

How do Older Households in the European Union Use Their housing Asset?

Paper to be presented at 'Housing Assets Housing People: An international conference for research, policy and practice. 1-4 september 2009, Glasgow, UK'

Kees Dol, Delft University of Technology, OTB Research Institute for the Built Environment

Acknowledgement

This research has been undertaken as part of the DEMHOW (Demographic Change and Housing Wealth) project supported by the European Commission (grant Number: 216865).



Project funded under the Socio-economic Sciences and Humanities

Abstract

The number of older home owners in Europe is increasing rapidly. This implies increasing budgetary pressures on government spending: especially in countries that base their pension provision on the pay-as-you-go-principle. Other countries have based their pension systems on compulsory employment related contributions to private pension funds. This seems more future proof, but the current financial crisis demonstrates that the assets of pension funds can be hard hit by losses on the stock markets. How do individual households then find an individual, private strategy to provide for their pension? Already in 1981, Kemeny argued that in specific countries home ownership is a method for private pension provision. By analysis of the SILC pan-European household database, we can investigate whether households use their house as a pension provision: thereby focusing on differences between countries. The outcomes suggest that home owners use three different strategies to benefit from their housing asset. First many older households repay their mortgage and use their home as a source of income in kind (mainly Southern European countries). In other countries households do not fully repay their mortgage or even extract equity by remortgaging (Scandinavia and the Netherlands). In a number of countries we see a relatively high intensity of moves to another dwelling in order to release equity (Britain, Scandinavia). Can we also comment on possible strategies for the future?

I The content of this paper: a summary of a research report for the European Commission

This paper is based on a report to the European Commission 'MACRO CHANGE AND MICRO BEHAVIOUR: THE EFFECTS OF AGING ON TENURE CHOICE, AND HOUSEHOLDS' STRATEGIES TOWARDS THE USE OF HOUSING WEALTH' by Kees Dol and Peter Neuteboom, OTB Research Institute of the Delft University of Technology, The Netherlands. It is one of a number of studies undertaken within the Demographic Change and Housing Wealth (DEMHOW) project for the European Commission under the 7th framework programme. The current paper for the Housing Assets conference in Glasgow presents a summary of some relevant results of the report, mainly on the use of the housing asset by elderly households across the European Union. Tables presenting the analysis have been copied integrally from our EC-report. Text passages are generously used from our EC-report as well. The aim of this paper is thus by no means to present totally new findings. In the introduction however, some new theoretical aspects have been included. And of course, as in any research, new insights lead to adapted conclusions: not in the least because I feel the need to say something relevant about the impact of the financial crisis. But again: the aim of this Housing Assets Conference paper is predominantly to disseminate some of the, for this conference, relevant DEMHOW results regarding the use of housing assets. The second aim is, as in any scientific research process, to receive comments/advise and stimulate discussion with academic peers and practitioners on our findings. Those interested in all the findings can download the integral report from the DEMHOW website, as well as more interesting material by other research institutes involved in the DEMHOW project.

II Introduction: life cycle savings and the use of assets at old age.

According to the Life Cycle Model of savings, as first proposed by Modigliani and Blumberg (1954) households build up assets in the early and middle stages of their life. At the later life phase, that is mainly after they reach their pension age, they will use up their assets to cover any pension income gaps because state pensions do not replace all income. The conventional life cycle model suggests that households consume all their assets in later life phases. Any remaining assets after death are a (macabre) result of too early death. Many researchers found no strong empirical evidence for the life cycle model and have pointed towards more behavioural aspects of the life cycle model such as the wish to leave bequests (see Levin, 1998; Elsinga et al, 2007). Supporters of the conventional life cycle model state that many older households do not use their housing equity because of liquidity constraints, that is institutional barriers to equity release (Levin, 1998). However, mortgage markets in a number of European countries increasingly provide specific products for equity release for home owners. Such developments could, for instance lead more home owners to perceive their house as a financial asset that can be used to add some money to the pension.

In this study we will focus on the use of the housing asset by older households throughout the European Union. To what extent can we establish that households use this housing asset during their older age to keep up their consumption levels? We will try to get some empirical evidence on the use of the housing asset. We will present some exploratory information on three possible ways that older households use housing equity.

First of all we have to keep in mind the specific character of housing. Many older home owners have repaid the loan on their house and live in a rent free dwelling. We will refer to such households as outright owners. Their house provides outright owners with income in kind: the housing service (see Doling and Ronald, 2009). This is a use of the housing asset where the asset remains intact but does perform a crucial role as a 'pension in stone'. Secondly, households could take out a mortgage on the value of their dwelling and use up all the money that's in their house while also enjoying the housing service. As already indicated, new 'advances' on the mortgage market have opened the possibility of such 'equity withdrawal'. However, we must keep in mind that equity release schemes are not always available in all EU countries. A third way to use the housing asset is by selling the house and moving to a rental house or to a smaller owner occupied house. With a move to a smaller owner occupied house, one can be able to buy the new house 'outright' while at the same time having extra money available from the proceedings of the old house. We call this process 'trading down'. To sum it up, owner occupied housing can play a role as a pension provision because it can provide a rent free housing service or it can provide extra income by taking out a loan with the house as a collateral or it can release housing equity by 'trading down'. Hence terms like 'pension in stone' or 'asset based welfare'.

But why would we present an international comparison if individual households would to a great extent follow the life cycle model: perhaps on an individual level adapted for behavioural matters such as bequest motives and some national policy constraints because of the unavailability of equity release products? There are however other, perhaps more substantial reasons to make a country comparison. Within the EU there are large differences of national policy choices, that can influence the actual need for households to regard home ownership as a form of pension provision. In the past

twenty years a volume of studies has appeared on differences between welfare systems and the role of owner occupied housing within these welfare systems. One of first major contributions in this field has been made by Kemeny in the 1990's (see Kemeny 2005 for reflections on this work). He argued that social democratic welfare systems have traditionally provided both affordable rental housing, as an alternative to owner occupation, as well as generous state (compulsory) pensions. Especially the generous pension makes the need for home ownership as a pension strategy less urgent than in liberal welfare states. For instance: a great many people of the middle classes (middle mass) in the social democratic welfare states of Germany, Holland and Scandinavia are guaranteed generous pensions. Outright home owners in social democratic countries may not need to use the housing asset so they might not use equity release schemes or trade down. In countries where pension provision by the state is less generous, buying a house might be a good strategy for the old age, many a time of course in addition to private pension plans such as savings and/or investments on the stock markets. Still we have to warn that we do not intend to take this reasoning too far: rich people will almost always own a home in whichever country, while poor people rely heavily on the social housing sector (some of them may live in very marginal, low quality owner occupied housing). However, in some countries the middle mass might have a viable alternative to home ownership in the rental sector, while in other countries the owner occupied sector heavily dominates, leaving no alternative but to buy to the middle masses.

The previous account is not free of dynamics. By the end of the 1980's the welfare states of Northern Western Europe have come under financial pressure, leading to strong reductions of state support for affordable rental dwellings. The limited availability of affordable rental dwellings would perhaps drive many households towards the owner occupied sector. The alternative: a more expensive private rental dwellings would be far less attractive than living in an outright owned home in a later life phase. Britain, with a liberal orientation, had built up a large social rental sector to compensate for the destruction of World War II but now abandoned brick and mortar subsidies. Furthermore Thatcher introduced the 'Right to Buy' for social rental homes. In the social democratic nations of Northern Europe reductions in subsidies for social rental dwellings were also made, but in these countries the social rental stock wasn't affected because 'Right to Buy' was considered a bridge too far. However, with the reduction of brick and mortar subsidies for social housing, the owner occupied sector gained a foothold, with a remarkable exception for Germany. But perhaps it is not so much the housing market itself that we should look at. Pension systems are coming under more pressure due to the ageing of the populations. If pension systems are not sustainable, owner occupied housing might be an alternative route, one might argue. As of today, pension systems in the European social democratic world remain quite generous, although some adaptations in the workings of the systems have been made.

Institutional variables

Although we will not explicitly include institutional variables in our model, we will tentatively try to link some macro variables to our outcomes. (The full DEMHOW report includes a 'multi level analysis': a specific method to explain relations between macro and micro variables. More work on this will be presented in other papers, most of all because we expect some data limitations to be overcome in new waves of the SILC database.)

We distinguish a small selection of macro variables that could influence the three ways by which elderly home owners in Europe use their housing asset:

1. Mortgage market development: this value was constructed by London Economics, by inventarising the accessibility of national mortgage markets and its product differentiation. It consists not only of possibilities for equity withdrawal, but looks at the general availability of a range of mortgage products. A high value indicates broad availability of mortgage products, including equity release.
2. Pension systems: this indicator was constructed by OTB as a reaction to many studies that present enormously high income replacement rates for pensioners in Southern Europe, many times running up to 100% while in countries like Sweden and Holland the replacement rates turn out quite low. Many of these studies take theoretical replacement rates for specific occupations. Calculating replacement rates from databases like SILC – by comparing incomes of retired people with non-retired people in the pre retirement ages, 55-64 years - give a very different result; the Northern European Welfare states having much higher replacement rates. Although replacement rates are implicitly available in the SILC database, we are also trying to get a general, national indication of the strength of the pension system. We constructed an indicator in which we combined government expenditure on state pensions with the assets of private pension funds. Some Northern European (social democratic) welfare states like Denmark and Holland have a relatively low public spending on pensions while enormous assets have accumulated in (compulsory) employment related pension funds (see the DEMHOW report by Dol and Neuteboom for further information).
3. Size of the rental sector: of course trading down to the rental sector would only be a viable alternative if it is a substantial sector with sufficient attractive dwellings. A rental sector smaller than 20% of the total dwelling stock might be seen as a sign of marginalisation of the rental sector i.e. only the lowest income households live in this sector, making it a sector to be avoided for many middle class households.

Table 1 Macro indicators, around 2004-2005

	Mortgage market indicator (by LSE)	Pension indicator (by OTB)	Size of rental sector (%)
Austria	0.77	High	41
Belgium	0.82	Low	30
Czech republic	0.82	Low	30
Denmark	0.82	Average	38
Finland	0.94	High	33
France	0.77	High	40
Germany	0.82	Average	55
Greece	0.77	-	20
Hungary	0.77	Low	6
Ireland	0.88	Low	19
Italy	0.82	Average	19

Netherlands	0.88	High	45
Poland	0.77	Average	25
Portugal	0.82	Low	20
Slovenia	0.59	-	11
Spain	0.82	Low	18
Sweden	0.94	Average	45
UK	1.00	Average	31

Sources: Mortgage market = London Economics (2005); Pension indicator = OECD data adapted by OTB, Rental sector = Housing Statistics in the EU 2006.

III Expectations/hypotheses

This study has an explorative character, which will focus on micro level per country. After the analysis we will try and link these micro outcomes with some macro institutional country characteristics. Based on the previous discussion we'll make some assumptions on the expected outcomes.

Outright ownership/free housing as a pension provision

We expect to see outright ownership to be high with regard to all older owner occupiers in the EU. Equity release schemes have become more and more available but are not too widespread in all countries (London Economics, 2005). Also keep in mind that taking out equity can add to the income (reverse mortgage) but we expect that people only will do this after they've used up all their other assets: empirical work by Levin (1998) and Toussaint (2009) found such results. This leads us to our first set of hypothesis:

- Outright ownership by older home owners is high across all of Europe.
- In countries with relatively poor pension provision and extensive possibilities for mortgage equity withdrawal we may see relatively high rates of elderly home owners with a mortgage.

What role does the housing asset play as an income component?

As we expect outright ownership to be high amongst elderly home owners, we also expect that it plays a vital role as an income component. Our database provides imputed rent: a measure of the rental value of the house. This can be used to explore how this imputed rental value relates to income. We use the net imputed rent, that is corrected for any mortgage payments. As such we also get a impression how households with a mortgage fare. Many of the older non outright owners may just have a relatively small outstanding mortgage.

- The value of net imputed rent for the elderly home owners is high across all of Europe
- In countries with relatively poor pension provisions and extensive possibilities for equity withdrawal we might see somewhat a somewhat smaller net imputed rental value for older home owners.

Do elderly home owners frequently trade down in order to release housing equity?

Testing this variable needs to make an inventory of moves by elderly households. We do however have to take into account the possibilities on the housing market. In countries with a relatively large rental market, be it social/public or private, elderly households might be more inclined to move to a rental house. Another, alternative form of trading down is to move to another, smaller, owner occupied house in order to still be outright owners but also release a sum of money to use for additional income. Due to data restrictions we cannot venture into detailed analysis on trading down within the owner occupied sector.

- In countries with large rental sectors elderly households move relatively frequently to the rental sector in order to release equity.

IV Data used

The EU-SILC household panel database, wave 2006, of Eurostat was used for analysis. Its primary purpose is to provide researchers and policy makers with data on income, poverty and social exclusion within the European Union . It will (eventually) cover all EU member states, Norway, and Switzerland. However, not always are all relevant variables available for all countries. If any country lacks in our analysis it is because of these data limitations.

Given the aim of EU-SILC project, not all information - relevant for the DEMHOW project - is (readily) available. Data on household income and income composition as well as general household characteristics (age, formation, *etc.*) is readily available. Tenure choice and the presence of a mortgage on the house is also included. The actual value of the outstanding mortgage and the actual value of the house is not available in the SILC database. The rental value of owner occupied home owners was however available. Initially considered as a setback, an analysis was performed on the rental value of owner occupied homes: perhaps a measure even better because we now had an indication of the monthly value that the housing asset adds to the income of households i.e. income in kind from the house. By subtracting any monthly mortgage payments we also got a good indication of the net value of this 'income in kind'.

V Results

a. Outright ownership / free housing as a pension provision

We will investigate patterns of outright ownership in the EU member states in some more detail. We include country as a variable and of course age, as we are testing to what extent outright ownership is used by older European households as a strategy to use their housing asset. Included in the age variable is retired or non retired for the 55-64 age group. Horsewood and Doling (2003) have suggested that early retirement has a link with outright home ownership i.e. rent free living reduces living costs so much that it would be viable to retire early. To expand our understanding of outright ownership we also include income and household type in our analysis. We use a logistic regression where we select the best explanatory variables in a stepwise order.

Results

The general outcome of the model is good. Country provides the best explanatory power, followed by the age-retirement variable. These first two variables give the greatest leaps in explained variance. After these two steps the model selects income quartiles and household type: the additional explanatory value remains quite low, but significant. Country and age-retirement status thus give an explanatory value that is exceptionally high within logistic regressions. A Nagelkerke pseudo R² higher than 0.50 does not occur very often in logistic regressions.

It is clear that outright ownership varies by country. While we controlled for household characteristics, the high variability of the country parameters thus suggests that further investigation should be needed with regard to country specific factors. There is also a significant effect with regard to age-retirement. The odds of outright ownership are the highest with 65+ group. Early retirees have a substantial lower chance of outright ownership than the 65+ group, but their odds of outright ownership is still higher than the other (non-retired) age groups. The difference between 65+ and early retirees could have something to do with equity extraction (taking a loan on the housing collateral) among early retirees. However, it could also be that some of these households just have a very small mortgage. A second dimension is the effect of age-retirement on the country parameters. In general adding age retirement makes the differences stronger. The reason is relatively simple: for instance in countries with high outright ownership also the younger age groups have higher odds of outright ownership and this has to be compensated in a higher country value. In countries where outright ownership is strongly age related, the country parameters now have to be compensated negatively. With these results we can already state that outright ownership is a strategy widely used by European households. The outcomes do not state that older households are remortgaging their house. The model shows that the new eastern European member states and Southern Europe have the highest outright ownership rates. This might have a relation with the limited availability of mortgage products to release housing equity. It remains to be seen however to what extent home outright owners will use such products. The lowest outright ownership rates can be found in Scandinavia and Holland where such products are indeed available. These are in fact countries where the pensions are quite generous and subsequently the need for equity withdrawal would be limited. However, a relatively high number of households might still have some outstanding loan on the house because they can simply afford to or, in the case of the Netherlands for fiscal reasons because of the generous mortgage tax relief. Yet we have to warn that the results should be seen as relative to one another. In the Netherlands about 40% of the elderly home owners is outright owner, while in the UK, where one would expect large takeout of equity loans amongst elderly owner occupiers (see mortgage indicator), the outright ownership rate among elderly runs as high as 95%!!!

The model provides us with some extra information on income. Income does not add very much to the explanation and seems to have some interaction with the age-pension variable, because in Model 3, the statistical programme puts income before the age-pension variable. Income has a negative relation with outright ownership. The lower the income, the higher the odds of outright ownership. This may be explained by the interaction with age-retirement. Older households, specifically retirees have an income that is substantially than non retirees.

As a last step household type was added. This adds only a little extra to the model. It does give some extra information on the household structure of outright owners. In general, couples without children have the highest odds of outright ownership, when controlled for the other variables. Such

seems in line with the other outcomes. As outright owners are in general somewhat older, they do not often have children that still live with them.

We must conclude with the statement that outright ownership is a strategy widely used by elderly households across Europe. The hypothesis can be accepted. It has also become clear that outright ownership is substantially higher in countries with relatively limited pension provisions like in Southern Europe and the new member states. However we expect institutional factors such as limitations on equity release to play a role. For The Netherlands, Sweden and Denmark it is quite evident that the relatively generous tax facilities make a small mortgage attractive for older home owners. In other countries some outright owners would perhaps be quite willing to release some money by remortgaging the home, but this is not always allowed by the public authorities and/or banks. Furthermore, in some countries where equity release products have become a common practice, the current credit crisis may have made banks warier of providing loans for fear of house price declines and as a result not being able to recover the loan.

Table 2 Logistic regression of outright ownership in the EU, 2006

	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>
Scandinavia				
Sweden	-1.740	-2.154	-2.191	-2.191
Denmark	-1.687	-1.918	-1.936	-1.960
Finland	-0.590	-0.635	-0.656	-0.675
British Isles				
UK	-0.933	-1.021	-1.084	-1.132
Ireland	-0.145	0.093	0.040	0.050
Mediterranean				
Spain	-0.084	0.270	0.198	0.148
Cyprus	0.102	0.669	0.636	0.678
Portugal	0.121	0.448	0.395	0.391
Italy	0.975	1.292	1.254	1.233
Greece	1.291	1.657	1.610	1.570
Central Eastern Europe				
Czech republic	1.258	1.814	1.777	1.762
Hungary	1.689	2.217	2.157	2.169
Poland	2.456	3.030	2.967	3.002
Slovenia	3.494	4.094	4.068	4.060
Baltic states				
Latvia	0.615	0.873	0.807	0.830
Estonia	1.419	1.949	1.920	1.948
Lithuania	2.587	3.155	3.124	3.176
Western Europe				
Netherlands	-2.384	-2.600	-2.585	-2.630
Luxemburg	-0.809	-0.796	-0.846	-0.854
Belgium	-0.423	-0.289	-0.310	-0.334
Austria	-0.160	0.080	0.064	0.039
France	ref	ref	ref	ref
Income quartiles per country				
Quartile 1 (low)			0.999	1.144
Quartile 2			0.425	0.469
Quartile 3			0.176	0.175
Quartile 4 (high)			ref	ref
Household type				
Single person				0.082
Single parent				-0.150
Couple without kids				0.509
Couple with kids				ref
Age and retirement status				
under 25		-2.078	-1.851	-1.769
25 to 35		-3.350	-3.036	-2.887
35 to 45		-3.169	-2.848	-2.583
45 to 55		-2.351	-2.022	-1.838
55 to 65 - working		-1.540	-1.253	-1.227
55 to 65 - retired		-1.145	-0.967	-0.991
65 and older (retired)		ref	ref	ref
Constant				
	0.697	2.629	2.131	1.775
Model fit statistics				
Nagelkerke (pseudo) R2	33.6%	50.8%	51.7%	52.2%
Log Likelihood	114241.5	93476.6	92196.0	91489.7
N (number of cases in SILC used)			127800	

Source: SILC wave 2006, OTB-calculation

b. What role does the housing asset play as an income component?

For a number of EU countries, the SILC database distinguishes imputed rent for owner occupied homes. This is the equivalent of the amount of money needed to rent the same house, i.e. it measures the amount of money that we can view as the housing service. To get an impression of the role that the housing asset plays we will treat imputed rent as an income component. We will use the net value, whereby we will subtract mortgage payments. The SILC database only distinguishes interest payments, so we have to warn that we get an impression of the net rental values.

The method used is a variance analysis which establishes any significant differences between the categories within a variable. Variance analysis models the actual value: so if the outcome is 0.24, it means 24% imputed rent is the value the model assigns to this specific category. In this analysis we use multiple variables: for instance by adding the 'intercept' parameter + the parameter for Denmark + the parameter for lowest income quartile will result in the average imputed rent for the lowest income quartile in Denmark. We tried to stay with the variables of the previous analyses as much as possible. With regard to household type, it became evident that single parent owner occupiers only form a very small group. We included these households with couples with children. Furthermore we added a new variable 'outright ownership'. It seems very likely that we find significant differences between outright owners and owner occupiers with a mortgage.

Results

The four models are satisfactory: the variables as such are significant, while a few categories within the variables are not significant. The stepwise building of the model shows that country and income give the largest explained variance. Outright ownership and the age-retirement variable add minorly, but still significantly the explained variance. A (pseudo) R² of around 40% is satisfactory.

Imputed rent per country shows a strong variety. With France as a reference, four countries have a significantly lower relative imputed rent. The highest relative imputed rents are found in countries where the rate of home ownership is also high, i.e. in Eastern Europe, the Mediterranean and Ireland. Again, corrected for household characteristics, we see strong variability in the country parameters, suggesting institutional and perhaps even cultural differences.

For this paper the most relevant question is of course how net imputed rental values of the older households relate to those of the younger households as relatively low values may give an indication of equity withdrawal. The age pension variable only added minorly to the total explanatory power of the model. The value for the oldest age group is somewhat lower than for the younger households. This might give an indication that some older households do indeed use some equity withdrawal.

The most significant result is still of course the strong relation with outright ownership: being an outright owner adds substantially to the net imputed rental value. As we saw in the analysis of outright ownership, this already has a significant relation with older home owners. Adding age in this variance analysis only adds a small extra dimension to the model.

Income has a negative relation with relative imputed rent: the lower the income, the higher the average imputed rent. So as people have lower incomes, the importance of the imputed rent becomes larger. Keep in mind that many older home owners with small or no mortgages have relatively low incomes.

The hypotheses can be accepted although at first glance we see a relatively low value of net imputed rent for older home owners which might indicate some equity withdrawal. Outright ownership however, adds strongly to the net imputed rent and as we saw in the previous section, outright ownership has a strong relation with old age. A second part of the hypothesis with regard to countries can also be accepted. In countries with below average pension provisions such as in Southern Europe, Ireland and a selection of new member states, the actual values for net imputed rent are high, indicating a large impact on the total income. Also keep in mind that in many of these countries the range of mortgage products is relatively limited.

Table 3 Analysis of variance of net imputed rent as a % of the household income, 2006

	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>
Scandinavia				
Denmark	-0.090	-0.071	-0.056	-0.056
Finland	-0.055	-0.056	-0.051	-0.051
Sweden	0.012	0.019	0.028	0.026
Eastern Europe				
Slovenia	-0.016	-0.024	-0.035	-0.036
Lithuania	0.007*	-0.011	-0.020	-0.022
Estonia	0.086	0.071	0.064	0.062
Hungary	0.069	0.053	0.046	0.054
Mediterranean				
Portugal	0.051	0.039	0.039	0.038
Italy	0.057	0.047	0.042	0.044
British Isles				
Ireland	0.053	0.053	0.057	0.041
Western Europe				
Belgium	0.021	0.023	0.035	0.034
France	ref	ref	Ref	ref
Income quartiles per country				
Quartile 1 (low)		0.224	0.215	0.217
Quartile 2		0.097	0.092	0.094
Quartile 3		0.041	0.039	0.040
Quartile 4 (high)		ref	Ref	ref
Outright owner				
No			-0.035	-0.037
Yes			Ref	ref
Age-pension				
under 25				0.042
25 to 35				0.002***
35 to 45				0.012
45 to 55				0.010
55 to 65 working				0.007
55 to 65 retired				0.010
65 and older (retired)				ref
Intercept	0.167	0.095	0.110	0.104
Model R2	10.5%	41.3%	42.1%	42.3%
N (number of cases in SILC used)			68612	

Note: *= NOT SIGNIFICANT at < 0.05 level: **=NOT SIGNIFICANT at <0.10 level: ***NOT SIGNIFICANT > 0.10 level

Source: SILC wave 2006, OTB-calculation

c. Trading down: moving to the rental sector or a smaller owner occupied house

In our report we presented a short analysis of trading down. Data limitations of the SILC database only make a very general overview possible. Although SILC includes a panel database, it is only available for a limited number of countries. SILC does give the possibility to merge databases of subsequent years, but OTB only possesses two years. For a detailed analysis of housing moves in the past we would need to look further back in time. Only a limited number of people move per year.

However SILC includes the question 'have you moved in the last five years'. Although no further questions are asked about the characteristics of the house left, we can get an impression of possible trading down by comparing the tenure of older people who moved in the last 5 years with the ones that did not move. The focus will be on possible trading down from home ownership to the rental sector. For trading down within the home ownership sector we would need some better details on housing characteristics: we do not know any of the characteristics of the house left. We will make a comparison of people who did and did not move in the last five years and have to keep in mind cohort related trends in home ownership. For instance, a strong cohort effect in home ownership between the 55-64 ages and 65 and older age group is existent in Denmark and the Netherlands. However, we do not have data on the length of stay within the current home of these households. Lastly, we have to keep in mind that rental dwellings are scarce in some countries. In such countries, older households considering to move to the rental sector, may have very limited possibilities on the housing market.

Results

The results show clearly that older households that moved, have a higher chance of being in the rental sector compared to the ones that did not move. However, this does not necessarily mean that a majority of the movers went to the rental sector. In Spain, Italy, the UK and the new Member states, the majority of movers still lives in the owner occupied sector. This may have to do with the availability of rental dwellings in these countries, as their owner occupied sectors are in general large. In most other Northern European countries elder movers went to the rental sector. We may also remark that the intensity of moves among older households varies greatly across Europe. In Northern Europe, the percentage of movers is substantially higher, then in Southern and Eastern Europe. This is consistent with earlier findings.

One of the conclusions that may be drawn is that especially in Northern Europe, substantial numbers of older households move from owner occupation to rental. As we saw in the previous sections, a great majority are outright owners logically leading to the conclusion that substantial amounts of money are released by such a move. It is of course a question how these people use this money. Do they actually behave in line with the life cycle theory and make their move in order to release equity, which can then be consumed? Or do these households have more pragmatic views and move because they view owner occupation as a burden, i.e. the maintenance? We also have no clear view on households that move within the owner occupied sector. Do they move in order to release equity or is it because they just want to live in a smaller, easier to maintain house? Lastly, we may note that in countries where trading down to the rental sector is greatest, the levels of pension provision are quite high. In most countries of Northern Europe we may not expect this trading down to be very necessary.

A last comment is that in further research we would certainly try to get more insight in trading down processes by using a longer series of SILC data. Also national databases more geared to housing would give more information.

Table 4 Trading Down? Tenure situation non movers and movers in the last five years

		<i>Movers in rental</i>	<i>Non movers in rental</i>	<i>% households moved previous 5 years</i>	<i>Size of rental sector %</i>
Belgium	Age 55-64	67%	16%	18%	30%
	65 and older	73%	22%	13%	
Germany	Age 55-64	85%	45%	13%	55%
	65 and older	84%	54%	8%	
France	Age 55-64	50%	23%	19%	40%
	65 and older	66%	22%	11%	
Sweden	Age 55-64	43%	19%	22%	45%
	65 and older	60%	30%	21%	
Greece	Age 55-64	54%	15%	11%	20%
	65 and older	67%	15%	7%	
Spain	Age 55-64	28%	12%	9%	18%
	65 and older	33%	11%	7%	
Italy	Age 55-64	28%	19%	10%	19%
	65 and older	42%	19%	8%	
Ireland	Age 55-64	53%	8%	13%	19%
	65 and older	65%	7%	11%	
United Kingdom	Age 55-64	36%	16%	20%	30%
	65 and older	48%	25%	14%	
Poland	Age 55-64	40%	50%	7%	25%
	65 and older	49%	42%	5%	
Slovenia	Age 55-64	11%	8%	8%	11%
	65 and older	15%	13%	5%	
Lithuania	Age 55-64	17%	2%	9%	-
	65 and older	15%	3%	5%	

Conclusions

In this paper we tried to get an impression of the use of housing assets by older households in the EU. For a theoretical framework we presented the life cycle model of savings. According to this model older households are inclined to use up all their assets before death. The conventional life-cycle model perceives outright ownership by older households a result of liquidity constraints i.e. constraints on equity release. More behavioural, empirical research oriented research on this matter has indicated that households do not always use up their assets and only if they have to. Housing assets may be used only after all other (liquid) financial assets have been used. Also the conventional does not take into account bequest motives.

In general we can state that the life cycle model does not really fit with regard to housing assets. Outright ownership for older home owners seems by far the most used strategy across the EU. There is a number of countries, especially in northern Europe where substantial numbers of older households do have a mortgage. It is unclear whether they just have not repaid all the mortgage for

fiscal reasons or whether they have released equity by taking out another mortgage. It is however interesting that these countries in general have good pension provisions so most of these home owners would not necessarily need the money to get by. More qualitative research would have to establish which motives these Northern European households exactly have. In many countries with limited pension provisions like Southern and Eastern Europe the most common strategy for older home owners is outright ownership. This gives them the advantage of living rent free. However, the possibilities for equity withdrawal in most of these countries are limited due to institutional barriers to equity release. In these countries we also do not see much evidence of trading down in order to release equity. We might suggest then that many of these households prefer to live in an outright owned home although we should keep in mind that the small rental sector in these countries gives limited possibilities for trading down. In Northern European countries with a larger rental sector we do see some more housing moves although by far not all to the rental sector. Many Northern European households in the pre retirement age (55-64 years old) also move to another owner occupied dwelling. More research would also be needed to establish exactly if any equity is released in the process.

Finally we might comment on future strategies used by older households. Our overview of the national availability of mortgage products is not be free of dynamics. The banking sector is international and would, if possible offer equity products to any household that qualifies. In Britain, The Netherlands and Scandinavia such products are widely available and have been heavily promoted by the financial sector. But still it seems that the relatively high percentage of non-outright owners in Scandinavia and The Netherlands cannot be directly seen as an indication of equity release. Rather some Dutch studies suggest that these are outstanding mortgages that have not been repaid for fiscal reasons. It is also interesting to see that in the UK, the front runner with regard to availability of such products, older households still seem hesitant to take out equity. Qualitative research suggests that older home owners would only do this if really necessary. One of the greatest warnings not to rely too much on equity withdrawal as an additional pension provision is the current credit crisis. As house prices fall banks become wary to lend to much of the equity value. Such might conclude us to say that the best strategies to follow for older home owners is to just stay put and live in a rent free dwelling or trade down in order to cash in on the equity.

More research is needed as to which reasons exactly home owners have that live outright or extract equity. Do they extract equity because they really need the money? Do they have bequest motives or do they SKI (Spend the Kids Inheritance)? Furthermore we would try to get some more insights the outcomes if we include macro level, national data in the analysis to get an impression on the workings of institutional variables like mortgage and pension systems. As such for our DEMHOW report we have undertaken such a complex multi level analysis but the number of countries within SILC is limited. However, the multi level analysis from this limited number of countries gave more or less the same results as for the tentative exercise here presented.

References

Dol, C. and P. Neuteboom (2009) *Macro Change and Micro behaviour: the Effects of Ageing on Tenure Choice and Households Strategies Toward the Use of Their Wealth*. DEMHOW Report to the European Commission under the Seventh Framework Programme. Workpackage 1, Deliverable No. 13.

Doling, J. and R. Ronald (2009) *Home Ownership as a Pension: Assessing its Contribution*. DEMHOW Report to the European Commission under the Seventh Framework Programme. Workpackage 3, Deliverable No. 5.

Elsinga, M., P. de Decker, J. Toussaint and N. Teller (eds.) (2007) *Beyond Assets and Insecurity: On (In)security of Home Ownership in Europe*. IOS Press, Amsterdam.

Horsewood, N. and J. Doling, 2003, Homeownership and early retirement: European experience in the 1990s, *Journal of Housing and the Built Environment* (18), pp. 289 - 308.

Kemeny, J., 2005, "The really big trade-off" between home ownership and welfare: Castles' evaluation of the 1980 thesis, and reformulation 25 years on. *Housing, Theory and Society* (22), no. 2, pp 59-75.

Levin, L. (1998) *Are Assets Fungible? Testing the Behavioral Theory of Life-Cycle Savings*. *Journal of Economic Behavior & Organisation*, Vol. 36, p.59-83.

London Economics, 2005, *The costs and benefits of Integration of EU Mortgage markets*, report for European Commission, DG Internal Market and Services.

OECD, 2009, *Private pension outlook 2008*, Paris: OECD

OECD, 2008, *Pension markets in focus*. December 2008, issue 5. Financial affairs division of the OECD.

Toussaint, J. (2009, forthcoming) *Housing Equity in the 'Good Old Days' in Four European Countries*.

Appendix: some general information on home ownership and outright ownership in the EU

	<i>Home ownership</i>	<i>Outright ownership</i> <i>(%) of home owners</i>
Northern Europe		
Belgium	68%	57%
France	59%	67%
Denmark	58%	27%
The Netherlands	55%	16%
Germany	42%	50%
Minor growth		
Ireland	77%	64%
United Kingdom	69%	44%
Decline		
Spain	82%	65%
Greece	72%	88%
Italy	72%	84%
Central Eastern Europe		
Hungary	86%	92%
Slovenia	83%	99%
Czech republic	71%	88%
Poland	56%	96%
Baltic States		
Lithuania	91%	96%
Estonia	85%	89%
Latvia	81%	79%

Source: SILC 2006 data base: OTB-computations