The effect of house prices on the long term care market: Evidence from England

Abstract

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**Introduction**

The English housing sector has experienced the fastest growth in prices amongst all OECD countries since the last decades. Between 1997 and 2016, whilst the median individual earnings increased by 68%, the median paid price for residential property raised by almost 260% (Henretty, 2017). A well known consequence from this process has been the crisis of house affordability. Under this crisis scenario, younger homeowners who have entered in the housing market later, struggle to meet the financial conditions[[1]](#footnote-1) to own a house (Hilber and Vermeulen 2010, 2016; Hilber 2017). Other groups who have been in the housing market for longer, such as the old homeowners, are thought to be the beneficiaries of this situation. These gains are based on financial wealth accumulated over time when the properties have increased their value. However, these gains are also subject to the decision of the old homeowners to sell their properties and live in a cheaper area (Hilber and Schöni, 2016; Hiller and Lerbs, 2016).

At the same time, the demand for long term care services that involve health care and help with activities of daily living has also increased substantially. The aging of the population and several societal changes have shifted the supply towards a paid formal provision by nursing and residential care homes. Given that the level of need increases with age, old homeowners are the main receptors of long term care services. Hence, in England the proportion of people with at least one difficulty increases from 16.4% when they are 65 to about 50% of those who are 85 (AgeUK, 2017).

In this article, we investigate the relationship between the housing and long term care markets. Although the increase of house prices may improve the financial wealth of old homeowners, it may also lead to restrict the choices of potential care services that they may require. We provide evidence about the causal link between the level of house prices on the availability of care homes that provide long term care services.

The direction of effect may be a priori unclear. House prices may be related to the composition of potential payers for the services offered by a care home (Danton et al, 2010). Considering this, areas with higher house prices reflect greater levels of affluence and a likely proportion clients willing to pay more for the fees of long term care services. In these cases, care providers may have the incentive to establish their care homes in these areas. However, it may also result in an unequal distribution of long term care across different areas depending on the level affluence.

Alternatively, high house prices may suppose a fixed cost when providers decide to build their facilities in an area. Higher house prices may then represent an important barrier that restricts the entry of care homes in those areas. Besides, higher house prices may also increase the opportunity costs of alternative building projects and therefore provide an incentive to deter the development of care homes.[[2]](#footnote-2) A likely consequence derived from the former situations, may be the reduction of long term care choices available for people living in those areas.

Our results reveal that high house prices affect negatively on the number of care homes available. A potential problem of the analysis is that long term care providers may choose local markets on the basis of unobservable variables that also affect the level of house prices. If this occurs, the choice of markets is not necessarily random and the estimated effects of the house prices may be biased. To overcome this potential limitation, we use an identification strategy based on Hilber and Vermeulen (2016) that exploits the variability in the the level of restrictiveness associated with planning regulations across English districts. The main difference in comparison with this approach is that we use the information about planning regulations as an instrument for the house prices. For our analysis, we construct a dataset that combines information on care homes, house prices and urban planning decisions corresponding to 315 local authorities from 2011 to 2016.

This paper contributes to the growing literature on the study of the residential long term care market in England. To the best of our knowledge, this is the first study that provides causal evidence with regards to the effect of house prices on the proportion of care homes at local level. Other papers have shown how the house prices are related to other aspects of the long term care market. Forder and Allan (2014), using cross-sectional data, provide a detailed analysis of elements that determine the competition amongst care homes and assess the consequences of this competition in both prices and quality. They show a negative relationship between the prices paid for the services of a care home and the prices of the houses of nearby. Likewise, they show a positive relationship with the probability of a care home obtaining greater level of quality. In second stage of our analysis we assess the impact of house prices on the proportion of care homes depending on their quality standards obtaining similar results. However, although the is positive and significant, it is very low in terms of the magnitude. Other authors, have explored the dynamics of the market by analysing potential elements that may lead to care homes closures. Allan and Forder (2015) show that poorer quality and more competitive markets are elements that increase the probability of exit from the market.

We extend this literature by addressing issues referred to the entry process of care homes in local markets. Prior to this paper, only Machin et al (2002) have provided some empirical evidence of factors affecting the market entry in the context of a minimum wage regulation. Their results suggest that the introduction of the minimum wage affects negatively the entry of care homes. However, this effect seems to be not significant. In addition to providing a more up to date evidence, our paper uses a more extensive dataset provided by the regulator, the Care Quality Commission (CQC). Likewise, this research also extends the literature that studies the effects of the high house prices in England using the care homes as a sector for the analysis.

This paper is organised as follows. Next section, section 2, outlines the main institutional characteristics that characterise the long term care and housing marketsh. Section 3, describes the data used for the analysis and section 4 presents the econometric model and the empirical strategy to address potential empirical concerns. Section 5 discusses the results and section 6 concludes.

1. Hilber (2017) refers particularly to their difficulty to access to mortgages, deposits or invest by means of a mortgage. [↑](#footnote-ref-1)
2. Some representatives of the sector argue that care home developers would be “*financially driven rather than reflecting the regional demand*” [↑](#footnote-ref-2)