one housing group

# Aspiration Age

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

one support

part of One Housing Group

# Contents

"I am delighted to be coming in to chair One Housing Group just as it is publishing Aspiration Age, a really exciting piece of work that offers some solutions to the muddy water that is older people's housing policy in the United Kingdom. Issues around housing and care for older people abound. Housing for older people who may need additional support but have not lost their faculties, is poorly conceptualised and that is at least in part because society has still not come to terms with the fact that we are an ageing society."

**Baroness Neuberger**
One Housing Group Board Chair



# Foreword

The Joseph Rowntree Foundation, in its task group's report 'From welfare to wellbeing- planning for an ageing society- Housing, Money and Care for Older People', argued for a fundamental shift in the way society and government tackle age discrimination and the inequality still endemic in society today. As far as housing goes, it had a real go at public services more generally, arguing that:

"Britain is still locked into a traditional welfare rationing approach for people on low incomes, rather than a broader approach that applies to older people across all economic groups as citizens and consumers, and which draws in the private sector as partners. Public services still focus, by and large, on the most vulnerable older people at times of crisis (some fifteen per cent of the older population) rather than adopting an approach which enables the wider population - the other eighty five per cent- to remain independent for as long as possible and to live their lives to the full."

Aspiration Age is part of the answer to that tough analysis. We may all need extra support and care, and we all use the NHS, irrespective of our means. That means we need to conceptualise what buying into extra care might look like quite differently. If it is to be designed to suit all kinds of people, we have to listen hard to what older people are saying they themselves want. It has to be less driven by what providers want to provide, and more responsive to older people's own desires and aspirations.

So what might this look like? How would this thinking make a difference to how we think about housing, given the overwhelming evidence that we all want to stay in our own homes permanently, or for as long as possible? If we take heed of the Task Group's thinking, it would be hugely improved. For the case for extra care housing in preventing the need for high end care and maintaining well being and active lifestyles is well established. Thus far, however, most development has been in the affordable sector. Extra care home ownership forms a very small proportion of the national stock. Aspiration Age aims to provide a stimulus to see a greater number of older people making their equity work for them in providing high quality housing that matches their tastes and aspirations, reduces their need for care and pays for it when they need it, so it gives the older people themselves far more say in how they live and how their care is provided - and gives them the money to pay for it. This is because the market for equity release products has matured considerably and improved over the last few years. Older people want products that minimise the effect of compound interest and allow them flexibility with their money, so that funding is available when they need it. A small amount of movement in the existing market should deliver such products - the Aspiration Age project aims to help lead the way for the financial products industry in satisfying the potential of this older people's market, even in a tough financial climate. Equity can pay for care when people need it, and still allow for inheritance for their children.

This model could also apply to those who are less well off. Shared ownership for older people provides access to this market for less well off home owners. This offer has thus far been based on affordability, as opposed to stimulating volume. A slightly different, revised, product might still provide this opportunity, but it should also deliver a much better business case for volume affordable housing developers.

**Note: Economic Downturn** This work was commissioned before the downturn in the economy and property values. Some of the funding assumptions do build in average house price growth, and the downturn will have impact in the short term, however, this does not undermine the models, findings and significance of the work. We must all realise that any development activity and sales in the short term may be challenging but the older persons market may offer unique opportunities compared to the wider residential development market.

Meanwhile, Aspiration Age has addressed challenging policy areas such as the use of capital receipts in paying for care. The scale of the challenge to our society in making sure the right choice of care is available, let alone the funding to pay for it, requires innovative thinking by providers of housing and care as well as the willingness for government to make brave choices in how it thinks about older people's life choices and their financial assets.

The Housing Association sector has developed a mix of tenures very successfully, and has catered for a range of markets. It also provides some of the most respected care and health services for older people. Housing Associations' expertise in mixed tenure schemes could easily be transferred to housing for older people. Projects and programmes combining renting, shared ownership and home ownership can provide the business case for volume development, alongside some really imaginative programmes of support that will keep people in their own homes and prevent them going into care homes and nursing homes unless the situation becomes extreme.

So Aspiration Age defines a real opportunity for older people to use the power of their equity in their present properties, as well as providing housing associations with a robust social and business case and an unparalleled opportunity to develop extra care housing at volume. And that extra care housing needs to provide easy access to adaptations and assistive technology to support ageing in people's own homes, as well as making sure it is possible to get flexible support and care into the home.

For it is clear that planners and policy makers need to understand that, as people get older, their homes become more and more important to them - they become 'more significant in defining their identity and shaping their lives.' (Edwards, M. and Harding, E: Building our futures: meeting the housing needs of an ageing population, International Longevity Centre, London 2006). Most surveys make it clear people want to stay in their own homes as they get older and frailer - Counsel and Care, who provide advice for older people needing care, demonstrated in 2003 that 82% of the respondents to their survey wanted to stay in their own homes (Counsel and Care: Housing Decisions in Old Age). If people cannot stay at home, they will have a variety of preferences. Only a small proportion of better off people used to move to purpose built and/or supported housing where higher levels of need can be met. Until recently, this was not an option for most people, particularly as evidence suggests that as people get older they are less likely to see their home principally as a financial resource, to release equity when needed. But Aspiration Age, if it is successful, might succeed in changing that perception. For what tends really to make people move at present is a crisis, or the fear of a crisis, such as feeling unable to look after themselves - usually as a result of a fall or an illness, feeling isolated, being unable to get out and about, feeling unsafe either at home or in the neighbourhood or both, and fearing or actually having an accident with no-one nearby to help. It is against that background that extra care options need to be seen as more attractive. Older people themselves are going to need to campaign for the kinds of accommodation they want to see, if they cannot stay at home, in terms of extra care.

And certainly the providers of that kind of care need to be thinking far harder about how they make it attractive to a much larger section of the population - not just as a necessary evil - and how they provide extra services for those who still can - just - manage in their own homes. That is what Aspiration Age is aiming to do, and that is why I am so delighted that One Housing Group has conducted this research, and put these ideas into the public domain.





For we argue that well designed equity release products can provide the funding for older people's care and, when specifically tied to the purchase of a high quality extra care property/scheme, it can create a one stop choice/opportunity for around 70% of older people who currently own their own homes. This provides a real business opportunity for the housing sector in managing health and care needs and demands, as well as a real imperative for the sector in listening to the voices of older people themselves about what they really want - how to live, who to live with, how to be cared for, and where, ultimately, to die. Shared Ownership for the Elderly (SOE), the scheme funded by the HCA, has provided the choice of ownership for many thousands of older people since 1989. However, it was clearly designed for a totally different set of circumstances from what prevails now, and, if volume is to be delivered in our ageing society, it needs reforming to achieve greater parity with the normal shared ownership 'Homebuy' product. That would provide developing associations with a sound business case on which to build.

So there is real opportunity here - for older people, for housing associations, and for society at large. Housing for older people has been the poor relation in our thinking about housing more generally, and older people themselves are often invisible in our society, which has tended to discriminate against them. This is an opportunity. But with the opportunity comes some imperatives. Housing associations cannot design accommodation for older people without involving them in the design. Extra care facilities have to be sufficiently robust that people can move into them and stay there, and not be forced to move because they become too frail. If these are to be people's homes then homes for ife is what they should be. And older people are beginning to be more assertive as the babyboomers reach sixty plus. They want different things from what their parents had, and are far less grateful for whatever is provided. This means providing choice and variety, care and entertainment, choice of how one lives and who with, and choice in terms of who cares for people and how. It will not be easy, but this financial model, backed up by a real and thoroughly worked up social care model, may be able to deliver some of the answers to the vexed problem of getting really good housing for older people which they also really love to live in.

**Baroness Julia Neuberger**
One Housing Group Board Chair

Photograph by Derek Tamea © 2009

Funded by an 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 aging population and the "debate" on the long term funding of care and support, the fact that three in four people retiring are currently homeowners presents a real opportunity for funding housing, care and support in older age.





# Introduction

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 through the project is the crucial role of Registered Social Landlords (RSLs) in facilitating and enabling the 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 HCA 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 2008 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 market.


## Acknowledgements

The delivery of the Aspiration Age Project has been made possible through the contributions of a wide range of individuals and organisations. We are delighted to acknowledge and give our thanks to all those who have played such a positive role in this innovative project:

## Funding

The Aspiration Age project embraces housing, health and social care. One Housing Group has been fortunate to receive joint funding for this project through a TSA Innovation and Good Practice Grant and from the Department of Health Care Service Improvement Partnership. We would like to thank James Berrington and Jeremy Porteus for their expertise, guidance and advice throughout this project.

## The Housing & Support Partnership

Nigel King from The Housing & Support Partnership was engaged throughout the life of the Aspiration Age project to undertake research, modelling and product development on behalf of One Housing Group. The expertise and knowledge of Nigel King and Diane Berry has been crucial to the success of this project.

## Steering Group

The Steering Group provided critical guidance, advice and assistance throughout the Aspiration Age project. The input from leading experts from a range of government departments, local authority commissioning and provider agencies and their representatives has greatly enhanced the quality of this project:

| | |
|---|---|
| Kevin Beirne | One Housing Group |
| Sarah Lanham | One Housing Group |
| Nigel King | The Housing and Support Partnership |
| James Berrington | Former Housing Corporation, now HCA |
| Jeremy Porteus | Department of Health |
| Sue Ramsden | National Housing Federation |
| Clive Parker | Saxon Weald HA |
| Ray Keane | London Borough of Camden |
| Dylan Grimes | Communities and Local Government |
| Joanne Kent-Smith | Chartered Institute of Housing |

## Focus Groups

The two focus groups attended by 21 older home owners provided extensive feedback on retirement housing, equity release and the different models tested. The keen interest of the focus group attendees gave us a clear brief on key characteristics of ideal products.

Two market research companies, Summit and PH Research made the groups possible through effective sourcing of attendees.

## Housing Provider Workshop

The Housing Provider Workshop was attended by housing organisations involved in shared ownership and/or specialist retirement housing. This significantly contributed to the development of the ideas in Chapter 4 in regard to proposals for increasing choice in shared ownership and outright sale. The attendees were:

One Housing Group
Bromford Housing Group
In Touch Support
National Housing Federation
Metropolitan Home Ownership

## Expert Consultancy and Advice

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

- Linda Convery of solicitors Lewis Silkin considered many of the legal issues and reviewed the extra care lease requirements
- Dave Matzdorf, a development consultant, contributed to the financial appraisal of SOE developments
- Mark Bolton, of Strettons valuers produced the Extra Care Market Report as part of this project
- Rachel Terry made helpful suggestions to the proposals on equity release
- Colin Garlick, Group Actuary from Structured Risk Products, provided advice on options for the development of an equity release for care product.

## Specialist Organisations

Staff from a number of CDFIs and RSLs gave their time and shared ideas and experience including Warren Garret from London Rebuilding Society (LRS) and staff from Wessex Re-Investment Trust, Regenda, ART Homes and Home Improvement Trust.

## Project Support

Danielle Ross, Business Support Officer at OHG has provided much valued assistance with the co-ordination and presentation of this project.

Kevin Beirne
Group Director of Housing Care & Support

Sarah Lanham
Assistant Director Business Development





# Section 1 The Context of Aspiration Age

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# 1.1 Demographic Headlines

### An Ageing Population

Statistics from the Government Actuary Department show those over retirement age are increasing fast. Over the next 25 years those over 60 will increase by 51% from 10,783,000 in 2006 to 16,700,000 in 2031. Those over 85, and likely to need some support or care, will more than double from 1,055,000 to 2,413,000.

**Table 1: Population in England In '000s**

| | 2006 | 2011 | 2016 | 2021 | 2026 | 2031 |
|---|---|---|---|---|---|---|
| 60-84 years | 9,728 | 10,658 | 11,344 | 12,285 | 13,444 | 14,287 |
| 85+ years | 1,055 | 1,214 | 1,395 | 1,637 | 1,964 | 2,413 |
| Total | 10,783 | 11,872 | 12,738 | 13,921 | 15,408 | 16,700 |

*Source: Government Actuary Department*

### Prevalence of Home Ownership

Statistics from Housing in England, National Statistics / DCLG October 2006 show that 3 in 4 of those now retiring are homeowners and most own their home outright.

### Health and Social Care Needs in Older Age

Older age is associated with an increase in health and social care needs. Currently 1 in 5 people over 70 receive care in the home and 20% require continuous care. 1 in 4 of those over 85 has some form of mental impairment and 780,000 people in the UK have dementia[1]. The number of disabled older people is projected to double from 2.3 million in 2002 to approximately 4.6 million in 2041[2].

### Increased Llife Expectancy

People are living longer. The table below from the Government Actuary Department shows that life expectancy has increased for both men and women; however the period of ill health in later years (where care and support may be needed) has also lengthened.

**Table 2: Life Expectancy and Healthy Life Expectancy at 65 Years**

| Year | Men | | | Women | | |
|---|---|---|---|---|---|---|
| | Life expectancy | Health life expectancy | Period of poor health | Life expectancy | Health life expectancy | Period of poor health |
| 1981 | 12.97 | 9.94 | 3.03 | 16.92 | 11.88 | 5.04 |
| 2001 | 15.94 | 11.62 | 4.32 | 19.03 | 13.17 | 5.86 |
| Total | 10,783 | 11,872 | 12,738 | 13,921 | 15,408 | 16,700 |

*Source: Government Actuary Department 2006*

1 Office of National Statistics 2007, www.ons.gov.uk and Lifetime Homes, Lifetime Neighbourhoods: a National Strategy on Housing in an Ageing Society, Communities and Local Government, DH and DWP, 2008

2 Lifetime Homes, Lifetime Neighbourhoods: a National Strategy on Housing in an Ageing Society, Communities and Local Government, DH and DWP, 2008

# 1.2 Policy Headlines

### Cost of Care
The cost of care is considerable. In 2005/06 local authorities spent £14 billion on social care for adults; 61% of this on older people[3].

### Personalisation
For many years, social care policy has been to reduce reliance on more institutional forms of provision and, in line with most older people's wishes, provide support to those who need it to continue to live at home. Most recently there has been the launch of a programme to "transform" how social care is arranged and the introduction of the idea of "personal" budgets as the ideal for older and disabled people controlling their own care arrangements[4].

### Fair Access to Care and Self Funders
Access to support for care from local authorities is based on an assessment of needs under "Fair Access to Care" (FACs). There is also a financial assessment and those with savings in excess of £21,500 do not get financial help with care fees. Local authorities recovered £2 billion in fees and charges for services in 2006-07 (this in part came from sale of the resident's previous home). Self funders represent 110,000 of the 350,000 care home places in England, with the remainder funded by the local authority[5].

### National Strategy on Housing in an Ageing Society
The Government's National Strategy on Housing in an Ageing Society, Lifetime Homes, Lifetime Neighbourhoods[6], and the accompanying toolkit, More Choice: Greater Voice[7] highlights the need for greater awareness of housing with care options for an older population and the anticipated growing demand for specialised housing to support independence and lifestyle choices in old age.

### Extra Care Housing
Extra care housing which combines self contained, purpose designed accommodation for older people with care services delivers many of the social policy aims. However, extra care housing is still relatively embryonic with less than an estimated 35,000 units of accommodation[8]. There is a significant programme of mixed tenure housing now in part funded by the HCA and/or the Department of Health although there is as yet little extra care available for outright sale. The report completed by Strettons for Aspiration Age showed just 8 schemes in the London area offering extra care for outright sale. The increasing diversity of tenure is planned to meet a wide range of circumstances. This includes those less well off owners living in low value properties who might only be able to afford to pay for part of the equity. One challenge for those who do not qualify for extensive welfare benefit entitlements and / or social care funding via the local authority is how to pay for care and / or support services or their related housing needs.

### Debate on the Long Term Funding of Care and Support
During the course of the Aspiration Age project the Government launched a "debate" on the long term future of England's care and support system. This underlines yet again the challenge in both funding and nature of services to be provided[9].

*"The existing care and support system is not sustainable because of the massive challenge that changing demographics represent for our society. In 20 years time, the cost of disability benefits could increase by almost 50%. We expect a £6 billion 'funding gap' in social care just to deliver the same level of support that people experience now, if social care rises at the same pace as anticipated economic growth.*

*People also have changing expectations about the quality and type of services they experience, with ever increasing numbers wanting to stay in their own home and avoid institutionalisation.*

*The existing system does not always live up to people's expectations. Too often, our existing system also under funds the kind of preventative home-based domiciliary care necessary to keep people active and healthy. The current system has a tendency to create an over reliance on residential care or even health care options, when the preference of many people would be earlier interventions to help them stay in their own home and help them stay active".*

3 State of Social Care in England, 2006-07, CSCI, 2008
4 Local Authority Circulars, LAC (DH), 2008/11, Transforming social care, 2008
5 State of Social Care in England, 2006-07, CSCI, 2008
6 Lifetime Homes, Lifetime Neighbourhoods: a National Strategy on Housing in an Ageing Society, Communities and Local Government, DH and DWP, 2008
7 More Choice: Greater Voice (CSIP/CLG 2008)
8 EAC
9 The case for change – why England needs a new care and support system, HM Government, 2008.





# 1.3 Housing Headlines

There are problems with our ordinary housing stock in terms of meeting the needs of an ageing society:

- 4.8 million properties in the UK are classified as 'non-decent', of which around 35% (1.7m) are estimated to be inhabited by older households
- Almost 1 million older people will still be living in houses over 90 years old by 2016
- There is a recognised lack of choice of appropriate housing for older people
- Relatively few new houses are built to Lifetime Homes Standards, despite the Audit Commission recommending the standard as representing best long-term value in 1998
- There is a significant shortage of leasehold retirement housing options, which have a valuable role to play alongside specialist, social stock[10].

Against all these demands and recognition that the needs of all older people, in all tenures, must be planned for in housing terms the report finds:

- 517 Shared Ownership for the Elderly units were provided[11] between 2001-02 and 2007-08 from the Housing Corporation Affordable Housing Programme which stands at £2.8 billion per annum
- The Department of Health (DH) has helped to promote an extra care development programme allocating £227 million since 2004
- Overall providing around 4101 new extra care dwellings to date.

10 Sustainable planning for housing in an ageing population, E Harding, International Longevity Centre, UK, 2008.
11 Lifetime Homes, Lifetime Neighbourhoods, CLG, 2008
12 Spotlight on Older People in the UK, Help the Aged 2007
13 Lifetime Homes, Lifetime Neighbourhoods: a National Strategy on Housing in an Ageing Society, Communities and Local Government, DH and DWP, 2008

# 1.4 What Do Older People Want?

There is a significant body of information on what older people say they want. Help the Aged regularly produce a synopsis of key figures about how older people live[12]. Their 2007 report showed:

- 21% live in poverty
- 40% entitled to pension credit do not get it
- 13% say they are often or always lonely
- 740,000 over 65 do not leave their home more than once a week
- People say they would have more active fuller lives if:
  - Pavements were better/kerbs lower – 22%
  - Better transport available – 21%
  - More police on the street – 21%
  - More suitable activities – 15%
- 22% of those who need an escort to leave the house do not have a regular one
- Only 81,000 householders in the whole of England now receive low level support (2 hours or less per week).

Several consultation exercises were completed with older people as part of the completion of Lifetime Homes, Lifetime Neighbourhoods[13]. The key results from this are:

- Housing should be well designed with the growing number of older in mind; it should meet the needs of all age groups. We should build adaptable 'homes for life'
- Space is important; people often need room to. accommodate visiting family or a carer, and need good storage space.
- Housing design should be user friendly, low maintenance and safe. A downstairs WC and bathroom with shower and bath are especially important. Our homes should also be affordable to heat.
- Access to green, private space and a safe neighbourhood is important, as is housing that is accessible to good local transport, facilities and amenities.
- Access to independent information and advice about housing options is needed.
- Support is necessary for people to stay living in their own homes. A reliable repairs and adaptations services is needed for that bit of help around the home.
- But above all, people want to be listened to, to be involved in the design of everything that will affect them, from planning and Lifetime Homes standards, to the creation of safer environments, to testing new equipment and IT devices.

## 1.5 Key Issues in Summary

In summary the key issue in relation to older people, housing, care and support are:

- The number of older people is rising in a way that will severely challenge housing and social care provision
- The number of disabled, older people will double by 2041
- The number of over 85s will double in just the next 20 years
- The costs of care if nothing is done will increase threefold in real terms over the next 30 years
- This looks unsustainable
- We have to plan for all older people
- Approaching three-quarters of those retiring are home owners, although not all are well off
- Disrepair and unsuitable housing is also a feature of older owners
- Low cost ownership for older people has fallen to a very low level compared to needs and does not match demographic changes.

Housing is central to the challenge of an ageing population, but inappropriate housing currently risks failing millions of older people.

Aspiration Age seeks to address these issues through expanding choice and availability of appropriate housing for older people, with additional care and support where required.





# Section 2
# About the Research

2



# 2.1 Aims and Purpose

As referenced in the context in Chapter 1, 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 both prevent care needs and 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.

## 2.2 Structure of the Report

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.

### Chapter 3: Innovative Use of Equity Release

This chapter explores how equity can be used to pay for housing, care and support in older age. The chapter introduces the concept of equity release, and considers the advantages and disadvantages of four equity release mechanisms that have been tested and modelled. The findings and options for taking this forward are also presented.

### Chapter 4: Housing, Equity and Choice

This chapter examines how the use of equity can enhance the role of home ownership products. Specialist retirement housing is introduced and ways in which increased choice can be delivered through the use of equity in both shared ownership and outright sale products are explored.

### Chapter 5: Role of RSLs in Equity Exchange for Housing, Care and Support Services

This chapter considers the role of RSLs in improving existing housing for older homeowners by enabling them to buy equity stakes in both specialist and privately owned homes in exchange for services.

The report concludes with the key findings and proposals for each product.

A glossary and list of useful websites and resources are provided on page 82.

## 2.3 Methodology

The Aspiration Age Project has been a complex piece of work involving research, modelling and testing of a suite of products. This chapter outlines the methodology followed in order to complete the project.

### Steering Group

The project has been overseen by a Steering Group, comprising of representatives from:

- One Housing Group
- The Housing Corporation (now HCA and TSA)
- Department of Health Care Service Improvement Partnership (CSIP)
- Communities and Local Government
- The National Housing Federation
- The Housing and Support Partnership
- Local Authority Commissioning
- Providers of housing, care & support for older people

The Steering Group was chaired by Kevin Beirne, Group Director of Housing Care and Support at OHG.

### Project Management and Delivery

The Aspiration Age project was managed for One Housing Group by Sarah Lanham, Assistant Director Business Development. Project support was provided by Danielle Ross.

It is important to note that the research and modelling outlined below took place during 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.

### Product Development

An initial discussion paper was presented to the Steering Group for their consideration which outlined a number of product ideas for testing as part of this project. Three themes and associated products were selected:

- Use of equity to fund care & support
- Extending choice in specialist retirement housing
- The role of RSLs in equity exchange in privately owned housing

A project brief was prepared based on the group's feedback which specified the methodology to be used for research and market testing of each product. Each of these themes forms the content for Chapters 3, 4 and 5.

### Research and Modelling

Each product was researched and modelled by Nigel King from the Housing and Support Partnership. This process involved comprehensive analysis and referencing of existing research and development information, to provide a contextual background for the themes and products identified by the Steering Group.

The three products were then modelled, on the basis of this context, to see how they work in practice. Relevant financial and legal advice was sought on technical issues and additional consultancy and advice was obtained from specialists. The Steering Group members were invited to comment on the detailed analysis papers produced for each product.

Aspiration Age has been informed by detailed background research papers which are available on request. This report seeks to provide its analysis and findings succinctly in order to be accessible to the widest audience possible.

### Market Testing with Older People

A key aim of the Aspiration Age project was to deliver greater choice and control for older people in determining retirement housing options. Therefore a critical element of this project has been market testing the researched and modelled products with potential customers using a focus group methodology.

In addition to questions on the specific products, the Steering Group identified key general themes relating to retirement housing and equity release. These were important to explore with customers due to their potential impact on the marketability of equity products.

They were:

- Importance of maintaining equity as inheritance
- Views on buying into mixed tenure schemes
- Their views on housing associations and their involvement in equity release

The Steering Group also recommended that the focus group attendees included a cross section of older owners in terms of geography and levels of potential equity available. Two professional market research companies (Summit Research and PH Research) were engaged to identify focus groups members who were interested in retirement housing to ensure the cross section of demographics were achieved. This approach proved to be very successful in sourcing older people who made active contributions to the groups.

The first focus group was held in London on 18th April 2008 and was attended by 11 older owners from the North London area. The second focus group was held in Manchester on 29th April 2008 and was attended by 10 older owners from the Manchester and Oldham area. The focus groups comprised a presentation with structured discussion and a series of individual questionnaires. The sessions included questions on:

- Attitudes to housing associations
- Attitudes to equity release
- Attitudes to retirement housing, extra care and mixed tenure
- The advantages and disadvantages of the four methods of releasing equity to pay for care
- The advantages and disadvantages of shared ownership in retirement housing for older people and the concept of reverse staircasing.





# Section 3
# **Innovative Uses of Equity**

3

# 3.1 Introduction

This chapter examines innovative ways in which older people can 'unlock' the equity in their homes and use this equity to fund a range of options in older age, including care, support and improvement works.

Existing commercial equity release products fund a wide variety of housing, health and lifestyle options, from holidays in the sun to home improvements. Aspiration Age is about increasing choice for older people in retirement housing. Therefore the research and development is focused on an equity release product that enables older owners to flexibly use equity to fund care and support, as well as home improvements, in a range of retirement housing settings including their own home.

The chapter begins with a short explanation of equity release and the existing market. How equity might be used innovatively to fund a range of options in older age including care and support is considered, and is followed by an analysis of the likely costs of care and how much equity may be released from typical homes. A financial model has been designed to test the basic premise: can equity fund care, support and improvement work?

The advantages and disadvantages of four different mechanisms for releasing equity have been considered. The findings from this modelling and analysis have been market tested with two focus groups of older people. The analysis and focus groups have generated a number of clear preferences and recommendations for the 'ideal' equity release products. Aspiration Age, in conjunction with Structured Risk Products, worked to develop an actual model for equity release based on the specific recommendations from the focus groups. The chapter concludes with suggestions for how this model can be potentially taken forward by RSLs and financial providers.

## 3.2 Equity Release: a Short Explanation

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 means owning a very valuable asset but having a restricted income. Equity can be released from an existing property, using a financial product, whilst the owner continues to own and live in the property.

Equity is released in two main ways:

- Selling some of your property to a home reversion company in exchange for a cash lump sum; this is called reversion.
- Borrowing against the security of your property; a mortgage.

With reversion the home owner sells all or a share of their property to a home reversion company in exchange for a cash lump sum. On death the property is sold and the company receives the value of the share they are entitled to. A customer sells 50% of their home worth £100,000 and receives £20,000 cash. The cash the provider offers is less than half the value. This is because the amount depends on their view of how house prices will move, market rates of interest and the life expectancy of the home owner but it will be much less than vacant open market value.

A lifetime mortgage involves releasing part of the value of a property as a cash sum. The customer borrows from the mortgage provider. Normally, the borrower does not pay interest on the loan. Interest rolls up and is added to the loan until the home owner dies (or moves into a care home). At this point the capital and interest are repaid in full using the proceeds of the property sale. Lifetime mortgages have tended to be based on taking a lump sum but more recently it has become possible with some lender's products to 'drawdown' money in stages. Lifetime drawdown mortgages are by far the most popular form of equity release, representing 60% of the market[14].

An alternative approach is 'downsizing', i.e. selling a property and buying a lower value property in order to release equity.

In terms of the current market, there are about 25 companies who offer commercial equity release products. Last year they provided 29,000 plans and the market is expected to reach £2.2 billion by 2010. In recent years non-commercial organisations have also begun to arrange forms of equity release predominantly to assist improvement or adaptation[15].

Analysis shows that equity is used to pay for a wide range of activities. However current estimates show that only 1% of equity released is used to pay for care and support, although in 70% of cases it is used for home improvement (see for example Key Retirement Solutions Customer Satisfaction Survey, June 2006).

14 Equity Release Market Monitor, Key Retirement Solutions, Q2 UK 2008

15 For a detailed explanation of the use of commercial and non-commercial equity release see "Rainy days and silver linings: utilising equity to support the delivery of housing or service for older and disabled people" King, N., Berry. D., Pannell, J., CSIP.





## 3.3 The Case for Using Equity to Fund Care and Support

This section examines the reasons behind the current limited use of equity release to fund care and support and establishes the business case for using equity to fund care and support.

### Potential Market

Chapter 1 provided headline information on the care and support needs of our ageing population and the political and financial context. For those older people who are expected to meet some or all of the costs of their social care and support themselves, releasing equity provides a means of funding this in a way in which they can exercise both choice and control. The potential market of customers for equity release to pay for social care and support therefore includes:

- People ineligible for local authority help because of criteria under Fair Access to Care
- Those who would have to pay the full cost because of income and savings
- Those seeking to supplement income in order to have a better quality of life
- Those wanting a wider or better choice of housing or care.

### Reasons Why Equity is Not Currently Used to Pay for Care & Support

A review of literature and existing products highlighted a number of obstacles to releasing equity to fund care and support:

- A recent study on obstacles to equity release concluded that there are no products on the market designed to fund domiciliary care[16].
- Most commercial products require at least £10,000 to £15,000 to be released at a time. This may be too much and costly in compound interest for less well off owners, although in recent months some lower drawdown and more flexible products have become available.
- We identified 14 possible lifetime mortgages with a drawdown facility. All had one or more conditions that would prevent them being used by older shared owners and leaseholders in extra care housing. Most commonly they excluded:
  - Retirement schemes
  - Schemes with significant services charges
  - Shared ownership

### Business Case for Using Equity to Fund Care & Support

We have established there is a potential market of customers but there are a number of issues with existing products which restrict the use of equity to fund care and support. There is a strong business case for finding a route whereby outright owners and shared owners could use their largest capital asset, their property, to pay for care and support. It increases choice for older people as well as providing a means of funding care.

### The older person's perspective

For older home owners equity release provides a way of 'unlocking' the value tied up in their asset and using it to pay for the care and support services they need in the way that they choose. Aspiration Age recognises the crucial importance of regarding older people who purchase care and support services as customers who make active decisions and choices about how their money is spent. This can vary from using equity to pay for domiciliary care and improvements in their existing private home, to choosing to move to retirement housing such as sheltered housing and extra care housing as shared or outright owners.

16 Obstacles to equity release, Rachel Terry and Richard Gibson, JRF, 2006.

### The housing, care and support provider's perspective

The use of equity to pay for care and support as well as the 'bricks and mortar' elements of housing means that RSLs and other housing providers would be well placed to deliver what older people say they want.

From a domiciliary care provider's perspective this would be desirable in that it offers a means of funding care. It reduces dependence on Supporting People and the Social Care authority. Some older (or disabled) people will get help from Social Services to pay for care, but not all. In any event, under 'Fair Access to Care' (FAC) they will usually be subject to means-testing. Under FAC, Social Care assessments place people in one of four needs bands. Increasingly local authorities are only able to support those in the highest two categories (critical and substantial), and none in the lower two bands, despite the fact they have care needs. It is expected that by 2009 all local authorities will only be able to support older people in the highest two needs groups[17].

From a retirement housing perspective, it reduces the risk that there will be residents already in the development with no obvious means of meeting the costs of care and support needs (otherwise they would not be interested in being in retirement housing in the first place).

### The government perspective

From a government perspective it offers a way of elderly owner occupiers obtaining the funding for the care that they need – including the less well off. In particular it offers a means of supporting those with lower level needs who might otherwise receive no support at all under FACs, thus at greater risk and who may eventually need much higher levels of care. Effective use of equity release provides a means for those older owners who want to remain in their own home to fund necessary improvement work and care and support services as well as facilitating access to specialist housing. Without these improvements and services people could be living in properties in poor repair or unsuitable housing, contributing to ill health or risks of deterioration.

This section establishes a strong case for considering why equity should be used to fund care and support as well as improvement works. The report now moves on to consider whether equity can meet care costs.

17 Funding tomorrow today; social care for older people and vulnerable adults, NHS Confederation, 2008





## 3.4 Can Equity Meet Care Costs?

In order to determine whether equity can meet care costs it must be identified how much equity is potentially available for different types of older owners as well as the likely costs of care over the expected life of the owner. The main driver of potential equity is the value of the property. The main driver of the costs of care is the level of need of the individual and the market rates for care.

This section introduces a financial model that can be used to test whether the equity held can actually cover the projected costs for an individual. This is applicable to the costs of care, both within a privately owned home and retirement housing setting such as extra care.

### Value of the Property

The type of property and its location are the key variables in determining whether the asset is going to be enough to meet the cost of care and support services. In simple terms, a high value property in a high value area contains a greater potential source of equity than a lower value property in a lower value area. Drawing on equity is a particularly relevant, attractive and workable proposition in areas of higher value property such as London. Higher general property values make it much more likely that this model will work without excessive constraints on eligibility or access criteria.

Although hourly rates for care staff may be higher in London, the difference is marginal whereas there is a significant difference between property prices in much of Greater London (and the Southern Home Counties) and the rest of the country. The table below shows average London values are double those of Northern regions.

Table 3: Average Property Prices by English Region

| Region | Average property price Quarter 1, 2008 (£'s) |
|---|---|
| North | 153,000 |
| North West | 153,000 |
| Yorkshire and Hunberside | 146,000 |
| West Midlands | 175,000 |
| East Midlands | 167,000 |
| East Anglia | 194,000 |
| Greater London | 305,000 |
| South West | 205,000 |
| South East | 259,000 |

*Source: HBOS plc, seasonally adjusted and rounded*

It should be noted that different sources produce slightly different figures. HBOS is based on mortgaged properties. The Land Registry provides data on actual prices paid for all properties at completion. For Q1 2008 the Land Registry puts the average cost of a property in London at £358,000. For the subsequent modelling, a more conservative value of £305,000 has been used.

The risk of the individual exhausting the available equity is also less in the context of specialist housing, such as extra care, than in traditional retirement housing or privately owned housing. This is because the turnover (churn) rates are higher due to the relatively higher levels of frailty and/or age at point of entry. That is to say people will be residents in extra care for fewer years than they would normally be in sheltered housing.

## The Cost of Care

The three basic variables which determine the cost of receiving a care service are:

- The hourly rate paid for care
- How many hours a week are required
- How long the owner lives in the property receiving the care service.

## Hourly Rates

The normal way of charging for a domiciliary care service is on the basis of an hourly rate. When the Adult Social Care department of a local authority (Social Services) contract for a domiciliary care service they may buy a basic number of hours per week in a block, plus additional hours to be used more flexibly – a cost and volume contract.

| Definitions of types of contract used in extra care | |
|---|---|
| Block | payment for a pre-determined number of hours or clients whether taken up or not |
| Call-off | price per hour specified in advance; paid when service is provided |
| Spot | price agreed and paid when service is provided |
| Cost and Volume | guaranteed block purchase of hours plus negotiable option to purchase further hours of service |
| Grant | general payment not linked to particular client or amount of service |

The self funding individual leaseholder (or those with Direct Payments or personal budgets) will probably pay on the basis of hours and a similar rate will underpin any Social Care contract for those residents the local authority is accepting responsibility for.

To establish what figure to use in testing the possibilities of equity paying for care, domiciliary care rates and an assumed hourly rate in a spot contract of £18 have been used. Costs in a block or cost and volume contract would be less by around 10%, so for the modelling purposes this is a reasonably generous figure[18][19].

**Table 4: Domiciliary Care Charges by London Boroughs (2006-07)**

| Charge – per hour | Number of authorities |
|---|---|
| £8 or less | 2 |
| £9 – 10 | 4 |
| £11 – 12 | 6 |
| £13 – 14 | 4 |
| £15 – 16 | 3 |
| £17 plus | 0 |
| No set rate | 2 |

*Source: Raw data courtesy of London Borough of Bromley*

18 A survey of London Boroughs in 2006, found a wide spread in charges to residents assessed as needing home care. The basic hourly rate ranged from less than £8 per hour to more than double at £16 per hour.

19 Note: how charges are built up varies. Rates may reduce after a certain number of hours are provided. There is often a maximum total charge. Provision for monitoring of community alarms is usually an additional cost. This was found to be between less than £1 and up to £6 per week in the survey. Authorities have increased charges further for 2007/08. The latest unit costs published by the NHS Information Centre put the average cost of home care for older people at £14.50 per hour but based on 2005-06 data.





## Hours and Need

Three levels of need based on hours of care and support each week are used as examples:

| Level of care | Average hours per week | Annual care cost (£) |
|---|---|---|
| Low | 5 | 4,680 |
| Medium | 10 | 9,360 |
| High | 20 | 18,720 |

In excess of around 20 hours per week of direct care and support would traditionally be considered as equivalent to residential care level. It is possible that in an extra care setting this level of assistance can be provided for a period as people become frailer or develop mental health problems, but it would be unusual to sell properties to occupants known to require such high levels of support at the outset[20]. Having said that a few extra care schemes have been let primarily to people who would have been placed in residential care if the extra care scheme had not become available and some providers offer higher levels of care.

## Cost of Care throughout Period of Residence

The likely period of occupancy is the next variable to consider. This will differ from individual to individual, is not entirely predictable, and is affected by things like the lettings / sales policy of the provider and eligibility criteria.

A sample of extra care providers contributed information on turnover rates. One reported average length of residence as low as 2 years. A second provider, dealing exclusively with leaseholders, provided data from two extra care schemes. The shortest period of residence was 3 months and the longest 7.5 years. The average was 3.75 years. The average age of residents was 82.5 years and rising. Another large RSL provider suggested a norm of around 7 years. A fifth organisation that has been providing a form of leasehold extra care for more than 20 years, was able to provide an exact figure of 7.6 years based on a population of 1,500 residents, in 31 developments, with an average age of 84.4 years.

On the basis of this data in most of the modelling, 7 years has been taken as an average period of occupation. A letting / sale policy orientated to those with higher needs or greater frailty on entry is likely to produce a lower period of occupation.

The next table shows the cumulative cost of care and support for people with different levels of need. All at today's prices – no adjustment for inflation – for different periods of occupation; 3, 6 and 9 years.

**Table 5: Cumulative Cost of Care**

| | Occupancy (years) | | |
|---|---|---|---|
| Need level | 3 | 6 | 9 |
| Low needs | 14,040 | 28,080 | 42,120 |
| Moderate needs | 28,080 | 56,160 | 84,240 |
| High needs | 56,160 | 112,320 | 168,480 |

At this point the figures do not take account of interest charges so understate the costs. The subsequent sections begin to incorporate these costs.

20 Some extra care providers who have both residential care and extra care on the same site may encourage residents to move from their flat or bungalow into the care home if care requirements go past a certain point, one large extra care provider in this position uses 21 hours per week as a guide.

# 3.5 Building an Equity Release Model for Care

A financial model was created to calculate the amount of care that can be afforded, on a deferred basis, in relation to the equity held in a property. This model is then used to test how far equity can be stretched to meet the costs of care.

The model has been constructed so that it will deal with the deferral of:

- Care charges
- Service charges
- Sinking funds

For simplicity, the calculations in relation to care charges only are shown in the detailed example. As will be seen in reading along the headings of the Financial Model table (Table 6) on page 34, the other elements can be easily factored in. Towards the end of this section, the way in which other costs impact on affordability is tested.

The model starts with the value of an individual's property. An allowance is then made for house price inflation which can be set at any rate. An assumption is also made about inflation rates that apply to services charges and to care charges. Historically wage costs have tended to rise at a slightly faster rate than the general rate of inflation and care costs are predominantly made up of labour costs.

What happens in this deferred model is that care costs accumulate over time. As explained the study suggests the "typical" resident will build up care charges for about seven years. The care provider is incurring those charges in the form of salaries paid to staff plus some direct costs and overheads. The income to fund these costs is not received until properties are eventually sold and the equity released is used to meet the care costs. In order to pay for the staff and other costs as they are incurred, it is assumed that the provider borrows, and in the examples below an illustrative interest rate of 6.5%[21] has been used. The cost of the borrowing builds up at a compound rate and this is part of what the model calculates.

The model allows different levels of care and different hourly rates to be used. The box at the top right allows care hours, hourly rates and chargeable weeks to be inserted. It then shows both the weekly and annual care charge.

Reading across the first line of the table, the first column is the value of the property at the end of each year. This is the initial equity value plus the assumed property price inflation (or deflation). The second column, service charge, is for the present shown as blank in the example. Care costs are the third column, which are simply the cumulative costs of each year's care charges, based on the number of hours and the rate used. Interest is then added to these care costs according to the rate assumed. As explained this will build up at a compound rate. The fifth column shows the cumulative debt. Finally the sinking fund has been allowed for but for present purposes is shown blank. In most schemes built for sale this would be an additional cost that could come from capital, although the methods used to pay for long term major repairs vary.

The last two columns are the crucial ones in terms of understanding and working out whether or not the individual can afford the amount of care they require from the equity they hold. The penultimate column shows in money terms the difference between the current value of the property and the debt that they have built up. The final column then shows what the debt represents as a percentage of the equity that the individual owns.

### Illustrative Example

To show how the model works, Table 6 sets out the position of an individual who has a property worth £305,000; the norm (in early 2008) for Greater London. It assumes that house prices go up at about 5% per annum and that interest is charged at 6.5%. No payments are made towards the cost of care and all costs are deferred until the property is sold.

This individual has moderate care needs of 10 hours per week. They might start off needing less, build up to 10 and then in later years maybe need rather more than 10, but for illustrative purposes it is assumed at an average of 10 over the period of occupation. The hourly rate shown in the illustration is £18 per week; this means that the weekly charge is £180 which works out at an average of £9,360 per annum.

The model shows that if they live in the scheme for the average period of seven years they will eventually need to contribute 22% of the value of their property to meet the cumulative costs of care, built up over that period.

Even if they have a very long life and continue to live in the scheme for 20 years, that will not exhaust their equity although they will eventually have to contribute 70% of the value of their property to meet the cumulative costs.

21 The rate of 6.5% is approximately 1% above the current average charge on a portfolio of lending a medium sized RSL would pay to fund a capital building programme.

**Table 6: Financial Model**

| | | | | | |
|---|---|---|---|---|---|
| Initial equity | £305,000 | | | | |
| Full initial annual service charge | £0 | | | | |
| House price inflation | 5.00% | Fixed rate [Y or N]? | Y | Care hours per week: | 10.00 |
| Service charge inflation | 3.50% | Fixed rate [Y or N]? | Y | Hourly rate: | 18.00 |
| Interest | 6.50% | Fixed rate [Y or N]? | Y | Chargeable weeks | 52 |
| Service charge deferred by | 100.00% | Fixed rate [Y or N]? | Y | Weekly care costs yr 1 | 180.00 |
| Care charge deferred by | 100.00% | Fixed rate [Y or N]? | Y | Full annual care charge | 9,360 |
| Care charge inflation | 5.00% | Fixed rate [Y or N]? | Y | | |
| Sinking fund | 0.00% | | | | |

| Year | Equity (£) | S/C pa (£) | Care costs (£) | Interest (£) | Acc S/C and care debt (£) | Sinking Fund (£) | Remaining Equity (£) | Care costs debt (%) Equity |
|---|---|---|---|---|---|---|---|---|
| 1 | 320,250 | 0 | 9,360 | 380 | 9,740 | 0 | 310,510 | 3.04% |
| 2 | 336,263 | 0 | 19,188 | 1,413 | 20,601 | 0 | 315,662 | 6.13% |
| 3 | 353,076 | 0 | 29,507 | 3,171 | 32,678 | 0 | 320,397 | 9.26% |
| 4 | 370,729 | 0 | 40,340 | 5,735 | 46,078 | 0 | 324,651 | 12.43% |
| 5 | 389,266 | 0 | 51,720 | 9,192 | 60,912 | 0 | 328,354 | 15.65% |
| 6 | 408,729 | 0 | 63,666 | 13,637 | 77,303 | 0 | 331,426 | 18.91% |
| 7 | 429,166 | 0 | 76,209 | 19,171 | 95,381 | 0 | 333,785 | 22.22% |
| 8 | 450,624 | 0 | 89,380 | 25,906 | 115,286 | 0 | 335,338 | 25.58% |
| 9 | 473,155 | 0 | 103,209 | 33,961 | 137,170 | 0 | 335,985 | 28.99% |
| 10 | 496,813 | 0 | 117,729 | 43,467 | 161,196 | 0 | 335,616 | 32.45% |
| 11 | 521,654 | 0 | 132,976 | 54,565 | 187,540 | 0 | 334,113 | 35.95% |
| 12 | 547,736 | 0 | 148,984 | 67,405 | 216,389 | 0 | 331,347 | 39.51% |
| 13 | 575,123 | 0 | 165,794 | 82,153 | 247,947 | 0 | 327,176 | 43.11% |
| 14 | 603,879 | 0 | 183,443 | 98,987 | 282,430 | 0 | 321,449 | 46.77% |
| 15 | 634,073 | 0 | 201,975 | 118,098 | 320,073 | 0 | 314,000 | 50.48% |
| 16 | 665,777 | 0 | 221,434 | 139,693 | 361,127 | 0 | 304,650 | 54.24% |
| 17 | 699,066 | 0 | 241,866 | 163,996 | 405,862 | 0 | 293,204 | 58.06% |
| 18 | 734,019 | 0 | 263,319 | 191,249 | 454,568 | 0 | 279,451 | 61.93% |
| 19 | 770,720 | 0 | 285,845 | 221,711 | 507,556 | 0 | 263,164 | 65.85% |
| 20 | 809,256 | 0 | 309,497 | 255,663 | 565,160 | 0 | 244,096 | 69.84% |





# 3.6 Will Equity Meet Cost of Care Over Time?

The crunch question is will there be sufficient value in the equity to actually meet the costs of care during the lifetime of the resident?

We have modelled the position using both a London "average" property value of £305,000 and also a South West "average" property worth £200,000.

This exercise is equally applicable to both privately owned and specialist retirement housing. It should be noted that the valuation exercise completed by Strettons for Aspiration Age highlights the difficulty in valuing specialist retirement housing, notably extra care housing. This is because the market is relatively immature and the overall product includes services and extensive facilities, which in effect add to the floor area that is being purchase as well as 'bricks and mortar".

**Table 7: Equity Used to Pay for Care as a Percentage of Property Value**

| Care level | Period of residence | Initial Value | |
|---|---|---|---|
| | | £200,00 | £305,000 |
| Low care | 3 years | 7 | 5 |
| | 7 years | 17 | 11 |
| | 10 years | 25 | 16 |
| Moderate care | 3 years | 14 | 9 |
| | 7 years | 34 | 22 |
| | 10 years | 49 | 32 |
| High care | 3 years | 28 | 18 |
| | 7 years | 68 | 44 |
| | 10 years | 99 | 65 |

*Notes: Low care = 5 hours per week*
*Moderate care = 10 hours per week*
*High care = 20 hours per week*
*Figures of % of equity used rounded*

The results set out in Table 7 are striking:

- With an "average" property valued at £305,000 even if someone moves in and needs high level residential care and support from day one and continues in occupation well beyond the expected norm, they will still have a third of their equity left.
- Even more striking is the result that a similarly frail resident, who only buys a half share of a £400,000 property, or a relatively cheaper flat at £200,000, could afford 10 years of high care.

## What are the Caveats?

These results are conditional on the assumption made about inflation of care costs, house prices and interest rates. There are likely to be some additional costs of occupation like service charges and sinking funds so these need to be considered. The impact of both these is considered in the next section.

On the other hand:

- Residents will have additional income even if this is only Pension Credit, although this is needed to meet normal living expenses. The question of the link between equity release and benefits is complex and an additional background paper has been prepared - State Benefits and Equity Release (available on request) which addresses Pension Credit and rules on deliberate 'deprivation of assets'.
- In practice most residents of extra care will be eligible for Attendance Allowance at some level – particularly those who need the highest levels of care and support. This is not means tested and is available to leaseholders.
- The shared owner may be able to claim housing benefit on the part rented. This can cover management and maintenance costs as well as eligible service charges provided the lease makes the landlord responsible for management and maintenance.
- The average number of contract hours of domiciliary care to people living at home is around 8 hours per week in the independent sector (Source: DHS Statistics) and not the constant 20 hours throughout used in the worst case scenarios.

The next two sections test what happens if critical assumptions are varied. The sensitivity analysis shows how much can be afforded if additional costs fall on the owner.

## House Prices and What Happens if House Prices Do Not Rise?

Underpinning many equity release decisions and in particular the attraction of Property Appreciation Loans to the lender is changes in house value.

Using the Nationwide House Price Index as it is the longest running (going back to 1952), key features of the housing market can be established:

- The price of the average UK property has risen at an annual rate of 8.7% over 55 years
- On average house prices double every 9 years
- In the 1989 house price crash the peak was in 1989 and the lowest point was 1995 with an average fall of 17%, although from 1992 they varied up and down
- Thereafter prices recovered
- Falls were less in low value areas in the North and North-West and greater in high value South and South-West area
- Comparing one year with the next, house prices fell only 6 times i.e. in 89% of cases they rose year on year

The usual financial advisors health warning applies – past performance is not necessarily a guide to the future. At June 2008 the average fall in house prices over the last 12 months, according to the Nationwide index, was 6% and there is doubt about future changes.

Economists observe that as long as effective demand, based on increasing numbers of households, continues to exceed increases in supply it is inevitable, in a market economy, that prices will continue to rise in the long term. The fundamentals are that household formation continues to be driven by a range of factors including divorce / separation rates, growth of older population based on increased longevity, health and similar factors and net inward migration. At the same time the condition of house stock will naturally decline over time, new build rates fall short and are constrained by land availability and planning.

To stabilise prices at affordable levels would require an additional 3.4 million homes by 2020 according to the National Housing Planning Advice Unit. This requires a build rate considerably higher than the present or even past rates of about 200,000 per annum.

Thus other things being equal, on the evidence of the past 50 years, it is reasonable to expect that in the medium to long term house prices will continue to rise, possibly after a fall over a year or two, at around 8% per annum. The caveat however is "effective demand". If potential buyers are unable to borrow then they cannot purchase.

To examine the sensitivity of the equity release model it is assumed in the table below there is no year on year increase in property value thus in real terms values are falling in line with inflation i.e. at around 2 – 3% per annum, so over 10 years decline by 20-30%.

For simplicity, just two property values are shown – the average London property and average South West property.

**Table 8: Equity Used to Pay for Care (No Increase in House Prices) as a Percentage of the Property Value (%)**

| Care level | Period of residence | Property Value | |
|---|---|---|---|
| | | £200,00 | £305,000 |
| Low care | 3 years | 8 | 5 |
| | 7 years | 24 | 16 |
| | 10 years | 40 | 26 |
| Moderate care | 3 years | 16 | 11 |
| | 7 years | 48 | 31 |
| | 10 years | 81 | 53 |
| High care | 3 years | 33 | 21 |
| | 7 years | 95 | 62 |
| | 10 years | 161 | 105 |

The result of a steady fall in property values over 10 years while other costs continue to inflate is:

- For the older person in £305,000 value property someone who needs high levels of care throughout their ownership will just exhaust their equity by year 10.
- The owner with equity worth £200,000 would also be alright; even if they need high care throughout, up to year seven but thereafter will have run out of equity (what happens to those who run out of equity is considered later in the chapter).

## What Happens if all the Other Costs of Occupation are Added in?

So far, the paper has concentrated purely on how equity may be able to meet care costs in extra care. The cost of occupying a dwelling in specialist retirement housing is likely to come with some additional charges i.e. a service charge and sinking fund.

First, a service charge which will meet some of the communal and incidental costs that are part of living in a community setting. For those eligible most, if not all, of this charge should be met by Housing Benefit if tenants or shared owners.

Second, a contribution to a long term repairs fund. A sinking fund is designed to meet large one-off items of expenditure such as lift replacement, roof repair, window replacement, which occur infrequently but are large items of expenditure at the time. In most retirement for sale schemes it has become accepted that all those who have ever lived in the building should contribute to the eventual replacement of these kinds of items, rather than these costs falling simply on those who happen to be resident at the time that the work needs doing.

Sinking funds can be collected in a variety of ways including as part of the service charge. However, for most people it is preferable to pay for this expenditure on the eventual sale of their property. This way disposable income is not affected as it would be if costs were recovered as part of a weekly or monthly service charge. A typical formula uses the period of residence, the value of the individuals property and then applies an annual percentage i.e. 5 years (period of residence) x £300,000 (value of property) x 0.5% (the percentage that it is calculated using lifecycle costing that is required to build up an adequate fund over the time). That is the approach used in the illustrative model.

The example below shows what can be afforded on the basis of the average property value in London. It assumes that the pure service charge is £40 per week and that the sinking fund percentage is set at 0.5% per annum.

The illustration shows that even for someone who needs 20 hours of care per week, throughout their period of residence, the equity would not be exhausted even after having met service charges and made a sinking fund contribution, until year 13.

It does therefore seem reasonable to conclude on the assumptions made, that an outright owner in extra care housing could afford to meet all the charges on a deferred basis from their equity, and not simply the care costs, if they wished and the mechanisms were in place in facilitate this.

**Table 9: Equity Used To Pay For Care, Service Charges and Sinking Funds as Percentage of Property Value**

| Year | Equity (£) | S/C pa (£) | Care costs (£) | Interest (£) | Acc S/C and care debt (£) | Sinking Fund (£) | Remaining Equity (£) | Care costs debt (%) Equity |
|---|---|---|---|---|---|---|---|---|
| 1 | 320,250 | 0 | 9,360 | 380 | 9,740 | 0 | 310,510 | 3.04% |
| 2 | 336,263 | 0 | 19,188 | 1,413 | 20,601 | 0 | 315,662 | 6.13% |
| 3 | 353,076 | 0 | 29,507 | 3,171 | 32,678 | 0 | 320,397 | 9.26% |
| 4 | 370,729 | 0 | 40,340 | 5,735 | 46,078 | 0 | 324,651 | 12.43% |
| 5 | 389,266 | 0 | 51,720 | 9,192 | 60,912 | 0 | 328,354 | 15.65% |
| 6 | 408,729 | 0 | 63,666 | 13,637 | 77,303 | 0 | 331,426 | 18.91% |
| 7 | 429,166 | 0 | 76,209 | 19,171 | 95,381 | 0 | 333,785 | 22.22% |
| 8 | 450,624 | 0 | 89,380 | 25,906 | 115,286 | 0 | 335,338 | 25.58% |

*Notes: Assumptions explained in text*
*Sinking fund based on period of residence x property value at sale x 0.5%*
*Service charge assumed at £40 per week*





# 3.7 Mechanics of Releasing Equity – Developing the Ideal Product

Having modelled how equity can meet the costs of care the mechanics of releasing equity are now examined. A key objective of this project has been extending choice for older homeowners and the report has looked at existing equity release products as well as innovative ideas that have been mooted in the past. This identified four main models which are summarised below.

### 1. Lifetime Mortgage with Drawdown

This approach is based on taking an available commercial equity release product and adapting it to meet the circumstances of funding care, specifically allowing more equity to be released in later years when care costs are likely to rise. Lifetime mortgages enable older homeowners to mortgage a proportion of their property. The proportion depends on age with more available the older the homeowner. This is because the younger the homeowner the longer they are expected to live and therefore the greater the potential interest that will eventually have to be met from sale proceeds. The mortgage is repaid to the equity release company when the property is resold.

### 2. Reverse Mortgage

This approach turns the concept of a mortgage on its head. In a traditional repayment mortgage you borrow a big lump sum to buy a house and then spend 25 years making a payment to the bank or building society until you own it outright. In a reverse mortgage you start with a house (big lump sum) and then get a bank or building society to pay you each month until they own it. Although this idea has been mooted in the past it is not currently a standard product[22].

### 3. Equity Swap

This approach is based on extending the innovative model used by The London Rebuilding Society. A portion of the value of the property is exchanged for substantial works to the building and on-going maintenance and using this to also fund care and support services. This model could apply to both specialist housing and a private home and in many ways is similar to the concept of "reverse staircasing" explored in Chapter 5. The LRS model would need to be adapted to allow for the RSL stake in the property to build up over time in line with the care provided.

### 4. Deferral of Charges through Lease and Linked Care Contract

This approach is only suitable for specialist retirement housing for sale, where there is a relationship between the housing association and the homeowner and the lease is the contract between owner and landlord. This is an innovative model and is based on extending the common practice of using the lease to establish a mechanism for deferred payment of property charges to care and support. Payment for major repairs is not collected until the property is resold. A key attraction for older owners is that the sinking fund contribution is made from capital and does not have to come from the resident's limited income. The financial model described earlier can be used to calculate the likely care costs over time and test them against the property value. This approach is based on the association funding the care until the property is sold. The association would charge compound interest and the financial model incorporates this. The association may determine the rate which would be designed to match or slightly exceed borrowing rates.

22 Mortgages Exposed, M. Kelly, 2005

# 3.8 Analysis of Research, Modelling and Testing

The general concept of equity release and the four mechanisms for release have been researched, financially modelled and then market tested with two focus groups.

The financial modelling has involved complex analysis of the performance of each of the products which is available on request – Equity Models Analysed. This analysis shows how these products would work in practice and highlights any risks.

The full findings of the two focus groups are also available on request – Aspiration Age Focus Groups. Participants in both focus groups were keenly interested in equity release and had many questions. The perceived unfairness of having to pay for care whilst others received state subsidy was a source of resentment. The focus groups both highlighted significant 'image problems' with equity release products, despite the changes in their regulation. They were very aware of defects with past products and the poor press they had received, notably high interest and a potential for negative equity. However they were not averse to using equity to fund care, indeed thought this might be inevitable, if unwelcome. Attendees gave substantial qualitative feedback. In terms of scoring, all four products were rated similarly and scoring didn't identify a meaningful preference. Much of the feedback from attendees was applicable to all four products and this has been used to inform the brief for the 'ideal equity release product' later in the chapter. Focus group attendees were particularly concerned about the impact of compound interest; hence Aspiration Age has sought to identify a product that avoids excessive build up of debt at a compound rate. A major concern was expressed of leaving a 'debt' for their children or being forced to leave their home if their money ran out. Our focus groups also emphasised the need for well informed, truly independent advice on options from a trustworthy source.

### Advantages and Disadvantages of the Four Approaches to Equity Release

We have summarised the specific findings relating to the four products in the tables opposite:

**Lifetime Mortgage with draw down**

| Advantages | Disadvantages |
|---|---|
| Based on an existing commercial product | Home equity loan rates are more expensive than residential mortgages. Focus Group attendees were concerned about the potential for high interest |
| Applicable to existing private home and specialist housing | Applicable to existing private home and specialist housing |
| The money released can either be paid as a cash lump sum or as a monthly income | Any means tested benefits will be affected. Payment as monthly income will reduce Pension Credit pound for pound |
| Interest is only paid on the sum drawn down which means interest builds up at a slower rate Subsequent draw downs or lump sums can be arranged | Rates of interest are fixed and the borrower is tied in to lender |
| Focus Group attendees valued not selling the whole property and 'retaining control' | The main disadvantage is that at present most, if not all, of the flexible draw down products have terms that exclude use in retirement housing, schemes with service charges and shared owners |

**Reverse Mortgage**

| Advantages | Disadvantages |
|---|---|
| Applicable to existing private home and specialist housing | Not a standard product |
| The advances consist of small amounts of 'income' spread over a period, rather than large chunks of capital, the interest roll-up is small to start with | The income is advanced as a month by month loan secured against the property, this may not work well for those on Pension Credit. Focus Group attendees raised concern about loss of benefits |
| From a lender's perspective this would offer the prospect of a long term loan with no collections and little admin | Focus Group attendees raised concerns about compound interest |
| Focus Group attendees welcomed having a sum of money every month to spend as they liked | The sum received each month may be too little to meet actual care costs, particularly if they rise in future |

**Equity Swap**

| Advantages | Disadvantages |
|---|---|
| Applicable to existing private home and specialist housing | Not currently used for funding care and support |
| Joined up service delivery for residents | Less easy to apply principle of a one-off lump sum swap to the costs of care which are unpredictable and not known at outset |
| Focus Group attendees valued not leaving their own home | Focus Group attendees raised concerns about what happens if there is a second person living in the house |
| | Significant uncertainty about several variables for the RSL – in particular house price movements, predicting care levels |
| | Financial advice received is that this model is too high a risk without considerable charitable or public support being available |

**Deferral of charges through linked lease and care contract**

| Advantages | Disadvantages |
|---|---|
| Joined up service delivery for residents – Focus Group attendees saw it as a good way of 'being taken care of' | Not an existing product |
| From an RSL perspective once the first property under this arrangement has been sold the rolled up interest could be paid into an internal fund to meet interest payments on future loans | Only applicable to specialist housing – Focus Group attendees noted concern about giving up their home and relinquishing financial control' |
| Focus Group attendees valued not leaving their own home | The RSL would need to make interest payments to funders out of general cash flow as the resident has their interest costs rolled up until a first property with this arrangement is sold |
| | Overall this model presents a number of risks for the RSL |

Some of the key disadvantages make a number of the proposed mechanisms less viable from the perspective of the older person, the housing care and support provider or the provider of financial products. Both Equity Swap and Deferral of Charges pose a high level of risk for the RSL as they are not based on a commercial product provided by a financial service provider, and without additional subsidy and 'safety net' it is unlikely that these would be attractive to RSLs.

Both Reverse Mortgage and Lifetime Mortgage are based on a third party product and therefore offer less risk to the RSL. A key problem for the reverse mortgage, from all perspectives, is that it is less likely to generate adequate income to fund care. Lifetime Mortgages deliver many of the requirements of older people and the RSL; however there is an obstacle with existing products in regard to use in specialist retirement housing.

### Issues Applicable to all Four Products

#### Risk

Our analysis and focus group feedback highlights two key risks inherent to varying degrees in these four mechanisms.

#### Individual Care Costs Exceed Equity Available:

A major concern is the potential for care costs to exceed equity. However this can be managed in several ways:

- Carrying out an initial assessment and completing the modelling to test this likelihood for each individual.
- Applying criteria to narrow the range of individuals accepted. Most obviously, as with many commercial equity release products, age or health limits. This may mean declining to offer the product to some applicants or deferring their acceptance into the scheme.
- Including an element in charges to build up a fund to insure against the risk arising for an individual case.
- To a degree rely on those already in extra care who have exhausted equity (and any other savings) becoming at that point eligible for normal social care funding.
- Seeking a guarantee from a third party.

# 3.9 What Would the Ideal Product Look Like?

Individuals may perceive a risk of leaving their house / being forced to move if they use up all their equity and may feel uncomfortable about relying on funding for social care from the local authority. To address this risk and to satisfy potential funders of some of the more commercial products, it would be helpful to have an insurance fund or provision available that could be drawn on in extremis, in the event equity is exhausted and the Social Care authority is unwilling or unable to fund an equivalent care package.

Later this chapter outlines the work with Structured Risk Products on developing an actual product which specifically addresses how these risks can be mitigated, through use of insurance in conjunction with an equity release product.

### Legal and Regulatory Issues

Aspiration Age sought preliminary legal advice on the legal issues, mostly around regulation, that a registered social landlord has to consider in relation to utilising equity to fund care. Whether regulations apply depends in part on the details of the product and how it operates in practice. The key points are:

- A Consumer Credit Licence is likely to be required.
- Registration and regulation by the Financial Services Authority (FSA) may be required for the reverse mortgage and equity swap product. However if an equitable charge only is taken by an RSL, regulation may not apply. If the association does not secure debt by a legal charge at all but instead relies on the lease being surrendered, no mortgage contract is created and as a consequence registration is not required.
- The lease and any separate contract for care must be 'fair' and are subject to regulation by the Office of Fair Trading.

### Benefits and Equity Release

Detailed consideration has also been given to the impact of releasing equity on state benefits, especially means tested benefits such as Pension Credit. This is an extremely complex area and the full analysis was carried out during the background research and is available on request – State Benefits and Equity Release. The key points are shown in the summary above on pages 40 to 41.

The ideal equity product must be attractive to older homeowners considering their retirement options, as well as be suitable to fund a range of options including support and care.

### What Do Older People Want?

The review of existing literature and the two focus group discussions have identified the following criteria for the ideal equity release product:

- It needs to be flexible so that as care and other needs change, so does the funding
- It should minimise interest costs
- Ideally it should allow for inheritance, if that can be afforded, after all the costs have been met
- There should be some certainty that the older person will not run out of equity, not be forced to move or suddenly be deprived of care services i.e. some form of insurance is required to protect those that run out of ability to draw more funds, yet still need care
- Not compromise benefits for those that may potentially be eligible
- Be simple to understand
- Cheap to administer
- Inexpensive to set up without excessive fees
- Involve the minimum of bureaucracy and therefore the minimum of additional regulation, but sufficient regulation to reassure owners and their relatives
- Meet a range of personal circumstances from those who need little or no support to those who need higher levels of care
- Be suitable for both individuals and couples
- Transparent – people should know where they stand in relation to costs, drawings, available funding for the future i.e. they need early warning of money running out
- Acceptable to relatives.





# 3.10 Developing the Preferred Product: Lifetime Mortgage with Drawdown

No one of the four models tested totally delivers the ideal brief that emerged from the analysis and market testing and there are common risks to all four. Based on the analysis of the advantages and disadvantages of the four models tested, one model emerges as the slightly more preferable – Lifetime Mortgage. This already exists but not in the form needed so the next step was to consider how Lifetime Mortgages might be refined and adapted to:

- Meet the specific requirements of funding care
- Deliver the brief given to us by the older owners at the focus groups
- Be an attractive and viable product for commercial equity release providers.

Structured Risk Products provided discussion and information regarding which structure would potentially be the best way to fund care using an individual's property. Structured Risk Products (SRP) is a leading expert in the wholesale funding of equity release schemes, with a successful record of assisting leading participants in the existing market. SRP is also involved in the social housing sector through its involvement in new and innovative affordable housing schemes.

### Proposal

Their proposal, whilst not dismissing alternatives such as reversions which could potentially release a higher level of funding, is initially to use a drawdown version of a Lifetime Mortgage as the funding vehicle to provide a simple and transparent method, supplemented with insurance. The amount that could be drawn from Lifetime Mortgages will be capped and will need the backup of insurance when this source of funds is exhausted, so addressing the key focus group concern of running out of equity.

### Insurance

SRP have provided a number of suggestions on how the insurance might be managed:

- The insurance would need to be flexible enough to vary the excess point at which payment began, depending on the initial value of the house, the age at which it was taken out and whether it covers one life or two.
- Premiums would vary so that a more valuable house would lead to a lower premium and a less expensive one would need a higher premium.
- Premiums would probably be taken up front from a drawdown on the Lifetime Mortgage.

This does mean that this product is most suitable for higher value properties and there are some lower value properties which are likely to not generate sufficient equity to meet the costs of the insurance and release adequate equity. A question for policy makers is the potential role of government in providing the insurance, or at least contributing significantly to the costs, given the overall cost savings to the taxpayer.

### Role of Independent Assessment of Care Needs

In order to make an insured system viable it is important that care costs are capable of being properly managed. The preferred system for care would be to have fixed monthly charges depending on the level of care that an individual was assessed as needing. This would preferably be banded into high, medium, low and nil care needs by the provider and the appropriate fixed charge drawn from the Lifetime Mortgage each month.

The level of care needs to be capable of independent verification and would be monitored to avoid the possibility of over provision of care. There are currently systems in use in Long Term Care insurance such as Activities of Daily Living, which could be used here. The role of CSCI regulation is key in making sure that the appropriate level of care being paid for was being provided.

### Service Charges
To avoid any conflict between the Lifetime Mortgage provider and the need for service charges to maintain the common areas of properties, both having a charge on the property on sale, it would probably be better for the annual service charge to be paid from the drawdowns. Some thought would need to be given to what happens when the Lifetime Mortgage cap is reached.

### Taking it Forward
This specific product of a very flexible monthly drawdown Lifetime Mortgage which allows small but variable monthly drawdowns secured on specialist retirement housing does not appear to currently exist. SRP have advised that there is a need for systems development here which would only be done if there were sufficient potential volumes going to come through this. There is an excellent opportunity for providers of housing, care and support who are interested in progressing the findings of Aspiration Age and using equity to fund care and support to come together and work up a specific product.

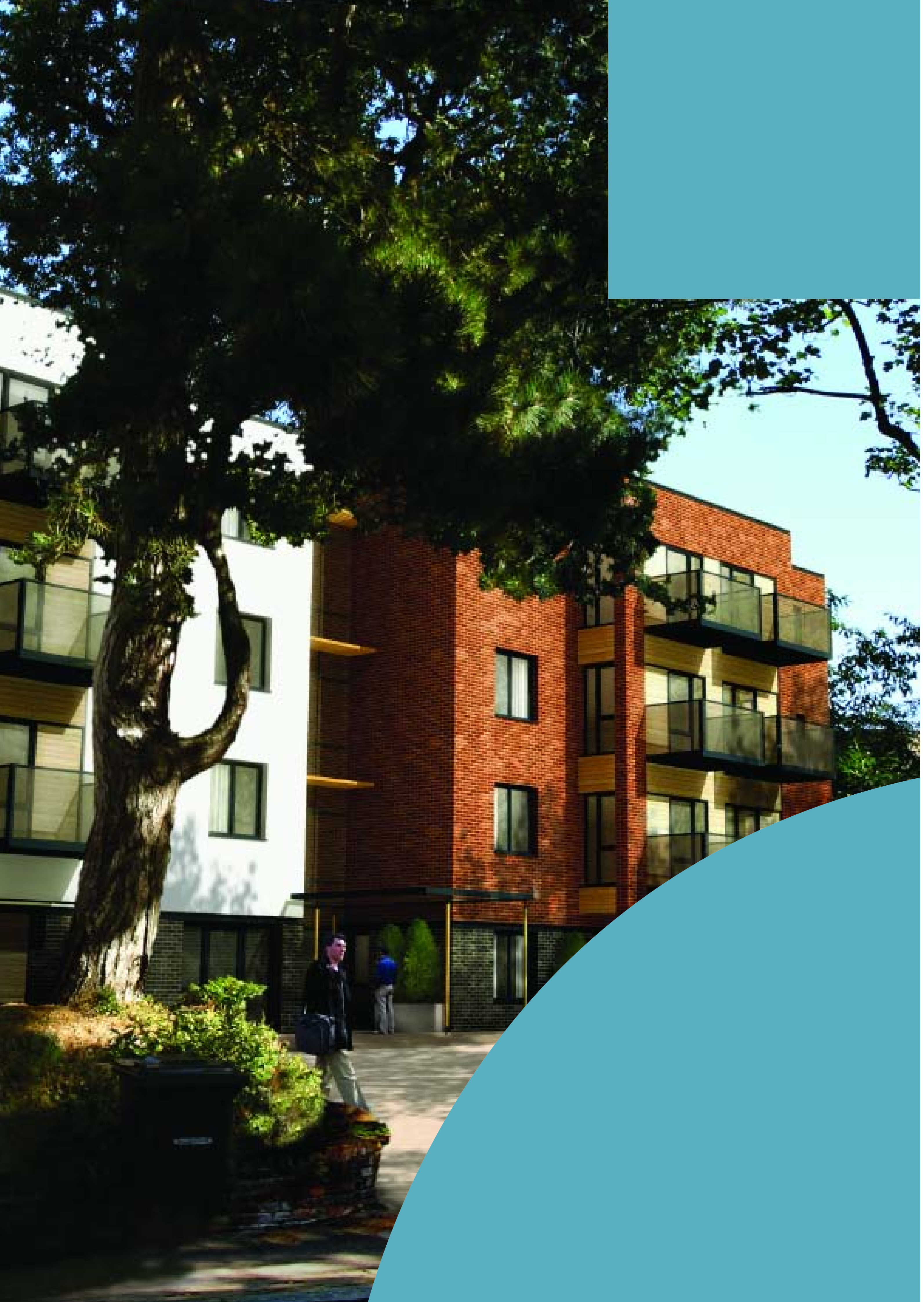
It is recommended that interest in developing this product further is explored with RSLs when this report has been published and disseminated.





# Section 4 **Housing, Equity and Choice**

4



# 4.1 Introduction

This chapter examines the key role the single biggest equity product, home ownership, can have in extending choice for the retirement population. Many people in the focus groups felt strongly that they wanted to remain living in their 'own' home, most often a family type house. This is the option explored in Chapter 5. However, many are also clear that they are willing to move and use their equity to choose specialist housing and fund care. The UK has relatively few specialist retirement housing opportunities and those that exist are predominately in the affordable for rent sector. This chapter explores options for extending access for current home owners to both shared ownership and outright ownership of the range of specialist retirement housing options.

Recent innovations in retirement housing such as 'extra care' (see Glossary) housing has further extended the spectrum of preventative health and care benefits and allowed complex care packages to be delivered in an individuals own home. However, the availability of this choice has again been largely limited to people seeking affordable rented housing, while health and care needs are tenure blind.

The HCA's Shared Ownership for the Elderly (SOE) product and its predecessors have provided a growing contribution to enabling older people to acquire specialist accommodation on a shared ownership basis. Understanding how that choice might be extended to bring the preventative and public health benefits to a wider population is a key part of this chapter. Extra care accommodation for outright sale appears to be the least available equity based product for older people. Despite the potential market this sector is clearly in its infancy. If greater choice is to be delivered across the whole retirement population it is essential to understand what may stimulate this market.

The potential to extend home ownership in extra care type housing creates the very real prospect of delivering a one stop product providing both a life enhancing home and a store of equity to pay for all care needs.

As one focus group member put it, *'Peace of mind with no worries regarding care or maintenance and nothing to worry about in the future'*.

# 4.2 Retirement Housing Models

### Housing and Well Being

The links between good quality appropriate housing and public health have long been established[23]. It is also evident that housing specifically designed with the needs of an older population delivers significant benefits in allowing continued independence and well being. In this context one of the most significant choices an older person may make is in relation to how they might use the equity they hold to select the housing option that best suits both their needs and lifestyle.

### Sheltered Housing

Sheltered housing consists of accommodation reserved for occupation by older people with a minimum age threshold of 55. Typically the accommodation will have some key design feature to cater for mobility issues, a significant communal area and a warden or alarm call service.

In the 1970s and 1980s sheltered housing was a substantial and routine development activity of many housing associations (and historically local authorities). This is no longer the case. It is now an occasional not mainstream activity for most. New sheltered housing is seldom developed other than by a handful of leading participants in housing older people; Anchor Trust, Hanover and Housing 21 most obviously. This is partly because there is now a large stock of traditional sheltered housing; about 500,000 dwellings. Strettons Chartered Surveyors Ltd was commissioned to examine the private market as part of this study. They found that from the 1970s conventional retirement housing for sale has been developed through the likes of McCarthy & Stone, Pegasus and Sunrise Living.

Sheltered housing clearly provides a valued choice for many older people in both affordable and home ownership. Sheltered homes are built to a wide range of specifications and where this specification is lower the ability to deliver care at home is limited. While other benefits will be accrued many of the residents, should they need it, will have to receive care at an alternative location.

### Extra Care Housing

Extra care housing is a progression on from sheltered housing in that the design of the building and individual dwellings specifically allow for the provision of care. Strettons usefully summarise that the extra care sector covers all forms of purpose built housing for older persons (generally over the age of 55) where elements of care are either provided on site, or arranged for residents. There is a considerable degree of variation in the way in which this accommodation is provided, managed and configured. The intended basis of care in extra care housing is domiciliary care rather than "residential care". The fundamental guiding principle to this form of care provision is to assist individuals to live independently, and provide appropriate levels of care depending on their personal requirements which will, in the main, likely increase with age[24]. The HCA sets a clear definition for older people's housing standards for affordable housing[25]. It is probable that for private schemes space standards will be relatively less important beyond functionality than aspirational drivers such as location and finish.

In reality both forms of accommodation exist along a spectrum of choice and provision. The extra care housing product refers both to the building and the service and this represents a complicating factor in both developers and purchasers assessing market value. Strettons have noted that in an immature private market that the values achieved by extra care will be closely linked to more standard sheltered housing but may over time begin to better reflect a capacity to offset expensive residential care costs.

23 DoH, 1999 Saving Lives: Our Healthier Nation White Paper. CMD.438.6 Stationary Office. Dobson. F. (1997), Healthy Homes for Healthy Lives – address to NHF (16.10.1997) DH Press Release 97/282

24 "Models of extra care and retirement communities" Housing LIN Factsheet No. 4, 2004. www.ICN.CSIP.org.uk/housing

25 Design and Quality Standards, April 2007



# 4.3 Potential Equity Products

Housing Associations routinely develop housing for sale via either shared ownership or outright sales. It is common for such activities to cross subsidise the financial return of housing for affordable rent on the same site or developed with the same programme. A combination of the products has driven the volume and range of choices delivered by Housing Associations over the last 10 years.

Applying the same approach to retirement and specifically extra care housing, it is clear that there are 2 key potential products that housing associations might develop in volume to deliver choice to our older population. Those products are:

- Shared Ownership
- Outright Ownership

| Retirement and Extra Care Housing in London |
| --- |
| There is less sheltered and extra care housing provision in London than might be expected; – 56.9 dwellings per 1000 population over 65 compared to a national ratio of 62.6 |
| There are 2036 sheltered and extra care schemes in London |
| Of these 151 are described as extra care but currently only 9 incorporate properties for sale |

*Source: Elderly Accommodation Council Database*

# 4.4 Shared Ownership for Older People

## Background

The original retirement for sale model in 1979 was 'Leasehold Schemes for the Elderly' (LSE). It was developed to match sheltered housing for rent and was targeted at less well off older owner occupiers who wanted or needed sheltered housing but could not meet the full cost. The original LSE product allowed the buyer to acquire a fixed 70% of the equity. The balancing 30% was owned by the housing association and funded by grants.

Leading housing associations specialising in provision for older people developed many of these schemes; Anchor Trust completed 30 schemes in just 10 years but many non-specialist, general needs housing associations also developed a small number.

LSE was replaced in 1989 by Shared Ownership for the Elderly (referred to as SOFTE, SOE or SHOE). This allowed people to buy between 25% and 75% of the equity. It too had a subsidy element via grant from the Housing Corporation (now HCA). The initial procedures encountered some difficulty. The launch of SOE also coincided with a major recession in housing so few schemes were built. In April 1993 revised procedures were published by the Housing Corporation which addressed the procedural issues.

| SOE explained | |
|---|---|
| 1 | Equity tranches of between 25 – 75% could be sold. Staircasing was allowed up to 75% in a maximum of three steps. If 75% of the equity was sold, no rent was payable, as in the previous LSE model. |
| 2 | The association owns the balancing 25% of equity. If a purchaser acquires less than the maximum 75% equity they pay a rent which is proportionate to the equity they have not purchased. The system permitted this rental to be subsidised. |
| 3 | The procedures and grant system that apply to rented schemes and low cost home ownership schemes were integrated so that SOE schemes attracted a grant which is a percentage of the grant that would be payable on the equivalent rented schemes |
| 4 | The costs of the schemes were controlled by requiring home ownership schemes to comply with the same Total Cost Indicators as applied to rented schemes at that time. TCI levels varied around the country as did grant rates |
| 5 | The funding of each scheme is made up of three elements:<br>- Housing Association Grant (now Social Housing Grant)<br>- A sum contributed by the purchaser when they buy their equity share<br>- Private finance, normally in the form of a mortgage to the housing association<br>The cost of servicing the third, mortgage element, is met by a rent paid by the resident where they acquire less than the maximum 75% equity |
| 6 | If the purchasers' personal circumstances are such that they would normally be eligible for Housing Benefit, as shared owners despite being leaseholders, would be entitled to apply. |
| 7 | Thus a purchaser could enter purpose built retirement housing with as little as say £10,000 (for a £40,000 flat in the early 1990s) and receive Housing Benefit to help pay the rent and most of the eligible service charge. SoE enabled those with quite limited capital and means to obtain more suitable housing. |

In April 2006, the Housing Corporation Low Cost Home Ownership programme was substantially overhauled and three more core 'HomeBuy' programmes introduced. The open market 'HomeBuy' product has subsequently been further refined and differs from SOE in allowing staircasing to 100% full ownership and allows for a rent to be charged against all unsold equity.

## Low Cost Home Ownership and Task Forces

A series of high level 'Task Force' studies of low cost home ownership underlines the attention given to this form of housing over the last 10 years: this amounts to six detailed reviews. While there has been an emphasis on policy and product development for low cost home ownership benefiting many households, there has been relatively little focus on further options for older people.

## Delivering Choice through Shared Ownership

The guide introducing the original LSE clearly explained who the target group would be and how it would extend their choice:

*"1.6 Leasehold Schemes for the Elderly are intended to provide choice for elderly owner occupiers of limited income, many of whom have virtually all their capital tied up in the modest property which is their home. For those who would like to move into accommodation more suitable for their needs, there may be no effective choice at present. Elderly owner occupiers are often precluded from obtaining local authority rented housing on the grounds that they are 'adequately housed' or 'have too much capital'. Even for housing association property, they may also have a low priority[26]".*

The programme has delivered a significant number of shared ownership units for older people. In the first tranche of the 2008-2011 National Affordable Programmes (NAHP) 21% of the 2,415 units funded for older people are for shared ownership.

This demonstrates the increasing importance and success of this product in delivering choice in affordable housing for older people. If the availability of this choice is to keep pace with changing demographics, it is important to understand how volume developers of affordable housing will view the opportunity presented by extra care and other forms of retirement housing.

The Strettons study identifies that extra care and retirement schemes must compete for land with other affordable housing products as well as other private uses, such as ordinary residential housing, student accommodation and registered care homes. The ability for affordable older people's housing to compete with the financial returns offered by alternatives will be a very significant inhibitor in the volume of units for rent and shared ownership developed in the future.

26 Handbook on Leasehold Schemes for the Elderly, NHFA, 1979

# 4.5 Comparison of SOE and HomeBuy

**Table 10: Development Options – Comparing SOE and HomeBuy**

| Borough | Tenure | Staircasing? | Initial sold equity | Rent on unsold equity | Acquisition | Build (incl. fees) | Sale value | SHG/unit | Capital receipts less Capital costs | Break even year | IRR (if available) | Largest revenue deficit | Year of largest revenue deficit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Reading | Retirement SO | Yes | 75% | 0.00% | 81,000 | 194,000 | 300,000 | 52,500 | -29,767 | 14 | 12.52% | 6,615 | 8 |
| Reading | Retirement SO | No | 75% | 0.00% | 81,000 | 194,000 | 300,000 | 52,500 | -29,767 | 30 | -7.27% | 49,713 | 30 |
| Reading | Retirement SO | No | 75% | 2.75% | 81,000 | 194,000 | 300,000 | 52,500 | -29,767 | 1 | 9.18% | -652 | 1 |
| Reading | Retirement SO | No | 100% | 0.00% | 81,000 | 194,000 | 300,000 | 0 | -10,622 | 30 | | 19,916 | 30 |
| Reading | Retirement SO | Yes | 40% | 2.75% | 81,000 | 185,000 | 300,000 | 42,000 | -136,243 | 12 | 9.50% | 6,828 | 7 |
| Camden | Retirement SO | Yes | 75% | 0.00% | 120,000 | 270,000 | 437,500 | 52,500 | -55,359 | 18 | 9.79% | 15,974 | 10 |
| Camden | Retirement SO | No | 75% | 0.00% | 120,000 | 270,000 | 437,500 | 52,500 | -55,359 | 30 | -9.68% | 97,698 | 30 |
| Camden | Retirement SO | No | 75% | 2.75% | 120,000 | 270,000 | 437,500 | 52,500 | -55,359 | 1 | 6.90% | -308 | 1 |
| Camden | Retirement SO | No | 100% | 0.00% | 120,000 | 270,000 | 437,500 | 0 | -1,777 | 30 | | 3,332 | 30 |
| Camden | Retirement SO | Yes | 40% | 2.75% | 118,500 | 185,000 | 437,500 | 42,000 | -125,316 | 1 | 15.12% | -977 | 1 |

Table 10 compares the financial performance of two national schemes, both competing for the same land acquired at open market values, one of extra care and the other ordinary shared ownership housing. The schemes both provide 2 bedrooms and each are built to the appropriate HCA scheme standards. The table provides an appraisal for extra care using the existing SOE product, SOE modified to reflect ordinary HomeBuy rules, HomeBuy and lastly for private sale.

The two schemes have been further compared on a typical complex London site and a stand alone Home Counties site to identify the differing impact of value and build costs.

### HomeBuy Benchmark

It is clear that ordinary shared ownership or HomeBuy for the general market works with the values and grants commonly found in the London and South East regions, delivering a typical Internal Rate of Return (IRR) of 9.18% to 15.12%.

This type of affordable housing product commonly provides an opportunity to develop mixed tenure schemes that also contain less well performing social rented units. The volume of shared ownership at around 50% of a typical affordable developers programme indicates that the business case for this product is well established. It therefore provides a benchmark against which other products will be compared in determining the business case for pursuing a specific product on an individual site.

### Shared Ownership for the Elderly

In this appraisal the existing SOE product delivers a negative IRR of between -7.27% and -9.68%. In this example this is because there is a requirement to cap staircasing at 75% and charge no rent on the remaining 25% equity. The additional grant required to provide a return comparable to ordinary HomeBuy on this product is likely to prove prohibitive in the current capital funding environment. The additional costs associated with extra care housing create a further disparity with ordinary residential accommodation.

Many schemes in the current NAHP have been able to generate additional subsidy by way of nil cost land from other stakeholders. Given that extra care schemes provide greater choice of care as well as housing, other stakeholders may wish to lever in land and additional subsidy. The willingness to do so is a critical element in determining the volume of schemes actually developed.

However given the finite supply of public land, the current product may still face a significant challenge in delivering the volume that demographics indicate will be required. The probability of delivering a lesser return on freely acquired sites compared to competing housing and accommodation products may be a brake on developer's ability to deliver choice against increasing demand.

### SOE Based on HomeBuy

Given the potential for SOE to perform less well than other options on land acquired at an open market value, Table 10 includes a set of appraisals of the same scheme but with SOE modified to allow a rent to be charged on the 25% and/or staircasing to 100%. This achieves much greater parity with ordinary HomeBuy in terms of financial return, with an IRR of up to 12.52%. Such a product may allow potential schemes to deliver improved financial performance and offer affordable housing developers a business case for such schemes on acquired land.

Appraisal of affordable extra care housing for rent shows that it performs in a similar fashion to ordinary socially rented housing, a negative return is common across all types of social housing for rent. This is ordinarily overcome by cross subsidising from receipts from shared ownership sales.

Bringing the financial performance of SOE to parity with HomeBuy will provide an opportunity to achieve a similar cross subsidy for extra care developments and increase the volume of choice for both rent and equity based products.

### Differential Build Costs

One of the most significant issues revealed by the appraisal set out in the table is the impact of differential build and acquisition costs. The costs have been informed by real examples of schemes that have been developed and publicly funded. The costs for schemes in high value and inner urban areas are significantly greater than elsewhere. Anecdotal evidence suggests that urban schemes are typically located on more complex sites. In this case the bespoke nature of the build introduces significant cost.

This issue adversely impacts on the business case for SOE in higher value areas, as the grant rates required under the existing product to achieve break-even are at the upper end or above those provided for extra care for rent in the Housing Corporations 2006/2008 NAHP programme. This position is improved by modifying SOE, but such schemes are still at a comparative disadvantage unless either the values increase, additional grant is introduced or other stakeholders provide land at below open market value.

### Values

Given the challenges presented by costs and finite public subsidy the role of values in delivering an attractive business case for volume affordable developers is crucial.

The comparison assumes the same values for both retirement and ordinary housing. The Strettons report found that in marginal or ordinary residential areas values for extra care housing are around 10% lower than for ordinary housing with the same number of bedrooms. At the same time extra care units in premium locations do at least as well as comparable ordinary residential products, and that resale values are likely to be stronger in extra care than other forms of retirement housing. Strettons clearly identify this is an immature market and recommend that values for potential extra care developments are subject to specific market testing to understand how the provision of both the availability of on site care and the location may deliver a premium.





## 4.6 Options for the SOE Product

With this background it is considered how possible improvements can be made to SOE to bring it up to date with the development of extra care housing, as a more modern and relevant form of provision for older people and deliver growth in provision and choice for older people.

The comparison exercise has demonstrated that because the SOE model was designed prior to a regime where associations compete to minimise grant, it is now financially unattractive to develop SOE in certain situations. SOE has been effective and delivered a certain volume, however when 'road tested' and compared to other products there are issues especially when land has to be purchased on the open market. 10 associations were sufficiently interested or able to put viable schemes into the 2008-2011 NAHP. This looks modest when nearly half the growth in households over the next 20 years will be of older people. This chapter looks at a number of options in order to increase the volume of development. It is recognised that this is a cross cutting issue and look at potential options for changing the SOE product as well as options for maximising access to land are explored. The impact of these options and the analysis presents a number of dilemmas for policy makers which are highlighted.

The Aspiration Age project proposes a review to address the following points:

- Allow further flexibility in the purchase of equity shares
- Re-consider providing such a large rent free portion
- Identify ways of increasing access to more affordable land
- Improve the process of dealing with SOE in extra care housing.

In Chapter 5 suggestions regarding staircasing are made.

### Issues

As explained, successive models of low cost home ownership intended for older people have all worked on the principle that there is a ceiling to the equity that can be purchased. This is currently 75%. The balance of the equity is held by the RSL and is rent free i.e. it is gifted to the resident for the time being.

#### Shared Ownership and Shared Equity

A distinction is sometimes made between shared equity and shared ownership. With shared equity the ownership of the equity is shared between the individual and another organisation but no rent paid and the SE owner owns 100% of the title. With the current Open Market HomeBuy for example, the buyer takes a 75% mortgage with the remaining 25% covered by an equity loan[27]. Under shared ownership there is a rental charge on the unsold equity. For marketing purposes it is common for RSLs to use the phrase "part buy, part rent" to convey what shared ownership means.

The normal New Build HomeBuy product does not limit the share that can be eventually acquired although the maximum initial share that can be purchased is 75%. A rent of up to 3% of the unsold equity can be charged. The modelling in the previous section used 2.75% as this is the expected norm. The present rules for developing low cost home ownership for older people are based on New Build HomeBuy. The position is explained in the Prospectus for the National Affordable Housing Programme[28] (Housing Corporation, 2007).

27 For 08-11 SE owners buy outright with the benefit of an equity loan provided by either the CHASE equity loan providers or Places for People, in conjunction with a conventional mortgage from an approved lender

28 Prospectus for the national affordable housing programme, Housing Corporation, 2007

## Proposal to Bring SOE in Line with NBHB

The proposition is that a review of existing SOE products should be carried out to give full consideration to the following scenarios:

- 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 a 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

The impact of these proposals on older people and the use of public subsidy are considered below.

## Allowing Purchase of Higher Percentage of Equity

### Effect on Older People

There are three groups of relatively cash poor, asset rich older people seeking retirement housing who may be affected by allowing larger shares of equity to be purchased.

The first group are those with very limited assets. They may be social housing tenants but with some savings or living in very low value properties. The low value may be because of serious disrepair and for this reason alone the property has become increasingly unsuitable and unsatisfactory. For this group, who are only able to afford a minor part of the equity, extending the range of equity that can be purchased makes no difference.

The second group at the other end of the continuum are those who could afford more than 75% at the point they move in. For those who could afford to buy outright at market value the LCHO offering is irrelevant. This is not to say people should not be able to purchase outright in extra care if they wish to and have a need. Indeed this may be a positive course in order to contribute to a more mixed community, meet a need and in all probability help the overall financing of the development.

There remains a third, small group who do have savings or equity from the sale of a previous home that would enable them to buy a larger share than 75%. For them it would be advantageous to allow a higher level of investment for the following reasons:

- Extends choice marginally
- Allows savings to be retained in property if the individual wishes – historically a good investment
- Allows those at the margin of benefits – the least well off – to continue to hold their savings in the form of property rather than cash. Your principle residence does not count as an asset for the purpose of benefits.

For the third reason in particular, the ability to put more of what can be afforded into the shared owner's home is a potential advantage for the individual. It means the individual will be able to retain more either to be passed on as an inheritance or ultimately used to fund care or make other choices in the future. If they are not able to buy as much as they can afford the implication is they will be debarred from receiving some benefits like Housing Benefits until such time as their savings fall below the current capital threshold - £16,000 at present. This is assuming they also have a limited income and are otherwise eligible for means tested benefits.

The conclusion here is that for a small group of relatively poor people with limited capital and income, but who can afford to purchase more than 75%, there would be an advantage in terms of choice and possibly a financial advantage in being able to purchase larger shares. No purchaser should be worse off.

### Effect on Use of Public Subsidy

From the Exchequer perspective a small number of people may become eligible for some benefits slightly sooner than they might otherwise. That is balanced by the reduction in capital subsidy going into the house. It also helps deliver on the preventative aspects of the transformation of social care agenda in which housing is expected to play a part, by making retirement housing that bit more accessible to those at the margin. Given that it is generally more cost effective in subsidy terms to provide housing partly for sale than purely for rent (as the Public Access Committee noted) it must also be more cost effective to maximise the equity sold rather than place any artificial limit on this. Again this is a point made by the PAC, and subsequently actioned by the HCA but only in relation to the mainstream HomeBuy programmes.

*"The benefits that low cost home ownership brings to the affordable housing sector need to be maximised to ensure that more money is available to help more people. In 2004-05 there was a general lack of controls within Registered Social Landlords to ensure that they sold purchasers as large a share of a property as they can safely afford and so minimised the amount of assistance given[29]".*

This observation has been turned into a requirement on RSLs to ensure they generally sell the maximum affordable share, but this has not been applied completely to SOE. If the older person is encouraged or indeed required, to maximise the percentage they own, there is a case for flexible tenure to apply e.g. to pay for unanticipated care or other bills.

29 House of Commons Committee of Public Accounts " A foot on the ladder: low cost home ownership assistance" Nineteenth Report of Session 2006-07, HC134, March 2007

## Applying a Rental Charge on the Full Amount of Unsold Equity Rental Charge

### Effect on Older People

Those who are not eligible for Housing Benefit because of their income or because savings exceed £16,000 would face a marginally larger payment if a rental charge is introduced on the 25% share currently offered free. If they buy the maximum share possible then this will reduce or eliminate the rental charge in direct relation to their wealth and this does not in principle seem unreasonable.

Those on the margin of affording home ownership – almost by definition to be the majority in a SOE development – would be unaffected personally as (subject to normal rules of reasonableness) Housing Benefit would meet some or all of the increase.

### Effect on Use of Public Subsidy

This is the slight downside for the Exchequer; slightly more people may become eligible for Housing Benefit. This does present a dilemma for policy makers as this proposal to stimulate development of specialist retirement housing incurs potential increased expenditure for the DWP. However the over all cost benefits of increasing access to appropriate specialist retirement housing, such as a bungalow or apartment need to be considered. Moving to specialist retirement housing commonly frees a larger family property, thus increasing the number of people suitably accommodated and making more efficient use of the housing stock. If the only suitable alternative for an older person in need is sheltered housing or extra care for rent, and there is no affordable housing for sale, then the property rented costs are typically twice as much in capital subsidy terms than it should, to house the same person, with the same needs.

# 4.7 Home Ownership

### Suggested Process Changes

The workshop of developers of shared ownership and retirement housing made a series of additional suggestions they felt would improve this form of retirement housing and/or make it a more attractive form of development to undertake for RSLs. In addition there are some suggested changes to be made to the SOE lease guidance and rules which are explained in detail in the full document SOE Process and the model lease (available on request). These are the diverse views that came out of the developer's workshop and could be used to inform any review of the SOE product.

### Access to Affordable Land

The issue of land value and impact of purchasing land off the open market significantly impacted on the comparison appraisals above. Increasing access to affordable sites provides a significant help in enabling development of additional retirement housing. Aspiration Age recognises that a range of stakeholders benefit from the wider health and social care gains of appropriate retirement housing. Therefore PCTs and Local Authorities could consider what land they can bring to the table for disposal for retirement housing use. The valued role of planning and Section 106 in levering in land is also recognised, and suggest that the provision of retirement housing, including extra care housing is included in planning requirements.

The Strettons study reveals that the home ownership market is dominated by low level sheltered housing with just 8 schemes in the London area offering extra units for outright sale. The Aspiration Age project identified a number of issues that have influenced the limited number of units produced for outright sale to date. In addition test appraisals demonstrate that this product can deliver a reasonable return for developers, but there are key issues that will determine the business case for each potential development.

### Establishing Values

The study found that the values for retirement and extra care developments are likely to be strongest in solid residential areas where ordinary housing products already achieve premium values. The report notes that accessibility to shopping and leisure as well as the quality and feel of communal areas are an additional significant driver of value.

The majority of existing schemes for sale in London are located in solid residential areas such as Kensington, Highgate and Mill Hill. The study notes that the role of care will be more of a factor in delivering different values for extra care than for sheltered housing. This is likely to be because in purchasing extra care an older person may be delaying the need for care, and most probably seeing the potential cost of moving to a residential care home or health setting to receive care in the future. However given the immaturity of the market it is not entirely possible to separate the potential values in extra care from those found in sheltered or even more basic private retirement housing models. How values develop to compare to other products competing for land will be a key determinant in the volume of schemes built.

It is also clear that extra care developed in lesser value locations are at this stage likely to achieve values at around 10% less than similar residential products. In effect potential extra care customers place a premium on prime locations.

### Design and Standards

Values are likely to be greatest where the feel of a scheme meets the aspirations of the potential customers. Those demands may differ from the standards set out for affordable extra care housing, with a preference for very high quality communal facilities and outside space that deliver a sense of community and security. Developers are likely to want to maximise the value of each specific development and to focus on those areas of design, finish and tenure distribution that will assist this. The result is that there will be differences of approach across the market offering choice to potential customers for extra care housing.

### Mixed Tenure Schemes

The different prioritisation of standards across the market from affordable to outright sale extra care schemes may present some challenges in integrating the different tenures within specific developments. The focus groups were evenly split between those potential private purchasers who would be willing to buy in a mixed tenure scheme and those who would not consider the option. There is a clear market for mixed tenure schemes but also just as significant for mono-home ownership tenure. This will again present design challenges for schemes to allow for possible differentiation within specification schemes where the market for single tenure home ownership is strongest.

### Marketing

Most of the marketing of current extra care schemes for sale is completed 'in house' by the developer. This is a reflection of the gap in specialist knowledge available through more traditional property marketing agencies. It is also clear that sales of retirement housing in particular are much slower than other residential products. Strettons found a number of retirement schemes, even in strong residential areas, taking a number of years to sell all the units in a scheme, in some cases the sales of new units are being 'lapped' by resale units coming back on to the market.

There is some early evidence to suggest that this inertia is less of a factor for extra care housing, but given the linking of the market to retirement housing in general will reduce the return a developer receives from such a scheme.

### Extending Choice

Extra care for sale faces similar challenges to both affordable for rent and shared ownership products in that it is competing for land on which other forms of development may achieve a greater financial return. At the same time a number of well known developers of older persons housing have created products and approaches that have allowed them to develop a significant volume of units.

This will remain a significant issue for concern because of the premise that health and social care needs in later years are tenure blind. If those issues are to be best managed then the choices open to the majority of older people, who are homeowners, need to be successfully addressed. The market might be stimulated by policy developments addressing the following areas:

### Planning and Land Supply
Planning might be used to identify the number and type of extra units required in local plans and use both strategic planning and planning approval mechanisms to help earmark land specifically for extra care development.

### Public Land Developments
Disposals of public land for private development as part of regeneration or master planning initiatives might require proportion of development for extra care housing across all tenures to help stimulate the market.

### Scheme Innovation
Extra care 'village' type developments may provide an opportunity to secure land outside established residential locations, where the value delivered by a high quality scheme delivers a sufficient return. Other such adaptations to the basic extra care design are to be encouraged in order to secure a greater range of volume and choice. It is possible that the one stop product delivering extra housing and paying for care via equity may present another such opportunity.





# Section 5
# Role of RSLs in Equity Exchange

5



# 5.1 Introduction

The key theme of Aspiration Age is exploring how older owners can access and use the equity in their property, if required and they have no other resource, in order to allow them to continue to live in their own home or move into appropriate retirement housing. Chapter 3 considers how equity might be used to pay for care and support services as well as ‘bricks and mortar’ and examined the advantages and disadvantages of a range of equity release products. Chapter 4 considered options for extending choice for older people by using their equity to access specialist retirement housing through shared ownership and outright sale.

This chapter explores the potential role of the Registered Social Landlord in promoting independence and choice for older people through the exchange of a ‘stake’ of ownership of accommodation for housing and/or care and support services. Firstly, this is considered in the context of shared ownership specialist retirement housing with a proposal for reverse staircasing. The second consideration is the potential role of RSLs in the exchange of equity for housing and related services in privately owned accommodation.

# 5.2 Staircasing Down to Release Equity

## Rights to Staircase

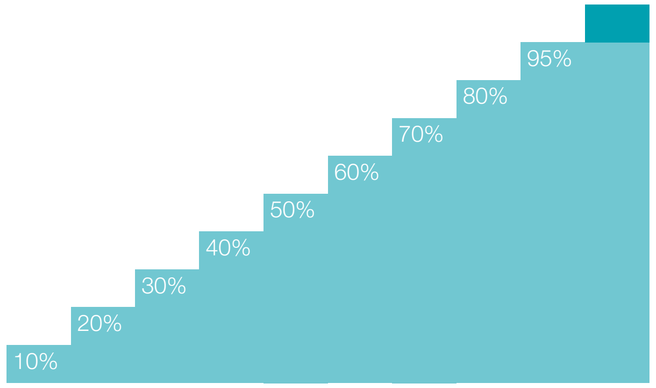
People who acquire a stake in shared ownership property under one of the HCA funded programmes usually have the right to buy more of the equity, known as staircasing up. This right is contained in the lease.

There is no similar right to staircase down; that is to sell back equity to the landlord. In exceptional circumstances a few leading housing associations have been prepared to buy back shares or even transfer the property from shared ownership back into 100% rented. They have used their own resources to do this, for example RCGF. Some of this funding may have indirectly come from realising the appreciation in the value of shared ownership properties as owners have staircased up in the past.

The idea of new retirement housing developments being used flexibly and being 'tenure neutral' throughout the life of the scheme is of interest to policy makers and providers. This requires that property can switch tenure or that equity shares can vary as re-sales or re-letting occur to match individuals' circumstances. There is also social care policy interest in vulnerable people having more choices and in housing being able to be used flexibly so it can adapt to changing needs and circumstances. The latter is evident for example in the promotion of new housing being built to 'Lifetime Home Standards' (www.jrf.org.uk/housingandcare/lifetimehomes). It is a cornerstone of the new National Strategy for Older People[30].

## Reverse Staircasing

Staircasing down and releasing equity in tranches is the reverse of staircasing up. This section explores how reverse staircasing might be used by RSLs to enable older owners in retirement housing to fund care and support. This is especially relevant for those owners who are less well off and currently find it difficult to obtain any commercial equity release arrangement. Our review in Chapter 3 of equity release products shows that the vast majority of commercial equity release providers and products exclude shared owners living in retirement housing. This is a key reason for suggesting that social landlords have a role in assisting a form of equity release in this way. Furthermore the terms of products are often such that relatively small amounts of equity cannot be released and the overall "deal" on drawing small sums i.e. less than £15,000 is relatively unattractive or impossible. Reverse staircasing could provide a viable alternative option to existing commercial products for those owners living in specialist retirement housing.




30 Lifetime Homes, Lifetime Neighbourhoods; a National Strategy for Housing in an Ageing Society, CLG/DWP/DH, 2008



## Example of Reverse Staircasing

An example is provided of how this proposal would work in practice for the older owner and RSL. In simple terms the financial transaction on a property independently valued at £300,000 in which the individual owns a 75% share under SOE would be like this:

- RSL purchases 10% for £30,000 – shared owner now owns 65%. The RSL uses RCGF or own resources.
- Purchaser begins to pay rent on basis of 10% rental portion which is a small income to the association. The purchaser could draw on the £30,000 released to meet this charge. As they have more than £16,000 they are not eligible for Housing Benefit.
- The £30,000 is invested and the interest, say £1,800 per annum may be sufficient to pay the rent, at least initially.
- The capital released is used to fund care and support costs and depending on how many hours are required and how they change over time may last several years.
- Eventually the individual may release a further 10% or conceivably get to a point where, on re-assessment by Social Services, they become eligible for social care funding. Any Supporting People funding depends entirely on the local policy on funding leaseholders.
- The RSL owns an asset worth initially £30,000. If property appreciates according to the historic pattern (described in detail earlier), on resale this RSL will make a return of around 8% per annum on their investment. This cannot however be guaranteed. There is an argument for saying that the RSL purchases at below market value to ensure a better margin in return for risk.
- The care provider, which might be an arm of the housing association, continues to receive income for the services provided, while the individual obtains the care and help they want without reducing their disposable income.

# 5.3 Policy and Funding Issues Relating to Reverse Staircasing

## Policy

Government policy and views in relation to staircasing are described in 'HomeBuy – Expanding the opportunity to own[31]', which also reports on the consultation exercise following the former Housing Corporation Task Force proposals on overhauling the low cost home ownership programme.

In respect of staircasing up, the policy articulated is that people using any of the low cost home ownership products should be able to increase the size of their equity share and move on to full ownership. This was put into practice under HomeBuy by allowing additional shares to be purchased in 10% tranches, with a few restrictions. Older people are seldom going to be interested in staircasing up. Much more relevant is the opportunity to sell back shares; staircasing down.

As part of this exercise the ODPM consulted on whether HomeBuy purchasers generally should be allowed to staircase down in 'exceptional circumstances' but without any specific consideration of the position of older people. There was overwhelming support for this by respondents to the consultation. Housing providers however questioned how they would fund the re-purchase of shares and suggested the Government should provide a fund for this purpose.

The ODPM said, "We will encourage housing providers to allow… New Build HomeBuy purchasers to reduce their share of ownership if they encounter financial difficulties…" (Page 23-25) and "Financial support for RSLs to buy back properties under these arrangements will be available through the Recycled Capital Grant Fund".

The Government therefore did not provide any new funding to repurchase equity but did support the use of recycled grant funds for this purpose. Surpluses arising from a range of activities can be used by RSLs for their permitted purposes where the grant element goes into the Recycled Capital Grant Fund (RCGF).

## Funding

The ODPM guidance cited above supports the use of RCGF for re-purchasing equity. However the relevant section (6.6) of the 2008 Housing Corporation Capital Funding Guide which sets out the uses for the RCGF appears not to allow RCGF to give flexibility of tenure to older people via trading equity for care and support.

*"6.6 Flexible Tenure through the Recycled Capital Grant Fund*

*6.6.1 Flexible tenure is a permitted use of the RCGF in exceptional circumstances. It is a last resort option to enable a RSL's shared owner (NOT an outright owner) experiencing severe financial difficulties to remain in their own home despite changes in their financial circumstance. It is aimed at preventing repossessions and the loss of the home. It is not a means of allowing the shared owner to restructure their debts or otherwise improve their financial position.*

*6.6.2 RSLs cannot use RCGF funds to help shared owners release equity for any other purpose than avoiding threats to their ability to remain in their home. RCGF funds cannot be used to allow shared owners to repay debt other than mortgage debt and arrears, or to buy other goods or services. This is NOT flexible tenure.*

*6.6.3 Public funding of flexible tenure is confined to the RCGF. Social Housing Grant (SHG) or the Disposal Proceeds Fund cannot fund flexible tenure.*

*6.6.4 Under Flexible Tenure, the RSL must repurchase enough equity to reduce the leaseholders total housing costs to a level which they, and the RSL, are confident is manageable in the long-term.*

*6.6.5 This can include repurchasing sufficient equity to clear the mortgage…"*

*Source: HC Capital Funding Guide as at June 2008, http://cfg.housingcorp.gov.uk/*

31 HomeBuy – Expanding the opportunity to own, CLG, April 2005



It appears the application to older people living in shared equity / ownership housing has not been considered. They are, for example, for the most part unlikely to have a mortgage that needs clearing. In order to offer flexible tenure to all shared owners (but not particularly older people) at least one major London housing association has put £1 million aside for cases where RCGF cannot be used.

## Proposals for Funding Reverse Staircasing

One option for funding reverse staircasing would be to revise RCGF guidance and allow for use of RCGF to enable an older person to fund their care and support services in a retirement housing setting by exchanging tranches of equity and staircasing down. Aspiration Age has been advised the framing of 6.6 was intended to prevent misuse or trivial use of funds rather than any deliberate, considered attempt to prevent older people in need of a care service obtaining this in a straightforward and transparent way. The proposal would be:

- To adjust the guidance in 6.6 to establish that older people, in LSE, SOE or similar developments with an element of low cost ownership provided by RSLs, may staircase down with equity tranches being re-purchased via the RCGF where the purpose is to use the equity sold to purchase care and support or to enhance community sustainability and welfare.
- To maintain parity with HomeBuy and ensure the transaction costs are not excessive in relation to sums drawn it may be necessary to restrict staircasing down to a minimum of 10% tranches.
- The RSL should agree to use its best endeavours to change the tenure to rent in extreme cases if the shared owner can demonstrate they have maximised the availability of commercial equity release to pay for their care and the funding has run out or is not available.

Aspiration Age recognises that this proposal may not be acceptable to Central Government or policy makers. However, Aspiration Age continues to explore this option in this chapter with view to stimulating debate.

If RCGF is used in this way, further discussion is needed on the circumstances and conditions in which staircasing down is permitted. At present a constraint will be the size of the association's RCGF, other priorities and willingness to use the funds in this way. Some shared owners will in any case be reluctant to use their equity to fund enhanced care and support. Some who need higher levels of care they cannot now afford should ultimately satisfy Local Authority social care criteria and obtain assistance this way, although as noted in Chapter 1, at present the financial constraints on local authorities are such that under FACS, it is becoming harder to meet the criteria.

It is recognised that this option presents a number of issues for policy makers, notably should the option for reverse staircasing to fund support and care be available to other customer groups? Also it is fully recognised that if the RCGF was not recycled by the RSL it would be returned to the HCA for further housing provision. Therefore this proposal may be perceived as use of a housing grant to fund care.

Further discussion is necessary on what alternative sources of grant funding might be available to fund the RSL purchase of the equity stake.

It may also be a matter of debate as to whether (if this policy idea is accepted) shared owners are obliged to staircase down to fund care if they have no other recourse. It is the view of the Aspiration Age project that they should not, as this condition would undermine the initial attraction of shared ownership for many and that it should be a matter for the individual association to take a view on, considering all the circumstances.

# 5.4 Using Equity to Improve and Repair Older Owners Own Homes

Surveys of older people repeatedly emphasise the vast majority wish to remain in their own homes in later life if possible. This in turn may mean providing care and support at home. It may also mean improvements and adaptations to make the home more suitable, secure, useable, and economic to heat and run and also ongoing day-to-day repairs and maintenance.

The report now considers the role that general needs associations could play in improving existing housing for older owners using the same low cost home ownership techniques explored previously in this report.

## Policy

Historically, less well off older owners tended to rely on local authority grants for major repairs, improvements and adaptations. A range of small grants, for example Warmfront to tackle fuel poverty and Disabled Facilities Grants, remain available as a mandatory grant for those who satisfy the criteria. Nevertheless there are other circumstances when older or disabled owners may need to raise money such as when:

- Help is needed with major adaptations and improvements are normally means tested with a financial contribution required
- A range of works that may be required to actually remain at home comfortably, and no assistance is available
- The scale of work required exceeds the grant limits (£30,000 for DFG in England)
- In recent years, as demand for grants exceeds the resources available, there has been increased reliance on loans.

Government support for local authorities to facilitate financial provision for the repair and improvement of existing housing was set out in the 2002 Regulatory Reform Order on Housing Renewal. This order has shaped how disrepair in older owner's properties is tackled. Hitherto the emphasis has been on grant funding. The substantial result of this Order had been to push local authorities to seek ways of providing loans for which the older person is, in varying degrees, responsible for funding. In April 2008, the government took a further step and issued a general consent to allow local authorities to impose a legal charge on adapted, owner occupied premises where the costs exceeds £5,000. As shall be seen in the review of the products, this has stimulated experiments with low cost, "soft" loans, and also different mechanisms for drawing on equity.

Home Improvement Agencies (HIAs) have become key to providing the practical help, advice and support many older people need to manage the process from applying for and getting grants, specifying work, getting contractors, supervising work and so on. Most have expanded to provide a handy person scheme and some offer additional low level support services. These are sometimes called Care and Repair agencies and a number are run by RSLs. Studies have demonstrated that improvements and adaptations can improve the quality of life, prevent deterioration in health, assist carers, promote early hospital discharge or delay or avoid entry to institutional provision, overall saving money[32].

## Needs

There are nearly 3 million vulnerable households that include someone over 60. 'Vulnerable' is defined by receipt of at least one means tested or disability related benefit. Half, 1.5 million households, are older home owners[33].

32 Better outcomes, lower costs; implications for health and social care budgets of investment in housing adaptations, improvements and equipment; a review of evidence, Heywood, F and Turner, L, ODI, 2007

33 Lifetime Homes, Lifetime Neighbourhoods; a National Strategy for Housing in an Ageing Society, CLG/DWP/DH, 2008



The English Housing Condition Survey (2005) shows[34]:

- A third of the homes occupied by older people (approximately 1.8 million households) fail the Decent Homes standard
- 10% of all households live in a property defined as in serious disrepair. This rises to 14.4% of people over 75 who are also vulnerable; 200,000 homes
- 30% of those over 75 years and vulnerable live in non-decent housing
- There are 700,000 vulnerable owner occupiers in non-decent housing
- Care and Repair England estimate this equates to 330,000 vulnerable, elderly households that are owners[35]
- To achieve a good standard of repair and fitness for these vulnerable owners will typically cost about £16,000.

**Table 11: Vulnerable Households in Non-Decent Homes, 2005 (000s)**

| | Decent | Non-decent | All households |
|---|---|---|---|
| Owner occupied | 1,691 | 703 | 2,394 |
| Private rented sector | 387 | 362 | 748 |
| Private sector | 2,078 | 1,064 | 3,142 |
| Social sector | 2,032 | 785 | 2,817 |
| All tenures | 4,110 | 1,849 | 5,959 |

*Source: DCLG English House Condition Survey, 2005*

**Table 12: Main Reason for Non-Decency and Average Mean Costs to Make Decent For Private Sector Households**

| | | Thermal comfort only | Fitness, repair or modernisations | Non-decent |
|---|---|---|---|---|
| Owner occupied | Vulnerable | £3,383 | £15,637 | £8,186 |
| | Non-vulnerable | £2,320 | £13,455 | £6,478 |

*Source: DCLG English House Condition Survey, 2005*

## Current Providers

Disabled Facilities Grants help about 26,000 older people in all tenures with adaptations each year. The new National Strategy for Housing in an Ageing Society announced an increase in DFG funding to £166 million by 2010-11. At the same time there is to be better housing information and advice for older people, expansion of handy person services and HIAs who assist older people with the DFG and similar work.

As explained, following the Regulatory Reform Order (2002), local authorities were given the power to offer loans and support equity release schemes. This has stimulated growth in these mechanisms and a decline in reliance on grants.

The key agencies currently involved in providing support to older home owners with repairs and improvement are:

- Home Improvement Agencies (HIAs)
- Local Authorities
- Community Development Finance Institutions (CDFIs)

Many of these are in association with RSLs.
Our background paper Providers of Home Renewal Products (available on request) provides information on good practice and innovation deployed currently. A lot of these examples are relatively small in scale and provided by small and/or specialist agencies.

This paper seeks to consider how this good practice and innovation might be deployed by general needs associations with the potential for wider application for the volume of older owners in need of housing repairs described above.

34 English house condition survey, DCLG, 2005

35 Private communication

# 5.5 Role of Housing Associations in Helping Older Owners

Mainstream housing associations that have carried on an interest in helping vulnerable owners in the context of home improvement or regeneration have predominantly been working in a Housing Market Renewal area, often acting in conjunction with a local authority as a vehicle to provide loans. Frequently they are using funding provided by local authorities and/or Regional Housing Boards rather than their own resources.

Examples of this kind of work include:

- Relocation loans in HMR clearance areas
- Home improvement or renewal loans
- Variants of HomeBuy
- Mortgage rescue

People come to associations or CDFIs because:

- They cannot get and/or afford a commercial loan. This is a normal, basic criteria for help.
- The amount they want to borrow is too small to be of interest to a commercial lender or uneconomic to arrange.
- They are seeking independent help and advice.
- They are seeking practical help and support in getting work done or moving.

There are a number of reasons why more mainstream housing associations, outside HMR areas, should or could be involved in assisting vulnerable people to utilise equity, rather than relying on a few CDFIs and a small number of interested RSLs because:

- The core business of an RSL is housing. This is their experience and expertise.
- They are substantial organisations with an established infrastructure. They have financial, training, personnel and other skills and resources in housing.
- Their scale of work should allow economies.
- Their scale and funding should also allow for an element of risk taking.
- As established, secure organisations they are in a position to take a long term view; short term vagaries of the housing market are manageable.
- Because of their legal structure and the extensive external monitoring and audit they are subject to, they are and should be perceived to be reasonably secure and trustworthy organisations. There was reasonable support for this view from the focus group discussions.
- The needs of older owners are widespread, occurring in rural and urban areas. Associations are variously able to operate nationally, regionally or locally.

Above all Registered Social Landlords are by definition social landlords. A basic rationale for existence is carrying out social purposes. While they need to be efficient and cover costs to continue they are not required or expected to be profit making nor do they distribute profits to share holders. They are in contemporary parlance a form of “social enterprise”, while many have explicit charitable purposes.





# 5.6 Potential New Products for RSLs

Previously in this chapter, the potential for reverse staircasing in retirement housing was explored. This section now considers how the concepts might be applied to privately owned accommodation with the proposal that RSL provide repairs, improvement and adaptations in exchange for acquiring stakes of equity. Three different options have been considered: equity swap, buying back to rent and buying back to shared ownership. An overview of each model, an example of how they would work in practice and an outline of the key advantages and disadvantages is provided. A beneficial feature of all three models is the RSL’s capacity to offer housing services such as surveying, contract management, project management, procurement and maintenance to the wider community.

# 5.7 Equity Swap

This option is based on RSLs adopting the Equity Swap model used by the London Rebuilding Society (LRS). LRS trade an amount of the equity owned for repairs and adaptation. This is not shared ownership as the owner enters into a deed to the LRS for what ever percentage of the equity they have agreed, normally based on the costs of the works required. LRS get back the set percentage when the property is eventually sold.

### Example of the LRS Equity Swap Model

The following example relates to a property in London which, despite being virtually uninhabitable, was independently valued at £190,000 in July 2006. Properties in good repair in the same street were selling for £230,000.

LRS needed to spend £55,000. The value of the property after the work was £272,500 so they took a 20% share of the equity. In this area properties were (conservatively) assumed to be increasing in value at 8% per annum. In fact as the table below shows prices have increased at a far higher rate.

Table 13: Equity Swap Example

| Equity Swap Example | |
|---|---|
| LRS Valuation (2006) | £190,000 |
| Estimated HPI | 8% per annum |
| Future market value in 5 years | £331,000 |
| Revaluation (May 2007) | £272,500 |
| Actual HPI over 6 months (November 2006- May 2007) | 30.2% |

*Note: House Price Inflation noted as HPI.*

LRS have funded the works and own 20% of the property. When it is eventually sold they will get back 20% of the market value. That includes paying back the original investment plus 20% of the appreciation in value.

# 5.8 Buying Back to Rent

### Advantages and Disadvantages

LRS have successfully used this model to repair properties in poor repair in London. LRS work is funded by a combination of an Invest to Save Grant (Central Government), the Borough (Local Government), and various charitable foundations. The above example shows that in a situation of the property values rising above expectation in the short term the model can work without subsidy. However property values may of course fall. Our detailed analysis in Chapter 3 highlighted the inherent degree of risk with this model for the RSL and it would require additional funding to make viable and attractive on a larger scale.

This option is based on the RSL buying the individual's home and renting the property back. There are similar products used already, for example a mortgage to rent scheme has been running in Scotland for the last 5 years. The Scottish Executive provided a £15 million fund initially which allows housing associations to buy properties, and then rent back to the residents who can 'stay put'. Essentially the same scheme could operate to arrange repairs, improvements and adaptations for older owners. It would require a pot of funding to draw from.

There are a number of private profit-making companies who also operate schemes on a similar basis. Typically they buy at 65-80% of market value and then charge the tenant a commercial rent. This is of course usually only attractive in a re-possession situation if the rent is less than the previous mortgage repayments. In the private sector the former owners will only be granted an assured shorthold tenancy so have little security of tenure. If housing associations wished to, in principle they could operate on the same commercial basis subject to any TSA regulation.

RSLs could offer greater security and, for example, charge target rents and be more generous on the price offered. This is dependant on whether they can make the borrowing equation work with a combination of:

- Purchase of equity below open market value
- Equity growth – although in the short term this may be decline
- Rental income.

These schemes are not regulated by the FSA as they do not count as a mortgage product. The transaction is simply buying a property and then renting it out.



### Example of Buying Back to Rent

A simple example to illustrate the principle is based on a property in poor condition in East London valued at £200,000:

> RSL purchases for 80% of an independent market value, giving the owner a cash sum of £160,000.

> Extensive works are required to bring the property up to a decent standard. These are agreed with the owner. The RSL then arranges and completes the works which include eliminating damp and rot, installing a new bathroom that is useable by the owner who is in a wheelchair, new heating and an array of assistive technology to enable the 70 year old, disabled owner and add to security. The works cost £40,000 and include the associations' expenses and are paid by the ex-owner from their £160,000 capital.

> The resident has always wanted to visit Austrailia and meet her grandchildren. She uses some of the cash to have a 6 week holiday while the works are completed.

> After works are completed the association re-values the property and find that because of sharply falling house prices in the locality it is still worth only £200,000.

> Thereafter however values rise at 8% per annum and in 3 years time the owner moves into residential care as following a heart attack she can no longer be looked after at home adequately. The property is sold on the open market for £252,000 in good condition because it has been maintained by the association in the interim years.

> For an initial investment of £160,000 the RSL has made a gain of £92,000, a return of 36% over 3 years plus a rental income.

### Advantages and Disadvantages

This option would be particularly suitable if the costs of funding repairs and improvements are substantial compared to the value of the property. A disadvantage for the older owner selling all their property in return for repair, adaptation and improvements (and possibly an on-going maintenance service) is that it is probable, except in very severe disrepair cases/low value areas, that they will release more equity than needed. The result may be that the capital asset they now have excludes them from Housing Benefit or other welfare benefits.

Housing Benefit rules (Regulations 2006 No 214; regulation 9h) say that a person shall be treated as not liable to make payments in respect of a dwelling (i.e. not eligible for Housing Benefit) if: *"he previously owned, or his partner previously owned the dwelling in respect of which the liability arises and less than five years have elapsed since he, or as the case may be, his partner, ceased to own the property, save that this sub-paragraph shall not apply where he satisfies the appropriate authority that he or his partner could not have continued to occupy that dwelling without relinquishing ownership."*

This part of the Housing Benefit regulations is aimed at preventing previous owners disposing of properties and receiving Housing Benefit as sitting tenants. However, as the above states, if it would not have been possible to remain in the property without selling it, it may be possible to release equity to pay for essential repairs, and this may fall into Housing Benefit eligibility category as stated.

The market is probably very small for this product as it will not suit everyone. There is some evidence that some older people are willing to gift property in exchange for services. For example the Help the Aged Gifted Housing Service has been operating for over thirty years. There is also a small market of older parents caring for a disabled son or daughter who wish to establish arrangements whereby on their death (or move to residential care) their son or daughter can continue to live and be supported in the parental home.

From the individual's financial perspective they get a cash sum sufficent to fund repairs, but a less welcome consequence is the obligation to pay rent. An individual assessment would be neceessary to determine whether or not this is economically advantageous in the long term. The assessment would need to take into account:

- The differential between the rental charge and interest earned
- The individual tax and benefits position.

# 5.9 Buying Back to Shared Ownership

The third proposal is for the RSL to buy part of the equity of a privately owned property, grant a lease and turn the owner into a shared owner. Associations would buy a share of the equity from older owners; carry out repairs or adaptations and provide ongoing maintenance and management service under a lease or separate agreement. There are examples in the past when associations have operated Housing Corporation (now HCA) funded programmes where they have:

- Bought properties, improved them and re-sold on the open market (Improvement for Sale - IFS)
- Bought Existing Satisfactory Properties (ESP) for people with particular needs or circumstances.

### Example of Buying Back to Shared Ownership

A simple example using the same starting point as the previous buying back to rent case demonstrates how this option works.

The 70 year old owner lives in a poor condition property valued at £200,000. It needs £20,000 spending to bring it up to a Decent Homes standard. In addition, the owner can no longer use a bath and would like a shower to replace the bath. It would be convenient to have a downstairs toilet installed at the same time as she is worried about increasing incontinence. This will cost a further £30,000.

> RSL buys a 25% share, granting a lease to the resident of 75% of the equity for £50,000. The purchase is conditional on bringing the home up to Decent Homes standard.

> The RSL arranges and carries out the work for the shared owner for which she pays from the £50,000 cash.

> The RSL charges a rent on the 25% share based on 2.75% of this equity. The shared owner has virtually no other savings and is on pension credit. She claims Housing Benefit to pay rent. The Housing Benefit department take the enlightened view that she would have had to move somewhere had she not had a shower, downstairs toilet and a habitable property so she is entitled to Housing Benefit.

> The rent includes an element to pay for management and maintenance service now provided by the landlord. This is eligible for Housing Benefit because the lease granted by the RSL puts a maintenance obligation of the landlord. Thus the property is maintained in good condition.

> The improvements made immediately increase the open market value by 10% to £220,000.

> Thereafter values rise at what works out at an average of 8% per annum.

> In three years the property is sold as the owner decides to go and live with her recently widowed sister.

> The price realised is £277,000. This is divided according to the shares:
>   - 75% to shared owner - £207,750
>   - 25% to RSL - £69,250

> The gross return to the RSL is 38.5% over 3 years in capital growth plus any surplus rental income.

### Advantages and Disadvantages

An RSL's business is housing, including shared ownership in which they have expertise. It is a logical next step for associations to be able to acquire a share of a property from older owners, repair them and operate like a shared ownership scheme. The legislation that applies to RSLs, for example in relation to rents, benefits and enfranchisement, make it far easier for them to offer shared ownership than it is for a CDFI.

This option presents the same potential issues with Housing Benefit, as buying back to rent. Regulations are similar for shared ownership properties as for selling a home outright (and renting back) to pay for repairs. If an individual is already living in a property and sells all or part to a RSL and rents back that share, in general they will be unable to claim Housing Benefit. However as before, if it can be proved that the individual would have been unable to stay in the property if it were not sold, either all or in part, then eligibility for Housing Benefit may be possible.

From the individual's perspective they retain a stake in the equity which in the medium term should grow. They also have the possibility of drawing further on their equity or leaving something for their heirs.

## 5.10 Proposals for Funding

The analysis of the three proposed options for RSLs acquiring a stake in privately owned property in exchange for providing housing and related services highlights a number of advantages and disadvantages. Each of the options is potentially viable but a key issue for policy makers is the funding requirements.

The analysis of the LRS “Equity Swap” model showed a requirement for additional subsidy or funding to mitigate against risk. Both buying back to rent and buying back to shared ownership require some form of funding for the purchase of equity stakes. The same issue applies to these two proposals as that identified for reverse staircasing in specialist retirement housing: Could this be funded from RCGF or should an additional grant be made available? Aspiration Age recognises that this proposal may not be acceptable to Central Government or policy makers but raises this point to stimulate debate.





# Section 6
# **Key Findings and Conclusion**

6



# 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", such as buying back to rent and buying back to shared ownership.

# Proposals and Action

- Aspiration Age proposes 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.





# 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 the report.

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 the focus groups were very engaged and interested in the 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.

# Glossary

This glossary provides a description of technical terms used in the report:

**Community Development Finance Institutions (CDFIs)**
CDFIs are independent, financial institutions that provide capital and support to individuals or organisations. They aim to generate financial returns as well as beneficial social outcomes.

**Equity Release**
This means releasing capital or income from a property asset. There are a range of commercial and non-commercial equity release products available.

**Extra Care Housing**
Whilst there is no standard definition for extra care housing, a useful definition was provided by Strettons as part of this study - 'the extra care sector covers all forms of purpose built housing for older persons (generally over the age of 55) where elements of care are either provided on site, or arranged for residents. There is a considerable variation in the way in which this accommodation is provided, managed and configured'.

**Sheltered Housing**
This refers to housing developed specifically for older people (the statutory age limit is 55, although in practice may be higher). Sheltered housing covers a wide spectrum of building specifications and support services.

## List of Useful Websites/Resources

Further information on many of the issues covered in this report can be obtained from:

Tenant Services Authority
http://www.tenantservicesauthority.org/

Homes and Community Agency
http://www.homesandcommunities.co.uk/

Department of Health
http://www.dh.gov.uk/en/index.htm

Care Services Improvement Partnership
http://www.csip.org.uk/

Housing LIN
http://networks.csip.org.uk/IndependentLivingChoices/Housing/

Housing and Support Partnership
http://www.housingandsupport.co.uk/

Communities and Local Government
http://www.communities.gov.uk/corporate/

National Housing Federation
http://www.housing.org.uk/

Supporting People
http://www.spkweb.org.uk/





# List of Additional Background Documents

As part of the Aspiration Age project has completed extensive research and analysis of a diverse number of issues relating to equity release and housing options for older people. The findings are summarised in this main report however it is recognised that the detailed research and analysis will be of interest to some readers.

These have been made available on request in a series of themed papers.

Equity Models Analysed

Aspiration Age Focus Groups

Legal Issues to Be Considered in the Provision of Care and Support

State Benefits and Equity Release

Low Cost Home Ownership Models Explained

Enfranchisement

SOE Process and The Model Lease

Providers of Home Renewal Products

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

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one housing group

one support

TSA TENANT SERVICES AUTHORITY

CSIP Care Services Improvement Partnership