



Downsizing: when, where & why

The *Downsizer Download* series has laid out the compelling case for downsizing as a solution to the income and housing problems faced by older Australians.

To recap:

- Households reach retirement at a point of peak wealth. But their disposable income drops sharply (Chart 1). They have less superannuation assets, and their balance sheets are structured in a way that provides limited income. In that classic phrase, older households are asset rich but cash poor.
- Incomes fall at a time when the cost-of-living increases and there is limited likelihood of extra assistance from the government.
- The type of housing becomes less appropriate. Houses are too large for smaller households (Chart 2), and maintenance costs and the need for assistance rises.

- Downsizing is a well-established concept as a way for households to deal with the issues of aging.
- But impediments remain in achieving the full benefits of downsizing.
- Developers have a key role to play. The major barriers relate to new dwellings being too expensive. And lack of suitable housing choice.
- Governments need to set building regulations to address dwelling type and location, and to help minimise the cost of moving.
- Innovative financing solutions, like those provided by Downsizer, can also help.



The solution involves restructuring assets to generate more income. And moving to smaller, more age-appropriate dwellings.

This solution is the definition of “downsizing”.

Households, governments, facilitators like Downsizer (downsizer.com), and developers are moving in the right direction. But more needs to be done.

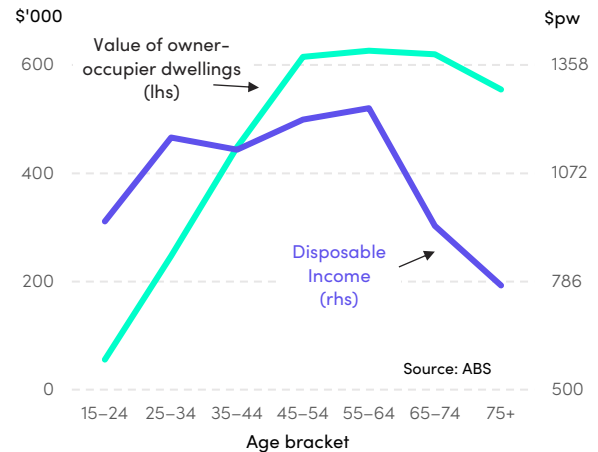
Households need to overcome their remaining hesitancy about downsizing. Financial pressures will keep pushing in that direction. Developers need to be aware of the price point, dwelling type and location that downsizers are seeking. Governments at all levels need to get policy settings right to ensure that housing choices are met and downsizing costs are minimised. Innovative financing techniques like those provided by Downsizer can grease the wheels. And there is scope for an education campaign on the how, when, where and why of downsizing.

The ABS conduct an ad hoc survey that looks at the reasons that people move house. The latest survey relates to 2019-20. The results are revealing.

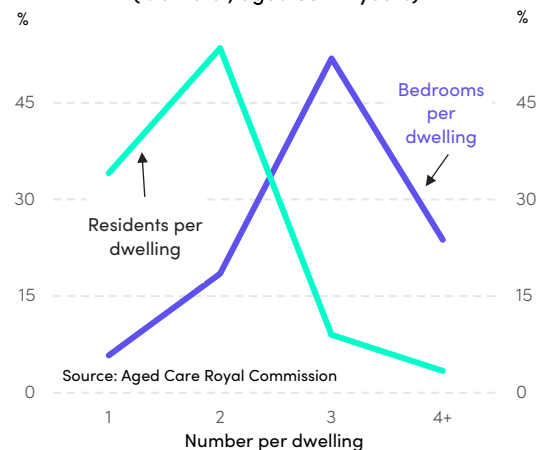
The top reason that older households changed residence over the past five years was to move to a smaller dwelling (Chart 3). Other key reasons include downsizing-related themes such as cutting housing costs, changes in household size (often the move to a lone person household upon the death of a partner) and a desire for lifestyle change.

A similar ABS survey on reasons for moving was previously conducted in 2007-08. The two surveys are not completely comparable. But, again, the results are revealing. In particular, the importance

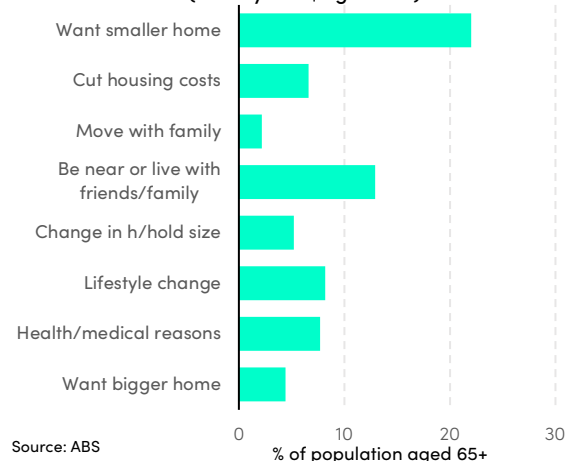
01. Wealth & Income by Age
(in 2019/20)



02. Residents & Bedrooms
(% of total, aged 65-74 years)



03. Top Reasons for Moving
(last 5 years | aged 65+)





of downsizing as a reason to move increased over the twelve years between surveys.

So the concept of downsizing is firmly embedded in the household mindset. But it is fair to say that there is a gap between intention and reality.

The ABS also survey those who say they are likely to move over the next year. The downsizing theme is readily observable in the response of older households aged 65 and over (Chart 5). Nearly one-third of respondents report they are likely to move because they want a smaller home. The gap between intention and action comes through in the underlying numbers:

- some 100,000 households aged 65 and over intend to move to a smaller home over the next twelve months; but
- only 86,000 households in the same age bracket actually moved each year over the past five years.

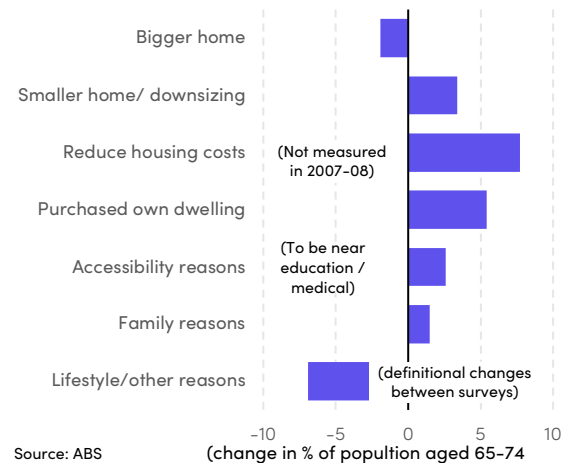
The shortfall indicates that households are still a little bit hesitant about the downsizing concept once the time comes to act.

The stumbling block relates to the wide range of reasons that people hold dwellings.

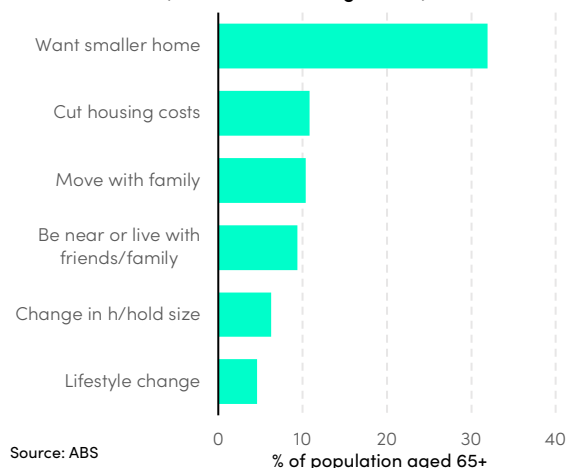
A survey of housing aspirations and constraints by the Australian Housing & Urban Research Institute (AHURI) shows that funding retirement is an important housing consideration (Chart 6). But housing is also seen as a source of safety and security, a wealth creator and an important bequest.

The perceptions about downsizing will continue to move in a favourable direction (Chart 7). The balance of forces pushing in that direction include:

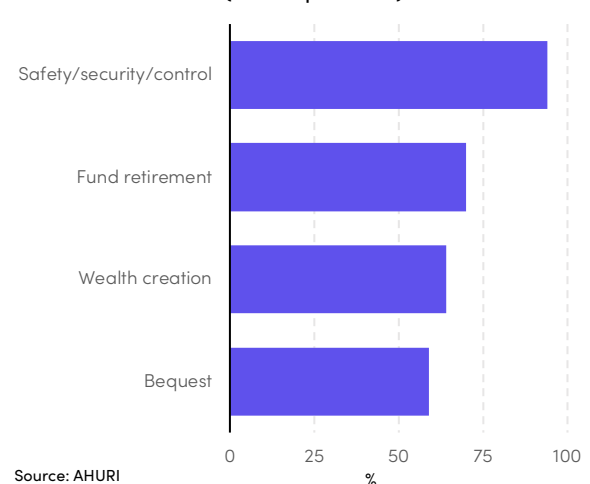
04. Selected Reasons for Moving
(change from 2007-08 to 2019-20 | aged 65-74)



05. Top Reasons Likely to Move
(next 12 months | aged 65+)



06. Selected Housing Considerations
(% of respondents)





- a rising life expectancy that means more years in retirement requiring funding;
- high retirement aspirations – travel, entertainment etc;
- spending patterns that shift towards more expensive items with age;
- the correlation between age and need for assistance;
- the increasing share of lone person households;
- the pressures on public finances that limit government assistance to retirees.

Some idea of the benefit from fully embracing the downsizing concept comes from a survey for Downsizer conducted by Digital Finance Analytics (DFA).

The survey shows the potential pool of downsizers over the next five years stands at around 1.72 million households.

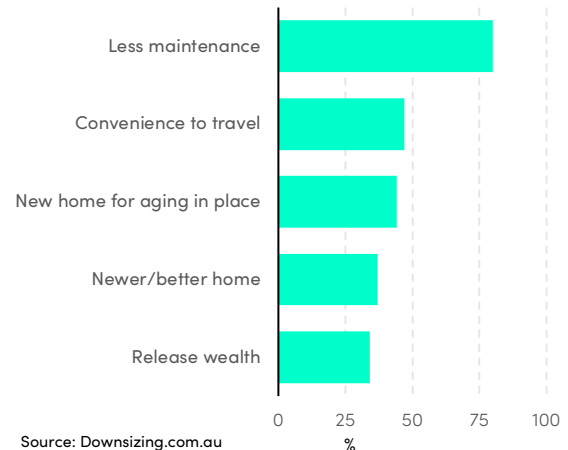
This downsizer pool could mean property sales of around \$1.7 trillion over the next five years. The net equity released, on DFA estimates, would be over \$300 billion. Or about \$310,000 per household.

According to APRA, the financial regulator, the average return delivered by super funds over the past decade was 6.9%. That extra \$310,000 released by downsizing, if placed into super, could potentially boost retirement income by \$21,000 pa.

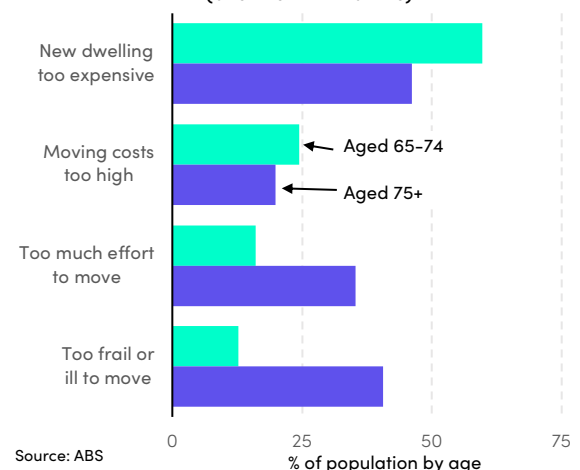
The downsizing choice is not just down to households. Other barriers and disincentives need to be removed if the full benefits of downsizing are to be achieved.

Surveys show some of the short and longer-term barriers to achieving the housing

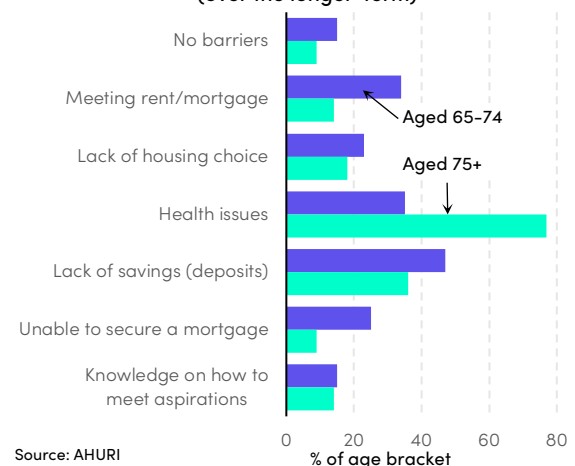
07. Attraction of Downsizing (% of respondents who agreed)



08. Top Barriers to Moving (over next 12 months)



09. Barriers to Housing Aspirations (over the longer-term)





aspirations of older households (Charts 8 and 9). The charts also reveal some significant differences between older age groups.

Developers have a key role to play. Some of the major barriers relate to new dwellings being too expensive (Chart 8). And lack of suitable housing choice (Chart 9).

The downsizing objective, in the end, is to liberate some equity to boost retirement incomes. Developers need to be aware of where the price point lies.

The Downsizer-DFA survey discussed earlier reports that around 50% of the potential downsizer cohort live in a dwelling worth more than \$1 million. And 68% are looking at downsizing to a property in the sub \$1 million price range (Chart 10).

A more detailed survey by Downsizing.com.au on the price “ceiling” that downsizers have in mind shows:

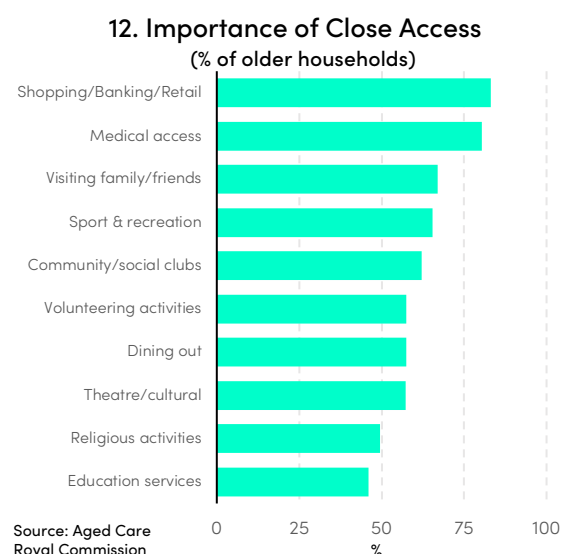
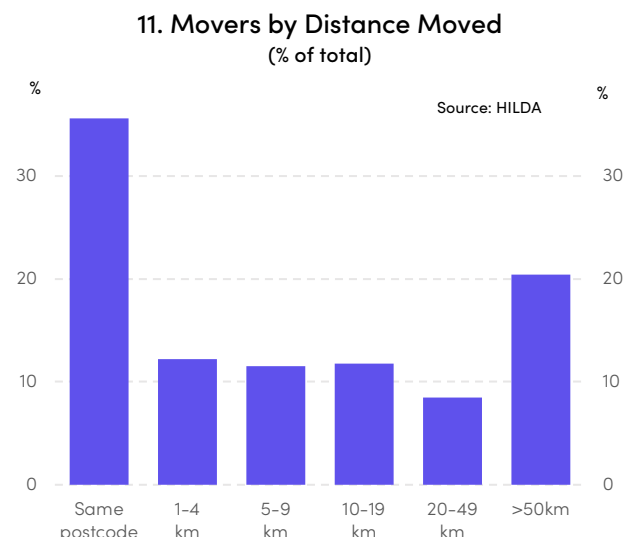
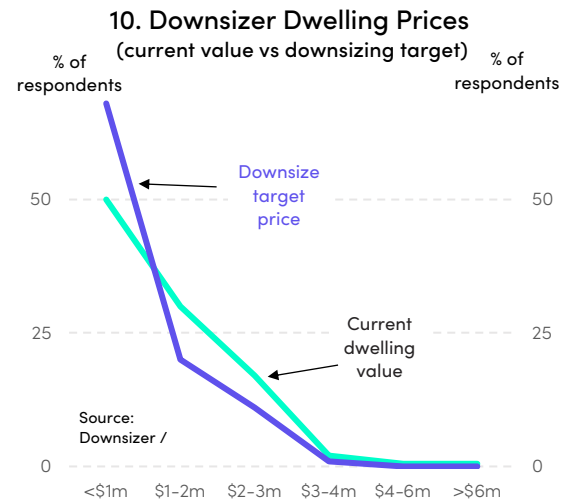
- 21% aim to spend under \$300k;
- 41% aim to spend \$300-600k;
- 13% aim to spend \$600-900k; and
- 2% aim to spend more than \$900k.

The remaining 23% said they couldn’t afford anything.

Developers also need to be aware of the different housing choices favoured by older households.

Those who move residence tend to stay local. Some 36% relocate to somewhere in the same postcode. And a further 24% stay in a 1-9km radius from the previous dwelling (Chart 11).

The preference for nearby reflects the importance older households place on close





access to services. The Aged Care Royal Commission, for example, noted that more than 70% of respondents identified close access to shops/banks, medical services and family/friends as very important (Chart 12). The importance of this close access is expected to increase over time (Chart 13).

In the real world all this translates into a preference for the middle/outer suburbs (Chart 14). Inner suburbs and regional towns are also popular. The CBD is relatively unpopular.

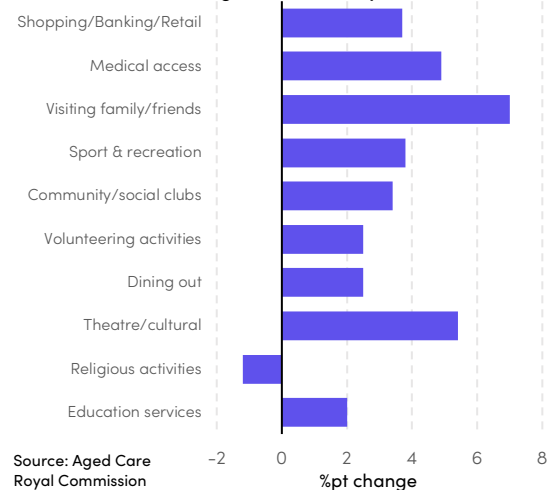
The surveys suggest that the importance of lifestyle change in the downsizing decision has fallen over time. But it does remain a consideration. When it comes to the downsizing “vibe”, the sea change, tree change idea still holds (Chart 15).

The majority would prefer detached dwellings. But this preference sits at odds with the objective of downsizing. Among other housing types, attached dwellings (semi-detached/terrace/townhouse etc) are favoured. Within the apartments, preference is low rise (less than 4 storeys) rather than high rise. Some 77% want 2-3 bedrooms.

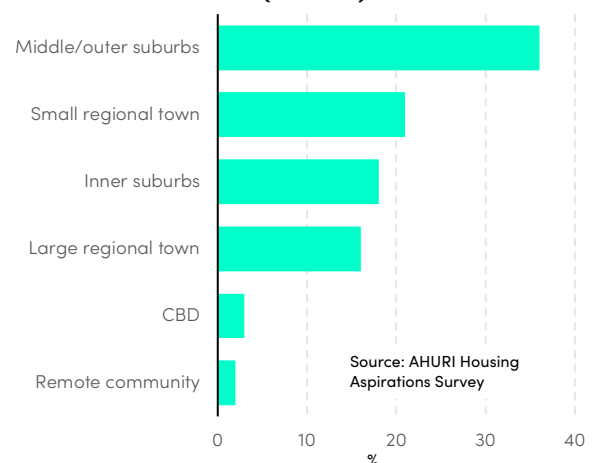
An AHURI report in 2018 on the housing aspirations of older Australians concluded:

“Developers need to recognise the demand for two and three-bedroom, attached dwellings located in high level amenity locations; locations where shopping, recreation and allied health services are located within walking distance or a short drive/public transport trip from home. Strategic planning needs to deliver outcomes that reflect the demand for smaller houses and move away from a mindset that apartments are the only solution to delivering diversity”.

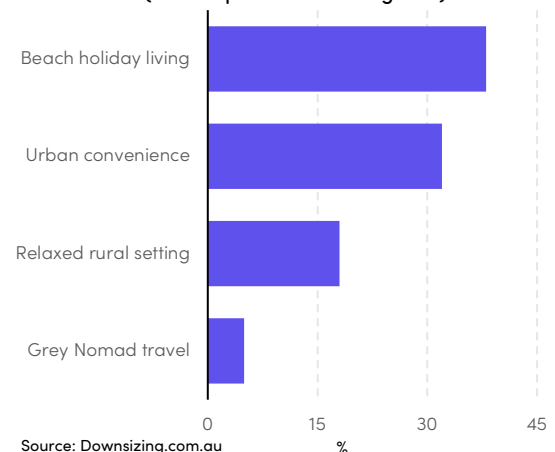
13. Importance of Close Access
(change over next 5-years)



14. Ideal Housing Location: Aged 65-74
(% of total)



15. Ideal Vibe
(% of respondents who agreed)





There is another age component that developers should consider. There are some distinct differences between the 65–74 years cohort and those aged over 75 years. Most downsizers sit in the 65–74 years bracket. The older age group is less likely to move as inertia takes over and frailty/illness reduce the appetite to move (Chart 8).

This age divergence is not surprising. There is a clear correlation between age, disability and the need for assistance (Chart 16).

There may be some clear messages that developers need to take on board. But their *ability* to deliver is affected by regulation.

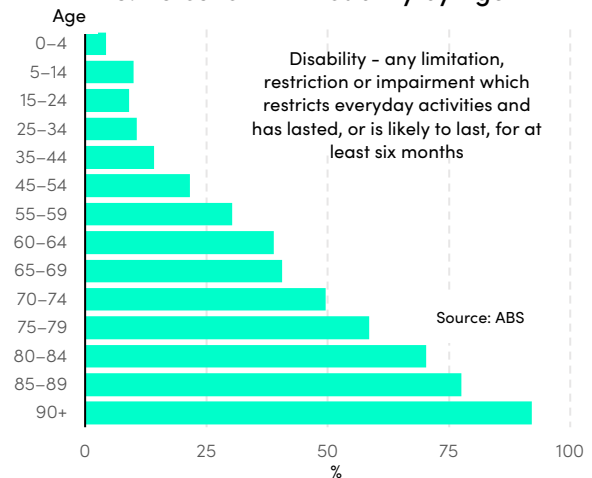
The many investigations into housing affordability routinely conclude that lack of supply is a critical issue. This lack of supply reflects the building restrictions in place. Higher prices are one outcome. Some RBA research in 2018, for example, concluded that building restrictions added \$355k to apartment costs in Sydney and \$97k in Melbourne.

Building regulations need to change in a direction that encourages developers to meet the needs of potential downsizers.

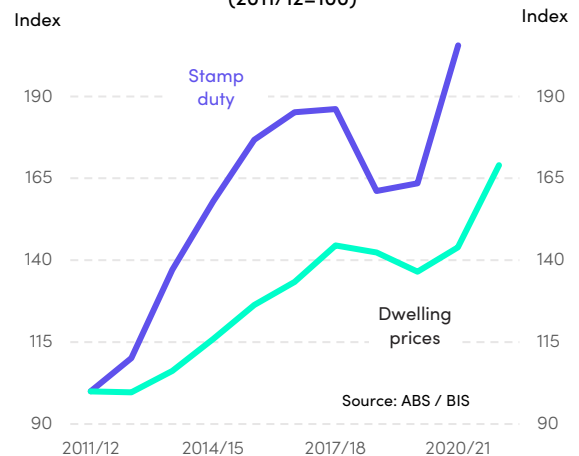
A related barrier to moving is the perception that moving costs are too high (Chart 8). The biggest cost associated with moving is stamp duty. This duty has proved a “growth tax” for state governments. Revenue growth has far outpaced dwelling prices (Chart 17).

It seems certain that the downsizing process would get a kick along if stamp duty was cut for *last-time* buyers (much as it has been for *first-time* buyers). Some state governments have obliged. Victoria, Tasmania, the ACT and the NT all provide concessions for downsizers. But more could clearly be done.

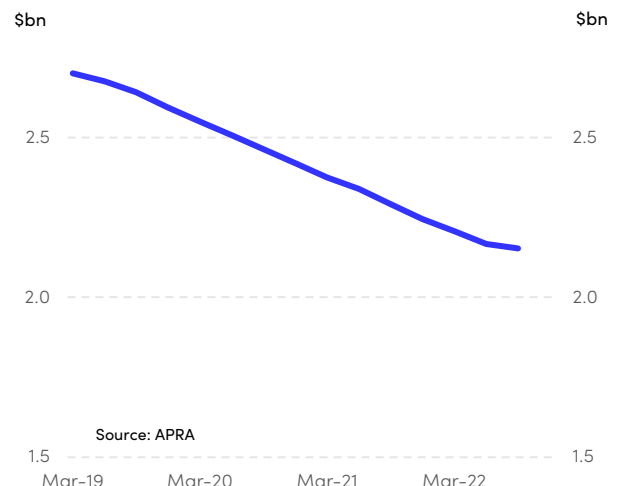
16. Persons with Disability by Age



17. Stamp Duty & Dwelling Prices (2011/12=100)



17. Reverse Mortgage Credit (outstandings)





The Commonwealth government deserves credit for the actions taken in the downsizing space. They have a scheme whereby downsizers aged 55 and over can deposit \$300,000 of any downsizing sale proceeds (\$600,000 for couple households) into their super funds.

This package is smart policy. The boost to superannuation targets an asset class that older age groups are “underweight”. The lift in older household financial assets should improve their income. Other by-products of the package should be a better match between the type of housing older age groups live in and what they need. And an increase in effective supply of housing should help improve affordability for other demographic groups like first-home buyers.

ATO data puts usage of the scheme at 41,000 households as at Q1 2022 with a total contribution to super of more than \$10bn.

The remaining impediments relate to the financial aspects of downsizing. The difficulties in finding a deposit and inability to secure a mortgage stand out (Chart 9).

The house is the major asset held by older Australians. It is difficult to tap this asset to fund the initial stages of downsizing. And the advanced age and limited income of many potential downsizers constrains their ability to obtain a home loan. Initiatives such as reverse mortgages have proved ineffective. The value of reverse mortgage credit outstanding is only around \$2bn. And outstandings have been declining over time (Chart 18).

There is room for innovative funding techniques in the downsizing space. Downsizer, for whom this report has been prepared, provide a solution.

Downsizer “solve” the downsizing problem by allowing purchasers with sufficient equity in their current dwelling to buy new property with no need for a cash deposit at exchange. Instead, a deposit bond is issued. When the purchaser pays the full purchase price at settlement, the bond automatically expires. More information on the process can be found at www.downsizer.com.

Scan to learn more.





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