

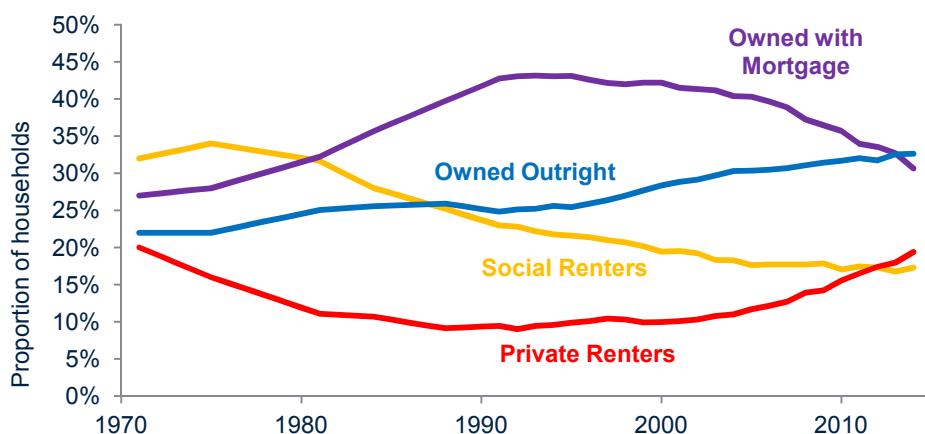
## THE HOUSING CRISIS

### A Crisis of Home-Ownership?

UK housing is in crisis according to many people (including this analyst). Although the Government is unlikely to describe it as a crisis, their approach to housing can probably be best viewed as trying to solve a crisis in home-ownership.

There are major issues facing the nation's preferred tenure. The share of households owning their home peaked in 2003 at 71% of households and has been in decline since. That decline accelerated post credit crunch but the longer-term issues are clear if you look at just those households owning with a mortgage. Their share of the market peaked in the early 1990s following the Right to Buy boom of the 1980s. Meanwhile the private rented sector continues its rapid growth.

Fig 1 – Housing Tenure

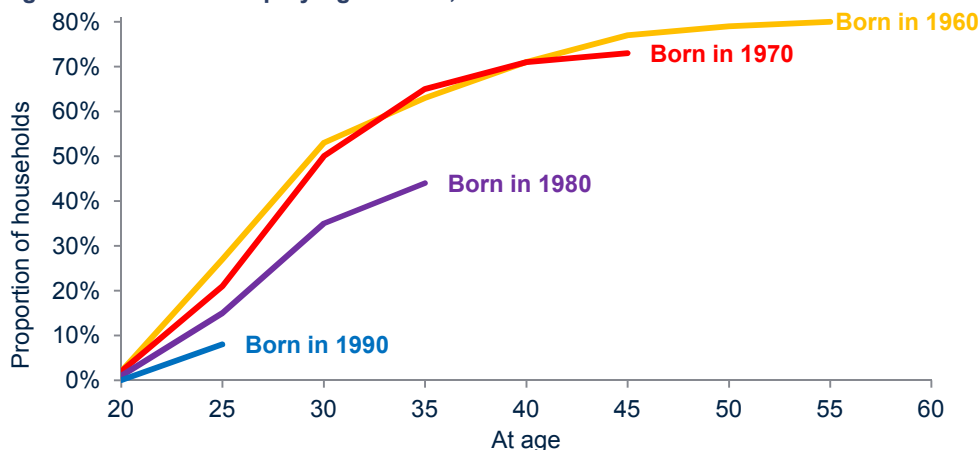


Source: DCLG, ONS (data pre 1981 based on unweighted responses for 1971 & 1975 and interpolated)

Rather than creating a nation of home-ownership, it appears that we may have created a generation (or two) of homeowners and we are now faced with its gradual decline. Younger people are finding it increasingly difficult to buy in a housing market where prices are many multiples of income and mortgage lending at high loan-to-values is limited and expensive.

I have looked at some of the challenges facing first-time buyers in a previous note (<http://sav.li/3r0>) but recent work by the CML to update Alan Holmans' analysis of home-ownership by age cohort provides further evidence of the decline (Fig 2). Their work suggests that ~64% of households born in 1960 and 1970 owned their own home by the age of 35. For those born in 1980, the figure falls to 44%. They also project that only 39% of those born in 1990 will own their home by the time they reach 35 years old.

Fig 2 – Home-ownership by Age Cohort, 2015



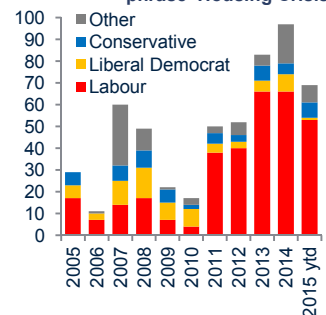
Source: <http://www.cml.org.uk/news/723/>

Making home-ownership available to everyone (who works hard) was a key part of the Conservative election manifesto. Therefore, reversing its decline will be an important objective for the current Government. Are their recent announcements likely to deliver or will the complexities of the housing market get in the way?

**Neal Hudson**  
Associate Director  
07590 531150  
nhudson@savills.com  
@resi\_analyst



Fig 3 – MPs & mentions of the phrase 'Housing Crisis'



Source: Hansard via TheyWorkForYou.com

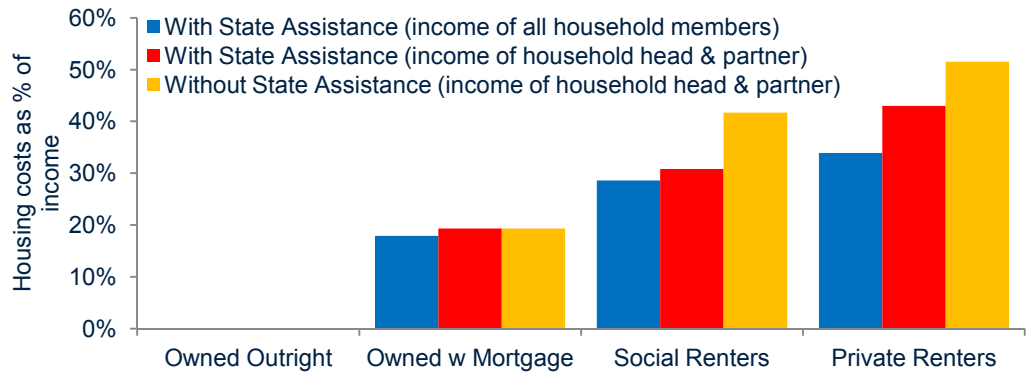


### A Complex System

At a simple level, there is a crisis because housing is unavailable, unaffordable, and/or inappropriate for everyone that needs it. However, the debate around what we need to do to solve the crisis gets complicated. There are a number of (sometimes competing) explanations for why we have a housing crisis. For many it is our failure to build homes at the same rate as projected household formation. This failure might be assigned to the planning system, the greenbelt, housebuilder business models, the land market or NIMBYs. For others, the crisis is a result of credit supply, rising inequality, tax incentives or simply our fixation on house price growth. For some, there is no housing crisis.

There is no housing crisis for many of the 7.4million households who own their home outright. Even for those fortunate enough to buy with a mortgage, housing costs are in line with historic trends. Meanwhile households living in the rented sectors are heavily dependent on state assistance and/or living with multiple earners to bring affordability near to manageable levels.

Fig 4 – Housing Costs by Tenure



Source: English Housing Survey, 2013/14

*\*Prospects for land, rent and housing in UK cities\**  
by Michael Edwards

The reality, as a Government Office for Science report\* highlighted, is that the housing market is a complex and interconnected system (both within and with other parts of our economy and society). Targeting just one or two components of the housing market and its drivers, as per current policy, may help increase housing delivery in the short term. However it will leave other components and (more importantly) people unchanged or even worse off than their current situation.

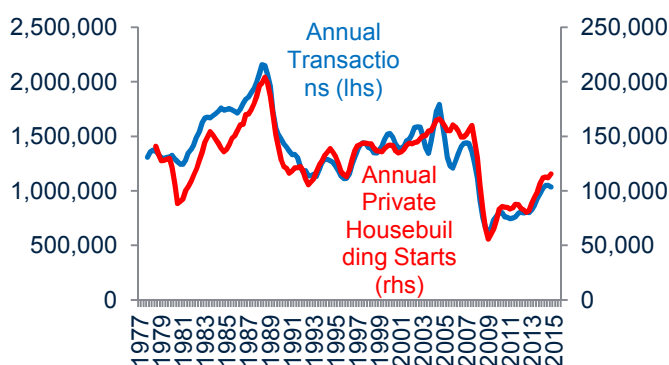
Many of the measures announced in the Government’s productivity plan ‘Fixing the foundations’ will help increase the delivery of new private housing. Some of them, such as intervening in local plans, could ensure more housing is delivered in the markets that need it most. The success of policies targeting brownfield land will however be dependent on its location, capacity and viability.

The key test will be whether the measures encourage greater competition in the land market. Few landowners or developers would intentionally set out to sell or build at a price below market value. Therefore increased competition that brings forward more land and at least stabilises land values would be a positive outcome. It may even help break the under-researched (and over used by me?) 10-1 ratio between overall market transactions and private housebuilding (Fig 5).

The housing market crisis is closely interlinked with our low inflation, high debt economy. Even with higher supply, house prices are likely to remain high relative to incomes and so deposit requirements will as well (Fig 6). The greater availability of higher loan-to-value mortgages could help but there is a clear tension between the desire of Government to increase home-ownership and the need for the Bank of England to minimise future risks. Under these circumstances, some policies will inevitably help more buyers into the market but owner-occupation will primarily remain accessible to only the richest in terms of both income and wealth.

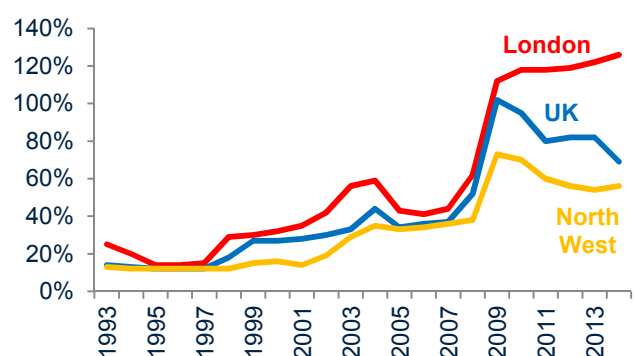
Meanwhile we should at the very least avoid worsening the housing crisis for those in other tenures and try to do all we can to improve it for them. After all, many of those struggling with affordability in the rented sectors could be future home owners if we gave them a chance.

Fig 5 – Transactions & Private Housebuilding, England



Source: HMRC, DCLG

Fig 6 – Deposit as % of Income



Source: Savills using CML

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.