SPOTLIGHT

Savills Research

UK Residential – 2018

Retirement living

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Market landscape ● Potential for the retirement sector ● New models of tenure and delivery

> 52% of specialist homes for older people were built or last refurbished more than 30 years ago

The UK's housing market isn't suited to its ageing population. There are just under 8 million households aged 65 and over in the UK. International benchmarks suggest we should be providing specialist housing for around 15% (1.2 million) of these households. At present, only 726,000 such homes are available.

The elderly face rising maintenance costs and there are very few suitable homes for them to move into that are designed for their needs. That translates into greater pressure on the NHS and local government.

We know that providing retirement housing can help ease this pressure. But while the potential of the UK retirement living market is huge, unlocking that potential will require more housing delivery across all tenures and price points. In most areas, policy makes this difficult to achieve: of the limited supply coming through, much is either social housing or premium property at the upper end of the sales market.

It doesn't have to be this way. In this report, we explore how policy could adapt to bring forward more retirement housing at all price points. In doing so, we can diversify the supply of homes and accelerate delivery of the homes this country desperately needs.

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Setting the scene: the current landscape

The retirement housing market has transformed multiple times over the past 50 years. So where are we now, and what are the emerging opportunities?

Across the UK there are 726,000 specialist homes for older people, according to data from the Elderly Accommodation Counsel (EAC). However, that total hides a huge amount of variation in age, quality, tenure, and location.

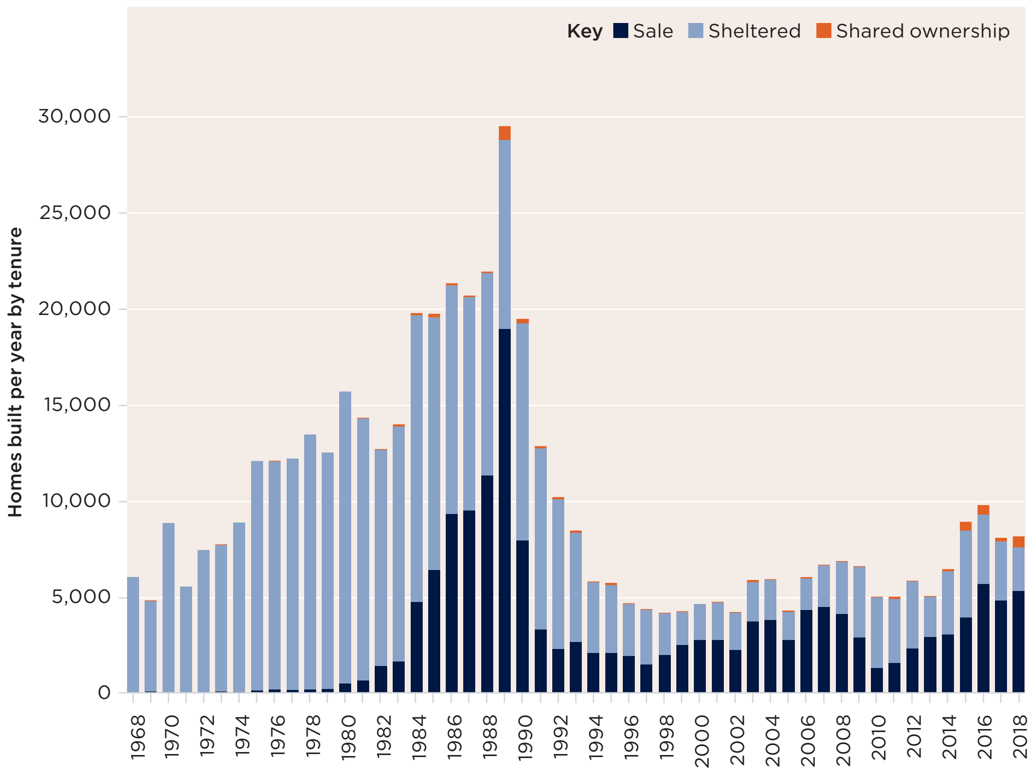
More than half that stock (52%) was built or last refurbished more than 30 years ago. So, not only do we need to develop more retirement homes to meet demand, there's also a need to replace or refurbish dated and inefficient stock with future-proof homes that are built for modern needs.

The decline of new-home supply

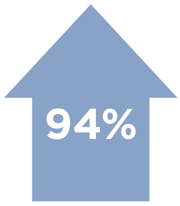
Sheltered homes, operated by registered social landlords, make up three-quarters of retirement homes in the UK. Much of that stock was built in the 1970s and 80s, when government grants were more widely available.

Supply of new homes peaked in the late 1980s, supported by strong growth in home building for sale. The switching focus of grants to general needs housing in the 1990s led to supply falling dramatically, reaching a low of 4,142 homes built in 1998.

Type of housing built per year Comparing the tenures of retirement homes constructed over the past 50 years

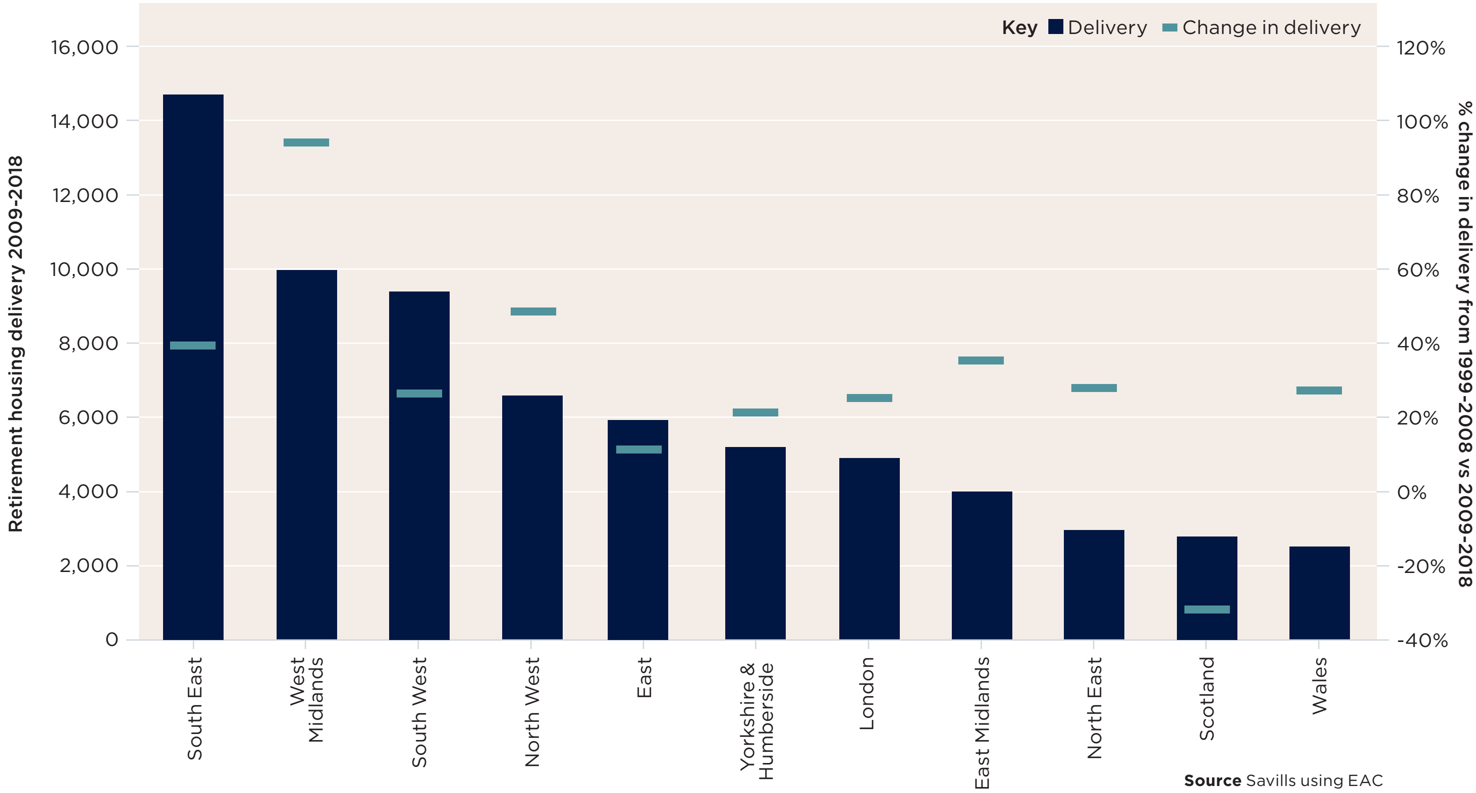


Source EAC



Increase in retirement housing delivery in the West Midlands over the past decade

Delivery of retirement housing Comparing delivery and change in delivery since 1999



Source Savills using EAC

The last five years

While supply is now almost double the trough we saw in 1998, it remains far below the level of construction seen in earlier decades.

Over the past five years, more than half of retirement housing supply has been for leasehold sale, while 41% of supply has been through sheltered housing for social rent. Sheltered housing delivery in the past 10 years is just over a quarter of 1979-88 levels.

Shared ownership is growing, but still makes up a small proportion of supply. It accounts for less than 5% of homes built over the past decade, despite over 40% of shared ownership homes being built in this period.

Where is delivery strongest?

The South East has the highest supply of purpose-built retirement housing. This has been the case since the 1980s. Most delivery in the area over the past four decades has been for private sale, capitalising on the higher house prices older homeowners living in this area can tap into.

More recently, the West Midlands has seen rapid acceleration in its delivery of retirement housing. Compared with the previous decade, delivery has increased by 94%, making it the second-highest region for retirement housing delivery. Some of this growth has been down to the ExtraCare Charitable Trust, which alone has built some 1,430 units in the West Midlands since 2010.

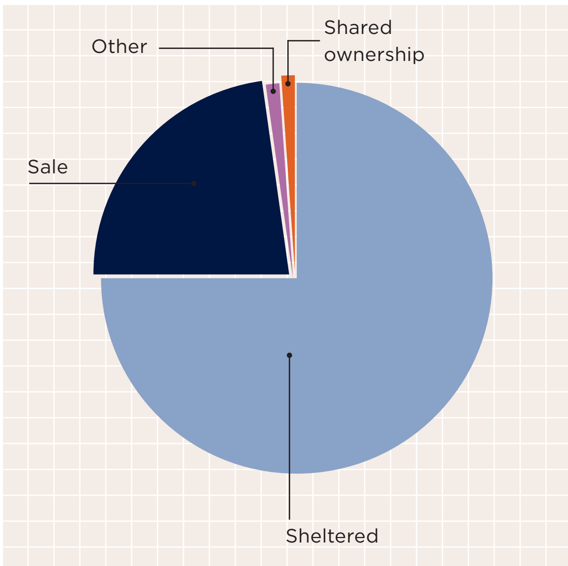
An evolving market

In some ways, the retirement housing market today isn't so different from how it looked five years ago. McCarthy & Stone is still by far the largest private developer. However, in September 2018, the company announced it would rein in its delivery programme and switch focus from growth to driving up profitability.

Perhaps the greatest capacity for growth and disruption comes from looking at new operating models and tenures. Providers such as Birchgrove are proposing to offer privately rented retirement homes for those with less equity to hand, but enough income to pay for ongoing housing costs. At the top end of the market, central London developer Auriens will offer luxury rented homes, which removes the need for customers to pay stamp duty when they move in.

One way or another, the retirement-living sector must continue to innovate and respond to the market if it is to meet the needs of our ageing population.

Tenure split graph Comparing the current tenures across retirement homes



Source EAC

> Homeowners aged 65+ own £1.6 trillion in housing equity. Retirement housing could unlock some of that wealth

Unlocking the potential of the retirement market

An ageing population will increase demand for retirement homes in the next decade, but the market needs to offer a range of options to meet different buyers' needs

There are just under 12 million people over the age of 65 living in the UK, which corresponds to around 8 million households. International benchmarks suggests specialist retirement housing should be provided for 15% of these households.

On that basis, the UK's retirement housing stock would have to grow to 1.2 million homes: 65% more than exist now. This would require more than 400,000 additional retirement homes in England and Wales alone.

The size of the prize

Over-65s own more than 40% of homeowner housing equity in the UK, some £1.6 trillion. Retirement housing has the potential to unlock some of this vast store of wealth.

That distribution of equity varies and tends to be lower as you move further north in the UK. On average, homeowners aged over 65 in London have £593,000 in housing equity. In the North East, the average is only £143,000.

This variation in housing wealth affects the demand for different types of retirement housing. The appropriate tenure mix for a scheme in Barnet, for example, will be very different from a scheme in Barnsley.

Potential by tenure

Most retirement homes for sale include substantial communal facilities and premium pricing. Assuming new retirement home values sit around the upper quartile of the new build market (ie. more expensive than 75% of other new homes in that area), and that households need to release £50,000 of equity to make moving worthwhile, 37% of homeowners could downsize outright. That's just over a quarter of all 65+ households.

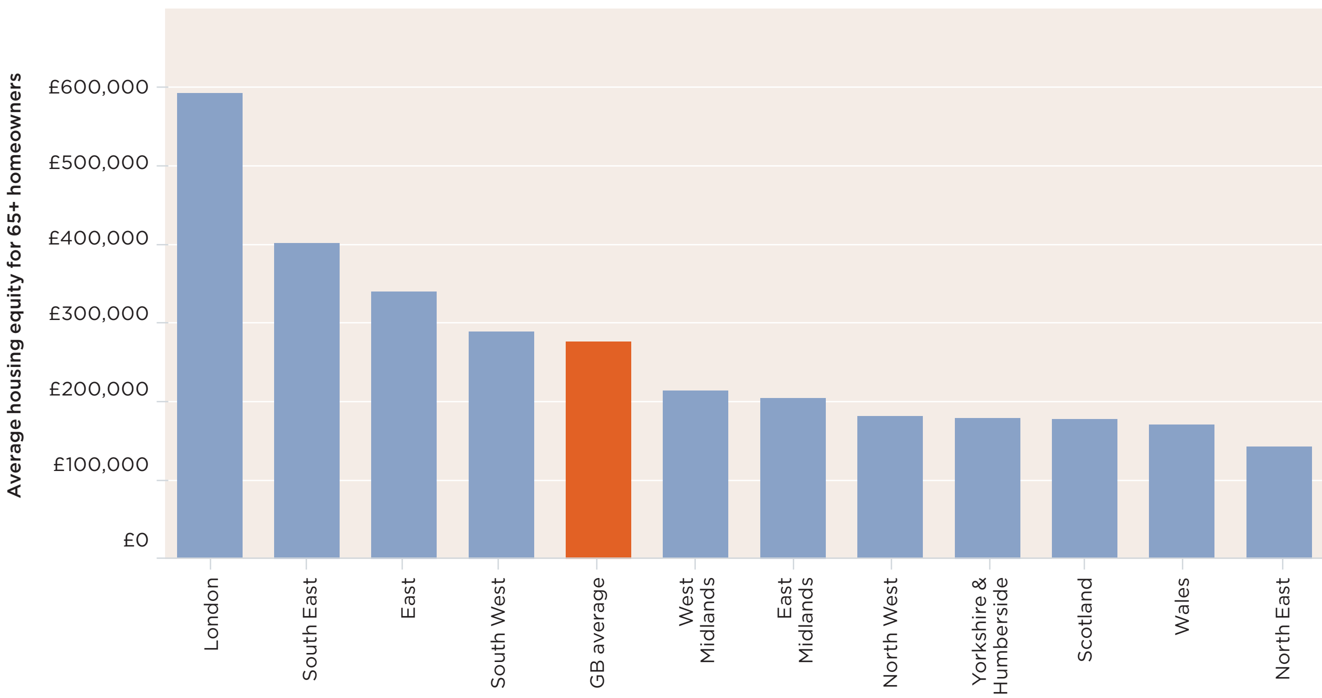
That demand accounts for 284,000 households in England and Wales. By contrast, there are just 156,000 retirement homes for private ownership.

Many more households have some housing wealth, but not enough to downsize and buy a new home outright. Shared-ownership offers households the opportunity to buy between a 25% and 75% stake in their home, while paying an affordable rent on the remainder. For households able to afford a 75% stake, Older People's Shared Ownership is an age-targeted scheme that allows older households to buy a three-quarter share and pay no rent at all.

Assuming households buy a 50% stake, and they still require £50,000 equity release to convince them to move, that opens the market up to a further 291,000 households in England and Wales. Current stock stands at fewer than 5,000 shared-ownership homes.

Finally, many older households have no housing wealth at all. Those in the private rented sector often don't have security of tenure, putting them at risk of eviction. Older households in social housing could free up much-needed general needs

Geographical divide The amount of homeowner housing equity among the over-65s in the UK drops sharply as you move north



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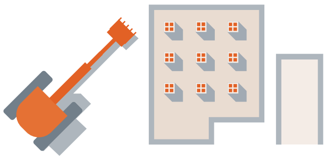


65%
To meet future demand, the UK's retirement housing stock needs to grow to 1.2 million homes – 65% more than exist today

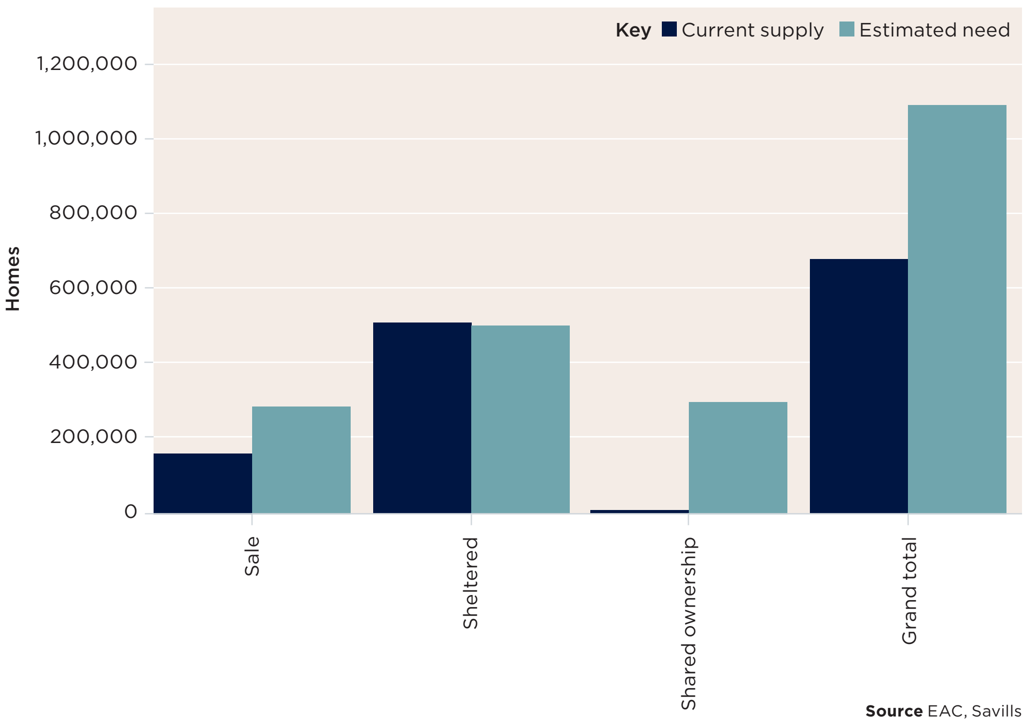
accommodation for others if they moved to a sheltered rent scheme. We estimate there's a need for 493,000 such homes in England and Wales. That's slightly lower than the 498,000 that exist today, but doesn't account for the age and state of repair of these homes, many of which were built at least 30 years ago.

Why don't more people move?
Most people in the UK aged over 65 couldn't live in specialist housing – the homes simply don't exist. New retirement housing has been in short supply since the 1980s, with limited government grant and a challenging viability environment for market housing. We explore how changes to planning policy could help boost supply of retirement homes on page 6.

In the South, a slower transaction market, high stamp duty, and an inheritance tax regime with generous allowances for property wealth discourage downsizing. In the Midlands and North, low property values mean many don't have the equity to move.

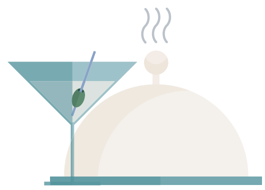
With that in mind, local authorities face rising health and social care costs with little prospect of more funding from central government. Anything that helps reduce their outgoings should be a welcome development.

Market potential by tenure Comparing supply against need in England and Wales



Source EAC, Savills

TWO KEY REASONS WHY PEOPLE ARE MOVING
As well as reducing costs for government, moving to retirement housing has many benefits for the residents.



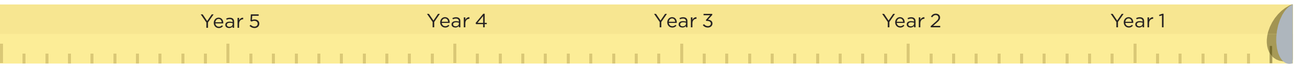
1. QUALITY OF LIFE
Retirement housing often includes amenities such as gyms, restaurants, hair salons and bars on site. Perhaps most importantly, it brings together like-minded people into a community, reducing loneliness and isolation.

2. A CULTURAL SHIFT
Currently, most people only move to retirement housing following a negative event, such as health issues or the death of a spouse. As the retirement living sector develops and its reputation spreads, we might expect to see people moving earlier.

Up to £310 million
The amount retirement housing delivered each year saves the government

Measuring the benefits

Retirement homes offer benefits not just to those who live in them, but to the Government, tax payers and the wider market



Over the past five years, on average, 7,524 new retirement properties have been completed per annum, according to EAC data. Each year's housing supply generates an annual NHS and social care saving of £8.4-13.9 million. Capitalised into perpetuity, the retirement housing sector generates significant government cost savings of £186-310 million every year – as well as the benefits generated by simply increasing housing supply.

How savings are made

This type of housing gives relief to services used by elderly residents. The homes are designed for their needs, reducing the number of falls and taking pressure off the NHS. If residents need hospital care, services within retirement communities mean hospitals are able to discharge elderly patients sooner.

The associated saving varies between £928 and £1,543 per person per year (see table below). Assuming an average occupancy level of 1.2 people per household in retirement accommodation, that is a saving of £1,114-£1,852 per year for each property.

Looking forward

Planning authorities grant sites permission for retirement development in perpetuity. The savings, capitalised in perpetuity, total £24,747 to £41,147 per retirement property. Even if we assume the homes stay retirement-only for 40 years and receive permission to revert to family homes after that, they still represent a benefit of £20,532 to £34,138 each.

That saving is not currently being reflected in policy.

Bridging the gap

A 55+ planning consent restricts the market that is able to buy the properties. Generally, restricting your pool of buyers limits the rate at which you can sell, which affects land value. Until now, retirement-housing providers have compensated for this by building higher-specification homes with lots of shared amenities, driving value.

While this premium product meets the needs of a fortunate few affluent households, and sheltered rent meets the needs of those without housing wealth, there's little choice for households in the middle with limited housing wealth. They find themselves stuck, wanting to move to more suitable housing but unable to find anything that fits their needs.

It doesn't have to be this way. In the rapidly growing Build to Rent sector, investors agree a covenant with planning authorities to hold the homes in the rental sector in exchange for a deliverable affordable housing contribution.

Retirement-housing developers could offer a similar covenant, restricting the homes to older households and guaranteeing a minimum level of service provision in exchange for land competitive affordable-housing contributions. That will help retirement developers compete with general residential developers on land value while offering homes for the mid-market and adding to overall build-out rates. And the planning authority gets a guarantee that the homes will go to much-needed retirement housing, rather than general sale.

> **"The cost savings, capitalised in perpetuity, amount to £24,700 to £41,100 per retirement property"**

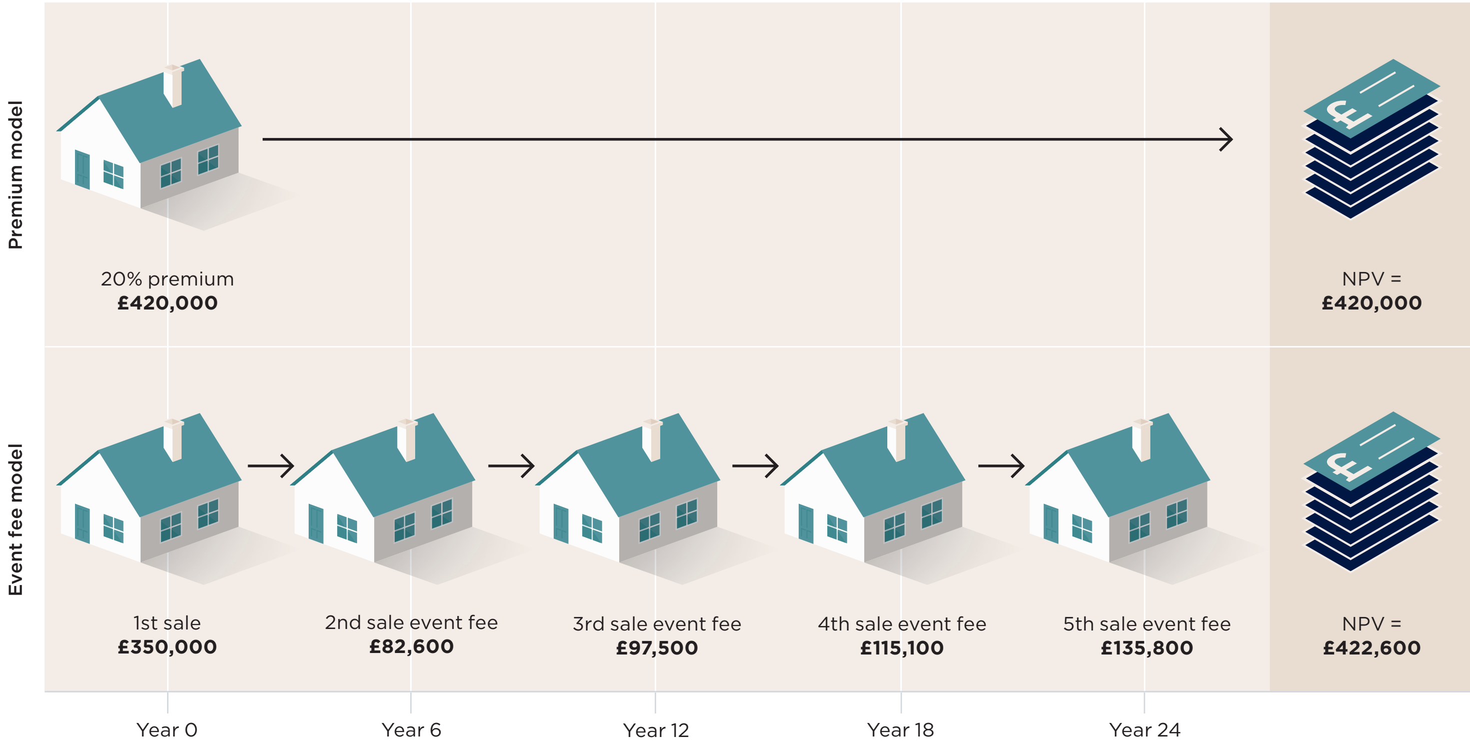
Estimated savings Comparing research into the savings of retirement homes

Source	Annual cost saving per person	Additional assumptions
Strategic Society Centre/ James Lloyd (2016)	£928	Applied a discount to means-test cost savings as some households may not qualify
Demos (2017)	£1,000	Excluded savings from home sales pushing households over means-testing threshold
Aston Research Centre for Healthy Ageing (2015)	£1,543	

Source Savills Research

> There’s more than one way to compensate developers for providing communal facilities on retirement schemes

Short- and long-term models How event fees work versus an initial upfront cost



Source Savills **Notes** NPV = net present value; Premium model sells at 20% premium on day 1. Event fee model charges 20% event fee on each sale; 20% of event fee reinvested into the scheme; average length of occupancy six years; annual house price inflation 2.8%, discount rate 12.0%

Funding the retirement community facilities

The cost of communal facilities needs to be factored into the price of retirement homes, and transparency is key

With fresh consultation on capping and scrapping ground rents underway, it’s clear that the Government and the public’s view on annual charges for homeowners is not a positive one. Unless the retirement living sector can change the perception of event fees, there is a risk that opinion could turn against them too.

One way or another, developers need compensating for providing communal facilities such as restaurants or spas. There are two main ways to do that for a market sale product: set a premium price when you first sell the homes, or take an event fee each time the property changes hands.

Short-term and long-term models

Which model is more appropriate depends largely on how much involvement the developer has in the scheme once it’s built. For developers who just want to move on to the next site, charging a premium sale price will help them recycle their capital quicker. For developers who intend to hold and operate the site, an ongoing income stream will help fund those communal amenities and facilitate refurbishment and maintenance in the longer term.

The indicative model above shows how either operating model can provide similar value to a developer over the long term. The longer-term model has advantages for residents as well as developers. This income stream allows the operator to maintain and improve the communal facilities. That’s likely to support growth in unit values, while improving the quality of life for the residents.

Whichever model developers decide to use, customers and government are likely to demand greater cost transparency in future. Whether paying a premium on day one or an event fee later on, residents and their families will feel more comfortable if they know exactly what they are paying for.

Savills Research
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