Too Little, Too Late? Housing for an ageing population

Professor Les Mayhew

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Foreword

Over the next two decades, the number of people aged over 65 in the UK is expected to increase by 41% to 18 million. While over-65s often choose to continue living in their existing homes, many wish to downsize when they reach retirement – including into age-friendly accommodation that has been designed to boost independence, health and wellbeing.

At present, those who wish to take this path have little to choose from. Less than 3% of the UK's housing stock is geared towards the retirement market, much of it built as traditional sheltered housing several decades ago. Such low provision is harmful not only for older people, but our country as a whole.

High-quality retirement housing has a crucial role to play in tackling the urgent housing, health and social care challenges facing us. At a time when many young families are struggling to get on to the housing ladder, more than half of the 15 million 'surplus' bedrooms lie within the homes of those over 65.

The social care crisis means many older people spend unnecessary time in hospitals and care homes, at great cost to the NHS and social care sector, and often their own health. The coronavirus pandemic has shown just how crucial it is that hospital beds are freed up for those who need them.

Retirement communities cut GP visits, reduce time in hospital and save billions for health and social care services. The new generation of housing-with-care developments do so by offering not just suitable housing and attractive facilities, but a 'soft' infrastructure of care and support services tailored to older people's individual circumstances. Their popularity with customers has attracted a wide range of new providers into the sector, along with long-term investors.

We welcome this independent report, which advocates a holistic policy agenda including a national plan and a key role for local authorities and health and care services. At the heart of its proposals is greater collaboration – between local authorities and within them. We must also pay close attention to policies that incentivise downsizing at the individual level, which is why the report examines ways to make moving easier for older people.

We have a small and closing window to transform housing for older people. The benefits will be felt across society, by all generations, in the NHS and social care systems, and – crucially – in the health and happiness of older people themselves. Let's not waste this opportunity.

Michael Voges
Executive Director, ARCO
Associated Retirement Community Operators

Preface

In all the CSFI's work on the UK's ageing society, one thing has been crystal clear. For decades, the driving force for population growth has been the over-65s, whose numbers are set to rise from fewer than 12 million in 2015 to nearly 18 million in 2040.

Just as clear is the impact this has on household sizes. Older people are more likely to live alone or in couples. So, it should have been easy to realise that the UK's housing stock, with its preponderance of family homes with three or more bedrooms, was becoming unfit for purpose.

Professor Les Mayhew, of Cass Business School, has charted what this means for housing needs using two innovative indices. First, the Dwelling Index showed that shrinking household size was creating demand for an extra 50,000 dwellings a year. Second, for this report, he has developed a Bedroom Index, which measures the massive scale of under-occupation of family homes. A key reason is that older people tend to stay put – indeed, government policy seems to encourage them to do so.

The result – if nothing is done – is a housing market heading for 20 million 'surplus' bedrooms by 2040, nearly two thirds of them in homes occupied by the over-65s. It is not just the cold numbers that point to the need for downsizing as people age. Surveys have found that up to a third of older people like the idea, but only a small fraction actually does so. There is too little choice.

Despite the demographic imperative – adding 180,000 65+ households each year – the building of homes for the retirement market peaked before 1990 and has fallen precipitously since then. In the past decade, little more than 7,000 units have been built each year, on average, and the stock of 750,000 is well under 3% of the UK total. The shortfall is shocking.

This report calls for action from the public and private sectors. National and local housing programmes should include specific targets for dwellings designed to cater for older people. Planning permission must be easier to obtain. The demand is there as baby boomers seek to redeploy housing equity into smaller, more convenient homes with access to services.

Contextually, Covid-19 has tragically reminded us that residential care is for the last few years of life. At the other end of the spectrum, providing care services to older people scattered through mainstream housing cannot be the optimum solution for either their welfare or their pockets.

The 'too little, too late' verdict needs to be transformed into 'much more, asap'.

Jane Fuller
Co-director, CSFI

CSFI

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Professor Les Mayhew

Executive Summary

Chapter One: Introduction and background

Last year's CSFI report by Professor Les Mayhew, entitled *The Last-Time Buyer: housing and finance for an ageing society*, contained an arresting statement in favour of downsizing: "If people lived in homes more suited to their needs, 50,000 fewer homes would need to be built each year."

The underlying demographics are stark. By 2040, the UK population will have grown to about 73m – nearly 10% more than today. But much more significant is the projection that nearly one in four people will be aged 65+. That represents a 41% increase in that age group to nearly 18m.

A key point about an ageing society is that average household size shrinks because older people tend to live alone or in couples. Between 2020 and 2040, the number of UK households is set to rise by around 3.7m to 32.3m. The growth in older households – over half of them one-person – is set to account for 36% of the increase.

But far from the supply of housing for older people increasing to meet this challenge, it has plummeted since 1990. This report argues that downsizing is both necessary and desirable. To make it an attractive option, the supply of good-quality age-friendly housing needs to increase substantially. Public policy barriers – including planning and taxes – need to be reduced.

Chapter Two: The demographic case for downsizing

Households have been shrinking for four decades, while dwelling sizes have not changed much. The existing stock is skewed towards family homes, with 60% having three or more bedrooms.

The *Last-Time Buyer* report introduced the Dwelling Index to measure average household sizes at different ages. For this research, we have developed a new measure, the Bedroom Index, which shows whether there is a surplus or deficiency of bedrooms at each age.

The UK has nearly 29m households, with an estimated 2.86 bedrooms per dwelling. This equates to about 82m bedrooms, of which just over 15m are 'surplus', using reasonable assumptions about the number needed for different sizes of household. The trend towards decreasing household size is projected to inflate this bedroom surplus to 20.3m in 2040.

The surplus is concentrated in the older age group. For the 65+ cohort, the number of surplus bedrooms is on track to almost double from 6.6m in 2000 to 12.8m by 2040, unless behaviour and public policy change. The youngest households have a bedroom deficit.

Chapter Three: Retirement housing in the UK

The overall picture is of a dramatic shortfall in retirement, or age-appropriate, accommodation compared with the scale of building required based on demographic analysis.

Only 750,000 homes – less than 3% of the UK stock – cater specifically for the retirement market, and this represents only 9.4% of households aged 65+. Around 7,000 new retirement properties have been added annually since 2010; however, this compares with an expected average annual rise of 180,000 in the number of 65+ households to 2030.

The segment grew rapidly in the 1980s thanks to local authorities and voluntary (not-for-profit) organisations, but the Community Care Act 1990 switched the focus to keeping vulnerable adults in the community. After this, the pace of development shrank to a quarter of its peak.

Currently, the voluntary sector accounts for two thirds of the stock, followed by local authorities. By far the most common form of tenancy is social renting. The private sector stands at 12.4% of the stock, but it now supplies as many new properties as the voluntary sector.

Keeping older people fit and engaged is crucial. According to recent studies, retirement communities with on-site support can reduce hospital admissions, cut A&E visits and delay transfers to nursing homes. But the barriers to building more of them are considerable – notably difficulty in getting planning permission.

Chapter Four: Making a difference

Surveys have shown that up to a third of older households are amenable to downsizing, but that only a small minority actually do so. Key reasons have included a lack of suitable properties and anxiety about annual charges.

Although 60% of all properties have three bedrooms or more, this applies to just 10% of all apartments – of which 44% have only one bedroom. So the scope to move from a large family home to a 3-bedroom modern serviced apartment is extremely limited – and expensive.

On the planning front, a study of UK local authorities found that fewer than 10% had clear policies on housing needs for older people, including the number of dwellings required and how to provide them. Combined with planning barriers, it is hard to avoid the conclusion that older people are not a priority for local authorities.

A holistic approach would take into account the health and social care benefits of age-appropriate housing. This argues for greater collaboration between social care, health and housing teams to devise new models of provision.

Personal decisions to downsize are affected by financial factors. These include whether downsizing will release cash, after transaction costs, for other purposes such as enhancing retirement income or gifting to heirs. A typical purchaser would require the equity in their original property to be well above the average price of the new one, and for annual charges to be affordable.

More flexible charging models, notably deferred fees, have emerged to make purchase prices more affordable and to help retirees plan their outgoings. Some costs are rolled up for payment out of housing equity on death or sale of the property. This model is attracting investment from large institutions, such as Legal & General, Octopus Healthcare and Schroders, which could amount to £60bn over the next decade.

If leasing or buying a smaller property is involved, stamp duty will apply. The evidence suggests that stamp duty deters downsizing. Average stamp duty per transaction has increased at 12.3% per annum since 2008-09, whereas house prices have only gone up by 4% a year.

Chapter Five: Conclusions

Under-occupation of the housing stock caused by an ageing population has created a dysfunctional housing market. Older households are only 40-60% efficient based on space usage, whereas space is at a premium for younger ones.

Far too few dwellings are being built that cater for older people. Retirement housing has only accounted for about 125,000, or 2%, of all new homes built since 2000, but each year around 700,000 people turn 65 years of age.

With the number of households growing more quickly than the population, average household size is set to continue its decline. This causes increasingly inefficient use of the housing stock. The number of 'surplus' bedrooms is forecast to exceed 20m by 2040, 60% of them in older households.

Government policy is that that people should be supported to live in their own homes independently, and that they should not have to sell up to pay for care. How can this policy be reconciled with the call for downsizing?

A new policy on social care is due to be unveiled later this year. It should acknowledge that the present policy of supporting people in their own homes – scattered through mainstream housing – may not be affordable in the long run. Also, the promise that no social care user should have to sell his or her home to meet care costs needs to be clarified:

- It should not be interpreted as discouraging downsizing. Indeed, the policy should highlight the benefits of doing this.
- The policy should not be seen as recommending that older people should stay put come what may – particularly if there is more suitable accommodation available.
- The government should affirm that people living independently in retirement communities that offer care services are living in their 'own homes' and should be supported as such.

Another policy circle that needs to be squared concerns the government's net zero carbon emissions target. The Committee on Climate Change found last year that emissions reductions from UK homes had stalled. Given an inflexible housing stock, the provision of modern age-appropriate accommodation and efficient use of space must be part of the policy mix. The present 'just build more' dictum pays little attention to climate-related problems.

On stamp duty, we suspect that the government simply wants to protect this revenue stream. But the evidence shows that lower stamp duty rates would increase transactions and so underpin revenues. This argues for tax incentives to encourage downsizing. Last-time buyers should be treated in the same way as first-time buyers, with stamp duty for purchases up to £300,000 nil-banded or abolished.

Policies affecting housing should all pull in the same direction, but it is not clear that policy makers have grasped the scale of the problem. This report proposes a more holistic approach to housing policy and population ageing. We support the idea of a national plan, with requirements for local authorities and local health and social care services to deliver in accordance with it.

Recommendations

For the Government

1. Far too few homes are being built to cater for older people, who therefore tend to stay put in dwellings that are increasingly under-occupied. This calls for a national strategy and for government departments and local authorities to be accountable for its delivery.
   Recommendation: A new government strategy on housing for older people should be established as a key part of the housing mix. It should call for a joined-up approach between departments dealing with housing and health, with a cross-departmental mechanism to reconcile differences and identify gaps.

2. Important supply-side constraints to providing purpose-built developments include planning permission and the indifference of many local authorities to the needs of older residents.
   Recommendation: In line with the national strategy, local authorities should be required to have a plan for retirement housing, including identifying appropriate sites.

3. If more people lived in retirement communities, their health and wellbeing would improve. Health and social care costs would be more manageable and services easier to deliver.
   Recommendation: The NHS should acknowledge these benefits, which are largely ignored in its long-term strategy and in planning services for older people.

4. Government policy that people should not be forced to sell their homes to pay for social care sends a mixed message.
   Recommendation: The government should promote the benefits of downsizing and incentivise people to do it before social care is needed.

5. Stamp duty tends to jam up the housing market and can add significant costs to downsizing.
   Recommendation: 'Last-time' buyers should be put on an equal footing with first time buyers with property purchases of up to £300,000 nil-banded.

For the industry and its customers

6. While there is plenty of interest in downsizing, surveys show that the number actually doing so is low. A key reason is the shortage of suitable housing at affordable prices.
   Recommendation: House-building priorities need to change to cater for this market.

7. Financial arrangements built into leases that align the outgoings of retirees with their income, which is often fixed, help avoid large unexpected costs. The deferred fees model achieves this by rolling up some costs until the property is sold.
   Recommendation: Models that defer costs until housing equity is released should be encouraged and monitored for transparency of costs to residents and returns to investors.

8. The financial aspects of downsizing may be complicated and include questions about value for money and security of tenure.
   Recommendation: Independent guidance should be available to cover all aspects of the purchase process. The Money and Pensions Service is a possible vehicle for this.

9. Retirement housing has an important role to play in meeting the UK's target of net zero carbon emissions by 2050.
   Recommendation: Retirement communities should aim to be carbon neutral and use renewable energy. Retrofitting retirement dwellings should be supported by the taxpayer

Chapter One: Introduction and background

When considering the housing challenges faced by the UK, it is striking how much of it is being determined by the ageing of the population. Between 2000 and 2020, the UK population has risen from 59m to 67m, and by 2040 it is forecast to be 73m. By that date, getting on for 1 in 4 people will be aged 65+, equating to nearly 18m, or 5m more than in 2020. This will raise demand for health and social services, as well as increasing public spending on state pensions.

However, it also means that housing needs to undergo a revolution. A CSFI report published last year, *The Last-Time Buyer: housing and finance for an ageing society*, looked at the demographic changes in the context of the UK's much- discussed 'housing crisis'. It found that, on paper, the stock of 28.3m units was sufficient to house 27.4m households. The gap was accounted for by second homes and vacant properties.

Just as startling was the impact of shrinking household sizes – from an average of 2.48 people in 1980 to 2.36 in 2018. If there had been no change in household size, 1.3m more dwellings would have been available. The principal cause of the trend towards lower occupancy is that older people are living alone or in couples in 'family' houses that tend to be too large for their needs. The impact is ratcheted up as the population ages. Last year's report stated: "If people lived in homes more suited to their needs, 50,000 fewer homes would need to be built each year."

This led to the conclusion that UK housing policy should focus as much on 'last-time' buyers as it does on first-time buyers. Downsizing holds the key to this, which means removing barriers to older people leaving family homes, providing them with incentives to do so and offering a sufficient choice of attractive and 'age-friendly' accommodation for them to move into.
This research focuses on the highly inefficient use of the UK's housing stock, which is being exacerbated as the population ages and as the number of people per dwelling shrinks. Between 2020 and 2040, the number of UK households is set to rise by around 3.7m to 32.3m. Some 36% of the increase will comprise older households – over half of them one-person. A related issue is the logistical difficulty of providing care services to so many older, often frail, people living alone in mainstream housing.

The case for adapting, as well as expanding, the housing stock to accommodate growing numbers of older people has been clear for decades. But far from the supply of age-friendly, or retirement, homes increasing to meet the latent demand, it has plummeted. The analysis presented in this report shows that the construction of retirement homes peaked in the 1980s at far higher levels than today. Developments then were mainly of sheltered housing, consisting of social rented properties operated by local authorities and the voluntary (not-for-profit) sector. These remain extremely important, but the industry is changing – and so are the tastes of potential purchasers, who are younger and relatively healthier. For this cohort, there is a dearth of good quality apartments or properties to downsize into compared with continental countries such as Germany, Switzerland or Austria.

True, there are signs of green shoots in the UK. These include a growing trend towards integrated older living, where people live independently in their own homes in purpose-built communities but with appropriate services (such as care) and amenities *in situ* that can take the stress out of growing old. An increased proportion of these properties are leased rather than rented – the latter being the norm for sheltered housing. Leasing has become more popular as more affluent people downsize and as new financing models are introduced. The entry of institutional investors, such as Legal & General and Schroders, has facilitated flexible charging such as deferred fees.

For developers, the retirement market ought to be an attractive proposition, although there is no one model that fits all personal circumstances. The clientele may be asset-rich with substantial housing equity behind them and good pensions, or have no housing wealth at all and only a basic income. Possible funding models range from the fully commercial to the heavily subsidised via housing benefit and help with council tax. Note that residential care homes are not designed for independent living and are excluded from this study. However, a full-time care unit may be located within retirement communities to enable step-ups from independent living, as well as being open to older newcomers.

A key hypothesis of this report is that by providing appropriate housing for older people on financially flexible and affordable terms, larger under-occupied homes would become available for purchase. This would have a ripple effect through the market, increasing supply and helping to moderate prices. The crucial point is that downsizing must be an attractive option in order to free up under-occupied housing. But how feasible is it to nudge people into doing this?

One problem is that financial incentives are poorly aligned with individual expectations. Many older people would like to use cash realised by selling the family home to supplement their pension as well as buying a smaller home. The amount released can be disappointingly low, however, because it depends not only on the price gap between the two properties but also on transaction costs, including stamp duty.

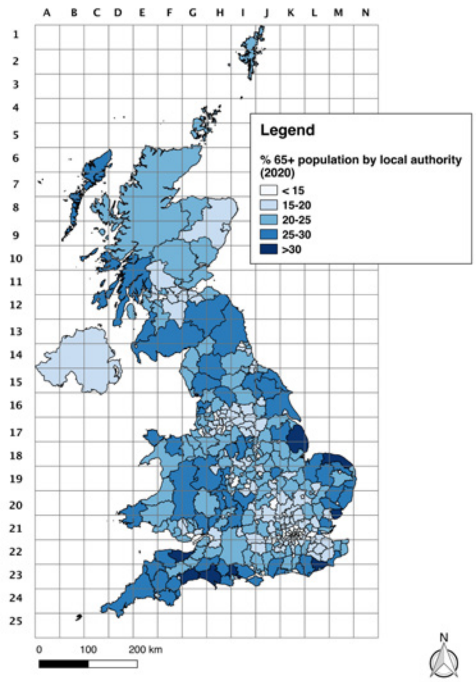
This report calls for action on three fronts:

- Greater focus on retirement housing, with more priority given to the building of suitable homes for one- and two-person households to downsize into.
- Strategic engagement by government and local authorities, not only on planning policy but to take into account the health and social care needs of an ageing population.
- Putting tax incentives, namely stamp duty, for last-time buyers on an equal footing with first-time buyers.

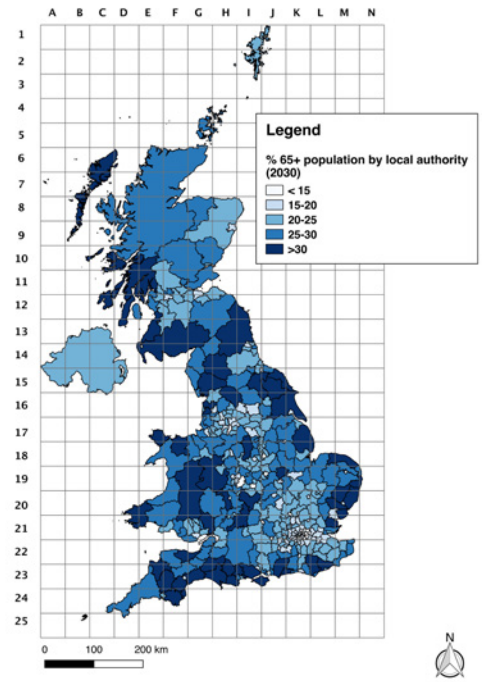
Figure 1 shows how areas of the UK are affected by an ageing population at three points in time. In 2000, in most areas of the UK, people aged 65+ made up 15% or less of the population, the average being 13.2%. This average increased to 17% in 2020 and is forecast to increase to 21.2% in 2030.

The most telling thing about the maps is that most of the growth is likely to be in peripheral areas or declining centres of population. In coastal extremes or rural hinterlands in parts of Wales, northern England and parts of Scotland, many areas are set to see 30% or more of the population aged 65+. Coastal retirement areas in the south of England and East Anglia are becoming less dominant.

Figure 1: Distribution of the 65+ population



(a)



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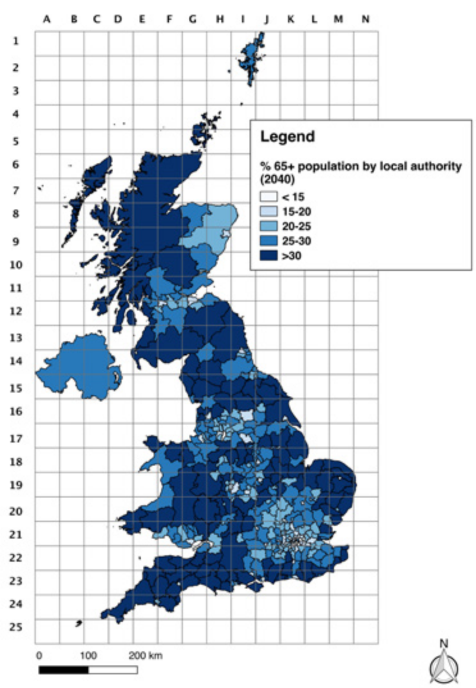


(c)

The UK population aged 65+ is projected to increase from 9.3m in 2000 to 17.7m in 2040. These maps show the percentage distribution of the UK population aged 65+ by local authority area in: (a) 2000, (b) 2020 and (c) 2040

Chapter Two: The demographic case for downsizing

The case for downsizing builds on the observation that households have been shrinking in size for at least four decades, while dwelling sizes have not changed much. This has led to a situation where homes typically become too large for the needs of their occupants, who may find them increasingly difficult to manage and expensive to run. Principal among the factors causing this trend is population ageing, with older households tending to be smaller than younger ones.

Changes in household composition have also contributed to the trend. These include the gradual disappearance of three-generation households, the growth of tertiary education (with children moving away from the parental home into private rented accommodation from around age 20) and the acquisition of second or holiday homes. Although most people still live in family households, these are not the fastest growing. Cohabiting and single-adult households have become more common. One reason is the delay in young adults starting families, which is influenced by the availability and cost of family homes. Another is the increasing number of older couple households or older people living alone.

The key question for this chapter is whether we can quantify the level of under-occupation and the way it is likely to evolve over the next 20 years or so. On the more fundamental question of what can be done about it, the gut reaction is to build more homes – this more or less sums up mainstream housing policy. However, this strategy does not address the issue of space surpluses accruing to older households and it has environmental drawbacks.

Building a way out of the problem is fraught with difficulty. The existing stock of dwellings in the UK is skewed towards family homes, with 60% of all dwellings having three or more bedrooms. This is typically in houses, which make up more than three quarters of the stock. Only around 10% of apartments have more than two bedrooms. The weight of this legacy is such that even if 200,000 new homes a year were built, it would take 150 years to replace the existing stock.

A strategy that involves downsizing, home conversions and other measures that work with the existing stock is much more likely to succeed. The aim would be to free up houses for second-time buyers or for couples starting families and, in turn, to release homes for first-time buyers.

To measure under-occupancy and levels of surplus accommodation, we need to compare the living arrangements of people of different ages with the size of their dwellings. Ideally, we would like to know the number of people living in each dwelling, the floor area and number of rooms. While these data are not available, the number of bedrooms per person can be derived from the census. The Dwelling Index developed for the Last-Time Buyer report measured the average size of household lived in by people of different ages. This research goes a step further to determine whether there is a surplus or deficiency of bedrooms at every age. We call this new measure the Bedroom Index.

By applying both the Dwelling and Bedroom Indices to population projections, we can measure changes in the surplus/deficit over time. This works up to a point, but it is not an absolute measure of surplus as bedrooms are frequently shared. For example, a three-bedroom house occupied by a couple sharing a bedroom would have two surplus bedrooms but under this definition it would only be one. Similarly, a three-person household in a two-bedroomed dwelling would be one bedroom short. This is not intended to be prescriptive since there are many reasons for needing some extra space – to accommodate family visitors or a carer, for instance.

Others working in this area often assume that bedrooms are shared, which increases the estimates of surplus. The no-sharing alternative is more generous, effectively including a spare room that is not counted as "surplus" wherever a bedroom is shared. Nevertheless, the scale of the surplus is huge.

Box 1 applies the indices to data specially commissioned from the Office for National Statistics. The chart shows the average household size occupied by people by single years of age. Separate analysis was conducted to break the total down into owner occupation, social renting and private renting. It shows that, on average, a newborn lives in a household with 3.5 persons, rising to 4 persons by the age of 8 and falling to 2.4 at around 30. Household size then rises again to 2.6 persons at 40, before falling to 1.2 at 97 and 1.3 at 100+.

Assuming one dwelling per household, this produces an average occupancy of 2.36 persons per dwelling. The Bedroom Index is based on the number of bedrooms in dwellings occupied by people according to their age, rather than the size of household they live in. It tends to be flatter over the life course and averages 2.9 bedrooms. This is because changes in dwelling size are slower to react to changes in household size because people remain in the same home for many years. The result is that surpluses tend to increase with age. Previous research, for the CSFI's The *Last-Time Buyer* report, found that the average stay has increased, exacerbating this pattern. The chart within the box shows that at young ages there is typically a shortage of bedrooms relative to household size. This persists until around age 20. At the oldest ages, the opposite is true and the gap widens to an average of between one and two surplus bedrooms per dwelling. A dashed line, based on the difference between the bedroom and dwelling indices (red and blue lines, respectively), shows that at young ages the size of household exceeds available bedrooms. This turns into a surplus from age 20 as offspring move away from the parental home, typically into rented accommodation or halls of residence. The surplus eventually levels off at just over one spare bedroom per dwelling from around age 60.

If the total is broken down into owner occupation, social renting and private renting, some clear differences are observable. As might be expected, bedroom surpluses are largest in the owner-occupied sector – much larger than in social rented accommodation. This is probably because social housing tends to be rationed based on the housing needs of the occupants and not on ability to purchase. With private renting, there is a pronounced blip in the early 20s caused by the mass decanting of young adults from their parental homes on to the private rented market, but otherwise the life course pattern is intermediate between social renting and owner occupation.

Box 1:

(i) The Dwelling Index

The Dwelling Index is the imputed number of dwellings lived in by persons of a given age or age range in which we assume one dwelling per household. The number of dwellings occupied by people of age *i* living in household size *n* is the sum over all ages divided by household size *n*, in which *i* equals 0, 1, 2, 3…100+ and *n*, 1, 2, 3…etc.

$$D_i = \sum_n \frac{P_{in}}{n}$$

The average size of household lived in by a person aged *i* is, therefore, $\overline{D}_i = P_i / D_i$. The total number of imputed dwellings is the sum over all age groups and is given by:

$$D = \sum_i \sum_n \frac{P_n}{n}$$

(ii) The Bedroom Index

The Bedroom Index is the average number of bedrooms *B* in dwellings occupied by persons aged *i* where *k* is the number of bedrooms and is given by:

$$B_i = \frac{\sum_k P_{ik} k}{\sum_i P_i}$$

The average bedroom surplus (+) or deficit (-) is given by $B_i - D_i$ and is shown as a dashed line.

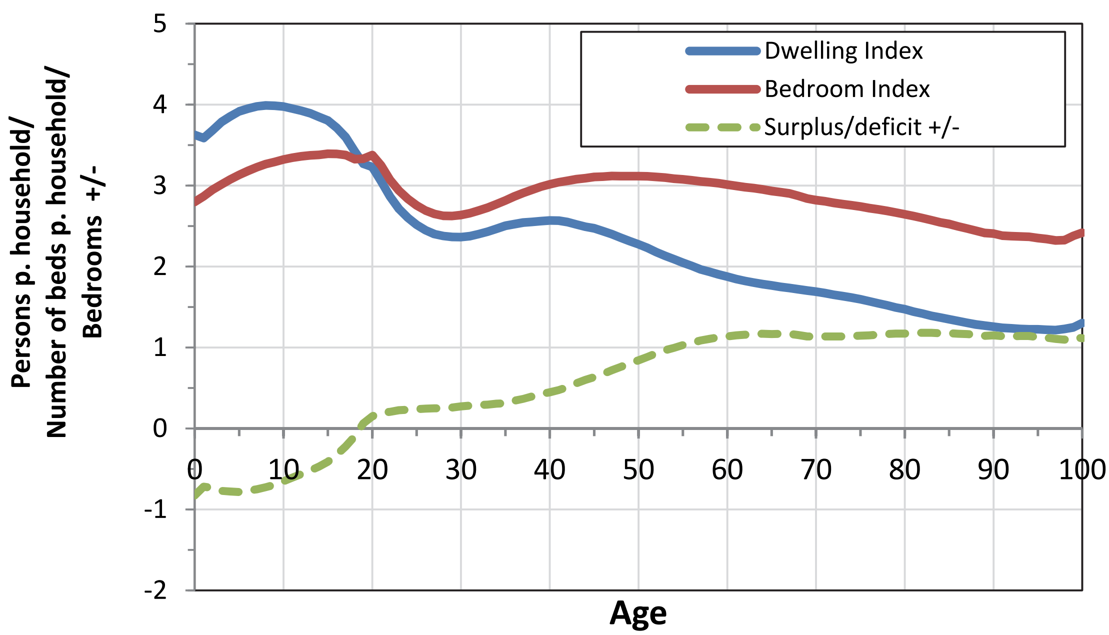
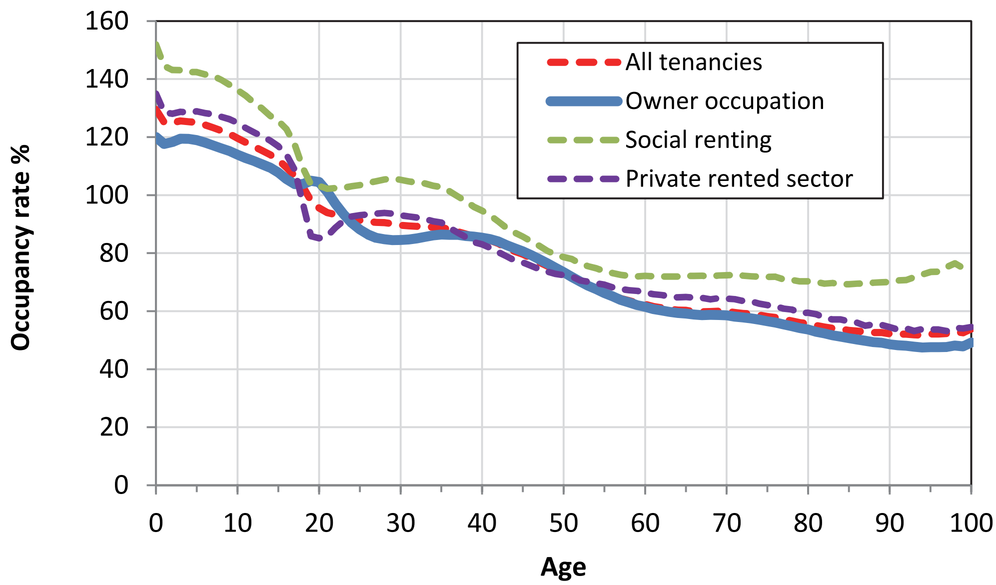


Figure 2 shows changes in the average occupancy rate by single year of age for three different types of occupancy – owner occupied, social renting and private renting. It is calculated by dividing the Dwelling Index by the Bedroom Index, with the result expressed as a percentage. At young ages there are too few bedrooms for the average size of household, and occupancy rates exceed 100% regardless of type. From the age of 20, occupancy falls below 100% and continues downwards until 90. All types of occupancy follow the same pattern, but occupancy rates in social housing are much higher – by as much as 20% at some ages – than in owner occupation.

Figure 2: Average occupancy rates over the life course



Society has yet to find a way of dealing with the conundrum that household bedroom deficits are greatest when the need is highest, and surpluses are highest when they are least needed. In theory, this could be overcome through, say, intergenerational house swaps. Although this practice is observed in other countries, timing and other frictional effects prevent it from occurring on a large scale. House sharing is another alternative, but although many organisations offer to match people to households, the results need to be on a much bigger scale to make an impact.

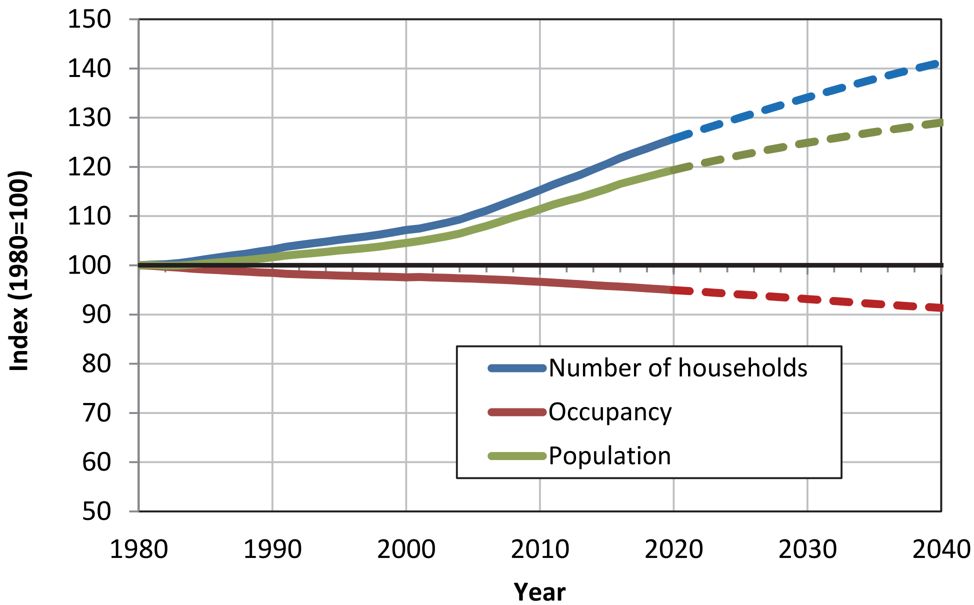
2.1 Forecasts of household size and dwelling surpluses

The natural progression is for dwellings to become under-occupied as people age. Since 2000, application of the Dwelling Index shows that average household size has fallen from 2.42 in 2000 to 2.36 in 2020 and is forecast to fall to 2.27 by 2040.

Based on observed dwelling preferences over the life course, the number of households is forecast to rise by 13%, from 28.6m units in 2020 to 32.3m in 2040. This compares with an 8% growth in the population from 67.2 to 72.6m over the same period. Most of the growth will take place in the 65+ age group, which will expand by 41% to 17.7m as compared with a 7.5% increase in the 0-19 age group and 12.3% in the 20-64 age group.

These estimates suggest that under-occupancy is likely to get worse. The consequences include an adverse impact on old people's safety and quality of life if they live in isolation, the inefficient use of energy to heat over-sized homes, fragmented provision of care and the higher transport costs that go with low-density living. The outlook is captured in Figure 3, which combines trends in population, household formation and dwelling occupancy in the form of three indices covering the period 1980 to 2040. It shows that, on present trends, the number of households and dwellings will increase at a faster rate than the population, causing occupancy to shrink. This has happened at an accelerated rate from around 2000.

Figure 3: Indices showing the growth in population and households and the decline in average occupancy (1980=100)



In practice, certain types of household will tend to increase faster than others thanks to population growth and ageing. Table 1 shows the estimated number of people living in households of 1, 2, 3, 4 and 5+ at five points in time (excluding people in communal establishments). Those living in 1-person households are projected to increase by 23%, from 9m to 11m, between 2020 and 2040. In contrast, the number living in households with 3 or more persons will expand by only around 2%.

Table 1: UK residential population (millions), by household size, at five reference points in time (excludes institutional populations)

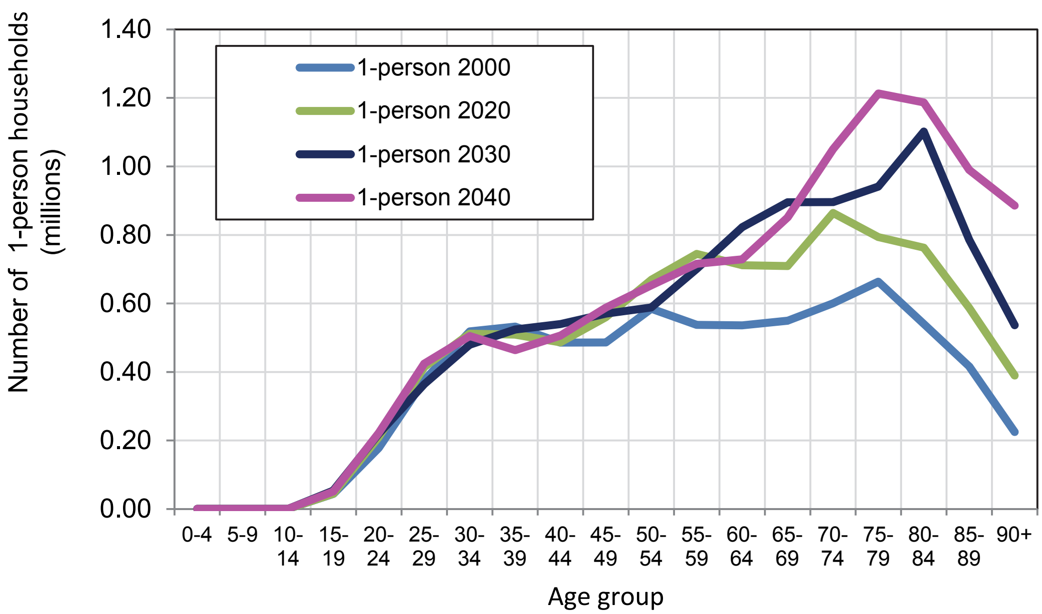
Household size	2000	2015	2020	2030	2040	% change 2020-2040*
1	7.28	8.46	8.97	10.02	11.04	23.1
2	16.41	18.87	19.84	21.25	22.31	12.4
3	11.52	12.57	12.82	13.01	13.26	3.4
4	13.04	13.79	14.00	14.21	14.18	1.3
5+	9.71	10.22	10.42	10.61	10.59	1.6
Total (mns)	57.95	63.92	66.04	69.10	71.37	8.1

**Because of rounding, not all the percentage changes correspond exactly to the numbers in the table*

Over the life course, distinctive patterns appear. Roughly speaking, households with three or more persons peak when the youngest in the household is new-born, and these are in the majority; they level out in the 20s before declining after age 50 almost to zero by the time a person has reached 85. Two-person households increase from a low base in the 20s, fall in the 30s as family size increases and peak again in the 60s once children have left the parental home, before falling again with the onset of mortality. The most rapid change is in one-person households.

Figure 4 shows that in each of four reference years, 2000, 2020, 2030 and 2040, the number of single-person households remains fairly static below age 50, but above that age there is divergence. Particularly noticeable is the growth from 2020 to 2040, with a peak of 1.2m households in the more socially vulnerable 75-85 age bracket by 2040. The 1- and 2-person households in the 60+ age bracket are the groups most likely to benefit by moving into more age-appropriate accommodation.

Figure 4: Population living in 1-person households in 2000, 2020, 2030 and 2040



2.2 Quantifying the bedroom surplus

So far, we have only quantified the average number of bedrooms by age, but the extent of any surplus/deficit needs to be scaled by the number of people at each age, taking in demographic ageing and population growth. Quantifying the aggregate bedroom 'surplus' at future points in time reveals the ages at which surpluses are greatest – and, hence, the number of potential downsizers. This information can help policy makers and developers identify mismatches.

Based on our latest and previous research, using ONS data, the UK currently has approximately 29m households, with an estimated 2.86 bedrooms per dwelling. This equates to about 82m bedrooms. To find the surplus/deficit in each age bracket, we need to multiply the difference between the Dwelling and Bedroom indices by the number of households, and then sum the result over all ages.

This is summarised in Table 2, which shows the estimated number of households in 10-year intervals from 2000 to 2040, average occupancy, the average number of bedrooms per occupant, and the total bedroom surplus/deficit based on all ages and those aged 65+. A clear pattern emerges of decreasing occupancy and increasing bedroom surplus. The surplus is projected to increase to 20.3m in 2040, of which 12.8m are in households aged 65+.

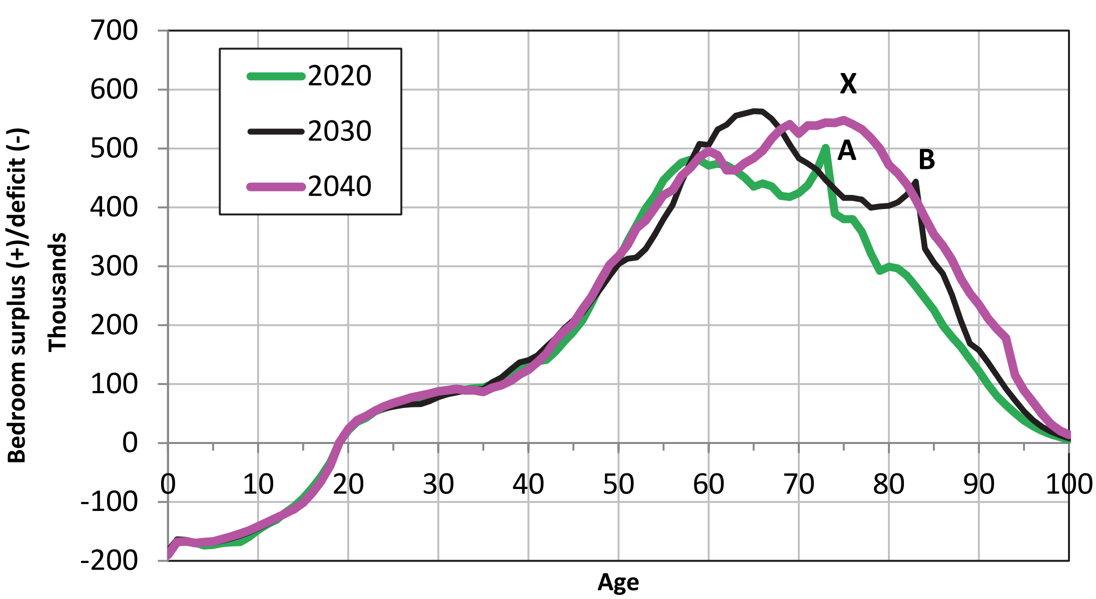
Table 2: The number of households (millions) in 10-year intervals showing average occupancy, bedrooms per occupant and the number of surplus/deficit (+/-) bedrooms (millions)

	2000	2010	2020	2030	2040
Households	24.3	27.4	28.6	30.5	32.1
Average occupancy	2.42	2.40	2.36	2.31	2.27
Bedrooms per person	1.22	1.23	1.24	1.26	1.28
Surplus/deficit (+/-) bedrooms (all ages)	12.7	14.3	15.3	18.5	20.3
Surplus/deficit (+/-) bedrooms (65+)	6.6	6.9	8.9	11.0	12.8

Figure 5 breaks this down by age. The conclusion is clear: there is a systemic bedroom deficit until age 20, starting at a total of 200,000 at birth and rising to parity by age 20. After that bedrooms are in surplus, rising quickly at first before levelling off in the mid-30s. The surplus then accelerates again between 43 and 60, reaching just under 500,000 bedrooms. What happens thereafter varies between reference years, with the position for 2020 shown in green. The peaks labelled A and B indicate the progress of the post-war baby boomers as they age.

For example, A is the peak in 2020 – again an estimated 500,000 bedrooms – as baby boomers reach their seventies. Between 2020 and 2030 the peak transitions to B but the surplus has fallen to just over 400,000 as some baby boomers die out. Appropriate housing choices for different age groups will depend on their circumstances and the extent to which they can live independently. In general, the older they are, the less independent they are and the more they will require additional amenities such as care services.

Figure 5: Estimated bedroom surpluses/deficits by single year of age in 2010, 2020, 2030 and 2040



A final observation relates to point X in Figure 5 which marks the progress and high point of the 1960 cohort of baby boomers in 2040. The bedroom surplus in their case is 550,000 at age 75, indicating considerable pent-up potential for investment in age-appropriate housing. The baby boomer generation will then be succeeded by another wave of older people suggesting that the pressure to downsize will not disappear. One of the questions will be whether as many will own their own homes as the generation retiring today, and what the financial implications are.

To summarise, this chapter has exposed the increasing inefficiency of the UK housing market, caused primarily by the increasing under-occupancy of dwellings. We adopted the convention of one bedroom per person, which is less strict than assuming that at least one bedroom is shared. Statistically, this implies, on average, slightly more than one spare bedroom per dwelling from around age 60. Nevertheless, the research identifies an almost doubling in the number of surplus bedrooms in the older population from 6.6m to 12.8m between 2000 and 2040.

To make more effective use of the housing stock, one potential solution is to build more age-appropriate housing, where space is better matched to needs and the design is adapted to older living. This would release homes with surplus bedrooms for those lower down the housing ladder to buy, creating a ripple effect that would also assist first-time buyers. If enough properties were released, it would also ease pressure on house prices.

Chapter Three: Retirement housing in the UK

House building in the UK has had a chequered history. Construction has become less predictable since the long demise in building council homes for rent, starting in 1979, and a slump in the building of retirement housing from the 1990s. Meanwhile demand has risen, driven by population growth.

Successive governments have focused on opportunities for first-time buyers, with limited success. While this policy may have underpinned residential building (although many have pointed to a continuing shortfall in supply versus demand), it has had minimal effect in releasing homes occupied by older people – where there is most spare capacity.

The market for retirement housing effectively operates separately from mainstream housing. Traditionally there has been a large statutory segment, provided mainly by local authorities, and a significant voluntary, or not-for-profit, segment. Much of this provision is for social renting, especially sheltered housing. People moving into such properties need to meet eligibility criteria, often including income factors. Although residents live relatively independently, their move into retirement housing is usually triggered by changes of circumstance, such as the death of a partner, deteriorating health or financial difficulty.

However, things are changing. We are seeing an increase in choice of occupancy – including ownership, part-ownership and leasing – among people who have housing or other wealth to spend. There are more communal developments, offering additional amenities and services. This encourages moves to be planned rather than forced by circumstance. Even so, a big expansion in housing better suited to older people is long overdue and the progress made in recent years has barely scratched the surface.

3.1 Background

Retirement housing has a long history in the UK. Almshouses, for example, were established from the 10th century to provide a place of residence for poor, old or distressed people, the earliest form of social housing. The modern equivalent caters mainly for elderly people, but the scope of retirement living today is much more broadly based and commercial alternatives are a bigger part of the mix. As people live longer and healthier lives, retirement living is now marketed as a change in lifestyle that enables people to live independently for as long as possible, while facilitating a transition as their care needs increase.

The means of financing these moves has also changed. Access to retirement living has been extended from poorer pensioners to those with housing wealth seeking a change of lifestyle. Most modern retirement communities offer social activities, on-site maintenance and links with external groups. The size of retirement developments can vary from a few age-exclusive self-contained properties to retirement 'villages' with 100 properties or more.

The classification of retirement housing is not straightforward and the terminology can be confusing. There are many different types of scheme with properties to rent, lease or buy, ranging in size from studio flats (or 'bedsits') to 2 and 3-bedroomed homes. Being able to live relatively independently is a key consideration. For this reason, care homes are omitted from our analysis.

Retirement communities, also known as 'extra care' or 'assisted living', are becoming increasingly popular. Residents can enter from the age of 55 – a threshold typically stated in the planning permission for the development – with actual ages of entry closer to 70**.** They own, or lease, a self-contained flat or bungalow in a block or on a small estate and there is a much higher number of services available on site than in sheltered housing, including a restaurant and 24-hour staffing. Domiciliary care follows Care Quality Commission standards. Properties are designed to make life easier for older residents, with features such as raised electric sockets and walk-in showers[1].

The Elderly Accommodation Counsel (EAC) is a charity with a mission to help older people make informed choices about meeting their housing and care needs. The EAC identifies four types of housing for older people: age-exclusive, sheltered, enhanced sheltered and extra care (assisted living). 'Enhanced sheltered', the smallest category, covers developments with additional access to communal facilities but without personal care or domestic help on site. 'Extra care' subsumes different types of retirement communities, which typically provide domestic services and personal care as well as other amenities**.** Age-exclusive housing is hardest to identify and the least well covered by the database. It includes formerly designated sheltered housing developments that have been re-categorised, as well as schemes in the emerging private/leasehold sector. A summary of the identifying features of each category is shown in Box 2, with care homes included for comparison.

1. We do not address design issues in this research. However, Housing Lin (Housing Learning and Improvement Network) is a knowledge hub that exemplifies housing solutions for an ageing population and is an important resource in this regard.

Box 2: Accommodation options and typical features

Key features	Age exclusive	Sheltered housing (retirement housing)	Enhanced sheltered housing	Extra care (assisted living)	Nursing or residential care
Independent living (with own front door)	✓	✓	✓	✓	✗
Scheme manager or warden	✗	✓	✓	✓	✓
Domestic help/ personal care 24/7	✗	✗	✗	✓	✓
Communal facilities and areas on site	✗	✗	✓	✓	✗
Minimum age applies (usually 55 or 60)	✓	✓	✓	✓	✗

Key: ✓ more likely to apply; ✗ less likely to apply

Age exclusive housing is designed, built and let/sold exclusively to older people (typically 50+ or 55+), but without supportive on-site management and usually without any shared facilities except perhaps a garden.

Sheltered housing (also known as retirement housing) is mainly for rent and let through local councils or housing associations, usually for people on low income. Sheltered housing is also available to lease or buy from private providers including housing associations.

Enhanced sheltered housing has additional services *in situ* to enable older people to retain their independence for as long as possible. Mostly for renting but also leasehold or purchase

Extra care (also known as assisted living) schemes are designed for independent living with a service to provide personal or nursing care on site 24/7. Typically for renting, but also leasing and purchase.

Care homes (nursing or residential) offer fee-based accommodation for people usually unable to live alone or independently because of long-term conditions such as dementia that need clinical oversight 24/7.

An analysis of 25,000 schemes on the EAC database reveals a clear distinction based on differences in the number of amenities/services provided on site. In age-exclusive developments it is between zero and 1, in sheltered housing it is 2-3, in enhanced sheltered housing it is 4-6, and in extra care facilities, 6+. Of the 17 amenities/services listed in the database, the most common are communal lounges, lifts, laundries and guest suites; the least common are swimming pools, gyms and bars. The market continues to evolve as developers compete for new kinds of clientele.

The term 'retirement community' is also in wide use, but has a specific definition based on quality considerations as well as purpose. The Associated Retirement Community Operators (ARCO), a trade body, defines these developments as having self-contained accommodation and security of tenure, allowing residents 'to age in place'. They offer care that can be delivered *in situ*; staffing 24/7; domestic services; plus communal facilities for dining and leisure. They exclude traditional age-exclusive and sheltered housing but subsume extra care facilities and retirement villages. In the EAC database, such developments are included under 'extra care'.

From an organisational standpoint, retirement developments are classified as voluntary (not for profit), statutory (local authority run), or private. The voluntary sector accounts for 65.3% of developments, statutory 22.4% and the private sector 12.4%. The split varies according to whether a development is age exclusive, sheltered, enhanced sheltered or extra care. The voluntary sector is well represented in each category while developments in the statutory sector tend towards age exclusive or sheltered housing. The private sector is well represented in the enhanced sheltered and extra care sectors and has been growing. Indeed, the mix has changed significantly since 2000 with the private sector accounting for as many new developments as the voluntary sector.

Within each category, there is a range of occupancy types including social renting, private renting, leasehold, ownership and shared ownership, with the mix dependent on development type. By far the most common form is social renting (local authorities and housing associations), which accounts for just over 79% of developments and 75.4% of retirement properties, followed by leasehold at 17.4% (22.1%). Other forms of ownership comprise a relatively small component of the market, only accounting for about 3.5% of developments and a similar proportion of properties. They are mainly within the private sector.

3.2 UK coverage of retirement living

Retirement housing ranges from single self-contained dwellings within a community or loose grouping, such as almshouses, to larger estates consisting, for example, of bungalows. Bespoke retirement communities tend to cater for more upmarket residents with capital to buy or lease a property. Sometimes located in areas of outstanding natural beauty, they may also be purpose-built or adapted apartment blocks in urban areas, with communal facilities and a wide range of services available. This is a small but rapidly growing part of the sector and the more rural ones are often referred to as 'villages'.

There are an estimated 7.93m, 65+ households in the UK, including people living in mainstream housing. The retirement segment accounts for a total of 750,000 properties spread over 25,000 developments. Assuming one property equates to one household, this means that about 9.4% of properties are age exclusive, sheltered or extra care (assisted living) based on EAC data. However, the geographic coverage is variable. There are approximately 64 properties per thousand population aged 65+ in England, 52 in Scotland, 51 in Wales but only 34 in Northern Ireland. So, while age exclusive housing has a foothold in the market, there is much further to go.

A detailed summary of developments by country and accommodation type, based on EAC data, is given in Table 3. Sheltered housing, with over 517,000 units, forms the largest category followed by age-exclusive (142,000), extra care (67,500) and enhanced sheltered (21,000). Access to amenities reflects previous analysis and ranges from low availability in age-exclusive developments to much higher availability in extra care. This distinction is also reflected in staffing, which ranges from zero per cent in age-exclusive to 100% in extra care.

Table 3: Retirement housing in the UK by category and country (developments and property units 000s)

Age exclusive	England	Northern Ireland	Scotland	Wales	All
Developments	6.3	0.1	0.6	0.4	7.3
Properties	124.4	1.1	10.1	6.3	142.0
Amenities	3.4	0.0	0.4	0.1	3.9
Properties/development	19.9	15.9	18.4	15.4	19.5
Amenities per development	0.5	0.3	0.8	0.3	0.5
% with care staff on site	0.3	0.0	0.4	0.2	0.3

Sheltered housing	England	Northern Ireland	Scotland	Wales	All
Developments	13.6	0.3	1.3	0.8	16.0
Properties	445.8	8.5	39.2	23.5	517.0
Amenities	38.3	1.1	3.6	2.0	45.0
Properties/development	32.8	29.0	30.4	28.0	32.3
Amenities per development	2.8	3.7	2.8	2.4	2.8
% with care staff on site	1.4	2.0	2.1	1.0	1.4

Enhanced sheltered housing	England	Northern Ireland	Scotland	Wales	All
Developments	0.4	0.0	0.1	0.0	0.5
Properties	17.4	0.6	2.6	0.5	21.0
Amenities	2.3	0.1	0.3	0.1	2.8
Properties/development	41.8	34.6	34.4	39.5	40.5
Amenities per development	5.2	4.9	4.5	6.8	5.1
% with care staff on site	56.8	87.5	39.5	66.7	55.5

Extra care	England	Northern Ireland	Scotland	Wales	All
Developments	1.2	0.0	0.0	0.1	1.3
Properties	63.3	0.2	1.2	2.7	67.5
Amenities	7.5	0.0	0.1	0.4	8.1
Properties/development	54.2	34.3	45.7	48.2	53.7
Amenities per development	6.4	6.2	3.7	6.9	6.4
% with care staff on site	95.5	100.0	88.9	93.0	95.3

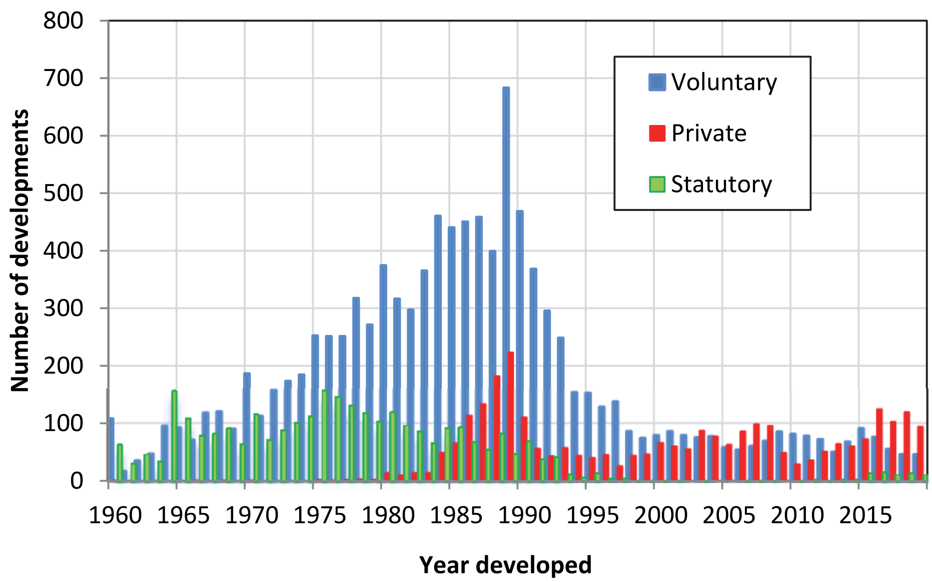
All types	England	Northern Ireland	Scotland	Wales	All
Developments (000s)	21.4	0.4	1.9	1.3	25.1
Properties (000s)	650.9	10.4	53.1	33.0	747.5
Amenities (000s)	51.5	1.2	4.5	2.6	59.8
Properties/development	30.4	26.9	27.3	25.1	29.8
Amenities per development	2.4	3.1	2.3	2.0	2.4
% with care staff on site	7.3	6.7	4.3	5.3	7.0

3.3 Trends in retirement living

Recent history has seen a transformation in the retirement housing sector, which may indicate the direction of travel. However, there are data limitations. Although EAC does a good job of keeping abreast of the retirement sector, information is missing on, for example, around 22% of the 25,000 developments in the database – on dates of origin and on developments that have closed or been re-purposed. Most of these are believed to belong to local authorities or registered social landlords.

Figure 6 shows the number of developments that have come on stream since 1960, but not ones that closed or transferred to other uses, or for which there is incomplete information. Since we are mainly interested in recent history, this is unlikely to affect our analysis significantly. To show how the sector has changed, developments are split into voluntary, private or statutory categories. The statutory segment was the first to feature after 1960, followed by a massive expansion in voluntary (not-for-profit) provision after 1970 which peaked in 1990. The private sector has emerged from the mid-1980s to become the leading developer in recent years.

Figure 6: Number of age-related property developments since 1960 based on year of origin



A major change occurred after 1990, which coincided with the introduction of the Community Care Act. This required local authorities to help vulnerable adults remain in the community (i.e. at home) rather than in institutional or residential care. It led to a rationalisation of the retirement housing sector, after which the pace of new developments shrank to a quarter of its peak.

Table 4 shows the change by sector in the decades from 1960 to 2019. The table is probably incomplete due to missing information, but it gives a reasonable picture. Overall, it shows that 534,000 properties in 16,500 separate developments have been added to the pre-1960 stock of about 213,000 properties. The pace of development in the voluntary sector declined significantly in the 1990s and there has been little new development in the statutory sector since 1990, apart from 2010-19. The private sector has displaced statutory provision based on number of properties managed, but the voluntary sector remains by far the largest.

Table 4: Retirement developments and properties broken down by decade and provider category

Sector		1960-69	1970-79	1980-89	1990-99	2000-09	2010-19	Total
Voluntary	Developments	793	2,154	4,242	2,109	722	663	10,683
	Properties (000s)	22.2	64.1	128.5	51.7	24.4	34.3	325.3
Statutory	Developments	764	1,152	815	199	7	83	3,020
	Properties (000s)	20.9	35.3	26.2	6.6	0.3	3.7	93
Private	Developments	3	11	817	511	736	751	2,829
	Properties (000s)	0.1	0.4	33	20.2	30	32.1	115.9
Total	Developments	1,560	3,317	5,874	2,819	1,465	1,497	16,532
	Properties (000s)	43.2	99.8	187.7	78.5	54.7	70.2	534.2

The clear conclusion is that local authorities are increasingly relying on private and voluntary providers, subject to oversight through the planning system. Given the lower volume of activity since 1990 there is a legacy of older properties in need of adaptation or refurbishment to meet modern standards.

Since 2010, there has been a pick-up in activity with a further 70,000 properties created at an average annual rate of just over 7,000 units. Of the total, 57% were sheltered or enhanced sheltered developments and 28% were extra care, indicating a move up-market in terms of quality and comfort. There has also been a trend towards leasehold tenancies. In the current pipeline of developments, about 75% are for extra care, a trend that is set to increase its presence in the retirement housing market significantly.

Age-related housing still accounts for only a small fraction of total house building. UK-wide, 3.3m new homes have been completed since 2000, of which retirement housing only makes up about 2%. Given the pace of growth in the older population and the increasing under-occupation of homes, this highlights the gap in supply. Clearly, much more needs to be done.

Today, the retirement housing sector is characterised by a large number of small- to medium-sized organisations, including around 140 local authorities. There are 1,963 separate providers on the EAC database, with the top ten, as measured by number of properties, accounting for about 25% of retirement properties in the UK, most overseeing developments in multiple locations. The big providers often run a mixture of social rented, leasehold and (to a much smaller extent) owned arrangements, but some specialise. Private providers, such as McCarthy & Stone, tend to focus on leasehold or ownership, while Anchor Hanover in the voluntary sector focuses mainly on social renting and leasehold. While renting is likely to remain the most common, more clients are opting for ownership and looking for larger, better-appointed units. Since 2017, there has been an influx of institutional money going into housing with care from investors including Legal & General and AXA.

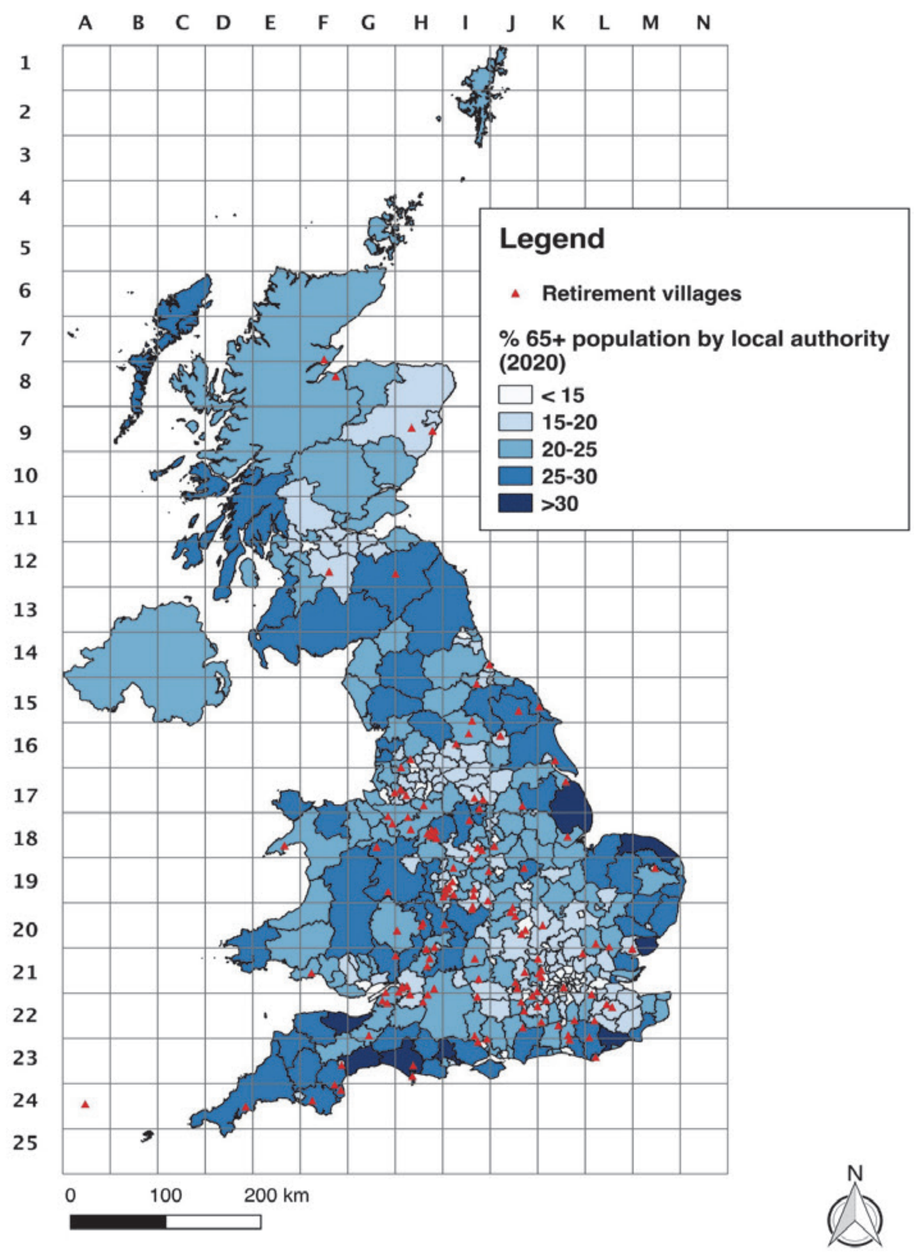
3.4 Retirement villages

As previously noted, EAC categorises developments in various ways. Self-contained accommodation is basically a block of flats: these dominate the sector, accounting for around 95% of all retirement properties. Loose groupings or estates usually comprise bungalows and account for 3.5%. The term 'retirement village' denotes large sites, offering sheltered and extra care facilities often with the opportunity to step up into nursing care.

They have the advantage of scale in providing services and amenities *in situ*. Slightly over half of retirement villages are run privately while the rest are nearly all not-for-profit. Of the 140 villages in the EAC database, 131 were constructed after 1980. The concept is well established in countries like the US and Australia, and its popularity is increasing in the UK, where they account for 10% of all retirement properties added since 2000.

Since the financial crisis, new villages have been opening at the rate of about five a year. Each village has an average of about 122 properties. Figure 7 identifies their locations in 2019, overlaid on a map showing the percentage of people aged 65+ by local authority area. There is little correlation between the number of older people and village locations. The majority are located in England, west of a central line, and in and around London. There are some scatterings in the south-west and north-east of England. Apart from a small number of villages in Scotland, there are very few in the rest of the UK, even where there are relatively high percentages of older people. It can be argued that the southwest is quite well endowed with other forms of retirement housing**.** Increasing demand is likely to change the observed pattern.

Figure 7: Locations of UK retirement villages and the percentage distribution of population aged 65+by local authority area (sources EAC, and ONS)



3.5 Health and longevity benefits of retirement communities

Evidence is building that retirement communities offer health and social benefits that can reduce the cost of domiciliary care through greater efficiency and more integrated services. The timeliness and availability of care, sense of wellbeing and socially convivial environment are contributory factors. Research by the ExtraCare Charitable Trust, with the Aston Research Centre for Healthy Ageing[2], identified considerable savings to the health and social care economy where care services are provided on site. Compared with a control group, they found there were fewer falls, unplanned hospital admissions, hospital bed-days and GP visits. Local authorities made savings on delivering social care and in delayed transfer to local authority funded residential care because people were able to remain independent for longer.

Whether to keep people in their family homes for as long as possible or help them to move into more age-appropriate accommodation is emerging as a major issue. It is about not only making more efficient use of the housing stock, but also rationalising the cost of delivering care to people's homes. This is not to say that similar benefits cannot be provided in the general community but delivering care to scattered individual households is likely to cost more.

To obtain a positive health outcome, the preventative benefits of early intervention and a co-ordinated approach need to be recognised, leveraging the resources in the private, voluntary and statutory sectors. Information sharing and more timely assessments of care needs are essential, and these tend to be easier to achieve in a communal setting. Community-based services work best when health and social services are integrated. One study found savings of 14-28 hospital bed-days per person, up to five fewer visits to A&E and delayed transfers into residential care through early identification of people at risk, rather than on discharge from hospital.[3]

Anecdotally, there is evidence that people live for longer in retirement communities. But this is difficult to prove due to selection effects – people who are both healthier and better off are more likely to choose retirement communities than people who are not. One recent landmark study did show that residents of one retirement village – Whiteley (see Box 3) – received a boost to life expectancy compared with people in the general population. The study was exceptional because villagers were from poorer backgrounds, which normally means they experience higher levels of mortality than average. The mortality of these residents was on a par with people in the highest socio-economic groups.

2. Better Lives, Health, Future: Key findings. Extracare Charitable Trust (2015). https://www.extracare.org.uk/media/1168260/18239-brochure-210x210-166.pdf
3. Mayhew L (2009), 'On the effectiveness of care co-ordination services aimed at preventing hospital admissions and emergency attendances', Health Care Management Science, 12(3), p.269-284

Box 3: Whiteley Village

Located in Surrey, Whiteley Village is a charitable trust. Home to around 300 residents, it is a mix of almshouses, extra care apartments and a residential/nursing home, with communal facilities and other amenities. The average age of entry is around 72 for both men and women – around five years higher than when the village opened in 1917. By analysing 100 years of records of all the residents, the study* (undertaken for Whiteley Village and the International Longevity Centre by actuaries at Cass Business School) found that female life expectancy was boosted by up to five years, depending on decade of entry, as compared with the general population.

The study attributed this to enhanced quality of life, much reduced levels of isolation and the oversight provided by Whiteley staff. Interestingly, increases in male life expectancy were not statistically significant, mainly because men generally entered the village in worse health and so profited less from the benefits. However, the lesson is that it is possible to create a socially stimulating and safe environment in which older people can enjoy a longer retirement in comfort than that experienced by similar individuals in the general population.

** Does Living in a retirement village extend life expectancy? The case of Whiteley Village. International Longevity Centre (2017).*

Challenges remain in trying to increase the supply of retirement communities, especially the larger ones. Whiteley had a planning application to build 120 homes for pensioners rejected by Elmbridge Borough Council in 2017 and lost its appeal in 2018. The planning inspectorate turned it down because of the 'impact on the green belt'. This decision is obviously at odds with the increasing need for retirement housing. It is hard to avoid the conclusion that older people are not seen as a priority by many local authorities, which instead tend to see them as a burden.

To summarise, retirement housing has a long history, but provision has lagged far behind what is needed to meet the requirements of an ageing population. The industry grew rapidly in the 1980s thanks to local authorities and the voluntary sector, but local authority investment tailed off after 1990. Many of the older developments are now in need of refurbishment. The overall picture is, therefore, diametrically opposed to the scale of building required based on demographic analysis.

The private sector now supplies as many properties and new developments as the voluntary sector, and leasing has grown in popularity. But the 750,000 retirement homes in the UK only represent 2.6% of the total housing stock and only 9.4% of households aged 65+. Around 7,000 new retirement properties have been added annually since 2010; however, this compares with a rise of 145,000 in the number of 65+ households each year, obviously increasing the shortfall.

Chapter Four: Making a difference

The argument so far boils down to the following points:

- There is increasing under-occupation of the existing housing stock.
- There is also a chronic shortage of suitable accommodation for older households to downsize into.
- This constricts the supply of homes, especially for families, with knock-on effects right through the housing ladder.
- The potential exists to release thousands of homes each year for younger purchasers, releasing funds for older people and enabling them to move to more appropriate accommodation.

There ought to be a huge market for retirement housing that would help correct these imbalances. Housing wealth is second only to pensions as a source of personal wealth in the UK. According to the ONS, net housing wealth is estimated at £4.6 trillion with 65% concentrated in households aged 55+ (41% in the 65+ age bracket). The median wealth based on all asset types, including pensions, in the 55-64 age group is over £500,000 and so the financial means exist to downsize given the right policies and affordable alternatives.

At present, the majority of older people's housing-with-care provision caters for those eligible for social/affordable rent. It is heavily subsidised through the housing benefit system and charitable foundations. Some 1.2m households aged 65+ receive housing benefit, of which 80% are local authority tenants or registered social landlord tenants. Most of the older home-owning population fall into the 'middle market' bracket and are ineligible for social rented accommodation – for them retirement housing needs to be attractive as well as affordable.[4]

This chapter argues that the UK's housing strategy must cater for last-time buyers as well as first-time buyers. New units, underpinned by government subsidy aimed at first-time buyers, tend to have one or two bedrooms. They are often too small for a family and in unsuitable locations for older people. Without financial mechanisms to encourage older households to downsize or share existing accommodation, e.g. through the rent-a-room tax break, under-occupancy is likely to worsen.

Significant changes are needed in the type of housing available. Greater access to care will be a priority for the growing ageing population, which could imply a shift towards more collective living with integrated services and access to healthcare and shops. The likely length of residence also has to be considered. Someone aged 65, for example, can expect to live a further 20 years, but a person aged 85 (whose potential care needs are greater) obviously has a much shorter life expectancy. Apart from longevity, disability-free life expectancy also influences the amount of support needed.

Surveys show that downsizing is popular in theory but less so in practice. The main reasons for considering downsizing are that the family home has become too big for the needs of one or two people, too expensive to run or is otherwise unsuitable. One such survey from 2014, commissioned by Legal & General, found that 33% of over-55s would consider moving but only 7% actually did.[5] Key reasons were the lack of availability of suitable

4. Housing for older People. Communities and Local Government Committee Second Report of Session 2017–House of Commons (2018) https://publications.parliament.uk/pa/cm201719/cmselect/cmcomloc/370/370.pdf

5. Centre for Economics and Business Research. https://cebr.com/reports/uk-last-time-buyer-market-worth-820-billion/

properties and price. The latest edition of Legal & General's *Last Time Buyers Report*[6] argues that 26% of older households are amenable to downsizing, affecting 3.1m properties. This could release 6.2m beds, assuming two spare bedrooms per property, suggesting huge potential.

In its vision for the future, ARCO[7], the trade body for retirement communities with care, envisages an expansion from the current population of 75,000 living in retirement communities to 250,000 by 2030 across the sector. With around two-thirds of residents living alone, this would translate into roughly 15,000 new properties a year. We can compare these figures with the EAC data that showed annual stock additions since 2010 of only 7,000 units. A study by JLL[8], a property developer, argues for a much higher figure of 72,500 new retirement units each year for ten years, equating to nearly a third of the current rate of total housebuilding in an average year.

Downsizing should not be seen in isolation from other issues. For example, it can enable the release of equity to enhance lifestyle, gift wealth to children or pay for care. These options, however, may not be open to those without savings or a decent pension and so trade-offs are inevitable. The pros and cons of downsizing may be complicated and independent financial advice will almost certainly be needed at some stage, as well as changes in government policy.

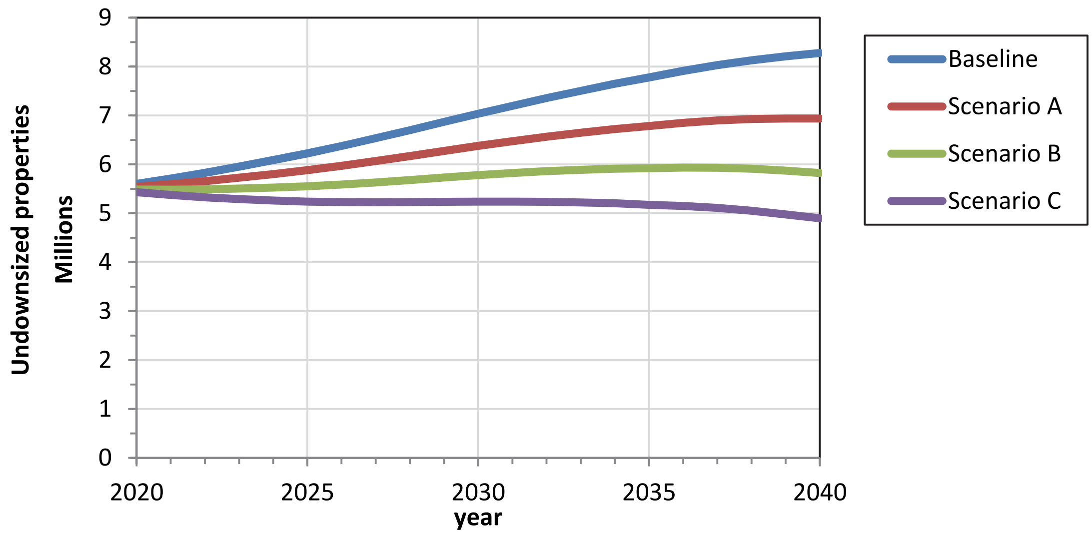
4.1 Supply-side scenarios

Older households are not a homogeneous group: their needs vary depending on their age, health, wealth and other circumstances. The usual assumption is that retirement living needs to be able to adapt to the changing needs of ageing residents. To take a straightforward example, suppose the number of older households was steady year on year. Assume that 1% downsized into new homes annually and that the average length of stay was 10 years. If there are 8m older households altogether, this would create an initial requirement for 80,000 homes a year. Such a programme would result in 800,000 downsized households between 2020 and 2030, releasing 1m bedrooms. A similar build profile would arise if the length of stay were 20 years, but the building programme would be for 20 years and generate 1.6m new homes.

This example is purely illustrative. It does not take on board the growth in older households due to the post-war baby boom, nor the specific age or wealth characteristics of individual downsizers. Nor does it adjust for the number that already live in retirement properties. Many other variables could be included, but what all the scenarios share is the enormous scale of the task. The baseline case used in the following example takes homeowners in un-downsized households age 65+, which are estimated to total around 5m. Three scenarios are given in Figure 8, which shows the remaining number of un-downsized households from 2020 to 2040: A is based on 1% of older householders downsizing each year, B on 2% p.a. and C on 3%.

6. L&G Last Time Buyers Report. https://www.legalandgeneralgroup.com/media-centre/reports/last-time-buyers-1
7. ARCO Retirement Communities Fact Pack. https://www.arcouk.org/resource/retirement-communities-fact-pack
8. JLL Housing with Care report 2019. https://www.jll.co.uk/en/trends-and-insights/research/retirement-living-jll-housing-with-care-index

Figure 8: the number of un-downsized older households based on three retirement building variants



With a 20-year average length of stay, the scenarios imply 63,000, 117,000 and 161,000 new homes to be built each year to 2040. Although these estimates are rough, they illustrate that even with building on this scale, under-occupation would still be prevalent. Case A, for example, would not stem the growth in un-downsized homes; B would stem the growth but not reduce it; C would reduce it, but building would need to be on an unprecedented scale. While creating more capacity is important, a range of housing solutions would be needed including better use of the existing stock.

Clearly it is possible to add a lot more detail to these broad-brush estimates. If space requirements are measured in bedrooms, there is a debate about how many are needed per household type. In the voluntary and statutory sectors, choice is likely to be limited and strict housing benefit rules may apply. However, a major issue for older people with their own housing wealth, who wish to downsize, is that many modern apartments are built to the smallest space standards and are situated in tower blocks in urban areas, and so are not suitable for older living.

It is uncontentious to say that typical young families need three (or more) bedrooms, but how many do an older couple need? Consider a couple who decide to move from a house to an apartment because it is easier to maintain and safer to grow old in. We might assume one bedroom is enough, but two would accommodate a live-in carer, while three would allow for family visits. We attribute the shortage of supply to the business model used by developers, which caters for young urban professionals, who are out at work or enjoying urban life for most of the day (the Covid-19 crisis may have forced a rethink of housing needs even among this generation). Various publications have addressed the design issues involved, including the question of disabled access.[9 10 11]

We have argued that future demand will be driven by older people with very different lifestyles and living requirements. Valuation Agency data show that two thirds of domestic properties are houses of two or

9. See for example: Design Principles for Extra Care – Fact Sheet No. 6, Care Services Improvement Partnership. https://www.housinglin.org.uk/_assets/Resources/Housing/Housing_advice/Design_Principles_for_Extra_Care_July_2004.pdf. Also

10. Inquiry into decent and accessible homes for older people All Party Parliamentary Group on Ageing and Older People, Summer 2019. https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/appg/appg-for-ageing-and-older-people---report-on-decent-and-accessible-homes-for-older-people.pdf

11. HAPPI - Housing our Ageing Population: Panel for Innovation 2009.http://www.housingcare.org/information/detail-3056-happi-housing-our-ageing-population-panel-for-innovation.aspx

more storeys (terraced, semis or detached), 10% are bungalows and 22% apartments. Although 60% of all properties have three bedrooms or more, this applies to only 10% of all apartments. For example, of the 5.4m apartments in England, 44% have one bedroom, 44% two bedrooms and 10% have 3+ bedrooms, with the remainder unknown.

In other words, the scope for older couples to move from a typical 3+ bedroom property to a 3-bedroom modern serviced apartment is extremely limited. Many existing homes would need significant adaptation – age-friendly bathrooms, kitchens and so on. Bungalows, which are popular with older couples, are scarcer than apartments especially in cities, but the number with 3+ bedrooms exceeds the number of flats of this size. In purpose-designed retirement communities, there is shared space and so bedroom constraints are not such an issue.

Downsizing to a 2-bedroom apartment is easier, but flats of an appropriate quality and size are scarce compared with the availability of houses or developments with communal space. The net effect of this is to deter people from moving into more manageable properties as they grow older – for example, with shared management, communal gardens, underground parking, lifts and a concierge.[12] This is not a gap that can be closed overnight, but it could be managed with housing policies that encourage people to downsize and developers to build appropriately.

4.2 The planning system

If the answer is new homes then the planning system becomes an extremely important enabler. However, the news here is not good. Research by the Law firm Irwin Mitchell[13] examined local plans of 329 UK local authorities and found that not enough provision was being made. It looked for policies on retirement housing and care homes to see if local authorities were properly prepared. It found that only 9.7% had clear policies showing the number of dwellings or care home beds required, how this would be achieved and site requirements. Another 22% had clear policies but no site allocations and 6.7% had land allocations but no policy. The remaining 62% had neither clear policies nor site allocations.

One of the difficulties is that housing policy remains a devolved function, so arrangements and outcomes differ hugely by area. The combined effect is to restrict supply and increase prices. A national policy is called for, especially as the government's housing white paper, published in 2017[14], found that local authorities were failing to plan for enough homes to meet local requirements, and that 40% had no plans at all. It pointed to failures in the planning system, which is slow, costly and complex, and to too little land being made available for development. As already observed, it is hard to avoid the conclusion that older people are not a priority for local authorities.

The House of Commons Communities and Local Government Committee has looked specifically at the housing needs of older people, which it described as a 'broad and complex area of policy'.[15] It recommended that the government should introduce a national strategy specifically for older people's housing. Its report covers a broad range of issues, but on planning it recommended that local authorities should publish a strategy explaining how they intend to meet the housing needs of older people in their area. Plans should identify a target proportion of new housing to be developed for older people and identify suitable sites close to local amenities.

12. Ideas on these lines are not new. See, for example, Best and Porteus (2012) Housing our Ageing Population: Plan for implementation. https://www.housinglin.org.uk/_assets/Resources/Housing/Support_materials/Other_reports_and_guidance/Housing_our_Ageing_Population_Plan_for_Implementation.pdf
13. 2017. Two Thirds of Local Authorities Failing To Prioritise Housing For Older People in Local Plans. Irwin Mitchell. https://www.irwinmitchell.com/newsandmedia/2017/july/two-thirds-of-local-authorities-failing-to-prioritise-housing-for-older-people-jq-25948
14. 2017. 'Fixing our broken housing market'. Ministry of Housing Communities and Local Government. https://www.gov.uk/government/organisations/ministry-of-housing-communities-and-local-government
15. 2018. House of Commons Communities and Local Government Committee Housing for older People Second Report of Session 2017–19 Report. https://publications.parliament.uk/pa/cm201719/cmselect/cmcomloc/370/370.pdf

As evidence of progress, the number of homes developed against this target should be published each year.

A more holistic approach would also take into account the health and social care benefits of age appropriate housing. This is the guiding principle behind extra care housing. The committee argued for greater collaboration between planning, social care, health and housing teams to assess the savings to health and social care budgets that may arise from additional specialist housing in their area. It does not help that social care is a county council level function while planning is district council level. However, the social care system is itself in urgent need of reform and remains cash strapped. Indeed, the present policy of supporting people in their own homes for as long as possible may not be affordable in the long run.

4.3 Financial and related issues

An early consideration for downsizers with housing equity at their disposal is whether to rent, lease or buy. Where downsizing involves the sale of a person's or couple's main property, the cost of the new one should be less than the net proceeds of the sale. If it is a new build, the downsized home should not require any additional spending on adaptations. However, the transaction costs may be substantial, including stamp duty and removal costs. A mortgage may be available if there is a shortfall, but that may put a strain on monthly outgoings.

If downsizers have paid off their previous mortgage and moved into a cheaper property, they may_want to release cash to fund retirement, pay off debts and make gifts to heirs. The cost of downsizing will ultimately depend on whether they choose to rent, lease or buy. As freehold tenure represents only a tiny proportion of housing designed for older people, people switching from freehold home ownership to leasehold will need to adapt to paying service charges.

Box 4 summarises the financial pros and cons of the three main alternatives (B-D), plus a 'do-nothing' option (A). There are six different considerations: the amount of equity released, security of tenure, stamp duty, gifting, inheritance tax and paying for long-term care. Gifting is only possible if the cash realised from downsizing exceeds transaction costs and taxes; clearly, this option is improved the cheaper the accommodation moved into is. In the do-nothing option, no cash is released but the home may need expensive adaptations. The owner may be asset rich, but if he or she is income poor this and ongoing maintenance costs could be a problem.

In the other cases the pros and cons are usually clear-cut. For instance, an owner who has downsized into rental accommodation has no stamp duty to pay and may end up with more cash than other categories. Purchasers may be concerned about whether they are likely to get their money back if they move or die: research by JLL in 2019 showed 83% of retirement community housing increasing in value[16]. Some schemes guarantee the return of the purchase price less any deferred fees.

Leaseholders must also pay service charges for the upkeep of the building and communal maintenance charges e.g. for gardens and the fabric of the building. A criticism of the system is that if a leased property becomes vacant due to the death of the occupant, service charges will continue to apply until the property is re-leased. Schemes where the operator, which retains the freehold, buys the property back, help to lessen this concern but may also limit the potential upside of a free-market sale of the equity interest in the property.

16. JLL Housing with care index 2019: https://www.jll.co.uk/en/trends-and-insights/research/retirement-living-jll-housing-with-care-index-2019

Box 4: Pros and cons of downsizing options

Category	Downsize option	Equity released	Security of tenure	Stamp Duty	Gift opportunity	IHT*
A	Do nothing	✗	✓	✗	✗	✓
B	Rent	✓	✗	✗	✓	✗
C	Lease	✓	✓	✓	✓	✗
D	Buy	✓	✓	✓	✓	✗

Key: ✓ more likely to apply; ✗ less likely to apply; *IHT = Inheritance Tax

Equity released is the difference in price after all taxes, transaction and moving costs have been paid. The ‘do-nothing’ option can release cash using equity release, also known as a lifetime mortgage.

Security of tenure depends on whether a person rents, owns or leases. A rental agreement is usually least secure because landlords have the right of eviction depending on the tenancy agreement.

Stamp Duty is paid on the purchase of a property depending on its value. No duty is payable if the home is worth less that £125,000 and none is due on rental properties.

Gift opportunity is the giving of money to children or others using money released as a result of downsizing. This is free of tax if the person making the gift survives for 7 years.

Inheritance tax depends on the value of the estate, over the relevant allowance, on death.

Category	Pros	Cons
A	No need to move home No transaction costs	Liable for future maintenance and repairs Home may need expensive adaptations Inflexible
B	Cash rich from sale of home No stamp duty to pay Flexible No repair costs	Less security Higher outgoings Accommodation quality and choice variable
C	Security of tenure No external repairs to pay Cash released from sale of home Gift opportunity No rent to pay	Service charges/ground rent payable Wealth locked up in fixed asset May not get money back Liability for stamp duty Inflexible
D	Security of tenure Cash released from sale of home Gift opportunity No rent to pay	Liable for maintenance and repair bills Wealth locked up in fixed asset May not get money back Liability for stamp duty Inflexible

Timing issues are also important and delays from sitting in a long housing chain can lead to disappointment. Part exchange is an intriguing alternative, especially if linked to helping people lower down the housing ladder. Schemes apply to most types of residential property, regardless of whether the new property costs more or less. Benefits of moving into a new build include savings on repairs and redecoration, but the part-exchange transaction may have strings attached and does not come cheap. Another option is shared ownership in which the retiree owns a percentage of the property but also pays rent. Stamp duty may be reduced as a result. Some providers, to attract new customers, will absorb the cost of stamp duty but claim it back when the house is sold.

One of the issues missing from Box 4 is the possibility of having to pay for long-term care. To qualify for state support a person must have less than £23,250 in assets. Realistically this would disqualify all home owners, which means that their homes are at risk. Premium payments for insurance against these potentially large costs can eat into retirement funds, which helps explain why demand for these products has waned. In the CSFI report *The Last-Time Buyer,* we recommended using housing equity to buy insurance, with the premium being paid from cash released by downsizing, or by designating a percentage of the equity to cover the premium on death or after sale of the home.[17]

4. 4 The deferred fees model

Newly built properties are priced at a premium to second-hand ones of a similar size. New two-bedroom apartments in London, for example, typically start at £500,000. This makes it more difficult for a downsizer to make a significant profit on the difference between sale and purchase price. The high up-front price of new builds together with uncertainty about resale values and ongoing costs create a limitation on expanding the market for leasehold or freehold retirement properties.

To tackle this issue, an increasing proportion of sales are now based on a deferred fees model, which is well-established in countries such as Australia and New Zealand. The original purchase price of the lease is guaranteed to be returned to you or your estate, minus a long-term maintenance charge, administration fee and any outstanding charges. This arrangement shields the owner from unexpected financial shocks such as replacing a roof. Coupled with a cap on increases in the annual service charge, it better aligns regular outgoings with retirement income, which is often fixed, and allows the use of housing equity to pay deferred expenses. There could be an option to include long-term care insurance in purchase agreements with the premium deferred until the property is sold.

Because the developer will recoup more at the resale stage, it can reduce the up-front purchase price compared with a typical house-building model where all the profit is booked on the initial, one-off transaction. Details of each scheme vary. In one example the scheme operator charges 1% of the purchase price per year up to a maximum deduction of 10% plus an administrative fee of £750.[18] In another scheme, the maximum deferred fee is much higher at 30%. Other variants base the refund on the sale and not purchase price of the property, with any capital gains shared equally.

Profits for the scheme developer do not accrue until a property is re-sold, which may be many years later. Meanwhile the initial investment has to be financed. The high level of investment needed is increasingly being taken on by institutions, for which the deferred fees model offers attractive long-term returns. Investment vehicles include partnerships with established providers and developers with the relevant design and operating expertise. Using pension, insurance or other funds, institutional investors such as Legal & General, AXA, BUPA, Octopus Healthcare and Schroders are predicted to invest over £60bn in the sector over the next ten years.

Whether to downsize involves many variables and the complexity can be a barrier irrespective of financial issues. Many will have an emotional attachment to their homes and so the decision to move has to meet a

17. Last time-time buyer: Housing finance for an ageing society. https://openaccess.city.ac.uk/id/eprint/21800/
18. The Extra Care Charitable Trust: https://www.extracare.org.uk/living-with-extracare/costs-and-charges-in-extracare-locations/

number of criteria. The alternative of staying put and adapting the existing home is also attractive, but it could mean foregoing income and a change in lifestyle. Equity release can help with financing of alterations but eventually has to be repaid. These factors, coupled with the shortage of suitable properties to downsize into and the high transaction costs, explain much of the inertia.

Table 5 shows the variation in occupancy type for each category of supported housing. It shows that 75% of properties are rented, the overwhelming majority of which are socially rented. Leasehold accounts for 23% and purchase and other types of occupancy account for 2%. However, if we look at the last ten years, we find that 42.5% of new properties coming on stream are for rent, 54.2% are leasehold and 3.3% freehold, showing the increasing importance of ownership – effectively redeployed housing equity.

Table 5: The number of UK retirement properties by occupancy type (000s)

Category	Rent(a)	Lease(b)	Buy	Other	Total
Age exclusive	120.5	19.5	1.5	0.5	142.0
Sheltered	380.1	127.5	8.2	1.1	517.0
Enhanced sheltered	9.5	10.3	0.3	0.9	21.0
Extra care housing	51.8	14.9	0.3	0.4	67.5
Total	562.0	172.2	10.3	3.0	747.5

Source: EAC Notes: (a) overwhelmingly social renting; (b) combines several types of leasehold

The above discussion reveals a multitude of considerations – the type and location of accommodation, communal amenities, whether there are step-up facilities if care is needed, whether there is space for guests – and how all of this is covered by either annual or deferred fees. People find it daunting to weigh all this up and, ideally, would have access to independent advice – but this is lacking. This leaves providers to step into the gap with their marketing, which attracts criticism because of potential bias.

4.5 Tax policy

Given that downsizing is still relatively rare, despite the number of older people living alone in large properties, it is surprising that more use is not being made of the tax system to encourage change. Indeed, the evidence suggests that current tax policies act as a drag on downsizing. This is a complex area, but relevant taxes are council tax, stamp duty, inheritance tax and capital gains tax. With the exception of council tax, all are levied on transfers of ownership.

Of these, stamp duty[19] is the most likely to affect the decision on whether to downsize. Payable on most residential properties bought in the UK, it is a major source of tax revenue, raising over £8bn a year. It is paid on any property purchase of more than £125,000, except for first-time buyers who have nothing to pay on purchases under £500,000. The rates are tiered so that between £125,000 and £250,000, the levy is 2% of the purchase price; from £250,000 to £925,000 it is 5%; from £925,000 to £1.5m, 10%; and above £1.5m, 12%. Note that no stamp duty is payable if the downsizer's choice is to rent, which partly explains why renting remains popular.

Stamp duty rates have often been increased. For example, in 1993 a rate of 1% was levied on properties sold for over £60,000, with properties sold for less than that nil banded. The last major reform was in 2014 when the slab system (where you would pay a single rate on the entire property price) was swept away. Instead rates apply to the bracket the price falls into – more like income tax. Its main effect was to remove the cliff edges between bands, but this has not prevented the tax take from increasing.

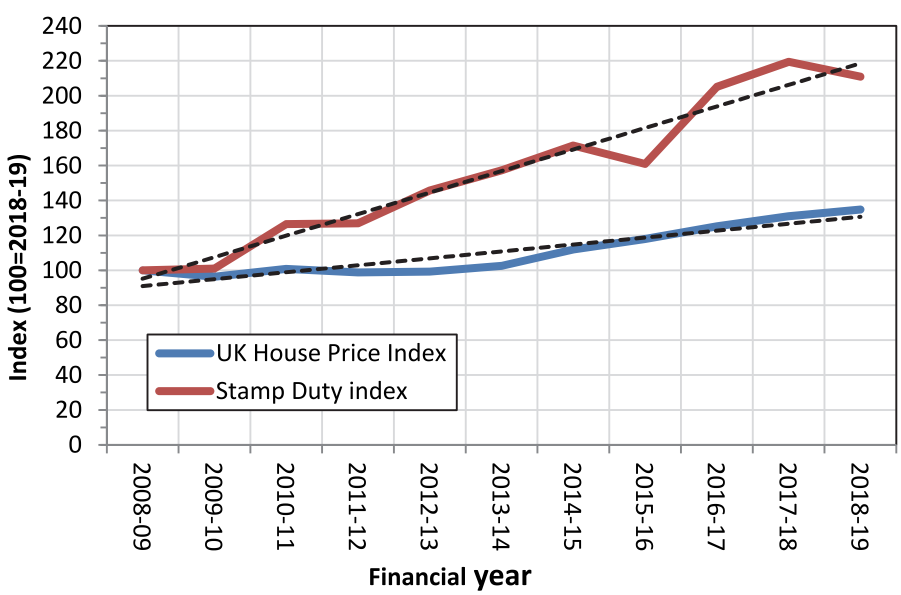
19. Technically speaking Stamp Duty and Land Tax or SDLT. In Scotland it is know as Land and Buildings Transaction Tax (LBTT) and In Wales it is the Land Transition Tax (LTT)

Research by IPC[20] found that the housing market responded quickly to changes in stamp duty, and that reducing the cost of housing transactions provided an economic stimulus. It investigated the impact of downsizing on property transactions and tax revenues if older people were exempt from stamp duty. It found that there would be no net loss of tax to the government due to the increased number of sales. Indeed, it could generate a significant surplus by stimulating tax revenues further down the chain.

Hilber and Vermeulen[21 22] found that abolishing stamp duty could help rebalance the skewed housing market by improving the willingness of older households to downsize and by providing young families with opportunities to move into larger homes. They concluded that stamp duty "jams the housing market" by preventing households from moving to more suitable accommodation. Their central estimate suggested that a two percentage point increase in stamp duty from 1% to 3% reduced household mobility by almost 40%. The effect was most pronounced on discretionary moves within local areas and least so on long distance or forced moves connected with life events. This report has sympathy with these views.

Recent data show that the number of property transactions has been in slow decline to levels well below those prevailing before the financial crisis. If we want older people to downsize, this is the opposite of what is required. Stamp duty is only one factor among many affecting the housing market. What we can compare, however, are changes in stamp duty relative to house prices over time and clearly the tax burden has been increasing. We found that average duty per transaction has increased at 12.3% per annum since 2008-09, whereas house prices have only gone up by 4% a year. Figure 9, which compares the indexed values of house prices and stamp duty payable per transaction, with superimposed trend lines, shows the divergence.

Figure 9: Trends in indexed stamp duty payable per transaction and UK house prices (dashed lines show underlying trend)



20. 2016. Institute for Public Care (IPC). Stamp Duty and Housing for Older People. https://ipc.brookes.ac.uk/publications/IPC%20Stamp%20Duty%20and%20Housing%20for%20Older%20People.pdf
21. Christian Hilber and Wouter Vermeulen (2016) 'The Impact of Supply Constraints on House Prices in England', Economic Journal 126(591): 358-405
22. Christian Hilber and Teemu Lyytikäinen (2017) Stamp Duty, mobility and the UK housing crisis. Centre Piece. http://cep.lse.ac.uk/pubs/download/cp516.pdf

There are no publicly available data on property sales by age[23] but there are on sales according to property values. Table 6 integrates sales data for the UK[24] and shows the percentage of transactions in each tax band at two-calendar year intervals from 2010 to 2018. This reveals shifts in the percentage of buyers paying stamp duty at higher rates, caused by rising house prices and static tax bands. In the nil-banded range up to £125,000, the percentage paying no stamp duty has fallen from 26.4% to 17.9%; in the £125,000-£249,000 band it has fallen from 46.3% to 39.1%; and in the £250,000-£499,000 band it has increased from 21.5% to 32.7%. Higher tax bands are less affected.

Table 6: The percentage of total UK housing transactions falling within given tax bands (rows add to 100%)

Year	<£125,000	£125,000-£249,000	£250,000-£499,000	£500,000-£999,000	>£1m
2010	26.4	46.3	21.5	4.7	1.1
2012	26.7	45.9	21.5	4.8	1.1
2014	24.1	44.1	24.4	6.0	1.4
2016	21.8	41.7	27.9	7.1	1.5
2018	17.9	39.1	32.7	8.7	1.6

Stamp duty effects apply to up-sizers as well as downsizers. For instance, the buyer of a home worth £600,000, which is typical of prices in south-east England, would need to pay £20,000 in stamp duty. Table 7 shows the tax due on the whole transaction combining the cost to both parties based on current rates. The top row gives the purchase price for the up-sizer and the first column the price for the downsizer. The table illustrates how quickly charges accrue higher up the value chain.

Table 7: Combined stamp duty payable by up-sizer and downsizer at different price points (£s 000s)

Price point £s (000s)	Upsizer 125	150	500	750	1,000	1,500	2,000
Downsizer 125	0.0	0.5	15.0	27.5	43.8	93.8	153.8
150	0.5	1.0	15.5	28.0	44.3	94.3	154.3
500	15.0	15.5	30.0	42.5	58.8	108.8	168.8
750	27.5	28.0	42.5	55.0	71.3	121.3	181.3
1,000	43.8	44.3	58.8	71.3	87.5	137.5	197.5
1,500	93.8	94.3	108.8	121.3	137.5	187.5	247.5
2,000	153.8	154.3	168.8	181.3	197.5	247.5	307.5

23. In theory the best source would HMRC, which is responsible for stamp duty, but proceeds are not broken down by age of purchaser which would provide a more accurate picture on downsizing.

24. In Scotland and Wales Stamp Duty is known by different names and different rates may apply.

Some economists have argued that stamp duty should be replaced by an annual tax on property and land, although this would be a big step. A regime to encourage downsizing would be simpler to implement and less controversial. For example, an immediate measure could be to increase the nil rate band to £300,000 for last-time buyers (it could only be claimed once) and introduce preferential rates for up-sizers who purchase from last-time buyers.

In summary, this section has argued that stamp duty reduces transactions. It deters older people from downsizing and younger ones from upsizing. If the former downsize, it tends to be into much smaller properties in a low tax band, or they will rent rather than lease or buy. Either way it is a tax on choice. We recommend that first-time and last-time buyers should be put on an equal footing and that stamp duty for purchases up to £300,000 should be nil-banded or abolished altogether.

Chapter Five: Conclusions

There are four key reasons why we should be concerned about the shortfall in retirement housing:

- First, the increasing under-occupation of the housing stock caused by a rapidly ageing population has created a dysfunctional housing market. First-time buyers find it difficult to get on the housing ladder and families find moving to larger homes expensive. Older households are only 40% to 60% efficient based on space usage, whereas space is at a premium in younger households.
- Second, far too few homes are being built that cater for older people. The vast majority are not designed for retirement living – indeed, many are not suitable for families. Retirement housing has only accounted for about 125,000, or 2%, of all new homes built since 2000, but each year around 700,000 people turn 65 years of age.
- Third, the net result is that the number of households will continue to grow at a faster rate than the population and average household size will continue its long-run decline, resulting in increasingly inefficient use of the housing stock. Without change, the number of 'surplus' bedrooms will grow to over 20m by 2040, 60% of which will be in older households.
- Fourth, with care homes charging high fees to cater for people with high needs, the provision of age appropriate housing, with flexible access to communal services and personal care, must become part of mainstream housing policy. This should be integrated with tackling the social care needs of an ageing population.

The challenges are massive, but are they manageable? If average occupancy remained at today's levels, around 50,000 fewer homes would need to be built each year – which would be a start. If we wanted to increase average occupancy, the task would be much greater. It would require 3% of 65+ households to downsize each year – necessitating building or repurposing over 160,000 homes annually. This would be a huge undertaking.

The dangers of doing nothing are highlighted by two examples. The first is the increasing logistical problem of delivering health and social care to scattered elderly populations living in unsuitable accommodation. Over the next 20 years, the population aged 65+ is forecast to rise by 41% to 17.7m**;** of these about 3.2m will be aged 85+, of whom 1.9m are likely to live alone. If more people lived in retirement communities, there would be a boost to health and wellbeing, as well as savings in the cost of health and social care.

This leaves us with a conundrum. Government policy is that that people should be supported to live in their own homes independently, and that they should not have to sell them to pay for care. The 2014 Care Act, for example, has a clear goal of supporting people to live as independently as possible for as long as possible, so this view is hard-wired into the care economy. It is unlikely that the policy is intended to preclude a move to more suitable housing, but it could be interpreted in that way.

The government's promise that no-one will be forced to sell their home to pay for social care is also a constraint. Speaking on social care in last year's election campaign, Matt Hancock, the health secretary, said: "We will consider a range of options, but we will have one red line: we will protect the family home", promising that *no social care user* would have to sell his or her home to meet care costs. The issue is, therefore, how to reconcile this policy with the call for downsizing.

This could be done simply by making it clear that every form of leasehold or shared ownership in retirement housing falls under this protection. Our research in both this report and the previous one, *The Last-Time Buyer*, points to the potential for deferring expenses until the home is sold and equity released.

The UK health service is free at the point of use. However, the principle of treating people in their own homes is reaffirmed in the NHS's long-term plan, which talks of expanded community health teams to provide fast support to people, so that more can live "in or near to their own homes and families". People living independently in retirement communities should also be covered by this principle, but it needs to be affirmed by ministers.

The housing crisis also needs to be seen in the context of climate change and commitments to reduce carbon emissions. To meet the UK's target of net zero emissions by 2050, the Committee on Climate Change (CCC), which advises the government, warned in a 2019 report that this would require the near-complete elimination of greenhouse gas emissions from UK buildings.[25]

Yet the report finds that emissions reductions from the UK's 29 million homes have stalled, while energy use in homes – which accounts for 14% of total UK emissions – increased between 2016 and 2017. The CCC argues that new homes should be low-carbon and energy efficient as well as climate resilient, and that retrofitting existing dwellings should be supported by the taxpayer – as has long been the case with home insulation.

Clearly, this will be difficult to achieve without changes to the housing stock and to occupancy patterns. The problem is that the stock is largely inflexible, so without downsizing into more age-appropriate accommodation or making more efficient use of existing space, it is hard to see how progress can be made. The present 'just build more' dictum pays little attention to the consumption of land, provision of transportation, etc.

It does not help that public policy on housing is split between different government departments. More work is needed to spell out how policy positions can be reconciled and to ensure that downsizing has greater emphasis in the policy mix. For example, the NHS plan could have chosen to highlight the proven health benefits of retirement villages, while housing policy could include targets for downsizing and home conversions.

Currently, it appears that official policy is adopting a contradictory position by encouraging older people to live in their own homes for as long as possible, rather than move into more appropriate accommodation. Intent is not the problem so much as a lack of policy coherence, in particular the messages embedded in health and social care policy, the planning system and, finally, the cost of downsizing (including taxes).

A new government policy on social care is due to be unveiled this year, in which it will presumably be repeated that nobody has to sell their home to pay for social care. What this means is that people assessed as needing social care, but who cannot afford to pay the full cost, will receive financial support from the local authority. However, this can still be reclaimed by the authority on death or sale of the property.

This should not amount to a general recommendation for older people to stay put come what may, particularly if there is more suitable accommodation available and if care is needed.[26] The policy should instead highlight the benefits of downsizing and of moving into purpose-designed properties. This should take into account the cost and efficiency of delivering services to communities, rather than to scattered dwellings in either rural settings or congested urban areas.

Turning to the planning system, we saw that only around 10% of local authorities have clear policies addressing the number of dwellings or care home beds required for older residents, how this can be achieved and potential sites designated. It is difficult to avoid the conclusion that most are not interested in retirement housing and are ignoring the wider benefits of downsizing, including

25. I'UK housing: Fit for the future? (2019) Committee on Climate Change, https://www.theccc.org.uk/publication/uk-housing-fit-for-the-future/

26. The government's 2012 policy paper, Caring for Our Future: reforming care and support, says the NHS spends £600 million each year treating people due to severe hazards in poor housing mostly associated with falls and that unsuitable or badly maintained housing is putting health and wellbeing at risk.

the benefits to health and social care, and may even be using the planning system to block investment.

At present, downsizing tends to be triggered by old age and infirmity, rather than by a lifestyle choice. However, the benefits are greater if decisions to downsize begin at an earlier age, following retirement or after children vacate the family home. While there is plenty of interest in downsizing, surveys show that the numbers that take the plunge are disappointingly low. One reason for this is the shortage of suitable housing at affordable prices.

As was identified in our previous report, evidence points to another reason: a lack of choice and high transaction costs, especially for early downsizers. Modern apartments, which might be the preferred choice, are often not large enough, or in the right location, or affordable. In recent years, a model has emerged that defers some fees for residents – and profits for developers/operators – which can make dwellings in retirement communities more affordable. To overcome the sentimental attachment of people to their family homes, housing developers and planners need to focus on the provision of attractive alternatives.

For home owners who have paid off their mortgage the price achieved from their house sale is expected to cover the cost of downsizing, with money left over for various purposes. If they are lucky, they may release a substantial amount of tax-free equity. This could be used to gift children or grandchildren, provide a boost to income or purchase long-term care insurance. However, many are disappointed by the amount left after all costs are factored in.

A key decision is whether to rent, or lease/buy, including the potential resale value if the decision is the latter. With purchases, potential stamp duty looms large. Wealthier downsizers may be more likely to be discouraged both by the choice of property available and the significant stamp duty that might be incurred by moving into anything other than a small retirement unit.

While stamp duty has been reformed, our research shows that that the actual cost per transaction has escalated relative to house prices. The government has argued that stamp duty is a minor issue as older home owners have benefited from increased house prices and nil capital gains tax. We argue that this has the perverse effect of incentivising them to stay in their oversized homes until they make a forced move due to failing health or the death of a loved one.

We suspect that the government simply wants to protect this significant revenue stream and is ignoring the evidence that lower stamp duty rates would increase transactions and so underpin revenue. We suggest that the guiding principle should be that <u>first-time and last-time buyers should be put on an equal footing</u> and that stamp duty for purchases up to £300,000 should be nil-banded or abolished altogether. This would take the form of a one-time benefit available to older buyers and would boost downsizing.

Financial arrangements will vary between individuals and may be complicated to work through. Guidance may be needed for people to navigate the issues. The establishment in 2019 of the Money and Pensions Service (bringing together the Money Advice Service, The Pensions Advisory Service and Pension Wise) is a welcome development, but it also needs to weed out and expose counter-productive or unhelpful policies or practices.

In conclusion, <u>it is vital that the government understands the full effects of an ageing population on housing needs.</u> Policies affecting housing should all pull in the same direction and the needs of last-time buyers or movers should be given as much priority as first-time buyers. The trends identified in this paper show that, despite all the warm words, downsizing is still a minority activity.

The recommendations in this report are designed to provide a consistent and more strategic approach. The main thrust of the research has been to argue that downsizing is both necessary and desirable, and that it is better for individuals to do it sooner. To facilitate this, far more age-appropriate provision is needed.

By drawing together the available evidence, this research has been able to describe the scale – in hard numbers – of the issues that the UK faces for the first time, in the context of an ageing population. It also sets out in detail the crucial role that downsizing should play in:

- better aligning the housing stock with accommodation needs;
- encouraging older people to move out of under-occupied family homes, with beneficial knock-on effects throughout the housing ladder; and
- freeing up housing wealth.

While policy-makers recognise the existence of a 'housing crisis', it is not clear that they have grasped either the scale or the changing nature of the problem. This research has sought to fill in the gaps by proposing a more holistic approach to housing policy and population ageing. It is up to the government to acknowledge the problem, to adopt new policies accordingly and to hold government departments and local authorities accountable for their delivery.

About the author

Les Mayhew is Professor of Statistics at Cass Business School, City University, London in the Faculty of Actuarial Science and Insurance, and Managing Director of Mayhew Harper Associates Ltd.

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Professor Mayhew specialises in demographic ageing, health and social care, pensions and now housing. In 2004, he co-authored a book entitled *The Economic Impacts of Population Ageing in Japan* and in 2010 wrote a commissioned report for the Prime Minister's Strategy Unit entitled *The Economic Value of Healthy Ageing and Working Longer*.

For the CSFI, he is the author of the 2019 report, *The Last-Time Buyer: housing and finance for an ageing society*, and in 2018: *The Dependency Trap: are we fit enough to face the future?*

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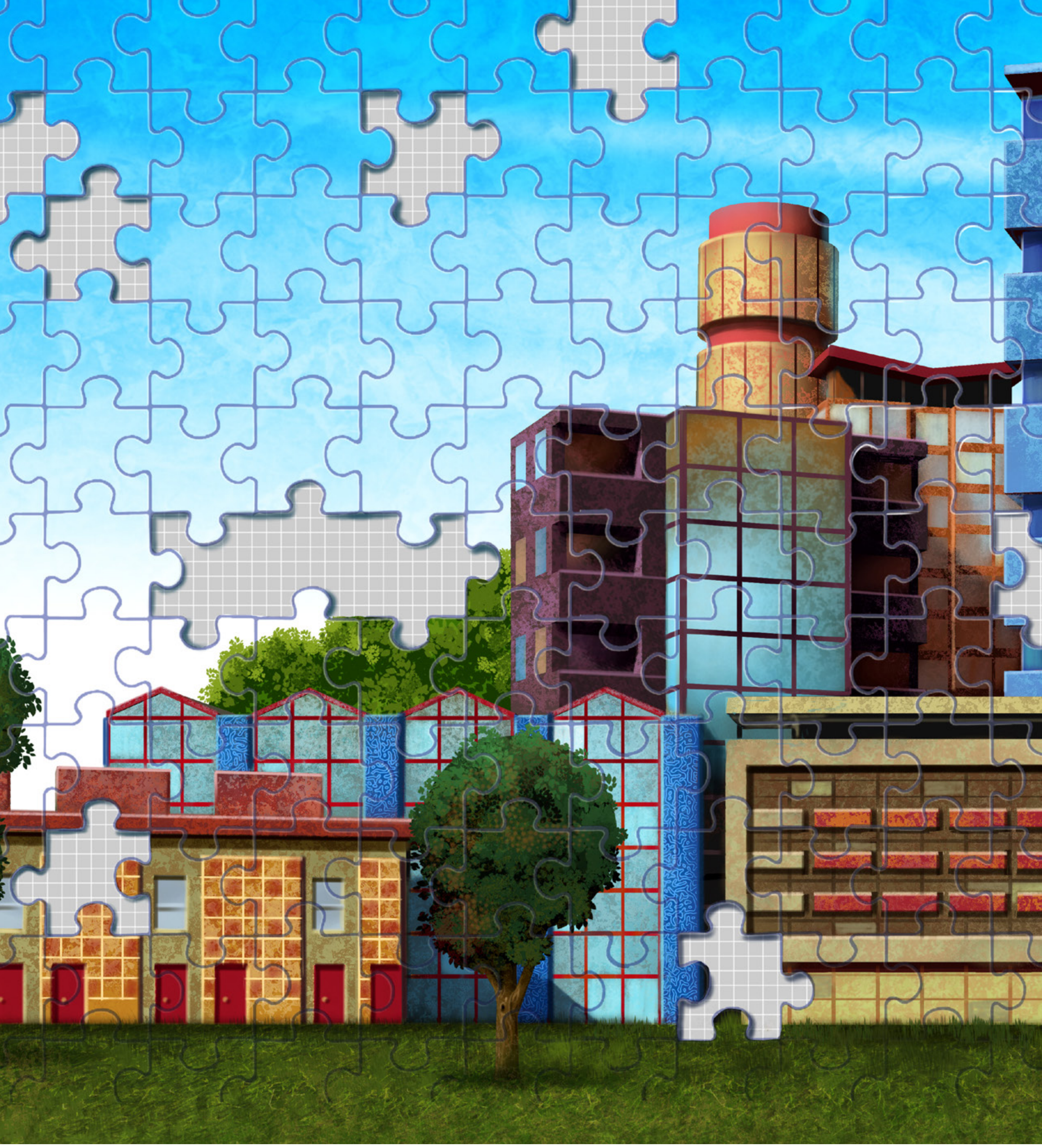

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