BRIEFING

Hope to buy

The decline of youth home ownership

Adam Corlett & Felicia Odamtten

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Acknowledgements

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"Lloyds Banking Group are pleased to partner with the Resolution Foundation on this significant piece of research into home ownership in the UK today, exploring both the barriers and potential solutions to help more young people achieve the dream of owning a home of their own. While the decline in home ownership as a tenure over the past two decades is clear, the difficulty younger households in particular face accessing home ownership is often understated. The widening gap between those aspiring to become first-time buyers and those actually securing this aim presents a growing challenge for policy-makers.

This matters because home ownership delivers positive outcomes such as improved physical and mental health and youth and community outcomes, particularly among lower-income households – largely due to the security, stability and financial resilience afforded to those who own their home. Home ownership also serves a valuable role in instilling a savings habit among households, as they gradually increase their equity stake in the property. Home ownership is also overwhelmingly what young people want. But for most with low to middle incomes it is just not possible to pay rent, pay into a pension, repay student loan debt, put money aside for rainy day savings, and at the same time save for a deposit on a first home.

We are mindful too that across the financial services landscape, current policy, products and guidance assume that people own their home in retirement. Yet in previous research the Resolution Foundation has suggested that as many as 34 per cent of millennials will be renting in retirement – and our data suggests that renters will pay more than 40 per cent of average retirement income on rental payments alone, placing greater emphasis on saving more in earlier life. This is a reminder of the interconnected nature of household finances, as saving for retirement and saving for a deposit on a first home must be considered together. So there is a need to consider relevant policy and regulation in that context.

As a UK-focused retail and commercial bank, we are committed to advancing the prosperity of the country. We believe we have a responsibility to take part in some of the vitally important policy debates the country is engaged in, by promoting research and a wide-ranging conversation focused on identifying solutions. We hope the research findings in this report will provoke debate and discussion about how we can collectively deliver the high-quality, sustainable and affordable homes that Britain needs to prosper."

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Summary

This briefing note explores how the home ownership fortunes of those aged 25 to 34 have changed over time. We focus on this age group because this is the point in the life course when the home ownership journey is most likely to start – and beyond this age the chance of buying a home diminishes rapidly without major policy intervention. Although some argue that the flexibility of renting is highly prized, owning one's home is an enduring preference for the majority of families in the UK today. In 2018, for example, the British Social Attitudes Survey suggested that almost three-quarters (73 per cent) of renters would prefer to own their home if they had a free choice. Home ownership has many virtues: it (usually) provides a stable shelter; it reduces the risk of high housing costs in later life; and, historically at least, it has enabled a large number of home owners to save but also to make significant capital gains.

The secular decline in home ownership observed in the UK in recent decades is widely viewed as a cause for concern. Youth home ownership rates rose rapidly from the 1960s: indeed, by 1989 the majority (51 per cent) of young 'family units' (a single person or couple living together) owned their own home (with or without a mortgage). But this upward trend then reversed. Rates fell to 39 per cent just ahead of the financial crisis (although few noticed at the time), and plummeted still further to a low of 25 per cent by 2016 – less than half the 1989 peak rate. Although there have been tentative signs of a turnaround since 2016, with youth home ownership rising to 28 per cent on the eve of the pandemic, we estimate that 1.3 million fewer young families owned their homes in 2019 than would have been the case if the peak rate had been sustained. (We also note that the effect of Covid-19 on this slight recovery is as yet unclear, although some evidence is reassuring.)

When we look beneath these aggregate figures at the experiences of different groups of young people over time, a number of interesting stories emerge. First, there are significant regional differences. Youth home ownership rates were collapsing in Outer London and the South East even before the financial crisis (falling by 25 and 21 percentage points respectively between 1989 and 2006), while in other parts of the country such as the North East and Scotland they had continued to grow (up by 5 and 3 percentage points over the same period). But in the wake of the financial crisis, accessing home ownership became a much more universal problem for young people, and nationwide it became far harder to overcome the barriers to entry. Overall, we observe a 'levelling down' in youth home ownership rates over time, with much less variation observed between regions in 2019 than in 1989 (excluding London).

Second, although the decline in youth home ownership has been broad-based it has also sharpened relative differences between groups. Home ownership rates for the poorest two-fifths of young people more than halved between 1989 and 2019, while the relative

decline for those in the highest income quintile has been much smaller (a fall of only one-quarter). Similarly, home ownership rates for the lowest paid occupational groups – elementary and sales workers – have also more than halved over the period, while managers and senior officials have experienced a far smaller decline and a greater post-2016 recovery. (We also note that young private sector workers have seen their home ownership rates fall at twice the rate than their public sector counterparts). And there are other structural disadvantages that have intensified over time. Most strikingly, while the chances of a young single person being a home owner today is naturally lower than for couples (11 per cent compared with 52 per cent), these relative odds have grown over time. In 1989, young couples were around three times as likely to be home owners than singles; this increased to almost five times by 2019 as dual earner couples have become the norm.

So why are young people today so much less likely to own than previous generations at the same age? Some claim that young people today voluntarily make different life choices than those in the past which can explain away their lower home ownership rates. We show, however, that only a small part (13 per cent) of the overall decline can be explained by the changing make-up of the UK's young population. Moreover, despite there being more single people, graduates and immigrants in the 25-34-year-old age group today than in the past, the proportion of young renters who would rather own than rent has been broadly stable over the last three decades, at around 80 per cent. Rather, financial factors loom large. The typical first-time buyer house price-to-earnings ratio has almost doubled since the 1990s, and the median first-time buyer deposit has tripled from 5 per cent of the value of the property in 1989 to 15 per cent in 2019. Subjective survey results confirm this account: 67 per cent of 25-34-year-olds who cannot buy a home today cite the cost of a deposit as a barrier, while 41 per cent report they are unable to service a mortgage.

Where does this leave young people today? The scale of the financial challenge they face is even more evident when we scrutinise real data on their earnings and savings. Only a small minority (8 per cent) of those aged 25-to-34 who are not home owners have sufficient savings to afford a 10 per cent deposit on the average first-time buyer home in their region; indeed, half (48 per cent) of non-home owning young family units have less than £1,000 in the bank. When we also assess whether they have sufficient earnings to get the required mortgage with a loan-to-income ratio of 4.5, we find that 12 per cent of young non-home owners have sufficient earnings but insufficient savings, and only 4 per cent are sufficient in both (the fact this group is small indicates that when people can, they become homeowners). Once again, this is not just about more expensive parts of the country: there is little regional variation in this picture bar London where, unsurprisingly, the challenge is far greater.

But this static picture belies the fact that some young people do move into home ownership over time, and at a faster rate than these figures might suggest. So how do they achieve this? First, the proportion of young people with sufficient earnings and savings increases if they settle for a cheaper property (10 per cent have adequate resources to purchase a relatively cheap flat in their region). Second, a snapshot does not account for the fact that single people may go on to combine their earnings and savings with a partner. Young couples are not only far more likely to own but also far more likely to have sufficient earnings (though not always sufficient savings) if they do not. Third, modelling shows that saving 5 per cent of gross earnings for five years would build up sufficient reserves to enable 11 per cent of young non-home owners to buy the average priced first-time buyer home in their region. However, we do not see much evidence of this happening in practice (not least because private rents often absorb a large share of income in the meantime).

All that said, it is clear that large numbers of young people today are a significant distance from the home ownership frontier, and far more dependent on good luck (in the form of family money and partnering for example) than their counterparts a generation ago. Government schemes such as Help to Buy Equity Loans clearly help at the margins, and should not be dismissed (the extra 2 per cent of young people who move into our 'sufficient savings and earnings' category with help of this type is equivalent to 80,000 additional family units). But if policy makers are truly serious about turning home ownership trends around, it is clear that radical action is required. This could have significant political costs (taxing property differently, for example, to supress demand from more privileged buyers such as those purchasing additional homes), or large financial implications (supporting first-time buyers more generously either with direct support or through taking on more of the mortgage risk). But even with bold steps of this type, our analysis suggests larger numbers of young people today will remain non-home owners than in the past, highlighting again the need for secure and high-quality rented options that can truly provide a home.

Youth home ownership halved between 1989 and 2016, but there has been a slight recovery in recent years

Owning one's home is an enduring preference for many families in the UK today. In 2018, for example, the British Social Attitudes Survey suggested that almost three-quarters (73 per cent) of renters would prefer to own their home given a free choice.[1] The appetite for home ownership in the UK is unsurprising given the tenure's many virtues relative to other housing options: it usually provides a stable shelter (in contrast to the insecurity of the private rented sector); it can bring with it a sense of belonging and connection

1 RF analysis of NatCen, British Social Attitudes 2018.

to a community (although this might also be said of secure renting); and, for many, it is an important signal of identity and achievement (in contrast to the stigma that is often associated with social renting). In addition, home ownership is increasingly highly valued as a means of accumulating wealth. Even in the wake of the financial crisis, the most popular reason cited by 26 per cent of those who said they would prefer to own their home rather than rent was that they saw it as a good investment.[2]

Given this, the results we present in Figure 1 are widely viewed as a cause for concern. Here we show the overall home ownership trend over the past 60 years, alongside that for younger age groups.[3] As the chart makes clear, overall rates of home ownership rose steadily from the 1960s through to the 1990s, peaking at 58 per cent in 2001, almost double the rate in 1961 (31 per cent). This multi-decadal rise in home ownership was followed by a decade in which home ownership fell, reaching a low point of 51 per cent in 2015. The years since have seen a small recovery (to 53 per cent in 2019), but still 5 percentage points below their 2001 peak.

When we look at the experience of younger age groups over the same time period, however, we see a more dramatic picture. From the mid-1960s to the 1980s, young people (defined in this report as those aged 25-34) had higher home ownership rates than the population as a whole.[4] However, trends in youth home ownership diverged sharply from the overall picture from the end of the 1980s. In contrast to the total population trend, youth home ownership fell consistently for 25 years from 1989, halving from its peak of 51 per cent to reach a low point of 25 per cent in 2016. As a result, by 2016 25-34-year-olds were less likely to own their home than in 1961. Moreover, these findings are not driven solely by the younger half of the group (25-29-year-olds), with the trends for those aged 30 to 34 being very similar (albeit with higher levels of home ownership throughout).

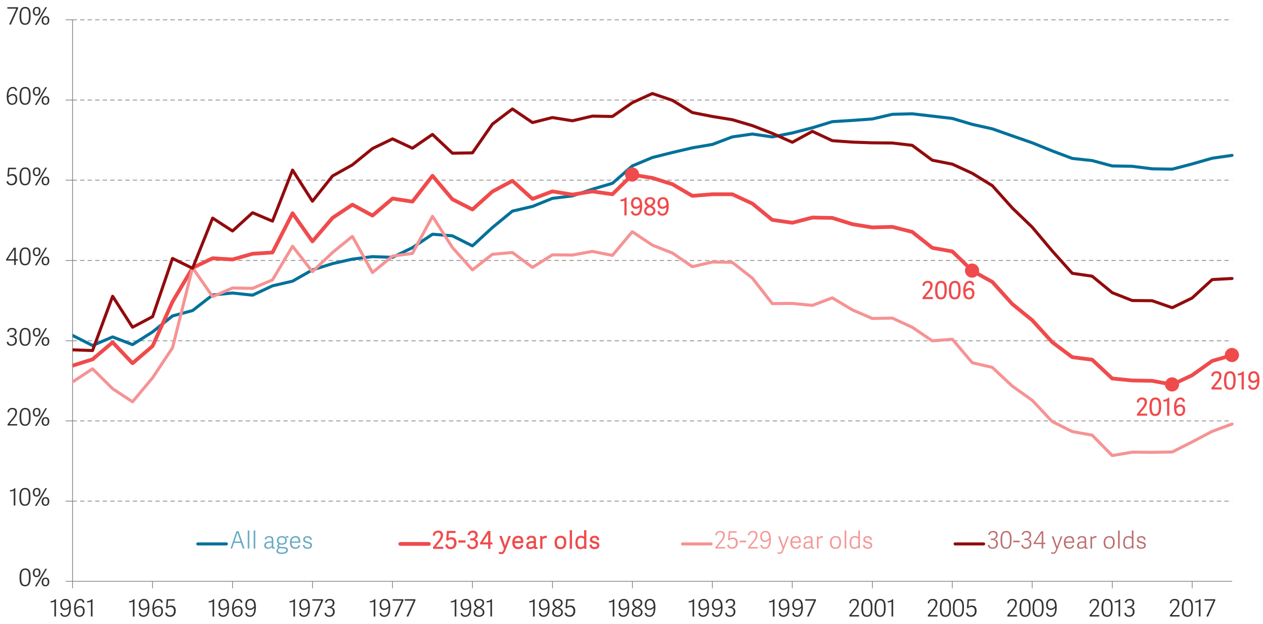
2 RF analysis of NatCen, British Social Attitudes 2010 – the last year in which this question was asked. In 2004 (i.e. when the housing market was more buoyant), this figure stood at 32 per cent.

3 Throughout this report, unless otherwise stated, our preferred measure of home ownership is the proportion of 'family units' who own their own home, where a family unit is a single adult or couple living together along with any dependent children. See: A Corlett & L Judge, Only half of families own their own home – how do the other half live?, Resolution Foundation, December 2016 for further details.

4 In this report we focus on those aged 25-34-years because this is now the age range in which home ownership rises most rapidly. Today, the mean first-time buyer age is around 30, and by the age of 35 the majority (though far from all) of those who will become home owners have already done so. See: A Corlett & L Judge, Home Affront: housing across the generations, Resolution Foundation, September 2017; and L Judge & J Leslie, Stakes and ladders: The costs and benefits of buying a first home over the generations, Resolution Foundation, June 2021.

FIGURE 1: **Youth home ownership rates fell by half from 1989 to 2016, but there has been a minor recovery in recent years**

Proportion of family units owning their home: UK



NOTES: A family unit is a single adult or a couple living together (plus any dependent children).
SOURCE: RF analysis of ONS, Labour Force Survey; Family Expenditure Survey.

Finally, we note that there has been a small recovery in youth home ownership since 2016, with rates rising to 28 per cent by 2019. However, this is still 23 percentage points below the 1989 high point and essentially returns the rate of youth home ownership to where it was 60 years ago. How rates may have evolved since that date is open for debate but, in the absence of reliable data for 2020 or 2021, we consider in Box 1 how some of the factors that influence young people's home ownership rates have changed over the last 18 months as a result of Covid-19.

BOX 1: The effect of the pandemic on young people's home ownership prospects

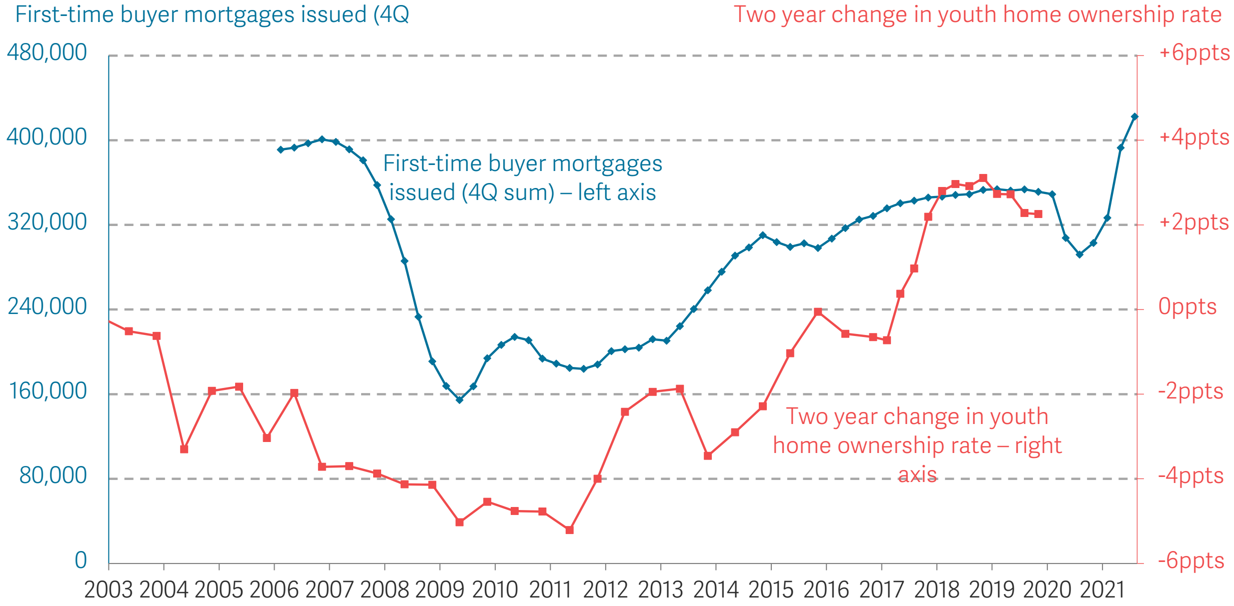
On the eve of the pandemic, youth home ownership rates appeared to have turned a corner and be rising once again. Although data collection issues during the Covid-19 period mean that we do not have reliable information on home ownership rates in 2020 or 2021, there are a number of indicators we can look to for a sense of the current trend. On the downside, we know that young people initially suffered the hardest labour market hit of any age group due to the pandemic.[5] Equally, house prices have increased at an unexpectedly fast clip, at least in part because transaction tax holidays introduced in all four nations have stimulated demand.[6] It is also worth noting that in England, Northern Ireland and Wales, transaction tax holidays also meant that first-time buyers lost the preferential tax treatment they had enjoyed since 2017 when buying a reasonably priced home.

However, there have clearly been a number of countervailing trends. Most strikingly, many of those who have not suffered a pandemic-related income shock have been able to save considerable sums over the last 18 months: restricted consumption led to the aggregate household saving ratio rising from 5 per cent in 2019 to 14 per cent in 2020.[7] More speculatively, working from home (during lockdowns) and the rise of hybrid working (in non-lockdown periods) has potentially allowed first-time buyers to purchase in cheaper areas further away from their jobs.[8] But perhaps most promisingly, the number of first-time buyer mortgages (which mostly go to young people) has held up well over the last 18 months (bar the unsurprising hiccup in April-June 2020) (see Figure 2). Given that this indicator has broadly mirrored past changes in youth home ownership, it does not seem too optimistic to think that the issuance of almost 400,000 first-time buyer mortgages over the last year is consistent with youth ownership rates at least remaining flat since 2019.

5 K Henehan et al., An intergenerational audit for the UK 2021, Resolution Foundation, October 2021.
6 The range of causes is discussed further in L Judge, F Odamtten & K Shah, Housing Outlook Q3 2021, Resolution Foundation, August 2021.
7 ONS, UK Economic Accounts (series DGD8), September 2021.
8 We see evidence of increased demand for properties in rural areas and small towns compared to large cities for example. See: L Judge & C Pacitti, Housing Outlook Q2 2021, Resolution Foundation, May 2021.

FIGURE 2: **Covid-19 has not caused a sustained drop in the number of mortgages issued to first-time buyers, in stark contrast to the financial crisis**

Number of first-time buyer mortgages issued, and change in youth home ownership rate: UK



SOURCE: RF analysis of UK Finance Table RL1: First-time buyers, new mortgages and affordability, UK countries and regions; and ONS, Labour Force Survey.

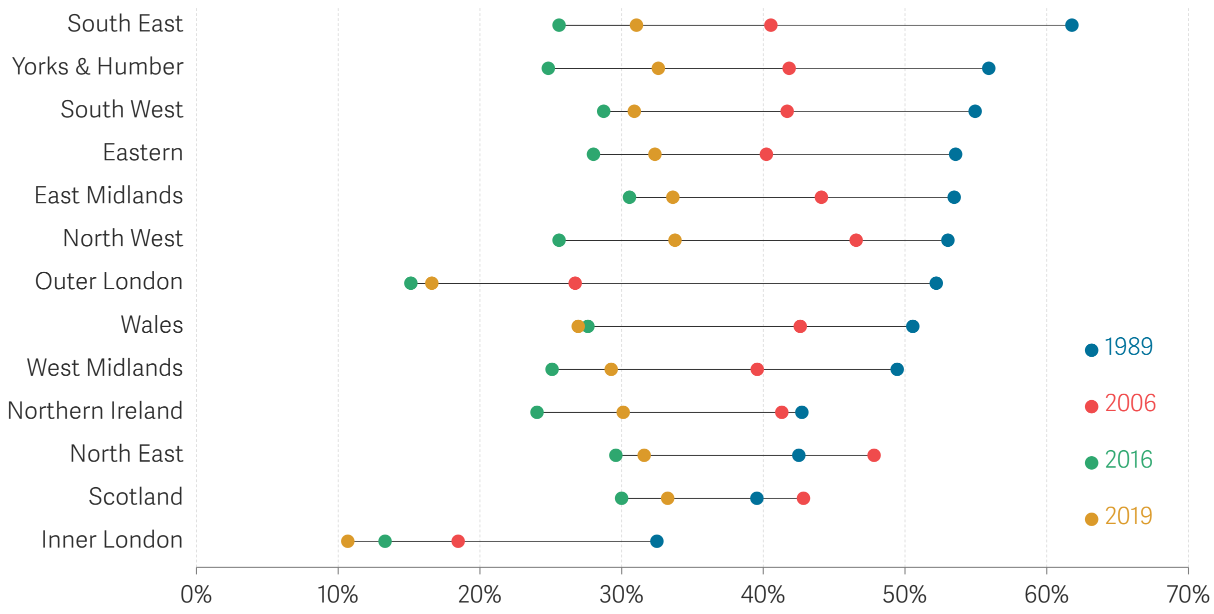
Youth home ownership has 'levelled down' between regions over time

It is, however, important to dig beneath these headline trends and to look at the experiences of different groups of young people. We begin our more granular examination of youth home ownership by looking at the experience across regions (see Figure 3). Between 1989 (the blue dots) and 2019 (the yellow dots), there was a significant fall in youth home ownership rates throughout the UK (i.e. it was not just a London or South England phenomenon).[9] However, the largest falls were in Outer London (36 percentage points) and the South East (31 percentage points), as well as the South West (24 percentage points). As a result, when we compare the most recent levels of youth home ownership with their peak, we find much less variation across regions in 2019 than in 1989: excluding Inner and Outer London, the difference between the highest and lowest regional youth home ownership rate has fallen from 22 percentage points in 1989 to only 7 percentage points in 2019. In this sense, the country has 'levelled down', with most regional youth home ownership rates now similar to that of Inner London in 1989, at around 30 per cent.

9 For simplicity and comparability, we present rates for the same years for all regions although the dates at which youth home ownership peaks and troughs vary across regions.

FIGURE 3: **The fall in youth home ownership has been widely felt across the UK**

Proportion of family units owning their home, 25-34-year-olds only, by region: UK



NOTES: We have split London into Inner and Outer London to highlight the different trends in the capital.
SOURCE: RF analysis of ONS, Labour Force Survey.

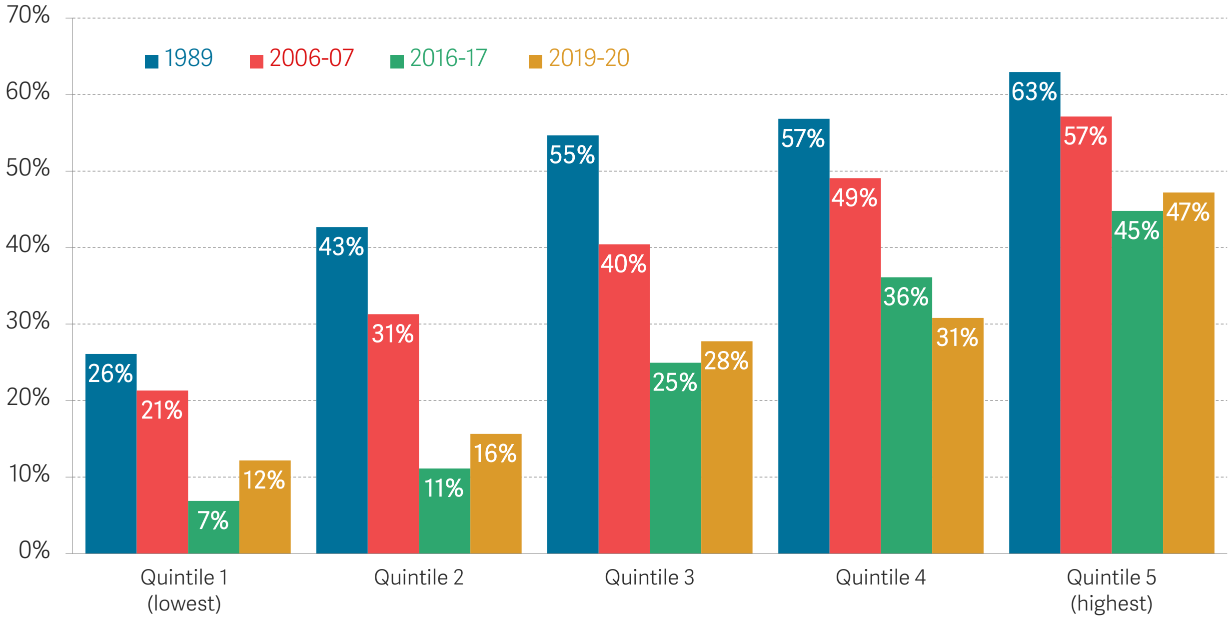
Rates had been falling significantly in the majority of regions even before the financial crisis (the red dots present results for 2006, the eve of the crash), suggesting a structural, not just cyclical, shift in young people's ability to buy their first home. But there are exceptions to this trend: in the North East youth home ownership grew by 5 percentage points between 1989 and 2006, for example, and in Scotland rates grew by 3 percentage points. There have also been different regional experiences of the recovery. Youth home ownership has risen the most in the North West and Yorkshire and the Humber since 2016, with an 8 percentage point rise in both regions. Conversely, Inner London has seen no recovery, with rates continuing to decline, and Wales, too, has yet to show signs of a bounce-back.

The decline in home ownership has been more marked for young people on low-to-middle incomes than those on higher incomes

Figure 3 shows how the decline in youth home ownership since 1989 has been experienced across the income distribution. Levels of home ownership have always been higher among those young people with the highest incomes, but while absolute changes in home ownership rates have been similar for all income groups, the relative decline has been greatest for young people in the lowest income quintiles. For the poorest two-fifths of young people, home ownership rates remain (in 2019) less than half their 1989 level, while the relative decline for the highest fifth of incomes has been much smaller (with a fall of only one-quarter). Moreover, young people in the second and third income quintiles saw their home ownership rates drop considerably before the financial crisis, in contrast to those in quintiles four and five who experienced only small decreases before 2006-07.

FIGURE 4: **Home ownership rates fell significantly for young people in the lowest income quintiles both before and after the financial crisis**

Proportion of family units owning their home, 25-34-year-olds only, by household income quintile: UK



NOTES: Income quintiles are based on equivalised household disposable income after housing costs for those aged 25-34 years. This chart is based on a different data source to Figure 1, and so dates presented and home ownership rates differ slightly.
SOURCE: RF analysis of DWP and IFS, Households Below Average Income.

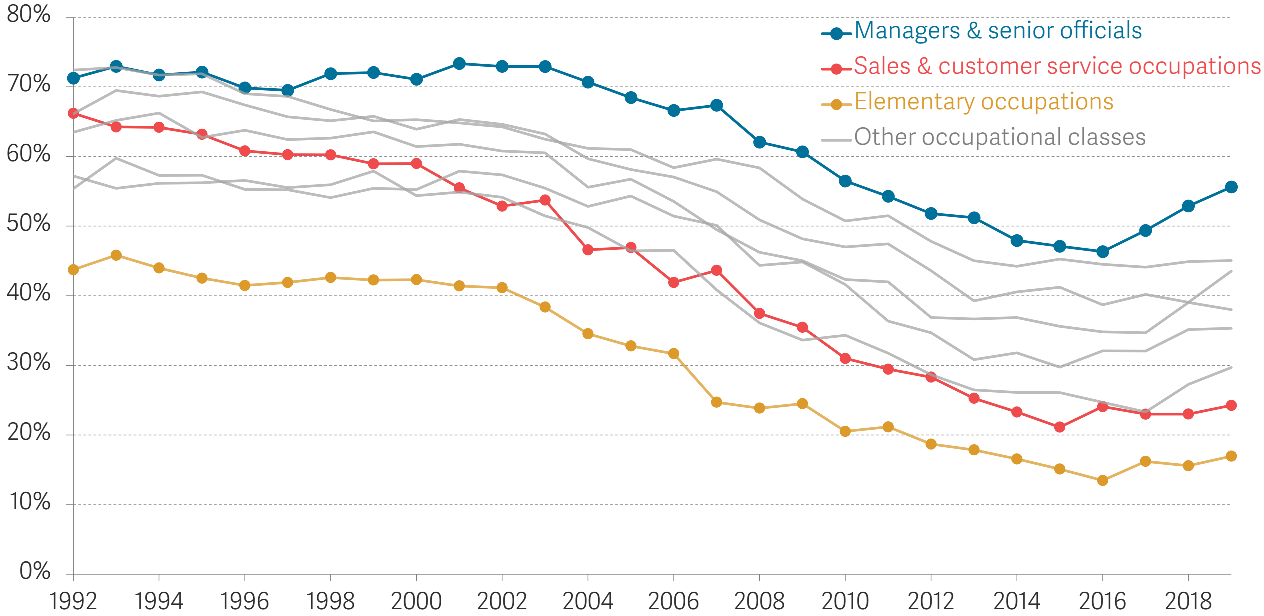
We observe similar patterns when looking at trends in youth home ownership across occupational groups. As Figure 5 shows, home ownership has been consistently highest among those in managerial and senior roles and lowest among those in elementary roles (here, we show results for individuals rather than family units). However, although the levels of youth home ownership fell across all occupational groups between the early 1990s and 2019, this played out differently across the various occupational classes.[10] Managers and senior officials, for example, saw their rates of home ownership barely fall before the financial crisis, and they have made the fastest recovery since 2016 (with a 9 percentage point rise between 2016 and 2019). Overall, the youth home ownership rate among this group is down by less than a quarter since 1992. In contrast, those in the lowest paid occupational group – elementary occupations – saw a large fall in home ownership and only a weak recovery. As a result, home ownership levels for this group have fallen by over 60 per cent since 1992. But it is the sales and customer service

10 Consistent data back to 1989 is not available for occupational analysis.

occupational group that has seen the steepest fall: their youth home ownership rates collapsed from 66 per cent in 1992 to 24 per cent in 2019 – with little sign of a recovery to date.

FIGURE 5: **Youth home ownership rates have declined across all occupations, but managers have seen the fastest recovery**

Proportion of individuals owning their home, 25-34-year-olds only, by occupation: UK



NOTES: Occupational groups taken from the Standard Occupational Classification system.
SOURCE: RF analysis of ONS, Labour Force Survey.

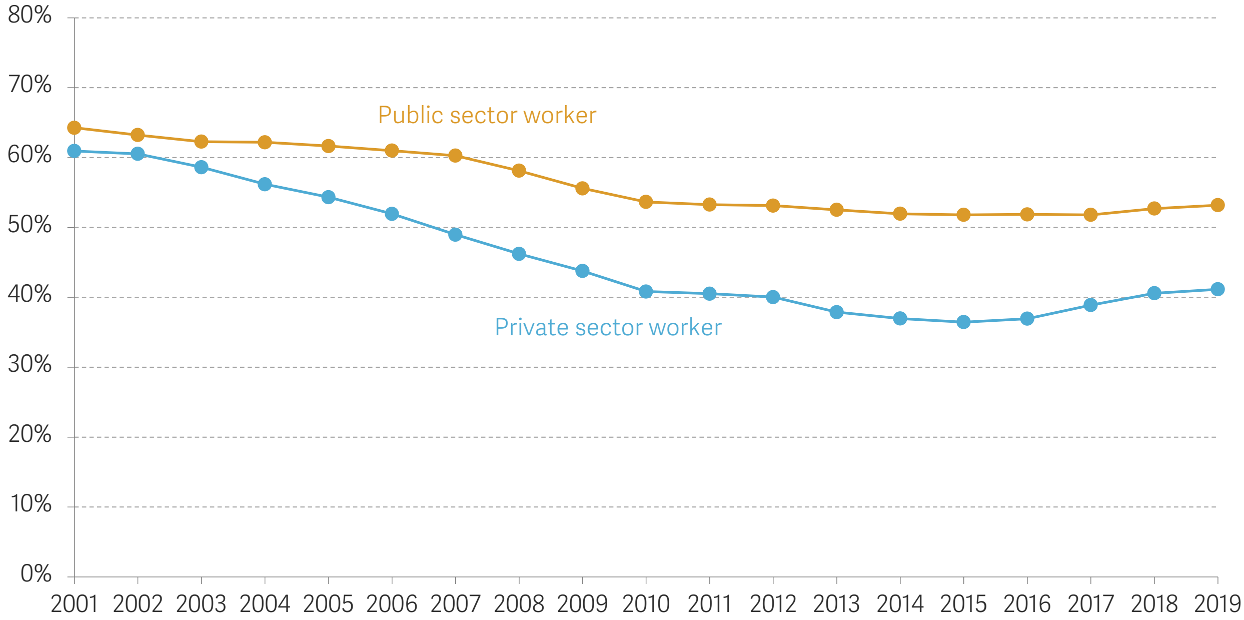
Figure 6 draws a different occupational comparison by analysing the downward trend in home ownership for young people working in the private and public sector. Although the two groups started off with similar rates of ownership in the early 2000s, young private sector workers then experienced a much faster decline in home ownership up to 2010 (a fall of 19 percentage points) compared with public sector workers (a fall of 10 percentage points in the same period). Rates for both groups in 2019 are relatively unchanged compared with 2010, but private sector workers experienced a greater dip following the financial crisis while the public sector rate has followed a flatter trajectory. This trend may be explained, in part, by pay performance over the period: average public sector pay rose faster than private sector pay between 2001 and 2011 (although it has lost ground since).[11] But pay differentials are not the only possible explanation: geography could play a role too, as public sector workers tend to be slightly less concentrated in metropolitan areas where house prices are highest than private sector workers, while the relative

11 J Cribb, A Davenport & B Zaranko, Public sector pay and employment: where are we now?, IFS, November 2019.

stability of a public sector salary may make such workers more credit-worthy and hence more attractive to lenders.

FIGURE 6: **Home ownership has fallen at a faster rate for young workers in the private sector than in the public sector**

Proportion of individuals owning their home, 25-34-year-olds only, by sector: UK



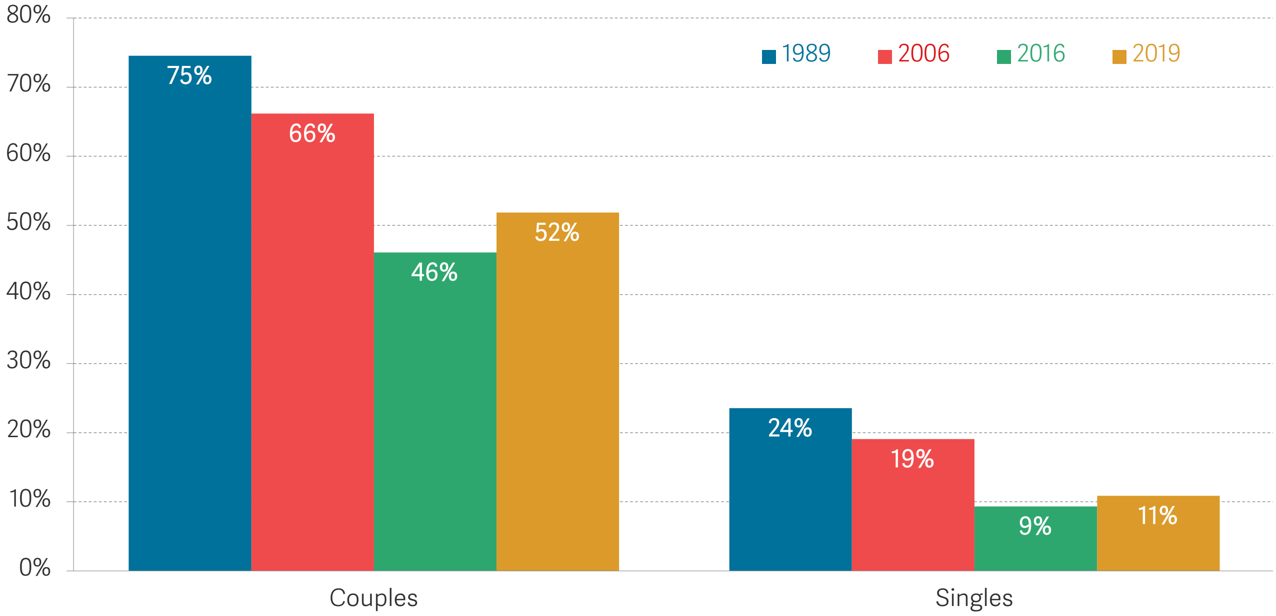
SOURCE: RF analysis of ONS, Labour Force Survey.

Young single people are increasingly squeezed out of home ownership

Finally, it is worth looking at trends by personal, rather than economic, characteristics to explore which groups of young people now experience a greater structural disadvantage when it comes to accessing home ownership. As one would expect, Figure 7 shows that the odds of a young single person being a home owner today is far lower than for a couple (11 per cent compared with 52 per cent), but this has dropped more sharply over time (falling by 54 per cent for single people since 1989 compared with 31 per cent for couples). As a result, couples have gone from being three times as likely to own as single adults in 1989, to almost five times as likely in 2019.

FIGURE 7: **Young single people are less than half as likely to be home owners today than they were 30 years ago**

Proportion of family units owning their home, 25-34-year-olds only, by family type: UK



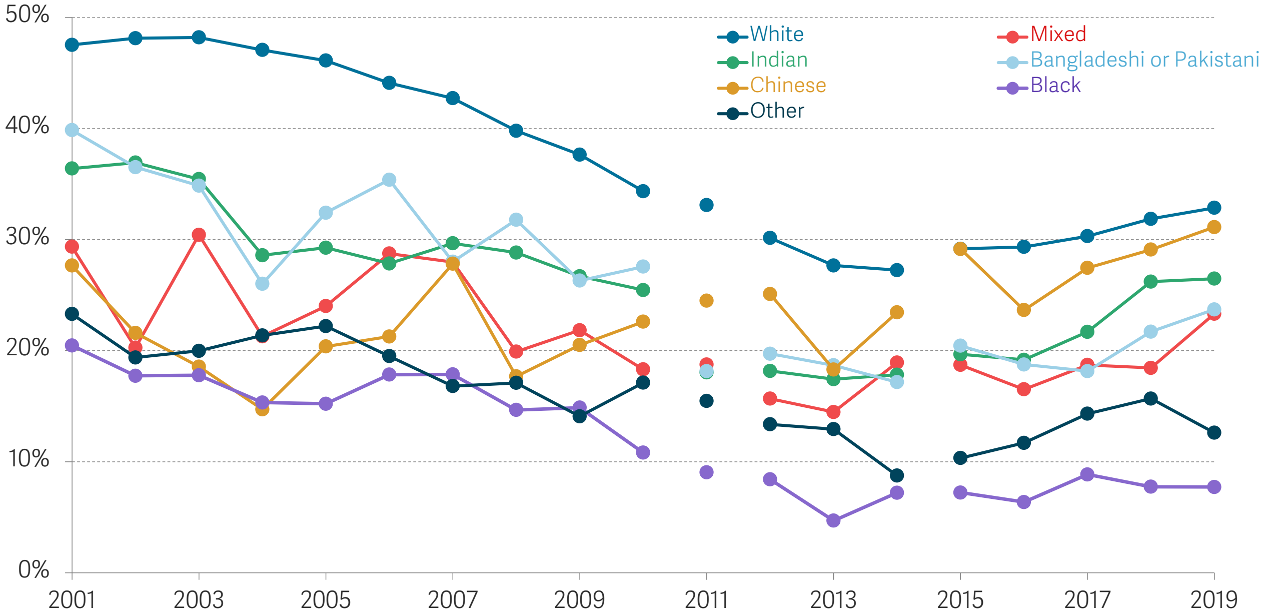
NOTES: 'Couples' = couples who live together only.
SOURCE: RF analysis of ONS, Labour Force Survey.

When we look at another structural disadvantage – the experience of youth home ownership across different ethnicities – we find a more nuanced picture. Figure 7 shows that inequalities in youth home ownership have persisted over the past two decades and the size of some relative gaps have increased.[12] The starkest difference in youth home ownership rates across ethnicities can be seen between the broad White and Black groupings.[13] Whereas in the early 2000s, White young people were, on average, over twice as likely to own a home as Black young people (48 per cent compared with 19 per cent), this inequality has increased such that now, almost two decades later, White young people are four times more likely to own a home than Black young people (an average of 32 per cent compared with 8 per cent).[14] In contrast, the disparity between young people of Chinese and White ethnicities has shrunk, with the gap in home ownership falling from 25 percentage points in the early 2000s to only two percentage points by the end of the 2010s.

12 Consistent data is not available for ethnicity-based analysis back to 1989.
13 Ethnicity here is self-identified as part of the Labour Force Survey. Given that home ownership rates vary between regions, and people from some ethnic minorities are more likely to live in some regions, it is possible that outside of incomes and occupation, location plays a key role in influencing some of the observed disparities. For example, in comparison to other groups the Black population has the highest proportion of people living in London (58 per cent), which also has the lowest rates of home ownership in the UK. See: gov.uk, Ethnicity facts and figures, accessed 26 October 2021, for further information.
14 To increase the sample sizes, the average home ownership rates referred to here for the early 2000s are based on figures from 2001 to 2003, and rates for the late 2010s are based on the period from 2017 to 2019.

FIGURE 8: **Stark youth home ownership gaps exist between ethnicities, and while some have narrowed over time, relative gaps have grown**

Proportion of family units owning their home, 25-34-year-olds only, by ethnicity: Great Britain



NOTES: Discontinuities exist as a result of questionnaire changes in 2011, 2012 and 2015.
SOURCE: RF analysis of ONS, Labour Force Survey.

The decline in youth home ownership cannot be explained by the make-up of young people or by changes in their preferences

So, what is behind the widespread fall in youth home ownership? One possible explanation for the decline might be stated as '35 is the new 25' (or similar). According to this theory, young people may still want to own a home eventually, but they simply reach major life milestones at an older age than earlier generations – milestones such as leaving education, starting work, getting married and having children, all of which are associated with buying a home–.

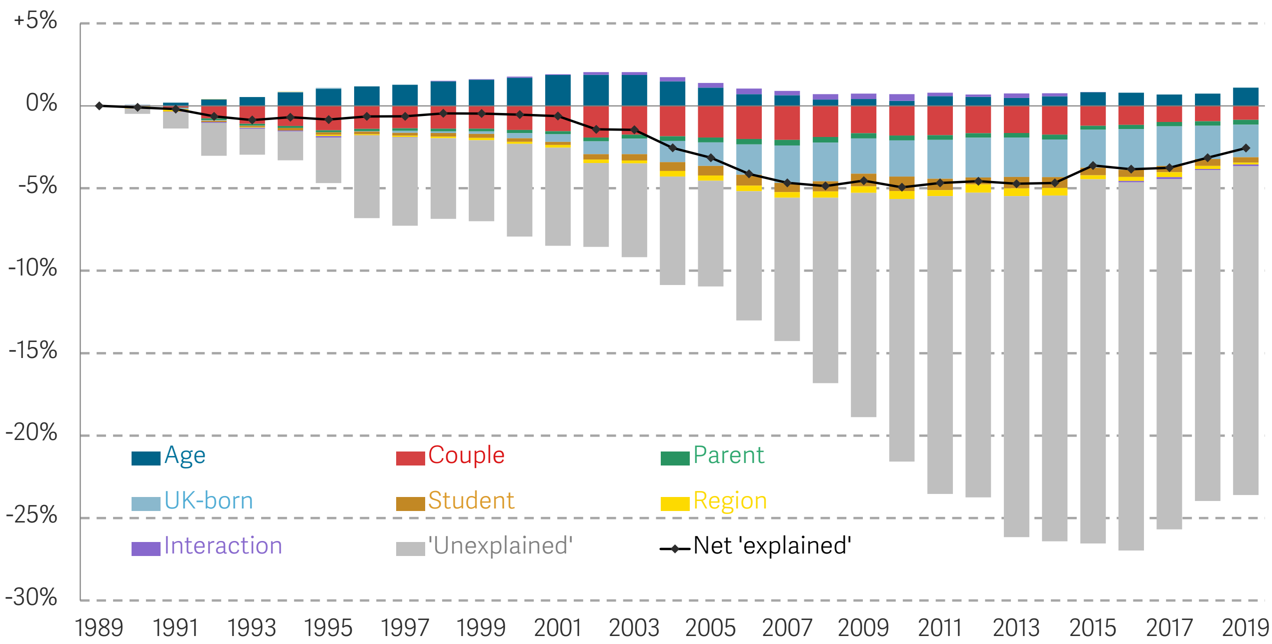
Figure 9 shows one way to estimate the effects that this and other changes in the make-up of the 25-34-year-old group may have had on overall youth home ownership rates. For example, increases in the proportion of young people who are students, single or non-parents (all of whom are less likely to own their own homes) have had a slight effect on youth home ownership rates, as has the regional distribution of young people.[15] The

15 In reality, while the proportion of young people in couples will influence preferences and capacities to buy homes, the level of difficulty in becoming a home owner may, in turn, have an impact on how many people live with a partner. This could work in either direction: difficulty buying a home may delay the point at which some couples move in together; but high housing costs in general should encourage couples to live together.

proportion of migrants among 25-34-year-olds has also increased, again explaining some of the decline in home ownership (either because those born outside the UK have less desire to buy property in the UK or because they are less able to do so). However, over the 30 years from 1989 to 2019, these compositional changes explain only a fraction (13 per cent) of the total decline in youth home ownership. Their effect is concentrated over the period between 1989 and 2006, where they explain a much larger element (35 per cent) of the decline.[16] In more recent years, some of these compositional trends have gone into reverse and, in fact, help explain some of the recovery in youth home ownership.

FIGURE 9: **Compositional changes account for some of the decline in home ownership before the financial crisis, but only a small part of the overall drop**

Estimated compositional and non-compositional causes of the change in youth home ownership rate since 1989: UK



SOURCE: RF analysis of ONS, Labour Force Survey.

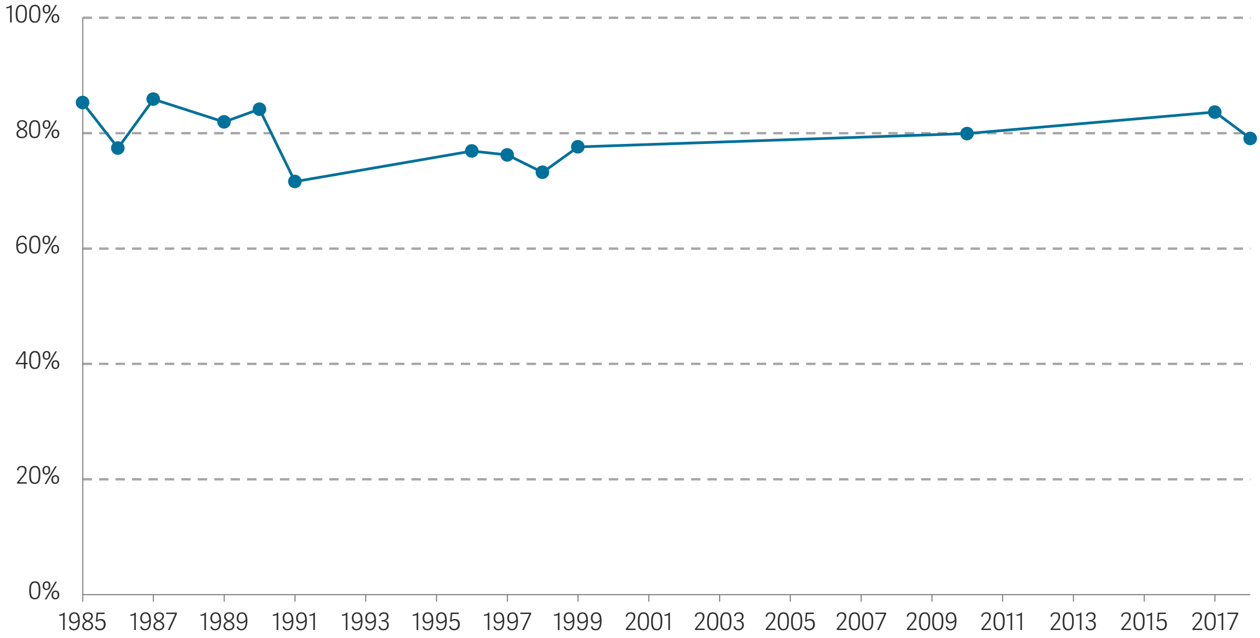
However, despite this compositional change, the collective preference for home ownership remains very high. Indeed, as Figure 10 shows, the proportion of young renters who, given a free choice, would rather own than rent has been remarkably stable over the last three decades. In the late 1980s, just over 80 per cent of young renters said they would prefer to own, all else being equal; there was a small drop in the early 1990s (perhaps because this was an era of very high interest rates, high repossessions and

16 For the 30-34-year-old age group, the effects are greater, with compositional changes explaining two thirds (65 per cent) of the change up to 2006, though still only a quarter (26 per cent) of the total change to 2019.

negative equity); while in the latest two years of data (2017 and 2018), again just over 80 per cent said they would prefer to own.

FIGURE 10: **There has been very little change in young people's preference to buy a home over time**

Proportion of renters who would prefer to buy a home rather than rent, 25-34-year-olds only: Great Britain



NOTES: The question asked is "If you had a free choice would you choose to rent accommodation, or would you choose to buy?"
SOURCE: RF analysis of NatCen, British Social Attitudes.

Financial factors are the main reason why young people today struggle to become home owners compared with the past

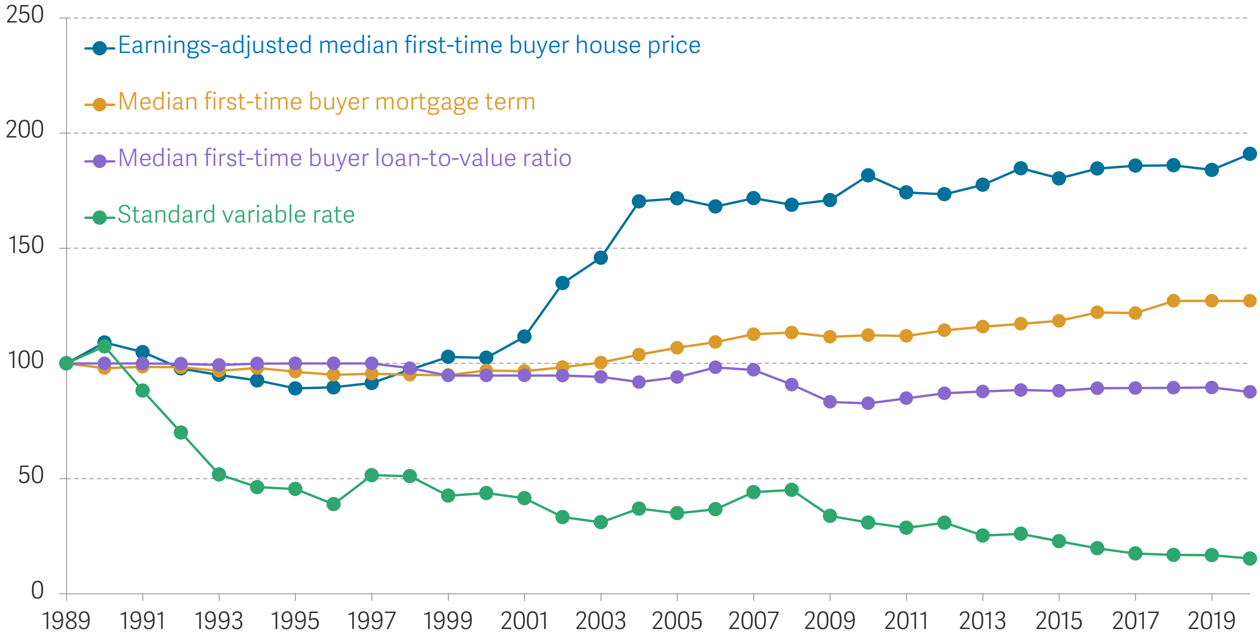
If neither compositional nor preference change play a significant role in explaining youth home ownership trends over time, financial factors clearly do. It is well-documented that lower interest rates have driven up house prices over time (made worse by inadequate supply in some areas), disadvantaging younger buyers who must find larger deposits as a result and compounded by the decline in their income relative to the population as a whole.[17] Figure 11 shows the upshot of this: the median first-time buyer house price has increased relative to earnings over time, and that in 2019 this ratio was 84 per cent higher than in 1989. On top of this jump in house prices relative to earnings, median first-time buyer loan-to-value ratios have shrunk since 1989. As a result, although the slope

17 See, for example: J Cribb, A Hood & J Hoyle, The decline of homeownership among young adults, IFS, February 2018; L Judge & J Leslie, Stakes and ladders: The costs and benefits of buying a first home over the generations, Resolution Foundation, June 2021.

in Figure 10 may not look dramatic, in practice, the median deposit size rose from 5 per cent in 1989 to 10 per cent in the early 2000s and 15 per cent in 2019 (while for a brief period from 2009 to 2011, the typical deposit required was around 20 per cent of value). As discussed in Box 2, this partly reflects changes in bank behaviour and regulation following the financial crisis.

FIGURE 11: **Although interest costs have fallen, real house prices rocketed in the 2000s and deposit requirements have greatly increased**

Index of first-time buyer mortgage cost determinants (1989 = 100): UK



NOTES: A version of this chart first appeared in L Judge & J Leslie, Stakes and ladders: The costs and benefits of buying a first home over the generations, Resolution Foundation, June 2021. First-time buyer house prices deflated using average earnings.
SOURCE: RF analysis of Council of Mortgage Lenders; ONS, House Price Index; ONS, Labour Market Statistics; Bank of England, Bankstats; Financial Conduct Authority, Product Sales Data; DWP, Family Resources Survey.

BOX 2: The credit crunch and beyond

While rising house prices (relative to incomes) are a key reason why deposit requirements have increased so rapidly in recent years, tighter credit conditions have also played a significant role. Lenders withdrew many of their higher loan-to-value products in 2008, and in 2014 the Mortgage Market Review (MMR) formally ended many of the loose lending practices that characterised the 2000s. The MMR banned self-certification mortgages, for example; tightened the rules around interest-only mortgages; and demanded more stringent affordability checks by lenders.

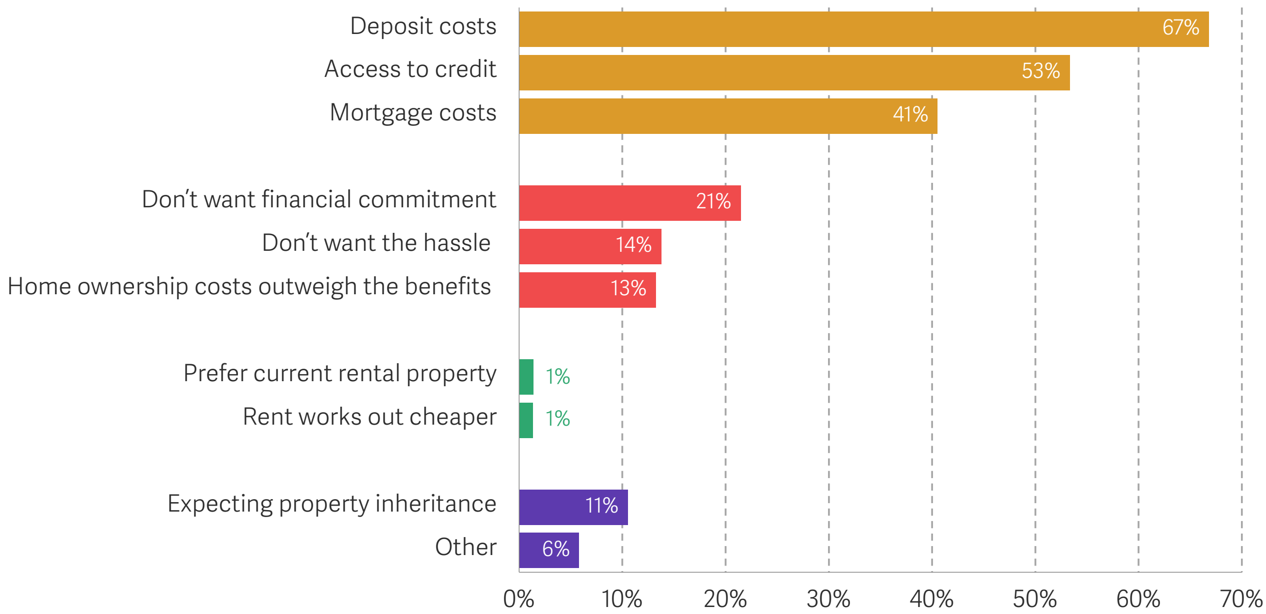
These checks take various forms. First, lenders are now required to assess affordability against a borrower's income, expenditure and outstanding debts (before the financial crisis a customer's eligibility to borrow was based solely on their income). Second, banks and building societies must 'stress test' a borrower's ability to cope if interest rates were to rise by 3 percentage points in the first five years of their mortgage. And third, additional rules introduced in 2014 prohibit lenders from holding more than 15 per cent of their book as high-multiple loans (those at or above 4.5 times the borrower's income).

There have been some offsetting developments in lending policy – for example, buyers today can get mortgages for much longer terms than were standard in the past (as Figure 11 also shows). But overall, it is clear that young people hoping to access home ownership face far tighter credit conditions today than their predecessors did just over a decade ago.

The exclusionary effect of these trends is confirmed by the subjective views of young non-home owners today. Figure 12 shows that 25-34-year-olds who never expect to buy regularly cite the cost of a deposit (67 per cent), access to credit (53 per cent) and mortgage costs (41 per cent) as barriers to home ownership. Moreover, these issues are cited far more frequently than other factors such as not wanting the financial commitment, preferring one's current rental property, or renting being cheaper. Interestingly, however, more than one-in-ten (11 per cent) suggest they expect a future property inheritance.

FIGURE 12: **Deposits and accessing credit are seen as the most significant barriers by those who never expect to buy a home**

Proportion of 25-34-year-olds who expect they will never purchase a property, by reason, 2021: UK



NOTES: The question asked is "You previously said you expect you will never purchase a property, which, if any, of the following are reasons for this?" Respondents could choose multiple options.
SOURCE: RF analysis of YouGov-RF Financial Resilience Survey.

There is a large gulf between young people's available resources and what they need to buy a home

The financial barriers to home ownership that young people face today are even more evident when we look at actual savings and earnings data. In Figure 13 we use the Wealth and Assets Survey (from the Office for National Statistics) to plot the actual gross savings and earnings of a representative sample of young non-home owners and consider whether their savings and/or earnings are high enough for them to access home ownership under various conditions.[18] Using regional first-time buyer average house prices, an assumption that a 10 per cent deposit is required[19] and an assumption that a mortgage can be obtained equivalent to 4.5 times gross (combined) earnings,[20]

18 In keeping with our home ownership statistics, our unit of analysis here is the 'family unit': i.e. single people or cohabiting couples. In the case of couples, we use the combined resources. We have used gross savings as potentially the most appropriate – and most generous – measure of resources available for a deposit, though the use of net savings does not materially change the conclusions. Pension wealth is not included in this measure. This analysis was inspired by Bank Overground, When applying for a mortgage, are renters more constrained by their savings or their income?, Bank of England, May 2021. Non-home owners include private and social renters as well as those – for example – who are living with their parents.

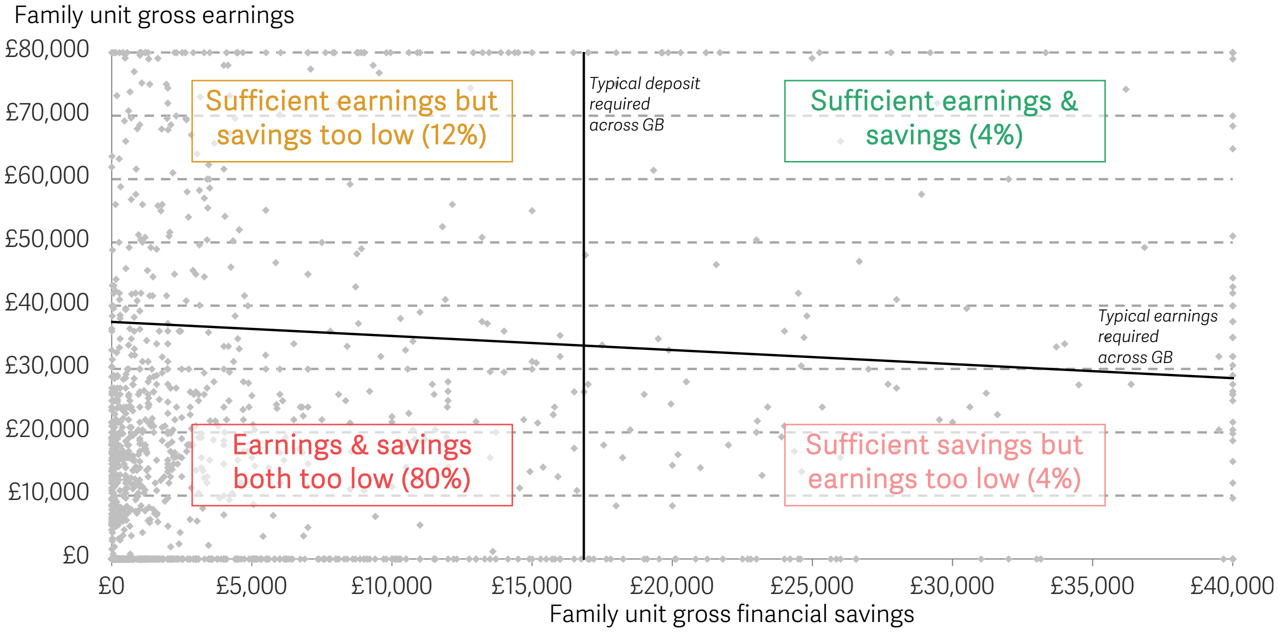
19 According to the English Housing Survey 2019-20, 71 per cent of first-time buyers paid between 1 and 19 per cent of the purchase price up-front; and only 25 per cent paid between 1 and 9 per cent. While 5 per cent mortgages are common, the typical deposit is higher than our 10 per cent assumption, at around 15 per cent. On the basis of a 10 per cent deposit, the typical non-home owner faces a deposit requirement of around £17,000 (in 2016-18). For comparison, the English Housing Survey shows a median first-time buyer deposit of £23,600 (in England) in 2019-20 (and a mean of £42,400).

20 As discussed in Box 2, since 2014 lenders have been limited in the proportion of new mortgages they can issue with a higher loan-to-income ratio than 4.5.

we find that only 4 per cent of young non-home owning family units in 2016-18 had both the required earnings and savings to access home ownership.[21] One interpretation of this is that those who are able to buy do so (providing further evidence of the strength of the home ownership preference). But, perhaps even more strikingly, this exercise shows that there are also few young non-home owners who are even close to being able to buy. Indeed, this snapshot picture suggests four-in-five (80 per cent) have neither the earnings nor the savings required. But when we look at those who are closer to the home ownership frontier, we find that savings are a bigger problem: 12 per cent have the required earnings but not the savings, while only 4 per cent have the savings but not the earnings.

FIGURE 13: **Few young non-home owners are close to having both the savings and earnings required to buy the average first-time buyer home in their region**

Family unit gross earnings and gross financial savings of non-home owning 25-34-year-olds, 2016-18: Great Britain



NOTES: For display purposes, savings have been capped at £40,000 and earnings at £80,000. Assumes a 10 per cent minimum deposit and 4.5 times combined salary mortgage. Proportions are based on regional average first-time buyer house prices in each calendar quarter, but the typical price facing young non-home owners across Great Britain is used for the illustrative lines.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Moreover, in some respects our assumptions in this exercise are generous ones. As already outlined in Box 2, there are other affordability tests that lenders must apply which we do not model here. For many applicants (and especially those on low incomes or those who are heavily indebted), affordability tests rather than the loan-to-income

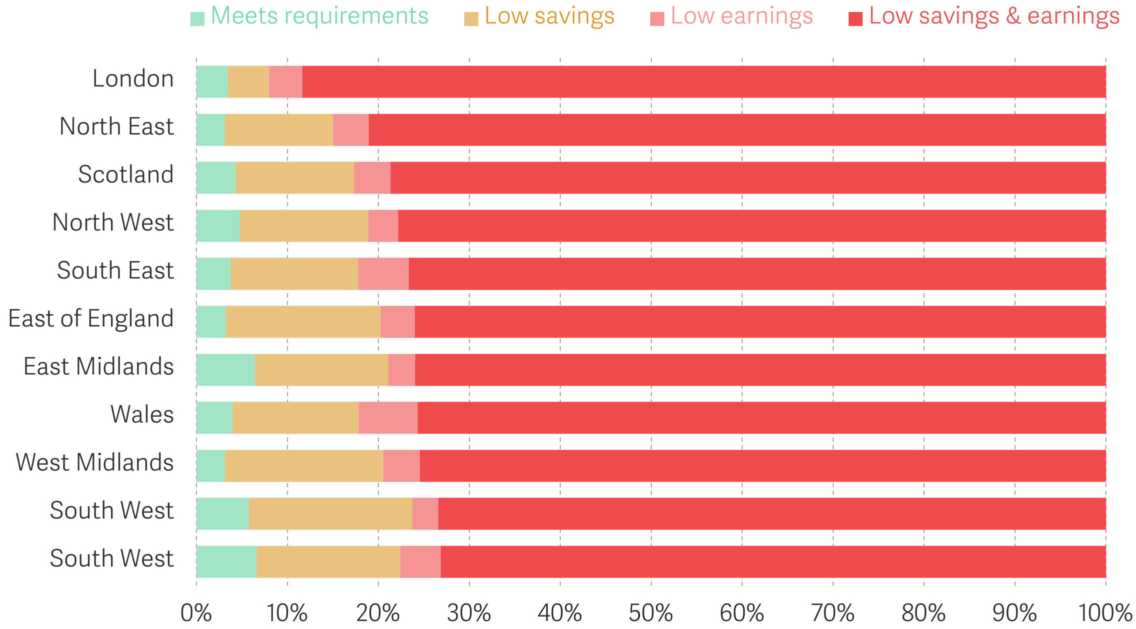
21 Our Wealth and Assets Survey analysis here is based on multiple financial years. 2016-18 refers to April 2016 to March 2018.

cap will be the biting constraint, meaning that in practice such families can only get a mortgage with a significantly lower earnings multiple than 4.5. On the savings side, we assume that a family unit's entire gross financial reserves are used for a deposit, while in reality they would also be needed to cover transaction and moving costs.

In Figure 14 we repeat the exercise but this time break out our results by region.[22] Across the country, insufficient savings are more of a biting constraint for young people wishing to access home ownership than inadequate earnings, though the most common situation is the combination of both. Unsurprisingly, young non-home owners in London are the most resource-constrained: 88 per cent have neither adequate savings nor sufficient earnings to purchase the average first-time buyer home in the capital. But beyond this we observe relatively little regional variation. Young people in the South West East Midlands have the 'highest' chance of affording to buy under the conditions we model here (7 per cent and 6 per cent respectively have sufficient resources), compared to the lowest performer – the North East (at 3 per cent).

FIGURE 14: **Inadequate savings are a bigger constraint for prospective first-time buyers than insufficient earnings in most regions**

Proportion of non-home owning 25-34-year-old family units, by position with respect to home ownership, by region, 2012-18: Great Britain



NOTES: See Figure 13 for further explanation of these categories. Assumes a 10 per cent minimum deposit requirement, a 4.5 times combined salary mortgage and regional average first-time buyer house prices.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

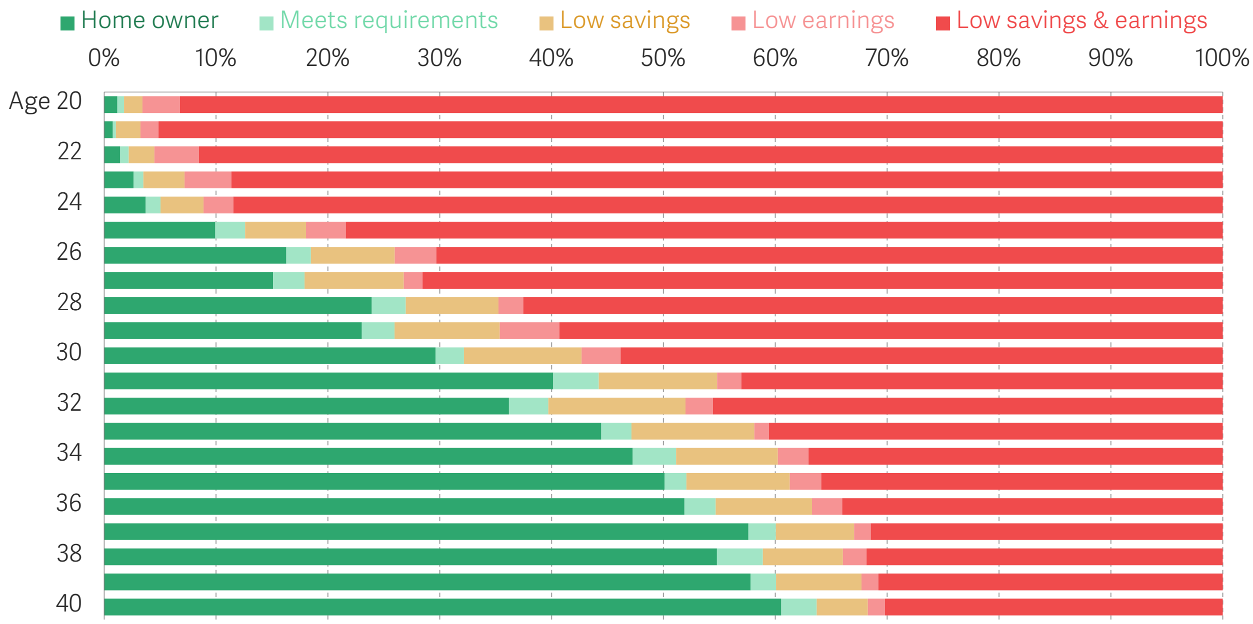
22 Here we combine data from 2012-13 to 2017-18 to achieve a greater sample size.

Despite the significant financial challenges, young people do find ways into home ownership

The snapshot analysis we have shown so far presents a depressing picture: not only do few young people have sufficient resources to access home ownership, but the vast majority appear to be a very long distance from the possibility frontier. However, in Figure 15 we bring those young people who are home owners back into the story and look at how the position of young people with respect to home ownership changes over time. This dynamic account shows that earnings and savings gaps are common at all ages, but home ownership does increase with age. So how can we reconcile young people's insufficient finances in the here-and-now (relative to regional first-time buyer house prices) with the fact that home ownership increases with age and, of course, has grown in aggregate since 2016?

FIGURE 15: **Although few young people have sufficient savings and earnings to buy a home, home ownership nonetheless becomes more common with age**

Proportion of family units of each age, by position with respect to home ownership, 2012-18: Great Britain

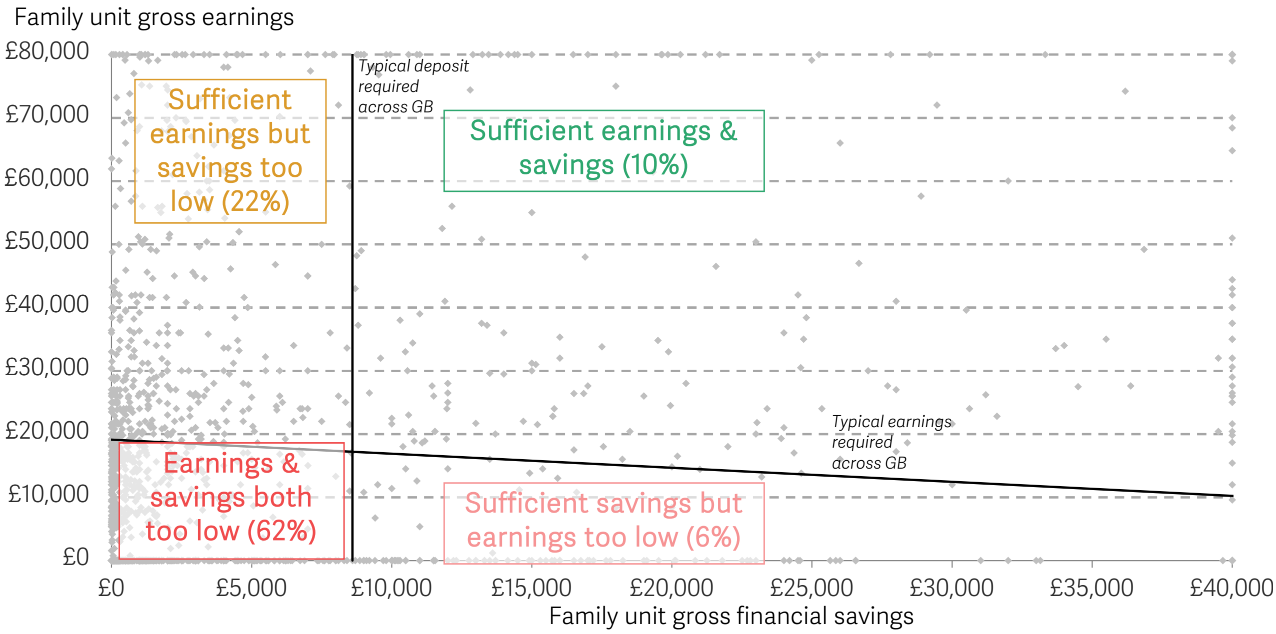


NOTES: See Figure 13 for further explanation of these categories. Assumes a 10 per cent minimum deposit requirement, a 4.5 times combined salary mortgage and regional average first-time buyer house prices.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

There are a number of strategies that prospective buyers could employ that would improve their chances of purchasing their first home. To begin, they could clearly opt to buy a cheaper property than the average – perhaps one that is smaller or in a less convenient location. Figure 16 shows how young people's home ownership chances increase when we use (average) flat prices from the cheapest quarter of local authorities in each region (thereby roughly halving the typical price facing non-home owners from £168,000 to £86,000). On this measure, 10 per cent of family units now have the earnings and savings required to buy. But the big picture remains unchanged: more than three-in-five (62 per cent) young family units have neither the earnings nor savings they need to access home ownership, while a further one-in-five (22 per cent) may have the required earnings (on paper), but not the necessary savings. Moreover, although for some households a cheap flat would meet their housing needs, for others making large sacrifices – such as long commutes or insufficient space – may bring other costs to financial and personal wellbeing.[23]

FIGURE 16: **Comparing earnings and savings to cheaper flat prices helps, but not dramatically**

Proportion of family units of each age, by position with respect to home ownership, relative to the price of cheaper flats, 2016-18: Great Britain



NOTES: For display purposes, savings have been capped at £40,000 and earnings at £80,000. Assumes a 10 per cent minimum deposit and 4.5 times combined salary mortgage. Proportions are based on average flat prices in the cheapest quarter of local authorities in each region in each calendar quarter, but the typical flat price facing young non-home owners across Great Britain is used for the illustrative lines.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

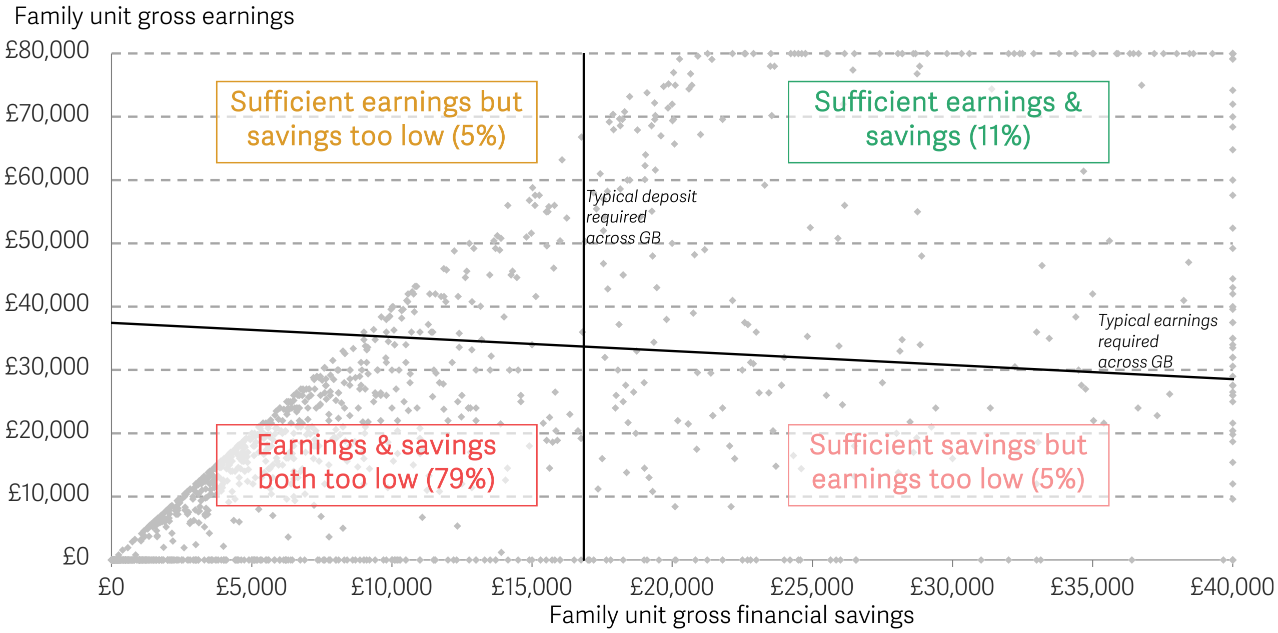
A second option is that young people save for the deposit relatively rapidly when they are about to buy a home. In Figure 17 we reimagine where those young people in Figure

23 For an exploration of the links between housing quality and wellbeing, see, for example: L Judge & F Rahman, Lockdown living: Housing quality across the generations, Resolution Foundation, July 2020.

13 would be after five years of saving 5 per cent of their gross earnings.[24] Unsurprisingly, this illustration reduces the proportion of people with insufficient savings and boosts the proportion of non-home owners who could afford to buy to 11 per cent (from 4 per cent). But how feasible is this in reality? There is some evidence that this is a viable approach for some.[25] However, the fact that we observe very few examples of intermediate savings in the Wealth and Assets Survey points to this being a minority strategy, not least because young people's ongoing housing costs often weigh heavily on their incomes (in the period 2017-18 to 2019-20, the average young private renter family unit spent 32 per cent of its income on housing costs, net of housing benefit).[26] Moreover, analysis of consumption data shows no evidence that today's young people spend in frivolous ways at the expense of purposive saving for a deposit.[27]

FIGURE 17: **Those currently with low savings might be able to accumulate more with time**

Illustrative family unit level gross employee earnings and gross financial savings of non-home owning 25-34-year-olds, with five years of imputed savings added to gross financial savings, 2016-18: Great Britain



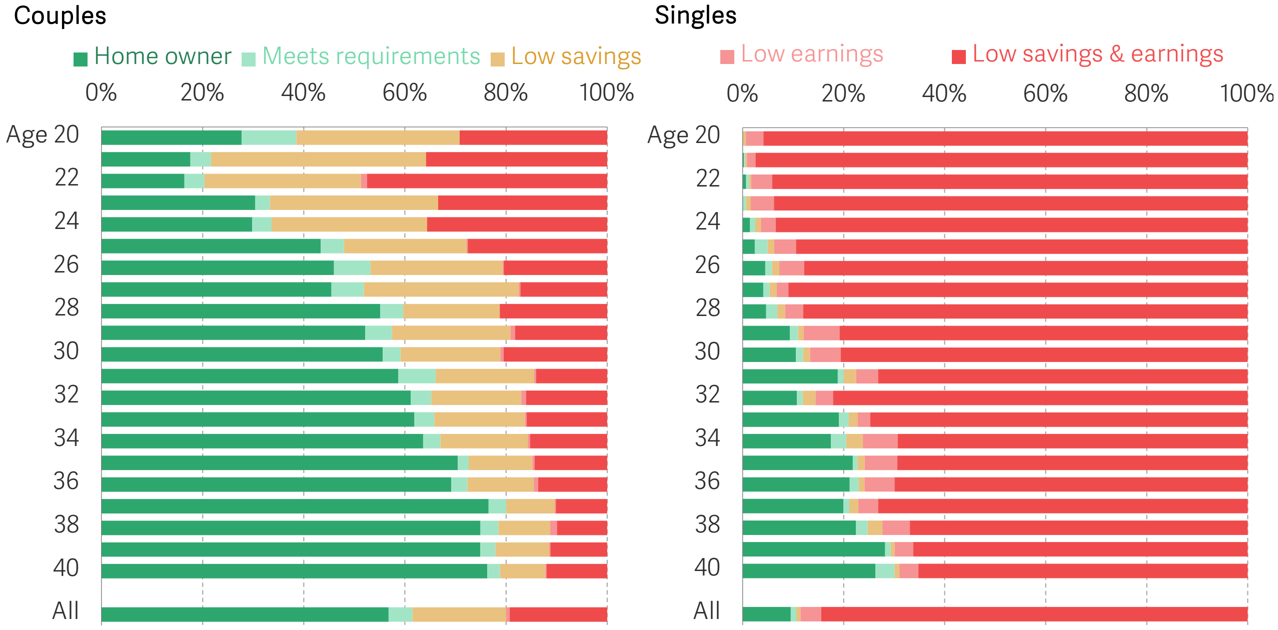
NOTES: We have added five years of savings at 5 per cent of gross earnings per year. For display purposes, savings have been capped at £40,000 and earnings at £80,000. Assumes a 10 per cent minimum deposit and 4.5 times combined salary mortgage. Proportions are based on regional average first-time buyer house prices in each calendar quarter, but the typical price facing young non-home owners across Great Britain is used for the illustrative lines.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

24 We assume no changes in house prices over this period, but nor do we assume any changes in earnings. The 5 per cent saving rate used is only illustrative, but – for comparison – one estimate of the median household saving rate is 9 per cent (with an aggregate rate of 16 per cent), while for non-home owners the median is 5 per cent (with an aggregate rate of 12 per cent). See ONS, Household income, spending and wealth, Great Britain: April 2016 to March 2018, October 2020.
25 Post Office Money, First-time buyers saving for their dream starter-home deposit in just 3.6 years, November 2019.
26 RF analysis of DWP, Family Resources Survey.
27 See: D Hirsch, L Valadez_Martinez and L Gardiner, Consuming forces: Generational living standards measured through household consumption, Resolution Foundation September 2017.

Finally, our static picture above does not capture the fact that people's household composition changes over time. Some single non-home owners will become (de facto) owner-occupiers by moving in with a home owning partner, for example, or – perhaps more commonly – non-home owning couples who live separately will pool their resources to buy: so, in these cases, we are underestimating their purchasing power. If we repeat Figure 15's age-based analysis separately for couples and singles, we can see that non-home owning couples are generally much closer to being able to afford a typical home as a result of their combined savings and earnings.[28] Over half of young cohabiting couples are home owners, and over half of those who are not have sufficient combined earnings. In contrast, even in their 30s, few single people have either the earnings or savings to buy the average first-time buyer property in their region, in keeping with the findings shown earlier in Figure 7.

FIGURE 18: **Couples are unsurprisingly better able to afford the regional average first-time buyer house**

Proportion of family units of each age, by position with respect to home ownership, 2012-18: Great Britain



NOTES: See Figure 13 for further explanation of these categories Assumes a 10 per cent minimum deposit requirement, a 4.5 times combined salary mortgage and regional average first-time buyer house prices.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

We can get a sense of the scale of the importance of 'coupling' for home buying from the longitudinal element of the Wealth and Assets Survey (i.e. repeatedly surveying the same people over time). This shows that of the non-home owning, young 'single' people in 2006-08 who had become home owners by 2016-18, around 60 per cent also became

28 For couples, only one partner's age is used – and the second partner may not necessarily be aged 25 to 34.

part of a cohabiting couple. In contrast, of those who did not become home owners, only 20 per cent 'coupled-up'. Clearly, then, although relationship formation is perhaps not an area that public policy should try to act on directly, it is an important explanation of how and why some people get on the housing ladder while others do not.

Many young people rely on additional help to access home ownership today

There is another strategy that young people may be able to employ beyond the options detailed thus far in order to access home ownership: secure another source of support to help close the gap between their own resources and those required to buy a first home. In recent years governments in all four nations have introduced a dizzying array of schemes to help first-time – and indeed other types of – buyers (Box 3 provides a brief overview of some of the support that is currently available in England). Eligibility criteria varies between schemes: in some cases, support is available only for the purchase of new build properties, on homes up to a certain value or for certain types of buyers (key workers, for example, or those up to a certain age). Likewise, the level of subsidy varies too.

BOX 3: **Direct government support for home ownership**

The various government schemes introduced in recent years aim to address the constraints that first-time buyers face and broadly fall into four categories. First, there are products which offer the buyer a loan in exchange for a government stake in the equity. The current English scheme of Help to Buy Equity Loans, introduced in 2013, built on predecessor schemes HomeBuy and FirstBuy and will run until 2023. Equity loans are now available for first-time buyers up to 20 per cent of the value of the home (40 per cent in London since 2016); are limited to new build properties costing no more than a regional price cap; but have no restrictions on the income of potential applicants. No interest is charged on an equity loan for the first five years, but from year six onwards a 'fee' (which increases annually) is charged.

Second, since 2020 credit-worthy buyers purchasing a home worth up to £600,000 can take advantage of a Mortgage Guarantee Scheme. Largely replicating the scheme that ran from 2013 to 2016, the government underwrites up to 20 per cent of the value of the property on purchase. This allows lenders to provide loan-to-value mortgages of up to 95 per cent at lower interest rates than would otherwise be possible; prior to the financial crisis, high loan-to-value mortgages were offered at interest rates which did not reflect the actual risk of loan default – i.e. they were unsustainably low. Improvements in bank risk management and stronger micro-prudential requirements have raised the interest rates on high loan-to-value mortgages and reduced their availability to riskier borrowers. The mortgage guarantee scheme allows banks to purchase protection against the borrower defaulting and thus reduces the risk to the bank and, at least in theory, facilitates more provision of these loans.

Third, there are a number of heavily subsidised home ownership products that are part of the Affordable Homes Programme. Shared ownership is probably the best-known scheme, which in its current incarnation allows households with an income of up to £80,000 a year (£90,000 in London) to buy a share of a property and take out a mortgage on the part of the property they owned. Shared owners can start with a stake as small as 10 per cent and have the option to 'staircase' up by buying as little as 5 per cent or more each time. Finally, a brand-new scheme called First homes was announced in 2021, which aims to provide homes to first-time buyers at a discount of 30 per cent or more on homes priced no higher than £250,000 (or £420,000 in Greater London).

Fourth, the Government has also supported saving for first-time buyer deposits through the Help to Buy ISA and then the Lifetime ISA (though the latter can also be used for other purposes) – through which each £1 of private savings can be matched by a 25p government contribution. In 2019-20 there were over 500,000 Lifetime ISA accounts.[29]

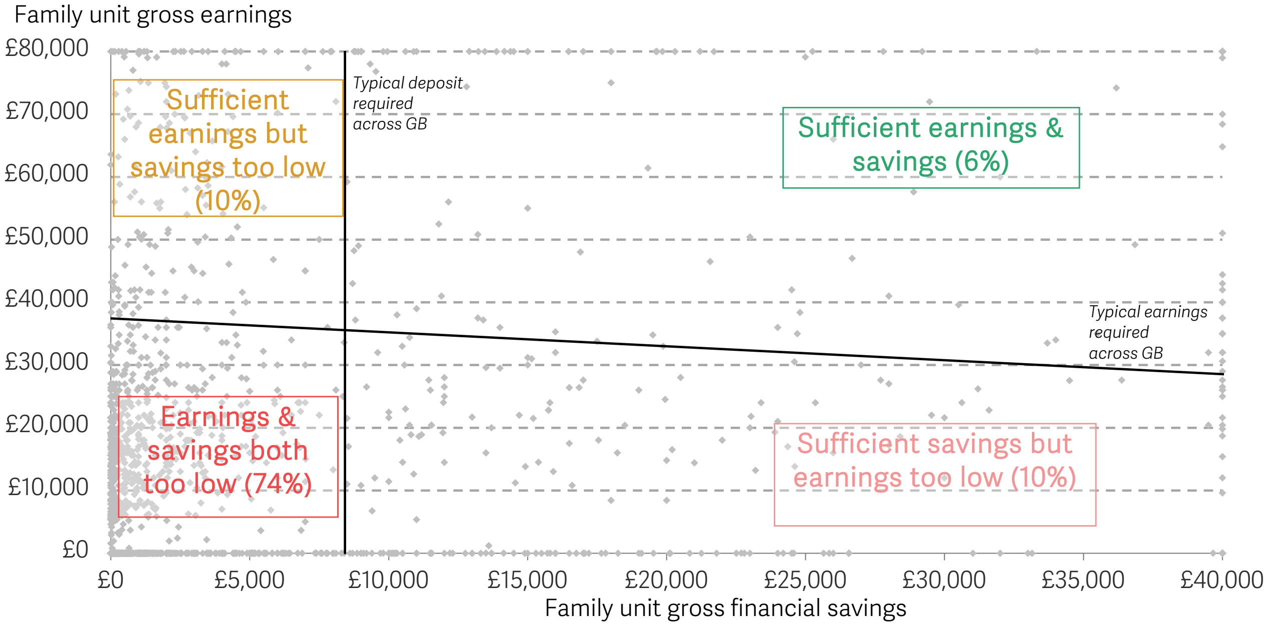
Such schemes have indubitably helped ease the passage to home ownership for many in recent years – Help to Buy Equity Loans have supported an estimated 15 per cent of first-time buyers in England between 2017-18 and 2019-20 for example.[30] But there is clearly a policy design trade-off for Government between schemes that provide substantial support to fewer people and those where the subsidy is smaller but can be more widely spread. in Figure 19 we conduct one final thought experiment to test the potential impact of government subsidies. Here, we show the share of young non-home owners who would be able to purchase the average first-time buyer home in their region if they need find only 5 per cent of the house price for the deposit (in other words, if they had help from a scheme like Help to Buy Equity Loans or the Mortgage Support Guarantee).

29 HMRC, Individual Savings Accounts (ISA) statistics, June 2021.
30 RF calculations based on figures from DLUHC, English Housing Survey 2019-2020: Home ownership, July 2021 and DLUHC, Help to Buy (equity loan scheme): data to 31 March 2021.

Naturally the picture is an improvement on the one where the buyer must find 10 per cent of the price upfront (Figure 13). But what is most striking about this exercise is how small that improvement is: 6 per cent of young people have sufficient resources to access home ownership with a 5 per cent deposit requirement, compared to the 4 per cent in the same position when the deposit requirement was doubled.

FIGURE 19: **A lower deposit requirement makes home ownership more viable for only a small additional share of young families**

Family unit gross earnings and gross financial savings of non-home owning 25-34-year-olds, with a 5 per cent deposit requirement, 2016-18: Great Britain



NOTES: For display purposes, savings have been capped at £40,000 and earnings at £80,000. Assumes a 5 per cent minimum deposit and 4.5 times combined salary mortgage. Proportions are based on regional average first-time buyer house prices in each calendar quarter, but the typical price facing young non-home owners across Great Britain is used for the illustrative lines.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

This finding suggests that given their current financial position, many young families can only access home ownership if they are on the receiving end of a very substantial windfall. Of course, for some lucky young people this is indeed a reality. Analysis of English Housing Survey data shows, for example, that gifts or loans from family and friends are now common among first-time buyers: over the last three years of data around one-in-three (34 per cent) benefited from support of this kind compared to less than one-quarter (22 per cent) in 1995-1996, and with inheritances playing an additional, albeit smaller, role. Moreover, as we have explored in previous work, a reliance on parental transfers means that those with parental property wealth are almost three times more likely to own their home at 30 than those without,[31] and this link holds even after controlling for earnings (which separately tend to persist across generations). We conclude then that a large proportion of non-home owners are not even close to becoming home owners – at least not without help from wealthy family members – and it would take far more than marginal programmes of support to change that.

Conclusion

In this briefing note we have shown that the stark fall in youth home ownership since 1989 is largely driven by financial factors. Although a majoritarian concern (this is very far from being simply a London or South East phenomenon), this trend has also sharpened relative differences between, for example, higher- and lower-income young people, couples and singles and public and private sector workers. Expanding home ownership is an objective that is close to the Government's heart: indeed, last year the Prime Minister committed to "turn generation rent into generation buy".[32] But our analysis suggests that this is far from an easy task. Well-targeted policy interventions that help the marginal buyer over the line are clearly not irrelevant: a subsidy or regulatory change that reduces the typical first-time buyer deposit to 5 per cent of the house price increases the share of young people able to access home ownership in our thought experiment by 2 percentage points, equivalent to (a non-negligible) 80,000 additional families.[33]

But it is also clear that the structural disadvantage faced by many young people (and especially those who do not have familial wealth) leaves them more dependent on luck to achieve their home ownership ambitions than in past generations. Given this, making home ownership a reality for those who are currently far from the frontier would require a more extensive programme of policy interventions than those we have seen since the late 2000s. To begin, the tax system could be used to supress demand from more privileged buyers such as those who wish to purchase a second home. Likewise, it could be tilted more in favour of first-time buyers (by further increasing the stamp duty wedge between new buyers and existing owners, for example). Alternatively (or in parallel), far more extensive (and therefore expensive) support could be offered to prospective buyers, with Government taking on more of the lending risk than currently, for example, or through more generous direct subsidies (although a large home building programme would also be needed to avoid fomenting house prices still further).[34]

31 J Wood & S Clarke, House of the rising son (or daughter): the impact of parental wealth on their children's homeownership, Resolution Foundation, December 2018.

32 Boris Johnson speech to Conservative Party Conference, October 2020.

33 The policy design challenge here is how to avoid the deadweight of subsidising those who can afford to access home ownership without state support. The Government acknowledged this challenge, for example, in C Whitehead et al., Evaluation of the Help to Buy Equity Loan Scheme 2017, MHCLG October 2018.

34 For more details of potential policy solutions, see: D Tomlinson and L Judge, Home Improvements: Action to address the housing challenges of young people, Resolution Foundation April 2018.

Finally, however, there are a number of reasons why we would perhaps be wise not to expect youth home ownership rates to return to their 1980s levels of around 50 per cent.[35] But whatever 'new normal' youth home ownership rates do finally find, this briefing note provides yet more evidence of the pressing need for Government to accelerate private rental reform (not least because of the growing number of families who are raising children in this tenure) and build more social rented homes if secure and good quality homes are not to be just the preserve of home owners.

35 Home ownership rates, of course, received a very significant upwards push with the introduction of Right To Buy in the early 1980s. Although the scheme still exists in England and Northern Ireland, sales numbers are very small. See Department for Levelling Up, Housing and Communities, Live tables on social housing sales for more information.

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For more information on this report, contact:

Adam Corlett
Principal Economist
adam.corlett@resolutionfoundation.org

Resolution Foundation, 2 Queen Anne's Gate , London, SW1H 9AA

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