Realising Housing Equity for Older Home Owners: Myths, realities, practicalities

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FINDING THE BEST FIT
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Equity Release

- Commentators often connect downsizing with equity release
- Belief that high house prices mean high levels of equity realisation
- Belief that equity realisation can help older people:
  - Improve living standards
  - Access more suitable dwellings
  - Fund better access to health care
  - Remove the burden of care from state and family

Equity Release is not that simple

- Older people generally do not seek equity release when moving – 17%-23% older movers
- Older people like intergenerational transfers
- The two main pathways are fraught with difficulty:
  - Reverse equity lending
  - Movement to a lower cost dwelling
- High house prices do not inherently deliver opportunities for equity release
- All sorts of shocks can de-rail the accumulation and realisation of housing equity (capital)

Datasets relating to equity realisation – Find the Best Fit Research Programme

- Quantitative Primary Data:
  - 550 older people community-based – 115 movers/435 stayers – Downsizing Survey
  - 615 older people in retirement villages(RVs) – Downsizing Survey
- Administrative Data and Existing Datasets:
  - National house price data
  - Wealth statistics
  - Fiscal data
- Qualitative Data
  - Leaky homes case study interviews
  - > 70 older people's provider and advocacy organisations
  - 150 Māori in consultation hui
  - 170 people in-depth interviews and focus groups

An Appearance of Lots of Wealth to Release

RBNZ 2016 (http://www.rbnz.govt.nz/statistics/key-graphs/key-graph-house-price-values)

1990= $123bn
2000= $229bn
2010= $609bn
2013= $719bn
2014= $768bn
2015= $873bn
2016= $905bn

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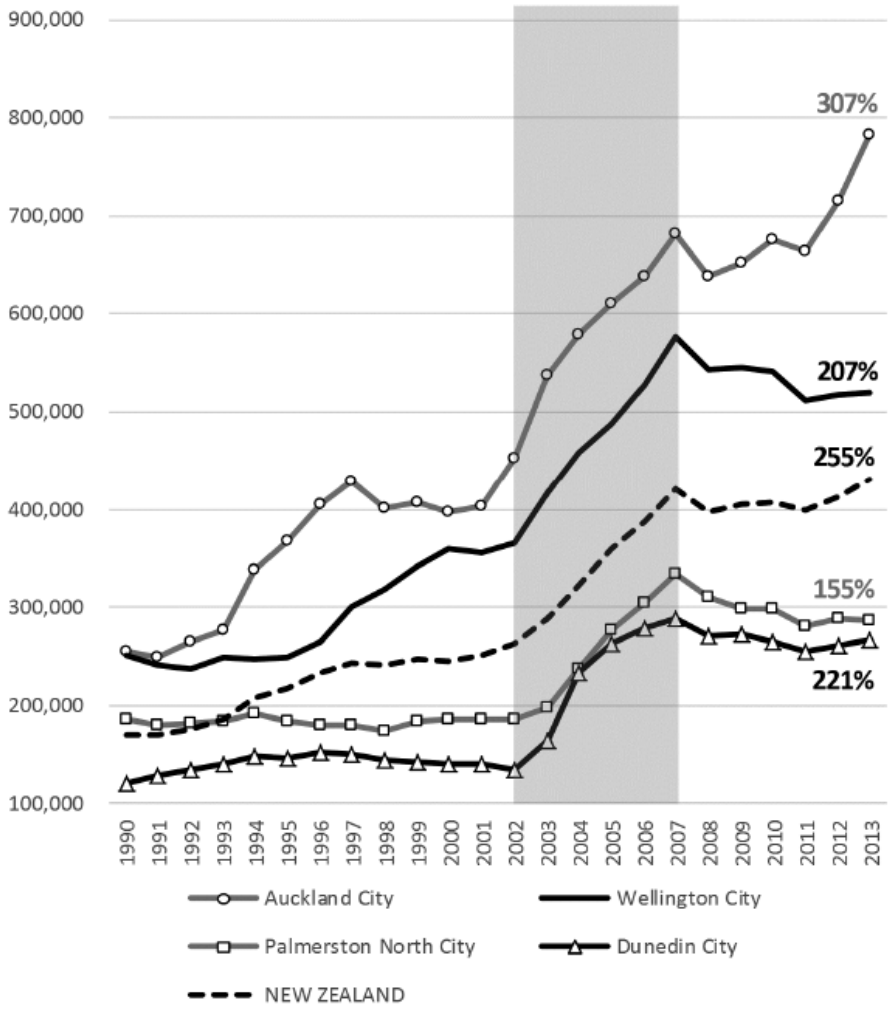
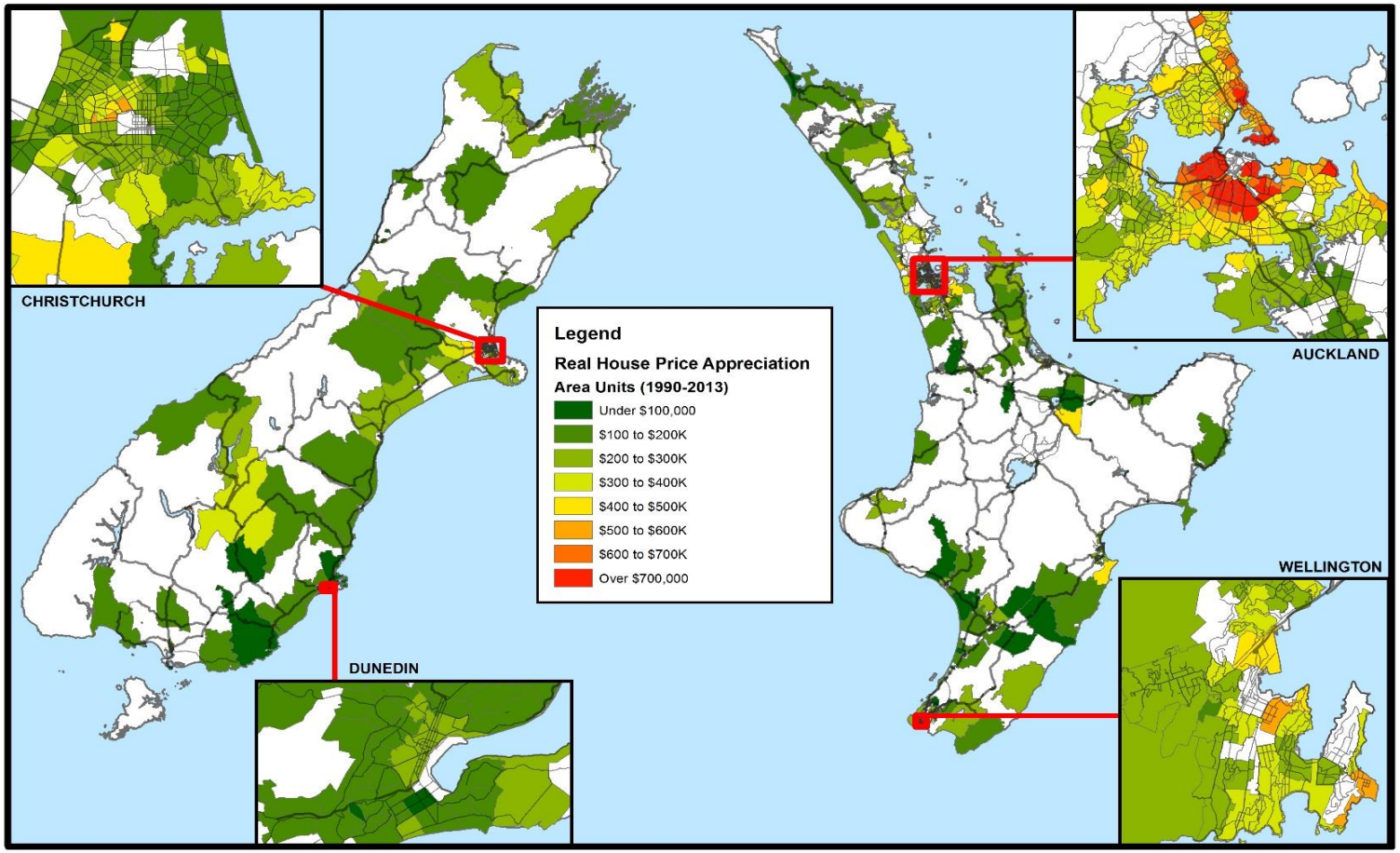


Figure 3.3 House prices in New Zealand (source: specially commissioned data set of stand-alone house prices from CoreLogic).

But New Zealand has many housing markets – And they don't deliver housing price increases in the same way

2016 MURPHY, L. and REHM, M. Homeownership, Asset-based Welfare and the Actuarial Subject: Exploring the Dynamics of Ageing and Homeownership in New Zealand. In Cook, N, Davison, A. and Crabtree. L. (eds) Housing and Home Unbound: Intersections in economics, environment and politics in Australia, Routledge/Taylor and Francis, London.

Real House Price Appreciation



Low capital growth widespread

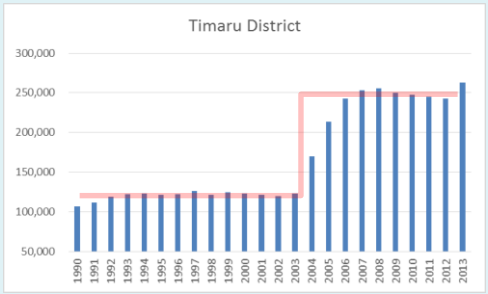
High growth concentrated in key markets

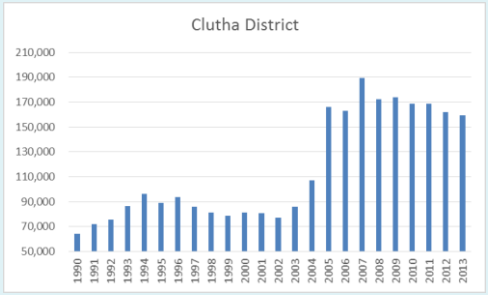
Housing Market Typologies

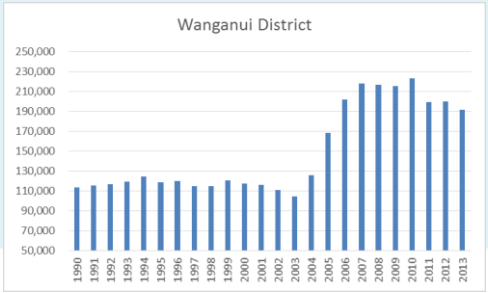
Step-Change

Steady Appreciation

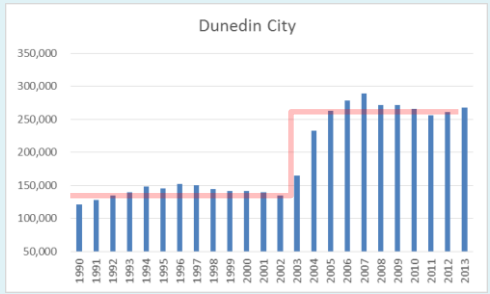
Rural Areas

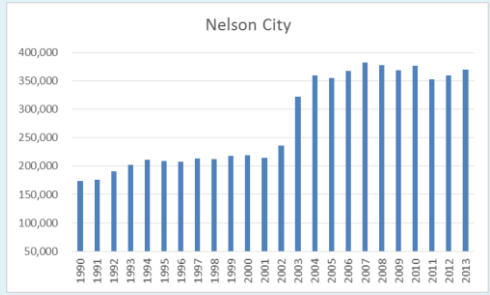


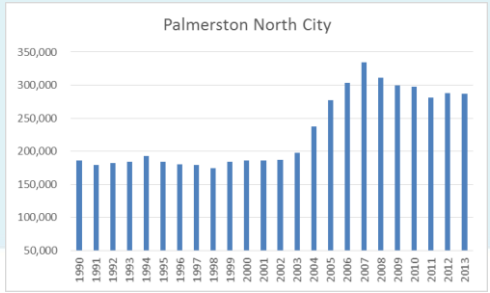




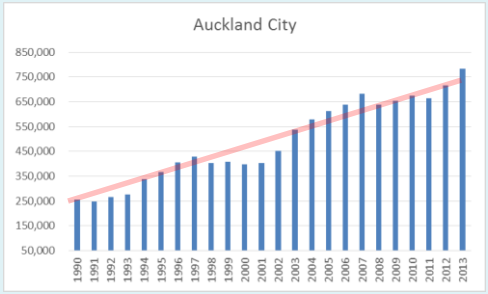
Small Cities

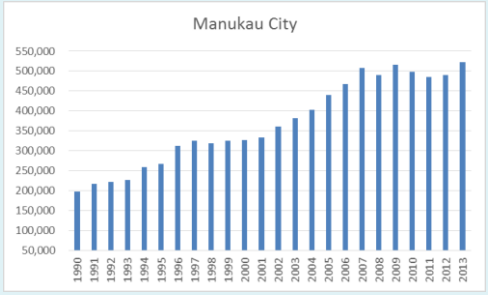


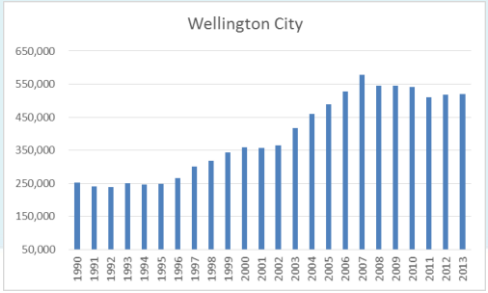




Large Cities







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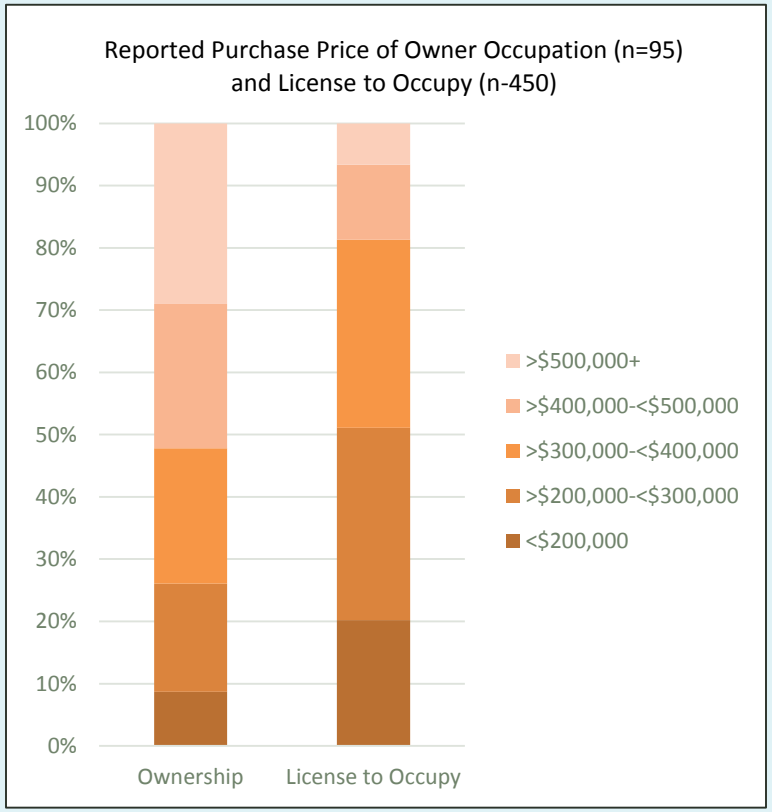
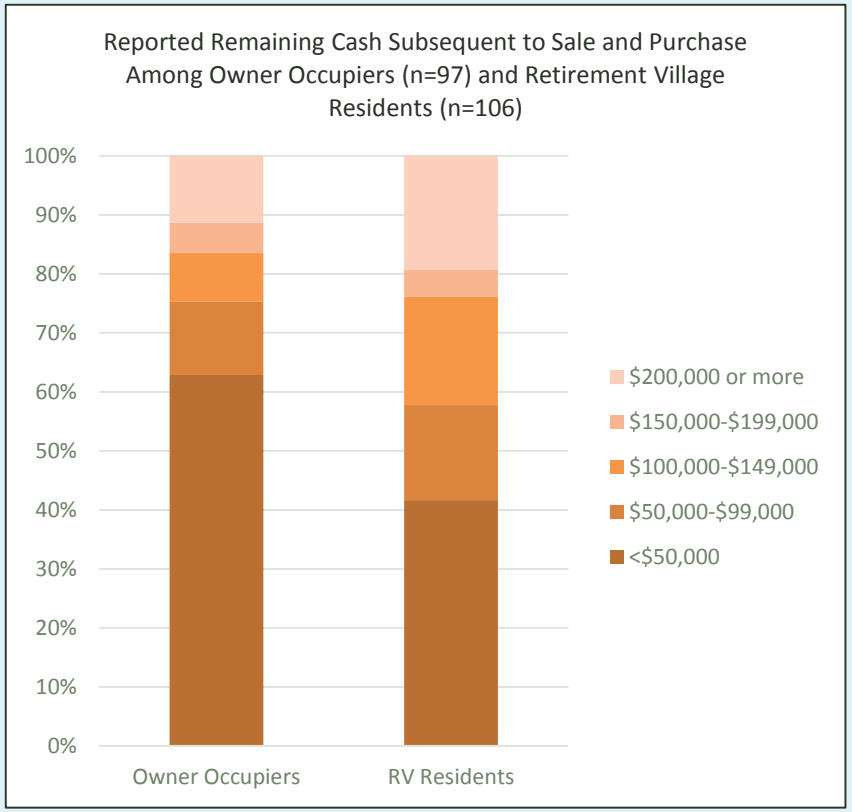
Housing Equity is Released but Relatively Modestly by Older Movers

- Of older people living in the community – 78% had not moved in recent past and had no intention of moving
- Most older movers were not looking for equity release
- Of the 22% of movers to retirement villages wanting equity release
  - 45% got what they planned for
  - 44% got less than they planned for
  - 11% did better than they hoped
- Substantial proportion of movers in the open market were left with a surplus of less than $50,000

Purchase Prices and Remaining Cash on Sale and Purchase





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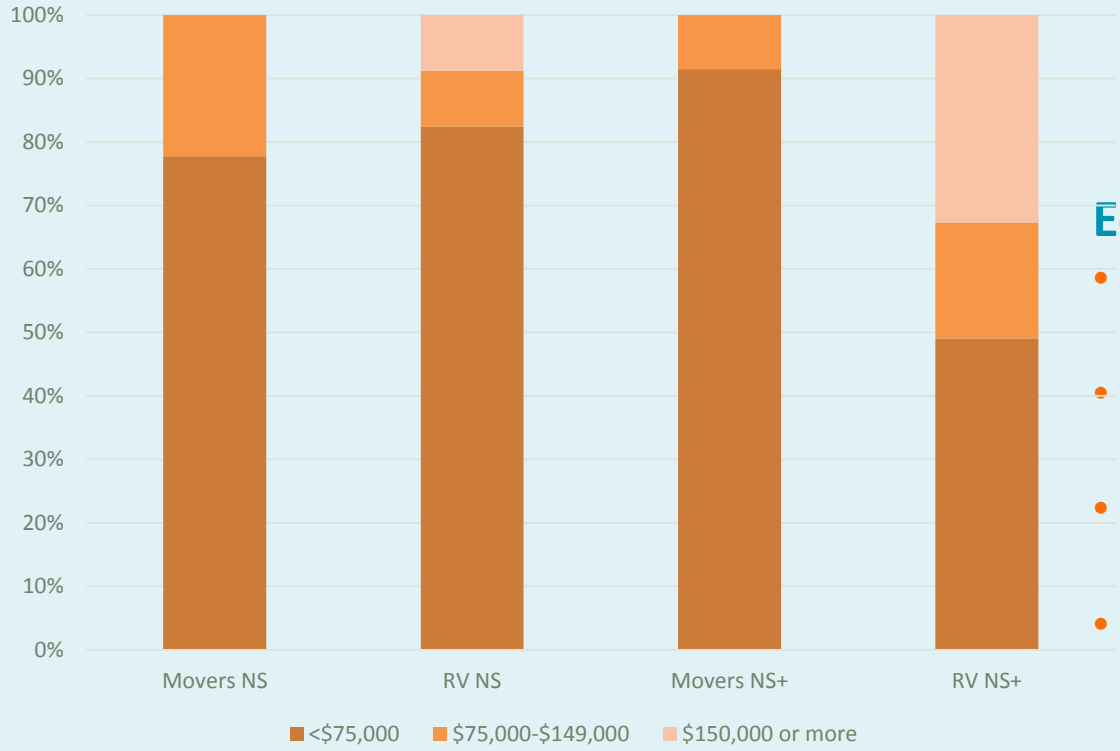
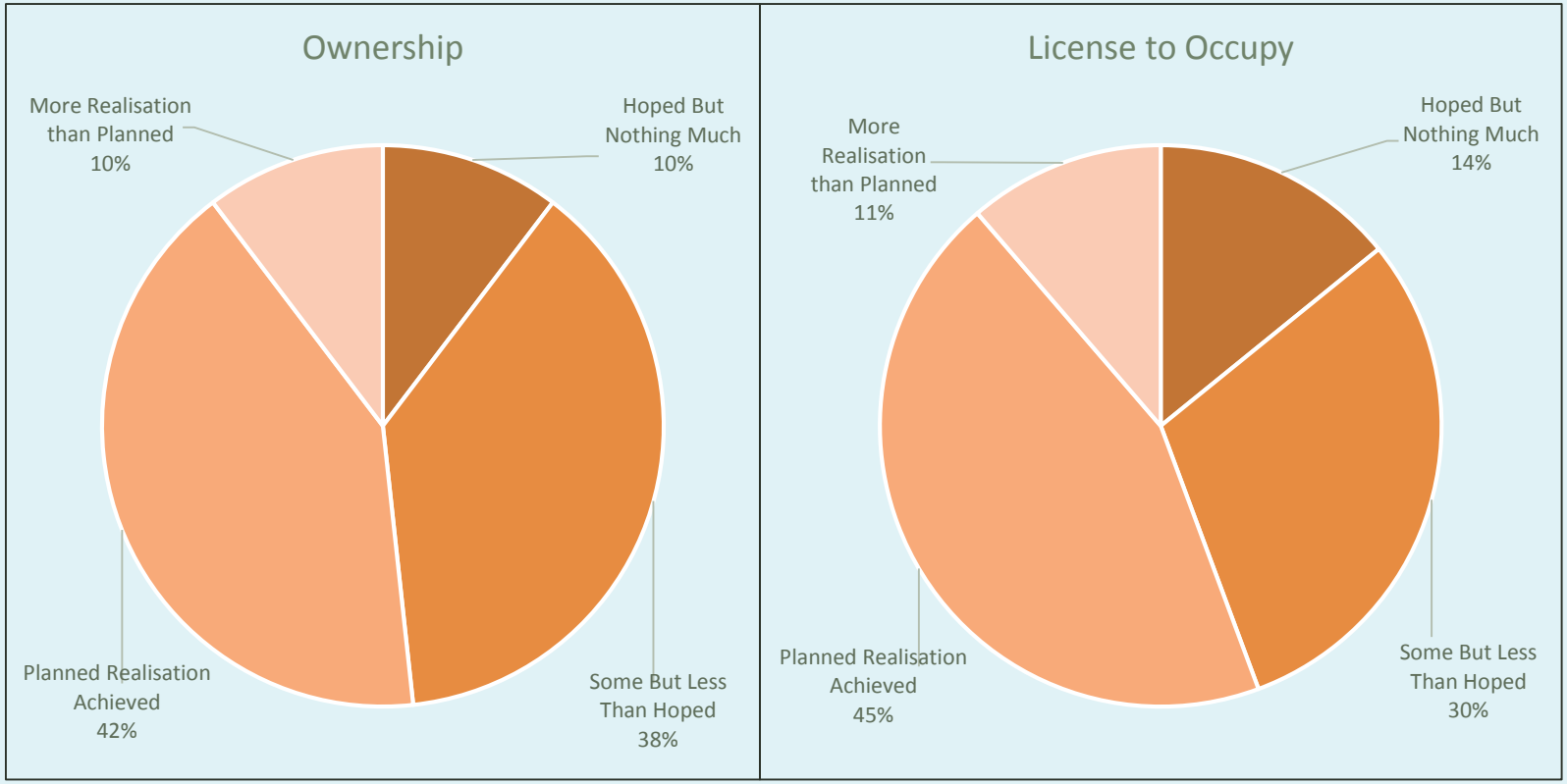
Equity Release and Income Source



Equity <$75,000

- 82% RV-Nat Super Only
- 77% Movers-Nat Super Only
- 92% Movers-Nat Super Plus
- 49% RV- Nat Super Plus

Expectations and Realisations – Ownership and License to Occupy



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And the Housing Stock Does not Accommodate Downsizing

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And Stuff Happens - Leaky homes can destroy hopes of capital equity release

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

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

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

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Equity Release Can Generate Other Costs – Comparing RVs and Older Movers

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

Conclusions

- Powerful discourses surround the perceived welfare benefits of housing equity release
- Lived reality is complex
  -Capital gains vary spatially
  -Motivations of aged homeowners vary (stay in place, intergenerational transfer etc)
- Movers not motivated by equity release and realised equity is small
- Move to RV – degradation of tenure- some equity release but new 'living costs'.
- 'Banking on the Home' not straightforward