

# CSI 20: Housing affordability in the UK

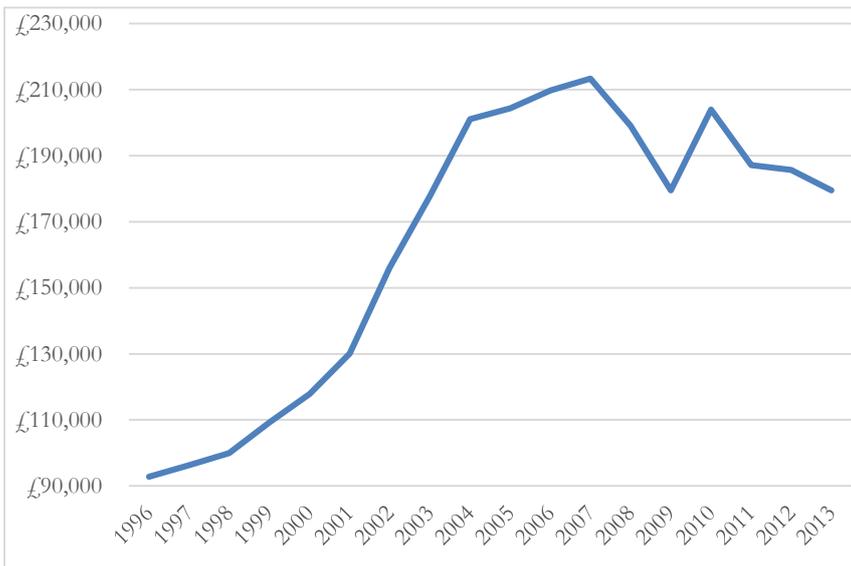
## Summary

- The cost of buying a home in England and Wales increased every year between 1995 and 2007. House prices have declined since then although prices in 2014 still exceed those prior to 2003
- In 2013, UK house prices were 10.5 times higher than average household incomes, three times as high as in 1977
- Social rents in England are also increasing in real terms over time
- Nominal private rents have increased over time, but trends in affordability over time are unclear
- Rising housing costs reflect chronic undersupply, growth in real incomes, population growth and changing demographics (including longer life expectancy, migration, increasing single person households)
- These rising costs have potentially wide-ranging consequences for people's lives, including increased risks of overcrowding and homelessness, reduced social mobility, thwarted ambitions for a home of one's own, declining rates of home ownership (especially among the young), changes to retirement plans, increased benefit spend and potentially negative impacts on productivity and growth

## Introduction

Housing is the largest single component of household budgets: in 2013, UK households spent an average of £147.90 per week on housing, accounting for 21 per cent of total weekly expenditure<sup>i</sup>. Trends in affordability depend on the housing affordability measure used, but the ratio of house prices to incomes is particularly relevant following rising housing costs that have outpaced increases in wages and benefits over the past 40 years. The consequences have been felt across all housing tenures, as discussed below.

## How has the real cost of housing ownership changed over time?



**Figure 1: Median real house prices in England and Wales increased between 1995 and 2013** Note: Figures deflated using the Consumer Price Index (2013) to adjust for inflation. Source: Land Registry sales data

Median real house prices in England and Wales are displayed in Figure 1. Real house prices increased drastically from 1995 onwards, peaking in 2007. They then dropped on average by nearly £33,000 in real terms by 2009. Aside from a brief recovery in 2010, real house prices are still falling, with median real house prices in 2013 reaching those in 2003.

## Technical details

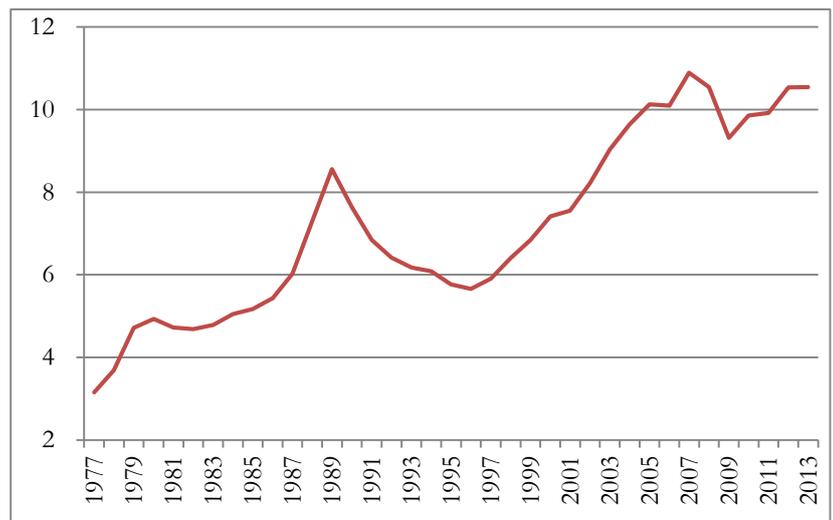
The house price data in Figure 1 and social rents data in Figure 3 are adjusted for inflation using the Consumer Price Index. This adjusts for costs-of-living and means that house prices should be comparable between years. The house price data in Figure 2 are 'mix adjusted', which accounts for differences in the types of property sold over time to aid comparability. Finally, several graphs presented here cover only England or England and Wales so cannot present a full picture of affordability across the UK.

## How affordable is home ownership?

### Figure 2: The ratio of UK house prices to household incomes increased dramatically between 1977 and 2013

Sources: Household income data from the Family Resources Survey; house price data from the Office for National Statistics based on mortgage prices

Figure 2 shows the ratio of mix-adjusted house prices to median household income, after direct taxes and benefits. This accounts for increasing household income over this period. In 1977, homes cost on average three times the median household income, then increased to peaks of 8.5 in 1989 and 10.9 in 2007. Each peak was followed by a fall. By 2013, homes cost 10.5 times median

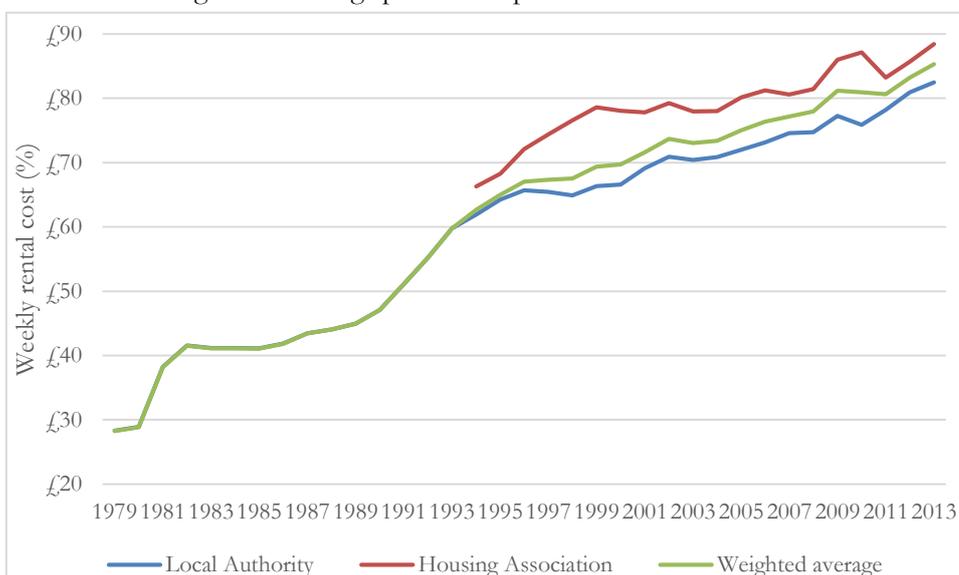


household incomes, making home ownership three times as expensive as in 1977. The increasing ratio of house prices to household incomes partly reflects changing availability of credit for house purchases over this period. The implications of these declines in the affordability of home ownership are discussed below.

## How have social rents changed over time?

Social housing aims to provide affordable accommodation to people on low incomes, including those with disabilities, older people, and single parents. Social housing is owned primarily by local authorities and housing associations, where any profits are used to maintain existing properties and as investment into future properties. The rising cost of social rents is illustrated in Figure 3. Rental costs are slightly higher for housing associations than local authority housing. With some minor fluctuations, the costs of social rents show the same patterns for housing associations and local authorities. In 2013 prices, local authority tenants paid on average £28 per week to rent their home in 1979, rising to £82 per week by 2013, while housing association rents increased in real terms from £66 per week in 1994 to £88 in 2013.

Over this period the number of people claiming housing benefit – both in social and private housing – had largely reflected population growth, such that despite small fluctuations, there are no clear long-term trends in the proportion of people claiming housing benefit in the UK. In contrast, government expenditure on Housing Benefit increased dramatically over this period, from £3.4 million in 2015/16 prices in 1978/79, rising to £24.7 million in 2014/15. This partly reflects the growing share of housing benefit being spent in the private sector.



### Figure 3: Mean social rents in England became more expensive in real terms between 1979 and 2013

Note: Figures deflated using the Consumer Price Index (2013) to adjust for inflation Sources: Housing Association rents, 1994-2014 and Local Authority rents, 2001-2013 from Department for Communities and Local Government; Local Authority rents, 1979-2001 from Cambridge University<sup>ii</sup>

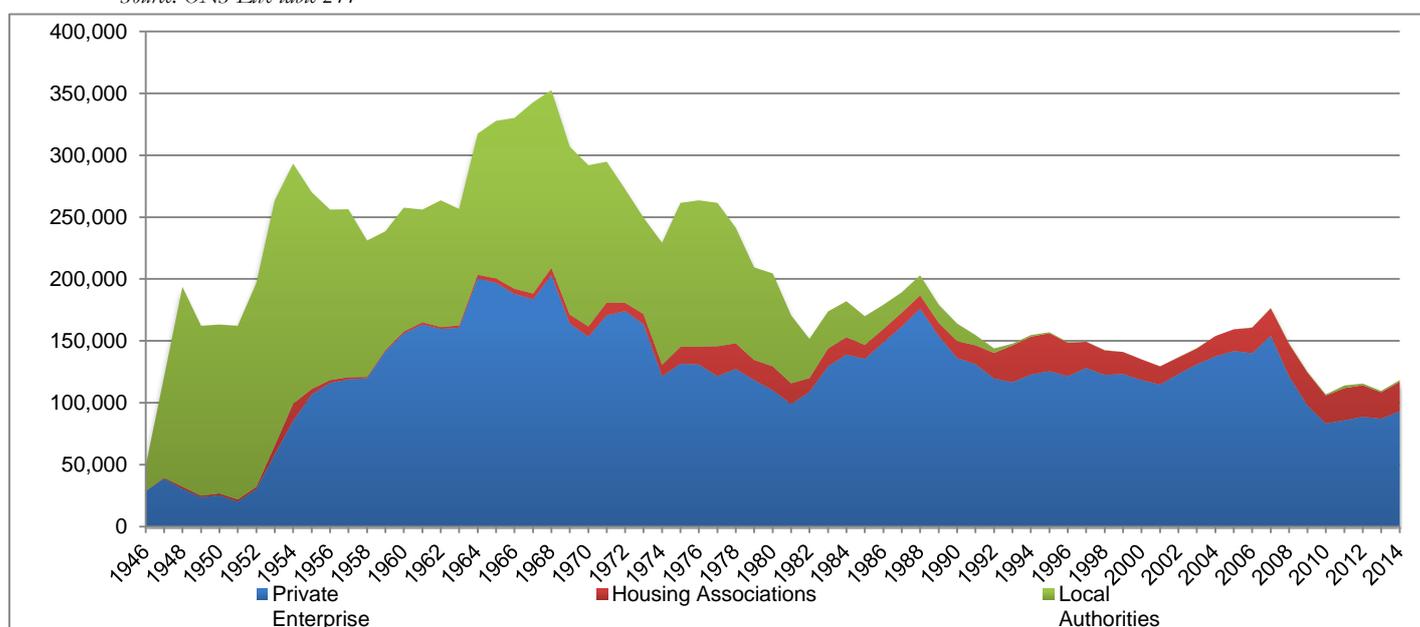
### How have private rents changed over time?

The possibility that private rents have risen steadily over recent years has been the subject of considerable speculation and discussion in the media. This is a difficult question to answer as the available data is limited and of unclear quality. ONS have recently begun to release data on private rental costs in England over the past decade, which suggest that private rents have increased substantially, and disproportionately so in London, where rental costs are already higher than elsewhere in England. However, these figures are not presented in real terms, so do not account for inflation. This means that although the value of private rental costs have clearly increased over time, it is not possible to determine whether private rents have become less affordable. Some lettings agents additionally publish data on private rental costs, but this is typically limited to new tenancies so provides only a limited picture of private rental costs in the UK. Elsewhere, data from the English housing survey suggest that affordability of private rents was fairly stable between 2010/11 and 2013/14, although this short time series provides no assessment of longer-term trends in affordability. For these reasons, we present no data on private rental costs but note that this should be a research priority.

### Why is housing so expensive?

**Figure 4: Housing supply in England changed considerably between 1946 and 2014**

Source: ONS Live table 244



The number of houses built in the last seventy years are plotted in Figure 4. Following a home building expansion between 1946 and 1968 – which included so-called ‘slum clearances’ and rebuilding homes damaged during the war – housing completions fell significantly. By 1992, local authorities had virtually ceased to build new homes, and private enterprise and housing association completions have not risen to fill this gap. It is estimated that 210,000 new homes would need to be built in England every year to keep pace with the latest projected increase in household numbers (much more, over a sustained period, to have impacts on affordability), but in 2014 only half as many new homes were built, maintaining long-term trends in under-supply. Inadequate supply is thought to reflect several factors, including physical constraints, strict planning restrictions, local opposition, rising costs of land, reduced investments in home building and skills shortages in the construction industry. Changes in demand are also important: longer life expectancy, migration and the increase in single-person households place further pressure on the housing stock. This increasing scarcity serves to drive up prices, reducing affordability.

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## What are the consequences of rising housing costs?

Rising housing costs have several potentially negative consequences, including the following:

- Homelessness: rates of homelessness do not show clear trends over time and vary by region<sup>iii</sup>. The largest cause of homelessness is the end of a shorthold tenancy, and was cited by 29.5 per cent of households accepted as homeless in the first half of 2015<sup>iv</sup>.
- Declining pension savings: people living in rented accommodation are less likely than homeowners to save for retirement<sup>v</sup>. This risks people reaching retirement age facing a double disadvantage of having no pension and no assets, potentially placing greater pressure on state support for older people. Among homeowners, mortgage debts may influence people's retirement choices: in 2009, 25% of 35-54 year-olds reported that they did not expect to have paid off their mortgage before they retire<sup>vi</sup>. Furthermore, 22 per cent of parents reported using their retirement savings to help their children with mortgage deposit payments<sup>vii</sup>, risking potential shortfalls in their retirement finances.
- Overcrowding: difficulties in affordability may force people to live in homes that do not meet their needs. Although overcrowding has decreased over the past 50 years<sup>viii</sup>, rates of overcrowding vary widely and in 2011-2014 were higher in social (6.2 per cent) and private rented households (5.4 per cent) than owner-occupied households (1.5 per cent)<sup>ix</sup>.
- Reduced social mobility: thirty per cent of first-time buyers in Great Britain in 2005-2013 received financial assistance from family or friends, with a median value of £10,000<sup>x</sup>. Homeownership is also increasingly prevalent in people whose parents also own their home<sup>x</sup>. This could deepen social divides as people from disadvantaged backgrounds are less likely to be able to access such financial support.
- Increased benefit bills: the costs of housing benefit more than doubled between 1996/7 and 2014/5, of which 53 per cent of the rise in 2008-2010 was attributed to increased reliance on the private sector<sup>xi</sup>.
- Impacts on productivity and economic growth: rising housing costs may make it more difficult for employers to recruit staff with the right skills to the right areas. Regional differences in housing costs may also deter labour mobility, potentially reducing productivity and economic growth.

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<sup>i</sup> ONS Family Spending, 2014 Edition. Chapter 2: Housing Expenditure. Available at [http://www.ons.gov.uk/ons/dcp171766\\_386375.pdf](http://www.ons.gov.uk/ons/dcp171766_386375.pdf)

<sup>ii</sup> Holmans, A.E. (2005) Historical Statistics of Housing in Britain. Cambridge: Cambridge University. Available at <http://www.cchpr.landecon.cam.ac.uk/Projects/Start-Year/2005/Other-Publications/Historical-Statistics-of-Housing-in-Britain>

<sup>iii</sup> Joseph Rowntree Foundation (2015) Monitoring Poverty and Social Exclusion 2015. Available at <https://www.jrf.org.uk/mpse-2015>

<sup>iv</sup> DCLG Live table 774. Available at <https://www.gov.uk/government/statistical-data-sets/live-tables-on-homelessness>

<sup>v</sup> Bryan, M. & Lloyd, J. (2014) Who saves for retirement 2: Eligible non savers. London: Strategic Society Centre. Available at <http://strategicsociety.org.uk/wp-content/uploads/2014/01/Who-Saves-for-Retirement-2-Eligible-Non-savers.pdf>

<sup>vi</sup> Turffrey, B. (2010) The human cost: How the lack of affordable housing impacts on all aspects of life. London: Shelter. Available at [https://england.shelter.org.uk/\\_data/assets/pdf\\_file/0003/268752/The\\_Human\\_Cost.pdf](https://england.shelter.org.uk/_data/assets/pdf_file/0003/268752/The_Human_Cost.pdf)

<sup>vii</sup> NatCen (2013) Support for first time buyers. Available at <https://www.natcen.ac.uk/media/138184/natcen-support-for-first-time-buyers-report-final.pdf>

<sup>viii</sup> CSI briefing note on overcrowding. Available at [http://csi.nuff.ox.ac.uk/wp-content/uploads/2015/03/CSI\\_6\\_Overcrowding.pdf](http://csi.nuff.ox.ac.uk/wp-content/uploads/2015/03/CSI_6_Overcrowding.pdf)

<sup>ix</sup> DCLG (2015) English Housing Survey Headline Report 2013-14. London: DCLG. Available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/469213/English\\_Housing\\_Survey\\_Headline\\_Report\\_2013-14.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/469213/English_Housing_Survey_Headline_Report_2013-14.pdf)

<sup>x</sup> Coulter, R. (2015) The influence of parental housing tenure on young adults' housing, 1971-2011. Available at [http://fht.sociology.cam.ac.uk/publication\\_docs/BP1](http://fht.sociology.cam.ac.uk/publication_docs/BP1)

<sup>xi</sup> Webb, K. (2012) Bricks or benefits: How we can rebalance housing investment. London: Shelter. Available at [https://england.shelter.org.uk/\\_data/assets/pdf\\_file/0009/436275/Bricksorbenefitsfullreport.pdf](https://england.shelter.org.uk/_data/assets/pdf_file/0009/436275/Bricksorbenefitsfullreport.pdf)

