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Do Health Shocks at Old Age affect House Downsizing?

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ABSTRACT

Although individuals motivated by an ‘ageing in place’ and a status quo bias tend to remain in their homes at old age, health shocks can steer residential mobility to smaller value and sized dwellings, which is known as ‘housing downsizing’. This paper tests this effect by drawing on more than a decade worth of longitudinal evidence from different European countries. We estimate the probability of residential mobility (especially to smaller size dwelling) at old age after an individuals or spousal health shock controlling for the ratio of house value to wealth and the ratio of mortgage using a fractional model that considers the potential endogeneity of the change of residence. We find that consistently with the ageing in place hypothesis the probability of residential decreases by 2pp for every 10 years of life. However, a health shock exerts a positive and significant effect consistent with the idea that health shocks increase the probability of housing mobility and downsizing. Among those who do not move, a health shock leads to an increase in the ratio of home value to wealth and mortgage to home value.

KEYWORDS ageing in place; housing downsizing; health shock at old age; Europe; residential mobility

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