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Baby Boomers – Preparing for Retirement

Developers targeting baby boomers face the challenge that many on middle and lower incomes will sell the family home, not only to make a lifestyle change, but also to free up capital.

The recently released research from AMP and the National Centre for Social and Economic Modelling Pty Limited (NATSEM) indicates that Australian baby boomers have up to half of their wealth tied up in the family home.

The research confirms earlier findings from both AMP.NATSEM and The Australia Institute that there is a sharp contrast between the wealthy and poorer baby boomers. The top 25% of those approaching retirement (aged 55 to 64 years) have an average of \$1.078 million in assets, while the bottom 25% in this age group have an average of \$78,400 in assets (refer to Table 1).

For convenience defined as those aged 45 to 64 years, the baby boomers accounted for 5.1 million Australians in 2006, representing one quarter of the nation's population. The AMP.NATSEM data in Table 1 indicates that this group accounted for half of the nation's net wealth.

On average, baby boomers had 35.2% of their net wealth held in the family home. For those in the middle quartiles, more than half of their net wealth was held in the family home. By the time they reach 65 years, 90% of baby boomers had full equity in these homes.

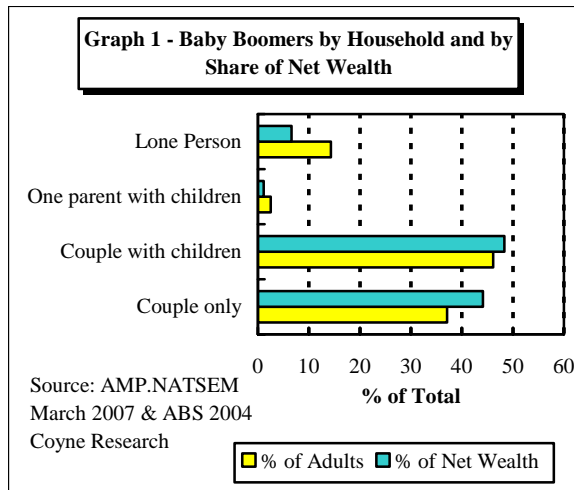
Table 1 – AMP.NATSEM Analysis: Baby Boomers' Average Individual Adult Net Worth by Age & by Component 2004

Age Group of Household Reference Person (years)	Average Per Adult Net Worth					Share of Total Household Net Worth
	1 st Quartile (Poorest 25%)	2 nd Quartile	3 rd Quartile	4 th Quartile (Richest 25%)	Average within Age Group	
45-54	\$61,800	\$191,000	\$323,500	\$784,600	\$340,500	26.0%
55-64	\$78,400	\$219,000	\$371,800	\$1,077,700	\$437,100	24.3%
65+	\$60,700	\$189,100	\$328,600	\$958,600	\$384,400	22.9%
All Households	\$48,800	\$153,000	\$265,400	\$701,900	\$292,500	100.0%
All Baby Boomer Households	\$68,300	\$202,300	\$342,500	\$910,400	\$381,100	50.3%
Equity in Home of All Baby Boomers	\$29,400	\$114,100	\$179,700	\$320,300	\$161,000	-
	43.0%	56.4%	52.5%	35.2%	42.3%	-
Superannuation of All Baby Boomers	\$10,900	\$31,700	\$68,100	\$149,400	\$65,100	-
	16.0%	15.7%	19.9%	16.4%	17.1%	-

Source: AMP.NATSEM, *Baby Boomers – doing it for themselves*, March 2007, based on ABS 2003-04 *Survey of Income and Housing* unit record data; Baby Boomers defined as those aged 45-64 years; Net Worth defined to include assets (accounts in financial institutions, owner occupied dwelling, other property, trusts, shares, superannuation, debentures, bonds, net value of own incorporated business, dwelling contents, vehicles, collectibles) less liabilities (outstanding loans); to arrive at individual net worth of adults, net assets of couples divided by two, with dependent adult children excluded – this means data is not biased towards greater wealth of couples.

Poorer Baby Boomers

Graph 1 highlights the disparity in net wealth of baby boomers who belong to couple households versus those who are single parents or lone person households. It shows that 92.4% of net wealth was held by couple households (including those with children still at home), although these households accounted for only 83.2% of adults.



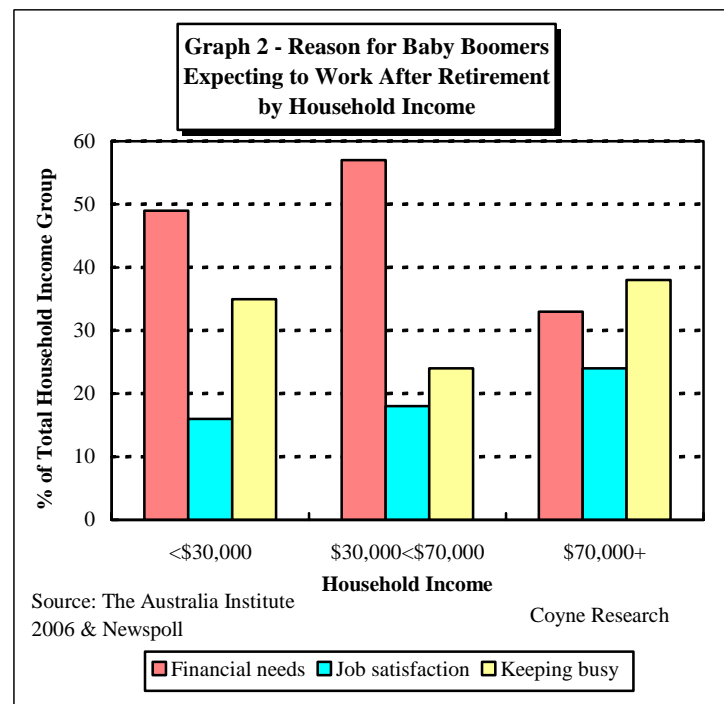
To a significant extent, this disparity reflects lower home ownership levels. The AMP.NATSEM data indicates that just over half of one parent baby boomer households and 56% to 70% of lone person baby boomer households were home owners (with and without a mortgage). This contrasts with around 88% of baby boomer couple households (with and without children).

Disadvantaged groups were disproportionately represented in the poorest 25% of households based on net wealth – this quartile accounted for 37% to 41% of lone person and single parent households.

The Australia Institute paper published in August 2006, *Rich Boomer, Poor Boomer*, reported on the contrasting attitudes of these groups as they prepare for retirement.

Graph 2 shows that financial need was the main reason for lower income groups to continue working after retirement, whereas 62% of higher income baby boomers may work after retirement for job satisfaction or to keep busy. Close to half of those currently working expected to continue some form of paid employment in retirement.

The focus group research conducted by The Australia Institute in the Sydney Central Business District, Bathurst, Parramatta and Brisbane indicated that low income baby boomers would in fact prefer to retire early and did not believe they could live comfortably in retirement on the pension, with many uncertain how they could afford to retire.



Increased Workforce Participation

Over recent years, such concerns about having insufficient savings to retire comfortably have contributed to increasing numbers of older baby boomers returning to the work force. This trend has been assisted by strong economic growth and low unemployment.

The AMP.NATSEM study found that the participation rate of married males aged 60 to 64 years rose from 48.9% in 2001 to 58.5% in 2006, while married women's participation rate in this age group rose from 22.6% to 31.8% and unmarried women's participation rate in this age group rose from 27.6% to 36.6% over this period. Unmarried men of this age returned to the workforce at a slightly lower rate, increasing their participation from 37.7% to 42.6% over the five-year period.

On the whole it seems most baby boomers are in a relatively sound position financially as they prepare for retirement. The current provisions allowing higher sums to be paid into superannuation would be enhancing the situation of some, particularly those in the middle and upper wealth brackets.

Implications for Developers

These figures have implications for the development industry, which has seen an increasing focus over recent years upon marketing of lifestyle products to baby boomers preparing for retirement. The concentration of wealth held by this group suggests that this strategy is well founded.

The fact that most baby boomers have more than half of their net assets tied up in the family home poses a challenge for developers.

It seems likely that many baby boomers in full home ownership, perhaps the majority, will prefer to remain in the family home for as long as possible. This keeps them in familiar surroundings with access to support networks of families and friends.

While industry observers emphasise the mismatch between dwelling size and household size, there is plenty of anecdotal evidence and qualitative

research to show that those “extra” rooms have value for older people. This includes use for hobbies and visiting family members.

Despite this perception that older Australians will prefer to remain in their family home, it is anticipated that for many, a time will come when the desire for less home maintenance, freedom to travel or to free up capital will motivate a move to another housing solution. The latter motivation relates to the “asset rich, cash poor” status of many older people, particularly baby boomers who have retired early (not always by choice) or retirees living on the Government pension.

It is widely recognised that a proportion of empty nesters seek to downsize from large family homes to more compact dwellings with minimal maintenance. What is perhaps less widely acknowledged is that it is financial factors driving the move to smaller houses, townhouses and apartments, as well as lifestyle factors. It is no coincidence that there is a strong relationship between parts of Western and South Western Sydney and more affordable coastal areas such as the Central Coast and the Mid North Coast.

Furthermore, there is anecdotal evidence of people who retired to places like the Central Coast in New South Wales (NSW) and the Sunshine Coast in Queensland, realising their assets, moving north to lower priced real estate markets in order to free up capital for a second time in their lives. There may also be other factors motivating these decisions, including a desire to escape congestion to a more low-key area.

Returning to the data in Table 1, which is for individual adults, the average net worth of a couple is likely to be close to double that of the individual – around

\$760,000, of which around \$322,000 or 42% may be held in the family home. This average clearly hides some wide discrepancies between poorer and richer baby boomer households and also variations geographically.

For example, the Real Estate Institute of Australia's median house price in the December Quarter 2006 ranged from \$523,600 in Sydney to \$290,000 in Adelaide. The Brisbane median house price of \$339,500 was 35.2% below that for Sydney.

Ideally there is a relationship between the price of established housing that baby boomers and retirees are selling and the price of the new product they are downsizing to – traditionally said to be around 66%. This assists in freeing up capital to fund lifestyle choices in retirement, topping up pensions and superannuation.

With construction costs ever rising, this relationship is one that developers should remember, although in the current environment it may be that new products targeted to the baby boomers will need to represent 75% of the value of established housing in the source market. Queensland's appeal for baby boomers and retirees partly reflects the price differential with some southern markets.

Both the AMP.NATSEM and The Australia Institute research highlight the segmentation of the baby boomer market. The lifecycle situation of the 45-year-old baby boomer couple still working and married with dependent children at home implies very different

housing needs from the 60-year-old empty nester couple no longer working. The gap between the resources of the richest and poorest baby boomers should also offer a wide spectrum of opportunities for developers targeting those who choose to downsize, whether for mainly financial or lifestyle reasons.

With the aim of freeing up capital, sale of the family home is a discretionary move. Baby boomers and retirees choosing a new lifestyle villa, townhouse or apartment will wait till they perceive they are getting the best price for the family home. They will comparison shop developers' products in great detail. Often they will not buy "off-the-plan", preferring to touch and see the finished product.

Design Considerations

In designing products to cater for baby boomers approaching retirement, developers should consider a few basic criteria:

- minimise stairs;
- include plenty of storage; and
- most couples want at least three bedrooms (or two bedrooms and a multi-purpose room).

The pressure to achieve net densities of 15 dwellings per hectare and the desire to maximise yield to boost profitability has resulted in smaller lots and reduced frontages over recent years. Developers should nevertheless seek to offer lot frontages of 19-21 metres for at least some lots in estates targeted to baby boomers. This particularly applies to coastal areas, where the desire to store a boat or caravan creates demand for wide frontage lots.

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