Resolution Foundation

BRIEFING

Inequality Street

Housing and the 2019 general election

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November 2019

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Summary

In the coming days the political parties will launch their 2019 general election manifestos, setting out policies and priorities in every area of government decision making. While Brexit will no doubt dominate, it would be surprising if each did not contain some proposals on housing, not least because approaching one-in-five adults says that housing is one of – if not *the* - most important issue we face in Britain today, up from just one-in-twenty in the early 2000s.

So why has housing risen up the public, and therefore the political, priority list so significantly in recent years? In this note we identify three key reasons. First, home ownership rates have fallen significantly over time. Young people have been at the sharp end of this trend, with the share of families headed by those aged 25-34 owning their home falling by almost half since 1989. While we have seen a small uptick in the number of young families getting on the housing ladder in the last three years, home ownership remains a widespread and too often unfulfilled aspiration.

Second, the day-to-day cost of housing has risen substantially over the past four decades. Sharp increases in housing costs in the 1980s and mid-2000s, which have only slightly unwound in the years since, have driven costs up to often unaffordable levels. In 1980, for example, the average working-age family spent one-tenth of its income on housing; today it spends one-fifth. And this change is larger still for those in the private rented sector. In 1980, the average working-age family renting privately spent 12 per cent of its income on housing; today it spends almost three time this amount at 35 per cent.

Third, housing figures prominently in public debate today because it has (and is) driving up income inequality. Housing cost to income ratios (HCIRs) have increased fastest among those working-age families on the lowest incomes (in the bottom quintile), from 15 to 39 per cent between 1980 and 2017. This compares to just a 2 percentage point increase (from 7 to 9 per cent) for those on the highest incomes (in the top quintile). As a result, the share of income that high-income families spend on housing is essentially the same as in the early 1980s, while it stands at close to record level for those on the lowest incomes.

We contrast the recent housing costs experiences of lower and higher-income families, drawing out the role that housing has played in pushing up inequality. To begin, we note that low interest rates have provided higher-income families – large numbers of whom are mortgaged home owners – with significant reductions in their housing costs in recent years, and look set to continue to do so for some time yet.

In contrast, low income families have had to contend with two trends which have increased their housing costs burden. To begin, a growing share of poorer families are housed in the costlier private rented sector (PRS) today than were fifteen years ago. Those in the lowest income quintile living in the PRS today spend an eye-watering average of 50 per cent of their income on housing costs, even after support from housing benefit is taken into account. Second, and more significantly as far as inequalities in housing costs are concerned, large cuts to housing benefit have increased housing costs for social and private sector tenants. The share of social renters whose rent is fully covered by housing benefit has fallen from 70 per cent in 2010-12, to just 52 per cent in 2015-17.

As a result, since 2002, almost all of the income growth (90 per cent) for the lowest income families has been absorbed by higher housing costs – this is equivalent to a £1,200 reduction in living standards. In comparison, for higher-income families the fall in housing costs has acted to boost incomes by 13 per cent. In other words, largely thanks to falling interest rates, high-income families are £400 better off as their housing costs have fallen in real terms since 2002.

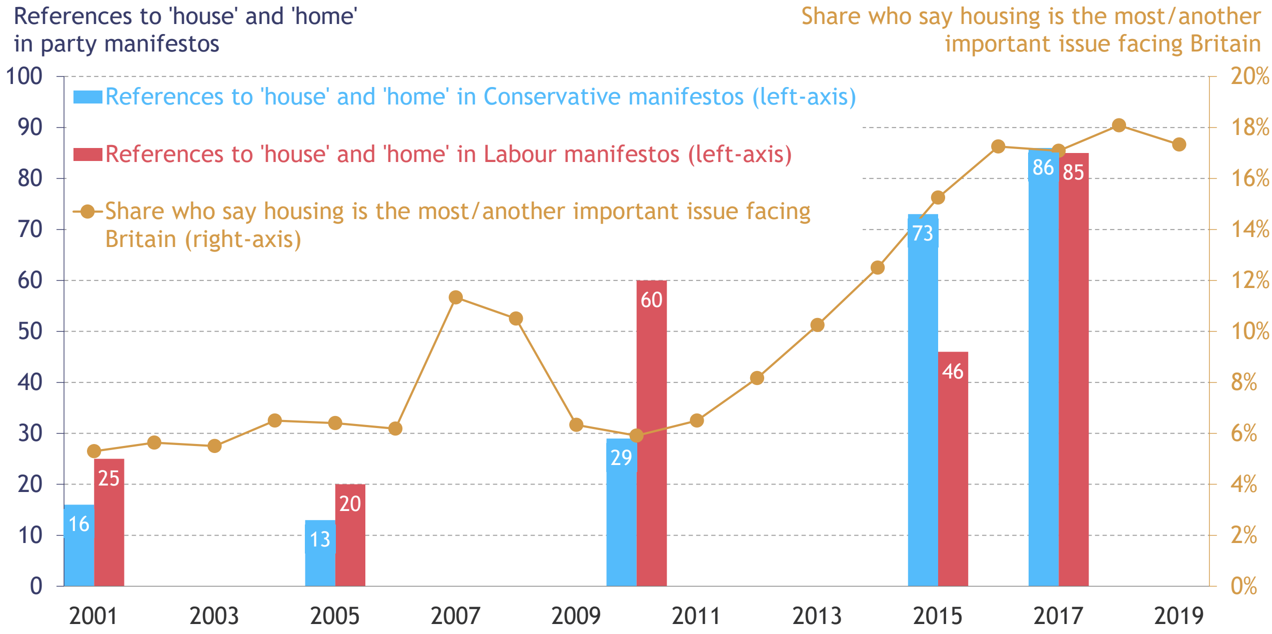
We hope the manifestos that are published in the coming days set out a range of policies that truly address Britain's housing crisis. These should include: action to rebalance housing demand through changes to taxation; commitments to increase the supply of homes in high-demand areas and to fund an ambitious social housing building programme (which the new pro-investment fiscal rules announced by both parties should allow more room for); agreement to re-peg housing benefit to local rent levels and a recognition that social rents are on track to rise faster than private rents in the years to come, which may well push up further on housing cost inequalities. Without action on all these fronts, the deep-seated issues at the core of the public's growing housing concern are likely to remain unaddressed for years to come.

Housing has grown in importance for both the public and politicians in recent years

Over the coming days the political parties will launch their 2019 general election manifestos, setting out policies and priorities in every area of government decision making. If past practice is anything to go by we can expect a slew of announcements on housing, as each of the parties seek to find eye-catching ways to demonstrate that they are serious about tackling 'Britain's housing crisis' (see Figure 1).

FIGURE 1: **The public care more about housing today than they did a decade ago – and political parties have followed suit**

References to housing in the main party manifestos, and share of adults who say housing is the most/another important issue facing Britain: GB, 2001-2019



NOTES: Ipsos MORI tracker is monthly, annual results are average over calendar year other than for 2019 when average over January-September is presented.
SOURCE: RF analysis of Ipsos MORI, *Issues Index* and party manifestos

The increased attention that the parties have paid to housing in recent years is unsurprising given that in 2017 almost one-in-five adults claimed that this was one, if not *the*, most important issue facing the country. This position is very different from the early-2000s, when closer to -one-in-twenty adults took that view. Moreover, even though the UK's relationship with the EU has dominated the political agenda throughout 2019, housing remains as pertinent an issue for the public today as it did at the last general election. So what explains the rise and endurance of housing as a public (and, we expect, political) concern?

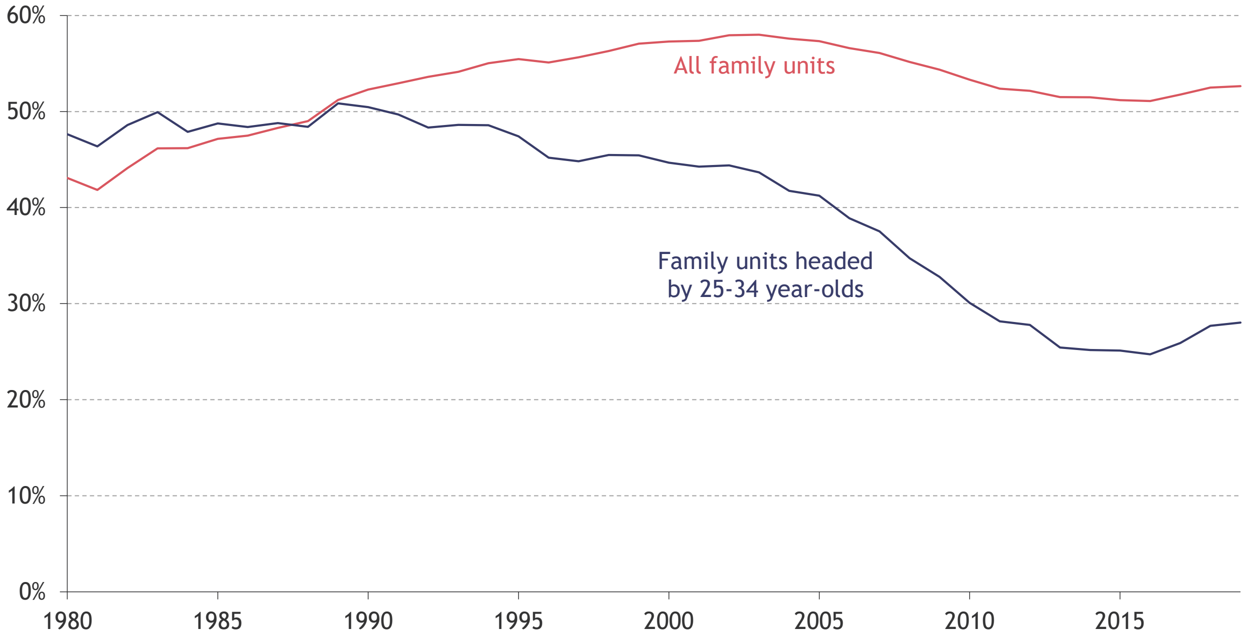
Falling home ownership rates have animated housing as a political issue

There are number of reasons why housing has risen in importance in the UK of late. To begin, home ownership rates fell from a peak of 58 per cent in 2003 to a low of 50 per cent in 2016. As incomes stagnated, house prices grew and, post-2008, credit was constrained (see Figure 2). Given the importance that the British public attaches to home ownership (close to half of non-owners, for example, say they expect to own one day), this trend has animated political interest in housing to a considerable extent in recent years.[1]

1 Ministry of Housing Communities and Local Government, *English Housing Survey Headline Report 2017 to 2018*, January 2019

FIGURE 2: **Home ownership rates have fallen, particularly among younger age groups**

Home ownership rates, by age group of head of family unit: UK, 1980-2019



NOTES: A family unit is a single adult or couple, and any dependent children.
SOURCE: RF analysis of IFS, *Households Below Average Income* (1980-83); ONS, *Annual Labour Force Survey* (1984-91); ONS, *Quarterly Labour Force Survey* (1992-2018)

Critically, as Figure 2 also shows, the drop-off in ownership rates has been especially acute for younger families, halving from 50 per cent in 1989 to 25 per cent in 2016.[2] The plight of young people unable to turn their aspiration to own into reality is clearly a grievance not just for themselves (a critical group of voters of course), but also for their parents and grandparents. And while the tide appears to have turned in the last three years, youth home ownership rates still remain in the doldrums (at 28 per cent in 2019), and very much a live political issue.

High housing costs are a critical issue in the UK today

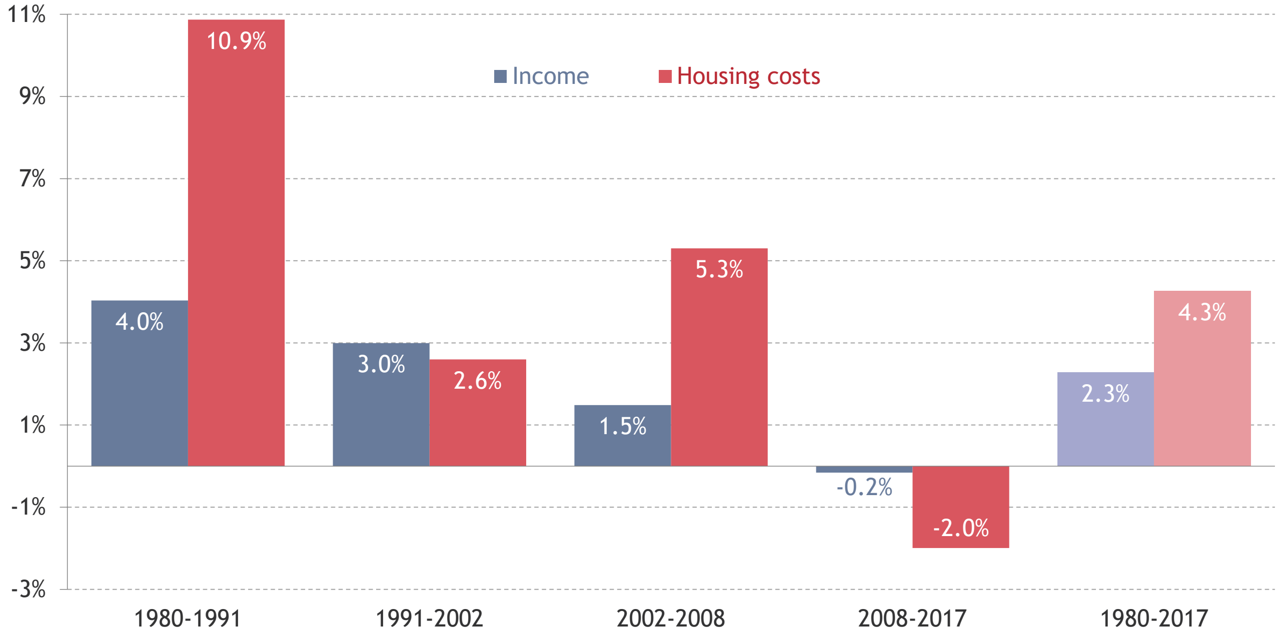
However, it is not just low home ownership rates that explain why housing is high on both the public's priority list and the political agenda. Day-to-day housing costs are the largest non-discretionary spending item in many family budgets, and they have risen substantially over the past four decades. Figure 3 illustrates this point by comparing housing costs growth with income growth in four distinct time periods.[3]

2 Throughout this briefing note we use the term 'family' as a shorthand for the more technical term 'family unit'. Both denote a single adult or couple, and any dependent children. Further, for simplicity we use single years to denote financial years, for example 2017 refers to the financial year 2017-18.

3 Here, and for the rest of this briefing note we restrict our analysis to working-age families, defined as those families headed by someone aged less than 60 years old.

FIGURE 3: **The big increases in housing costs relative to incomes occurred in the 1980s and mid-2000s**

Average annual change in average income and housing costs, working-age family units, gross of housing benefit: UK



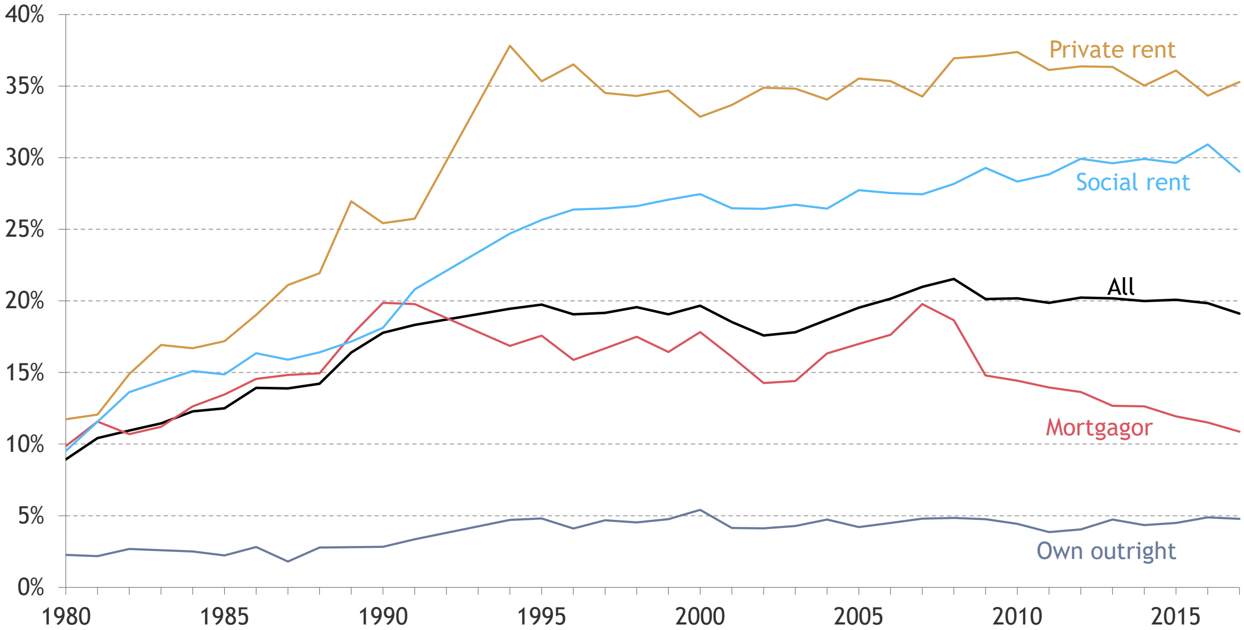
NOTES: Family units are defined as any single or couple adults and their dependent children. Working-age defined as all family units in which the head of the family unit is less than 60 years old. Housing costs are calculated gross of housing benefit such that housing benefit is included in both income and housing costs. Income is net income after taxes have been deducted but before housing benefit is deducted. Income and housing costs assumed to be shared equally between family units within each household. There is no data for 1992 and 1993; changes between 1991 and 1994 are linearly interpolated. Data is for Great Britain only between 1994 and 2001.
SOURCE: RF analysis of IFS (1980-1991) and DWP (1994-2017), *Households Below Average Income*

In the 1980s, average incomes grew at a healthy four per cent annually but were outpaced by housing costs increasing by almost 11 per cent a year. There was some respite for families in the 1990s and early-2000s when incomes and housing costs grew broadly in line with one another, but this was followed by a period in the mid-2000s in which housing costs increased by over five per cent a year while income growth was subdued at just 1.5 per cent. Since 2008, income growth has been flat while housing costs have fallen slightly but nonetheless, the cumulative effect of these four periods has left average housing costs at an elevated level relative to incomes.

As a result, the average housing cost to income ratio (HCIR) for working-age families has doubled since 1980, from one pound in every ten being spent on housing at the start of the period to just under one pound in every five in 2017 (see Figure 4). It is important to note, however, that data limitations mean that these figures are calculated gross of housing benefit (HB), meaning that they show the housing cost burden that falls on both families and the state.

FIGURE 4: **Housing costs as share of income have risen over time**

Average housing cost to income ratio by tenure, working-age family units, gross of housing benefit: UK, 1980-2017



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SOURCE: RF analysis of IFS (1980-1991) and DWP (1994-2017), *Households Below Average Income*

Moreover, these overall figures hide significant differences across tenure categories. For example, in both the 1980s and the mid-2000s, mortgagors (owner occupiers paying down their mortgage) saw their HCIRs increase at a fast rate. In recent years, however, low interest rates have reduced the amount of income this group spends on housing costs back down to the 1980 level. That said, it is important to note that our assessment of mortgagor housing costs does not fully reflect the lived experience of mortgage repayment insofar as we exclude the cost of principal repayment. The reasons for this, and its implications, are discussed in Box 1 below.

In contrast to mortgagor families, the average private renting family's housing costs (gross of housing benefit) are equivalent to one-third of its income – up from just 12 per cent of income in 1980. Social renting families are not far behind, with housing costs equivalent to 30 per cent of their income, up from 10 per cent at the beginning of the period. While the relationship between housing costs and income growth has stabilised in recent years, it is clear that for many families across Britain, housing costs currently stand at an unaffordable level.[4]

4 For a fuller discussion of measurement of housing affordability see: S Clarke, L Judge & A Corlett, The housing headwind: The impact of rising housing costs on UK living standards, Resolution Foundation, June 2016

BOX 1: **Housing costs and mortgage principal repayment**

Throughout the main body of note we analyse housing costs *excluding* the non-interest cost of mortgage repayment. This is primarily because paying down the principal (the amount initially borrowed) is, in effect, asset accumulation rather than a payment for current consumption of housing. A secondary reason for this exclusion is that data on principal repayment is not available for years prior to 1994.

This analytical decision does, however, lead us to report a larger fall in housing costs in recent years than lived experience would imply. Falling interest rates have reduced mortgage repayments (which we capture) but they have also pushed up house prices and by implication the cost of the principal repayment for recent buyers (which we do not capture in Figure 4 above).

We can understand the magnitude of this effect by assessing the increase in housing costs in recent time periods with and without principal repayment included. Between 2002 and 2008 interest rates were rising and house prices were increasing rapidly (apart from at the end of this time period at the onset of the financial crisis). When principal repayment is excluded, mortgagors housing costs increased by 6.4 per cent a year during this time period. But if we add in the cost of paying down the principal, the average annual increase in housing costs for mortgagors stands at 9.4 per cent.

Likewise, if principal repayment is excluded the average change in housing costs for mortgagors between 2008 and 2017 was -6.2 per cent a year, but a smaller change of -3 per cent a year is recorded if principal repayments are included. The overall effect of switching to an ‘including principal’ method of calculating mortgagors’ housing costs is to reduce the average annual change in housing costs across all tenures in the 2008-17 time period from -2 per cent to -1.6 per cent.

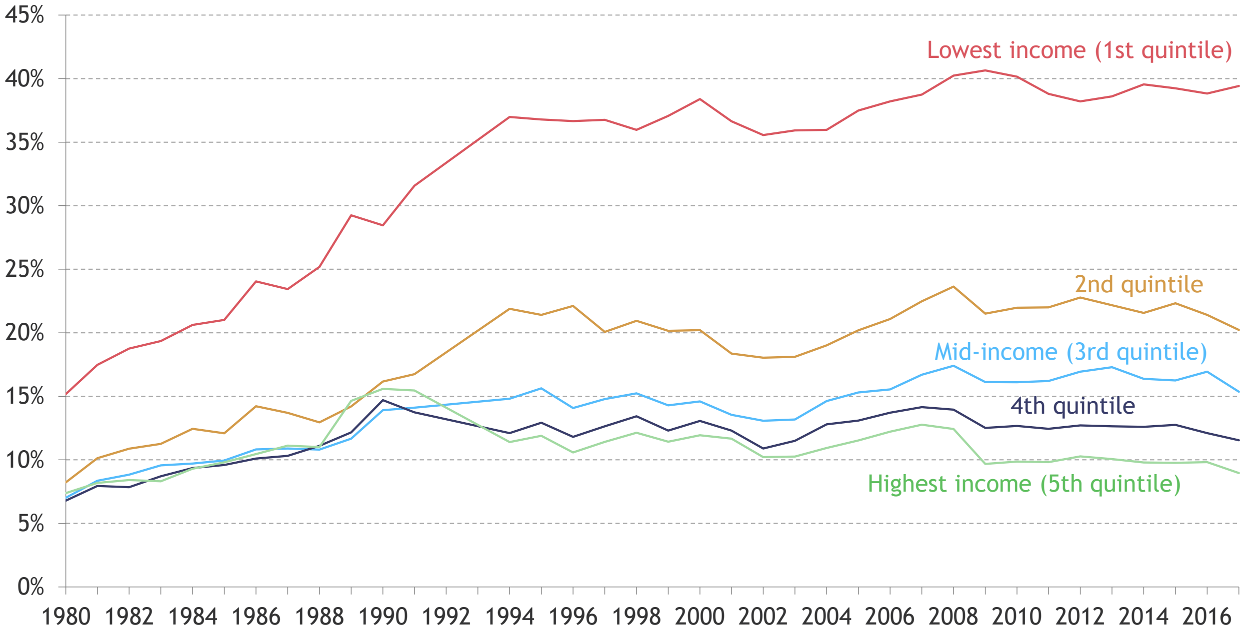
Housing cost increases have driven up inequality over time

It has always been the case that HCIRs are higher for those on low incomes: in 1980, for example, working-age families in the bottom fifth of the income distribution spent an average of 15 per cent of their income on housing compared to seven per cent for those in the top fifth. Over the past four decades, however, the difference between the top and the bottom has grown even further as housing costs have taken up a disproportionately larger share of income for those on lower incomes.

As Figure 5 shows, housing costs took up an average of almost 40 per cent of income (measured gross of housing benefit) for families in the bottom fifth of the working-age income distribution in 2017, an increase of 160 per cent since 1980. In comparison, the average HCIR for a family in the top fifth of the income distribution was just nine per cent in 2017, up by only two percentage points (20 per cent) since 1980. In fact, while those with the lowest incomes are now allocating a near-record share of their income on housing, those on the highest incomes are allocating little more than was the case at the start of the period.

FIGURE 5: **The lowest income families have experienced the fastest increase in housing costs as a share of income over the past 40 years**

Housing cost to income ratio, working-age family units, gross of housing benefit, by income quintile: UK



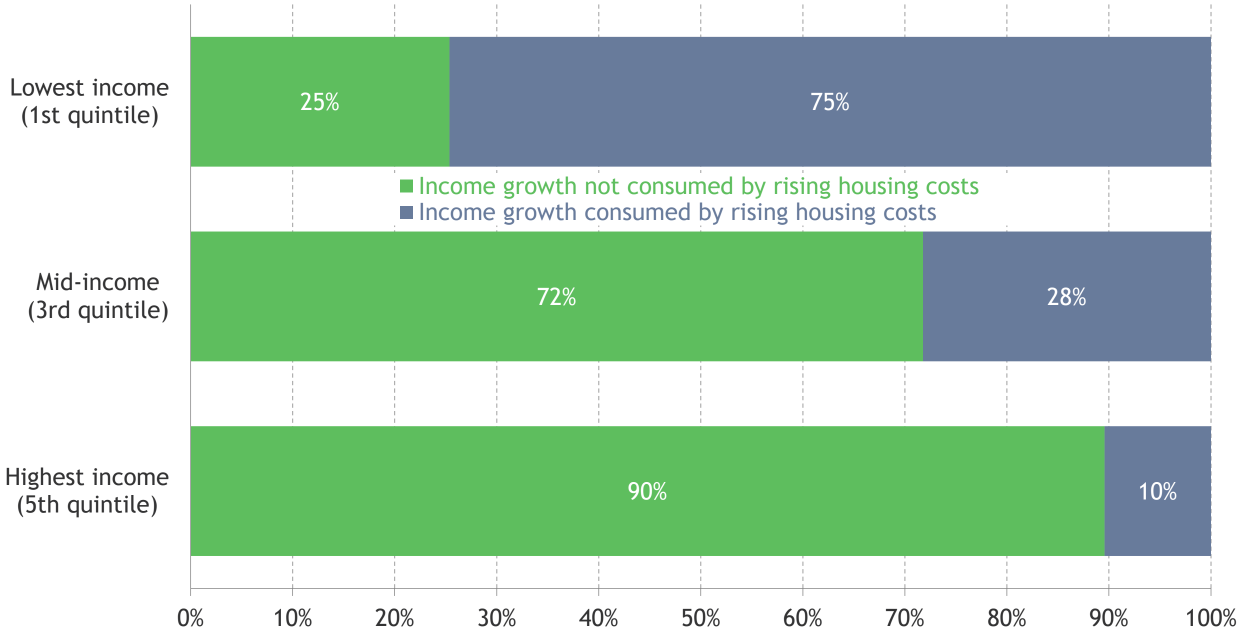
NOTES: Family units are defined as any single adults or couples and their dependent children. Working-age is defined as all family units in which the head of the family unit is less than 60 years old. Housing costs are calculated gross of housing benefit such that housing benefit is included in both income and housing costs. Income is net income before housing benefit is deducted. Income and housing costs are assumed to be shared equally between family units within each household. There is no data for 1992 and 1993, changes between 1991 and 1994 are linearly interpolated. Data is for Great Britain only between 1994 and 2001. Income quintiles are calculated on a family unit basis.
SOURCE: RF analysis of IFS (1980-1991) and DWP (1994-2017), *Households Below Average Income*

So what explains this growing wedge between the top and the bottom? The divergence is a product of both slower than average income growth for low income families, and higher than average growth in housing costs. On average since 1980, real housing costs for working-age families in the bottom quintile have increased by 4.8 per cent a year – notably more than the average increase of 3.4 per cent a year recorded for those in the top quintile. Conversely, average real incomes for those families on the lowest incomes grew by an average of just 1.5 per cent each year between 1980 and 2017, much less than the 2.7 per cent annual increase for those on the highest incomes.

As a result, between 1980 and 2017 three-quarters of income growth (measured gross of housing benefit) for the lowest income families has been wiped out by growth in housing costs. In comparison, as shown in Figure 6, just one-tenth of the income growth of the highest income families was consumed by growth in housing costs.

FIGURE 6: **Housing costs have absorbed three-quarters of income growth over the past 40 years for the lowest-income families**

Share of net income growth consumed by housing costs, working-age family units, gross of housing benefit, selected income quintiles: UK, 1980-2017



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SOURCE: RF analysis of IFS (1980-1991) and DWP (1994-2017), *Households Below Average Income*

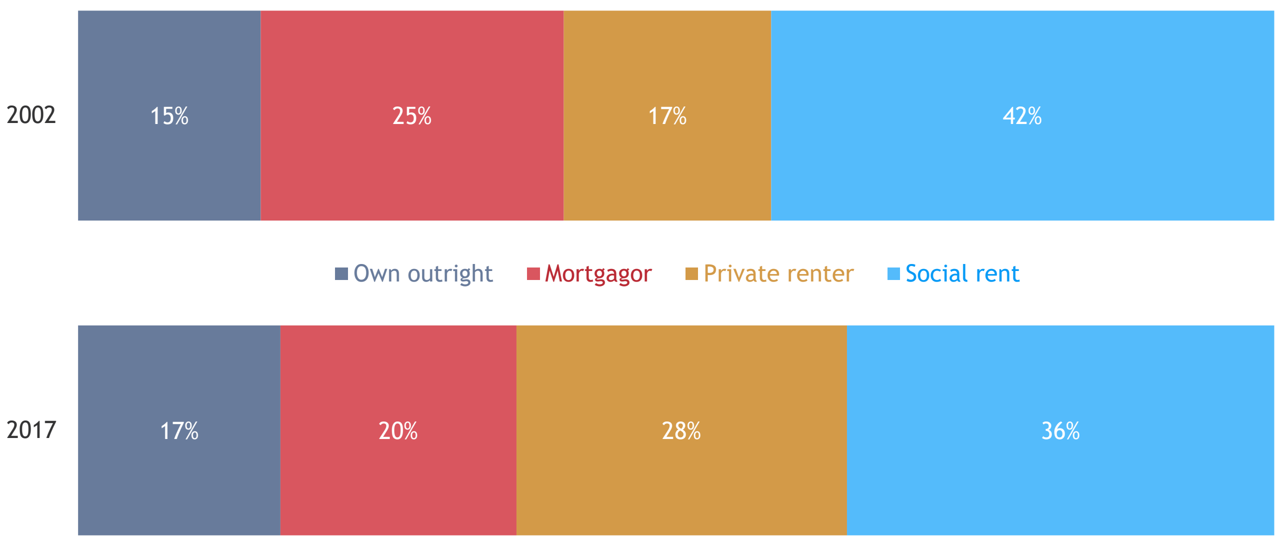
This matters not just for individual families, but for the state of the country as well. Income inequality in the UK today, when measured using after housing cost incomes, is higher than it would otherwise have been if housing cost increases had affected all parts of the income distribution equally. Instead, the housing costs burden falls more heavily than before on lower income families, with all the sense and reality of unfairness that entails.

Lower income families' housing costs have been driven up by tenure change

It is worth reflecting further on what has driven up low income families' housing costs over time and left them having to devote a larger part of their incomes to their homes than they did in the past.[5] If we zoom in on the most recent decade and a half of housing cost changes, one part of the explanation lies with tenure change. As Figure 7 shows, the share of low income families renting in the costlier private sector has increased from 17 per cent to almost 28 per cent since the turn of the century. On average, privately renting families in the lowest fifth of the working-age income distribution spend an unacceptably high 51 per cent of their income on housing once housing benefit is taken into account.

FIGURE 7: **Housing tenure has shifted substantially since the early 2000s**

Housing tenure for working-age family units in the lowest income quintile: UK



NOTES: Family units are defined as any single adults or couples and their dependent children. Working-age is defined as all family units in which the head of the family unit is less than 60 years old. Income quintiles are calculated on a family unit basis.

SOURCE: RF analysis of DWP, *Households Below Average Income*

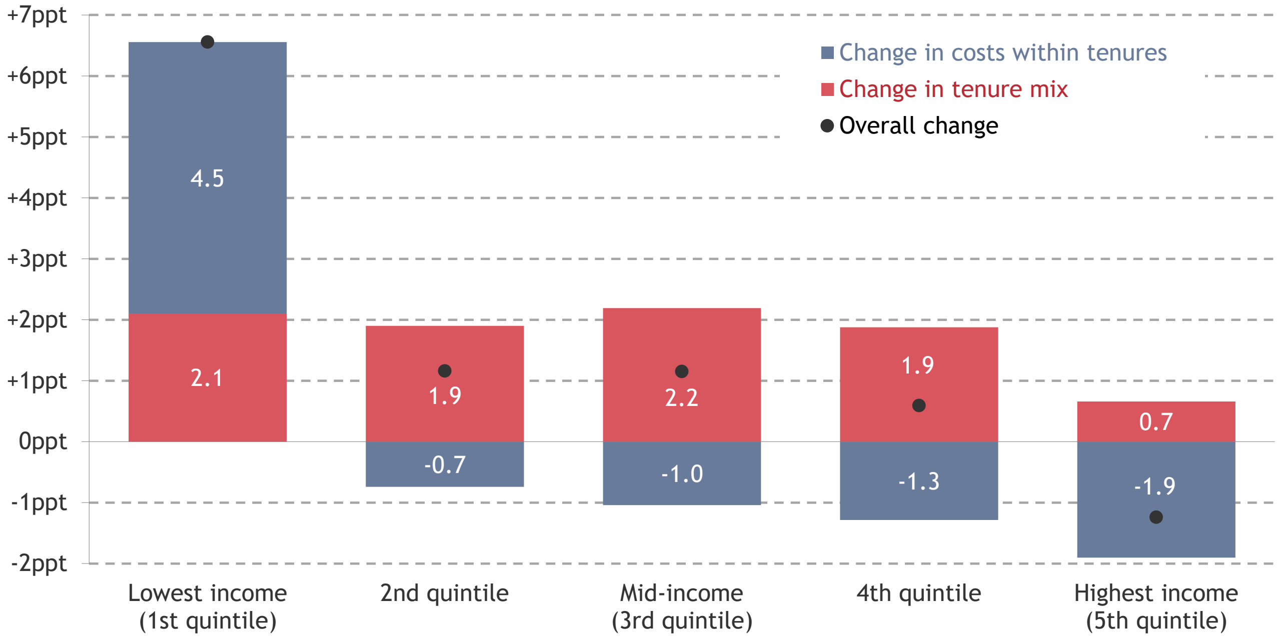
However, this shift in tenure for lower income families does not provide the whole explanation of rising housing costs inequality over time. In Figure 8 we decompose the change in HCIR observed across the income distribution since 2002 into two effects: that which stems from a change in the tenure mix and that which results from rising costs within the tenure. This shows that the changing tenure mix has pushed up HCIRs across the income distribution in a relatively even fashion – a product of the largely broad-based

5 In this section the analysis is restricted to 2002-2017, this enables us to bring housing benefit fully into the picture, something that is not possible with earlier vintages of the data.

expansion of the PRS over the period. Much more strikingly, however, is the fact that within tenure housing costs increases have driven up HCIRs for working-age families in the lowest quintile of the income distribution over the period, while pushing down the share of income spent on housing for all other income groups.

FIGURE 8: **The lowest income families have experienced the largest increase in housing costs as a share of income over the past 15 years**

Decomposition of changes in average housing cost to income ratios, working-age family units, net of housing benefit, by income quintile: UK, 2002-2017



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SOURCE: RF analysis of DWP, *Households Below Average Income*

Housing benefit cuts have increased the housing costs burden for lower income families

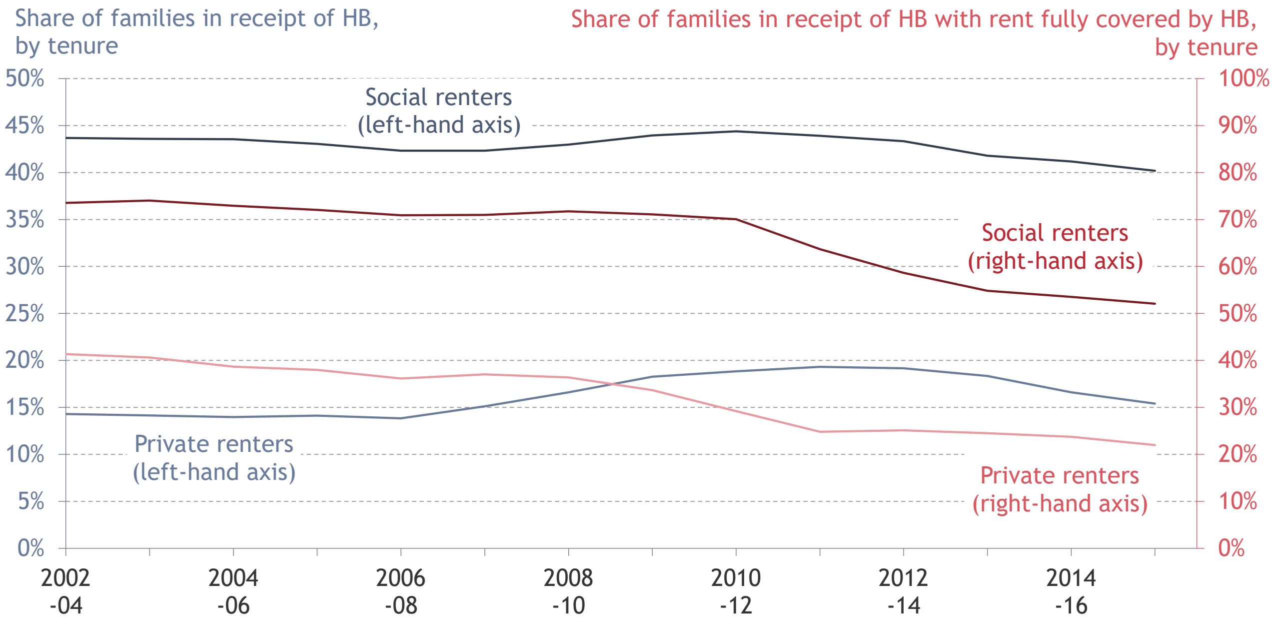
So just why have lower income families' within tenure housing costs increased so much over this time? To answer this we have to look at housing benefit which provides support with housing costs for many low income families. As is well documented, HB has become less generous in recent years: the Coalition government decided to link Local Housing Allowance to rents at the 30th percentile, for example, as well as uprate in line with other benefits rather than prevailing rents.[6] Further cuts to other housing support have also been implemented, including the Removal of the 'Spare Room Subsidy' (otherwise

6 See, for example, C Barton, R Keen and W Wilson, Housing Benefit measures announced since 2010, House of Commons Library briefing paper Number 05638, December 2016

known as the introduction of the 'Bedroom Tax') alongside other limits to housing benefit entitlements and the introduction of the benefit cap. As Figure 9 shows, 70 per cent of HB claimants in the social rented sector had their rent fully covered by the benefit in 2010-12 but this share had fallen to just 52 per cent by 2015-17. Moreover, while some of this effect may be explained by more families receiving at least some HB in the years following the financial crisis, the share of social renting families in receipt of any HB has broadly stayed the same since the mid-2000s.

FIGURE 9: **Housing Benefit receipt and the share of families who are fully covered by Housing Benefit has fallen**

Share of working-age family units receiving Housing Benefit and the share of this group with rent fully covered by Housing Benefit, by tenure: UK, 2002-04 to 2015-17

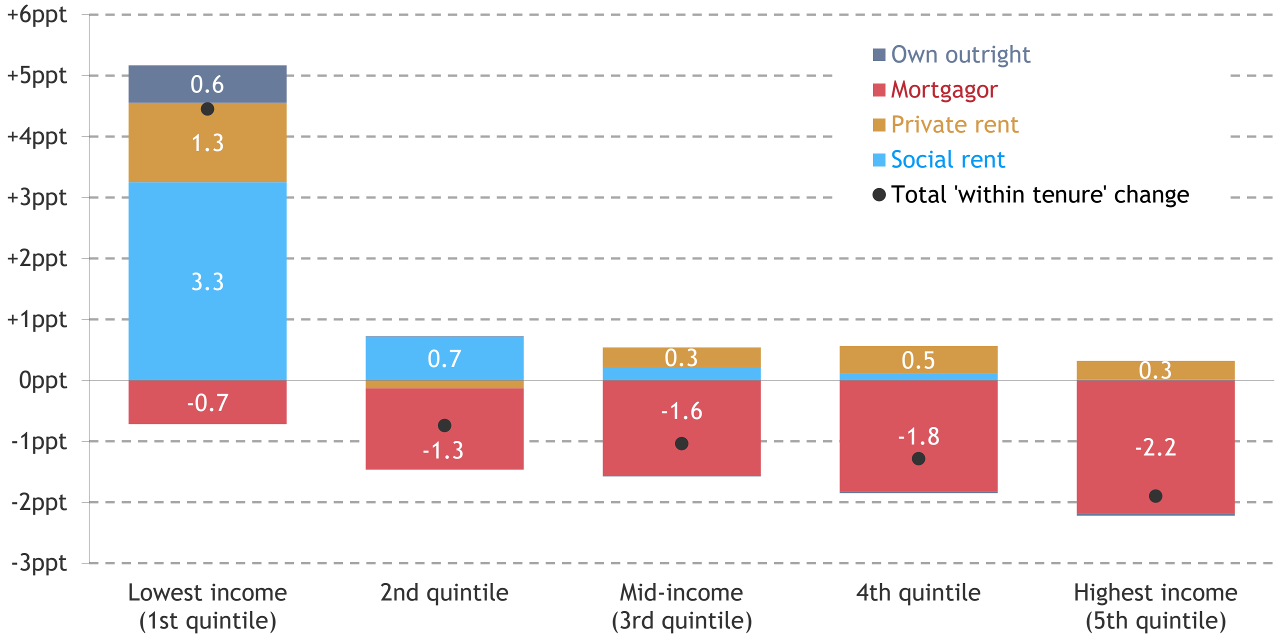


NOTES: Years are three year rolling averages.
SOURCE: RF analysis of DWP, *Households Below Average Income*

It is unsurprising, then, that while the average working-age social renting family in the bottom fifth of the income distribution allocated 16 per cent of income (net of HB) to housing in 2010, that share had increased to 24 per cent by 2017 – a 50 per cent increase in the space of just seven years. We can decompose the overall increase in HCIRs, for each quintile, into the contributions from each tenure to quantify the effect of these changes. Figure 10 does just this, revealing how rising housing costs in the social rented sector (which is in part driven by falling HB generosity) account for almost all of the overall within tenure increase in HCIRs for family units in the lowest income band. While low post-crisis interest rates have driven large falls in costs for mortgagors, with bigger effects higher up the income distribution.

FIGURE 10: **The growing cost of social rent has pushed up housing cost to income ratios for low income families**

Decomposition of within-tenure contribution to changes in housing cost to income ratios, working-age family units, net of housing benefit, by income quintile: UK, 2002-2017



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SOURCE: RF analysis of DWP, *Households Below Average Income*

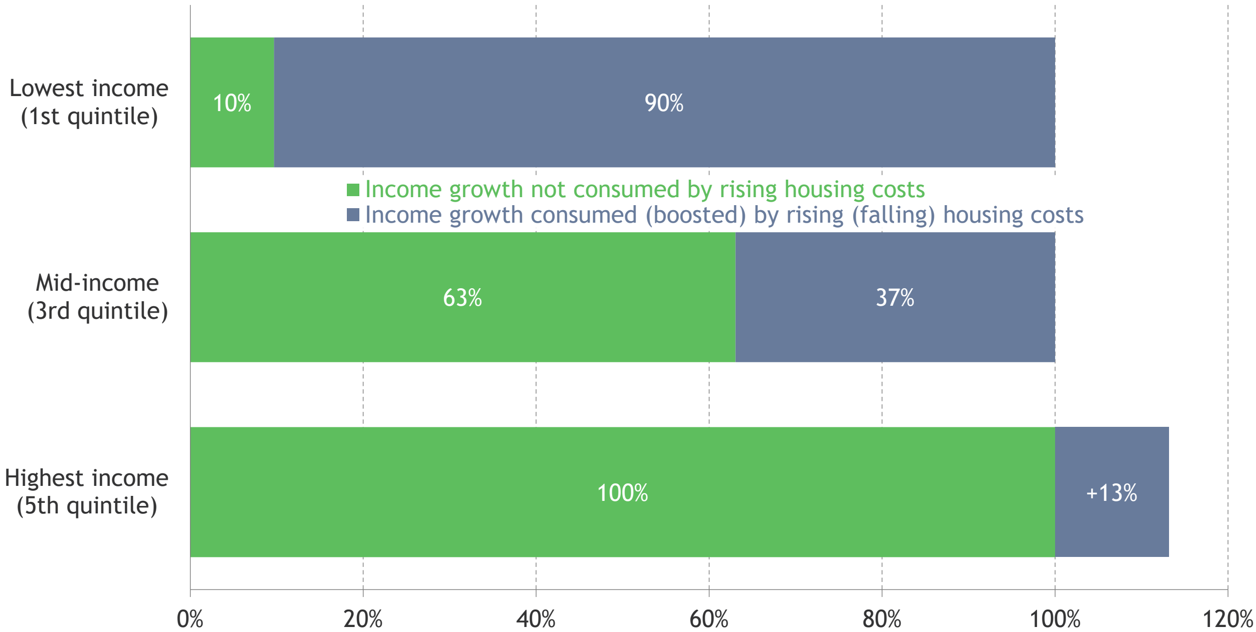
Finally, we can repeat the exercise presented in Figure 6 above, but just for the years since 2002 to see the impact of these divergent experiences of housing costs on income growth. This reveals, see Figure 11, that almost all (90 per cent) of the income growth experienced by working-age households in the bottom quintile of the income distribution has been consumed by higher housing costs. At the same time, the incomes of those in the fifth quintile have been boosted by 13 per cent as a result of falling housing costs.

In pounds and pence, we estimate that low-income families have suffered a £1,200 living standards hit from fast-rising housing costs since 2002. At the same time, thanks to falling interest rates, high-income families are £400 better off because of real terms falls in their housing costs over the past 15 years.

These vastly different changes in living standards across the distribution have acted to push up on income inequality in recent years. Moreover, there is little sign that this trend is about to reverse. Since 2016, social rents have been reduced by 1 per cent per annum at the behest of central government, protecting tenants from an even greater exposure to housing costs; but from 2020 onwards social landlords will be able to increase rents by CPI+1 per cent a year. While this is intended to allow social housing providers more scope to invest in house building, this big policy change must be placed in the context of the findings of widening housing cost inequality presented in this note. At the other end of the spectrum, it unlikely that steep interest rate rises will take place in the near future which means that housing costs will remain low for those with a mortgage.

FIGURE 11: **Higher housing costs have absorbed almost all of the income growth experienced by the lowest income families over the past 15 years**

Share of net income growth consumed by housing costs, working-age family units, net of housing benefit, selected income quintiles: UK, 2002-2017



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SOURCE: RF analysis of DWP and IFS, *Households Below Average Income*

Housing policies need to tackle the challenges identified in this note if public concerns are to be addressed

Low home ownership rates, high levels of housing unaffordability and the differential way in which housing costs have grown relative to incomes, which has driven up inequality over time, are a profound source of anxiety and grievance across the Britain today. So what should those writing manifestos be thinking about if they are serious about addressing Britain's housing crisis? Here we set out five policy recommendations that would go a long way to tackle the issues that have driven housing up the public and political agenda in recent years.

1. **Use the tax system to rebalance housing demand in favour of those struggling to enter home ownership.** Supporting home ownership has been a government priority for several years: for example, significant funds have been devoted to the Help to Buy programme as well as its predecessor schemes. However, a smarter approach would be to damp down the demand for housing of existing owners to improve the relative purchasing power of first time buyers.[7] We propose stamp duty should be halved to support property purchases by first-time buyers and movers, while retaining the existing higher rate for the purchase of additional properties; a time-limited cut to capital gains tax for owners of additional properties who are selling to first-time buyers should be implemented; and council tax should be replaced with a progressive property tax that is related to up-to-date property values.
2. **Build more homes in areas of high housing demand.** In the long run, a rebalancing of supply and demand in parts of the UK's housing market is what is needed to bring down housing costs. Increased house building of homes of any tenure must therefore continue to be a top priority for whichever government is formed after the general election, with the emphasis placed on building these homes where demand for housing is highest.
3. **Increase grant funding for the building of more social homes.** Social housing must be a larger part of the tenure mix of newly built homes than it has been in previous years – just 6,500 new homes for social rent were provided in England in 2017-18. Theresa May's government has set the ball rolling by lifting the Housing Revenue Account borrowing cap and providing a long-term funding commitment of £2 billion over seven years for the social rented sector. With both main parties pledging to increase investment spending in the years ahead, we would hope to see more and sustained funding to build social homes in the future.
4. **Re-peg housing benefit to local rent levels.** The benefit system is providing less support for housing costs to low-income families renting privately than it did in the past as a result of successive cuts to the Local Housing Allowance (LHA). It is also unsustainable for housing benefit payments to be permanently disconnected from the evolution of local rent levels. Parties that want to reduce housing costs for low income families in the PRS should re-peg the LHA to local rents.
5. **Monitor closely the impact of increasing rents in the social rented sector.** From next year social housing providers will be free to increase rents by up to CPI+1 per cent (following on from four years of central government mandated rent reductions). This may be good news for housing association revenues and support much needed building, but it is less positive for the living standards of social rented tenants whose rent is not fully covered by HB. Politicians and policy makers, as well as leaders of registered social landlords, need to think hard about whether rents rising faster in the social rented sector than in the PRS is a good thing, and the implications for inequality. Getting the balance right here is going to be important – and difficult - in the years ahead, unless large increases in grant funding to support building provides social landlords the financial space to increase rents at a slower pace.

7 See L Gardiner et al., *A New Generational Contract: the final report of the Intergenerational Commission*, Resolution Foundation, May 2018 for more details on this approach.

Conclusion

Housing may not be the most important issue in this general election – Brexit can certainly claim that crown – but is one of the most important domestic political issues facing the country. Those writing manifestos in the coming days should seek to respond to the multiple drivers of housing discontent that we have documented in this briefing note. Policies to boost home ownership rates would be welcome, but action to reduce high housing costs, particularly for those on the lowest incomes, should also be on the cards.

Resolution Foundation

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