



## Incentives for downsizing - oiling the wheels of the housing market system

At a time when government is creating 'entry level' incentives to encourage people into homeownership under the 'Help to Buy' scheme, should we also be looking at a range of incentives to help older people to downsize to free up much needed larger accommodation?

Recent think tank papers and media interest have suggested that the lack of housing choice is a turn-off for older people looking to downsize. In this viewpoint, we look at how the housing market can gear itself up to assist "downsizers" and the types of financial instruments that could potentially incentivise timely moves.

Written for the Housing Learning and Improvement Network by  
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The headline in the Guardian last month was that *“more than half of over-60s want to find a more suitable home, but the market hasn’t responded.”*<sup>1</sup>

A major disincentive for older downsizers is the process of deciding to move, finding the right place, and then actually going through with it. As much recent research has shown, the first two obstacles already reduce the potential for downsizing, not least because the market has not yet geared up to cater adequately for this group. But even when empty nesters have decided they want to move and found somewhere suitable the actual process of sorting and completing a move can cause many potential downsizers to give up mid way, and just go home to their half empty house.

A real hurdle for owners in the potential downsizer group – the majority are owners, often outright owners with substantial equity in their current home – is whether to either sell first, then buy; or buy first, then sell. Not being able to sell in time to buy the desired new home, or not being able to find somewhere suitable to buy in time to complete an agreed sale can be real ‘deal breakers’.

The extent of this is not, of course, recorded and counted, but anecdotal evidence and some ‘action research’ suggests that it is quite common. Estate Agents will routinely press owners to put their homes for sale first – houses for sale are the raw materials of their trade. This is often not at all appealing – who wants to risk having to rent, live with relatives and store their possessions, incurring costs without a known limit, or be rushed into buying something not quite right when (in many cases) they don’t *have* to move? It is not a rational course of action for many potential downsizers.

For older people who have lived in their current home for twenty years or more, finding somewhere suitable first is usually the more comfortable option. There is much to consider before moving; how much of a house full of stuff acquired over decades can we fit into the new place, and what should we get rid of? Then do we need to re-decorate, renew, replace to make it saleable, etc, but with all the inconvenience and potential waste of money this entails, since purchasers are likely to want to put their own stamp on the house and re-do what you have just done. Plus putting your home up for sale is not without its repercussions - when the board goes up neighbours notice, friendships can be strained, and concerns raised about who will move in.

Knowing where you are moving to helps with all these nitty-gritty decisions. So it is more preferable by far to find somewhere to buy first, then sell, with a period of overlap, perhaps a few weeks, to allow a more organised and comfortable single move. It should also be remembered that there may be some necessary adaptations to be made which are easier done when the new property is empty. This poses a major problem of how to manage finances to do this. Many potential downsizers are ‘asset rich, income poor’, but few have savings in an accessible form to be able to own two homes, all the equity that will pay for the new place is in the old place.

Getting a mortgage to cover such an overlap is met by blank looks and inflexible policies by most lenders. How can you service a mortgage with only a pension income, how can you pay it off by age 75 when you are already 63? The ‘non standard’ mortgage fees of up to £1,000 + up front are very off putting. To venture into non mainstream lenders for bridging loans runs the risk of exorbitant charges, high interest rates, scams and rip-offs, and mainstream banks and building societies will not look at short term loans, even when clearly secured by equity in a mortgage free property.

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<sup>1</sup> [www.theguardian.com/society/2013/oct/31/housing-choice-older-people-downsize](http://www.theguardian.com/society/2013/oct/31/housing-choice-older-people-downsize)

So there is here a potentially fruitful, low, secured risk market for lenders, and a policy instrument for government to improve the functioning of the housing market system. Make this an explicit 'downsizer loan' for a fixed period, such as a few months. Such 'downsizer incentives' could be at lower Loan to Value ratios, maybe 80% or less because many in this group have some savings and resources, and available only if the new home were smaller and cost less than the value of the old one. Fees and interest would be paid from the proceeds of the sale of the family house. Loans could be secured on the higher value of two properties, or even both for nervous lenders.

Promoting and underpinning loans to incentivise downsizing would release supply from within existing stock onto the market. It would also have a stabilising and price reducing effect because those holding such loans would be under more pressure to conclude sales quickly and at reasonable prices as charges and interest mount over time, but if they had paid a reasonable and lower amount for the downsized home would be in little danger of negative equity – just a bit less serendipitous profit on the increase in value of their erstwhile family home.

Rather than supporting loans at the entry level, new or increasing demand end of the housing market system, such as through the much criticised 'Help to Buy', this approach would provide a 'pressure release valve' at the downsizing end, lowering overall consumption of housing and increasing supply (though the two approaches are not necessarily logically mutually exclusive).

Such incentives would benefit greatly by being supported, promoted and underpinned by government and offered by respectable mainline lenders. It is imperative that such an initiative is seen as honest and good value, as opportunistic charges can proliferate when such large sums are in the offing<sup>2</sup>, which create a major disincentive for this wary client group, as dubious 'equity release' products do now. Safeguards against fraud and abuse may also be necessary, as always with such loans.

For some older or less confident people, 'Senior Move Managers'<sup>3</sup> could also assist, these are already well established in the USA, where the rate of downsizing is double that of the UK. These could also become part of a package of help and assistance which could more than pay for itself, and further help increase the supply of existing stock, thereby reducing the extent of new building required.

Since the Barker Report<sup>4</sup>, nearly a decade ago, the received wisdom in housing and planning circles has been that we need more supply, and that this equates mainly to new building. This now seems to have become stuck in a simplistic and intellectually lazy impasse, which crudely equates the requirement for additional housing with increases in household numbers through simplistic use of household projections, which is then entrenched in the Planning system by an insistence on ever higher numbers by the Planning Inspectorate (and previously Regional Spatial Strategies), all driven along by the government(s). But it is clear from household projections that much of the overall increase is due more to older and smaller households, the vast majority of them existing households just changing their living circumstances when the kids leave the parental home.<sup>5</sup>

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<sup>2</sup> [www.keyrs.co.uk/move/our-role/](http://www.keyrs.co.uk/move/our-role/)

<sup>3</sup> [www.nasmm.org/](http://www.nasmm.org/)

<sup>4</sup> [http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/independent\\_reviews/barker\\_review\\_land\\_use\\_planning/barkerreview\\_land\\_use\\_planning\\_index.cfm](http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/independent_reviews/barker_review_land_use_planning/barkerreview_land_use_planning_index.cfm)

<sup>5</sup> [www.housinglin.org.uk/SHOPAT/](http://www.housinglin.org.uk/SHOPAT/)

While rates of new building have lagged behind growth in household numbers over the past thirty or more years, and an increase in supply of the *right types of housing in the right places at the right levels of affordability* should eventually help improve the supply:demand balance, since new building is only ever about 10% of sales, and less than 1% additions to stock annually, so in the absence of a major affordable house building programme, unlikely with the current structure of the development industry and economic circumstances, this will take a rather long time.

More stock is undoubtedly required in the long term, but the data and evidence is very clear that most 'supply' is of resales and relets – which usually also generates demand as most of the households moving out also require a home to move into, unless they are leaving the housing market entirely in some way.

So to also consider this aspect of supply is potentially much more fruitful, and probably much less controversial. This is already being recognised in many reports and pronouncements promoting downsizing by under-occupiers and older empty nesters, from the 'bedroom tax' to research ranging from that by the Intergeneration Foundation<sup>6</sup>, HAPPI<sup>7</sup> to the Policy Exchange<sup>8</sup>, leading even to ministerial calls to 'build more bungalows'.<sup>9</sup> All recognise that housing is unequally distributed, not only by wealth, which is to be expected, but also by age. All argue in their various ways, from different ideological perspectives, that addressing this issue should lead to a fairer, better functioning and more efficient housing market system.

But much of this research and thinking is about the more tangible aspects of supply, demand, affordability and distribution of housing. All relevant, but it tends to miss important aspects of more personal experiences and issues in downsizing after the family have grown and flown.

It is essential to always bear in mind that most households in this potential downsizer demographic group typically do not have to move, and are usually in a strong position in the housing market as they already have an often very nice home, which leads to rather different drivers and perceptions compared to young households entering the market, or those seeking more room(s) to grow into. Incentives at this end should not require the loan guarantee risks for public money, and are likely to have more positive effects on the whole inter-related system by intrinsically increasing supply of existing stock, so avoiding adverse unintended consequences of adding to price inflation.

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<sup>6</sup> [www.if.org.uk/archives/1229/hoarding-of-housing-the-intergenerational-crisis-in-the-housing-market](http://www.if.org.uk/archives/1229/hoarding-of-housing-the-intergenerational-crisis-in-the-housing-market)

<sup>7</sup> [www.homesandcommunities.co.uk/housing-ageing-population-panel-innovation](http://www.homesandcommunities.co.uk/housing-ageing-population-panel-innovation)

<sup>8</sup> [www.policyexchange.org.uk/publications/category/item/housing-and-intergenerational-fairness](http://www.policyexchange.org.uk/publications/category/item/housing-and-intergenerational-fairness)

<sup>9</sup> [www.insidehousing.co.uk/development/overdue-planning-guidance-will-be-launched-tomorrow/6528304.article](http://www.insidehousing.co.uk/development/overdue-planning-guidance-will-be-launched-tomorrow/6528304.article)

## Note

The views expressed in this paper are those of the author and are not necessarily those of the Housing Learning and Improvement Network.

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## About the Housing LIN

Previously responsible for managing the Department of Health's Extra Care Housing Fund, the Housing Learning and Improvement Network (LIN) is the leading 'learning lab' for a growing network of housing, health and social care professionals in England involved in planning, commissioning, designing, funding, building and managing housing, care and support services for older people and vulnerable adults with long term conditions.

The Housing LIN welcomes contributions on a range of issues pertinent to housing with care for older and vulnerable adults. If there is a subject that you feel should be addressed, please contact us.

For further information about the Housing LIN's comprehensive list of online resources and shared learning and service improvement networking opportunities, including site visits and network meetings in your region, visit: [www.housinglin.org.uk](http://www.housinglin.org.uk)

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