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Committee Secretary
Senate Standing Committees on Community Affairs

PO Box 6100
Parliament House
Canberra ACT 2600

Submission to Standing Committee on Community Affairs relating to Social Services and Other Legislation Amendment

AHURI welcomes this opportunity to provide a submission to Standing Committee for Community Affairs Inquiry into the Social Services and Other Legislation Amendment (Incentivising Pensioners to Downsize) Bill 2022.

This submission points to relevant AHURI research that relates to the purpose of the bill, and in particular to pensioners downsizing.

About AHURI

AHURI is the independent national research Institute dedicated to housing, homelessness, cities and related urban research. With our national network of university research partners, we undertake research on key policy and practice issues. With our government partners – the Australian Government and all state and territory governments – we inform policy and practice in a range of sectors, and stimulate evidence-informed discussion in the Australian community.

AHURI's mission is to work collaboratively to inform and impact better policy and practices in housing, homelessness and urban issues.

Purpose of this Bill

The bill proposes extending the assets test exemption for principal home sale proceeds intended for purchase of a new principal home from 12 months (as it is at present) to 24 months (or 36 months by determination of Secretary).

The intention of the bill is to 'reduce the impact of selling and purchasing a new principal home on a pensioner or other income support recipient's rate of payment'.

AHURI consider that this proposal would provide some comfort to those in retirement selling and purchasing a new home by:

- Permitting greater flexibility around decision-making about future housing
- Recognising the delays that can occur in settlement for new housing or in rebuilding or relocating after natural disasters (for example due to shortages in labour or materials, insurance payouts).

Underlying the bill (as suggested in its title) is the idea that downsizing is a worthwhile objective to encourage (or 'incentivise'). While downsizing may offer benefits for households, it is not clear how the bill would directly incentivise downsizing. Rather, the present proposal might reduce or remove one of the disincentives around relocating. However, the proposal might be of equal benefit for those choosing to reinvest all the proceeds of a sale in a similar (or even larger) property.

Given the proposal does come with a cost in terms of higher income support expenditure, it would also be important to know who the main beneficiaries would be and if it generates changes in behaviour (e.g., to increase downsizing). The remainder of this submission looks at AHURI evidence around downsizing, including policy options to support it.

Downsizing

What is downsizing and what benefits might it have?

Downsizing is usually defined in physical terms, where the dwelling purchased is smaller in size (or number of rooms) than the previous dwelling. However, in recent AHURI research examining downsizing, participants identified the key dimensions of downsizing as having more manageable external spaces (such as gardens), reduction in belongings, and financial benefits.¹ Downsizing can also be a mechanism of housing equity withdrawal.²

Downsizing of housing might therefore benefit households in various ways:

- Improving retirement incomes through equity release: owner occupied housing represents a large proportion of the wealth of retiree portfolios, but this form of wealth is illiquid and does

¹ James et al. 2020. *Effective downsizing options for older Australians*, AHURI Final Report No. 325, <https://www.ahuri.edu.au/research/final-reports/325>, doi:10.18408/ahuri-8118801.

² Ong et al. 2013 *Housing equity withdrawal: uses, risks, and barriers to alternative mechanisms in later life*, AHURI Final Report No. 217, <https://www.ahuri.edu.au/research/final-reports/217>.

not yield income. Downsizing might release funds that might be reinvested in more liquid, income yielding assets, enable access to funds for living, and 'balance' their portfolios

- Reducing maintenance or other housing costs: downsizing to smaller or more modern properties might lead to reduced workloads for retiree households (smaller gardens or fewer rooms to clean, or housing that is lower maintenance)
- Facilitate access to service-integrated housing like retirement villages. This might allow older people to move into age-appropriate housing with amenities, community and services close by.³

In the context of debate around the economics of housing and tax and social security reform, downsizing has been sometimes mooted as a way to address other objectives such as:

- Reducing underutilisation of housing and thereby improving the match between housing needs and existing stock,⁴ and
- Improving housing affordability or home ownership access for younger people. As housing has become less affordable and younger generations have struggled to enter ownership, encouraging older homeowners to downsize (by moving to smaller housing) has been considered one way to free up stock so that others (e.g. families) might access suitable stock.⁵

Incidence of downsizing

AHURI research indicates that there is an appetite for downsizing among some older age households. An AHURI study of 2,422 older Australians (aged 55+) found that 26% had downsized, and a further 29% had considered downsizing. Even so, more than 40% had not even considered it. Of those that not considered it, most (75%) were happy where they were, while 15% felt that moving was not worthwhile, and another 13% did not have the financial capacity to move.⁶

Downsizers – whether by choice or constraint – often move a distance from their existing location. Many downsizers (42%) moved to new neighbourhoods (only 22% remained in the same neighbourhood). Downsizing may also be coincident with decisions around moving to different locations, including regional areas.

Aspirations around downsizing

While there may be benefits in downsizing for individual households, numerous studies have shown that older people value having additional space in retirement even after children have left home. Time spent in the home increases, and additional space is used as studies or home offices, for

³ Jones et al. 2010. Service integrated housing for Australians in later life, AHURI Final Report No. 141, <https://www.ahuri.edu.au/research/final-reports/141>.

⁴ James et al. 2020. *Op cit*.

⁵ Australian Government 2017. *Reducing pressure on housing affordability: reducing barriers to downsizing*, Fact Sheet 1.5, Budget 2017, Canberra

⁶ James et al. 2020. *Op cit*.

hobbies or to accommodate guests.⁷ Most older Australians (90%) believe that the housing they presently occupy meets their present needs and most (70%) believe it would cater for their longer-term aspirations.⁸ Overwhelmingly, most want to live in separate dwellings of a decent size (3 bedrooms). Therefore, most are not looking to move, and if they wish to move, it is not to housing that is necessarily smaller.

Even so, most downsizers (two thirds) moved to housing with fewer bedrooms.⁹

Reasons for downsizing

AHURI research has shown that financial reasons were important in 27% of cases, though lifestyle and property maintenance were also important factors; for those considering downsizing the key benefits were reduced maintenance costs and time maintaining housing.¹⁰

Downsizing is often more a strategy facing those with constrained income rather than one used by those with wealth and higher incomes. A study of housing equity withdrawal found that those downsizing were generally financially constrained households.¹¹

Around 15% have downsized because of factors beyond their control such as needing housing closer to amenities.¹² Many interviewed also felt they would only move if they were ‘forced to do so’.

Downsizing might also be a by-product of broader decisions around re-locations (e.g., to locate nearer to family) or to facilitate proximity to lifestyle amenities. For example, many pursue lifestyle changes (‘sea changes’ or ‘tree changes’) or housing affordability, but others in more remote areas relocate closer to amenities.¹³

Barriers to downsizing

The literature has suggested there are several categories of barrier to downsizing, including those related to housing policy and retirement income policy architecture:

- Some are apprehensive that transaction costs (including stamp duty) around downsizing might eat up their equity and leave them unable to buy a smaller home. Similar concerns related to transaction costs around retirement homes.¹⁴
- Access to suitable housing: Downsizers in retirement need to move to locations and housing that provide sufficient amenity, affordability and that is close to their community links.

⁷ Judd et al. 2014. *Downsizing amongst older Australians*, AHURI Final Report No. 214, <https://www.ahuri.edu.au/research/final-reports/214>.

⁸ James et al. 2019. *Older Australians and the housing aspirations gap*, AHURI Final Report No. 317, <https://www.ahuri.edu.au/research/final-reports/317>, doi:10.18408/ahuri-8117301.

⁹ James et al. 2019. *Ibid*.

¹⁰ James et al. 2020. *Op cit*.

¹¹ Ong et al. 2013. *Op cit*.

¹² James et al. 2020. *Op cit*.

¹³ AHURI (2018) Where do households move over a lifetime? AHURI Research Brief <https://www.ahuri.edu.au/research/brief/where-do-households-move-over-lifetime-continued>

¹⁴ Ong et al. 2013 *Op cit*.

Governments have been reluctant to invest in strategies to generate a sufficient number of affordable and suitable dwellings in preferred locations.¹⁵ Some older homeowners are concerned about downsizing leading to social isolation.¹⁶

- Australians are increasingly carrying debt into retirement, which may affect decisions around downsizing. The most significant increase in mortgage debt has been among those approaching retirement, and this has adverse impacts on well-being and increases requirement to access superannuation.¹⁷
- Decisions around retirement for middle aged households are influenced by increases in house prices. Households may retire sooner if they feel they are benefitting from housing equity gains.¹⁸
- Emotional connection to home and belongings (including the prospect of having to part with belongings) can also constitute a significant barrier to downsizing.¹⁹
- Social cohesion and connection to local communities can also present a barrier to downsizing, when suitable properties to downsize into are not available in the local area.²⁰

Alternative approaches to increasing downsizing

In general, research has supported the idea of ageing in place, as staying put provides greater community supports for people as they age.²¹ Policy has generally sought to buttress this key principle by providing favourable tax and benefit treatment around owner occupied housing, and providing home-based care. However, it has also, whether by design or not, imposed some considerable barriers to move from existing housing, such as stamp duty costs. Various policy ideas have been proposed for reducing barriers to downsizing:

- Reducing transaction costs such as abolition of stamp duty and replacement with land tax (as has occurred in ACT), and broader stamp duty exemptions to downsizing moves.
- Protecting income support program entitlements – because reduced access to pensions is a disincentive to downsizing, proposals that provide for exemptions to income and assets tests help to remove a barrier to downsizing.

¹⁵ James et al. 2020 *Op cit.*

¹⁶ Ong et al. 2013. *Op cit.*

¹⁷ Ong et al. 2019. *Mortgage stress and precarious home ownership: implications for older Australians*, AHURI Final Report No. 319, <https://www.ahuri.edu.au/research/final-reports/319>, doi:10.18408/ahuri-8118901

¹⁸ Atalay et al. 2016. *House prices, household debt and labour supply in Australia*, AHURI Final Report No. 266, <https://www.ahuri.edu.au/research/final-reports/266>, doi:10.18408/ahuri-7304101.

¹⁹ James et al. 2019. *Op cit.*

²⁰ James et al. 2019. *Ibid.*

²¹ Olsberg & Winters. 2005. *Ageing in place: intergenerational and intrafamilial housing transfers and shifts in later life*, AHURI Final Report No. 88, <https://www.ahuri.edu.au/research/final-reports/88>.

- Addressing social isolation by encouraging moves to suitable downsized areas or retirement housing early enough to establish social links in the local community.²²

These approaches would be substantially directed towards assisting those that would voluntarily seek to downsize. Some other approaches have been focused on encouraging those in more expensive housing to downsize. For example, one way would be to impose asset test exemptions only below a certain threshold value of owner-occupied property.²³ However, this is likely to be politically difficult and would financially impact many households that would not prefer to downsize.

Further assistance

I would like to thank the Standing Committee on Community Affairs for its consideration of this submission. I would welcome the opportunity to elaborate further on the submission, or to facilitate such elaboration by the researchers whose work contributed to this submission. All of the research cited, and indeed all AHURI research, is available free from www.ahuri.edu.au.

If there is any way I can be of further assistance, please contact me directly on .

Yours sincerely

Dr Michael Fotheringham
Managing Director

²² Ong et al. 2013. *Op cit*.

²³ Whelan et al. 2018. Asset portfolio retirement decisions: the role of the tax and transfer system, AHURI Final Report No. 298, <https://www.ahuri.edu.au/research/final-reports/298>, doi:10.18408/ahuri-7311201.