes, gyms, communal storage, treatment rooms, staff accommodation and even medical facilities like GP surgeries are built into retirement developments. The space these take up adds to the square meterage of the development and final CIL cost, even though these spaces cannot be sold on their own and the costs cannot be clawed back. Up to 30–40 per cent of some retirement developments are 'unsellable' communal space. Compare that with a general needs apartment block, which may only have stair wells and corridors as 'unsellable' square meterage.

Another reason why the charging structure set out in box 10 disadvantages retirement developments disproportionately, a retirement developer may well have the same affordable housing obligation as a general needs housing developer – even though the former's costs are significantly higher in developing age-appropriate designs and a range of on-site facilities. Very few local authority adopted policies make any distinction between general housing and specialist retirement housing, with policies simply requiring that a set percentage of the total number of dwelling units should be affordable – typically around 40 per cent. These contributions often take the form of building affordable units on site, but as these are not age exclusive many retirement housing developers negotiate an 'off-site' (financial) contribution – instead of having to build apartments or houses that look very different from the rest of the development, potentially for young families, in a development where the average age is likely to be over 70. However, the rate of these off-site financial contributions are not set out clearly, and can lead to several months of protracted negotiation over exactly how much the developer will pay. The funds are then spent (and sometimes not spent[69]), often on community facilities such as schools, rather than more affordable homes, and certainly not necessarily on facilities for older people.

This already difficult situation for retirement developers may well deteriorate further, following a further consultation announced in the housing white paper. The government pledged to look at unfair leasehold contracts, including ground rents. The subsequent consultation document, published in July 2017, stated: 'We

[68] Housing our Ageing Population: Panel for Innovation (2009) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/378171/happi_final_report_-_031209.pdf

[69] A Peace, '£1bn of affordable homes payment remains unspent', *Estates Gazette*, 19 Mar 2017, https://www.estatesgazette.com/1bn-affordable-homes-payment-remains-unspent/ (accessed 24 Oct 2017).

are minded to introduce measures limiting ground rents in new leases to start and remain at a "peppercorn" (zero financial) level.'[70]

As many retirement housing developments are made up of blocks of leasehold apartments, ground rents are a standard charge for those who live there. One of the benefits of their use is that they encourage the freeholder (usually a professional body) to have oversight of the development, and carry out repairs and maintenance, uphold fire regulations and so on. This is often a much more effective way of managing a whole development over the longer term than having individual leaseholders (with competing interests) try to arrange the maintenance of the common spaces and gardens of an entire development. The leasehold system is in fact central to the entire existence of many retirement developments, particularly where care is provided. If older people living in these schemes were not leaseholders and could appoint their own management company, they could easily opt out of the care and support packages that the developer is contractually obliged to provide on site, and other aspects of retirement life which are the core benefits of moving into these developments in the first place. Leasehold owners of course still can opt for a 'right to manage', but very few choose to do so in retirement housing, often because they do not want this added responsibility in later life and have actively bought into a scheme with specific facilities. Houses and apartments in villages could simply not be sold at the price they are currently, and care and support could not be delivered on site, unless everyone partakes of the same support package and contributes equally to the upkeep of the communal facilities.

For many retirement developments, the receipts from ground rents are a modest but important income stream, which in effect subsidises the sale price, and also provides developers with their only source of return on their communal floor space. While the ground rents levied by retirement developers do not fall into the 'abusive' category of ground rents (where rents double every ten years), which spurred the government's consultation on this matter, they would still be covered by the proposal effectively to scrap them. McCarthy & Stone's ground rent for its leasehold apartments is fairly typical of the sector – around £400–600 per year. (McCarthy & Stone charges a higher amount than the market average of £371 because retirement apartments are usually larger than general needs apartments.) The price increases usually at around the rate of inflation every 15 years. Their scrappage would lead to another reduction in the price retirement developers can pay for land relative to, say, retail developers.

Options to improve supply

As outlined in chapter 1, the housing white paper's assertion that new national guidance is imminent to ensure local plans include a specific

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[70] DCLG, *Tackling Unfair Practices in the Leasehold Market*, consultation paper, Department for Communities and Local Government, 2017, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/632108/Tackling_unfair_practices_in_the_leasehold_market.pdf (accessed 24 Oct 2017).

policy regarding older people's housing has led us in this paper to focus on the second major obstacle to supply – the charges levied on new developments, which we set out in box 10. These charges have a significant impact on the viability of retirement developments and the ability of developers to purchase land competitively.
In this chapter we set out some ways in which the supply of retirement developments (of the four types covered in this report) could be improved through reforming the current charging regime in a manner that adheres to three principles:

- Level the playing field between retirement and other forms of development, based on the very clear evidence of the former's social value.
- Recognise that consistency and transparency is key to a new charging regime, identified in our own research and clearly the spirit with which the 2016 review of the CIL has been carried out (see box 2).
- Recognise that the supply constraints in this market are the result not only of current developers struggling to build enough to meet demand, but also arise because very few developers operate in the market, which mainstream builders are unwilling to enter.

In the first section below we present new modelling, looking at the impact of CIL and section 106 affordable housing contributions, and then consider alternatives. Our discussion of potential options follows this analysis, and includes insight from housing experts and retirement developers whom we interviewed over the course of this project, asking them their views on the impact of CIL and section 106 contributions on the supply of their developments (see appendix 1 for full list of interviewees).

Modelling analysis

About the modelling

We have modelled the financial viability of three different retirement developments: retirement housing (for over 60s), extra care retirement housing (for over 70s) and continuing care or care villages. These have been benchmarked against four non-retirement options: general needs family, general needs flatted, C2 care homes and retail.

Our approach has been to create economic models for all eight options, which are sensitive to changes in the market price of properties, the percentage of units that have to be affordable (the section 106 requirement) and the CIL or LIT charge (per m^2). The model calculates the residual land value for all options; this enables us to assess how viable each of the options are under different assumptions about tax changes.

We chose a hypothetical location in the South East for many of our assumptions, for example, regarding CIL rates and land prices.

Box 11 Residual land value

Residual land value (RLV) is the sum of money developers have left to pay for land, taking into account the value of the future development and any costs. It is calculated as the future value of a development minus all costs of development, including profit.

We have analysed two main tax regimes:

- the current regime, combining CIL and section 106 obligations
- the tax regime proposed in the recent government review of developer contributions;[71] this would involve a LIT, which would apply to nearly all developments but at a lower rate than the current CIL, together with section 106 charges, which would apply only to larger developments (above ten units); see box 2 for a summary of this review

Through this analysis we are able to identify the 'tipping point' at which CIL (or LIT) and section 106 contributions need to be set in order to make retirement housing options competitive with other forms of development, levelling the playing field between all types of development. See sections 'Key findings 1' and 'Key findings 2' below.

A note about care villages

Retirement care villages differ somewhat from other forms of retirement development. They are low density developments with significant communal facilities, so they are not normally viable for a 0.4 hectare land area (as used in the modelling of the other three types of retirement development identified here). As village facilities take longer to build, and their communal facilities need to be built at the outset, there is greater risk to the capital borrowed to build such developments – many developers look to venture capital for investment, and as a result pay higher interest rates than many other developers in the market.

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[71] Community Infrastructure Levy Review Team, *A New Approach To Developer Contributions*, 2016, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf (accessed 24 Oct 2017).

To illustrate the potential impact of section 106 or the CIL on village style developments, we have adopted a slightly different approach.

In cooperation with members of the Home Builders Federation we have modelled a typical care village site, based on an appraisal of a live development, using an authority's current demand formula for open market housing. We have then changed the CIL or section 106 requirements to see how they affect the net profit as a percentage of gross development value (GDV) on the development. A net profit or GDV of 20 per cent is generally considered the minimum necessary for a development to be viable.

You can see our full analysis of both modelling approaches in appendix 2 (online).

Key findings 1 Modelling the impact of CIL and affordable housing contributions on retirement housing and extra care developments

Assumptions

Table 1 shows our assumptions when modelling the impact of CIL and affordable housing contributions on retirement housing and extra care developments.

Table 1 Assumptions about section 106 requirements and CIL rates for a single 0.4 hectare site in South East England

Local authority affordable housing requirement (s106) for retirement developments	30%
Local authority affordable housing requirements (s106) for other types of development	30%
CIL rate for retirement housing per m^2	£140
CIL rate for other housing developments per m^2	£140
CIL rate for retail units per m^2	£100
CIL rate for C2 care home	£0

Limitations

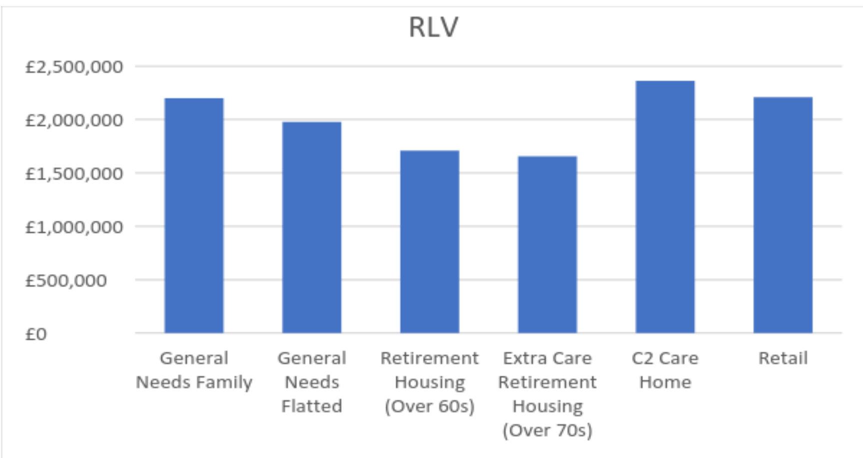
Our study has the following limitations:

- We have not carried out a similar analysis for different parts of the UK. There is no national picture as there is significant variation by local authority; therefore the results are not immediately transferable. However, in choosing an area that is plausible and reasonably representative we can still develop valuable conclusions about viability. With updated market values of properties, further analysis of different areas could be readily carried out.
- The assumption of a £140 per square metre CIL charge is reasonably conservative. In many areas with higher CILs, viability problems will be even worse.
- Where possible we have used the inputs from the previous modelling carried out by Planning Issues.
- The key variable we have analysed is the RLV for each development type (box 11). This is effectively the amount developers could afford to pay for land on the open market.
- We have factored into appraisals the retirement housing premium.

Findings

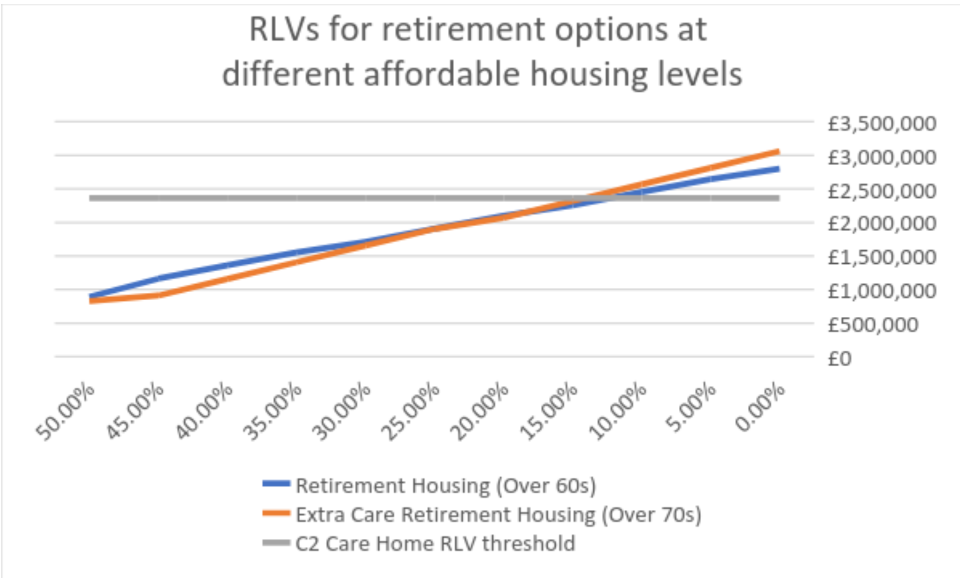
1 Under the current tax regime, retirement developments are at a clear disadvantage compared with other residential developments, care homes and retail developments. For a 0.4 hectare plot of land in the South East of England, under plausible assumptions about cost and revenue, care homes have the highest RLV (they can offer the highest purchase price), followed by retail developments, and then general needs family housing (figure 1). Retirement developments have an RLV worth on average £500,000–600,000 less than other developments, putting them at a significant disadvantage when developers bid for the same piece of land.

Figure 1 The RLV of different types of development, based on a hypothetical 0.4 hectare plot of land in the South East



2 The viability of developments is highly sensitive to the affordable housing requirements set under section 106 agreements. A lower affordable housing requirement for all types of retirement development (while those for other housing developments are kept constant) could easily level the playing field. According to our modelling, this would be achieved when the affordable housing requirement for retirement developments drops from 30 per cent (the figure we use in the modelling) to 10–15 per cent. Keeping CIL rates constant at £140 per square metre and changing section 106 contributions for retirement housing only, the point at which retirement housing can achieve the highest RLVs (same as care homes), is 10–15 per cent of section 106 contributions (figure 2).

Figure 2 RLVs for retirement options at different affordable housing levels

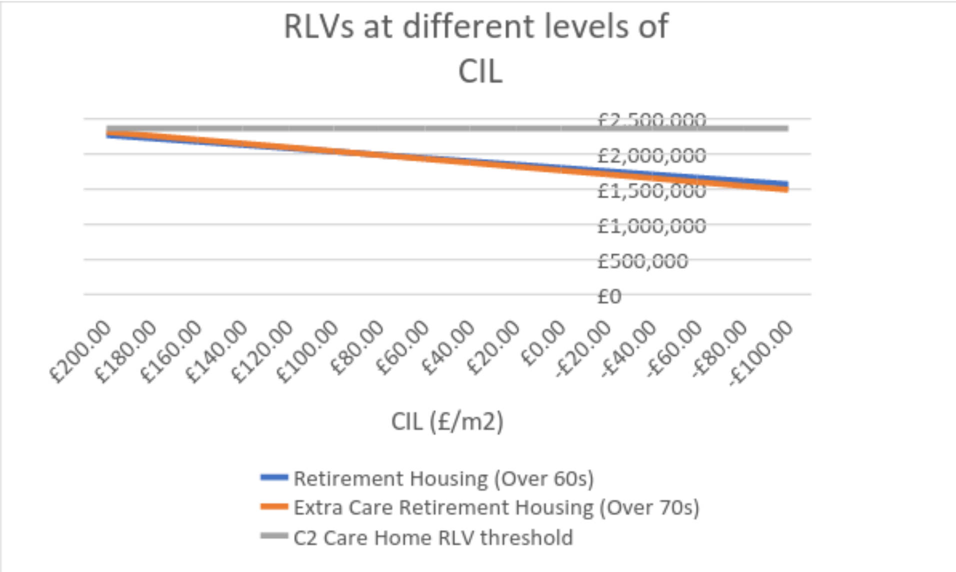


3 On the other hand, viability of retirement developments is not particularly sensitive to CIL rates. Even if retirement properties were exempt from the CIL, current section 106 requirements of around 30 per cent would mean that in many cases retirement developments of all types would still not be viable relative to care homes, general needs housing or retail developments. In fact, with a 30 per cent section 106 contribution, retirement developments *would need to be paid* £100 per square metre to become viable!

Paying the CIL on communal space is a significant disadvantage for retirement developments, as up to 30 per cent of the space of such developments is communal and to all extents and purposes unsellable.

Yet retirement developments would still be uncompetitive relative to other types of development even if communal space was exempt from the CIL, unless affordable housing contributions were also reduced. If section 106 contributions are constant at 30 per cent, and CIL rates are changed for retirement developments only, the point at which these developments can achieve the highest RLVs (the same as care homes) is □£100 per m^2 (figure 3).

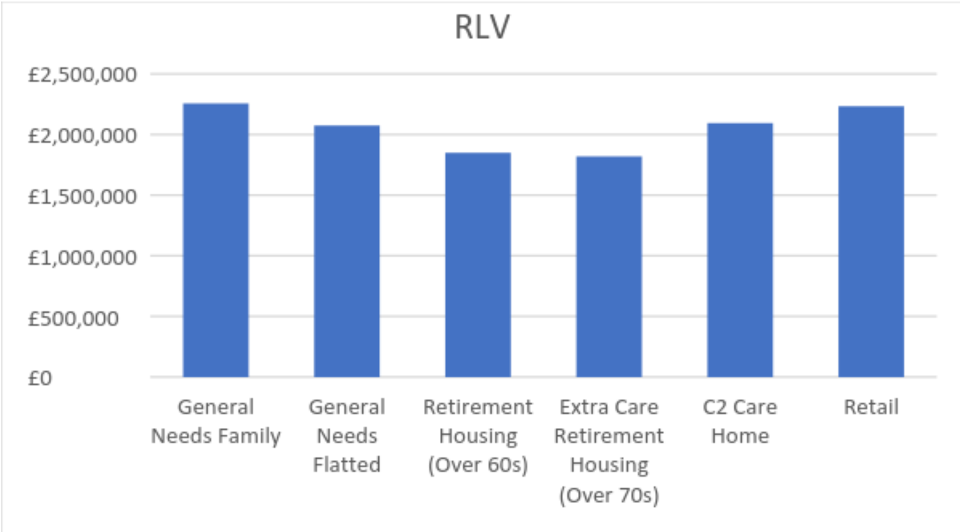
Figure 3 RLVs for retirement options at different levels of CIL



4 If the government replaced the CIL with a LIT, this would improve the viability of retirement developments to a degree, assuming a new LIT rate would be set lower than average CIL rates. It would also close the gap somewhat between different types of development, as it is suggested that LIT be applied universally across almost all developments (including care homes). However, a LIT model does not close the gap completely because, as figure 3 shows, viability is not particularly sensitive to this form of charging.

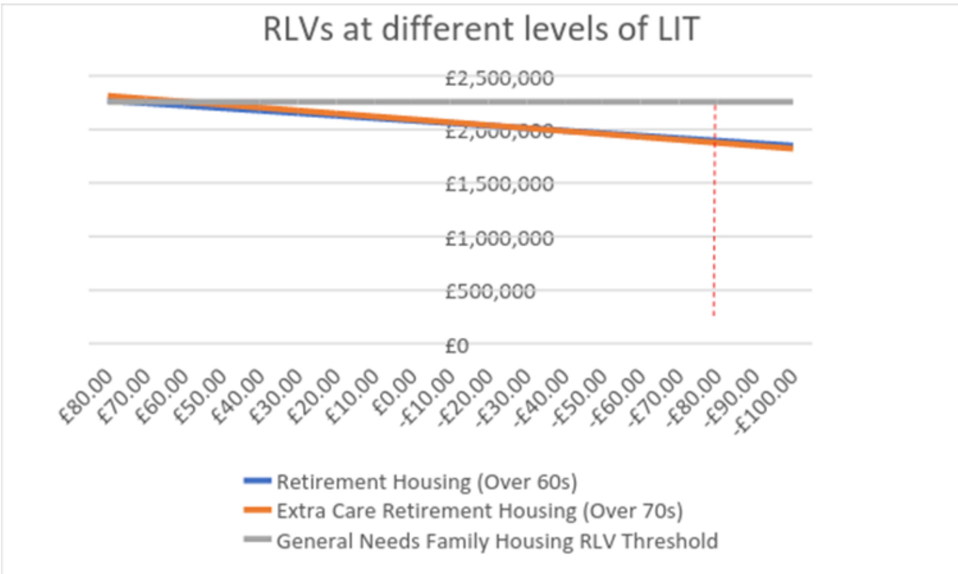
According to our modelling, general needs family housing and retail developments would still be the most viable in this system, while the extra care developments would be the least viable. The reason is clear: because the LIT would still be a per square metre charge, it would still tend to penalise developments with more communal spaces and lower density. Figure 4 shows the impact of a LIT level set at our reasonable assumption of £80/m^2 (lower than current CIL rates) on RLVs for retirement options.

Figure 4 The impact of a LIT set at £80/m2 combined with an affordable housing requirement of 30 per cent on RLVs for retirement options



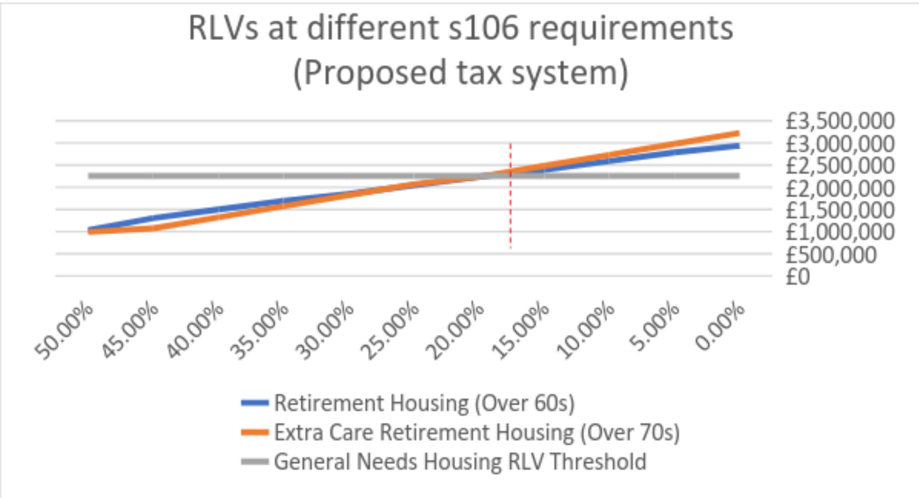
5 Under a LIT system, even if retirement developments were zero-rated (exempt), affordable housing requirements would still put them at a modest disadvantage compared with other types of development. Similar to the discussion in point 3 above, they *would have to be paid* around £80 per m² for such developments to be viable, as can be seen in figure 5. If section 106 contributions are constant, and LIT rates are changed for retirement developments only, the point at which these developments can achieve the highest RLVs (the same as care homes) is □£80 per m² (figure 5).

Figure 5 RLVs for retirement options at different levels of LIT



6 However, if a LIT was *combined* with a lower section 106 requirement (so both the square metre charge *and* the affordable housing contribution were lower), then retirement developments could become viable. A lower affordable housing contribution, of around 20 per cent (nearly half the amount that retirement housing developers usually pay), would probably be sufficient to level the playing field if combined with a LIT of £80 per square metre. Figure 6 shows the point at which affordable housing contributions need to be set for retirement developments to achieve the same RLVs as general needs housing if a standard £80 per square metre LIT is applied across all developments.

Figure 6 RLVs at different section 106 requirements (proposed tax system)



From this analysis, we can conclude that under the current system, councils in the South East would need to lower the affordable housing requirements on retirement developments to 10–15 per cent rather than the current typical of 30–40 per cent. Lowering the CIL is unlikely to make much difference. Transferring from the CIL to the LIT and removing exemptions on care homes (as proposed in the Peace Review) would have limited impact. Lower section 106 requirements (of around 20 per cent) will still almost certainly be needed to enable retirement developers to compete with general needs housing and other types of developers, even under a reformed (LIT) system.

Key findings 2 Modelling the impact of CIL and affordable housing contributions on retirement villages

Assumptions

Table 2 shows our assumptions when modelling the impact of CIL and affordable housing contributions on retirement villages.

Table 2 Assumptions about a development outside South East England of around 7 hectares gross (5.5 hectares net)

Local authority affordable housing requirement (% of homes)	40%
Land value as % of GDV (local authority assumption)	38.6%
CIL rate (per m2)	£0.00

Limitations

Our study has the following limitations:

- It is based on a live development outside the South East of England, of around 7 hectares gross (5.5 hectares net). We have taken this to be a live 'snap shot' example of a typical development, rather than a representative national analysis.
- The development has 154 units, including cottages, apartments, a clubhouse and garages. There is currently no CIL in place. The council's calculation of the affordable housing contribution is based on assumptions about the open market value of the properties, as well as an assumed land value or GDV of 38.6 per cent.

Findings

As outlined above, we had to adopt a slightly different approach to modelling the impact of the CIL and section 106 charging regimes on care villages, given their different size and larger provision of communal facilities compared with other types of retirement development. Our findings are discussed below.

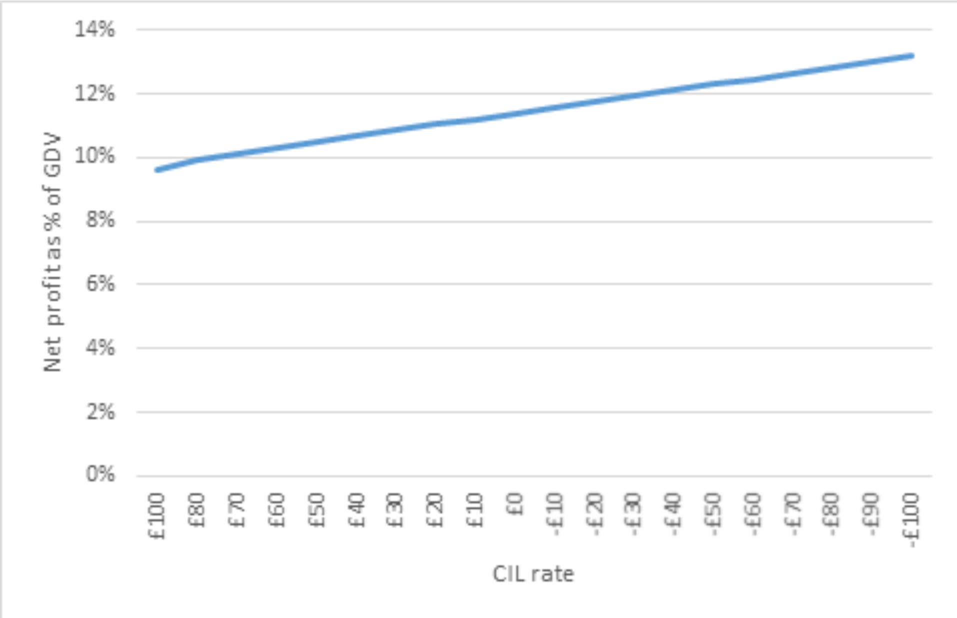
1 If we assume the village is exempt from the CIL, under a 40 per cent affordable housing requirement, such a scheme is not likely to be viable. According to our modelling, this would result in a net profit or GDV of just 11 per cent, way below the typical 20 per cent expected return. However, this viability is sensitive to the level of affordable housing requirement set. If reduced to a 5 per cent or 0 per cent contribution then the development could be viable at a 20 per cent return rate (figure 7).

Figure 7

Figure 7 Net Profit as a % of Gross Development Value at different levels of affordable housing requirement

2 While this development is CIL exempt, many village schemes are not. The inclusion of a CIL worsens the viability of village schemes. A reasonable CIL rate of (say) £100 per square metre reduces the net profit margin from 11 per cent to 10 per cent (assuming also a 40 per cent affordable home requirement). However, as we found in the modelling of retirement and extra care schemes (above), the viability of villages is not very sensitive levels of CIL. As point 1 above shows, if affordable housing contributions stay at 40 per cent, a CIL exemption does not make the village scheme in question viable. Even if village developers *were paid* £100 per square metre, their net profit margin only increases to 13 per cent, still way below the threshold of viability (figure 8).

Figure 8



This analysis confirms the findings of our first model, outlined above. In short, current section 106 requirements (with or without the CIL) are rendering schemes unviable.

If affordable housing contributions are not reformed, then the replacement of the CIL with a LIT would not significantly affect these results, as any LIT (regardless of whether it was calculated by square metre or anything else) would still act as an additional cost burden to the section 106 requirement.

There is a full analysis of both modelling approaches in appendix 2 (online).

Principles for a newly reformed charging regime

In this section we discuss the three guiding principles we have distilled from our desk research and interviews with experts and retirement housing developers on which a reformed charging regime ought to be based:

- Level the playing field.
- Consistency is key.
- Understand that supply is not all about 'more of the same'.

Levelling the playing field

The modelling presented above demonstrates very clearly that all forms of retirement development cannot achieve the same RLVs as other forms of housing, retail or care home developments. This is in part because they have considerably more 'non-sellable' communal areas than general needs housing (not to mention higher build costs and overheads, and a slower return on investment as older people tend to wait for an entire development to be built before purchasing property, rather than buying off-plan) and yet often have to pay CIL and affordable housing contributions.

All the retirement developers we spoke to said that the impact of CIL and section 106 contributions could not be overstated in rendering the vast majority of sites unviable, and adding significant costs and delays to viable sites. The developers we spoke to had different estimates, but it was not uncommon for them to be able to purchase only 1 in every 30 or 40 sites they considered. All had examples of losing out to large retailers when bidding for land. Many spoke about their in-house appeal teams being involved in planning from the outset, negotiating section 106 contributions from the earliest point in the process, and yet still grappling with delays of a year or more. One retirement housing developer told us two-thirds of the time spent on planning is spent on negotiating section 106 contributions, and around 80 per cent of such negotiations take longer than the statutory time limits of 13 weeks for planning applications for major developments.

This leads to a trickle effect of supply in the face of substantial unmet demand.

If we ever hope to improve the supply of retirement housing of all types – from downsizer housing to extra care developments it is essential to level the playing field between these and other forms of housing and retail development. In the introduction we briefly set out why this is so important – one that has been made before but which is no less compelling in its retelling. In short:

- Around a quarter to a third of over 65-year-olds are interested in moving into retirement developments. This is the equivalent of at least 2.95 million people, but there are just 720,000 units in the market currently (and only a quarter of those are for sale, rather than rent). Around 30,000 new units are needed each year to meet such demand – and yet current developers only manage to deliver 7,200 units annually, labouring under the current local planning and charges system. The gap between supply and demand therefore increases each year.
- Older people have around £1.28 trillion in housing equity,[72] with 40 per cent of those moving into retirement properties of some type freeing up more than £25,000 in equity and on average most expecting to free up around £80,000[73] – a big help in tackling pensioner poverty.
- Those who do move into retirement developments free up family homes and create a domino effect along the housing chain, so that eventually smaller homes are made available at the bottom of the chain for first time buyers. An average 41 unit retirement development has been shown to generate 92 moves in the housing chain.[74]
- Those who move enjoy increased wealth in retirement (as they have made equity from their home available in the downsizing process), improved mental and physical health (which in turns generates cost savings to the NHS and social care systems) and better social networks. The cost savings returned to the NHS and local social care services are estimated to be around £3,525 per year, thanks to reduced emergency hospitalisations, swifter discharges and overall better health among those living in retirement developments.[75]

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[72] Wood C, The Affordability of Retirement Housing, All Party Parliamentary Group on Housing and Care for Older People, 2014, https://www.demos.co.uk/files/Demos_APPG_REPORT.pdf?1415895320 (accessed 24 Oct 2017).

[73] M Ball et al, Housing Markets and Independence in Old Age: Expanding the opportunities, Henley Business School, 2011, https://www.mccarthyandstone.co.uk/documents/research%20and%20policy/oorh%20full%20report%20may%202011.pdf/ (accessed 24 Oct 2017).

[74] Housing LIN, 'The positive impact on the housing chain of moving into retirement housing in later life', 2017.

[75] Financial benefits of investment in specialist housing for vulnerable and older people, HCA, 2010 figure updated for 2010-17 using CPI inflation to reach £3,525 a year https://www.frontier-economics.com/documents/2014/06/financial-benefits-of-investment-frontier-report.pdf

So if older people want retirement housing options, and it benefits both them and the state in various ways for them to do so, we might call this a 'win–win–win' scenario. It is clearly in the interests of all involved to enable retirement developers to secure more land on which to build and increase supply. In the past, Demos has proposed the ring-fencing of land (eg NHS owned land), which should be sold to retirement developers at potentially lower than open market price. Recent analysis from Irwin Mitchell found that only around 2 per cent of local authorities have a ring-fencing policy in place currently.[76]

While we still think this is a viable approach for many reasons (not least that the cost savings generated to the NHS are such that a below market price for the land any local NHS trust sells to retirement developments would be quickly recouped), it does not remedy the overarching problem that current charging structures simply make retirement developers of all types unable to compete with other developers on the open market. It is, rather, a 'work around' by taking them out of the open market. Useful in some instances, but not a long term or universal solution. For the rest of this chapter, therefore, we focus on how best to reform the CIL and section 106 charging regime, to create a sustainable increase in supply.

Consistency is key

As we have explained above, the current CIL and affordable housing (section 106) contributions regime is currently being considered for review. The CIL review team examining the system, headed by Liz Peace, proposed a LIT to replace the CIL, combined with section 106 contributions. One of the objectives of these reforms is to improve consistency and transparency across local authorities, removing the plethora of exemptions and discretionary rules currently in use and thereby improving certainty for developers and investors.

Indeed, many retirement developers (of all types) whom we spoke to flagged local variability as a major obstacle and source of uncertainty and delay. We were told of instances where one local authority would categorise an extra care development as a C2 (a residential institution like a care home or hospital, usually exempting the development from CIL and section 106 contributions), whereas the exact same development proposal would be classed by another local authority as a C3 (a residential dwelling, like any other form of housing, and subject to both the CIL and section 106 contributions). We were also told of cases

[76] Roberts, 'Two thirds of local authorities failing to prioritise housing for older people in local plans'.

where developments had been categorised as C2, but then the local authority had used their discretion and *still* applied CIL and/or section 106 contributions to the development. We also heard how some local authorities were applying overage charges to developer returns after affordable housing contributions had been agreed. In most of these cases, the developer had appealed, and more often than not had won, but the protracted negotiation and appeal processes cost money and time – generating uncertainty for developers and, crucially, their investors or lenders.

With this in mind, any option we might consider to improve supply of retirement housing must be geographically consistent, transparent and predictable. Levelling the playing field by creating a new set of exemptions might possibly recreate similar problems to those currently besetting developers – protracted negotiations and appeals regarding eligibility for different exemptions.

Understanding that supply is not all about 'more of the same'

The current retirement development market is relatively small, with only a small number of developers operating in this space. Around 70–80 per cent of retirement housing is built by just two developers, McCarthy & Stone and Churchill Retirement Living. Solutions to supply constraints naturally focus on the problems encountered by current retirement developers, who are clearly keen to expand and would be able to do so far more quickly if the right policies were in place. However, the supply problem in the retirement market also takes the form of a dearth of new developers entering the market. Without new entrants coming into the market, it is unlikely that the volumes of supply needed to meet demand will be achieved quickly enough, if at all. A lack of new developers can also have a negative effect on the diversity of the market. Each local area needs a different combination of older people's housing options, depending on local needs, preferences and the demographic of the local population. Local plans should reflect a balance of choices in the local area. As the older population becomes more heterogeneous with every cohort (including a variety of lifestyles, cultural and ethnic backgrounds etc), and spans a larger number of years (with age-exclusive housing potentially serving a 40-year range), so the need for diversity is growing.

By comparison, there are thousands of mainstream (general needs) house builders across the UK, ranging from large volume builders through to cohousing and community developers, alongside developers working for social housing associations and local authorities that have started developing homes for open market sale. And yet none of these mainstream developers has moved into the age-exclusive market, often for the reasons outlined above – the difficulty in securing land at a viable price, the increased risk associated with building retirement developments and multiple non-residential facilities on site, the slower return on investment, in some cases the prospect of having to engage with social care services, and so forth.

The government's ongoing focus on first time buyers is only exacerbating this situation. The Help to Buy scheme (which has just been the subject of an additional £10 billion investment in the equity loan scheme[77]), the suggestion in the housing white paper that build to rent developers will be prioritised in national planning guidance and have more favourable affordable housing obligations, and most recently the suggestion that the budget will include a new policy exempting first time buyers in London from stamp duty all benefit mainstream house builders. This makes the retirement market – where no such incentives exist – even less attractive to developers. With incentives such as these, it is easy to understand why the vast majority of housing developers stick to the general needs market, where returns are easier to secure and eligible for a variety of government subsidies.

Therefore, to help current developers to expand to meet demand, and tempt more developers into the retirement market, it is necessary to take a radical step to compete against the (currently far more attractive) mainstream housing market.

We have considered some potential options for reform based on these three principles: level the playing field, improve consistency, and recognise the diversity of the market and attract more developers.

Options for reform

Option 1 Adjust how the CIL (and LIT) is calculated

Assuming CIL is replaced with LIT and affordable housing contributions remain (but are better coordinated with LIT, as the Peace Review proposes), one option might be simply to discount communal spaces from the LIT calculation. Large communal spaces – lounges, cafes, care or health facilities – are a distinct feature (and major selling point) of many retirement developments, and often make up a third or more of the land they occupy. However, our modelling suggests that while this

[77] DCLG, '£10 billion new funding for Help to Buy equity loan', Dept for Communities and Local Government, 2 Oct 2017, https://www.gov.uk/government/news/10-billion-new-funding-for-help-to-buy-equity-loan (accessed 24 Oct 2017).

would help, it would not go far enough on its own to enable retirement developments to compete equally with other forms of housing or retail developments (see figure 4). CIL rates would still be higher for retirement developers even if communal space were discounted thanks to the generally larger floor space per person retirement developments offer vis à vis general needs housing.

Another option would be to base CIL (or LIT) on occupancy rates, rather than metres squared – in other words, on the number of people living there, not size of plot. The fact remains that any fee system based on square meterage will disadvantage developments built to give those living there more space – whereas a fee system based on occupancy would more accurately capture the local 'burden' on amenities and infrastructure, which the CIL was designed to offset.

However, again, our modelling suggests RLVs are not particularly sensitive to CIL rates, and if affordable housing contributions remain unchanged, retirement developments would need not simply to be exempt from CIL, but *would actually need to be paid* £100 per square metre in order to compete with other developments. Retirement villages would need even more than that. Indeed, it is almost impossible to think of a CIL charging formula that would achieve such an outcome.

Therefore adjusting CIL (or LIT) rates on their own will never level the playing field between retirement and other types of development. Tackling the impact of section 106 contributions, to which RLVs are highly sensitive (see figure 6) is vital.

Option 2 Focus on section 106 contributions for retirement developers

Our modelling shows RLVs are almost entirely dependent on the amount of affordable housing contribution a developer must pay. For retirement villages, only a total exemption from (or perhaps a 5 per cent contribution towards) affordable housing would make them viable. For other types of development, contributions would need to be 10–15 per cent at most – less than half the average rate usually being levied – in order for RLVs to be achieved that approximated to those achieved by general needs or retail developers.

This suggests that a sizeable reduction or exemption from section 106 contributions ought to be established, but how might this be applied to ensure consistency and transparency? There are various options here, including reductions based on a development's 'social value', or setting rates of reduction based on local planning priorities. However, there are four important points to bear in mind:

1. Our modelling suggests that affordable housing contributions and CIL charges fundamentally undermine the viability of retirement developments in all their forms. Their presence also paves the way for protracted negotiations and costly appeals, local discretion and uncertainty in the market – regardless of the level at which they are set.
2. Our modelling was based on current land and build prices in the South East, which tends to be more viable than other regions where land prices are often just as high but potential customers' house prices (and therefore their spending power) are considerably lower. We also used a conservative CIL rate of £140 per square metre – in some areas it can be four times as much. Even under this most favourable of environments, a 50 per cent reduction in section 106 contributions is the bare minimum needed for some developments, while other types still need a full exemption to be viable.
3. The social value case for retirement housing is overwhelming. If one considers the cost savings to health and care services, the wider benefits to loneliness rates and social networks built, the assets released to tackle pensioner poverty, and the number of family homes that can be freed up (and housing chain moves created) when older people can move to more appropriate property it is clear that, as we argued in *The Top of the Ladder*, retirement housing is of equivalent social value to affordable housing.
4. Supply volumes of retirement housing have been sluggish for years, reaching only a fraction of a percentage of the older people interested in buying a retirement property. While nearly 3 million older people are interested in retirement housing, necessitating an estimated 30,000 new units per year,[78] current retirement developers are only managing to build 7,200 units per year in the current environment. Unsurprisingly, sizeable waiting lists are common, and yet no new entrants to this market are forthcoming – in part because of the difficulty in making developments viable under the current section 106 and CIL system. Only a radical shift in policy on this front will see the market expand at the rate necessary to meet demand.

[78] Knight Frank, 'Retirement housing 2016'.

With these four points in mind, introducing an exemption to section 106 contributions and CIL for retirement developments seems the most sensible way forward. Creating a new planning category (eg C2b) for all developments eligible for this exemption would provide clarity in local plans and planning processes.

This is a radical policy, but one responding to the clear evidence of the choke hold section 106 and CIL charges have on the market and justified by the considerable social value and the hard economic benefits of retirement developments. It is interesting to see that Swale Borough Council has already taken this step, with its 2017 planning document setting out a 0 per cent affordable housing contribution for retirement developments in particular areas where it could make such developments viable (eg Sittingbourne).[79]

The evidence suggests that such a step would provide the shot in the arm the market needs to boost build volumes rapidly (via current providers, and in attracting new providers) to help meet the government's wider housing targets. It is also the only step that would also overcome the very real problems of local variability and unpredictability of the current planning landscape, creating a consistent approach nation-wide, while also doing away with the costly and lengthy negotiation and appeals processes related to section 106 contributions that currently hamper the building of developments.

4 CONCLUSION

The housing white paper, published in February this year, has kick started an important debate on the availability of suitable housing for older people and the benefits it offers.[80] The government has signalled its intention to examine the retirement housing market with a view to stimulating it, in partnership with developers themselves.

Their first step, to issue new guidance for local authorities to ensure older people's housing needs are included in local plans, is vital. Of course, more needs to be done – this paper has approached this issue from a narrow 'supply and demand' perspective. It directly addresses the white paper's objective to stimulate the market, and presents options for boosting both sides of the market and weighing up the pros and cons accordingly.

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[79] Swale Borough Council, *Bearing Fruits 2031: The Swale Borough local plan*, 2017, http://services.swale.gov.uk/meetings/documents/s7987/FULL%20COUNCIL%2026%20JULY%20Local%20Plan%20Item%20Appdx%201%20Bearing%20Fruits%202031%20The%20Swale%20Borough%20Local%20Plan.pdf (accessed 24 Oct 2017).

[80] DCLG, *Fixing Our Broken Housing Market*.

At the moment, supply of all types of retirement development (from downsizer to extra-care-type options) is already fundamentally falling behind demand. There are simply too few new developments being built, with unacceptable levels of delay (and associated cost) in purchasing land, negotiating financial contributions, and winning planning approval. This has an additional negative effect of dissuading investment into the sector and discouraging other house builders to enter the retirement property market. Small builders in particular would struggle to survive in such a market, limiting diversity.

In light of this, our presentation of options in chapter 2 on how to support and encourage more older people to move into retirement housing of some type is motivated by a recognition that:

- many older people want and need to move into such housing, but currently struggle with relatively easily surmountable obstacles
- by enabling those who want to move to do so, many family homes will become available and the whole housing chain would benefit from a domino effect of moves
- a move into such housing is fundamentally beneficial to many older people – boosting their income, health and social networks

It is not based on a belief that stimulating demand would 'fix' the retirement housing market. If anything, it could have a negative effect while supply remains so constrained. We conclude that the recommendations we make in chapter 3 on how to unlock barriers to supply are fundamental to the future health of the market, and need prioritisation over and above demand-side intervention.

Recommendations

We recommend there should be a package of support to help older people move into retirement developments, and boost their local visibility. The government should consider:

- exempting older people from stamp duty if they move to retirement housing, targeting (at first) those with lower value homes, to establish the efficacy of the exemption; in a subsequent extension to this exemption some of the increased revenue (generated further down the property ladder from sales that would not have otherwise occurred and on which stamp duty would be levied as usual) should be used to reduce stamp duty progressively for other age groups

- offering an equity loan to older people to bridge the gap between the sale price of their home and the purchase price of a retirement property – mirroring the highly effective Help to Buy scheme
- integrating advice on downsizing and retirement housing options (recognising the key role housing assets play in tackling pensioner poverty and paying for care) into wider pensions and care funding advice, to coincide with new care funding proposals that may come about after next year's green paper

And for the industry to offer:

- practical help packages – including assistance with packing, moving, connecting utilities etc and overseen by a key person to provide reassurance and consistency throughout the move – for all prospective buyers, as some retirement developers already do
- wider outreach to the community by developers, in the form of 'try before you buy' stays where feasible, and/or social opportunities for local older people to boost awareness of developments and help form social networks

We also recommend a supply policy that:

- levels the playing field between retirement development and other forms of development
- improves consistency between local authorities' approach to charging and their transparency in making clear how charges are calculated
- acknowledges that supply can only hope to meet demand if current developers are able to expand while new developers enter the market

We conclude that only an exemption from section 106 and CIL charges would be sufficiently bold to boost supply to the scale needed to meet demand. Learning from policies such as Help to Buy, an industry-informed intervention that had a massive impact on (mainstream) housing supply, it is clear that an exemption policy would have the same radical effect in unlocking the build rates of current developers and attracting new developers to the market. The health and social care savings and housing chain stimulation that can be generated by boosting the supply of retirement housing suggests that retirement housing is of similar value to society as affordable housing, and should be recognised as such in the planning regime.

The development of these policies requires the input of policy makers and developers, who need to come together to shape and plan a programme of work to develop and implement them. The white paper alludes to a ‘conversation’ between relevant stakeholders to better understand the challenges to this market and generate ideas for ‘incentives and innovation’. We are optimistic that this paper provides enough food for thought on the options available to kick-start one such conversation.

APPENDIX 1 METHODOLOGY

Research for this project took place between July and September 2017. The research was made up of:

- a rapid evidence assessment
- economic modelling
- interviews with sector experts and housebuilders
- focus groups with people living in retirement housing and in mainstream housing
- a workshop with people currently living in retirement housing

Rapid evidence assessment

We reviewed existing research on incentive packages and other forms of encouragement for older people to move into retirement housing. The review encompassed academic, policy-oriented and grey literature, and built on Demos' previous work in this area, including *The Top of the Ladder* (2013), *The Affordability of Retirement Housing* (2014), and a policy report commissioned by the Department for Communities and Local Government.[81] The review identified incentive packages already in use, further incentives that have been suggested, and evidence on their advantages and disadvantages.

Economic modelling

Our approach has been to create economic models that are sensitive to changes in the market price of properties, the percentage of units that have to be affordable (the section 106 requirement) and the CIL or LIT charge (per square metre). The model calculates the RLV for downsizer, retirement housing and extra care models; this enabled us to assess how viable each of the options are under different assumptions about tax changes. We chose a hypothetical 0.4 hectare site in the South East for many of our assumptions, for example on CIL rates and land prices.

Care villages differ somewhat from other forms of retirement development. They are low density developments with significant communal facilities, so would not normally be viable to be built on a land area of 0.4 hectares. Instead we modelled a typical care village site based on an appraisal of a live development, using an authority's

[81] Wood, *The Top of the Ladder*, Wood, *The Affordability of Retirement Housing*, and unpublished (DCLG)

current demand formula for open market housing. We then changed the CIL or section 106 requirements to see how this affected the net profit (as a percentage of GDV) on the development. A net profit or GDV of 20 per cent is generally considered the minimum necessary for a development to be viable.

Interviews with sector experts and housebuilders

We conducted telephone interviews with Paul Teverson (McCarthy & Stone), Andrew Burgess (Churchill Retirement Living), Jane Barker (Liberty Retirement Living), Bill Gair (Renaissance Villages), Nick Hole (Blue Cedar Homes), Jeremy Porteus (Housing LIN), Brian Beach (ILC) and Michael Voges (ARCO).

They also supplemented the economic modelling by giving us a frontline perspective of how the current planning and tax regimes affect the supply of retirement housing, and the difference that could be made by future changes in these areas.

Focus groups with people living in mainstream housing

We conducted three deliberative focus groups with people aged over 65 who were not living in retirement housing in London, Birmingham and Leeds. Each group was recruited to achieve a mix of backgrounds among participants, in relation to age, gender, ethnicity, housing assets, and care and support needs. Participants were asked to deliberate over possible demand-side incentives to moving into retirement housing (as identified by the rapid evidence assessment and interviews with sector experts), discussing the advantages and disadvantages of each one and weighing up which would make the biggest difference to their decision of whether or not to move.

Workshop with people currently living in retirement housing

We conducted a workshop with homeowners living in a retirement housing development in South East England during a scheduled coffee morning at the development, and publicised via noticeboards in the communal areas. Around 25–30 people attended the workshop. Participants were asked to discuss their motivations for moving into the development, their experiences of moving there, and ways in which their experiences could have been made easier, with reference to the possible incentive packages previously identified.

APPENDIX 2 (ONLINE)

The full tables showing our modelling can be found at:

https://www.demos.co.uk/wp-content/uploads/2017/11/Unlocking-the-market-Appendix-2-online.docx

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