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Savills World Research
UK Residential

Spotlight
Housing an Ageing Population

2015

Overview

THE CHALLENGES OF AN AGEING SOCIETY

Unlocking the equity built up by the over-65s and making more efficient use of housing stock are key opportunities

The country is ageing and so the structure of the UK's population growth over the next 30 years looks set to be very different from that of the last 30. Recent population growth has been driven by the expansion of working-age people, contributing 72% of total growth.

Looking ahead, and although actual growth will be as a result of new births and younger migrants coming to the UK, the effects of the 20th-century baby boom mean that the biggest increase by age group will be among those aged 65 and over.

Our ageing society presents massive challenges for the wider economy. The dependency ratio (number of workers per children and retired people) will continue to decline unless retirement age is pushed back further. This means a proportionately smaller number of tax contributors will be supporting more public-spending dependents. In a period when public services are already under pressure in the desire to reduce the deficit, they will come under further stress as they need to support and help more people.

Under-occupiers

The UK is not alone in facing this challenge. Many developed countries are in a similar position, with Japan and Germany the most obvious examples. Other more recently developing countries are also rapidly facing the same challenge. For example, the World Bank estimates that China hit its peak workforce as a percentage of total population in 2010 and so faces its own issues in supporting an ageing society.

The effects from our ageing society are only just beginning to play out on the wider economy but the effects on the housing market are more apparent. Income-busting house price growth during the 1990s and 2000s followed by the lasting effects of the credit crunch since 2008 has left us with a market that is deeply unequal.

Many of those fortunate enough to have been born in earlier generations and own their own home have benefited from price growth and current low mortgage rates. Home ownership among the over-65s is 78% compared to 64% across all age groups. They will also typically own their home outright with no mortgage and are sitting on over £1 trillion worth of housing equity.

Older households also tend to have more housing space than they need on a day-to-day basis. The English Housing Survey indicates that around three million (53%) households aged 65 and over are under-occupying their home with more space than they normally need.

Meanwhile, current first-time buyers need deposits equal to 76% of their income (in London it is 126%) and so it is no surprise that many of the young people who do manage to buy do so with help from the bank of mum and dad, and increasingly grandma and grandpa.

FIGURE 1

Housing equity and under-occupation by age

	Households owning outright	Equity in homes owned outright	Households owning with mortgage	Equity in homes owned with mortgage	Under-occupied households	Under-occupied housing as % of all households
Under 35	4%	£55bn	26%	£65bn	650,000	16%
35 to 64	21%	£680bn	44%	£690bn	4,350,000	36%
64+	67%	£1,080bn	9%	£100bn	3,050,000	53%

Source: Savills Research

The challenge will be unlocking the equity and making more efficient use of the housing stock. Although older households are sitting on a large amount of wealth, without the ability to sell or borrow against it, housing equity becomes just a number on a piece of paper. With housing market transactions improving but still below pre credit-crunch levels and mortgage market lending still relatively tight for both older borrowers and first-time buyers, opportunities to unlock this equity will remain constrained without further innovation.

Changing attitudes

It would be politically, socially and ethically wrong to force people from their homes. However, the generation now approaching retirement will be more accustomed to moving up the housing ladder rather than living in just one family home. Attitudes are changing with surveys indicating there is a frustrated and growing desire to move in older age, albeit at lower rates than younger age groups.

Without homes that meet changing lifestyle needs or financial incentives, such as stamp duty holidays for downsizers, it appears likely that we will see the majority of people staying in the family home for as long as possible. Typically until faced with a pressing health or social reason (e.g. bereavement, safety or health scare).

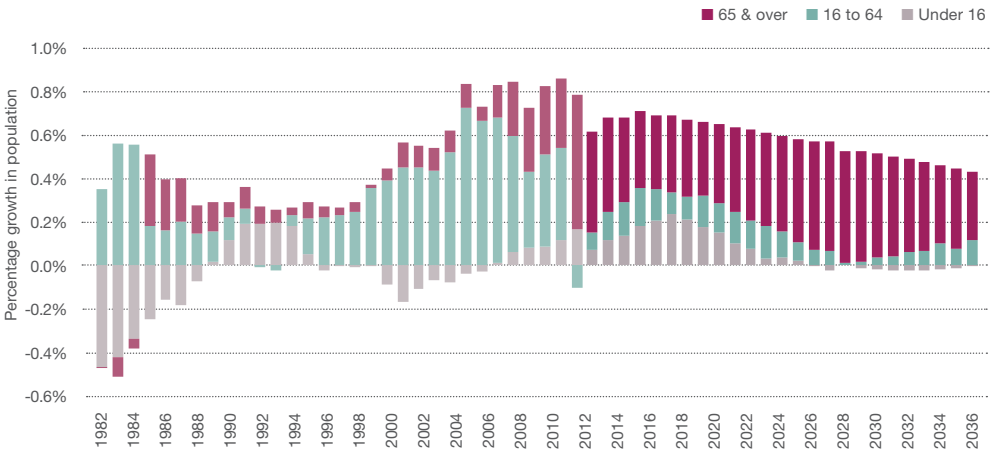
The twin challenges of an ageing population and inequality present some significant headwinds for the country in the years ahead. The retirement housing sector should be well placed to turn these challenges into opportunities. We are now seeing increased activity in the sector with more participants and a wider range of products and locations.

However, we are yet to see a product that truly breaks down the British apathy towards retirement living and at a price that is accessible to the majority of the population.

> "The retirement housing sector should be well placed to turn challenges into opportunities"
> Savills Research

FIGURE 2

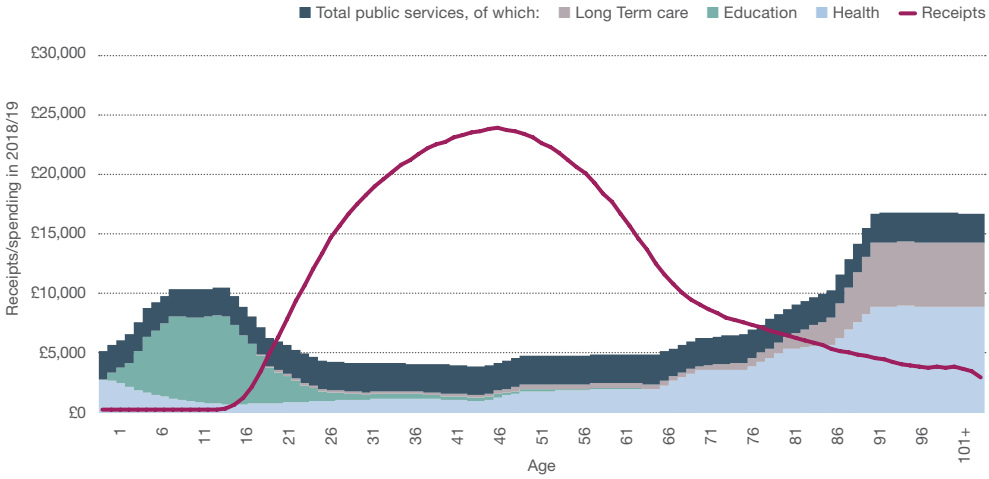
Population growth by age



Source: ONS

FIGURE 3

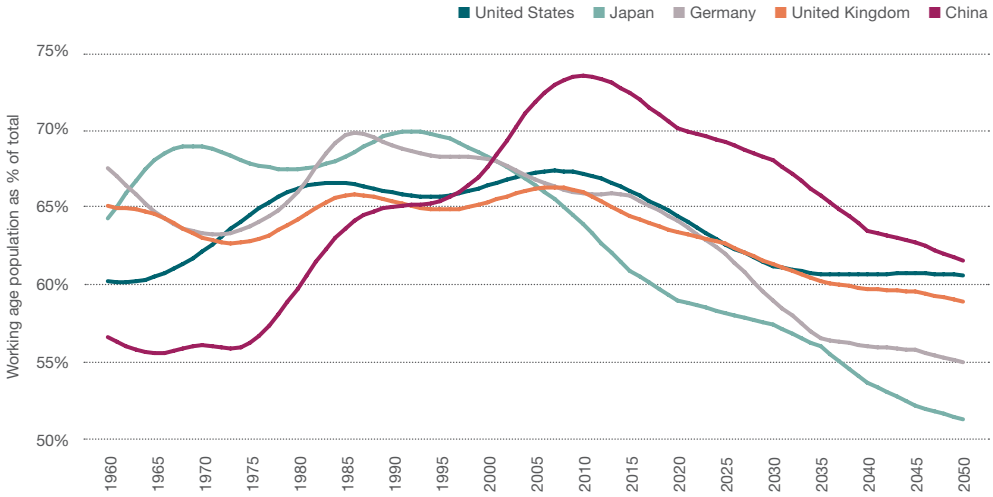
Representative profiles for tax and public services spending



Source: Office for Budget Responsibility

FIGURE 4

Working age population as % of total



Source: World Bank

Demographics
THE DRIVERS OF DEMAND

A knowledge of demographic and market trends is key when identifying potential markets for development

Understanding where older people are currently living and may be living in the future is useful for assessing the potential demand for retirement housing. However, it can be misleading to simply rely on population projections. They are based on recent trends in births, deaths and migration.

Therefore, they can be heavily dependent on recent economic growth and new housing supply. Areas that are able to offer both jobs and new homes will likely see higher migration and hence population growth than those that fail on one or both counts.

It is important to discern the trends underlying projections when identifying potential markets for development. Are there increasing proportions of older people due to young people leaving in search of employment elsewhere? Are overall numbers increasing because there has been a large amount of housebuilding? Or is growth lower than it could be because the local market is failing to accommodate older people and so they are moving elsewhere?

Figure 5 below highlights some of these trends. Traditional retirement markets such as Eastbourne and Christchurch are towards the top-right of the chart with high proportions of and net inflows of older people.

Meanwhile, at the bottom-left of the chart are urban areas such as London and Manchester and some markets with low levels of housebuilding such as the Home Counties. These markets have a net outflow of older people along with lower overall proportions living there. However, it is worth noting that, despite having a much lower proportion of older people, Manchester (local authority) has double the number of people aged 65+ as Eastbourne.

Meanwhile, the markets with the highest projected growth in older people (dark red) are typically those that have seen lots of housebuilding such as Milton Keynes, Aylesbury Vale, and Swindon.

New housebuilding is below required levels across most of the country and particularly in the south of England. Therefore, any market with higher than average levels of housebuilding is likely to see increasing numbers of residents across all age groups over time. As the market for older persons' housing matures and becomes more competitive, it will be essential to understand the range of demographic and market trends driving demand in local markets.

FIGURE 5

Over-65s existing housing demand model

Source: Savills Research

THE DRIVERS OF NEED

The key demographic trends in the retirement housing market

The charts opposite are based on 2011 Census data and show some of the key demographic trends that are driving demand in the retirement housing market.

The existing retirement market is heavily dependent on 'needs' based movers and the living arrangements of older age groups highlight this. The first chart shows the large proportion of older age groups that are widowed with a particular bias to women aged 75 and over given their longer life expectancy.

The health of people by age, along with their ability to do day-to-day activities, also highlights the difficulties faced by large proportions of people in older age. 19% of people aged 75 and over are in bad health and another 48% find their ability to perform daily activities limited.

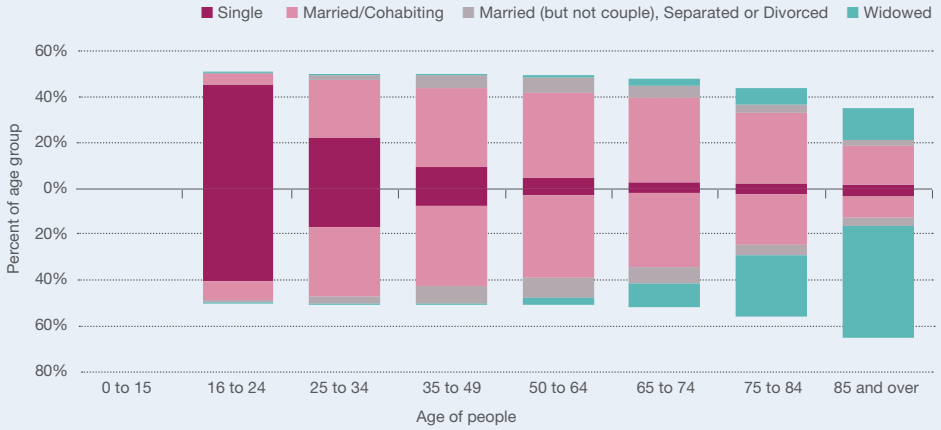
As such it is not surprising to see the generation below those struggling with health are providing large amounts of unpaid care. Over two million (26%) people aged 50 to 64 provide unpaid care every week and large numbers are continuing to do so in retirement.

As life expectancy continues to rise (the average 65 year old can expect to live another 20 years), there will be growing pressure on those approaching or just entered retirement to meet the care needs of their parents.

We expect to see growing numbers of this generation release the equity held in their homes as they are expected to meet the care needs of their parents and assist their children in getting on the property ladder alongside meeting their own pension requirements.

FIGURE 6

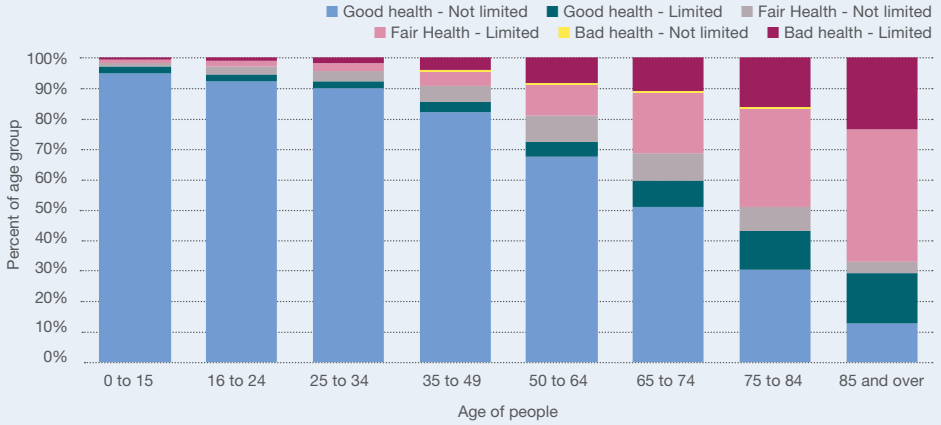
Living arrangements by age



Source: 2011 Census

FIGURE 7

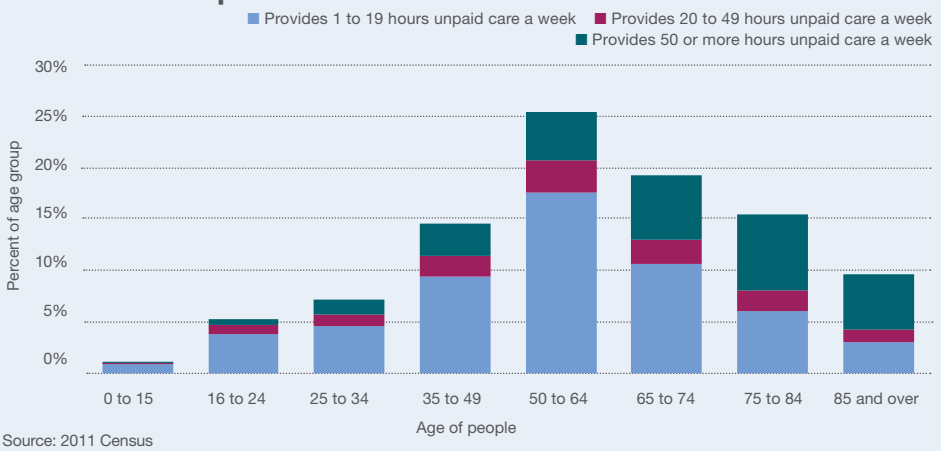
Health and disabilities by age



Source: 2011 Census

FIGURE 8

Provision of unpaid care



Source: 2011 Census

Existing Market
NEEDS VERSUS ASPIRATION

Analysis of existing provision of older persons' housing suggests there are opportunities in the retirement sector

One of the biggest issues with assessing the housing market for older people is the wide range of products and services on offer along with the number of different names for them.

Figure 11 sets out our model of the older persons' housing market based on the level of care required, the affluence of the resident and the tenure of the housing. Overall, we estimate there are 480,000 nursing and care home beds, and 515,000 homes specifically for older people across England.

Around 80% of units in the nursing and care home sectors are owned and operated by the private sector, while only 25% of Extra Care and Retirement homes are privately owned.

In terms of overall provision, the nursing and care home sector equates to 5.0% of people aged 65 and over while the Extra Care sector houses 0.6% of older people and 4.8% of older people live in retirement housing. Retirement villages typically offer a combination of these products and are a subset of these numbers.

For comparison, a report by Housing LIN in 2011 indicated that 17% of over-60s in the United States and 13% in Australia and New Zealand live in dedicated retirement communities, although many of those homes will be simply age-restricted. Analysis by ARCO suggests the provision of Extra Care type housing in these countries is on average 5.3% of older people compared to only 0.6% in England.

Clearly there is a substantial opportunity for the sector to grow if it delivers products that meet lifestyle as well as needs.

ASPIRATIONAL DOWNSIZING

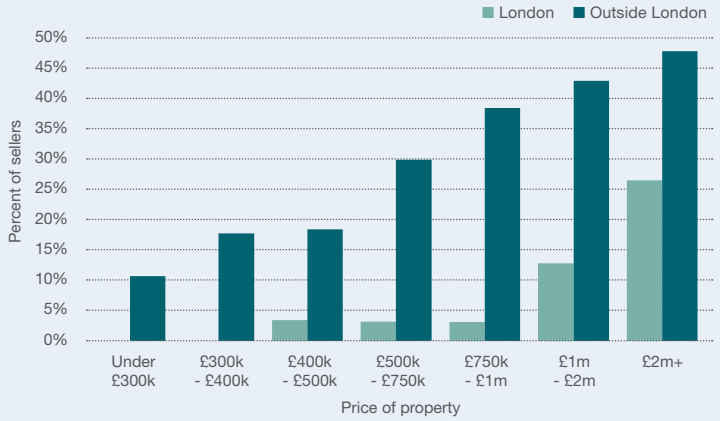
The emergence of premium developments

The retirement housing market has traditionally focused on 'needs' based demand. However, over the last few years we have begun to see the emergence of an aspirational downsizer market targeting wealthier purchasers. As the chart below shows, the economics and hence propensity to downsize increase along with housing wealth.

Some of the more traditional private sector retirement housing developers have recognised the potential of this market. In recent years we have seen the likes of Pegasus Life and McCarthy and Stone move away or at least expand from the mass-market sector and start to deliver premium developments targeting aspirational downsizers.

FIGURE 9

% of sellers downsizing



Source: Savills Research

ASPIRATIONAL DOWNSIZERS

LIMITED NUMBERS BUT GROWING

- Range of options for existing housing stock (bungalows), general market new build or premium retirement housing
- Mid to late 60s, children left home, desire to unlock housing equity or move to smaller home. Need for larger than average rooms, plenty of storage space. No desire for safety features (alarm, etc) but future compatibility can be a plus

RETIREMENT HOUSING

455,000 HOMES

- Self-contained units offering estate management, alarms
- Typically in their late 70s, likely to be recently widowed and so higher female-to-male ratio or onset of health issues
- Purchase driven by need rather than aspiration (e.g. bereavement, no longer able to manage/maintain large family home)

EXTRA CARE HOUSING

60,000 HOMES

- As per retirement housing but with additional communal facilities (e.g. restaurant), 24-hour emergency staffing, additional care or domestic help available
- Typically over 80 years old and in need of more care than offered in standard retirement housing

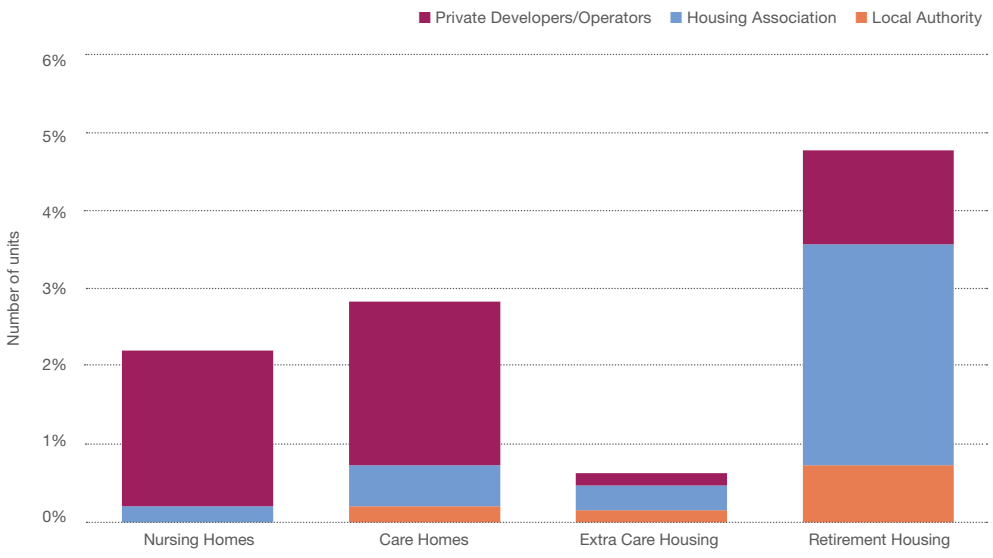
NURSING/CARE HOMES

480,000 BEDS

- In need of full-time nursing or care

FIGURE 10

Existing provision of older persons housing



Source: Savills using EAC, LaingBuisson

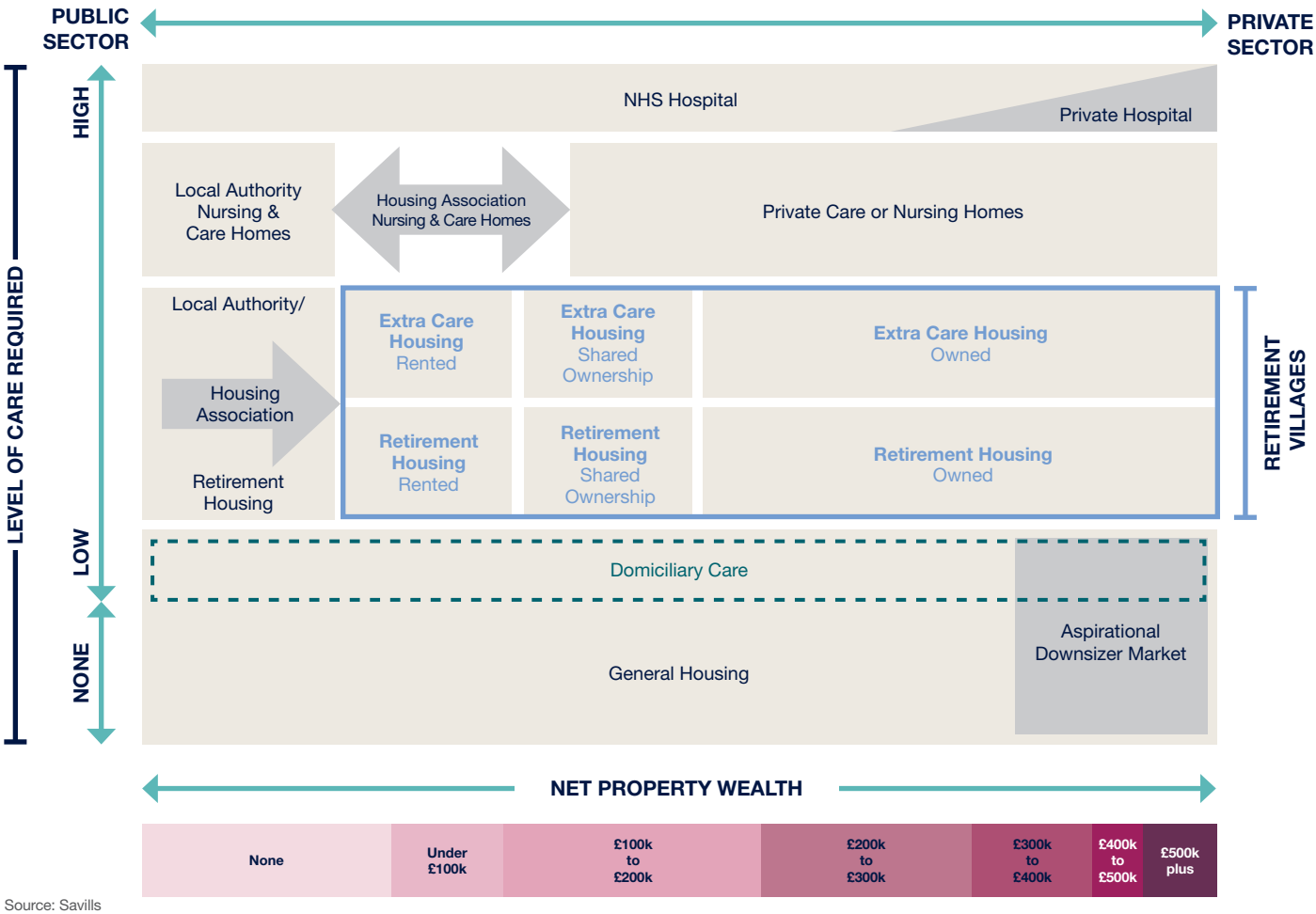
80%
of Nursing/Care privately owned

25%
of Extra Care/Retirement privately owned

17%
of over-60s in the US live in dedicated retirement communities

FIGURE 11

Housing for older people



Source: Savills

Housebuilding
SUPPLY & FUTURE NEED

What type of retirement housing is required for the nation's future housing needs?

The supply of new homes for older people, specifically retirement and Extra Care, has averaged around 7,000 units per year over the last decade. This currently equates to a 1.4% increase in existing stock, around double the level being achieved by the general new build housing market. However, there is still room for improvement.

There are around 515,000 Retirement and Extra Care units in England and a large proportion are local authority and registered provider stock. Around 385,000 units fall into this category and they play an important role in housing the most in need.

However, they also present a challenge given the large numbers that were built in the 1980s and early 1990s. Many were built with grant funding that encouraged volume rather than quality or space.

Although a large number are being refurbished every year, the constraints of the original stock, in terms of size and capacity for upgrade, mean that many will deliver a less than optimal solution for the nation's future housing needs.

Private developers and operators form the other side of the market with around 130,000 units. These range from the converted country house market of the 1970s and 80s to the purpose-built market dominated by the likes of McCarthy and Stone (with around a 70% share of the for-sale market in 2014).

These homes offer a solution for people who don't qualify for social housing-based care with products that highlight the safety and security of retirement living to those in need.

Growing in size

The typical new build development contains around 20 – 50 one- or two-bed flats priced at a similar level to local area houses, although recent developments are growing in size. They tend to be located close to town centres and/or nearby bus stops and offer some communal space and visitor accommodation.

Their business model is based on maximising land use through minimal parking provision and high density combined with achieving premium prices on a per square foot basis. As well as high purchase costs there are also service charges that cover various outgoings, including building managers and emergency call monitoring.

Additional care options may be available but those in need of nursing care will typically have to move into a dedicated nursing home.

Given the costs and service offerings, this model caters well to those in need but does not provide an attractive proposition for aspirational downsizers. As such, sales rates can be slower than for traditional housebuilders and may require finished homes for their potential residents and families to assess and measure against their needs and furniture.

Aspirational market

Many developers are now looking to expand into the aspirational market, with financial support from private equity. This means building attractive and appropriately sized homes that people with a lifetime of belongings can and want to move into.

New build homes with kitchen-dining-living spaces that work for younger purchasers may not be attractive to older buyers downsizing from a house.

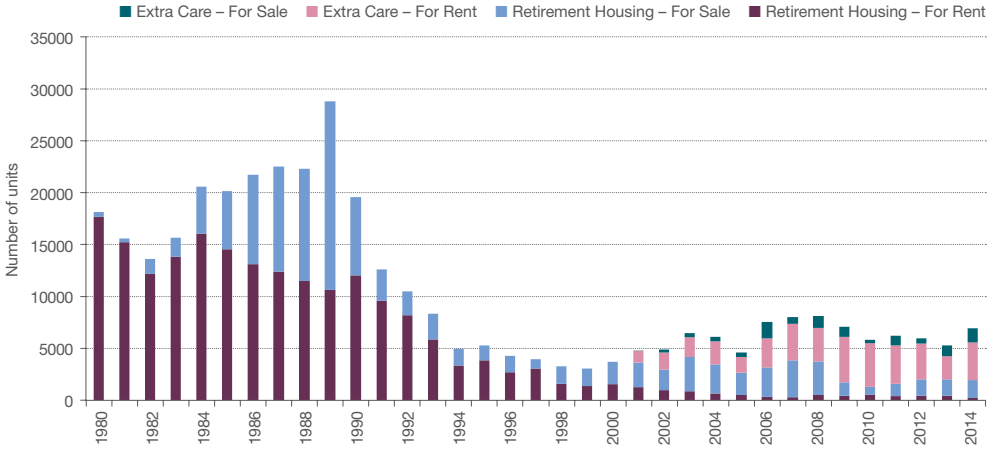
Many residents will be leading active social lives and so will need space for their car rather than just a bus route into town. The focus on safety and security in the current retirement housing sector can be off-putting to those at the younger end of the spectrum.

Instead it is important that housing is future-proofed; that is in terms of building homes that can adapt to future needs with wiring for alarm systems or space for stair lifts or downstairs showers, rather than trying to predict future technologies and whether we'll need space for 1960s-style robots.

Targeting the aspirational market offers rewards with some developers seeing increased buying off-plan, but it also comes with risks as competition for land increases with a reliance on achieving premium prices relative to the local market. This will help to increase the delivery of homes for older people.

FIGURE 12

Delivery of housing for older people



Source: EAC

FORECAST OF FUTURE NEED

What is the potential for future supply in the market?

With a large number of private developers looking to expand, and housing associations looking at providing market rent or for-sale products, what is the potential for future supply in the market?

Our analysis of the future supply pipeline using data from Glenigan indicates there are schemes containing around 30,000 Extra Care and Retirement homes in the planning system or approved. One third of these homes are currently in the planning system, with the majority (90%) in the private sector. Among the 19,000 homes on schemes that have been approved, 12,000 homes have started on site with the majority (68%) being built by the private sector.

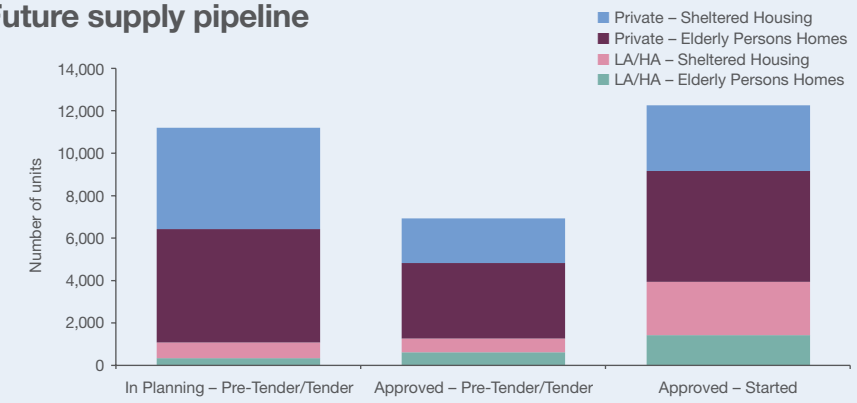
With recent delivery of housing for older people averaging around 7,000 homes per annum, this suggests the short-term prospects for new supply are slightly above recent levels.

In terms of housing need, the projected 2% annual increase in the number of people aged 65 and over between 2015 and 2020 would require 11,000 homes per annum. This broadly matches our analysis of the current supply pipeline and suggests that supply may soon be at the lower levels needed to maintain existing provision per older person. However, the number of people aged 75 and over (which is probably a better benchmark for needs based housing) is projected to grow by 3.2% over the same period. Along with the need to replace ageing stock, this suggests a target of 18,000 homes per annum would be more appropriate to maintain existing provision.

Maintaining our existing provision of housing for older people is a minimum benchmark for how much new housing is required. As our analysis of international comparisons suggests, there is still substantial room for growth in the proportion of older people living in housing designed and built specifically for them. A relatively unambitious target of increasing the provision of Extra Care Housing from 0.6% of older people to 2% would require an additional 130,000 homes. This is still well below the 5.3% average across the US, Australia and New Zealand. Meanwhile, increasing the provision of Retirement Housing from 4.8% of older people to 10% would require an additional 500,000 new homes. Increasing the provision over a ten-year period would require an additional 60,000 new homes per year above the levels required to maintain existing provision. This could be a substantial opportunity, provided developers can solve the £250,000 challenge.

FIGURE 13

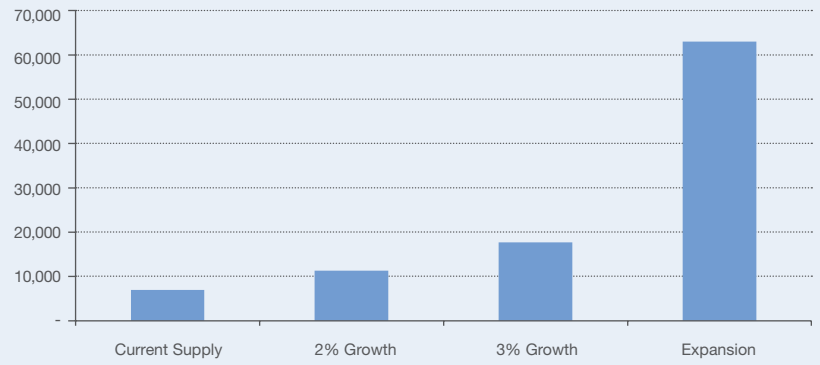
Future supply pipeline



Source: Glenigan (excludes schemes under 10 units)

FIGURE 14

Future housing requirement



Source: Savills Research

27,000
Extra Care and Retirement units are in the planning system or approved

18,000
homes needed per year to maintain provision

32%
of approved units are being delivered by the public sector

Downsizing
THE £250,000 CHALLENGE

Incentives need to be offered to make the prospect of downsizing more attractive to existing home owners

As discussed earlier, the current retirement housing market is generally split into two sub-sectors. There is the aspirational downsizer market offering a premium product for people pro-actively looking to move and there is the needs-based market where demand tends to be driven by people requiring greater levels of care, support and security. The biggest challenge and opportunity for the sector is therefore in filling the gap between these two sectors by delivering an aspirational product that encourages people to downsize, but at a price that works for someone living in an average priced home.

Unfortunately, the economics of downsizing from an average priced home are not attractive enough by the time stamp duty on the new property, moving costs and fees are accounted for in all but the highest value markets. This is even before any allowance for the emotional strain of moving and the desire to release some additional cash from the process. Therefore, we need to look towards other tenures and financial models to unlock the market's potential.

A stamp duty exemption, for example, would be a very welcome move in making downsizing more attractive. Unfortunately, it appears unlikely to happen given the difficulties in ensuring the benefits are realised by the homebuyer and not by the developer through higher prices. It also causes some political difficulties in supporting a group of people widely seen as beneficiaries of the housing boom rather than those priced out, despite its potential to free up family homes for younger buyers.

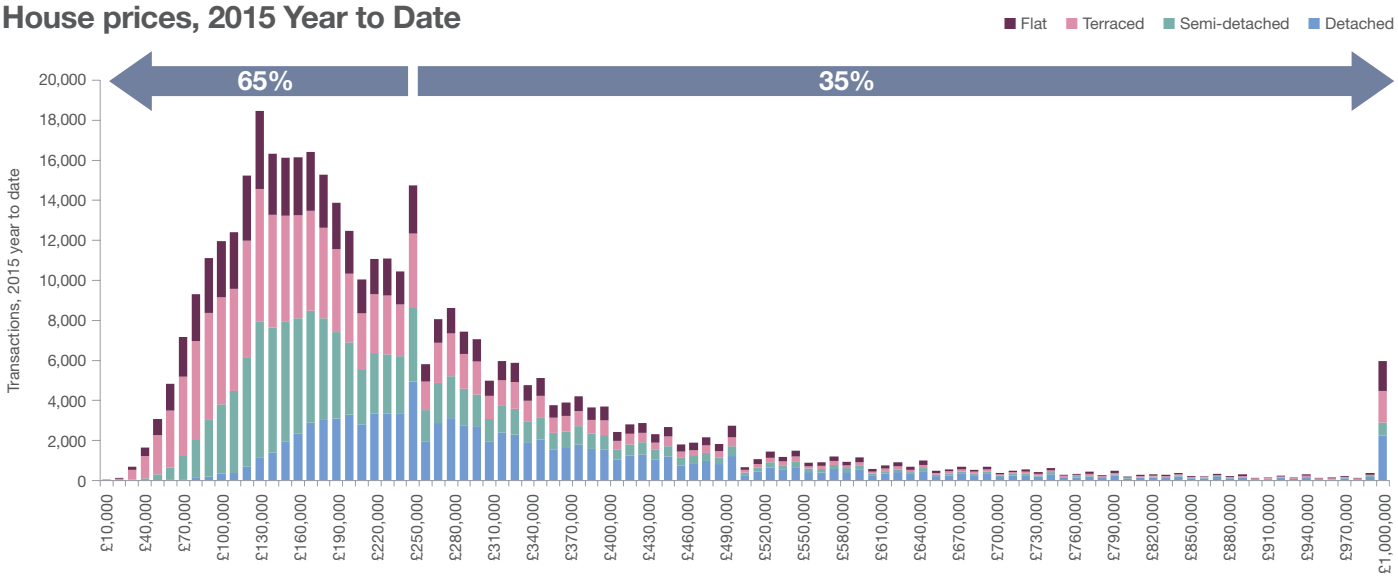
Instead of simple solutions, it appears likely that we will be reliant on more complex arrangements and financial instruments. Equity release products such as home reversion schemes and lifetime mortgages, shared ownership and long-term rentals are all likely to become more widely available in the sector. Much will depend on the result of the Law Commission's review into exit fees with a paper due this month. Many prospective buyers are asset rich but cash poor. In the event that it allows them, we will probably see more substantial investment into the sector and a big increase in housing/care products based on sharing the capital value uplift to offset ongoing service charges and care needs, as is common in New Zealand and Australia.

Creating financial incentives and the means for more people to move into older peoples' housing is important, but more essential is the need to create homes that people actually want to move into. Developers taking a general market approach to the sector may struggle. It will be essential to understand both the local market dynamics but also the housing needs and demands of the many sub-sectors of demand for older peoples' housing.

The challenges presented by our ageing population are many, but the opportunities they present for the elderly housing sector are just as widespread. There are already many active participants in this sector but to fully realise the potential there needs to be support from all levels of Government and continued innovation by developers, operators and lenders that results in products that are both attractive and affordable to older people.

FIGURE 15

House prices, 2015 Year to Date



Source: HM Land Registry

A CLASS OF ITS OWN

Is the planning system doing enough to help development of retirement housing?

Government policy is explicit in its requirement for Local Authorities to meet the housing and care needs of older people. Many have already published plans on how they will do so but many more need to. In light of the Government's policy ambition, it is worth considering whether the planning system is doing enough to promote and develop the number and range of homes needed for the growing elderly population.

The wide range of housing on offer means that new development in the sector can fall into several use classes within the English planning system. For example, Retirement Housing with minimal care is usually considered C3 along with most residential development, while Nursing Homes will be considered C2 along with other institutions such as hospitals. Therefore, most older people's housing is not differentiated from standard residential developments.

This is a particular issue with regards to the Community Infrastructure Levy (CIL). Local Authorities' CIL charging schedules generally refer to "residential uses". This combines older people's housing with standard residential and sets a cost per square metre linked charge for all new development in that category. This rate should meet the viability test for standard residential sites but that can vary greatly from the viability of housing specifically for older people. This potentially undermines the delivery of older people's housing and the aims of the Government.

Retirement and older people's housing has very different densities, build costs, sales rates and requirements for communal and staff areas than typical residential development. As such, any CIL charging schedule should properly assess the viability of specialist housing independently from standard residential.

While some Local Authorities such as Central Bedfordshire, Waltham Forest and Dacorum, have excluded Extra Care or Retirement housing from their CIL charging schedules, many more should consider excluding elderly persons housing from CIL where viability dictates. Doing so is imperative to meeting the housing and care needs of an ageing population.

BUNGALOWS IN THE SKY

A new approach to building retirement housing

Accounting for 9% of England's housing stock, bungalows are the go-to answer for today's politician when questioned on what to do for older home-movers. Their answer is typically accompanied by an anecdote involving an elderly relative.

It is true that bungalows offer single-floor living with plenty of storage space and access to outside space but arguments in favour of them tend to miss some simple but important points. They are grossly inefficient in terms of land use and the values they achieve reflect the underlying development value of the land rather than the bungalow. Therefore it is unlikely that people would pay the same price for a new build bungalow where there is no prospect of development.

So rather than building traditional bungalows, we can learn important lessons from them. The importance of space, storage, and access to outside space all emerge from their popularity.

One solution is to effectively build 'bungalows' stacked on top of each other. In other words, new build flats with all the attractions of a bungalow but without the stress of an overly large garden.

OUTLOOK

Turning challenges into opportunities

■ Our ageing society presents massive challenges for the country in years ahead but the retirement housing sector should be well placed to turn these into opportunities. Older people are sitting on over £1trn of housing equity and over half are living in homes larger than they necessarily require. However, unlocking this equity and these homes will depend on our ability to build homes that older people want and can afford to move into.

■ The existing market has been heavily focused on 'needs' based movers with bereavements, health or safety issues driving demand. In recent years we have seen increasing activity from private equity backed developers targeting the aspirational market. This has enabled some developers to achieve premiums above the local market and faster sales rates (including more off-plan). The demand for these aspirational products looks set to continue growing.

■ We forecast the market needs to build around 11,000 – 18,000 retirement homes per year just to maintain existing provision rates amongst older people. Analysis of the current supply pipeline suggests that delivery looks set to be at the lower end of that range which is an improvement on recent levels (7,000 per year). However, evidence from the US, Australia and New Zealand suggest that there is substantial room for growth in the provision of older people's housing. Increasing the provision of housing to those levels would require an additional 60,000 homes per year.

■ The ability to increase delivery to these higher levels will require substantial innovation across the sector. Developers and operators need to offer products and services that encourage older people to move. But they also need to deliver homes across a spectrum of prices and affordability. Creating a product that works for someone currently living in the average priced home (the £250,000 challenge) will be essential to its expansion. However, this will involve further financial innovation across a range of tenures and the result of the Law Commission's review into exit fees will play a large role in deciding the future shape of the sector.

■ Meanwhile, local authorities will come under renewed pressure to house those most in need at a time of further public sector spending cuts and increases to the minimum wage. Some are already looking to use their existing land holdings and partner with housing associations or private companies in order to meet their obligations.

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