DEMHOW

Demographic Change and Housing Wealth

Briefing 1

Home ownership as wealth over the life cycle

June 2009

The aim of this briefing is to present findings about the extent to which European households regard their homes, not only as places to live or as providing emotional security, but also as financial assets which they initially accumulate and subsequently de-accumulate over their life cycle.

What is the DEMHOW project?

Commencing in March 2008, DEMHOW (Demographic Change and Housing Wealth) is a 3-year research project undertaken by researchers in 10 member states with financial support from the European Union and participation of AGE – the European Older People's Platform. Its aims include investigation of the actual and potential contribution that wealth held in the form of housing makes to the income needs of older European households.

Although the availability of appropriate statistical information limits the number of member states that can be studied, it is clear that, with respect to housing, savings and income, there are important differences across member states in the way in which households tend to behave.

SEVENTH FRAMEWORK PROGRAMME

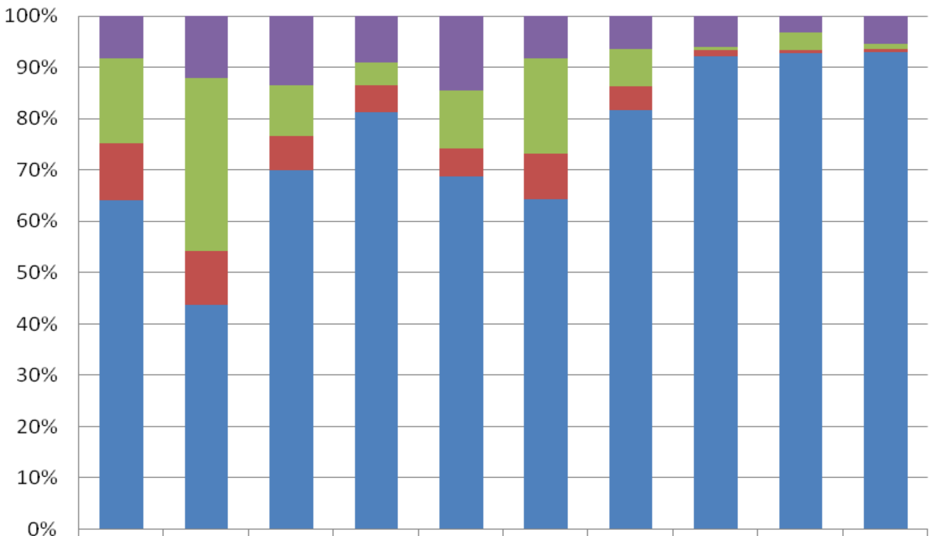
Project funded under the Socio-economic Sciences and Humanities

How important is housing as a share of household wealth?

Notwithstanding differences between countries, the general pattern is that European households tend to behave as if housing, whatever else it might mean to them, is a financial asset which is used like other financial assets: broadly, households save in the years during which they work, and use savings in retirement to supplement income from pensions.

The general pattern, then, is that, over their life course up to the age of retirement and maybe beyond, households increase the amount of their housing wealth, as well as the amount of cash they have in bank accounts, the value of shares they hold and so on. Figure 1 shows that among older Europeans, on average, housing is their largest single financial asset, this being particularly so in Italy, Spain and Portugal, much less so in Sweden and Denmark

Figure 1 The composition of wealth held by older households (over 55 years)



	SE	DK	DE	AT	NL	BE	FR	ES	IT	EL
Bank accounts	18531	43720	34771	18378	43968	35993	26064	27027	10037	9842
Financial papers	36994	120994	25694	9369	34274	81935	29046	3154	10038	1962
Pension saving systems	24935	37466	16923	10697	16378	39440	18706	5455	1841	1002
Housing wealth	143730	157503	180556	165623	208060	282580	327507	418757	282689	168938

Note: Mean wealth per household in PPP corrected euro. Bank accounts include contractual housing savings. Car value and owner share of business is not included.
Source: Calculated mean values from the SHARE 2003-2004 database.

Why do housing assets make up a larger share of household wealth in some countries than in others?

Of course, the relative increases in house prices and share values in each country have an impact on how large a share housing is of the total wealth held by households. But, the nature and generosity of the pension arrangements in each country, as well as of its social security arrangements, also appear to be important in influencing both the proportion of the population who are home owners and the net value of their homes.

Broadly, the proportion of wealth held by households in the form of housing is higher in countries where:

- house prices have been rising faster than other assets
- share prices have been rising more slowly than house prices
- the state pension system does not provide retired people with an income in old age that largely allows them to maintain the same standard of living they had when working
- the social security system does not provide strong protection against special needs for financial support, such as for long term social care

The last two factors in this list suggest that households view housing as a means through which they can provide themselves with a sort of personal safety net that can offset any inadequacies in the state system for protecting the wellbeing of its citizens. In that sense, housing appears to be viewed as a substitute for state provision.

How are housing assets realised and spent?

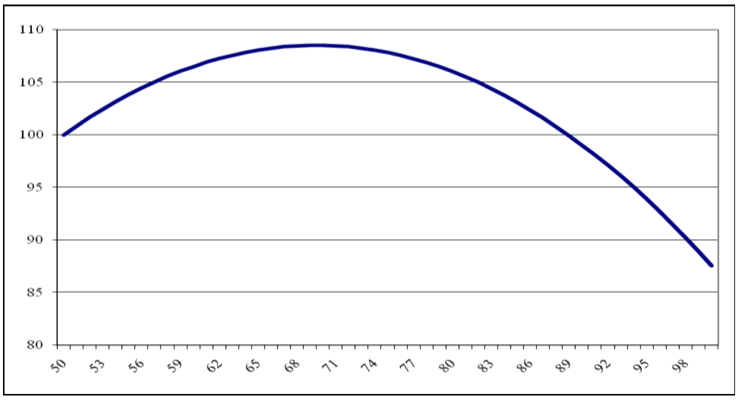
But if housing assets are built up in order to meet income needs in old age, how is that income realised? The answer is complicated because housing offers two forms of income. The first form is an income in kind such that those who own their home outright enjoy the standard of living conferred by the house without having to pay rent. So, in comparison with a tenant of a similar property and similar income they are able effectively to have a higher standard of living.

The second form is through realising some or all of the value of the house and converting it into an income, perhaps by purchasing an annuity. This may be done in a number of ways: by selling the house and buying a cheaper one, or even by becoming a renter; or, by using a financial product such as a reverse mortgage that allows the household to go on living in the house having "sold" a proportion of its value to a bank in order to obtain an income.

Why do households hold on to housing assets longer than they hold on to other assets?

The extent to which households can pursue these strategies will depend partly on the circumstances prevailing in different member states, for example on whether there is a supply of available rental housing, or financial institutions offer equity release products. We return in a subsequent briefing to the issue of product availability, but here focus on the tendency for older Europeans to reduce their store of housing wealth.

Figure 2 Age effect on non-housing personal wealth



The corollary of the notion that households build up housing and other forms of wealth during their working years in part as a substitute for the anticipated limitations of state protection during their old age, is that households will indeed spend some of their wealth during retirement. Although there are some problems of interpretation arising from the data available, figure 2 indicates that that is precisely what happens: on average the amount of personal wealth held continues to increase until the late 60s, from which point on the amount held declines at an increasing rate. Interestingly, the evidence also shows that there is a tendency in all countries, though more marked in, for example, the Mediterranean member states, to spend non housing assets more quickly than housing assets.

There are two important issues about these trends: why do older Europeans, on average, not spend all of their wealth and why do they hold on more to their housing wealth than to other personal wealth? Of course without perfect foresight, both generally and specifically about the date of one's own death, it makes sense to hold on to some wealth. There are, however, a number of hypotheses about aspects of these questions:

- people want to leave something to their family (a bequest motive)
- the extended family may want to receive a bequest and do what they can to maintain their parents in their home. This appears to be particularly so in some of the newer member states where state pension arrangements are

limited and families in effect support their parents in what might be thought of as a sort of reverse mortgage.

- notwithstanding the view of housing as a financial asset, in some countries in particular, the home has a deep emotional significance and is central to the family identity, so that selling it may not be considered an option.
- there are large psychic costs involved in moving house (eg separation form social networks)
- the absence of financial products may not allow the household to both remain in the house and realise the financial asset.

Are attitudes changing?

The studies so far undertaken as part of the DEMHOW project have used statistical information about the past. There are a number of reasons for suspecting that at the present time, and perhaps increasingly in the future, attitudes towards the home will change. These reasons include:

- The present economic recession, based as it is on housing markets and house prices inflated as a consequence of the actions of financial markets, may lead households and institutions to re-think notions of housing as a secure investment.
- But, the recession may also worsen the pension position of many households, for example through reductions in the value of private pensions based on shares, forcing them to use their housing assets.
- With the demographic trends of longer lives and fewer babies, many more older home owners will not have children or grandchildren to whom to leave assets.
- Increased mobility of labour geographically separates the generations and there may be less interest in inheriting a parental home that cannot be used
- There is some evidence that the post war, baby boomers are more hedonistic and selfish than previous generations, concerned much more to spend money on themselves.

This briefing has been written by John Doling, coordinator of the DEMHOW project, based on findings from research undertaken by: Nick Horsewood and John Doling (University of Birmingham, UK); Jozsef Hegedus and Nora Teller(Metropolitan Research Institute, Hungary); Morten Skak and Jorgen Lauridsen (University of Southern Denmark); Kees Dol, Peter Neuteboom and Richard Ronald (Technical University of Delft, The Netherlands).

DEMHOW Demographic Change and Housing Wealth

www.demhow.bham.ac.uk