GEN Y HOUSING ASPIRATIONS COULD DEPEND ON A HOUSING INHERITANCE

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INTRODUCTION

In recent years the issue of intergenerational fairness has become more pronounced as the material conditions for Gen Y appear to be declining when contrasted with their parents, the Baby Boomer generation. One important aspect of this decline is reflected in trends in home ownership among young Australians, and the fact that housing is becoming less affordable for this group over time. In contrast, their parents were able to invest in a high rate of property ownership, such that owner-occupation sits at 70 per cent in assets that have strongly appreciated over time. This raises an interesting question of whether or not Gen Y can expect to inherit significant housing wealth from their parents, particularly as it could become a critical factor in terms of them being able to overcome affordability problems at some point in the future.

EXPECTATIONS AND ATTITUDES TO INHERITANCE

Over time and across societies there has been a commonly accepted norm that leaving wealth to children is a good thing to do, but only recently has the prospect of inheritance become an actual expectation. This view is shared mainly by the middle and upper classes due to the ability of these two groups to amass assets during their lifetime. In recent decades with the increase in housing wealth, Australians too have started to expect a significant rise in the number of people who both bequeath and inherit housing assets.

Bankwest, in its 2010 *Inherited Housing Report*, states that in 2009 there was an estimated $16 billion of potential housing inheritance. This figure is projected to increase to $31 billion per annum by 2025. Bankwest uses ABS census data and life expectancy figures to project that $407 billion in housing assets will be inherited over the next 15 years, with an expected 95 per cent increase in the number of estates with housing assets by 2025.

Baby Boomers own 45 per cent of owner-occupied dwellings. In addition to their primary residence, the purchase of rental properties by these older, better-off buyers has also risen significantly with this group owning 51 per cent of 'other dwellings' - investment properties and holiday homes) (ABS 2007). Notable is that in the purchase of 'other dwellings' these older investors have contributed to Australia's continued housing price boom which has had the consequence of reducing housing affordability for younger first-time homebuyers.

Besides the large value and scale of housing assets accumulated by older generations, another basic fact underpinning the projections around housing inheritance is that the proportion of older households (those with someone aged 65 or over) will grow from 13.5 per cent to around 22.6 per cent by 2050 (Treasury 2010: 9).

In summary, the Bankwest report argues that higher property ownership rates and the rise in house prices are key to the more than $400 billion of housing assets to be inherited between 2010 to 2025. Notably, as a hedge to this rosy prediction, it lists a range of factors (variation in house prices, increased housing debt, release of housing equity and paying for aged care) that could impact on its housing wealth projections, but does not explore them further.

Expectations

Unlike Japan, where families are obliged to provide care for relatives and inheritance is legally protected, neither in Britain or Australia are family members obliged to care for their elders nor is there any legal obligation for elders to bequeath to their children.

While there is very little quantitative data on people's expectations and attitudes to inheritance in Australia there is a smattering of data on Britain. A survey conducted by Deloittes in 2002 found that just over a third of the public said that children expect to inherit from their parents. While the survey had its limitations there was, nevertheless, a strong correlation with age as younger people were much more likely to have expectations than older people, and much less likely than older people to say that parents should spend money on themselves (Rowlingson and McKay 2004: 18-20).

Australia's Gen Y, being raised in households who have, in the main, experienced tremendous capital appreciation in their family's housing asset, would seemingly view this fact as sufficient reason to expect to inherit a significant amount of housing property some time in the future. This would be in contrast to their parents' generation whose own parents had only recently moved here after the war and were therefore unable to amass substantial housing wealth.

Attitudes

When the question turned to whether they would leave assets to the next generation the British results revealed that about two-fifths of the population supported the concept of inheritance under certain conditions. That is, they expected to pass on their housing asset, but not their savings. And one in five said they expected to leave nothing at all. Older people were much more likely to say that they expected to give or spend most of their assets before they die.

The larger issue these results raise is the possibility of whether the cultural norm of bequeathing to the younger generation may be starting to break down. And if so, why this is occurring? At this point in time, without any hard data, one can only speculate over what would be considered a sea-change in the attitude to inheritance, while examining some general attitudes expressed by the elderly in both Britain and Australia as to how they view bequeathing their assets.

For example, will people use their housing assets to fund a higher standard of living, will they use them to pay for long-term aged care or will they try to preserve them to pass them on to their next of kin? At one end of the spectrum there appears to be the idea that older people are deliberately setting out to spend their money, known as 'Spending the Kids Inheritance' (SKI) (Olsberg and Winters 2005). These, mainly, Baby Boomers say they will spend their savings and cash in on their housing equity to ensure the lifestyle they feel they deserve.

Such people should be viewed differently from those who are forced to use up their assets to pay for necessary care in their old age, a group labelled as 'reluctant SKIers'. At the other end of the spectrum are people who deliberately save in order to accumulate what they perceive as an adequate inheritance for their heirs, 'living poor in order to die rich' or 'Saints' (Saving Inheritance for their Children) (Rowlingson and McKay 2004: 31).

A national survey of nearly 7,000 older Australians in 2005 found a significant shift in their values and priorities that is transforming the pattern of future housing tenure, lifestyle and family relationships. This shift challenged traditional notions of old age and family obligations. Those surveyed viewed their housing asset as providing them with a 'conduit for choices in life' with so-called OWLS (Oldies Withdrawing Loot Sensibly) viewing downsizing, equity conversion or extraction and capitalising assets all as acceptable options for use of their housing asset (Olsberg and Winters 2005: 1). One quarter of respondents expected to use up all their assets before they die, and an even higher proportion, one-third, of Baby Boomers expected that to be the case. Because more than one-third had already assisted children financially, mostly through loans not gifts, there was a prevailing attitude of 'put yourself first after years of hard work', again the notion of SKI.

HOW RELIABLE ARE PREDICTIONS ABOUT HOUSING INHERITANCE: BRITAIN AND AUSTRALIA?

Similar to Australia, Britain can be viewed as a nation of home owners, with the former at 70 per cent and the latter at 60 per cent. It was because of a significant growth in home ownership and a rapid rise in house prices during the 1970s and 1980s that Chancellor of the Exchequer Nigel Lawson stated that Britain was 'about to become a nation of inheritors'. Unexpectedly, this prediction did not result in an upsurge in housing inheritance between 1969 and 1990. More specifically, the number of estates passing at death that contained house property was broadly stable, leading to the conclusion there had been no increase in the scale of housing inheritance over the last 25 years. Predictions assuming that the principal factor that influences the scale of housing inheritance is the level of home ownership among the older population were flawed (Hamnett 1996: 135-58).

One practical reason put forward for this finding was that there was clearly a time lag effect before the growth of postwar home ownership percolated through into inheritance. For example, the buyers from the 1980s still had some time to go before they died. One can assume that this situation would be the same for Australia, with some Baby Boomers (those born from 1955 onward, quite easily looking to another 30 years of life, say to 85).

Cyclical nature of the property market

Another important issue which may be overlooked when assessing the value of future housing wealth is the cyclical nature of the property market and its influence on housing wealth at any one time. For example, as a point of comparison from 1969 to 1989 national average house prices rose from £5,000 to £60,000 in Britain (Hamnett 1996: 136). Following this period there was a sharp decline, which would then show up as a fall in the value of housing inheritance. Hamnett found that increases in property ownership and value of housing wealth are not necessarily correlated as one can stay flat while the other increases or decreases. While the Australian Baby Boomers have mainly been the beneficiaries of housing inflation, it is impossible to predict what the property cycle will look like over the next 20 to 30 years when they would be making their bequeaths. Australia's economy, so dependent on China for its success, will most likely see its housing market both rise and fall depending on what the Chinese economy is doing. In addition, the IMF, carrying out econometric analysis of Australian house prices in 2010, suggests an overvaluation of 5 to 10 per cent, if not higher, which could point to less house price growth than has been the case.

Extraction of housing wealth

A far more important reason was that most commentators who had predicted a surge in housing inheritance fell into the trap of assuming that home owners would leave their entire property to their beneficiaries and not seek to extract any of its equity prior to death. In contrast to such views it was found that extraction of housing equity was highly likely as the expansion of residential care for the elderly rose considerably in importance during the 1980s. Closer examination of the data revealed that those aged 75 plus had the lowest rates of owner-occupation of all age groups except those under 25, leading Hamnett to suggest that this drop-off in owner-occupation was because the over-75s had to sell their homes in order to downscale as a means of maintaining their living standards or to pay for aged residential care. Noteworthy is the fact that between 1986 and 1991, the number of places in private residential care doubled in Britain and so a large number of people moved into such care, requiring them to release their housing asset to pay for its costs.

As a point of departure when examining Britain and Australia in terms of housing wealth and the elderly, Bradbury (2010) quotes the commonly held view that 'the majority of the elderly are asset rich but income poor'. A comparison carried out in the mid-1990s across 19 OECD countries found that the Australian elderly had the lowest rate of relative incomes (compared to national averages). They have few means of using their housing assets to generate income as the present treatment of assets in pension policy is a disincentive[1] to doing so and will require policy changes to increase the ability of the elderly to take better advantage of their housing wealth.

Recently in Australia there has been increasing discussion and debate about the use of reverse mortgages[2] to fund retirement. Bridge et al. (2009) examined equity release options that have arisen from precisely this situation whereby older Australians, while being predominately home owners, lack adequate superannuation and savings and are therefore driven to consider tapping into their housing wealth. They also found obstacles in terms of regulatory issues which would need to be dealt with to make this a more attractive option. Nevertheless, they viewed such products as an important means for low income but 'asset rich' older home owners to 'age in place' with a reasonable standard of living.

Deloitte Actuaries and Consultants tracking the growth in the reverse mortgage market for the Senior Australians Equity Release Association (SEQUAL) found that there were 38,788 such loans as of December 2009, which was double the number, 16,584, in 2005. Kevin Conlon, chief executive officer of SEQUAL, sees the trend towards releasing home equity in order to fund retirement as inevitable as the Australian population ages. The Deloitte's research found that younger (up to 70 years) drew down more of their available facility than older borrowers (over 75 years). This trend may reflect that fact that the pre-war generation is more frugal than the younger Baby Boomers.

A March 2011 Galaxy Research poll found that 90 per cent of Baby Boomers want to maintain their quality of life as long as possible, including remaining in their own home, even after they lose their independence (*Herald Sun*, 7 March 2011). In order to do so, it would appear that they will more than likely have to tap into their housing wealth. A 2010 report by the consulting firm Praxis Partners predicted that the uptake of equity release products in the next decade would increase between 2.25 per cent to 5 per cent of households (*Australian*, 23 February 2011). Moreover, a 2011 report by the Productivity Commission has recommended that a government-backed aged care equity release scheme be made available to enable home owners to draw down on their home equity to be used to fund their aged care and support.

It is clearly the case that health care costs have been rising more rapidly than other costs, making it difficult to plan and budget for old age. Whether the trend in Australia ends up being for home-based care or outside aged residential care, or even remaining in the family home, it is clearly the case that selling or taking a loan on the housing asset in order to fund rising expenditures will reduce the value of housing inheritance.

[1] Commonwealth of Australia. 2010. Australia to 2050: Future challenges (IGR)

[2] A reverse mortgage allows a home owner to continue living in their home while borrowing against it with no, or limited, repayments until the home is transferred to another person. Such schemes are available to those who own their home outright and are at least 60 years of age.

Probated wills in South Australia

O'Dwyer (2001: 83 - 87) presents results of the first empirical work of its kind on the intergenerational transfer of wealth, and housing wealth in particular, in South Australia in the 1990s. Unlike in Britain where this type of research has occurred somewhat more often, this was the first attempt to provide local understanding of this issue, even though it is both regional and somewhat dated. The study was unique in that it gained access to probate records, which were matched with property ownership and valuation records and sales records pertaining to both the deceased home owners and the beneficiaries of their estates.

O'Dwyer notes that it is important to understand housing wealth and wealth holdings by age in order to understand the implications for inheritance. Pointing to the work of numerous researchers the conclusion can be drawn that the value of both wealth and housing wealth is less for the older age groups than for middle-range groups. This is often missed in the discussion of the intergenerational transfer of wealth. That is, wealth tends to increase with age, until the typical retirement at age 60 or 65. For example, in 1986, 60-64 year-old Australians held $71,000 in housing wealth, while 70-74 year-olds held only $48,000. This suggests that the impact of housing inheritance may be less than is popularly believed.

In the South Australia example, approximately 2,500 estates containing housing assets were registered in 1990. When examining what they were worth, how many people shared in the transfer of this wealth and how much wealth these home owners left when they died, the probate records showed that these estates were worth $200 million, with housing assets comprising about 80 per cent. The average amount of housing wealth was much less than would be the case today due to the fact that the housing owned would have been quite modest back then with beneficiaries receiving only about $39,000 each. Hence these bequests from the first pre-war generation were too small to have much impact, either on the beneficiaries' lives or on the distribution of wealth.

While these figures are of limited use in trying to predict what the future scenario will be, especially taking into account the dramatic rise in house prices that has occurred since this earlier work was carried out, on further examination of the inheritors, O'Dwyer was able to shed some light on the impact the timing of housing inheritance had on the inheritor. This issue of the timing of the inheritance ended up being key to the terms of the intergenerational debate.

When examining issues such as the average bequest, the type of tenure held by the inheritor and so on, the one issue that had an important intergenerational impact was the timing of inheritance. The experience for South Australians is that most beneficiaries are middle-aged when they inherit, with the average age being 47. O'Dwyer points out that at that age, most households will already be on their life path and households will generally already own a house, hence the money they receive will often end up being simply a windfall.

In future, for Gen Y, in reflecting on today's lack of housing affordability (to be discussed in the next section), it appears that they may not have been able to take the first step onto the housing ladder and so a housing inheritance will carry much more value for them than it did for their parents the Baby Boomers who are only now beginning to receive bequests from their own parents, the pre-war generation. Therefore, in contrast to the past whereby the receipt of a bequest had little impact on key lifestyle choices, in future the impact of a housing inheritance could be quite significant.

A final point which will have an impact on certain members of Gen Y's potential to inherit housing wealth is the fact that it is unevenly distributed. Australia has a poverty rate amongst people of retirement age that is the fourth highest in the OECD, with low income families being less likely to own homes. Projections suggest that this less well-off group will grow in size in coming decades (Yates and Bradbury 2010). For these Gen Y descendants, the possibility of inheriting housing wealth is probably negligible.

In sum, the as yet unknown value of housing equity extraction that will be carried out by the Baby Boomers will be key to the size of housing inheritance members of Gen Y are likely to receive, providing there is housing wealth in their family to begin with. From the discussion below, it will become apparent that in contrast to their parents where, whatever the value of inheritance, it was by and large a windfall, for Gen Y it could mean the difference between finally becoming owner-occupiers or being the first generation to be worse off than their parents in housing terms.

GEN Y: HOUSING AFFORDABILITY

Gen Y is often described as facing spiralling education costs, leaving university debt-laden, and entering a risky job market that requires a high level of skills to successfully participate in it. Without the security of permanent full-time employment, except for the fortunate few, it is very tough to save a deposit sufficient to purchase a house. Moreover, a labour market evolving into short-term contracts makes it almost impossible to take out a traditional mortgage, which requires a long-term financial commitment and therefore steady income. Housing ownership is therefore assumed to be moving beyond the reach of young buyers.

Housing affordability for younger Australians has been examined by a number of analysts using a variety of approaches, including fluctuations in the cost of housing and finance, income to price ratios and so on. Out of this research has arisen a debate as to whether home ownership is in decline for those under 35 years or simply being delayed.

Recently, Powell and Withers (2006) using data from official sources looked at outcomes of home-buyers' from 1990-2006 and sought to determine the position of first home-buyers. Here, despite prolonged and sustained low interest rates, first home buyers are finding the purchase of a new home difficult. Based on RBA data, the absolute number of first home buyers halved after 2001 from 40 per cent to 20 per cent and their share of new loan approvals fell from over 30 per cent to only 15 per cent in 2004. Comparing census data from 1971 to 2001, the 25-29 year age group has seen home ownership rates fall from a high of 55 per cent in 1976 to 45 per cent in 2001.

The introduction of the First Home Owner Grant (FHOG) in 2000 was obviously intended to stimulate the younger market and it 'brought forward' home purchase decisions for a significant number of households. For those able to secure the FHOG, the timing of home purchase was determined by access to the grant. Notably the ability to secure the grant would require the potential homebuyers having both a sufficient and secure income in order to access housing finance. For those younger households without either, the housing market remains beyond their reach.

In sum, while delaying the purchase of the first house may have been the situation from the 1970s to the early 2000s, more recently the issue appears to be evolving from not 'when to purchase' but 'how to afford to purchase'. The answer, as previously suggested, may lie in the probability of inheriting housing wealth, no matter how late in life the bequest arrives, as such a bequeath may end up being the only way members of Gen Y will be able to amass the resources necessary to purchase, however modest, a house.

CONCLUSION

The paper has attempted to look at competing claims as to whether Gen Y will be able to expect a substantial housing wealth inheritance from their parents the Baby Boomers. It makes it clear that there are a number of factors, for example, variation in house prices, the cyclical nature of the housing market and its effect on property portfolios, parent's release of housing equity, uneven distribution of housing wealth and so on that could affect the value of housing inheritance.

In examining expectations around housing inheritance, younger generations appear to feel that this should be the case more so than is expressed by the older generation. Moreover, not all elderly people hold similar attitudes to bequeathing their assets, with some feeling very inclined to spend all or most on themselves. Whatever their attitude to inheritance, there is a clear expectation that Australia's elderly will need to release a significant amount of housing equity to pay for aged and health care, or simply protect their lifestyle as they get older, due to the fact of many of them being 'asset rich' but 'income poor'.

The stupendous wave of inherited housing wealth being predicted by over the next decades, if it occurs, would be an important factor in the ability of members of Gen Y to purchase a house. If, on the other hand, predictions are wrong as to both its value and scale, then the Australian dream of home ownership may be lost to many of Gen Y as housing costs when related to incomes have moved beyond their ability to finance such a purchase.

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