

DEMHOW scope

DEMHOW "Investigating demographic change and housing wealth across Europe. Charting attitudes and contributing to policy making"

The overall aim of DEMHOW is to investigate the ways in which, across member states, demographic change and housing wealth are linked, and to use those investigations in order to contribute to policy.

Scope of DEMHOW

The starting point of DEMHOW is the observation that macro processes of demographic change that are leading to an EU-wide shrinking and ageing of populations are accompanied by another macro process: the EU-wide changes to housing systems. In almost all the member states in recent decades there has been a significant increase in the size of home ownership sectors, so that some two-thirds of European households now own their homes. Moreover, partly because of the tendency for house prices to increase in the long run, housing has become the single largest item in the aggregate wealth holdings of European households. The aspiration of people to share in the wealth potential of home ownership and the possibilities that the wealth provides to both individuals and governments have a significance in the social and economic lives of European citizens. The co-occurrence of these two macro processes suggests the intriguing question of the extent to which home ownership provides a potential cure for some of the consequences of ageing populations, as well as contributes to the causes.

More specifically, housing has become an increasingly important element in the composition of household wealth across EU member states. Currently, housing equity considerably exceeds total GDP, offering the opportunity for housing to be viewed – by households, by governments and by financial institutions – as an asset that might be realised in order to meet consumption needs of older people, needs that have gained added poignancy as the nature and extent of the 'pension crisis' and the public expenditure implications of paying for health and social care become clearer.

In that way housing wealth may be seen as a potential solution for challenges later on in the life cycle. But any such solution is influenced by challenges and decision earlier in the life cycle. The high costs of entry into home ownership, particularly where the wealth potential of doing so is great and where there are few alternative options facing young people, appear to have placed added pressure on the need for separate households to have two full-time incomes. Young adults are increasingly forced to invest heavily in housing, more heavily than they might otherwise do. Not only may this depress other investment spending, it may also depress birth rates; in that way housing is a cause of demographic change. But, since older Europeans will have, on average, fewer children – and increasing numbers of Europeans will have no children at all – the trade off between the house as a bequest to the next generation and as a source of income may be changing; in that way housing is a solution to some of the effects of demographic change.

In a life-cycle model framework, then, the possibility is that young adults are being forced, by the high price of home ownership and limited alternative housing possibilities, to invest more, relative to consumption, than they would otherwise choose to do. This front loading of their investment strategy leads to a number of compensatory strategies which include: reducing investment in other forms of pension provision and reducing the number of children they have. Reaching old age, however, the majority of Europeans, by virtue of investment in home ownership earlier in their lives, have a financial asset that can in principle contribute to their consumption needs in old age. While in the past, there has not been widespread realisation of housing wealth for this purpose, a number of current developments are leading to changes.

By linking the ageing of European populations with housing wealth, DEMHOW will investigate both some of the causes and some of the consequences of demographic change.

There are many important scientific and policy questions. For households these concern the way they view housing in the context of other forms of saving; their willingness to use housing assets as a pension, rather than say to leave them as a bequest for children, and how attitudes and behaviour might be changing in line with wider demographic changes that are resulting in people living for more years post retirement and having fewer children. From the perspective of governments the issues concern whether, in the context of the challenges posed by demographic change, they see housing wealth as offering an alternative (and is this a substitute or a complement?) to social provision, met through taxation. If they do, what are the consequences of such an approach to welfare, for example for younger people trying to enter home ownership and for those who will never be able to enter: in short how does housing equity measure up against the usual criteria for pension systems? While the questions related to financial institutions include how they have, and will, respond in the form of providing and marketing products that will facilitate accessing housing wealth.