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Private rented Extra Care: a new market?

This Factsheet explores the question of whether there is a market for extra care housing in the private rented sector, and if so, what role it might play within the spectrum of tenure and care choices available to older people.

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Introduction

Extra care housing offers many advantages to older people, enabling them to receive flexible, responsive care, whilst retaining their independence in self-contained accommodation. It has its roots in the social sector 'very sheltered' of the late 1980's and early 1990's, but more recently mixed tenure models have emerged, offering shared ownership and leasehold sale options. This has been paralleled in the private sector by 'assisted living' and 'close care' offered on a leasehold basis. In both sectors there has been interest latterly in larger retirement village developments, often marketed as a 'lifestyle choice' with extensive communal and leisure facilities, but also offering full personal care if needed.

During much the same period, from around 1995 onwards, the private rented sector in England has, for the first time in a century, grown significantly and rapidly. Its growth has largely been at the expense of owner occupation. It accounted for some three million households in 2008 and if recent trends persist, the sector would be larger than the social rented sector by 2013; by the end of the decade one in five households could be private renters. This raises the question of what options will be available to the increasing number of older people in the sector if they need care and whether there is an emerging market for extra care housing in the private rented sector. According to Elderly Accommodation Counsel data there is, at present, only a handful of private sector schemes in the whole country that offer extra care housing on a rented basis.

This Factsheet for the Housing LIN explores the question of whether there is a market for extra care housing in the private rented sector, and if so, what role it might play within the spectrum of tenure and care choices available to older people.

The approach involved desktop research and a review of relevant literature, combined with an exploration of the views of commissioners and providers. To explore the latter we used an on-line questionnaire and conducted a number of telephone interviews with key players.

The role of the Private Rented Sector

The overall private rented sector declined from 75% of households in 1918 to a low of around 9% by the early 1990s. Since then it has grown rapidly to account for nearly 15% of households in England in 2009. This may be attributed to various factors including the creation of Assured Shorthold Tenancies under the Housing Act 1988 and the advent of Buy to Let Mortgages in 1996.

Interestingly, the age structures within the three principal forms of tenure (owner occupation, private renting and social renting) are not the same: whilst 31% of those in the 25-34 age group are Private Renters only 5% of those age 65 and over rent in the private sector. Therefore one can deduce that, at present, the potential market for older persons' accommodation in the private rented sector is relatively small; but if growth continues it will become more significant; new cohorts of private renters will reach old age and may in future look first to the private rented sector to meet their needs. In this context, it is pertinent to consider both the extent to which the sector currently caters for the particular needs of older people and the extent to which it may be able to deliver new housing that meets those needs.

The Private Rented Sector has for some time been considered the 'Cinderella' of tenures but has traditionally provided flexibility in the housing market and catered for various groups whose needs are not met in the social or owner occupied sectors. Little policy attention had been given to the Private Rented Sector in recent years, but with the growth of the sector there is renewed interest in its capacity to meet a wide range of housing needs. At the same time, there has been acknowledgment that the sector presents a number of policy challenges, such as quality, management standards and security of tenure.(Pattison et al, 2010)

As a result, the Department for Communities and Local Government commissioned a review by Rugg and Rhodes (2008), which was founded on a concern that the Private Rented Sector should not be a poor relation to owner occupation and social renting. They concluded that the private rented sector is a key component of the housing market in England and its flexibility, choice and capacity to cater for a wide range of minority needs and niche markets, must be protected. The sector needs to be seen as an affordable, secure environment in which to make one's home. They also concluded that, although it has grown significantly, it remains unclear to what extent it has brought new units to the market.

A vehicle for the development of new housing?

The Private Rented Sector encompasses a number of distinct sub-markets and is characterised by consisting mostly of smaller landlords. As a result, there is uncertainty as to whether the Private Rented Sector is a good vehicle for bringing new housing stock to the market. Growth in the Private Rented Sector mostly arises from absorption and transfer of stock from other sectors, but there are circumstances in which private investment has led to new rental developments. These appear to be most viable, financially, where the demand group can be accommodated in high density housing. This could apply to housing for older people, including extra care. There has been no research into how larger landlords become established, how they perceive the rental market or their strategies for portfolio management.

A particular challenge for the growth of extra care in the private rented sector is that the model as we know it only works on a 'whole scheme' basis. There must be some form of core service to enable out of hours care and support to be provided; and it is the provision of a care service to a cluster of units that creates efficiencies and flexibility in the provision of care. For the private rented sector to contribute to growth it would most likely require larger landlords to develop it and they would need to be convinced of sufficient returns to support the development of whole schemes, or at the very least, viable contributions to mixed tenure schemes.

Some have argued that the Government needs to offer incentives and concessions to property developers who build to let in the private sector: for example, the classification of private lets as 'affordable' within Section 106 requirements; or that planning requirements should allow for a proportion of new developments to be for the private rental market. Others have gone further and advocated tax concessions for the build to let market.

Goodchild and Syms (2003) suggested various reasons why Registered Social Landlords (RSLs) might choose to develop housing at market rents, including contributing to local needs as social enterprises and diversifying their businesses away from social housing. They already have the assets to leverage private finance and many have experience of developing and managing extra care housing. Therefore, the barriers for RSLs to enter the market are lower than for most private sector landlords and developers.

Recent Government proposals in the Comprehensive Spending Review (Oct 2010) that social housing should be developed at 80% of market rents may mean that in the future associations will see 'market rental' as an activity which is less distinct and different from their 'core' business.

Older People in the Private Rented Sector

Rugg and Rhodes (2008) note that whilst the private rented sector has grown over the last fifteen years, there has been a decline in the *proportion* of older tenants in the sector. In 1988, 33% of private tenants were aged 60 or over; by 2005/6 the proportion had declined to 11%. But, this trend appears to be reversing: between 2001–2 and 2006, the proportion of renters aged 75 and above increased from four to six per cent, and the proportion of 65–74 year-olds from four to five per cent. This is likely to be linked to social trends such as higher divorce rates amongst older people, as well as demographic drivers. Older tenants were much less likely to have moved within the last year, probably linked to the fact that more regulated tenancies (pre-Housing Act 1988) were held by older tenants.

Rugg and Rhodes suggest that it is possible that Private Rented Sector demand from older tenants will increase as the population ages and they make an interesting comparison between student accommodation and housing designed for older people, both of which offer *"…low maintenance property with concierge style security, and amenities on site to encourage social interaction"*. At present, the private rented market for older people is far less well developed than that for students.

One company, Girlings, has successfully targeted older people as a niche rental market; and they offer assured tenancies in recognition that older people want security and see renting as a long term option. The willingness to offer assured tenancies also reflects a perception of older people as a lower risk. This has appeal for landlords and investors but in the case of extra care housing there are other risks, associated mostly with the potential availability of care funding (both state and self funders), which have led to limited enthusiasm for the model even in the social sector. Unless and until new, secure, funding models are established this is likely to be a significant barrier to development. However, the Government's personalisation agenda, which is likely to be reinforced in the forthcoming Vision for Social Care and Partnership Agreement, may offer an attractive, tenure neutral option to those people eligible for a personal budget who wish to exercise greater choice in how they purchase their care. This is explored more fully later in this Factsheet.

Very little is known about older people in the private rented sector but in one recent study Rugg and Croucher (2010) explored older people's experiences of renting privately. The study highlighted the diversity of supply in the sector, but also identified some common themes:

- Affordability or otherwise of market rents was a common concern
- Poor quality property was common place, especially for regulated tenancies
- Insecurity of tenure appeared to be less of a concern than might be expected; which may be linked to the finding that:
- Landlords generally seek longer term tenants who will not fall into difficulty in paying rent.

The circumstances of older people in the sector varies enormously and there are various 'sub' or 'niche' markets. The study refers to the small market in rental properties for owner occupiers who wish to downsize and release equity, using the profits to rent properties in retirement communities (e.g. through Girlings) to supplement income or to pay for care and support.

Rugg and Croucher note that the sector provides stop-gap accommodation for older people in the same way that it does for younger households, therefore fulfilling a vital role in plugging the gaps in the housing market left by social housing and owner occupation, and offering an important element of choice. Despite the emphasis on choice in public policy, the previous Government's National strategy for Housing in an Ageing Society (2008) made very little mention of how private renting could contribute to housing choice; instead it seemed to view the Private Rented Sector as innately problematic.

One of Rugg and Croucher's key findings related to older people's perceptions that private renting had advantages over social renting, even when compared with sheltered housing in the social sector. For many of the older people in the survey, private renting meant being able to choose where to live and who they lived amongst, and not being subject to a bureaucratic allocation system.

Affordability was found to be a key issue for older renters in the private sector generally, and this is clearly a key issue in relation to the potential for extra care, which is explored in more detail below. There was found to be a great deal of uncertainty about what levels of rents could be supported under Local Housing Allowance rules for Housing Benefit. Consideration will need to be given to this and also the impact of proposed Housing Benefit reform in the recent Comprehensive Spending Review.

The majority of respondents had some health problems and although most did not feel they needed adaptations it is likely that they would have benefited from accessible accommodation. Responses were mixed in relation to the idea of specialist accommodation for older people (e.g. 'sheltered' or 'extra care') but some acknowledged that they may need it at some stage. The strength of active choice to rent privately expressed by respondents has implications for determining the extent to which there is a market for specialist accommodation, (including extra care), for private rent.

Blood (2010) reports that according to the Office of National Statistics, 8% of older people with high support needs live in the private rented sector.

Understanding older people's decisions regarding moving and tenure

Understanding people's motivations in moving to specialist accommodation, including extra care housing, is likely to be crucial in understanding the market.

Croucher (2008) noted that although most older people express a determination to remain where they are currently living for as long as possible, the majority also thought that health would ultimately be the reason that they would consider moving. And, almost all those who had moved were, to a greater or lesser extent, experiencing some form of health or mobility problem.

The key influences on older people's choices, either to move or to 'stay put', were:

- Attachment to current home
- Complexity of family/caring relationships
- Neighbours and neighbourhood
- Access to services and amenities
- Health and well-being outcomes.

The research cited a number of examples of situations where the social rented sector did not allow for some of these issues - such as needing to live in a specific area for support from family, the desire to have large enough accommodation for family to stay, supportive friends and neighbours or the fear of disruptive neighbours and lack of security. In other words, these issues were considered a priority by individuals, but not necessarily by the social housing allocation system; and, in some cases, this led older people to seek options in the Private Rented Sector.

For older people who wanted to move, Croucher found that in many cases the availability of suitable properties had been a problem. Properties offered in the social sector were often thought to be too small or in poor condition. There is anecdotal evidence in the report to indicate that people are willing to pay more if they can afford it, and to shift tenure, if this enables them to find the housing solution that they want or releases funds to supplement income.

Decisions regarding specialist accommodation

In the context of extra care housing, there is also the question of whether people are willing to use equity to pay for care. Croucher and Rhodes (2006) explored people's attitudes towards the future funding of long term care and found that most opposed the use of housing equity to fund care. The same study found that older people with disabilities had concerns about the quality of domiciliary care and the difficulty of obtaining general assistance around the home. Sheltered housing was seen generally as 'a good thing', but for those who were very old and infirm - in preference to a care home. This could be taken as an unconscious endorsement of the extra care model (which most had not heard of); and taken together with the evidence cited above about views of social housing and the availability of good quality housing in the right location, it could perhaps be interpreted as latent demand for privately rented extra care.

Ford and Rhodes (2008) looked at the reasons that older people moved into Hanover Housing's specialist accommodation - which included rent, shared and full ownership, and both sheltered/retirement housing and extra care housing models. Overall, the most common reason for moving was "needed some help but wanted to stay independent" (43%), but other common reasons included "worried about health" (37%) and "wanted somewhere designed for older people" (36%). For over a quarter, location was critical, because they were moving to be near family and friends. Although these results related to all forms of Hanover stock (of which just 18% was extra-care housing), they may have particular relevance to extra care housing: the low level of supply nationally means that the availability of the right kind of care and support in the right location may come to the fore in people's decision processes – and over-ride tenure preferences.

This seems to be borne out by the fact that almost half (46%) of the previous owners in the sample changed tenure to renting when moving to a Hanover scheme. Since cultural preferences for ownership in the UK are strong, this result is very interesting. It was therefore explored in more detail in the study. There were a variety of reasons given for changing tenure, the principal ones being:

- financial pressures (30%) including:
    - maintenance costs/obligations
    - inability to afford to buy a suitable property in the area
    - endowment shortfalls at retirement
- to release equity (9%)
- to escape maintenance responsibilities (16%)
- the need for care and support (14%)
- to be near to family and friends (12.5%)
- better accommodation – typically more accessible accommodation (12.5%)

It seems from this study that location and property suitability can over-ride tenure preference. Given that around 70% of older people own their own home, willingness to change tenure to renting may be significant in relation to potential markets for other rented models of extra care housing.

One of the advantages of owner occupation often cited by older people is the protection of an inheritance to pass on to children and, as noted above, most are reluctant to use housing equity to pay for care. Rowlingson and McKay (2005) examined attitudes to inheritance and reviewed experiences of using housing equity. Only 3% of people in their survey (all ages) had ever moved from owner occupation to rented accommodation. Analysis of attitudes to it found that the idea of selling and renting was the least popular option for releasing equity across all age groups, the reasons being linked to concerns about insecurity and the costs of renting. This is clearly at odds with the finding in the Hanover study, suggesting that either people's attitudes are different in later life as their needs change, or that the ability to find a particular type of housing in the right location over-rides the general preference for remaining in owner occupation.

Is there an existing market?

As noted above, there is a small established market in private retirement units at market rents and the evidence from the Hanover study and from Rugg and Croucher's review of older people's experiences in the private rented sector provide some insights into this market. The chief player is Girling's who have around 1400 properties nationwide, which they either own or manage and we understand that demand for them is strong. Approximately 400 of these units are owned by individual landlords – both 'buy to let' landlords and families of older people; and around 300 units are managed on behalf of Grainger plc – one of the few large private sector landlords. The remainder are owned by Girling's, who will also purchase properties to order, to meet specific requirements in terms of location and facilities. The portfolio currently includes just a handful of assisted living schemes and no 'true' extra care schemes. Girlings have not actively explored the extra care market, but recognise that some of their tenants need additional care and, as a result, they are exploring the potential for partnerships with domiciliary care providers in certain areas.

According to Elderly Accommodation Counsel data, at present there are only sixty eight schemes nationwide that are listed as offering rental options in private sector housing with care. Of these, twenty are operated by Sunrise Senior Living, a model which is more akin to a care home than extra care housing: it is marketed as *"residential care with a difference"* and the accommodation is referred to as *"a comfortable private suite"* rather than a flat.

Most of the other schemes are provided by the larger retirement village and care home operators, who offer market rental as one of a range of options, partly designed to facilitate subsequent purchase. The providers we spoke to recognised that there is also a small market in longer term rental of assisted living and extra care units, serving individuals with a relatively high income but without a property to sell. Examples given included people who had lived and worked abroad, and people who had lived in tied accommodation – for example a university professor who had lived in College rooms before retirement.

A few operators have experimented with rental options as a response to the recession. King and Howard (2009) state that *"…a small amount of buy-to-let has existed in the retirement market for some years. The credit crunch appears, at the margins, to be expanding this activity to extra care housing."* The recession has made it very difficult for developers of extra care for shared or outright ownership to sell properties: potential purchasers have either not been able to sell their own properties, or have decided, with falling values, that it is not a good time to downsize and release equity. King and Howard report that, as in the recession of the late 1980s, developers have sought creative ways to reduce their exposure. RSL developers have sought Homes and Communities Agency consent to translate schemes to social rent and, in one or two cases, intermediate rents. Developers in both private and social sectors have offered 'rent to buy' options specifically to try to break down the barrier of property sale, by enabling people to move in and then purchase at a later date when their property is sold. Such an approach is often referred to as 'rent to buy' or 'try before you buy', and can be helpful in easing the process of moving in more quickly, in response to a crisis or deterioration in health.

The experience at Hartfields (a scheme developed by the Joseph Rowntree Foundation in Hartlepool funded by the Department of Health), reviewed by Croucher and Bevan (2010), was that the collapse of the housing market in the months prior to opening presented significant problems. However, it may be that the issues ran deeper than the timing in relation to the property slump: there were concerns from potential purchasers regarding the level of service charges (£69.70 before care) and the idea of selling a two or three bedroom house and purchasing a flat for the same price. By contrast, demand for rented units remained strong throughout, although this does not mean that there would have been demand for rental units at market rates. Hartfields responded by offering options for prospective purchasers to rent in Hartfields for twelve months if they had not been able to sell their property at the end of the reservation period; or to take up one per cent shared ownership for up to three years.

McCarthy (2009), for the Housing LIN, also reported that purchasers have been responsive to ideas such as ‘rent to buy’, graduated purchase, shared ownership and deferred completion:

> *“A private developer advised that it was proving more difficult to persuade directors and shareholders to support ‘rent to buy’ but that this had to be a realistic alternative to “no sales, no service income” and “rising voids”. Another underscored the merit of ‘transferring the problem of the customer’s failure to sell to the provider’ and enabling the latter to conjure the means to work through the situation. One said it was better to ‘flex the product you are offering’ to the customer than to have the customer trying to do this with their own buyer. ‘Soft rental packages’ and ‘guaranteed buy backs’ were better than no custom and no movement or income at all”*

It seems therefore that with the exception of Sunrise Senior Living there are only a handful of units let at market rents on a long term basis, but there is a good deal of interest in flexible tenure options, whereby people can rent prior to purchasing.

What is the market potential? Views of commissioners and providers

We canvassed the views of commissioners and a range of providers of extra care in both the private and social sectors. Almost all thought that there were insufficient housing options available to older people who rent in the private sector.

In many but by no means all areas, private renters (and owner occupiers) are not excluded from applying for social rented extra care, provided they fulfil the care needs criteria. However, there seems to be little consistency: in some cases, there are no income or capital limits, in some there are just capital limits, and in others there are both capital and income limits. A number of respondents took the view that where such restrictions did not apply, or where there was a range of ownership and shared ownership options available, they could see no need for private rental options. Unfortunately, this does not take into account the fact that extra care housing in the social sector is in very short supply and is rationed according to need, which eliminates the choice (of scheme, location etc.), which many private renters value so highly. It also ignores the fact that grant funding is insufficient (and likely to remain so) to enable the market to expand to meet future demand, both for shared ownership and rental options.

A social worker in a county with five extra care schemes commented that all of them are usually full, with waiting lists, and even if places are available they are not necessarily in the right locations, resulting in clients moving into care homes when extra care housing would have met their needs much better. Similar problems of insufficient supply were reported by a number of respondents.

Even if there was sufficient supply of social rented extra care units, a potential problem is that an allocation system that focuses exclusively on care needs, and does not take into account housing status, may not be compliant with the current legal requirements for the allocation of social housing, set out in the 1996 Housing Act amended by the Housing Act 2002.

Many respondents thought that ‘rent to buy’ or ‘try before you buy’ options should be more widely available, to assist with difficulties in selling properties and to facilitate a swift move following a crisis such as hospitalisation.

The challenge for extra care housing (irrespective of tenure) is that it requires a ‘discretionary’, or ‘planned’ move, yet most older people want to stay in their existing home until they cannot cope with it. At that stage the practicalities of moving, especially of buying and selling property, can be daunting. Once there is a crisis, moving into a care home, where furnishings can be provided if required, and there are no utilities to organise, is so much easier (and easier for the care manager and family too!) One respondent reported that there had been difficulties in finding sufficient residents with high care needs to take up extra care places in the county because the trauma of the move can be too much for some very old or very frail people to contemplate.

Affordability concerns

A number of respondents thought that it was unlikely that the model would be affordable since rents and service charges could exceed Local Housing Allowance limits, which determine Housing Benefit payments. Most also thought that, for those just above Housing Benefit income thresholds but unable to afford to buy a property (the ‘inbetweeners’), the costs of market rents combined with service charges would be unaffordable. Some respondents commented that even affordable rents in social rented extra care, were too expensive; others pointed out that if someone opted to transfer from ownership to rental there would be concerns about what to do when the capital had run out. The affordability issues will vary from region to region and therefore it is difficult to generalise, but given the additional service costs in extra care housing it is difficult to see a role for private rented models filling an affordability gap for those just above Housing Benefit thresholds.

The question of affordability is a particular issue for privately rented extra care housing; but it is also a general concern in relation to the extra care model, irrespective of tenure. Various commentators e.g. Best and Moore (2009), have queried whether the existing models of extra care, which incorporate extensive communal facilities, are sustainable even in the social sector, especially in the current economic climate. Reductions in capital funding levels in the Homes and Communities Agency’s Affordable Housing Programme and a shift to an intermediate rent model for social housing will put this issue into sharper focus.

It seems that a new model is required, which provides good quality accommodation and the availability of full personal care, thus protecting the essentials of the extra care concept but in a more streamlined model. The importance of flexible, high quality living space has been highlighted by the ‘HAPPI’ report (2009). However, Best and Moore argue that cutting back the communal facilities (which can account for around 40% of floor space) would offer the potential for lower capital costs and lower service charges; whilst core services may in any case have to adapt to meet the requirements of the personalisation agenda.

This new form of ECH (‘extracare-lite’!) would potentially have fewer risks and is more likely to appeal to investors. The challenge will be to retain the benefits of extra care housing in terms of care delivery and resident wellbeing. The key to achieving this is likely to be found in linking the care and support services to the provision of services in the area around the scheme, perhaps establishing care and support 'hubs' that are not integral to the housing scheme but still offer the flexibility of an on-site care team and making good use of 'telecare'. Such a model may not provide quite the same benefits for very frail residents; but it may be preferred for being less 'institutional' in character and more like ordinary housing. The long term flexibility and re-use potential of such models would also be preferred by investors.

Affordability at market rents would still be a challenge but the costs, excluding care, would be more akin to private retirement schemes, for which there is a demonstrable private rental market already.

The residential care market

So far we have explored the market for private rented extra care primarily from a housing perspective, but the unique feature of extra care housing is that it can provide *personal care* in a self contained setting.

The question of whether extra care is, or should be, a replacement for residential care, or whether it simply raises the threshold at which care is needed, (thus delaying or preventing the move for many) has been much debated and is still not fully resolved. What *is* clear is that it is essential to retain and promote the housing dimension of extra care: the fact that it is "housing" first and foremost and has that image and identity lies at the heart of its appeal to older people - and therefore of its success as a model.

Yet in market terms, the demand for extra care is driven more by care needs than by housing needs and one must therefore evaluate extra care markets in the context of the market for residential care.

The residential care market has undergone a process of rationalisation, which started with the NHS and Community Care Act 1990 and continued in response to the Care Standards Act 2000. As a result, there is limited capacity to absorb the increased demand projected by demographic studies. Care homes increasingly cater mainly for those with higher levels of need, often associated with dementia care or nursing care; but there are still many examples of people who are referred to a care home who would prefer extra care housing if it was available (Kerslake and Stillwell, 2003). Care homes are almost always seen as an option of last resort. Those who do not move into care homes or extra care often struggle to cope in independent housing with domiciliary care which, by its very nature, provides a patchy and fragmented response to their needs, whilst isolation erodes their well being. In this context, one would expect there to be latent demand for extra care housing models which provide more flexible care and a better quality of life.

A costly option or an affordable model of care?

For actual demand to exist there must be the ability to pay, sometimes referred to as 'funded demand'. In the self-funding market, private rented extra care could be marketed on an inclusive weekly fee basis, like a care home. As expectations rise and people become more aware of extra care models, it is likely that premium products of this nature will emerge at the upper end of the market to compete with residential care homes and with hybrids such as Sunrise Senior Living. The question is, are extra care models inherently too costly to compete in the lower and middle ranges of the care home market?

Laing and Buisson (2008) suggest that the price to be paid to enjoy the benefits of extra care is essentially the cost of double the gross living space of a care home (a good quality care home requiring c4-500 square feet per resident including communal areas and assisted living requiring roughly double that figure).

They comment that:

> *"For the private purchaser it is a matter of individual choice whether the extra capital cost is worth spending, bearing in mind that rental situations are inherently more expensive, since a renter must pay for the operator's return on capital at a rate much higher than a purchaser's opportunity cost of foregone interest on capital….*
>
> *…For public sector agencies the development of assisted living has been hindered by uncertainties over funding sources….[and also]… by an assumption that the additional space requirement …would be bound to make extra care a more expensive option in terms of capital servicing costs. This conclusion may not, however, be valid. Units of accommodation for extra care represent an inherently less risky proposition than a residential care home. With appropriate design features, alternative uses exist, in particular sale or letting as ordinary housing, with relatively little wastage of communal facilities… …The relatively low risk profile of assisted living housing, as a form of social housing should make it possible to establish long term financing arrangements at a yield to investors around half the 12% rate of return that investors in 'spot' purchased care homes require. There appears therefore to be a strong case for public sector decision makers to consider the impact of lower capital servicing costs of assisted living versus residential care when considering strategic options."*

If extra care housing could be offered, both to self-funders and local authority purchasers, at fee rates that were competitive against care homes it would surely represent an attractive proposition, given the enhanced quality of life it provides.

Combining the lower rate of investor returns with the contribution to accommodation costs from housing benefit should make it possible to achieve this. If the rent element of the charges exceeded the Local Housing Allowance, then under personalisation the resident could use their personal budget and/or other benefits such as current Attendance Allowance or Disability Living Allowance arrangements, income or savings to top up the rent. Alternatively, the provider could cross subsidise the rental from the care charges. The basis of the personalisation agenda is that the service user can choose how they spend their allowance and using it to purchase a more independent option than residential care must surely be a good use of it. This is not a case of exploiting a loophole: at both practical and philosophical levels, using care funding to pay for an environment that is proven to enhance independence and well-being is arguably an entirely legitimate use of those funds.

For owner occupiers though, the obvious question is: why would they rent when they could afford to purchase? One of the advantages of extra care housing over a care home is that equity can be sheltered. This has clear advantages in relation to means testing for care funding for those whose income and assets (other than their property) are just above the thresholds or who envisage paying fees for many years, since property assets are excluded. But for those who are not likely to have recourse to public funds, or are approaching the end of their life, the protection of equity may not be their chief concern. Instead their chief considerations may be:

- quality of care
- well being
- avoidance of a care home setting
- location close to family and friends
- ease of moving in
- staying together as a couple

The decision may be made at a point of crisis, such as discharge from hospital or onset of illness, when care issues are the priority. An extra care offer that is immediately available to move into on a rented basis, in the way that a care home would be, could provide an attractive option.

If access to public funding for care is not an issue [and according to Burke (2010) 41% of all care home residents are paying for all their care], then there may also be financial arguments for renting rather than buying. The existing property may be held by sons and daughters - either for their own future use or, in the present climate, until the market for sale improves. In many areas, a large property could generate sufficient income to pay for care and may provide a better investment in the long term than a leasehold unit in a retirement village. It could certainly be preferable, in a rising market, to the compulsory buy-back model offered by several care village operators, whereby the provider buys back at the initial sale price but without any appreciation in capital value.

One extra care group that operates in both the social and private extra care sectors is actively developing private rental alongside other tenures. Their experience has been that there is a need for considerable marketing effort in order to explain the offer, but this can be rewarded with significant interest from people who would otherwise be entering, or already in, residential care. They see it as primarily a ‘care-led offer’ rather than a ‘housing-led offer’. The business case is therefore revenue-stream led, very similar to a private sector care home as a financial model.

Another private sector assisted living provider, who offers some stock for rental rather than sale, reported that although few in number, their rental properties (let at market rents) are very popular.

Barriers and obstacles

There are a number of barriers for providers to overcome in entering this market and potentially some regulatory obstacles too.

Under current rules, if the housing and care elements are provided by the same operator, the Care Quality Commission *may* consider that since a rented extra care scheme provides accommodation and care together as one package it is a care home and must be registered as such. The interpretation of the definition of a care home is not consistent and clarification of the regulations as they apply to extra care housing is long overdue. The ‘tests’ applied, to determine whether a scheme is a care home or not, include the following:

- whether the resident has their own front door and a tenancy (always applied)
- whether the care and housing are provided by the same operator
- whether contracts for care are commissioned independently of accommodation
- whether the resident has control over the care contract and could continue living there if they purchased care from another source.

Under an entirely self funding scenario, designation as a care home would not prevent the model operating, but there could be difficulties regarding flexibility or service provision and additional requirements regarding design and facilities.

In relation to public funding, the requirement to register as a care home would preclude payment of Housing Benefit, resulting in much higher costs to the care budget. The funding stream would also be different: at present funding for residential care is not subject to personalisation and direct payments, but this could change in the future. Depending upon which of the above tests are applied, ways to protect the housing status of the model include having a separate care provider and ensuring that the care packages are structured so that the core response service can be purchased separately from ‘planned’ care.

If extra care housing status could be retained, the issues would be the same as for social rented extra care under personalisation: the challenge of maintaining (i.e. funding) a core service and the potential for fragmentation of care eroding the efficiencies achievable in care delivery; but these should not be insurmountable.

Would-be entrants to the market for private rented extra care face similar barriers as those for other types of extra care housing: it requires relatively large sites, cannot be developed in phases, requires revenue funding and, at present, extensive marketing. The level of capital investment required is large and for a rental model the borrowing must be long term, rather than short term as in property development; but as noted above, in comparison with residential care, the level of risk is lower and the long term potential is greater. In common with other forms of extra care housing, the model depends on high quality service and care provision throughout the life of the project and is therefore likely to be more appealing to care home operators than retirement housing developers.

At present, one of the most significant limitations is the lack of knowledge of housing-with-care options amongst older people, their families and care managers. This is largely attributable to the absence of private rented models in the market and is therefore self-reinforcing. Oakbridge, a provider that is actively pursuing the model, reported that the preconceptions of care managers, housing officers and families and the tendency to stick to the well known solutions, of domiciliary care and residential care, is their major obstacle in developing and letting private rented schemes.

As a result, extensive marketing is required by providers, but there is also a role for government (both national and local) and for agencies such as Housing Learning and Improvement Network, the Elderly Accommodation Counsel and First Stop, in making both professionals and the public aware of the potential of this model.

Summary and Conclusions

The Private Rented Sector has grown rapidly in recent years: it plays a vital part in providing flexibility and choice in the housing market and is set to become much more significant, strategically, in the coming years. Although the number of older people in the sector is relatively small at present, this is likely to change. The private rented sector has received little policy attention and little is known about its role in relation to older people. It is clear, though, that for some older people the choice it offers is highly valued.

‘Extra care’ is sometimes regarded as an expensive model of housing and it is unlikely that it would be affordable *in its current form* at market rents once services and support charges are included, for those on lower or middle incomes who also have lower levels of care need. However, the reported popularity of ordinary retirement schemes for private rent and the importance of factors such as location and image, suggest there may be demand for *a streamlined model* at market rents. A model that provided good quality, accessible accommodation, with minimal communal facilities but with the availability of 24 hour care and support, may have wide appeal across all sectors.

There is some evidence to suggest that for the right product, in the right location, older people may be willing to switch tenure from owner occupation to private renting.

Although, in some areas, there are no income or capital limits to restrict access to social rented and shared ownership schemes, places are still ‘rationed’ - allocated according to assessed need. It is difficult to see how dependence upon public capital investment alone will deliver the number of units of extra care that are required and, therefore, whilst in theory schemes may be open to anyone irrespective of means, in practice they are not available to everyone. This suggests that if a streamlined model that allowed the rent to be pitched within Local Housing Allowances could be achieved, there would be a strong market.

Analysis of the care market suggests that there is a stronger case for private rented models for people with medium and higher care needs, that would compete with care homes. For older people who need significant levels of care and face either coping with the severe limitations of domiciliary care or surrendering their independence in a care home, the alternative option of extra care housing is particularly attractive.

It is likely that private rented models will emerge to compete with premium level care homes in the self-funded market as knowledge and aspirations increase. The flexibility of housing based models should be more attractive to investors, resulting in the capital cost of the additional space requirements being less than might be envisaged. ‘Rent to buy’ and ‘try before you buy’ options are already gaining popularity. Whilst many home owners will wish to purchase a leasehold interest in an extra care unit, with the advantages it gives of sheltering equity, for some there will be other priorities such as the flexibility to move in immediately, or a location near to family or friends, which will over-ride the economic arguments.

In the publicly funded care sector there is also potential for private rented extra care models to take the place of care home placements, provided the capital costs are kept in check. The model should be able to attract investment at lower rates than care homes and receive contributions to housing costs through Housing Benefit. Direct payments under the personalisation agenda provide welcome flexibility in the care funding regime, which assists the viability of the model.

Both larger care home operators and registered social landlords should be well placed to overcome the barriers to entry that the market presents. These are essentially the same as for other forms of extra care, but with the added dimension of explaining the benefits of the ‘offer’ to potential customers and other stakeholders, who may be prejudiced against private renting or stuck in a mindset that defaults to care homes as the provision for those with significant care needs.

There is the potential problem that if private rented models are developed and managed by a single operator, the scheme may be deemed to be a care home, precluding the payment of Housing Benefit towards accommodation costs. A clear definition of a care home, that facilitates the development of extra care models, is long overdue; but in the meantime separation of care and housing contracts is essential.

Extra care housing of all tenures faces the challenge of responding to the personalisation agenda whilst maintaining the core services and flexibility of care that are essential to the extra care model. However, personalisation also offers opportunities for individuals to buy into the core service and access a menu of options that meet their individual needs.

All investors, whether in the social or private sectors need assurance that robust income streams are achievable but will gain some comfort from scheme designs which provide long term flexibility for re-use if funding fails.

At present, the market is very immature, one might say embryonic; but if these hurdles can be overcome, there appears to be much potential for privately rented models. This could be based on a ‘streamlined’ extra care model for those with low to medium care needs, but there would seem to be greater potential as an alternative to residential care.

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For further information about the Housing LIN and to access its comprehensive list of on-line resources, visit www.dhcarenetworks.org.uk/housing

The Housing LIN welcomes contributions on a range of issues pertinent to Extra Care housing. If there is a subject that you feel should be addressed, please contact us.

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