Law Commission
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Consultation on Residential Leases: Fees on Transfer of Title, Change of Occupancy and Other Events

Background Paper 1
Age Restricted Housing with and Without Care

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50 YEARS

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S Lewis Esq.
Law Commissioner
Law Commission

Dear Sir

Age Restricted Housing with and without Care.

In accordance with your instructions to me I herein provide an explanation of the age restricted housing with and without care markets together with personal observations and opinions in respect of the way the sector operates.

I understand that this paper will be published with your findings in respect of certain aspects of these markets and that you may refer to it in your findings.

I attach my CV at Appendix I. I am considered by the Care Markets as an expert by experience in the various forms of housing with care that exist in the UK. These include age restricted housing with care and care homes. You will see from my CV that I am a Chartered Surveyor by qualification and have in the region of 34 years of experience since first joining the profession. I have specialised in the care markets (together with some other forms of specialist property such as hotels) since 1989 and I am currently a Senior Director and Head of Health at Bilfinger GVA, a leading property consultancy firm in the UK with a specialist health property division covering all property disciplines and with c 60 experienced health property colleagues across those disciplines.

I am not an expert in the "age restricted housing without care" market as this is considered part of the general housing market. However such developments can, in some instances, compete with the "with care" models of development and can have an influence on their size, design and value. Hence, as a result, I have an understanding of these products and can comment on them in that context.

I have prepared this review based upon my existing knowledge of the sector in the UK without any additional in depth further formal research and it is intended as an informative background to your assignment and findings.

The review should be considered in its entirety and should only be used within the context of the instructions under which it has been prepared.

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1.0 Age Restricted Housing Models with and without Care.

Housing specifically designed for the age restricted or retirement markets comes in a number of forms ranging from that which is almost entirely akin to the remainder of the housing market to more care based concepts.

The various types of housing can each have different "labels" attached and this can cause confusion. In the headings below where alternative names are provided they are interchangeable in my view.

1.1 Age Restricted Housing

A concept where an age restriction is placed on occupants (usually enshrined within the planning consent and most frequently at a minimum of 55 years of age for one occupant). There are no other defining features beyond the wider housing market and the design largely mirrors the wider market and applies to apartments and houses. This age restricted accommodation is most attractive to the active younger elderly who take the opportunity to live amongst people of a like age and perhaps to downsize from larger less appropriately sized family housing releasing an element of equity in the process. Houses and bungalows are most frequently acquired on a freehold basis and the properties have private gardens in the usual way. Such developments are usually small, often 10 to 20 units per development and in many there is no provision for shared facilities. Some will have shared gardens and grounds the cost of upkeep of which will be through a service charge. Apartments with nothing other than an age restriction will be sold leasehold with conventional lease terms, a service charge for the cost of upkeep of communal parts and external maintenance and a ground rent, but no further charges as there will be no added communal facilities beyond that which would be expected in conventional apartment blocks.

Both housing and apartment developments in the private sector tend to be up-market developments of a high quality. There have been a number of specialist developers of this type of housing including Beechcroft and English Courtyard.

1.2 Sheltered Housing

Sheltered housing concepts also come in the form of houses, bungalows or apartments and are a stage further towards a care model than age restricted housing in that they provide some limited form of assistance to the occupants and, in the main, a limited communal facility for occupants to enjoy. The schemes usually also have the age restriction built in to the planning permission.

The assistance is generally a monitoring service through a call system to an off-site service or to an on-site warden. No direct care is provided but assistance will be given to call in care or medical assistance if required.

This form of housing is more attractive to those more advanced in years and or with some element of increasing frailty or health issue who believe they require or may soon require some level of help. They may also be feeling more isolated at home, may have lost a partner or had an early health issue that is causing some concern. Typically new entrants to such accommodation are 65 plus in age and often older. Some may be attracted to housing with higher levels of care provision were it available in their locality but sheltered housing may be the only option.

A limited communal facility allows the residents an opportunity to interact with each other and where a warden is employed on site or where there is an active residents association or social committee there may be, in some instances, social events organised.

If any regular care is required the occupant must seek this from outside sources through social services or private domiciliary care agencies (domiciliary care is care delivered to individuals in their own homes).

Accommodation in these schemes is generally owned leasehold by the residents, the freeholder ensuring the limited service provision is maintained with the costs covered in the service charge.

The general design of individual accommodation remains much as the mainstream market although some element of additional space is frequently designed in for improved access for the elderly.

Typically sheltered housing schemes are built in town centre locations for easy access to local services and schemes tend to be single block apartment designs from 20 to 60 apartments.

Sheltered Housing in the private sector is most widely associated with McCarthy & Stone, the largest specialist developer of such accommodation in the UK. McCarthy & Stone claims to have developed in excess of 50,000 units of accommodation in over 1,000 locations in the UK in its 38 year history and to have developed 70% of the owner occupied accommodation in the retirement and assisted living sectors.

Sheltered Housing is also widely available in the social and not for profits sector through, for example, Registered Social Landlords (RSLs), Charities and Local Authorities who in the main rent out accommodation rather than sell long leasehold.

In their 2014 Fact Sheet on Buying Retirement Housing Age UK stated that there were 128,445 retirement properties in England and Wales. They estimates there to be about 3,000 new properties added each year. They do not provide a definition for “retirement properties” but on the basis that any property with an age restriction is included then the numbers would cover my definitions of age restricted housing and sheltered housing herein and potentially also Assisted Living/Extra Care.

1.3 Assisted Living/Extra Care

Assisted Living is a term most used in the private sector. The social and not for profits sector tends to adopt the phrase Extra Care. The terms are interchangeable in respect of the concept and services provided.

The concept is built either as single block apartment accommodation or in a “village” setting sometimes with other forms of elderly accommodation as part of the offering. This is explained in more detail below.

This is a concept that offers a further progression in age restricted housing into a “care” model. Occupants continue to live in their own apartment, house or bungalow which, in the private sector, the majority will have acquired on a long leasehold basis akin in many respects to a standard residential long lease. Much of the social and not for profits sector accommodation is on a short let basis as with social sheltered housing.

Assisted Living/Extra Care provides added care options for residents that can be delivered and paid for according to need and can be flexed upward or downward as occasion may require. The concept allows for aging in place and can be a real alternative to having to move to a care home. The delivery of care in an assisted living/extra care scheme is much more economically and effectively delivered than throughout the wider community where travel times and monitoring quality are real issues. The private sector operators of assisted living are registered as domiciliary care providers and offer the services direct to the residents, who, in the main, will buy their care from the operator although they are at liberty to buy in their care from outside providers if they wish. In the social and not for profits sector the care is most commonly provided though social services although some are also registered as domiciliary care providers and deliver the care themselves

At single apartment block level the schemes have an appearance much like sheltered housing apartment blocks and at their most modest in terms of additional facilities will have an expanded communal facility to include a restaurant and meeting room where residents can interact and be provided with meals and other daily services. Typically, so that there is a level of economy of scale in operation, such developments have a minimum of 40 apartments and often 60 to 80.

At “village” concept level the schemes are larger. Typically 80 plus houses, bungalows and or apartments are developed and there are schemes in the UK with upward of 250 units of accommodation. At this scale the communal facilities are much larger and more varied with some of the more up market schemes providing full spa and swimming pool facilities. Economies of operation dictate that such schemes tend to need a minimum of c 80 units of accommodation to be viable.

Assisted Living/Extra Care schemes have a greater level of staffing than sheltered schemes, usually with care staff on site 24 hours per day and hospitality staff on site from early morning to late at night.

Purchasers into such schemes tend to be a little more elderly and or frail or one partner has care requirements, accepting that they require something more than a sheltered housing environment or recognising that sheltered housing may be an interim measure and deciding to embrace Assisted Living/Extra Care from the outset.

Typically buyers are well into their 70’s and often into their 80s and mature schemes have an average age of resident well above 80.

Operators of such schemes tend also to offer a higher level of hospitality service, certainly in the private sector, including social events on and off site and a mini bus service to take residents to local shops and so on. Restaurant and bar facilities and the spa tend to open every day or most days and cleaning and laundry services and basic personal care are available and delivered to the resident in their own home, organised on site through a concierge.

Many buyers into such schemes are as motivated by the lifestyle and social opportunities as by the care provision potential. However, many of the operators are able to provide a high level of care as and when needed and the concept has been proven to improve the health of many elderly, reduce the visits to doctors and hospitals and has allowed the elderly to stay in their own home for a much longer period than may have been the case in the wider community.

1.4 Retirement Villages/Continuing Care Retirement Communities (CCRCs)

I have described the additional facilities of the “village” concept above under Assisted Living/Extra Care. Retirement Villages and CCRCs, are in the main, Assisted Living/Extra Care developments.

The “village” design concept, in its earliest form in the UK, is in “village” configuration, mostly in rural and suburban locations on four plus acres with low rise development, sometimes with an element of conversion and with central communal and service facilities. The operators deliver hospitality and care services according to need as described above.

However, in some instances, Retirement Villages also include a conventional Care Home for those requiring 24 hour, personal, nursing or dementia care. Typically such care homes are of 40 to 60 residents to create a sufficient economy of scale for effective operation. Such care homes tend to cater for residents from the wider community as the “village” itself is not a sufficient generator of trade to make the home viable. Some operators prefer not to include a care home within their schemes, others consider there to be benefits to the residents of the “village” and the business model.

Retirement Villages also adopt such terminology as Independent Living and Close Care. Independent Living is seen as the lower end of the domiciliary care provision provided to the most healthy and ambulant residents within a scheme and is a low level of Assisted Living/Extra Care. Close Care is regarded as the higher end of provision of Assisted Living/Extra Care and the design of some “villages” allows for smaller apartments clustered closer to the communal facilities and, where present, the care home, to provide a higher level of care for the frailer residents.

The term CCRC is imported from the US where “village” schemes are on a much larger scale, often tens of acres, with many hundreds of units. Facilities can include golf courses, much larger communal centre and so on. The concept is frequently moved into by much younger elderly than in the UK with the over 55s living on the edge of such schemes a long way from the most intense elements of care. They may move property and gravitate towards the care facilities as they age in situ.

“Continuing Care” is the term used for the aging in situ and indicates the scheme is able to provide for the growing needs that come with aging through to 24 hour care if necessary. In the UK a Retirement Village that includes a care home can be termed a CCRC.

Assisted Living/Extra Care schemes including “villages” and CCRCs are much fewer in number in the UK than age restricted/sheltered housing schemes. Varying numbers have been quoted but to include the for profits and not for profits sectors there are likely to be in the region of 15,000 to 20,000 units of accommodation.

The sector is small when compared with the sheltered housing market and the nearly 500,000 care beds in care homes in the UK and is tiny compared with the 14.7 million people aged over 60 in the UK and the 3 million people aged over 80.

The demand for older age appropriate housing is huge and growing.

2.0 Design Features

2.1 Location and Design Criteria

The mid to upmarket private developer/operators target mid-range to wealthy locations in and around reasonable size to large towns and cities in the UK. The up-market end of the Assisted Living sector has predominantly concentrated on the south of England. Locations are analysed by a number of wealth indicators including socio economic measures and house prices, as well as by demographic indicators of age.

“Village” schemes have been successful in relatively remote rural areas of the south of England drawing on a large geographic area for residents but most schemes have been close to, at least, established rural communities with an element of local services. The more remote schemes tend to have larger communal facilities and generally their own sense of place. Sites closer to larger populations are generally preferred as these are seen as being potentially more successful.

An increasing factor for location is staffing. Care staff tend to be lower paid workers and many rely on public transport. Shift working exacerbates the issue and the severe lack of qualified nurses in the sector means that poorly connected facilities will create staffing issues. Most care home operators will now only develop in areas where their operational directors are confident they can staff appropriately.

Smaller and single block private sector developments tend to be in urban and suburban locations where residents have a greater interaction with the surroundings and where more limited communal facilities can be provided.

The not for profits sector has developed far more in less wealthy areas around the UK and much of the stock is urban based and in schemes of 40 to 80 apartments in single block form. A number of not for profit providers are now developing schemes to attract private residents and some are developing “village” schemes. Their locational criteria is much as for the private sector.

2.2 Inclusion/Exclusion of a care home

Whether to include or exclude a care home from a scheme is open to debate and operators take varying views.

There is an argument to say that a care home is the very accommodation that buyers into Assisted Living are trying to avoid and to place a care home in the same environment is to destroy the independence being fostered. The argument continues that the care home will bring to the scheme a level of frailty that is incompatible with attracting the younger, independent buyer and that they do not want to be reminded of their possible destiny.

The counter arguments are that the presence of a care home allows comfort to buyers that should they require 24 hour care they do not need to move off site and they or their friends or partners can enjoy the close proximity of visitors. Care home proponents say, and have demonstrated through careful design, that it is possible to integrate a care home into a scheme without it being overtly prominent. Some schemes have been developed to have a separate care home that is screened and others have incorporated the accommodation into a design where the external appearance is no different to the apartments.

There is no evidence, as far as I can ascertain, that schemes with care homes achieve slower sales of apartments or sales at lower prices as a result. There is probably no evidence to demonstrate the number of buyers put off specifically by the presence of a care home. One may therefore conclude that it is a matter of choice whether or not to include a care home within a scheme.

There is however evidence that where care beds have been converted to additional apartments for sale and the care home element has been removed from a scheme residents have been upset by the move, many indicating that they bought into the scheme for the comfort of the facility being available should they need it.

Operationally the presence of a care home can make sense particularly where the average age on a scheme is at the higher end and where residents are coming to a stage when they may need 24 hour care. It makes sense too for the delivery of high needs dementia care, which cannot be delivered into a conventional Assisted Living environment, and for partners, one of whom needs 24 hour care when the other doesn’t.

The business model also varies according to the presence or not of a care home. Once the first sales have been completed and before there is a significant re-sale element, the cash flow of a scheme without a care home is modest and even later when it is a more mature scheme the cash flow is still modest compared with care beds.

2.3 Communal areas, facilities and layout.

Communal areas, back of house facilities and how they are laid out will depend upon the vision for the scheme, the size of the scheme, the wealth indicators and ability of residents to pay service charges.

Schemes with a larger number of units of accommodation will be able to more readily cover the cost of such facilities. An oversized communal facility for the number of units places too high a burden on the service charge.

In general “village” schemes have communal facilities including back of house of between 5,000 and 12,000 sq. ft. The larger facilities often include a full spa or wellness centre.

As a minimum the schemes require a restaurant/bar/coffee shop facility, a games/meeting room and commercial kitchen facilities. More up market and larger schemes then tend to add some or all of a small shop, gymnasiums, meeting/hobby rooms, library, visiting doctors and health specialists consulting rooms, cinema, pool and spa facilities.

Modern designs are now also more outward looking, especially in urban areas, creating facilities that can be used to engage, and be shared with, the local community. Gym membership, coffee shops open to the community and libraries are examples of such offerings.

It is not possible to directly relate the quality and size of facilities to the sale price level of accommodation to analyse any enhanced value created by their presence or to relate them to the speed of sales but it is recognised that buyers are acquiring because the facilities and the social interaction that takes place around them is something that appeals to them and is not on offer in residential schemes.

2.4 Optimum Size of Scheme

The sector has not identified an optimum size. There is a consensus amongst the private operators that a minimum of 60 apartments is required to offer effective communal facilities at a service charge price point that is not prohibitive and also to be able to offer care services at a reasonable price.

80 to 100 apartments is probably the average for new schemes in the private sector and there are some much larger schemes at over 200 hundred units that suit the mid-market where the costs can be further reduced by critical mass.

Schemes with much more modest communal facilities can be economic down to c 40 apartments and these have tended to be not for profit schemes .

2.5 Housing Types

The majority of schemes offer apartments in the main. These tend to be mixed with a small number of bungalows and or houses in schemes where there is sufficient land.

Single floor living is generally the buyer’s preference although some younger more ambulant buyers prefer the “normality” of a house if they have been used to houses most of their lives. It is good design to be able to offer houses where single floor living is possible should the need arise or to design in the possibility of living over two floors with disability.

There are very few sites with a high proportion of bungalows. Land take is greater and less intensively developed as a result. Land pricing has generally prohibited bungalow development in any scale.

2.6 Size of Properties and Number of Bedrooms

Two bedroom units is the standard and the private market has moved away from a predominance of one bedroom accommodation on the basis that downsizers from larger houses tend to prefer to preserve an element of space.

Current design of high quality accommodation is tending towards a minimum of 850 sq. ft. for two bedroom apartments and an average of c 900 to 1,000 sq. ft. This is an increase on earlier schemes where 750 to 850 sq. ft. would have been the norm. Again this is a reflection of the market demand.

Most schemes have an element of one bedroom accommodation, the older schemes tending to have a higher proportion and some also had an element of studios. However studios are now very seldom included in new designs and one bedroom apartments tend to be larger and fewer in number, but included to allow a price point choice. Typically these may now be of a size to match the older style two bedroom accommodation.

Most up market schemes experience high demand and early sales of premium units of in excess of 1,000 sq. ft. and up to c 1,500 sq. ft. This emphasises the lack of sensitivity to pricing at the top end and also the demand for large units. Units of this size can incorporate a third bedroom or a study or both, frequently they have more generously proportioned living space and more than one en-suite bedroom.

2.7 Private Gardens and Private Outside Space.

The majority of schemes do not provide private gardens. Residents' ability to maintain private space is a concern and many residents no longer want to or can properly tend a garden. Operators therefore include communal gardening services in the service charge.

Many schemes provide balconies and lease terms are used to control their usage, such as a ban on linen being hung outside. Some schemes provide semi screened areas/patios that may or may not form part of a lease, and allow some degree of private outside space.

2.8 Internal Design features.

The internal appointment of accommodation is generally akin to good quality housing. Kitchens are usually fully equipped with floor and base units, high quality work surfaces and integral white goods. Medium to larger apartments usually include a washing machine and dishwasher. Smaller apartments may have neither but in such instances there will be a communal laundry.

Many apartments have a kitchen that is part of the remainder of the living space as a space saving design but larger apartments will have fully separated kitchens. Kitchens are usually provided with full cooking facilities including oven, hob and microwave oven. Some designs of close care apartments have limited facilities as meal packages come as part of the service charge and such apartments are aimed at frailer residents. Kitchens are generally designed for able bodied people.

Most accommodation is designed with a bathroom (bath/shower/WC/WHB) and one en-suite shower room. The larger very up market apartments may have two en-suite facilities and possibly an additional separate WC. They tend to be designed with additional space to allow for wheelchair or walking aid manoeuvrability and it is becoming more frequent to see full wet room facilities and/or showers with level access but designers are careful to present a product that, whilst practical for the client group, is not compromised in domestic appearance.

Door widths and corridors are also generally a little more generous but there is no specific design standard.

Storage is always at a premium in apartments and wherever additional space can be designed in the opportunity should be taken for this client group. Some schemes provide additional lock up storage facilities, often in basements.

Designers are also careful to make all areas accessible including gardens.

Many buyers arrive at a scheme with their own car and an intention to continue to drive. We understand many eventually give up their car but it is seen as a mark of independence that is not given up lightly and many residents like to have their own car parking space. Most schemes have found that garages are not necessary. Private schemes ideally offer one parking space per apartment although urban schemes can offer a lesser ratio and not for profit schemes often many fewer still.

Leases are on an internal repair basis and so the resident is responsible for the upkeep of the interior of their own accommodation. Some leases include the provision of heating and sometimes other utilities where central systems are in place

3.0 Operating Models

Age Restricted Housing and Sheltered Housing as defined above are not considered operating models and are not developed with a long term business operation in mind. Age Restricted Housing is purely a develop and sell model fully aligned to the private housing market and the developer has no interest in the scheme beyond the last sale.

Sheltered housing is slightly different in that the landlord operates or a management company takes over the day to day management of the monitoring service and where one is in place will employ the warden. The management company may undertake the full management service of ground rent and service charge collection for the landlord and arrange for maintenance issues to be dealt with in the same way as such services are generally outsourced by landlords of residential blocks of apartments. Leases in the sector are generally subject to ground rent charges between £100 and £250 per annum and a service charge that is regulated and based on actual costs plus management charge.

Assisted Living/Extra Care schemes, depending upon their size and complexity, will generate income and profit streams and are an on-going business operation. Income streams include in the main:

3.1 Initial Sales

Whilst the social/not for profits sector tends to let apartments on a short lease model, often assured tenancies, the private sector has tended to sell houses, bungalows and apartments on long lease of usually 125 years for a premium relating to market value. There is now also wider evidence of some not for profits operators selling all or a proportion of accommodation on long leases. In marketing terms the operators adopt a traditional sales approach concentrating on the quality and attributes of the accommodation but also majoring heavily of the wider scheme and its offering. Most have their own in accommodation sales teams as residential estate agents are not, on the whole, familiar with the concept and its offering or of selling to elderly buyers that need more that bricks and mortar.

The concepts around the UK tend to demonstrate an enhancement of price over the local residential market as a result of rarity and also the added benefits on offer at such schemes. Lifestyle, security, companionship, suitably designed accommodation, like minded neighbours, hospitality and care provision all differentiate the schemes from straight forward residential property. Indeed the buyers of Assisted Living/Extra Care accommodation, and in many instances Age Restricted and Sheltered accommodation, are not comparing the offering with the local housing market at all.

3.2 Short Term Rental

To date, in the private sector, the short term rental market remains immature.

Operators will rent if requested but tend not to proactively market rental units other than as a try before you buy incentive.

Most elderly people, who have owned their own home most of their adult lives, prefer the securing of a long lease and the potential for capital growth that it offers.

Developers of private Assisted Living/Extra Care schemes have tended to be financed by a combination of Private Equity and traditional bank debt and have repaid loans from sales. The availability of long term finance to the sector has been very limited and this has restricted the ability to create rental portfolios.

3.3 Care Home Income

Care home income is derived from weekly fees charged to residents for 24 hour care. Fees vary significantly around the UK and from Local Authority/NHS levels to private fee paying levels.

The lowest local authority nursing fees are c £475 per week and few operators can sustain businesses at this level. Most therefore, where they can, concentrate on all or part private fee payer beds and also look to local authority supported residents to pay a top up fee to at least partly bridge the income gap.

In most of the locations where private Assisted Living/Extra Care schemes are developed care home fees are all or substantially privately paid and are in the range of £800 to £1,500 per week. At this level, and once a mature occupancy is established, a consistent and valuable income stream is generated.

3.4 Domiciliary Care Income

Income from domiciliary care is paid on an hourly rate basis according to the level of care required. Most operators work on a cost plus basis.

Operators of Assisted Living/Extra Care schemes must be registered providers of care to offer domiciliary care and the registration and the staffing is separate to a care home registration. Therefore, where a care home is part of a scheme, there must be two separate registered entities. Registration of both is with the Care Quality Commission (CQC).

The level of provision at a scheme will entirely depend on the level of need. Where residents are generally at the younger end of the age and frailty spectrum the level of income from domiciliary care will be more limited. Overall domiciliary care tends to provide only a modest income to schemes and can be a loss making service in the early years of a new scheme.

3.5 Service Charges

Charges to residents include a service charge to cover the usual running and maintenance costs of any residential scheme plus further charges to cover certain of the additional communal costs and these will vary scheme to scheme depending upon the degree of communal facilities provided and the operator's preference for charging mechanisms. For example some operators will include back of house and front of house staff costs for a restaurant within the service charge to guarantee the facility will always be available and then adjust meal prices accordingly whilst other operators will cover all restaurant costs from the price of meals.

Those operators that offer fewer communal facilities tend to be at the lower end of the range at c £2,000 to £3,000 per annum. £5,000 to £6,000 per annum is a typical range for larger private schemes although some up market facilities are now at £6,000 to £8,000 per annum. .

Service charge costs tend to be something that residents concentrate on as this is an annual outgoing that many would not have had previously and they are very concerned that the charges are fair and directly related to day to day operational costs. The scheme owner can charge a modest management fee on top but they are careful to fully justify the charges on an annual basis.

Service charges do not generally cover the longer term maintenance, replacement and upgrading of the facilities and such longer term costs are paid for by scheme owners through other income streams.

Some operators offer part or total deferment of service charges to the end of occupation allowing residents to fund their stay from their property equity.

3.6 Ground Rent Income

Ground rent is a standard provision in residential leases and is also generally charged in the Assisted Living/Extra Care sector. Early examples adopted £100 to £250 per annum but some new schemes have increased this to up to £500 per annum with 25-yearly RPI increases.

3.7 Hospitality Services

Restaurant, bar, spa and other services provided by the operator generally create an additional, although relatively modest, income for the business.

Some such services are collected by some operators through the service charge and others are on a pay as you go basis.

3.8 Transfer Charges

Transfer charges are also sometimes known as Exit fees, Re-sale fees or Deferred Management Charges. They are generally based on a defined percentage of the sale price of a unit of accommodation be it a house, bungalow or apartment on a scheme, at the time it is being transferred to new ownership.

Some operational models include such fees whilst other models take a substituted income through other provisions such as the refunding of the original purchase price of accommodation less a percentage (thereby retaining capital value growth for the operator).

In some leases transfer charge income has included a charge when a sub-let takes place, but in the majority of instances it occurs on the re-sale of the long leasehold interest in a houses/bungalows/apartment on a scheme and such events are, in the main, but not always, triggered by death of the resident or the need to move to more appropriate accommodation, such as a care home.

The percentage varies from operator to operator but each operator has its own overall operational model and the quantum of the transfer charge has to be viewed as part of the entire business model and the total cost of occupation for a resident and not in isolation if any comparisons are to be made.

Some operators increase the transfer charge by one percent of the sale price year by year over the first 10 to 15 years, typically from 1% or 3% as a starting rate.

Assuming an average length of occupation of say 10 years a resident of a scheme operating a transfer charge of the above nature, or their beneficiaries, may expect to pay between 10% and 15% of the sale price to the operator.

Schemes that operate on the basis of no equity growth for the resident rather than a transfer charge may be cheaper or more expensive according to capital value growth over the period.

The average length of stay in schemes in the UK is in the 7 to 10 year range and depends to some extent on the average age and frailty of residents at any one time. Those schemes that have fully matured and where aging in situ has taken place the average age currently runs at c 82-84 years and the regularity of re-sales should be at its greatest at this point.

New schemes will tend to have a younger demographic of in the 70 – 75 age range and the regularity of Transfer or Re-sale fees can be some considerable way off. One may anticipate that a fully mature Transfer fee income will not be created for the first 12 to 15 years of a schemes life.

3.9 Buy Back Profits

Some early leases in the sector included a buy back provision to give purchasers of units of accommodation comfort that there was an exit route available in an immature market. This was, in the main, adopted before there was an established re-sales market to give residents some certainty over the ability to sell on when the time came.

Typically the provision allowed the long leaseholder or their beneficiaries, if they wished, to sell the lease back to the scheme owner at 90% of the original purchase price or 90% of the market value on sale whichever the lower. The vendor usually also had to cover the owners acquisition costs including stamp duty.

In times of capital appreciation the buy back was seldom exercised as the vendor, often the estate of a deceased, sold at a much enhanced value even after paying a transfer charge calculated at a percentage of the sale price.

Even in a rising value market some beneficiaries would chose to exercise the buy back purely to release capital early and in those circumstances scheme owners tended to undertake a light refurbishment and re-sell the apartment at an uplift to the buy back price.

Whilst the buy back could create an additional significant profit stream to scheme owners in a strong market the reality was that sellers would usually go to the market to achieve the uplift and the scheme owner would not then benefit beyond a transfer charge. However buy back provisions come with a significant risk to the scheme owner who must have funds available to acquire an unknown number of apartments at an unknown price at any point in time. This potential liability and the requirement for revolving banking facilities for an indefinable amount were a burden most operators wished to avoid. As a consequence, as the market matured and it was demonstrated that re-sales in the sector were possible, most scheme owners dropped the buy-back provisions in new leases and removed them from old leases when they were buying back and reselling.

The mechanism is still seen in the sector but much less so than in previous years and is now not a mechanism to protect residents from not being able to sell but as an alternative approach to a transfer charge arrangement. The Buy Back price will still be set at a discount to the original purchase price.

4.0 Market and Demand

4.1 Sales and Marketing Strategy

The age restricted and sheltered housing sectors tend to use conventional local estate agency services for first sales, sometimes combined with developer's own staff manning on site marketing suites and show apartments. The marketing process concentrates on the physical attributes of the property and there is limited requirement to discuss services.

The majority of operators in the Assisted Living/Extra Care markets set up their own marketing and sales teams both for first sales and re-sales. Many of the leases in the sector require vendors to sell through the owner's marketing team with a standard agency fee involved. In this way the scheme owners can have some control over the sale process but also they have a better ability to sell the full benefits of the scheme including the potential provision of care than a local estate agent.

Furthermore the leases on such schemes also include clauses relating to the care needs and suitability of residents for the scheme and set out assessment criteria for new residents. If the criteria is not met the lease cannot be sold to that individual. Assessments can be dovetailed with the marketing process if all is handled by the scheme operator.

4.2 Target Market

It is generally recognised that the market for Sheltered Housing and Assisted Living is in the 70 plus age range and even at 75 potential residents may consider themselves too young and too healthy. As schemes mature residents age in situ and new entrants tend to be of an age that matches the exiting, Schemes in the UK tend to stabilise at 82-84 years of age average. This is likely to rise with life expectancy increases.

If targeting at the lower age range the level of care required will generally be quite low.

Age Restricted housing and Sheltered Housing developers are not concerned with on-going business generation but to create greater cash flow in the Assisted living/Extra Care private sector model targeting older buyers is likely to increase the level of care sold. Many Assisted Living schemes incorporate within the lease (sometimes to satisfy planning conditions) a minimum level of care package per week. At the lower end residents usually accept 1 to 1.5 hours of "care" per week as part of the contract. Thereafter care packages accord with the level of care need assessment each resident undergoes. Overall the average care package at most Assisted Living schemes is relatively low at c 2.5 hours per week.

4.3 Typical Sales Velocity

The sale of accommodation is the sector is intrinsically linked to the wider residential market and its cyclical fortunes. In addition the age restricted sector as a whole (whether merely an age restriction, Sheltered or Assisted Living/Extra Care) is appealing to a restricted market by virtue of age and or care needs and this has a further influence on speed of sales.

Demographic pressure, the lack of specifically designed accommodation for the aging population, the rising need for care, the lack of high quality care home places, the desire of the elderly to delay or avoid being placed in a care home, the isolation that living alone can create and the difficulty and cost of delivering effective domiciliary care into the wider community are all factors that indicate that sales in the age restricted housing markets with or without care should be extremely strong. However, with very few exceptions, the elderly need to sell their existing property to be able to move to an age/care specific environment and if house prices are falling and or the market is stagnant sales in the sector are likely to be significantly affected and this was demonstrated during the period 2008 to 2012 when conditions were very difficult and very few new schemes were commenced as a result.

The majority of the aging population make the move from family home to something more appropriate by choice. In most instances they can wait to see if the value of their home improves and for it to sell.

The elderly market tends also to be a cautious market, a discerning market and a relative slow market when making decisions. As a result sales take longer than in the wider residential market. This has consequences for the speed of building, the cost of holding land, of development and development finance and of sales and marketing, all of which tend to show an increase over the wider market. Sales off plan have been traditionally slow as the elderly market likes to see the product on the ground before committing to buy, further increasing risk.

In the past year or two, on the back of a more buoyant residential market in the south of England and a restricted number of new schemes coming through, sales off plan, with meaningful non-refundable deposits, have been achieved in greater numbers.

The current better conditions may relate to a number of factors. The residential market is much stronger in the south east in particular than in the past five years and this allows the elderly to sell existing housing and at a price that they find acceptable. The retirement village/assisted living product is becoming more widely known which has increased demand and the established operators have up and running schemes that they can show prospective purchasers allowing buyers to experience the concept at first hand giving comfort that it is a product that is likely to be sustainable and value accretive.

Post scheme completion sales are now, in some locations, at a record high of 4-5 per month compared with a pre-recession 1-2 per month and an almost static period during the recession. There can be no guarantee that the speed of sales will continue at the present rate, that the rate could be achieved outside of the south east or in lesser locations than currently being developed and each scheme must be assessed on its overall individual merits in locational, design, quality and operational terms.

4.4 Rental Market

Private schemes in the UK are based on a development and sale model as it is perceived that the market is for ownership rather than short term rent. The buyer market is generally selling a substantial and valuable family house to downsize and the equity from the house will pay for the new accommodation and for living costs.

We currently have the most wealthy elderly population this country has ever had and the wealth has been created in the main from significant property price escalation over the lifetime of the over 65s and through occupational pensions the benefits of which are unlikely to be seen again. It is no surprise therefore that having been property owners most of their adult lives and having benefitted from capital appreciation in their houses the buyer market for retirement housing wishes to keep a stake in property investment.

Short term rentals are therefore few and those that exist are generally based on an Assured Shorthold Tenancy. A small number are driven by age considerations where a very elderly potential resident may not wish to buy and others by try before you buy schemes offered by most operators.

The institutional investment markets are keen to see rental models developed as they could then invest.

The sector considers it difficult to establish full rental models in the private sector for the above reasons but it may also be that the Assured Shorthold Tenancy is unattractive as it limits security of tenure and that the sector has to consider other lease terms with greater security to make it attractive.

4.5 Sector Attractions to Accommodation Buyers

For buyers into Sheltered or Assisted Living Schemes the greatest attractions at present are the lifestyle enhancements that the product provides. Buyers are generally concerned about their health and wellbeing needs as they grow older. They are concerned about security, loneliness and isolation. Only the assisted living model provides an all-encompassing solution that also potentially avoids having to enter a care home at some point.

A secondary consideration is sometimes the financial planning that is required to minimise Inheritance Tax. Selling the family home and downsizing to a smaller property allows the release of capital for efficient tax planning.

Over the years there has been some mistrust of equity release schemes and their true cost. Selling and downsizing is seen as a much safer equity release.

The mid-market has significantly less equity but nevertheless may be caught by Inheritance Tax. Where the family house is not of sufficient value to be able to buy into a high value scheme and reserve sufficient funds to pay living costs a part ownership or rental scheme may be a choice that becomes more popular.

The ownership model is also attractive as a fall back provision where scheme owners are prepared to roll up costs until the asset is sold. This gives further security that an elderly person running out of funds won't be evicted.

4.6 Barriers to Growth

As yet in the UK only a relatively small number of developers, operators and investors have been attracted to the sector. Many of the house builders require volume that cannot be created and many view the market as restricted, preferring to remain in the wider market.

The part of the sector most aligned to general house building is the age restricted/sheltered housing market where there is no requirement for long term ownership by developers or provision of substantial services. It is here therefore that the majority of development has occurred, the majority of participants being in or from the general house building market with no knowledge of care provision or any desire to be a provider of care services.

A relatively homogenous product has been developed in sheltered housing in particular, led by McCarthy & Stone. This has allowed this part of the market to move forward relatively quickly, targeting small to medium sized sites, often formerly developed sites in towns and with a formula that is recognisable and acceptable in planning terms.

Site choice and design in the Assisted Living sector has been more bespoke scheme to scheme and this creates planning time and cost issues that many see as complications. The planning system in the UK is not quick or easy to navigate and this is a barrier to development.

Funding has been in short supply with the majority of the banks preferring the wider housing market.

Any level of care is a further complication that comes with operational risk and reputational risk that the house builders and many investors wish to avoid, quite apart from the lack of knowledge that creates further difficulties.

Where then are the attractions for investment?

The lack of Assisted Living/Extra Care schemes in the UK creates a huge opportunity for those that understand the sector.

An ageing population is a compelling factor in itself.

Facilities that currently exist are of a good quality and in the main successful although there are a small number of examples of where development or business models have failed. The success of the sector should widen its appeal and as the sector becomes better known and the public becomes more aware of it the speed of growth should increase.

There is now a body of expertise to rely upon that should avoid a repeat of early mistakes.

For those that understand the sector and the product there is an opportunity to create a successful development model from first sales and on-going income streams from business operations as outlined above.

However risks of development and long term operation are greater than a standard residential model and in many respects more risky too than the development of care homes that are formulaic in approach and have a recognised operator and investor base.

Enticing investment to the sector has been slow and the investment has required risk, when compared to other sectors, to be priced in. The mechanics of the operational business and the income streams and returns that can be developed have been specifically designed to accommodate this risk where they can. The transfer charge in particular is a mechanism, not entirely specific to this sector, but one that has been adopted to allow an increased return to investors over a long period, for the continual upgrade of facilities and to produce a return to make the sector sufficiently attractive when compared with investing elsewhere.

Sector attractions to investors revolve around development profits from first sales and the value of the on-going business that can be created from the various income streams highlighted herein.

4.7 Sector Specific Risks

The biggest single risk is the stagnation of the residential property market and the lack of ability to sell accommodation. As discussed above this sector cannot be separated from the general residential market.

The last recession demonstrated that the elderly were not prepared to buy or rent in the event that they could not sell their family home, except in rare circumstances where the need overtook the sentiment and perhaps where children assisted in some way.

The letting of the family home to provide an income is good in theory but frequently the elderly find such matters “too much” and in any event houses that have often not been modernised for some time may well have issues with services such as electrics, heating and modern bathroom and kitchen facilities making the property difficult to rent.

There is also a risk, where significant levels of care are provided in Assisted Living schemes, that the properties will fall under registration at some point, being seen as care facilities first and private homes second. This is probably some considerable way off especially as there are currently no minimum standards set down and as the accommodation is vastly superior to the average care home. Nevertheless it is something that could potentially occur and that may have cost implications that cannot be quantified at present.

There is a further risk that investors will not be able to “scale” to the level they require or within the timescale they require to make investment practical. Land availability and price and the planning regime are significant limiting factors that deter some investment.

Operational risk in the care sector is a significant and growing issue.

The movement in design and quality of facilities will become an increasing issue as more facilities are developed. A second rate or dated product will have long term value issues and, where a care and hospitality business is developed in Assisted Living, operational issues that will affect value and investment returns. The care home and hotel markets have many good examples of the issues faced when there is an under investment in renewal and up-grade capital expenditure. Such businesses decline and fail very rapidly.

Investors also have to consider the total return on their investment and that includes an assessment of the exit value of their investment. This is something that is currently unclear, in the Assisted Living Sector and affects investment appetite. Institutions require a sound cash flow model whilst at present the sectors discussed herein are “develop and sale” models, many of which create no or relatively modest cash flows from on-going operations. To date sales of operational schemes in the Assisted Living markets have tended to be of individual schemes or small groups to new operators. The market is relatively shallow for such sales, buyers being very few.

There may be mergers over the next few years to create critical mass that is in other respects being frustrated by lack of land and the planning system and at some point stock market flotation or REIT acquisitions may be possible. There is, however, the risk that the markets for exit may continue to be limited.

5.0 Finance within the Sector

5.1 Development

Development has largely been funded by a combination of debt and equity and continues to be the principal funding of new schemes.

Debt is provided, in the main, by the larger banking names through corporate banking divisions with a small amount of interest from other banking sources including overseas lenders. Debt is more readily available now than was the case between 2008 and 2013.

The banks have viewed the entirety of the sector as a restricted part of the housing market and requests for loans have been dealt with alongside the mainstream housing market. As a restricted sector it is seen as more risky and this has meant development funding has been in short supply and more expensive. Where levels of care are also provided the schemes begin to move towards lending in the healthcare sector but unless full care home services are developed as part of the scheme the banks have continued to view development as a form of house building.

As a consequence, even when equity has been available to the sector, most developers have been restricted in the number of schemes they can commence.

Equity to the sector is largely through private sources that will put a proportion of equity alongside debt. Typically, of late, the banks have required at least 40% of equity investment to be spent before the loan can be drawn on and so substantial cost and risk sits with the investors.

The larger Retirement Village schemes, with greater elements of infrastructure, and communal facility works, create even greater pressure and risk on equity in comparison with standard house building. Infrastructure and communal facility costs are a significant part of the overall development cost and have to be borne at the early stages of development.

The debt will generally be repaid on a priority basis through the sale of units of accommodation as they are built and made ready for occupation. By the time the first units are sold and occupied the operation will have been up and running for some time. Costs of setting up marketing and sales will come early in the process and will soon be followed by the recruitment of staff for the communal facilities and other services to be operated. Alongside debt and equity for development and fit out will be additional requirements for operational set up costs where the hospitality and care services are significant parts of the model

Other funding to the sector has included the full London Stock Exchange Listing of McCarthy & Stone in the 1980s although the company de-listed in 2006 and reverted to private equity ownership with a consortium of bank debt led by Halifax Bank of Scotland. The company was re-structured in 2009.

Furthermore in the pre-recession market of the early 2000s Fairhold Homes Group, the parent company of Peverel Management Services Limited undertook a public bond issue. Peverel Management Services Limited was the Managing Agent for McCarty & Stone schemes.

5.2 Operations

Operational costs will occur at an early stage with senior management in post and the commencement of marketing and sales. Advertising, marketing suites and brochures will be required, legal advice taken, leases drafted, and recruitment begun and so on.

Further equity will be required in the early stages and a long term business loan facility may only be available when income is generated. At whatever point it is obtained there will be substantial costs to be borne in addition to those of a residential scheme.

Until the various income streams have been established and matured there will be little income or profit from the day to day operations and until the majority of the units of accommodation have been sold or let and service charges are being paid by residents there will be a rolling up of service charge void cost to be borne by the operator/investor.

Once the majority of units of accommodation have been sold there should be sufficient surplus income to repay the development finance and possibly some return on equity although in lesser proportions than for a residential scheme as a result of the operational requirements and funding of communal facilities that in themselves will not yield a capital return.

Once the business is established a long term business loan is generally obtained. Such loans are based on the businesses' ability to repay interest and to amortise the loan and may have a loan to value test applied. The value of the business will depend upon the profit that can be sustained.

Lenders have not been prepared to take income from transfer charges into account since the Office of Fair Trading investigated the practice. They have considered the security of the income to be below their standards for secured lending. Any continued doubt over the ability to levy transfer charges will restrict funding and investment into the sector.

6.0 Value Growth in the Sector

The Sheltered Housing and Assisted Living markets have acted differently in terms of value growth by unit of accommodation.

The Sheltered Housing sector has in some instances demonstrated a reduced price for units at second sale. The volume of development in some locations has been relatively high and new schemes close to older schemes tend to be presented, with design and fit out improvements to bathrooms and kitchens that create additional appeal over earlier schemes. This has on occasions meant that second hand apartments have sold for less than they were first bought for. Thereafter price variations tend to reflect the movement in the local residential market.

The Assisted Living sector has tended not to be affected in the same way, as yet at least. The majority of schemes see an uplift in price at second sale. The concept is very much more limited than the Sheltered Housing concept and rarity of product is one factor that potentially aids speed and value at second sale. Once a scheme is fully sold the reduced number of units available increases competition for those units. Furthermore, as the developer stays on to operate the scheme it is in its best interest not to create further competition and to maintain the standard of the facility to the highest possible level.

The premium over local pricing can be maintained and sometimes exceeded at second and future sales in the Assisted Living Sector. The Assisted Living market therefore performs in line with or better than local house prices on a long term basis. This can only be maintained with re-investment in schemes, such re-investment by scheme owners being to the ultimate benefit of the unit owners.

The Assisted Living market has therefore, in most situations, performed very well as an investment for the residents that bought a long lease. Indeed even with sometimes substantial care costs in addition to the occupational costs of the scheme and a transfer charge, capital appreciation has been able to fully or more than fully offset the whole of the costs of occupation and care over a period of time. In comparison to care home costs and a lack of savings growth in a bank the Assisted Living option is seen by many as a much more advantageous model both in quality of life and financial terms.

The continued growth in value is, however, increasingly at risk from future new developments especially where an operator is not continually investing and re-investing in the facility. The long term income that is achieved through the transfer charge mechanism is one way in which the operator can ensure sufficient income for such re-investment.

There has been a good deal of discussion in respect of the level of transfer charge in the sector and how that may affect the value and growth in value of accommodation.

There is not, as far as I am aware, sufficient data, as yet, to fully establish whether the transfer charge terms in a lease dampen its initial value or re-sale value or its growth in value. Were there to be two identical schemes close to each other, one with and one without a transfer charge the matter could be tested but this is not likely to happen. In reality the market accepts transfer charges. I understand from operators that on very rare occasions buyers decide not to proceed on the basis of the presence of the transfer charge but that is a minority and choice is, of course, always available. In the main, accommodation sells at a premium to local residential values as a result of the additional communal accommodation, lifestyle opportunities and care provision.

One operator at least offers buyers of new leases the opportunity to pay a percentage over purchase price (i.e. a known sum) of similar proportion to the likely transfer charge on sale for the removal of the transfer charge from the lease. I understand no one has taken this option up preferring to defer the liability.

7.0 Transfer Charges

I have touched on the transfer charge on a number of occasions in this paper. There has been a considerable amount of discussion over the use of transfer charges, their purpose and their value.

It is, of course, the subject of the current Law Commission project and was, previously, the subject of an OFT review: "OFT Investigation into retirement home transfer fee terms" upon which it reported in February 2013.

The OFT reviewed the use of transfer charges in Retirement Housing leases and reached an agreement with some developers that they would no longer incorporate such charges into the lease and would not exercise them in existing leases where they had the power not to do so. In other cases agreements were reached to change the circumstances of when such charges would be made, such as only enforcing the term on final sale and not in a wide range of other circumstances such as sub-lettings.

As many of the Retirement Housing developers had sold the freehold assets on once the sale of the final leasehold apartment had taken place they were no longer the "owner" for the transfer charge entitlement. That rested with new owners.

The agreement with some Retirement Housing developers and owners to stop or alter the practice was where the OFT concluded its work. It specifically stated that it did not specifically set out to investigate the assisted living sector. However, it had, in the process, also looked, in less detail, at the Assisted Living market and included two operators in its investigation. It did not request those two operators to cease the use of transfer charges.

The OFT concluded, amongst other things, that it would like to see further transparency in the use of such clauses and would continue to monitor their use and the way in which those parties with which it had reached agreements conducted business in the future.

The Assisted Living market continues to adopt varying forms of transfer charge as part of an overall investment "package". Operators have, in the main, reviewed and where necessary improved the transparency of the charges within their promotional/sales packs. Transfer charges cannot be viewed in isolation of the whole financial structure of the operator or without considering their individual impact on investment and on the price of accommodation.

For example, without this long term income the investment model and returns would vary considerably. The availability of funds for re-investment would be restricted and the value of schemes would be potentially reduced thereby potentially restricting investor appetite.

Until the OFT investigation began it was conventional for the transfer charge income stream to be valued on a discounted cash flow basis and its net present value to be added to the enterprise value of the business. It was seen by the banks as an element of income against which a limited amount of funds could be borrowed. It was not valued as highly as secure rental income that had a consistency and growth guaranteed and it was always recognised that transfer charge income was dependent on a varying level of sales year on year.

The discounted cashflow methodology in simply a means of calculating a value today for an income that will not be produced until some point in the future. Simply put the offer of a pound today is much more appealing and valuable than the offer of being provided with a pound at some later date.

It is also recognised that when operators achieve a high level of economy of scale and perhaps upward of 1,000 units of accommodation that the inconsistency of sales per annum will be "smoothed" out and at that point a secure income stream from transfer charges will have added value.

In the early years of a new scheme the income will grow slowly. An average of 7 to 10 years of occupation per resident will mean that no significant level of transfer charges will occur in the first 7 or so years and will then grow slowly to maturity in years 12 – 15 depending upon the age and frailty of residents. At maturity the average number of transfer charges for a scheme of 100 units of accommodation would be 10 (if the average length of occupancy is 10 years) and 14 (if the average length of occupancy is 7 years). Only post the point of maturity and a proven relatively steady level of transfer charges will the pattern be established and known. This income stream is therefore of little value on day one and only realisable many years on although the prospect of its creation in relation to the early infrastructure investment and its timing in relation to re-investment is of considerable interest to investors and operators. It may also be seen as a further flexibility in the model to be able to develop other products for the elderly such as deferred service charges, benefiting the less well-off but increasing the appeal of the sector and in turn the investment.

8.0 Failures within the Sector.

There are examples of failures of companies and schemes in all parts of the sector but they are relatively few and far between and unlikely to be any more prevalent than in the housing industry as a whole.

In the age restricted housing market specialist developer English Courtyard Developments went into Administration in August 2008 being a casualty of the most recent recession. Bank borrowings and speed of sales were issues at a difficult time for the whole sector.

A retirement village in Morecambe Bay, Lancashire, went into Administration part way thorough development. Again the recession took its toll but in my view this was a relatively poorly conceived scheme in a very poor location. The Administration left the c 35 residents that had acquired a property at the scheme with little prospect of being provided with the scheme they thought they were buying into, vulnerable and with assets they could not sell.

Care Estates was a further casualty of the recession and operated retirement villages and care homes.

The Care Estates demise related, perhaps, to a number of interwoven circumstances. The company closed a number of care homes in preparation for conversion to Assisted Living accommodation and thereby reduced its trading income at almost exactly the time the recession hit and development finance became unavailable. Development could not take place and the cash flow of the company was severely limited. There had been a need for increasing capital expenditure at most of its trading Assisted Living facilities to upgrade and modernise accommodation and cash flow was not available for this. As a result and compounded by the recession and stagnation of the residential market residents or their estates could not sell their apartments. This led to one facility in particular declining further with a reducing occupation and vacant units making it even less attractive to buy in to. Without sales the transfer charges dried up and the capital constraint was worsened. This one facility was an early UK example and began to look very under invested compared with new facilities and it also happened to be a facility where buy back clauses in leases were available to residents or their estates. The buy backs were, in a number of instances, triggered and the operator was not able to honour the number that required a buy back. Care Estates is a very good example of where a once thriving operator could be overtaken by a combination of events, some within and some outside of its control. It is also a very good example of the need for such organisations to have sufficient return and investment to weather cyclical markets and to re-invest for the future of the facility.

Whilst the shareholders of Care Estates and the lenders were the main financial losers in the process the demise also severely affected an element of the elderly and their relatives and is something that has to be guarded against.

There are lessons that can be learned from all of these examples.

At the development stage sufficient funds and speed of sales have to be available to weather a downturn. For investors to re-invest from one scheme to another each scheme in turn must produce a surplus to return funds to investors and lenders with profit and interest before re-investment can take place. If funds for retirement housing are too limited the same investors will look elsewhere for their returns.

Poorly conceived and poorly located schemes will always be likely to have financial difficulty and will be the first to suffer and fail in a downturn. A lack of experienced investment in the sector will create openings for speculative and poorly conceived development that may well fail, could leave the elderly vulnerable and with a reduction in their wealth that they cannot replace. It is imperative that experienced investment is encouraged for the benefit of the elderly that both desire and need more age appropriate housing with and without care.

9.0 Conclusions

The age restricted housing and housing with care markets are maturing and are undoubtedly more complex than the wider residential market.

They are seen as a "restricted market" that adds additional risk to sales and to returns.

Where care is provided the model is much more complex, operational and reputational risk exists and at this point the investment pool is vastly reduced.

Yet all forms of age restricted housing and age restricted housing with care are needed in ever growing numbers to satisfy the growing elderly population and to facilitate the funding of old age through equity release, cheaper forms of care and more appropriate non institutional living.

It is estimated that the UK is currently developing c 6,000 new care beds in care homes per annum. The estimated number of new beds needed per annum for the next 15 years is c 17,000 beds not taking homes closures into account. The shortfall means that many of these elderly future residents will be poorly looked after in their own home or will require a hospital bed. Many of these could be appropriately looked after in various forms of housing with care.

The private sector has something in the order of 5,000 units of Assisted Living accommodation at present, operated by a small number of slowly growing corporate operators and a small number of single asset companies. This compares with c 480,000 care beds. Perhaps up to 1,000 new units are being developed per annum. The numbers are tiny, the demand is huge and investors and lenders have to be allowed to develop models to suit the demand but models also that suit and provide adequate returns to investors to enter the sector in the first place.

Discussions around whether transfer charges should be allowed or if allowed what level is justified have not been helpful to the sector and have caused lenders to pull away and investors to re-assess their interest.

A finalisation and clarity around the practice of transfer charges is desperately needed.

There is no easy way to assess the reasonableness of the level of a transfer charge as part of a whole cost package to a buyer into a scheme or to an investor without a full study of every aspect of the package (each operator offering a different package), a forward assessment of the likely future investment that will be required into schemes to maintain them, modernise them and keep them attractive and relevant, and without fully understanding each investor's criteria and threshold for entering this sector rather than less complicated investments.

The elderly and their families need the comfort of knowing, first and foremost, that they or their elderly relative have a stable, caring and safe living environment that will be there for the remainder of their lives, an environment that they enjoy and an environment that can adapt and meet their needs.

In the private market there appears to be no resistance to a premium price over standard residential values to reflect the added benefits schemes provide, or to a transfer charge, or for that matter to models that reserve all capital growth to the operator. Indeed the loss of capital growth could be a more expensive option for residents.

There is no doubt that no one generation of elderly residents will be able to pay for the long term investment into a scheme that will be required during its lifetime and so the costs have to be spread in some way.

Age and care appropriate housing is a major topic of our times, it affects central government and local authority budgets, and it can have a massively positive affect on the delivery of care and on the long term funding and even the survival of the NHS. It affects the availability of family housing, releasing family houses back into the market as the elderly appropriately downsize and perhaps most important of all its availability affects choice and quality of life in old age.

Yours sincerely

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For and on behalf of GVA Grimley Limited