

Equity release shared ownership:

A new approach to helping older home-owners in poor condition housing

By 2006 there will be over 7.1 million households headed by a person over retirement age in Britain and as many as 70 per cent will be home-owners. The majority of older home-owners wish to remain living in their existing houses, but many have problems in meeting the costs of adaptations, renovation and home care. A study by Nigel King Associates and Philip Leather of South Bank University looked at existing and potential opportunities for older owners to sell part of their equity to meet the costs of adaptation, repair, improvement and maintenance without having to move.

- **There are a number of options available to facilitate home improvement for this group; among the most common are:**
 - **Local authority grants.** These provide help for many older people and are the best route for those eligible. However, those on higher incomes are ineligible for such grants. New government proposals, if implemented, will also make entitlement to most forms of grant discretionary.
 - **Commercial equity release mechanisms** provide an alternative to grants, but demand for such schemes has been reduced by poor perceived value for money, risk, and adverse publicity in the past. There may be potential for extending the use of these mechanisms, through administering schemes via companies or not-for-profit agencies such as housing associations, combining high ethical standards with independent financial, technical and social care advice.
 - **The Gifted Homes approach of Help the Aged** could also be attractive to older owners, especially those with no dependants seeking care. However, resource limitations prevent this scheme from operating on a large scale.
 - **Help with loan interest payments for those on income support** is difficult to obtain in practice and take-up is very low.
- Alternatively, allowing the owner to 'stay put' whilst at the same time facilitating repair and improvement could be achieved by selling part of the equity to a housing association, which would repair the dwelling and become joint owners with the occupier. A range of properties and works could be dealt with at less cost to the public purse than the equivalent renovation grant.
- The Housing Corporation has three existing programmes which could be adapted for such a scheme, the rehabilitation for sale programme being the most suitable of these. This may be more acceptable to many older people than commercial unsubsidised equity release and is likely to be less expensive in capital subsidy terms per unit than local authority grant aid.

A need to improve older people's housing conditions

Demographic trends indicate that by the year 2006 there will be over 7.1 million households headed by a person over retirement age in Britain, an increase of 0.6 million or 10 per cent over the 1993 figure. On present trends, it is estimated that as many as 70 per cent of these older households, or five million in absolute terms, will be home-owners who bear full responsibility for the costs of repair, maintenance, improvement and adaptation of their homes.

Successive house condition surveys have found that older people are particularly likely to experience poor housing conditions, with those aged over 75 being the worst affected. For many older home-owners, low incomes are the major factors leading to poor conditions, but in addition older people are less likely to be able to tackle work themselves because of frailty.

Despite these problems, successive studies, and most recently the report *Living Independently* by the Department of the Environment, on the housing needs of older people, have found that most older people wish to remain living in their existing homes, supported by the necessary repairs, adaptations, and care services, for as long as possible. The majority of those interviewed for this study agreed with this view and felt that there was a clear need for new mechanisms to assist older people to achieve these objectives.

Existing mechanisms

The study reviewed the appropriateness of a range of existing mechanisms designed to provide help to older people with adaptation, repair, improvement and maintenance costs:

- **Renovation grants, disabled facilities grants and minor works assistance:**

These grants, available from local authorities, provide many older people with capital sums to assist with the costs of adaptation, repair, improvement and maintenance without requiring them to make use of their equity. Applicants for such grants are subject to strict financial eligibility criteria: the amount of grant aid provided is subject to a test of the applicant's resources which may exclude some older people from help or reduce the size of the grant available for work. The works are also specified by the local authority rather than by the older home-owner, thus user choice in nature and scale of works is often limited. There are also long waiting times in many areas as a result of a

shortage of government funding. The availability of grant aid also varies between local authority areas. A recent White Paper proposed the removal of the right to grant aid in all cases except for essential adaptation work and indicated that no additional public funding for grant aid would be provided in the future. This may make it increasingly difficult for older people to obtain help from this source and in the longer term make other options more attractive.

- **Income support**

Some older home-owners on income support are entitled to assistance with the interest charges on approved loans taken out for the purpose of carrying out certain essential works to their homes. Where grant aid is not available, income support may meet some or all of the loan interest charges of those on low incomes, eliminating the need to erode equity further or to meet the costs of borrowing from other sources of income. The main disadvantages of this option are the restricted scope of the work which is eligible for assistance, and the practical problems associated with gaining access to it. There are strict regulations which may require owners to prove that they cannot obtain funding from other sources. Also, recent changes to social security regulations have restricted the availability of help with loan interest payments through income support. Take-up of this option is thus very low. Many owners are also unaware of its availability.

- **Commercial equity release mechanisms**

Commercial equity release mechanisms such as home income plans, home reversion schemes, and reverse mortgages can provide income or capital to older home-owners which could be used for adaptation, repair, improvement and maintenance purposes. Take-up of such schemes is small partly because of the adverse publicity generated by a small number of financially unsound products in recent years. Some aspects of individual products, such as strict obligations on the older person to maintain the property in good condition, may also make these schemes unattractive while annuity schemes produce only very limited additional income. Finally, unsubsidised equity release is expensive, and in general only those living in higher value properties can benefit.

Responses to the survey in this study suggest that commercial home equity release mechanisms need further development work

before they will become attractive to older homeowners. In particular, mechanisms are needed which are flexible enough to offer the right combination of capital and income to meet the needs of individual households. Take-up might also be increased if financial mechanisms were to be packaged with technical assistance and advice on social care needs. There is a potential role for partnership here between financial institutions and a range of not-for-profit agencies, for example housing associations, which might overcome some of the concerns of older people.

- ***Integrated housing and care mechanisms***
These schemes, such as the Gifted Homes model developed by Help the Aged, may be attractive to some older people seeking a comprehensive lifetime solution to their needs. These models are most attractive to those who have no dependants or others to whom they wish to leave an inheritance. The lack of organisations offering such packages suggests that this is a difficult field in which to organise and offer a service.

New mechanisms involving subsidy

In addition to reviewing existing mechanisms, the study also sought to examine the potential for adapting existing Housing Corporation shared ownership programmes to facilitate equity release for the funding of adaptation, repair, improvement and maintenance work by older people. The basic approach examined was for a mechanism involving the following stages:

1. A property in need of adaptation, repair, improvement and maintenance occupied by an older person is acquired by a housing association.
2. The works required are arranged and carried out by the housing association.
3. A share of the property is repurchased by the former owner.
4. The housing association retains the residual share of equity, with the cost of servicing this charge met by public subsidy, a rent charge paid by the part owner or both.

At present, three Housing Corporation housing association grant (HAG) funded programmes incorporate shared ownership arrangements. These are:

- Rehabilitation for Sale (RfS)
- Conventional Shared Ownership (CSO); and
- Do-it-yourself Shared Ownership (DIYSO).

At present none of the three programmes is targeted at and accessed on any significant scale by older people. The study considered these to see whether they could be adapted to meet the model outlined above. The main conclusions were as follows:

- ***The Rehabilitation for Sale scheme***
This is the most suitable. With minor adaptation it would enable a range of property types and works to be dealt with at rates of grant below the equivalent renovation grant cost. This mechanism works best where the cost of repair is low in relation to value and where the work enhances the property value. The scale of on-costs (interest charges, legal costs, professional fees, and administration costs) means that this mechanism would work best where the cost of work is over about £5,000.

Adjustments required to the RfS procedures to adapt them to *in situ equity release and renovation for older people* would include reductions in permitted on-costs; relaxation of the rule requiring associations to retain 25 per cent of equity (as many owners may be able to repurchase more than this); the creation of a small sinking fund of 2-3 per cent of property value funded by the original owner to meet on-going maintenance and minor repair costs, and the removal of the restriction on RfS to priority investment areas, as older people in need are widely dispersed within the community.

There are two main issues to be tackled in the use of the RfS model. Firstly, the resulting rent levied on the equity retained by the housing association must be small enough to enable the programme to be attractive and affordable to older people. Secondly, any loan finance required by the housing association may be dependent on the value of the retained equity in turn related to the location of properties, their existing condition in relation to value, and the costs of work. This may best be dealt with by combining individual properties into packages for loan finance purposes and by arrangements such as the sinking fund which would minimise the longer term risk of loss

- **Conventional Shared Ownership**
CSO would be expensive in grant terms and as such is unlikely to be attractive to government or the Housing Corporation.
- **Do-it-yourself Shared Ownership**
The DIYSO model is similarly inappropriate to assist with *in-situ equity release and renovation for older people* as it does not allow for improvement or adaptation work but it could be used to assist someone living in a larger property to move to a smaller house.

Conclusions

The need for financial and other forms of help to older home-owners to enable them to continue living in their own homes in comfort is well established. The next decade will see a substantial increase in the number of older home-owners requiring help to enable them to stay put in the community.

Existing grants for adaptation, repair, and improvement from local authorities are an excellent mechanism to assist older people, but in practice owners may often have little choice in the scale and nature of works, those on higher incomes may not be eligible for help and there may be long waiting times. Recent government proposals will also make the provision of all grants discretionary, except those relating to essential adaptations. In future older home-owners may therefore be more willing to consider alternatives to grant aid, including the use of home equity.

Existing commercial equity release mechanisms have a role to play but demand is limited, in part because of past problems with some schemes but also because the mechanisms available are perceived as expensive and inflexible. There could be a future market for mechanisms tailored more towards individual needs and linked to the provision of technical and social care advice, perhaps offered by partnership between financial institutions and not-for-profit housing agencies.

Equity release could be made more attractive by the provision of some public subsidy, but at a lower cost per unit than the present system of local authority grants. The Housing Corporation's

rehabilitation for sale programme, with modifications, offers a model which merits further consideration.

About the study

This short study was based on a review of previous research, interviews with policy-makers and practitioners with an interest in the field and a review of the Housing Corporation's programmes and procedures. The study was carried out by Nigel King, a freelance consultant, and Philip Leather of South Bank University in London.

Further information

For further details contact Julie Brewerton, at the Joseph Rowntree Foundation (01904-629241); Nigel King (0199-386-8279); or Philip Leather (0171-815-7254).

Related *Findings*

The following *Findings* look at related issues:

Housing

- 94** Improving houses in multiple occupation (Jul 93)
- 104** Renovation grants and the condition of older housing (Jan 94)
- 137** Home-owners' response to a repair and maintenance service (Feb 95)

For further information on these and other *Findings*, contact Sally Corrie on 01904 654328 (direct line/answerphone for publications queries only).



Published by the
Joseph Rowntree Foundation
The Homestead, 40 Water End
York YO3 6LP
Tel: 01904 629241 Fax: 01904 620072
ISSN 1356-3408

The Joseph Rowntree Foundation is an independent, non-political body which funds programmes of research and innovative development in the fields of housing, social care and social policy. It supports projects of potential value to policy-makers, decision-takers and practitioners. It publishes the findings rapidly and widely so that they can inform current debate and practice.