

Not all retirement housing organisations are the same



“Recent articles in the press drawing attention to inflated retirement home prices, falling values, and costly management charges and ground rents will understandably have caused concern amongst retirement home owners and buyers,” says John Lavin of Cognatum, a not for profit company who manage 60 retirement estates across central and southern England.

“But not all retirement estates should be tarred with the same brush,” he says. *“Property buyers should exercise caution and take advice when assessing potential property in all sectors.”*

“At Cognatum we regularly publish advice that helps buyers understand the particular issues surrounding retirement property, some of which we are reproducing here as a guide to buyers and their relatives who want to ensure they are making a wise choice. Remember that there is a huge variety of organisations who operate many different retirement models; from large commercial organisations to those who hold not for profit status and don’t charge ground rents at all. Do your due diligence and take good advice.”

“Some of the negative press that the retirement sector has attracted is not without justification.”

And it is a common myth that all retirement housing is a poor investment – not all retirement estates are the same. Look at the trend of resale prices that have been achieved on the estate – there is always a premium to be paid for buying brand new and in the retirement sector that can be higher than the average. Properties on a good, well managed and maintained estate should perform in line with, or even outpace, the general market due to low supply. While the purchase price may well be your immediate concern when choosing your new property, the price that you will be able to achieve when the time comes to sell should be a consideration too; and you should be looking for a property that will be a sound investment. Look at comparables – with other retirement

estates and with mainstream property, and look at historical price movements on the estate you are interested in. Consider too that you are moving to a property that may well be your home for a significant period – we know that on average owners live on our estates for 14 years, and the average increase in the value of their homes equates to 4% per annum.

Retirement estates or developments come in all shapes and sizes, and have a wide variety of services; but what they do have in common is that the properties are likely to be sold leasehold. The first thing to check is the length of lease left to run on the property. Leases can be extended, but the process can be time-consuming and expensive. Be cautious of a lease that has under 100 years remaining as this can have a significant impact on the resale value.

“Buyers should be clear about the costs associated with leasehold property. They come in the form of various charges made by the landlord or management company: these are usually necessary and reasonable expenses, and a responsible way of managing leasehold and the owners’ investment, protecting them from unexpected costs. But it’s important that buyers are aware of them prior to purchase, understand some of the jargon used, and include the costs in annual budgeting.”

Service charge:

“An ongoing annual service charge which should cover the cost of running, maintaining and repairing the grounds and buildings, any onsite staff and the upkeep of communal facilities. From a budgeting perspective, service charges need not themselves be a cause for concern as they mean you are unlikely to get an unexpected bill for roof repairs, new windows, or any other cost associated with the property structure or grounds.”

Ground rent:

“An ongoing annual service charge which should cover the cost of running, maintaining and repairing the grounds and buildings, any onsite staff and the

upkeep of communal facilities. From a budgeting perspective, service charges need not themselves be a cause for concern as they mean you are unlikely to get an unexpected bill for roof repairs, new windows, or any other cost associated with the property structure or grounds.”

Event fees

(sometimes called transfer fees):

“Leases of retirement flats and bungalows often include a fee triggered by certain events, such as when the owner sells or sub-lets their property. These fees are typically in the range of 1% of the property sale price but may be as high as 30%”

Reserve fund contribution:

*“This is either an annual charge added to the annual service charge, or is sometimes a ‘deferred’ charge collected when the current owner sells on the property. This deferred charging method is an example of an ‘event fee’ as described above. The **Reserve fund** is intended to cover significant items of planned maintenance around the property and estate. A well-managed reserve fund (sometimes referred to as a ‘sinking fund’) will build up and deplete as required, so the value of the fund will vary depending on where it currently is in this cycle. Well managed funds though have a repeating, regular contribution to avoid widely varying annual amounts and the unpredictability in monthly outgoings that result. Check how the reserve fund is organised, what items are budgeted for, and assure yourself you’re happy with the arrangement.”*

“Careful budgeting is particularly important for the retired whose finances tend to be fixed, and these charges, which are set and published in the prior year, do allow residents to plan appropriately. Unwelcome surprises should be few and far between as the funds should be in place to deal with most eventualities, whereas with a freehold property the financial burden is usually unpredictable, and reaction to a problem or urgent need, is solely the responsibility of the owner. ►

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“What is vitally important is that buyers are fully conversant with the extent of the associated costs before committing themselves. Many, many people who have taken the decision to buy retirement property, or have made the move and downsized in later life have done so successfully and very happily. They live in property that adapts to suit their changing needs, family composition, location, and lifestyle, has increased in value, and has reasonable and affordable service charges. Good retirement property is in high demand, and making the right purchase has enabled them to travel; or just to kick back without property maintenance worries or large and difficult to maintain gardens, and with the peace of mind of having a range of support and assistance available 24/7 just in case it is needed.”

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Cognatum is a not for profit company with 60 retirement estates across central and southern England. All Cognatum properties are sold on long leases with no ground rents or other requirements on owning a property, except that one resident must be over 55 years of age.

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