

McCarthy & Stone

**Stamp Duty and Housing for
Older People**

Report

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McCarthy & Stone

Stamp Duty and Housing for Older People

A brief study of the potential impact that changes to Stamp Duty might have on the older person's housing market and on tax revenues gained through Stamp Duty.

Executive Summary

1 Introduction

McCarthy and Stone wish to understand the potential impact a reduction in stamp duty could have on older people and the wider housing market. This report by the Institute of Public Care at Oxford Brookes University updates our original work carried out in 2013, and explores the current context for such a move, as well as the potential implications.

2 The challenge for the housing market

There are a number of long-term and long-standing problems for the housing market in the UK:

- Younger people struggling to step up in the housing market because of a shortage of properties to buy.
- The lack of affordable property to buy and a lack of offers from potential first-time buyers delaying the sale of people's current property.
- The number of older people living in properties that are "too big" for them or unsuitable to their current needs, or both.

Incentivising older people to move could help address these issues and provide the UK economy with a welcome stimulus. As the Chartered Institute of Housing and the Housing LIN put it:

"We need to plan for and deliver housing of the right types, sizes and tenures to meet the changing housing and health needs of the population including older people."

3 Stamp Duty

3.1 Introduction

The average cost of moving house in the UK is almost £11,000, and in London over £31,000.

Stamp Duty is essentially a “purchase tax” on buying a house. Removing it from transactions involving older people potentially provides a real incentive for them to move and so free up the housing market.

There were significant changes to SDLT in 2014 that changed how it is calculated. The changes have been described as ‘...*introducing a sliding system based on thresholds and dependent on a property price*’. ...*The new rates are now payable only on the portion of a property price which falls within each band....there are those who will be better and worse off compared to the previous system.*’

The changes mean that:

- The entry threshold is lower
- The system is less disruptive of the market without price ‘notches’
- People buying at prices between £125K and £250K pay less
- People buying at £249,999 are the same as they were
- People buying at £300,000 pay significantly less
- People buying at £500,000 pay significantly less
- People buying at £1million pay less
- People buying at £2million pay more

3.2 Stamp duty and the market

The impact of the changes described above seems to have been positive, with many buyers now better off. However, stamp duty revenues raised on residential properties increased to a record £7.5 billion in 2014-15.

Further changes were introduced as of April 2016 around purchasing buy-to-let and second homes.

4 The current UK housing market

Anxiety over the outcome of the referendum vote on Britain leaving the EU led to a slump in the housing market in the UK. Reported levels of activity fell sharply in spring/early summer 2016, but surveys suggest that confidence now continues to recover.

The average price of a property in the UK was £216,750, but with very significant regional variations. The average in England was £232,885 whilst the average in London was £484,716 and in Northern Ireland it was £123,241.

Projections suggest that house prices will recover consistently from 2018 to 2020, especially in London.

Recent research into housing affordability shows that market entry is increasingly difficult. However, others have noted the difficulties of those who are on the first rung of the housing ladder but find themselves unable to move to a larger ‘family’ property.

5 Housing and older people

5.1 Characteristics of the older population

Some key characteristics of the UK population are:

- It is expected to increase by nearly 10 million over the next 25 years, taking the total number of people living in the UK to 69 million by 2025.
- Around 23% of the population are currently aged over 60 and during the next 20 years this proportion will rise to 29%, by which time nearly one in 12 people will be aged 80 or over.

Within this overarching challenge, there is an issue which is becoming more pressing – providing housing suitable for an ageing population.

Households headed by older people are projected to grow faster than any other group and to account for 74% of the increase in all households by 2039. By 2039, 37% of households will be headed by someone aged 65, compared to 27% in 2014.

5.2 Housing tenure and the older population

People remaining in larger properties into their old age have significant consequences for the housing market. Housing assets reach a peak as people near old age and older people have a greater share of the UK's housing assets.

Outright home ownership is higher for those over 65 than for younger people, with 71% of older people owning outright.

A large proportion of older people are owner-occupiers: some 80% of people over 65 who currently head households are owner-occupiers.

Current information suggests that 90% of older people continue to live in non-specialist accommodation.

5.3 Suitability of accommodation

Over 50% of all 65+ households are considered as 'under-occupying' by official standards.

Also, over half of owner-occupiers in England and Wales aged over 50 have two spare bedrooms. Older people's accommodation is not always suitable to their needs. As one commentator says:

"It's a depressing fact that too many older people in Britain today face living their later years in substandard housing. Older people are at the greatest risk of living in non-decent housing..."

Being in the right type of accommodation is increasingly recognised as important to the health and well-being of older people. There is now a wealth of research linking housing and health. As one report put it:

Poorly designed housing clearly predisposes accidents, with the elderly being particularly affected, as they are more likely to suffer injuries... ‘

In order to be able to move, older people need to have suitable accommodation to move into. It has been identified that:

- There is a significant housing supply shortage generally, but particularly with regard to retirement housing.
- Currently around 2% of housing stock is retirement housing.
- Only 3% of new housing is specifically for ‘elderly’ or ‘sheltered’ accommodation.
- Around 5,500 retirement housing units are being delivered a year – far below the level needed.
- Data suggests potential demand for around 30,000 retirement housing units a year.

6 Why do older people move?

There are many influences. For some finance is key - older people are often “asset rich and income light” having retired onto lower incomes. They may wish to release equity either to fund their own living costs or, to assist their own children onto the housing ladder.

Post-retirement movement can be because of:

- Poor health in older age (those whose health has deteriorated over a period are more likely to move than those whose health has improved or stayed the same).
- A wish to improve lifestyle post-retirement, and to create a more secure environment to grow old in.
- The need for assistance in terms of informal or formal care provision.

Better-off people tend to move earlier out of choice, poorer people tend to move later out of necessity.

Research has found that more than a quarter of retired homeowners expect to sell their house to help ease the pressure of living on a pension; most intend to buy another property.

Other research found that a fifth of over-55s feel that they cannot afford to run their homes and that the average homeowner aims to raise £78,000 by moving to a less expensive property.

Downsizing is an option considered by many people as they get older.

Surveys have identified three main reasons for moving:

- Family/other reasons.
- Moving to smaller accommodation.

- Moving to a better neighbourhood.

However, there are also disincentives to moving:

- Emotional stress.
- Cost.
- Physically difficult.
- Lack of suitable properties available.

Up to 58% of over-60s are interested in downsizing but feel restricted by a lack of suitable alternative housing or a fear of moving to an unfamiliar environment. Those interested in downsizing are currently sitting on £400bn of housing wealth.

7 “Downsizing” and the housing market

There are significant problems in the UK housing market in terms of available properties and low levels of transactions; enabling or encouraging older people to “downsize” could significantly help to address that.

However, according to one report downsizing amongst the over 65s in the UK has stagnated. It is estimated that in 2026, empty bedrooms in the homes of the retired could exceed 10 million.

It has been calculated that the average equity that could be released by downsizing to a home with one less bedroom is around £52,000. Changing the type of property can also have an effect. For example, downsizing from a 3-bed house to a 2-bedroom flat in London could release around £98,000 in equity, based on average property prices, while downsizing from a 4-bedroom detached house to a 2-bedroom flat in the South East could release £205,500 in equity.

Analysis from that review suggests that 200,000 older people (defined as over 55) move each year, while 271,000 die. This releases 189,000 owner-occupied properties back on to the market for other (non-older-person) families. Of these, there are 43,000 two-bedroom properties, 101,000 three-bedroom and 21,000 four or more bedroom properties each year.

If those in older households that are currently under-occupied were to downsize, a further 766,000 family-sized homes could be released onto the market and this would be at a lower cost and quicker than building.

Downsizing needs both enough suitable properties for “downsizing” people to move into, and incentives to move. The phrases “*Last time buyer*” and “*Rightsizing*” are helpful here.

Both benefits and barriers associated with 'downsizing' have been identified. The potential benefits include financial benefits, a reduction in domestic maintenance, health and social benefits. Barriers include emotional factors and attachment to the 'family' home as well as:

- The Nuisance Factor.
- The Esteem Factor.
- The Hospitality Factor.
- The Cost Factor.
- The Supply Factor.

Overall, household 'manageability' and the freeing up of equity are the main reasons people contemplate downsizing.

One survey found that levels of downsizing in recent years have actually been fairly small.

8 Stamp duty and the economy

Since 2008-09, SDLT has shown a year on year growth in yield. HMRC attribute this to a recovery in the housing market and the introduction of higher SDLT rates of property transactions over £1m. However, the impact of SDLT goes beyond just revenue raised.

Research findings suggest that the housing market responds very strongly and quickly to changes in SDLT, making it very distortionary compared to standard recurrent taxes. They emphasise the likely importance and role of deposits within the property mortgage system arguing that this amplifies the effect of SDLT.

Reducing the cost of housing transactions can be an effective economic stimulus policy when governments are seeking to respond to an economic downturn. Evidence suggests that replacing stamp duties with more efficient taxes will also lead to an increase in property transactions.

Also, it supports the view that a buoyant housing market generates far more income for the Revenue than just from Stamp Duty.

Best and Kleven identified that a 1 percentage point reduction in the Stamp Duty rate increased transactions by 20%.

9 Modelling the impact of a change in stamp duty

So what could be the impact of changing the current liability for stamp duty for older homeowners?

Table 1 below models the revenue overall that could be gained from the additional sales generated by exempting older people from SDLT when they move. Offset against that would be the initial loss to the revenue from those older people who

would have moved anyway (£367m) and this figure is included in the calculation in the final column of Table 1. Exempting older people as both buyers and sellers would have a higher initial cost, but would be more likely to generate additional moves and housing transactions.

Table 1: Potential impact of exempting older people from Stamp Duty– all transactions at average house price level (£m)

Increased sales from cutting SDLT for older people	Additional moves	SDLT Revenue lost		Other tax revenues generated (at £6K per sale)	Additional SDLT generated by chain of 3 more sales	Additional other tax revenue generated by chain	Net benefit to revenue with exemption for older people buying only
		Exempting older people buying only	Exempting older people buying & selling				
1%	2,000	-3.67	-7.34	12.0	11.01	36.0	-311.4
5%	10,000	-18.35	-36.7	60.0	55.05	18.0	-90.3
10%	20,000	-36.7	-73.4	120.0	110.1	360.0	186.4
20%	40,000	-73.4	-146.8	240.0	220.2	720.0	353.0
30%	60,000	-110.1	-220.2	360.0	330.3	1,080.0	739.8

This shows that very low levels of increased sales would mean a loss to the Revenue, but an increase of 10% in the numbers of older people moving would generate a significant surplus for the Revenue, and that an achievable 20% increase would net the Revenue an extra £353m per annum. The overall net effect of the stimulus to the housing market could be very significant.

A reduction in Stamp Duty on sales and/or purchases by older people would help them to move into more appropriate properties, improve their quality of life and reduce dependency. It would encourage “downsizing”, stimulate the housing market and begin free up larger properties for those lower down the housing market. Whilst Stamp Duty revenue would be lost on the transactions made exempt, other revenues generated and Stamp Duty recovered further down the chain would make good the defect, and more.

Clearly, an exemption from Stamp Duty only for people moving into identified retirement properties would have a much lower impact upon the loss of revenue than a ‘blanket’ exemption for all older people moving, whilst retaining the beneficial effects. However, at this stage it is less clear how effective such a reduction would be in encouraging older people to move.

Other approaches to freeing up the housing market through the tax regime are possible, but on the whole these seem to be either more punitive or somewhat

distanced from the actual house sale, especially when compared with Stamp Duty. For example, the single person's discount on council tax (25%) could be abolished, which would mean older people living alone were faced with higher council tax bills. Alternatively, there could be reductions in VAT, targeted on the building industry. These though, could encourage people to stay put as much as to move.

10 Conclusion

This report illustrates that there are large numbers of older people living in under-occupied houses and there are obvious benefits to them and to the housing market of encouraging or enabling them to move. It suggests that using a reduction in Stamp Duty for older people (preferably as buyers and sellers) could be a highly effective way of achieving that, and at no cost to the Government.

Other benefits include the potential impact on the health and wellbeing of older people through living in accommodation better suited to meet their needs. A reduction in Stamp Duty on sales and/or purchases of property by older people could stimulate the development of more retirement accommodation to meet an increase in demand. It could further stimulate the housing market and free up larger properties for those lower down the housing market ladder.

A more targeted approach exempting just those people moving into retirement properties would certainly be less costly to the Revenue, but at the present time there is only limited evidence as to its likely effectiveness in encouraging people to move. Nevertheless, there are good grounds for concluding that either approach is likely to bear fruit and is worthy of further consideration.

Report

1 Introduction

McCarthy and Stone wish to understand the potential impact a reduction in stamp duty could have on older people and the wider housing market. This report by the Institute of Public Care at Oxford Brookes University updates their original work carried out in 2013, and explores the current context for such a move, as well as the potential implications, including providing a model of the revenue implications. In particular, the report tests the hypothesis that Stamp Duty (or SDLT) acts as a disincentive for older people moving, and therefore removing this liability could act as an incentive; this has the potential to release much needed family housing, and through generating a purchase chain actually increase tax revenues. This report explores:

- The current context for such a consideration: what are the drivers for such a change.
- The number of older people who move, and why: the reason 'downsizing' is relevant.
- The impact of Stamp Duty and the potential implications of a Stamp Duty exemption: an argument for changing current arrangements.

2 The challenge for the housing market

There are a number of long-term and long-standing problems for the housing market in the UK:

- The number of younger people, especially those looking to make a step up in the housing market, who are struggling to do so because of a shortage of properties to buy.
- The lack of affordable property to buy and a lack of offers from potential first-time buyers delaying the sale of people's current property; raising a big deposit is a problem for others (exacerbated by the need to pay stamp duty). 'Second steppers' current equity position would account for just 7% of the price of a typical second stepper home. Compared with almost half (42%) in 2005.
- The number of older people living in properties which are "too big" for them or unsuitable to their current needs, or both.

These problems are particularly acute in certain parts of the country and it is hypothesized that incentivising older people to move would help address these issues and also provide the UK economy with a welcome stimulus. Half of all housing equity and the majority of larger properties are owned by people aged 65 and over; however, SDLT is estimated to account for only 30% of the tax revenue generated by a house move. As the Chartered Institute of Housing and the Housing LIN put it in their report '*New Approaches to Housing for Older People*' (2014):

“We need to plan for and deliver housing of the right types, sizes and tenures to meet the changing housing and health needs of the population including older people.”

3 Stamp Duty

3.1 Introduction

Moving house in itself carries a significant cost (including SDLT), on top of the cost of the property. Generally, these costs cannot be included in a mortgage taken out on the property so they can have a disproportionate effect on someone’s willingness and ability to move. Lloyds Banking Group (2016) found that the average cost of moving house in the UK was almost £11,000, but with massive regional variations (in London the average is over £31,000).

Stamp Duty is essentially a “purchase tax” on buying a house. Any form of purchase tax potentially has a dampening effect upon the market within which it operates, although how far it has an impact on people’s decision to move is largely uncharted territory. However, it seems reasonable to suggest that the size of the levy has an impact as does how much is known about the tax before any purchase decision is made. Removing it from transactions involving older people potentially provides a real incentive for them to move and so free up the housing market.

3.2 Approaches to stamp duty

In the UK, ‘Stamp Duty’ as a form of purchase tax on a wide range of goods or transactions has existed for a long period. However, the rates were increased significantly in the 1990s and it was re-named Stamp Duty Land Tax in 2003. This system has traditionally been based on charging a fixed percentage of the purchase price of a property, with the percentage increasing as the price passes set thresholds. Stamp Duty is also levied on share transactions and commercial property sales, but this report focuses only upon SDLT and residential property sales.

There were significant revisions to SDLT in 2014 that changed how it is calculated. Knight Frank, in the introduction to their Stamp Duty calculator, described the changes as ‘...introducing a sliding system based on thresholds and dependent on a property price’. They go on to say: *‘Before 2014 a ‘slab structure’ was in place with buyers paying a rate based on the entire property purchase price...The new rates are now payable only on the portion of a property price which falls within each band. As with every tax, there are those who will be better and worse off compared to the previous system.’*

Information about the old and new rates and the impact of the change on individual transactions is set out in Appendix 1. That information shows that:

- The entry threshold is lower
- The system is less disruptive of the market without price ‘notches’
- People buying at prices between £125K and £250K pay less
- People buying at £249,999 are the same as they were

- People buying at £300,000 pay significantly less
- People buying at £500,000 pay significantly less
- People buying at £1million pay less
- People buying at £2million pay more

In effect, when making a purchase of any residential property no stamp duty is paid on the first £125,000, then 2% on £125,001 to £250,000 and 5% above £250,000 and so on. This replaces the previous system where, once a price threshold was crossed the whole transaction was taxed at the higher rate. This had led to anomalies in the market, particularly the “bunching” of prices below a threshold point and “holes” above it, as people sought to avoid the cost of having the higher rate levied on the whole transaction (Best and Kleven 2016).

3.3 Stamp duty and the market

The impact of the changes described above seems to have been positive: in December 2015 Halifax, the mortgage lender, reported in a press release that the ‘tipping point’ price, when a buyer is worse off under the new stamp duty structure was £938,000 and that typical home buyers were approximately £4,500 better-off due to the changes. Also, despite this, and whilst the top end of the market was dampened by the changes, stamp duty revenues raised on residential properties increased to a record £7.5 billion in 2014-15.

Further changes were introduced as of April 2016 that add a 3% additional rate of SDLT onto purchases of additional properties such as buy to lets and second homes. KPMG consider that this will affect a wider range of people than perhaps anticipated, including those in a chain whose buyers pull out and newly-weds, those entering civil partnerships where both had a property prior to buying one together and those where the mortgage company insists the parents take a share in the property. The punitive effect works in the same way in all three cases, as someone involved in the purchase already owns another home and therefore the ‘second home’ rule applies. The Royal Institute of Chartered Surveyors (RICS) reported in January 2016 that the (then) planned introduction of the buy-to-let provisions had led to a temporary upsurge in house buying, but beyond that and given how recent these further changes are, it is hard to know at this stage how they will impact upon the housing market.

There have been moves in the past to offer temporary relief from SDLT and the notion of abolishing or offering relief on Stamp Duty is not a new or original concept. For example, there was a Stamp Duty “holiday” for first time buyers from March 2010 through to March 2012. Whilst these initiatives have not been retained for a substantial period, they do indicate that selective exemptions are possible.

An interim evaluation by the HMRC (Bolster, A 2011) found that the ‘holiday’ had relatively little impact, drawing in 0-2% more buyers, and lowering the prices they paid by less than 0.5%. However, this is at variance with the general findings of Best and Kleven (Best and Kleven 2013, 2016) in their papers on the impact of transaction taxes in the housing market. It also runs contrary to the recent experience in the housing market with the introduction of the new rates of SDLT for buy-to-let and second homes.

Yorkshire Bank has speculated that moving the burden of paying Stamp Duty away from the buyer, and towards the seller would be a help, arguing this would make housing more affordable. However, others have pointed out that sellers would either raise the price of the property to cover the additional cost falling on them, at no net gain to buyers, or they could be discouraged entirely from putting their property on the market. In any event, there is no evidence available to support Yorkshire Bank's contention.

Stamp Duty – Key points

- There were significant changes to Stamp Duty rates in 2014.
- These changes appear to have had a positive impact on the housing market.
- Some 'holiday' exemptions from SDLT have been offered in the past.

4 The current UK housing market

Anxiety over the outcome of the referendum vote on Britain leaving the EU led to a slump in the housing market in the UK with reported levels of activity falling sharply in spring/early summer 2016. However, the August 2016 RICS Residential Market Survey suggests that confidence continues to recover gradually across the sector, and sales volumes are now expected to rise going forward, both at the three and twelve-month time horizons, with a more stable trend in activity driving the improvement in sentiment.

The most recent Government survey of UK House prices (Land Registry, July 2016) shows the average price of a property in the UK was £216,750, but with very significant regional variations. The average in England was £232,885 whilst the average in London was £484,716 and in Northern Ireland it was £123,241. The South West was the region closest to the national average with an average price of £237,291.

PWC provides a longer term view of the UK market in their annual 'UK Housing Market Outlook'. Key findings in June 2016 were:

- The decision by the UK public to leave the EU ('Brexit') has shaken predictions about the property market:
 - A marked slowdown with house price growth decelerating to 3% in 2016 and 1% in 2017;
 - A gradual recovery, thereafter, with price growth picking up again to around 4% in 2018 and 6% in 2019;
 - Growth to average around 5-6% per annum from 2020 to 2025 as persistent supply shortages keep house prices rising faster than earnings on average.

- PWC's new research into housing affordability for those not currently in the (owner occupier) housing market shows that buyers may now have to save for 19 years in order to buy their first home compared to (just 6 years in 2000 and 2 years in 1990).
- Analysis shows a huge disparity in outcomes between renters and those 20-39 year olds who have already managed to get a foot on the housing ladder.
- The regional projections for 2017 show a subdued market compared to the past three years, with house price growth in all regions expected to be under 2% in 2017 for all regions, and negative for Scotland, the Midlands, the North West and Yorkshire.
- From 2018 to 2020, however, PWC project that house prices will recover consistently across the UK.
- PWC expect average prices in London to reach around £530,000 by 2020, over three times the price of the average home in Yorkshire & the Humber and the North of England.
- PWC have also developed alternative scenarios for the UK housing market built around different assumptions.

There is significant focus on the housing situation for “generation rent”, the group of 20-39 year olds for whom home ownership is increasingly hard to reach. PWC has found that since the millennium, the share of 20-39 year olds who rent privately has more than doubled from 20% to 50% and they anticipate that this rise will continue. This is a key concern when considering the importance of enabling older people to move more easily and increasing mobility in the housing market.

However, others who comment upon the housing market (notably Lloyds TSB) have started to focus on those who are on the first rung of the housing ladder but find themselves unable to move to a larger ‘family’ property.

The current UK housing market – Key points

- The housing market slumped after the Brexit Vote in June 2016.
- The market is likely to recover slowly; persistent supply shortages will keep house prices rising faster than earnings on average.
- Very significant regional variations in house prices continue to exist and will grow.
- Entry into the housing market will continue to be difficult and ‘second steppers’ will have difficulty moving up the housing ladder.

5 Housing and older people

5.1 Characteristics of the older population

Knight Frank (2016) notes some key characteristics of the UK population:

- The population is expected to increase by nearly 10 million over the next 25 years, taking the total number of people living in UK to 69 million by 2025. Within

this overarching challenge there is an issue which is becoming more pressing – providing housing suitable for an ageing population.

- Around 23% of the population are currently aged over 60 and during the next 20 years this proportion will rise to 29%, by which time nearly one in 12 people will be aged 80 or over.

Projecting ahead, the Office of National Statistics data shows some significant increases in the numbers of older people and of households headed by older people, as shown below.

Table 1: Household Projections - Number of households ('000s) by age of head of household, all types, England

Age Group	2014	2039	% Change	% total change (of whole population)
65-74	3,299	4,256	29	18
75-84	2,254	3,834	70	30
85+	928	2,262	144	25
All 65+ households	6,481	10,352	59.7	73

Source: ONS

Table 2: Projections for all one person households ('000s) aged 65+ (thousands)

Age Group	2014	2039	% Change	% total change (of whole population)
65-74	1,281	1,844	44	33
75-84	1,063	880	-17	-11
85+	623	1,310	110	40
All 65+ households	2,967	4,034	35.9	62.4

Source: ONS

Households headed by older people are projected to grow faster than any other group and to account for 74% of the increase in all households by 2039. By 2039, 37% of households will be headed by someone aged 65 or over, compared to 27% in 2014.

5.2 Housing tenure and the older population

People remaining in larger properties into their old age have significant consequences for the housing market. A report from the Smith Institute (2013) noted that housing assets, as with other forms of wealth, reach a peak as people near old age and that older people have a greater share of the UK's housing assets. Outright

home ownership is higher for those over 65 than for younger people, with 71% of older people owning outright.

A large proportion of older people are owner-occupiers: of the 6 million plus people over 65 who currently head households, 4.5m are owner-occupiers and 4.1m are outright owners. By 2039 single person 65 plus households will make up 14% of all households compared with 13% in 2014, although changing patterns of social behaviour make that particular projection more problematic than most others, as household composition depends upon a range of factors.

The Pensions Policy Institute (Pension Policy institute 2011) estimates that over the next few years we are likely to see 80% of people over state pension age being owner-occupiers. Information from the 2011 census shows that around 6.5 million older people live in owner-occupied homes in England. A large proportion of these (some 5.7 million) own their home outright. A report from the Intergenerational Foundation (Griffiths 2011) identified that on current trends, between 2006 and 2026 there will be:

- An increase of 630,000 owner-occupier couple-households aged 65 and over living in houses with three bedrooms or more, including 160,000 with four bedrooms or more.
- An increase of 145,000 widow and widower one-person households with three or more bedrooms.
- An increase of 250,000 one-person owner-occupier households aged 65 and over living in family-size homes.

Current information suggests that 90% of older people continue to live in non-specialist accommodation.

5.3 Suitability of accommodation

A recent report (Lloyd 2016) identified that around two-thirds of older people living in owner-occupied housing in the UK reside with a partner, while just under one-third live alone. Lloyd also identified that the 2011 Census was the first to collect 'occupancy ratings' for bedrooms, based on the number of bedrooms available minus the recommended 'bedroom standard'. He found that over 50% of all 65+ households were considered 'under-occupied'.

Also, over half (53%) of owner-occupiers in England and Wales aged 50 to 64 have two spare bedrooms according to the bedroom standard, whilst 59% of those aged over 65 had two spare bedrooms, compared with a national average of 47%. With regard to the suitability of accommodation, Griffiths paints a rather gloomy picture:

"It's a depressing fact that too many older people in Britain today face living their later years in substandard housing. Older people are at the greatest risk of living in non-decent housing...Furthermore, that risk is not confined to those living in social housing. Indeed, contrary to common assumptions two thirds of non-decent homes are owner-occupied"

Being in the right type of accommodation is increasingly recognised as important to the health and well-being of older people. This is reflected in the duty to co-operate for local authorities with housing responsibilities under the Care Act (2014). The Housing LIN, on their website set out the following:

‘A fundamental component of the Care Act is the ‘suitability of accommodation’ in meeting the at home care and support needs of older and vulnerable people. The Act... outlines how housing can support a more integrated approach...Of particular note:

A general duty to promote wellbeing makes reference to suitable accommodation:

- *Housing not just the ‘bricks and mortar’, also includes housing related support or services*
- *Housing must be considered as part of an assessment process that may prevent, reduce or delay an adult social care need*
- *Information and advice should reflect housing options, as part of a universal service offer*
- *Care and support delivered in an integrated way with cooperation with partner bodies, including housing’.*

An earlier report from the Housing LIN (prepared by IPC) (Housing LIN 2012) identified that there is now a wealth of research linking housing and health and that:

- *‘it is clear that poor housing can be a contributory factor to exacerbating a number of health conditions just as good housing may help to limit the effects or incidence of other conditions’*

The Housing Health and Safety Rating System (HHSRS-DCLG 2006) is a risk assessment tool used to assess the potential risks to the health and safety of occupants in residential properties. It identifies 29 hazards or threats. One of those threats identified is ‘House type and design’. As the Housing LIN report puts it:

‘Poorly designed housing clearly predisposes accidents, with the elderly being particularly affected as they are more likely to suffer injuries... Evidence suggests even ‘low level interventions’ such as minor housing adaptations can improve health and reduce the need for medical and social care’

In order to be able to move, of course, older people need to have suitable accommodation to move into; in the 2016 Research Report into ‘Retirement Housing’ Knight Frank identified that:

- There is a significant housing supply shortage generally, but particularly with regard to retirement housing.
- Currently around 2% of housing stock is retirement housing.
- Only 3% of new housing which has been recently been granted planning permission is specifically for ‘elderly’ or ‘sheltered’ accommodation.
- Around 5,500 retirement housing units are being delivered a year – far below the level needed (as discussed above).

- Once levels of homeownership and desire to move are taken into consideration, data suggests potential demand for around 30,000 retirement housing units a year.

This analysis does relate only to 'retirement housing', so specialist and identifiable accommodation for older people. For many older people, 'downsizing' may mean a move to a smaller more manageable and better-located property (fewer rooms, smaller garden, level access); such a move will have its own impact on the market for smaller properties.

Housing and older people - Key points

- There will be significant increases in the numbers of older people and of households headed by older people
- A large proportion of older people are owner-occupiers, and this will increase.
- By official definitions, there is considerable "under-occupancy" in older person households.
- Being in an age-appropriate home is essential to the health and well-being of older people.

6 Why do older people move?

There are many influences on the housing decisions made by older people. For some finance is key - older people are often "asset rich and income light" having retired onto lower incomes. They may wish to release equity either to fund their own living costs or, to assist their own children onto the housing ladder.

A report published by the Institute of Public Policy Research (IPPR) looked at the moves older people make, why they move, and their choice of locations (Pennington, 2013). Importantly they found that older people can move by choice in order to mark a new chapter in their lives, but also that post-retirement migration can have its own specific drivers, i.e.:

- There is a clear association between movement and poor health in older age (Those whose health has deteriorated over a period are more likely to move than those whose health has improved or stayed the same).
- 'Younger older people' (aged 60-65) tend to move in order to improve their lifestyle post-retirement, and to create a more secure environment to age into.
- 'Older people' (aged 75+) tend to move because they need assistance in terms of informal or formal care provision (This may be seen as seen as 'coerced' rather than 'desired').

Pennington identified further analysis that suggests that the drivers of movement differ across both age and socio-economic status with earlier, post-retirement 'lifestyle' migration, concentrated in more well off households – better off people tend to move earlier out of choice, poorer people tend to move later out of necessity.

Research by the Prudential (reported in the Daily Telegraph 21 August 2013) found that more than a quarter of retired homeowners expect to sell their house to help ease the pressure of living on a pension; most intend to buy another property.

Similarly, a study by 'Key Retirement Solutions' (reported in the Daily Telegraph (21 April 2013) found that over 19% of over-55s state they cannot afford to run their homes. The report stated that the average homeowner aims to raise £78,000 by moving to a less expensive property. A quarter of respondents planned to use the money to help their children pay for house deposits and other costs.

A more recent research report from Knight Frank (2016) suggested that whilst some homeowners do not want to move house in older age, a notable proportion of older people do envisage moving house or downsizing and that around 25% of over-55s may want to move into some sort of retirement housing in the future (some 2.5 million households). Clearly downsizing is an option considered by many people as they get older. A report from the New Policy Institute (New Policy Institute 2012) (NPI) looked at house moves amongst the older population and why they moved. It showed that:

- Older person households are much less likely to have moved in the previous ten years than other households (28% compared with 66%).
- Around 2 million older person households had moved at least once within the previous 10 years.
- The older people get, the longer they had been in their current property (among older person households the proportion that have been resident for less than 10 years progressively decreases with age, from a third in the age group 55-64 to 18% at 85+).

Surveys looking at why older people move, (English Housing Survey 2009/10, Pannell, Aldridge, and Kenway (2012)) identified that there were three main reasons:

- Family/other reasons (31%)
- Moving to smaller accommodation (21%)
- Moving to a better neighbourhood (17%)

Although now quite old, a survey by MORI (Mori 2004) found that 30% of over 65s would choose to move to different accommodation, of which only 12% would seek accommodation with care. This is supported by data showing that at present, only 1% of the UK's population of over 60 year olds live in dedicated retirement communities, in comparison to 17% in the USA and 13% in Australia and New Zealand.

However, there are also disincentives to moving as was revealed in a study by DEMOS (Wood 2013). It asked older people who felt it would be too difficult to move (whether they wanted to or not) why that was the case. They said:

- The process of packing up all my belongings would be too stressful (50%).
- It would be too expensive (45%).

- I would find it physically difficult (29%).
- There are no suitable properties available (26%).

The DEMOS report identified that of those who did want to move 43% of this group said it was because they wanted a more suitable property – one that had a garden that was easier to maintain, or had fewer stairs. For example, 26% said their property was too big for them – rising to 44% of people with four bedrooms and 60% of those with five or more; while 19% said maintenance was now a problem. The DEMOS report also noted that a quarter of over-60s expressed a particular interest in buying a retirement property - a total of 3.5 million people. It also found that 58% of over-60s were interested in downsizing but feel restricted by a lack of suitable alternative housing or a fear of moving to an unfamiliar environment. Those interested in downsizing were currently sitting on £400bn of housing wealth. The research tops previous estimates of pensioner's housing wealth, finding over-60s own £1.1 trillion in housing equity in England alone.

Why do older people move? – Key points

- Older people move for a variety of reasons.
- Older old people' (aged 75+) tend to move because they need assistance in terms of informal or formal care provision
- Other reasons for moves include family reasons, moving to smaller accommodation and moving to a better neighbourhood.
- Older people have disincentives to moving including physical and emotional stress, the cost of moving, and lack of suitable alternative accommodation.

7 “Downsizing” and the housing market

As discussed above, there are significant problems (frequently referred to as a crisis) in the UK housing market in terms of available properties and low levels of transactions; enabling or encouraging older people to “downsize” could significantly help to address that. The DEMOS report showed that for almost half of those making plans to downsize, the main attraction was simply a less complicated life. Many are considering putting their house on the market long before the need for care became a consideration, to enable them to enjoy their retirement with fewer financial worries or a more manageable lifestyle. Recent research from Lloyds Bank shows that ‘downsizing’ is the second most popular reason cited by people wanting to move to a new property. (Lloyds Bank 2016), with potentially significant financial benefits (Lloyds Bank 2015).

However, according to the Intergenerational Foundation report (Griffiths 2011), downsizing amongst the over 65s in the UK had stagnated, as compared to the United States: it is estimated that in 2026, empty bedrooms in the homes of the retired could exceed 10 million. The report goes on to suggest that the lifecycle of housing is breaking down partly due to the behaviour of older groups; rather than downsizing, more and more older people are staying on in the family home.

A Special Report of the Nationwide House Price Index in October 2011 found that “84% of owner-occupied properties in England have at least one spare bedroom

with, 47% actually classified ‘under-occupied’, that is to say they have two or more spare bedrooms.’ Areas with high levels of under-occupation also coincide with areas of high housing demand. There are high levels of under-occupancy in the South West, South East and East of England – at around 40% of households – all of which face growing housing pressure and very poor affordability levels (Griffith 2011).

Beach (2016) presents information from Knight Frank on the equity that people in the Wales and in different English regions could release by ‘downsizing’ by one bedroom:

Table 3: Average equity released by downsizing by one bedroom

Region	Equity
London	£71,262
South East	£62,707
South West	£49,510
East of England	£48,055
West Midlands	£32,499
East Midlands	£32,259
North East	£30,731
North West	£30,456
Yorkshire and the Humber	£28,405
Wales	£24,237

Source: Knight Frank Residential Research (2014)

Knight Frank also calculated that the average equity that could be released by downsizing to a home with one less bedroom is around £52,000. Changing the type of property can have an effect also. For example, they cite that downsizing from a 3-bed house to a 2-bedroom flat in London could release around £98,000 in equity, based on average property prices, while downsizing from a 4-bedroom detached house to a 2-bedroom flat in the South East could release £205,500 in equity.

Research from the Joseph Rowntree Foundation (2012) found that:

- Of the 8 million households that under-occupy, just over half (4.2 million) are older person households;
- 57 per cent of all older households under-occupy, but the proportion is different between tenures: 68 per cent of owner-occupiers but only 19 per cent of social renters;
- Among older people, the rate of under-occupation falls with age – even so, half of those aged over 85 who own their home under-occupy.

Data from the English Housing Survey (2012) shows that around three-fifths (61%) of all owners had been in their home for at least ten years, in contrast to 44% of social renters and just 9% of private renters. The most recent market survey for the National

Association of Estate Agents (NAEA 2013) reported that nearly a third (32%) of all properties sold in the last month were due to house buyers wanting to up-size from their existing property, whereas only a quarter (24 percent) were looking to down-size.

The importance to the market of “downsizing” is emphasised by two reports; one from the Post Office and one from Lloyds bank. Both highlight the problem faced by “second steppers”, i.e., those people who moved into their first home some time ago and are now looking for a more “family-sized” house. The Lloyds TSB Homeowner review observed:

“Housing affordability for Second Steppers stood at 4.4 times gross annual average earnings in June 2013. On this measure, affordability has declined significantly over the past decade when it was 2.9 in 2003”

Analysis from the report suggests that 200,000 older people (defined as over 55) move each year, while 271,000 die. This releases 189,000 owner-occupied properties back on to the market for other (non-older-person) families. Of these, there are 43,000 two-bedroom properties, 101,000 three-bedroom and 21,000 four or more bedroom properties each year.

The NPI calculated that if those in older households that are currently under-occupied were to downsize, a further 840,000 family-sized homes would be released, including 760,000 in the owner-occupied sector. They identified that this approach would potentially be at a lower cost than building the equivalent number of new family homes and would create family housing more quickly. Drawing upon analysis from the University of Reading the report suggests that two-thirds of residents currently living in retirement property had moved from homes with three or more bedrooms.

Research from the Joseph Rowntree Foundation (Pannell, Aldridge and Kenway 2012) (b) found that 85% of houses freed up by older people were due to death, rather than by older people moving to other accommodation. Demos calculate that if all those interested in buying retirement property were able to do so, the 3.5 million older people who would be happy to move would free up 3.29 million properties, including nearly 2 million, three-bedroom homes.

A more recent report, (Watts, 2016) argues that providing older people with more suitable accommodation and supporting or persuading them to ‘downsize’ as one of the keys to the UK’s housing crisis. He quotes at length what was said by Lynne Blackwell of the Financial Conduct Authority at the ‘Great Mortgage Debate’ in 2015:

“There are lots of questions about whether it’s right that the government should focus on the first-time buyer when in fact we have a real issue about the last time buyer. There are borrowers who pay off the mortgage who are sitting in a very big house: does there need to be thought given to how we build more appropriate housing for retired people in the right places. There is a big debate to be had about whether the government’s focus is actually in the right place.”

An academic study covering the US and UK compared the rates of ‘downsizing’ in the two countries (Banks, Blundell, Oldfield and Smith 2011). They suggested that

Americans downsize housing much more than the British largely because there is a greater tradition of moving from region to region in America, and particularly “moving to the sun” in later life. The research showed that older British people continuing to live in households with significantly more bedrooms than their American counterparts. Over any five-year period one in every eight British homeowners will move, compared to one in every five US homeowners. Among owner-occupiers, differences in mobility become even more pronounced as people get older – in the US the probability of moving increases as you get older than 60, in the UK the probability diminishes.

Whilst Watt’s emphasis is on the importance of ensuring that the housing market has enough suitable properties for “downsizing” people to move into, he also sees making the process of moving both more simple and more rewarding is also part of the message. Helpfully, he also introduces the phrases “*Last time buyer*” and “*Rightsizing*”. A major report on ‘downsizing’ from the International Longevity Centre (Beach 2016), provided research on older homeowners’ actual experiences and expectations with regard to ‘downsizing’. Amongst the key findings were:

- One in three homeowners aged 55+ (32.6%) were considering or expecting to consider downsizing. This figure rose to nearly one in two of all homeowners aged 55+ (48.2%) when factoring in those who have already downsized (15.6%).
- Lower maintenance was the most important reason people downsized or would consider it (56.0%).
- Close to a third (29.3%) of those who had downsized or are considering it did or expect to release more than £100,000 in equity.
- Releasing substantial equity can be a reality when downsizing.
- Specialist retirement housing could have a major impact on freeing up a larger housing market, with nearly 3.5 million older people interested in downsizing and buying a retirement property.

Again, Beach identifies that there are both benefits and barriers associated with ‘downsizing’. The potential benefits include financial benefits, a reduction in domestic maintenance, health and social benefits. However, set against that are a number of factors that inhibit people from looking to move and to ‘downsize’. Emotional Factors and attachment to the ‘family’ home:

- The Nuisance Factor: the very fact of moving (especially for those aged over 75)
- The Esteem Factor – a loss of prestige
- The Hospitality Factor: The value having additional space,
- The Cost Factor: - effectively the transaction costs of moving, including Stamp Duty.
- The Supply Factor - the adequate supply of suitable housing to move into.

Overall, household ‘manageability’ and the freeing up of equity are the main reasons people contemplate downsizing.

The Intergenerational Foundation (IGF) (Griffiths 2011) report on downsizing showed that people tended to be sanguine about the role of their house as an asset whose

value had often increased dramatically in the time they had owned it. They found that most of those who had downsized tended to have had larger properties (often of five bedrooms or more) and are often moving to a smaller property within the same area. They also suggested that “downsizers” feel liberated from the tyranny of household chores, upkeep costs, increasing heating bills and large gardens; “*Non-downsizers’ worried more about where they would keep their possessions in smaller properties*”. Of those who had downsized, none regretted their decision and found their new home more manageable, although they were saddened to be leaving the family home.

However, according to property advisers Savills (2012) levels of downsizing in recent years has been fairly small (at around 3.5% of the total housing equity held by over-55s) and mostly confined to wealthier homeowners. Watts (2016) reports that in a survey carried out among www.retireeasy.co.uk subscribers, one third listed downsizing as one of their planned future options in order to release an average of 33% of its value; and the average age at which they envisage doing that is at 65. People who are looking to downsize want to do so not only to access more manageable accommodation or to be near family etc, they also want to access more of their capital assets.

A recent survey carried out for the Prudential Insurance Group (reported by the IGF 2016), collected data from homeowners over the age of 55. It found that 41% of them intended to sell their current property. Of those who are planning to sell, 75% said they would like to downsize into a smaller property than the one they currently occupy.

Many homeowners among this group said that they were hoping that downsizing would enable them to free up, cash, (in both equity and reduced running costs), although for many, having too much space also appears to be a big concern.

So, the reasons why people choose to stay in their existing accommodation are many and varied. Familiarity, family memories, neighbours and the need to accommodate occasional visitors may all play a part (Sutherland 2012) but so too may a lack of information and other forms of support to help them to move. Also, the sheer effort and cost of moving is also an impediment. As the Housing LIN document comments “*Downsizing is not the right solution for everyone. It should be an informed choice and not an obligation*”. As long as there are viable and effective alternatives for people to move to, “downsizing” at the right time has to be the right thing for individuals and for society more generally. However, the market in retirement properties remains relatively small with around 141,000 owner-occupied properties ever built, according to the Elderly Accommodation Counsel.

Retirement Britain (2016) raise the issue of the impact of Brexit on people’s behaviour. Identifying commentary from financial experts that says financial experts have said that UK pensions will suffer as a result of Brexit, older people may have to adapt their plans for living, buying and renting in retirement. ‘Downsizing’ is put forward as one possible response to this. Too often, they say, the retirement property industry has focused on the barriers to downsizing whilst ignoring the benefits, financial or otherwise; whether this view is borne out remains to be seen.

“Downsizing” and the housing market – Key points

- ‘Downsizing’ is a very common reason for moving house and can release considerable equity.
- An increase in ‘downsizing’ would greatly help with some of the problems in the housing market.
- A greater choice of specialist retirement housing could have a major impact on freeing up a wider housing market
- Over half of the ‘under occupied’ housing in Britain has older people living in it
- Downsizing is not the right solution for everyone. It should be an informed choice and not an obligation.
- Older people in Britain are more likely to ‘stay put’ than elsewhere.

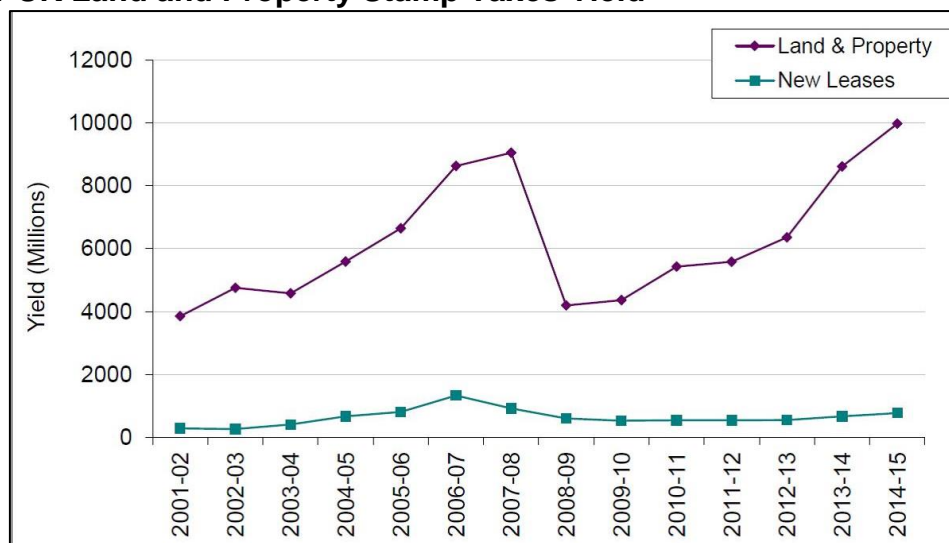
8 Stamp duty and the economy

The total UK SDLT collected in 2014-15 was £10,738 million (HMRC 2015), of which £9,968 million was from land and property sales. This was a 15.8% increase on 2013-14. HMRC reported that stamp taxes on land & property showed continuous year-on-year rises between 2003 - 04 and 2007-08. There was a sharp downturn in the property market in 2008-09 coinciding with the credit crunch and recession. This led to a steep reduction in yield (tax collected) recorded in that year with the total SDLT collected dropping by more than half. However, since 2008-09, SDLT has shown a year on year growth in yield. HMRC attribute this to a recovery in the housing market and the introduction of higher SDLT rates of property transactions over £1m.

As outlined above, the structure of residential SDLT was subject to major reform in December 2014 and this means the figure for 2014/15 includes tax collected under both the new and old systems.

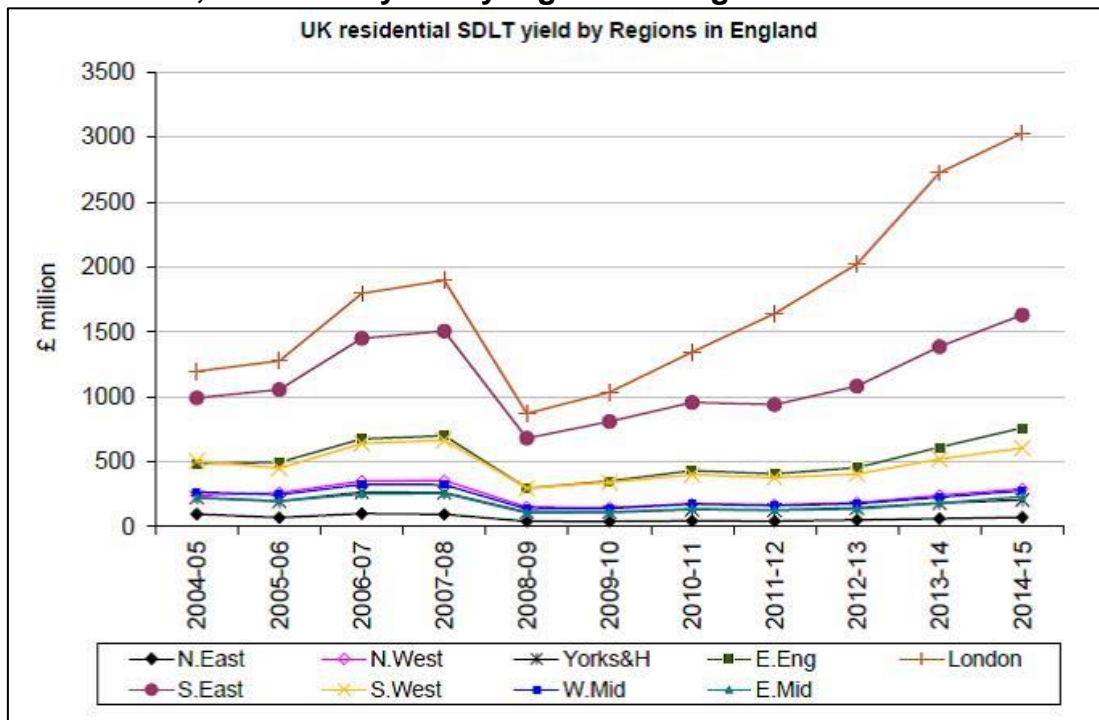
The chart below is from the HMRC annual return and shows the historic yields from SDLT since 2003.

Figure 1 UK Land and Property Stamp Taxes Yield



It shows that the revenue raised from Land and Property SDLT did fall dramatically in 2008-9 but has risen steadily since and it is now at its highest level ever.

Figure 2: below, shows the yield by regions in England.



Source: HMRC Annual Return

So, a third of the total yield comes from London and almost half from London and the South East combined reflecting the level of property prices in these regions. Moreover, the recent increase in those regions (London in particular) has far outstripped that from elsewhere. Table 4, below, shows the yield from residential SDLT by property price band in 2014-15

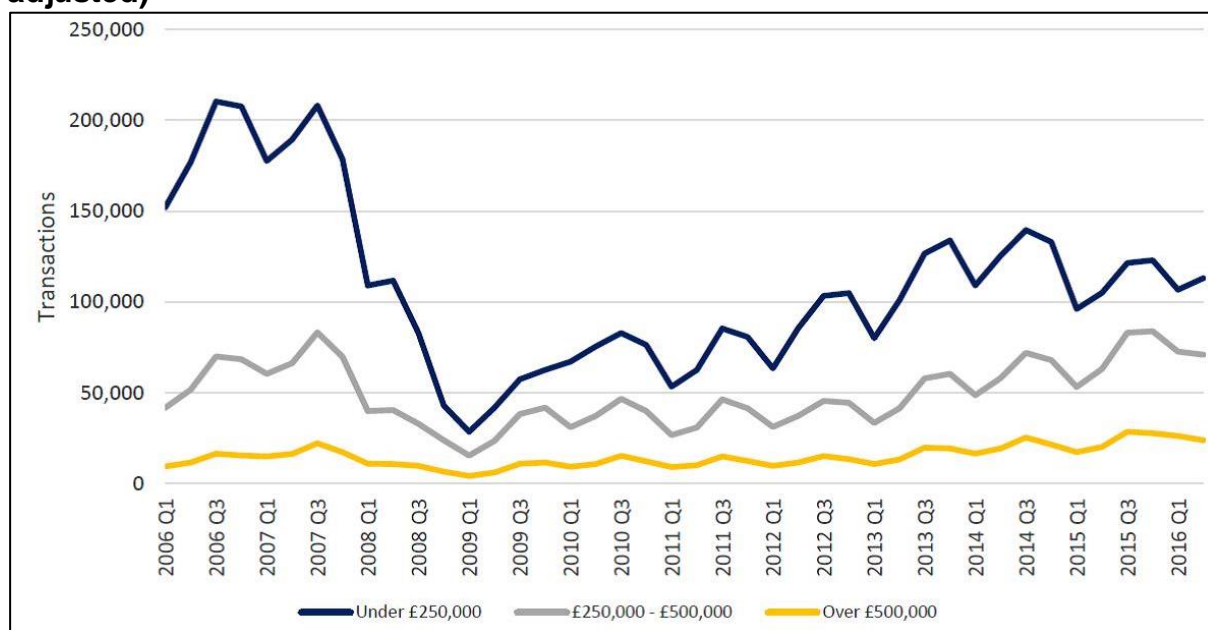
Table 4: Yield from residential SDLT by property price band in 2014-15 (£million)

Property price band £	125,001-250,000	250,001-500,000	500,001-1,000,000	1,000,001 – 2,000,000	2,000,000+	Total
Yield	910	2,600	1,765	935	1,220	7,500

The revenue from each band varies significantly, reflecting both the volume of sales in each band and the variation in the level of Stamp Duty levied. The full impact of the new system will not be seen until the next year’s figures are available.

Chart 3, below, from the HMRC Quarterly bulletin shows the pattern of transactions within the price bands.

Figure 3: SDLT Residential Liable Property Transactions (not seasonally adjusted)



Source: HMRC Quarterly report

Again, the historical pattern is shown around the slump in property prices in 2008/9. More recently, chart 3 shows that there were some 208,000 liable residential transactions in the first quarter of 2016 and general increase in the number of transactions in all bands, with some sharp fluctuations in the lower and middle bands shown.

Some properties, of course, will not sell for enough to fall under the Stamp Duty regime or will be otherwise exempt. There were just over 60,000 transactions in Quarter 2 of 2016 that were not liable for SDLT most of which were because they fell below the threshold. The numbers not liable dropped by 20% from the previous quarter, largely because of the new provisions with regard to buy-to-let and second homes.

Research undertaken by Best and Kleven 2013 indicates that there is a link between SDLT rates and housing transactions. Given what we know about older households, it seems highly probable that older people, including those in single person households, are discouraged from moving by SDLT and its current rates. A further report from the LSE (Whitehead and Travers October 2013) also indicates that Stamp Duty inhibits mobility and suggests as a minimum that the “notch” effect referred to above should be addressed.

Best and Kleven found that there were large house price responses to transaction taxes (such as Stamp Duty) and a fast price adjustment to transaction tax changes, with strong short-term and long term effects from Stamp Duty reductions (as with the temporary increase in thresholds that took place some years ago). Specifically, they argued that a temporary 1% reduction in the Stamp Duty rate can increase market activity by 20% during the period of reduction, and that the improvement is sustained (at a smaller rate) over a longer period of time.

Best and Kleven added to their work on SDLT with a new paper published in 2016. In this second paper they presented evidence on the effects of SDLT (and transactions taxes generally) on a range of variables including house prices and the volume of house purchases, and timing of transactions including an analysis of the dynamics of adjustment to both anticipated and unanticipated tax changes. Again, their overall finding was that the housing market responds very strongly and quickly to changes in SDLT, making it very distortionary compared to standard recurrent taxes. They emphasise the likely importance and role of deposits within the property mortgage system arguing that this amplifies behavioural responses to SDLT and provides a natural explanation for the responses they found.

Best and Kleven found that the 2008–2009 stamp duty holiday helped to show the effectiveness of fiscal stimulus and, in particular, to present some of the first evidence on the effectiveness of using temporary tax changes to stimulate the housing market during economic downturns. They also argue that these stimulus effects translate into GDP effects that are considerably larger than what has been found for other forms of fiscal stimulus such as income tax rebates.

More generally, these findings suggest that reducing the cost of housing transactions is an effective economic stimulus policy when governments are seeking to respond to an economic downturn. Deloitte Access Economics (2015) report for the Property Council of Australia notes that Stamp Duty Tax (property and non-property) generates a considerable proportion of the revenue raised by the states in Australia (typically 25%) and the report goes into significant detail about the potential impact of reducing Stamp Duty Taxes. The report describes Stamp Duty Taxes as:

‘...one of the least efficient taxes at either the state or federal level. Indeed, the Henry Review¹ stated that ‘stamp duties on conveyances are inconsistent with the needs of a modern tax system’ and that ‘ideally, there is no place for stamp duties in a modern Australian tax system’.

The report considers why Stamp Duty Taxes are bad for Australia’s prosperity:

The most efficient (i.e. best) taxes are those levied on:

- *Broad bases – reducing the extent to which individuals or businesses decrease the consumption of one good or service in favour of untaxed substitutes and limiting the rate of taxation required to raise a given volume of revenue; and*
- *Inelastic supply or demand – that is, those goods or services where either the demand or supply side of the market is relatively unresponsive to price changes, and therefore where taxes distort behaviour the least.*

It also found that sellers predominantly bear the cost of stamp duties, ...because having put their house on the market they have already made a commitment towards the housing transaction and they are least able to avoid moving: “several studies, both of the Australian property market and internationally, use statistical techniques

¹ The Australia’s Future Tax System Review, informally known as the Henry Tax Review was commissioned by the Rudd Government in 2008 and published in 2010. The review was intended to guide tax system reforms over the next 10 to 20 years.

to demonstrate that the incidence of property transaction taxes tend to fall on the seller.”

Deloitte argue that “*replacing stamp duties with more efficient taxes will also lead to an increase in property transactions*” and model three scenarios including one in which only stamp duties on non-residential properties are replaced in a revenue neutral way with an increase in GST². They found that in terms of generating further economic activity (and dependent upon the revised tax system more revenue)

‘...the benefits of replacing stamp duties with a more efficient tax base are significant. An abolition of all property stamp duties in favour of a revenue neutral increase in GST is estimated to lead to a net increase in real consumption of between \$6.0 billion and \$9.7 billion depending on the impact on transaction volumes assumed.’

Deloitte supports the view that a buoyant housing market generates far more income for the Revenue than just from Stamp Duty. Whilst potentially affecting the number of transactions, SDLT is estimated to account for only 30% (Stewart, E 2013) of the tax generated by a house move. So, it can be argued that a cut in SDLT that increases the number of house moves would generate more tax revenue than it lost. Stewart seeks to build upon the work of Best and Kleven and to model some of the wider consequences of the conclusions drawn. They suggest that on a house purchase of £167K the initial transaction alone can generate an additional £6,000 in tax revenue, even before renovations and improvements to that property, or further sales freed-up further down the chain can have an effect.

Where there is additional work done on renovation and improvement, figures produced in Australia (Housing Industry Association 2011) suggests that for every A\$ spent on construction a further A\$2.866 is spent as a knock-on effect, generating a wide range of further tax income. Similarly, in America, The National Association of Realtors® estimated in 2008 that each existing home sale at the median generated \$63,101 of economic impact, a further 30% on the sale price. Deloitte (2015) identify big benefits for those areas of the economy which feed into, and feed off, the property sector. Their modelling estimates significant increases in output in the construction sector (which increases by nearly 1% in size), as well as in the utilities and retail sectors. They also see this as bringing significant employment benefits.

Similarly, employment will increase in those sectors which increase output as a result of the reforms. The construction sector is estimated to employ an additional 5,000 full time equivalent workers when all property stamp duties are removed, while gains will also be realised in retail trade and other service sectors. That said, the overall impact on national employment would be modest, and the long run modelling here assumes full employment in any scenario – the main difference is not in the number of people working, but the more efficient allocation of those workers to different industries in a way that boosts the total size of the economy.

Further work in the US (National Association of Homebuilders 2012) looking at the homebuyer’s tax credit scheme suggested that it led to 143,000 new first-time buyers and a ripple effect of 83,000 additional home sales and acquisitions generated by

² Similar to VAT in the UK

displaced home owners trading up. Moreover, the additional tax revenue generated was estimated at \$3 billion.

Stamp duty and the economy – Key points

- Stamp duty revenues have increased sharply recently.
- A third of the total yield comes from London and almost half from London and the South East.
- Research indicates that there is a link between SDLT rates and housing transactions and that the housing market responds very strongly and quickly to changes in SDLT.
- Some believe Stamp Duty to be an outmoded and inefficient tax.
- Cuts in SDLT that increase the number of house moves could generate more tax revenue than they lost.

9 Modelling the impact of a change in stamp duty

So what could be the impact of changing the current liability for stamp duty for older homeowners?

The recent implementation of the new Stamp Duty regime for second homes and buy-to-let purchases shows the potential impact of changes to the Stamp Duty regime. Best and Kleven identified that a 1 percentage point reduction in the Stamp Duty rate increased transactions by 20%.

It would be reasonable to assume that full exemption from Stamp Duty for older people (on both sales and purchases of properties as was the case in the temporary reduction analysed by Best and Kleven) would result in a similar level of increased activity by those older people; especially given what we know about the current low levels of downsizing in the UK. Given that a full exemption for older people would almost certainly result in a bigger saving than a 1% reduction, it is likely that the impact would be even greater. However, to retain any comparison with the findings of Best and Kleven we would have to assume exemption from Stamp Duty would apply to the properties being both bought and sold by older people. Clearly, having only a partial exemption of older people i.e. exempting them as only sellers or as buyers of retirement apartments would have a reduced impact with the net effect of the exemption being in the region of the 1% point reduction analysed by Best and Kleven. In addition, there is evidence that generally older people are less likely to move house than those in other age-bands and therefore conservative estimates are appropriate.

Pannell, Aldridge and Kenway (2012) identify that some 200,000 older people move annually. It follows that a 20% increase in moves could result in a further 40,000 family-sized houses coming onto the market. Clearly, if a full exemption had a greater impact more houses would be released. Moreover, if those people are at the top of the chain the total number of house sales likely to occur in the chain that results from that additional decision to move in would be at least 3 or 4 – generating over 100,000 additional house sales per annum.

Based upon the information reviewed in this report, it is possible to model the impact upon Stamp Duty revenues that exempting older people could have with different levels of older people pulled into the market by the exemption. Table 5 sets out the potential levels of revenue lost and generated by both 'blanket' exemptions in SDLT on sales and purchases by older people, and of exemptions just on purchases of property made by older people (assuming that such an exemption could itself generate the increased levels of activity shown). It should be noted:

- The model includes up to 30% level of increased activity.
- The amount of Stamp Duty revenue calculated as lost is based on the 200,000 older people who would have moved house anyway without the exemption and at the average house price level of £216,750 and a Stamp Duty level per sale of £1,835³.
- The initial loss to the revenue of SDLT from those 200,000 transactions would be £367m per annum and that amount has to be deducted from any revenue gains accrued from additional sales as outlined in Table 5, below.
- The additional tax revenue from the additional sales is calculated using the £6,000 figure used by Best and Kleven and referred to above.
- The additional Stamp Duty and other additional tax revenues generated from the length of chain (3 moves) initiated by older people moving are calculated on the same basis.

Table 5 models the revenue overall that could be gained from the additional sales generated by exempting older people from SDLT when they move. Offset against that would be the initial loss to the revenue from those older people who would have moved anyway (£367m) and this figure is included in the calculation in the final column of Table 5. Exempting older people as both buyers and sellers would have a higher initial cost, but would be more likely to generate additional moves and housing transactions.

³ Again, using the Frank Knight Stamp Duty calculator

Table 5: Potential impact of exempting older people from Stamp Duty– all transactions at average house price level (£m)

Increased sales from cutting SDLT for older people	Additional moves	SDLT Revenue lost		Other tax revenues generated (at £6K per sale)	Additional SDLT generated by chain of 3 more sales	Additional other tax revenue generated by chain	Net benefit to revenue with exemption for older people buying only
		Exempting older people buying only	Exempting older people buying & selling				
1%	2,000	-3.67	-7.34	12.0	11.01	36.0	-311.4
5%	10,000	-18.35	-36.7	60.0	55.05	18.0	-90.3
10%	20,000	-36.7	-73.4	120.0	110.1	360.0	186.4
20%	40,000	-73.4	-146.8	240.0	220.2	720.0	353.0
30%	60,000	-110.1	-220.2	360.0	330.3	1,080.0	739.8

This shows that very low levels of increased sales would mean a loss to the Revenue, but an increase of 10% in the numbers of older people moving would generate a significant surplus for the Revenue, and that an achievable 20% increase would net the Revenue an extra £353m per annum. The overall net effect of the stimulus to the housing market could be very significant.

A reduction in Stamp Duty on sales and/or purchases by older people would help them to move into properties that are more appropriate, improve their quality of life and reduce dependency. It would encourage “downsizing”, stimulate the housing market and begin free up larger properties for those lower down the housing market. Whilst Stamp Duty revenue would be lost on the transactions made exempt, other revenues generated and Stamp Duty recovered further down the chain would make good the defect, and more.

Clearly, an exemption from Stamp Duty only for people moving into identified retirement properties would have a much lower impact upon the loss of revenue than a ‘blanket’ exemption for all older people moving, whilst retaining the beneficial effects.

Other approaches to freeing up the housing market through the tax regime are possible, but on the whole these seem to be either more punitive or somewhat distanced from the actual house sale, especially when compared with Stamp Duty. For example, the single person’s discount on council tax (25%) could be abolished, which would mean older people living alone were faced with higher council tax bills. Alternatively, there could be reductions in VAT, targeted on the building industry. These though, could encourage people to stay put as much as to move.

Housing Tax Credits have been tried in the USA as part of a recent economic stimulus programmes. Dynan, Gayer and Plotkin (2013) looked at the impact of these programmes but found that time-limited homebuyer tax credits largely “pull forward” sales that would have occurred anyway. Whilst there can be benefits to accelerating economic activity if the economic slump is large, the benefit from any boost of economic activity associated with a homebuyer tax credit needs to be weighed against alternative uses of the funds. It is also the case that targeted on first-time buyers they are unlikely to impact upon older people looking to downsize and “second steppers”.

Modelling the impact of a change in stamp duty – Key points

- Evidence suggests that reducing SDLT increases housing transactions
- Transactions involving older people could offer exemptions with them as buyers and/or sellers.
- Modelling suggests SDLT exemptions could encourage 40,000 additional older people to move per annum.
- It also suggest SDLT exemptions for older people could lead to increased revenues overall.
- Exemptions could be accompanied by further measures.
- A reduction in Stamp Duty on sales and/or purchases by older people would help them to move into more appropriate properties, improve their quality of life and reduce dependency.

10 Conclusion

This report illustrates that there are large numbers of older people living in under-occupied houses and whilst they should not be coerced into moving there are obvious benefits to them and to the housing market of encouraging or enabling them to move. It suggests that using a reduction in Stamp Duty for older people (preferably as buyers and sellers) could be a highly effective way of achieving that, especially given that it is not likely to lead to a reduction in revenue for the Government.

Additional and not insignificant benefits of an increase in older people moving include the potential impact on their health and wellbeing through living in accommodation better suited to meet their needs, with a reduction in health and social care costs this suggests would be possible. A reduction in Stamp Duty on sales and/or purchases of property by older people could also stimulate the development of more retirement accommodation to meet an increase in demand. It could further stimulate the housing market and free up larger properties for those lower down the housing market ladder.

A more targeted approach exempting just those people moving into retirement properties would certainly be less costly to the Revenue, but at the present time there is only limited evidence as to its likely effectiveness in encouraging people to move. Nevertheless, there are good grounds for concluding that either approach is likely to bear fruit and is worthy of further consideration.

**Institute of Public Care
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Appendix 1 – Rates of SDLT

Old system rates to December 2014)

Rate	£
0%	0-150,000
1%	150,001-250,000
3%	250,001-500,000
4%	500,000-1,000,000
5%	1,000,000-2,000,000
7%	Over 2,000,000

New system rates (December 2014)

Brackets	Rate
£0-£125,000	0%
£125,001-£250k	2%
£250,001-£925k	5%
£925,001-£1.5m	10%
£1.5m+	12%

Example totals under old and new systems at different price points

Price point (£)	Cost under old system (£)	Cost under new system (£) ⁴	Effective % Rate under new system
124,999	0.0	0.0	0.0
149,999	0.0	500	0.3
200,000	2,000	1,500	0.8
249,999	2,500	2,500	1.0
250,001	7,500	2,500	1.0
300,000	9,000	5,000	1.7
350,000	10,500	7,500	2.1
500,001	20,000	15,000	3.0
1,000,001	50,000	43,750	4.4
2,000,001	140,000	153,750	10.3
5,000,000	350,000	513,750	10.3

⁴ Calculated using Knight Frank SDLT: calculator <http://www.knightfrank.co.uk/stamp-duty-calculator>