
Executive Summary

Aspiration Age

Delivering capital solutions to promote greater choice and independence for older people



Abstract

Funded by a Housing Corporation Innovation and Good Practice (IGP) Grant and the Department of Health Care Service Improvement Partnership (CSIP), the Aspiration Age project aims to maximise the choice and control that older homeowners can exercise by using their equity to fund a range of retirement housing options. The report's main focus is on housing associations as developers and providers of housing for older people; however it will also be of key interest to mainstream builders and financial institutions. In the context of an ageing population and the "debate" on the long term funding of care and support¹, the fact that three in four² people retiring are currently homeowners presents a real opportunity for funding housing, care and support in older age.

This report seeks to address how older homeowners can use equity in a way that delivers more choice and flexibility in both how it is released and how it is used. Three innovative equity based products have been researched, modelled and tested. Some of the proposals look at extending the volume of choice built on existing products and policies, while others explore scenarios that challenge current policies and hence will stimulate greater debate. A key theme throughout the project is the crucial role of Registered Social Landlords (RSLs) in facilitating and enabling delivery of these products.

The importance of equity based products is demonstrated by the growing contribution of Shared Ownership for the Elderly (SOE) units funded through the Housing Corporation investment programme, which increased to 21% of all older people's units funded in the first tranche of the 2008-11 National Affordable Housing Programme (NAHP). It is clear from the Housing Corporation prospectus that this remains a priority over the life of the programme and accordingly more funding will be available to further increase provision.

It is important to note that the research and modelling took place during a turbulent period in the UK property market in early 2008, and the ability to translate the findings of this research into reality will, like most housing products, be partly dependant on the fortunes of the wider housing market. The immediate constraints on capital finance and falling house price values will impact on the proposals set out in this paper. Equally, developers may identify relative opportunities in older persons' housing as a result of difficulties in the wider residential development market.

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Key findings

- Equity *can* fund care and support for those with an average level of care and support need living in properties of an average value
- Older people are willing to use equity to fund care and support
- No existing commercial or non-commercial equity products fully meet the 'ideal equity release product' brief, however this project has generated market interest
- Access to land at below market rates is needed to make shared ownership extra care housing schemes viable in areas where land value is higher
- If increased volume of extra care units is considered a priority, existing shared ownership products for older people should be reviewed
- Staircasing down to release equity provides a potential alternative for funding care and support in specialist retirement housing, but no commercial products are currently available
- In order for RSLs to be able to offer staircasing down, the government would face a significant challenge to current policies, requiring detailed consideration of financial arrangements in terms of use of social housing grants and other funding
- The market for outright sale extra care housing is very immature, however early indications are that well located and designed schemes are likely to provide a reasonable return
- RSLs could play an enhanced role in the renewal of privately owned housing through equity swap, buying back to rent and buying back to shared ownership



¹ The case for change, why England needs a new care and support system, HM Government 2008

² Housing in England, National Statistics/DCLG October 2006

Proposals and action

- We propose changing the cap on staircasing from 75% to help stimulate numbers, however this would be at the expense of current affordability
- One Housing Group will build on initial interest from financial institutions and seek partners to take forward developing a modified flexible monthly drawdown Lifetime Mortgage

Findings of the Aspiration Age project pose a number of questions for policy makers in terms of potential amendments to policy and the financial resourcing of the models explored.

About the research

Aims & purpose

The debate over the funding of care is growing in importance as the surging number of older people in the UK becomes increasingly evident. One of the key issues is how equity held by older people in their homes may help prevent the need for care and also fund care where required. Aspiration Age is founded on the principle that suitable housing with access to appropriate care and/or support delivers independence and well-being in older age. The project embraces social care, health and housing and its findings are useful to older homeowners, RSLs and other providers of housing care and support as well as local and national government and policy makers.

Investment in extra care housing will provide an alternative to registered care for many older people, and will help prevent care needs, hospital admission or prolonged stays in hospital. While it will not remove the need for care it will significantly reduce the £30 billion per year cost for care that is predicted to accompany the growth in the number of older people. A clear business case now exists for stimulating investment in extra care to provide better choice in managing care and health needs across the spectrum of housing tenures. This will help manage the impact of cost on the taxpayer in paying for both health and care for an ageing population.

Demographic modelling and the pattern of household formation suggests that the number of older households will rise by 2.4 million over the next 20 years, whilst home ownership levels are expected to remain at around 70%. This indicates a potential growth in the number of older people who can afford a full or part equity stake in retirement housing.

The Aspiration Age report includes the research, modelling and testing of three different equity based products which share the common aim of increasing housing choice for older people. These are:

- **Innovative use of equity release** - to pay for care and support
- **Housing equity and choice** - enhancing the role of home ownership products
- **Role of RSLs in equity exchange for housing, care and support services** - enabling RSLs to buy equity stakes in both specialist and privately owned homes in exchange for services

Product 1: Innovative use of equity release

Equity release explained

In simple terms 'equity release' means releasing capital or income from a property asset. In later life a person's home often represents the bulk of their savings and for many people this equates to owning a valuable asset but having a restricted income. Chapter 3 of our report considers how this equity might be 'unlocked' and used to pay for care and support services as well as 'bricks and mortar'. We begin with a short explanation of equity release and a review of the existing market, which shows that while releasing equity to pay for care and support represents just 1% of current commercial use, there is undoubtedly a potential market and strong business case for older people, housing providers and government to explore how this can be increased. Issues with existing commercial equity products mean their use is limited for funding care and support.

Can equity fund care and support?

The report considers the key question – *can equity fund care and support?* In order to assess this, a financial model was devised that analyses over time the likely costs of care and the likely equity to be released. The project's exploration of different scenarios shows that equity can fund care and support for older homeowners with average projected care needs living in both average and high value property. This model is still viable when the additional costs of occupation, such as service charges and sinking funds, are included as well as in the context of no increase in house prices. Due to people moving into extra care much later in life, the risk of exhausting equity is less in extra care housing than traditional sheltered housing.

What do older people think about using equity to fund care and support?

Participants in two focus groups demonstrated a keen interest in and awareness of the equity release market. Older homeowners were very aware of problems with previous equity products. They expressed concern about the potential for high interest and the risk of losing their homes or leaving debts if equity ran out. Overall they were reluctant but willing to use equity to fund care and support and gave a clear steer on the essential characteristics for ideal equity products.

Equity release mechanisms tested

Four different commercial and non-commercial equity release mechanisms were tested and their corresponding advantages and disadvantages explored:

- Lifetime Mortgage with drawdown
- Reverse Mortgage
- Equity Swap
- Deferral of charges through linked lease and care contracts

Proposals and recommendations

None of the equity release methods tested fully delivers the 'ideal equity release product' brief generated from our analysis and focus group feedback. In the short term the most viable development option in the use of funding care and support is the **flexible monthly drawdown Lifetime Mortgage** option, although this requires modification. These findings formed the basis of initial discussions with potential lenders and despite wider liquidity issues in the UK banking sector in 2008, they do appear, in the right volume, to provide the basis for a realistic product.

Further work is needed to design the ideal product; however sufficient interest from housing, care and support providers is required in order for this to be undertaken. Through the promotion and dissemination of Aspiration Age's findings, One Housing Group is actively seeking partners who are interested in taking this forward.



Product 2: Housing equity & choice

Retirement home ownership

Chapter 4 of the report considers the role of home ownership, the single biggest equity product, in increasing choice for older people in specialist retirement housing. This begins with a review of different models of specialist retirement housing and the role of newer innovations such as extra care housing in enabling complex care packages to be delivered in an individual's own home. The report also considers the current housing market for shared ownership and outright sale, and highlights the ways in which products could be refined to promote greater choice.

Shared ownership and older people

Shared Ownership for the Elderly (referred to as SOE in this report and also known as SOFTE or SHOE) was introduced in 1989. Analysis conducted as part of the Aspiration Age project shows that SOE has been effective and delivered an important volume of development. However, this was before the introduction of the extra care housing model, and when applied to this relatively new form of housing a number of challenges arise. When 'road tested' or compared against ordinary HomeBuy schemes there are a number of issues, especially when land has to be purchased on the open market. As part of this project, example appraisals on extra care housing schemes were completed. These showed that when the SOE model is used in higher land value areas for extra care it produces a negative internal rate of return, largely because of requirements to cap staircasing at 75% and charge no rent on the remaining 25%. The report's findings show that schemes developed on nil cost land supplied by other stakeholders (that are in effect subsidised) do make an appropriate return.

Proposals and recommendations

The report recommends that if a significant increase in the number of extra care units (beyond that assisted by public land subsidy) is a priority for government a review of the existing SOE product should be conducted. This would involve consideration of the product's full range of implications, including its impact on affordability, the most appropriate market for the product and how they might best be targeted. Any such review should consider the following proposals:

- Reconsideration of the maximum limit older people are able to buy and its extension from 75% to 95%
- The charge of rent on unsold equity of up to maximum of 2.75% (government target rent)
- The retention of an age limit for SOE of 55 years
- Consideration of the positive benefits of increased supply against the negative impact on affordability
- Discussion with lending institutions on changes to the SOE product

It is recognised that the recommendation of charging rent on unsold equity presents the additional issue for policy makers that older homeowners contemplating shared ownership are likely to be eligible for housing benefit. Aspiration Age recommends that stakeholders consider what land they could allocate to RSLs for the development of social retirement housing and also that the government give further attention to the role of planning and the use of Section 106 agreements to stimulate growth in this sector.



Product 3: Role of RSLs in equity exchange for housing, care and support services

The role of RSLs

Chapter 5 considers the potentially enhanced role that RSLs could play in the exchange of equity for housing, care and support services, exploring the potential for RSLs to buy stakes of equity in both specialist retirement housing and privately owned accommodation. Some of the recommendations may require changes to current housing investment rules and policy, or consideration of alternative sources of finance to fund the reverse staircasing proposal. The report also explores the suggestion that RCGF (Recycled Capital Grant Fund) may be a way to fund care in order to stimulate debate about sources of funding. One Housing Group accepts that this may not be appropriate or acceptable to central government and policy makers.

Reverse staircasing in specialist housing

People who buy a stake in shared ownership property under one of the Housing Corporation's funded programmes usually have a right to buy more of the equity, i.e. staircase up. Currently there is no equivalent right to staircase down, except in exceptional circumstances. Some RSLs have done so, using their own resources or RCGF. Older homeowners are more likely to be interested in staircasing down than up in order to release equity, for example to pay for care and support. The report explores a model in which reverse staircasing could be used to fund care and support in a retirement housing scheme.

Reverse staircasing proposal and recommendations

The report proposes that consideration is given to allowing older homeowners in specialist retirement housing to staircase down to fund care and support needs. However a key question for policy makers is how this should be funded. Government policy supports use of RCGF to fund exceptional cases of staircasing down but excludes its use for care. The report raises the question of whether reverse staircasing to fund care and support should be funded from RCGF or from another new funding source. The use of RCGF should be the same as that of the Social Housing Grant, i.e. for housing, therefore it is unlikely that RCGF would be considered an appropriate source of alternative funding.

Increasing the role of RSLs in the renewal of privately owned housing

A number of effective and innovative home renewal services are provided by Home Improvement Agencies and Community Development Financial Institutions. Aspiration Age considers the scale of vulnerable private homeowners living in non-decent homes and the potential role that RSLs could play in responding to this challenge. RSLs already have the required expertise and capacity in housing services such as surveying, contract management, project management, procurement and maintenance. The next logical step, therefore, would be for RSLs to deploy this expertise in privately owned housing by assisting these home owners to access their equity and use this to pay for necessary repairs, adaptation and improvements.

RSL equity exchange models tested

Aspiration Age explores three different models that RSLs could use to exchange equity for housing renewal:

- Equity swap
- Buying back to rent
- Buying back to shared ownership

Proposals and recommendations

When modelled all three options work, however they all require additional funding to make them viable. The report considers funding options including the possible use of RCGF or a new grant. In the context of a push to increase quantities of new stock, RCGF is unlikely to be seen as an attractive option.



Conclusions

The report shows that there is significant market potential for equity to be used to fund both housing and care and support services within both specialist retirement housing and privately owned housing.

Releasing equity extends choice for older homeowners across a spectrum of options, from making adaptations and improvements to enable older homeowners to remain in their home through to funding long term care and support.

Modelling of the three different products shows that each of them can work, although in some cases changes to policy might be needed or new and additional financial resources identified. Specific recommendations for each product are detailed in this summary.

The combination of emerging demographics and pattern of tenure indicates need across the spectrum of tenure with the majority of demand from older people who can afford part or full equity. If part of the business case is to manage future care and health needs, the government will need to give significant consideration to how the necessary volume of shared and full ownership can be made available.

The overarching business case across all tenures is that such housing not only reduces care and health demands but provides a more effective setting when it is required. When matched against the increasing number of frail older people in our society over the next 30 years the absolute benefit to quality of life, services and the public purse is significant.

Aspiration Age has raised the real prospect of property equity funding care and enabling housing to provide a central role in response to the challenge of an ageing society. A number of challenging questions, such as use of RCGF or identification by government of other resources to pay for care, have been raised. While such questions may be rightly considered to break the mould, given the scale of the task it is right to open the discussion.

The older people in our focus groups were very engaged and interested in our ideas, which demonstrate that there is a potential market for the right products, provided they meet older people's expectations and requirements.

Many of the ideas tested have already been deployed on a small scale and the report demonstrates the crucial role that RSLs can play in deploying them on a larger scale.



About the project

The Aspiration Age project was overseen by a Steering Group chaired by OHG's Group Director of Housing, Care & Support and comprising representatives from the Housing Corporation, Department of Health CSIP, Communities and Local Government, the National Housing Federation, the Housing & Support Partnership, London Borough of Camden and Saxon Weald Housing Association. The group both met and provided 'virtual' guidance and feedback on products as they were analysed and developed. Market testing product ideas with potential customers through focus groups was key to the project. Two focus groups were held with older homeowners in London and Manchester. The participants showed a keen interest in the ideas discussed and gave a very clear steer on characteristics of their 'ideal products'.

Aspiration Age was a complex piece of work and throughout the project we sought advice from experts on legal, financial and technical matters.

Images

Page 4 and 8: Due for completion in December 2010, the Roden Court extra care scheme in Crouch End will feature 40 one and two bedroom apartments.

Page 7: Located in Highgate, the Trees extra care scheme will feature beautifully landscaped gardens. Due for completion in October 2008, it will feature 40 one and two bedroom apartments.

Page 10: The first phase of the Kings Cross Central regeneration project will include extra care units alongside affordable homes for general needs rent.

For further information on Aspiration Age or to read the full report please visit either the Housing Corporation or One Housing Group website.

Alternatively please contact:

Sarah Lanham

Assistant Director Business Development
at One Support

T 0207 428 4211

slanham@onehousinggroup.co.uk

One Housing Group

100 Chalk Farm Road
NW1 8EH

T 0207 7267 7020

www.onehousinggroup.co.uk

Housing Corporation

Maple House
149 Tottenham Court Road
London W1T 7BN

T 0845 230 7000

www.housingcorp.gov.uk

