Retirement Implications of Housing Wealth and Spending

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Abstract

Like food and clothing, housing or shelter has traditionally been regarded as a basic expenditure of living. Government incentives to promote home ownership, such as affordable housing and deductibility from taxable income of mortgage interest and property taxes, among others, have resulted in growth in the choice of owning a home rather than simply renting. The growth in home equity ushered in a new concept of housing wealth or investment, with homeowners tapping on such equity (i.e., borrowing against equity) to finance other spending. The recent debacle in sub-prime mortgages has exposed many of the dangers lurking behind the treatment of housing, not so much as an investment, but as a source of more borrowing.

This paper will explore comparative trends in home ownership versus renters, the associated levels of housing expenditures, and the extent of equity borrowing where applicable. The ultimate goal is to stress the need in retirement to cover basic housing needs, and the risk of using housing for other purposes beyond those needs.