



LAST TIME BUYERS.

A report by Legal & General, in conjunction with the Centre for Economics and Business Research (CEBR)

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**Legal &
General**

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Executive Summary

The UK housing market remains mired in crisis – largely because we are still not building enough houses in the UK. Creative thinking is therefore needed to free up supply and one area that we think deserves much closer scrutiny is the “Last Time Buyer” market.

Legal & General’s analysis of these older homeowners shows there are 3.3 million homeowners who are aged over 55 and looking to downsize in future, according to data from the Centre for Economics and Business Research (Cebr). These “Last Time Buyers” (LTBs) are sitting on £820 billion of property wealth and 7.7 million spare bedrooms. The equivalent to 2.6 million family homes, this represents 10 years of housing supply based on Government targets – or 20 years based on current housing completions!

Freeing up this housing stock will provide a powerful tool for addressing the housing crisis, reducing overcrowding, boosting the UK economy, and bringing benefits across the property market. Not only that, but a move to more suitable housing for those aged 55 or over will also deliver a number of health, financial and social benefits, including safer accommodation for older people, reduced energy bills, and the ability to free up more spaces in local schools.

Given the size of the numbers involved, it is surprising how little attention has been paid to older buyers, even though this group is often open to the possibility of downsizing. By failing to target this key demographic with good value, purpose-built housing for those aged 55+, Government and industry alike may be missing an important trick. Not only will this type of housing give them a better quality of life, but it will also help to release additional funds for their retirement.

Moreover, with over 11.4 million homeowners aged 55 or over, older buyers could hold the key to alleviating the challenges that others are facing across the property chain by freeing up houses for growing families.

So why hasn’t this happened already? First, many older homeowners allow inertia to keep them in their current home, which is often no longer fit for purpose and expensive to maintain. Also, many of those 55 and over – and 63% of those with at least two spare bedrooms – do intend to move, but all too often, they leave it late. More than half believe that it will be best to wait until they are over 70 before moving, and a quarter will wait until 80. Coupled with a lack of suitable alternatives, high asking prices and the potential tax burden when they do try to downsize, this means that many will never make the move.

Key figures from Legal & General’s study of “Last Time Buyers” (LTBs) include:

- 5.3 million under-occupied homes
- 3.3 million LTBs looking to downsize
- 7.7 million spare bedrooms, equivalent to 2.6 million family homes (based on the typical three bedroom property)
- £820 billion LTB housing wealth, reaching £1.2 trillion in 2020
- Typical LTB lives in a 4-bed house, but wants a 2-bed property

- Almost a third of older homeowners considered downsizing in the last five years; only 7% actually did
- There is a definite lack of suitable housing for LTBs to buy / move into
- A majority (58%) will put off downsizing until after 70; a quarter until 80 or older.

To unlock this market, we need the right housing (two or three bedroom properties suitable for older people and near family, friends and facilities); the right tax regimes, with stamp duty a key focus; and better options to allow for equity release, in order to harness the potential of this locked up housing wealth in cases where older people decide to stay where they are.

Introduction: A one-way market

The housing crisis isn't going away any time soon. Even if prices begin to soften in some regions, this will do little to offset growth going back decades. Plus, we are still failing to build enough homes in the UK, and this deficit is having a negative effect on many different aspects of people's lives.

For example, many of those who have been priced out of the property market are now renting properties rather than buying them. Whilst this may be an adequate short-term solution for some, it is not always the best solution for everyone.

Others, meanwhile, are being forced to commute hours to their place of work, as they cannot afford accommodation any closer than that. As a result, many now face long journeys that damage morale almost as much as they hurt productivity. At the same time, couples are being forced to borrow large amounts of money to buy a home, meaning that they must both work outside the home. This has additional financial implications, including the soaring cost of childcare. These problems are especially acute for key workers in London and the South East, resulting in staff shortages in schools, hospitals, and other institutions that are vital to our society.

The Cebr expects property prices to fall just 0.6% in 2015 – against growth of 8.8% last year alone.¹ Prices are then forecast to rise every year to 2020. This is a long-running trend. The House Price Index produced by ONS shows prices are 45 times their 1970s level – an increase far in excess of inflation.

Had food prices and wages risen in line with this same level of growth, a carton of milk would cost more than £10², and an average couple with children would earn an extra £44,000 a year³. Even since 2000, housing has become significantly less affordable, with prices increasing from little more than four times average earnings to seven times by the end of the first decade.⁴

Overcrowding and under-occupancy

The incredible rate of house price growth in Britain has caused well-publicised problems for younger buyers hoping to get onto the housing ladder. The number of 20 to 34 year-olds living with their parents has increased a quarter in two decades to over 3.3 million⁵, as the average income needed for a first home has doubled⁶.

It also creates problems for those who are unable to upsize. According to the census, there are more than 1 million households living in accommodation that is too small for the

number of occupants⁷. Unsurprisingly, the problems are most acute in London, where one in four children now live in overcrowded homes, according to Shelter⁸.

At the same time, among those who own homes, there is widespread under-occupancy. In England and Wales, official figures show 8.1 million homes had at least two spare bedrooms in 2012/13⁹. The ONS Census breaks this number down even further with its Urban Rural classification for areas in England and Wales, which includes data on the number of households that live in under-occupied homes.

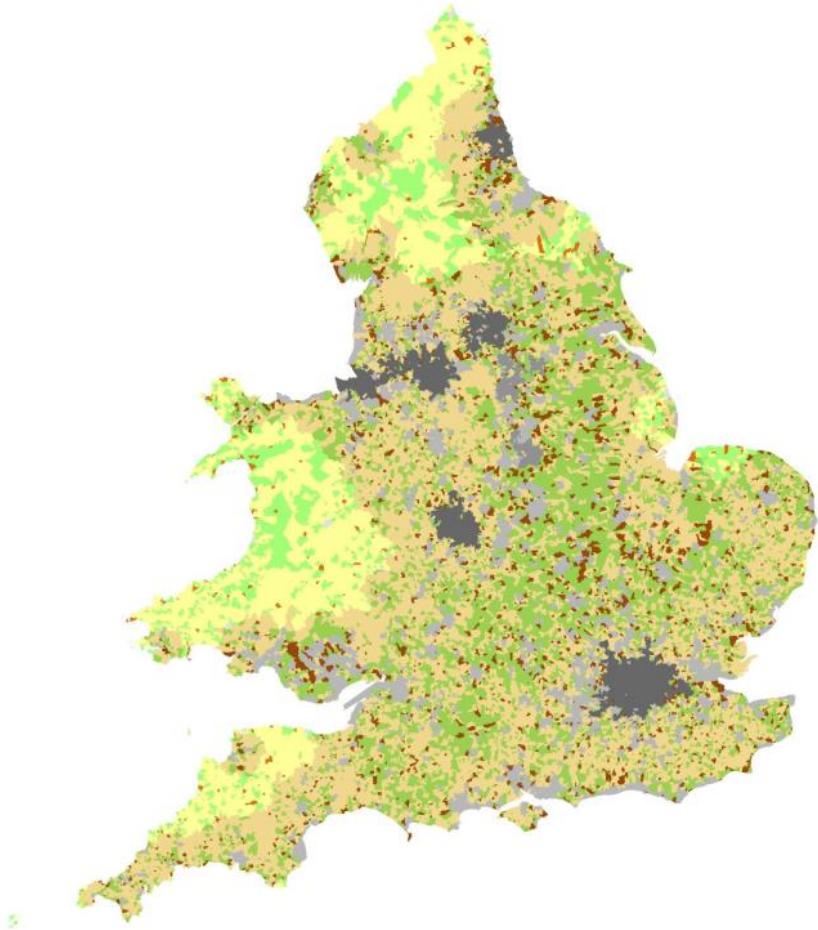
The statistics show that there are proportionately less under-occupied homes in large cities such as London, Birmingham, Liverpool and Manchester and proportionately the same number of under-occupied homes in urban cities and towns. By comparison, rural towns and villages have in general a higher concentration of under-occupied homes relative to larger towns and cities.

However, even though rural homes are more likely to be under-occupied, the *total* number of under-occupied homes is actually much larger in cities. As a result, finding alternative accommodation for LTBs in these areas could play a significant role in easing housing availability for everyone.

Settlement type	Number of households	All households, as % of England & Wales total	Under occupied homes	Under occupied homes, as % of England & Wales total	Under occupied homes, as % of settlement type total
Total	23,366,044	100%	8,077,085	100%	35%
Urban major conurbation	7,671,955	33%	2,073,041	26%	27%
Urban minor conurbation	804,216	3%	274,772	3%	34%
Urban city and town	10,495,106	45%	3,666,243	45%	35%
Urban city and town in a sparse setting	64,175	0%	22,108	0%	34%
Rural town and fringe	2,070,790	9%	871,600	11%	42%
Rural town and fringe in a sparse setting	136,884	1%	53,930	1%	39%
Rural village	1,209,086	5%	621,463	8%	51%
Rural village in a sparse setting	133,172	1%	63,938	1%	48%
Rural hamlet and isolated dwellings	676,214	3%	372,883	5%	55%
Rural hamlet and isolated dwellings in a sparse setting	104,446	0%	57,107	1%	55%

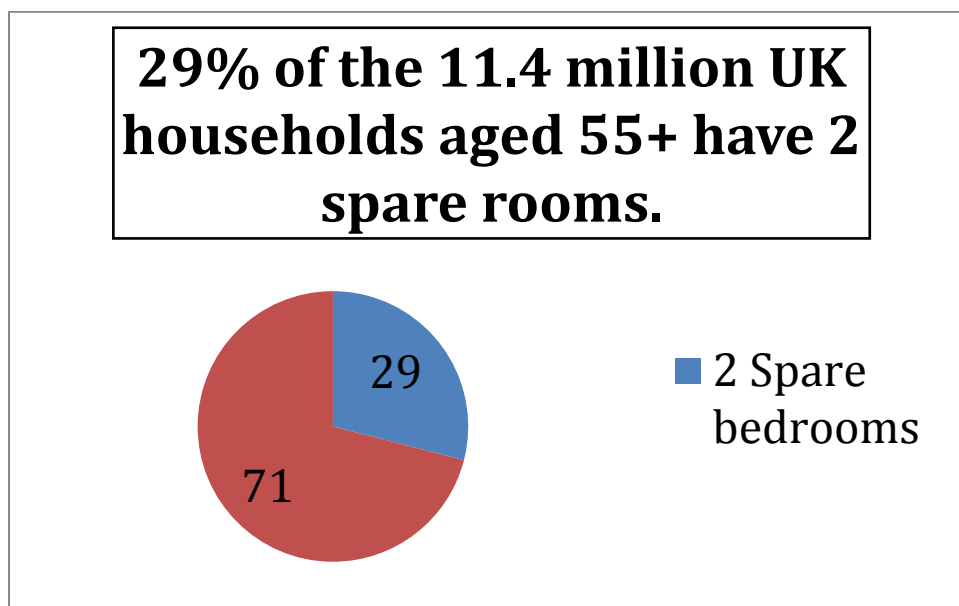
Fig. 1: Under-occupied homes segmented by urban / rural settlement type

- Urban major conurbation
- Urban minor conurbation
- Urban city and town
- Urban city and town in a sparse setting
- Rural town and fringe
- Rural town and fringe in a sparse setting
- Rural village
- Rural village in a sparse setting
- Rural hamlets and isolated dwellings
- Rural hamlets or isolated dwellings in a sparse setting



Introducing the Last-Time Buyer (LTB): 7.7 million spare bedrooms

An analysis by the Cebr for Legal & General shows that in 2012, of the 11.4 million over-55 households, 5.3 million had two or more spare bedrooms. Moreover, a survey¹⁰ of these under-occupiers shows that 3.3 million are considering downsizing in future – more than 25 times the number of houses built in a typical recent year¹¹.

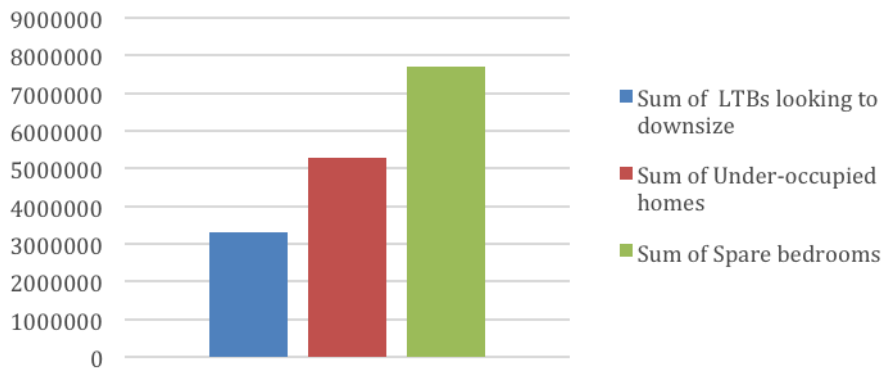


These potential LTBs made up 29% of the total number of UK households aged 55 and over in 2012, and almost two thirds (63%) of those with two or more spare rooms.

- **In England** LTBs account for 30% of households aged 55+ and over 65% of over-55 homeowners with two or more spare bedrooms.
- **In Wales** LTBs also comprise 30% of older households and 55% of the homeowners with two or more spare rooms
- **In Scotland** they make up 17% of households over 55, and 49% of over-55 homeowners with two or more spare rooms.

If all these LTB homeowners downsized to smaller properties, it would free up about 7.7 million bedrooms¹², which is equivalent to 2.6 million family homes (based on the typical three bedroom property).

LTBs downsizing can free up a huge amount of living space



The last time buyer

- Over 55 years old
- Owns their own property
- Two or more unoccupied bedrooms
- Wants to downsize in future

Additional advantages of unlocking the LTB market

By moving into more suitable housing, ideally near family and friends, LTBs could also gain important health benefits. For example, those over age 65 currently have the highest mortality rate and the most severe injuries related to falls. In England and Wales alone, 49% of accidental deaths within this age group were caused by a fall¹³. As such, encouraging LTBs to move into purpose-built accommodation (without steep staircases, for example) could have a major impact on figures like these, yet there is simply not enough of this type of accommodation available for LTBs.

It is also worth noting that many LTBs are currently living in homes that are very expensive to heat, especially compared to new retirement homes. As such, a move to a more suitable property could also help this group to free up additional disposable income, as long as steps are taken to build more housing that meets the specific needs of LTBs.

Lastly, a significant proportion of LTBs' homes will be family homes within the catchment areas of local schools. At the moment, these are lost to families that want to send their children to those schools, as many have been blocked from pursuing this option due to lack of available spaces.

LTBs at a glance

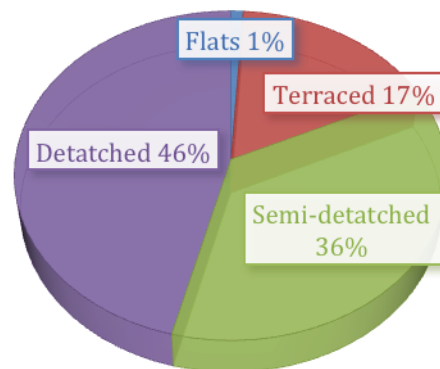
With the youngest of this group aged 55, according to our definition, less than a third (32%) are in full or part time work. Of those aged 60 or more, that number falls to under a quarter (24%)¹⁴.

Again, not surprisingly, almost none (just 1%) have dependent children living with them, although they might once have had. As in social housing¹⁵, the most common cause of under-occupation in other settings is likely to be older couples remaining in their home after their children have grown up and left, often because there is a lack of suitable alternatives.

About one third (31%) of LTBs aged 55 and over with two or more spare bedrooms are currently living in the first property they ever bought. In total, 44% have been in their current property for 30 years or more, and a further 21% for at least 20 years.

Very few LTBs live in flats (just 1%); some live in terraced houses (17%); and more (36%) live in semi-detached properties. Most commonly, however, LTBs live in detached properties, with 46% doing so, despite detached properties accounting for less than half that amount as a proportion of all accommodation¹⁶.

Only 1% of LTBs live in a flat

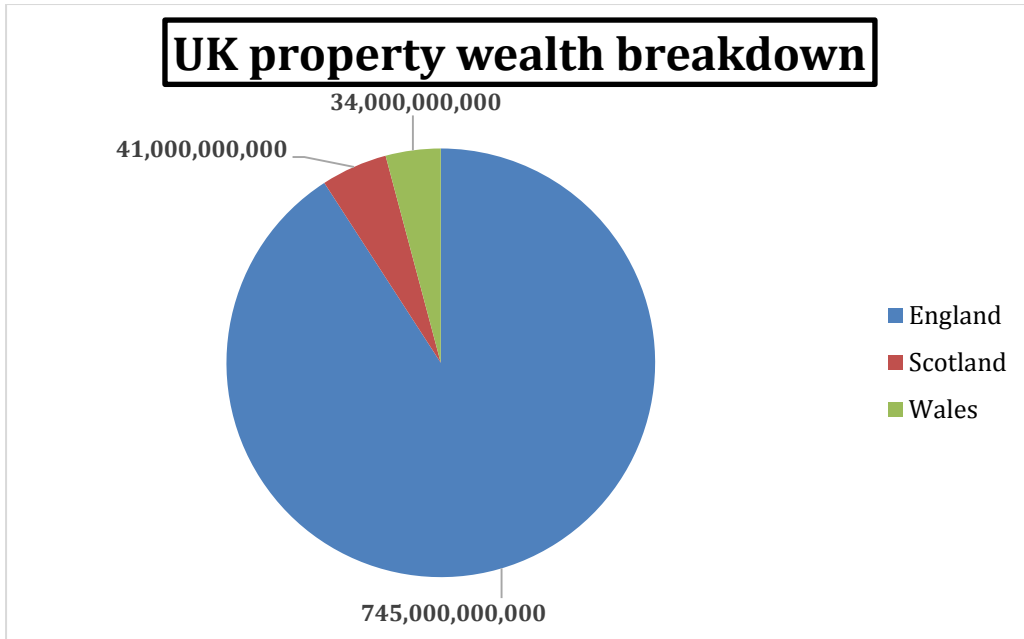


The typical LTB is retired, lives in a four-bed, detached home and has, on average, 2.3 spare bedrooms.

An £820 billion intergenerational imbalance

The capital gains earned from housing over the past few decades have far outstripped the interest costs of mortgages, and the real wages of the average full-time worker doubled between 1975 and 2013¹⁷. As a result, LTBs have amassed housing wealth worth £820 billion in 2012 – 18% of all aggregated household property wealth¹⁸.

By region, the majority of this windfall has been in England (£745 billion), where the UK population and highest property prices (in London and the South East) are concentrated. Scottish LTBs' property is estimated to be worth £41 billion, and LTB property in Wales is valued at £34 billion.



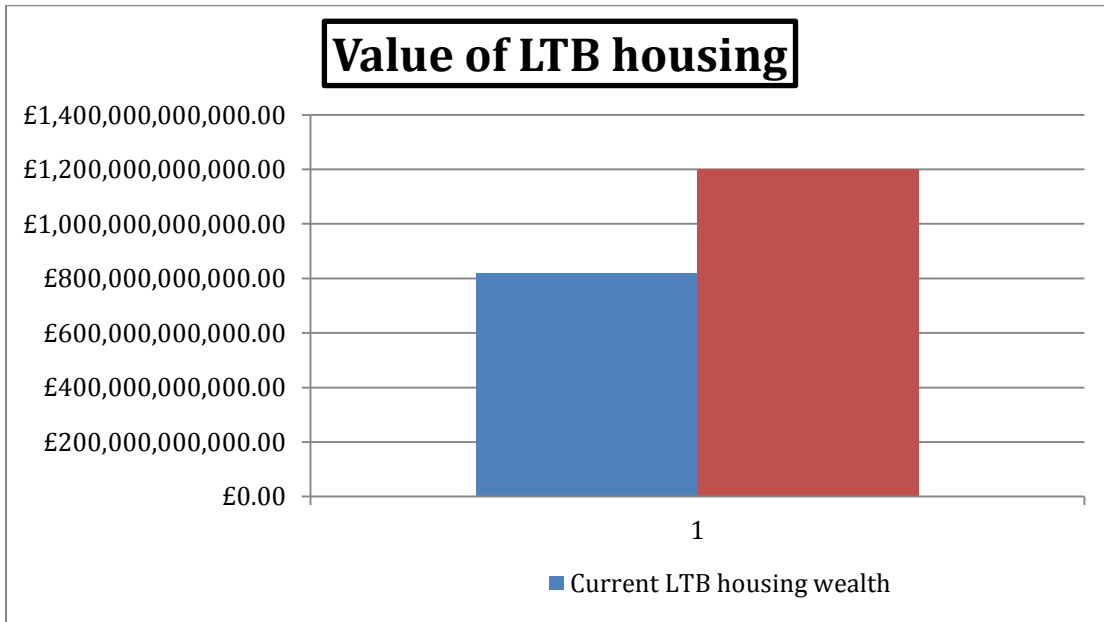
What this means is that, while the young struggle to get onto the property ladder and are on course to amass £100 billion of debt in student loans within a few years¹⁹, LTBs own sufficient housing wealth to eradicate the majority of the UK's national debt²⁰.

Looking ahead: £1.2 trillion by 2020

The UK's population is ageing, and the number of elderly people is expected to grow by 5.5 million between 2010 and 2030²¹. Consequently, LTBs are an increasing force.

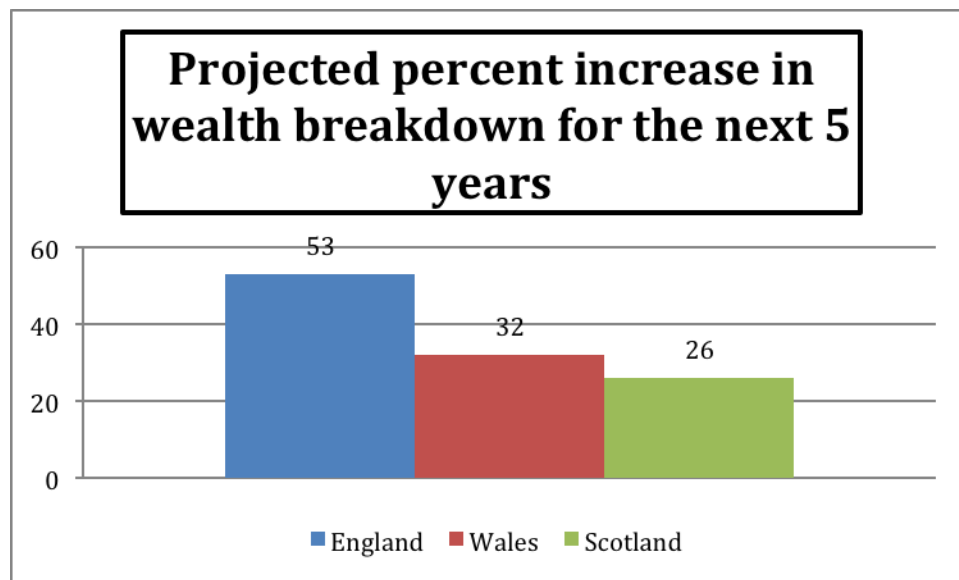
According to current trends, the Cebr analysis shows the number of households aged 55 or over will be about 13 million by 2020, and the number of LTB households will increase by more than 454,000 to 3.8 million, up 14% on 2012 levels.

As a result, in 2020 the number of LTBs' properties will equate to 2.6 million three-bedroom properties in England (given the average property size in Great Britain), 146,000 three-bedroom properties in Wales and 158,000 three-bedroom properties in Scotland.



Combine this with rising house prices (which have already been seen since 2012) and the value of LTB housing stock in Great Britain will exceed £1.2 trillion in just five years – up 51% on 2012's figures:

- £1.1 trillion in England, a 53% increase from 2012
- £45 billion in Wales, up 32%
- £52 billion in Scotland, up more than a quarter (26%).



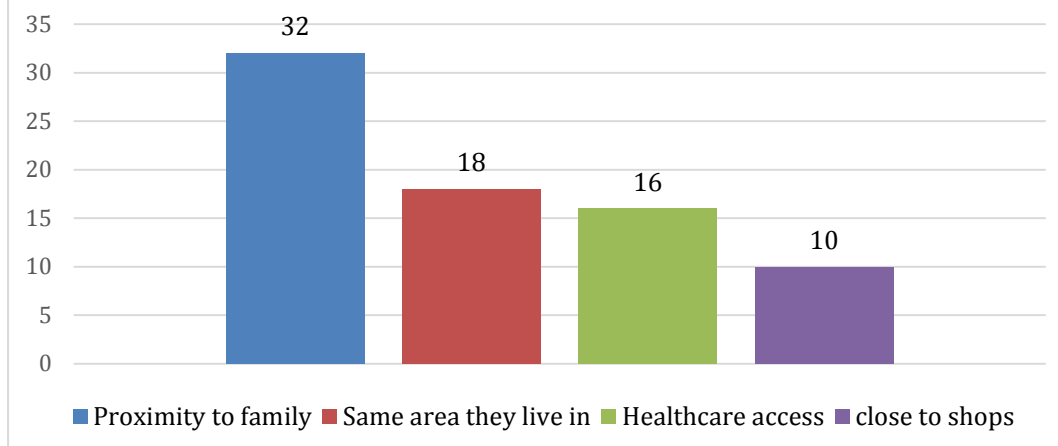
LTBs' biggest wish: a 2-bed home near family and friends

While LTBs notionally benefit from the billions accumulated in property assets, they can only do so in practice if they can unlock it by moving. In the absence of this opportunity, many remain in large unsuitable homes that they must pay to heat, maintain and tax²². At the same time, most are likely to be on modest incomes. Almost half of all respondents to the survey, whether contemplating moving or not, had incomes of less than £20,000 a year.

The most likely reason for downsizing given by the over 55s was that their property would no longer be suitable (45%), due to stairs or a large garden, for instance. This was the most common reason in all countries – England (45%), Wales (53%) and Scotland (36%). Other factors that might prompt homeowners to contemplate downsizing were if the property was too large for their needs (33% overall) or the occupier needed support and care that could only be provided elsewhere (29%). In Wales, 22% also mentioned freeing up money for retirement.

The most important factors for over 55s in choosing a new home were proximity to family and friends (32%), finding somewhere in the same area as their current home (18%), and easy access to healthcare (16%) and shops (10%). Such requirements may sound simple, but the truth is that there is a dearth of this type of housing in the UK. As such, the first step in unlocking the LTB market is to expand the supply and diversity of the housing options available for this group.

Percentage of LTBs that stated the factors that influenced their choice of location



Most LTBs want to downsize to a two-bedroom property (62% in England and Wales, and 46% in Scotland), with most of the rest looking for a three-bedroom property (18% in England, 26% in Wales and 46% in Scotland).

Assuming even a 10% price premium for each extra bedroom²³, the findings suggest a windfall that could run into hundreds of billions if LTBs do move.

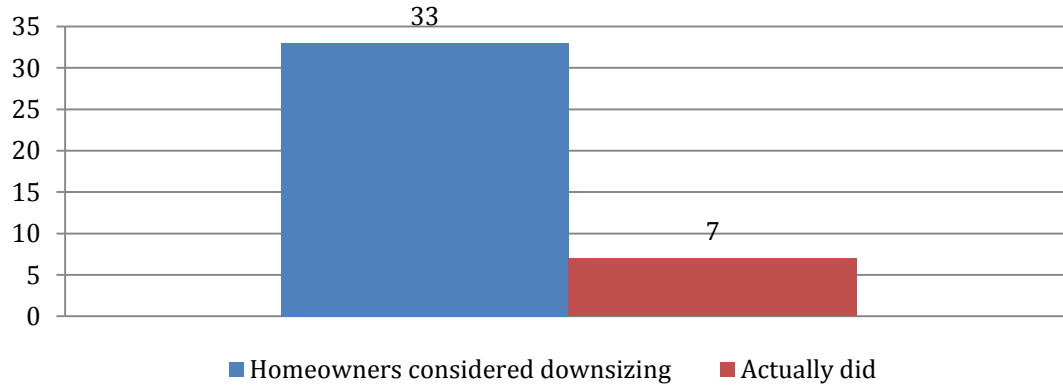
What's stopping you? Barriers to moving

Despite this, almost half (47%) of homeowners aged 55 and over have no plans to downsize at all. Many say their house is already small enough (31%); others don't want to give up the family home (22%); for almost a quarter, it is the process itself that worries them, with 24% saying moving would be too stressful. Relief from stamp duty could make some difference to this. Across all homeowners, 30% would be much (11%) or slightly (19%) more likely to move in future if stamp duty rates were changed.

In Wales and Scotland, other factors also came into play. As well as the stress of moving and an attachment to the family home, 29% of Welsh homeowners again mentioned a reluctance to move away from family and friends. In Scotland, meanwhile, 18% also mentioned wanting to leave their current home as an inheritance.

On the other hand, almost a third (32%) of homeowners over 55 have already considered moving to a smaller property in the last five years. Only 7% of homeowners actually did so, though. A quarter said they looked at downsizing, but didn't move.

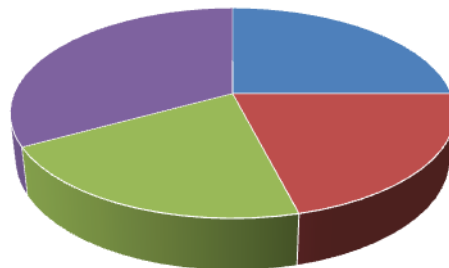
Percentage of older people considering downsizing versus how many actually did



The most common reasons for not going through with a move were as follows:

- * A lack of suitable properties (25%)
- * Suitable properties were too expensive (21%)
- * The cost of stamp duty put them off selling (21%)

Most common reasons for not moving

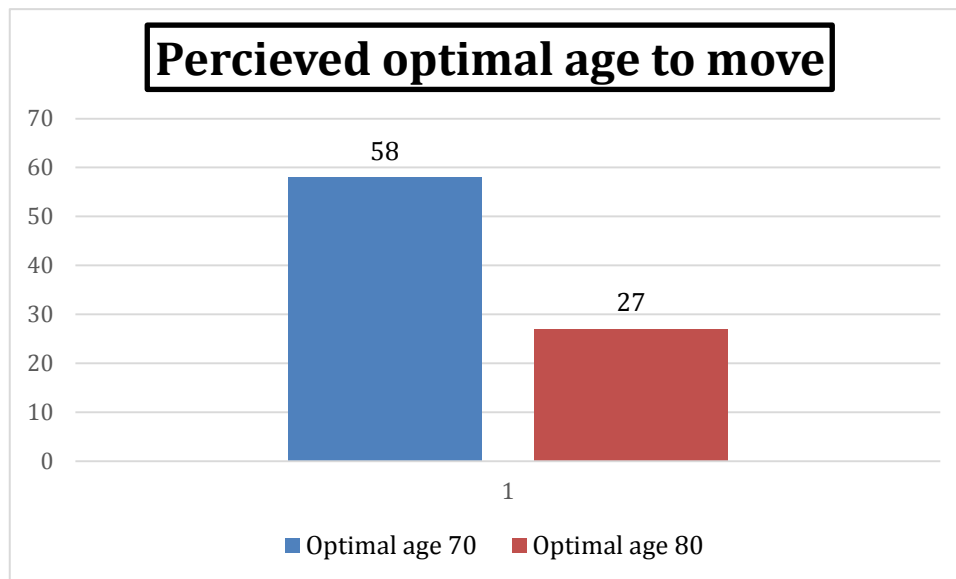


- A lack of suitable properties (25%)
- Suitable properties were too expensive (21%)
- The cost of stamp duty put them off selling (21%)
- Other

Of those that have not considered downsizing in the last five years (but do not rule it out), almost two thirds (64%) say they are still very likely (19%) or fairly likely (45%) to move at some point in the future.

A question of timing

Whether those open to moving will ever do so, however, remains an open question. Most LTBs seem content to leave it late. More than half (58%) said the optimal age to downsize was 70 or over. More than a quarter (27%) suggested over 80 was the best time to move.



There were, however, some regional variations:

- In England the majority (57%) thought the optimal age was 70 or older, and only 6% thought it would be optimal to downsize before age 60.
- In Wales 31% of LTBs thought age 60-64 was the optimal age to downsize.
- In Scotland more than half (55%) thought the optimal age to downsize was before 70; none thought it was optimal to downsize past the age of 79.

Recommendations

The UK suffers from a chronic undersupply of age-specific housing. Demos, among others, has noted that only 2% of the UK's housing stock is retirement property, housing just 1% of the 14 million Britons in their 60s (compared with 17% living in retirement accommodation in the US²⁴). All too often, this leads to older people living in homes that do not suit their needs, with moves often forced by circumstance rather than being a positive choice. Not only does this harm the interests of older people, it has wider social drawbacks, including the under-occupation of homes and increased pressure on the health & social care system.

The critical barriers that older people identify are a lack of suitable accommodation, the cost of the available options and tax considerations. Our ten steps to unblocking the LTB market are aimed at boosting the supply and diversity of options available to older people.

Ten steps to unlocking the LTB market:

1. **Political support:** Government needs to focus on this issue and commit to supporting the expanded provision of age-specific housing to serve the needs of older people. This requires a consistent focus that is then reflected in housing, planning and health & social care policy.
2. **An integrated policy approach:** Policy committees need to recognise that, when done well, retirement housing can connect residential infrastructure with the health & social care system, providing major benefits for both.
3. **Diversity of tenures:** The majority of retirement housing is sold to occupiers on a leasehold basis. Increased volumes of homes across all tenures, including freehold, shared equity and rented options, would allow the system to cater to a wider variety of needs and offer flexibility as people's needs change in later life. Moreover, a thriving new build retirement living sector would remove some of the stress cited as a main reason for not moving. Part-exchange of current homes would also remove the stress of selling, as well as saving estate agents costs.
4. **Greater supply in the mid-market:** At the moment, provision of retirement housing is concentrated amongst affordable housing providers and a small number of premium private sector operators. This leaves much of the market relatively underprovided with good quality stock.
5. **Urban not rural:** LTBs require well designed, affordable space that is close to family, friends and facilities. This emphasis on connectivity and amenity suggests that the bulk of demand will be in urban rather than rural locations. Provision, and the public policy environment, must accommodate this.
6. **Tax relief:** We need to reduce transactional costs to incentivise right-sizing across the whole market. The Chancellor's changes to stamp duty should be welcomed and could be extended further, to offer full relief on all home purchases by those over a certain age. The fiscal impacts would be offset by a higher level of turnover, as stamp duty is received on the purchases of older people's homes by younger people that would otherwise not take place. Another tax treatment that should be considered is a larger New Homes Bonus for retirement homes, over and above the current incentives offered. A council tax holiday for new retirement homes should also be contemplated. This could apply for the first three years of occupation and help significantly with the disposable income available for LTBs moving to retirement homes.
7. **Benefit consolidation:** Retirement housing is influenced by a web of public sector subsidies, comprising housing benefit, social care support and health-related spending. Ensuring that these systems fit together in an understandable way to provide the right outcome should be a key policy consideration.
8. **Planning policy:** Attitudes to retirement housing vary widely across planning authorities. This leads to an unhelpful variety in terms of approaches used and the recognition of the benefits that expanded provision bring. Planning authorities should recognise the specific benefits of retirement housing and set targets for its delivery.

9. Development levies: Retirement housing is often treated harshly by the planning system. When schemes are treated in the same way as general needs housing, they are burdened by affordable housing / Section 106 / CIL obligations as well as the cost of providing common areas to give the amenity that older people want and deserve. Removing these burdens on retirement housing would contribute to reducing its cost.

10. Equity release: If older homeowners do choose to remain in their existing homes, the potential economic gains of unlocking the current high levels of unproductive housing wealth in this market make a strong case for continued industry, government and regulatory efforts to develop the equity release market in the UK. Total lending through equity release products in 2013 was £1.07bn – a record, and up 36% in the last two years – but still a drop in the ocean given the potential.

With many of us now moving into older age, and the number of elderly people growing at an exacerbated rate, the issue of appropriate housing for those aged 55+ affects a large section of society. Expanding the supply and diversity of the housing options available for older people has a key part to play in ensuring that everyone can enjoy independence, dignity and a high quality of life over the whole of their lives.

About the Legal & General Group

The Legal & General Group, established in 1836, is one of the UK's leading financial services companies. As at 30 June 2014, it was responsible for investing £467 billion worldwide on behalf of investors, policyholders and shareholders.

The Group's involvement in the UK property and infrastructure market is well-established and significant. As one of the largest UK property investors, with significant volumes of patient long-term capital under management, Legal & General has identified high quality housing stock as a key asset for society and wants to work with the Government, local authorities, housebuilders, social housing providers, charities and other specialist organisations to create more housing stock in the UK. As such, it continues to participate in a growing range of supply side housing activities, including financing affordable homes, the house building sector, urban regeneration, student accommodation and care homes.

Legal & General Capital was founded in 2013 to help actively invest L&G Group's balance sheet, improving its shareholders' returns by increasing the business' exposure to direct investments. Identifying new institutional asset classes and long term macro trends, it has continued to make strong progress in the origination and development of the housing and urban regeneration asset classes. Through these investments it is able to take advantage of the strong returns that exist for long term forward thinking capital, whilst also enhancing L&G's wider social impact and acting as a catalyst for UK economic growth. Currently managing £6.3bn in Group Capital funds (as at 31 March 2015), noteworthy investment activities include a 50% stake in CALA Homes, one of the UK's top 10 biggest housebuilders by revenue, planning consent to build 1,000 new much-needed houses and related infrastructure on a 250 acre site at Crowthorne, and partnership in major urban regeneration schemes in Bracknell, Salford, Canning Town, Plymouth, Wakefield and Liverpool.

The third largest institutional property fund manager and one of the most active investors in the UK real estate market, **Legal & General Property (LGP)** forms part of the Real Assets division of **Legal & General Investment Management (LGIM)**, which is responsible for the company's direct investment capabilities in property and infrastructure. One of Europe's largest institutional asset managers and a major global investor, LGIM manages £465bn in assets on behalf of over 3,100 clients (30 June 2014), providing products and solutions spanning all asset classes.

A key part of the **Legal & General Network (LGN)**, the Legal & General Mortgage Club, processed almost £18.86 billion worth of completions in 2012. LGN also manages over 450,000 surveys nationwide on behalf of mortgage lenders, and its **Legal & General Surveying Services** business has been operating for more than 20 years.

All of these initiatives and investments underline the fact that Legal & General has vast expertise in all parts of the housing market and is a major player in this fast-moving market.

¹ UK house prices to decline this year, dragged down by a slump in London, Cebr, January 7, 2015
<http://www.cebr.com/reports/uk-house-prices-to-fall/>

² "Food for thought: applying house price inflation to grocery prices", January 2013
http://england.shelter.org.uk/data/assets/pdf_file/0005/625550/Food_for_thought.pdf

³ "The house price gap: Analysis of house prices and earnings", February 2014
http://england.shelter.org.uk/data/assets/pdf_file/0003/758046/House_price_gap.pdf

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- ⁴ Using the ratio of median house price to median earnings, published by Department for Communities and Local Government, which stood at 4.21 in 2000 and 7.01 in 2010.
<http://data.gov.uk/dataset/ratio-of-median-house-price-to-median-earnings/resource/3a73de15-73df-487c-9144-111f09f5912f>
- ⁵ “Large increase in 20 to 34-year-olds living with parents since 1996,” ONS, January 21, 2014
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- ⁸ “1 in 4 London children overcrowded,” Shelter, July 14, 2011
http://england.shelter.org.uk/news/previous_years/2011/july_2011/1_in_4_london_children_overcrowded
- ⁹ English Housing Survey, Headline Report 2012-13, Department for Communities and Local Government, February 26, 2014
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/284648/English_Housing_Survey_Headline_Report_2012-13.pdf
- ¹⁰ YouGov for Cebr on behalf of Legal and General, fieldwork 21st – 24th November 2014
- ¹¹ “House Building: September, Quarter 2014, England”, ONS, December 3, 2014
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/382244/House_Building_Release_-_Sept_Qtr_2014_-_revised.pdf
- ¹² English Housing Survey, Headline Report 2012-13, Department for Communities and Local Government, February 26, 2014
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/284648/English_Housing_Survey_Headline_Report_2012-13.pdf
- ¹³ The Royal Society for the Protection of Accidents (RoSPA), Older People Safety,
<http://www.rospa.com/home-safety/advice/older-people/>
- ¹⁴ Figures refer to England only
- ¹⁵ “Under-occupation of social housing: Housing Benefit entitlement”, House of Common Library standard note SN/SP/6272, December 29, 2014 www.parliament.uk/briefing-papers/sn06272.pdf p2: “The classic cause of under-occupation is older tenants/couples remaining in their home after their children have grown up and left.”
- ¹⁶ “English Housing Survey, Headline Report 2012-13”, *ibid*, Annex Table 10 p56
- ¹⁷ “Seven ways UK wages have changed over the past four decades”, *The Guardian*, 3rd July 2014,
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