

Summary report

Housing in Transition

Understanding the dynamics of tenure change

Resolution Foundation

Shelter

Introduction

England, traditionally seen as a nation of homeowners, is experiencing significant change in the types of housing tenure in which people live. The Government has estimated that there are more than one million households who have been excluded from home ownership in recent years.¹ This reflects the costs of housing and difficulties accessing mortgage finance as well as the impact of an ageing population and past housing policies. Taken together with cutbacks in funding for social housing and continued growth in household numbers, Britain is seeing an almost inevitable increase in private renting. This has been most apparent for the younger age group, with a threefold increase in private renting among the under 35 age group on below average incomes from the late 1980s to the late 2000s.

Tenure changes have important implications for many aspects of the policy agenda, including mortgage lending, house building, consumer protection and welfare. While changes can be difficult to discern on a year-on-year basis, they become more evident when viewed over a longer period. To better understand the changes that have taken place since the early 1990s and how tenure patterns could develop over the next decade, the Resolution Foundation and Shelter commissioned a study by the Cambridge Centre for Housing and Planning Research (CCHPR). The aim of the research was to look back at tenure patterns in the early 1990s and forward to 2025, looking at England as a whole and at London in particular. Attention was paid to families with children, given concerns about the suitability of the current private rented sector to provide long-term homes for this group.

This summary and the corresponding main report are in two parts. The first part looks back at tenure change between 1993/94 and 2009/10, using the Government's *Survey of English Housing* and its successor the *English Housing Survey*. This historical look breaks the data down by tenure, region, household type and income. The second part projects trends forward to 2025, and it explores how tenure structures may develop under different economic scenarios. Here we report on the core findings based on two scenarios – a continuing weak economy and a cautiously slow economic expansion from the current low base.

1 Grant Shapps MP, Minister for Housing, in a written answer to Tim Farron MP, 20 February 2012, Column 583W, *Hansard*, House of Commons.

The findings

The most important findings are:

- On the overall balance of tenures across England, there has been a rise in outright ownership and a fall in mortgaged home-ownership. Between 1993/4 and 2009/10, outright ownership increased from 25 to 34 per cent and mortgaged ownership fell from 43 to 35 per cent.
- Within the rented sector, there have been big rises in private renting as social renting becomes less accessible and rising rents and high house prices make it harder for renters to enter home ownership. Between 1993/4 and 2009/10 social renting fell from 25 to 18 per cent, while private renting was up by the end of the period to 13 per cent from 8 per cent in 1993/94.
- In London, where households are on average younger, outright ownership has risen slowly from 20 to 25 per cent and there has been a precipitous decline in mortgaged ownership from 39 to 33 per cent in 2009/10. This has inevitably led to an even greater dependence on private renting, up from 12 per cent in 1993/4 to 19 per cent in 2009/10.
- Projecting forward, it suggests that the state of the economy is central to tenure change. If the economy does not show significant signs of recovery, mortgaged home-ownership will continue to fall from 31 per cent in 2012 to 27 per cent by 2025. A cautious recovery, together with greater access to mortgage funding, balanced against the need for responsible lending, could allow some of the one million who are currently shut out to become homeowners.
- Social renting continues to play a core role in provision, especially among those on low to middle incomes. Especially in the capital, social housing continues to house 46 per cent of low-income households. It supports lower paid workers in homes near their work, as well as providing housing for more vulnerable households.
- For families with dependent children in England, mortgaged home-ownership is projected to decline to 47 per cent by 2025, although remaining the largest tenure. Private renting moves into second place by 2025 at 22 per cent.
- For families on low to middle incomes, private renting also becomes steadily more significant by 2025 if the economic recovery is weak, growing to 27 per cent in England by 2025. The rise of private renting is muted by the continued importance of social rented housing for this group, particularly in London where more than 50 per cent of low-to middle-income families will still rent socially in 2025 if the tenure remains available to them.
- Our projections suggest that under a cautious economic recovery, mortgaged ownership could recover. If the economy remains weak and credit availability is tight, there will be continued declines across the country – putting even more pressure on private renting. In London social renting remains important, but private renting is projected to overtake rapidly and become the dominant tenure for families within 10 years.

Looking forward, unless the economy picks up, England will be more and more dependent on rented housing. The worse the economy, the more likelihood of this group's housing being in the private rented sector. In London, if current trends continue, tenants will soon outnumber owners, with important political, social and economic implications.

The evidence

The changing historical tenure balance

Figure 1 gives an overview of changing patterns in England based on four categories of tenure: owner-occupation split into owned outright and buying with a mortgage, and renting split into social and private.

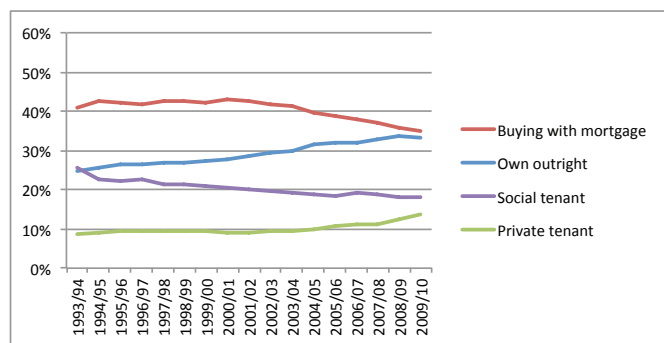


Figure 1: Historical change in housing tenure, England

While buying with a mortgage has remained the largest sector, it has been falling away particularly in the last few years and declined from 43 to 35 per cent over the 17-year period. Outright ownership on the other hand has steadily moved upwards from 25 to 33 per cent. Social housing declined fairly consistently in proportional terms, while private renting was rising – and more rapidly since the mid-2000s. In terms of owning versus renting near the end of the last decade, the proportions were around 68 per cent owner-occupation and 32 per cent renting.

Figure 2 shows that in London the trajectories are not dissimilar, but renting, and especially social renting, is far more important when compared to the rest of the country.

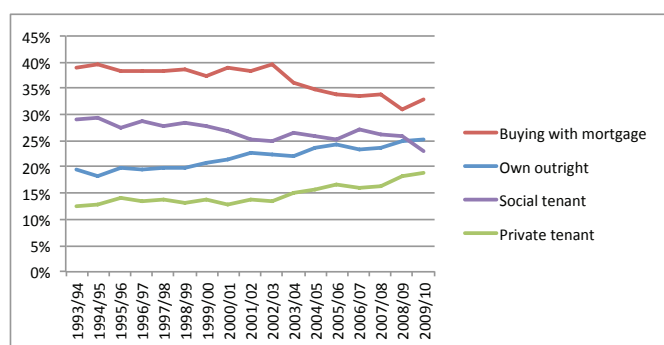


Figure 2: Historical change in housing tenure, London

Note: for both the above Figures, the survey results for 2009/10 look out of line with past trends, especially in relation

to buying with a mortgage. This in part reflects the smaller sample.

There has been a steady decline in buying with a mortgage in London since 2002, while outright ownership has slowly risen over the period. Social renting has declined from around 30 to 23 per cent, while private renting has risen strongly from 12 to 19 per cent.

Overall, owner-occupation is running at around 55 per cent while renting accounts for about 45 per cent of all households – a very significant change from the 68 to 32 per cent split at the beginning of the period. If this trend continues, tenants will soon outnumber owners, with important political, social and economic implications.

The role of social renting for lower-income households, especially in London

The trends show that the importance of social renting has fallen across the country. But the biggest story with respect to social housing is in London where social, and particularly council, renting is still very important for housing those families at the lower end of the income scale, as shown in Figure 3.

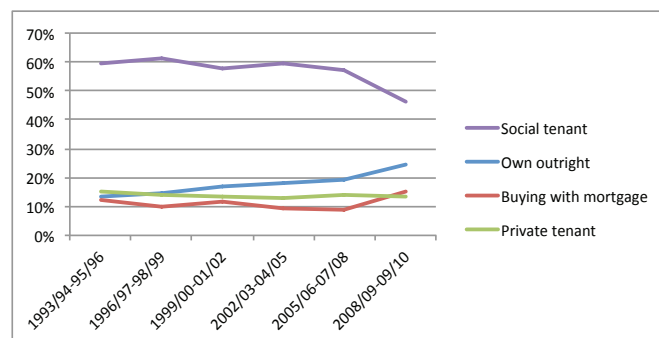


Figure 3: Historical changes in housing tenure of lower quartile income households, London

Figure 3 shows how social housing has in the past been accommodating around 60 per cent of London households in the bottom 25 per cent of the income range, and it still provides for almost half of all such households. This compares with around one in three such households in England as a whole. One reason for this is that poorer households in London tend to be younger – so there are far fewer outright owners. Elsewhere in the country, outright ownership includes large numbers of poorer households, including many Right to Buy purchasers.

Overall tenure projections

We project these trends going forward, under two economic scenarios:

- a continuing weak economy, assuming no real growth over the whole period to 2025, continuing credit constraints and a very slow recovery in the housing market
- a cautious economic recovery, assuming that only by 2018 is there real economic growth, but also some improvement in both the mortgage and housing markets.

Our other central assumptions are that the social rented stock is held constant in numerical terms and therefore falls from 18 to 16 per cent, as a percentage of the total stock, and that demand for social rented homes that cannot be met is transferred to the private rented sector. The full report also includes scenarios in which the social rented stock reduces in numerical terms, and excess social demand is split between private renting and owner-occupation.

It should be stressed that these projections are based on past trends in behaviour that are themselves the result of observed house prices, supply, and other factors affecting tenure outcomes. As such, they are projections and not forecasts. There is no attempt to model price or supply directly.

Figure 4 sets out what might be regarded as the current expected scenario – a continuing weak economy in England.

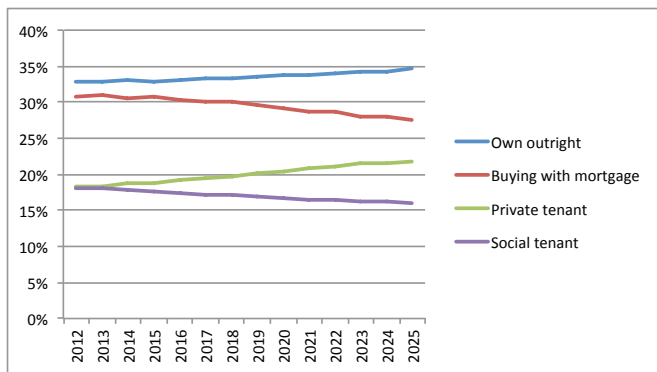


Figure 4: Household projections by tenure, England

Scenario: continuing weak economy, assuming a constant social rented (SR) stock and all excess SR demand going to private renting (PR).

Mortgaged ownership continues to fall away from 31 per cent in 2012 to 27 per cent in 2025, while private renting increases by a fifth to 22 per cent. Outright ownership continues to grow

(from around 33 to 35 per cent) as the cohort who bought during the great expansion of home ownership gets older. Ownership in total falls from around 65 to 62 per cent, in line with many current commentators' predictions. Private renting rises from 18 to 22 per cent.

Figure 5 looks at the cautious economic recovery scenario.

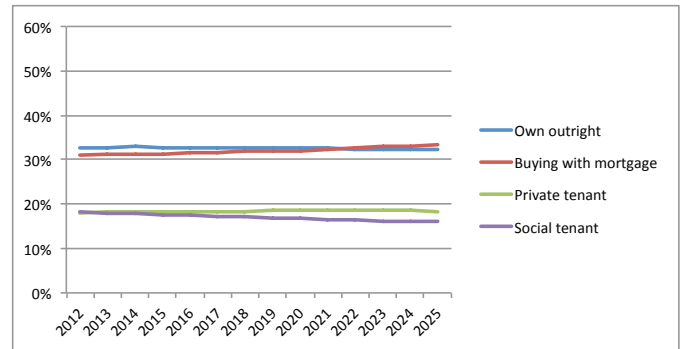


Figure 5: Household projections by tenure, England

Scenario: cautious economic recovery, assuming a constant social rented (SR) stock and all excess SR demand going to private renting (PR).

Here we see mortgaged home-ownership, stabilising and expanding modestly from 2014 back to 33 per cent by 2025. Outright ownership keeps pace with mortgaged home-ownership and remains roughly stable to end at 32 per cent. Overall ownership levels therefore pick up very slightly from their current low – from 64 to 65 per cent over the period. Private renting accounts for a proportion similar to social renting around 2012, and then overtakes it as the proportion of social housing falls (remembering it is constrained). Basically, private renting flatlines to the end of the period, when it accounts for 18 per cent of all households.

Figure 6 shows what might happen in London under a weak economy.

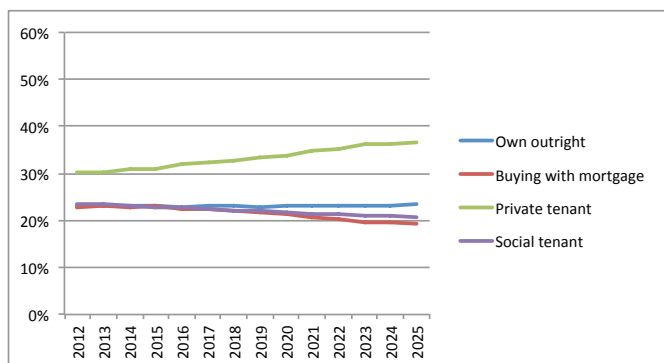


Figure 6: Household projections by tenure, London

Scenario: continuing weak economy, assuming a constant social rented (SR) stock and all excess SR demand going to private renting (PR).

Private renting increases strongly, to well above 35 per cent, while mortgaged home-ownership slips down to below 20 per cent, becoming the least common of the four tenures. It must be remembered that these are simply scenarios. What will actually happen will most probably lie somewhere within these two scenarios, and policy and other structural factors will change in response to such massive pressures. However, the trajectories are clear. Unless the economy picks up, England (and particularly London) will be more and more dependent on rented housing. And the worse the economy, the more likelihood of this group's housing being in the private rented sector.

Families with dependent children

Helping hard-working families sits at the heart of the Government's stated policy aims. This group includes couples and lone parents with dependent children, as well as multi-adult households where there are one or more dependent children. Mortgaged home-ownership for this group has declined in England, from 59 per cent in 2000/01 to 55 per cent in 2009/10, but remains their predominant tenure, followed by social renting at 20 per cent.

In London the decline in mortgaged home-ownership among families has been more pronounced, as shown in Figure 7.

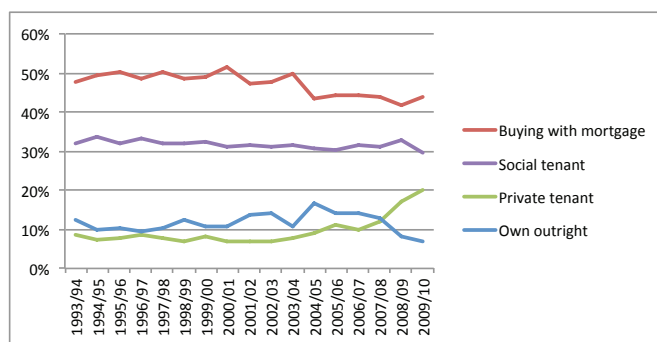


Figure 7: Historical changes in housing tenure of families with dependent children, London

Most dramatic is the recent rise in private-renting families, the proportion of which doubled to 20 per cent in the three years from 2006/07.

In Figures 8 and 9 under the weak economy scenario, we look ahead to see how families with dependent children might fare over time in England, overall, and London in particular. In England, mortgaged home-ownership among families falls to 47 per cent and private renting edges into second place over social renting. Figure 8: Household projections by tenure, families with dependent children, England

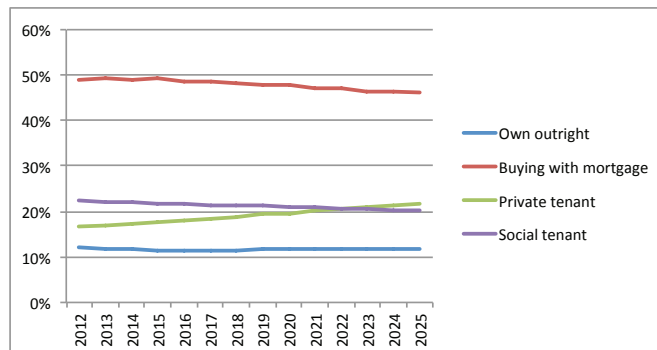


Figure 8: Household projections by tenure, families with dependent children, England

Scenario: continuing weak economy, assuming a constant social rented (SR) stock and all excess SR demand going to private renting (PR).

In London we see a much sharper decline in mortgaged home-ownership among families.

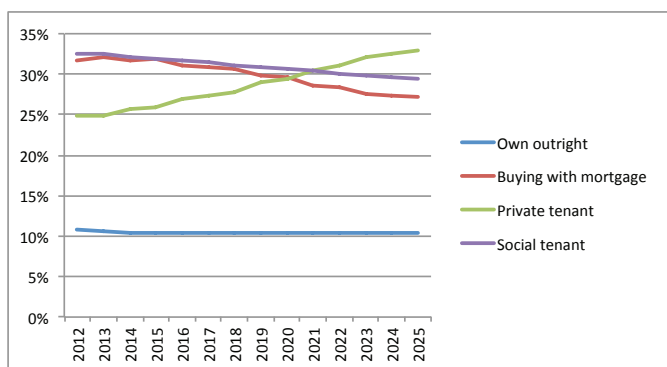


Figure 9: Household projections by tenure, families with dependent children, London

Scenario: continuing weak economy, assuming a constant social rented (SR) stock and all excess SR demand going to private renting (PR).

The percentage of families who own with a mortgage falls from 32 to 27 per cent, while the number renting privately rises rapidly to 33 per cent. The private rented sector will house more than 300,000 families with children – a 50-per cent increase over the period. London therefore sees a tenure transformation for this group of households.

Low- to middle-income families with children

The housing opportunities of low- to middle-income families with children (those in deciles 2 to 5 of the household income distribution)² are already under pressure. Projecting these trends forward we see (in Figures 10 and 11) that, under a weak economic scenario in both England and London, use of the private rented sector increases while the social rented sector continues to play a vital role for low- to middle-income families.

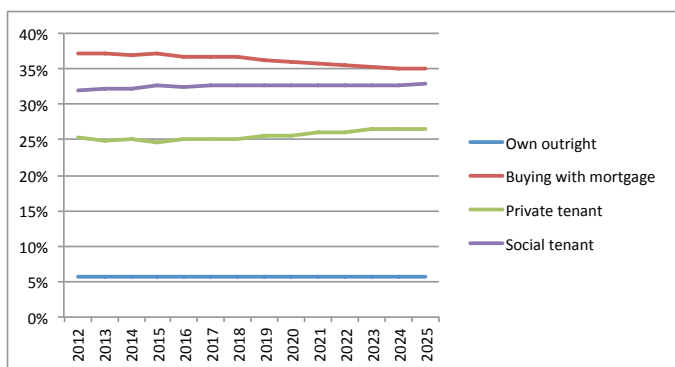


Figure 10: Household projections by tenure, low- to middle-income families, England

Scenario: continuing weak economy, assuming a constant social rented (SR) stock and all excess SR demand going to private renting (PR).

In England, mortgaged home-ownership falls over the period, but continues to be the dominant tenure. Social renting remains significant, while private renting expands steadily. In London the story is similar – as private renting increases, mortgaged home-ownership declines.

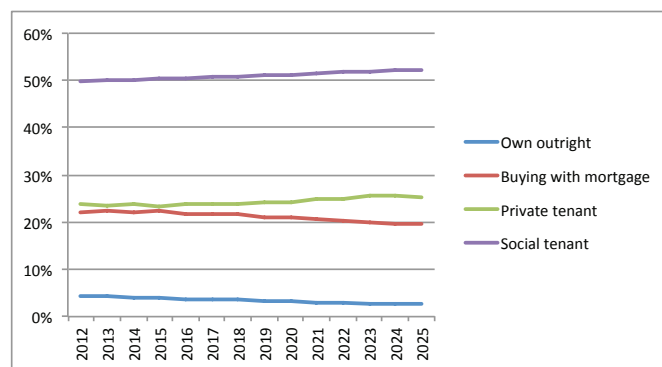


Figure 11: Household projections by tenure, low- to middle-income families, London

The dramatic difference between the England and London stories stems from their different starting points: social renting maintains its position in housing around 50 per cent of London’s low- to middle-income families, while ownership declines from a very low starting point to below 20 per cent and the private rented sector pulls away from it. By 2025, the two rented sectors between them account for 78 per cent of London’s families with children in the low- to middle-income group.

² Definition of low to middle income, Resolution Foundation

Implications for the policy agenda

- The most immediate policy issues are associated with the growth of the private rented sector as mainstream housing provision: not only around rent levels, but also around security of tenure and housing quality, not least for families. For families in London, private renting is projected to become the dominant tenure within 10 years.
- It is clear that if the economy remains weak there will be far more households in private renting, including more than one in three London households by 2025. The much higher rents in London's private rented sector, especially for lower-income households, will impact on both wages and competitiveness as well as on the Housing Benefit bill. Growth and a better macro-economic environment would give households a greater likelihood of housing choices.
- Social renting still plays a key role for lower-income families, especially in London, with adverse consequences for the economy and competitiveness if the sector were to decline further.
- Policy has tended to see social housing as a problem rather than a solution. But the evidence presented here reinforces the point that social housing still plays a mainstream role in the London economy. The tenure is a key factor in London's competitive position, not least in relation to the capital's very substantial service sector. Its role in the future will be very different, depending on how policy affects social provision and upon the state of the economy.
- In policy terms, we can no longer discuss home ownership as a single tenure – outright ownership and buying with a mortgage are two very different segments of the market. They meet quite different needs at different stages in people's housing journeys.
- Mortgaged home-ownership has been falling, and in some scenarios becomes very much the minority tenure. Yet home ownership is what the majority of people aspire to, and is held to support the economic growth agenda. There are real policy choices about what to do – wait for an economic recovery or intervene to support increased entry? Low interest rates and flat prices may open up new possibilities.
- The evidence suggests that the housing opportunities of lower- to middle-income households will become increasingly restricted, with ever greater numbers renting privately, putting a high premium on achieving significant improvements in the economy and credit availability.

The full report *Housing in Transition: Understanding the dynamics of tenure change* – a report for the Resolution Foundation and Shelter by Christine Whitehead, Peter Williams, Connie Tang and Chihiro Udagawa, June 2012 is available to download from the Cambridge Centre for Housing and Planning Research website <http://www.cchpr.landecon.cam.ac.uk/>

Resolution Foundation

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low-to-modest incomes by delivering change in areas where they are currently disadvantaged. We do this by:

- undertaking research and economic analysis to understand the challenges facing people on a low-to-middle income;
- developing practical and effective policy proposals; and
- engaging with policy makers and stakeholders to influence decision-making and bring about change.

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Until there's a home for everyone

In our affluent nation, tens of thousands of people wake up every day in housing that is run-down, overcrowded, or dangerous. Many others have lost their home altogether. The desperate lack of decent, affordable housing is robbing us of security, health, and a fair chance in life. Shelter believes everyone should have a home.

We help thousands of people every year fight for their rights, get back on their feet, and find and keep a home. We also tackle the root causes of bad housing by campaigning for new laws, policies, and solutions.

Our website gets more than 100,000 visits a month; visit shelter.org.uk to join our campaign, find housing advice, or make a donation.

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