

# **Housing, New Zealand's Tenure Revolution and Implications for Retirement**

## **A Paper for the 2019 Review of Retirement Income Policies**

**Prepared for  
Commission for Financial Capability**

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## **1. Introduction**

New Zealand's retirement income settings have assumed that older people come to retirement as owner occupiers. Those settings assume too that older owner occupiers tend to be mortgage free and can, consequently, minimise their housing costs. In addition, in the context of significant increases in the value of residential property associated with the heated house prices of the past twenty years, it has frequently been assumed that the liquidation of older people's housing wealth can be used to sustain their living standards. This paper challenges those assumptions, referencing significant changes in the tenure status of seniors into the future, limits to the realisation and liquidation of seniors' housing equity through downsizing, and issues of housing precarity for older people and their well-being, which have impacts on their income needs.

The first part of this paper concentrates on what might broadly be called the tenure revolution and its implications for seniors into the future. Tenure data shows that significant differences in the housing status of seniors have become more pronounced in recent years and declining rates of owner occupation mean that New Zealand's future is one of more, and increasing proportions of, seniors exposed to rental payments. Moreover, while some intermediate tenures such as licences to occupy like those found in retirement villages may leave some seniors with a form of housing asset, those seniors are also exposed to non-discretionary, regular housing expenditure through fees. In considering the decline of owner occupation and increasing reliance on the rental market, this discussion also cites the implications for seniors' well-being, associated health service utilisation, and implications of retirement income adequacy.

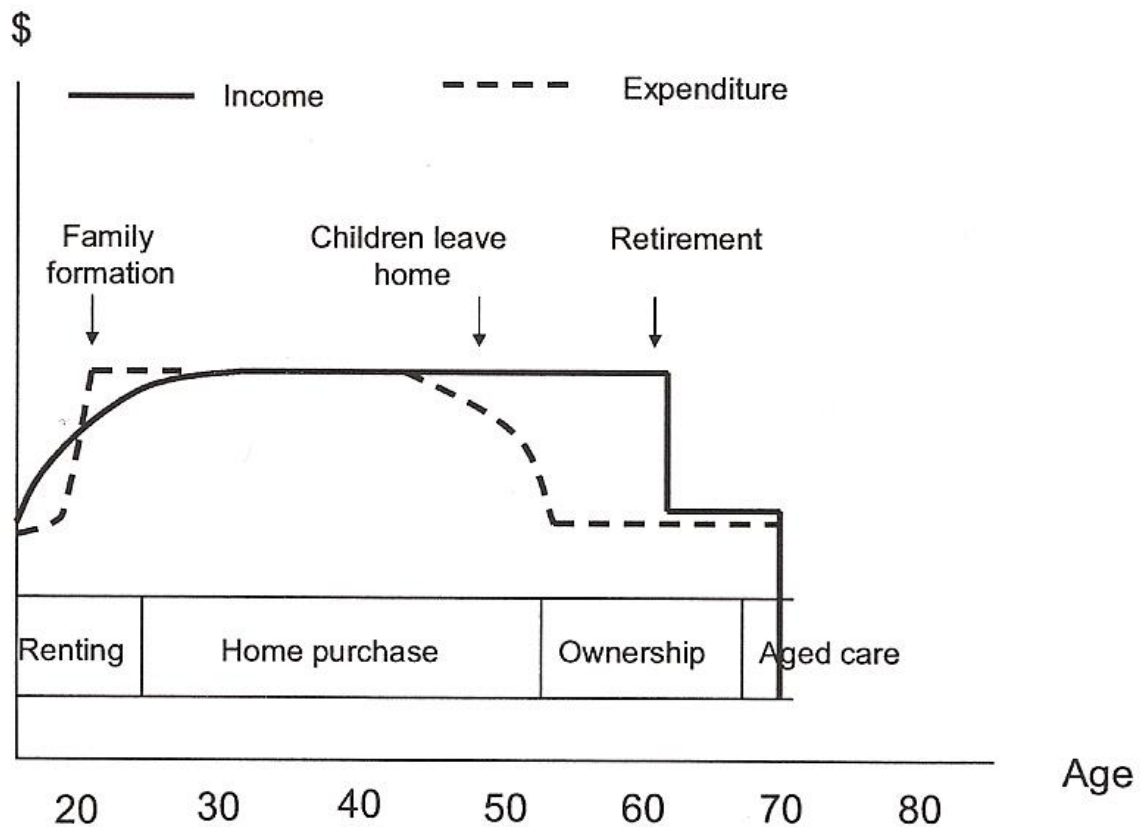
The second part of this paper focuses on downsizing. It comments on whether this constitutes a realistic pathway to supplementing retirement incomes. It considers the opportunities for older tenants to reduce housing costs through downsizing as well as owner occupiers' options. It also comments on issues around the housing stock which can make downsizing and the value of housing assets precarious.

## **2. New Zealand's Tenure Revolution**

New Zealand's twentieth century story of housing is one of home ownership and household accumulation of housing assets to allow for a mortgage-free retirement in owner occupation. Just over half (52.1 percent) of all dwellings were owner occupied in the early twentieth century while 45.7

percent of households lived in rented dwellings.<sup>1</sup> Five decades of Government initiatives and New Zealanders' aspirations for home ownership saw a significant swing in New Zealand's tenure patterns. By 1987, 72.7 percent of all households in New Zealand lived in owner-occupied dwellings.<sup>2</sup> An orderly interaction between owner-occupation, income and expenditure across the life cycle became established in both popular and policy narratives. As Figure 1 shows that narrative involved increasing income and equilibrium with expenditure over a period of home purchase resulting in a period of mortgage-free ownership before the loss of income due to retirement and eventual movement into aged care.

**Figure 1: Orderly Housing Careers: Ageing, Income, Expenditure and Housing Assets<sup>3</sup>**



<sup>1</sup> Statistics New Zealand, New Zealand Census 1916

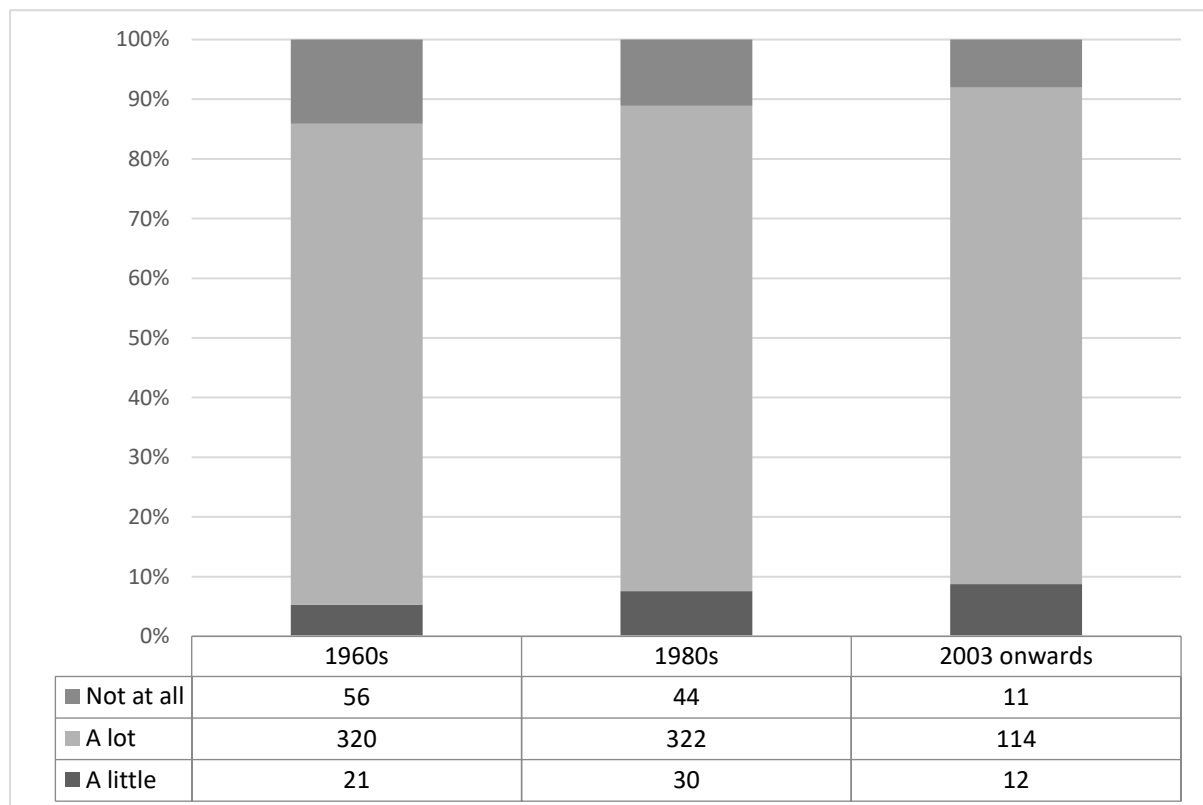
<sup>2</sup> Statistics New Zealand, New Zealand Census 1916-2006

<sup>3</sup> Morrison, 2008:16

Despite some fluctuation in age of family formation and entry into home ownership, most New Zealand households, with the exception perhaps of Pacific new settlers who were drawn to manufacturing work in New Zealand with the expectation of state housing access, did exhibit this orderly housing career over their life-cycles. Home ownership became connected to a sense of security and place within society.<sup>4</sup> More importantly in the context of retirement incomes, home ownership became a form of pre-saving with the accumulated housing assets seen as a mechanism by which retirement expenditure could be reduced. Associated with both those was a strong desire not to be dependent on housing provision through the rental market.

It is notable that those narratives around home ownership are manifest in participants' reports in a 2017 survey. That survey sought owner occupiers' reflections on their motivations for purchasing their first home. Participants were stratified by the decade of their first home purchase (Figures 2, 3, 4).<sup>5</sup>

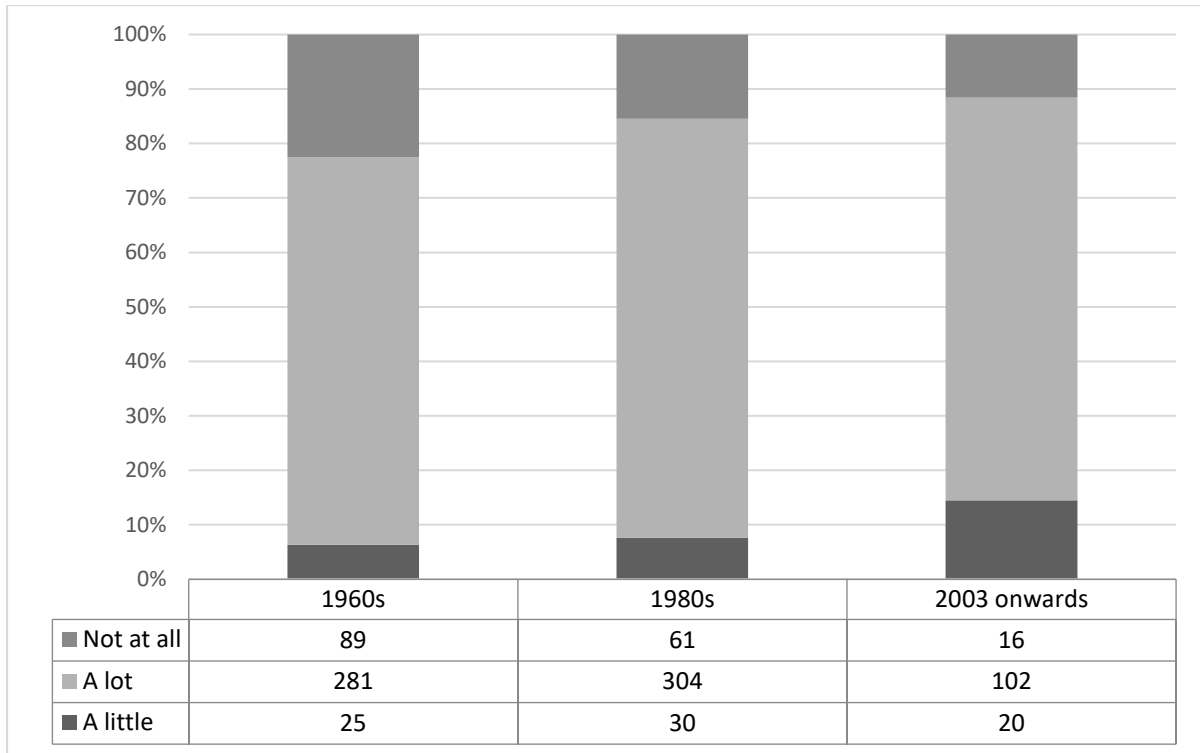
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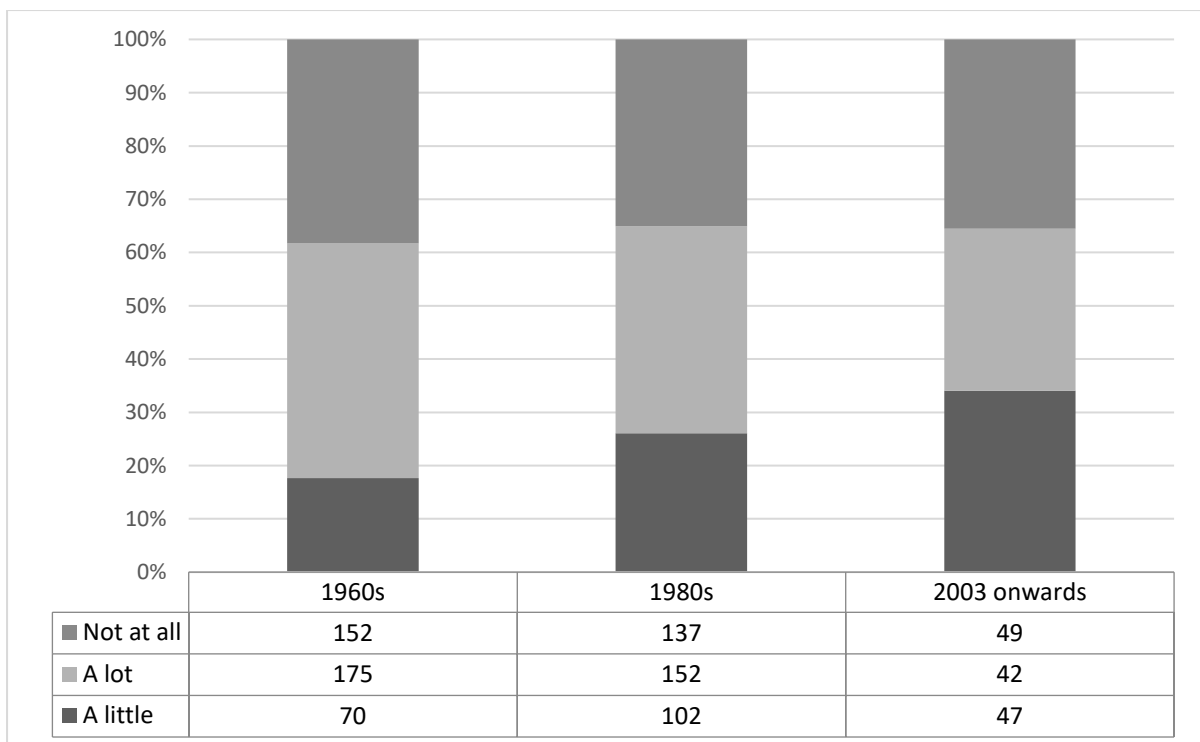
<sup>4</sup> Dupuis, A and D. C. Thorns., 1998.

<sup>5</sup> Saville-Smith and Murphy, 2018.

**Figure 3: Owner Occupiers' Reported Motivations for 1<sup>st</sup> Home Purchase in 1960s, 1980s and 2003-onwards - A secure place to live without having to worry about a landlord selling up (n=946)**



**Figure 4: Owner Occupiers' Reported Motivations for 1<sup>st</sup> Home Purchase in 1960s, 1980s and 2003-onwards - A form of compulsory saving (n=946)**





For some years, the fall in owner occupation has been noted. Morrison noted in 2008 that falling rates of home ownership in New Zealand were not a manifestation of delays and deferrals, but a material reduction in the probability of an individual ever owning their own dwelling.<sup>6</sup> Natalie Jackson's cohort analysis undertaken in the context of the *Life When Renting* research in the Ageing Well National Science Challenge confirms the extent of the exclusion of younger cohorts. Her cohort analysis, however, also highlights:

- The profound impact of declines in home ownership for those cohorts in the pre-retirement period.
- The differential impacts of declining owner occupation on European, Maori, Asian and Pacific populations respectively.<sup>7</sup>

Among those reaching National Superannuation age in the next ten years, the rate of owner occupation is likely to be around 30 percent lower than their predecessors. Conversely, the rate of renting among the 55-64 years cohort will be 40 percent higher. Those proportions will continue to increase for subsequent cohorts (Figure 5). It is unlikely that those trajectories will change for middle-age cohorts without substantial change in housing market, housing stock and housing policy.

Declines in owner occupation are strongly associated with ethnicity (Figures 6-9). This is the case for current seniors but is more pronounced among the 55-64 years cohort who will be entering National Superannuation age over the next decade. As Figure 6 shows, 88.3 percent of European 55-64 year olds in 1986 were in owner occupation. In 2013, only 61.3 percent of European 55-64 year olds were in owner occupation. There is a similar the decline in owner occupation for Maori (Figure 7). Because Maori in 1986 had lower rates of owner occupation, the result is the 55-64 year old Maori cohort in 2013 shows less than half of those entering superannuation age between 2014 and 2023 will be in owner occupation. Around 10 percent are likely to be in family trusts and over 40 percent will be in the rental market.<sup>8</sup>

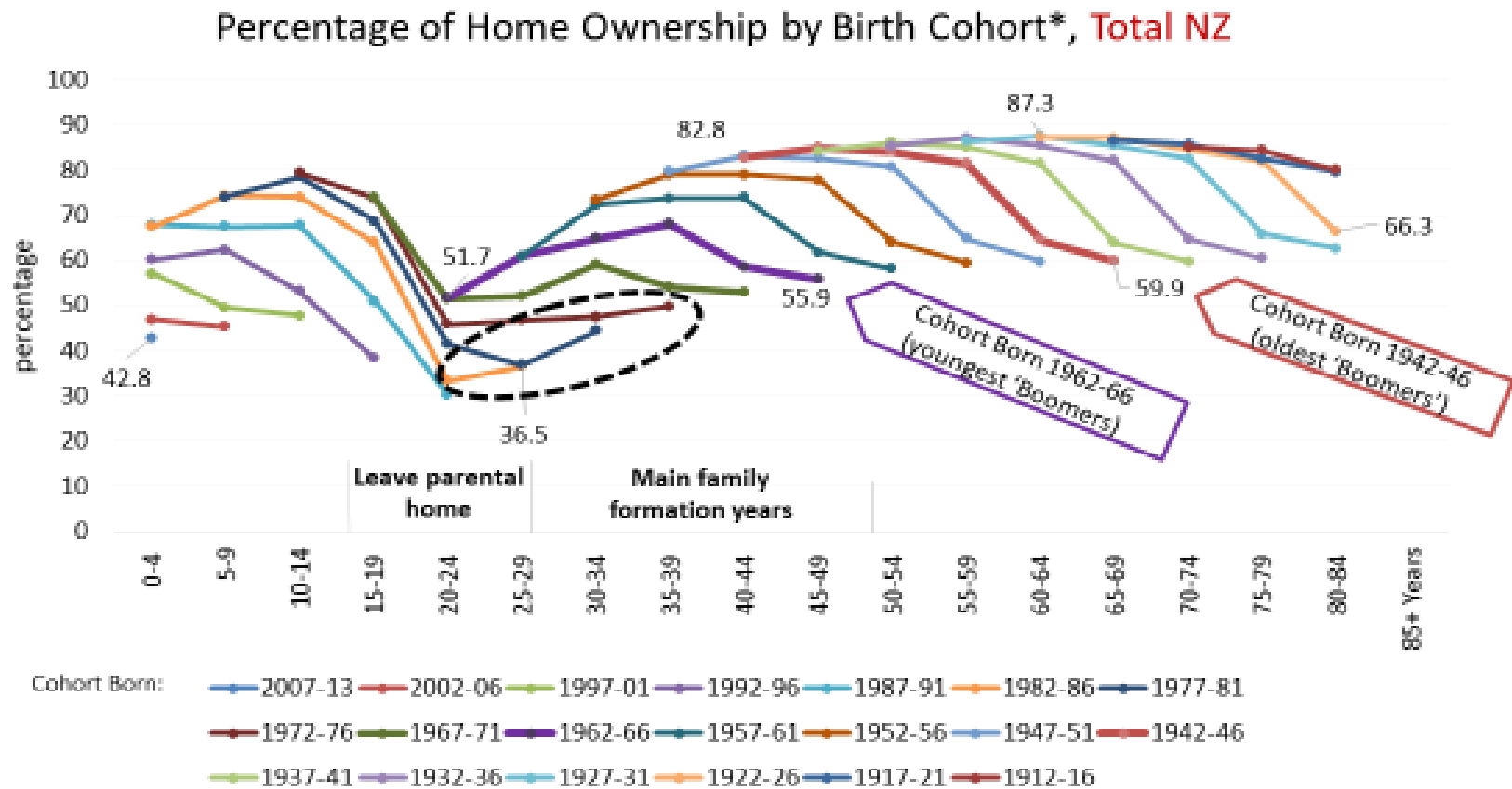
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<sup>6</sup> Morrison, 2008.

<sup>7</sup> Census statistics specified and analysed by Dr Natalie Jackson for the *Life When Renting* research programme, Ageing Well National Science Challenge. <https://renting.goodhomes.co.nz/>

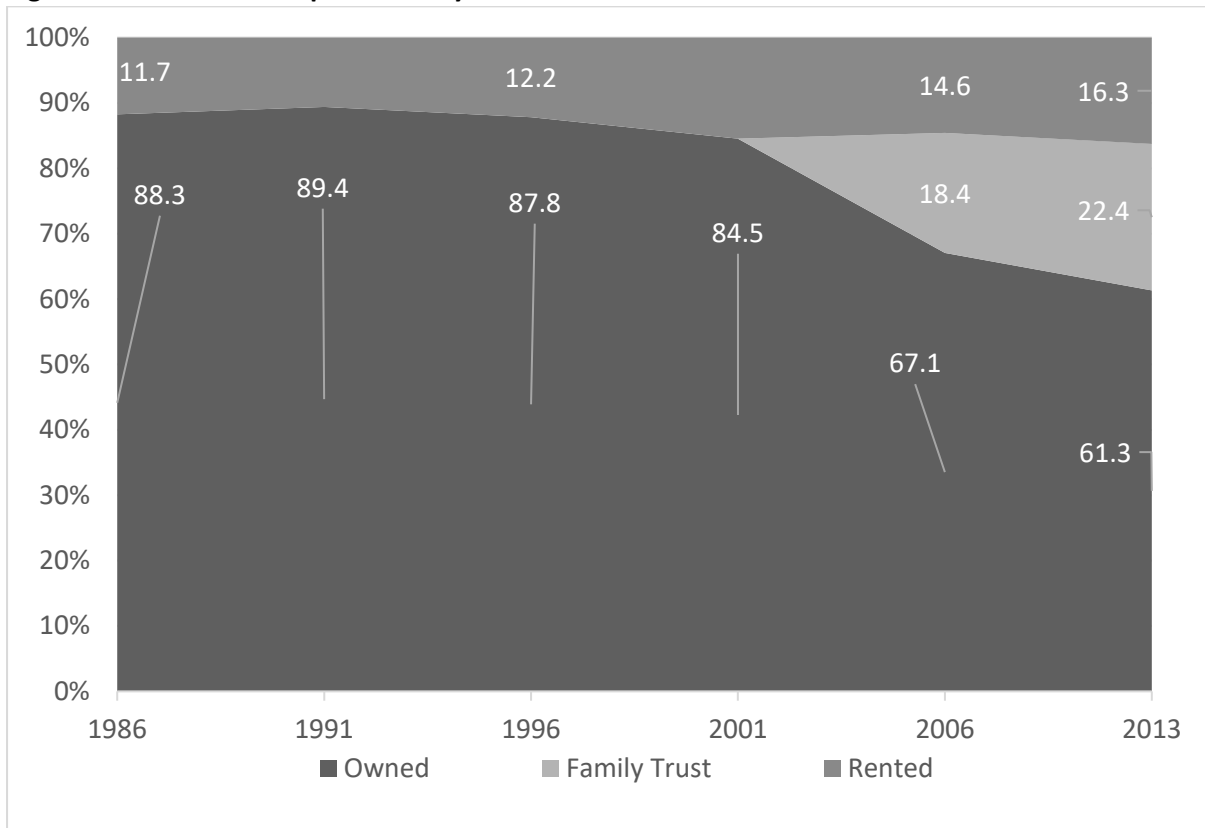
<sup>8</sup> It should be noted that Family Trusts are not ahu whenua or trusts under laws applying to Māori land and jurisdiction under the Māori Land Court.

Figure 5 Home Ownership has declined for all NZ cohorts

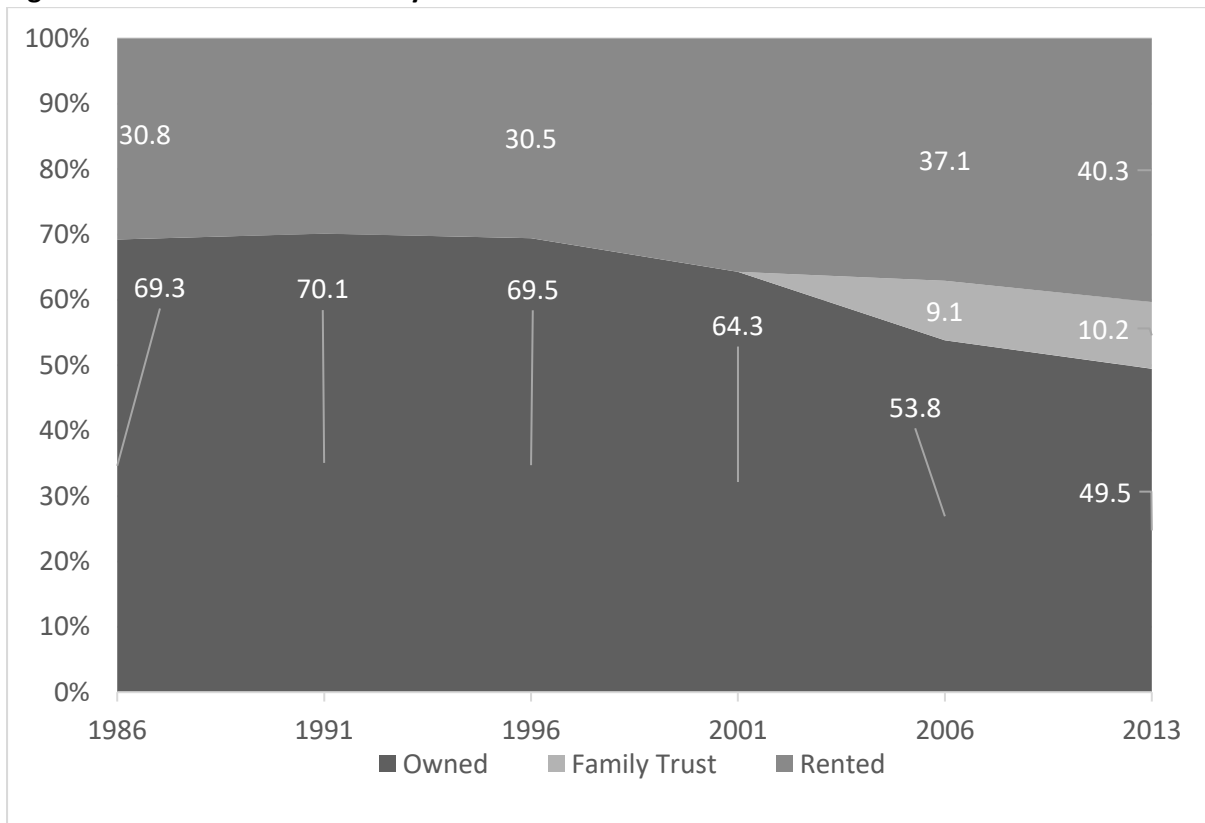


\*final observation for each cohort is +2 years, due to 7-year gap between 2006 and 2013 censuses

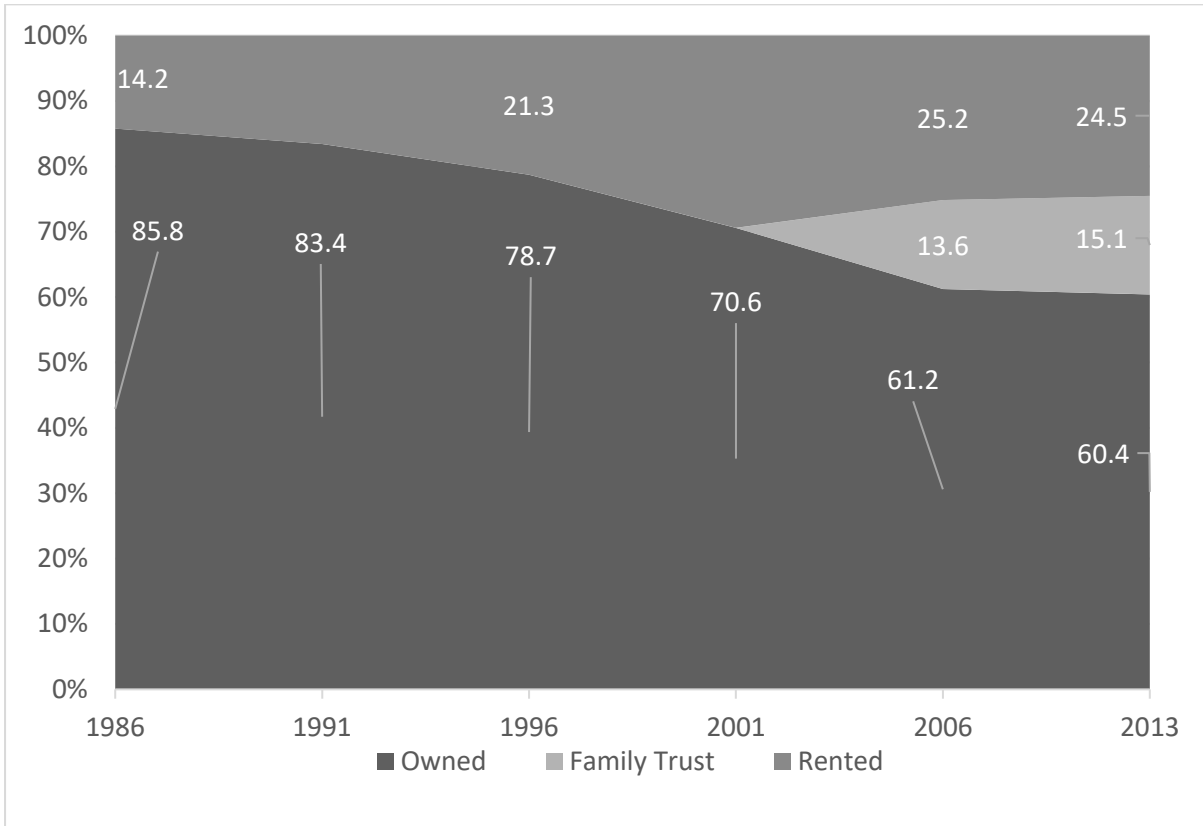
**Figure 6: Tenure for European 55-64 years olds 1986-2013**



**Figure 7: Tenure for Maori 55-64 years olds 1986-2013**



**Figure 8: Tenure for Asian 55-64 years olds 1986-2013**



**Figure 9: Tenure for Pacific 55-64 years olds 1986-2013**

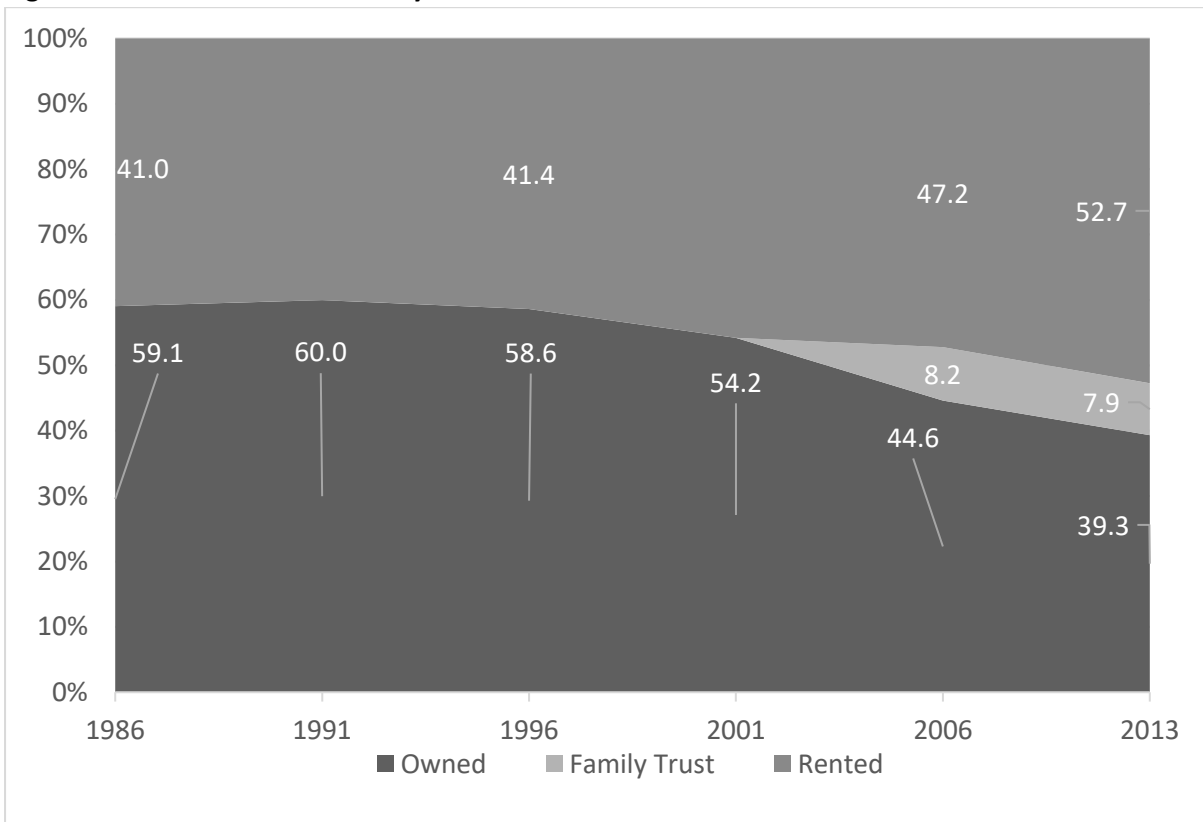


Figure 8 presents similar data for the Asian population, which is in itself very diverse. Nevertheless, despite widespread public perceptions that Asians are significant property investors, the resident Asian population has not sustained rates of home ownership in the 55-64 years population between 1986 and 2016, with rental increasing from around 14 percent to almost 25 percent in 2013 and owner occupation declining from about 86 percent to around 60 percent.

The pattern of falling owner occupation among the Asian population is more like the pattern experienced in the European population. The population with the greatest contrast is the tenure situation of 55-64 year olds in the Pacific population in New Zealand. It is frequently assumed that Pacific peoples have been largely in the rental market. This is not, however, correct. Figure 9 shows that well over half (59 percent) of Pacific 55-64 year olds were in owner occupation in 1986. The rate of home ownership in that age group fell rapidly over less than thirty years to around 39 percent in 2013 with a little less than 8 percent in family trusts.

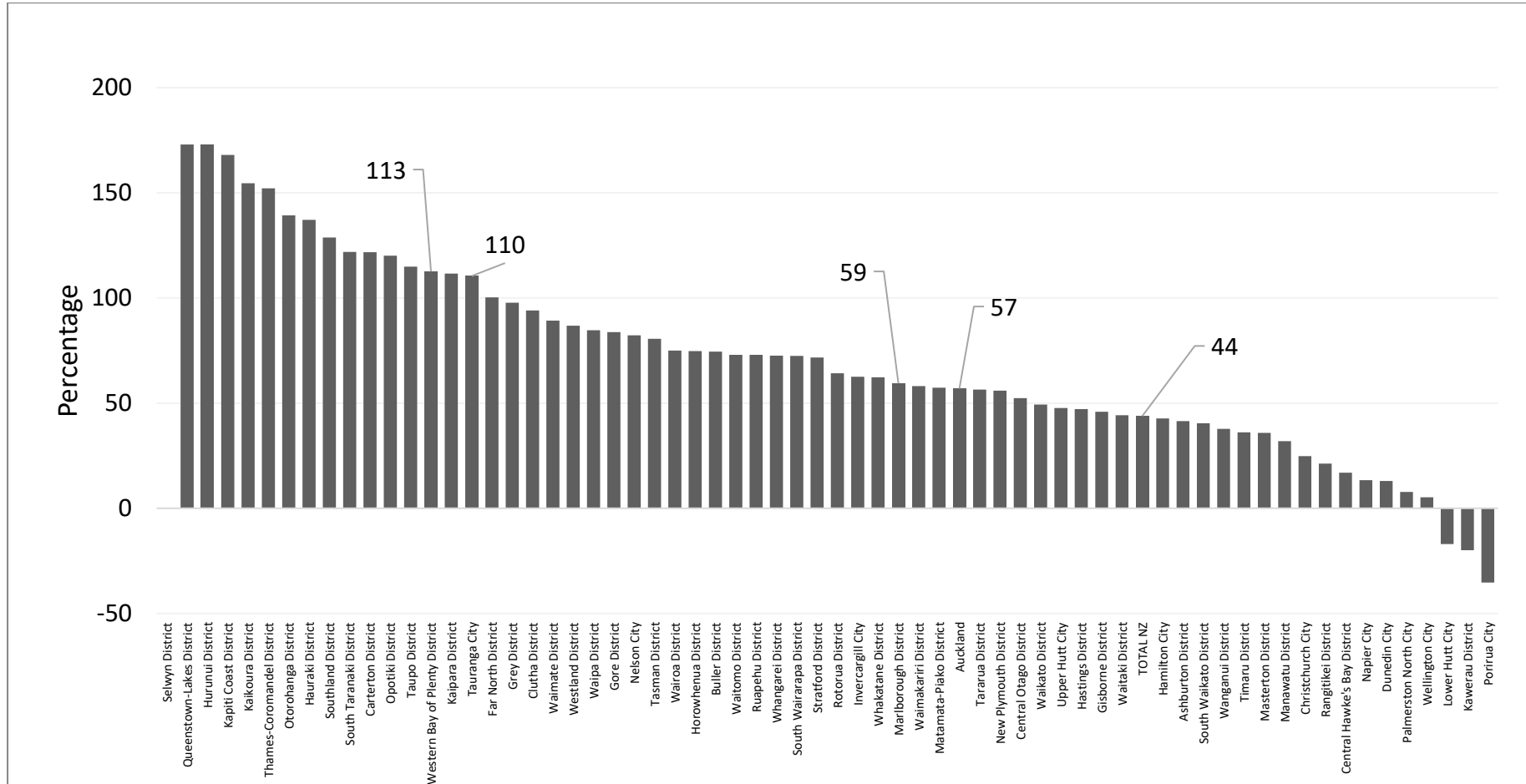
These cohort trajectories and comparisons of the tenure status of specific age groups at different times are strong indicators of New Zealand's tenure future. It should be noted that the falling rates of owner occupation and the rise of rental housing is a national trend. Figure 10 sets out the change in proportion of seniors renting by council between 1986 and 2013.

Cohort analysis shows that while public commentary often makes a distinction between baby-boomers and other cohorts, this does not provide an accurate portrayal of tenure trajectories. Jackson's cohort analysis shows that the youngest baby-boomers will be significantly more dependent on the rental market than those in the leading edge of the baby-boom. It is clear that the 55-64 year old cohort in 2013 is increasingly embedded in the rental market and this is unlikely to be reversed as they enter retirement. The tenure experience of those close to national superannuation eligibility are indicative of a trend for post baby-boom cohorts who will struggle to achieve a peak owner occupation of 50 percent. For Maori and Pacific owner occupation may be as low as thirty percent for this set by 2023.<sup>9</sup>

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<sup>9</sup> A note around the current release of 2018 census data in relation to tenure is found in Annex A.

Figure 10: Change in renting, 65+ years, 1986-2013 (%) 1986-2013<sup>10</sup>



<sup>10</sup> Dr Natalie Jackson, Statistics New Zealand, customised census database, housing tenure 1986-2013

### ***Impacts of the Tenure Revolution on Income and Wellbeing***

Table 1 provides a brief summary of the housing situation of seniors by tenure. Rent setting has a direct impact on income adequacy. In addition, conditions in the rental market may generate costs from which owner occupiers (particularly mortgage free owner occupiers) have been cushioned. There is also evidence that older tenants tend to be less well than older owner occupiers (especially in the young seniors) and have higher service utilisation requirements. Finally, older people outside owner occupation have significantly fewer assets and are unlikely to make contributions to their income through the realisation of wealth. The latter is the precise reverse of current popular, and sometimes policy, commentary. This section focuses on issues around retirement income arising from the growing and future dependency on the rental market. In that context it is worth noting past research around the income sufficiency and wellbeing of older people.

There has been some debate around income adequacy for owner occupiers. In 2012, O'Sullivan and Ashton suggested that National Superannuation under provided for a 'healthy retirement' by between \$104 and \$142 weekly.<sup>11</sup> Yet the 2007 survey of 1,680 older people in the Enhancing Well-being in an Ageing Society (EWAS) research showed almost 88 percent of older people aged 65-84 years expressed high subjective satisfaction with their lives.<sup>12</sup> Irrespective of views around income adequacy, mortgage-free owner occupation was consistently identified as a means of maximising the value of New Zealand Superannuation through reducing the expenditure on housing costs. O'Sullivan and Ashton agreed that owner occupiers had a lower weekly shortfall in superannuation.<sup>13</sup> Similarly, a 2005 analysis of Survey of Family, Income, and Employment (SoFIE) found material well-being was statistically significantly associated with being a mortgage-free owner occupier.<sup>14</sup> Similarly, EWAS established a statistically significant relationship between being a home owner, especially a mortgage free home owner, and life satisfaction.<sup>15</sup> Moreover, seniors had high levels of income satisfaction with the hardship rate for seniors (measured by way of the Ministry of Social Development's Economic Living Standards Index) being lower than for other age groups.<sup>16</sup>

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<sup>11</sup> O'Sullivan and Ashton, 2012

<sup>12</sup> Koopman-Boyden and Waldegrave, 2009: 207

<sup>13</sup> O'Sullivan and Ashton, 2012

<sup>14</sup> Hurnard *et al.*, 2005

<sup>15</sup> Koopman-Boyden and Waldegrave, 2009: 207

<sup>16</sup> Perry, 2010: 2

One of the advantages of mortgage-free owner occupation is not only reduced housing costs but, possibly even more importantly, high degrees of discretion around housing related costs such as repairs and maintenance, insurances and utility consumption. This discretion around housing expenditure is not a feature of rent nor some intermediate tenures such as retirement village living. In addition, tenants have little influence in rent setting and there are differences in the nature of housing assistance provided to seniors in different housing tenures (Table 1).

**Table 1: Summary of Housing Position for Seniors by Tenure**

	<b>Owner Occupier Seniors</b>	<b>Tenant Seniors</b>	<b>Intermediate Tenure Seniors</b>	<b>Residential Care Seniors</b>
<b>Housing Expenditure</b>	Varies according to mortgage status. Rates. Dwelling insurance. Contents insurance. Utility costs. <sup>17</sup>	Rent. Contents insurance. Utility costs.	Varies according to mortgage status. For Retirement Villages weekly/monthly fees, deferred maintenance at end of tenure. Utility costs. Contents insurance. Rate liabilities vary.	Provider charges for seniors with significant assets and/or additional income. Residential care subsidy for standard rooms only.
<b>Housing Assistance</b>	Accommodation Supplement. Rates rebate. Limited access to discretionary benefits for housing and utility expenses. Home modifications subsidy if approved.	Accommodation Supplement or Income Related Rent Subsidy (IRRS) for HNZ and IRRS registered community housing providers. Limited access to discretionary benefits for housing and utility expenses. Home modifications subsidy if approved and agreed by landlord.	Rates rebate for Retirement Village licence to occupy only. All other seniors in licence to occupy excluded. Access to Accommodation Supplement varies. Home modifications subsidy if approved. May be limited by housing provider.	Not applicable.
<b>Government retirement income source</b>	National Superannuation and/or specified benefits ancillary benefits. Not available to new settlers (less than 10 years residence) or some reciprocal superannuation recipients.	National Superannuation and/or specified benefits ancillary benefits. Not available to new settlers (less than 10 years residence) or some reciprocal superannuation recipients.	National Superannuation and/or specified benefits ancillary benefits. Not available to new settlers (less than 10 years residence) or some reciprocal superannuation recipients.	Personal allowance. No superannuation or ancillary benefits for those receiving them prior to entering residential care.

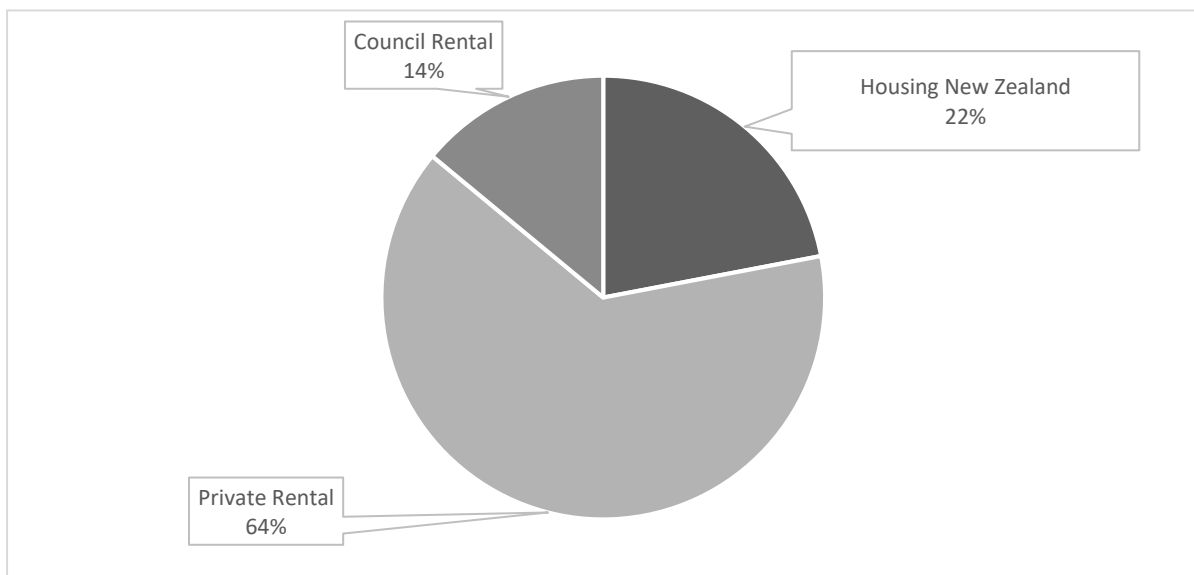
<sup>17</sup> Utility costs (particularly energy) reflects dwelling size and thermal performance as well as the efficiency of dwelling systems such as hot water, cooking and lighting.



<b>Housing Conditions, Stressors and Risks</b>	<p>Affordability for mortgagors, mortgagee sale risk.</p> <p>Asset wealth and better dwelling condition.</p> <p>Contradictory housing advice including around housing debt and decumulation.</p>	<p>Insecure tenure and no-cause termination including sale of property, state and council policy shifts and urban renewal.</p> <p>Unaffordable rents, future rent uncertainty, and homelessness</p> <p>Poor repairs and maintenance.</p>	<p>Variation is significant. Some may have asset wealth.</p> <p>Provider exit.</p> <p>Contradictory housing advice including around housing debt and decumulation.</p>	<p>Affordability of premium rooms.</p> <p>Limited amenities and choice.</p> <p>Limited location choice.</p> <p>Provider exit.</p>
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For most seniors in rental housing, housing assistance is limited to the Accommodation Supplement and, in the case of significant hardship, an array of discretionary welfare payments. The Accommodation Supplement is designed to only partially subsidise the unaffordable gap. Maxima around rents (varying by location) and steep abatements associated with paid work, mean that many Accommodation Supplement recipients find that the proportion of the unaffordable gap subsidised by the Accommodation Supplement is low. Income Related Rents which provide for an affordable rent setting are only available to tenants eligible and prioritised for public housing and delivered by Housing New Zealand or some Community Housing Providers (CHPs). Only around 14,000 senior renters are catered for through Income Related Rents. Most senior tenants are in the private rental market (Figure 11).

**Figure 11: Landlords and Older Renters 2013 Census**



Councils tend to prioritise seniors for council housing, although that stock has been depleted through stock sales and councils cannot provide Income Related Rents. Similarly, Community Housing Providers delivering social housing typically, with some exceptions such as Abbeyfield, do not target

seniors for affordable rental provision. Rents are typically, irrespective of location, unaffordable to older tenants who, for the most part, are reliant on New Zealand Superannuation. Table 2 sets out the lowest market rents in the lower market quartile for four selected localities: Tauranga, Blenheim (which has the oldest population age structure in New Zealand), Nelson and Christchurch. Notably the lowest rents appear to be in the predominantly red-zoned areas of Christchurch. Affordable rent for a superannuant living alone at 30 percent of net income should not exceed \$123 per week.

**Table 2: Weekly Rent, Lower Quartile, Tenancy Bond data (March – Aug 2019)**

Area	1 bedroom		2 bedrooms	
	Flat	House	Flat	House
Tauranga City	Tauranga Central, Greerton \$235	Tauranga Central, Greerton \$295	Pyes Pa, Hairini, Welcome Bay \$325	Papamoa Beach \$366
Blenheim	\$192	None available	\$291	\$300
Nelson	Stoke, Nayland, Tahunanui \$235	Nelson Central, Nelson North \$182	Nelson Central, Nelson North \$313	Nelson Central, Nelson North \$337
Christchurch	Richmond, Shirley \$53	Ilam, Westburn \$122	Richmond, Avonside \$252	Woolston, Opawa \$297

Issues of affordability and the elasticity of seniors' demand mean that rent increases may push seniors to reduce their housing consumption. The *Life When Renting* research programme has established the precarious nature of older people's rental situations in relation to rising rents exacerbated by limited ability to find alternative lower cost housing. Of 108 seniors participating in that programme's in-depth interviews, nineteen seniors reported at least one period of homelessness in the previous five years. Some reported multiple periods of homelessness.

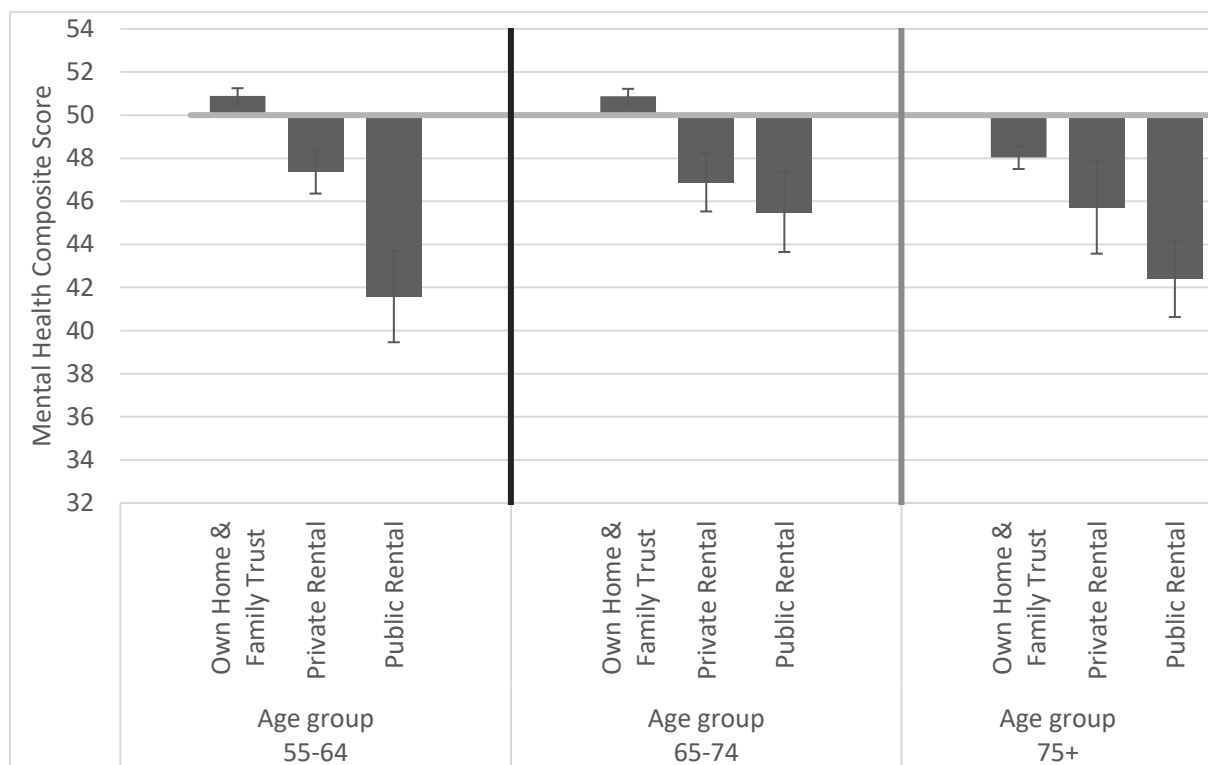
Notably being homeless did not necessarily mean no exposure to housing costs. Six seniors were technically homeless at the time of interview when their living situation was referenced to Statistics New Zealand's official definition of homelessness, but all six were paying 'rent'. Moreover, tenancy terminations, and the need to move, can confront tenants with significant additional costs. Although the cost of residential movement has not been well established in New Zealand, in 2008 it was estimated that the cost to tenants of moving was around \$2,000, or \$3,640 in 2019 dollars.<sup>18</sup>

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<sup>18</sup> This excludes transactions around bonds which, while not accessible to the tenant, are technically held in trust for the tenant and the landlord through the tenancy bond system. Fletcher and Dwyer, 2008.

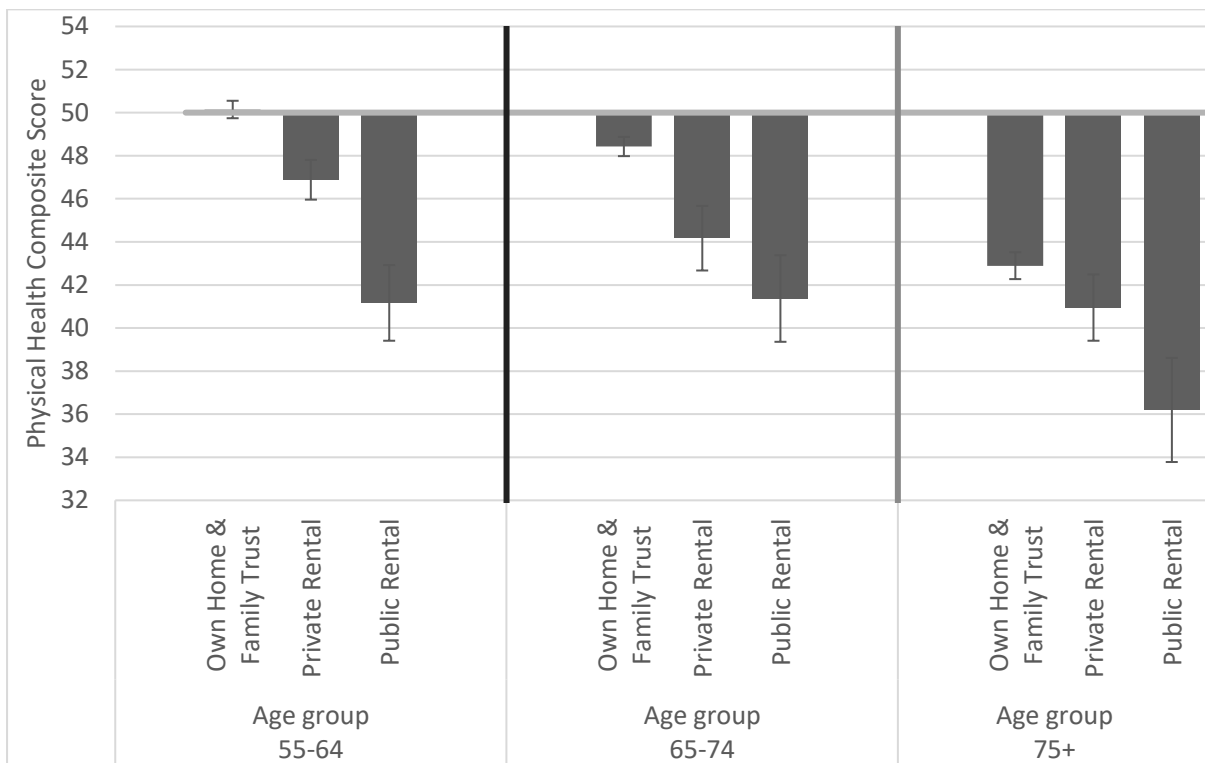
The *Life When Renting* research programme has also established that older renters tend to be less well than older owner occupiers (Figure 12 and Figure 13).<sup>19</sup> As such older tenants confront a variety of health service utilisation costs. Older tenants saw a general practitioner, on average, more frequently than owner occupiers with an average of six times in a year for public renters and an average of five times in a year for private sector renters compared to an average of four times a year among owner occupiers. There was notably a stronger recourse among 55+ year-old tenants to seek medical assistance through hospitals. This may reflect price barriers.

**Figure 12: Mental Health Composite Scores Aged 55+ years by Tenure 2013-2015 (n=15,626)**



<sup>19</sup> New Zealand Health Surveys 2013/14, 2014/15, 2015/16. See Pledger *et al.*, 2019.

**Figure 13: Physical Health Composite Scores Aged 55+ years by Tenure 2013-2015 (n=15,626)**



There is evidence from the *Life When Renting* analysis of combined New Zealand Health Surveys that these tenants tend to under-access health services including audiology, sight and podiatry because of transport and other costs. A quarter (25 percent) of 55+ year-old tenants in public housing report that they had foregone visits with general practitioners due to cost. A fifth (20 percent) of 55+ year-old tenants in public housing report that they had not collected prescriptions due to cost. Those proportions are higher than for tenants on the private rental market with 14 percent foregoing general practitioner consultations and 8 percent not collecting prescription items because of costs. Irrespective of renter sector, the foregoing of health services among these tenants is considerably higher than for owner occupiers. Only 6 percent of the latter report foregoing general practitioner visit and 3 percent not collecting prescriptions because of costs.<sup>20</sup>

<sup>20</sup> Pledger *et al.*, 2019.

This data needs to be treated with care. The increasingly reliance on the rental market evident in the previously presented cohort analysis may see a diversification of the health status in the tenant population. However, it is clear that the dwelling condition of rental houses in which seniors live are poorer than owner-occupied dwellings (Figure 14) and this may act to compromise the health status of older renters. Similarly, older renters are more likely to live alone than older owner occupiers. Living alone has been demonstrated as having a statistically significant association with entering residential care even when physically well.<sup>21</sup>

**Figure 14: Maintenance of houses with an occupant aged 65 or over by tenure<sup>22</sup>**

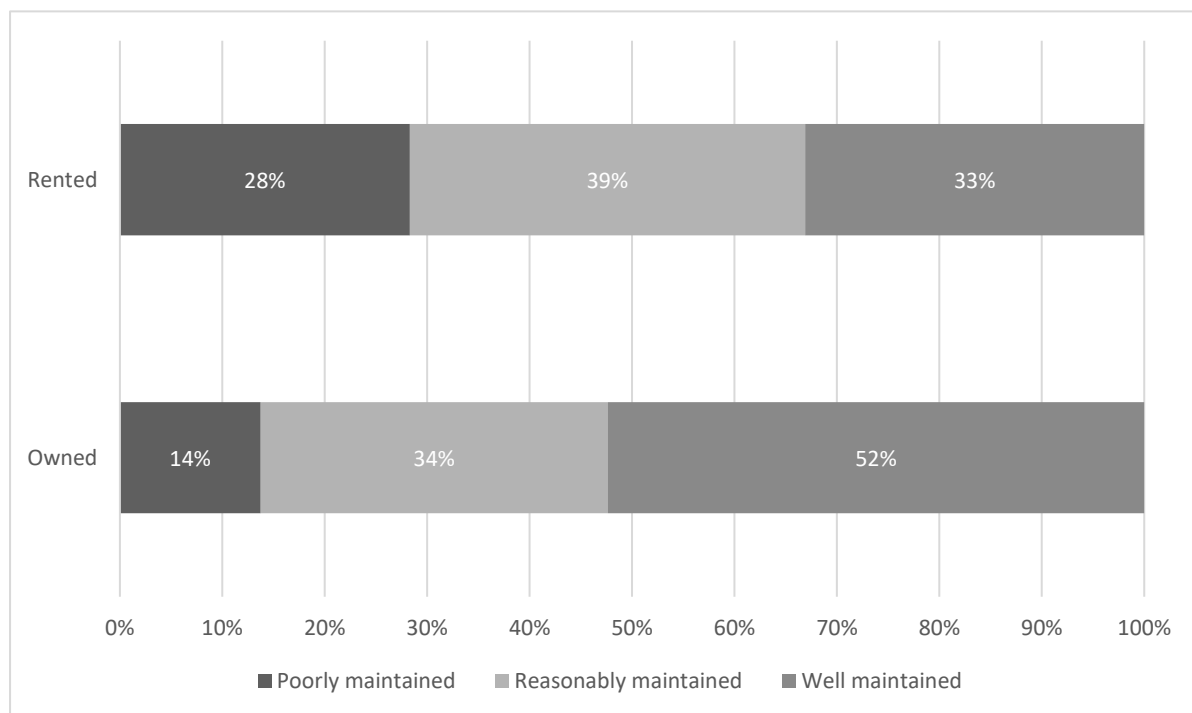


Table 3 provides an insight in relation to the still problematic nature of rental housing in New Zealand with the 2018 data from the New Zealand Social Survey which connects wellbeing to tenure for the population aged 15 years or more.

<sup>21</sup> Jamieson, H., *et al.*, 2019.

<sup>22</sup> NZ House Condition Survey 2015/16, prepared by Vicki White, BRANZ.

**Table 3: Housing Experience & Tenure (General Social Survey April 2018–March 2019, Statistics NZ)**

Measure		Total Population Estimate (%)	Owner Occupied Estimate (%)	Not Owner-Occupied Estimate (%)
<b>Population distribution</b>		100.0	65.6	34.4
<b>Housing suitability</b>				
Suitability of house or flat	Very suitable	44.3	50.9	31.8
	Suitable	45.0	41.8	50.9
	Neither suitable or unsuitable	6.5	4.6	10.2
	Unsuitable/very unsuitable	4.2	2.7	7.1
Suitability of house or flat location	Very suitable	56.2	61.0	46.9
	Suitable	37.1	33.7	43.6
	Neither suitable or unsuitable	4.5	3.5	6.3
	Unsuitable/very unsuitable	2.2	1.8	3.2
<b>Housing affordability</b>				
Affordability of house or flat	0 to 3 (0=very unaffordable)	10.1	8.0	14.2
	4	6.9	6.2	8.2
	5	20.7	20.2	21.5
	6	11.5	11.2	12.1
	7	16.4	17.5	14.2
	8	14.1	15.6	11.3
	9	5.8	6.0	5.4
	10 (10=very affordable)	14.5	15.4	13.0
<b>Housing condition</b>				
House or flat colder than would like	Yes - always or often	21.2	15.0	33.0
	Yes - sometimes	29.1	30.0	27.4
	No	45.4	52.5	31.7
	Have not been here in winter	4.3	2.4	7.9
House or flat is damp	Yes - always	3.6	1.3	8.1
	Yes - sometimes	30.5	25.3	40.5
	Not damp	65.9	73.3	51.4
House or flat is mouldy	Yes	35.8	29.7	47.4
	No	64.2	70.3	52.6
If mouldy, mould is larger than an A4 sheet of paper	Yes - always	16.7	10.2	24.6
	Yes - sometimes	28.3	26.3	30.9
	No	55.0	63.6	44.5
<b>Housing maintenance</b>				
Level of repairs needed	No repairs needed	30.5	32.1	27.6
	Minor	50.8	51.3	49.8
	Moderate	14.5	13.4	16.6
	Major	4.2	3.3	6.0
Reasons for not repairing house or flat (for homeowners)	It costs too much	61.5	61.5	
	It takes too much time	16.9	16.9	
	Other reasons	37.5	37.5	
Reasons for not repairing house or flat (for renters)	Have not contacted the landlord yet	15.3		15.4
	Landlord has not done the work yet	54.1		54.0
	Landlord is not willing to do the work	22.1		22.2
	Other reasons	17.3		17.3
<b>Tenure security</b>				
Time spent living in house or flat	Less than one year	15.7	8.1	30.1
	1 year or more but less than 3 years	19.1	14.1	28.6
	3 years or more but less than 5 years	12.3	11.9	13.3
	5 years or more but less than 10 years	17.6	18.9	15.2
	10 years or more	35.2	47.0	12.8
Number of times moved in past five years	1	46.8	56.6	38.1
	2	20.8	18.8	22.5
	3	14.6	12.4	16.7
	4	7.9	5.6	9.8
	5 times or more	9.8	6.5	12.9
Main reasons for moving (owned)	Social reasons <sup>(13)</sup>	23.2	21.6	27.1
	Education or work-related reasons	13.6	9.2	23.9
	To move to a better quality home (e.g. warmer)	12.0	14.6	5.9
	To move to a more suitable home (e.g. more accessible/better size)	24.0	28.9	12.2
	Other	27.2	25.7	30.8

Main reasons for moving (rented)	Tenancy ended by landlord	17.7	4.5	25.1
	Moved from rental to owned dwelling	20.6	54.0	1.7
	Social reasons <sup>(13)</sup>	12.8	11.2	13.8
	Education or work-related reasons	10.3	5.4	13.0
	To move to a better quality home (e.g. warmer)	8.6	3.7	11.4
	To move to a more suitable home (e.g. more accessible/better size)	11.4	6.1	14.4
	Housing costs too expensive	5.2	4.0	5.8
	For location reasons (e.g. moved to be closer to services)	5.5	4.2	6.2
	Other	8.0	6.9	8.5

### 3. Supplementing Retirement Incomes through Realising Equity in Housing Assets

The cohort analysis previously presented shows that New Zealand's retirement income requirements will increasingly need to take account of declining owner occupation. Associated with the decline of owner occupation is a declining proportion of seniors with housing assets. That trend confronts and contradicts a widespread view that structural ageing and the demand for retirement income support will be able to be managed through the liquidation of seniors' housing assets.

Realisation of housing equity as a strategy for supplementing seniors' incomes to allow them to sustain an acceptable standard of living and/or off-set the fiscal burden of an ageing population has been in vogue for many years.<sup>23</sup> In 2002, the Ministry of Health stated that "equity in a home provides older people with the flexibility to consider cost effective accommodation options as they grow older, and the need for care and access to services become more important considerations."<sup>24</sup> That view has underpinned successive governments' recourse to individuals housing assets being used to off-set the fiscal costs of residential care. Although controversial at the time, the 1990s saw asset testing added to income testing in defining eligibility and entitlement to the residential care subsidy.<sup>25</sup>

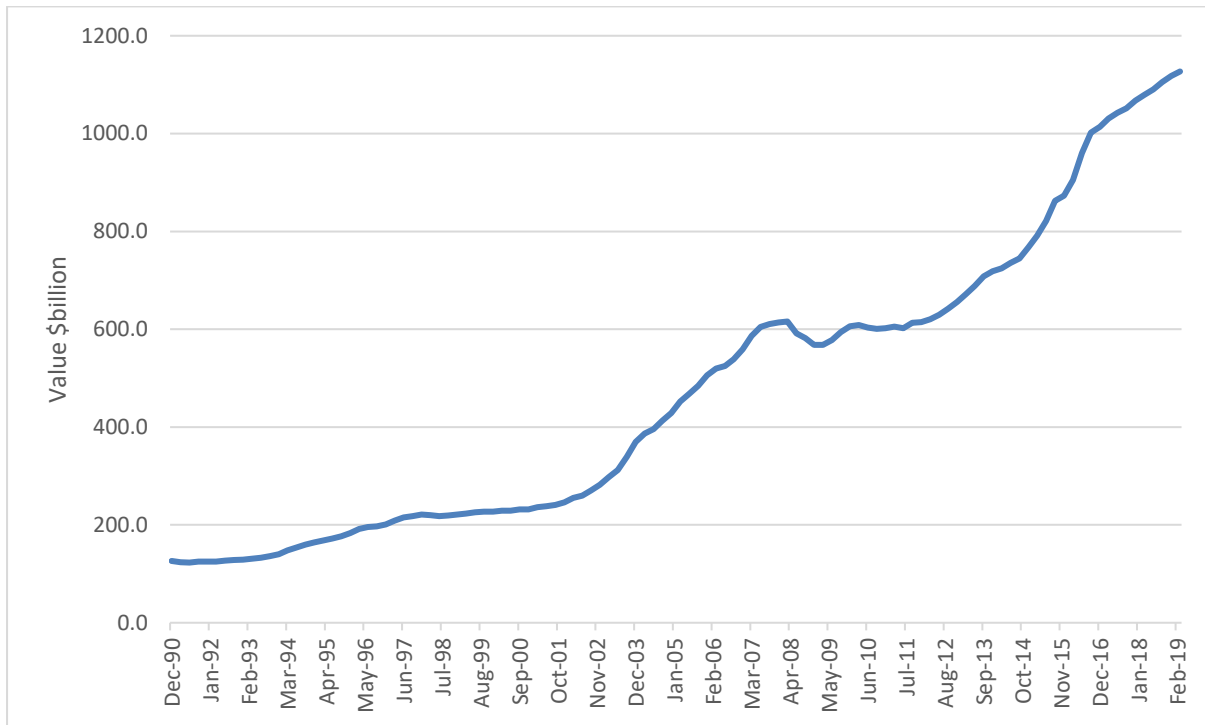
Ideas of realising housing assets as a way of older people funding retirement living standards or service utilisation have been sustained by close attention to the rising value of the housing stock (Figure 15). Even among owner occupiers there are issues of debt exposure that raise very real questions about housing assets being able to be realised to support living standards. Figure 16 shows the climb in household debt between 2000 and 2019. The trend towards increasing debt has been persistent in the 21<sup>st</sup> century and contrasts with the last years of the twentieth.

<sup>23</sup> See Davey 1995 and 1996; Langley Twigg, 2012

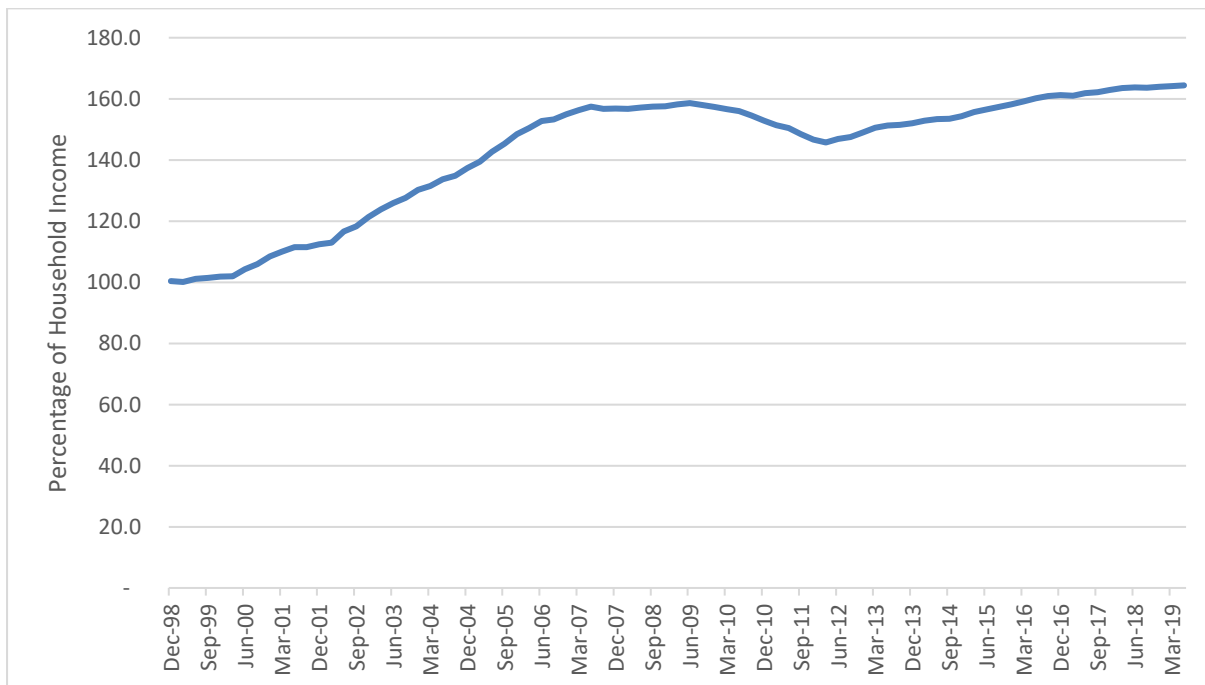
<sup>24</sup> Ministry of Health, 2002: 28; Khawaja, 2000.

<sup>25</sup> Ashton and St John, 2005; Dale and St John, 2011

**Figure 15: The Rising Value of New Zealand's Housing Stock December 1990 - March 2019<sup>26</sup>**



**Figure 16: Household Debt as % Nominal Disposable Income December 1990 - March 2019<sup>27</sup>**



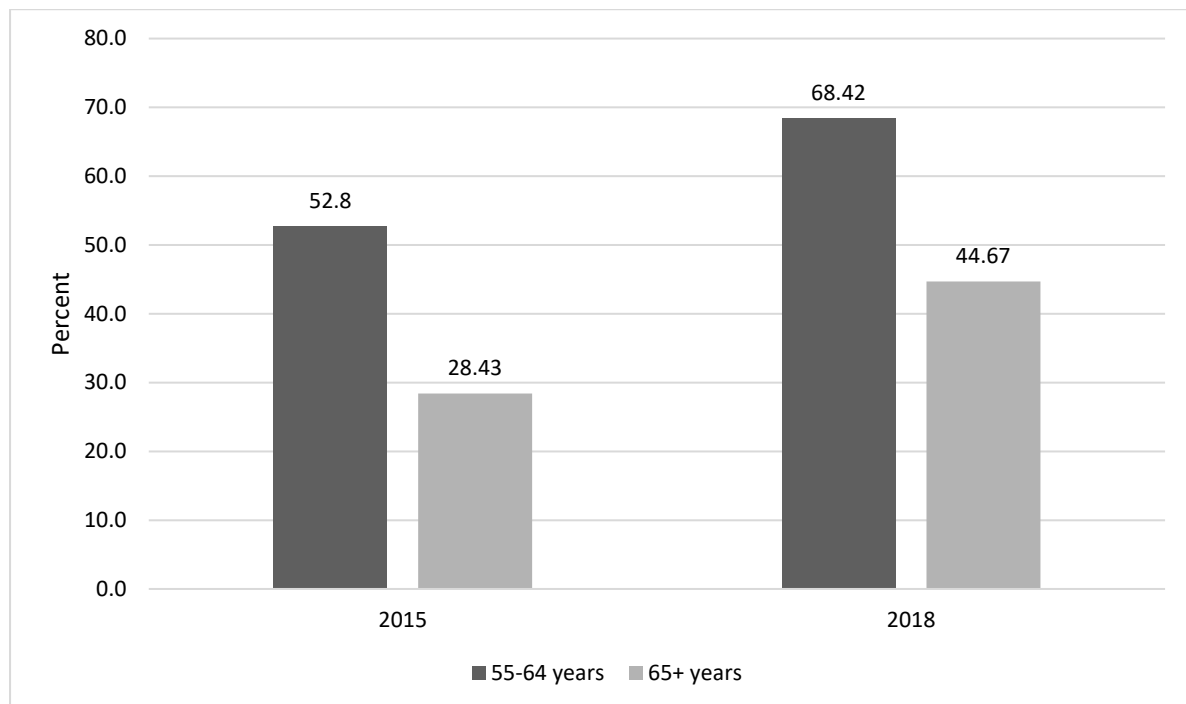
<sup>26</sup> <https://www.rbnz.govt.nz/statistics/key-graphs/key-graph-house-price-values>

<sup>27</sup> <https://www.rbnz.govt.nz/statistics/key-graphs/key-graph-household-debt>



There is a marked and increasing exposure of older age groups to debt. In 2015, less than two hundred thousand seniors aged 65 years or more had debt. The number of seniors with debt in 2018 exceeded three hundred thousand. In 2015, 27 percent of those 65 years or more reported some form of debt. By 2018, 41 percent of seniors 65 years or more reported debt. That trend to entering later years in debt is likely to continue. Just as the tenure situation of 55-64 year olds provides an indicator of the future, the debt situation of these pre-seniors provides an indicator of future seniors' exposure to debt. Almost 73 percent of 55-64 year olds in 2018 reported debt. Most of that debt was in house mortgages, the value of which increased along with house prices (Figure 17).

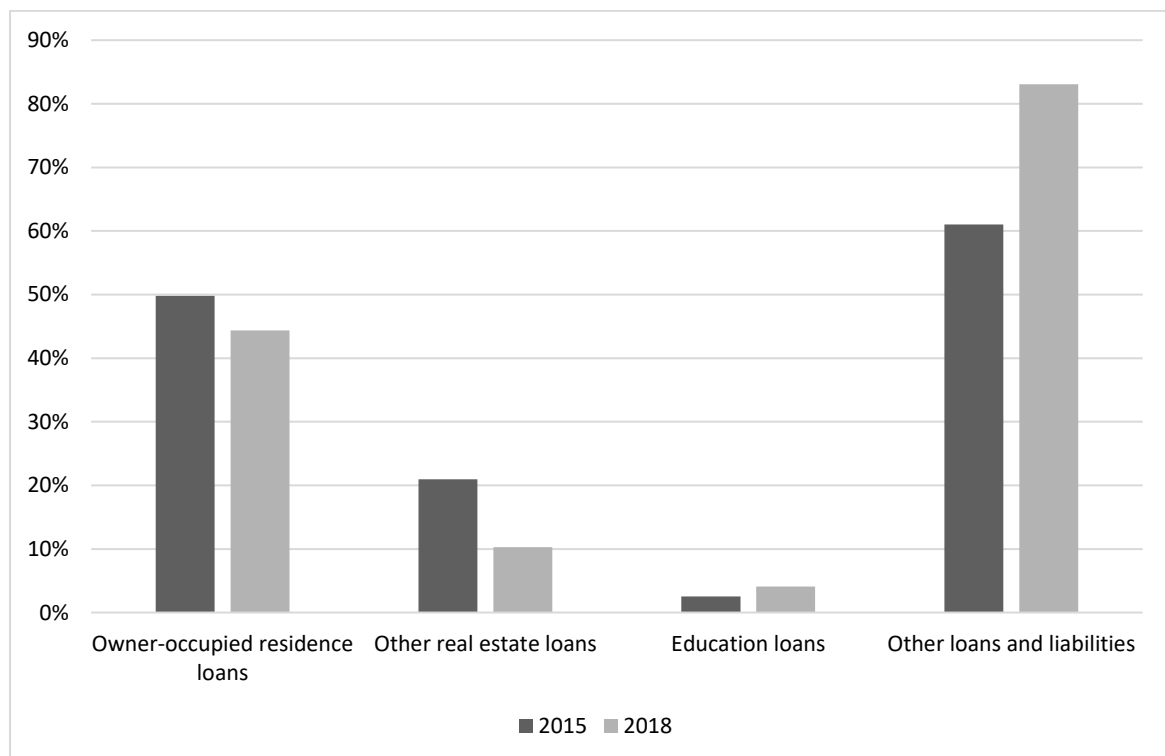
**Figure 17: 55+ year olds in debt 2015 and 2018 (Household Economic Survey, Statistics NZ)**



The dynamics around debt are complex. For instance, in 2015, 32 percent of seniors with liabilities had mortgages on their home, compared to 18 percent of seniors with liabilities having mortgages on their homes in 2018. This suggests that older people are seeking to pay-off mortgages prior to retirement age. This is suggested by the pattern of mortgage debt in the pre-retirement 55-64 year olds in 2018, almost half of whom had loans associated with their home. Research with older renters also suggest that some older tenants moved from owner occupation to rental specifically to remove

their exposure to debt.<sup>28</sup> This is consistent with Australian research.<sup>29</sup> Similarly, a survey of older people in the *Find the Best Fit* research programme found at least some movers paid off debt. The fall in proportion of seniors with mortgages between 2015 and 2018 may also reflect other dynamics including how debt is reported and the diversification of financial credit products. Finally, this may be a manifestation of the falling rates of home ownership across the population. Data from the 2018 census, although it must be treated with care, suggests owner occupation has fallen to 41 percent across the whole population. The mortgage exposure of seniors may simply be early signs of the falls in owner occupation for pre-seniors from 1986-2013 evident in previously presented Figures 5-10. By contrast the proportions of these pre-seniors with other loans largely associated with consumer consumption have increased. Of pre-seniors with debt in 2018, 83% had consumer related debt (Figure 18). Notably, despite longstanding popular portrayals of the rental market being made up of ‘ma and pa’ landlords, only 21 percent of 55-64 year olds had other real estate loans in 2015 although by 2018 that proportion had increased to 44 percent.

**Figure 18: Proportion Pre-Seniors (55-64 years) by Debt Type 2015 & 2018 (Household Economic Survey, Statistics NZ)**



<sup>28</sup> James and N. Saville-Smith, 2018.

<sup>29</sup> Ong *et al.*, 2013; Ong *et al.*, 2015.

Since 2013 when the Reserve Bank introduced requirements on banks around loan to value ratios, the exposure of the banking system to risky home mortgages has declined, but the growth in debt is still around 6 percent. Income growth remains slower than debt growth. By 2018, household debt to income ratio had increased to a record 164 percent.<sup>30</sup> The rising proportion of 55-64 year olds with debt suggest that the indebtedness will continue to be a feature of older age. It is notable that the Heartland Bank, one of the major providers of reverse mortgages on the equity in seniors' homes, suggests that debt repayment is a significant driver of reverse mortgage take-up. The deputy chief financial officer of the Heartland Bank commented in October 2019 that:<sup>31</sup>

*"I've heard of lots of people who want to retire but can't because of existing debt. Under the Responsible Lending Code it's harder for older people to get a regular mortgage. Reverse mortgages can really help."*

### **Financial Instruments to Realise Home Equity**

It has already been noted that housing assets associated with owner occupation reduce the costs of accommodation, which would otherwise be represented in rents, service fees for licences to occupy or corporate body fees. This is the reason why the relationship between income and material standards of living has been less strongly associated among mortgage-free owner occupiers than among renters and indebted owner occupiers.<sup>32</sup> The future looks rather different.

Pre-seniors debt, and the diversity of that debt, suggests that the ability and harvesting of equity for retirement incomes needs to be understood in relation not simply to house mortgages but in relation to other debts. In addition, common assumptions that housing equity might be easily released and used to sustain living standards are questionable despite the persistent motif that a combination of low incomes and significant housing income assets can be resolved by liquidating housing assets either through:

- Financial instruments such as reverse mortgages which provide older people with an income stream determined by the equity of their property.
- Reducing levels of housing consumption.

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<sup>30</sup> Reserve Bank of NZ, 2019, *Financial Stability Report May 2019*.

<sup>31</sup> <https://www.goodreturns.co.nz/article/976515694/heartland-hails-reverse-mortgage-growth.html>

<sup>32</sup> Hurnard *et al.*, 2005; Koopman-Boyden and Waldegrave, 2009.

Housing assets not only have a market value, particularly attractive in the context of upward housing prices and where there is no taxation on capital gains, but, for owner occupiers, the housing asset is also a home. There is a significant theoretical and empirical literature around asset-based welfare which attempts to tease out the dynamics of housing asset financialisation and how wealth can be realised while preserving use-value.<sup>33</sup> That literature is not reviewed here in detail, but the discussion does focus on one strategy for equity release: reverse mortgages.

In New Zealand there have long been arguments that financial instruments such as reverse mortgages, home equity conversion or what have become known as 'top-up' loans have the potential to realise assets while also preserving the security of the home. Early studies of albeit small numbers of older people in New Zealand using reverse mortgages argued that equity release added around 20 percent to incomes and were "applied not to extravagant luxuries, but to making life comfortable and to affording items which most people would consider the essentials of normal life".<sup>34</sup> In addition, Davey found that among thirty New Zealand clients using equity release in the 1990s there were high levels of satisfaction.<sup>35</sup>

Flirtations with reverse mortgages in New Zealand and elsewhere saw a flush of providers and take up in the first decade of the 21<sup>st</sup> century. The apparent promise of equity release was not sustained. There were problematic aspects of delivery and inherent uncertainties and complexities for both mortgagee and mortgagors. In the United States, for instance, they have and continue to be associated with predation on vulnerable owner-occupiers and foreclosures.<sup>36</sup> Foreclosure is associated with significant discounting of those householders' property values.<sup>37</sup> While some reverse mortgage advocates have suggested that housing derivatives might be a pathway through which householders might manage risk, research around householders suggested that householders found it difficult to grasp how they would do so.<sup>38</sup>

The United States remains perhaps the most committed to the provision of reverse mortgage products. In addition to private providers the Federal Housing Administration provides a Home Equity

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<sup>33</sup> Murphy, L. and M. Rehm, 2016; Stephens, Lux and Sunega, 2015; Sendi, 2019; Ong *et al.*, 2013; Ong *et al.*, 2015.

<sup>34</sup> Davey, 1996. Notably 90 percent of these equity release clients came from middle to high status occupations prior to retirement or had been married to partners from middle to high status occupations. Over half were dependent solely on national superannuation.

<sup>35</sup> Davey, 1996.

<sup>36</sup> Population Issues Working Group, 2019: Chapter 6.

<sup>37</sup> Sumell, 2009.

<sup>38</sup> Smith *et al.*, 2009: 93-99.

Conversion Mortgage programme and effectively underwrites other lenders. Nevertheless, the penetration rate is less than 2 percent. Similar penetration rates among seniors can be found in Australia.<sup>39</sup> Moreover, since a flush of reverse mortgage products in the United States and elsewhere prior to 2009, there has been little mainstream financial sector interest. In the United States, the Bank of America and Well Fargo exited reverse mortgage products. Remaining United States providers have been either very small volume and/or beleaguered by regulatory problems. Churi and Jappelli concluded that “at present adverse selection, moral hazard and high transaction costs explain why take-up rates among the elderly are still low even in countries with well-developed financial markets, such as Australia, Canada, the US and the UK”.<sup>40</sup>

In New Zealand, after a flush of reverse equity products, several banks and non-bank lenders ceased providing reverse equity products. ASB ceased its HomePlus product in 2015. TSB appears to have had a “Lifestyle” reverse equity mortgage product loan at one stage, but it too appears to be no longer in existence. Sentinel, the major reverse equity provider, effectively ceased trading new products after the Global Financial Collapse. Consequently, the number of reverse equity loans fell between 2009 and 2013 from 6,613 loans valued at \$447 million to around 5,300 loans valued at \$444 million.<sup>41</sup> Heartland Bank reports that receivables for reverse mortgages in New Zealand increased 11.4 percent between 2018 and 2019 to \$561.2 million.<sup>42</sup>

Some current commentators suggest that resistance to reverse mortgages among households is a residual of anxieties around previously evident predatory behaviours.<sup>43</sup> Nevertheless, there appears to be some renewed interest in reverse mortgages. In the United Kingdom, Canada and Australia the value of reverse mortgages have increased substantially in recent years albeit from a very small base.<sup>44</sup> Reverse mortgages are part of the debt as well as the decumulation pathways of older Americans.<sup>45</sup> Heartland Bank provides a reverse equity product after purchasing in 2014 the technically insolvent Sentinel which had suspended provision of new loans. SBS also provides an advance loan product

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<sup>39</sup> Population Issues Working Group, 2019: Chapter 6.

<sup>40</sup> Churi and Jappelli, 2006: 17

<sup>41</sup> Dale, M. C., 2015: 15. The relatively small decrease the value of reverse mortgages compared to the decrease in the number of mortgages suggest that many of those reverse mortgages were either small or that new reverse mortgages were nominally comparatively larger. The average nominal value of these reverse mortgages in 2009 was \$67,594 compared to \$83,773 in 2013.

<sup>42</sup> <https://www.goodreturns.co.nz/article/976515694/heartland-hails-reverse-mortgage-growth.html>

<sup>43</sup> Population Issues Working Group, 2019: Chapter 6

<sup>44</sup> Haffner *et al.*, 2015:7; Ong, *et al.*, 2015; Population Issues Working Group, 2019: Chapter 6; Jefferson *et al.*, 2017.

<sup>45</sup> Collins *et al.*, 2018

which is effectively a reverse equity mortgage. Non-bank lenders such as the Australian Bluestone Group, which re-entered New Zealand about 2018, and Dorchester Finance also appear to provide some form of reverse equity lending. Heartland Bank suggests that demand is increasing but acknowledges that reverse mortgages are still a niche market.<sup>46</sup> Heartland Bank reported that its portfolio is increasing from 2018.<sup>47</sup>

The issue for all reverse equity lending remains its complexity for both households and providers. The protections needed by borrowing households are relatively clear. Notably the ASB's now defunct HomePlus incorporated those. They are; ensuring borrowers take independent legal and financial advice, guaranteed lifetime occupancy, a stop-loss mechanism which prevents repayments above the value of the property. Similar protections are offered by Heartland New Zealand Limited (HNZ) in its current home equity release products. The conditions of non-bank offerings are not clear. What is clear is that currently evolving reverse equity products are increasingly dominated by schemes sponsored or underwritten by governments including pension loan schemes such as those available in Australia. Singapore has a scheme to access the financial value of their housing. Despite these developments, it is estimated that only a minority of senior home-owners could prudently use reverse mortgages. In the United States that proportion is estimated as 12-14 percent of senior owner occupiers.<sup>48</sup>

There are also issues of resistance among older householders to address. These have been systematically explored in Australia.<sup>49</sup> Resistance and hesitancy is also evident in New Zealand and, like in Australia, tends to coalesce around anxieties around the security, financial literacy required and complexity of equity release products. Financial advice around retirement has focused primarily on savings and accumulation rather than decumulation. There is in that context anxieties around regulation of products, the appropriate timing of taking up reverse mortgage options and the higher interest rates associated with equity release products relative to other forms of borrowing.<sup>50</sup> In addition, schemes that use the entire equity of older home owners tend to be unpalatable in societies in which there are still strong expectations around leaving assets to children to assist successive

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<sup>46</sup> <https://www.nzadviseronline.co.nz/news/are-reverse-mortgages-growing-more-popular-255736.aspx>

<sup>47</sup> <https://www.goodreturns.co.nz/article/976515694/heartland-hails-reverse-mortgage-growth.html>

<sup>48</sup> Warshawsky, 2017

<sup>49</sup> Jefferson *et al.*, 2017.

<sup>50</sup> See for instance Mary Holm's advice in 2018 in the New Zealand Herald  
[https://www.nzherald.co.nz/personal-finance/news/article.cfm?c\\_id=12&objectid=12129348](https://www.nzherald.co.nz/personal-finance/news/article.cfm?c_id=12&objectid=12129348)

generations. This popular concern with inheritance was evident in Davey's equity release research of the 1990s as well as subsequent housing futures research.<sup>51</sup>

### ***Uncertainties Related to House Values***

The possibility of falling house prices is a popular concern around the housing assets of older people and the impact on equity. What is given less attention is the uncertainties around housing assets and equity even in the context of significant increases in house prices. Those potentially impact on financial instruments directed to releasing equity, but they also impact on realisation of equity through 'downsizing'.

This discussion focuses on three aspects of uncertainty:

- First, it considers the variation in house prices and capital.
- Second, the discussion notes the potential, but little explored, impact of natural adverse events on house prices particularly in the context of 'insurability' and climate change.
- Finally, the impact of leaky building syndrome and stigmatisation on the value of dwellings is explored.

Variations in House Prices and Capital Gains: The work of Murphy and Rehm shows that median house prices between 1990-2013 vary significantly spatially.<sup>52</sup> Moreover, capital gains on individual dwelling prices demonstrated in repeat sales are frequently modest. The belief that rising median house prices or mean capital appreciation data can be interpreted as delivering a universal benefit or opportunities for equity realisation across all owner occupiers is simply unfounded.

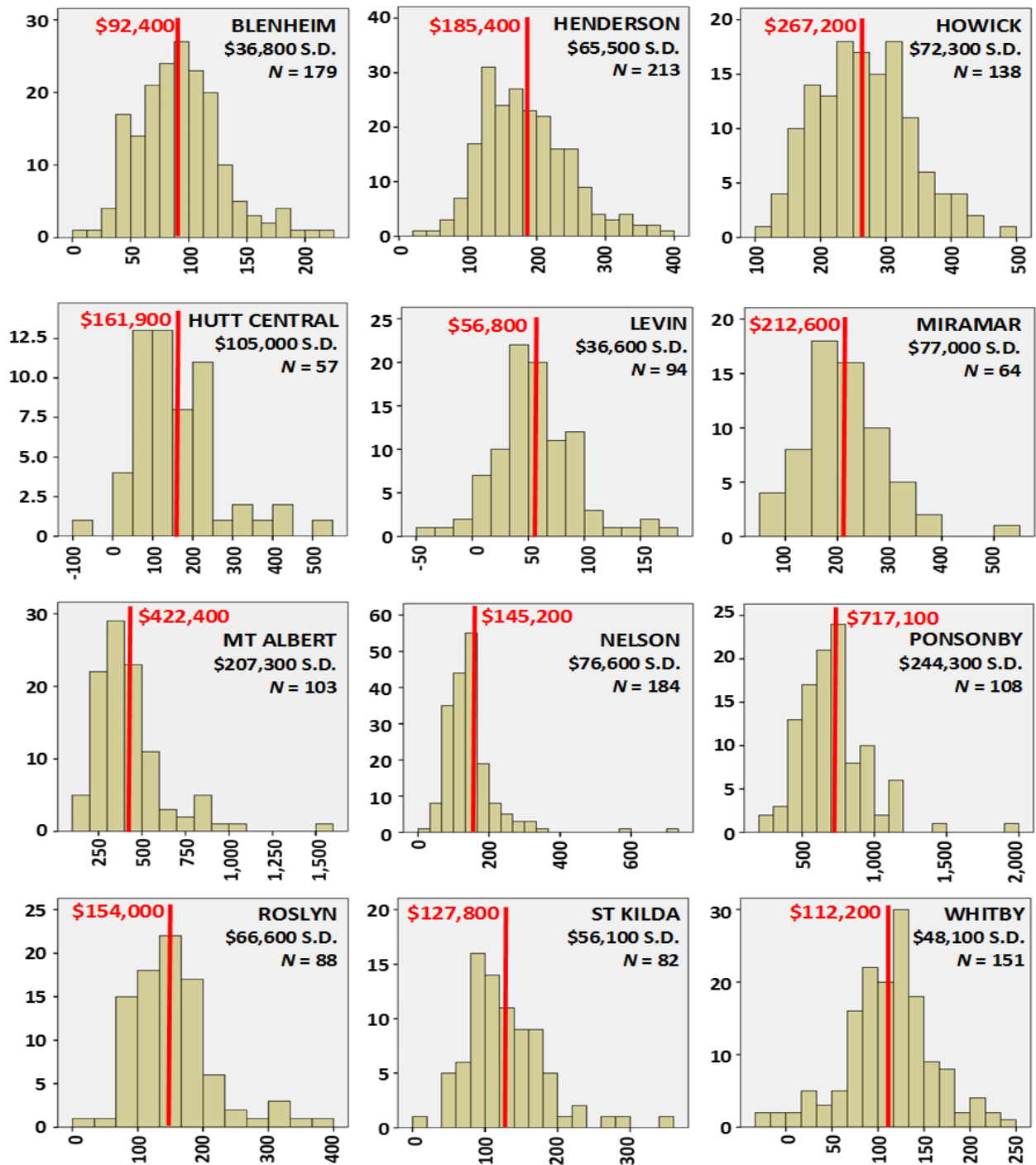
There are large standard deviations in the capital gains across individual houses and average capital gains may only apply to a minority of houses. As Figure 19 shows, even if a market is assumed to be very heated and delivering considerable capital gains, the repeat sales prices vary by \$244,300 around the average. Indeed, the average capital gain of \$717,100 reflects a smattering of very high capital gains. The majority of dwellings had capital gains less than the average.

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<sup>51</sup> Davey, 1996; Saville-Smith *et al.*, 2009.

<sup>52</sup> Murphy, L., and M. Rehm, 2015.

Figure 19: Capital Gains Experienced by Individual Houses in Selected Local Housing Markets<sup>53</sup>



<sup>53</sup> Saville-Smith *et al.*, 2016: 2-3



House Values and Impacts of Adverse Events and Climate Change: There is potential for uncertainties with insurance in the wake of the Canterbury and Cook Strait earthquakes and other natural, adverse events may impact on the valuations acceptable to providers of these financial instruments or the prudential considerations around loan limits. This is not, however, immediately evident and has attracted little systematic research.

In relation to possible sea-rise risks, a study of house price impacts of the Kapiti District Council publishing exposures to sea-rise risk in 2012 shows minimal effects. Some 1800 dwellings were identified by the Council as at risk. These experienced a house price effect which was not statistically significant.<sup>54</sup> It has been noted, however, that the sensitivity of buyers, and therefore the resilience of house valuations, may be affected in the future if dwellings are destroyed in significant numbers through adverse climatic events or where insurance protections change.<sup>55</sup>

House Values and Impacts of Leaky Building Syndrome: Affecting possibly 89,000 residential buildings, leaky building imposes significant remediation costs on individuals despite provision of Government support. Personal liabilities for remediation among older people dealing with leaky homes remediation involved in downsizing research in 2016 varied between \$100,000 and \$700,000. There is other evidence in New Zealand that remediation is not only costly for those affected by leaky homes but also has a risk of remediation failure.<sup>56</sup> In addition to the costs of remediation, seniors in the downsizing research component related to leaky homes reported significant other stresses including attenuated sale processes and discounting.

*This is not a story that is unique to us, we know people... they spent \$300,000 on recladding their five-year-old home so they were able to sell it and it didn't even have leaks.*

*We did full disclosure on the repairs made. A lot didn't want to look at it because of the stereotyping that's emerged about this type of building, there's a blanket condemnation.*

It is now well established that leaky building syndrome has led to the stigmatisation of monolithic-clad dwellings irrespective of whether they have been affected by leaks. Valuers and real estate agents report that leaky home stigma negatively affected the prices of many dwellings built in the 1990s or later between 13 and 16 percent.<sup>57</sup> Subsequent research has established that reductions in median

<sup>54</sup> Filippova *et al.*, 2019: 20

<sup>55</sup> Storey, B., and I. Noy (2017): 68-74.

<sup>56</sup> James *et al.*, 2017

<sup>57</sup> Song Shi, 2003:49-50

real capital gain owing to leaky building stigma for Auckland and Wellington dwellings ranged between 11 percent and 29 percent (Table 4).<sup>58</sup>

**Table 4: Leaky Building Stigma and the Depression of Median Capital Gains**

		AUCKLAND		WELLINGTON	
		Dwellings	Median Real Capital Gain	Dwellings	Median Real Capital Gain
Standalones	Monolithic-clad	72	209,904	43	104,413
	Non-monolithic	1,481	235,279	769	134,602
	Gain Difference		-25,375		-30,189
	% Difference		-12%		-29%
Apartments & Units	Monolithic-clad	33	130,235	21	57,401
	Non-monolithic	883	145,202	343	72,065
	Gain Difference		-14,967		-14,664
	% Difference		-11%		-26%

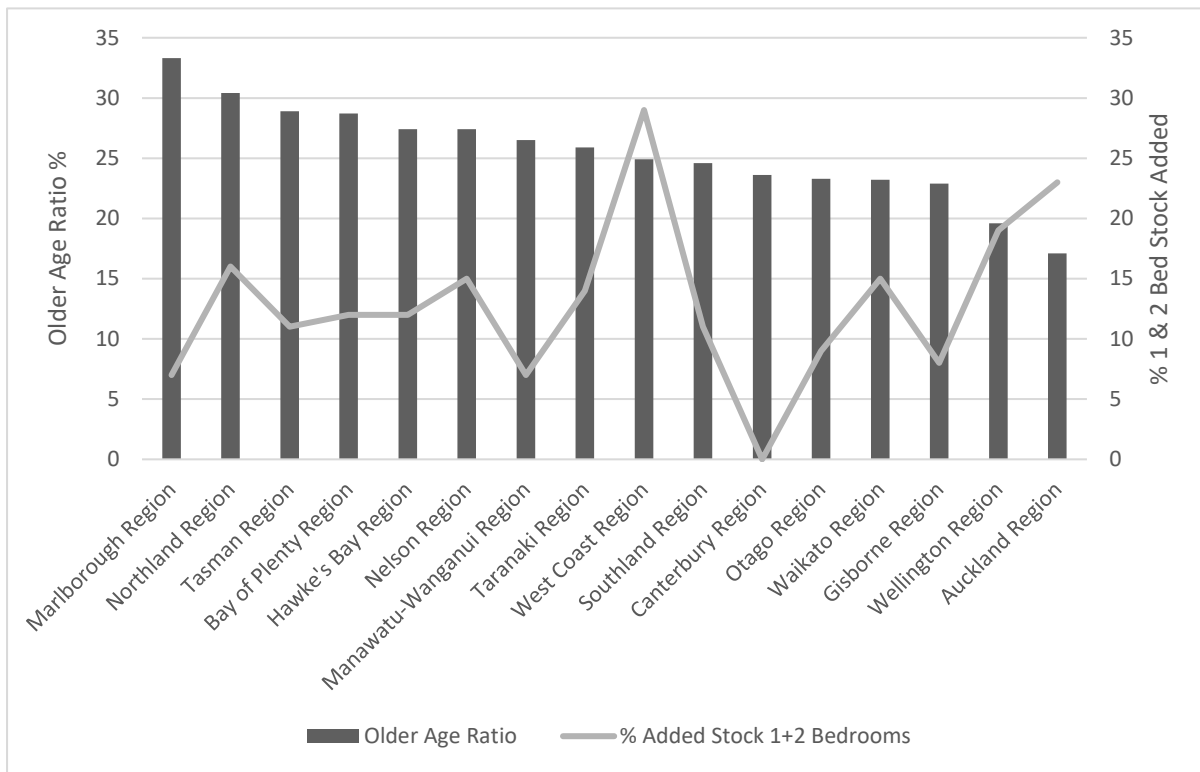
### ***Realising Equity through Downsizing***

Downsizing involves moving from one dwelling to another to realise housing equity and/or reduce the costs of housing consumption including the costs of managing gardens, housework, and repairs and maintenance. Downsizing, consequently, has a multiplicity of meanings which generates considerable difficulties in establishing whether 'downsizing' is either aspired to by seniors or is able to release equity. Two broad downsizing pathways to releasing equity for owner occupiers can be distinguished. The first is by way of shifting dwelling to buy a lower priced dwelling. This is typically assumed in public discourse as a smaller dwelling. The second pathway is through what might be referred to as shifting tenure from owner-occupation to an intermediate tenure such as a license to occupy or rental tenure.

The supply of smaller dwellings, particularly semi-detached and detached dwellings, is limited in New Zealand. New Zealand dwellings remain wedded to 3 and more bedrooms. The addition of smaller dwellings tends to be in the apartment sector and supply of smaller dwellings has persistently been out of alignment with trends to smaller households and the ageing of the population respectively. This is evident in Figure 20 which sets out the older age ratio in 2013 and the percentage of stock with one or two bedrooms added since 2001.

<sup>58</sup> Rehm, 2009; James *et al.*, 2017: 9

**Figure 20: Regional Age-Ratios 2013 and % Added Stock 2001-2013 One and Two Bedroom**



The future of dwelling size is not clear. However, it should be noted that the increasing use of residential covenants by developers indicates that there are efforts to sustain both larger dwelling sizes and housing prices in the new-build sector. Although covenants vary, residential covenants typically are used to restrict affordable house builds and the building of smaller dwellings. That the use of covenants has increased is evidenced in the Auckland region. Covenants on residential titles increased from 9 percent of residential titles struck in 1980, to 55 percent of those struck in 2017. Not all covenants are on residential land, but covenants are most evident in areas with recent expansions of residential land. In 2017 areas with significant proportions of land under covenant are: Selwyn (48 percent of all titles), Waimakariri (40 percent), Queenstown-Lakes (36 percent), and Tauranga (35 percent).<sup>59</sup>

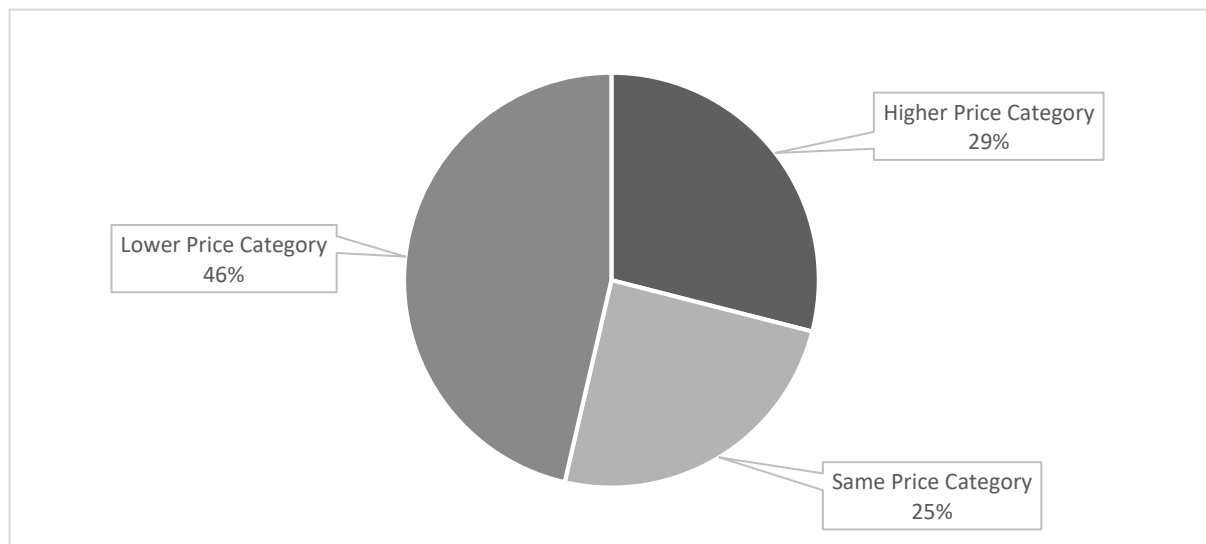
A 2015 survey of retirement village residents found that the restricted availability of smaller new dwellings was one of the motivations of seniors to move to retirement villages rather than move to a dwelling in the community. Of the 617 retirement village residents surveyed, 104 reported that they looked for a dwelling on the open market. Almost a third of those reported that they were unable to

<sup>59</sup> Frederickson, 2018; Fredrickson and Saville-Smith, 2018.

find a smaller, suitable dwelling. Of 126 older people who moved in the open market, the single largest proportion (28 percent) reported that they were seeking a smaller home by moving dwelling.<sup>60</sup>

Research suggests that releasing equity is not always associated with seniors buying and selling on the open market. Sixty-four of the 126 seniors who moved to a new house in the 2015 survey of older owner occupiers in the *Find the Best Fit* research programme, reported both sale and purchase price. Less than half purchased a dwelling in a lower price category, but more than a quarter purchased in a higher price category (Figure 21).<sup>61</sup> That data needs to be treated with caution because of the small minority of older people in the survey that actually moved. It is, however, indicative and consistent with Australian research on downsizing and asset-based welfare.<sup>62</sup>

**Figure 21: Older Movers Purchase Price Relative to Sale Price (2015 Find the Best Fit Survey (n=64))**



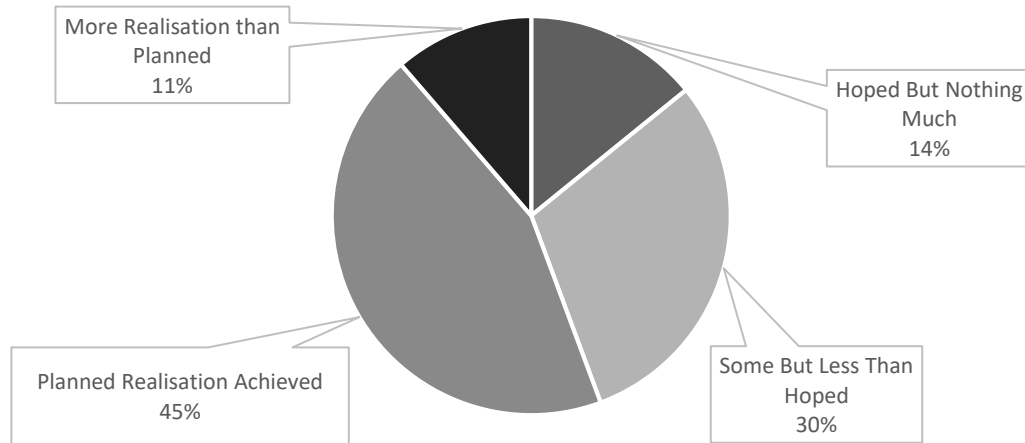
It is notable that among the 126 movers in the community, most were not in any case seeking to release considerable amounts of equity, although some hoped to reduce debt. Twenty-nine movers explicitly sought to release equity from their move. Those seniors experienced mixed outcomes. As Figure 22 shows, less than half reported they released the amount that they had planned.

<sup>60</sup> Saville-Smith *et al.*, 2016.

<sup>61</sup> Saville-Smith *et al.*, 2016.

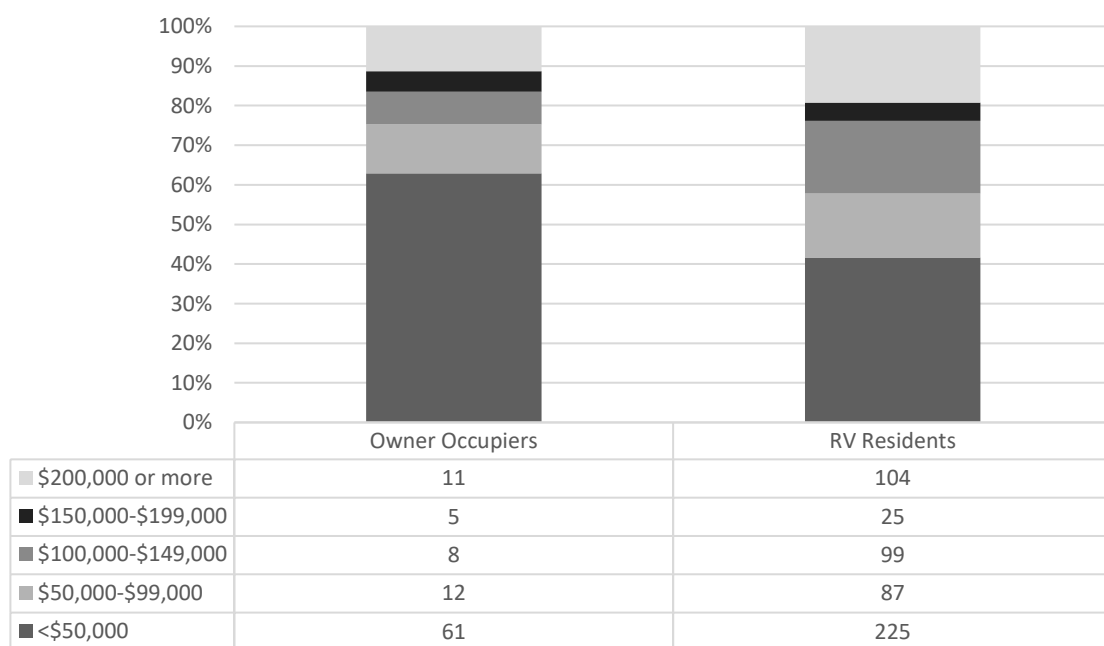
<sup>62</sup> Judd *et al.*, 2012; Ong *et al.*, 2013; Ong *et al.*, 2015.

**Figure 22: Outcomes for Movers to Retirement Villages (2015 Find the Best Fit Survey (n=29))**



Notably, a similar proportion of the 617 retirement residents participating in the Fit the Best Fit Survey in 2015 sought capital release when they moved to a retirement village. That is, the majority had reasons other than equity release for moving to a retirement village. Despite licences to occupy in retirement villages being set at price points around 66-75 percent of equivalent, prevailing house prices, equity release outcomes were still mixed for movers into retirement villages. Fifty-six percent realised more or what they expected, compared to 52 percent of seniors moving in the open market, although they released more capital than those selling and purchasing in the open market (Figure 23).

**Figure 23: Remaining Cash Subsequent to Sale and Purchase (Find the Best Fit Surveys 2015)**



It should be recognised that unlike owner occupiers in the open market, retirement village residents typically do not receive capital gain on their license to occupy. They are also exposed to a deferred management fee and weekly or monthly service fees. The former means that retirement village residents may have little ability to choose to re-enter the open housing market if retirement village living proves unsatisfactory. Weekly or monthly service fees mean that retirement village residents are more likely to use their released capital on what might be referred to as day-to-day living costs (Table 5). Less than a fifth of owner occupiers report expending their released equity on day to day living costs compared to 45 percent of retirement village residents. Compared to retirement village residents, owner occupiers tended to use equity release for investment, family assistance, and emergency/rainy day reserves.

**Table 5: Use of Equity Released through Sale and Purchase for Owner Occupiers in the Community and License to Occupy Retirement Village Residents (Find the Best Fit Survey 2015)**

Use of Released Equity	% Cashed Up Older Mover (n=63)	% Cashed Up RV Resident (n=546)
Investments	37%	32%
Supporting/helping your children/other family members	32%	26%
Special recreational or fun activities	30%	30%
Day to day living costs	19%	45%
Banked/Rainy Day Reserves	14%	3%
Health costs	11%	23%
Renovations	11%	0%
Reduced mortgage/debt	5%	<1%
Funded Rental Property	3%	0%
Replaced car	3%	0%
Charities	2%	<1%
Household items	0%	2%

There is some evidence that the levels of equity released through moves into retirement villages are not adequate to meet the long-term income requirements of retirement village residents. There appear to be three pressure points in this regard. The first, is simply around problems in timing. The desire to purchase and settle in a retirement village within a particular timeframe becomes out of alignment with the sale of a dwelling on the open market. This may be seen as a need for a form of bridging finance. It is known that some retirement villages effectively act as the provider of this type of bridging finance. The incidence and prevalence of that practice is unknown. Nor is it clear what conditions are being applied around those transactions and, consequently, the impact on the

realisation of equity and subsequent capital available for decumulation and support of living standards.

The second pressure point for retirement village residents relates to the on-going payment of fees. In this, while they are significantly wealthier and generally of higher income than seniors in rent, they are exposed to non-discretionary payments just as senior renters are. Issues around fees may be exacerbated where residents' capital assets are diminished with movements from independent villas to serviced apartments, or from retirement village residence into the premium residential care dominated by retirement village providers.<sup>63</sup> These moves may require further capital investment into different licenses to occupy. Again, while the provision of some form of credit by some retirement villages to cover those pressures are known to occur, the incidence, prevalence and conditions are not. The impacts on retirement incomes and living standards simply cannot be established at present, although the Retirement Villages Association claims incidence and prevalence to be minimal and conditions advantageous to residents.<sup>64</sup>

Irrespective of the merits or risks associated with retirement village costs and credit lines, what is clear is that the ability to release equity from dwelling downsizing is often constrained. There are a variety of constraints and risks outside the control of seniors, which may compromise the extent of the equity they release. While dwellings may maintain their use-value to residents, capital realised may be compromised by an array of factors outside the control of owner occupiers. In addition, the amounts of equity released are frequently limited. The limited evidence available suggests that equity released from downsizing is, for a significant proportion of downsizers, absorbed in the repayment of debt. This can be expected to be a characteristic of the future for owner occupiers as the proportions of seniors entering retirement with debt appears to be growing. Finally, while some forms of downsizing may release equity which can supplement discretionary income and sustain living standards, other forms of downsizing expose seniors to non-discretionary housing related costs. Both those leaving owner occupation for the rental market and those, typically wealthier but still often with limited incomes, purchasing licenses to occupy in retirement villages find they are confronted with a new array of costs which are largely outside their control.

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<sup>63</sup> Saville-Smith, James and Bawden, 2019.

<sup>64</sup> Gibson, 2019.

#### **4. Conclusions**

Anxieties around the sustainability of retirement incomes in the context of an ageing society have been expressed for many years. Within that preoccupation there has been a persistent motif of attempting to find ways to reduce the level of Government retirement income support or the scope of eligibility for it. In relation to the latter, a range of arguments are made around moving from universality or, as an alternative, introducing complex tax mechanisms to effectively but non-transparently reduce the effects of universality. An alternative approach has been to join the “growing number of societies whose economic and welfare regimes revolve around the wealth contained in housing”<sup>65</sup> in which dwellings are treated as assets and investments not as houses. Neither of these positions account for the realities of the emerging living conditions that will impact on older people in the future.

Both positions are manifestations of a view around the wealth, income and expenditure conditions of older people which will soon be in the past. The income needs of future older people will be profoundly impacted on by falling rates of owner occupation. Those expose older people to non-discretionary housing costs. Those, if combined with a degradation of living standards, may become manifest in other undesirable and costly outcomes. There are already indications of an emerging vulnerability of older people to homelessness. Nor should it be ignored that a combination of insecure housing, familial attenuation, and low incomes were the driver for the development of publicly funded residential institutions for older people.<sup>66</sup>

In 2013, I described that preoccupation with ‘cash-up’, the facile labelling of older people as asset rich and income poor, and the way in which public, political and policy debate frequently distorted the complex interactions between housing and:

- maintaining the living standards of individuals as they entered retirement age, and
- managing the societal costs associated with an ageing society.<sup>67</sup>

The idea that housing wealth can secure the retirement incomes of older people may be attractive but it is a precarious and unrealistic proposition. Its continuing traction resides more in heated house prices and in appeals to ideas that current seniors and those coming into retirement have predated on the wealth of future generations. However, as Bristow demonstrates inequalities emerging between older and younger generations reside not in intergenerational predation, but rather in a

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<sup>65</sup> Smith *et al.*, 2009: 84.

<sup>66</sup> Saville-Smith, 1993.

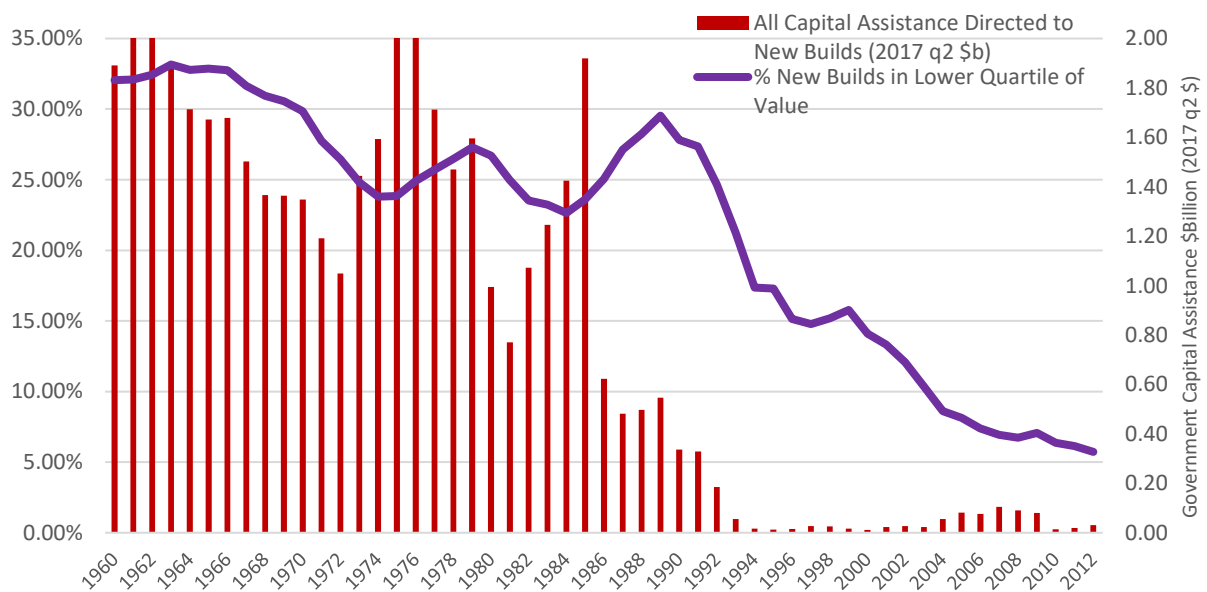
<sup>67</sup> Saville-Smith, 2013.



systematic retraction of public investment in wellbeing.<sup>68</sup> Certainly there is some evidence of that in relation to housing in New Zealand.

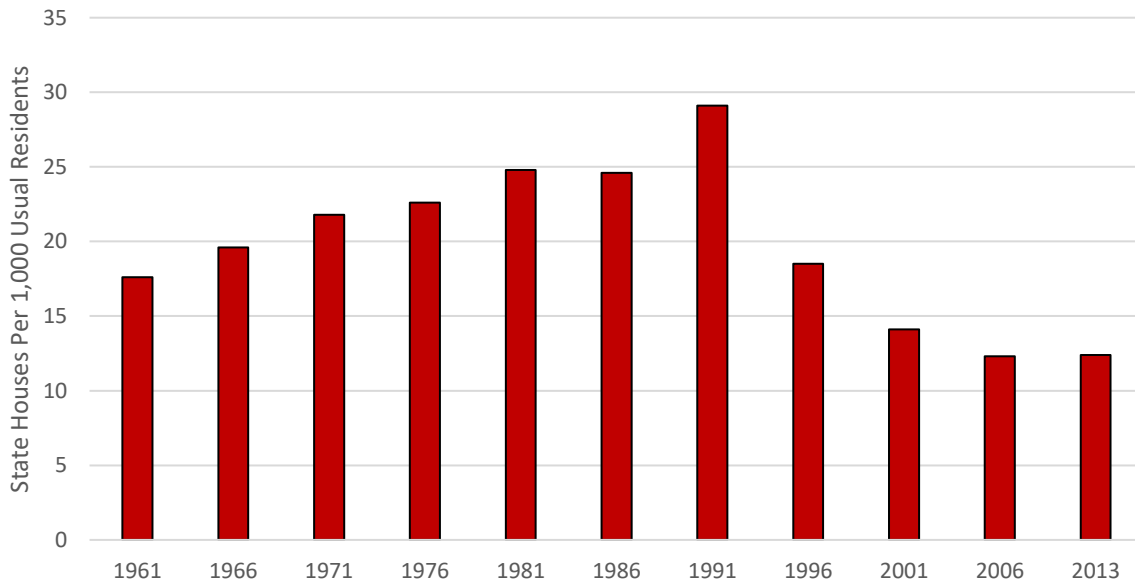
The exclusion of millennials from owner occupation has its genesis in the 1990/91 housing reforms. The movement away from supporting young families into owner occupation and reduced investment into public housing combined with a flush of financial liberalisation to reduce the production of affordable housing and generated by around 2003 a distinct upward recalibration of house prices. Figure 24 and Figure 25 show the impact of reduced investment in new build housing for low and modest incomes on affordable housing supply.

**Figure 24: Estimated government Capital Assistance to New Builds and Proportion of All New Builds Delivered as Affordable Housing 1960-2012**



<sup>68</sup> Bristow, 2019.

**Figure 25: Investment Per Capita State Housing Stock 1961-2013**



The notion that capital could be realised and sustain living standards has been doubtful even where seniors have high rates of owner occupation. A decade ago, Coleman’s modelling suggested that downsizing among older people would be limited.<sup>69</sup> Internationally, the efficacy of asset-based welfare has been debated. New Zealand research presented here suggests that realisation of equity is uncertain and often limited. Where realisation of equity is through tenure degradation (for instance to licenses to occupy or rent), benefits appear counteracted by exposure to non-discretionary costs. Where downsizing involves a movement into the rental market, the problem of non-discretionary housing costs is exacerbated by poor housing conditions and insecurity.<sup>70</sup> The externalisation of those costs can be expected to emerge as older people become increasingly reliant on the rental market.

New Zealand’s tenure revolution should be triggering a significant rethink in the debates around retirement incomes. The Welfare Expert Advisory Group has highlighted the connection between housing under-supply, rising housing welfare payments which do not increase supply, and ongoing problems with living standards.<sup>71</sup> It is clear, that resolving New Zealand’s crisis of supply and affordability is a critical platform for ensuring the adequacy of retirement incomes. The evidence suggests that owner occupation delivers particular value in relation to living standards in older age. Debt-free owner occupation coupled with retirement savings appears to deliver a strong platform for

<sup>69</sup> Saville-Smith *et al.*, 2009.

<sup>70</sup> Welfare Expert Advisory Group, 2018.

<sup>71</sup> Welfare Expert Advisory Group, 2019:123.

gradual decumulation in older age without enforcing, disorderly, uncertain and costly attempts to realise equity through downsizing. Realising housing equity while simultaneously ensuring affordable housing expenditure and maintaining use value requires significant changes in the size and accessibility of the housing stock as well as increasing supply of lower quartile value housing. It is notable that opportunities to generate revenues from accumulating housing wealth reside in capital gains tax.

There is a certain irony that the tenure revolution is associated with an emerging view that retirement savings in Kiwisaver should be used to invest in rental dwellings. There are a myriad of factors that prompt these arguments. Some see themselves as wishing to invest in a retirement dwelling in a lower cost market while renting in a high cost market. It is difficult to see how this would be affordable. High cost markets for ownership are typically high cost rental markets. The cost of servicing both a mortgage, even in a low cost market, and a rent in a high cost market is significant. For some individuals it may be an option under certain conditions, particularly if rent returns are very high. Typically, however, this is not the case.

Many of the issues that have emerged in relation to housing access and the exclusion from owner occupation have been tied to the financialisation of houses as investment and the neglect of houses as homes. Retirement income investment should not be heavily coupled with housing except as a form of pre-retirement saving to reduce later life living costs through mortgage free owner occupation. The house crisis needs to be dealt with through the housing sector/system. Retirement incomes/savings should not try to use the housing market (in public policy terms) as primarily retirement investment. In other words, housing and retirement income settings should be mutually supportive but not substituting for inadequacies in the other. In the long-term the future lies not in raiding retirement savings for housing or security for retirement. Indeed the best outcome for a household is a retirement income resting on a secure mortgage free home, national superannuation and additional savings. National Superannuation is and will become increasingly important as mortgage-free home ownership falls away. The most vulnerable are those who because of low incomes have had limited ability to save over their lifetimes and, unlike in the period up to 1990, are also largely excluded from homeownership. The retirement incomes challenge resides not simply in releasing the current housing wealth residing with older owner occupiers, but how younger households can build both housing equity and retirement savings.

**Annex A: 2018 Census Tenure Data and the Reliability of Previous Census Data**

The 2018 census data recently released suggests that the decline in owner occupation is somewhat quicker than we have suggested based on the 2013 census. The 2018 census data report owner occupation is down to 48.2 percent with renting up to 40.8 percent. A decline in Family Trusts is report. Statistics NZ rate the 2018 data as poor quality. After further work this data may change. Consequently, we have not included the data in Figures Annex A.1 and Annex A.2 in the main body of this report.<sup>72</sup>

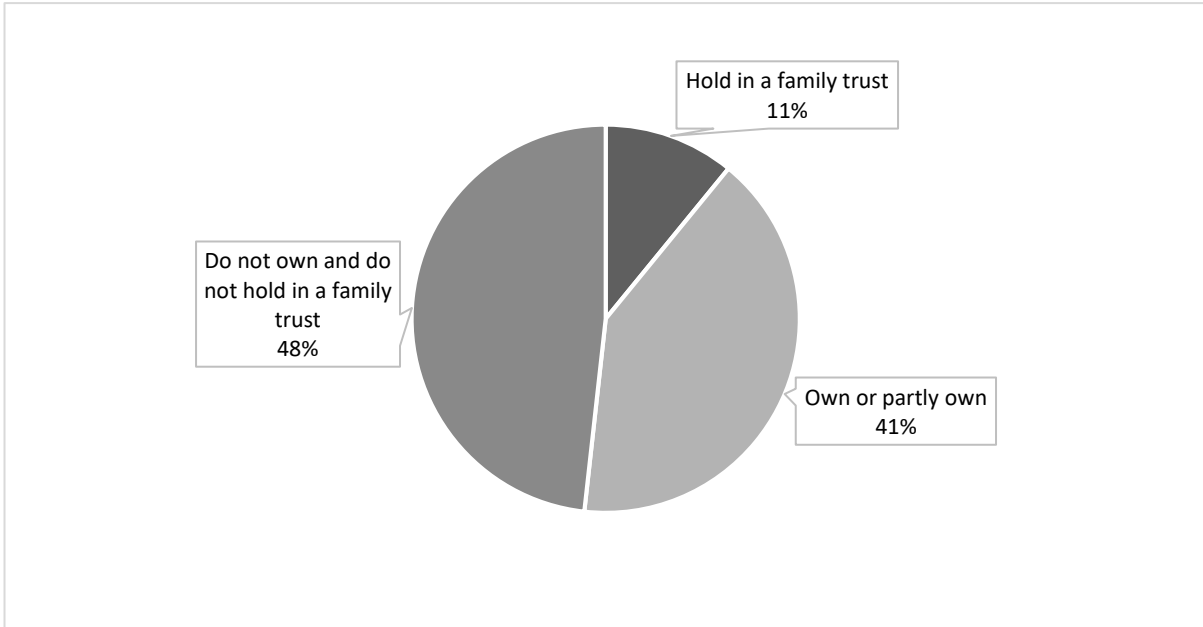
We note the following:

- i. The problems of the 2018 census are related largely to census coverage and response rates.
- ii. A New Zealand commentator has for many years insisted that declining rates of owner occupation are not reliable and misleading. It is unclear why that position is persistently argued but appears to arise from a misinterpretation of the data, the nature of census data collection and the calculation of owner occupation statistics.
- iii. Falling rates of owner occupation are indicated by a number of other statistical sources as well as the census.
- iv. If there are issues of tenure measurement in relation to the census prior to 2018 these are likely to generate an over-estimation of owner-occupation rather than under-estimation. This is because:
  - Until relatively recently, family trusts were included as owner occupation.
  - Other tenures such as license to occupy, the primary tenure of older people living in retirement villages are usually included in the owner-occupied category.

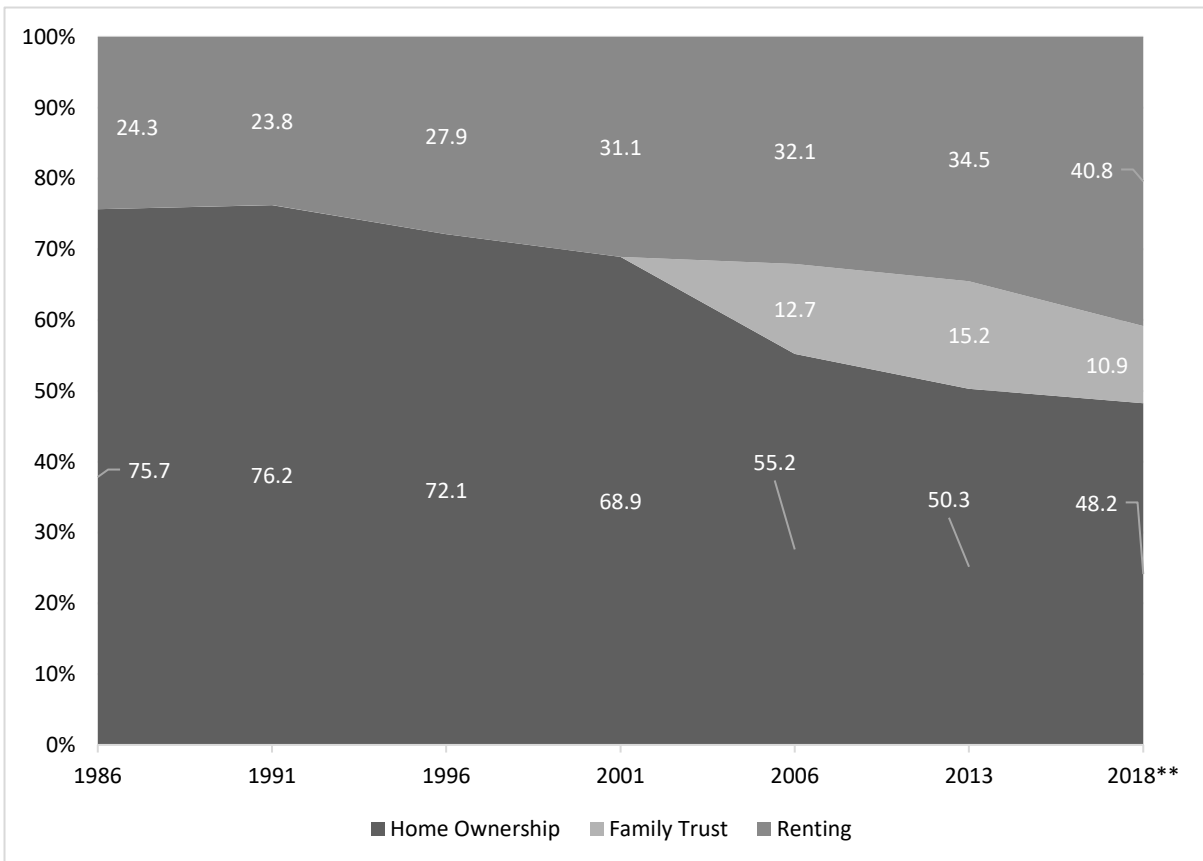
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<sup>72</sup> Prepared by Dr Natalie Jackson, Natalie Jackson Demographics.

**Figure Annex A.1: Tenure 2018 Census Usually Resident Population New Zealand**



**Figure Annex A.2: Total NZ Resident Population 15+ years, Tenure, 1986-2018 NZ censuses**



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