

# RIBBLE VALLEY BOROUGH COUNCIL REPORT TO HEALTH & HOUSING COMMITTEE

Agenda Item No.

meeting date: THURSDAY, 22 JANUARY 2015  
title: AFFORDABILITY OF RETIREMENT ACCOMMODATION  
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## 1 PURPOSE

1.1 To inform Committee of an All Party enquiry into the affordability of retirement accommodation.

1.2 Relevance to the Council's ambitions and priorities:

- Community Objectives – Addressing housing needs in the borough.
- Corporate Priorities - N/A
- Other Considerations – N/A

## 2 INFORMATION

2.1 This report presents the conclusions and recommendations from the inquiry of the All Party Parliamentary Group on Housing and Care for Older People into the affordability of retirement housing. It identifies a series of issues that should be considered in ongoing work to address housing needs in the borough.

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

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

2.4 Through this inquiry, the following has been identified:

1. Some 8 million people over 60, in 7 million homes, are interested in 'down-sizing'.
2. If half did so, 3.5 million homes - of which two thirds are family homes with three or more bedrooms - would become available.
3. Homes designed for those retiring or in their 'extended middle age' achieve cost savings and have significant benefits in health and well-being, while also releasing capital to improve the incomes (and quality of life) of older people.

4. However, the number of homes built specifically for older people has decreased from 30,000 p.a. in the 1980s to around 8,000 p.a. today.
5. As well as the need to build homes of sufficient quality to entice older people to move, the new homes must be affordable.
6. 83% of over 60s are owner occupiers and, in most regions, 50–60% of these could afford to buy a purpose-built retirement apartment or bungalow. But this means that 40–50% of older people in some local areas are priced out of the retirement housing market.
7. Many older people in modest homes and in particular in the North of England cannot afford to purchase a retirement property outright, but equally may not want to rent in later life. This group is currently under-served in the retirement housing market.

They have also concluded:

8. To fill the affordability gap for those with lower value properties, greater use could be made of financial instruments like shared ownership; but these present problems for most house-builders and it is the housing associations who could and should expand the market using these tools (and can offer the homes for rent if there is a downturn in the market).
9. Government could also help kick-start an expansion of new housing for older downsizers by enabling them to access a 'Help to Move' package, along similar lines to Help to Buy but also including tax incentives and comprehensive financial advice.
10. The transaction costs of moving could also be reduced through Stamp Duty exemption for older movers in low value properties: this would create a net gain to the Treasury thanks to the subsequent moves this would generate.
11. Good advice services can explain the value of service charges by showing the corresponding savings (eg in fuel bills and maintenance). More sophisticated arrangements — as in some other countries — for deferring some service charges until the property is sold should also be made available more widely.
12. To stimulate supply, Local Plans should be more specific in seeking development that meets the requirements of older people, including through public land being earmarked to meet these needs.

### 3 RECOMMENDATIONS OF THE INQUIRY

#### 3.1 Spread the use of Alternative Ownership Models

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

Shared ownership and deferred payment does not seem to be available in private provision. This may well be due to the way in which private developers are financed, through private investment where shareholders understandably expect fast returns on their capital. Encouraging private developers to offer staggered payment schemes for older people with low equity or limited incomes as standard may require an entire rethink of how these developers are financed.

Longer-term private investors, as well as Government or social investment (for example through social impact bonds), willing to accept slower rates of return need to be secured. This could be a significant challenge for private developers and underlines the likely prominence of housing associations in achieving more affordable retirement housing.

### 3.2 Tackle the Costs

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

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

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

### 3.3 Reduce Costs for Buyers - 'Help to Move'

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

- An equity loan offer, based on the Help to Buy approach for younger people
- Stamp duty exemptions for older people in lower value homes
- Comprehensive financial advice, linked to the new duty on local authorities to provide advice under the Care Act from April 2015, and which should incorporate guidance on newly introduced pensions freedoms

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

### 3.4 The Equity Loan

While the current 'Help to Buy' scheme has no age criteria, it is nonetheless targeted at younger, often first time buyers. The Prime Minister's recent pledge to extend the scheme should the Conservatives win the General Election includes a 20% discount on purchase prices for those under 40. Yet the

equity loan element of Help to Buy (which enables people to borrow up to 20% of the purchase price of their property to fill the gap between the purchase price and the maximum loan they can obtain) would be of huge benefit to many older people who face an affordability gap between the sale price of their current home and the purchase price of the retirement property they want to move to.

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

### 3.5 Stamp duty Exemption

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

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

### 3.6 Improve Financial Advice and Information

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

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

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

### 3.7 To help move package – an illustration

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

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

- A 20% equity loan to bridge the gap between the sale price of her old home and the purchase price of her new home
- A stamp duty exemption on the purchase of her new home, worth £1,350
- Advice on the cost-savings of moving, reducing care costs, and how else she might manage the costs of moving, which led to her drawing down £2,000 from her pensions pot (using new freedoms) in order to cover the legal fees for her move.

## 4 CONCLUSION OF THE INQUIRY

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

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

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

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

However, the private sectors' house builders' contribution is also essential. Given the pressures of private developments to make fast returns on capital investment, it's clear some areas simply won't have a range of housing choices on offer.

Access to mortgages for older people seems to be restricted due to age limits prevalent in the lending market, closing this potential avenue for older people in need of some additional equity to buy a new home.

#### 4.3 What New Measures are Needed?

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

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

## 5 CONCLUSION

### 5.1 Note the contents of the report.

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### BACKGROUND PAPERS

[http://www.demos.co.uk/files/Demos\\_APPG\\_REPORT.pdf?1415895320](http://www.demos.co.uk/files/Demos_APPG_REPORT.pdf?1415895320)

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