

APRIL 2018

Last Time Buyers



Introduction

The UK housing market is at a crunch point. A generation of young people are locked out of the market - the first generation to be worse off than the one before them and unable to think about buying a property unless The Bank of Mum and Dad is on hand to help with their deposit and assist with mortgage payments. But for all the focus on our hard-pressed First Time Buyers, part of the challenge lies much further up the housing ladder – with what we have termed ‘Last Time Buyers’.

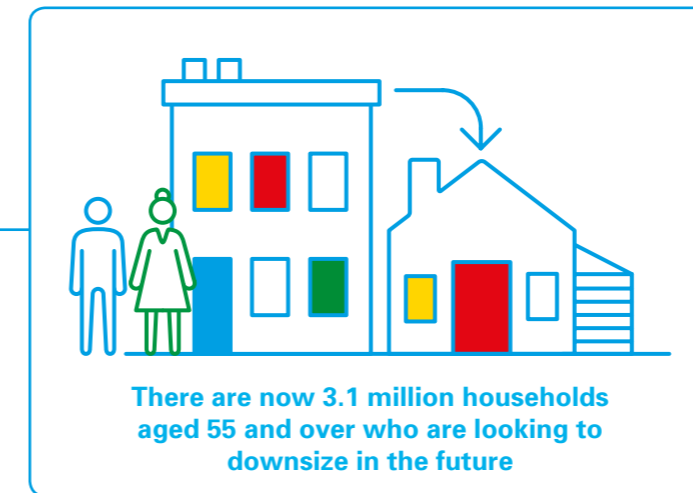
The housing market has become split across generational lines and is now a major symptom of, and contributor to, intergenerational inequality. Homeowners over the age of 50 hold 75% of Britain’s housing wealth, according to research from Savills.¹ The Institute for Fiscal Studies has illustrated that young middle-class professionals today are half as likely to get on the housing ladder as they were 20 years ago – just one in four young middle-income families own their own home (down from two in three in the 1990s).

Increasing the overall supply of housing is clearly one lever that needs to be pulled, yet the Government’s housing policy does not reflect the nuanced nature of housing demand. There needs to be a greater focus on the provision of housing across all tenures, and specifically the significant undersupply of housing designed and built for those aged 55 and over. But equally important is ensuring that the current stock of housing is fully optimised. Last Time Buyers – older homeowners who live in properties that are now too large for them, and would like to downsize – are a key part of this.

There are now 3.1 million households who are aged 55 and over looking to downsize in the future, according to research by Legal & General and The Centre for Economics and Business Research (Cebr). The total stock of housing wealth owned by Last Time Buyers will exceed £1 trillion for the first time in 2018, up from £820bn in 2015, when we last analysed the Last Time Buyer market. The UK’s ageing population means this issue is forecast to get worse, not better - by 2021 there will be 3.4 million Last Time Buyer households with a housing stock value of £1.2 trillion.

1. <http://www.cityam.com/283340/property-boomers-over-50s-hold-75-per-cent-housing-wealth->

If we can free up this housing stock, it would make a huge contribution to easing the housing crisis, freeing up family-appropriate properties close to schools, balancing intergenerational inequality and boosting the UK economy. The Last Time Buyers have a lot to gain, too – instead of staying put in properties that no longer suit their lifestyle, they can experience health, financial and social benefits in safer, more appropriate accommodation with reduced running costs.

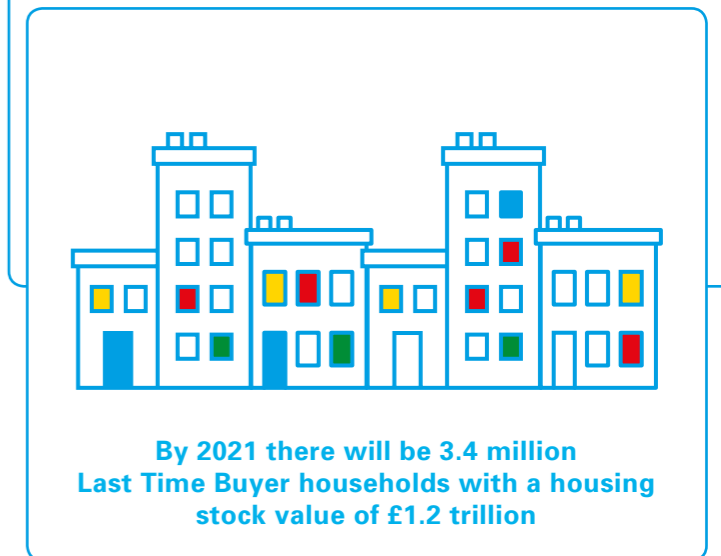


Much of the debate around the housing crisis focuses exclusively on First Time Buyers and the challenges of getting on the property ladder. Given the numbers involved, it is amazing how little attention has been paid to Last Time Buyers, even though they are open to downsizing, and to doing so at a younger age (this study shows the optimal age to downsize is considered to be a very realistic 65-69, down from 70+ when we asked the same question in 2015).

One thing that hasn’t changed is the type of property that Last Time Buyers dream of – for most it’s a two bedroom home near to family and friends, with more than one in 10 (13%) keen to move to dedicated retirement housing or a retirement village.

Indeed, while much of the downsizing debate tends to focus on costs (and these are an issue) we believe that the lack of good quality later living housing is the fundamental barrier to Last Time Buyers making the decision to move. This is an issue that can and must be addressed. Increasing the UK’s stock of dedicated later living housing supply is a smart way to unlock the Last Time Buyer market, help solve the housing crisis, and play a significant role in reducing the escalating NHS health and care costs for the elderly.

We need to do more to help our Last Time Buyers find a property that suits their needs and lifestyle aspirations. Legal & General wants to ensure that this key demographic has a choice; whether it’s the opportunity to move to the right type of housing across a range of tenures, or to help unlock their housing equity through a lifetime mortgage. Rather than seeing the different generations as hopelessly divided by the chasm of wealth inequality, we see their challenges as inextricably linked – we will not solve the issues in the First Time Buyer market without helping Last Time Buyers as well.



Understanding the Last Time Buyer market

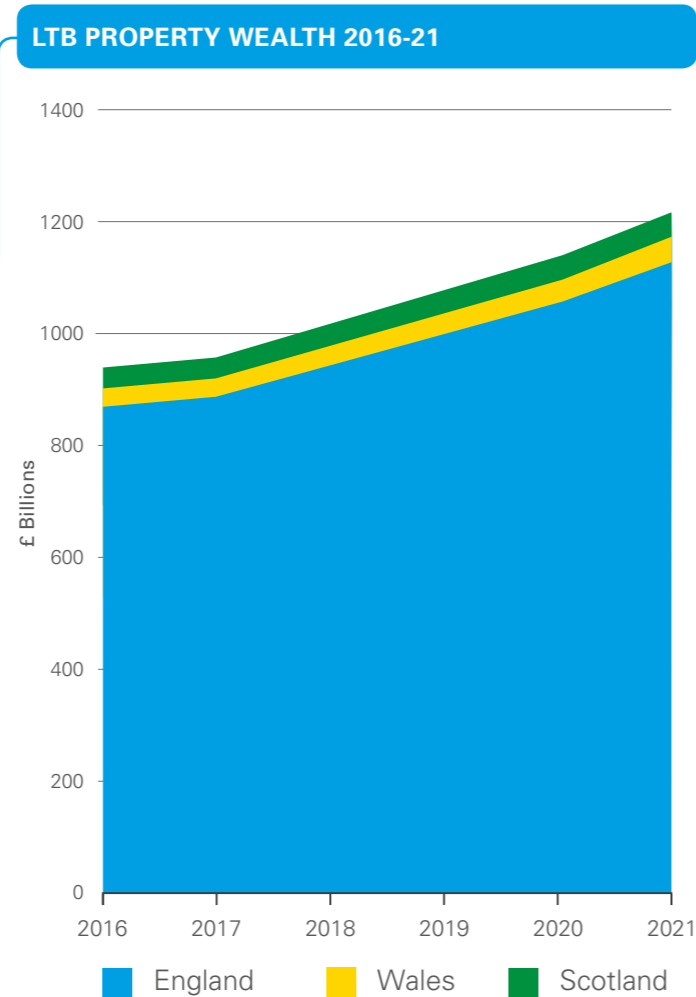
The Office of National Statistics' English Housing Survey shows that almost two thirds (63%) of those aged 55 and over in the UK own their own home outright.²

A significant proportion of these households can be identified as "Last Time Buyers" (LTBs):

- A household that owns the property in which they live
- Where the owner or owners are aged 55 or over
- Where the household is under-occupied, with two or more empty bedrooms
- Where the household has a preference to downsize at some point in the future.

Legal & General's latest study into the Last Time Buyer market shows that the number of LTB households in the UK now make up over a quarter (26%) of all households aged 55 and over in Great Britain; that's 3.1 million LTB households in all. Within this demographic, LTBs hold an astonishing amount of property wealth. The current value of the LTB housing stock in Great Britain stands at £938 billion and is set to pass the £1 trillion mark by the end of 2018.

That's a significant step up from the first time the Last Time Buyer research was commissioned, when housing stock figures had reached £820bn in 2015. The stock of housing wealth held by Last Time Buyers will reach £1.2 trillion by 2021.



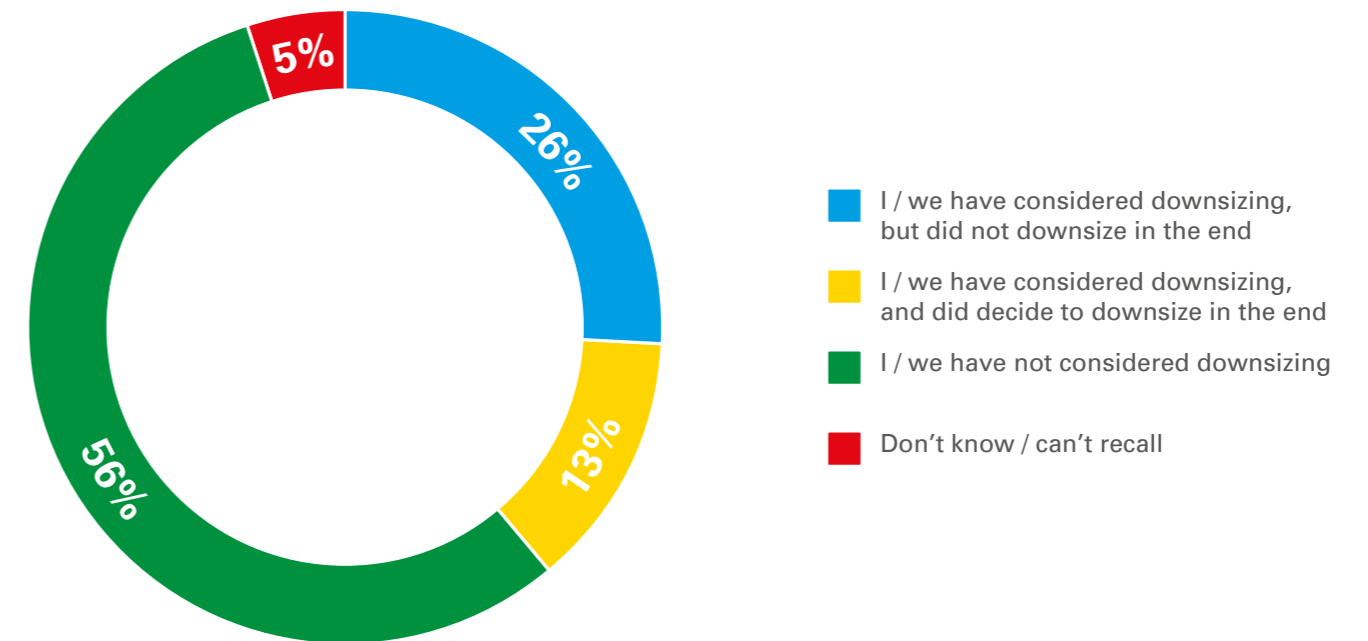
Room to spare

Equally as important as the value of the property is its capacity. With 3.1 million LTB households, there are at least 6.2 million spare rooms: the equivalent of over 2 million typical three-bed family homes (and a lot more, given that many will have more than two unoccupied bedrooms).

That's about a decade's worth of house building³ that could be available now – if LTBs were able to act on their preference to downsize. This scale of under occupancy is growing: the 3.1 million LTB households in 2016 will be 3.4 million in 2021 and 3.7 million in 2026 – a minimum of 7.4 million bedrooms.

Of all the households with homeowners aged 55 and over with at least two unoccupied rooms (5.7 million), over half would consider downsizing (3.1 million), and among all homeowners aged 55 and over, the proportion looking at downsizing has grown from under a third (32%) in 2014 to 39% today. But far fewer have actually done so – just 13% – suggesting that the impetus is there, but the housing stock is not.

BEST INTENTIONS: PROPORTION OF HOMEOWNERS AGED 55 AND OVER HAVING CONSIDERED AND ACTUALLY DOWNSIZED IN THE LAST FIVE YEARS



2. English Housing Survey 2015 to 2016: headline report, ONS, March 2017 <https://www.gov.uk/government/statistics/english-housing-survey-2015-to-2016-headline-report>

3. Assuming an average of three bedrooms per property and in light of the 163,250 new build completions in 2017, it would take over 12 years <https://www.gov.uk/government/statistics/house-building-new-build-dwellings-england-october-to-december-2017>

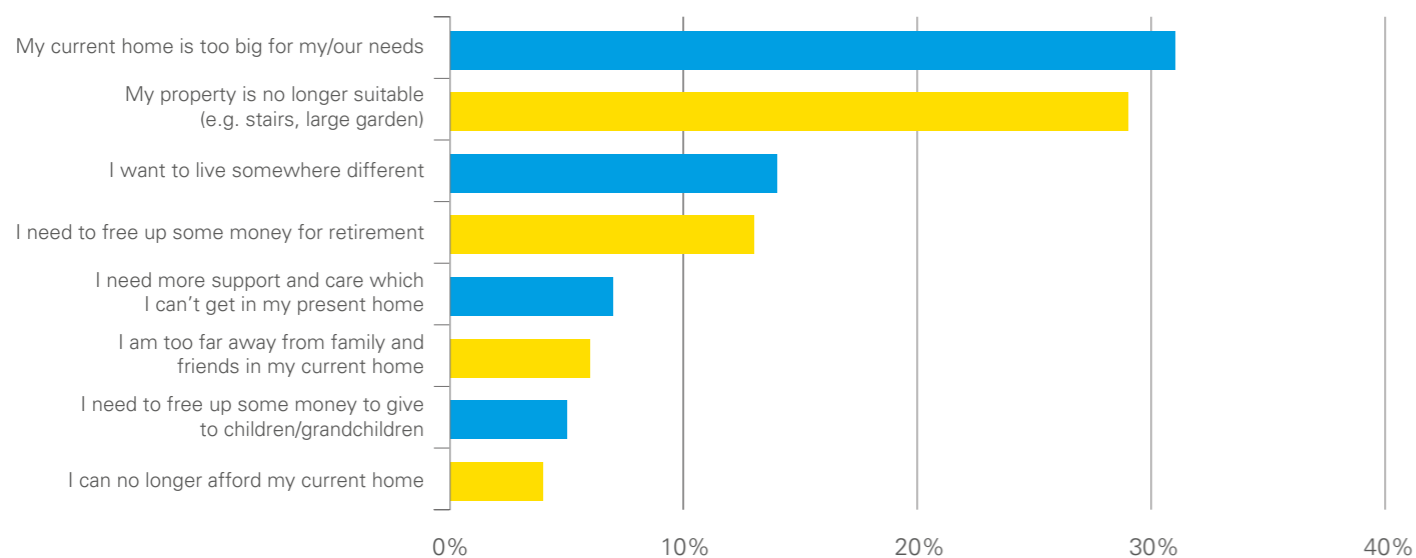
Gravitational pull: Drivers for downsizing

The motivations for moving are no surprise. When asked for the reasons behind their decision to downsize, 31% of homeowners aged 55 and over said their home is too big for their needs. A similar proportion (29%) said that their property is no longer suitable (with some overlap possibly, as people could give multiple answers) – perhaps because of stairs in their current property or a big garden. As such, downsizing doesn't just free up housing for growing families and second-steppers; it lets LTBs find a property that's more aligned to their desired lifestyle and needs.

Further reasons that the LTBs look to downsize include freeing up money for retirement (13%) or children and grandchildren (5%), with 4% stating that they could no longer afford their current home.

Most LTBs are retired or have no full-time workers in their households (72%), and while they may have a lot of housing wealth, the average weekly income for an LTB is just £632. This is significantly under the average for all UK households in the 2016 financial year of £780.⁴ Of those that are working, meanwhile, only one in five is in a higher managerial or professional occupation. Unlocking some of the equity tied up in their housing could therefore prove a huge help for many.

MOTIVATIONS FOR DOWNSIZING AMONG THOSE AGED 55 AND OVER



⁴ <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditureadhdcs/006770grosshouseholdincomebyincomedecelegroupukfinancialyearending2016>





Downwardly immobile So, what's stopping Last Time Buyers from downsizing?

Of course, the decision to move is a big one – and arguably, the older you are, the harder it is. Houses are not just properties; they're homes. People build relationships in their area and have friends and family around. Among LTBs, 45% have lived in their home for 30 years or more and two thirds (65%) for at least 20 years. Almost three in ten (29%) are in the first house they ever owned.

Among all homeowners aged 55 and over, big reasons against moving include not wanting to give up the family home (24%) or wanting to leave it to their family as an inheritance (18%); being

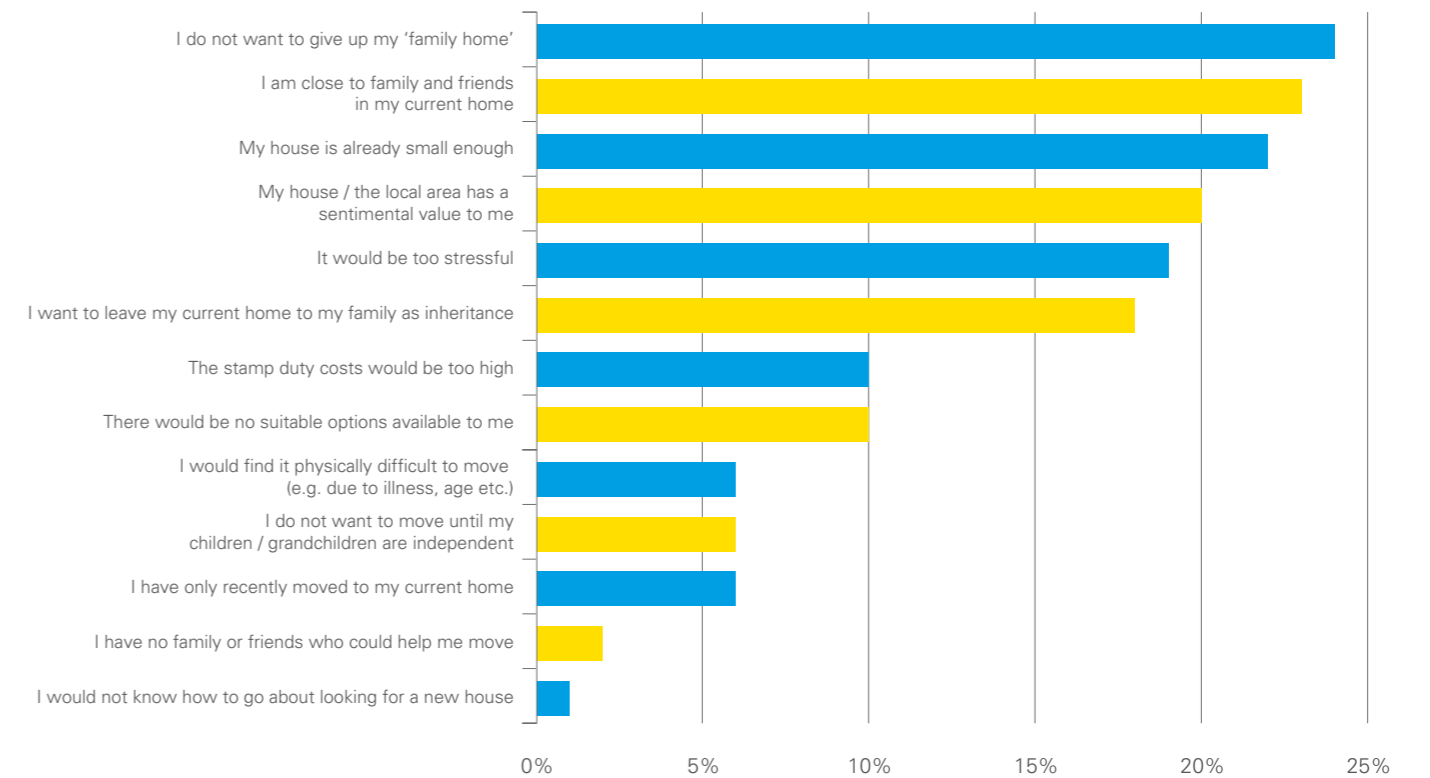
close to family and friends (23%); and sentimental attachment to the house or local area (20%).

Highlighted in this report, there are also financial considerations that could encourage downsizing, particularly if LTBs are looking at freeing up money for retirement. Of those who said they knew what would compel them to downsize, selections were fairly evenly split between council tax exemptions, inheritance tax changes and stamp duty changes.

About half, though, said none of these changes would compel them to do so.



TIES THAT BIND: WHY HOMEOWNERS AGED 55 AND OVER WOULDN'T MOVE



Never too late?

In fact, it's probably neither primarily a sentimental attachment to the family home nor hard-nosed financial considerations that are stopping more LTBs from moving; these are just additional barriers. Rather, the two main factors keeping LTBs in their current homes are inertia and a lack of options.

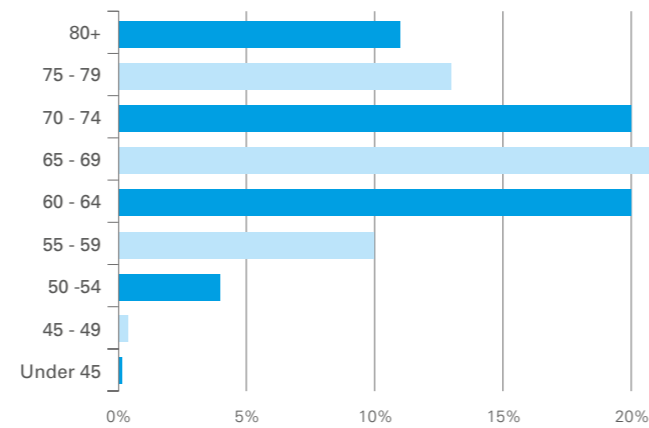
Firstly, the fact is that many LTBs leave it too late to downsize. The process of moving is not an easy one – practically or emotionally. Without a compelling financial need to move, and with most owning their homes, the tendency to put it off is understandable.

Among those who say they have downsized or would consider it, the most popular answer for the best time to make the move is in the early years of retirement: at ages 65 to 69. More than a fifth (22%) say these are the best years to downsize. This is a significant and welcome reduction from when we asked the same question in 2015, when more said 70 or over.

However, many would still put it off, with a fifth (20%) saying 70-74 would be best the time to downsize and about a quarter saying either 75-79 (13%) or even 80 and over (11%). Given the average life expectancy for men in the UK is 79, it's fair to say many are still leaving it too late.⁵

On the bright side, within every age band considered (55-59, 60-64, 64-69, 70-74, 75-79, 80+) the highest share of respondents thought their own age band was the best time at which to downsize. On the other hand, the small numbers actually doing so suggest there's little sense of urgency. If homeowners feel it's never too late to move, there is a significant chance that they may not end up moving into a property of their choosing. Instead, their next move may be into a care home or hospital, scenarios which are proven to be delayed by moving at the appropriate time to a home that can provide positive health and wellness advantages.

TIMING IS EVERYTHING: THE IDEAL AGE TO DOWNSIZE, ACCORDING TO THOSE WHO WOULD CONSIDER IT



5. <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/datasets/lifeexpectancyatbirthandage65bylocalareaintheunitedkingdomtable1ukandlocalareasinenglandandwales>

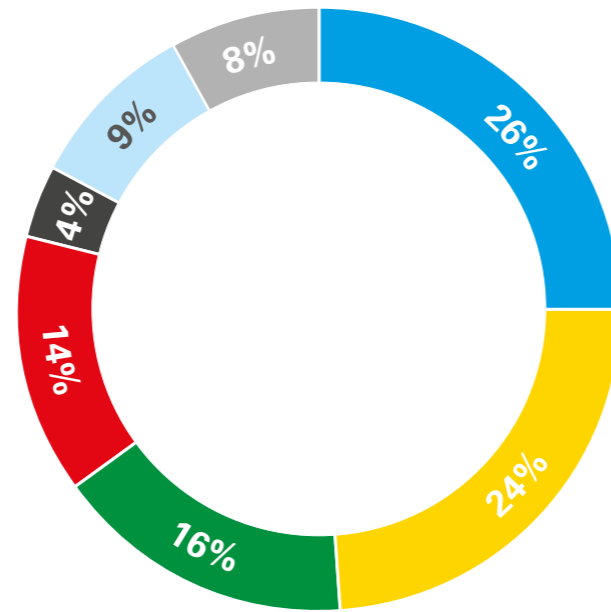
Later life housing supply

There is another explanation for the discrepancy between the numbers open to downsizing and those actually doing so – and that’s down to a lack of available options.

LTBs have very specific requirements in terms of both the location and the property they’re going to call home. Many want to stay in the same area (24%) or near family and friends (26%). In fact, 49% said that they would stay within five miles of where they currently live, and another 17% between five and 25 miles. They also want access to shops (16%) and a local GP or other healthcare facilities (14%).

The majority of LTB downsizers are also looking for a particular type of property, most often a bungalow/ single level property (45%), and generally with two bedrooms (62%). While happy to downsize, many said they don’t want somewhere too small, as they’d miss the storage and space in their current home if they moved.

FACTORS FOR LTBS WHEN CHOOSING A LOCATION



- The property is near family / friends
- The property is in the same area as where I live now
- The property is near shops
- There are easily accessible healthcare facilities
- Good local entertainment
- None of these
- Don't know

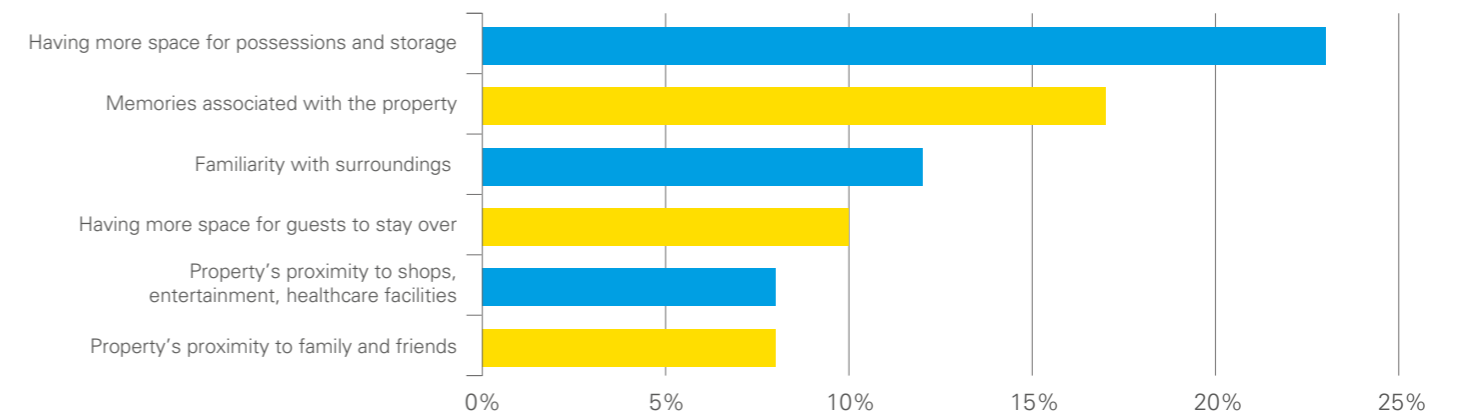
These are not unreasonable demands. Yet the evidence suggests they’re not easily met. Many LTBS have actually tested the water and seriously looked at moving, only to be disappointed with the available options. Indeed, the share of people who have considered downsizing but were not able to due to a lack of suitable properties has nearly doubled from a quarter in our 2015 survey to just under half (49%) today. Furthermore, three in ten (29%) said suitable properties were just too expensive.

This goes back to our point at the outset of this report: the shortage of affordable and appropriate housing stock is not just an issue for the young. Indeed, while Government initiatives such as Help to Buy have specifically tried to address the challenges faced by First Time Buyers, one unintended consequence of these schemes has been an enormous distortion in the land market.

In addition, the later living sector has seen chronic underinvestment and a complete lack of Government support. As a result, the UK is suffering from a staggering undersupply of appropriate later living housing. Redressing the imbalance in this part of the market, however, would go a long way towards tackling the fundamental issues we face with an ageing population and spiralling healthcare costs.

This is a vital area to get right. An increase in the supply of later living housing is not only a smart way to help solve the housing crisis, but it would also help to mitigate the escalating healthcare costs for the elderly. As a result, the lack of supply of this type of housing is a fundamental blockage that needs to be addressed.

REGRETS, THEY HAVE A FEW: WHAT LTBS WOULD MISS IF THEY DOWNSIZED



Wising up: a new housing plan for an older demographic

This report demonstrates that we need better housing options for the many older homeowners who are looking to downsize, but are unable to make that move because of the lack of appropriate properties. In short, we need to support older homeowners more effectively – whatever they decide to do and wherever they decide to live.

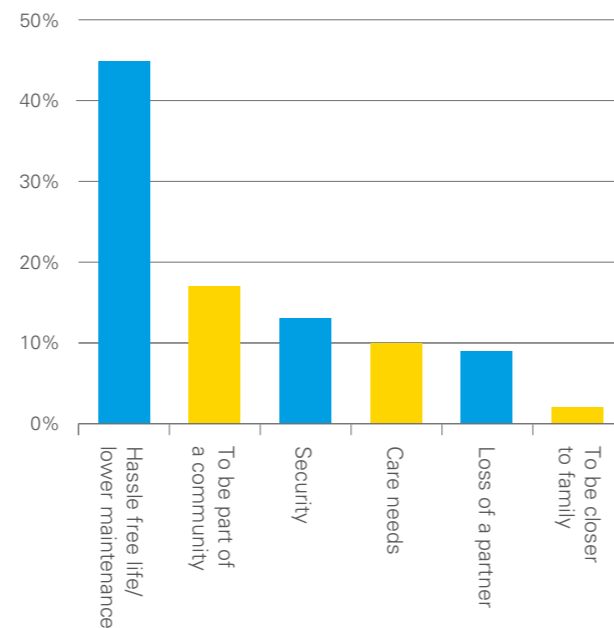
Later living housing is likely to be a significant part of the answer. However, with only 7000 of these units delivered each year, supply is appalling, especially given the massive social and economic benefits of this type of housing, as detailed by the International Longevity Centre earlier this year.⁶

These benefits include:

- Better quality of life for the resident
- A huge reduction in health costs
- Reduced care costs
- Tackling the UK's loneliness epidemic
- Generating long term investment and employment within the local economy
- Boosting housing delivery with a multiplier effect by not only increasing new build supply, but also releasing additional unoccupied bedrooms through downsizing

There are of course barriers that we need to be creative to overcome. Many (37%) of those aged 55 and over who don't want to live in a retirement village say they would prefer to live in a community with a variety of ages, for instance. There are concerns over the cost (25%), too. But with 13% of homeowners over 55 stating that they either have or would move to retirement housing or a retirement village, and 9% saying that there was no later living housing available to them near family or friends, the requirement for an uplift in the provision of appropriate later living housing is clear.

NOT A CARE IN THE WORLD: MAIN CAUSES FOR CONSIDERING LATER LIVING HOUSING



Those aged 55 and over see a wide range of potential benefits from later living housing, including hassle-free occupation with any maintenance taken care of (45%), the opportunity to be part of a community (17%), security (13%) and having their care needs met (10%).

There's no doubt there's work to be done in promoting these benefits to older homeowners, as well as tackling some of the existing misconceptions about later living housing. But there's little chance – or much point – in doing so if we don't address the current lack of supply.



6. http://www.ilcuk.org.uk/index.php/publications/publication_details/stronger_foundations_international_lessons_for_the_housing_with_caresector_lifeexpectancyatbirthandage65bylocalareasintheunitedkingdomtable1_ukandlocalareasinenglandandwales



Solving the Last Time Buyer conundrum

The UK's massive housing wealth and the fact that so many of us are living longer should be a cause for celebration. However, the current housing market doesn't really work for anyone.

Young people struggle to raise the deposits required to get a foot on the ladder, whilst older people find themselves stuck in homes that are unsuitable for their changing needs and unable to enjoy the wealth locked up in them. For these Last Time Buyers, the decision to downsize or – more accurately, 'rightsize' to a more suitable property – could provide a solution for both of these groups.

This shift, combined with an increase in the supply of later living housing, represents the single most effective way to alleviate the UK's housing crisis, whilst also mitigating the rising cost of healthcare for the elderly. Therefore, the lack of supply of this type of housing cannot be tolerated any longer.

We could realise decades of housing supply targets by making better use of existing stock and encouraging the delivery of later living developments. There are over 3.1 million households who would like to move from under-occupied housing, if only the right stock existed to meet their desired lifestyle and needs. But the political support needs to be there. Later living housing is the Government's least loved residential sector.

As a result of the wellness-focused activities and smart internal design, a resident of a later living scheme can expect to benefit positively – in terms of health and wellness. The latest research published by the ExtraCare Charitable Trust in partnership with Aston Research Centre for Healthy Ageing (ARCHA), highlights the wider economic benefits of retirement schemes, including a 50% decrease in GP visits and a 40% reduction in NHS spend. The social and economic impact of later living schemes for the wider local community need to be recognised and reflected in housing, planning and health and social care policy in order to unlock this major source of suitable housing.⁷

7. The ExtraCare Charitable Trust, Better Lives, Health, Future, June 2015 <https://www.extracare.org.uk/research/findings/>

MAJOR POLICY RECOMMENDATIONS

1. NEW PLANNING USE CLASS AND SPECIFIC HOUSING DELIVERY TARGETS

In recognition of all the benefits that later living accommodation can provide, a new planning use class needs to be introduced where this type of housing becomes part of the local authorities' specific housing targets and, where appropriate, reductions can be made to encourage development, such as through Section 106 and CIL. The National Planning Policy Framework has been a success for wider housing targets, but thus far has overlooked the requirement that a quarter of homes need to be later living housing.

This report has shown that of those seeking to downsize, 66% would want to do so within 25 miles of their current residence. Public policy therefore needs to accommodate the provision of later living housing in both urban and rural environments.

2. TAX EXEMPTIONS

Of those Last Time Buyers who are open to downsizing, 32% said they would be more likely to do so if they benefited from a reduction in or exemption from stamp duty. This report evidences that there needs to be consideration around transactional costs and how a reduction would incentivise downsizing across the whole market. Removing stamp duty on later living properties would have the added benefit of removing the barriers to operators buying back properties at the end of a stay, allowing for quicker resale and economic refurbishments. This should not be viewed as a loss in revenue to the Government, as removing barriers at the top of the chain triggers further transactions and allows mobility along the property ladder for all, ultimately freeing up a greater flow of SDLT collected.

3. THE LIFETIME MORTGAGE MARKET

While our Last Time Buyers study highlights the pent-up demand for downsizing and the need for more of the right type of later living housing supply, it would be unrealistic to suggest that every older household will downsize in the future. For some people – due to a whole range of reasons (health, financial position, proximity to family, to name but a few) – staying in their own home until the very end of their life will be the right choice. For this group of customers, the lifetime mortgage market could offer solutions.

Many people are approaching retirement with outstanding mortgage debt – sometimes on an interest only basis with no alternative method of repayment. For these customers – who otherwise face the prospect of having to sell up – the lifetime mortgage market can be a lifeline, giving them the financial stability they need to plan for a better retirement in their own home.

In addition, customers who have paid off their mortgage but are keen to unlock some of the equity in their property for home improvements, holidays or helping family members, may well consider a lifetime mortgage to be the right option for them.

Releasing equity from the UK housing market has positive economic impacts, as the money flows back into the economy and supports jobs and investment. Legal & General's research demonstrates that for every £1 of equity released via a lifetime mortgage, £2.34 is generated for the UK economy. Legal & General provided £1bn in lifetime mortgage advances in 2017, and the whole market surpassed the £3bn mark, which shows the potential for continued growth in this sector.


If we are really to offer choice for those aged 55 and over, we must continue to develop and grow the lifetime mortgage market, as well as unlocking the Last Time Buyer market. Our older homeowners deserve the opportunity to make the right decision for their retirement needs.



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