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Exploring ‘Housing Asset-based Welfare’. Can the UK be Held Up as an Example for Europe?

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ABSTRACT *In the UK, homeownership has become increasingly important as a financial asset used for welfare needs, particularly during old age. It has been suggested that other European countries will follow the example of the UK. Traditionally, homeownership has been regarded positively because of the low housing expenses associated with outright ownership and the financial benefit of having a nest-egg that can be released, if needed, by selling. New mortgage equity release products reduce liquidity constraints and are regarded as promising in the context of changing welfare states. This research focuses on household strategies. It finds that housing assets play a role in households' financial planning in all countries within the study, particularly where welfare levels are low or decreasing. Homeownership was used in the traditional way in all countries, but it is only in the UK that households have adopted mortgage equity release products to cash in their housing equity for welfare needs.*

KEY WORDS: Homeownership, housing equity, asset-based welfare, security, cross-country comparison

Housing Assets and Welfare

Housing is an important asset, which for many represents the most significant investment of their lives. Over the last 25 years, increasing numbers of European households have become homeowners (Doling & Ford, 2007). This is often achieved by means of a mortgage whereby housing equity is amassed as the mortgage is repaid. In many countries, this equity has grown even further as a result of rising house prices. The result has been a substantial rise in households' housing wealth (Horsewood & Neuteboom, 2006).

At the same time, it has been suggested that there is a tendency towards increasing income insecurity for European citizens. In the face of globalisation and ageing populations, welfare expenses would be reduced in order to ensure economic survival

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(Beck, 1986; Esping-Andersen, 1996; O'Malley, 2004). Risks such as unemployment and illness, which used to be collectively governed through social insurance, are believed to be better organised by individuals and markets. In addition, the growth of the relative size of the older generation has undermined the affordability of future state pensions. Receiving a state pension at a comparable level to the current one is not a foregone conclusion for future generations (Börsch-Supan & Brugiavini, 2001; Esping-Andersen, 1996). In response, households must be self-sufficient, make decisions about private safety net strategies and ensure that they can protect themselves against financial difficulties (Giddens, 1984). It is in this context that housing equity has been suggested as a financial safety net for households (Groves *et al.*, 2007; Kemeny, 2005).

For households, accumulating equity is often an important reason for buying a home (Elsinga, 1998) and for governments, too, this aspect of homeownership is a reason to encourage it. Housing wealth has hitherto tended to remain illiquid during people's lives, and has thus remained locked up in the house until, and unless, homeowners decide to sell. However, since the restrictions on the use and terms of loans were loosened, European financial markets have developed rapidly (Scanlon *et al.*, 2008; Stephens, 2007). Increasing numbers of households have become eligible for mortgages and a variety of products to release housing equity have also emerged which enable homes to be used as a kind of 'ATM' (Klyuev & Mills, 2007). Mortgage equity release gives households the opportunity to convert their housing assets into available cash without having to sell and move out.

Recently, the growth of housing wealth, falling welfare levels and increasing opportunities to release housing equity have been brought together by various housing researchers (Groves *et al.*, 2007; Izuhara, 2007; Jarvis, 2008; Malpass, 2008; Ong, 2008; Ronald, 2007; Smith & Searle, 2008). They take the new concept of 'asset-based welfare policies' as their framework (Sherraden, 1991). This is introduced as an alternative to means-tested welfare. Rather than making people dependent on benefits, it is thought to be better to encourage them to save and accumulate assets. These assets can then be used as a safety net. In the UK, the encouragement of homeownership is regarded as a strand of asset-based welfare policies, and homeownership is becoming a more important aspect of welfare, particularly as a source of income security during old age (Groves *et al.*, 2007; Rowlingson, 2006).

Research on this issue has hitherto mainly been carried out by Anglo-Saxon researchers,¹ and Britain has often been cited as the leading example in Europe. However, there is no strong evidence of any convergence among the various welfare states of Europe (Starke *et al.*, 2008), and mortgage markets function differently in different European countries (Stephens, 2003). Neither has the limited research that has been conducted in other European countries confirmed a similar trend in the use of housing equity for welfare needs (Haffner, 2008; Turner & Yang, 2006). This paper elaborates further on 'housing asset-based welfare' and attempts to reveal to what extent seven European countries resemble the UK.

The comparison of the countries is based on the results of the EU project OSIS.² The general aim of the OSIS project was to identify the level, nature and source of security and insecurity in homeownership in European countries. The OSIS project was unique, as part of it used qualitative studies to build up an understanding of how and why households in different national contexts behave as they do. Partners from eight European countries collaborated to deliver country reports, which provided strong basis for the country comparison.

This paper will address the following research questions:

- (1) What is housing asset-based welfare, in theory?
- (2) How do countries compare in terms of their relevant institutional characteristics?
- (3) To what extent can housing asset-based welfare be found in households' perceptions in various countries, and which institutional characteristics matter?

The first section will outline the methodology of the research. The paper will then be structured along the lines of the research questions. To conclude, there will be a short discussion.

Methodology

The paper consists of three parts which all seek to reveal 'housing asset-based welfare': (1) in theory; (2) in the institutional characteristics of the countries; and (3) in the perceptions of households.

First, the theory on 'housing asset-based welfare' will be explained, beginning with the concept of 'asset-based welfare policies', as introduced in the US by Sherraden (1991), and then it will be explained how housing could have a place in that. There will then be an overview of existing literature on the relationship between welfare and homeownership. It appears the idea that homeownership can play an important role in providing a safety net for households in poorly developed welfare states is not new. The distinction is drawn between 'traditional' and 'new' 'housing asset-based welfare'.

Subsequently, eight EU countries³ will be compared. The countries were selected to reflect a number of relevant variations: (1) variation in the rates of homeownership: high (Hungary) and low (Germany); (2) variation in the various types of welfare regimes: social democratic (Sweden), conservative (Germany), liberal (UK), Latin rim (Portugal); former Eastern Europe (Hungary), (Doling, 2003). Research partners have described institutional contexts and have written reports on household interviews. These reports formed the data-sources for the analysis.

The paper will briefly set out some of the relevant institutional characteristics. It has opted to focus on the topics most relevant to the issue: welfare, housing markets, housing policies and mortgage markets. Key indicators are compared, although these do not provide an exhaustive comparison of institutional characteristics.

The paper will then examine the results of in-depth household interviews. Interviews with more than 240 owner occupiers and tenants were conducted in the selected countries according to a semi-structured topic list in spring and summer of 2005. Purposive sampling procedures were utilised to recruit a similar range of respondents in the various countries. Target quotas were set for tenure, age, employment status, household structure and gender. Thirty households were interviewed per country. The outcomes were analysed to find the answer to similar research questions and resulted in similarly structured reports. However, at the same time an important aim was to leave space for country-specific issues (Quilgars, 2009; Toussaint *et al.*, 2007).

The analysis for the country comparison was carried out in two steps. First, household perceptions were analysed and the countries were grouped on the basis of similarities or differences in outcomes. Then, the links between perceptions and institutional contexts were explored by comparing the explanations of the households and the research partners. Afterwards, key characteristics were also compared.

The comparative analysis relies on three subsequent interpretative steps, during which misinterpretations could arise easily. First, the respondents described their housing decisions, histories and opinions in words; they recalled events and information from memory and constructed their 'housing perceptions'. During the second phase, researchers in each country interpreted these housing perceptions, and translated them into conclusions summarising the findings of the interviews. Finally, as a third step, the findings from each country were further analysed, interpreted and summarised to compare the countries. To minimise tenuousness and clarify who exactly interpreted what, the paper distinguishes between the views of the respondents, the interpretations of the research partners and the authors' own overall interpretations when describing the outcomes of the comparative analysis. It should also be mentioned that difficulties can arise if something is mentioned in one country, but not in another; this could either be because it does not exist, or because it is considered self-evident. To limit interpretative mistakes to a minimum, the researchers from each country reviewed the outcomes of the analysis.

The purpose of this paper is to critically introduce the theoretical concept of 'housing asset-based welfare' and, subsequently, to determine whether it can be said to exist in various European countries. The analysis and exploration of institutional contexts receives relatively little attention in this paper. The main focus is on household perceptions, which reveal how 'housing asset-based welfare' fits in with social norms and culture. The research is based on a small sample of households from each country. Therefore, the aim is not to generalise the findings to the national level, but to provide an understanding of the relationship between homeownership and welfare provision in household perceptions in various countries.

The Theory of 'Housing Asset-based Welfare'

Asset-based Welfare Policies

The concept of 'asset-based welfare policies' was used as a framework for the new role of housing equity in welfare (Groves *et al.*, 2007; Izuhara, 2007; Jarvis, 2008; Ong, 2008; Ronald, 2007). This concept was introduced in the US by Sherraden (1991), who claimed that means-tested welfare makes the poor dependent and incapable of creating opportunities to better themselves. He could see a role for assets in welfare policies. In his opinion, assets change the way people think about the world: they make people consider the long term and set themselves long-term goals. Moreover, it has been suggested that holding assets leads to increased community participation and investment in financial instruments and enterprise, leading to greater returns. Interestingly, Sherraden based much of his reasoning on research into the positive effects of homeownership on people's behaviour (Rossi & Weber, 1996; Saunders, 1990). However, this research has been criticised for the universality of its claims. It has been criticised principally because for low-income households, homeownership has not been unequivocally beneficial. On the contrary, it has been a cause of financial troubles and, consequently, social problems (Ford *et al.*, 2001; Nettleton & Burrows, 1998; Shlay, 2006). Furthermore, the consequences of subprime lending practices in the US have shown that homeownership does not always impact positively. Nevertheless, Sherraden holds the opinion that an active social policy that promotes engagement is better suited to the post-industrial society

than traditional welfare arrangements. He emphasises the fact that asset-based policies should always be inclusive. All types of households should be involved, otherwise inequality between rich and poor will grow (Sherraden, 1991, 2003).

Some Examples

There are a number of examples of 'asset-based welfare policies': in the US, the Individual Retirement Accounts (IRA) for pensions savings and Educational Savings Accounts; and in the UK the Saving Gateway and the Child Trust Fund. The most extensive example is the Central Provident Fund (CPF), a mandatory savings scheme in Singapore (Sherraden *et al.*, 1995). Here, the government wants to avoid creating

a culture of entitlement, encouraging Singaporeans to seek Government support as a matter of right, whether or not they need it . . . The better-off must help the poor and the disadvantaged—the sick, the elderly, the disabled and the unemployed. (Phang, 2007, p. 18)

To this end, Singaporean employees are obliged to set aside a certain share of their monthly salary in the CPF, and their employers also contribute a certain share. As a result, Singapore has the highest savings rate per citizen in the world. The CPF was originally established as a pension plan in 1955, but now the uses of the fund are broader. Employees can withdraw savings for health care, insurance, post-secondary education, retirement and housing. In fact, financing homeownership has become the most important function of the savings fund. One of the problems of this is that once the savings are locked up in bricks and mortar, there are serious liquidity constraints. If the assets are required for Singaporean citizens' welfare needs, the house must be sold. Another problem is that price volatility has significantly impacted on the wealth levels of households (Phang, 2007; Sherraden *et al.*, 1995).

Groves *et al.* (2007) set out examples of developments in homeownership and welfare states in a number of East Asian countries, including Singapore. Economic growth is the main focus of attention, and policy is directed at mainstream society rather than targeting poorer sections of society. In the East Asian countries discussed, massive policy efforts on the part of governments have increased rates of homeownership. Groves *et al.* explain that these efforts can be seen as an element of welfare policy.

The authors further explored how developments with respect to welfare and homeownership in European countries compare to the East Asian cases. First a comparison was made with Britain and Groves *et al.* (2007) argue that there are some similarities. The British Government also regards asset-based policies as an additional pillar of their welfare system and homeownership is an explicit part of this. Low-income households have been encouraged to buy their homes through various schemes, most notably Right to Buy, shared ownership and Homebuy. The British Government has also sought to overcome liquidity constraints and has attempted to use the deregulation of the financial market to simplify the release of housing equity. Mortgage equity release now represents 20 per cent of all mortgage lending (Quilgars & Jones, 2007). Homeownership has become an important factor in ensuring financial well-being in old age. British homeowners who move into long-term care have to fund this from the equity held in their homes. Elderly people on very low incomes use equity release to supplement their income,

and housing equity is also used to meet the cost of education. Research into the attitudes of British households towards housing equity and inheritance shows that housing is increasingly seen as a form of financial investment. The idea that one's home functions as one's pension seems to be taking hold (Ronald, 2007; Rowlingson, 2006).

Within Europe, the UK's policies are the clearest example of 'housing asset-based welfare'. However, many other European governments also encourage homeownership because they want households to build up housing equity, encourage responsibility among households and promote involvement in the neighbourhood and society as a whole (see for example Rohe *et al.* (2001)). These ideas were mentioned in policy documents in Germany and the Netherlands as early as the 1950s (Elsinga, 1995; Kloth, 2005) and they reflect the basic idea of asset-based welfare policy surprisingly closely. The *Bausparkassen* in Germany can be seen as an asset-based welfare policy, as can the mortgage interest deduction in the Netherlands.⁴ In Belgium, some influential political parties make an explicit link between homeownership and financial security in old age. Retired outright owners have reduced or non-existent housing expenses in old age, which is a great advantage compared to tenants (De Decker, 2007).

Groves *et al.* (2007) regard increasing rates of homeownership and the transformation of social rental housing into a residual sector as indications that the Old European welfare states are converging towards the British situation. Groves *et al.* point to countries such as Sweden, Germany and the Netherlands. They suggest that

the pattern identified in Britain is being reproduced elsewhere in Europe and the new model welfare states in these countries put individual property-ownership in a more central position, much more comparable with that of East-Asia. (Groves *et al.*, 2007, p. 193)

In sum, homeownership may also be thought of as a potential resource for meeting welfare needs; the UK is said to be a leading example for the rest of Europe.

Household Strategies

Until now, the paper has described housing asset-based welfare as a result of governments' policies. However, there are also theories that explain the existence of housing asset-based welfare through the strategies of households. Sociologist Jim Kemeny distinguishes housing systems with dual rental markets and unitary rental markets (Kemeny, 1981, 1995). The former are systems where the social rental sector functions as a safety net, and is separated from the private housing market. This is mostly found in countries with an ideology of privatisation and economic liberalism, where social renting is only an alternative for the most vulnerable households. The private rental sector is often unattractive due to high rents and an absence of tenant protection and rent regulation, and this means that households are pushed into homeownership. In unitary rental systems, by contrast, the social rental sector is not separated and housing policies stimulate direct competition between the profit and non-profit rental housing sectors. There is rent regulation and protection for tenants, so that renting is regarded as an attractive alternative to homeownership. This system most often exists in countries where intervention in markets is generally viewed as necessary and acceptable.⁵

Kemeny (1981) theorises that in countries with a dual rental system, the high levels of homeownership have an impact on welfare policies. These countries are more likely to have poorly developed welfare states. This results from the fact that homeownership redistributes income within the life cycle of households. This first step is saving a deposit while living in the parental home or a rental dwelling. First-time buyers have a very high mortgage burden, which means they are more likely to oppose high taxes. Then, by the time the homeowners reach old age, they have become outright owners; consequently, their housing expenses are much reduced and homeowners are less dependent on state pensions. Housing equity can also be consumed outside the housing market, by selling or remortgaging.

In Kemeny's early work, the most important explanatory factor in the relationship between homeownership and welfare provision was the causal impact of the housing system on the welfare provision. However, Saunders could not confirm the assumed greater resistance to taxes among homeowners (Saunders, 1990). Moreover, in Britain, homeownership rates increased during periods when post-war welfare states were developed; these parallel developments are also not in line with Kemeny's reasoning. In general, the great weight that has been given to housing as a causal variable has not been taken into account in further housing research (Malpass, 2008).

However, Castles (1998), a researcher in the field of welfare systems, did test the hypothesis and confirmed the relationship between welfare provision and homeownership rates on the basis of statistical comparisons between a number of Western countries. He showed that high levels of homeownership could compensate to some extent for the lower level of welfare provision. However, Castles added the explanation that a weak welfare state might be an incentive for young households to buy a home to build up their assets. In other words, welfare systems may impact on housing in that homeownership may be part of households' financial security strategy.

Kemeny (2005) adopted this explanation from Castles, and suggested that the tendency of declining welfare provision in many European countries could have a significant impact on the tenure structures of countries with unitary rental systems. Thus, whereas Kemeny (2005) initially theorised divergence between countries, he argued that decreasing welfare provision could have a uniform impact on households' choices for homeownership. Various researchers reacted to his idea of a 'universal' trade-off between homeownership and welfare levels (Boelhouwer & Heijden, 2005; Castles, 2005; Doling & Horsewood, 2005; Somerville, 2005). First, it was pointed out that the different origins and complex nature of the housing and welfare systems make the relationship less than straightforward (Boelhouwer & Heijden, 2005; Somerville, 2005). Second, Kemeny's assumption that people would start saving in response to the decline in welfare provision, and more specifically save in the form of housing equity, was questioned. It was argued that households may prefer to save in other ways (Boelhouwer & Heijden, 2005) or may, in case of pensions reductions, work longer (Doling & Horsewood, 2003, 2005). Nevertheless, Kemeny's reasoning was regarded as theoretically interesting and as deserving of further empirical investigation (Castles, 2005; Doling & Horsewood, 2005).

In recent research, Haffner (2008) and Turner & Yang (2006) found that housing equity release is not currently common practice among the elderly. Haffner (2008) collated evidence from various sources to clarify the situation in the Netherlands. She found that the Dutch elderly were not in favour of releasing housing equity, but preferred to use other assets or savings when they needed extra money. Downsizing, or selling and subsequently renting a home, were also not regarded as attractive options. People generally aimed to pass

on housing wealth to the next generation. Turner & Yang (2006) analysed equity formation and equity use on the basis of panel data from a number of EU countries. They showed that older homeowners have significantly lower housing expenses and have a correspondingly high level of housing wealth. Furthermore, the mobility of the elderly is lower than that of the young; on average the elderly stay in their homes for 20 years. Turner & Yang argue that older homeowners have a considerable financial advantage over those in the rental market, because they benefit from the low housing costs. This would be sufficient for financial security. Overall, homeowners do not need to release housing equity through mobility or through mortgage equity release.

Essentially, the theory distinguishes 'housing asset-based welfare' that is enforced by governments' policies (Groves *et al.*, 2007; Sherraden, 1991), and 'housing asset-based welfare' that is result of household strategies (Kemeny, 2005). A distinction between 'traditional' and 'new' 'housing asset-based welfare' can be drawn from the literature described above. 'Traditionally', homeownership has been seen as an opportunity for households to accumulate housing equity. The main advantages are lower housing expenses in old age and a nest-egg which can be released by selling the home, if required. These uses of homeownership can be called 'traditional' 'housing asset-based welfare'. The 'new' way in which homeownership is being exploited is as a financial resource—this is happening through housing equity release while households remain in their homes. The evolving opportunities on the British financial markets and government policies towards homeownership have led to the concept of 'new' 'housing asset-based welfare'.

Interest in this topic among British researchers has grown recently because the British Government has made homeownership explicitly part of their asset-based welfare policies, and new products have been launched onto the mortgage markets which enable housing equity to be liquidised. However, pressure on government welfare spending, and pensions in particular, is not confined to Britain, but affects many European countries (OECD, 2007). Homeownership has also grown in most countries during the last decade, meaning that the scope for liquidising capital on mortgage markets has also increased substantially.

The purpose of this paper is to examine more closely the relationship between welfare and homeownership in households' perceptions in different European countries. To what extent do households perceive their homes to be assets which they can use in their financial safety net planning for welfare needs (Kemeny, 2005)? Can we find 'housing asset-based welfare', both traditional and new, in all these countries?

Setting the Scene: Comparing Countries' Institutional Characteristics

Before turning to perceptions among households, the scene will be set by comparing some indicators of relevant aspects of the countries studied: welfare, housing markets, housing policy and mortgage market. Comparative statistics and reports by OSIS-research partners on institutional contexts will be used (Elsinga *et al.*, 2007).

Welfare

First, welfare levels will be compared. A global indicator for welfare levels is total expenditure on social provision as a percentage of GDP. Figure 1 shows that in 2005 Hungary and Portugal had the lowest expenditure, while Belgium and Sweden had the

Figure 1. Total expenditure on social provision as a percentage of GDP. *Source:* Eurostat (2005).

highest. The literature suggests that in countries with lower levels of welfare, households should perceive homeownership as more important for their welfare needs.

Pensions, specifically, are assumed to be relevant to the role played by homeownership. There have been major reforms in many European countries' pension policies which have meant that people have to save more to compensate for these reforms and sustain their living standards (OECD, 2007). To give an impression of the extent to which individuals have to take care of private pensions in different countries, Figure 2 shows replacement rates. The old-age pension replacement rate is a measure of how effectively a pension system provides income during retirement. It is the ratio of the pension over the individual's average earnings. The Figure shows that households in the UK, Germany and Belgium receive the lowest pensions and those in the Netherlands and Hungary receive the highest (OECD, 2007).

Housing Markets

Figure 3 shows the considerable differences between countries regarding tenure structure. Hungary and Portugal have the largest owner-occupation sectors, while Germany stands out as having a stable homeownership sector that accounts for less than half of the housing stock at 42 per cent. The percentages of social housing range from low (3 per cent in Portugal) to high (35 per cent in the Netherlands). Overall, the social housing sector has been shrinking and is increasingly targeted at the most vulnerable households. Nevertheless, issues of the affordability and accessibility of homeownership have recently led to an increase in attention to social housing in some countries (Whitehead & Scanlon, 2007).

Figure 4 shows how house prices have developed over the long and short term. In Portugal and Germany, house prices have been declining and in certain areas of both countries, vacancy rates are relatively high. In Germany, these problems are concentrated mainly in the East, and future prospects are not good because of the expected impact of the ageing population (Tegeer & Helbrecht, 2007). British and Swedish homeowners have seen their housing equity grow the most rapidly.

Figure 2. Pensions: gross replacement rates. *Source:* OECD (2007).

Note: The gross replacement rate is defined as gross pension entitlement divided by gross pre-retirement earnings for median earners. Thus, the pension benefits as a percentage of individual lifetime average earnings (not final earnings before retirement).

Housing Policy

Table 1 shows some aspects of housing policy relevant to housing asset-based welfare. First, in most countries the encouragement of homeownership appears to be a policy objective. Sweden is the only exception in this respect. The ambition of encouraging homeownership seems to prevail both in countries with relatively high rates of homeownership (Belgium and the UK) and in countries with lower rates (Germany and the Netherlands). In most countries, housing policy aims at making the public or social rental sector a minority tenure. The sector is either described as small, diminishing or under discussion (Elsinga *et al.*, 2007).

Mortgage System

In general terms, the European mortgage markets have been developing rapidly over the last decade (Scanlon *et al.*, 2008; Stephens, 2007). In most countries, lending conditions have become more generous, mortgage lenders have developed new products, loans have often been extended, and falling interest rates have often contributed to relatively high

Figure 3. Tenure structure (period 2003–2005, different years for different countries). *Source:* Institutional Studies (OSIS).

Figure 4. Average real house price changes 1970–2003 and 2000–2003 in % per year, for seven countries. *Source:* Bank of International Settlements (2006).

Table 1. Housing policy towards homeownership

	Belgium	Germany	Finland	Hungary	Netherlands	Portugal	Sweden	UK
Homeownership encouraged	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes
Policy social renting	Small sector	Decreasing public renting, social by private landlords	Stable minority tenure	Residual sector	Large sector under discussion	Rehouse from shanty towns	No exclusive social housing	Transfer from public to housing association

Source: Institutional Studies (OSIS).

Table 2. Housing finance

	Belgium	Germany	Finland	Hungary	Netherlands	Portugal	Sweden	UK
LTV recent buyers	80–85	70	75–80	*	112	70–80	90–100	70
Duration of loan	15–20	25	15–20	15–20	30	25–30	30–50	20–30
% Owners with a mortgage	44	47	40	15	88	29	*	61

Note: *Data not available.

Sources: Elsinga *et al.* (2007); Horsewood & Neuteboom (2006); Housing Statistics (2004).

take-up rates. For European households, buying a house normally goes hand-in-hand with having a mortgage. One exception is Hungary, where there is no substantial mortgage market, the majority of homeowners have full equity and family support plays a crucial role in housing finance (Hegedüs & Teller, 2007).

Developments have not simply led to convergence of housing finance systems among the various countries (MacLennan *et al.*, 1998; Stephens, 2003, 2007). Table 2 provides a brief overview of differences in rates of mortgage use. The Dutch stand out as heavy users, with a high share of mortgagees and high loan to value ratios, and interest-only loans are also popular in the Netherlands. It could be said that Dutch homeowners are not accumulating as much housing equity as they could by a long margin. Despite the lack of data, Table 2 also shows high figures for Sweden, where housing equity is being used for other aims in order to optimise their fiscal result (Andersson, 2007). Hungary and Portugal are the best accumulators of equity, while the other countries are average.

Overall, housing policy and the development of mortgage markets are supporting the growth of homeownership. These conditions could be supportive of housing asset-based welfare. Looking at the relationship between levels of welfare and homeownership rates, based simply on the key indicators, it appears that these relationships are not straightforward. Spending on social provision as a general indicator of welfare does not necessarily correspond with the level of pensions, and homeownership rates do not consistently follow one or another welfare indicator. For example, Hungary and Portugal have low welfare spending and a high share of homeownership. However, in Hungary pensions seem remarkably high. In the UK, Belgium and Germany, pensions are relatively low. In the UK and Belgium, this coincides with relatively high homeownership rates, while in Germany, on the other hand, only 42 per cent of the housing stock is owner occupied. In summary, there is no clear-cut relationship between welfare and homeownership. The following section aims at a better understanding of this relationship through an analysis of the perceptions of households in the various countries.

Housing Asset-based Welfare in Households' Perceptions

The paper now turns to the results of the household interview studies. When households speak about their home, its financial significance—which is the main interest of this paper—is hardly ever central to their comments. Clearly, the home has a great variety of meanings. It provides physical security, a roof over one's head, it is a place where people enjoy privacy, can 'be themselves' and where they invite family and friends

(Clapham, 2005; Dupuis & Thorns, 1998; Gurney, 1999; Ronald, 2005). This paper focuses on the question of whether homeownership plays a role in households' financial planning, and, more specifically, whether households use or plan to use housing equity for their welfare needs.

The studies showed that, overall, homeownership respondents 'used' housing equity in the financial planning in four ways: (1) by lowering their housing expenses on becoming outright owners; (2) by selling their home; (3) by bequeathing housing wealth; and (4) by withdrawing housing equity with a mortgage product.⁶ The first three were fairly common 'uses' of homeownership, whereas mortgage equity withdrawal was less common.

Reduced Housing Expenses

The most obvious advantage of homeownership is that mortgage expenses tend to decrease over time and once a mortgage is repaid, housing expenses are low. This advantage of homeownership was mentioned in all countries. Most importantly, respondents link it to old age. German research partners described homeownership as a 'pension in stone' (Tegeder & Helbrecht, 2007). However, lower housing expenses are also regarded as advantageous in the event of unemployment.

Box 1. Respondents from various countries on the advantage of low housing expenses

We did make some indirect provision for our old age before we bought our house. We just made sure that we didn't spend all our money and tried to put some aside. We also invested some smaller amounts in long-term shares. And now we have put everything into homeownership. This means that our house is our provision for our needs in old age, where we can live rent-free. We are already living in the provision for our retirement. (German homeowners, female, 50 years old)

I think I have another eight years to go, and then at any rate I will be rid of those expenses for good. If you rent, your expenses never stop ... I can see this now in the case of my mother, who only has a pension from my father. She can do more things compared with other members of her family of the same age who rent their home, because they have to find the rent each and every month. (Dutch homeowner, male, 47 years old)

My objective is to pay it off as soon as possible because you never know ... two incomes are one thing, but one income is a different matter altogether. So, my objective is to pay it off as soon as possible so that I no longer have the expenses and feel more relaxed. (Portuguese homeowner, female, 53 years old)

In Germany, researchers reported that homeownership respondents regarded homeownership as most crucial for old age, particularly because they were highly uncertain about the level of future pensions. Traditionally, living 'rent-free' as a homeowner is seen as a major financial advantage. However, becoming a homeowner did not appear to be the strategy of choice for young German respondents. Decreasing house prices and insecure labour conditions prevented them from investing in homeownership and they preferred to turn to other forms of financial investment for their old age, such as funds, shares or insurance. These were seen as more secure and requiring less long-term responsibility. All German respondents saw unemployment as a real risk. This can also be seen in another financial strategy used by some homeowners—voluntarily increasing

the rate of mortgage repayment to reduce mortgage expenses and become outright owners as quickly as possible. To be able to do this, respondents cut back their spending on consumables and leisure. They said they were taking advantage of their current salary, which they considered good, but were unsure whether it would remain so in the future.

Reduced housing expenses in old age were also considered important among the Belgian respondents. The Belgian research partner explained that the ageing population had made pensions less affordable. In the political and public discussion on this issue, homeownership was playing an important role. Some political parties in Belgium were arguing that homeownership was an advantage in retirement, boosting both the purchasing power and independence of households. Many Belgian respondents indicated that they shared this view. Some of them explained they had learnt from the difficult situation of their parents living as tenants on a small pension.

The Hungarian researchers described how some families in private rental accommodation were living in unstable and insecure conditions as they approached retirement age. They were faced with high housing expenses and the continual threat of losing their homes as a result of their income difficulties. The pensions system provided them with insufficient income to be able to live in their current homes and they were forced to stay in work much longer than homeownership counterparts.

Box 2. Respondents on selling the house if 'the going gets tough'.

When you have been paying for your property—in small amounts—but anyway, you build up a kind of 'nest-egg'. One day perhaps, if you urgently need to sell your property, you can cash in the nest-egg. (Finnish homeowners, female and male, 26 and 29 years old)

R: I am already in arrears, it's horrible. ... It is very hard to save money, sometimes I only cook every second day ... I can only save on food ... They say the flat is worth 16.8 million.

I: That sounds good.

R: I have already advertised the flat, and would be prepared to sell it for 16 or even 15 million.

I: What will you do with the money?

R: I'll buy a house of 10 million somewhere outside the city, 30 or 40 km away. And then I'll start up a business, a small pub, to give my sons a secure future. ... (Hungarian homeowner, female, 38 years old)

Now I have a safety net if the going gets tough. Then I could sell this house, rent something for next to nothing and get by. Of course, the fact that it has now paid for itself 10 times over is very relevant. I have made a fortune on this house. It's now worth half a million guilders. (Dutch homeowner, female, 42 years old)

The only way to release money is to move and sell. (Swedish homeowner, female, 59 years old)

We have more security because house prices have gone up so much, if everything went wrong you could sell up and still have some capital, it does make you feel secure. (British homeowner, female, 34 years old)

... we are of the age that we are a little concerned about pensions, and it may be our trump card. Neither of us has been in jobs for long enough to accrue huge pensions ... so it may well be our trump card on the pensions/finances front ... (British homeowner, female, 45 years old)

Note: R = Respondent; I = Interviewer

Housing Equity Release through Selling

Selling to buy a new house and selling during old age to downsize were also fairly common choices. Only Germany is something of an exception in this. The German respondents perceived buying a house as a once-in-a-lifetime event and did not see selling the house as a usual option. Selling and moving to the rental sector in old age was part of the financial planning of some respondents in the Netherlands and Sweden. Selling was also regarded as a type of emergency solution in all countries.

In Hungary, being able to release equity through the sale of housing was an important part of the safety net of the most financially vulnerable respondents. These were respondents who were faced with unstable labour conditions and lacked a family network for financial support. For them, saving was often impossible and their home was the most important financial resource. Moving house was chosen only as a last resort, and then usually solved only short-term financial problems. These households typically moved to a less expensive house in a location that was often more distant from their social safety net and with fewer job opportunities, so moving house did not always end the financial hardship.

Research partners in Portugal stressed time and again that the home was an investment with which respondents had strong emotional ties. Homeownership was important for financial security, but using the home as a financial resource was something that respondents tried to avoid if possible. Nevertheless, unemployment, expensive health-care and low pensions were also mentioned as realistic contingencies in Portugal, and these might compel households to sell their house. The Portuguese researchers mentioned that it typically takes a long time to actually receive social benefits after application, and that relying on family support and self-management is the only option during this period.

In the UK, respondents generally agreed that homeownership would be important in their old age. Downsizing was the most common option. Respondents elaborated on the change in government policy towards financing care needs. As mentioned above, the British Government now views housing equity as savings, and homeowners with housing equity are not eligible for state aid.

Bequeathing Housing Wealth

Inheritance appeared to be an issue in the financial planning of households, most obviously to ensure the future well-being of children. Respondents in Finland, Hungary and Portugal were the most outspoken about the importance of bequeathing housing wealth. In Finland, older outright owners described their homes as an essential link between generations. In Hungary, there was a general emphasis on family support, not only on parents helping their children, but also vice versa. Some Hungarian respondents even invested in second houses to increase the value of their bequest. The aim was to provide the children with a safety net and a better start in their lives. In the UK, homeownership respondents expected to have to spend part of their housing equity during old age, but stressed that there should be equity left for their children. In Belgium and the Netherlands, respondents used or planned to use inherited capital as a fund to protect them against contingencies.

The affirmation of inheritance could also deliver services to the homeowners themselves. A respondent in Portugal explained that children should support their parents if they were having difficulty affording mortgage expenses during the last years of the

mortgage term, otherwise the inheritance could be lost. The prospect of receiving an inheritance encouraged prospective heirs to support the homeowners physically or financially in their old age. In Hungary, this trade-off was often formalised in individually based 'life annuity schemes'. Typically, such contracts were used when there were no family members to take care of the homeowners. These are written contracts in which a beneficiary commits to taking care of the homeowner. In return, the homeowner bequeaths the property to the care-giver. In both Portugal and Hungary, self-management and family-support play key roles in the respondents' safety nets. Here, housing equity is an important financial resource for welfare needs. In Hungary, social benefits are avoided for as long as possible because of the stigma attached to them.

Box 3. Respondents on the use of the inheritance

In Portugal, this was the response to a fictive situation of a homeownership couple in their mid-fifties. The two are confronted with unemployment and unable to pay the monthly mortgage expenses. Their house has trebled in value. The respondent was asked what the couple could do.

We also need to see whether they have children, whether the children live with them or not and whether the children can help. They can discuss the problem with their children and suggest that if the children help them for the remaining three years, afterwards they will have a house that is worth much more than they have spent. If not, they [the parents] will sell the house, spend the money and the children will lose their inheritance. (Portuguese homeowners, male and female, 29 and 30 years old)

It is different nowadays, so to speak. In the past, it was more like a condition or a possibility for children if you inherited from your parents, but nowadays they have their lives and their apartments already. So the connection is no longer there as I see it. What we try to do is share the money we have while we are alive. When we sold in Uppsala, they got some money for example. So we take the opportunity now. (Swedish homeowner, female, 56 years old)

There is no security renting... Property as it is now—you make a fortune—but it is security for the children as well... They will always have a roof over their heads and if we pass on then they'll have the house... It is the future really. (British homeowner, male, 38 years old)

Mortgage Equity Withdrawal

Mortgage equity withdrawal is a less common way of accessing housing equity. When it is used, this is most often done to add value to the house, such as for renovation or maintenance work. Only in the Netherlands, Sweden and the UK, countries where house prices have risen considerably, was this a commonly used option. In the Netherlands and Sweden, respondents perceived the opportunity of mortgage equity withdrawal mainly as a pleasant surprise and they used housing equity as a bonus resource; for example, they bought a caravan, furniture or financed the renovation of their shower and sink into a luxurious bathroom. In the Swedish report, the researcher specified that there was greater opposition to the idea of using housing equity among the elderly, while younger respondents considered it more acceptable. Although not yet used to it, as such, some younger Swedish respondents did perceive the use of housing equity as an appropriate way to add income for retirement, or for if they ever wanted to work part-time. In the Netherlands too, many respondents seemed to have no difficulty with the idea of accessing

housing equity through a second mortgage. However, in these countries mortgage equity withdrawal does not add to the financial security of households because the state already provides a secure safety net.

Similarly, in the UK mortgage equity withdrawal was regarded as a 'nice surprise' to be used for a holiday, or buying a second property, for example. Some British respondents also used the funds to finance a career break, start a family, undertake training or put some money aside 'for a rainy day'. Only the British respondents understood the concept of using mortgage equity withdrawal for pension purposes. As described above, homeowners expected to have to use housing equity to pay for care needs. The British researchers reported that financial institutions encouraged people to use mortgage equity release products and, indeed, the British respondents were those in the sample of countries who saw the widest range of options for accessing equity.

A proportion of the British respondents had no objections in this regard and planned an early retirement or period of part-time working; others were wary about these mechanisms and said they distrusted banks. The latter group was worried about putting their home at risk. In the UK, as well as in other countries, the respondents were often not in favour of using reverse mortgages, thinking that their housing wealth should go to their children.

Box 4. Respondents' views on mortgage equity release

It is not a good scheme if you have children. It is also a dangerous scheme since you become dependent on a bank. (Belgian homeowner, male, 38 years old)

It seemed that the value of the house had risen so much, and at that time we really wanted a new kitchen, a new bathroom, a shed and a fence. We thought that if we used the savings we already had, even if we saved a bit more, it would take too long. We just wanted to get on with it, and the money was available to borrow, so that's what we did. (Dutch homeowner, 49 years old)

Nothing can affect my housing really, even if I dropped dead the house would be sold, the mortgage paid and there would still be a lump sum at the end of it. If I was incapacitated then I could re-mortgage up to the hilt and use the money for treatment ... (British homeowner, female, 54 years old)

It would be nice but it wouldn't be my ... I would rather give them what I had during my life time ... if they needed help to buy a car or a house or something then I'd do it at that stage ... I'd rather have the money to sort them out now and to give them a reasonable education but it would be nice if something was left of it. (British homeowner, female, 40 years old)

Aversion Towards Releasing Housing Equity

Homeownership is involved in financial planning in all countries. However, only in some countries did respondents make an explicit link between homeownership and welfare needs resulting from a lack of security in state social provision. This was the case in Hungary, Portugal, Germany, Belgium and the UK (see Table 3).

When respondents were asked directly whether they would use their housing equity for welfare needs, they rejected this suggestion. In all countries, respondents raised objections to the use of their homes as a financial resource. The answers revealed that respondents did not think about reducing housing expenses and bequeathing housing wealth, but mainly interpreted 'using equity' as selling the house. The Finnish researchers summarised respondents' perceptions of the house as being a type of 'sanctuary'.

Table 3. Perceptions of housing equity in the financial planning

	Reduced expenses	Selling	Bequeathing housing wealth	Equity release
Financial planning	All	All	All	Sweden Netherlands
Direct link welfare needs	Hungary Portugal Germany Belgium	Hungary Portugal UK	Hungary Portugal	UK

In Portugal and Hungary, respondents explained their feeling of emotional attachment to their homes, which they wanted to avoid selling. These respondents regarded equity release as a theoretical option and as a very last resort. Finally, in Finland, Hungary, Portugal and the UK, respondents ideally wanted to pass a considerable share of the capital on to their children.

It was possible to discern various reasons for the aversion to accessing equity through flexible mortgages or second mortgages. Respondents in Finland and Sweden were averse to equity withdrawals that involved using additional mortgage products and they distrusted banks or thought that banks would profit unreasonably from these types of loans. In Germany, respondents said that they would feel uncomfortable taking up an extra mortgage as they feared being unable to repay. German homeownership respondents worried about unemployment and immobility as a result of homeownership. German respondents also mentioned their aspiration to repay mortgages as soon as possible.

Box 5. Housing equity release as a very last resort

In Belgium, in response to the idea of mortgage equity withdrawal:

The house is too important. (Belgian homeowner, female, 45 years old)

They [my parents] would help me out financially for a while but it would be the case that I'd have to get a job—they'd help for a couple of months ... I wouldn't want to sell the house ... If the worst came to the worst then I could always move back to my parents' again and let this house out while I looked for another job. (British homeowner, female, 35 year old)

She found the pension supplement scheme a good idea, but if it was up to her, she would not use her dwelling as a financial resource for herself unless her children had secure housing and jobs, and did not need the money from the property. (Hungarian private renter, 27 years old) (Summarised by research partner)

In Portugal, again a response to the situation of the fictive homeownership couple in their fifties (see Box 3).

... if they sell the house when they are only three years away from paying off the mortgage and then rent another house ... little by little they would be killing themselves. They would never see things in the same way again. They would always regret what they did. Losing everything for the sake of three years ... having really bad luck ... that starts to affect you. It would definitely have a serious impact on them. (Portuguese homeowner, male, 28 year old)

Your own home is a part of your security which you do not play with. (Swedish homeowner, male, 62 year old)

Conclusion

The rate of homeownership, the pensions system, the welfare arrangements and the rate of mortgage take-up all vary considerably between the eight countries studied. Even so, homeownership was found to provide security and played a role in people's financial planning in all countries. It was found that housing asset-based welfare was used mainly in the traditional way: as a means of achieving low housing expenses and building up a nest-egg that could be cashed in by selling in the case of contingencies. Furthermore, the extent to which the use of housing equity was linked to welfare needs also varied.

Hungary and Portugal proved to be the clearest examples of housing asset-based welfare within this group of countries. Homeownership levels are relatively high, income security is low and housing assets are part of the family pool of wealth and a crucial last resort. The way to release housing equity for emergencies was by selling. However, this would create more hardship on top of that already being experienced and be a dramatic move. In his theory, Kemeny (1981) limits the use of housing assets to the personal use of homeowners. However, in these two countries it became clear that housing assets have an important wider role as a safety net for children and other inheritors.

In Germany and Belgium, reducing housing expenses in old age was considered important because the future of pension systems was in question and people had little confidence in their own future pensions. In Belgium, there seemed to be a common opinion that homeownership was good for financial security, whereas, in Germany, there appeared to be large differences between the perceptions of the 'insiders' and 'outsiders'. The 'insiders', the homeowners, spoke about both the securities and insecurities of homeownership. For these respondents, the perceived risk of unemployment in combination with a mortgage debt caused uncertainty and only after the mortgage was repaid could homeownership provide financial security. The 'outsiders', the tenants, regarded the risks of homeownership as too large and chose other instruments to take care of their future retirement incomes.

In Finland, Sweden and the Netherlands, housing equity is viewed as a nest-egg and as a way to benefit from low housing expenses during old age. In Sweden and the Netherlands, mortgage equity withdrawal is used to release housing equity, but this equity is considered as a bonus—a gift from the housing market, not for welfare needs. In these countries, pensions are relatively high. In Finland, it appeared that housing equity was not perceived as a safety net for personal use, but as something that should be passed on to the next generation.

Only in the UK was there an explicit link between mortgage equity release and welfare needs. Here, reverse mortgage schemes were seen as an appropriate way of boosting incomes in old age. In the UK, pensions are low in comparison with the other countries and housing equity thus plays an important role in filling that gap. As far as the distinction between 'new' and 'traditional' housing asset-based welfare is concerned, then, it is only in the UK that we can speak about 'new' housing asset-based welfare. Here, housing equity is being released for welfare needs through remortgaging and thus without moving house. The other countries differ from the UK in this respect.

Groves *et al.* (2007) cited the examples of Sweden, Germany and the Netherlands specifically as countries that would converge towards the UK. Growing rates of homeownership and a dwindling social housing stock in these countries would be indicators of this. Housing asset-based welfare could be found in household's perceptions

in these countries. However, in Sweden and the Netherlands this was not crucial for financial security. In Germany, homeownership is important for financial security for outright owners, but a large group also chooses other financial strategies to sustain their living standards in retirement.

Of course, the future cannot be predicted; in the near future traditional housing asset-based welfare is likely to gain in importance if welfare reforms continue. Three important issues arise from the paper which will become more significant if housing equity takes on a more important role in welfare. First, housing asset-based welfare means that households' welfare levels are interwoven with trends in house prices. The housing market plays a decisive role in the resources available to people. House prices have increased in many European countries over the last decade. The image of homeownership as a sensible investment has become common currency and the fear of house prices falling has faded from people's minds. Currently, however, more unfavourable economic times have arrived and rising house prices can no longer be taken for granted. Decreasing house prices are not risky in themselves. However, an economic downturn, increased welfare needs and declining social provision often occur in combination with decreasing house prices. This new relationship between homeownership and welfare could, therefore, lead to new type of risks for people's well-being and for national economies.

A second issue is inclusiveness. Sherraden (1991), who introduced the concept of asset-based welfare, emphasised the importance of including both the poor and the rich in such policies, to prevent the gap between them from becoming greater. Homeownership is typically not for all European households. Homeownership levels in the countries under study vary between 42 and 92 per cent. In general, lower-income groups are excluded from having housing assets. Housing asset-based welfare widens the gap between tenants and homeowners. Research has also shown that it magnifies differences between the generations and between lower and higher-income homeowners (Elsinga, 1995; Groves *et al.*, 2007; Kurz & Blossfeld, 2004; Malpass, 2008; Shlay, 2006).

A third issue concerns the use of mortgage equity release products. This was more common in countries where house prices had increased the most, meaning that risks with respect to negative equity were limited. Overall, households seemed to have a careful approach towards mortgage equity release products. One of the arguments was that they distrusted banks. These were the perceptions of households in 2005. However, a global financial crisis has taken place since then, which will most probably further reduce trust in mortgage lenders. However, at the same time, financial hardship might have increased the need to withdraw housing equity.

Households are using homeownership in their financial planning and European governments are searching for measures to help them reduce their expenditure on welfare. Encouraging homeownership seems a straightforward solution. However, strengthening the link between homeownership and welfare would have a serious impact on the relationship between welfare and the market, and on the social structure of society. A careful approach to housing asset-based welfare policies is urged, since the three issues mentioned above require further investigation and discussion.

The current economic crisis could serve as the ultimate test for 'housing asset-based welfare': an economic downturn, declining welfare provision, pressure on pension systems and declining house prices—all the relevant conditions seem to be coinciding, making housing equity more crucial than before. However, at the same time households cannot count on gains from the housing market, nor can they count on mortgage lenders.

This raises the question of whether 'new' housing asset-based welfare can really function as an adequate safety net for those in need.

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Notes

- ¹ By searching for 'housing-asset-based welfare' on Google Scholar, and exploring the origins of the first 20 hits, ten are from the UK, nine from the US and one from Australia.
- ² Origins of security and insecurity: the interplay of housing systems with jobs, household structures, finance and social security (OSIS).
- ³ Belgium, Finland, Germany, Hungary, the Netherlands, Portugal, Sweden and the UK.
- ⁴ Although in theory the mortgage tax deduction encourages households to enter homeownership and thus accumulate assets, the practical outcome is that households retain higher debts. The more debt they retain, the larger the tax deduction they are eligible for.
- ⁵ For a clear explanation of Kemeny's different rental systems see also Hoekstra (2009).
- ⁶ Subletting was another strategy that was applied by homeownership respondents. This is left out of the paper because the focus is on 'housing equity' and subletting is not regarded as directly related to that.

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