Resolution Foundation

# Home equity: accumulation and decumulation through the life cycle

*Peter Williams, Hon Professor, University of York*

*for the Resolution Foundation*

March 2010

This report is published alongside a second paper, *Funding future care need: the role of councils in supporting individuals to access the capital in their homes*, available on the Resolution Foundation website

## Acknowledgements

This report has been written as part of the Resolution Foundation's work stream on housing related issues. I am grateful to Matthew Whittaker and Sue Regan for their input and for ideas and suggestions from the Foundation's Management Committee.

# Contents

Executive summary ... 1
1 Introduction ... 2
Home equity over the life cycle ... 2
The report ... 4
Assets over the life cycle ... 5
2 Home ownership today and tomorrow ... 7
Future home owners ... 10
Government help to access home ownership ... 12
Conclusions ... 14
3 Managing and accessing housing wealth ... 16
The decumulation process ... 16
Housing Equity Withdrawal ... 18
Trading down, trading out ... 19
Taking out an equity release mortgage or home income plan ... 19
Inheriting a property or the proceeds ... 21
Charging the home ... 23
Conclusions ... 24
4 The state and housing wealth ... 27
Decumulation and the state ... 28
Options government could consider ... 29
5 Conclusions and recommendations ... 33
Turning words into action ... 35
References ... 37

## Executive summary

- This report has been produced at a critical conjuncture – the combined impacts of the credit crunch and policy changes that might flow will have a long lasting effect on many households, and not least those on low incomes.

- A considerable number of households, including some of those on lower incomes, own their homes outright, others are in the process of buying them. Over time they may need to draw down on the store of wealth represented by that home.

- The report considers how the flows of households into home ownership have been changing, reflecting a range of factors but including increased affordability pressures, and how they might change in the future.

- The report then examines how households currently access the wealth that has been built up in those homes. What is quite clear is that there are a variety of routes for extracting that wealth, most obviously trading down and remortgaging for equity withdrawal. Formal equity release is perhaps one of the less significant channels at present.

- The report suggests there is a major window of opportunity available to UK governments, in terms of the store of housing wealth currently in being. With appropriate safeguards and incentives more could be done to draw on this. Indeed, with reduced public expenditure more may *have* to be done!

- The report sets out a number of policy proposals. However, what is quite clear is that government is not well organised around the issue of housing wealth. The report suggests how government might improve its capacity to act on this and the benefits that might flow.

# 1 Introduction

1. The Resolution Foundation commissioned this report on home equity to inform its work on low earners' financial health and experiences of housing and, more specifically, to support its efforts on long-term care funding reform. The Foundation has published a paper alongside this report on the role councils can play in helping their residents use the capital in their homes to pay for care needs (Resolution Foundation 2009a).

2. There has long been recognition of the role of housing as a store of wealth and how this might be exploited through the promotion of home ownership. It partly stimulated Mrs Thatcher and her government's Right-to-Buy policy for tenants in 1980 and has been a central theme in the current Labour government's stance on asset-based welfare. It took on an even greater salience in the last decade as the UK went through a sustained house price boom.

3. Reflecting the sustained emphasis on securing ever higher levels of home ownership in the UK there has also been a developing interest in the potential scale of housing wealth and the mechanisms which allow households to drawdown on that wealth over time, and not least in retirement. Given that, over the long-run, house prices have risen in line with earnings, property ownership has been seen as a good hedge against falling incomes in retirement, and not least in an era where many pension schemes have been under-funded and even closed. Indeed, housing wealth is sometimes seen as the last untapped option for preventing widespread poverty in retirement.

4. Given the many changes that have taken place in the last five years with respect to home ownership, the housing and mortgage markets, the equity release/mortgage equity withdrawal markets as well as in the funding of retirement and care and a wider range of economic and demographic factors, it is an opportune time to take stock of the flows into home ownership and the extraction of value from home ownership, and to reflect on the future potential of these housing assets.

### Home equity over the life cycle

5. Stepping back from the market itself, what we have in essence are processes of accumulation – as households build up an ownership stake in homes – and then decumulation – when these same households extract value from their home both in situ (possibly reflecting increased property values) and through trading down to another less costly home. Clearly there is a direct link between these two flows – becoming a property owner is a prerequisite to being able to drawdown on its value (although we should not ignore those who inherit properties but who are not owners). Thus, in discussing the future role of housing wealth we need to track also the future role and scale of home ownership. Indeed, since the realisation of that wealth in part depends upon an active home ownership market, these two processes are more closely intertwined than is often recognised.

6. The importance ascribed to home equity has been driven by two necessary factors – the growth of home ownership and increases in house prices. Until relatively recently both were on an upward path. In themselves however they are not sufficient in that there have to be mechanisms for drawing down on that store of wealth – trading down is one commonplace route but in the last decade or so we have seen the rise of the equity release

and equity withdrawal markets, both of which have been facilitated by the growth of the mortgage finance market. Again, there have been changes in this market in recent years and we will need to consider these closely.

7. Setting that aside, we have a population where the number and proportion of home owners by age band has been steadily increasing with each successive generation. This is because the tenure structure has been changing over the last five decades, with ever fewer renters overall – especially in the social rented sector – and more home owners, not least through the Right-to-Buy. As each generation passes on so, to date, the next generation has more owners and fewer renters (see Croucher et al, 2009). Add to this the impact of increased longevity and we simply have ever more owners. However, again in recent years this has been changing, with the number of mortgaged owners going down and the inflow of first time buyers falling. We now have a situation where the inflows to home ownership are down and where renting, particularly private renting, is increasing. So once again the balance is changing, which may in the long-term have significant effects on the home equity agenda.

8. It is essential therefore that we view the home equity agenda in a dynamic context. The role it will play will change over time. None of this should be thought to diminish the importance such equity might play in terms of easing and facilitating people's life chances. The value of housing wealth has grown from 101 per cent of GDP in 1980 to 185 per cent of GDP in 2007. It is the most widely distributed of asset classes (Rowlingson et al, 1999) and, subject to market conditions, one of the most fungible (Smith and Searle, 2006).

9. Pensions have been under pressure for some years, leading to the closure of many final salary pension schemes and the underfunding of many others. Home equity has been seen as an important means of supplementing pension short falls – the 'my home is my pension' view seems commonplace, regardless of the practical realities of that position (DWP, 2006, Pensions Policy Institute, 2004 and 2009a and b). Increased longevity adds to this pressure and not least in terms of affording care costs and other support in older age. The Resolution Foundation has undertaken a careful review of the relationship between home equity and local authority care cost charging (Resolution Foundation, 2008a and 2009a).

10. The distribution of wealth among older households is quite skewed (see Chart 1). Housing wealth is particularly significant for households in deciles 3 to 9. It is less important in the wealthiest and the second deciles, and is of virtually zero significance in the poorest.

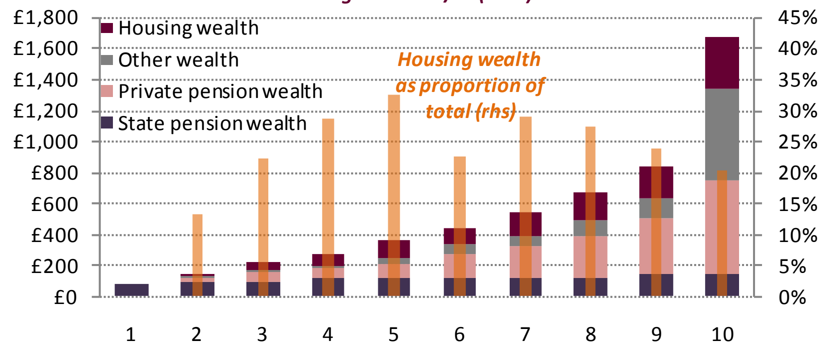



**Chart 1: Wealth distribution among pre-retirement age group: *England 2002/03***
Source: IFS, *Prepared for retirement? The adequacy and distribution of retirement resources in England*, 2005, Figure 4.2

11. This unequal distribution is being re-enforced by the tighter rules governing entry to home ownership and through households' varied ability to withstand unemployment and loss of income in the recession. Thus, even if we take the most positive views of the home equity life cycle, we would still have to take account of the way this is currently distributed and might change. Although home ownership remains the most heterogeneous tenure in terms of income and social class, the fact is that there are still significant variations on these two axes (as well as geographically) which means home equity cannot be seen as a universal panacea. Indeed, it was this fact that persuaded the government in its only substantial review of equity release (Finch, 1998) to conclude that (p21):

> '[it] does not have the potential to reduce substantially poverty levels among older people in general nor to benefit those in greatest poverty. Over half of all older people are not in a position to opt for [equity release]. But for those who are – the income-poor/equity-rich – [equity release] can provide a small but significant income top up'.

12. Notwithstanding the judgement reached more than a decade ago, given what has subsequently happened to both house prices and pensions requires that we revisit this agenda. Our initial view is that, while recognising it is not a universal panacea, home equity does have the potential to be a very powerful instrument and not least over the next 20 to 30 years when the level of home ownership among older households may well be at a peak. Moreover, in that period the housing market should recover from its current downturn. Part of the task in this report will be to reflect upon that and what might be done.

## The report

13. As this suggests, the report aims to offer an informed and forward-looking view of the role of home equity and to draw together the two agendas of home ownership and equity release (in its widest sense). The report will examine current trends in the home ownership market and the policy instruments in place to support and sustain this market (Chapter 2). It will then move on to consider the ways people manage and access housing wealth, the scale of the flows and the use to which it is put. This will cover equity release, equity withdrawal, remortgaging, inheritance, staircasing, trading down and what is working/not working

(Chapter 3). Chapter 4 will consider the ways government interacts with both the accumulation and decumulation of housing wealth, with the focus mainly on the latter. It will explore the tensions and the possibilities. Finally, in Chapter 5 the report sets out a series of conclusions and recommendations.

14. The report focuses upon England because much of the data on the market and on policy is drawn from that country. However the report has relevance to all the countries in the UK.

### Assets over the life cycle

15. Finally, before going on to begin by exploring the current nature of home ownership in the UK, it is helpful to briefly place property ownership within the general process of asset accumulation across the life cycle.

16. Lloyd (2007) reports on detailed research conducted by the International Longevity Centre (ILC) on the period 1995 - 2005. The report shows the generally steady accumulation of illiquid and liquid assets up to the age of 65. Over the period considered, total illiquid assets (property) and debt (mortgages) increased strongly. Net household wealth increased overall, with younger households achieving a sharp proportionate rise but older cohorts experiencing the biggest increase.

17. Incomes rose among the younger age groups (allowing them at least in theory to save more), while many of those aged over 60 in 2005 recorded incomes that were lower than those captured in 1995. Most notably, all cohorts included declining proportions of households contributing to a private pension over the period, though it remains the most popular way of saving for retirement (PPI, 2009b). In addition, the Pensions Policy Institute report notes that those who are saving for a pension are also most likely to be home owners.

18. The ILC survey showed that younger age groups experienced increases in both liquid and illiquid debts, though the latter were offset by increases in illiquid wealth. There was an increase in the proportion of net assets that were illiquid in all groups. Lloyd concludes that the patterns of asset accumulation across the life course have changed, primarily as a product of the housing market. In particular he highlights the wealth transfer that has taken place between younger and older households, with the rise of the illiquid assets of the latter being matched by the rise of illiquid liabilities by the former. This is a key point which we return to later.

19. He asks that if both younger and older households are worse off in different ways who has really benefitted? He argues it is the middle group – property owners aged around 50-55 in 2005 – who have experienced little rise in mortgage debt but real growth in incomes and house prices. While recent developments may have reduced the value of their homes, falling interest rates are also likely to have improved their ability to pay down their outstanding debt.

20. He rightly pinpoints the dilemma for younger households paying out to buy homes and neglecting their pensions. In that regard, high house price inflation has helped undermine retirement incomes.

21. This temporal and cross-sectional analysis is a useful pre-cursor to the analysis that follows. Quite clearly we do need to think carefully about how the process of accumulation and decumulation of housing wealth over the life cycle vary over time, across space and between different groups defined by income, gender, ethnicity and age. Ultimately, any policy programme has to be sensitive to these variations. All the recent evidence (SHIP, 2009; PPI, 2009b; PWC, 2009) stress variations in wealth not least by age, income and region and the ways housing wealth is correlated with other wealth.

## 2 Home ownership today and tomorrow

22. This report is being written at a crucial stage in the development of home ownership in the UK. The current housing market downturn, along with the wider credit crunch and recession, has brought to an end the growth of home ownership in England after at least a decade and probably much longer. In 1999/2000, there were 14.2 million owner-occupier households in England.[1] By 2005, this had risen to 14.6 million. By 2008, it had fallen by around 16,000. However, as Chart 2 indicates, although the rate of growth in home ownership overall has effectively stalled, the underlying balance between numbers of buyers and outright owners has shifted dramatically.

23. The number of buyers has fallen from a peak of 8.9 million in 2000/01 to 8.0 million in 2008, a decline of 0.9 million or over 10 per cent. By contrast, the number of outright owners has increased from 5.5 million in 1999/2000 to 6.6 million in 2008, an increase of over 1.1 million or 20 per cent.

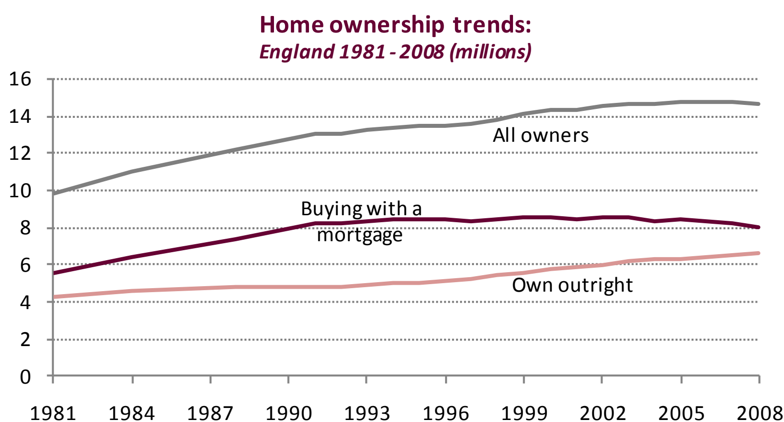



**Chart 2: Home ownership trends: *England 1981-2008***
Source: CLG, *Live Table S101*

24. We thus have two contrasting dynamics operating in this sector. The current credit crunch/recession may well act to further reduce the number of buyers (through lack of access as well as forced exits) and increase the number of outright owners (as borrowers pay down debt to take advantage of low interest rates – although the evidence for this is weak at present).

25. This can be taken further and broken down by age. Trends in the number of owner-occupier households in two age categories (*24 and under* and *65 and over* – there are limitations to the bands that can be used for comparability reasons) are compared in Table 1. It gives a reasonable indication of the 'shrinkage' at the 'front end' (i.e. entry to home ownership) and expansion at the 'back end' (i.e. outright home ownership).

[1] It is important to note there are two different counts of home ownership – by households and by dwellings. Data is available for longer time series for dwellings but, given the focus of this report is on households, the household count has been used. The data for this series is drawn from the Survey of English Housing and the Labour Force Survey.

**Table 1: Buyers and outright owners by age of household head: *England 1999/00 & 2008***

| Age of household head | Buying 1999/00 | Buying 2008 | Buying Change | Outright owner 1999/00 | Outright owner 2008 | Outright owner Change |
|---|---|---|---|---|---|---|
| 24 and under | 179,000 | 125,000 | -30% | 10,000 | 14,000 | +40% |
| 65 and over | 321,000 | 249,000 | -22% | 3,149,000 | 3,771,000 | +20% |

Source: CLG, *Live Table S106*

26. In more detail, Andrews (2006) explores the housing tenure choices of young people (defined as ages 20 to 34) over the period 1984 to 2003/04. Table 2 shows very starkly the changes that have been taking place. Shorter run changes are evidenced in Chart 3, derived from Survey of English Housing data.

**Table 2: Trends in housing tenure among young adults: *England 1984 - 2003/04***

| Age | Owning 1984 | Owning 2003/04 | Private renting 1984 | Private renting 2003/04 |
|---|---|---|---|---|
| 20-24 | 35% | 20% | 33% | 51% |
| 25-29 | 60% | 50% | 16% | 31% |
| 30-34 | 66% | 64% | 10% | 18% |

Source: CML, *Housing Finance*, "Housing tenure choices by the young", Issue 07 2006, Table 1

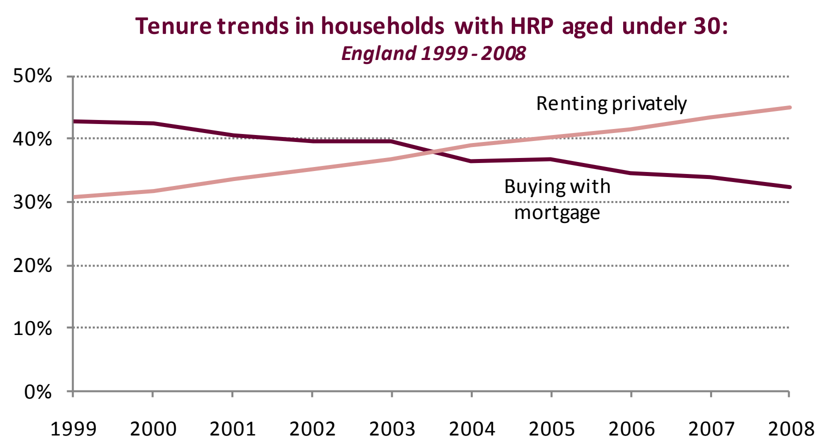



**Chart 3: Tenure trends in households with household reference person aged under 30: *England 1999-2008***

Source: CLG, *Survey of English Housing Preliminary Report: 2007-08*, Chart 2

27. Andrews' research suggests that the sharp fall in home ownership rates among young adults is partly a product of tighter incomes, but also a product of student debt, high transaction costs (linked to high mobility) and higher house prices. There is also evidence that recent growth of the private rented sector has meant that there are clearer alternatives for younger households. In part this is because the cost comparison has been acute and, while rents continue to be lower than mortgage costs, it is likely that numbers entering home ownership will continue to fall. It is also due to other factors such as mobility, the uncertainty of jobs and house prices and comparisons of the quality of the home secured.

28. What this is opening up is an issue around competition with home ownership, which has long been missing. Home ownership has been perceived as the only way to obtain a decent secure home other than via social renting, and enjoys fiscal privilege. The somewhat populist *Rent v Buy index* published by Abbey Santander captures the sense of this. In the most recent issue (published in June 2008) the balance of advantage in terms of direct costs

had shifted back to owning in most parts of the UK, though not in Northern Ireland and the West of Scotland.

29. Finally examination of Labour Force Survey data by age band and tenure for 2003 and 2008 does confirm some 'emptying out' from home purchase, reflecting the difficult conditions prevailing. Thus we have seen the following in relation to mortgaged owners:

- The number of small employers/self employed with a mortgage fell from 843,000 to 797,000 over the five years, with a drop from 234,000 to 156,000 in the under-35 age category and from 674,000 to 580,000 in the 35 to 64 age category.
- The number of lower supervisory workers with a mortgage fell from 922,000 to 748,000, with the 35 to 64 group dropping from 674,000 to 580,000 and the under-35s down from 234,000 to 156,000.
- Semi-routine workers with a mortgage declined from 657,000 to 559,000, with the 35 to 64 group shrinking from 487,000 to 444,000 and the under-35s from 155,000 to 94,000.
- Even some of the higher socio-economic group categories showed evidence of decline. For example, lower managerial and professional workers with a mortgage fell from 717,000 to 587,000. Among these higher groups the downward trend was most likely to occur among younger age categories. For example, the number of higher managerial and professional workers aged under 35 who had a mortgage fell from 446,000 to 366,000.

30. These are substantial reductions over a five year period. Other factors such as demography and the changing work force structure could be part of this but the evidence does point to the fact that hardening conditions in the housing and mortgage markets have had an impact. It suggests that to a degree the contraction is being borne by both particular age groups and by specific socio-economic groups.

31. While it would be inappropriate to suggest the home equity life cycle process has now broken down, this evidence does give some indication of how it is weakening at present in terms of entry. Over the long-term and, subject to any ameliorating factors, this will have great significance. We can draw some comfort from a recent study of cohorts of home owners aged 30 over the period 1968 to 2006 which shows that, although there are years when conditions result in fewer 30 year olds becoming owners, over a lifetime such groups tend to catch up with better placed cohorts (Bottazzi, Crossley and Wakefield, forthcoming).

32. Equally, in the short- to medium-term, the rise in outright ownership enhances the potential for equity drawdown and re-enforces the point that, even if the cycle has been disrupted, there is a built-in dynamic that can be exploited over the next 20 years to some advantage (obviously you do not need to be an outright owner to do this).

33. Similarly, what is clear about the last decade is the growth in the number of home owners with a mortgage who have re-mortgaged and extracted some equity. Partly this has been built on the back of property price rises, but it is also that lenders have become more permissive in terms of sanctioning such loans. Secured lending has also become an

important activity and in cost terms an alternative to personal loans (which though short-term are often at much higher rates). Limited data suggest that around 20 per cent of those remortgaging are extracting some equity, but there is no estimate of the amount. The Bank of England suggests that in 2007, some £42 billion was drawn down and not used for house purchase or improvement.

### Future home owners

34. It is appropriate at this stage to consider first time buyers in terms of numbers and their access to the market, both directly and via government-backed schemes.

35. Enhancing the opportunities to be a home owner moved to the heart of government policy by the end of the 1990s, partly because it was recognised to be a good way of spreading wealth and opportunity. The government set out an aspiration to take home ownership in England up to 75 per cent of all households (Williams, 2007a). At the same time it was the Labour government that brought mortgage interest tax relief to a close in 2000 and which reduced the attractions of the Right-to-Buy (lower discounts in some areas, longer qualifying period etc.) which in many ways had been the most important government programme for increasing home ownership (over two million tenants bought under the Right-to-Buy and it pushed up the home ownership rate by around 10 percentage points).

36. Over the last decade, the loss of tax relief and rapidly increased prices combined to make it ever more difficult for first time buyers to enter the market. Chart 4 shows the sharp decline that has taken place since 2001 and which could unwind the life cycle process under consideration here. The numbers first peak in 1986 and then fall away in the housing market downturn in 1991, before rising with interruptions to a new peak in 1999. From 2003 they begin an almost uninterrupted decline.

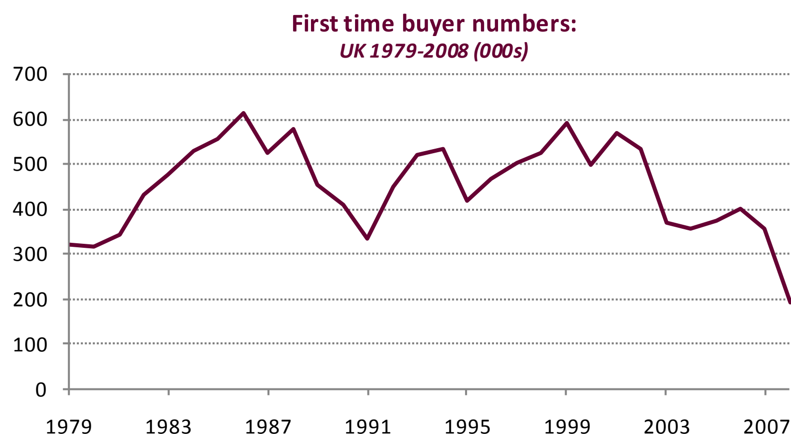



**Chart 4: First time buyer numbers: *UK1979-2008***
Source: CML, *Table ML2*

37. We know that some of those counted as first time buyers in Chart 4 were in fact 'returning' owner-occupiers (after for example, living abroad or living in a rental home). Tatch (2006) suggested that probably 20 per cent of first time buyers were in fact returners. Thus our count of first time buyers is misleading and there is a possibility that this problem has become worse over time given the increased likelihood of divorce and mobility. Setting that aside, we also know that ever more first time buyers are receiving help from parents and

relatives (Tatch, 2007 and Chart 5). In 2006 it was estimated that 38 per cent of first time buyers under 30 had received help from parents and others. By the second quarter of 2009 this had increased to nearly 80 per cent (CML, 2009a).

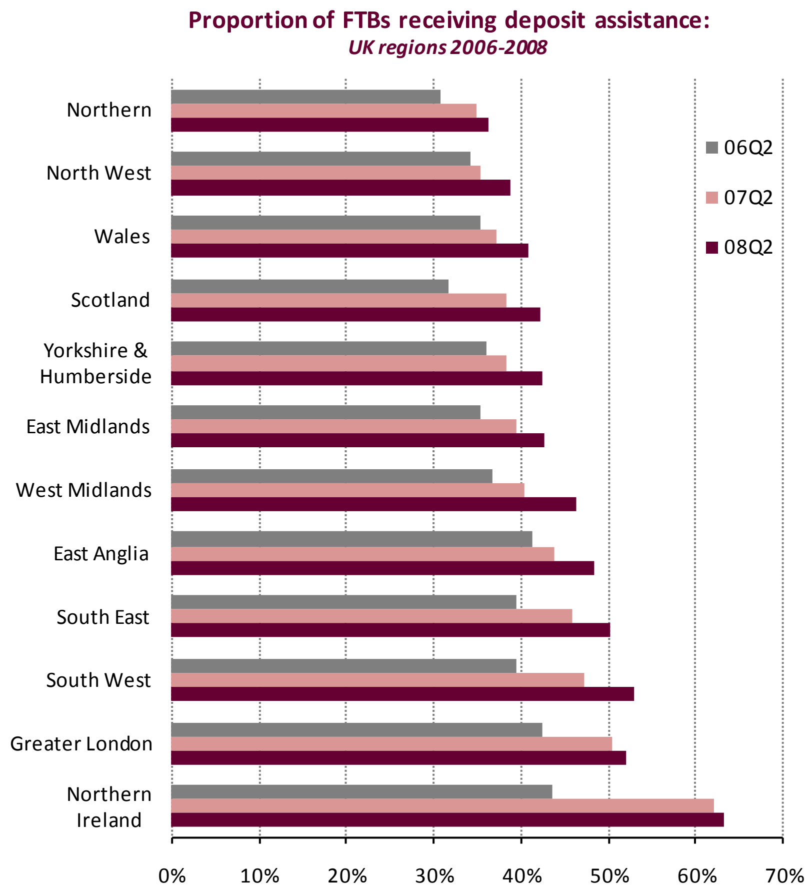



**Chart 5: First time buyers receiving deposit assistance:** ***UK 2006-2008***
Source: CML

38. Table 3 shows the acute contrast between assisted and unassisted buyers in the same quarter in 2007 and 2008. There is a clear implication for patterns of inequality – with the best off most likely to be able to access home ownership at this time. The situation has worsened since Q2 2008, with the number of first time buyers declining by a further 30 per cent by the end of the year. Moreover, the CML research suggests that the average age of unassisted first time buyers is now 37, thus highlighting the gulf between the ‘have nots’ and the ‘haves’ (those receiving assistance), where the average age has not moved from 31 (CML, 2009a).

**Table 3: First-time buyer loan characteristics: *UK 2007 & 2008***

| | Assisted | | Unassisted | |
|---|---|---|---|---|
| | 2007 Q2 | 2008 Q2 | 2007 Q2 | 2008 Q2 |
| Loan amount | £106,000 | £100,999 | £118,750 | £118,750 |
| Value of property | £145,000 | £146,000 | £125,000 | £125,000 |
| Income | £29,500 | £29,240 | £36,000 | £36,490 |
| Deposit | £29,201 | £35,000 | £7,000 | £7,500 |
| Loan to value | 80.6% | 75.3% | 95.0% | 94.9% |
| Income multiple | 3.65 | 3.56 | 3.36 | 3.37 |
| Initial gross interest rate | 5.59% | 5.79% | 5.89% | 6.12% |

Note: Excludes right-to-buy purchasers.

Source: CML/BankSearch, *Regulated Mortgage Survey*

39. Holmans' research on first time buyers (Holmans, 2005) indicates that we would normally expect around 400,000 to 500,000 first time buyers each year. On that scale they are a major driver of the market as a whole, making up around 50 per cent of transactions in any year (though as the sector matures the proportion goes down as is evident from other countries – Holmans, 2000). Reflecting the current contraction, Nationwide BS recently suggested that there are now around 750,000 would be first time buyers who have failed to enter the sector (Nationwide BS, 2009) and the CML has put the figure at around 800,000 in the period 2008-2010 (CML, 2009b and Table 4).

**Table 4: Average annual number of first time buyers by age: *UK 1996-2015***

| | Actual | | | | | Projected | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1996- | 2001- | | | | 2009-10 | | 2011-15 | |
| *000s* | 2000 | 2005 | 2006 | 2007 | 2008 | Low | High | Low | High |
| 18-24 | 93 | 76 | 87 | 81 | 46 | 47 | 97 | 47 | 97 |
| 25-29 | 163 | 124 | 138 | 124 | 64 | 67 | 153 | 72 | 164 |
| 30-34 | 96 | 83 | 80 | 69 | 35 | 36 | 79 | 39 | 87 |
| 35-39 | 50 | 49 | 44 | 38 | 20 | 20 | 48 | 18 | 45 |
| 40-44 | 26 | 28 | 24 | 21 | 12 | 12 | 32 | 12 | 30 |
| 45+ | 32 | 42 | 27 | 24 | 16 | 17 | 50 | 17 | 52 |
| Total | 461 | 402 | 401 | 357 | 194 | 198 | 459 | 206 | 476 |

Source: CML, "How quickly will first-time buyers return to the market?", *CML News and Views*, 21, 27 October 2009

## Government help to access home ownership

40. The pressures on first time buyers are recognised by governments across the UK. England has had an active low cost home ownership (LCHO) programme since 1980, encompassing both shared ownership (part rent/part buy), shared equity (a government equity share in the home or less common a housebuilder or lender) and most recently *Rent to Homebuy* (renting which can be converted to ownership).

41. It is difficult to get accurate numbers on the scale of these LCHO initiatives, but it is in the order of 200,000 households assisted (housing associations currently have around 100,000 shared ownership homes – but some owners will have staircased and half were shared equity). The annual programme has been anywhere between 4,000 and 12,000 with much of it concentrated in the higher-priced parts of the country (with 12,210 funded in the latest HCA allocations).

42. In recent years LCHO has been expanded, not least through the English Partnerships *First Time Buyers Initiative*, reflecting the government's wish to address

affordability pressures. In 2007/08, 21,413 new LCHO homes were completed; in 2008/09, 19,743. In addition to these new homes purchased via *New Build HomeBuy* (effectively using the old shared ownership model), there are shared equity loans being used to purchase existing homes via *Open Market HomeBuy*, a very popular alternative.

43. Most recently, the government scrapped the *Open Market HomeBuy* programme and focused its efforts on new build via both a new direct scheme with builders and developers and the existing *New Build HomeBuy* route. This was an understandable response to the pressures of the credit crunch and the desire to support supply initiatives, but the reality is that it is yet another policy change in a programme that has undergone frequent adjustment. One consequence of this is that many lenders have become disenchanted with supporting LCHO and have been refusing loan applications. Currently, both the Department of Communities and Local Government and the Homes and Communities Agency are conducting reviews of the LCHO programme, thus promising more change.

44. The National Audit Office published a detailed report on the LCHO programme in 2006 (NAO, 2006). This suggested it had not been well managed or targeted. It set out a number of proposals for reform. It argued for simplification but, as indicated above, since then the schemes have become more varied and complex (there were five variants of HomeBuy, but with the cessation of *Open Market HomeBuy* and the parallel and enhanced scheme offered by a small number of associations – *Own Home* and *My Choice HomeBuy* – there are now three in operation – *NewBuild HomeBuy*, *HomeBuy Direct* and *Social HomeBuy*).

45. Despite extending the scheme and giving it more funding (*HomeBuy Direct* was created with housebuilders, with the government putting in £400 million along with an additional £80 million in Budget 2009), the reality is that this is still not keeping pace with the contraction of home ownership that is taking place elsewhere.

46. Relatively few social housing tenants progress to home ownership via shared ownership or shared equity (fewer than 10 per cent in the overall low cost home ownership programme). Most come from the private rented sector or direct from the parental home (for shared ownership, see CCHP, 2008). It remains difficult to fully document the impact of these LCHO programmes because there is limited monitoring data. Government targets LCHO at households with incomes below £60,000 and, although some lower income households enter via LCHO, the reality is that, given mortgage and deposit constraints, more and more of the homes are being sold to relatively high income purchasers. This has been a longer term pattern (see Resolution Foundation, 2009b, p55; DCLG, 2006).

47. According to the latest TSA statistics (TSA, October, 2009), there are now 6,660 unsold shared ownership (*New Build HomeBuy*) homes on the market and the number unsold for more than six months has fallen to under 50 per cent of the total. In the last quarter, around 1,000 homes have been switched to renting (either social or intermediate, with some of the latter being offered under a new *Rent to HomeBuy* scheme) and this number is falling as the demand for LCHO shows some modest signs of recovery.

48. The general reduction in demand for this route is a reflection of the fall in house prices, the decline in demand from first time buyers and the difficulty of getting a mortgage.

As already suggested, lenders have stepped back from shared ownership and are now reluctant to offer 100 per cent loans on the purchaser's share.

## Conclusions

49. To conclude, we are at an important crossroads regarding both the future of home ownership in England and the UK and the role of property as a vehicle for accumulation and decumulation. It is clear that although the government has not formally abandoned its aspiration to get home ownership in England up to 75 per cent, the 'target' is being reconsidered alongside other policy. Future policy is likely to offer a more balanced view of tenure, with a greater emphasis on private renting. There is a real possibility that without more radical policy interventions we have now seen the peak of the proportional size of the home ownership market in England and the UK.

50. In reality, several regions achieved the 75 per cent aspiration during the 2000s, including the South East, South West and East Midlands. However the North East and London lagged far behind. Similarly, for the 40-59 and 60 plus age groups home ownership was over 75 per cent in all regions except London and the North East (plus Yorkshire and Humberside for the older group). Indeed, home ownership rates exceeded 80 per cent in two regions for the 40-59 age group (South East and East Midlands). These patterns more clearly reflect past policies and economic health, and the fact that there is now a gulf between the older age groups and the under-40 group is suggestive of how the circumstances have changed (on an England basis, ownership in 2006 was 56 per cent for the under-40 age group, 77 per cent for the 40-59 age group and 74 per cent for those aged 60 and over).

51. An increase in the home ownership rate necessitates a reduction in the rate for private and social renting (but not necessarily the number – this depends on the growth of households – though this in turn is partly a product of the ease of access to different tenures). It would also require a significant policy intervention in the light of current circumstances. For example, where the credit market is more constrained rather than less and where loan-to-income ratios and income multiples have been reduced. That would be particularly true with respect to London. Clearly there are radical policy options open to government, e.g. transferring the entire social rented stock into home ownership, but this is neither likely nor desirable.

52. What seems likely going forward is that government may settle for a lower and probably more sustainable level of home ownership. This might be between 65 per cent and 70 per cent. By extension, this implies a bigger private rented sector (and social rented sector, though given public expenditure constraints this is unlikely to grow very much). Much now turns on both the reworking of housing supply and the mortgage market as we move through the credit crunch and recession. If the mortgage market remains under-funded relative to demand for the foreseeable future then this will itself have a dampening impact on house prices. Though affordability constraints will be eased in some respects, the fact that mortgages will remain difficult for some first time buyers to access will place real limits on what the market can achieve.

53. It is no coincidence that last year *The Economist* magazine ran an article titled "Shelter or Burden" which explored the benefits of home ownership (*Economist*, 18 April

2009, 76-78). The article concluded that the economic arguments were weak (aside from home ownership as forced savings!) and that the main arguments were related to social benefits such as neighbourhood stability and political participation (though even the former was questionable). It reflects the questioning not just in the UK but elsewhere as to the future shape and direction of the home ownership market and policy (see for example Sackville-Smith, 2009). It will require a careful balancing of political pressures for continued but potentially unsustainable expansion, with the economic realities of the new market place.

54. Sitting alongside this agenda is the wider issue of income and wealth inequalities. Over the last two decades, the expansion of home ownership has helped reduce overall inequalities because it has resulted in more people acquiring an appreciating asset. However, it has also contributed to the widening gulf between those with significant assets and those with very few. Subject to what happens going forward, the arguments presented here would suggest that with more renting and less owning there will be more households with fewer assets and therefore more relative inequality (although with the fall in house prices inequality may have reduced slightly and lower price levels in the future would add to this). A more restricted mortgage market will offer fewer borrowing opportunities to middle and lower income households, and most notably those with less-certain incomes such as the self-employed and contract workers. It is difficult not to conclude that, although this may mean we have a more sustainable housing market through the cycle, it will also be a more exclusive one.

# 3 Managing and accessing housing wealth

55. Although for understandable reasons attention is strongly focused on the present at this time, the reality is that the concern of this report is with the long-term (though there is an important interplay with short-term issues). This chapter focuses on the ways households draw down their housing wealth, i.e. decumulating the wealth they have built up. As will be clear later, this can be undertaken using a variety of mechanisms. What is also clear is that we have no comprehensive data on these flows. We have aggregate data on the value of homes and on the debt attached to them, but many of the other parts of this process are inadequately captured. To that extent our knowledge and understanding of decumulation remains partial.

## The decumulation process

56. As with entering home ownership, in reality home equity may be drawn upon in a variety of ways and spread over the life cycle. Our focus is typically on the use of that equity in retirement but we need to recognise that it can take place at almost any stage in the ownership cycle. The routes to drawing down on the accumulated value of the home – i.e. decumulation – include:

- **Housing equity withdrawal**, through remortgaging with a bigger mortgage or taking out a further mortgage advance on the existing home to take advantage of the increase in value over time.
- In a similar but different way, older households might opt to take out an **equity release mortgage** (though buying into a home income plan would constitute trading out).
- **Trading down** to a cheaper property and extracting the cash difference (or via over-mortgaging when moving to another home). Linked to this we have the sale and leaseback process where a household in difficulty sells the home to an investment company which then leases it back. This has become more commonplace in the recession and has now been regulated by the FSA
- **Last-time sales** consequent on the death of the owner-occupier, leading typically to inheritance of a home or the proceeds from a home by others. More rarely, the owner-occupier may choose to sell up and move into renting while still alive in order to access the value in his/her lifetime.
- **Charging the home** to allow costs and expenses to be accumulated against the value of the property.

57. There are thus a number of routes, and some households may use more than one at different stages over the cycle. Much turns on the value of the home and the extent of value appreciation over time. Clearly this is focused upon home owners and the use of the home they live in. It does not cover Buy-to-Let or other forms of property investment. There is an increasingly fine distinction being drawn here, given that home ownership has moved from being mainly about consumption (i.e. control and security) towards a mix of consumption and investment motives (which then takes the agenda closer to property investment).

58. The scale of use of these different routes for accessing home equity is captured to a degree in the complex analyses of mortgage equity withdrawal and housing equity withdrawal that have been undertaken since the mid 1980s (triggered by a previous housing boom). Holmans (1986, 1991, 1994, 2001 and 2008) and Davey and Earley (2001) have provided early detailed assessments. In Appendix 1, a brief extract from Davey and Earley is provided to illustrate the diversity of routes.

59. It is also the case that the cycle we are implicitly discussing here is now often much more complex than it was in the past. Figures 1 & 2, taken from Beer (2008), illustrate this. As a generality, in the past there was likely to be a relatively simple pattern of interaction between stages in the family cycle and tenure (Figure 1). Today, although that still exists for some, the pattern for many will be quite different and probably much more complicated with households moving in and out of home ownership (Figure 2).

**Figure 1: Family life cycle and tenure: the past**

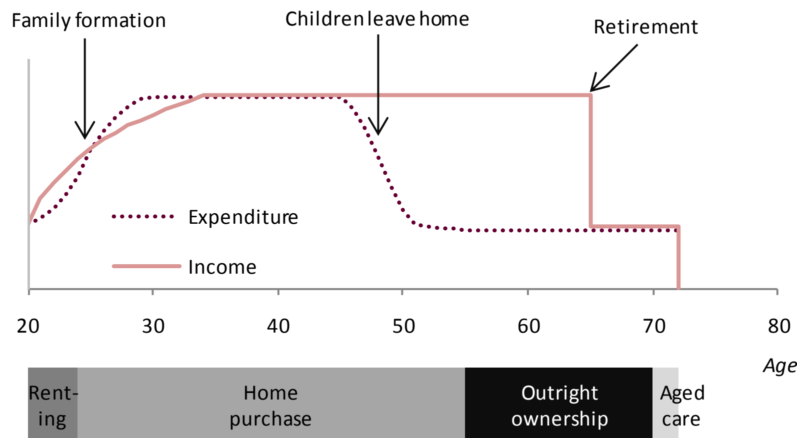
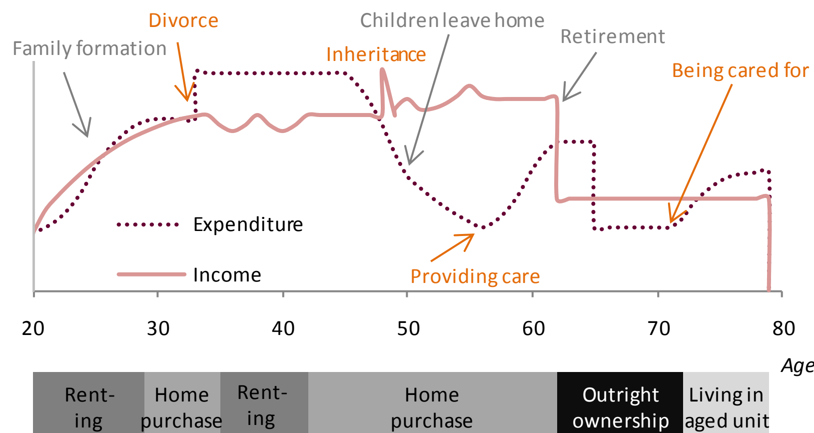



**Figure 2: Family life cycle and tenure: the present and the future?**




60. What the figures suggest is a much more broken pattern of asset accumulation. For some households this will be less of a problem because they expect to inherit a property or cash proceeds. In that sense they are participating indirectly in the housing market. However, for those who are first generation buyers and/or who do not expect to receive an inheritance,

this is much more significant. These patterns are further complicated by the fact that until recently at least, most house purchase was funded by two person households. There is evidence to suggest the children of home owners marry the children of home owners and thus the cycle of advantage is sustained (Hamnett, Harmer and Williams, 1991) and the patterns of inequality reinforced. With divorce and relationship breakdown on the one hand and policies such as the Right-to-Buy/Acquire and LCHO schemes on the other, this may be disrupted to a degree.

### Housing Equity Withdrawal (HEW)

61. Mention has already been made of the substantial body of work around home equity withdrawal. This debate has had a certain cyclical quality, looming large in periods of house price booms when owning households can be seen to draw down on the value of their homes through taking out mortgages, with the cash released being used for a variety of purposes. This has become an important financial flow (Cutler, 1995) and one the Bank of England tracks closely. Although the Bank of England used to use the term 'mortgage equity withdrawal' it has subsequently shifted to 'housing equity withdrawal'. Over the period January 2000 to the end of March 2008, some £316 billion was drawn down. Between April 2008 and the end of September 2009, there were net repayments of around £34 billion.

62. The Bank's estimate of HEW is intended to measure that part of secured borrowing that is not invested in the housing market:

> HEW occurs when lending secured on housing increases by more than investment in the housing stocks. Investment comprises new houses, home improvements, transfers of houses between sectors, and house moving costs, such as stamp duty and legal fees (although these fees do not add to the value of the housing stock, they are measured as investment, so reduce the funds available for consumption). So HEW measures mortgage lending that is available for consumption or for investment in financial assets (or to pay off debt).

63. Clearly these are significant flows and this is one reason why households may end up with a mortgage in retirement. Equally it has been suggested that at the present time there are a lot of owners overpaying their mortgage payments to take advantage of historically low interest rates. However the evidence for this is rather hard to come by. The Bank of England data on monthly repayments of secured lending on dwellings (Table A5.5) shows that total lump sum payments have fallen slightly on both a seasonally-adjusted and not seasonally-adjusted basis. Although there is a small rise in regular payments of capital (on a seasonally adjusted basis £2,740 million in April, compared to £2,645 million in March), this seems to be a product of the mechanical effect of unadjusted payment schedules and lower rates. It is noted that the pattern for building societies is slightly different with more evidence of over-payment.

64. The most recent estimate of current 'free' housing wealth in the UK is £2.1 trillion (CML, 2009c). Outright owners had equity of £1.4 trillion and mortgaged owners £0.7 trillion. In addition there was private rental property with a value of around £0.5 trillion of which one third was covered by a mortgage. In total therefore there are privately owned residential property assets with a free equity value of around £2.5 trillion. Falling house prices are

bringing this wealth down, and the CML has estimated that there were around 900,000 owners in the UK in negative equity at the end of 2008 – equivalent to about 5 per cent of all home owners and 13 per cent of owners taking out mortgages in the period since Q2 2005. Most of these are people who took out mortgages at the peak in 2007 (CML, 2009c).

### Trading down, trading out

65. Given the focus on access to home ownership, it will be no surprise to find that our knowledge of the dynamics of the tenure is quite limited. One way households extract wealth from housing/manage their housing expenditure is to move to cheaper areas/properties. Another is to exit the sector and change tenure.

66. Burrows (1998) explored patterns of residential mobility over time. His data suggest that in the late 1980s and early 1990s somewhere between 5 per cent and 9 per cent of households with a mortgage were residentially mobile each year. Depending on the year, between 63 per cent and 80 per cent of those moving moved into another mortgaged home. He also noted that in 1993/94, some 8 per cent of moves were motivated by the wish for a smaller or a cheaper property (partly in response to mortgage arrears). By 1996/97 this had fallen to 2 per cent. This is somewhat lower than the most detailed study of trading down undertaken in 1988 (Dodd and Hunter, 1990). In terms of owners trading down, 19 per cent gave needing a smaller home as the reason for moving and 12 per cent gave financial reasons.

67. In terms of exits from home ownership, Figure A1 in Appendix 2 gives some details of flows in England in 2006/07. Some 177,000 owner-occupier households moved into the private rented sector that year and 29,000 into social renting. We also know that there were around 130,000 last-time sales (following death of the owner-occupier occupant). We do not know how many move into residential care on an annual basis.

### Taking out an equity release mortgage or home income plan

68. There are two main types of equity release product available in the UK: lifetime mortgages and home reversion plans. Lifetime mortgages have been regulated by the FSA since 2004 and home reversions since 2007.

69. Lifetime mortgages provide applicants with tax-free funds, either as a lump-sum or regular payments, which are repayable when they die or exit home ownership (following entrance to a residential home for instance). If they move home, the loan can move with them. Drawdown loans, which allow customers to access an initial lump-sum and set a further amount which they can draw on as suits them over time, have become increasingly popular and now account for more than half of all lifetime mortgages. Most lifetime mortgages include a no negative equity guarantee, to ensure that the total amount owed is not greater than the sale price of the house.

70. Under home reversion plans, an individual sells up to a 100 per cent share of their home to a provider for a tax free lump-sum and continues to live there rent-free. The amount paid is based on a valuation below the market value of the property, typically between 35 per cent and 60 per cent. On death, or a move into a care home, the property is sold and the provider receives the value of the share of the home they own. Under some schemes,

customers pay a small amount of rent to the provider in return for receiving a larger initial price.

71. As Chart 6 indicates, the formal equity release market is dominated by lifetime mortgages. In 2008, total equity release products sold were valued at £1.0 billion, down from £1.2 billion in 2007. The number of lifetime mortgages fell from 29,293 in 2007 to 28,224 in 2008. Home reversion sales also fell – from 1,529 in 2007 with a value of £82.6 million, to 1,063 and £57.4 million in 2008.

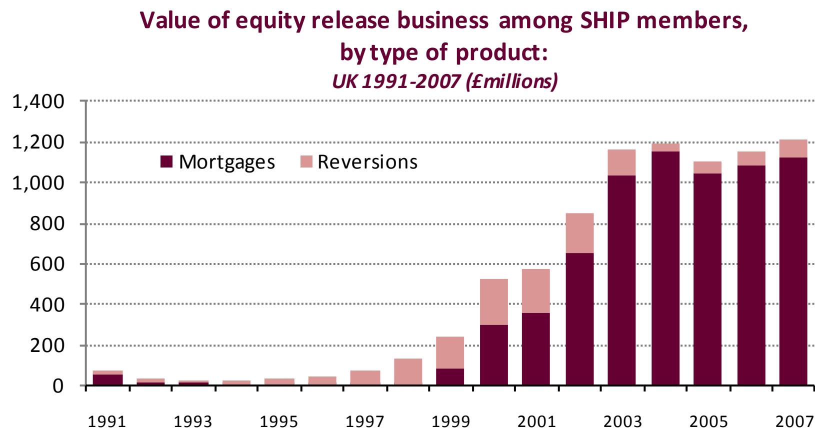



**Chart 6: Equity release products sold by SHIP members:** ***UK 1991-2007***
Source: SHIP

72. Sales in the first half of 2009 fell compared to the same period in 2008 – down by around 10 per cent depending on the measure (number of plans or value). Clearly the housing market downturn, and not least confidence in house prices, had an impact, although the second quarter 2009 figures indicate something of a recovery. However, there is a widespread view that this market has yet to meet its potential (Williams, 2007b; SHIP, 2009) and that more needs to be done to develop it, including better alignment of products with the diversity of customer needs, a clearer stance from government and regulators and better information and training for those selling the product.

73. An equity release working party report by the Actuarial Profession in 2004 estimated that unmortgaged equity for the over-65s was at least £1.1 trillion and growing (Institute of Actuaries, 2004). For this reason, the Actuarial Profession report predicted that annual equity release sales volumes would double from the present £1.0 billion by 2010, and then rise to nearly £4.0 billion a year by 2031. The Pensions Commission Final Report in December 2005 noted that many consumers are asset-rich but cash-poor, though it did not offer any recommendations to assist using this wealth. Most recently, Prudential's Equity Release Index showed that, following two years of decline, homeowners aged 65 and over held £654 billion of home equity (England, Wales and Scotland) in June 2009 (Prudential, 2009).

74. There have been repeated predictions that the equity release market was about to expand rapidly. In reality this has not happened, even though government has delivered the promised regulatory framework. There would seem to be a number of reasons for this:

- There continues to be a lack of trust (Rowlingson and McKay, 2005);

- A number of major brand names are missing from the market;
- The products on the market lack the degree of flexibility sought by customers;
- They are seen as expensive; and
- Though there is recognition of the role of equity release, many take the view this is the last resort (Smith, 2004).

75. The Resolution Foundation's earlier research would concur with this view of the formal equity release market (Resolution Foundation, 2008a) as would the recent SHIP study. However, as both Hancock (1998) and Sodha (2005) showed, although equity release might not be able to transform the income position for many older households, it could help a significant minority.

76. Aleroff and Knights (2008) suggest we will see an expanded market, but only if the products available can be improved. Among equity release customers responding to their survey, 61 per cent indicated that the cash released was an important part of their income. Given contracting investment income in the last year this pressure may have been heightened, and certainly there is some evidence to suggest the age of those entering the market is coming down.

77. Given this is now a regulated market, there are constraints as to how products might be structured. It is recognised there is an appetite to move towards more flexible income drawdown arrangements and to create hybrid products that combine rolled-up and interest payments in whatever combination suits borrowers. The scale of innovation has rolled back dramatically in 2009, reflecting the shortage of long-term funds (and greater competition for those funds that do exist – not least from government). Margins have increased and loan terms tightened as a consequence. A considerable number of lenders have recently exited the market including the Prudential and the Coventry and Newcastle Building Societies, reflecting concerns about house prices, the capital tied up and lengthy loan durations. Greater flexibility might increase product appeal but the market is unlikely to offer this at present.

78. In the decumulation process, equity release remains a modest contributor. Is this where it is destined to remain or is it becoming a matter of necessity that it is expanded? As the Resolution Foundation makes clear, the need is clearly there not least for lower income home owners, but the low usage of equity release forces costs up and demand down (Resolution Foundation, 2008b).

### Inheriting a property or the proceeds

79. Although we have seen a major expansion in owner-occupation over the last four decades and the inheritance of a property (or proceeds from one) is now more commonplace than it was, it is still quite limited in terms of the annual flow of funds generated. Here we first consider the more immediate prospects of inheritance flows generated by older households, and then second we explore the longer term process of property asset accumulation and the ways this might change over time.

80. As a consequence of greater longevity, the UK will experience increasing numbers of older home owners. Holmans (2008) has estimated that there will be a 3.3 million increase in the number of households aged 60 and over between 2006 and 2026 (1.85 million will be one person households). Within that total, the number of owner-occupier households will go up by 2.8 million by 2026 (from 6.2 million in 2006 to 9.1 million), reflecting the ageing of the babies born in the bulge (1946-1948) and the baby boom (1956-1965).

81. Of owner-occupied households aged 60 years and over, 5.5 million had no house purchase mortgage debts in 2006, and Holmans estimates that the total equity belonging to the entire group was about £1,000 billion, close to 40 per cent of the total equity of all owner-occupiers (£2,270 billion). He then estimates the value of the homes belonging to households aged 60 and over in 2026 (at both constant prices and 2.5 per cent real increases per annum). Using the former he arrives at a value of £1,468 billion in 2026.

82. These are large sums even by today's somewhat changed circumstances (for example, the Bank of England quantitative easing programme will run to at least £175 billion). However, Holmans questions whether the role owner-occupied housing might play via inheritance is overstated. The total number of deaths of widowed, divorced and single owner-occupiers in the UK was around 110,000 in 2006 (with property worth £16 billion). This might increase to 134,000 by 2026 – much lower than his earlier estimate of 167,000 in 2021 (Holmans, 1997). As this suggests, this reflects reduced mortality and this is likely to continue. As he comments (2008, page 43):

> 'The "nation of inheritors" is taking far longer to come into being than seemed likely when the idea was first thought of in the 1980s'.

83. This is very much in line with other studies, not least because we must distinguish between property transfers and properties being released (Hamnett, Harmer and Williams, 1991), with the former happening when a spouse dies and the home is 'transferred' to the surviving partner, compared to when that person subsequently also dies and the home is 'released'. What that research showed was that, given certain assumptions, the number of homes released for inheritance purposes might rise from 168,000 in 1986 to 343,000 in 2031. However, in reality the number of estates containing residential property had only risen to about 175,000 in 2005/06 (the latest statistics), well below the forecast 227,000. As this process becomes ever more delayed, the more likely it is that existing households will drawdown on that wealth in lifetime. It poses an interesting conundrum.

84. The International Longevity Centre has undertaken detailed studies of inheritance (Lloyd, 2008). This work provides useful further detail to build around Holmans' findings. Around 2 per cent of the UK population receive an inheritance every year. Perhaps unsurprisingly, the average inheritance is increasing in value. The pattern of inheritance varies by age and socio-economic group, with older households and professional and managerial households more likely to get an inheritance. The highest expectations of receiving an inheritance in the next ten years are among those aged 54-59 years old, and it is clear that there is a strong association between being wealthy and expecting an inheritance.

85. This was also true in terms of *leaving* an inheritance and particularly with respect to being an owner-occupier. The report suggests (2008, pages 6 & 9):

> 'the proportion of individuals with an estate comprising property wealth will also increase. As a result, it is reasonable to expect the total value of inheritance transfers across society to continue to increase in coming decades despite any short- to medium-term falls in property prices (...)
>
> Transfers of this magnitude across large swathes of society have never been experienced before by the UK and have implications across wide areas of public policy and social policy. The UK unquestionably appears to have entered a new age of inheritance'.

86. While the ILC is correct to argue that property inheritance will increase in importance, it would seem on the basis of the Holmans' research that it overstates the speed and scale with which this might take place. Resolving the question of timing and scale now become matters of considerable significance.

87. Attitudes to inheritance are changing on both sides – benefactors and beneficiaries. Smith (2004) showed that older households were more likely to want to leave their home as a bequest. This was much less likely for younger households. Equally younger households felt that older people did not need to leave a bequest (Rowlingson and McKay, 2005).

88. There is thus a greater willingness (or perhaps need?) to use value in lifetime, at least in theory. Much turns on the products and processes available and whether these current attitudes shift through time. On the face of the pensions evidence, the need will certainly increase.

### Charging the home

89. Local authorities can place charges against their residents' homes under a number of powers, effectively affording them the opportunity to advance loans for a variety of purposes. For example, local authorities can offer service charge loans to some residents. Leaseholders of flats bought under the Right-to-Buy scheme may have the right to a loan to help pay for the repairs element of their service charge. The right is available to both the original purchaser of the flat under Right-to-Buy and subsequent leaseholders, but only if the landlord remains the housing authority which granted the lease or another housing authority. Generally the loan takes the form of a right to leave the service charge outstanding for a certain period while paying interest on it.

90. Similarly, under Section 55 of the Health and Social Care Act 2001, local authorities were given the power to take a legal charge on a care home resident's main or only home instead of seeking contributions to the cost of care from the individual. The accrued debt could then be recouped when the home was sold. No interest is charged until 56 days after the owner's death at which point a "reasonable" rate of interest could be introduced. These 'deferred payments' are available to people in residential or nursing homes who have capital (apart from the value of their home) under the local authority limit, cannot meet the full fees of the home from their income and do not wish to sell their home or are unable to sell their home quickly enough to pay for their fees. However, as was evident from a recent FOI

request by the Conservative Party, local authorities vary widely in terms of the use of these powers. In England, some 50 per cent had opted not to use the special powers in the past year and 46 per cent did not use them at all (see http://www.channel4.com/news/articles/society/elderly+forced+to+sell+homes+to+pay+care+costs/2913557).

91. Section 22 of the Health and Social Services and Social Security Adjudications Act (HASSASSA) 1983 provides councils with an alternative means of recovering costs from residents who own property and fail to qualify for free care. The power allows local authorities to place a legal charge against residents' property where a debt is outstanding. Guidance issued to local authorities specifies the requirement to offer deferred payment in the first instance, meaning that this route is not used very often by households wanting to decumulate. However, some councils seek consent from residents to use the power as a way of allowing debt to accrue for a broader range of services than just residential care, under the 'Well-Being Power' defined in Section 2 of the Local Government Act 2000.

92. The Resolution Foundation paper published alongside this report reviews local authorities' and residents' experiences of, and attitudes to, some of these mechanisms in relation to funding long-term care needs, and makes recommendations for development (Resolution Foundation, 2009a).

## Conclusions

93. This chapter has explored the ways households might seek to draw down on the value of their homes (in addition, households can work to sustain and enhance the value of their homes). Benito (2004) and Smith and Vass (2004) provide what are probably the most recent estimates of the gross flows. Using the Survey of English Housing, Benito provides an estimate for 2002 for last-time sales, trading down, over-mortgaging (on moving), re-mortgaging (without moving) and further advances/second loans:

- 4.1 per cent of households and 5.8 per cent of owner-occupiers withdrew equity in 2002
- Just under half the owner-occupier cases did this via re-mortgaging or further advances.
- Last-time sales and over-mortgaging each made up just under 20 per cent of owner-occupier cases.
- Trading down was about 13 per cent of owner-occupier cases.
- By value, last-time sales were 36 per cent of the total, trading down 25 per cent, re-mortgaging 27 per cent and over-mortgaging 12 per cent. This suggests mortgages were used for about 40 per cent of gross withdrawals, though this was lower than Holmans' estimate of 50 per cent.
- Last-time sellers and those trading down were most likely to pay off debt or save rather than spend. Those who borrow were most likely to spend. Home improvements were the dominant item in terms of spending.

94. Benito does not provide a figure for the total sum involved, but the Bank of England data for 2002 suggest that £39.4 billion was withdrawn. However, the Bank figures exclude formal equity release. Smith and Vass examined the 2003 data, when £57 billion was withdrawn. Their findings support those of Benito, i.e. on a value-basis, it is last-time sales and trading down that account for most equity withdrawal. Last-time sales and trading down also produced the biggest average withdrawals – over £75,000, compared to a rough average of £23,000 for over-mortgaging and re-mortgaging etc. Re-mortgagors were more likely to withdraw equity than movers, and on a regional basis re-mortgagors in the South East were much more likely to do this (25 per cent) than re-mortgagors in the North East (5 per cent). It is not clear whether this was because they had more equity or because they needed the cash more.

95. Bringing these findings up to date and offering some crude estimates of the totals would suggest the following:

- In 2007, equity withdrawal as defined by the Bank of England was £42.4 billion. In 2008, it was negative £8.8 billion. In other words, households' equity withdrawal declined sharply, reflecting the broader environment.
- Trading down typically represents 8 per cent of transactions. In 2008, there were around 624,000 sales transactions in England and Wales (compared to 1.23 million the year before). This suggests that last year some 50,000 households may have traded down, but in a 'normal' year this might be over 100,000.
- In 2008, there were 206,000 moves out of home ownership in England. If the average value of the home was £200,000, it might suggest trading out produced an income of around £41 billion, though of course there would have been some outstanding mortgages.
- Some 30,000 equity release products were sold in 2008, with a value of £1 billion.
- 130,000 homes (or proceeds) were inherited with a value in 2006 of £15.8 billion.

96. Taken together, this begins to suggest that across the UK somewhere between £50 and £100 billion, or 3 per cent of the £3 trillion total value of property, is drawn down each year. This is both a very crude and wide estimate. Clearly this number and the value will fluctuate wildly over time and between areas. What is very clear is that, as with earlier studies, last-time sales, re-mortgaging/over-mortgaging and trading down are far more significant than formal equity release.

## 4 The state and housing wealth

97. Government in all its manifestations sits at the heart of both the accumulation and decumulation processes associated with home ownership. Ultimately value is driven through the market, but fiscal policy impacts on this (for example it is estimated a 1 per cent rise in interest rates produces a 3 per cent fall in house prices, NHPAU, 2009) and macro-economic conditions are strongly influenced by government activity.

98. In fiscal terms, home owners benefit from:

- **Capital gains tax relief** (on the primary residence): HM Treasury's gross estimate of this relief was valued at £16.3 billion in 2007/08. However, applying the taper relief provisions which would normally apply to any CGT levy (and assuming rollover relief was applied to allow the full proceeds of one sale to be applied to the purchase of another home (as in Sweden)) would produce a net figure of £6.5 billion.

- **Inheritance tax relief**: This is charged on estates and typically the largest component is the home. In 2009/10, there is a nil-rate band up to £325,000. Above that, tax is charged at 40 per cent. There is no charge when the home passes between partners/spouses.

- **Stamp Duty relief**: New thresholds were introduced from 3 September 2008. If the purchase price is £175,000 or less, no Stamp Duty is paid. Above £175,000, the purchaser pays between 1 and 4 per cent of the whole purchase price. The £175,000 threshold (up from £125,000) will remain in place up to and including 31 December 2009. Properties bought in areas designated by the government have historically qualified for Disadvantaged Area Relief (whereby the Stamp Duty threshold was higher than for other residential properties - £150,000 instead of £100,000). For the period set out, the Stamp Duty threshold will be the same as for all other property. HM Treasury has estimated this temporary relief is worth up to £600 million, though much of that turns on the number of transactions.

99. Home ownership continues to be fiscally privileged, even though mortgage interest tax relief was removed in 2000. We have already discussed housing policy and the assistance given regarding low cost home ownership. Added to this is assistance with interest payments if a mortgaged owner becomes unemployed (Support for Mortgage Interest – SMI) and the most recent Home Owner Mortgage Support scheme (HMSS), through which government guarantees lenders against losses when they offer extended forbearance. Some home owners have also been eligible for home improvement grants, though that regime is now steadily moving towards a loans regime.

100. In essence, given that successive governments have chosen to make home ownership the centre piece of housing policy (and most recently part of the wider asset-based policy stance), it is no surprise that in the last 18 months steps have been taken to support a faltering market. Though there is a strong view that house prices will recover over the medium to long-term, it is quite clear a re-think is underway in terms of the priority given to home ownership. There is a growing expectation that UK home ownership levels have

peaked and that a smaller market will emerge. If this is backed by a tighter regulatory regime (Turner, 2009) then we may see a market with greater price stability. This may mean that some of the trends we have observed in the past, for example with respect to equity withdrawal, will be diminished.

101. This could impact upon both accumulation and decumulation over the long-term. It might also have some significance for the 'locked-in' accumulation that has taken place over recent decades. Ultimately that 'value' is underpinned by house prices and demand. If we are suggesting demand is lower and prices are lower, or at least more stable, then the locked-in accumulation might be reduced (certainly this will be reflected in lender caution). Much will turn on the timing of entry to the market, the type of home and geographic location.

102. In addition, we need to have regard to the interaction between interest rates and inflation. In the past, high inflation eroded the cost of mortgages far more quickly than has happened more recently. This has meant households are now carrying higher debt for longer. Added to later entry into home ownership and increased personal debt, we have the prospect that many owner households will be carrying debt into retirement. This will restrict their capacity to draw down on the value of the home. Offsetting this at present may be some rapid repayment undertaken to take advantage of low rates of interest although, as we have discussed, the evidence for this is limited.

103. All of this might suggest a negative view of home ownership going forward. This is not the case, but what it argues for is a more balanced and cautious view which should also be reflected in policy.

104. If the accumulation process may slow, what then of decumulation? Again government has always had a very ambivalent view of the extent to which it should facilitate the extraction of housing wealth. Much of social policy has been built around the distinction between the 'haves' and the 'have nots'. Ownership of a home defined a 'have', and as a consequence home owners have been excluded from assistance. For example, housing benefit is only payable to tenants and, whether in or out of work, home owners have typically been excluded from social housing unless they are homeless.

105. However in recent years, with the expansion of home ownership across the social spectrum and the ageing of the home owner population, there has been a growing recognition that many of the defined poor are home owners (Burrows, 2003; Burrows and Wilcox, 2000 and Meadows and Rogger, 2005). Home owners, mainly older ones, make up around half the poor and yet have the most limited access to state benefits.

### Decumulation and the state

106. Specifically focusing upon decumulation, the government's initial stance in the mid-1990s (Finch, 1998) on equity release was quite negative, taking the view that it could only help a small number of households and was therefore not a policy priority. It was also concerned about reputational risk in the aftermath of the failure of a number of home income plan schemes in the late-1980s and early-1990s. These resulted in some £67 million being paid out in compensation to 2,700 households.

107. Lifetime mortgages became regulated in 2004 and home reversions in 2007. In that sense the government has backed the market in terms of providing the comfort of having a regulated sales process surrounding these products. It is not clear at this stage this has had any significant impact in terms of public confidence. There is a view that regulation has done little to bring in the income-poor/asset-rich households who might benefit from equity release, while at the same time frustrating some of the income-rich/asset-rich who see equity release as a discretionary source of capital/income. This suggests one-size regulation neither fits those who need to use it, nor those who might choose to use it.

108. Regardless of this, there remain a series of constraints on the use of home equity including:

- Any proceeds from taking out an equity release mortgage, re-mortgaging or trading down etc. which are then invested to produce a return will be subject to tax.
- In addition these 'savings' will reduce eligibility for state benefits (if total capital is less than £16k there is a sliding scale of reductions down to the disregard level of £3k).

### Options government could consider

109. It is appropriate at this point to comment systematically on the different options. As already discussed, there are several ways a household can draw down on the value of their home and each has somewhat different and overlapping implications with respect to the state's involvement.

110. There are also questions as to whether to focus on creating as open a market in decumulation as possible and what role government might play in this process. One can argue the best solution is to clear away any barriers to the free use of property assets and the value drawn down from it. The evidence suggests there is already considerable freedom in terms of the use of property assets, albeit there are consequences for so doing.

111. If the chosen position was about freeing up the market from any unhelpful regulations and barriers, one might thus focus upon tax and benefit arrangements where there are clear inhibitors to the use of property equity, as well as any regulatory structures around the products that can be used. Alternatively, one can argue for a more pro-active stance by government where it is seeking to stimulate this market, recognising the benefits it can bring to a wide spread of individuals, as well as to government, in terms of ensuring more households have the capacity to service their own needs. This has some resonance with the recent Green Paper, *Shaping the Future of Care Together* (DH, 2009).

112. The consequences of a lifetime mortgage were discussed earlier in terms of income tax and benefits. Lifetime mortgages allow the borrower to reduce inheritance tax liability by creating an unpaid lifetime debt which is offset against the estate on death. This aspect of lifetime mortgages is rarely emphasised but is not un-important. However, although government has in the past intimated that it might wish to close this option because of the loss of IHT revenue, it has not done so yet (and it would be difficult). Clearly, the lower the government keeps the IHT threshold the more incentive there is to use equity release. It is not an explicit policy at this time, even though IHT is now an issue for many more home

owners. This has been seized upon by the Conservative Party, which has raised the issue of the IHT threshold and committed to moving the nil band to £1 million at some point in its first parliament in government.

113. Another alternative would be to use tax reliefs to stimulate the market for equity release or other forms of draw down. This could simply be that income from equity withdrawal remains untaxed, potentially up to a certain threshold. The government could also provide a mortgage interest tax relief (MITR) specifically for any equity release mortgage, so that interest payments are offset against tax liabilities. Given that many home owners are income-poor this might have limited effect, though it would certainly expand the higher income market. We should remember that these are primarily interest-only/rolled-up interest loans. Unused options already exist in terms of exploiting the tax reliefs on additional pension contributions. For example, equity release before retirement could facilitate additional lump sum pension contributions, which then benefit from tax relief. Again this route has yet to be exploited and it might require government to take a more explicit stance to encourage this.

114. Consumer reaction to lifetime mortgages is varied, but clearly many are deterred by the costs (set up fee of between £1,000 and £1,500, plus the implicit cost of the 'no negative equity guarantee' (NNEG) and the rolled-up interest through which the size of the loan effectively doubles every ten years). This has led some to suggest lifetime mortgages are a 'last' resort. One solution has been to explore whether the state could help reduce the set up costs of lifetime products and thus widen their appeal. This turns on whether government takes the view the costs are justified by the wider access to and use of equity release. To date government has taken a 'lukewarm' stance to equity release, typically arguing that because it can only help some home owners it is not seen as ideal.

115. The recent SHIP review proposes a wider disregard on the proceeds of equity release in relation to means-tested benefits (SHIP, 2009). AIFA has further suggested that disregard should be re-visited on a regular basis (AIFA, 2009). Pilots established in three local authorities with the help of the Joseph Rowntree Foundation have been designed with low-income home owners specifically in mind (Terry and Gibson, 2010).

116. Two of the more costly components of a lifetime mortgage are advice and the NNEG. Given the typical borrower and the complexity of the issues, lenders find that meetings and interviews are lengthy. This has to be paid for and government could meet the costs of that advice, at least for selected parts of the market. The same is true of the NNEG. Lenders are taking on considerable house price risk when they guarantee that a borrower will never need to pay back more than the value of their home (and that sense of risk is currently heightened). There is no insurance for this at present, and this risk is typically offset by reserves the scale of which has increased under Basel 2 requirements. This capital cost is then reflected back in the pricing of the equity loan. Significantly, the situation is different between banks and insurance companies. For the latter, equity loans are a valuable offset to the annuity risks they carry. Given greater longevity, they need some kind of negative hedge against the fact they will be paying out more and longer. Equity release redemptions are likely to match that. This gives life companies an opportunity to match fund these two streams and to have access to funds that are cheaper than debt.

117. Either way, the costs of advice and the guarantee are high, at least for most providers. These costs could be reduced or removed by the government. In the US, the government guarantees lenders against the losses arising from no negative equity guarantees. Both advice and guarantees are part of the SHIP code. This has been a powerful stimulus to the equity release market but it does impose a cost. If government stepped in and met some or all of the costs it could help expand the market considerably. SHIP has proposed that government underwrite the NNEG and that the industry 'co-produce' products which can be used to release smaller sums of cash.

118. The crude estimates in the previous chapter suggest equity release is a small part of the total market. If government wishes to expand household use of property equity then it has choices as to which channels it focuses its efforts on. Equally it might take the view that households already exploit their property wealth and that there is little more that needs doing. In reality this is not so and the arguments for further developing use of property assets remain strong.

119. The potential exists for local authorities (and others) to allow households to charge costs against their homes with a view to this being repaid on death or sale. It avoids the disincentives produced by taxation or other charges and costs, although some would remain. It is, however, likely to be lower costs than the formal equity release market. Partly it is a question of when they are borne and by whom, and also whether this could become a structure in widespread use. This is explored in detail in the Resolution Foundation report published alongside this one (Resolution Foundation 2009a).

120. A charging regime is one which in some senses comes closest to using the home as a bank and without up-front costs. From the borrower perspective there can be an interest charge, while from a local authority perspective there is the potential for tying up significant capital in homes which will only be recovered after a number of years.

121. Going forward, it might be possible for local authorities to sell this down to the capital markets when they recover, but there would be a significant discount to value expected. This would have the advantage of releasing local authority funds, and if there had been significant uplift in property values the discount might still be less than the calculated opportunity cost of the capital tied up. To illustrate this point Rismark International, an Australian equity loan provider for mainstream house purchase, recently reported on the performance of its equity loan portfolio (a modest 500 loans). Since March 2007, the fund had outperformed share and property fund markets with a mark-to-market value 21 per cent higher than when it started, and with 60 loans being repaid it secured an internal rate of return of 7 per cent per annum. Certainly the Australian housing market has performed better than the UK market in the last two years, but it does illustrate returns are possible. Local authorities and others could hold their equity release loans for a period to secure a substantial equity cushion and then sell a performing portfolio to an investor, outright or on a shared return basis. Ideally, the local authority would reach agreement with an investor before the launch of the scheme, so that the product was devised appropriately and there was a known secondary market purchaser.

122. The absence of a capital gains tax eases the burden of selling up a home and raising cash. However the cash raised has income tax and benefit implications as already discussed.

123. All decumulation mechanisms rely in some way on there being an ordered and stable market. Value only has meaning if it can ultimately be realised, allowing debts to be repaid. In addition, trading down requires that there be options available to households in terms of the size, type and location where they can/wish to move to.

124. Clearly any home being used must have a realisable value. This may limit the options of some of the poorest home owners. The evidence earlier that it is the better off who have more actively decumulated via their homes is unsurprising. Such a pattern is in itself one reason why government may be reluctant to offer further assistance to this process.

# 5 Conclusions and recommendations

125. This report has explored the processes of accumulation and decumulation in relation to owner-occupied residential property assets. It has shown that, although there has been a reduction in both the number of home owners and the value of their assets as a consequence of the recession and the credit crunch, there is still considerable value to be extracted.

126. Long term, the scale of this market is partly subject to the restoration of the flows into home ownership as experienced over previous decades. Currently, the faltering in the growth of home ownership will have long-run consequences for the processes discussed here. However, there does remain considerable potential over the next 30 years to exploit the locked-in value of accumulated wealth that has been built up over recent decades on the back of un-interrupted growth in home ownership and sustained house price rises.

127. All the evidence suggests that many more households – particularly the income-poor/asset-rich – will need to draw down on the value of their homes, reflecting significant debts, poorly performing pensions, reduced employment and increased taxes (Resolution Foundation, 2008b). We have noted the widespread use of re-mortgaging and the way equity release has moved down the age spectrum. All hint at pressures on household budgets.

128. Fuller use of home equity might be achieved in a variety of ways, as we have set out in this report. One major question is could, or indeed should, the state do more to assist these flows? We have already highlighted a number of reasons why it should. These include:

- Many of the defined poor are home owners. Government will be under pressure to assist them even though they have unused equity. In that respect government would be helping itself as well as the individual households.
- A wide spectrum of households have inadequate pension income, despite the fact they have considerable housing equity. This number is likely to grow, and again this will put pressure on government expenditure.
- Making better use of property assets has been at the heart of policy even though there is no agreed stance. No single central government department has oversight of this market or control of its potential.

129. The Government could facilitate decumulation in a variety of ways, including:

- Tax incentives of a variety of forms to drawdown on the value of the home, including a higher IHT exemption threshold or relief from income tax if savings income is enhanced by drawn capital. Clearly there would need to be carefully agreed objectives and controls.
- Restructuring the eligibility requirements for state benefits through higher and potentially more specific disregards. It would be possible to test such plans to identify consumer appetite.

- Subsidised advice through a designated and government-backed channel regarding the use of home equity. Given the scale of government debt and the pressure to reduce spending programmes in years to come, funding a mechanism to help people help themselves might be very good value for money. With appropriate safeguards there is no reason why this should be high risk for government or individuals. This might be especially true if government and industry co-produce a safe home equity programme with new lower cost/lower risk products. As with the above, there is the potential to test the appetite of consumers for this and to explore the risks. Rather than work from the basis this might not work so therefore 'don't do it', government should be more ready to think about how it might explore the agenda, not least given the looming public expenditure issues.

- Providing the no negative equity guarantee for lenders and/or meeting the set up costs for equity loans would help the formal equity release lending market. The recent SHIP report highlights a number of areas such as this, where producers identify pressure points that have inhibited market development.

- All of this could be given even greater clarity by resolving that any government activity is tied to long-term care issues, i.e. that assistance/engagement is targeted. This might be a safer option. The recent Green Paper does not engage with the question of housing assets, being focused instead on the broad principles by which care is delivered. Here it is noted that the proposals include a universal deferred payment mechanism, through which care and accommodation costs can be charged against individuals' homes and paid on death out of the estate. Our earlier discussion regarding the slow rate of increase in the numbers of estates does send a slightly cautionary message regarding the speed with which government might see a payback.

- Providing more and better-equipped homes aimed at enhancing the residential mobility of the post-retirement population, and thus the ease with which households can trade down/out and move to homes more suited to them, while still extracting value. In the UK, the push to higher density has led to the widespread demolition of bungalows which have been the classic 'retirement' home.

- Thinking more broadly, it would be possible to extend and develop low cost home ownership schemes as a way of reversing out of home ownership. Downward staircasing has long been talked about and the Joseph Rowntree Housing Trust has been running a flexible tenure scheme that allows this. However, as this might suggest, it is limited in its application. Local authorities and housing associations do have discretion to buy back shares in homes, but this is not often used. In the debates around loan modification in the light of the credit crunch, more thought has been given to this. However we are still some way from 'reverse staircasing' being a mandatory entitlement and an established programme.

- With the recent announcement by AVIVA that it is building a residential rental homes portfolio, we are moving towards a position where there might be wider

recognition of the potential for residential real estate to produce stable long-term returns. Rental housing has an advantage over equity shares because it produces a running return – rents – alongside the uplift in value over time. Holding equity shares makes most sense when a mature portfolio is acquired because this should mean there will be loans being repaid on a regular basis, thus producing both a running return and an uplift. Again government should explore these options with investors.

- More negatively, government could move to tax under-occupation or provide incentives to move to smaller homes as a way of encouraging trading down and equity release. This would have the added benefit of making more efficient use of the housing stock. It would however be deeply unpopular.

130. As this brief list suggests, there are a number of different options that could be explored. Whether government would consider using one or more of them depends in part on the extent to which it recognises the financial problems facing large numbers of households who at the same time have a significant property asset.

131. Given recent debates about reductions in public expenditure, alongside the rising costs of care and the increased concern over the shortfall on pensions, the argument for taking a very close look at the potential for a sustained programme of decumulation based on property assets as a means of providing at least part of the solution is very strong.

### Turning words into action

132. Given where government currently is on this broad issue, making progress would require the following:

- Appointing a lead department to oversee home equity 'policy' and usage. This might best be the Cabinet Office or the Prime Minister's Department;
- Commissioning a rapid review of the potential use of home equity – including the costs and risks;
- A properly formulated cross government committee with external advisers to consider the findings and set out policy proposals; and
- A decision on the opportunity costs for taking these forward, bearing in mind it will always be a partial solution at best – i.e. it will deal with some but not all households. But, in the context into which we are now moving (tight public budgets), partial solutions are better than no solutions at all.

133. There can be no pretence this is a universal solution, but it could help a large number of households and far more than the number that will help themselves under the existing arrangements. The current costs and disincentives are simply too high for many households to contemplate using their property assets except as a last resort.

134. With a small amount of 'tweaking' of both the benefits and taxation regimes a lot more could be achieved. Progress since the last report to the Chief Secretary at the Treasury in 1998 has been painfully slow and the market, at least in formal equity release mortgage terms, has experienced only modest growth. We do now have a regulated regime, but to date

this has not transformed public attitudes – cost, concern about product choice and uncertainty seem to remain key barriers. Government now needs to go further.

135. This report has sought to set out the potential. There is a time-limited window of 20 to 30 years during which government could act to encourage the drawdown of a significant volume of home equity based funds. This would coincide with the major cost burdens which are about to pass to the state as the baby boomer generation moves through retirement.

136. In that regard, this report offers good news. A largely untapped source of funds is available, subject to a more refined and structured approach both by the market but also crucially by the government. It is our view the two could go hand in hand, and especially in relation to spreading the benefits further down the income spectrum.

## References

Abbey (2008) “Falling house prices mean buying is cheaper than renting again”, *Press Release*, 25 June, Abbey, London

AIFA (2009) *Financial Planning Through Retirement*, AIFA with Prudential, AIFA, London

Aleroff, C and Knights, D (2008*) The Link between Income, Savings and Property in Funding Retirement*, Financial Services Research Forum, Nottingham Business School, Nottingham

Andrews, M (2006) “Housing tenure choices by the young”, *Housing Finance*, June, CML, London

Benito, A (2004) “Housing equity and consumption: Insights from the Survey of English Housing”, *Bank of England Quarterly*, Autumn, 302-309

Beer, A (2008) *Myth Busted? Australians and their Housing in the 21st Century*, AHURI Seminar, AHURI, Melbourne

Bottazzi, R, Crossley,C and Wakefield, M (forthcoming) *House Prices and Cohort Home Ownership*, Research Report, NHPAU, Titchfield, Hampshire

Burrows, R (1998) *The Dynamics of the Owner Occupied Sector*, CML Research, CML, London

Burrows, R (2003) *Home ownership and poverty in Britain*, JRF, York

Burrows, R and Wilcox, S (2000) “Half the Poor? The growth of low income home ownership”, *Housing Finance*, 47, 47-54

CML (2009a) “First-time buyers – are they really getting older?” *CML News and Views* Issue 15 – 4 August

CML (2009b) How quickly will first-time buyers return to the market?” *CML News and Views* Issue 21, 27 October 2009

CML (2009c) “Homeowner housing equity through the downturn”, *Housing Finance*, Issue 01 2009

Communities and Local Government (2009) *Capping administration charges for equity share and loan arrangements offered by housing authorities*, consultation paper, CLG, London

Croucher, C, Wilcox,S and Holmans, A (2009) *A Examination of the Housing Needs and Supply for an Ageing Society*, RICS, Research, RICS, London

Davey, M and Earley, F (2001) *Mortgage Equity Withdrawal*, CML Research, CML, London

Department of Communities and Local Government (2008) *Survey of English Housing*, DCLG, London

Department of Communities and Local Government (2006) *Who are the Low Cost Home Ownership (LCHO) purchasers and what is the demand for LCHO*, December, DCLG, London

Department of Health (2009) *Shaping the Future of Care Together*, Cm 7673, DH, London

Department of Work and Pensions (2007) *Attitudes to Pensions: the 2006 Survey*, DWP, London

Dodd, T and Hunter, P (1990) *Trading down and moves out of owner occupation*, Social Survey Division, Office of Population Censuses and Surveys, HMSO, London

Finch, D (1998) *Equity Release: Report for the Chief Secretary*, HM Treasury, London

Hamnett, C, Harmer, M and Williams, P (1991) *Safe as Houses; housing inheritance in Britain*, Paul Chapman Publishing, London

Hancock, R (1998) “Can housing wealth alleviate poverty among Britain’s older population”, *Fiscal Studies*, 19, 249-272

Holmans, A (1986) “Flows of funds associated with house purchase for owner-occupation in the United Kingdom 1977 -1984” and “Equity Withdrawal from House Purchase Finance”, *Government Economic Service Working Paper No. 92*, Departments of the Environment and Transport, London

Holmans, A (1991) “Estimates of Housing Equity Withdrawal by Owner-Occupiers in the United Kingdom 1970 to 1990”, *Government Economic Service Working Paper No 116*, Department of the Environment, London

Holmans, A (2001) *Housing and mortgage equity withdrawal and their component flows*; *a Technical Report*, CML Research, CML, London

Holmans, A and Frosztega, M (1994) *House Property and Inheritance in the UK*, Department of the Environment, HMSO, London

Holmans, A (2005) *Recent trends in the numbers of first time buyers; a review of recent evidence*, CML Research, Technical Report, CML, London

Holmans, A (2008) *Prospects for Housing Wealth and Inheritance*, CML Research, London

Institute of Actuaries (2001) *Report on equity release mechanisms*, IoA, London

Lloyd, J (2007) *Asset Accumulation in Focus: the Challenges Ahead*, ILC-UK, London

Lloyd, J (2008) *Navigating the Age of Inheritance*, ILC-UK, London

Meadows, P and Rogger, D (2005) *Low income home ownership in Britain – a descriptive analysis*, Research Report 251, Department of Work and Pensions, London

Nationwide BS (2009) “2008: a difficult year for the housing market”, *Monthly house price bulletin*, 6 January, Nationwide BS, Swindon

NAO (2006) *A foot on the ladder; low cost homeownership assistance*, National Audit office, London

Pensions Commission (2005) Final Report

Pensions Policy Institute (2004) *Property or Pensions?* PPI, London

Pensions Policy Institute (2009a) *Retirement income and assets: do pensioners have sufficient income to meet their needs?* PPI, London

Pensions Policy Institute (2009b) *Retirement income and assets: how can housing support retirement?*, PPI, London

Price Waterhouse Coopers (2009) *UK Economic Outlook*, PWC, London

Prudential UK (2009) *Equity Release Index*, June

Resolution Foundation (2008a) *Facilitating increases in long-term care funding: a discussion paper*, RF, London

Resolution Foundation (2008b) *A to Z: Mapping long-term care markets*, RF, London

Resolution Foundation (2009a) *Funding future care need: the role of councils in supporting individuals to access the capital in their homes*, RF, London

Resolution Foundation (2009b) *Squeezed: the low earners audit*, RF, London

Ross, A, Lloyd, J and Weinhardt, M (2008) *The Age of Inheritance*, International Longevity Centre, London

Rowlingson, K and Mackay, S (2005) "Retirement resources: the role of housing assets and bequests", *Quality in Ageing*, 6 (4)

Sackville-Smith, K (2009) *The Prudential Lending Pathway to Decent Housing*, CRANZ Housing Workshop, July, Reserve Bank of New Zealand, Wellington

SHIP (2009) *Facing the Future; redefining equity release to meet today's social and economic challenges*, SHIP, London

Smith, J (2004) "Exploring Attitudes to Housing Wealth and Retirement", *Housing Finance*, Autumn, pages 22-33

Smith, S and Searle, B (2008). *Dematerialising money? Observation on the flow of wealth from housing to other things.* Housing Studies 23(1): 21-43

Smith, J and Vass, J (2004) "Mortgage equity withdrawal and remortgaging activity", Housing Finance Autumn, pages 8-21

Sodha, S (2005) *Housing-Rich, Income-poor: The potential of housing wealth in old age*, IPPR, London

Tatch, J (2006) "Will the real first time buyers please stand up?" *Housing Finance*, February, CML, London

Tatch, J (2007) "Affordability – are parents helping?" *Housing Finance*, May, CML, London

Tatch, J (2009) "Homeowner housing equity through the downturn", *Housing Finance*, April, CML, London

Tenant Services Authority (2009) *Quarterly survey of housing associations*, October, TSA, London

Terry, R and Gibson, R (2010) “Can equity release help older home-owners improve their quality of life?” *Solutions*, JRF

Turner, A (2009) *The Turner Review; a regulatory response to a global banking crisis*, FSA, London

Williams, P (2007a) “Home-ownership at the crossroads?” *Housing Finance*, May, CML, London

Williams, P (2007b) *Please release me! A review of the equity release market in the UK, its potential and consumer expectations*, CML Research, CML, London

# Appendix 1: Extracts from Davey and Earley (2001)

**Table A1: Gross withdrawals and injections descriptions**

***Gross withdrawals***

| | |
|---|---|
| Last-time sales | A property is sold by someone leaving the owner-occupied housing market and the proceeds released from the housing market. This includes inheritances, emigration and divorce. |
| Trading down | A homeowner sells his property and moves to a cheaper one, either paying off his mortgage fully or reducing it by less than the difference in house prices. |
| Over-mortgaging | A moving owner-occupier increases his mortgage by more than the difference between the old and new house prices. |
| Remortgaging | A homeowner changes his mortgage without moving house and at the same time increases his debt, without spending all the money on improving the property. |
| Further advances and second mortgages | A homeowner takes a second loan on his existing property without spending all the money on home improvement. |
| Sales to other sectors | A homeowner sells his property to an agent in another sector eg to a housing association, and so reduces the owner-occupied housing stock. |

***Gross injections***

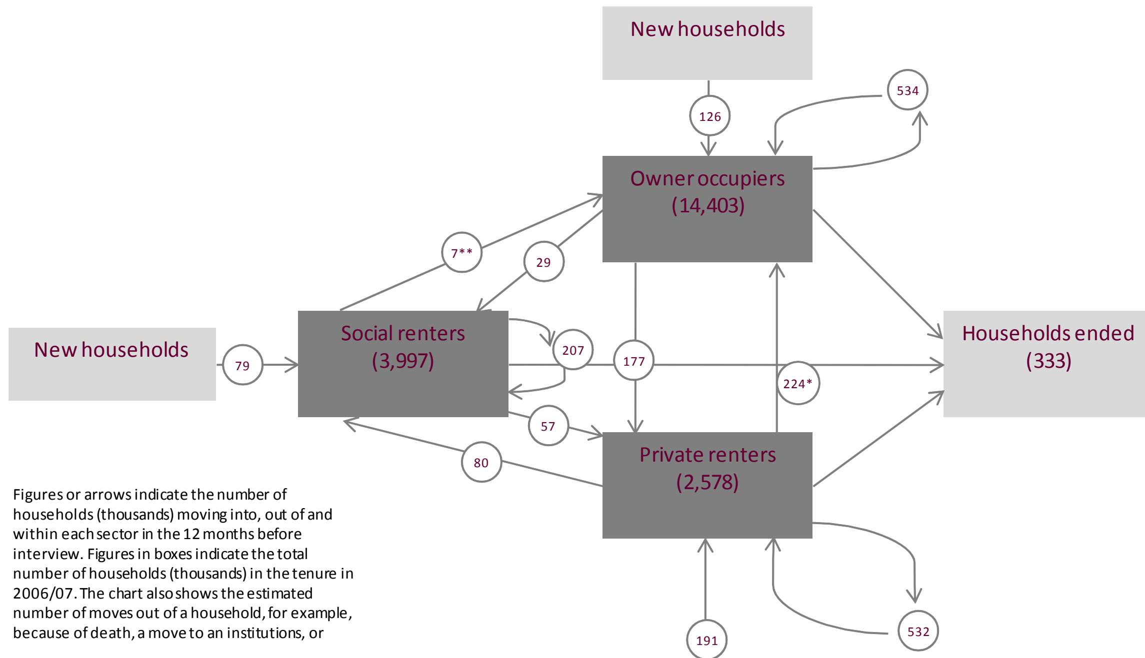
| | |
|---|---|
| First time buyers | First time buyers usually pay for property with a cash deposit as well as mortgage debt. |
| Under-mortgaging | A moving owner-occupier reduces (increases) his mortgage by more (less) than the difference between the old and new house prices. |
| Remortgaging | A homeowner changes his mortgage without moving house and at the same time increases the debt. |
| Redemptions and repayments | The regular repayments of principal made during the lifetime of repayment mortgages and the redemption of mortgages (excluding on house sales and remortgages). |
| Buy to let and second homes | A member of the household sector buys a house to let or as a second mortgage and injects some or part of the purchase price in the form of a deposit. |
| Home improvements | Home improvements funded by own funds or unsecured borrowing. |

**Table A2: How people withdraw and inject equity - some examples**

| Method | Housing | Mortgage | Withdrawal/Injection |
|---|---|---|---|
| First time buyer | Buy a home for £100,000 | £80,000 | Inject £20,000 |
| Own funds | Build a conservatory for £20,000 | Borrow nothing | Inject £20,000 |
| Trading down | Sell old house for £200,000 | Outstanding mortgage £20,000 | Withdraw £80,000 |
| | Buy new house for £100,000 | New mortgage £0 | |
| | Funds remaining from sale £100,000 | | |
| Over-mortgaging | Sell old house for £100,000 | Outstanding mortgage £20,000 | Withdraw £30,000 |
| | Buy new house for £200,000 | New mortgage £150,000 | |
| | Funds needed for purchase £100,000 | Net lending £120,000 | |
| Remortgaging | Outstanding mortgage £50,000 | Remortgage £150,000 | Withdraw £100,000 |

# Appendix 2: Extract from Burrows (1998)

**Figure A1: Number of households moving into and out of sectors, England, 2006/07**
*Household reference persons resident less than a year (thousands)*




Source: SEH, 2006/07