

FINAL PUBLISHABLE SUMMARY REPORT

1.1 PROJECT OBJECTIVES

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. The co-incidence 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.

The overall aim of DEMHOW is, then, **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 making.** Within this, its specific objectives can be located in four groups.

- 1) *Objective O1:* investigate how the composition of wealth has changed over countries, with respect, in particular, to changes in population, housing systems, state pension arrangements, and financial institutions
- 2) *Objective O2:* investigate how attitudes toward the acquisition of housing assets and their use in old age are changing.
- 3) *Objective O3:* identify past and future developments in financial markets, particularly in relation to equity release products
Objective O4: identify past and future developments in national and EU public policies in relation to the growth of home ownership and the use of housing equity in old age.
Objective O5: identify the characteristics of pension systems based on housing assets
- 4) *Objective O6:* engage in dialogue and dissemination activities with researchers
Objective O7: engage in dialogue and dissemination activities with policy makers and others involved in the policy process

1.2 PROJECT STRUCTURE

Each group of objectives has largely been pursued through a single workpackage, so that the numbering above conforms to DEMHOW's four substantive workpackages.

I Quantitative studies: using existing data aggregated at the levels of member states and households to establish the past determinants of savings, the composition of wealth and the use of wealth in old age with particular reference to housing wealth and demographic factors.

II Qualitative studies: to obtain through household interviews an understanding of different strategies with respect to the accumulation and use of wealth and inheritance

III Developments in policy and financial products: to identify past and future developments in public policies toward home ownership and the use of housing wealth in old age; to assess the characteristics of a pension system based on housing assets; to identify past and future developments in the availability of equity release products.

IV Dialogue and Dissemination: to feedback the results of the DEMHOW project to EU and national policy makers and other end users, and to engage in dialogue with EU and national policy makers and other end users in order to direct and enrich the project.

The project participants comprised 12 partners spread over 10 member states; together, they are broadly representative of the range of populations sizes, approaches to welfare provision, financial markets and housing systems. A full list of the beneficiaries is provided in appendix 1.

1.3 MAIN RESULTS

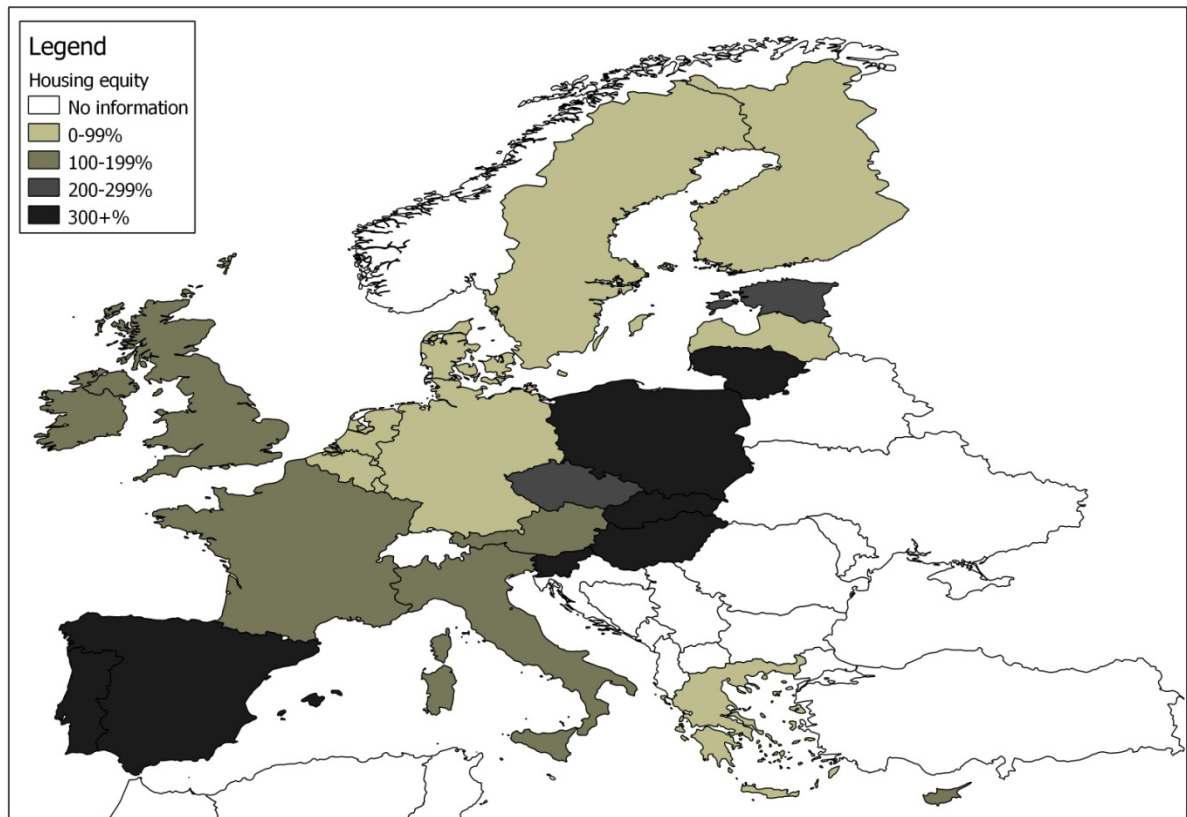
How much housing wealth do Europeans own?

The total amount of housing equity held by European households is founded on two trends: increasing home ownership rates and increasing house prices. In the case of many of the newer member states the increase in home ownership rates, has occurred particularly since 1990, with the privatisation of their housing stocks, whereas, in many of the older member states, it has been a long-term trend, stretching back over the last 50 years. The home ownership rate across the fifteen, pre-2004, member states is currently around 64 per cent, and in the ten member states joining in 2004 around 67 per cent. Once age-related tenure rates are taken into account in many member states even higher proportions of older people are owners so that by the time they reach retirement age perhaps some three quarters of European households own their own homes.

While the current economic and financial crisis has had a downward impact on house prices throughout Europe, the long run trend over recent decades has been for substantial real increases everywhere. What this translates into, in terms of an exact amount of housing wealth in each member state, is unknown. Rough estimates, however, indicate that the net value or equity of home owned properties, that is the gross value less outstanding loans, may currently be around 13 trillion euros in the 15 older member states, and almost 2 trillion euros in the 10 member states joining in 2004. Over the EU25 as a whole, housing equity is some 40 per cent higher than total GDP, the figure being particularly large in the newer member states and in some southern countries, and lower in north and north west Europe (figure 1).

Notwithstanding differences between countries, the general pattern is that European households have, in the past, tended 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.

Figure 1 Housing equity as % of GDP (EU25)



So, 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 2 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

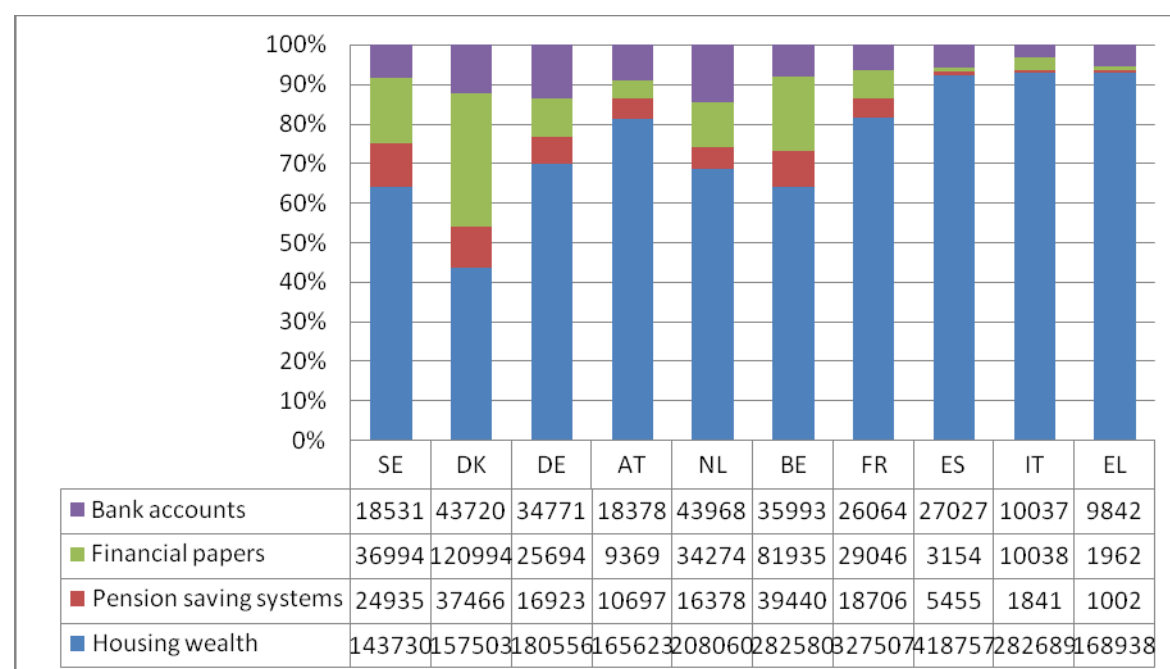
The variation in the composition of savings across member states is more than a direct reflection of the relative size of their home ownership sectors. Broadly, the proportion of wealth held by households in the form of housing has been higher in countries where:

- 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.

Figure 2 The composition of wealth held by older households (over 55 years)



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.

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. Our analyses indicate 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.

How can older people realise their housing wealth?

The wealth held in the form of home ownership may, in theory, contribute to people's incomes in two ways.

The first is as 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. Alternatively, they can be considered to enjoy the same standard of living as a tenant paying rent, but on the basis of a smaller cash pension.

The second way 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, for example, 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.

What sorts of financial products for these purposes are currently available?

In general, reverse mortgages do not require an owner to have an existing loan. In essence, the owner sells the home, or some proportion of it, to a financial institution. They may continue to live in the house, while receiving a monthly payment from the institution, or a lump sum with which they may purchase an annuity.

The pattern of supply of reverse mortgage products is highly variegated across member states although it is possible to identify three broad country groupings. A first group which includes many of the accession states do not have reverse mortgage products, in many cases because they do not have a legal framework that allows them. In a second group of countries, which includes Germany and France, a legal framework exists that allows the marketing of reverse mortgage products but in practice few suppliers engage with the opportunity and few customers come forward to take them up. The third group, have both a legal framework, a range of providers and a not insubstantial body of customers. Within this third group there is considerable variation with a few - Ireland, Spain and the UK – dominating, and indeed with the latter accounting for, in the order of, three-quarters of the entire business. Even so, when all the reverse mortgage business is aggregated it accounts for less than 1 per cent of the total mortgage business across the member states.

Do European households view their house as a pension?

Whereas housing equity is clearly significant in terms of its contribution to the total personal wealth held by older Europeans, for eight of the member states the DEMHOW project has investigated people’s perceptions about why they have accumulated housing wealth and for what purposes, including pension, they might use it.

In fact, retirement planning was not usually the primary motive for buying a home. Of the countries studied, only in Germany was buying a house explicitly mentioned as a pension strategy. That may have been because of the dominant role of the rental sector in Germany where households are often quite content to rent and there is generally no pressure to buy. It is also possible that German households are more reflective than homeowners in countries such as the UK where buying was regarded as ‘just what you do’.

Notwithstanding these country differences, most households appear to see the financial advantages of owning a home and view home ownership as a good investment (particularly in the longer term, and compared to shares). Indeed, house price developments are in general not seen as a risk, especially as most people in all eight countries state that they plan to stay in the house for many years, sometimes for the rest of their lives.

Country specific factors appear to significantly influence the speed at which home owners attempt to pay off their mortgage, which, along with house price rises, is obviously one of the main ways of accruing equity. For example, in the Netherlands, significant tax incentives

(alongside adequate retirement pensions/ incomes) mean that many people keep a mortgage into retirement. In contrast, the current, serious economic problems in Hungary means that people may try to repay their mortgage as quickly as possible. Fiscal policies also appear to discourage the building of equity (for example, in the Netherlands, Finland, Belgium).

The research found that second properties played an important role in Hungary, Portugal and Slovenia, and also in Finland. Many interviewees had a holiday home or investment houses. It appeared that the younger cohorts were more inclined to plan to invest in financial assets and also second properties, while the older cohorts put more emphasis on saving.

The findings also suggested that pension planning was approached differently by the older and younger cohorts of interviewees. The non-retired interviewees expected to retire at a later age than the oldest interviewees. Younger households believed it was increasingly unlikely that the state would be able to provide in the future and individuals would have to take more responsibility. In contrast, older and middle aged respondents tended to see the state as having a more central role, remarking that as they had paid taxes, and made contributions throughout their working lives then the state was responsible for providing them with a pension. Also in contrast with the younger age-groups, the oldest relied more on the public redistributive pensions and less on their own active saving strategy. Of all cohorts, the middle group appeared to be most worried as they felt that they did not have enough time available to adjust to new policies.

When discussing the use of housing equity interviewees stressed that, first and foremost, the owner-occupied dwelling represented a 'home', a good living standard and independence (when debt-free). However, housing equity was often seen as important in a number of ways. Firstly, the home represents a nest-egg that can be cashed (mainly by selling) if needed. People may need to use their housing equity for care, especially if they do not have children (or the family is not the main method of care in their country). Additionally, if income appears too low in retirement (and maintenance costs high) to make ends meet, some people may decide to move to a cheaper dwelling. However, this later strategy is not available to those in the lower priced segment of the market and, apart from in the Netherlands, a move to the rental sector was not seen as an acceptable alternative.

Secondly, most owner-occupiers are aware of the reduced housing expenses when a mortgage is paid off and hence a higher disposable income. This financial advantage is even more pronounced in countries where the rental market covers a large part of the housing stock (in particular, Germany).

The interviews showed that financial products to release housing equity (or the idea of them where people did not have any knowledge of this possibility) were not encountered with great enthusiasm. Two key barriers were evident. Firstly, people mentioned a bequest motive, this being especially important in some countries such as Hungary. People without children appeared more open to mortgage equity release in old age than people with children. Secondly, people seemed to have low trust in the providers of equity release products. Taking out a reverse mortgage means: losing control, running risks and becoming dependent (in this it was seen as being analogous to renting). Financial institutions were not fully trusted before the financial crisis, while the current financial crisis has reduced trust further. Finally, it appeared that government related financial institutions (such as the *Sparkasse* in Germany) were regarded as more reliable institutions.

How could housing perform as a pension?

Notwithstanding these perceptions – which, in many of the member states in which the interviews were carried out, indicate considerable reluctance to view the house as a pension – the question remains of what sort of contribution housing could possibly make as a pension if it were used for that purpose. Part of the aim of the project was to assess how housing wealth, if systematically realised, might perform as a pension according to the criteria usually used in order to evaluate pension systems, namely adequacy and sustainability.

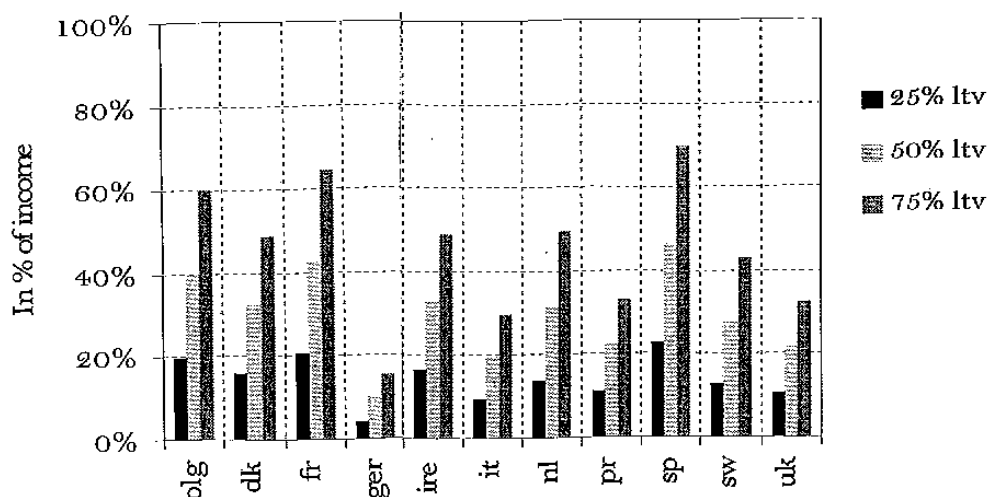
Could housing provide an adequate pension?

The adequacy criterion concerns the extent to which pension arrangements, firstly, maintain the living standards of retired households that they enjoyed whilst working, and, secondly, protect them against the risks of poverty.

Maintaining former living standards

There can be little doubt that home ownership makes an important contribution to maintaining former living standards. People who are outright owners of their homes are able to live rent free. In contrast to those who pay rent, they receive a net income in kind the amount of which varies according to the value of the home. The average, in comparison with cash income from pension and savings, will also vary from member state to member state, but mostly adds between a quarter and a half to these other sources of income.

Figure 3 % increase in income of retirees derived from a reverse mortgage



However, if all older home owners also drew directly on the housing equity, say through a reverse mortgage product, this would, very approximately contribute the same sort of addition. So, in total from housing income in kind and housing income in cash, older people would get between an extra 50 and 100 percent increase in their overall income.

These estimates of the amount of the income that older Europeans might derive from their housing are very approximate, being based on a number of assumptions. In part, this is because accurate data about the distribution of house prices in each member state is not available. It is also because, in order to estimate the amount they might receive from a financial product such as a reverse mortgage, it is necessary to make assumptions about how house prices and interest rates might increase (or decrease) in the future as well as the proportion of the total value of the house that the householder (and the bank) would be willing to “sell” (buy).

Based on such assumptions, Figure 3 shows that in seven of the eleven member states, for which relevant data are available, the contribution, for those taking a reverse mortgage on 75% of the value of their home, would be over 40% of their income. In three member states it would be at least 60%.

While these estimates indicate that housing wealth could significantly enhance other household income and thus increase their standard of living, there is an issue of fundamental importance in assessing the actual effects: would the income from a reverse mortgage be an *addition* or *complement* to existing sources of income, or a *substitute* for that part formerly derived from the state in the form of a pension?

As a *complement*, housing wealth offers the potential to older people to considerably boost their cash income and thereby enhance their living standards. Quite simply, by cashing in some of their assets they can consume more. As a *substitute*, however, governments may use the potential of housing wealth as a rationale for reducing the value of the state pension (or other state spending on older people). The consequences could include people being “forced” to use their housing wealth even if they would prefer to leave a bequest to their children, perhaps leading to some erosion of solidarity both across generations and across society. Furthermore, in this scenario, those who rent their homes might be doubly disadvantaged in having both a reduced state pension and no housing assets to draw upon.

Preventing poverty

But would housing wealth reduce the risk of poverty among older people? The first answer is that, by definition, housing wealth cannot help those people who do not have housing wealth – broadly, the 25% of older Europeans who rent their homes. In fact, in most member states, renters will tend to be poorer than owners and therefore most at risk of poverty anyway.

But even among those who do own their own homes those with least pension and non-housing savings tend to own the cheapest homes. In other words there is, across most countries, a strong positive correlation between different sources of income and different types of wealth. Those with most income tend to have most wealth, and those with least income least wealth. Consequently, those who have the least income in kind from their home would have the least potential income in cash. Another way of putting this is that housing wealth if realised, perhaps through a reverse mortgage, would generally not be of direct benefit to those most at risk of poverty. This would appear to be particularly the case in the southern countries – Greece, Italy Spain and Portugal, but also Slovenia and Cyprus

Could housing provide a sustainable pension?

The pension system requires financial soundness both now and in future.

In the case of home ownership, whereas in the past its investment potential may have made it an attractive option to many European citizens, and thus contributed to the growth of home ownership sectors, growth has also frequently been enhanced by state policies such as subsidies. Will the size of home ownership sectors be maintained?

The future of such policies will in part be contingent on the desire of member state governments further to promote home ownership, which will be affected by their fiscal difficulties. These may be prompted by concerns about maintaining the growth and stability conditions on which inclusion in the euro zone is dependent; on the consequences of the present economic and financial crisis; and on the changing dependency ratios that are the basis of the pension crisis.

What difference does the economic crisis make?

The DEMHOW project was conceived and its methodology set, before the nature and severity of the present economic crisis in Europe had been established. A number of its individual investigations have been backward looking using existing data sources that represent a pre-crisis world. To some extent, the household interviews were able to be adapted to reflect the unfolding crisis. Nevertheless, there are a number of ways in which the post-crisis world might impact on the topics being investigated and the conclusions reached. Uncertainties about housing markets and house prices might lead households to being more cautious both about investing in housing assets and in using up those assets too quickly in old age. For their part, financial institutions might also be more cautious in their development of reverse mortgage products. In contrast, given fiscal difficulties resulting from national recovery packages, many governments might become more inclined to encourage people to use their own (housing) assets.

Whatever those outcomes the DEMHOW research makes it clear that, on the one hand, the potential of housing wealth to enhance the income position of older Europeans, because of its sheer magnitude, is considerable; while, on the other hand, its use would provide a poor substitute for social provision, tending to widen rather than narrow inequalities.

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Appendix 1 DEMHOW Beneficiaries

	Institution	Country
1	University of Birmingham	UK
2	University of Ghent	Belgium
3	University of Southern Denmark	Denmark
4	University of Turku	Finland
5	L'Agence Nationale pour l'Information sur le Logement,	France
6	Humboldt University	Germany
7	Metropolitan Research Institute	Hungary
8	Delft Technical University	Netherlands
9	Centro de Estudos para a Intervenção Social,	Portugal
10	University of Ljubljana,	Slovenia
11	University of York,	UK
12	AGE platform Europe	Belgium