

## **IG-Max for Generation Please Please Me: why and how new solutions for older people can be the key to tackling the housing crisis**

Submission to the 2014 [Lyons Housing Review](#) from Paul Lusk

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### *Where we are now*

Fifty years ago, there were 16.5 million homes in Britain to serve a population of 51.3 million people – one home for every 3.1 people. At the start of the present decade, there were 26.5 million homes to serve a population of 61 million – one home for every 2.3 people. Fifty years ago, the average house price, at just over £2000<sup>1</sup>, was about three times the annual wage of a male industrial worker. In 2014, at about £176000<sup>2</sup>, it is about six times average annual salary. The most substantial price growth took place after the fall in interest rates in 1992/1993. At this point the ratio of house prices to annual salary was about 4, and the occupancy ratio (people per home) was about 2.4. From 1993 to 2007, average house prices grew at a staggering 20% per year, in a period when Bank of England lending rates hovered around 6%, about half the levels in the previous two decades. With tax-free capital gain running at three times the cost of money, and loans readily available, borrowing the largest possible sum against the ‘value’ of housing became a no-brainer.

We are now in radically different times. A return to large-scale affordability would require the value of housing to fall by perhaps 30%, which even if possible, would probably be politically and economically so damaging as to be unthinkable except over a very long term. Pumping more spending power into buyers’ pockets would be to repeat the mistakes of the past. Mass subsidy of housing on the supply side is enormously costly. There is a need for imaginative new solutions to rebalance the housing market, i.e. to re-align demand and supply in a context where the post war mix of welfare and market intervention (while having many positive effects) now leaves us with a broken housing market.

### *Where we are going – need and opportunity*

The Holmans report<sup>3</sup> estimates a need for an additional 4.4 million homes in England in the period from 2011 to 2031. However the report also notes a significant change in the main driver of underlying demand for additional housing up to the 1990s – falling household size. The rise in the proportion of single person households appears to have stopped – the 2011 census shows almost a million fewer such households than previous trends projected. Cautiously, Holmans allows for the proportion of single person households to rise only slightly from its current level of 30% of all households. The occupancy ratio – the average number of people served by each home in the stock – falls on Holmans’ projections, but by

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<sup>1</sup> Nationwide houseprice index: Q1 1960 average UK houseprice was £2189. According to a Parliamentary answer on 29th November 1960, the average weekly wage of a male manual industrial worker in that year was £14/2s/1d equalling just over £730 p.a.

<sup>2</sup> Nationwide houseprice index, unadjusted average for January 2014

<sup>3</sup> ‘New estimates of housing demand and need in England, 2011 to 2031’ by Alan Holmans, TCPA, 2013

less than has been expected hitherto. Holmans allows for 26.593m households in England for a 2031 population expected to be 60.4m, an average household size of 2.27 compared with about 2.3 today.

Of the 4.4m additional household projected by Holmans, the majority – about 2.7m – have a household reference person (hrp) over 65, compared with about 1m with a hrp aged 44 or less.

This large growth in older-person households presents, I suggest, **a historic opportunity to rebalance the housing market**, as well as a challenge in terms of design, planning and market management.

### *Housing the Please Please Me generation: a cooperative approach*

The 2011 census shows 4.5m households where all members are over 65.<sup>4</sup> Of these, over 3m (67%) are debt-free home owners, and a further 20% rent social housing. Single person households aged 65+ comprise 40% of all single person households. Of single people in this age group, 43% have three or more bedrooms (compared with 31% among younger single person households). Of families all aged 65+, 67% have 3 or more bedrooms<sup>5</sup>. A recent report from Demos<sup>6</sup> suggests that more than half of older people (aged 60+) would consider moving to a smaller home if a suitable property were available, and of these, more than three quarters have three or more bedrooms. Demos suggest that £400bn of 'housing wealth' is available to over-60s who are open to moving.

So why do they not move? Based on survey evidence and reports from suppliers, Demos suggests that a shortage of available choices is a main, though not the only, factor. The disruption of selling and moving and reluctance to give up ownership of property are others. We provide too little 'retirement housing' especially for sale, and there are two obstacles identified by Demos. One is that potential buyers need to see and experience the product before being confident of moving, making this form of development impossible to sell 'off-plan'. The other major obstacle is planning: local authorities are wary of the impact on care and medical services, with for example one major provider reporting that two thirds of its development proceeds only after appeal against the planning authority's first response. On 7<sup>th</sup> February 2014 *Inside Housing's* front page story was 'Councils resist retirement housing', citing numerous cases of projects in the south east being 'turned down by planners due to fears about the strain they will place on council care budgets.'

This story was accompanied by a vivid picture: a traffic light shows red over a graphic of a pedestrian bent over a Zimmer frame. This highlights a stereotypical view of 'retirement housing' as being for people with physical care needs. In fact, there were 415,000 people

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<sup>4</sup> Table DC4101EW, Nomis, released 27.9.13. This is not the same as households where the hrp is over 65, since the latter includes households where some residents are younger.

<sup>5</sup> Table DC1402EW, Nomis, released 7.9.13

<sup>6</sup> 'The top of the ladder' by Claudia Wood, Demos, 2013

over 65 in England using home-based care in 2011/12<sup>7</sup> - under 5% of the total population (of over 8.5m) in the age-group (the number in residential care was just under 170,000<sup>8</sup>). What the over-65 home buyer or tenant seeks is not a 'care home' or 'sheltered housing' but an active, choice-rich lifestyle which caters for the *risk* of needing care, especially in the final year of life. The generation now entering its late sixties is the generation that spent its pocket money on *Please Please Me*. It is the wealthiest, healthiest mass generation ever seen. What is the housing model that will fit 'Generation Please Please Me'? Downsizing is possible, but it needs access to storage, guest accommodation and leisure activity. There is care available, but most residents will not need it most of the time. There is management available, especially to help with making moving as easy as possible, transitions between levels of care needs, arranging guest accommodation and dealing with turnover. There is good security as some residents will spend time travelling. Many residents continue to work, often from home.

Building for this generation has the following attractions:

- Releasing large numbers of family homes
- Building for people with spending power – making use of surplus housing equity
- Preparing the housing stock for future needs, catering not just for the current generation but for the future growing proportion of smaller, older households
- Good quality home based care with integrated housing and care management, with potential to reduce demands on health and emergency services

The design and management of this housing is ideally suited to a co-operative type of arrangement. Housing co-operatives, with prospective residents at their core but in partnership with investors and developers, could identify sites, negotiate with planners, guarantee capital from housing wealth, design new neighbourhoods, and share in the management of community facilities, care and oversight<sup>9</sup>.

#### *Developing the right investment vehicle*

Although the Please Please Me generation has substantial housing wealth, it is not liquid. Turnover in the housing market is low by historic standards. There are over 800,000 homes for sale on Rightmove; it is generally easier to sell smaller, cheaper properties; many buyers are buy-to-let investors who, with the best will in the world, are amateur landlords without incentives to offer long-term homes or to invest in a rental product. Potential users of larger and more expensive homes lack purchasing power. The market may be overpriced, but that does not mean that home owners aged 65+ will reduce prices and sacrifice equity when

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<sup>7</sup> ONS Community Care statistics, Social services activity, England, final release February 2013, table 3.1

<sup>8</sup> As above, P.56

<sup>9</sup> Co-operative enterprise created the building society movement and garden cities. Housing co-operatives are an established form of large scale housing provision in many parts of the world but have been somewhat marginalised in Britain, squeezed by the rise of state housing and owner-occupation.

they have nothing compelling a move from a well-loved home that they own outright; and low interest rates mean paltry returns on liquid capital.

I propose therefore that the investment vehicle that develops the co-operatively-owned neighbourhoods should also have the capacity to take ownership of the homes released by members, and rent these at market rates to new tenants. The flow of cash from rentals would form the core of the funding of the new-build. The capital tied up in the original home would remain in the ownership of the member so that it is part of the estate to be bequeathed to inheritors. The family capital therefore remains secure, linked to the value of housing. The co-operative home then becomes available for re-occupation by a new member, whose existing home is contributed back into the pool<sup>10</sup>. This model offers a form of inter-generational exchange of housing value. The tenants of family housing released by new-build would have membership rights in the co-operative. The capital for projects would probably take the form of negotiable bonds from investors who may also have rights as partners in projects. A short term for this concept is IG-MAX, for 'intergenerational mutual accommodation exchange.'<sup>11</sup>

IG-Max developments should not of course be a 'monoculture' of better-off older people. Social housing tenants should also join, perhaps using equity endowments financed by the public sector in return for releasing family housing. Developments will probably be nested into more diverse communities.

#### *Towards a conversation*

At this point I would urge that we open up a wider conversation, drawing on the experience of 'extra care' models, tackling the prejudices about 'retirement' housing, and engaging the Please Please Me generation in a serious discussion about how the housing wealth and expertise they have accumulated can now endow, not just their own prospects, but those of future generations.

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<sup>10</sup> Financially, in current circumstances, this would be likely to work in the London rental market, with new build on lower value land in the south east, perhaps in Kent.

<sup>11</sup> The Intergenerational Foundation has done valuable work in this area. Its report, *Hoarding of Housing: the intergenerational crisis in the housing market* (19 October 2011) is acknowledged here part of the inspiration for IG-Max. However to stigmatise the older generation as 'hoarders' of housing is to mischaracterise the problem in a way not helpful to mature discussion.