McCarthy & Stone
The UK's leading retirement housebuilder

Housing for older people inquiry – response from McCarthy & Stone, 24 March 2017

Introduction and summary

1. McCarthy & Stone is the UK's leading retirement housebuilder and welcomes this inquiry by the DCLG Select Committee. We would be pleased to give evidence in person if required.

    - We have built and sold more than 51,000 specialist retirement properties since 1977.
    - In 2016, we sold 2,299 apartments in the UK.
    - A summary of our three retirement products is provided in the appendix.

2. **Providing more specialist retirement housing will have a strong positive impact on the well-being of older people. But in addition, it can help with two of the main domestic issues facing the country** – addressing both the need for greater housing supply alongside helping improve health and social care.

3. Given the ageing population, there is a significant under-supply of specialist retirement housing. **Knight Frank states that there is enough demand for specialist retirement housing for the sector to grow from c5,500 units a year to 30,000 units.**[1] This would help increase housing supply toward the 250,000 homes a year needed.

4. Retirement housing can help with health and social care savings. **The Government's own research shows that each person who lives in specialist retirement housing saves £30,000 to £60,000 in costs over 25 years**.[2] **Even taking the more conservative estimate of £30,000, a typical 40 unit retirement scheme averaging 60 people would save £1.8 million over this period.**

5. **However, as the report on viability from the HBF Retirement Home Builders Group shows (see appendix), the additional costs associated with delivering specialist retirement housing means that these forms of development cannot support the same level of planning contributions (such as affordable housing and the Community Infrastructure Levy (CIL)) as conventional forms of housing. The viability report has worked examples that show that when asked to provide the same level of planning contributions as conventional housing on a typical 0.4 hectare brownfield site, Assisted Living Extra Care developers can make a less competitive offer to landowners, with a gap of £1.5 million between our offer and the offer from conventional house builders. This gap is £600,000 between a Retirement Living scheme and a 'general needs' housebuilder. This prevents many developments from coming forward and restricts supply.**

6. **Both the extra development costs and the potential health and social care savings that specialist retirement housing generates are poorly reflected in Government policy**. We believe that February's Housing White Paper may be a turning point, with a commitment to introduce new planning guidance by July 2017 to increase older people's housing provision and a future consultation on a new downsizer incentive package. However, it is important that this guidance takes a radical new approach, rather than just repeat existing policy. **For instance, we would like to see a 'social care credit' introduced for each specialist retirement housing scheme in the planning and viability discussions.**

[1] Knight Frank: Retirement Housing (2016)
[2] HCA Frontier Economics research (2010)

7. This paper sets out that **if retirement housing is to really take off in the UK, planning and viability changes are necessary to reflect the costs and benefits of the sector, and that further changes to help older people move home (e.g. changes to Stamp Duty) may also be critical.** This would help drive the market for retirement housing and help with both the housing and social care crisis.

Terminology

8. We recognise that there is a need for standard terminology of what constitutes specialist retirement housing to help inform and guide this debate. **Working with the HBF's Retirement Home Builders Group, we have agreed set definitions for specialist retirement housing, which are provided in the appendix.**

The current shortfall in specialist retirement housing

9. While many older people do not wish to move or downsize, millions are looking for better housing solutions but are restricted from doing so by a lack of suitable options.

    - Research by Demos shows that one quarter of homeowners aged 60 and over express an interest in buying a retirement property, a total of 3.5 million people.[3]
    - New DCLG projections state that 74% of all household growth to 2039 will be by those in later life[4], hence this topic is becoming increasingly important as the population ages.
    - This level of demand for suitable housing in later life far outreaches the c.141,000 units of owner-occupied retirement housing built in the UK to date.[5]
    - There is also a distortion in the supply of rented and private specialist retirement housing in the UK. Around three quarters of retirement stock built to date has been for rent, despite no evidence of older people wanting to switch to renting.
    - At present, between 1% and 2% of the UK's population of over 60 year olds live in dedicated retirement communities, in comparison to 17% in the USA and 13% in Australia and New Zealand.[6]
    - According to figures from the National House Building Council for 2016, 2,716 units of retirement housing, across all tenures, were registered by housebuilders.[7] As the NHBC provides warranties on approximately 80% of new homes built in the UK, adding a further 20% to the NHBC's 2016 figure would give a figure of 3,259.
    - However, 2016 research by Knight Frank suggest that the build rate is slightly higher than this, and stood at 5,500 units in 2016. There are no formal Government statistics in this area.
    - **In either case, this total of a few thousand a year is well below market potential. Something is holding retirement housing back.**

10. McCarthy & Stone's own output has more than doubled in size from 1,137 in 2010/11 to 2,299 in 2015/16. Our stated ambition is to build and sell more than 3,000 retirement apartments by 2019, the largest the business

[3] Demos, Top of the Ladder (2013)
[4] DCLG, 2014-based National Housing Projections, England, 2014-2039 (2016)
[5] Elderly Accommodation Counsel (April 2016)
[6] Housing LIN,
[7] *The figures show new build, solo and conversion homes registered for NHBC's ten-year warranty. NHBC provides warranties on approximately 80% of new homes built in the UK (including the Isle of Man). The housing types included in these statistics are wheelchair access, disabled accommodation, elderly accommodation, wardened assisted and sheltered accommodation. £) The figures are sourced from information held on NHBC's Fusion system as at 31 December 2016. Changes can occur between registration figures published at different times owing to changes in policies and cancellations.*

will have ever been. We remain on track to meet this target but **we need more providers of retirement housing alongside us to meet need, and we will struggle to grow beyond the 3,000 unit point** without a material change in planning policy.

11. **This failure to build enough retirement housing impacts on two of the biggest issues facing the country – housing and health & social care**.

The potential boost to housing supply

12. The Housing White Paper argued that there is a need for new types of housing provider to enter the market. **We think that specialist retirement housing – as well as benefitting older people and helping with social and health care costs – can have a key part to play.** Most of the homes built by the major housebuilders are for first and second time buyers – either flats or family homes. This reduces the pool of sales and so slows down the rate of development possible on sites.

13. **Specialist retirement housing, by providing a totally different group of people with a new product, can help ensure that new homes do not 'crowd out' other supply, and new sites coming forward do not result in slower build out on other nearby sites** – we are not in competition with traditional housebuilders when selling our apartments.

14. In addition, **more downsizing would free up under-occupied housing that families and younger people could move into, releasing some of the 10 million empty bedrooms in the homes of older people** by 2026.[8] Each retirement unit effectively provides two new homes – the new retirement property, plus the freed-up house. Most of our homeowners are freeing-up a family-sized home in the local area. On average, our customers move 4 miles from the development, so schemes free up much-needed family homes in the local area and support wider transactions in the local housing market.[9]

15. Retirement housing **also makes efficient use of previously-used land as nearly all of our developments have been on centrally-located brownfield sites**, which is in response to our homeowners' desire to live in well-connected, urban areas. This means there is less pressure to release greenfield and sensitive sites for new development. 51% of our residents also report lower or noticeably lower heating bills.[10]

Health and social care savings

16. We know that many people tend to move into our properties when they cannot live unaided and we design our schemes with that in mind. To take one example, **Retirement Living developments are specially designed to help people live healthier for longer. There is a house manager, an emergency call system, large amounts of communal space (e.g. shared lounges, guest suites, laundries, staff rooms and shared gardens), and completely level access. A higher share of floor space is also taken up by larger corridors and multiple lifts throughout** (which we design so that the development is particularly easy to get around for older people and wheelchairs). **All of our Retirement Living apartments are built to Lifetime Homes Standards.**

17. **This private cost has huge public benefits**. 85% of people living in a McCarthy & Stone apartment said they experienced a sense of community compared to just 51% of older people in the general population.[11] **64% of our**

[8] Intergenerational Foundation, Hoarding of Housing (2011)
[9] McCarthy & Stone: sales data (2015)
[10] University of Reading, M Ball: Housing Markets and Independence in Old Age: Expanding the Opportunities (2011)
[11] Demos: Building Companionship (2016)

residents said their health and well-being had improved since moving.[12] 92% said they were very happy or contented.[13] **83% maintained their independence for longer**.[14]

18. **Our residents have fewer visits to health professionals and return home more easily after stays in hospital**.[15] 75% of residents in specialist retirement housing have not stayed overnight in hospital since moving. 60% who had stayed in hospital said that they had found it easier to return home since moving.[16] One of the NHS's biggest costs is overnight stays of older people - the annual cost of falls among older people is £1 billion and almost two thirds of general and acute hospital beds are occupied by people aged over 65.[17] Each year a resident postpones moving into residential care, the state can save on average £28,080.[18]

19. **Such savings have been quantified by Government itself**. A 2010 report commissioned by the HCA using Frontier Economics found that **when older people with low to moderate support needs move into accommodation suitable for them, such as Retirement Living properties, this generates savings of £2,988 a year in health and social care.[19] This is split almost evenly between savings from social care settings and savings from hospital stays. Updated for 18% CPI inflation between 2010 and 2017, this gives annual savings of £3,525 a year.** The benefits of our Extra Care developments would be even higher, because they are sold to those who are even more frail and have more complex issues.

20. Over 25 years, with the Treasury approved discount rate of 3.5%, this gives a net present value (in layman's terms, the total saving over this period) of £59,383 – a huge saving that is not currently accounted for in policy. **Even if we assume some of these savings accrue to older people rather than Government, even half of these savings being made by Government would lead to £30,000 per person in savings over twenty-five years – a huge sum.**

21. **Taking the most conservative figure of £30,000, a 40-unit scheme averaging 60 people would save £1.8 million to the public purse over a twenty-five year period (60 people x £30,000). This is a major benefit to the taxpayer as well as a benefit to the individuals involved.**

The extra costs of housing provision and its impact in the land market

22. An overview of the different viability and risk models of specialist retirement housing is provided in the appendices and has been produced by the HBF Retirement Home Builders Group for this inquiry. In summary, **these issues include higher build costs, the requirement to provide a significant floor area for shared facilities, which are not saleable, and a lack of phasing and other sales issues which means substantial capital outlay before any return is received**. However, neither the Section 106 or CIL system takes these factors into account, which kills many sites from coming forward before they reach the planning system.

23. **While it is true that a Retirement Living development on paper is 'denser', this is more than outweighed by other factors. It often incurs higher CIL and Section 106 payments which councils often calculate based on Gross Internal Area), because a significant proportion of the development is dedicated to non-saleable communal facilities. This creates a disproportionate level of planning obligations which affects the ability of these forms of development to be competitive when buying sites.**

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[12] ORB, A better life (2004)
[13] University of Reading, M Ball: Housing Markets and Independence in Old Age: Expanding the Opportunities (2011)
[14] ORB, A better life (2004)
[15] University of Reading, M Ball: Housing Markets and Independence in Old Age: Expanding the Opportunities (2011)
[16] University of Reading, M Ball: Housing Markets and Independence in Old Age: Expanding the Opportunities (2011)
[17] National Institute for Health and Care Excellence, NICE guidelines [CG161] (2013)
[18] HACT: Fit for Living Network, Position Statement (2010)
[19] ***Financial benefits of investment in specialist housing for vulnerable and older people***, HCA, 2010

24. **This is outlined in the accompanying viability report. The net effect of meeting planning obligations such as affordable housing and the Community Infrastructure Levy (CIL) set at the same level as conventional housing combined with the higher build costs of retirement housing, makes the delivery of specialist retirement housing uncompetitive.**

25. **On a 0.4 hectare brownfield site in the south of England, a conventional housebuilder is likely to be able to put a £2.31 million bid in to the landowner, whereas a Retirement Living scheme would be able to offer £1.7 million, £600,000 less. An Extra Care scheme would be able to offer just under £800,000, £1.5 million less.**

26. **Thus McCarthy and Stone and similar companies do not have a level playing field at the point of purchasing land and this makes it very hard to acquire the right types of sites.** Even where we can make some of these points in arguments with planners and councillors, this adds costly delays and rarely reflects the majority of the savings or costs involved (nearly all of our applications are decided outside of the 13 week period). It means we and others are at a permanent disadvantage in the land market compared to big speculative housebuilders.

<u>**How can Government help?**</u>

27. **We are encouraged by the Housing White Paper and its proposals to stimulate delivery of new housing for older people.** There are a range of policies that the Government can adopt in order to help drive forward policy. We would split these into the following areas:

    - Planning guidance about the need for specialist retirement housing
    - Viability and the need to take account of the costs and savings in retirement housing
    - Help-to-Move
    - Preconceptions and dealing with London

<u>Planning guidance about the need for specialist retirement housing</u>

28. **Despite the National Planning Practice Guidance (NPPG) identifying housing for older people as a 'critical' need** – indeed the only 'critical' housing need identified in planning policy – **there is very little awareness of this policy at a local authority level and the current planning system creates many obstacles** to the delivery of specialist retirement housing.

29. A recent review of planning policy within the top 30 local authorities in England that are expected to have the greatest share of those aged 65 and over by 2037 **found that only six (20%) had strong policies in place on managing the impact of the ageing population**.[20] A separate HCA report found just 14% of councils had a policy in their local plan for encouraging owner-occupied retirement housing.[21]

30. **The Neighbourhood Planning Bill will introduce, for the first time, a new statutory duty on the Secretary of State to produce guidance for local planning authorities on how their local development documents should meet the housing needs of older people**. This will help to ensure councils view future planning applications for this form of housing more positively. We hope this change will be reflected in the planned revisions to the NPPF later this year. To ensure it has the necessary impact, **we have written to DCLG to say we would like to work with officials to help prepare the guidance and allow them to draw on our expertise and knowledge of best practice among local authority planning departments**. We believe that such guidance changes should focus on:

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[20] Barton Wilmore, An ageing nation – Are we planning for our future? (September 2015)
[21] HCA, report for the Vulnerable and Older People Action Group (2014)

a) **Housing Needs Assessments/Local Plans**: We recommend that the guidance includes specific requirements for local authorities to properly assess the housing needs of older people in their Strategic Housing and Employment Land Availability Assessments (SHELAAs). **One of the main reasons for the lack of consideration of specialist retirement housing in local plans is because the SHELAA does not adequately look at this topic, particularly across all tenures.** Some still either ignore this area completely or solely assess the need for rented or affordable options.

Standardising the methodology towards assessing housing requirements this year is underway. **It is essential that as part of this standardisation of housing requirements that local authorities properly examine the housing needs of their older population**, including the need for different types and tenures of specialist retirement housing

We believe this is a political win-win in planning policy. In many areas, older people can be worried about new homes – **a proper assessment and requirement that specialist retirement housing is planned for will help councils politically in terms of increasing development.** We believe that particularly in areas of high demand and with elderly residents, such as the south outside London, showing tangible benefits from new homes to existing residents can help ease political tensions created by development. Often people will be worried about their family members and this too will be addressed by such policies.

We think that local plans need to meet housing need for the whole community and so this methodology must lead to a set target for specialist retirement housing. We think that this target must then be part of the local plan's delivery for an area.

b) **Housing targets:** Another positive way to encourage delivery of specialist retirement housing is **to allow local authorities to either partly or in full count both the larger property released in terms of meeting local housing need, as well as the home that is being built.**

This in turn would assist the local authority in meeting its targets and mitigate the need for larger sites and houses to come forward, particularly on green field sites. So, **if you build 40 retirement units, this counts toward your housing need for older person housing and you could also, for example, count 40 family homes as being released**.

Unlike other forms of housing, downsizing voluntarily decreases the amount of space per person, whereas for other homes most people are increasing housing space per person. Such properties are more efficient than building other new homes. **Planning policy should take account of this**.

c) **Public monitoring of delivery**: To increase transparency and accountability, local authorities should be required to **publish annual statistics on their delivery of specialist retirement housing,** based against their objectively assessed need for this form of accommodation in their Annual Monitoring Reports. In turn, we would like to see DCLG publish the total delivery of this form of housing across all tenures in England. No such reporting currently exists.

d) **Planning use classes and affordable housing**: Linked to the above point, one of the main reasons for failure in this market is **the absence of a suitable definition in the use class system which leads to long**

delays and makes it difficult to purchase land. The key issue is whether a particular development of this type is classified as either C2, C3 or sui generis within the use classes order.

In general terms, class C3 encompasses 'dwelling houses' and developments in this use class provide affordable housing contributions, whereas use class C2 encompasses 'residential institutions' and developments are not expected to provide affordable housing. **Assisted Living Extra Care schemes providing on-site care and support typically are within C2 of the use class order but this is often questioned by local authorities, who are predisposed to seek affordable housing**. As demonstrated in the HBF report in the appendix, these forms of development aren't able to provide affordable housing and CIL and remain competitive, or indeed viable. This debate leads to protracted negotiations and disputes between providers and local planning authorities with unnecessary cost and delay. **These often use arbitrary characteristics of a development**, such as whether apartments have their own front door, or are 'self-contained units' rather than look at more crucial factors such as the degree of support provided on-site. This often leads to appeals.

To address this issue, **we would like Government to make clear that all specialist retirement housing as defined in the HBF report is in the C2 use class, and set out that any Section 106 or CIL payments are reduced as set out in the viability discussion below. This should then be the default setting for councils and we would like to see councils that lose on appeals if they query this face a financial penalty**.

Viability and the need to take account of the costs and savings in older person housing

31. **Viability and S106/CIL:** As set out earlier, **while retirement housing brings with it significant benefits in terms of savings in health and social care, this is not reflected at all in planning policy**. As noted as well, **retirement housing, *precisely because it is designed for older people,* has additional building costs and this impacts on the land available for this form of housing**.

32. **We believe that the starting point for national guidance on viability around older person housing is that any Section 106 payment should be lowered by £30,000 per unit. This would be very conservative as it reflects the lower level of these savings already identified above. This would mean a 40 unit site would automatically be assessed as providing a contribution of £1.8 million towards meeting planning obligations such as affordable housing and the CIL. The Local Planning Authority would also not 'lose out' as the money would be recouped from its health and social care budget. This would effectively become a 'social care credit' for specialist retirement housing.**

33. This is also necessary to subsidise the extra costs of specialist retirement housing that make it a less profitable use of land than speculative housebuilding. We and other retirement housing providers struggle to purchase land in the open market if hit with the same Section 106 bills as conventional builders. **This is our biggest single ask to Government – any kind of recognition of the health and saving benefits, and the additional costs that retirement housing brings with it in national rules is essential to expand this sector.**

34. We are not asking for special favours – **we just want to be able to compete in the land market with the larger conventional housebuilders.** At present, only the most viable sites that are not suited for others but could work for us come forward but even on these sites it requires additional time and costs, which creates greater risk and uncertainty. This is also much more difficult for other specialist retirement providers without our size or expertise. This is the main reason for the lack of supply and competition in this sector.

35. Obviously such guidance would apply to all retirement housing providers – this is about a fair land and housing market. Clearly we want to expand, but we also want others to enter this market. **We actually want competition and more providers of specialist retirement housing – but fair competition on product rather than being locked out of the land market by unfair and complex viability issues**.

36. **A similar issue relates to CIL. As CIL is charged per square metre on new development, specialist retirement providers pay a disproportionate level of CIL in relation to the saleable area given the significant amount of shared areas provided in each scheme**. Many charging authorities have a single 'residential rate'. While this can be battled, it takes time, money, and effort – and again other potential new entrants and smaller companies can afford this even less than ourselves.

37. The supplemental report that accompanies the recent Housing White Paper entitled *'A new Approach to Developer Contributions: A Report by the CIL Review'* proposes a new 'light touch' Local Infrastructure Tariff (LIT) and a 'lighter touch' Strategic Infrastructure Tariff (SIT). The issue for us is the formula used to determine LIT as a percentage of sales value results in rates that broadly align to or are higher than those provided through CIL. **Essentially there is no account taken of the issues around specialist retirement housing and higher cost.**

38. Any attempt to build more specialist retirement housing will require a more nuanced approach with CIL – **basically this needs to take account of the fact that retirement housing cannot provide the same level of funding as a conventional housing and CIL's formula should take account of this with payments heavily reduced or exempt for specialist retirement housing**.

<u>Help-to-move</u>

39. We welcome the recognition in the White Paper of the barriers that exist and prevent older people from downsizing, and we are pleased to see a commitment to work with the industry to find solutions to address this. We appreciate thinking is still at an early stage, but we have a significant evidence base in this area and **we have written to officials in DCLG to say we are happy to work with them to develop the kinds of interventions that could help form a 'Help to Move' package that would positively influence the market for older people's housing in the way Help to Buy did for mainstream housing in 2013**.

40. **Our preference is for a one-time exemption from Stamp Duty. This has been widely highlighted as an effective way to incentivise older people who want to downsize. Our customers are typically equity rich but cash poor, and many see the rising costs of moving as a major barrier to leaving their existing home, even though the desire to move is there.** This is a major reason why so few older people in the UK move.

41. **Our research shows that this would be a highly effective incentive that would help people to move,** provide a much-needed stimulus to the wider housing market by freeing up large family homes for those lower down the housing chain, and could increase receipts for the Treasury by some £740 million through increased Stamp Duty receipts from the additional housing chains created as a result. We recognise that there are concerns in HM Treasury regarding the 'deadweight' impact of such a change, **but our research shows that this would be a net gain even after factoring in the loss of income.**

42. **We believe that such an approach will be highly effective. We think that such an approach could be time limited as such an approach will pay for itself.** Should this fail to pay for itself the exemption could then be wound down or extended depending on which was preferable**. If such an approach uses a cap (e.g. no SDLT**

below £500,000) then we would argue that stamp duty should only be applied above such a cap rather than being used as a crude cut off point (e.g. so if the cap is £500,000 we avoid an anomaly where a £500,001 property would pay SDLT but a £500,000 would not. SDLT would only be payable on anything above £500,000).

Preconceptions and dealing with London

43. **Address misconceptions**: One of the most valuable changes would be a change in messaging. **The recent focus on starter homes and affordable housing has excluded discussion about any other form of housing, and the role of specialist retirement housing has been ignored**. We have many examples of our planning applications being opposed by local authorities because of a failure to agree a position on affordable housing, and also because of a misconception that they will result in an influx of older people into their local area.

44. **We are glad Government is now highlighting the importance of specialist retirement housing.** However, at a conference in London last December, we heard a senior officer from Barnet Council talk about a moratorium on specialist retirement housing because they are concerned about drawing in people from outside the area and increasing social care bills. **This ignores the fact that specialist retirement housing actually keeps older people healthier and happier for longer, and that most of the purchasers are already living in the local area.** We hope the forthcoming planning guidance will be not only be strongly supportive of specialist retirement housing but address many of these existing misconceptions.

45. **London Plan and the new SPG**: **We are also concerned by the Mayor of London's draft SPG, which has recently been out to consultation**. **We currently have c500 units of specialist accommodation across 19 sites for sale or under contract in the GLA area**, totalling c£300m in land and build costs, and are planning an increased rate of investment across the London boroughs in the years to come, to meet the identified need for specialist retirement housing. **This investment is under threat as a result of many aspects of the SPG, not least its approach to benchmark land values and review mechanisms**.

46. **If progressed, this will have a particularly significant impact on specialist retirement housing as its wholly fails to recognise the special characteristics of this form of housing**, as well as that of small brownfield site developments and small to medium housebuilding. We can provide further information on this if needed.

Conclusion

47. We believe that the specialist retirement housing sector can help reduce health and social care costs, and help fix the issues around housing supply by hugely ramping up output. **But for this to happen, we need changes that give us a fair chance in the land market, through changes to planning guidance, viability, help with downsizing, preconceptions and ensuring London rules do not unfairly penalise us.**

ANNEX

Our Products

McCarthy & Stone is the UK's leading retirement housebuilder, with a c.70% share of the owner-occupied market.[22] We buy land and then build, sell and manage high-quality retirement developments. We have built and sold more than 51,000 apartments across more than 1,100 developments since 1977.

We deliver three award-winning types of specialist housing for older people:

Retirement Living (since 1977) – Similar to traditional 'Category II' type sheltered housing, but built to Lifetime Homes Standards. It comprises self-contained one and two bedroom apartments and includes a House Manager, communal lounge, communal laundry, CCTV camera entry system, 24 hour emergency call system, guest suite and lifts to all floors. Residents have active, independent lifestyles in a safe but private environment. Developments are for those aged 60 years and above and the average resident age at purchase is 79 years.

Assisted Living (Extra Care Housing) (since 2000) – We are the largest provider of Extra Care Housing for homeowners in the UK. The accommodation is as above but is designed for the frailer older person; is to full wheelchair housing standards; and includes additional services such as 24-hour staff attendance/oversight, a table service restaurant, function room, spa/treatment room/hairdressing salon, and one hour per week of domestic assistance, with optional/flexible domestic and personal care packages available from the on-site team. Developments are for those aged 70 years and above and the average age at purchase is approximately 83 years. Schemes are managed by a CQC-registered joint venture between McCarthy & Stone and Somerset Care Group.

Ortus Homes (since 2014) – These developments are for the more active retiree who doesn't want to downsize into a traditional retirement housing scheme. Apartments are also built to Lifetime Homes Standards and are ergonomically designed with innovative features to support residents as they age and prevent them noticing their physical age day-to-day. These developments typically have fewer units of accommodation than Retirement Living or Assisted Living schemes, consisting predominantly of two bedroom units with increased car parking provision (minimum of 100%). Developments are for those aged 60 years and above with the average age of purchaser being 71 years.

*All new developments from August 2015 are sold with 999 year leases, effectively making them a form of freehold.

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[22] Based on 3,453 registrations of cross tenure properties specifically designed for the elderly with the NHBC during calendar year 2015, of which 2,672 were registered by McCarthy and Stone.

APPENDIX

Challenges to Development in the Retirement Housing Sector

Summary

This paper has been produced by the Home Builders Federation (HBF) Retirement Home Builders Group. Details of members of the Group who are housing developers can be found at the end of the report.

The report outlines the need for, and the benefits of, building more specialist retirement housing for older people, and then identifies some of the challenges that currently exist in the sector.

The key planning challenges are illustrated by looking at a worked example of schemes which could be built on a particular site. It shows that under current planning requirements, specialist retirement housing cannot compete with conventional housing, care homes or retail outlets, which will also be seeking similar sites to develop, unless necessary allowance is made for its circumstances.

The report then identifies some key changes that could help support a greater delivery of specialist retirement housing.

The case for building more specialist retirement housing

The UK population aged 65 and over is currently 11.5 million people, however this age group is projected to account for 74% of total household growth in England to 2039, by when the over 65s are forecast to comprise some 24.3% of the population (or 18 million people). The population of those aged 85 or over in the UK is expected to more than double between 2014 and 2039, with those aged 60 and over expected to increase by nearly 50% during the same period.

An expanding population coupled with a well-recognised shortfall in the delivery of new homes has created one of the major pressure points in the housing market.

While schemes have been launched, quite rightly, to help first-time buyers purchase homes, there has been less, (in fact, very little), attention paid to the other end of the market – that of people building homes suitable for the needs and aspirations of older people. As such, we welcome the investigations of the Select Committee on this issue.

There are several benefits of creating a system that encourages the development of specialist retirement housing, which we examine below but alongside this, we recognise that not every older person will want to downsize or move from a family home. Whilst they should be actively encouraged to downsize given the personal and social benefits of doing so, and the significant gains to local communities and the public purse, these older homeowners should also be given access to help to make their home suitable for their needs.

There are however a significant number of older homeowners who would consider downsizing or moving to specialist retirement housing[23]. The estimated numbers range from 2.5 million households to 6 million people. Smoothing the path for this to happen could have wide ranging benefits across the market.

Looking at the housing market as an interconnected sector, it is evident that creating more housing specifically for older people and encouraging downsizing can help first-time buyers and growing families by **freeing up housing further down the housing chain**.

[23] http://england.shelter.org.uk/news/previous_years/2012/april_2012/housing_market_failing_older_people
https://kfcontent.blob.core.windows.net/research/696/documents/en/2016-3770.pdf

It is evident[24] that encouraging older people to choose housing more suited to their needs will lead to **less pressure on health and social care services**, as the community and facilities in and around housing specifically designed for those in later life can reduce the number of 'crisis' events (e.g. trips and falls) and improve well-being and general health.

At present, there is limited stock of specialist retirement housing available. There are several key planning and development issues at the heart of this, which we shall address in this report.

In addition, among potential buyers, there is a lack of familiarity with the sector – with many assuming that all specialist retirement housing is a form of 'Care Home'. This is perhaps further complicated by the wide range of retirement housing models with differing facilities and amenities on offer. A standard set of references could help in this area, and we have laid out a potential blue-print for this below.

The data currently available for the retirement housing sector from the Elderly Accommodation Counsel suggests that some 6,855 retirement and sheltered housing units will be delivered in 2017. Most of this will be in the social rented sector, which has grant funding. Knight Frank estimate annual output at c5,500 units. There are no central Government figures.

<u>What do we mean by specialist retirement housing?</u>

Specialist retirement housing is proposed as an umbrella term to cover all types of specialist housing for older people from 'age-restricted' housing to 'extra-care accommodation'. A definition of the four forms of housing that sit within the term 'specialist retirement housing' are detailed below. The common features of all four types are the age restriction, their specific design to meet the needs of older people, and a range of support services and shared spaces.

Downsizer (Age-restricted housing) *- typically for those aged 55 or above and the more active elderly. Often flats or bungalows, though some developers build houses which are purpose built for older people with shared amenities such as communal gardens or coffee lounges. On-site staffing is limited typically to just the maintenance of the development and its grounds. Developments are usually up to 30 units in size. Some shared areas may be provided. Historically referred to as "Category 1 housing".*

Retirement Living *– age restricted housing, typically for those aged 60 and above. Formerly referred to as "Category 2 housing" or sheltered housing and consisting of independent flats and / or bungalows with enclosed access, a communal lounge and other limited communal facilities such as a shared laundry and a guest suite. Importantly, on-site support is provided by a warden or house manager who is dedicated to the running of the development. Developments are typically between 30 to 60 units in size.*

Extra Care Housing *- Age restricted accommodation, also known as Assisted Living, typically for those aged 70 and above. The term is used for a complex of specialised accommodation, including individual apartments for older people and a range of on-site services including care in a style that can respond flexibly to increasing need whilst fostering independence as far as is possible in older age. In most Extra Care accommodation, people enter the unit of accommodation and the care services they receive are delivered into that unit as their needs increase with age or in the short term due to illness, post recuperative care etc. Significant shared services will be provided, such as a residents' lounge, restaurant with on-site kitchen, function room, laundry, guest suite, well-being centres, hairdressers, and staff rooms, Developments are typically between 40 to 70 units in size. This form of specialist retirement housing was historically known as "Category 2½ housing"*

Care Villages / Continuing Care Retirement Community*. Age restricted accommodation typically for those aged 70 and above. Similar to Extra Care but often much larger with some developments being up to 200 units. Schemes typically have higher levels of care which are generally delivered by transfer within the scheme from an independent living unit, in which low to moderate care is delivered, to a specialist unit or care home as resident's needs progress.*

For the avoidance of doubt the umbrella term of 'specialist retirement housing' does not cover traditional forms of residential institutions such as Care or Nursing homes. These are entirely separate and fall outside the scope of this report.

[24] https://www.independentage.org/sites/default/files/2016-05/APPG_-_Living_Well_at_Home_Inquiry-Digital.pdf

Development Economics:

The economics of developing specialist retirement housing are substantially different from that of 'general needs housing', by which we mean conventional / mainstream market housing not aimed at a particular demographic.

The principal difference being the extent of saleable space and build cost. In most forms of specialist retirement housing, with perhaps the exception of some forms of 'Downsizer' (age restricted retirement housing) a significant proportion of the scheme will be dedicated to communal space. This cannot be sold.

The planning system exacerbates this problem and affects the viability of specialist retirement housing, as Community Infrastructure Levy (CIL) payments are calculated using the Gross Internal Area (GIA) of a scheme. This will include the non-saleable communal areas.

The problem is further augmented by the fact that specialist retirement housing schemes, especially those offering on site supervision and care, tend to be higher in density.

Taking advantage of economies of scale is the only model which makes the cost of staffing and operating such schemes workable. The alternative would be much higher weekly charges for residents.

However, the result of higher density is higher CIL charges and a larger requirement for Affordable Housing.

Build costs are also higher than for conventional housing as specialist retirement housing is built with specific design requirements and features to better suit the needs of older people.

The impact of higher CIL charges and S106 requirements is that schemes start to become unviable. Whilst developers of general needs housing and / or commercial uses can bid at one level for development land, retirement operators struggle to compete. This impedes **the delivery of specialist retirement housing right at the start of the process before schemes come before planners – i.e. those seeking to deliver specialist retirement housing are not able to operate on a level playing field at the point of land acquisition if they face the prospect of CIL and S106 requirements levied on a normal basis**. While it is possible to negotiate with local authorities on such requirements, this adds significantly to the time, risk and resource costs of seeking to take such developments forward, particularly when the specific development economics involved are often not well understood by planners.

This is shown clearly in the worked example of valuations for six different types of schemes.

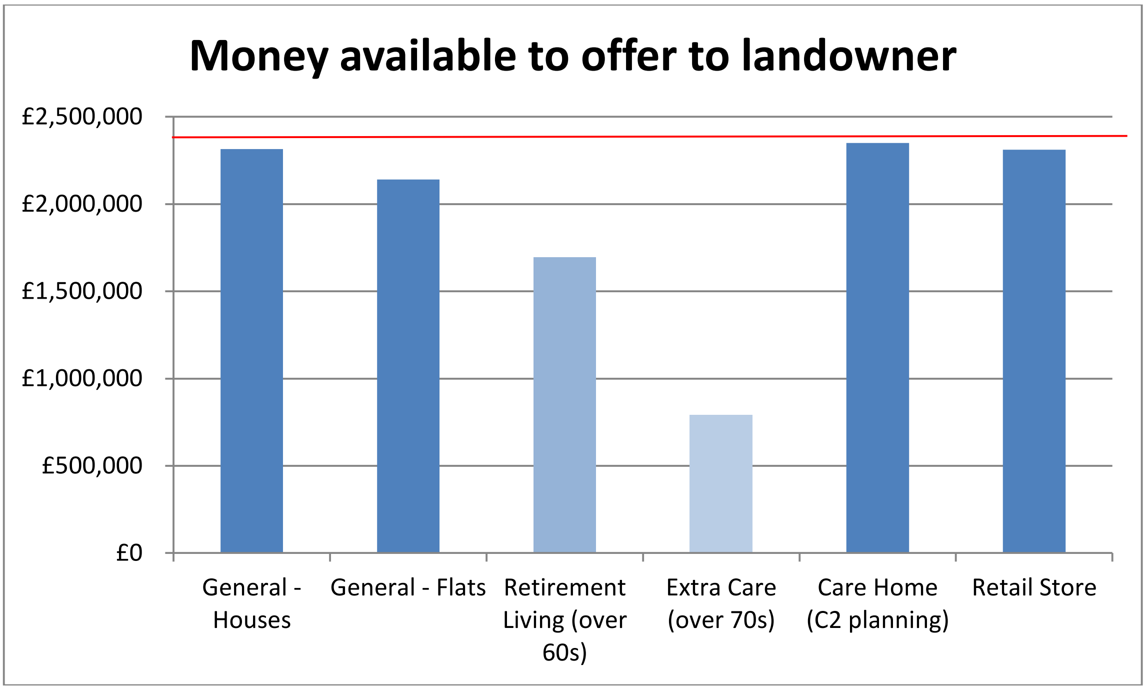
The data[25] provided by Planning Issues, takes, as an example, a 0.4 hectare brownfield site in the South East of England, ten minutes from the local town centre. It examines the detailed valuations for six separate schemes. These are:

- General Needs Family Housing
- General Needs Flats
- Retirement Living
- Extra Care
- Care Home
- Retail Store

The comparison charts are at the back of this report. Planning Issues can provide a full detailed valuation for each scheme if required.

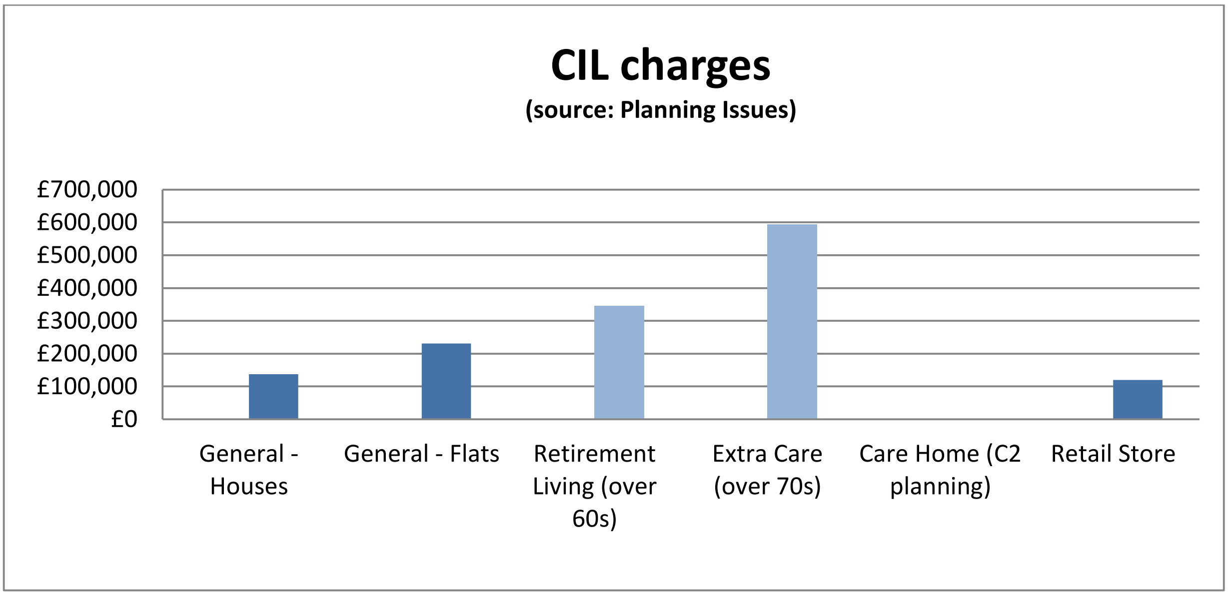
The two specialist retirement housing schemes (one Retirement Living and one Extra Care) are both **higher density** than the other schemes, leading to larger Gross Internal Areas (GIAs). This means that the **Gross Development Values are higher** than other schemes that could be built on the site, as shown below.

[25] Planning comparison – end of report

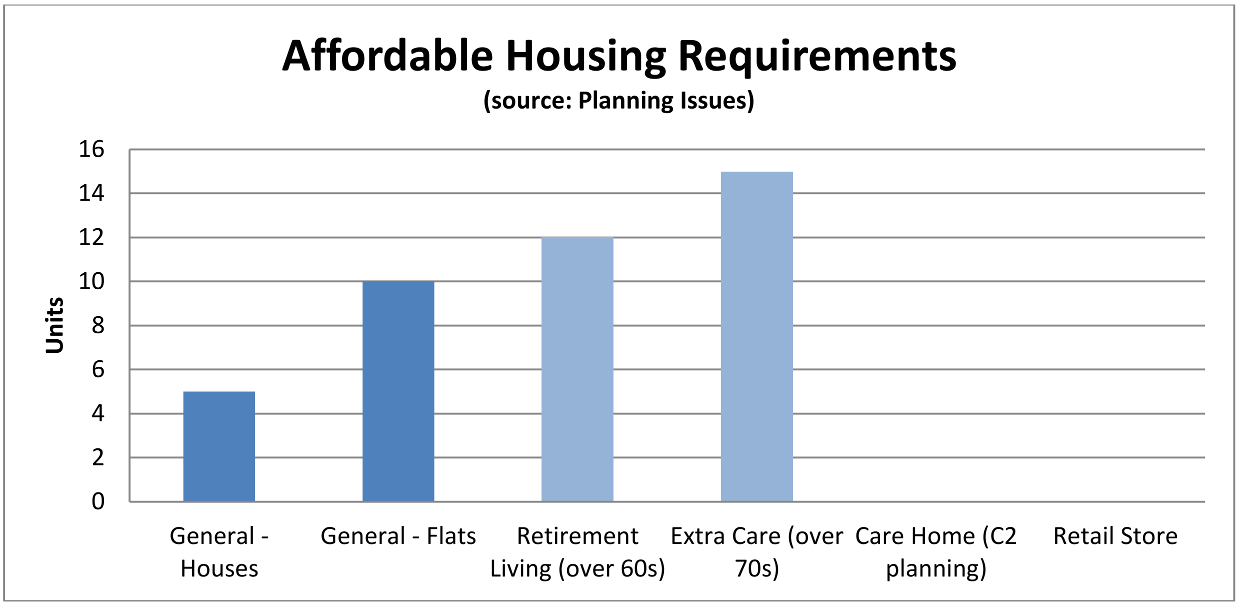


However, the true developable area within the GIA is smaller for the specialist retirement housing schemes. While the efficiency for the general flatted development is 85%, allowing for the circulation space within such a scheme, this drops to 75% for Retirement Living and 65% for Extra Care.

Yet, despite this, the **Community Infrastructure Levy (CIL)** is calculated off GIA. As such, the **charges for specialist retirement housing are higher** than for other forms of development. Care Homes, which are classed in planning class C2, rather than the C3 class applied to residential and most specialist retirement housing, usually attracts no CIL.



Given that **Affordable Housing (S106)** requirements are also calculated from the number of units in a scheme, rather than a consideration of the scheme as a whole, the **requirements for specialist retirement housing are also higher.**

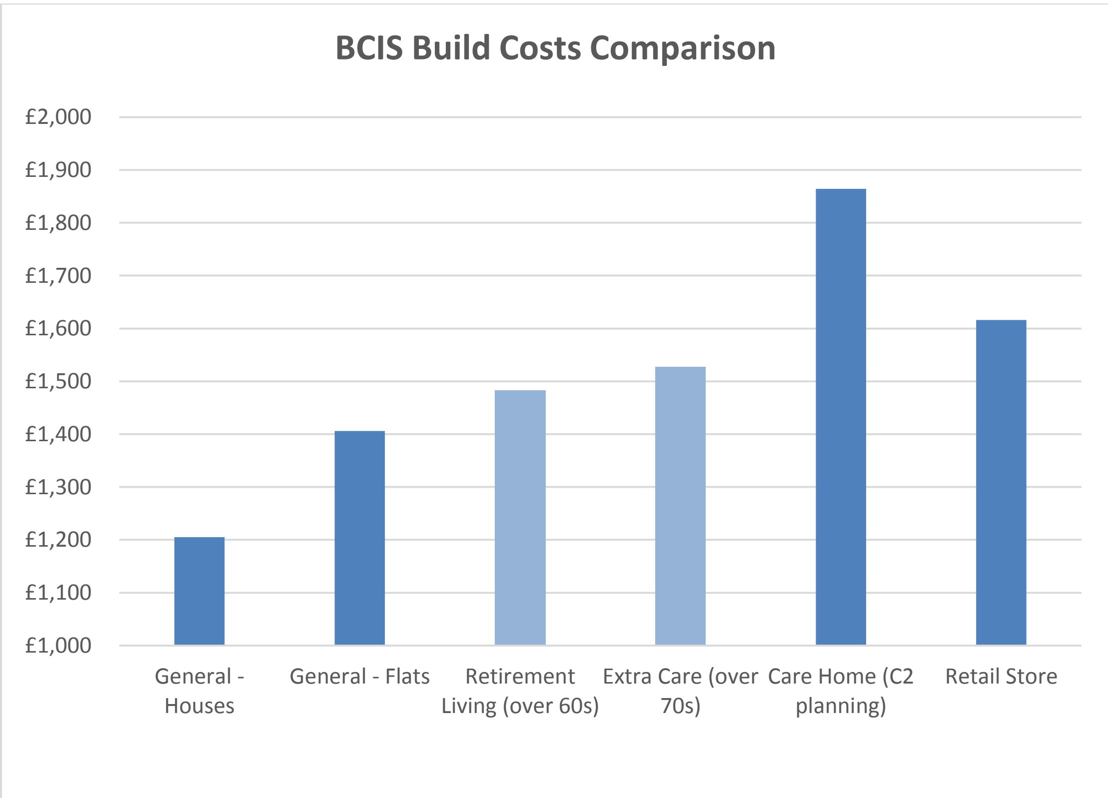


So while the overall Gross Development Value is higher for specialist retirement housing schemes, the additional costs for development are also significantly higher under the current system.

Several other considerations also come into play here. Firstly, the **lack of pre-sales** in a Retirement Living and Extra Care housing scheme (the communal areas must all be complete and operating before anyone can move in) means that cash-flow is more restricted than general needs housing. In addition, there is usually **little or no phasing**, again affecting cash flow.

Unlike conventional housing, there is also a **cost** to the developer when **units remain unsold** as all services must be maintained. This has been assumed, for the purposes of our example site, at £300 per month per unit for Retirement Living, and £475 per month per unit for Extra Care.

Build Costs are also higher for specialist retirement housing schemes than conventional housing, although not as high as for Care Homes or Retail.



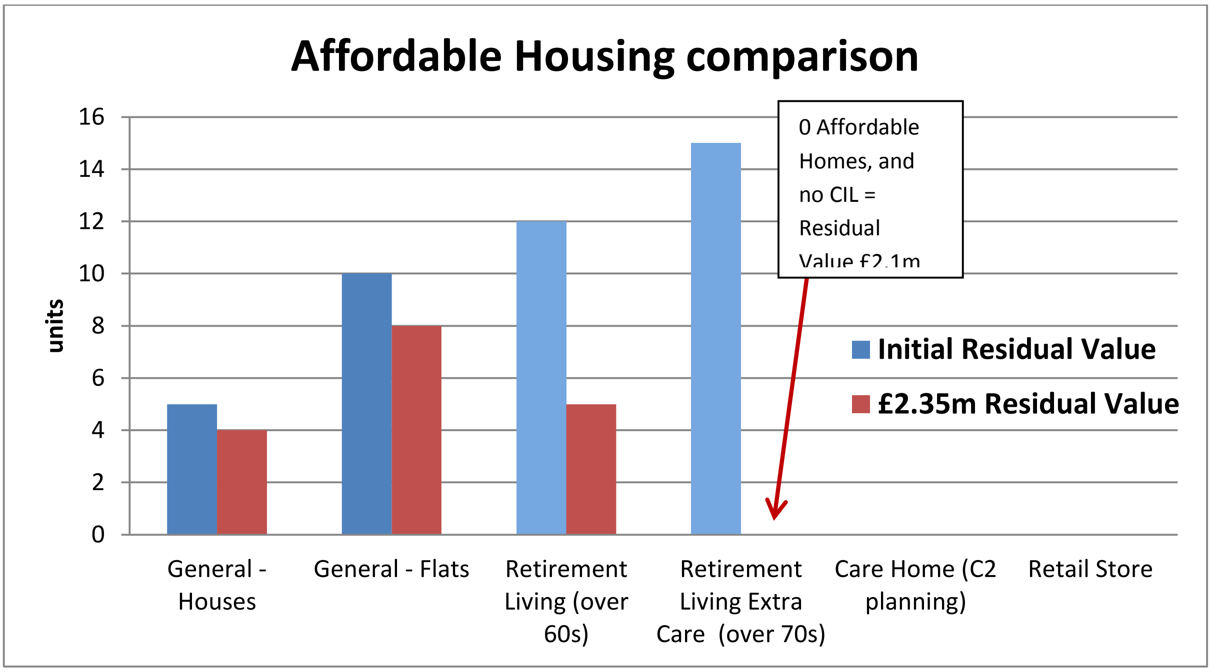
Once these factors are taken into consideration, the valuations start to look very different.

Assuming all other things are equal, the residual land value – the sum that could be bid for the site, shows how specialist retirement housing schemes lag behind. The Residual Value for a Care Home reaches £2.35 million – making this a possible benchmark for bids on the site.

Under current planning rules, it is hard for specialist retirement housing operators to compete for development land on the open market.

Planning Issues have calculated how S106 Affordable Housing requirements would have to change on each scheme to bring the bid levels to £2.35 million, to match the Residual Value of the Care Home scheme.

Even if the Affordable Housing requirement for a Retirement Living scheme with Extra Care was lowered from 15 units to zero units, and CIL was waived entirely, the Residual Land Value is still marginally below £2.35 million.



The worked example shows how a change of approach may be needed in terms of specialist retirement housing. There is an ageing population, and creating more housing targeted to need could free up family homes and reduce pressure on health and care services.

So what are the Challenges?

CIL

Challenge: As exemplified in the worked example, when applied with no reference to the special characteristics of these forms of housing as a whole can affect the viability of Retirement Living and Extra Care housing schemes. Local Authorities (LAs) do have some discretion over the setting of these charges, but the experience of developers in the HBF Retirement Home Builders Group is that this is very infrequently applied.

Possible Action: Create an environment where LAs take more control over CIL payments, or reform the system to create more flexible CIL payments. The specific characteristics and circumstances relating to the development of specialist retirement housing need to be considered under the proposals for a wholesale reform of CIL to a lighter touch 'Local Infrastructure Tariff' (LIT) and Strategic Infrastructure Tariff (SIT) . There is a need to ensure that any new approach should not actually become more onerous for such development. Any move to a new form of levy should have the flexibility to be used differently on different types of schemes.

S106

Challenge: As with CIL, LAs are applying general rules on S106 to specialist retirement housing schemes which can affect viability.

Possible Action: To deliver more homes in an area, LAs who make realistic assessments for specialist Retirement housing developments based on individual schemes will be more likely to deliver suitable housing for their locality. Some planning guidance to help LAs approach negotiations on these points could be a useful development for this sector.

One way of addressing the current imbalance in the planning system would be to create a new planning use class with policy / guidance directing that S106 and CIL requirements are more akin to those for developments in a C2 class (Care Homes). A sub-section of C2 has been suggested, attracting a smaller or zero planning obligation. This would make the question of charging much clearer.
Overcoming the issues above could also be progressed by including much more detailed information on housing need in Local Plans – considering not just the number of new homes needed but also the **type** of housing needed, i.e. considering who the homes are for.

There are positive signs that policy is moving towards considering the type of housing needed. For example, the London Plan outlines targets for specialist housing for older people by tenure[26].

In addition, an amendment added by the Government to the Neighbourhood Planning Bill (which has yet to be enacted) proposes that a statutory duty be placed on the Secretary of State to guide LAs on how their approach should incorporate the needs of housing for older people[27]. The Housing White Paper also re-iterated a previously discussed idea of assessing housing need by age.

Possible Actions: There is room for more progress in this area, with the needs of older households placed alongside all other households in an Authority. There are several steps along the planning and development pipeline which could enshrine this approach:

- LAs given guidance on assessing needs of older people when drawing up Strategic Housing and Employment Land Availability Assessments (SHELAAs)
- Include a statutory requirement for Local Planning Authorities to have a housing target for specialist retirement housing to be delivered over the Plan Period. This would function in a similar manner to the existing Affordable Housing target.
- Local Plans to include consideration of needs for specialist housing for older people
- LAs to monitor and publish delivery of specialist housing for older people in their Annual Monitoring Reports

Monitoring and assessing progress will be key, to help identify LAs which may need more support to examine the need for specialist housing in their areas.

Attached: Worked Example

For information: housing developers who are members of the HBF Retirement Home Builders Group (not all of these companies are building specialist retirement housing):

Phoenix Retirement Homes Ltd
Churchill Retirement Living Ltd
Linden Homes
Pegasus Life Limited
County Life Homes Ltd

[26] https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-annexes/annex-five-specialist

[27] https://www.publications.parliament.uk/pa/bills/cbill/2016-2017/0157/hcb157.1-7.html

McCarthy & Stone Retirement Lifestyles Limited
Fairgrove Homes Ltd
Girling Retirement Rentals Limited
Conroy Brook (Developments) Ltd
CALA Group Ltd
Davidsons Developments Limited
Rectory Homes Ltd
Crest Nicholson PLC
Blue Cedar Homes Limited
Places for People (York)