



## 2010 RETIREMENT

Housing Report

**Knight Frank**

### AN AGEING OPPORTUNITY

Retired people form the country's fastest growing demographic group. An explosion of grey hair has significant implications for the future of retirement housing and the wider residential market.

This demographic reality appears to point to a business opportunity for developers and house-builders. We would agree, but there are more significant issues to consider that we believe will have a dramatic impact on the prospects for this particular sector.

In this review we assess the combined impact from an ageing population, reform of the care sector, the looming pension crisis, fiscal tightening on housing wealth and housing choices for retirees. We provide our views on the opportunities opening for those looking to develop property aimed at older occupiers.

Thinking and practice in the UK retirement sector has long lagged behind innovation from Australia, Scandinavia, the US and New Zealand. Our view is that the time is ripe for retirement housing in the UK to grow up.

## The end of retirement

**With government finances in a mess and private and public pensions struggling to match requirements, we explore the impact of the 'new austerity' on retirement finances.**

The recession, and the unprecedented risks that it brought for the UK's financial health, has forced the main political parties to address the previously taboo subject of the statutory retirement age. The original state-pension age of 65 for men was fixed in the mid-1920s, when average life expectancy was barely 60.

In the UK the average retirement now lasts almost a quarter of a century, while average spending on public pensions is now equivalent to more than 7% of GDP. On current trends this is likely to more than double by 2050. The unsustainable future cost of retirement becomes clear when we account for the cost of private pensions and spending on health and long-term care.

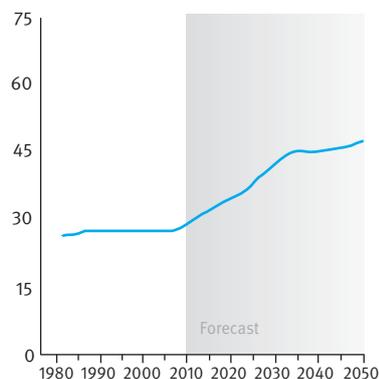
It took 80 years, until 2005, before the idea of raising the retirement age limit to reflect rising life expectancy was accepted. The pain though has been deferred to 2020, when the age will be raised to 66 (eventually 68 in 2045). The Conservatives, however, have said that they want the first increase to occur in 2016, at least for men.

## The costs of housing and caring for an ageing population are set to rise exponentially.

While the impact of an ageing society is already being felt, the real pain will only begin after 2020 – when demographic trends will see the number of retired people rise rapidly.

Tinkering with retirement ages is only the first step in the longer-term response to the fiscal costs imposed by an ageing population. The IMF warned last year that the cost of this response would dwarf the bill required to pay for the current economic crisis. To avoid fiscal meltdown, public pensions and health-care

Figure 1  
**Grey future**  
Dependency ratio, population aged 65 and over as a % of population aged 20-64



Source: OECD, "Society at a Glance", 2009

provision will have to be reined back – severely – and there is a significant risk of tax increases.

When these costs become self-evident, we can expect that the first grudging political acceptance of the need for longer working will widen. Giving people the opportunity to work longer simultaneously increases tax revenues and reduces spending on pensions; ironically, evidence increasingly shows that continuing to work may even keep people alive longer – which might be thought to be counter-productive!

Work has become less risky and physically demanding, and health care and technology have improved, both of which mean the period of ill health that precedes death has reduced considerably. This process, which demographers call the 'compression of morbidity', means the majority of medical care an individual receives is in their final year, and in particular their last six months.

### Impact on housing needs

People aged over 60 are living longer, healthier and more active lives, and this will have a dramatic impact on the housing requirements for this age group.

Notwithstanding the current debate on the funding of care services (which we discuss below), we believe it is a fair assumption that more of the real costs of retirement will be placed on the individual. This shift of responsibility from the state ought to

increase the incentive to access housing wealth to pay for retirement – through equity release and downsizing.

The need to release equity, and potentially move to a smaller property, will be rather more complex than the traditional pattern of a move from a family sized house to a warden-assisted flat.

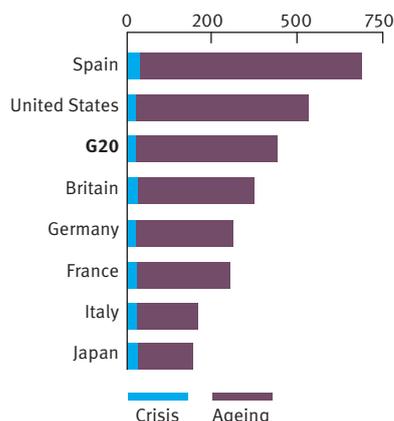
Space demands are changing. Design must acknowledge that the social habits of older people now reflect those of the wider population in that their social networks are spread across the country – with the consequent need to accommodate visitors.

Among the growing proportion of over-60s who continue to work, there will be some engaged in part-time consultancy based at home, which again suggests space requirements for older people will rise over time.

The current UK housing shortage means, we believe, that it is only a matter of time before government policy begins to look at ways to incentivise older people to downsize from family-sized accommodation.

Without a dramatic, and currently unforeseeable, expansion, the house-building industry will never build new family houses at the rate required by our expanding population. In our view, the temptation for governments to encourage 'housing market churn' through council tax incentives and capital gain tax threats will be too great to resist.

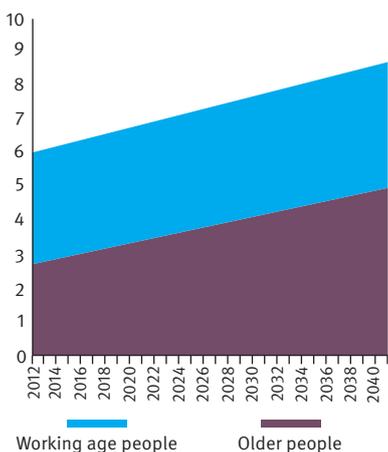
Figure 2  
**Comparison of crisis funding**  
Net present value of the impact of the fiscal deficit of the recent financial crisis, compared to 'age-related spending to 2050', % of GDP



Source: IMF



Figure 3  
**Growing care needs**  
Projected number of adults aged 18+ with a care need in England, 2012-40 (millions)



Source: Personal Social Services Research Unit projections

## Who'll pay for care?

**The provision of care for older people in the UK is a very complex and uncertain process with costs met both by the state and individuals. The impact on housing wealth can be dramatic. The system is under review and we can expect significant reform soon.**

Only around 5% of elderly people in the UK live in institutions. Even where care is needed, the favoured (and cheaper) model is to pay for care in the home.

Care costs are rising and already account for around 15% of all health spending, and this is despite the majority of care being provided by family and friends. As we discuss above – with more people having to work for longer this significant source of free care support will be less available in the future.

While the NHS provides medical care free at the point of use, state aid for personal care is means-tested. Basically, those with assets (including their own home) must use them to pay for care until they have only £23,000 left – at that point the government will provide support. As a result around 50,000 people are forced to sell their homes annually to pay for this care, and around 40% of the 450,000 residents in residential care homes pay their own way.

The need to rethink how care is funded prompted the Government to release a

consultation paper - Shaping the Future of Care Together – in July 2009. This ruled out two approaches: leaving people to pay entirely for their own care and of funding the whole cost through general taxation.

The alternatives it considered were: co-payments, where the government guarantees to pay a portion of the cost; optional insurance, with the payment of a fixed sum to cover against care costs; a compulsory state-insurance scheme, which would require that all who could afford it would pay a lump sum (say from their estate after death) for the certainty of free care.

Just after the consultation period ended, but before its results were published, the Personal Care at Home Bill was announced in the November 2009 Queen's Speech. The Bill contains several broad ambitions guaranteeing care at home and protecting the homeowners' savings – oddly the Bill seemed to cut across the approach taken by the consultation process and made its rather thoughtful approach effectively redundant.

Cynics may think that the imminence of a general election produced a Bill that ministers thought would be well received by older people and their families.

Whether this Bill would really inject substantial new public support into care is questionable, as is whether the financial constraints discussed in the consultation paper can be reconciled with the largesse indicated by the Bill. The Government proposes that the Bill's provisions should be funded through a combination of the Department of Health's existing budget and efficiency savings by local authorities (which provide adult social care outside hospitals).

It has put the latter at £250m a year, which the Local Government Association has described as "difficult to see how local government could meet the cost of this proposal from existing plans for efficiency savings".

The Conservative party has discussed a voluntary insurance scheme, with a one-off joining fee (currently estimated at around £8,000, paid at age 65) in return for a guarantee that permanent residential care fees would be waived for life.

This policy's final form is still being worked out – but it seems that the burden would shift from

government to individuals, though the Conservatives are also likely to wish to make maximum use of the voluntary sector in care and to try to reward thrift so that those with assets need not lose the bulk of them to pay for care.

## More care, but fewer institutions

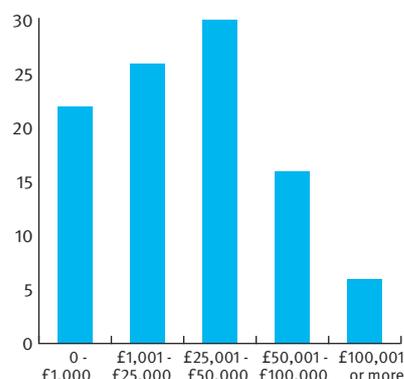
The debate regarding care funding is taking place against a background of a shift from institutions to homes – either mainstream or retirement housing.

Improved health and technological advances in communications mean that the need for residential care is diminishing, even when set against sharp growth in the number of older people.

In 2007 an estimated 2.5m older people in England had some need for care and support. Of these, 850,000 people had high levels of need, equivalent to just over 10% of England's over-65 population. In April 2007, 420,000 people in the UK lived in care homes. This was a decline of 49,000 people since 2000 and 84,000 since 1992.

The most recently available figures suggest that 150,000 older people are purchasing care at home privately and 118,000 purchasing places in care homes privately. Care funded by the NHS covered 30,975 people in the UK in 2007, compared with 25,008 in 2006 and 20,842 in 2005

Figure 4  
**Costs of care**  
Estimated care costs expected before death (% of population at 65 years old)



Source: Fernandez, J-L and Forder, J (2009) Analysing the costs and benefits of social care funding arrangements in England: technical report. Personal Social Services Research Unit: Canterbury

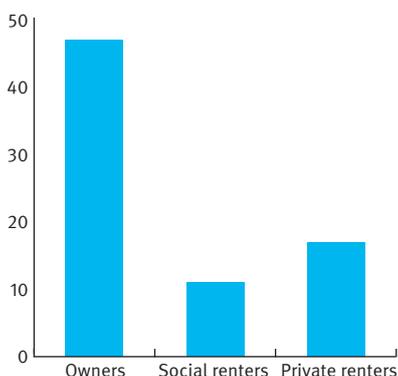
## Housing wealth

**Significant shifts in housing tenure since the 1980s mean that the vast majority of newly retired people are owner-occupiers in mainstream housing. The growth in housing wealth held by the expanding older age group offers a significant opportunity for developers of retirement housing.**

The majority of the over-65s (89%) live in 'mainstream housing', the remainder in specialist retirement housing (6%, some 500,000 households) and residential care or nursing care accommodation (5%, some 400,000 units).

In terms of tenure, 70% of over-65s are outright homeowners, while just 4% still have a mortgage. The remainder rent social housing (21%) or privately (5%). Thus many older people own a home they can sell to 'downsize' and release equity.

Figure 5  
**Empty houses**  
Under-occupancy of housing\*, % of all housing, England, 2007



Source: DCLG Survey of English Housing  
\*Two or more bedrooms above the official "bedroom standard"

The proportion of the over-65s who live in sheltered housing rises from 4% for those aged 65-69 to 19% for those aged over-85.

Demographic trends mean there will be a large increase in the number of older owner-occupiers in the future. However an analysis of recent developments in home ownership by age group shows that sharp increases in ownership rates have occurred in most middle to older age groups over the last 20 years.

The age groups that currently have the highest proportion of owner occupiers are those in their 40s, 50s and 60s – which will feed through into a further 2.5m owner-occupiers aged over 65 during the next 20 years. The expectation is that the higher rates of home ownership associated with these groups of households will persist as they get older.

Substantial increases in the absolute numbers of older homeowners in England in the next two decades are inevitable whatever happens to ownership trends in the housing market as a whole.

## Housing equity

There have been various attempts to estimate the total amount of housing equity held by older households, the Council of Mortgage Lenders, among others, has estimated around £1 trillion of unmortgaged equity. This accounts for around half of all housing wealth held in the UK.

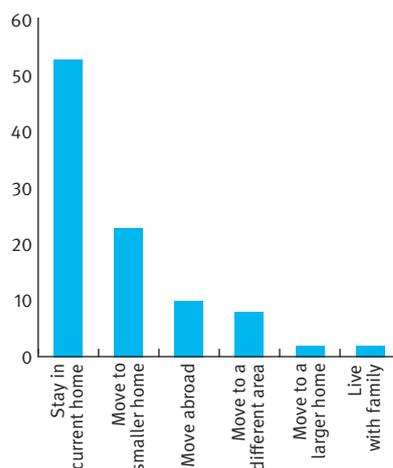
Ensuring a secure retirement for an ageing population is a major challenge. The National Retirement Risk Index has shown that even if households work to age 65 and annuitise all their financial assets, including the receipts from reverse mortgages on their homes, 44% will be 'at risk' of being unable to maintain their standard of living in retirement. Once health care is introduced explicitly into the Index calculations, the proportion 'at risk' increases to 61%. In other words, 61% of households will be unable to maintain their previous non-health care level of consumption in retirement.

There are additional costs associated with housing that do not cease even after mortgages have been paid. Maintenance is a significant burden for households on low retirement incomes and older people are less likely to be able to undertake personally some of its more complex and physically demanding aspects.

Pressure on resources is likely to mean that such public help as is available to older people for repairs and maintenance will be rationed, restricted in scope, and targeted on the poorest.

Fortunately for older aged groups there has been an increase in the proportion of them who live in more modern properties over the past two decades. Older, pre-1919, property is increasingly owned and occupied by younger age groups. We expect this trend to continue, especially as grant support for maintenance will be likely to be scaled back in the future – as governments look to support moves to smaller and more modern properties, rather than supporting people to remain in larger older properties.

Figure 6  
**Future plans**  
Owner-occupier (aged 45+) plans for retirement (%)



Source: CML, Exploring attitudes to housing wealth and retirement

The cost of the response to the recession means that any government in the foreseeable future will face the problem of finding resources to pay back huge amounts of debt and will therefore seek to avoid spending public funds elsewhere as best it can. We can therefore expect politicians to eye hungrily the equity locked up in older people's homes.

The potential development of lump sum insurance schemes (as discussed above) will mean that retired people will be able to avoid running down their assets in total before receiving public support, but will at least mean that they are encouraged to use part of their wealth to protect their remaining estate and their own retirement needs.



## Understanding the future locations for retirement living

**Preconceptions regarding where the elderly want to live are long overdue for an update, according to our new research results.**

Consider where you think retirees want to live? Genteel south coast towns and quiet west country backwaters might spring to mind. How about Buckingham or Corby? Or even Lincoln? Our latest research project, which aims to forecast future shifts in population by age and socio-economic profile, points to the emergence of a trend that will determine where developers ought to make their first step when they consider this market.

The adjacent map highlights the areas that we believe will see the biggest growth in the population of the over-65 age group over the next decade (shown in blue), and the areas that will see the smallest growth and potentially even a decline over time (light green). Our analysis is based on very fine grain data from the ONS and CACI and builds on recent trend assessments and forecasts of future migration patterns.

While there are obvious hot-spots in areas we might expect – north Devon, Cornwall, the Suffolk coast and the Yorkshire Dales, for instance, there is something much more significant at play. The most striking trend is that most of the growth hotspots are concentrated close to the main urban areas.

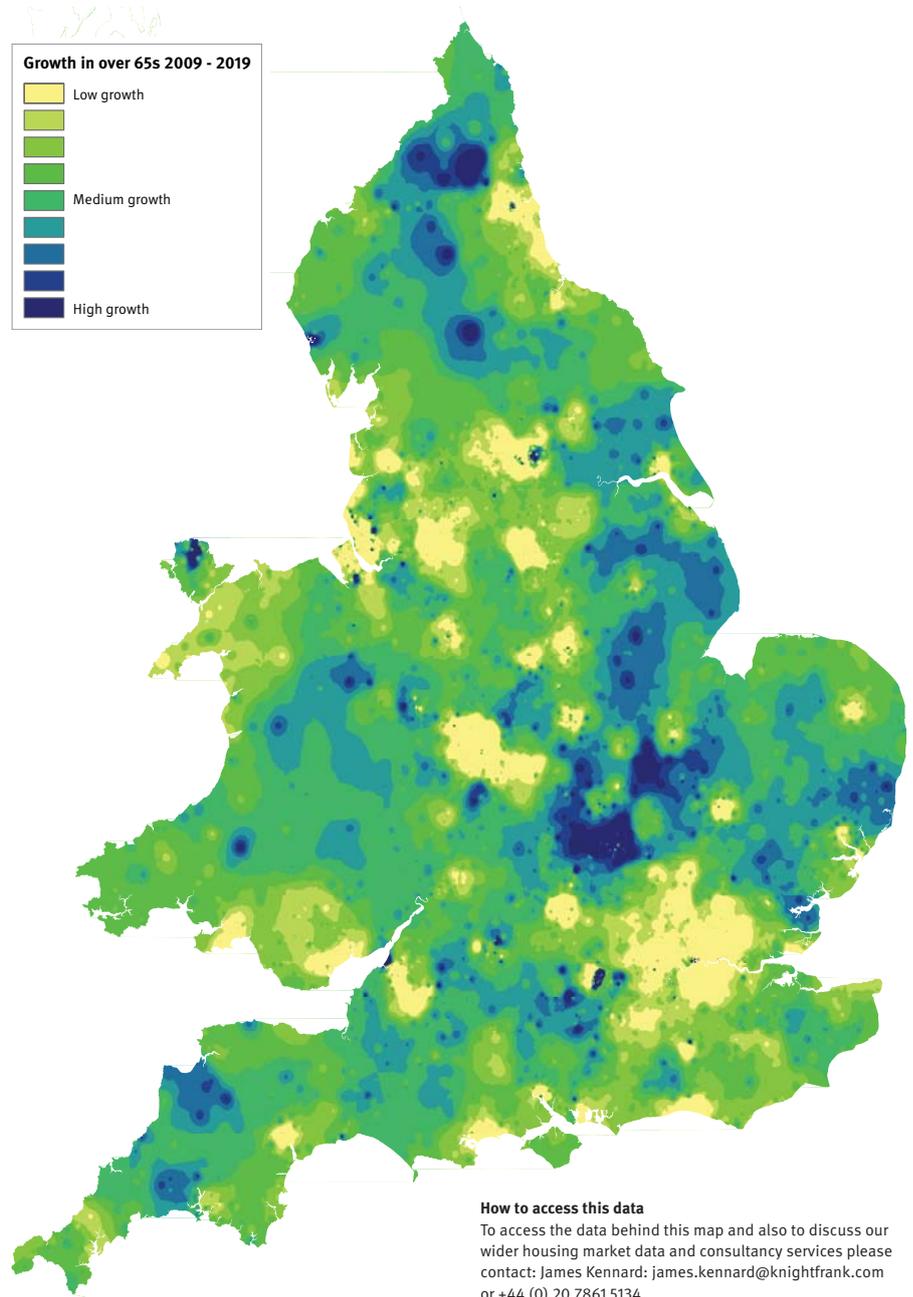
These areas, including Buckinghamshire, Rutland, Suffolk, East Yorkshire, Northamptonshire, are admittedly rural, but they are also very accessible to the major conurbations.

While retirees are increasingly looking to downshift out of urban areas, they appear to want to remain in reasonable proximity, 30 minutes to an hour, to children and grandchildren. Migration patterns for this age group suggests that they are not looking to achieve the isolation that might be prompted by a move to a distant coastal resort, when their family's lives are focussed

### Mapping the retirement market

Forecast growth in the population of people aged over 65, 2010 to 2020

Source: Knight Frank Residential Research, CACI, ONS



**How to access this data**

To access the data behind this map and also to discuss our wider housing market data and consultancy services please contact: James Kennard: james.kennard@knightfrank.com or +44 (0) 20 7861 5134

around the M4 corridor or the main Midlands or northern urban centres.

When we add additional layers onto our mapped analysis, by turning up the wealth filters for example, we see a nuanced pattern emerging – again with older and wealthier

people migrating to say the Cotswolds, the Chilterns or the Howardian Hills in Yorkshire, more expensive areas, but again just in reach of the employment centres where their families are based.

## Future opportunities in the retirement housing sector

### Why do people enter this market?

Most people who retire do so as owner-occupiers in mainstream housing. Various recent studies have repeatedly confirmed that the decision to move to retirement housing is almost always due to bereavement, frailty or the desire for close proximity to relations.

A general definition of retirement housing would refer to purpose-built or converted accommodation for sale or rent to old people – with a range of housing and care, social or recreational services provided.

There are many options, but in this section we focus on purpose-built retirement housing, especially the retirement village concept.

### What are retirement villages?

Retirement villages have been popular for decades in the US, South Africa, Australia and New Zealand. Though there are relatively few in the UK, we believe there will be strong prospects for growth as the concept becomes better understood.

It is estimated that 5% of older Americans live in purpose built retirement communities, as do 3% percent of older Australians. Lacking the easily available building space of those countries, their UK equivalents tend to be smaller in scale.

A retirement village will typically allow residents to do as much or as little as they choose and to receive whatever level of care they wish to.

Residents have their own 'front door', and can cook for themselves or use a village restaurant. Fitness, library, entertainment and social facilities are often provided.

Care services generally offer nurses on call, so there is not only someone there to 'keep an eye' on the residents, but care – though not, of course, major medical procedures – can be provided in the home.

Structural maintenance and decoration is the responsibility of the village owner and residents are thus relieved of this burden.

The growth in popularity of retirement villages stems, fairly obviously, from our increasingly ageing population and the growing assets its holds, but also from the growing tendency for older people to place a positive emphasis on the need for security, socialising opportunities and convenience. The need to release equity through a downsizing move may also impel a greater shift towards specialised retirement housing.

### Current market conditions

The sector was affected hugely by the market downturn in 2008 and schemes stalled as developers were unable to raise funds. There were some business failures but since the beginning of 2009 the market has begun to gain traction.

The recent downturn highlighted the close relationship between this sector and the mainstream market – purchases in the former depend on sales in the latter. The underlying factors that we believe will drive increased interest in retirement villages remain valid and ought to take effect once an upturn starts.

### The planning problem

Retirement villages face a problem in that they do not fit neatly into any planning use class. A further complication is that many local plans either predate the growth of retirement villages, or have not considered them when allocating land, so few sites are specified for their development.

Each retirement village typically provides between 30 and 50 staff jobs and so some developers have successfully argued that they should be permitted to use land zoned for employment. In other cases, villages have been accepted as C2 use class, which covers care homes, and so affordable housing provision has been avoided.

Planners have though applied the employment and C2 use class concessions unpredictably. One possibility, which has been discussed by the industry, is that retirement villages could become a use class of their own. This might also allow them to use land not otherwise zoned for residential development – rather like affordable housing on rural exceptions sites.

Guidance from the Royal Town Planning Institute has suggested that planners draw a distinction between homes where an external body regulates domiciliary care and those where it does not, and class the former as C2.

However, London's Mayor Boris Johnson has said in his draft London Plan that C2 developments for older people should be liable for the provision of affordable housing, because of the high demand in the capital.

This approach may deter what could otherwise be a promising expansion of the sector in the capital. Experience from other countries suggests that in the right conditions retired people will be willing to live in high density and even high-rise schemes. Central London would seem one of the most promising environments in the UK for this trend to take off.

There is a danger that the planning system will continue to lag the market, and that the lack of clear guidance on retirement village classification will hold back the development of this sector. This could mean that fewer larger family homes will be recycled in to the market than would otherwise be possible.

### Future thinking

The evidence from the US and Australia, in particular, is that retirement villages can offer benefits to society as a whole because residents release under-occupied properties for sale and this creates a small but useful stream of family homes.

Retirement villages also create employment, and can support the viability of local services. Their regeneration potential is rather overlooked in the UK, but well recognised in the US, where they are seen as contributing to the reversal of long-term economic decline and adding to an area's cultural life. However, few major regeneration areas here have specifically planned for them.

One problem retirement villages face is the lack of public knowledge of their existence. Indeed, operators admit they need to 'get the word out'. Once they do so they should have a receptive potential market given demographic trends.

People typically leave a move to a care home as late as possible – with the average age of such a move being 75. This late move from conventional to retirement homes could relate to the fact that such homes can at present be seen as a necessarily evil of ageing rather than as desirable places in which to live in their own right.

But retirement villages, with their high quality construction, services and facilities could attract those in slightly younger age groups to



## Industry insider

### ***Knight Frank talks to Nick Sanderson, chief executive of Audley and chair of the Association of Retirement Village Operators.***

Over the next decade retirement villages will be the fastest growing development sector of any kind in the UK, it is impossible to consider the demographic reality of our ageing population without concluding that the potential expansion is anything other than significant. There is such a level of housing wealth for the older age groups to draw on, that this growth ought to be sustainable over the long term.

Just to achieve the same proportion of retired people in retirement villages as they have in Australia we would need an additional 600,000 village units right now, the fact is that this is going to be a long-term growth sector.

At the moment people who move from their existing home normally go into retirement homes where they can access only a rather basic level of service. That is not what the baby boomers will accept. They want to maintain as much independence as possible, but with hotel standards of services on site, and with the know that they can access help if they need it.

The retirement sector has had a bumpy two years, like every part of the property industry, looking forward however I am very upbeat on the prospects for this market.

## What do people want from retirement homes?

- Over-65s are estimated to spend 80% of their time in the home (90% for over-85s) and therefore well-designed surroundings are important
- Retirement village residents expect to benefit from the social experience, physical environment and good quality of life
- Good call, alarm and access systems are essential.
- Independence is highly valued by residents including, crucially, the choice to integrate with the rest of the village or to remain private.
- Care and support must be flexible, of a high quality and provided by well-trained staff

make the move in anticipation of needing care, rather than when they already do so.

Another hurdle to the growth of retirement villages has been that the accommodation is leasehold, yet most elderly owner-occupiers will have lived in freehold homes for many years and so are unfamiliar with service charges. Opinions differ among providers as to how much this deters purchasers, but complete clarity on charges may be advisable so that cautious elderly buyers do not fear unpredictable management bills. Some villages waive management fees but instead take a cut of sale proceeds when a resident leaves.

## Technology and its limits

Arguably the need for communication with family and access to medical checks means access to internet based technology will be higher for retirement housing than other developments.

Developers at present face a paradox – the technological possibilities for retirement villages run ahead of residents' willingness to engage with them.

The current generation of retired people did not grow up with the internet – let alone Facebook, iPods or 'second life' – and is somewhat wary of technology. As succeeding generations retire this factor will diminish and retirement home operators are already anticipating that residents will embrace the latest technological aids.

The most important tools are those which enable the rapid summoning of assistance in the event of illness or an accident, and so retirement villages have electronic 'call' facilities widely available in homes and communal areas.

Gate security is also important so that unauthorised access is prevented, though sophistication must be balanced against

residents' own ability to negotiate security measures.

Advances in technology could have a huge impact on opening up choices for how older people live. For example, instead of having a healthcare worker visit residents, virtual health checks could be undertaken through the internet.

Work is already taking place on passive health assessment technology, through, for example monitors, in floor tiles that would recognise residents by their weight and gait pattern, making it possible to check whether they were up and about and mobile – with checks being made if a problem was suspected.

Despite the considerable investment being made in new technology, in design terms, the best current schemes work on the premise that developments ought to look as little like an institution and as much like a private home as possible. The usual check list applies – maximum use of light, sensible organisation of space, and externally attractive use of water and greenery. It is only under the surface that these developments are increasingly bristling with gadgets and technology.

## Conclusions

Ageing will create significant costs to individuals and society, and we ought to expect considerable upheaval to taxation, working patterns and our lifestyles.

Old people will be more numerous and more powerful politically and economically. They already punch above their weight politically because they vote in greater numbers than younger people, and we expect the old to win most of the coming political conflicts over public support for their care and housing costs.

Older households will represent half of all household growth to 2026 and it is important that the development, construction and care industries recognise this as an opportunity which they can benefit from.

Retirees increasingly do not regard themselves as old, understanding this means that the developers who succeed in the future will be those that can master the trick of creating and selling a product that meets older people's needs, without pigeonholing them by their age.

# RESIDENTIAL RESEARCH



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