CRESA Centre for Research, Evaluation and Social Assessment

Housing Assets:

A Paper for the 2013 Review of Retirement Income

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Commission for Financial Literacy and Retirement Income

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CONTENTS

TABLES

FIGURES

Executive Summary

This paper explores the connections between housing assets and retirement incomes. Older people's high rates of home ownership today and rising house prices from about the 1990s:

- Have made today's older people and people nearing retirement wealthier than other population groups, despite their very high dependence on New Zealand superannuation and low incomes.
- Fuelled the idea that older New Zealanders can supplement their retirement incomes through liquidating at least some of their housing assets.

The practicalities and effectiveness of financial instruments such as reverse equity mortgages or downsizing to fund retirement incomes and the fiscal impacts of an ageing society, even in the short to medium terms, are questionable.

There are considerable risks for individuals and potentially negative spill over effects associated with liquidating older people's housing assets. Those include higher rates of entry into rest home or other higher dependency environments, disconnection with family and community networks, issues arising from insecure tenure for people who downsize into rental housing, health related costs associated with poorer housing, and issues arising from reduced inter-generational transfers within families.

In any case, in the medium to long terms, under current policy and market settings, the future older population will not have the high rates of debt-free home ownership evident among older people currently. This is because of falling rates of home ownership associated with the:

- Same over-heated house prices and building costs that have given some older home owners considerable windfall gains; and
- Erosion of the home ownership support previously available to young householders in the post-war period up until the early 1990s.

Even for an individual, assessing the net benefits of downsizing and/or reverse equity instruments is complex. Ensuring that older people have the financial literacy to make those decisions is a significant challenge. While some individuals may be able to achieve a net benefit from liquidating housing assets, as a public policy approach it is unlikely to deliver a robust platform for sustaining the acceptability and affordability of superannuation and the standards of living for older people nationally.

This paper suggests that the value of housing assets to older people in retirement and New Zealand goes beyond ‘cashing them up’. There is a raft of research that shows older people who own their own homes free of debt:

- Stretch their New Zealand superannuation further because their housing and utility expenditure are lower.
- Are more satisfied with life.

Most older people are able to stay independent throughout much if not all their old age and their housing asset is valuable not only in financial terms but because it gives them a home.

The use value of an older person’s dwelling is often neglected in the retirement income debate. There is a raft of research that shows well connected, accessible and maintained homes:

- Have direct benefits to older individuals; and
- Can reduce significantly the health and service costs associated with ageing populations.

Rental housing has shown itself as least likely to deliver those benefits to older people.

Under those circumstances, this paper concludes that retirement income policy needs to be formulated in a way that takes into account the housing conditions of older people but should also:

- Be set within a future of affordable housing access for younger households including facilitating the inter-generational use of housing equity to sustain access to affordable and secure housing.
- Recognise the importance of a diverse housing stock that delivers functional, resilient and cost-effective dwellings into the lower value quartiles of the housing

infrastructure in places that are well serviced and connected to avoid the care costs associated with ageing. These will be critical for older people if they are to age in their communities and downsize. Downsizing will still be important in the future, not so much to release equity, but to ensure better fit between households and the dwellings and localities in which older people live.

Most importantly, it needs to recognise that housing assets present multiple opportunities to leverage acceptable living standards and manage the fiscal burdens of an ageing population when their use value rather than simply the promise of equity release is leveraged.

In short, this paper concludes that neither older people's housing nor retirement incomes can be effectively dealt with in isolation from each other. Nor can it be divorced from addressing younger households' increasing marginalisation from home ownership in New Zealand. It suggests that all age cohorts benefit from a functional and affordable housing stock and supply. There are benefits of home ownership because it allows housing assets to be accumulated that have amenity and use advantages over rental housing. Finally, that those housing assets are an important part of ensuring retirement incomes are adequate for acceptable living standards as well as managing the societal costs arising from future age-related health and service costs.

Introduction

New Zealand's older people of today typically are richer in assets and lower in income than younger people. At the core of this situation lies housing and New Zealand's high post-war rates of owner occupation. But also often associated with this pattern are some key, albeit sometimes implicit, assumptions around ageing, assets and retirement incomes. Three are perhaps most important. First, that asset accumulation is an inevitable result of ageing. Second, and as a consequence, the liquidation of older people's assets is a fruitful and practical pathway to maximising older people's incomes in retirement. Third, that the liquidation of assets by older people is a means by which the fiscal burden of maintaining the living standards of older people can be shifted from younger generations back to older people themselves.

Older people's high rates of home ownership, the reputed propensity of New Zealanders to invest in housing and property rather than other forms of saving, and, until recently, the apparently inexorable rise of house prices, have all fuelled the idea that older New Zealanders will be able to supplement their retirement incomes through liquidating at least some of their housing assets. Typically, this release of assets is presented as taking one of two forms: through the use of financial instruments such as reverse equity mortgages or shared equity; and, through the process of substituting a more expensive dwelling with a less expensive dwelling. The latter is popularly referred to as downsizing.

This paper considers the intersection between housing assets and retirement incomes. It highlights the contingent nature of housing asset accumulation and challenges the notion of asset accumulation as an inevitable part of the life cycle and ageing. It notes that significant populations in New Zealand have not accumulated housing assets. More importantly, under current policy, housing market and building industry settings, in the medium to long terms it is unlikely that the New Zealand households will be able to accumulate housing assets. Rather, New Zealand can expect an expanding intermediate housing market consisting of households ineligible for public housing provision, receiving limited or no Accommodation Supplements, but are locked into the private rental market and unable to enter owner occupation.

This paper suggests those dynamics can have profound impacts for older people now and into the medium term by potentially reducing their opportunities to downsize. The growth of the intermediate housing market also calls into question in the long term, the extent to which today's younger people will have housing assets to act as a platform for their retirement in the future.

The paper suggests that it is critical that policy around retirement incomes recognises that the value of housing assets consists of two components:

- the use value of a dwelling, and, secondly,
- the value of the home as a financial investment.

In the context of older people and their lives in retirement, there has been considerable emphasis on the latter both here and overseas. This has driven a preoccupation with liquidating housing assets and, frequently, an under-appreciation of the use-value of housing assets. In addition this paper argues that while there has been considerable interest internationally in liquidating older people's housing assets, there are a number of challenges associated with the individualised 'harvesting' of housing assets which make the net benefit of doing so uncertain even for individuals. That uncertainty raise real questions around the way in which housing assets connect to good lives in retirement and ensuring that the costs of an ageing society can be managed.

Overall, this paper suggests neither older people's housing nor retirement incomes can be effectively dealt with in isolation from each other or indeed the inter-generational dynamics that have seen younger households increasingly marginalised from home ownership in New Zealand. It suggests that all age cohorts benefit from a functional and affordable housing stock and supply and this is an important pathway to ensuring retirement incomes are adequate for acceptable living standards as well as managing the societal costs arising from future age-related health and service costs.

Housing Assets, Ageing and the New Zealand Life Cycle

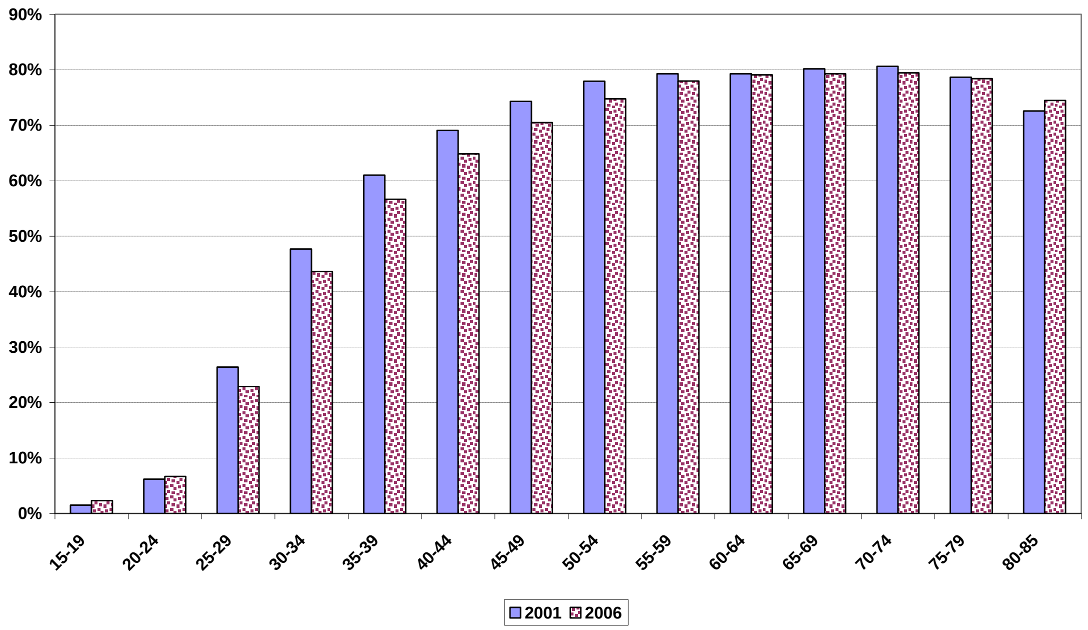
New Zealand has been referred to as a home owning democracy.[1] It became so in the post-war period. The National government of the period promoted home ownership as a purposeful alternative to the provision of extensive state housing or extensive regulation and subsidisation of the private rental market. Forty years of Government initiatives and New Zealanders' aspirations for home ownership resulted in a significant swing in New Zealand's tenure patterns. In 1916 just over half (52.1 percent) of dwellings were owner occupied and 45.7 percent of households lived in rented dwellings, to one only three generations later when the vast majority of households lived in their own homes. By 1987, 72.7 percent of all households in New Zealand lived in owner occupied dwellings.[2]

The rate of home ownership subsequently fell to 66.9 percent of all dwellings[3] by 2006, but the older people of today still have high rates of home ownership. In 1996, 81 percent of older people aged 65-79 years were owner occupiers. In 2006, 81.2 percent of households with an older head of house were in owner occupier dwellings. It is forecast that this will slowly fall to 79.6 percent of older headed households by 2021.[4] That fall reflects the younger cohorts' increasing difficulty in entering home ownership, although older people themselves are staying in their homes longer.[5]

A pattern of owner occupation concentrated in older age groups is evident in Figure 1 which compares the proportion of individuals with partial or full ownership of the dwelling in which they live for 2001 and 2006. Lower proportions of ownership are particularly evident in age groups from 25 years to 50 years, but are also emerging in the 50-55 year age group. This partly reflects the ageing of Pacific peoples and Maori; both of those population groups have had lower rates of home ownership. But the fall is a national phenomenon. By 2006, only 50 percent of the entire adult population owned all or part of the dwelling in which they lived, down from 53 percent five years previously.

[1] Schrader, 2012:3
URL: http://www.TeAra.govt.nz/en/housing-and-government/page-3
[2] Statistics New Zealand, New Zealand Census 1916-2006
[3] Statistics New Zealand, New Zealand Census 1916-2006
[4] Nana *et al*., 2009
[5] Grant Thornton, 2010: 85-86

Figure 1: Owner Occupation by Age in the 2001 and 2006 Censuses[6]

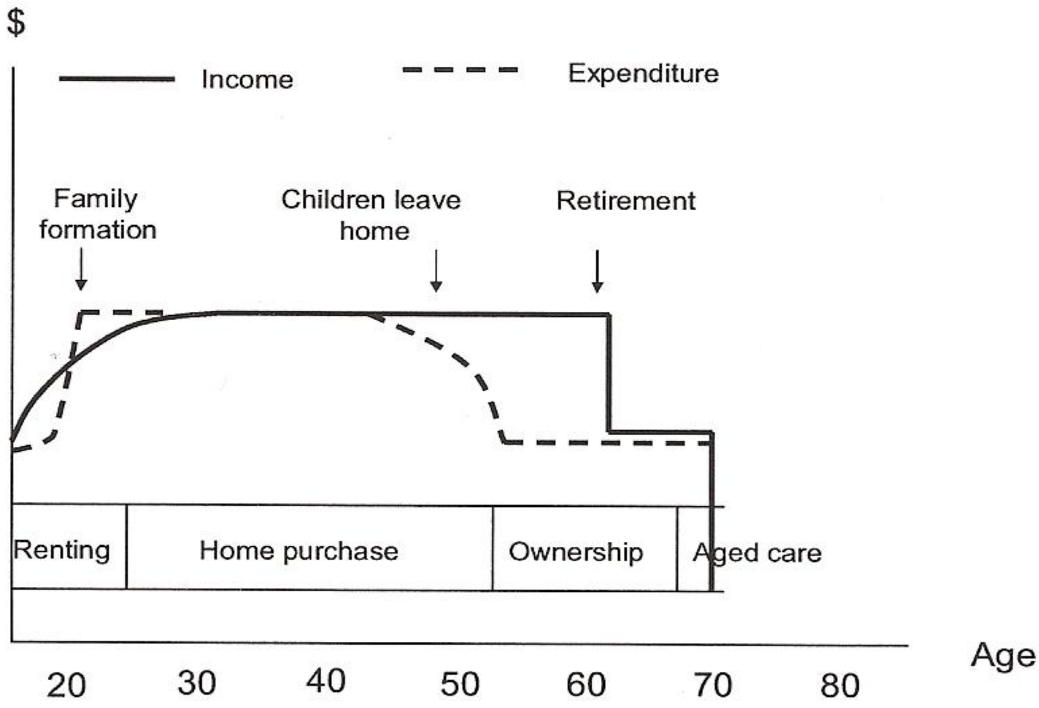


In the latter part of the 20th century, the age at which young households entered home ownership did show occasional fluctuations. Those reflected a combination of demographic and prevailing economic factors. Changes in the age of new household formation, economic uncertainty, house prices and high interest rates all at various times saw period in which there was some delay and deferral of entry into home ownership.

Despite those fluctuations, New Zealand households for the main part and certainly until the 1980s had a rather orderly housing career over the life-cycle. It was a career that involved a series of transitions from living in parental households to a period of rental housing, owner occupation and, for some, moving into a rest home or aged care facility. This is a model in which housing assets and wealth accumulation become almost an inevitable consequence of moving through the lifecycle and ageing (Figure 2).

[6] Hurnard, n.d: 1

Figure 2: Orderly Housing Careers: Ageing, Income, Expenditure and Housing Assets[7]



It is not a co-incidence that the two populations least likely to have experienced orderly housing careers show the lowest levels of wealth accumulation. Maori households have always had lower rates of owner occupation than Pakeha households, although for many years it was expected that the gap between Maori and Pakeha home ownership would be closed.[8] The 2006 Survey of Family Income and Expenditure (SoFIE) suggests that the Maori rate of homeownership is around 39.1 percent. Pacific households have, even compared to Maori households, very low rates of owner occupation at 28.8 percent.[9] This undoubtedly underpins Pacific peoples to experience "higher negative wealth, where liabilities exceed their assets."[10]

The question that arises in the context of retirement incomes policy is the extent to which the falling rate of home ownership in younger age cohorts, and Maori and Pacific populations, is simply an issue of delay or deferral or constitutes a structure shift. According to Morrison, the falling rate of home ownership in New Zealand is a material reduction in the probability of an individual ever owning their own

[7] Morrison, 2008:16
[8] Douglas, 1986; Waldegrave *et al*., 2006.
[9] Grimes and Young, 2009.
[10] Families Commission, 2012: 54

dwelling.[11] That is, it is a structural shift and is associated with diverse pathways into the housing market both rental and ownership markets. For those that are able to access owner occupation, this tends to be later and is likely to be associated with lower levels of housing wealth accumulation.

The de-coupling of the life-cycle and housing accumulation is evident overseas as well as in New Zealand.[12] In New Zealand, this situation is a direct outcome of three developments in the 1990s. Those are:

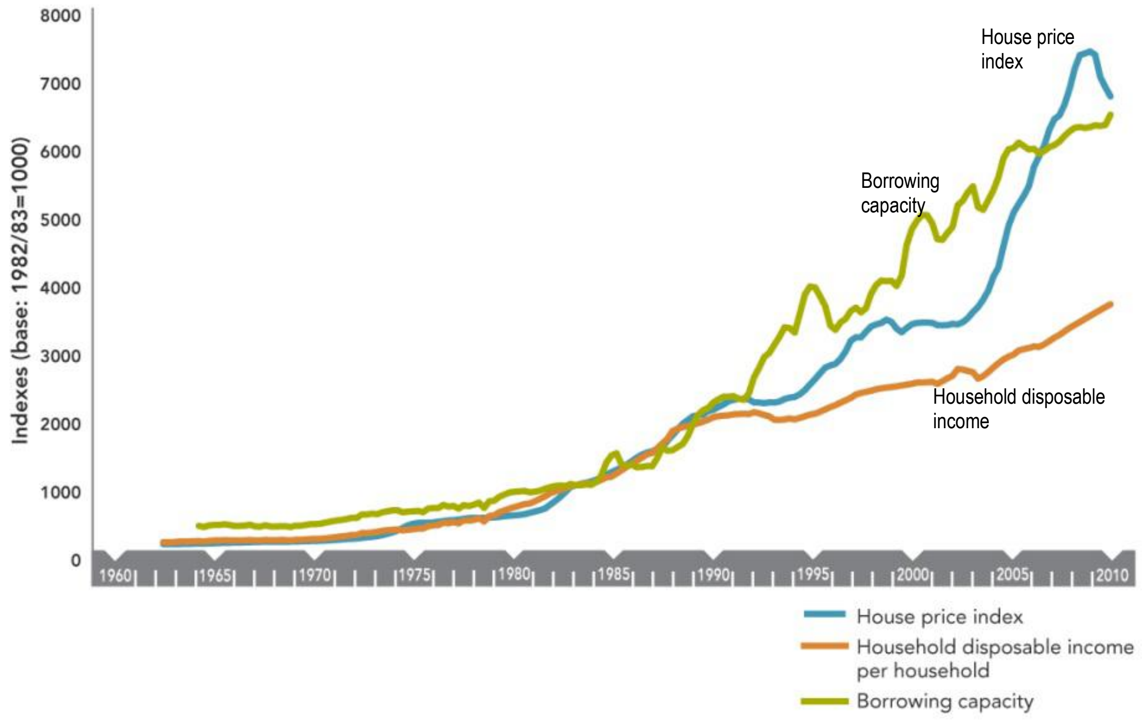
- New Zealand's over-heated housing prices from the mid-1990s;
- Liberalisation of prudential protections and easing access to credit. This, of course, had a considerable impact on house prices in New Zealand and arguably underpinned a shift in the balance between use-value and investment for some owner occupiers; and,
- The progressive erosion of home ownership assistance and tied housing assistance generally.

The problems of over-heated house prices and limited home ownership assistance have been well documented. The affordability problem is neatly portrayed in Figure 3. Those problems have generated an expanding intermediate housing market of households that have only limited or no access to housing assistance and are locked into the private rental market.[13]

Restraints on entry into home ownership for younger cohorts mean that New Zealand has a future in which the numbers of older people in rental housing will rise. BERL and NZIRA have forecast that the demand for rental housing by households headed by an older person will increase between 2.5 and 3.1 times from 2006 to 2051. In 2006, around 54,220 households headed by an older person were in rental dwellings. By 2051, that number can be expected to be at least 136,000 households or as many as 168,840 older households.

[11] Morrison, 2008
[12] Clapham, 2002
[13] DTZ, 2008

Figure 3: House Prices, Household Income and Borrowing Capacity[14]



Of those, it is projected that around 40,450 will require Housing New Zealand Corporation rental stock and over 23,000 older households would require local authority housing stock.[15] Notably, this forecast demand for local authority stock exceeds the actual supply of local authority housing by somewhere in the region of 9,000 stock units. The disinvestment by local authorities of their housing stock was in part a response to central government desire in the 1990s that local authorities focus on what was described as ‘core’ business.

The demand for central government rental stock by older households in 2051 constitutes some 58 percent of Housing New Zealand Corporation’s reported, albeit approximate, current stock numbers.[16] The latter sits uneasily where older people are forecast as constituting only about 25 percent of the population in 2051,[17] and the

[14] Briggs and Ng, 2009 cited NZ Productivity Commission, 2012: 32
[15] Nana *et al*., 2009; Saville-Smith *et al*., 2009: 33-36
[16] Housing New Zealand Corporation, 2012: 19; 33-34
[17] Statistics New Zealand, 2004

demand for public rental housing among younger households is also likely to increase due to the falling rate of owner occupation.

Home ownership is strongly associated with wealth. Indeed, housing assets are the most widely distributed form of wealth in the New Zealand population. It is hardly surprising that a recent analysis of SoFIE data found that between 2004 and 2006, the largest increases in net wealth were among 65-74 year old and 55-64 year old age groups respectively. In contrast, 15-24 year olds experienced a decline in net worth. [18]

Nor is it surprising that home owners, while having higher net worth than non-owners, showed a relatively limited increase in net worth. On average, non-owners saw a 20.3 percent increase in net worth relative to owners' average of 12.7 percent between 2004 and 2006. This reflects the difficulties of younger owners entering the housing market during a period of significant house price increases. Because house prices have risen so dramatically, younger householders who have been able to enter into owner occupation between 2004 and 2006 have had to take on large mortgages. These high debt to asset ratios have restrained the increase in net worth over the entire population of owner occupiers.[19]

Older People, Well-being and Housing Assets

New Zealand has a single tier superannuation system unencumbered by income testing. Older people's households are generally low income households in New Zealand. Some 40 percent of older New Zealanders are entirely reliant on superannuation and a limited range of supplementary government benefits. Sixty percent of older New Zealanders received between 80 percent to all of their income from New Zealand superannuation and government supplements.[20]

Older people compared to others with similarly income levels have emerged in successive research as having relatively high levels of income satisfaction and an ability to sustain their material well-being beyond retirement. The hardship rate for older New Zealanders measured by way of the Ministry of Social Development's Economic Living Standards Index (ELSI) is lower than for any other population age

[18] Le, Gibson and Stillman, 2010: 6
[19] Le, Gibson and Stillman, 2010: 6
[20] Perry, 2010

group.[21] Likewise, the *2000 Survey of Living Standards of New Zealanders Aged 65 and Over* (SoFIE)[22] and further analysis since[23] have reinforced the importance of New Zealand Superannuation as older people's source of income. Most importantly, it has revealed that while younger households on low incomes struggled to maintain an adequate standard of living, older people were more able to manage on similarly low incomes. The older people who struggled on these low incomes were older people still paying mortgages and older people paying rent.[24]

There are those that have challenged the adequacy of New Zealand Superannuation rates. For instance, O'Sullivan and Ashton have recently argued that there is a shortfall in New Zealand Superannuation of somewhere between $104 and $142 weekly if older people are to purchase the basket of goods associated with what they define as a 'healthy retirement'.[25] Nevertheless, a 2007 survey of 1,680 older people in the Enhancing Well-being in an Ageing Society (EWAS) research programme found almost 88 percent of older people aged 65-84 years expressed high subjective satisfaction with their lives.[26]

Where analysts do agree is in the importance of mortgage-free home ownership to older people's living standards. O'Sullivan and Ashton suggest that homeowners are at the low end of the weekly shortfall in New Zealand Superannuation needed to have a 'healthy' retirement.[27] Similarly, SoFIE data shows that material well-being is significantly associated with being a mortgage-free owner occupier.[28] EWAS also found a significant relationship between being a home owner, especially a mortgage free home owner, and life satisfaction.[29]

According to EWAS, 69.3 percent of older people as a population were mortgage-free home owners.[30] The prevalence of mortgage-free owner occupation is important. This is, in part, because it appears to present an opportunity for older people to liquidate

[21] Perry, 2010: 2
[22] Fergusson, *et al*., 2001
[23] Hurnard *et al*., 2005
[24] Source of income may, of course, act as a proxy for other factors affecting well-being including health factors or connectivity factors. Both are important in determining whether older individuals are, for instance, engaged in paid work.
[25] O'Sullivan and Ashton, 2012
[26] Koopman-Boyden and Waldegrave, 2009: 207
[27] O'Sullivan and Ashton, 2012
[28] Hurnard *et al*., 2005
[29] Koopman-Boyden and Waldegrave, 2009: 207
[30] Koopman-Boyden and Waldegrave, 2009: 103

some of their housing assets to supplement their income. Whether this is actually the case or somewhat illusionary will be discussed later.

In the context of older people's material well-being and their high expressed levels of satisfaction with their incomes, mortgage free home ownership provides, simultaneously, two other significant benefits. First, owner occupied dwellings typically provide better amenity than dwellings in most other tenures. They tend to be more attractive, more comfortable, provide better tenure security, be better connected and be in better condition than rental dwellings. The persistent problems of tenure security and dwelling condition in New Zealand in the rental stock have been well documented.[31] The amenity advantages of mortgage-free owner occupation are indicated in Table 3. This shows that just over a third of mortgage-free householders reporting a major problem with their home or neighbourhood compared to over half of mortgaged homeowners and two thirds of tenants.[32]

Table 1: Proportion of Individuals with a Major Problem with House or Neighbourhood

Problem	**Rented**	**Owned with mortgage**	**Owned without mortgage**	**Total**
Overall	66%	51%	37%	51%
Too small	18%	12%	6%	12%
Poor condition	12%	5%	3%	7%
Damp and/or cold	34%	16%	11%	20%
Too expensive	14%	6%	1%	7%
Too far from work and/or other amenities	12%	10%	6%	9%
Street/neighbourhood is unsafe	8%	4%	2%	4%

Second, mortgage-free owner occupation is associated with lower housing and utilities expenditure. The 2010 Household Economic Survey (HES) shows that mortgage-free owner occupiers' average weekly expenditure was only 63 percent of the expenditure of mortgaged owner occupiers. This reflects lower housing expenditure among mortgage free owner occupiers. Mortgage-free owner occupiers

[31] For a summary see NZ Productivity Commission, 2012: 196ff and for commentary on rental/ownership choices and problems of tenure security in the Auckland region see Saville-Smith *et al*., 2010.
[32] NZ Productivity Commission, 2012:46

have on average weekly housing and utilities expenditure which is less than half of mortgaged owner occupiers. [33]

Notably, the average weekly housing and utilities expenditure of mortgaged and tenanted households were similar. Tenants on average expended $305.80 and mortgaged owner occupiers expended $294.40 on average weekly on housing and utilities. Mortgage-free owner occupiers' housing and utilities expenditure was on average only $146.70 weekly. That is, around 48 percent of tenants' average weekly expenditure and just under half of the average weekly expenditure of tenants and mortgaged owner occupiers respectively.[34]

The housing expenditure patterns of those whose principal source of income is New Zealand Superannuation is also revealing as Table 2 shows. The average weekly expenditure of those receiving New Zealand Superannuation on housing and housing utilities was $111.70 in 2010. This expenditure is not only substantially lower than wage and salary earners and the self-employed, but is also substantially lower than the housing and utilities expenditure of households whose principal income is from other government benefits. Beneficiaries other than superannuitants on average expended $217.70 weekly on housing and utilities.

Table 2: 2010 Average Weekly Household Expenditure by Source of Income (HES)

Expenditure Category	Wages & salaries	Self-employment	NZ Super & war pensions	Other Govt Benefits	Invest-ments	Other
Total net expenditure	1186.3	1269.1	470.6	540.9	995.2	1180.3
Food	202.8	234.9	100.1	109.5	163	200.3
Alcohol, tobacco, illicit drugs	35.3	38.8	12.7	16	17.6	28.9
Clothing and footwear	37.2	43.6	13	9.9	19.4	40.3
Housing & utilities	292.7	268.2	111.7	217.7	211.9	250.7
Household contents & services	51.4	58.6	25.5	13.9	67.1	63.3
Health	24.6	36.4	22.4	9.3	40.8	39.4
Transport	157.7	168.3	53.5	55.7	132	152.3
Communication	40.3	45.1	21.3	21.3	37.9	39
Recreation and culture	112.2	132.5	59.2	30.8	138.5	144.9
Education	18.8	15.5	0.3	7.7	21.6	77.2
Miscellaneous	108.6	121.2	51.1	33.4	108	94.1
Other expenditure	128.6	140.1	10.2	21.1	59.2	84.1
Sales, trade-ins, refunds	-23.9	-33.9	-10.5	-5.4	-21.7	-34.2

[33] Statistics New Zealand, 2010 Household Economic Survey.
[34] Statistics New Zealand, 2010 Household Economic Survey.

Essentially, then, mortgage-free home ownership is associated with lower housing and utility expenditure. This can not be explained by factors such as mortgage free older people under-consuming on heating or dwelling maintenance. The reality is that New Zealand households in general persistently tend to under-heat[35] and under-maintain their dwellings. Under-maintenance and poor repair is also a characteristic of the rental stock.[36] As such, those tendencies should be treated as a constant across tenure and household age rather than simply a characteristic of older owner occupiers. Indeed, the 2008 national survey of older people's repairs and maintenance practices found that the median expenditure on repairs and maintenance was $1,100. This is not to suggest that there are not significant issues with the performance of New Zealand's housing stock, there are. However, there is a raft of research both here and overseas that shows that the most pervasive barriers to home maintenance and repairs are around issues of trust, quality and supply rather than affordability per se.[37]

Older People's Housing Assets In the Future

Owning one's own home, especially mortgage-free, makes New Zealand superannuation go further and, generally, provides older people with better amenity value that in other tenures. In addition, there is a longstanding and widespread view that the wealth older New Zealanders have in their homes can be liquidated to supplement their incomes so they can maintain an acceptable standard of living, or to off-set the fiscal burden of an ageing population.[38] It is a view largely taken for granted in public policy. In 2002, the Ministry of Health, following a previous report by Statistics New Zealand, commented 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."[39]

Of course it is at the health/welfare interface that individuals' housing assets have already been used to off-set the publicly funded costs of rest home care. Asset testing and asset thresholds have been controversial and subject to successive changes of

35 Isaacs *et al.*, 2006
36 Buckett *et al.*, 2011
37 See www.goodhomes.co.nz for research reporting from the public funded programme *Good Homes Good Lives* which focuses on older people and repairs and maintenance.
38 See Davey 1995 and 1996; Langley Twigg, 2012
39 Ministry of Health, 2002: 28; Khawaja, 2000.

policy in New Zealand.[40] While subsidised rest home care had long been income tested it was not until the 1990s that asset testing was added to the eligibility and entitlement regime. It was a direct attempt to harvest the housing accumulation of otherwise low income older people in New Zealand. The introduction of asset testing was hugely unpopular and by the late 1990s there were political commitments to increase asset thresholds. The fiscal impact was such, however, that it was not until 2005 that exemption thresholds were increased significantly.[41]

Since July 2012, the asset threshold for individuals and couples where both are in rest home care has been set at $213, 297. Where only one partner is in long term care and the other partner remains in their dwelling as an owner occupier, there is a choice of either the $213,297 asset threshold or an asset threshold of $116,806 where key assets are exempted – the family home, a car and a pre-paid funeral to the value of $10,000.[42] Although the 2005 review of asset thresholds envisaged stepped increases in the asset threshold of $10,000 annually, policy introduced in July 2012 has determined that the asset threshold will in future be adjusted according to the Consumer Price Index (CPI).[43]

When over the asset threshold, individuals in rest home care pay a capped fee until the threshold is met. Thereafter care is subsidised and older people continue to make co-payments which, apart from a small allowance, generally absorbs the entirety of New Zealand Superannuation and other income including: New Zealand or overseas government pension or benefits, half of any private superannuation payments or insurance annuities; income from relatives, trusts, interest, investments, businesses or employment.[44]

[40] Ashton and St John, 2005; Dale and St John, 2011
[41] Ashton and St John, 2005
[42] http://www.health.govt.nz/our-work/life-stages/health-older-people/long-term-residential-care/residential-care-subsidy/changes-residential-care-subsidy-asset-threshold
[43] http://www.health.govt.nz/our-work/life-stages/health-older-people/long-term-residential-care/residential-care-subsidy/changes-residential-care-subsidy-asset-threshold.
[44] http://www.workandincome.govt.nz/individuals/forms-and-brochures/residential-care-subsidy.html#Payments11.

While asset testing has been perceived as a contribution to service use (residential care) the continued resistance to it suggests it is seen quite differently among the low income households and families exposed to it. The protection of the family house while it is being used by a partner combined with increased asset thresholds has reduced the vociferous opposition to asset testing. Does it this approach provide a model for retirement incomes? Perhaps, but if the point has been to provide an adequate and sustainable funding mechanism for rest home care, it clearly has not succeeded in doing so. There is on-going concern about the inadequacy of funding for rest home services, poor pay scales for rest home employees and the financial viability of rest homes.[45]

The anxiety among low income people about asset testing in the New Zealand rest home sector reflects a persistent desire to 'hang on' to the wealth they see themselves as having worked hard to accumulate. Is there an appetite for a retirement income framework that assumes, expects, or requires that owner occupiers liquidate at least some of their housing assets to supplement retirement incomes in the future? Possibly, although equity release instruments both here and overseas for many years have struggled to get traction in the market.

Indeed, it is notable that 90 percent of equity conversion mortgages in the United States are Home Equity Conversion Mortgages (HECMs) directed to low income older people in the United States through the Federal Housing Administration. Moreover, "from its inception in 1989 to the end of 2007, out of tens of millions of eligible homeowners, only about 400,000 loans have been originated through the HECM."[46]

[45] Grant Thornton, 2010; Dale and St John, 2011; Ashton and St John, 2005. Notably the Salvation Army exited the rest home sector not simply because of a shift in philosophy towards ageing in place and in the community but also because of the financial risks around rest home provision including those associated with maintaining ageing building stock (see James and Saville-Smith, 2006).
[46] Bishop and Shan, 2008: 2

There seems to be a sort of 'cultural memory' for low and middle income households, both young and old, at work here. Home ownership aspirations remain high in New Zealand. It is perceived, and indeed is, associated with residential stability, community attachment, and being connected. The desire to age in place is strong. A 2008 national survey of 1,600 older people and their repairs and maintenance practices found that over half (50.6 percent) had lived in their current dwelling for more than thirteen years. Over a third (23.8 percent) reported living in their dwelling for twenty years or more. Most importantly, only 17.8 percent intended to move in the next few years.[47]

Given the material well-being evident among older people despite low incomes, the merits of converting equity into income are not entirely clear for current cohorts of older people. At the same time, the realisation of housing wealth and using it to offset the societal costs of retirement incomes in the medium to long terms must be seen as both uncertain and limited.

Future cohorts of older people are unlikely to have accumulated housing assets to anywhere near the same extent as today's older people. The conditions that have allowed our current older people to accumulate significant housing assets are not the conditions that prevail for younger cohorts now. Full employment policies, universal education and health care were all components of New Zealand government policy in the post war period up to the mid-1980s. They all contributed to the post-war accumulation of wealth. But the conditions that were most important were:

- The ability of today's older people to enter owner occupation early in their life cycle. This has allowed most owner occupiers to have paid off their mortgages. The later the entrance into owner occupation, the less likely people will be mortgage free at retirement. There are already signs of increased indebtedness. Sixty-eight per cent of individuals in 2004 had some form of debt,[48] and 79 per cent of adults' total liabilities were mortgages. This had risen to 82 per cent of liabilities in 2006. In 1996, almost 46 percent of owner occupied dwellings were mortgage free while by 2006 the proportion of owner occupier households which

[47] Saville-Smith, James and Fraser, 2008: 22
[48] Le *et al.*, 2010: 2

were mortgage free was a little less than 42 percent.[49] This may be exacerbated by stringent requirements around asset splitting where there is marital or partnership breakdown.

- Early entry into owner occupation was facilitated by an array of government assistance. These were initiated in earnest in the 1920s and expanded and consolidated in the post-war period. Those included: capitalisation of a universal family benefit, various insurance and under-writing schemes including earthquake and war damage insurance and mortgage guarantee schemes, household lending provision through public organisations such as State Advances and later the New Zealand Housing Corporation as well as direct stimulation of building supply. Those were gradually eroded, home ownership assistance largely ceased with the sale of the Housing Corporation's mortgage portfolio and the introduction of the Accommodation Supplement as the primary form of housing assistance.
- The widespread distribution of mortgage-free owner occupation among older people reflects the tendency for Government and the market to apply tight prudential guidelines to mortgages and limited other forms of credit. Borrowers were forced to prioritise the use value of a dwelling. Capital gain was treated as a windfall gain and dwellings were not, as they are with instruments such as revolving loans and credit facilities, to secure credit for other consumption.[50]
- Today's older people entered home ownership when the residential building industry targeted lower quartile and lower than median value dwelling supply. The industry now focuses on upper quartile value dwellings (Figure 4[51] and Figure 5[52]).

So New Zealand has a conundrum. The accumulating housing assets that underpin reduced housing and utilities expenditure among older people, and, consequently, relieve pressure on superannuation, will be less evident in the older households of the future. At the same time, New Zealand will have more older people and more older households. It is this convergence that must be of concern, and it is in this nexus that the problem of using housing assets most effectively lies.

[49] Morrison, 2008: 62
[50] See Getter, 2011, for a sense of how novel these types of arrangements actually are.
[51] NZ Productivity Commission, 2012: 42
[52] NZ Productivity Commission, 2012: 42

Figure 4: New-Build Residential Dwelling Values in New Zealand 1960-2010

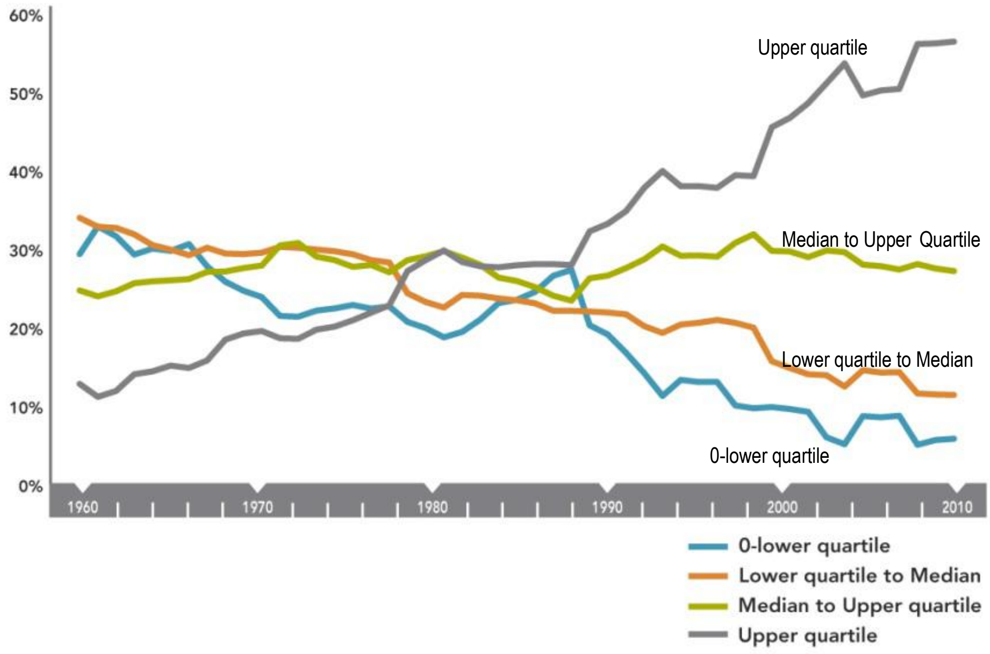
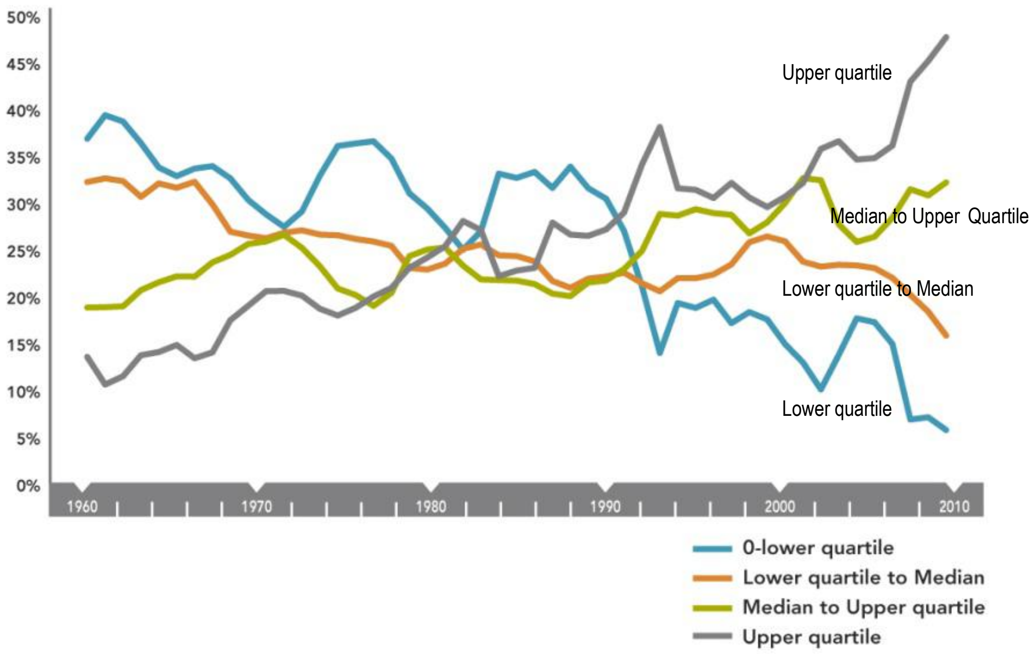


Figure 5: New-Build Residential Dwelling Values in Auckland



Using Housing Assets

Broadly there are three ways in which older people's retirement incomes can be supplemented through their housing assets:

- The first is by avoiding accommodation costs associated with rents or the fees associated with more complex tenures such as licences to occupy or corporate body fees. The extent to which accommodation costs vary according to tenure is strongly associated with whether householders are mortgage free or not.[53]
- The second is through financial instruments such as reverse mortgages which provide older people with an income stream determined by the equity of their property. This is akin to the purchase of an annuity and allows an individual to retain the occupation, and therefore 'enjoy' the amenity of their dwelling for the agreed term of the mortgage.
- The third is by reducing the level of housing consumption. This is usually referred to as downsizing, primarily because this is popularly conceived as a move from a larger dwelling to a small dwelling or from a detached dwelling to a semi-detached dwelling, multi-unit or apartment.

The first of these has already been briefly discussed in the context of HES expenditure patterns as well as older people's material well-being. Consequently the remainder of this discussion focuses on the latter two points: releasing equity and downsizing respectively.

Reverse Equity and Equity Conversion

There have been calls in New Zealand for the development of reverse equity or equity conversion financial instruments for many decades. Davey's early study of the small number of older people in New Zealand using reverse mortgage or equity conversion 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". In addition, Davey found that among thirty New Zealand clients using equity release in the 1990s there were

[53] Hurnard *et al*., 2005; Koopman-Boyden and Waldegrave, 2009.

high levels of satisfaction.[54] Later research suggests similar satisfaction levels but also reinforces the low levels of take-up.[55]

Those findings, and emerging schemes overseas have prompted, albeit sporadic, attempts to introduce equity release products in New Zealand in the private financial sector. These have been on the margins of the set of financial products available to older people in New Zealand. The prospects for their further development in New Zealand are unclear, but it needs to be recognised that in overseas jurisdictions reverse equity and equity conversion schemes have presented a number of challenges including: the sustainability of equity conversion for older people with longer lives; the costs of equity conversion and its implications for familial inter-generational transfers of wealth; and the financial literacy demands of home equity conversion instruments.

With regard to the sustainability of equity conversion as a form of income supplementation over long life expectancies, it should be noted that even public schemes such as the American Federal Administration's Home Equity Conversion Mortgages (HECM) have revealed very real limitations as a long-term mechanism for income supplementation. By contrast home equity conversion has been more usefully applied as a line of credit mechanism for addressing occasional needs for significant capital expenditure such as dwelling renovations and essential repairs.

There has been some resistance overseas to one of the characteristics of reverse equity mortgages – their comparatively high interest rates. 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 generations. This popular concern with inheritance was evident in Davey's equity release research of the 1990s as well as subsequent housing futures research.[56] It is reflected in the retention of increasing asset thresholds for rest home subsidies in New Zealand albeit tied to the CPI. It must also be recognised from a public policy point of view, the

[54] Davey, 1996. It is notable that despite widespread mortgage-free homeownership among older people at that time, equity release clients overwhelmingly (90 percent) came from middle to high status occupations prior to retirement or had been married to partners from middle to high status occupations, and over half of the equity release clients were dependent solely on New Zealand Superannuation.
[55] Davey, 2007.
[56] Davey, 1996; Saville-Smith *et al*., 2009

ability of middle and lower income families to provide some inheritance by way of their housing assets but also secure living environments associated with home ownership, was a significant factor in the development of New Zealand's post-war egalitarianism.[57]

The third challenge associated with equity release or home equity conversion has been the complexity around equity release products and the stability of equity release providers.[58] Equity release products demand high levels of financial literacy. In the United States, the prevalence of reverse mortgage scams combined with genuine confusion among clients about the terms, conditions and implications of various equity release products has prompted the establishment of a network of counsellors specifically tasked with informing and guiding prospective consumers. In the United States, older people seeking Home Equity Conversion Mortgage through the Federal Housing Administration are required to participate in workshops and personal counselling for three hours. A 2007 survey found that around 27 percent of those eligible for Home Equity Conversion Mortgages and completing counselling did not go on to take up the opportunity.[59]

The problem of financial literacy cannot be ignored. Negative outcomes arising out of older people re-mortgaging, consolidating debt, and reverse mortgages have contributed to a recent initiative in the United States to increase older people's financial literacy. The Consumer Financial Protection Bureau is targeting mortgage schemes that have not performed in the manner expected in the context of the United States housing market collapse of 2008 leaving people with either negative equity or severe repayment problems.[60] It is also prioritising the development of responses to the financial abuse of older people not only by kin and individuals, but also by financial institutions and companies.[61]

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[57] Pearson and Thorns, 1983. Similar patterns of reduced inequality are noted in Britain as the rate of owner occupation has increased (see Hamnett, 1999)
[58] It is notable in New Zealand that Sentinel Assurance which delivers into the home equity release market is currently struggling to meet $5 million in solvency capital requirements of the Reserve Bank because of its complex relationship with it owner Seniors Money International. See Parker, 2013.
[59] Bedwell *et al*., 2009: 17
[60] http://www.consumerfinance.gov/blog/assuring-consumers-have-access-to-mortgages-they-can-trust/
[61] See Petraeus and Humphrey, 2012; http://www.consumerfinance.gov/pressreleases/consumer-financial-protection-bureau-launches-inquiry-on-elder-financial-abuse/

In addition to high interest rates, loan caps and, for some, unexpectedly low valuations can all act to diminish the 'harvest' of equity from housing assets. Equity building is vulnerable to external shocks. Capital gains can be characterised as a windfall. But the value of dwellings can also be vulnerable to a wide range of events that can reduce rapidly the value of their properties and over which owner occupiers and even lenders have little control. These can range from the collapse of international finance, to regional declines, to natural adverse events, and even pervasive failures of building technologies, designs, or techniques.

According to some researchers, the risks around equity building and equity loss can be managed through the development of hedging products, effectively housing derivatives. It is clear, however, that householders involved in research around risk management through housing derivatives struggled to comprehend how they would manage such products.[62]

In the New Zealand context, uncertainties with insurance in the wake of not only the Canterbury earthquakes but also other natural, adverse events may impact on the valuations acceptable to providers of these financial instruments or the prudential considerations around loan limits. Similarly, events such as leaky building syndrome may impact on dwelling valuations even where house prices are otherwise steady or rising. It is estimated that some 37,500 monolithic-clad homes built in Auckland since 1992 have been reduced in value by $1 billion, irrespective of actual leaking, simply by the association of leaky building syndrome.[63] Average price loss for dwelling types associated with leaky building syndrome is between 13 percent and 16 percent.[64]

The complexity and risks around releasing equity through reverse mortgages or conversion instruments have been well documented here and overseas.[65] Apart from deliberate abuse, the inherent risks for individual householders are that, depending on the nature of the transaction, they may:

[62] Smith *et al*., 2009: 93-99
[63] Rehm, 2009
[64] Song Shi, 2003:49-50
[65] Getter, 2011; Davey, 1996; Davey, 2005; Dale and St John, 2011; Spillman, 2011

- Outlive their capital.
- Find their dwelling occupation rights are not as protected as they had believed. Just as residents in retirement villages in Canterbury found a gap between the protections they believed they were insured for and what the insurance industry and some retirement villages delivered, so there is a potential for similar gaps to emerge in the context of reverse mortgages.
- Find an initial reverse mortgage may not be adequate to their income needs; inhibit downsizing or residential mobility, or home modifications.

Equally, lenders face, again like retirement village providers, a mortality risk. Lenders of forward mortgages face the risk of borrower default. In equity release or reverse mortgages, the issue for the lender is that extended lives mean that they risk being committed to providing a payment stream to their borrower beyond the period the lender has financed the loan through the money markets. That risk exacerbates the risk that house price fluctuations may reduce sale proceeds and generate a loss in relation to the loan. It also exacerbates the risk for the lender that inaction on repairs and maintenance, or indeed undesirable actions such poor renovations, on the part of older people occupying what they still perceive to be their home may negatively impact on the property's values.

These risks are not trivial. It is notable that in the United States that reverse mortgages for income poor and so-called asset rich households have had to be underwritten by way of Federal Housing Administration mortgage guarantees,[66] despite analysis that suggested that profitability forecasting for reverse mortgage guarantees needed to be treated with considerable caution and were uncertain.[67] Overall, while there is a persistent optimism among some that reverse mortgages will become more appealing, Churi and Jappelli conclude in their 2006 international comparison of equity realisation among older people 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".[68]

[66] Getter, 2011
[67] Bishop and Shan, 2008
[68] Churi and Jappelli, 2006: 17

'Downsizing': Real or Illusionary Opportunities for Equity Release?

Like reverse equity, the idea that older people not only can, but should, downsize has become increasingly prominent. In part this is because the idea of downsizing brings together three strands of academic, policy and popular thought. One strand comes out of the public rental housing sector, particularly in response to pressures on supply. In this context considerable emphasis has been placed on so-called dwelling-tenant matching and the concept of 'inefficient' stock use. This is typically defined as individuals or couples living in dwellings with multiple bedrooms. In that context, downsizing is seen as a solution to stock inefficiencies and the 'over-consumption', almost inevitably, of older tenants.

This notion of stock efficiency is notably absent in the building industry's supply of new build dwellings in New Zealand. Despite the persistent fall in New Zealand's household size and persistent problems of housing affordability, the average size of new stock continues to increase (Table 3).[69]

Table 3: Average Size of New Dwellings by March ended Year[70]

March Year	Number of		Average Floor Area	
	Houses	Flats	Houses (m²)	Flats (m²)
1976	20,932	11,257	121	83
1980	11,687	3,510	133	93
1985	15,664	6,118	133	99
1990	21,365	1,486	136	88
1995	21,619	2,062	171	116
2000	21,386	4,472	177	105
2005	23,355	6,690	206	94
2008	22,422	2,811	205	137
2009	12,866	2,236	211	91
2010	13,157	1,215	206	91
2011	12,547	1,028	207	90
2012	12,143	1,362	201	91

The combination of over-sized dwellings on the supply-side and smaller households on the demand-side,[71] mean that smaller households are living in larger dwellings. An individual in an average new home with an average sized household typically had 32.5 sq metres of housing space in the 1970s. Three decades later, an individual in an

[69] Saville-Smith *et al*., 2009: 41
[70] Statistics New Zealand customised table 2012
[71] According to Statistics New Zealand (2012a: 128) the "average size of New Zealand households is projected to decrease from 2.6 people in 2006 to 2.4 people in 2031. Declining average household size is projected for all regional council areas and territorial authority areas."

average new home with an average sized household would have 73 sq metres - over twice the housing space provided in new builds in the 1970s.[72]

Ironically the building of, first, 'McMansions' and, now, 'Mega-Mansions' has reinforced not only the notion that older people use their house "inefficiently" but also that older people cannot cope with the demands of homes and gardens. The latter position has dovetailed nicely with the notion that downsizing will also provide a supplementary income stream to older people. Both those arguments need to be treated with care.

Others may feel that older people cannot cope in their homes, but that is not necessarily what older people themselves believe. Research into the repairs and maintenance practices of older New Zealanders found in 2008 that older people who expressed an intention to move had a variety of reasons for doing so, only one of which was because they saw their house or their garden as too big to manage. While just over a third of older people who intended to move wanted a smaller property, they made up only 6.9 percent of the 1600 older people that participated in the survey. Notably, those most desirous of leaving their dwelling were older people whose dwellings were in very poor or dilapidated condition. Older people, however, are less likely to be in very dilapidated houses than younger households. [73]

In the context of equity release, the term downsizing starts to take on new meanings. Certainly, it frequently involves the movement from a larger dwelling to a smaller dwelling. This is often conceived of as a move from a detached villa on a larger section to a small or no section property such as a 'granny flat' located within an existing section already the responsibility of others. It may involve a shift in dwelling typology: a shift from detached housing to semi-detached dwellings, multi-units, or apartments. These latter typologies typically are of smaller floor size and reduced or no outdoor section size.

'Downsizing', however, can also refer to shifts from housing that delivers a high amenity to housing that delivers a lower amenity. Such a shift is intended to enable the difference in value between these two levels of amenity to be released and converted from equity to cash. Moreover, there are a multiplicity of dimensions along

[72] Saville-Smith *et al*., 2009:40
[73] Saville-Smith, James and Fraser, 2008: 22

which this shift from higher to lower amenity might be sought. The most important in addition to reductions in floor and/or section size are:

i. Shifts in tenure from owner occupation typically to rental housing or to license to occupy or even a shift from being household head to living within the household of adult children, relatives or boarding.
ii. Downgrading amenity by shifting to a lower priced locality, or reducing the amenity value of the dwelling through shifting to a dwelling with lower performance specifications or condition.

The critical issue for householders in the context of retirement incomes is whether so-called ‘downsizing’:

- Presents a practical option for the majority of older owner occupiers;
- Releases equity at levels that generate a supplementary income stream;
- Reduces expenditure or, at least, allows for a net increase in disposable income; and at the same time;
- Allows older people to retain important social and economic relationships and connectivity.

For public policy, in addition to those issues, attention needs to be given to positive or negative spill-over effects as well as to the distributional implications of downsizing. All those issues become complex in where the life-cycle is decoupled from orderly housing accumulation, house prices are over-heated and extended recession limit earnings.

Unfortunately, the research platform in New Zealand available to assess the efficacy of different forms of downsizing in any systematic way is simply inadequate. However, on the basis of overseas experience and that data available regarding New Zealand’s stock, the distribution of housing assets among older people, house prices and housing markets it is possible to comment on some of the issues that need to be considered.

i. **Moving to smaller dwellings:** One of the immediate problems for those seeking to downsize from larger into smaller dwellings is the under-supply of fit-for-purpose, smaller dwellings. New Zealand still has a homogenous housing stock and new stock is increasingly large. Older houses are likely to be smaller than newer houses. However, the older housing stock also tends to perform poorly thermally and in relation to energy efficiency.[74] Design deficiencies mean that many will require modification to be accessible.[75] Consequently, this older, albeit smaller, stock presents a number of problems for 'downsizers'. Those are likely to be exacerbated by the tendency for older dwellings to be generally sited on larger sections unless previously sub-divided.

Apartments and multi-units offer smaller average sizes and the stock profile tends to be newer. However, issues around design and quality, especially although not only, at the lower end of the market have seen apartments and multi-units in medium density developments subject to considerable consumer resistance. The management and cost structures of body corporates also generate anxieties and the potential for additional, non-discretionary cost exposure. In addition, cost differentials between large and smaller dwellings may not be substantial unless there is a reduction in other amenities – moving from detached to multi-unit dwellings, from desirable locations to less desirable locations, or shifting tenure.[76]

ii. **Shifting tenure:** Internationally the rate at which older owner occupiers transit from owner occupation to rental housing is low, even in countries which have higher rates of tenancy and a more professionalized rental sector than New Zealand.[77]

In New Zealand the rental stock presents particular problems for older people. It tends to be either older dwellings or apartments. While landlords have a preference for older people as tenants,[78] the relatively poor physical condition of New Zealand's rental stock, the under-supply of social housing units relative to the forecast demand among older people in the medium term, cultural norms, and the cost of private rental accommodation are all likely to discourage a transition by choice to private rental housing among older home owners.

A transition from owner occupation to rental could be expected to occur among older people unable to support mortgage payments. Older people in the latter situation may or may not be able to realise some equity. The tenure transition for older occupiers in

[74] Saville-Smith *et al*., 2009:40-42
[75] Saville-Smith *et al*., 2008; Saville-Smith *et al*., 2007:19. Of course, many larger and newer houses also fail to meet the accessibility needs of older people.
[76] Dupuis *et al*., 2002; Dupuis and Dixon, 2004; Saville-Smith and James *et al*., 2010.
[77] Churi and Jappelli, 2006
[78] Saville-Smith and Fraser, 2004

New Zealand is more likely to be from owner occupation to: retirement villages and apartments often with body corporates, or move in with adult children or relatives; or move to rest homes. There are also alternative tenures such as shared ownership, Abbeyfield models of supported independent living, and co-operative type housing. These are on the margins of supply in New Zealand currently and likely to remain so.

Transition into a rest home, of course, does trigger a drawing down and consumption of housing assets. Moving into the household of others may release equity and could conceivably both release equity and involve in inter-generational transfer. About 5 percent of the older population live in retirement villages ad just under 6 percent of older headed dwellings,[79] are a segment of the housing sector consciously offering opportunities for those able to downsize, for that reason, they are worth considering more closely.

Retirement villages provide single dwelling, multi-unit and apartment opportunities generally through a licence to occupy. Sometimes they are connected to rest homes which are frequently believed, although generally incorrectly, to provide a guaranteed bed when individuals need to move into higher dependency. Fees are associated with retirement village residence which includes various forms of insurance provision.

The retirement village sector is confronting significant challenges around their business models including issues of tenure security and insurance cover. Those have emerged in the wake of the Canterbury earthquakes,[80] but the issues of tenure security and the protection of people's investment in licences to occupy have arisen not only in the context of natural adverse events but also from the financial sustainability of some retirement villages.

Retirement villages highlight perhaps most clearly the difficulties associated with tenure shifts. Despite disclosure requirements, it is doubtful whether some older people see themselves as shifting tenure when they move to a retirement village. The Commission for Financial Literacy and Retirement Income's review of resident perceptions of statutory protections found that many residents had little understanding of their tenure status. Differences in their rights and obligations associated with a

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[79] James *et al*., 2011: 2
[80] Department of Building and Housing and the Commission for Financial Literacy and Retirement Income, 2011.

licence to occupy compared to, for instance, ownership by way of tenants in common were often not recognised.

Some of the tensions and conflicts that occasionally arose between residents and village owners/managers undoubtedly arose out of the lack of recognition of these fundamental aspects of tenure.[81] Occupation of a dwelling in a retirement village almost universally involved the resident in the payment of a variety of fees, but which fees were fixed and non-discretionary and which were associated with service or amenity use and were, to some extent at least, discretionary, was often unclear and/or misunderstood.

Research into apartments and multi-units suggests that similar problems and a lack of clarity around the rights and obligations of different parties are also evident. Body corporates are frequently the mechanism through which apartments and multi-units are managed and the collective interests in the building structure are exercised. These ownership and management structures are typically poorly understood by owners and residents. Legislative protections are difficult to activate and issues of affordability both in relation to fees as well as unforeseen or unbudgeted expenses can create very real difficulties for some owner occupiers.[82]

It is not clear that the differential between the price received by older owner occupiers when selling their existing dwelling and buying into a dwelling under an alternative tenure will generate sufficient equity to sustain their standard of living. It appears that many of these alternative tenures reduce the discretion around the levels and timing of expenditure that householders have when they are owner occupiers.

Perhaps most importantly it is unclear whether these tenures allow householders to access various forms of assistance and entitlements that eligible individuals in traditional tenures can access. There are potentially complexities around the Accommodation Supplement and the Rates Rebate Scheme which provides assistance for owner occupiers if council rates become unaffordable. The Canterbury Earthquake exposed complexities around the assistance given to owner occupiers in relation to legal advice compared to retirement village residents.

[81] James and Saville-Smith, 2011
[82] Dupuis and Dixon, 2004

In some retirement villages the extent to which publicly funded home help and nursing care may be accessed by retirement residents can be unclear. In others the business policies of the retirement village provider mean that they do not allow residents "to access publicly funded personal care such as help with showering."[83] Permissions to undertake modifications necessary for access and mobility in retirement villages, rentals and multi-units and apartments can also present a problem to older people and reduce their ability to age securely and safely in place.

iii. **Downgrading amenity:** There are two other ways in which people can reduce housing consumption. They can move from a higher performance or better condition dwelling to a lower performance or dilapidated dwelling or they can move from high price areas to low priced areas.[84] Moving from high to low performance or from good condition to poor condition dwellings is not particularly common. Indeed, the latter is much more likely to occur among young households. The idea of buying into a dilapidated dwelling in a 'good' locality has been part of a popular discourse around entry into home ownership for many years. It reflects the fact that, in general, location and housing typology are more likely to drive differential house prices rather than dwelling condition, except at the extreme end of dilapidation.

The most extreme examples of house condition and performance amenity downgrades are where individuals shift from permanent, residential dwellings to temporary dwellings or some form of boarding house or backpacker arrangement. This is often associated with a change in tenure as well. Temporary dwellings include some baches, camping ground cabins, caravans and other non-residential buildings.

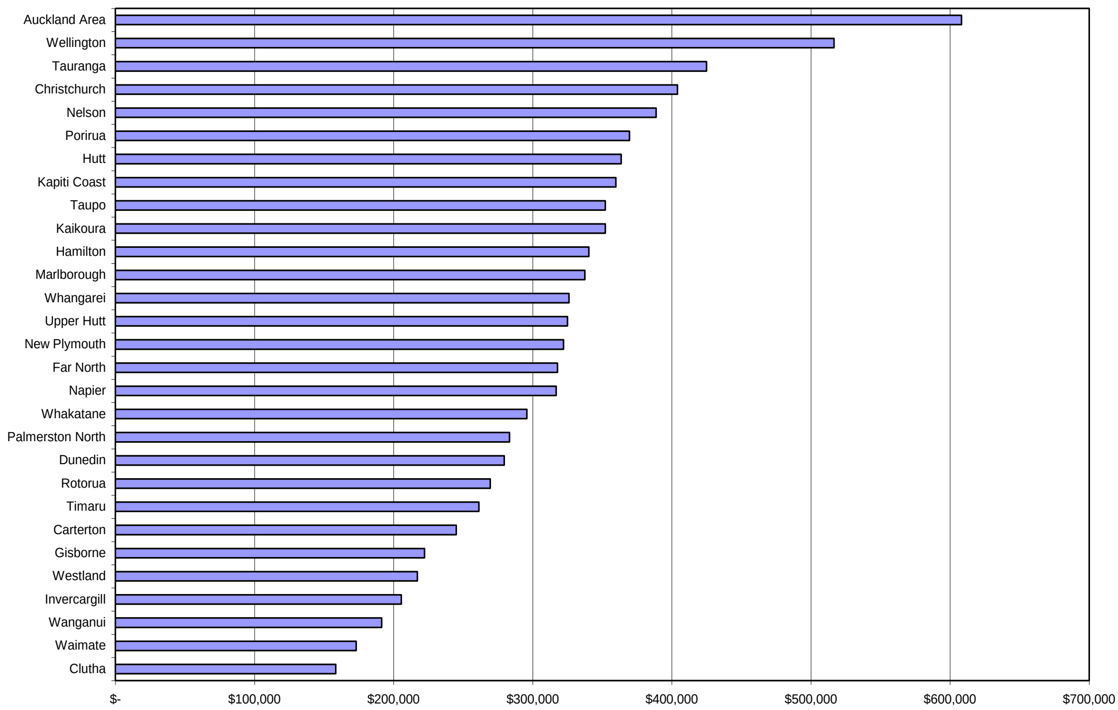
[83] See http://www.adhb.govt.nz/seniorline/Accommodation/RetirementVillages/RVMenu.htm regarding this in the Auckland region.

[84] While older people may also allow their dwelling to become dilapidated, this does not release equity and is not a form of downsizing. In general, while there is a discourse around affordability among older people and others, the research shows that the immediate barriers to maintenance and repair are often around other aspects of repairs and maintenance. If an older person's dwelling becomes dilapidated, dilapidation tends to arise from a multitude of circumstances that are not in objective terms the result of maintenance being unaffordable – although repair subsequent to significant dilapidation may be costly and unaffordable. Those circumstances are typically around information and knowledge deficits, isolation, illness and disability, and under-servicing by the building industry. Sometimes those problems reflect dwelling problems that were evident well before an individual retired. Typically older owner occupiers assess their dwellings as in better condition than younger owner occupier households and independent condition surveying suggests that they are right to do so. This does not mean, however, that New Zealand dwellings perform at optimal levels for older people. The performance of the rental stock is typically poorer than the owner occupied stock.

The numbers of people who live in temporary dwellings in New Zealand are small; there is, however, a presence of older people among that population, particularly as permanent residents in camping grounds. Research on camping ground residence suggests that those who take up permanent spaces in camping grounds, either in cabins or mobile homes, tend to have come from the rental market rather than owner occupation, although this is by no means universal.[85] Under those circumstances, this type of amenity downgrading is unlikely to be a significant pathway to liquidating the equity the older population has in housing assets.

In contrast, locational shifts do present the promise of equity release. There are substantial house price differences between different regions in New Zealand. There are also significant differences in house prices within regions and within cities and towns. Release of equity can, therefore, be accomplished through both inter- and intra- regional shifts as well as movements within settlements from higher priced areas to lower priced areas (Figure 6).

Figure 6: Average Current Value – December 2012 by Selected Territorial Authorities[86]



[85] Howden-Chapman, Severinson, and Osborne, 2008.
[86] Quotable Value Ltd accessed January 2012.

Some of those price differentials reflect the prevailing dwelling types and sizes clustered in lower and higher priced localities. The clustering of dwelling characteristics in different regions and different suburbs is evident in Ingerson's analysis of dwelling size (Figure 7). There are considerable disparities of average dwelling size between regions, within cities those disparities can be enormous. Suburbs in Auckland with, on average, the largest dwellings have more than three times the average size of dwellings in the suburbs with the smallest average dwellings. Dwellings in Shamrock Park, part of the new developments in Manukau, average 306m^2.

Figure 7: Average Dwelling Size for All Stock by Selected Areas and Suburbs[87]

Top 10

	House area (m^2)
Selwyn District	181
Queenstown Lakes District	181
Auckland-North Shore	176
Auckland - Rodney	164
Tauranga District	162
Wellington City	159
Auckland - City	158
Hamilton City	158
Kapiti Coast District	158
Waimakariri District	156

Bottom 10

	House area (m^2)
Chatham Islands	110
Wairoa	112
Kawerau District	113
Waikato District	114
MacKenzie District	116
South Waikato District	117
Waitomo District	118
Ruapehu District	118
Hauraki District	120
Buller District	120

Top 10

Area	Suburb	House area (m^2)
Auckland	Shamrock Park	306
Christchurch	Kennedys Bush	279
Queenstown Lakes	Lake Hayes	274
Hamilton	Harrowfield	262
Auckland	Schnapper Rock	259
Christchurch	Westmorland	256
Auckland	Albany Heights	255
Auckland	Eastern Beach	249
Auckland	Fairview Heights	244
Hutt City	Lowry Bay	243

Bottom 10

Area	Suburb	House area (m^2)
Selwyn District	Arthur's Pass National Park	74
Dunedin	Purakaunui	77
Dunedin	Aramoana	80
Taupo District	Mangakino	82
Christchurch	Kainga	84
Waikato District	Port Waikato	85
Auckland	Great Barrier Island	91
Waimate District	Glenavy	91
Gisborne District	Tikitiki	91
Auckland	Orere Point	91

[87] Ingerson, 2011.

While larger dwellings are associated with higher prices, hedonic pricing[88] research also shows that house prices reflect locational and neighbourhood amenities, not simply dwelling characteristics. Access to parks, trees, streets with attractive private gardens, the reputation of a place, high owner occupation neighbourhoods, low noise exposure, and proximity to public transport nodes, desired schools, and services all become folded into differential prices for dwellings that would otherwise be similar.[89] Where those characteristics have no potential negative impact on the ability of older people to maintain themselves and retain their connections, downgrading amenity may release equity without substantial costs.

However, the net benefits of trading off certain place-based amenities to maximise the conversion of equity into an income stream should not be taken for granted. There are risks of both direct as well as spill-over costs associated with downgrading some amenities. In particular, significant costs to householders and care providers/funders, can be generated by shifts to localities in which older people have reduced friendship and family networks.[90] Similarly, there are both cost and connectivity implications associated with shifts to lower priced housing in greenfields or other areas poorly served by public transport and under-served by service, retail and recreational centres. These costs should not be under-estimated. Small provincial towns, for instance, may present opportunities for low cost housing and a potential release of equity, but people living in small towns and rural areas on average drive themselves almost as 1.5 times as far as people living in larger towns and cities.[91] Low density, outer city suburbs also tend to be less well served with public transport and are characterised by low walkability and high car reliance.[92]

[88] Hedonic pricing research decomposes the effects on the price of a marketed good of: (a) various of the good's characteristics such as house style or number of bathrooms, and (b) external characteristics such as the location of a dwelling.
[89] See, for instance, Grimes and Young (2010) on the effects of anticipated rail upgrades in Auckland on house prices.
[90] Bridge *et al*, 2004; Bridge *et al*, 2006; Bridge *et al*, 2008
[91] Ministry of Transport, 2012.
[92] Saville-Smith, Dwyer and Warren, 2009

If downsizing, in an effort to realise equity, prompts a move from more connected neighbourhoods to less connected neighbourhoods, there may be significant costs involved. Those are likely to go beyond transport costs, but may involve increased service costs and reduced involvement in paid employment. After all, current projections suggest that 325,000 older people in 2050 will not have a licence and over 190,000 will not own a car.[93] Older people will need access to public transport or will need to live in areas in which they can walk or cycle to meet their needs. Otherwise they will be entirely dependent on transport provided by others.

Who Will Buy?

It is not clear that equity release or downsizing present practical and effective ways of supplementing retirement incomes, even if sellers are able to enter into an equity release contract or 'downsize' their dwelling. It also needs to be noted that in downsizing the critical component is not so much the older seller but the new buyer. If an older owner occupier is unable to sell they cannot harvest equity through downsizing. To generate an income advantage, the price of sale must be adequate to cover the costs of sale, and alternative purchase as well as income stream. This raises questions about who are likely to buy older people's dwellings.

Typically, home buyers in New Zealand are other owner occupiers. There is a chain of owner occupier house purchase which combines the entry of new home buyers and the circulation of existing owner occupiers around the housing stock. Buyers who circulate the market tend to be sellers. If substantial proportions of low income older people are to downsize, new buyers are required. These can be: younger householders entering home ownership for the first time; new settlers buying for the first time in New Zealand who have a particular impact on Auckland as New Zealand's primary gateway; or investors buying up multiple stock and concentrating New Zealand's housing stock into the rental stock.

[93] O'Fallon and Sullivan, 2009; Saville-Smith *et al.*, 2009: 37

What is the likelihood that any of these sets of potential buyers will be able or willing to pay prices that will allow home equity to become a substantial source of retirement income? We do not know, although Coleman's modelling suggests that the likelihood of substantial downsizing is limited.[94] Will migration present new blood into the market? Net in-migration has always been uncertain and can fluctuate wildly. For instance, net loss of 1,600 migrants in the year to November 2012 reflected over 50,000 departures to Australia and less than 15,000 arrivals from Australia. The vast majority of both those departing and those arriving were New Zealanders.[95] It is unclear what the housing status of these New Zealand incomers or outgoers are and, consequently, the impact that they, or other migrants, have on housing demand, particularly the demand for owner occupation, or house prices.

The volatility of migration and the diversity of the make-up of migrants – both leaving and coming – make forecasting of migratory impacts on housing demand difficult. The report from the House Price Unit of the Department of the Prime Minister and Cabinet report on house prices and affordability suggested that the evidence seemed to suggest "there is a relatively small effect on the prices of houses or rents from new immigrants to New Zealand. In contrast, there appears to be a significant relationship between returning New Zealanders and the changes in local house prices from 1986 to 2001".[96] Others have questioned those conclusions.[97] Either way it seems that low or negative levels of net migration are unlikely to provide a pool of new buyers into the New Zealand housing market in the short term.

Similarly, there are issues for older owner occupiers in so far as the demand that arises from household formation tends to be in the affordable home sector. There may be opportunities for older people to realise their equity below median prices and, particularly in the lower quartile, but this inevitably raises the prospect of very much smaller windfall gains for older people.

[94] Saville-Smith *et al*., 2009: Section 6 and Appendix A
[95] Statistics New Zealand, 2012: 5
[96] House Price Unit, 2008: 27
[97] BERL, 2008

Although the affordable housing sector is under-supplied, not only in Auckland but elsewhere, for older people the realisation of substantial equity depends on sustained high house prices. There seems every indication of a mismatch between the price expectations and income requirements of older sellers and the capacity to buy of newly formed households. That mismatch is reflected in:

- The rapidly expanding intermediate housing market in which significant numbers of households are locked into rental because of unaffordable house prices in New Zealand[98] and, particularly, in Auckland.[99]
- The structural shift in access to home ownership with the falling probability of younger households ever getting in owner occupation.[100]

It is worth noting here that older people's dwelling equity typically gets liquidated as part of a transition into rest home or at death when it is transformed into inheritance. Neither of these situations necessitates maximising the price paid for the dwellings older owner occupiers leave. In the recent past this may be because, as Briggs suggests, the equity released by estate sales and transferred in the form of inheritance has not been used for housing consumption but instead to more generalised consumption.[101] Similarly, the asset testing regime for access to the rest home subsidy is unlikely to generate a desire to maximise the price at which housing assets are sold. Those are quite different circumstances from when older owner occupiers are seeking to realise equity to support their future standard of living.

Younger cohorts have either over-committed financially to home ownership or have become locked into an intermediate housing market in which they are neither eligible for government housing assistance in the rental market nor able to enter the ownership market affordably. It has already been noted that there is a raft of research that suggests that delay entry into owner occupation is not merely a short-term outcome reflecting adaptation to demographic factors such as delayed child-bearing or temporary impacts of cyclical recession, but is likely to represent a structural shift. If this is the case, the question then arises as to who will buy older owner occupiers' dwellings at a time and price that will allow them to 'downsize'.

[98] DTZ, 2008
[99] Saville-Smith and James, 2011
[100] Morrison, 2008
[101] Briggs, 2008

Another option for older people is to sell to landlords or institutional investors in the residential rental market. Although it is clear that the number of dwellings in rental tenure is increasing, we have little information about the profile of landlords. A national survey some years ago suggested that the market was fragmented and fluid. There is some evidence of consortia both based in New Zealand and overseas who are acquiring residential stock.[102]

The apartment sector, especially in the Auckland region, has seen dwelling units sold to property investors and occupation by tenants. Indeed, there is some evidence that some apartments in the Auckland housing market moved from owner occupation to tenancies either through the original owner renting out or by sale to property investor.[103] This process is also evident in some suburbs where housing stock decline combined with exit by previous owners, often through estate sales, may lead to interim use of the stock as rental prior to re-development. In that sense, part of the life cycle of a stock unit may be marked by a period in the rental stock. This, however, is largely on the margins of housing market exchanges. Even in the Auckland region there is no evidence of institutional investment in the residential private rental market.[104]

Again the extent to which individuals are likely to purchase dwellings for rent will partly depend on their perceptions of likely capital gain. There is some evidence that the purchase of properties for rent was stimulated by heated house prices and was speculative in nature.[105] If capital gains are not evident in the future or are associated with a particular and limited segment of the dwelling stock, the impact of an expanding private rental market on the ability of individual older home owners to liquidate assets at a level that materially improves their living standards may be limited.

[102] This emerged in the context of an evaluation of a clean heat programme attempting to increase the take-up of clean heat options, including among landlords of low income tenants, in the Rotorua airshed.
[103] Saville-Smith *et al*., 2010
[104] Mitchell *et al*., 2007: 2
[105] Productivity Commission, 2012: 8

Facing up to an Inter-Generational Burden?

Two themes are evident in ideas around downsizing and equity release. The first is that a tsunami of ageing population and old age dependency will overwhelm New Zealand, overburdening it with superannuation liabilities around aged care health costs. This theme is entwined with a second, albeit contested one, that superannuation payments will be progressively reduced over time and increasingly inadequate to meet individuals' day to day needs.[106] In the midst of those fears sits an apparent solution in the accumulation of housing wealth.

It is an attractive idea, the idea that by realising their housing assets the future fiscal burden of older people's income support and care can be shifted from younger generations. But as this paper sets out, releasing equity is by no means straight forward, even for individuals. While the vast proportion of older people currently (and in the short to medium terms) have housing assets, so too, older New Zealand people are largely reliant on superannuation as their only source of income. As a population-based approach equity conversion raises the unavoidable issue that the value of older people's housing assets, even where significant proportions of older people own their own homes, is variable and uncertain.

There is no doubt that the realisation of some housing equity will generate a substantial net benefit for some owner occupiers. Similarly, there will, no doubt, be some older individuals who can substitute a current dwelling with a lower cost dwelling with similar or lower operating costs. Whether this is a solution for more than a minority of individuals is, however, unclear and there remains the issue of the increasing number of older people who have no housing assets at all.

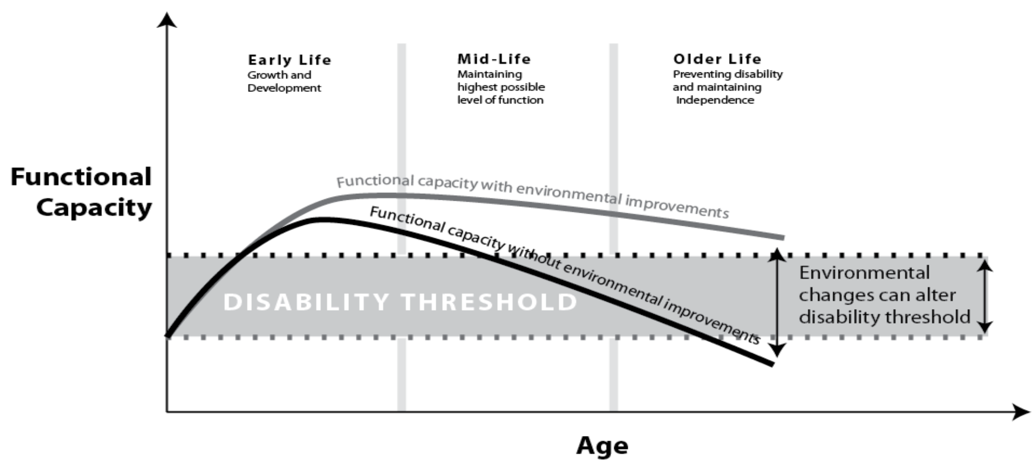
If only a minority or even a marginal majority are able to release housing equity while maintaining the level of housing consumption they need, the release of housing equity is not likely to provide a robust platform for contributing significant amounts to individual retirement incomes. As a consequence, it is unlikely to enable reduction in the fiscal liabilities associated with New Zealand Superannuation.

[106] See some of the debate at http://www.victoria.ac.nz/sacl/about/cpf/events/affording-our-future-conference-2012/papers

If that is the case, and if New Zealand wishes to maintain an acceptable standard of living for older New Zealanders in retirement by sustaining universal superannuation, then perhaps other forms of reaping the harvest of windfall gains represented in wealth may be both more fruitful and more equitable. In that context capital gains tax may be worth exploring. Capital gains tax provides simultaneously an ability to generate revenue out of older people's housing assets while neither ignoring the windfall gains associated with other forms of wealth accumulation nor becoming reliant on an asset base that is not likely to be so universally distributed among older cohorts in the future.

But there are other ways of relieving the fiscal burden of ageing populations. Not by focusing on the liquidation and consumption of housing wealth, but by improving the use value and functionality of housing itself. This is part of a broader choice about whether New Zealand will treat older people as costly dependents or optimise the use of their social and economic skills, consumption, contribution and potential.[107] To do the latter requires pushing back the disability threshold (Figure 8). This can be accomplished by more effective support services, health interventions and assistive technologies, and, perhaps most critically, by ensuring that the dwellings in which older people live are adaptable and adapted.

Figure 8: Shifting the Disability Threshold[108]



Adapted from WHO, 2002

[107] Saville-Smith, 2012.
[108] Camemolla and Bridge, 2011.

Fit for purpose and appropriately adapted stock offer significant opportunities to reduce the fiscal burden associated with age-related disability through reducing in-home support costs, increasing safety and ensuring older people avoid injury, and reducing the probability of residential care.

Research suggests 20 percent reductions can be achieved in in-home care costs[109] through good house design and modification. Home care costs may be saved annually by between 10[110] and up to 20 times the value of a home modification.[111] Reducing injury through functional housing has, in Australia, reduced older people's falls in the home by 60 percent.[112] New Zealand research suggests that the number of older people's falls can be reduced between 14 percent and 41 percent[113] through lifetime design adaptions.

There are also significant benefits associated with delaying or avoiding residential care admission. The tendency for unaffordable housing costs and/or insecure tenure to prompt older people to resort to higher dependency and costly aged care is well-documented in a number of countries including England,[114] Australia,[115] and New Zealand.[116] So too can inaccessible housing. Rashbrooke concludes that "if 33% of new-build homes in New Zealand were to carry the LifeMark[117] then, over a ten-year period, there is a potential saving of $25 -$30 million per year to the economy. Take-up at the 67% level provides potential savings of $55 -60 million per year."[118]

[109] Brewerton and Darton, 1997.
[110] Home Adaptations Consortium, 2010.
[111] See Camemolla and Bridge, 2011 also for a comprehensive review of research around in-home care wage substitution through home modifications.
[112] Hill *et al*, 2004.
[113] Campbell and Robertson, 2008.
[114] Heywood and Turner, 2007.
[115] AHURI, 2010.
[116] See the public science research programme which explores the importance of repairs and maintenance on enabling older people to age in place at www.goodhomes.co.nz.
[117] LifeMark is a form of accreditation system developed for new-build residential dwellings that provides buyers with assurances around the accessibility and functionality of dwellings over the life course as well as for people with disability. See www.lifemark.co.nz
[118] Rashbrooke, 2009: 24

While the quality and functionality of dwellings is not, *a priori*, dependent on tenure, there is a close relationship between tenure, house condition, performance and amenity. Here and overseas, the rental market is persistently poor in taking up dwelling performance initiatives and subsidies whether they be improved heating and insulation performance, or better design and accessibility. Even where dwelling modifications have been required and funded to address the accessibility of older people or disabled people, these become difficult in private rental situations.

Sometimes public rental providers and providers of alternative or intermediate tenures are better in this regard. It is notable, for instance, that the Retirement Villages Association, the industry representative of the sector, and one of the most expansionary retirement village companies, Summerset Group, have both been involved in the promotion of lifetime design and the LifeMark.

Platforms for Sustainable Use of Housing Assets

It is clear that older people that own their own homes free of debt stretch their New Zealand superannuation further. They are more satisfied with life and most older people are able to stay independent throughout much, if not all, their old age. For most older people, their housing asset is valuable because it gives them a home. These aspects of home ownership are often neglected or under-valued in debates around retirement income. Yet they impact directly on older people's standards of living.

If we consider the value of housing assets as providing opportunities for expenditure reduction and optimising independent living rather than simply an asset that can be liquidated as a lump sum or a revenue stream, the importance of policies and sectors beyond income support are revealed. Retirement income policy connects, not simply with welfare or health, but also importantly, with the housing and building sectors. The challenge of sustaining older people's standards of living is connected to a whole series of dynamics:

- The operation of housing markets, particularly the entry of younger cohorts into owner occupation, the adequacy of rental housing and rental conditions, and the delivery of alternative tenures including retirement villages and body corporate apartments.

- The types, costs and performance of dwellings being supplied by the building industry.
- The resilience and protection of housing assets among young and old.
- The connectivity of New Zealand's settlements and the nature of trade-offs between housing prices and location.

As Smith *et al*., point out, there is a "growing number of societies whose economic and welfare regimes revolve around the wealth contained in housing."[119] Housing assets do matter to retirement income policy, but it is too easy in the context of over-heated house prices from the 1990s and as the baby-boomers have entered retirement to assume that liquidating housing equity into an income stream is the most effective way of using those assets. Windfall gains associated with house price increases have fuelled a 'cash-up' sentiment. The complex interactions between housing and maintaining the living standards of individuals as they enter retirement age, and managing the societal costs associated with an ageing society, have all been distorted by the often repeated but facile reduction of older people to being simply asset rich and income poor.

Certainly the accumulation of housing assets that reside with older people can be treated simply as an investment pool available to be liquidated. Whether doing so generates a net benefit for individuals, or the country, is much more debatable. At best it is likely to be contingent on short-run factors and the specific characteristics of the older people that are liquidating their assets. At worst, the claimed benefits will be illusory.

Even for individuals, assessing the net benefits of downsizing and/or reverse equity instruments is complex. Ensuring that older people have the financial literacy to make those decisions is a significant challenge. But even if some individuals can derive a net benefit from equity release and downsizing, this does not mean that such an approach delivers a robust platform for sustaining the acceptability and affordability of superannuation and the standards of living for older people nationally or into the future.

[119] Smith *et al*., 2009: 84.

There are risks in focusing on harvesting equity from housing assets including:

- A tendency to encourage a belief that perpetually rising house prices is necessary and desirable despite the crisis of affordability to which over-heated house prices have contributed.
- The harvesting of older people's housing assets and directly transferring that into retirement incomes does nothing to generate a fit-for-purpose housing stock that provides use-value for young and for old, whether in the home ownership or the rental sector of the housing market.
- Spill-over effects associated with the various downsizing pathways that are presented as a way of securing older people's standards of living and making retirement incomes affordable in the future. Those may include higher rates of entry into rest home or other higher dependency environments, disconnection with family and community networks, issues arising from insecure tenure for people who downsize into rental housing, health related costs associated with poorer housing, and issues arising from reduced inter-generational transfers within families.
- The experience of equity conversion has been fraught overseas and, again, depends as a long term solution, on sustained rates of home ownership and heated housing prices to generate equity above housing use costs.

This is not to suggest that the potential benefits of using what is essentially often a windfall gain in equity as a mechanism to facilitate more stable retirement futures for New Zealand should be ignored. Rather, it suggests that the sort of individualised downsizing approach that is commonly assumed or promoted is unlikely to be consistently effective, either across older households or over time. It can not be avoided that New Zealand's future is, under current settings, not simply of an ageing population. In the longer term, it is a future in which households will enter retirement age without an accumulation of housing assets. This will not only impact on the prospects for equity release in the future but also the amenities currently enjoyed by older people and the current benefits of reduced expenditure associated with debt free home ownership.

Under those circumstances, the challenge is not simply how can New Zealand release some of the equity that older people have in their homes? The challenge is also how equity and savings can be built among younger households to deliver the other benefits associated with accumulated housing assets. All this suggests that retirement income policy needs to be formulated in a way that that takes into account the housing conditions of older people. But it should also be set within a future of affordable housing access for younger households including facilitating the inter-generational use of housing equity to sustain access to affordable and secure housing.

It is important for retirement that New Zealand has a diverse housing stock that delivers functional, resilient and cost-effective dwellings into the lower value quartiles of the housing infrastructure in places that are well serviced and connected to avoid the care costs associated with ageing. These will be critical for older people if they are to age in their communities and downsize. Downsizing will still be important in the future, not so much to release equity, but to ensure better fit between households and the dwellings and localities in which older people live.

Most importantly, retirement policy and practice needs to recognise that housing assets present multiple opportunities to leverage acceptable living standards and manage the fiscal burdens of an ageing population when their use value rather than simply the promise of equity release is leveraged.

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