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Downsizing property among the older generation: a means to free up New Zealand's housing stock

New Zealand experiences widespread intergenerational housing inequalities. Millennials are far less likely than previous cohorts to access affordable housing and to own property. Large dwellings which are often more suited to young and expanding families are arguably underutilised by the older generation. Retirees are living longer and often stay in homes that they have lived in for most of their lives. This is exacerbated by distortions in our tax system which leave owner-occupied housing free from a capital gains tax. One way to phase out this generational discrepancy is motivating older generations to move to smaller homes towards the end of their life cycle. This would free up larger properties for first home buyers and ensure that retirees live in more suitable dwellings.

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Emergence of unaffordability

There was a time in New Zealand's history when owning a home was not the unaffordable dream it has become today. Unfortunately, any expectation of owning a home towards the beginning of one's life has been greatly lowered in the wake of the 'housing crisis'. The housing market itself has become somewhat of a mockery, with more and more people living in unfavourable conditions, whether that be in cars or alleyways. This is attributable to house prices rising faster than incomes, which has left New Zealand with one of the highest homelessness rates in the OECD (Barrett and Greenfield, 2018).

The underlying factor in these affordability issues is that demand is currently outstripping supply. While the country may be witnessing record numbers of approved building consents and development, these are not adequate to meet the higher demand for housing emanating from population growth (including the increase in net migration) that has occurred over the past five years. New construction is not matching this increased demand, particularly in areas that lack urban infrastructure to support new developments, such as within Auckland (Johnson, Howden-Chapman and Eaqub, 2018).

The demographic that is affected most significantly by these market conditions is first home buyers, largely in the millennial age bracket. House price inflation has equalled 30% over the past five years, making it progressively more and more difficult to have a foot on the property ladder. This is worsened by the fact that larger deposits are required to purchase a property (ibid.). Figure 1 demonstrates that those between the ages of 30 and 49 years have faced the most significant decreases in home ownership, at roughly 12% over a 12-year period (Statistics New Zealand, 2014). This decrease has fostered a new norm of increased periods of renting and financial insecurity among this cohort.

On the other hand, baby boomers have largely benefited from secure home ownership. Home ownership has remained the highest in their demographic and is far less volatile in terms of the present demand shortage (ibid.). This generation had access to property at a point at which high inflation rates quickly eroded away mortgage debt. While interest rates were high, the level of real interest rates suggests that it was much easier to enter the property market in the 1970s and 1980s (Clement, 2016). Subsequently, this generation has realised disproportionate financial gain from property, given that it is a lightly taxed asset free from any imputed rent or capital gains taxes (Coleman, 2019).

Figure 1

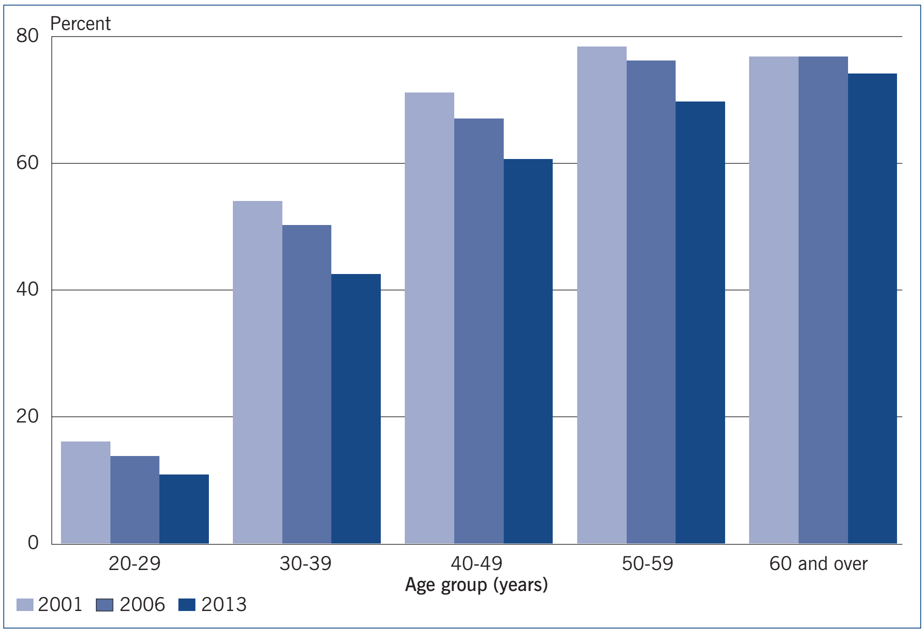
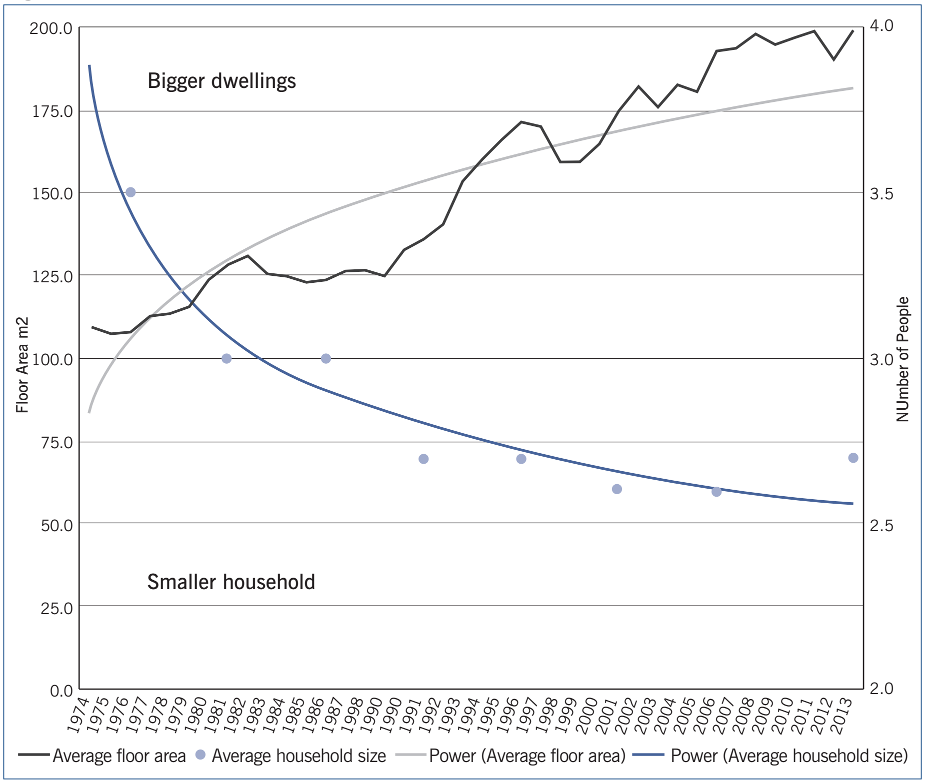


Figure 2



Overconsumption of housing stock

New Zealand's present demand shortage is aggravated by an overconsumption of large dwellings by retirees. Those in the older generation who have largely cemented their position in the property market hold on to possession of family-sized dwellings once their children have left home. Rather than downsizing to a more suited property, couples or single individuals retain possession of this stock late into retirement, which adversely affects first home buyers (Saville Smith et al., 2016).

This overconsumption of housing services is caused by distortions in our broad-based tax system. In the absence of a capital gains tax, interest is currently being taxed to a greater extent than owner-occupied housing. This leaves elderly with an incentive to remain in excessively large houses in well-located areas, in return for significant increases in equity. They have also been encouraged to over-invest in housing following a move away from tax-deductible retirement savings in 1989 (Coleman, 2017). In the absence of any reason to move to smaller houses or decrease investment in property, this cohort continues to enjoy large dwellings that they have held for most of their lives.

Another reason why asset-rich retirees live in large properties is simply that there are no easily accessible alternatives. The aforementioned distortions have contributed to an increase in the average size of new houses (Coleman, 2017). Figure 2 demonstrates the trend in New Zealand's property market since the 1980s, which has been to build larger dwellings that are occupied by smaller households (Saville Smith et al., 2016). In terms of retirees, there are usually only 1.9 people living in homes owned or rented by those over the age of 65 (Pledger et al., 2019). This shows an inefficient use of housing stock that will only get worse as retirement periods increase.

A lack of suitable alternatives will continue to present issues due to New Zealand's ageing population. As in most of the developed world, the proportion of the population over the age of 65 is predicted to double between now and 2046 (Johnson, 2015). Therefore, 23% of New Zealand's population have the potential to under-occupy large housing stock in the absence of more appropriate options. Policy is required that mitigates this apparent underoccupancy, while at the same time facilitating affordable late-life purchases (Mayhew, 2019).

Downsizing as a viable option

Downsizing the dwellings of retirees presents a possible solution to combat their overconsumption of large dwellings. The major inhibitor to this approach is the absence of appropriate housing options, or more specifically one–two bedroom houses. Regions with the largest ageing populations simultaneously have the lowest supply of smaller dwellings. In areas like Marlborough, where 33.3% of the population is over the age of 65, only 7% of the housing stock constructed since 2001 is one–two bedrooms (Saville Smith et al., 2016).

The retirement village sector has had increasing success in New Zealand, but it is largely inadequate with regard to our ageing population. While a recent report by JLL identified 81 new retirement villages in the development pipeline, it also highlighted that only 13% of those over the age of 75 currently use these services (Winstanley, 2019). That is inadequate in terms of demand, and development will likely need to occur in the open market as well. This would need to be targeted towards undersupplied regions like Marlborough.

> There is intergenerational inequality … in [accessing] affordable housing, … [t]he baby [boomers] had access to the property market prior to the housing crisis, … the … millennials, … have experienced substantial decreases in home ownership rates and are … subject to much longer periods of renting.

There is no shortage of demand among retirees for appropriate housing options. The Finding the Best Fit research survey identified a significant number of individuals who are unsatisfied with available dwellings: 33% of retirees felt forced into retirement villages as their desired dwelling was not available on the open market. One couple were quoted as saying, 'We have not done it yet [downsized] because we have not found any other suitable place' (James, 2016). Retirement villages often do not meet certain elements of demand, such as freedom and location.

A benefit that arises from downsizing is that it enables older generations to relieve financial and physical burdens associated with larger homes. Evidence suggests that larger dwellings entail higher energy costs. For instance, one-person households living in houses that are 151–200m^2 can have twice the median monthly energy costs of those whose houses are 100m^2 (Easton and Saville Smith, 2016). Older generations can save by reducing their dwelling size, while at the same time increasing the ease of access to amenities that are in the neighbourhood of their property.

New Zealand's current housing policy does not capitalise on this preference for small dwellings. If more appropriate housing options were made available for retirees, a significant proportion of large dwellings would be made accessible to young and expanding families. While increasing the supply of housing should remain the focal concern for the government, resources should be devoted to freeing up existing stock to mitigate the housing crisis. If KiwiBuild has taught New Zealand anything, it is that delivering a substantial increase in affordable homes is a challenging task, and further policy avenues are required (Barker, 2019).

Policy suggestions

Retirees may wish to remain in large dwellings, especially if they have lived in them their whole lives and their homes have sentimental value. It is not the place of public policy to dictate the actions of this cohort. Rather, policy must be utilised in order to remove distortions which incentivise retirees to remain in artificially large houses. This should be coupled with assistance in the downsizing process which removes financial and logistical barriers associated with this decision.

The demographic being targeted, therefore, is retirees living in large houses who currently lack motivation to downsize. The increasing number who use their spare bedrooms to house their children are excluded from these policies. This is an increasingly populated housing pathway, which sees adults as late as in their thirties living with their parents and delaying access to owner-occupied housing (Clapham et al., 2014). This acts as an alternative to downsizing in that it also provides an avenue against over-consumption of housing stock.

Removal of distortions

The fundamental issue is distortions in New Zealand's tax system which provide incentives for retirees to remain in artificially large houses. A capital gains tax is required to mitigate the benefits enjoyed by the first generation of property owners, and to discourage the over-investment in property (Coleman, 2019). This in turn would encourage elderly to live in smaller houses in areas that are not so heavily in demand. There would be less of a financial incentive to remain in under-occupied houses, since the disproportionate returns on equity that is currently enjoyed would be removed.

Introduction of a reconfigured demand system

KiwiBuild's move towards smaller and lower-cost houses should be complemented with a reconfiguration of the demand system. As this stock becomes available, retirees who are occupying oversized houses should be given a high level of priority. This has been a successful practice on the part of the Exeter City Council in the UK, which used a band status within its downsizing initiative (ECC, 2011). This system, when supported by financing incentives, was successful and efficient in releasing 330 properties to families who needed the larger houses (Kumah, 2012).

Disabled and more vulnerable elderly should also be afforded a level of priority within this demand system. Adaptions to large properties can be more expensive than fittings in downsized properties. Downsizing itself also has the capacity to provide a better quality of life to vulnerable elderly who struggle with day-to-day tasks (ECC, 2011). The onus could be placed on both Ministry of Health and ACC assessors to ensure that tenants whose needs can be better met in a smaller household are placed on this register. This frees up stock for younger generations while at the same time providing more suitable accommodation to retirees.

Financial incentives

Despite the number of retirees living in underutilised properties, it is surprising that there exists no tax or financial incentive at the local government level to downsize. Just under 80% of the older generation aged 60 and above own their own homes (Statistics New Zealand, 2014). These individuals are unlikely to want to release their asset-rich properties in exchange for future building and moving costs. For that reason, a financial incentive is required that combats any scepticism surrounding moves to more suitable accommodation (Mayhew, 2019).

This could be achieved through reducing council rates for the elderly in areas with high density one–two bedroom households. Councils have a certain level of discretion in determining residential rates. Auckland, which has among the highest density of one–two bedroom households, also has the highest average residential rates of $3,387 a year (Taxpayers' Union, 2019). In localities that have the capacity to house the elderly with smaller dwelling needs, it makes sense to reduce this liability for that demographic (Mayhew, 2019).

Council subsidies can also be used to ensure that those who need support and assistance to downsize are provided with it. Once retirees are confirmed as seeking more appropriate housing options, cash incentives can be provided to facilitate the move. Under the Exeter City Council downsizing initiative, incentives were allocated according to factors such as the size of the property being released, the condition of the property and the circumstances of the new property owner (ECC, 2011). The cash incentive should primarily be targeted to removal expenses, but will in turn ensure that a smooth transition is offered to elderly in the process of freeing up housing stock.

Conclusion

There is intergenerational inequality regarding access to affordable housing in New Zealand. The baby boomer generation had access to the property market prior to the housing crisis, when demand did not outstrip supply. The situation is different for millennials, who have experienced substantial decreases in home ownership rates and are subsequently subject to much longer periods of renting. One result of this is that large dwellings that are more suited to young and expanding families are largely controlled by the older generation.

As identified, a means to phasing out this generational discrepancy is offered through downsizing. The absence of a capital gains tax has left retirees with an incentive to retain unnecessarily large houses late into retirement. This distortion should therefore be removed and replaced with incentives to move to more appropriate smaller dwellings. To free up this larger housing stock, a demand system needs to be incorporated into the KiwiBuild process. This could be supported with financial incentives that counter any reluctance to release asset-rich properties post retirement.

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