

RETIREMENT HOUSING

2016



KEY FACTS

By 2039, one in 12 people will be aged 80 or over

Just 3% of new-build units in the pipeline or currently under construction are designated 'elderly' or 'sheltered' housing

Supply of retirement housing needs to increase five-fold

Downsizing to a home with one less bedroom will release around £52,000 in equity on average across England and Wales, with large regional variations

HOUSING FOR AN AGEING POPULATION

The need for a dramatic increase in new housing across the UK is now recognised as a key social and political issue. However the focus now needs to widen to include the type of housing being built, and how it can meet the needs of different buyers, especially in light of a rapidly ageing population.

Ageing population

The population in the UK is expected to increase by nearly 10 million over the next 25 years, taking the total number of people living in UK to 74.3 million by 2039. The latest official data shows that the population is set to grow faster than was initially thought in 2012. Since then, the forecast population increase over the next decade has been revised up by 250,000 taking the total population to 69 million by 2025.

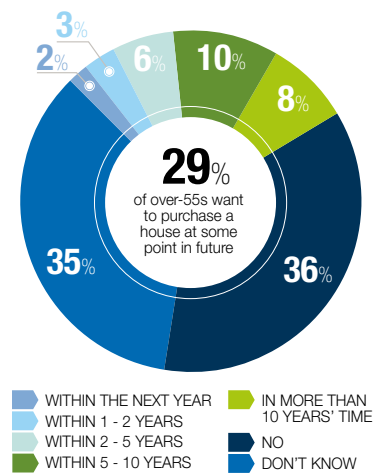
A rapidly growing population has ramifications for an already stretched housing market in the UK. But within this overarching challenge there is an issue which is becoming more pressing – providing housing suitable for an ageing population.

Around 23% of the population are currently aged over 60. During the next 20 years this proportion will rise to 29%.

This will push the median age across the UK from 40 today to nearly 43 in

FIGURE 3 Future housing plans

Are you planning on buying a property? (respondents 55+)

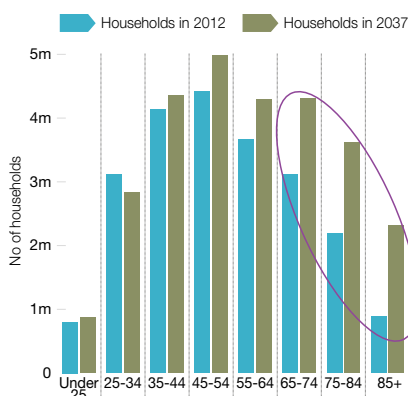


Source: Knight Frank Research / Markit Economics

2039, by which time nearly one in 12 people will be aged 80 or over. These figures are based on forecasts from the Office for National Statistics, however the central statistics authority has also modelled how the age structure in England would be affected under different scenarios. Its projection for a situation of low fertility, high life expectancy and low net migration shows a rise in the proportion of over-70s from 12% of the population currently to 19% in 20 years' time, as shown in figure 2.

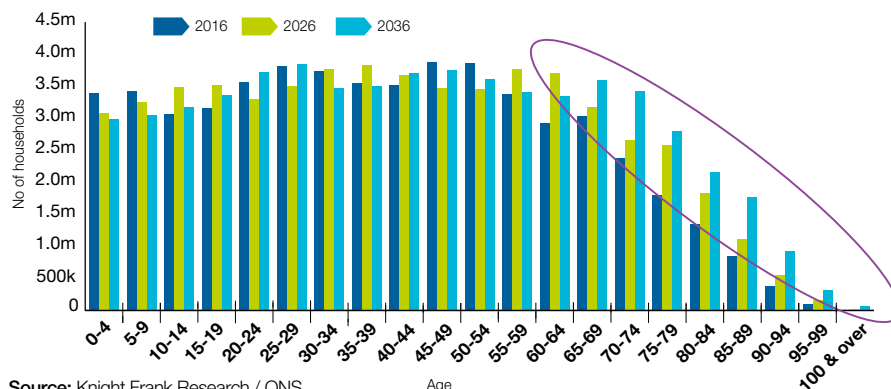
In terms of housing, official data shows that households headed by older people account for nearly 30% of all dwellings. Of the projected increase in all households between 2012 and 2037, more than three quarters will be headed up by someone aged 65 or over, as shown in figure 1.

FIGURE 1 Households in England & Wales by age of household* (millions)



Source: Knight Frank Research / DCLG
*Age of household is based on the household representative person who is usually the oldest full-time worker in a household.

FIGURE 2 UK population projections, by age: old age structure variant



Source: Knight Frank Research / ONS

The role of housing

The dynamics of the housing market have changed over the past few decades. Average house prices in the UK have risen by 277% over the last 25 years, benefitting older generations who have seen the value of their assets increase. As a result, these homeowners have access to a larger pool of equity in their current home. It is estimated that over-50s hold 66% of all housing wealth, equalling about £2.5 trillion.

While higher standards of living mean that many are fortunate to enjoy increased longevity in good health, there will be a growing number of people who will need housing which allows for their increased needs as they age.

A significant cohort of homeowners do not want to move house in older age, and instead will make changes to their current home to accommodate changes in their lifestyle and health as time goes on.

However, there are also a notable proportion of older people who do envisage moving house or downsizing to a home that better suits their requirements. This may mean moving to a more manageable property and moving to be much closer to amenities in the centres of towns and cities.

Specialist Knight Frank research shows that around 25% of over-55s said they wanted to move into some sort of retirement housing in the future. This equates to around **2.5 million households**.

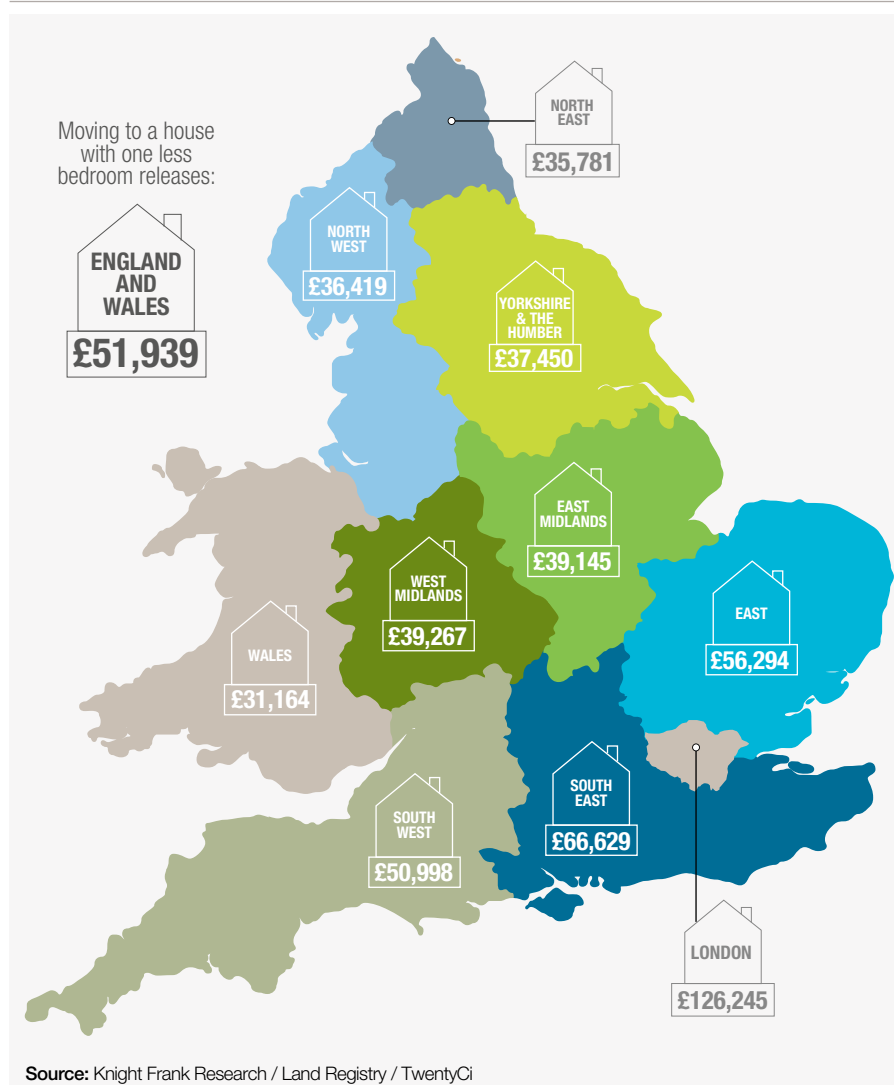
Meanwhile, a recent snapshot of buying intentions across 1,500 UK households – within [Knight Frank's House Price Sentiment Index](#), produced in conjunction with Markit Economics, showed that 29% of over-55s planned to buy a property at some point in the future, while 35% were undecided (figure 3). While some of these intentions may relate to investment property, the overall picture is one where the idea of downsizing is not being ruled out.

Looking at the latest average house price trends across the country, we have calculated that the average equity that can be released by downsizing to a home with one less bedroom is around £52,000. We acknowledge that the size and amenities of homes with more bedrooms will generally differ from those with fewer bedrooms, and this too will be reflected in the price.

The regional nature of the market (as shown in figure 4) means there are large variations depending on where households are based and where they are moving to, as well as the type of properties involved. For example, downsizing from a 3-bed property to a 2-bed flat in London could release around £98,000 in equity, based on average property prices, while downsizing from a 4-bed detached house to a 2-bed flat in the South East could release £205,500 in equity.

FIGURE 4
Equity release

Average equity released by downsizing by one bedroom across England and Wales



Source: Knight Frank Research / Land Registry / TwentyCi

Supply

The UK housing market has a significant supply shortage, but the scale of the undersupply in retirement housing is highlighted when we examine the pipeline of new housing being built. Only 3% of new housing which has been granted planning permission is specifically for 'elderly' or 'sheltered' accommodation.

Sheltered accommodation can include housing for older people, although it also encompasses housing for people with other specific needs. Although some developments aimed at older people, such as schemes only available to over-55s, may not be encompassed in this definition, these planning figures illustrate the scale of the undersupply.

Currently around 2% of housing stock is retirement housing according to research from the University of Reading. The current planning to development ratio suggests that around 5,500 retirement housing units are being delivered a year. In England alone, the number of households headed

up by someone aged over 65 is set to increase by nearly 4 million over the next 20 years. Once levels of homeownership and desire to move are taken into consideration, data suggests potential demand for around 30,000 retirement housing units a year.

Policy

The National Planning Policy Framework asks local planning authorities to “assess the full housing requirements in their area and plan for a mix of housing based on demographic trends and the needs of different groups in the area” – this includes older people.

There are calls for Local Authorities (LAs) to take these factors into consideration when drawing up local plans, particularly as this could then influence decisions on the Community Infrastructure Levy (CIL) and Section 106 agreements.

In its consultation on Starter Homes, the proposed discounted housing for under-40s which will be classed as affordable housing, the Government has recognised retirement housing as a separate type of housing, suggesting that off-site contributions for starter homes should be applied in such circumstances. In addition, it adds that in specialist schemes, which offer housing with an element of support, there is a case for a starter homes exemption.

Jeremy Porteus, Director of the Housing LIN, a ‘knowledge hub’ for professionals involved in the provision of housing for older people, says **“The policy debate**

should not just be about starter homes. We need think smarter and raise our ambitions about how we co-design attractive and affordable housing that older people want. It’s time to escalate more age-friendly solutions for our homes and in our communities.”

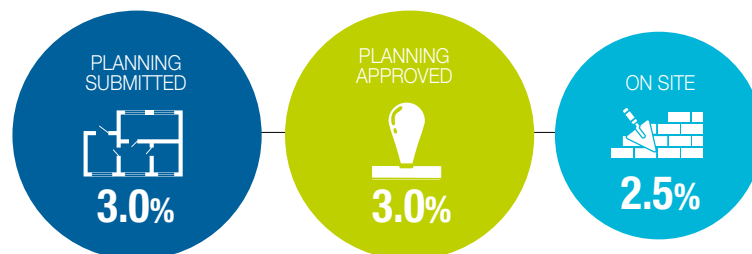
A few LAs implement differing rates of CIL for different types of development, including retirement housing. A failure to do this creates challenging viability conditions for developers, given the already augmented costs of delivering housing which can meet the needs of older people, including larger communal areas. A recent study by retirement housing providers McCarthy and Stone and Churchill showed that while a mainstream open-market scheme of flats will have 16% floor space which is made up of communal areas and other non-saleable areas, this increases to 30% for sheltered accommodation and 40% for extra care accommodation.

“Within 10 to 15 years we might see retirement housing demand equalling today’s demand for starter homes.”

MICHAEL BALL
Professor of urban and property economics, University of Reading.

FIGURE 5

Proportion of total housing units designated for ‘elderly’ or ‘sheltered’ accommodation, 2015



Current retirement housing stock
2%
OF TOTAL

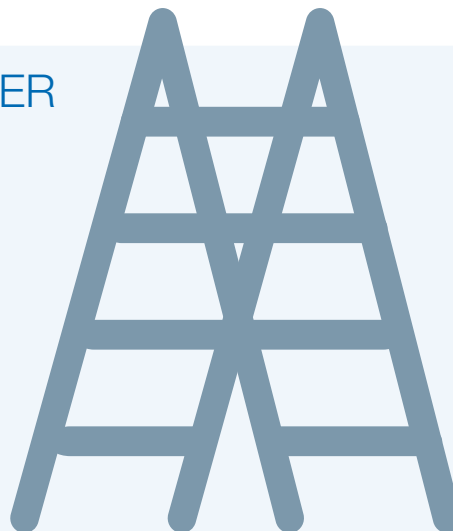
Source: University of Reading

Source: Knight Frank Research / Glenigan

THE HOUSING LADDER

The lack of housing for older people is not only an issue for this age group. It has an impact on the whole housing market, inhibiting movement up and down the housing ladder. It can be argued that building suitable housing for older people could encourage more downsizing, freeing up more family homes for second and third-steppers, and thus freeing up more homes suitable for first-time buyers.

This movement up and down the ladder not only makes more housing available for buyers, but it allows the flow of housing



equity to pass down to the younger generation, with many of those downsizing helping to fund deposits for first-time buyers in their family. New research from Knight Frank shows that around a fifth of all of those living in the private rented sector are relying on financial loans or gifts from their parents – the ‘bank of mum and dad’ – or wider family to amass a deposit to buy a home. Around of half of under-35s in the rental sector are not saving regularly for a deposit to buy a house.

This, as well as the increased build costs faced by the whole industry, can put developers of specialist accommodation at a disadvantage when it comes to land acquisition.

In our previous [Retirement Report](#), we highlighted the need for considering a separate use class for retirement housing, which would strengthen the position for negotiation, or even a waiver, of the Community Infrastructure Levy (CIL). Such a move could help boost the level of retirement housing being delivered across the country. However, as Andy McMullan, partner in Knight Frank's planning department argues, more local authorities should also be encouraged to use their power to create CIL "bandings" for different types of housing.

The affordable retirement housing sector is also facing some uncertainty due to recent policy changes.

While supported housing and sheltered accommodation for older people and extra care housing have been given an exemption on the social rent cuts which will affect the wider social housing sector over the next three years, the exemption is only for one year.

This means that instead of cutting rents by 1% this year, supported housing providers will be able to put their rents

up by the rate of CPI inflation +1% as in previous years. However there is little certainty about what the situation will be in 2017/18. While policies in this area are reviewed, there will be ongoing questions about future rental income.

The changes to caps on housing benefits, due to be introduced in November 2016 could also impact on affordability of extra care

£3.9tn

Total net housing wealth

Source: ONS 2012-2014

THE PLANNING VIEW



Andy McMullan
Partner, Planning,
Knight Frank

The retirement housing sector has been left in a "grey area" in many local plans. While the headline numbers of housing units that should be delivered are discussed in detail, the type of housing needed to meet the full spectrum of demand is given a lot less attention.

Looking particularly at retirement housing – the planning class orders of C2 (residential care homes) and C3 (residential dwellings) have been tweaked, but not seriously reviewed since they came into force in 1987.

They are a rather blunt tool with which to try and define retirement housing. But perhaps an alternative approach to overhauling the whole planning class system would be to encourage councils to become more flexible in their treatment of retirement housing. This could be achieved by waiving affordable housing requirements, or making allowances for CIL payments. Some LAs have implemented CIL "bands", with lower charges for retirement housing.

Ultimately, if the type of housing needed, not just the sheer volume, was spelled out in each area, the planning system would respond – making the creation of a wider range of housing increasingly viable.

FIGURE 6

Types of housing for older people

"Retirement Housing" is a catch-all term for housing which has been designed with older people in mind, from over-55 developments to retirement villages and communities which may offer some level of care. Specific care homes are not usually included in this type of housing.



Source: Knight Frank Research



accommodation for those relying on housing benefit, while the increase to the living wage could increase costs for staffing extra care housing schemes.

Some policymakers recognise the need for more housing for older people, as evidenced by the All Party Parliamentary Group on Housing and Care for Older People (APPG). This group has established a new enquiry (HAPPI3) to seek out examples of the best and most innovative practice in the retirement housing sector.

Those within the industry are also confident that the efforts to create a less complicated market in terms of fees and charges will have a positive effect. John Galvin, chief executive at the Elderly Accommodation Council (EAC), says: "There is no magic wand, and planning questions won't go away, but things have moved a long way – and five years down the track there will be even more openness and customers will respond to that."

THE EXPERT VIEW



Emma Cleugh
Head of Institutional
Consultancy

In our last Retirement Housing Report we stated that the time for change had come. There is a need for an increased awareness and a shift in stance from policymakers to deliver the 'tools' to the market which will boost the delivery of suitable housing for the increasingly discerning yet undersupplied retirement market.

What is so stark now is the rapidity of change in terms of the identified need for this type of housing, as the statistics in this report show.

It is also evident that the trickle-down effect of freeing up the homes of the older generations for younger families' housing would be of benefit to all.

Since 2014, the Government has implemented repeated reforms to other sections of the housing market – whether that be measures to encourage

first time buyers, or reforms to stamp duty and inheritance tax thresholds. However, the retirement housing sector remains overlooked.

Meanwhile, there has been no real change in any of the ground rules set by the Government to increase the supply.

Pensioners have seen their incomes protected through the Government's "triple lock" but their housing has not been policymakers' focus.

It is evident that the wealth tied up in their homes has the ability to deliver so many benefits to the wider housing market and also relieve pressure on social care budgets too, as research shows that those that live in bespoke retirement housing frequently enjoy longer and healthier lives.

So this is a call for the Government to deliver some tools to the market to facilitate an increase in the delivery of retirement housing which is so very much required – thus benefitting all areas of the housing market and the wider economy.

RESIDENTIAL RESEARCH

Gráinne Gilmore

Head of UK Residential Research
+44 20 7861 5102
grainne.gilmore@knightfrank.com

INSTITUTIONAL CONSULTANCY

Emma Cleugh

Head of Institutional Consultancy
+44 20 7861 5427
emma.cleugh@knightfrank.com

Tom Scaife

Partner, Institutional Consultancy
+44 20 7861 5429
tom.scaife@knightfrank.com

HEALTHCARE

Julian Evans

Head of Healthcare
+44 20 7861 1147
julian.evans@knightfrank.com

Chris Wishart

Partner, Healthcare
+44 20 7861 1076
chris.wishart@knightfrank.com

PLANNING

Andy McMullan

Partner, Planning
+44 16 1833 7734
andy.mcmullan@knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



[Gaining Ground Housebuilding Report](#)



[UK Housing Market Forecast - Mar 2016](#)



[UK Residential Market Update Apr 2016](#)



[Residential Development Finance Report 2015/16](#)

Knight Frank Research Reports are available at KnightFrank.com/Research



Important Notice

© Knight Frank LLP 2016 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.