Will the private extra care market take off in 2014?

People are living longer lives – but how can they have a good quality of life, well into old age? One part of the answer to that question centres on the provision of housing and care choices that are appropriate to the wishes and needs of those people as they get older. This viewpoint for the Housing LIN looks at the prospects for the 'independent' sector rising to the housing and care challenge and making its mark this year.

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June 2014

Introduction

Demographic projections predict that the scale of social care need will be so great in 25 years time that plans to meet it must inevitably involve a radical shift in the way adult social care is delivered in the UK. Whilst there is still a need for the traditional institutional model of care provision, it no longer dominates thinking in the way it once did. Additionally, contributing to this need for change has been the consistent voice of an ageing population that expressly wishes to stay independent for as long as possible. Becoming elderly does not remove the need for social inclusion and engagement in society.

Partly servicing this desire has been the growth of private 'extra care' housing models, offering property for sale or market rent (not to be confused with social rented extra care housing; the market for which is subject to different dynamics e.g., tenure and demand/supply characteristics.)[1]

Demand for extra care

The private extra care housing (or assisted living) market is currently still in its infancy in the UK, with less than 25,000 assisted living units (although the definition of what is included can be vague and an accurate figure impossible to identify at this stage) compared to over 490,000 registered bedspaces in the residential care market managed by the private sector (source: Laing and Buisson's Care of Elderly People UK Market Survey (2012–2013). This is surprising when you consider the key underlying drivers of 'demand' for the product:

- An ageing demographic.
- The underlying strength of the housing market in the UK (although cyclical in nature), particularly in the South East and London.
- The British obsession with home ownership. This shows no sign of stopping as people reach 65, although there is generally a downsizing decision from the larger family home to be made at some stage.
- As evidenced using the Housing LIN/EAC SHOP@ tool[2], there is a massive shortage of extra care (or assisted living as its usually referred to in other countries) units compared to other English-speaking first world nations such as Australia, New Zealand and the USA, where the supply of extra care/assisted living housing is many times as great as that of the UK.[3] As an example, within the M25 there are less than 10 existing private extra care housing developments, which is staggering given the size of the demographic that needs to be serviced.

So what's the problem and why aren't schemes popping up all over the place in every town to meet what appears, according to Demos[4], a high level of latent demand? One issue may be product definition.

A clear definition for extra care housing

There is currently no clear definition of extra care housing or assisted living. It is often referred to as a concept rather than a type of housing, and the term covers a range of different housing

[1] *Mixed tenure in extra care housing: Technical Brief*. J Payne, J Mills & N Byrne, Housing LIN/ARCO (2014)

[2] www.housinglin.org.uk/Topics/browse/HousingExtraCare/ExtraCareStrategy/SHOP/SHOPAT/

[3] *Fit for the Future: Meeting the challenge of housing for an ageing population*. International Housing Partnership (2013)

[4] *Top of the Ladder*. C Wood, Demos (2013)

models. This serves to confuse both the marketplace and those who might invest in it. Some sort of definition might help, but fundamentally central to the philosophy of extra care is that the housing element of the scheme is not registered by the Care Quality Commission, with any care required by the residents being provided by a separately registered domiciliary care agency.[5]

The design of extra care housing schemes also provides for a range of communal and ancillary facilities which underpin the additional services offered to purchasers and differentiate extra care housing from traditional sheltered housing.[6]

But the lack of a clearly delineated product does not explain the relatively slow growth for the private sector compared to that overseas. There are of course some exceptions to this. Consider the future sheltered housing pipeline.

The following are quotes in the national press in respect of three major retirement housing developers who provide (predominately, although not exclusively) the more traditional sheltered housing product – i.e. predominately warden-controlled with limited on-site communal facilities.

"Churchill Retirement Living plots £500m site expansion drive"

(August 2013)

"Pegasus Life buys 11 sites for £500m development"

(November 2013)

"McCarthy & Stone chief outlines £1.5bn development plans"

(June 2013)

It is interesting to note that in excess of £2.5bn of new private sheltered housing development, by these three developers alone, is planned for the next few years. We must presume they have looked at key underlying demand and thought "let's build a lot more schemes!".

Developing the market

So why isn't everyone building private extra care in the same way? It might be useful to consider the following areas, which provide some understanding of the perceived risks and uncertainties:

- Extra care housing involves significant upfront capital investment due to the provision of communal services and facilities on site – this increases funding pressure and upfront development costs.
- The 'extra care' premium achievable on schemes as a result of providing these additional communal services can be highly variable - from zero to upwards of 60+% over traditional sheltered housing stock in top-end care villages in exceptional cases. Lack of direct comparables in the local market make it difficult for developers/agents/valuers to accurately price extra care schemes without a much wider understanding of the product and the issues relating to both successful (and unsuccessful) schemes in other parts of the country.

[5] *Extra Care Housing; What is it?* P Fletcher & M Riseborough, Housing LIN Factsheet 1 (2008)

[6] *Design Principles of Extra Care Housing*. Anne-Marie Nicholson, Housing LIN Facthsheet 2 (2008)

- Churchill and McCarthy & Stone are developers first and foremost – they are not operators and once the development has been completed a management company takes over. With extra care housing schemes, the provision of care and other services is often tied to the lease, and therefore the developer–operator divide is often blurred, which can put off prospective investors due to a perceived skill gap.
- The target market (typically between 70 to 85 years, although this can vary significantly) is highly risk averse, and generally takes longer to make a buying decision, with the added complication of influence from family/friends as decision-maker drivers. This factor has some significant implications, i.e. longer sales periods, which can then also transcend into a market perception that the scheme is struggling – even if the budgeted fill rate is on target.
- High service charge costs act as a barrier to sale, and traditional estate agents struggle to market individual units effectively through not fully understanding the 'lifestyle choice' nature of some extra care models.
- Service charges are necessarily high in order to provide 24-hour on-site care and support (to meet the extra care housing definition), as 24/7 staffing over 365 days a year has enormous cost implications. This, of course, is the *raison d'être* of traditional residential care facilities. These charges can be as much as £5,000 to £7,000 per annum, compared to less than £1,000 per annum for a traditional sheltered housing scheme, and may put people off – particularly when non-emergency care and support needs are then charged on top.
- Banks are risk averse and funding is currently tough to come by. Extra care housing developments often fall into the 'property development' lending category, with a high risk profile, rather than 'healthcare', which is perceived as being a much lower risk for lenders.
- Competition for sites which meet the site requirement criteria and are suitable for extra care housing developments (namely located close to town centres in areas which would appeal to the elderly target market) mean that developers have to compete with traditional residential developers for the very best sites where land availability may be sparse and affordability a real issue.
- Notwithstanding the cost and uncertainty in respect of finding suitable sites, the planning system remains a challenge in many respects particularly the application and scale of Section 106 costs, affordable housing and Community Infrastructure Levy charges which vary by local authority with little consistency creating an uncertain platform for operators to make decisions. In some instances, planning officers have to be educated to understand the product and concept and how it differs from traditional residential development.
- We have seen an increasing tendency for Adult Social Care (ASC) teams across the country becoming more averse to new private sector care developments in general (both care homes and, surprisingly, private leasehold extra care schemes) on the basis that they draw in people from neighbouring areas that subsequently need to be funded by the local authority if they run out of money to support themselves. As ASC are a statutory consultee in the planning process, this can present additional difficulties when seeking to obtain planning permission even if the ASC's own strategy documentation or Market Position Statement[7] supports provision of private extra care. It is therefore best to engage with ASC at an early stage and not just the local planning authority.

[7] *Strategic Housing for Older People Resource Pack*. Institute of Public Care, ADASS/Housing LIN (2011)

Lessons from abroad?

So, is the sector in the UK likely to stay the poor relation to its counterparts overseas? Well, I believe there are ways for companies to mitigate the risks and problems outlined above. Developers might consider the following:

- Limit the provision of communal facilities to generously proportioned but sensible levels and contain to ground floor only. The extra care purchaser will have already bought their own (often generously sized) apartment/cottage – why build three new communal lounges when one will in all likelihood be sufficient to satisfy usage demand?
- Carry out the necessary due diligence work in relation to pricing and sales rates in order to ensure that schemes are built in the right locations. Conducting robust market research is essential given the scale of capital investment involved in most schemes.
- Ensure both the 'development' and 'operational' skills bases are covered – if necessary find an operations partner, or vice versa if a developer.
- Address the issue of a risk averse buying public head on. Widespread marketing of the product benefits and its point of difference from other housing models is needed in order to justify the price tag. Often extra care housing is a lifestyle choice rather than a need-driven decision, and this should be reflected in the selection of marketing style/approach. It is crucial that the 'product value' is clearly communicated.[8]
- Develop in affluent locations, where a high service charge is not a huge barrier to buyers. If this is not possible then assess ways of minimizing service charges by reducing the on-site offering or possibly outsourcing emergency out-of-hours cover.
- Funders will be more amenable through the provision of appropriate due diligence reporting, combined with strong site location and prudent sales rate assumptions.
- If the developer/operator obtains the right advice there is no need to be subject to onerous planning obligations if the development conforms to a genuine extra care model and definition, and there is ample planning law available now to support this.
- Adult Social Care teams are under incredible budgetary pressure and this is unlikely to change over the next few years and therefore this will continue to provide a challenge in some parts of the country. Unfortunately, it is difficult to see this stance changing which will continue to be a challenge for developers but makes it even more important to obtain the right advice when submitting a planning application.

Conclusion

So, what are the prospects for the sector in 2014? Mixed, would seem to be my answer. I have noticed some positive signs in that approximately 20% of all our due diligence and market survey work over the past year has had some element of extra care housing, in the form of full care villages, standalone schemes or smaller close care-style developments. Interestingly, this as a percentage of our work has increased significantly over the past five years.

In addition, the Chancellor of the Exchequer's recent Spring Statement (March 2014) may encourage further development of a new 'downsizer' market as people cash in annuities and look to use this income to purchase accommodation that meets their needs and aspirations in later life.

[8] *Extra Caring Times? Marketing social value in your offer to older people*. R Baker, Housing LIN (2014)

However, it is my belief that the market will continue to be polarized and that significant growth in the private extra care housing market in the short term is unlikely. At the top end, as a company, Carterwood has been fortunate enough to advise a number of pioneering operators recently as part of their development programmes. Several not-for-profit sector operators are actively developing new schemes, as well as private operators. Many of these will be flagship schemes for the next decade and set a high bar in terms of sector quality. However, I anticipate that the overall penetration of this end of the market will stay relatively small, and will be limited to select or 'exclusive' developments in mostly affluent areas.

One innovation that is worthy of mention is a development next to Battersea Park. For central London this is a true 'market-making' scheme. Carterwood were fortunate enough to provide market survey and due diligence advice on the project, and we understand that reservations have been taken on over two-thirds of the scheme. The project is not only different in terms of economics, but will be the only true high rise central London care village that we have seen in the UK. Given its initial apparent success, I suspect that it may not be the last.

The private extra care housing market will continue to struggle with negative factors, that for some will outweigh the positive benefits, and we see the leading edge companies ploughing a relatively lonely furrow for the foreseeable future. I believe that a couple of well known retirement living developers and operators will continue to offer a viable alternative to the 'lifestyle choice' model, albeit involving a different economic and facility model. These operators, as I have commented above, are vigorously pursuing development opportunities and are likely to continue to do so.

Given the pace of development at the lower end of the market, it may be that some operators will refocus on producing a model to rival those successfully providing retirement living models and developing more strategic partnerships with housing associations, who themselves are looking to increase their portfolio of extra care housing for sale and shared ownership. Only time will tell.

About the author

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Note

This viewpoint is adapted from an article by Ben Hartley that first appeared in Care Management Matters journal in January 2014. We are grateful for their permission to reproduce this article and develop it for the Housing LIN. The views expressed in this paper are those of the author and not necessarily those of the Housing Learning and Improvement Network.

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 to participate in our shared learning and service improvement networking opportunities, including 'look and learn' site visits and network meetings in your region, visit: www.housinglin.org.uk

Published by

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