The Resolution Foundation Housing Outlook

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Attention has understandably been focused on energy bills in recent months, but other price pressures have also been building of late. With large increases in private rents reported over the last year, this Housing Outlook reflects on the short- and long-term challenges facing the 4.4 million private renting households in England today.

Private rents for new tenancies increased by more than 10 per cent over the last year, and are now feeding through into broader measures of rent. On average, across all new and existing tenancies, private rents are now rising around twice as fast as they were between 2018 and 2021. This would be easier for families to manage if private rents were low to begin, but we find this is very much not the case. The average housing cost to income ratio (HCIR) for private renters in England rose from 10 per cent in the 1960s to 33 per cent in the mid-1990s, and has remained at this elevated level ever since. The rent burden is particularly acute for low-income families, who on average spent more than half of their income on housing costs in 2020-21 (albeit before housing support from the state is taken into account).

High housing costs could be a price worth paying if private renters enjoy better quality housing today than in the past. Our analysis finds, however, that in England, average floor space per private renter has declined by almost one-fifth over 20 years, from 43 m^2 in 1996-2001, to 36 m^2 in 2017-19. If private renters enjoyed homes as roomy as they did two decades ago, we would need to find additional floorspace equivalent to a city the size of Nottingham to accommodate them all. And while the share of private rented properties with poor energy efficiency has fallen over time, two-thirds (67 per cent) of private renters still live in homes with an EPC rating of D or below.

Although all households will get generous support via the new Energy Price Guarantee, and real improvements could be on the cards for private renters with respect to insulation and security of tenure if the Government delivers on its recent White Paper, many private renters will still spend the winter in expensive, cramped and hard-to-heat homes. To date, no (English) Government has dared seize the nettle when it comes to the level of private rents relative to incomes. As pressures on living standards continues to build, it may be time to do just that.

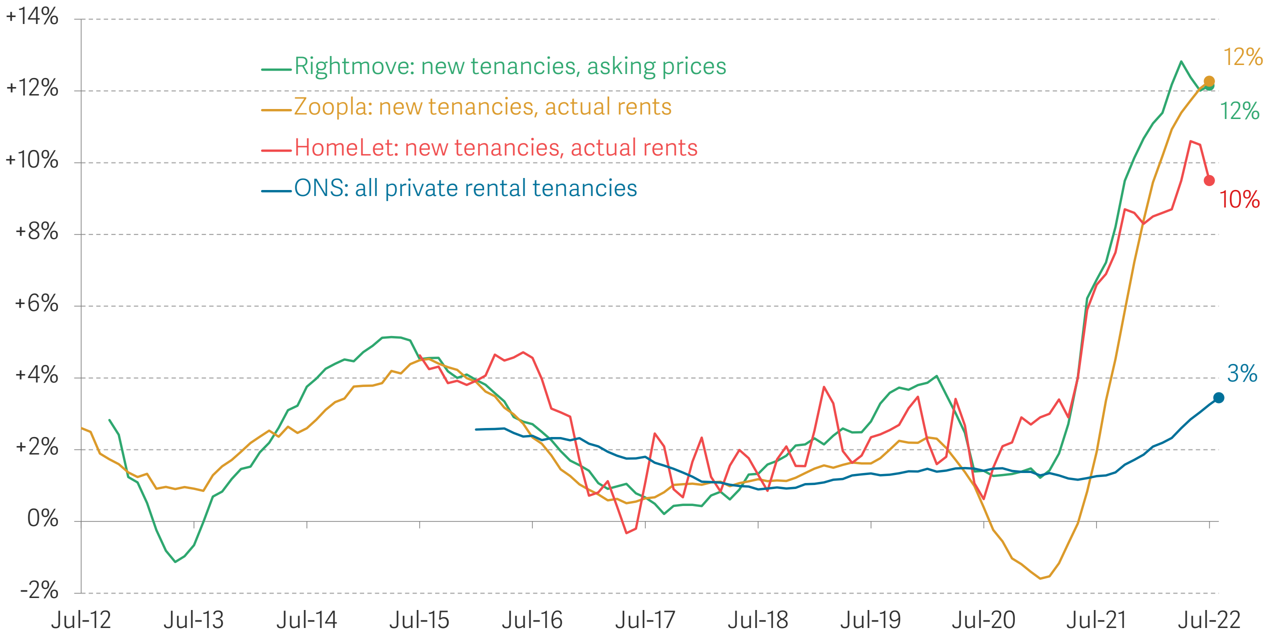
Private rents for new tenancies have seen double-digit increases in the past year

The Government's significant intervention in the energy market announced last week will incontrovertibly make a big difference to the inflation shock that households have to contend with this winter and beyond. But although support on energy bills is of course very welcome, other costs for families continue to grow. In this quarter's Housing Outlook, we look at the pressures affecting the 4.4 million (almost one-in-five) households in England who privately rent their homes.

There have been a number of reports of private rents surging across the country in recent months. Figure 1 shows that commercial data such as HomeLet, Rightmove and Zoopla's rental price indices all indicate that rents for new private tenancies (when private landlords find it easiest to take the opportunity to reset rents to reflect current market conditions) have increased by a staggering 10 to 12 per cent over the year to July 2022. For example, the Zoopla rental index (which shows the annual change in actual private rents paid for new tenancies) soared from under 2 per cent for the period July 2020 to July 2021, to over 12 per cent between July 2021 and July 2022.

FIGURE 1: **Private rents have increased sharply following the pandemic, particularly for new tenancies**

Annual change in private rental prices: UK



SOURCE: ONS, Index of Private Housing Rental Prices; HomeLet Rental Index; Zoopla Rental Market Index; Rightmove Rental Trends Tracker.

This surge in rents for new tenancies indicates the mismatch between supply and demand in the private rented sector (PRS) has worsened since the pandemic. So why might this be the case? On the supply side, Hometrack report that the stock of homes for rent is currently at half the average rate seen over the past five years. On the demand side, it is plausible both that young adults who returned to live with their parents during the pandemic are now (re)exiting the nest, and that higher nominal wages (which have grown at their fastest rate since the financial crisis recently) are also stoking demand.

The increase in rents for new lets is now being picked up by the ONS's Index of Private Housing Rental Prices (blue line in Figure 1) which shows the change in private rents for the total stock of PRS properties i.e. both new and existing tenancies. This shows that after growing by between 1 and 2 per cent a year since 2018, private rents have increased sharply over the past 12 months, with the annual change reaching 3.4 per cent in August 2022. This will be driven, in part, by existing tenants accepting larger rent increases, but with high levels of churn in the PRS we can be confident that the trend in new tenancies is now feeding through to the overall Index. After all, the average number of years that a private renter in England has lived in their current home is just 4.2, suggesting that around one-quarter of properties in the PRS have new tenants each year.[1]

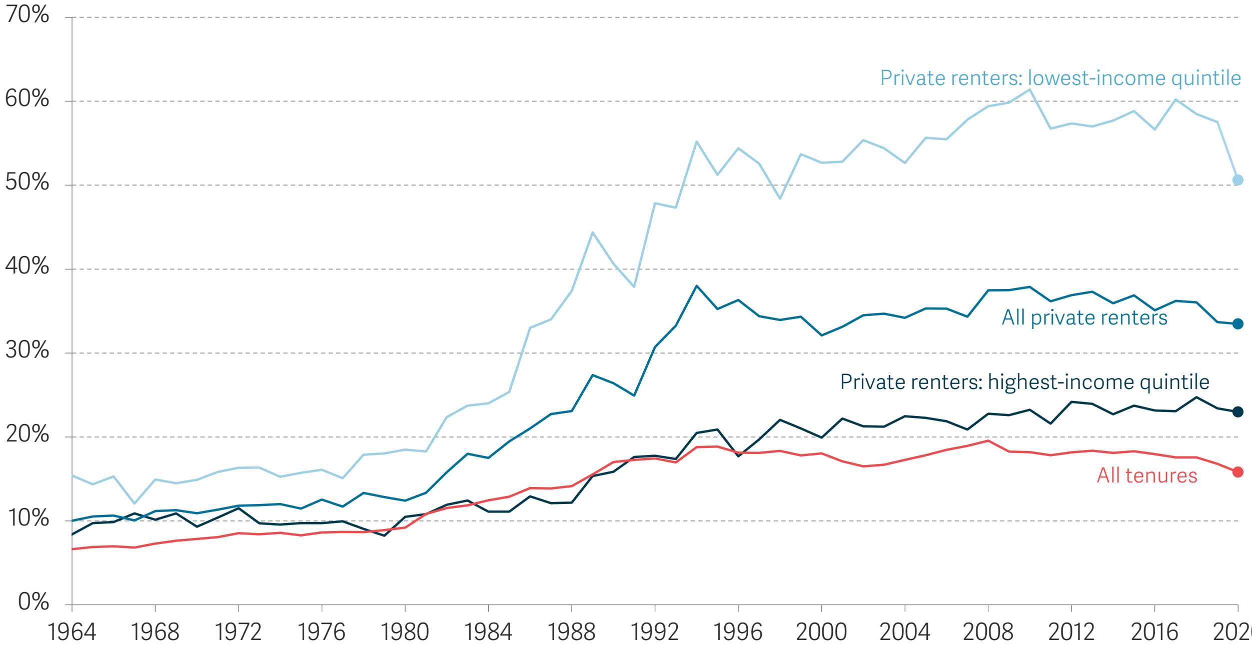
[1] Department for Levelling Up, Housing and Communities, English Housing Survey: Headline report, Annex Table 1.22, December 2021.

Private renters were already spending an average of one-third of their income on housing costs before the pandemic

Rising private rental prices are of particular concern as housing costs are often the single biggest expenditure for many families and this is especially the case for those who live in the private rented sector (PRS). On average, private renters spend a higher share of their income on housing costs than those in other tenures. As Figure 2 shows, on average (and before accounting for Housing Benefit or the housing element in Universal Credit) housing costs were equivalent to one-third of family income for private renters in England in 2020-21.[2]

FIGURE 2: **Private renters spend the highest share of their income on housing costs of any tenure group**

Average proportion of family unit income spent on housing costs (before Housing Benefit/ housing element of Universal Credit), by tenure and income: England, 1964-2020



NOTES: Housing costs are calculated on a family unit basis before accounting for Housing Benefit/housing element of Universal Credit. Income is net income. Family units are defined as any single or couple adults and their dependent children. Years are financial years, with the first year in each financial year shown on the chart. The sharp fall in recorded HCIRs for the lowest-income private renters in 2020-21 is likely to be a result of the £20 a week uplift in Universal Credit during the pandemic.
SOURCE: RF analysis of IFS, Family Expenditure Survey, 1961 to 1995; Department for Work and Pensions, Households Above Average Income, 1994-95 to 2020-21.

Figure 2 also shows the trend in housing costs to income ratios (HCIRs) back to the early 1960s, demonstrating that whereas the average private renting family spent 10 per cent of their income on housing costs in the 1960s, that figure had risen to 33 per cent by the mid-1990s. This level has remained broadly constant ever since. The cost of private renting may not have increased in recent years relative to incomes, then, but it has persisted at this historically – and internationally – high level, depressing the living standards of private renters in the process. In addition to this, HCIRs are very

[2] Although our preferred metric is the housing cost to income ratio (HCIR) after state support for housing costs is taken into account, this is increasingly difficult to estimate as more families receive help with their housing costs via Universal Credit rather than Housing Benefit. This is because the Family Resources Survey does indicate the amount of Housing Benefit a family receives, but it does not distinguish the housing element of the Universal Credit award. As a result, we have chosen here to report the HCIR before state support is deducted.

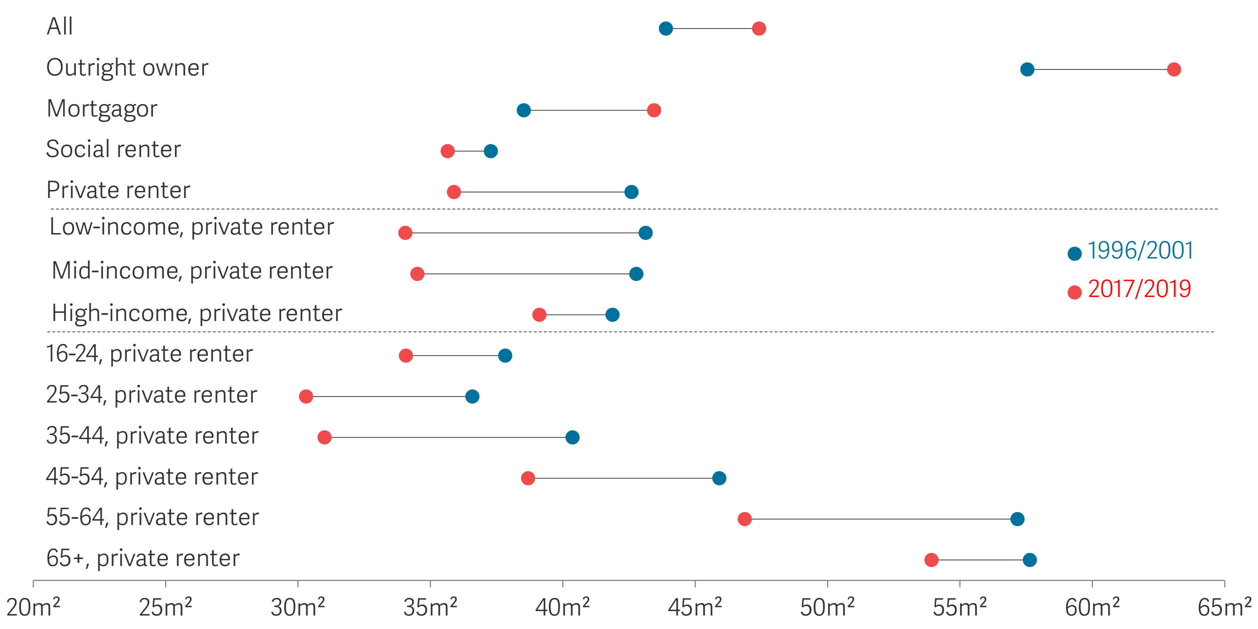
high for those on the lowest incomes in the PRS. In fact, in 2020-21, families in the bottom one-fifth of the private renter household income distribution had housing costs that were over twice as high as a proportion of income than those in the top one-fifth (51 per cent versus 23 per cent) when measured before Housing Benefit/Universal Credit.

The amount of space that private renters get for their money has fallen since the turn of the century

If private renters were getting a lot more for their money today compared to those in the past, then persistently high rents as a share of income might seem reasonable. But this has not been the case, at least in terms of the amount of space private renters enjoy. As Figure 3 shows, between 1996-2001 and 2017-2019, the average floor space per person across all English dwellings increased from 44m² to 47m², driven by the increasing amounts of space enjoyed by homeowners.[3] In contrast, average floor space per person in the PRS declined from 43 m² to 36 m² per person (a 16 per cent fall). If private renters had as much space per person today as their (smaller number of) counterparts did two decades ago, they would need additional floorspace of 75 km², equivalent to a city the size of Nottingham.

FIGURE 3: **Floor space per person has decreased for private renters, particularly for those with low incomes**

Average floor space per person, by tenure, and by income and age groups within the private rented sector: England, 1996/2001 to 2017/2019



NOTES: Data points are average over the two years of the survey shown. Low-, mid- and high-income are private renter household income tertiles. Age bands segment households by the age of the household reference person.
SOURCE: RF analysis of Department for Levelling Up, Housing and Communities, English Housing Survey.

There has been a slight (6 per cent) reduction in floor space per dwelling over this time period, but the trends shown in Figure 3 are driven largely by more people sharing a similar amount of space over

[3] We average over two years of the survey, and the interval between survey years was larger in the past.

time.[4] Be that young people renting privately with friends or more families with children in the PRS (see Housing Outlook indicators below). Low-income private renters have experienced the greatest decrease in space, losing three times more than high-income renters (21 per cent compared to 7 per cent). Moreover, younger renters in the PRS (aged between 25-34) have also experienced falls in average floor space per person that today leave them with very little space. For example, average floor space for a private renter living in a household headed by someone aged 25-34-years in 2017-2019 was 30m², compared to 54m² for those aged 65 and over in the PRS. If that typical young private renter was living in a 1-bedroom, 1-person flat, they would be below the minimum space standard in England of 37m² for a property of that type.[5]

The quality of England's housing stock has improved over time, but two-thirds of private rented homes still suffer from poor energy efficiency

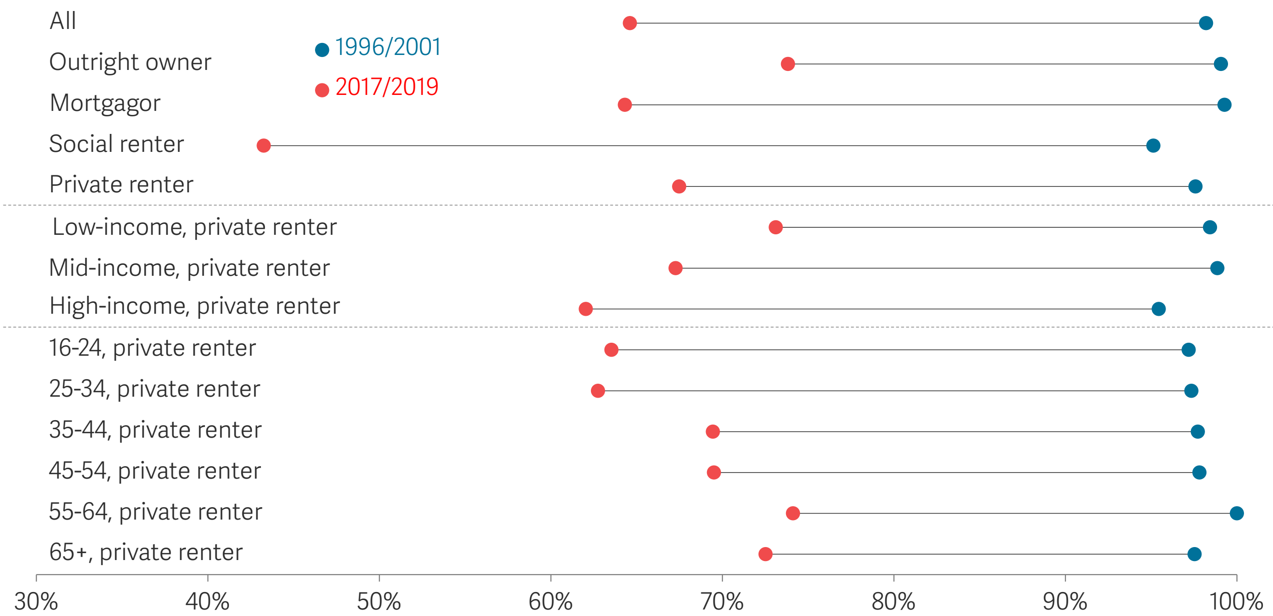
Of course, floor space is not the only measure of housing quality – and there have undoubtedly been some improvements in the quality of the housing stock within the PRS over time. Most obviously, the share of non-decent homes within the sector has fallen from 47 per cent in 2006 to 23 per cent in 2019.[6] But as shown in Figure 4, it still remains the case that more than two-thirds (67 per cent) of dwellings in the PRS have a poor energy efficiency rating – defined as having an EPC certificate in band D to G. This is higher than the proportion of properties with mortgages (64 per cent) and those in the social rented sector (43 per cent), although lower than outright home owners (74 per cent).

A closer look into how energy efficiency differs across groups of private renters reveals that some groups are especially exposed to higher energy costs than others. Over 70 per cent of low-income private renters live in homes with a poor energy efficiency rating, and a similar share of older renters also live in homes that will be equally hard to heat over the months ahead. This has real cost implications for private renters already facing a considerable housing costs burden. In August 2022, for example, ahead of the recent surge in energy prices, the Government estimated that a home in EPC band E costs on average £595 more per year to heat than one rated EPC C, while one in EPC band F/G costs £1,339 per year more to heat.

[4] It is noteworthy, too, that 3.1 per cent of households in the PRS were overcrowded in 1996-97, compared to 6.7 per cent by 2019-20. Households are said to be overcrowded if they have fewer bedrooms available than the number needed according to the bedroom standard definition. See: Department for Levelling Up, Housing and Communities, English Housing Survey: headline report, Section 1: households annex tables, Annex Table 1.24, December 2021.
[5] For minimum floor space per person in other property types see: Department for Levelling Up, Housing and Communities, Technical housing standards – nationally described space standard, March 2015.
[6] Department for Levelling Up, Housing and Communities, English Housing Survey: headline report, Section 2: housing stock annex tables, Annex Table 1.24, December 2021.

FIGURE 4: **Low-income and older private renters are more likely to live in homes with a poor energy efficiency rating**

Share of dwellings with EPC Certificates in band D to G, by tenure, and by income and age groups within the private rented sector: England, 1996/2001 to 2017/2019



NOTES: Poor energy efficiency defined as those dwellings with EPC Certificates in Band D to G. Data points are average over the two years of the survey shown. Low-, mid- and high-income are thirds of the private renter household income distribution. Age bands segment households by the age of the household reference person.
SOURCE: RF analysis of Department for Levelling Up, Housing and Communities, English Housing Survey.

There are plans afoot to upgrade private rented homes, but much more is needed when it comes to tackling costs

Even with the very substantial help with energy bills announced last week, there is no doubt that this winter will be especially tough for many private renting households as they contend with the rising rents they pay for often cramped and hard-to-heat homes. That said, the plight of private renters has moved up the political agenda in recent years: it is a stated ambition for all homes in the PRS to reach EPC band C rating or better by 2028, for example, and the Government's recent Private Renters White Paper commits to apply the Decent Homes Standard to the sector for the first time. But policy makers remain silent when it comes to the question of rent levels, an omission that many fear may undermine the other considerable change promised in the White Paper of ending no fault evictions (because landlords could simply resort to unaffordable rent increases to ease tenants out).

So how could the challenge of high rents be met? Income support for households in the short-term, via an inflation-linked uprating of benefits in early-2023, should be the minimum response, alongside relinking Local Housing Allowance (LHA) levels to actual rents.[7] But longer term, action is needed to increase housing supply in the places where rents are highest to bring down rents relative to incomes;

[7] The Local Housing Allowance (LHA) levels determines the maximum amount of Housing Benefit/housing element of Universal Credit that a family can receive. Rates were reset from the 50th percentile of local private rents to the 30th percentile in April 2011; frozen between April 2016 and March 2020; reset to the 30th percentile in April 2020 in response to the pandemic; but have been frozen in cash terms from that point on. For further information, see: F Hobson & W Wilson, The rent safety net: Changes since 2010, House of Commons Library, August 2021.

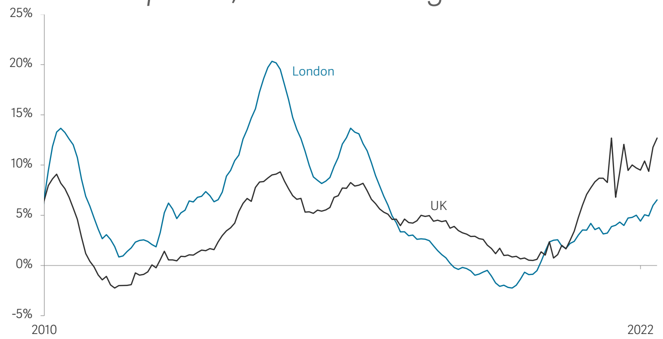
to build more social rented homes to provide good housing options for low-income private renters who face unacceptably high housing costs; and to grow the economy more widely and increase the relative incomes of the many younger and poorer households for whom rising private rents are clearly a major living standards problem.

Housing indicators | Exploring key trends in the UK housing market, and what this means for households and policy makers

The charts below look at key trends in the UK housing market as a whole, as well as among regions, tenures and age groups where these trends have differed or been more pronounced. If you would like to replicate any of the charts contained in the indicators below, or would like to know more about the data sources, please contact the report authors.

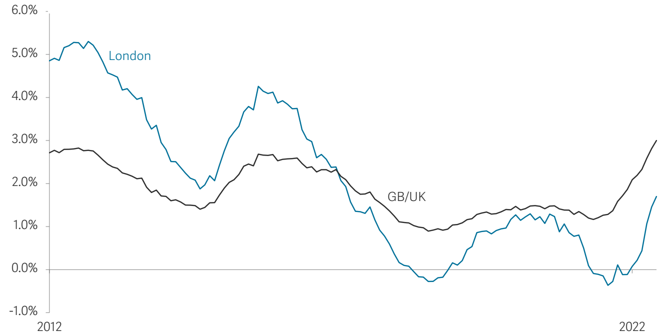
Housing market trends:

House prices, annual change



UK house price growth increased during the pandemic, and remains high even as interest rates rise.

Private rents, annual change



Growth in private rents has continued to accelerate in the first half of 2022.

Property transactions, monthly

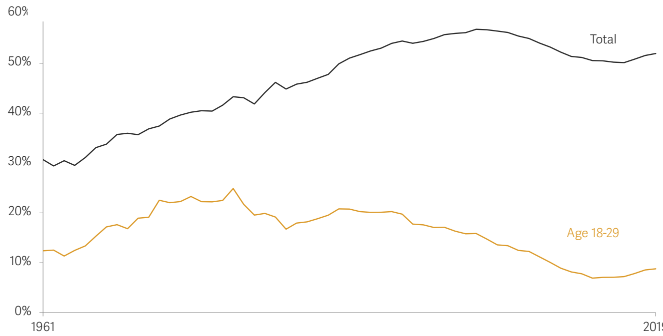
Transations were highly volatile during the pandemic, and are still at a relatively high level.

Mortgage approvals, monthly

After recent pandemic-related volatility, mortgage approvals have now returned to pre-2020 levels.

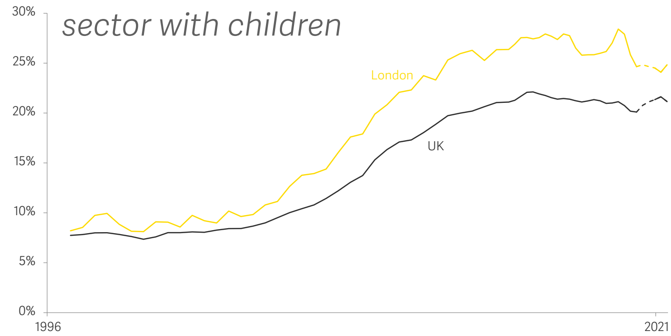
Housing and living standards:

Home ownership rates



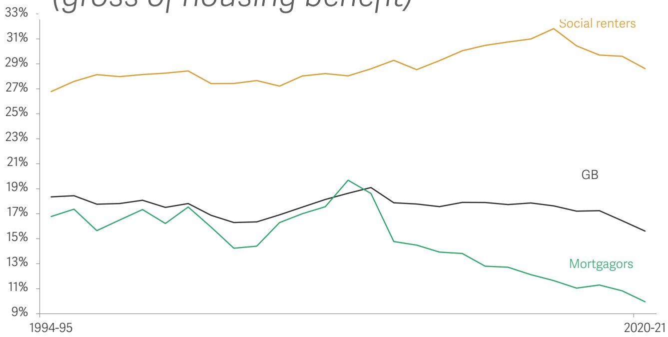
Home ownership rates increased slightly between 2016 and 2019, where this time series ends as a result of pandemic-related data issues.

Share of families in the private rented sector with children



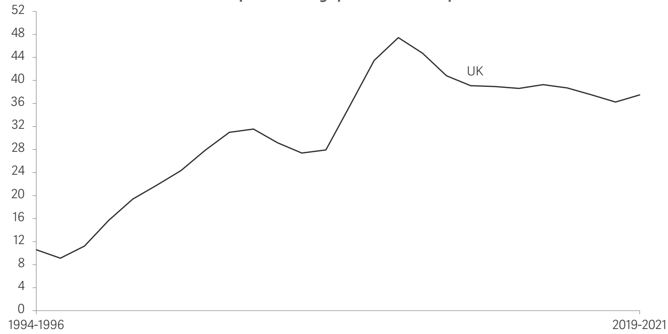
The share of families with children that live in the PRS has increased almost three-fold since the 1990s.

Housing costs as a share of income (gross of housing benefit)



Housing costs as a share of income fell for mortgagors after the financial crisis, but have increased rapidly for social renters in more recent years.

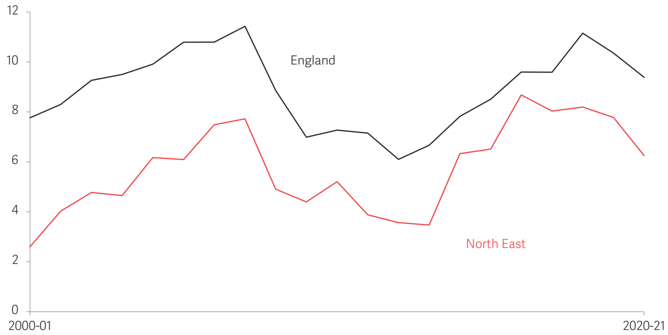
Years to save for a typical deposit



It would take 37 years for a typical young family to save for a deposit assuming saving rate of 5%.

Housing and policy:

Net additional dwellings per 1,000 existing

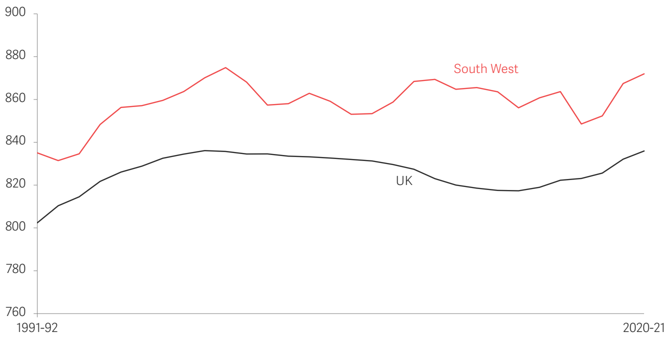


Net additions fell in 2020-21, after having increased for a number of years back towards pre-financial crisis highs.

Social rented properties, as a share of all affordable home completions

Social rental properties have fallen significantly as a proportion of the affordable housing built in England through the 2010s.

Housing stock per 1,000 'benefit units'



Relative to the number of families, the UK's housing stock has declined since the turn of the century, but has been gradually increaseing in recent years.

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

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

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