

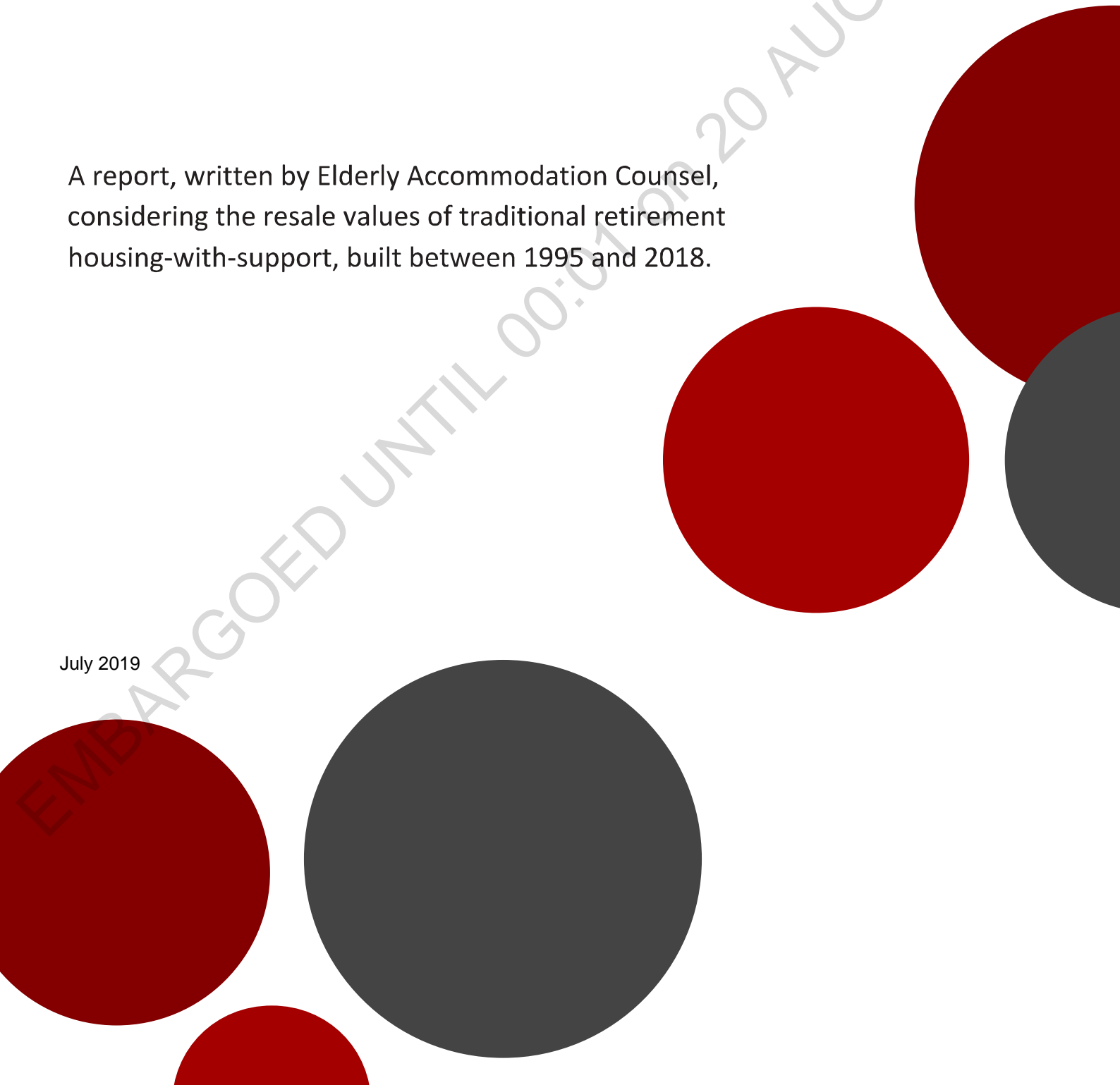


Executive Summary

Understanding the factors that can influence the resale values of newly-built retirement properties

A report, written by Elderly Accommodation Council, considering the resale values of traditional retirement housing-with-support, built between 1995 and 2018.

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EAC Resales Report - Executive Summary

The retirement housing market provides a range of housing options that can prevent early-reliance on health and social care services. Additionally, the communities established within these developments can help reduce social isolation. EAC have been long time supporters of retirement housing, due to the positive impact this form of housing has on the lives of older people.

However, recent concerns about the reputability of managing agents, 'event' fees, service charges and, more recently, ground rents, have caused a degree of concern that threatens to stifle growth in the leasehold retirement housing market. However, there is one main issue that prospective purchasers raise with EAC on a regular basis, and that is whether their brand-new retirement property will lose value when it is eventually resold.

This is why EAC elected to conduct preliminary research in 2017 into the extent of which new-build 'traditional' retirement housing can lose its value. **This research showed that whilst many people who purchased a retirement property in 2003-2009 would have seen a fall in the value of their home, properties built in recent years, since 2010, have on average increased in value.**

The result of this initial work was an overwhelming level of interest from members of the public and professionals alike. The key question asked of our research was to what extent values in retirement housing have fallen, what the causes of this may be and what steps have led to an improvement in recent years. EAC concluded that a more thorough report, that explored the key factors that can lead to falls in the value of previously new retirement properties, as well as those that can have a positive impact, would be of benefit to older people, their families and professionals operating in the sector.

The value of retirement housing

This report has predominantly focused on the capital value of a retirement property, as the question of depreciation is something that has been raised by many older people and their families to the EAC FirstStop Advice line over previous years. However, EAC's FirstStop advice service's experience is that the majority people living within these communities have not purchased their home in order to benefit from any increase in value - they have moved out of an aspiration or need to live somewhere that is suited to their needs.

There are many 'pull' factors that can encourage a person to consider a move into a retirement housing development, whether that is buying a property or renting from a social landlord. In EAC's survey of prospective purchasers of retirement housing¹, we asked respondents what their main reason for considering a move into this form of accommodation was. The responses

¹ EAC survey 'Considering buying a retirement property?' April 2018

were as follows:

- 52% wanted to move into a property that is more manageable and suited to their needs
- 22% felt isolated and wanted to become part of a community
- 15% cited 'Other' reasons, the primary one being peace of mind for themselves and their family
- 11% were downsizing to free up capital and saw retirement housing as an affordable option

Independence

The above survey illustrates the importance that older people put into their independence, home and social networks. It is widely accepted that good quality retirement housing can help homeowners to retain their independence for longer - a Department for Communities and Local Government (DCLG) Select Committee report in 2018² commented that:

“The right kind of housing can keep older people healthy, support them to live independently and in the longer-term reduce the need for home care or residential care and lead to savings in health and social care budgets.”

Falls amongst older people are estimated to **cost the NHS £2.3 billion every year**, according to research by NICE in 2013³. A report by Demos in 2017 into the *Quantifying the social value of sheltered housing*⁴ estimated that **specialist housing for older people saves the NHS £486 million every year**.

The above reports confirm that the value of living in retirement housing is not only longevity of independence for the people that live there, but real financial savings to health and social care services. These financial savings are also experienced by the people living in retirement housing, with those living longer not needing to engage paid-for care services until an older age.

Isolation and loneliness

There are clear social benefits of living within a retirement community. The London School for Economics (LSE) reported in 2017 that the cost to society of an older person being lonely is £6,000 per year. This is largely due to the proven links between loneliness and physical and mental health problems⁵.

² House of Commons, Communities and Local Government Committee, *Housing for Older People*, February 2018

³ NICE, Clinical Guideline [CG161], June 2013

⁴ Demos, *Quantifying the social value of sheltered housing*, June 2017

⁵ BBC, *Loneliness: The cost of the last 'taboo'*, September 2017, <https://www.bbc.co.uk/news/education-41349219> (last accessed 26/11/2018)

A guide to loneliness produced by Erosh in 2018 evidenced some of the key ways in which retirement housing can reduce loneliness in older people⁶. Further evidence was recorded by Birmingham University in 2016, who found that residents in one specialist housing development displayed a 14.8% reduction in depressive symptoms over 18 months⁷.

The views of those already living in retirement housing

Elderly Accommodation Counsel's Housing for Older People Awards⁸ is the largest celebration of the best in retirement housing, with developments being voted for by residents, staff and visitors. In 2019 almost 19,000 people felt passionately enough about their community to cast their vote, with residents encouraged to leave comments about what they liked about the place they call home. The overwhelming response from those that are already living in retirement housing is "I wish I moved here sooner!"⁹

Whilst the financial value of a person's home is important, and is the reason for this report, so are the other benefits that come with living in a retirement development - benefits that are often overlooked. We have attempted to quantify some of these key points but there are many factors that it is difficult to attribute a value to, such as the peace of mind that comes from living in an accessible, supported, friendly community. This peace of mind is not only felt by the person living in the development, but also often their friends and family.

Focus of this report

Leasehold housing developments for older people fall broadly into three categories - age restricted only, **age restricted with an on-site support service to residents (often referred to as 'traditional' retirement or sheltered housing)**, and age restricted and providing both support and personal care to residents (often referred to as 'housing-with-care' or 'retirement villages').

EAC have decided not to consider housing-with-care/retirement villages or straight forward age-exclusive housing as there are additional factors present within these models that would require additional time and resources to fully explore. For research on the resale performance of housing-with-care/retirement villages, EAC would suggest reading the *Housing with Care index* by JLL, published in 2017¹⁰.

⁶ Housing LIN, Erosh good practice guide, May 2018, <https://www.housinglin.org.uk/assets/Resources/Housing/OtherOrganisation/Good-practice-loneliness-and-social-isolation-final-May-18-pdf.pdf> (last accessed 26/11/2018)

⁷ The Guardian, *Loneliness kills – yet housing that could help is under threat*, June 2016, <https://www.theguardian.com/housing-network/2016/jun/15/loneliness-kills-housing-threat-older-people> (last accessed 26/11/2018)

⁸ EAC Housing for Older People Awards, Previous years, <https://eacawards.org.uk/awards-2010-to-2017/> (last accessed 26/11/2018)

⁹ EAC Housing for Older People Awards 2017, Comments from voting residents.

¹⁰ JLL, *Housing with Care index*, Retirement Living, 2017

This report will therefore focus on developments with on-site support only, the most common form of retirement housing. These developments make up over 75% of all English age restricted leasehold housing¹¹.

The support service in retirement housing is generally provided by a development manager, who may be full- or part-time.

A range of shared facilities are a common feature of retirement developments with 77% having a residents' lounge, 82% a garden and 61% a laundry¹².

The above clarification regarding the focus of this report is further set out in the table below:

	Age exclusive housing	Traditional retirement housing	Housing-with-care housing
Names used for this sector	Age restricted housing	Sheltered housing, Independent living	Retirement villages, Extra Care housing, Assisted living, Retirement communities
Communal facilities	Possibly a resident's lounge, Possibly communal gardens	Residents' lounge, Guest rooms, Communal gardens	Resident's lounge, Guest rooms, Communal gardens, Restaurant, Leisure facilities
Services available	Minimal support, Possibly a community alarm system.	A scheme manager, Community alarm system, Courtesy Calls	Scheme manager, 24 hour on-site care services, Catering staff also present.
Approximate number of leasehold units in England	15,000	120,000	20,000

FOCUS OF THIS REPORT

The numbers of owner-occupied retirement developments in Scotland, Wales and Northern Ireland are very small and can be subject to other tenure models. We have therefore confined our research to England and restricted it to the most common form of tenure, leasehold. This decision was taken as virtually all retirement properties to purchase in England are leasehold,

¹¹ Elderly Accommodation Counsel, UK Specialist Housing Provision for Older People directory

¹² Ibid

leaving a very narrow data set of other ownership models from which we could do a detailed analysis.

Finally, following an initial exploratory analysis of available data, we concluded that our research should focus on the initial sale of new retirement properties and their first resale. This was decided after we established early on that it was between these two points that properties were most at risk of experiencing a fall in value.

Purpose of this report

A Demos report in June 2013¹³ identified that 32% of older homeowners, living in under-occupied homes, said they had considered moving to a smaller property in the last 5 years, but only 7% had done so.

The primary reason given for not following through on a move was a lack of suitable properties. The report commented on the “chronic undersupply of age-specific housing”.

EAC calculate that there are over 160,000 units of owner-occupied specialist housing in England and Wales in 2019. The leasehold market is comparably small when the same figures are revealed for the rental retirement market, of which there are over 550,000 properties, meaning that almost 75% of the retirement housing market is for social rent, rather than to buy¹⁴.

In addition to this lack of supply, EAC believe that there is a lack of consumer understanding and confidence in retirement housing caused by an absence of transparency, exacerbated by a confusing range of terminology used by providers to describe their products.

Concerns around retirement resale values have been raised in Parliamentary discussions¹⁵, with such coverage helping to trigger reformatory action for the benefit of consumers - such as the Law Commission’s consultation into *Event Fees in Retirement Housing*¹⁶, whose recommendations were welcomed by the sector. The Law Commission noted that increased transparency could help improve consumer confidence and may have a positive impact on demand.

This report aims to build on that message of consumer transparency, by reporting on the resale values of recently new-build retirement housing. It is EAC’s hope that the recommendations made at the end of this report will be embraced by the sector and result in improved consumer confidence.

¹³ Demos, Claudia Wood, Top of the Ladder, June 2013

¹⁴ Elderly Accommodation Counsel, UK Specialist Housing Provision for Older People directory

¹⁵ House of Commons, 12 Jan 2016, Col 782,

<https://publications.parliament.uk/pa/cm201516/cmhansrd/cm160112/debtext/160112-0003.htm> (last accessed 05/03/2019)

¹⁶ The Law Commission, *Event Fees in Retirement Housing*, Law Com No 373, March 2017

Conclusions and recommendations

To help explain why some new-build retirement properties can lose value upon their resale, the report considers three broad areas:

- Reporting of Sale Prices
- The Resale Process
- Developer & Manager Practices

To better understand why depreciation may occur, the report also looks at the fluctuation in new-build resale values over time. This allows for wider comparison between periods of strong housing growth with that of economic recession.

1. Reporting of sale prices - establishing basic value of a new retirement property

The limitations of HM Land Registry 'Price Paid' data have already been acknowledged. However, since 2014, the Land Registry has recorded all residential retirement sale points - ensuring that any future analysis of recent resale values will benefit from increased accuracy.

1.1 The price of new

As a result of information gathered from over 500 prospective purchaser of retirement housing, four of the largest developers and a specialist retirement estate agency, we have identified a 'new-build premium' of 15%. This is the amount that a person is prepared to pay extra for their home, solely because it is new with no previous owners.

This figure of 15% is also common across the general residential housing market and was widely expected by customers, given the benefits of buying new, including the provision of a 10 year warranty. As this figure is not unique to retirement housing, we went on to consider other factors that might influence resale values within this sector.

1.2 Incentives

This report has had unique access to a considerable historic dataset of incentives, paid by developers, to purchasers of newly built retirement properties. We have used this information, alongside the HM Land Registry and Elderly Accommodation Counsel's own directory of housing for older people, to better understand the role that financial incentives can play in retirement property values.

These figures revealed that the average person buying a new retirement property in 2009, during the recession, received the equivalent of almost 10% of the value of their new home as an incentive. In 2012 this figure is just over 8% and in 2017 the percentage has shrunk to just over 3%.

We have concluded that part-exchange services can be of benefit to prospective purchasers who might otherwise be discouraged from moving in later life. For many people, the thought of entering into a chain to find a buyer for their home, in addition to other emotional stresses, is enough of a deterrent to prevent a move. However, we would encourage part-exchange companies and developers to explain their valuation process to consumers in a clear and understandable way.

One of the obstacles to writing a report that considers the role of incentives is that data on incentives paid, as part of a house purchase, is not readily available to members of the public. The data is recorded by HM Revenue & Customs (HMRC) but is not included as part of HM Land Registry's publicly accessible 'Price Paid' data set, which reflects their policy.

1.3 Resale performance when these factors are considered

As explained above, our focus has been on the first set of resale points within a previously new retirement development. **We identified these as being properties sold between five and nine years after the first sale.**

Figure 1 shows the average resale value, by year, when **average incentive figures were removed from the first sale price:**



Figure 1: Value of new retirement properties when sold between 5-9 years later

This shows that over the 18-year period observed, in seven of these years' purchasers of new-build properties could, on average, expect to see a fall in the value of their property. In 11 of the 18 years these purchasers could expect to see an increase in the value of their home. The years with the greatest falls in value were those new-build properties bought between 2004 and 2008, with those properties having their first set of resales in the years ranging between 2009 and 2017. These years tally with the properties often being either bought or sold during a time of economic recession.

New-build properties bought in recent years appear to have improved in value, with consumers, on average, benefiting from an increase in value for new properties sold in 2009, 2011, 2012 and 2013. This is likely to be the result of a more active housing market, combined with recent improvements made by retirement housing developers.

2. The Resale Process

To understand why retirement properties can experience a fall in value upon resale, it was necessary to explore the processes involved when a vendor comes to sell their property. This required us to look at the role of estate agents, the official guidance given to these agents and the pressures on the vendor.

2.1 Specialist retirement estate agents

There is evidence that using a specialist retirement estate agency can result in vendors selling their home more quickly and at higher prices. However, this contrast is only likely to be stark when using a high street agent that is not familiar with, or prepared to deal with, the marketing and sale of a retirement property.

2.2 The National Association of Estate Agents

A discussion with the National Association of Estate Agents (NAEA) Propertymark confirmed there is no existing guidance for their members on marketing a retirement property. However, they proposed working with EAC and the sector to develop such guidance for their members.

2.3 Pressures on the vendor

Feedback from specialist retirement agents, retirement housing developers and managing agents revealed that vendors often feel pressured to sell their property quickly. A useful consideration here is that the majority of vendors (85-90% according to one agency) have inherited the property that they are selling from a late relative. Many others also feel forced into a sale following their relative's move into a care home.

The pressure to sell quickly can therefore often come from other beneficiaries if the sale is being conducted as part of probate. Alternatively, the pressure can simply come from the emotional stress that is often present for beneficiaries dealing with the assets of a loved one.

Further to the above pressures, there is the liability to pay service charges and ground rents - an obligation that persists even when the property is empty. On average, these fees can total almost £3,000 a year. We have heard that some developers and managing agents allow vendors to defer the service charge payments until the property is sold, providing them with some breathing space.

Whilst a slow sale process can lead to estate agents recommending that the price is lowered, it is also worth acknowledging that it can take time for the right purchaser to be made aware of this housing option. It is therefore sometimes simply a case of 'holding your nerve' as a vendor and waiting for the right purchaser to present themselves, rather than rapidly reducing the price.

2.4 The buy-back model

Elderly Accommodation Counsel would be interested in exploring further the viability of a 'buy-back' model for retirement housing. Guaranteeing a price for vendors, even at a reduced price, provides a safety net that ensures property values will not fall drastically due to a person needing to sell quickly. We have not found sufficient evidence of this practice to analyse it within this report, but we would be interested in working with developers that do offer this model, to explore its potential for the retirement housing sector.

3. Developer and manage practices

Finally, we explored how the decisions taken by developers and managing agents can have an impact on resale prices. This required us to explore factors related to: location, size of development, the role of the on-site manager, support for ageing residents and parking/storage for vehicles.

3.1 Location

There is a clear correlation between proximity to local services and an increase in resale values for recently new-build developments. This complements the logical narrative that location to facilities such as nearby shops and transport links becomes increasingly important as we reach later life.

3.2 Size of development

Whilst size may have an effect on resale values as far as the square footage of the property is concerned, the number of units within a development appears to have little correlation with new-build resale values.

3.3 The role of the on-site manager

This is key within a retirement development. **A manager who is engaged with residents and efficient with their maintenance responsibilities can help preserve the attractive appearance of a previous new-build development and develop a positive community.**

They, in-turn, advertise the development to their friends and family.

Communicating with leaseholders with regard to how their service charges and sinking fund is utilised is also critical. Having the support of residents helps maintain the quality of a development, something that can affect re-saleability.

3.4 Supporting ageing residents

Every successful retirement development will, over time, have a group of residents that begin requiring care and support services. Ensuring that these residents are still engaged with the development's community is essential. Having an active, social and harmonious atmosphere will be attractive to any prospective purchaser.

3.5 Parking and mobility scooter storage provision

Ensuring that sufficient parking and mobility scooter storage space is available for those that wish to use this facility is becoming increasingly necessary for developers. Many older people see their car or scooter as the key to independence and may not consider a move to a development that does not have the facility to store these.

Recommendations to protect the resale value of a new retirement property

With consideration for the above conclusions, EAC now makes the following recommendations to the sector on how the value of a new retirement property can be best protected from depreciation, upon its first resale.

- 1. Developers should prioritise the location of their developments, ensuring as far as is possible, that residents will benefit from living in an area that meets their requirements. Note that there is no 'one size fits all' approach to this as people from different areas, with different budgets, will have different priorities when it comes to the location of their home.**
- 2. The developers and/or financial institutions responsible for commissioning a retirement development must ensure they appoint a professional, capable and caring management company. Developers must also maintain a close relationship with the managing agent so that any structural issues, such as claims made under the new-build warranty, can be resolved quickly.**
- 3. Wherever possible, developers should seek to 'future proof' their developments, so that they are compatible with technological advancements. The increase in**

mobility scooter ownership evidences the value that older people put on the vehicles and equipment that keep them independent.

4. That the National Association of Estate Agents (NAEA) Propertymark will work with EAC and representatives from the retirement housing sector to produce guidelines for its members on marketing retirement properties.
5. Managing agents should inform those residents/beneficiaries who are selling retirement properties of their obligations and options. An example of this might be a beneficiary deferring service charge payment until the property is sold, which may encourage vendors to wait for a better offer.
6. The provision of independent information and advice on housing options should be supported by the sector, so that the concerns of prospective purchasers or vendors can be addressed, allowing them to make an informed decision.
7. Specialist retirement estate agents can secure better prices and sell homes more quickly. However, where a vendor chooses to use a high street estate agent, managing agents should liaise with the agent to ensure they fully understand the product that they are marketing.
8. Managing agents should explore ways in which they can support more frail residents, to ensure they can remain part of the community. If necessary, residents should be given support to identify other housing and/or care options.
9. Managing agents should schedule internal and external renovations and improvements, to ensure that the development remains attractive to prospective purchasers. It is also important for residents to be engaged when the sinking fund is used in this way.

There are other recommendations in this report that the sector may choose to adopt and act upon, however it is the view of Elderly Accommodation Counsel that embracing the above ten recommendations will help properties follow the trend of the general housing market.

On paper, the demand for retirement housing has never been greater. It is down to housing providers and policy makers to ensure that both the confidence in the model, and the subsequent supply, is present.

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