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Homes We Need

An assessment of the UK housing market for UK Finance

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Executive summary

Executive summary

The UK housing market is grappling with a shortage of affordable, secure, and suitable homes for people at different life stages. This is particularly important with an ageing population. While these challenges are not new, the arrival of a new UK government presents an opportunity to re-examine them with a fresh, objective, perspective.

Despite an increase in new home building over the last two decades, the UK has fewer homes per capita and the lowest number of vacant homes per person among the countries in the Organisation for Economic Co-Operation and Development (OECD).[1]

While this makes it difficult for first-time buyers and home movers to find suitable homes, significant under-occupation persists – nearly 10 million homes in England have two or more spare bedrooms.[2]

Today, purchasing a home is much harder than a few decades ago, especially if you are a first-time buyer.

If you are a renter, the picture looks equally bleak: higher property prices, regulatory changes, and recent increases in interest rates have driven up costs for both renters and landlords.

Finally, the limited availability of social housing contributes to ever longer waiting lists, adding further pressure to the available stock in the private rented sector.

Fixing these issues will not happen overnight, and while addressing them, it is important to ensure that support is available for the current generation of hard-pressed first-time buyers and renters. Measures must be introduced to make homes more affordable while also ensuring better and fairer outcomes in the rental market.

In our report, we propose a three-part policy support package to help address the challenges facing the UK housing market.

The recommendations consider the impact on homebuilders, homebuyers, renters, and financial institutions.

1 OECD: Housing market, Housing stock and construction, updated 18 October 2022
2 Department for Levelling Up, Housing & Communities. (2022). English Housing Survey 2021 to 2022: headline report

Supporting the home-building industry:

The government must review the existing planning system to simplify it and make it more rules-based, thereby making it easier for developers to build new homes. This will create jobs and strengthen the home-building sector while ensuring that new homes meet buyers' needs.

The Labour administration's pledge to build 1.5 million homes within the first five years of its parliamentary term must include set targets for delivering affordable housing across all tenures, including homes suitable for older people.[3]

3 Manifesto 2024 [online]. The Labour Party

Supporting buyers in acquiring homes whatever their life stage, including:

Supporting first-time buyers:

We are calling on the government to implement policies to ease the path for those struggling to afford their first home. Support measures could involve:

1. **Reviewing mortgage affordability regulations.** Review existing mortgage affordability regulations, including the current cap on high loan-to-income mortgages, to understand the impact these rules have had on first-time buyers with different financial characteristics.
2. **Improving access to shared ownership schemes.** Enhance access to shared ownership schemes and implement best practice protocols for shared ownership property providers.
3. **Maintaining increased Stamp Duty bands.** Preserve the existing temporarily increased stamp duty bands for first-time buyers.

Supporting last-time buyers:

Help the estimated four million people over the age of 55 who would like to move to a home better suited to their needs but face obstacles in doing so[4]. To overcome these barriers, we recommend three actions:

1. **Implementing the findings of the Older People's Housing Taskforce.** Ensure that the findings of the Older People's Housing Taskforce are implemented,[5] and that any recommendations to increase the delivery of homes suitable for older people are embedded in the reformed planning process.
2. **Establishing an independent advice service.** Create an independent and impartial advice service to help older buyers address knowledge gaps relating to purchasing properties that better suit their needs.
3. **Minimising the upfront moving costs.** Introduce measures such as a stamp duty exemption for last-time buyers to reduce the upfront costs of moving, which may currently act as a disincentive to downsize.

4 Four million older people thwarted from desired house move for lack of suitable alternatives" 2023. Centre for Ageing Better
5 Gov.UK: Older People's Housing Taskforce

Supporting the rental market:

The government should provide a clear, long-term vision for the role of the private rental sector within the broader housing market. This will enable policymakers and stakeholders to develop housing policies that align with government's expectations, while also helping the sector contribute effectively to meeting the nation's housing needs.

Additionally, the government should support both private renters and landlords by creating a government-sponsored register for rental property owners. This register would assist local authorities in identifying rogue landlords or sub-standard properties and provide tenants with insight into landlord compliance. Allowing buy-to-let (BTL) mortgage lenders direct access to the register (to help inform lending decisions) should improve housing quality and raise standards in the private rented sector.

Even with these policy changes, many people will still be unable to afford either to buy or privately rent a home. It is estimated that more than one million people currently living in the private rented sector should be in a more affordable tenure.

Local Housing Allowance (LHA) should be reviewed regularly to ensure it provides the right level of support to lower-income households in the private rented sector. We endorse policy calls for action, such as those made by the Joseph Rowntree Foundation, advocating for "more options for people on lower incomes to be able to access a home that's social rent or below market rent, with much greater supply and availability of these genuinely affordable homes"[6].

Addressing the Challenges in the UK Housing Market

Tackling these challenges in the UK's housing market will require coordinated action to support:

- Homebuilders
- Homebuyers
- Renters and landlords

A narrow, short-term focus on a few select areas could lead to unintended consequences that may worsen housing outcomes. An across-the-board approach will be needed to help the market deliver the homes we need in the long term.

6 Joseph Rowntree Foundation: Housing

01

Introduction

1 Introduction

Everyone needs a safe, secure, and affordable home. Housing is often at the centre of political debate in the UK, and the new UK government has made it clear that it is one of its priorities.

It is a devolved matter, meaning policy decision-making and budgets are controlled by the governments of the UK nations and, in London, by the Greater London Authority (GLA). The GLA as well as the governments in England, Northern Ireland, Scotland, and Wales are all falling short of their implied housebuilding targets.

In England, the long-term failure to meet the previous government's goal of building 300,000 new homes a year is often cited as the key policy issue. As a result of repeatedly missing targets, the UK has an estimated shortfall of 4.3 million homes, a number that is growing every year.[7]

The new government has said it will build 1.5 million homes over five years. However, previous governments have found tackling housing issues difficult.[8] The housing sector consists of multiple inter-connected sub-markets, each of which is complex. We believe that well-considered policies, backed by evidence whilst acting on lessons learned from the past, could address the challenges the housing sector faces.

This report, undertaken by Frontier Economics for UK Finance, takes stock of the trends in both the supply of, and demand for, the main housing tenures: owner-occupied, private rental, and affordable housing (including social rented housing and shared ownership). More detail on UK Finance is provided below.

We have collected evidence by examining data, reviewing existing literature and conducting interviews with key stakeholders in both the mortgage, and home-building sector. This has allowed us to identify the main issues preventing the UK from achieving its housing goals. Using this evidence, we suggest a package of policy recommendations that, given their interdependency, will require cross-party support to ensure a commitment of at least five, or ideally ten, years, enabling policy makers to plan strategically and implement the measures over the long-term. Taken together, these proposals could address the long-term housing shortage and support targeted groups pending an increase in homebuilding.

The recommendations are structured to encourage debate and action in the housing market. Our expectation is that, in turn, they will help the UK to meet the needs of both current and prospective homeowners, as well as renters by supplying housing of the most suitable tenure, type, and size, in the right locations.

7 Centre for Cities: The housebuilding crisis: The UK's 4 million missing homes, February 2023
8 Labour Party (2024) Change: Labour Part Manifesto 2024 [online]. The Labour Party.

UK Finance

About UK Finance

UK Finance is a centre of trust, expertise and collaboration at the heart of financial services. It represents 300 firms, including 120 first-charge mortgage lenders. These lenders include banks, building societies and non-bank lenders providing mortgages to all parts of the UK's housing market: owner-occupied, buy-to-let, later-life lending, self-build, shared ownership, social and affordable housing. They also lend and invest to support housing associations and social housing providers as well the wider home-building sector.

These 120 mortgage lenders support nine million families in the UK to own their homes and a further 200,000 buy-to-let landlords provide homes for their tenants.

In 2023* UK Finance members were responsible for £1.7 trillion of mortgage debt (approximately 73 per cent of 2023 Gross Domestic Product (GDP)) and gross lending of £224 billion.

UK Finance plays a critical role in the operation and functioning of the UK's housing market. This includes highlighting areas of improvement for current, future and potential homeowners, and supporting stakeholders in providing the housing the country needs so everyone has a place they can call home.

* Figures provided by UK Finance

1.1 Outline of the report

This report has three main sections:

Section One: Market background

In the main report we summarise our research into the base elements of the UK housing market, highlighting the main points to understand. For readers interested in delving deeper, we have included further analysis and research in separate annexes.

The first subsection summarises the **key current characteristics of the UK housing market.** In addition, it assesses how the landscape has evolved over time as supply has changed, often in response to external shocks or housing policies.

It then provides evidence of over - and under-utilisation of the UK's housing stock for homes across various tenures.

The second subsection **examines the overarching demand for housing, and how demand for homeownership, private renting and social renting are interlinked.** We do this by reviewing the main demand-side drivers such as population patterns, changes in household composition and preferences, and changes in wealth. We also look at how demand might evolve as UK demographics change.

We then explore the market outcomes for all three tenures (owner-occupied, private renters and social renters – including shared ownership). This subsection covers how property prices, transaction levels and overall affordability have changed for the owner-occupied sector. Rental prices and vacancy rates are assessed from the perspective of the private rental sector; availability and waiting lists are analysed for the social rental sector.

We go on to examine the **provision of financing for home purchases,** which is critical for the functioning of the UK housing market. This subsection assesses how interest rates, mortgages, Loan to Value (LTV) ratios, Loan to Income (LTI) ratios, deposits and income interact and impact the ability of households to afford their first, or next, home. The UK's mortgage market provides a wide range of mortgage products for existing and prospective homebuyers. However, would-be homebuyers will continue to struggle to get onto the housing ladder unless regulators support innovation in the sector or recognise where their intervention is not working as intended and needs to change.

The final subsection **explores and examines the most prominent housing policies and interventions from the past and present** in the context of the outcomes they achieved:

- Affordability rules on mortgages
- Help to Buy equity loans
- Social and affordable rental housing
- Shared ownership

This subsection assesses the extent to which these policies have addressed or exacerbated the challenges in the UK housing market.

Section two: Diagnosis of the main problems in the UK housing market

This section **discusses the key problems we have identified in the market** and reviews the likely causes based on the evidence gathered and stakeholder discussions conducted. We also assess the need for support for specific groups pending the outcome of longer-term reforms.

Section three: Suggested areas for policy recommendations

The final section **outlines areas for policy recommendations,** with the goal of creating real and lasting improvements in the UK's housing market. These proposals have been designed to address the systemic issues that contribute to housing affordability difficulties, supply constraints and other concerns in the housing sector. Through targeted interventions in these areas, policymakers can strive to create a more equitable, accessible, and sustainable housing market that better serves the needs of households and communities across the UK.

02

Market background

2 Market background

2.1 Housing market background

The UK's housing sector is made up of several sub-markets, each operating in its own right. The complexity of the market is a function of how these parts interact with each other. In this report, the following market segmentation is used:

- **Home construction** involves the planning, design, and physical construction of residential buildings, including the development of new homes and the renovation of existing ones. Participants include (i) large and small developers, (ii) housing associations, (iii) individuals constructing their own home[9] and (iv) government agencies (including local authorities) responsible for planning and construction regulation.
- **Homeownership** involves the buying and selling of homes. Participants include buyers (individuals and investors), sellers (including developers), and financial institutions providing mortgages and secured lending. Homeownership can be classified into three categories: (i) outright owners, who fully own their homes without any outstanding mortgage or loan; (ii) mortgage holders, who are buying their home with a mortgage; and (iii) shared owners, who partly own their homes through a shared ownership scheme.
- **The rental market** involves the renting of residential properties, covering both private and social rental sectors. Private rentals involve individual landlords or companies letting properties to tenants, while social rental involves local authorities or housing associations providing social and affordable rental accommodation to people or families on lower incomes.[10]

As shown in Figure 1, each submarket can influence the others (as indicated by the arrows). Some links are direct and clear. For example, the development or provision of homes by housing associations contributes directly to the supply of social and affordable rental homes.[11] However, other links are less explicit.

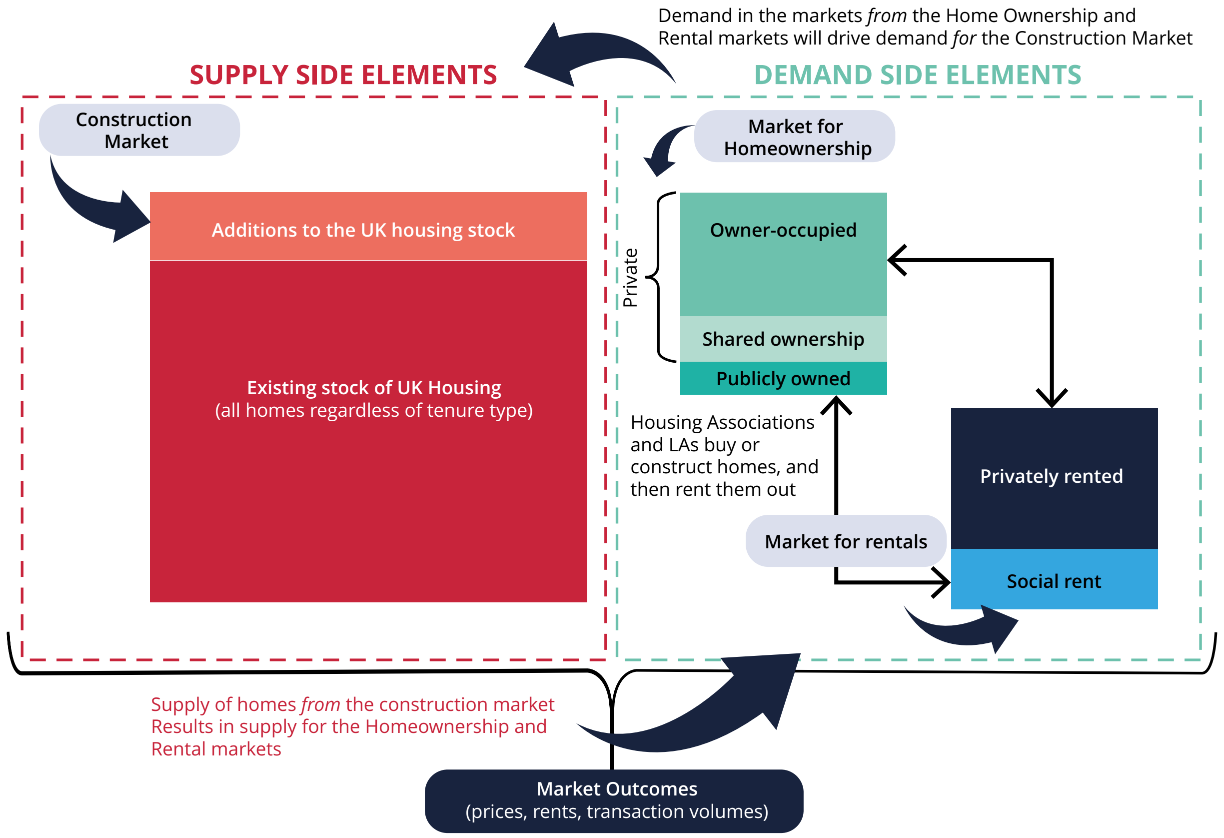
9 The number of these homes constructed every year is de minimis and is therefore not considered for the remainder of this report.

10 There are various types of social and affordable housing options. Private Rented Providers, PRPs, also known as "housing associations", are private, non-profit organisations and are providers of social housing which are not classified as Local Authorities (LAs) and are registered with the social housing regulator. LA housing, more commonly known as "council housing", is social housing provided directly by the local authorities. See Gov UK: Social Housing Lettings April 2017 to March 2018, England, released November 2018 for more detail.

11 Housing associations also develop, directly or in partnership with others, homes for outright sale on the open market, which they use to cross-subsidise their main activity, which is to affordable housing such as social and affordable rent.

Figure 1

Simplified illustration of the different parts of the housing market and their interdependencies



Source: Frontier Economics

It is also worth highlighting that in the UK, housing policy is a devolved matter. In this report, we have addressed all issues as UK wide unless we have specific recommendations, comments or supporting statistics relating to a devolved nation or nations, in which case this is clearly stated.

The circular nature of the housing market, an example

An example of the circular relationship in Figure 1 can be shown via a hypothetical "shock" to the market: building a new hospital or large medical research facility in a particular area would increase the need for housing for new employees.

The initial impact would be greater demand for private rental accommodation. If supply is not increased to meet this demand, it would result in higher average rents. However, to meet this extra demand, landlords would need to enter the market (or increase their activities) by purchasing property to let.

Some of these additional BTL properties will formerly have been owner-occupied. The knock-on impacts could be:

- The construction industry responds to this increase in demand by building more homes. However, this takes time. In the meantime, the need for immediate housing puts pressure on both rental prices (in the short term) and purchase prices (due to a higher demand on existing housing stock by the private rented sector).

- An increase in local property prices making home ownership less affordable, which could force people to continue renting.
- Reduced affordability across both tenures (all else being equal).

This circularity depicts the relationship between the construction, homeownership, and rental markets. Changes in one sub-market can ripple out to the others, underlining the dynamic and interdependent nature of the market for housing in the UK.

This report further explores these complexities to provide a comprehensive assessment of the principal issues facing the market and potential policy options to mitigate them.

2.2 Supply and demand in the UK housing market

Housing supply is influenced by the quantity of existing homes, the quantity of new homes being built and, how these homes are being used. Supply can also be limited by planning designations, allocations, and local policies.

Demand is influenced by demographics, wealth, income, and mortgage accessibility (including affordability). Understanding what shapes supply and demand is essential to appreciate the challenges facing the UK housing market and exploring potential solutions.

This section provides a short summary of the research we have undertaken. A more detailed view on supply and demand is provided in Annex A and Annex B, respectively.

2.2.1 Summary of supply trends

To understand the UK housing market, it is important to analyse what the stock of UK housing looks like, how it has changed over time and how the stock is used.

There were around 30.4 million[12, 13] homes in the UK in 2023. This number has been increasing steadily by about 0.8 per cent per year since the early 1990s. However, as shown in Figure 2, this growth rate is slower than in the 1950s and 1960s when the stock expanded by close to 17 per cent a decade, or 1.6 per cent per year.[14] At that time, local authorities played a significant role in building new homes,[15] which partly reflected a strong political will to replace housing destroyed in the second world war.

12 The term 'homes' includes detached, semi-detached and terraced houses, and flats. See source in Figure 9.

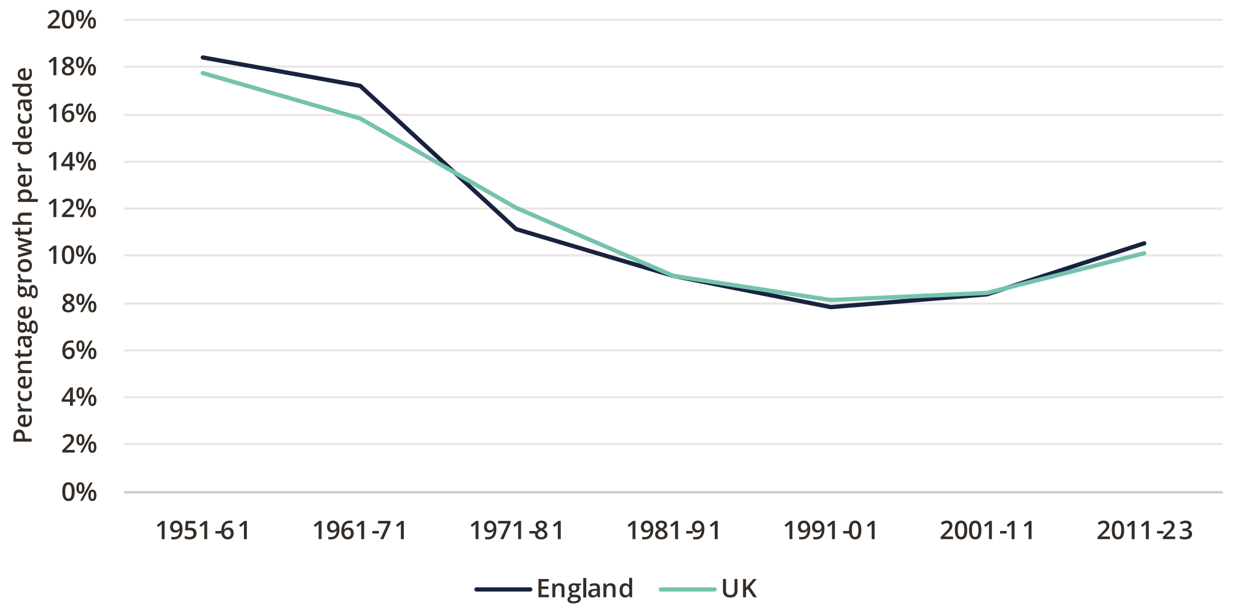
13 The 30 million number consists of an estimated 25.4 million in England, 2.7 million in Scotland, 1.5 million in Wales and 827,000 in Northern Ireland.

14 See notes to Figure 9.

15 See figure 18.

Figure 2

Growth in the number of houses per decade in the UK and England



Source: Frontier analysis of data provided by Gov UK: Live tables on dwelling stock, December 2023

Note: The data presented above is the estimated growth rate in the stock of housing in England and the UK. Data for 1951 and 1961 is year-end April 1. Data for England for 1971 is year-end December 31; 1981 is December 31; and 1991 onwards is March 31. Data for the UK in 1971 is year end April 1, 1981 is December 31, and 1991 onwards is March 31. Data for the UK (LT 101) was last published for the 2014-2015 financial year. Dwellings for the UK are estimated for the for the financial year 2014-2015 onward using the historic proportion of England's stock to the UK, assuming that the increase of stock in Scotland, Northern Ireland and Wales did not change.

An international comparison shows that the number of homes per capita in the UK is significantly below OECD and European Union (EU) averages,[16] a gap that has widened over the past decade. Compared with the EU, the UK appears to lack approximately four million homes.[17] Difficulties in providing enough houses, in particular affordable homes, have increased recently due to higher interest rates, greater construction costs, and planning complexities. According to the Financial Times, since 2023, housing associations across England have cut their forecast for building over the next five years by 64,000 homes.[18]

The UK also fares badly by international standards in an assessment of housing quality, particularly in relation to energy efficiency. UK homes lose around three times as much heat as German or Nordic properties.[19] This is partly because older homes tend to be less energy efficient. For example, in England the average new detached house has an Energy Performance Rating (EPC) of B, whereas existing detached houses have an average EPC of D.[20]

16 Housing market, Housing stock and construction, updated 18 October 2022

17 Centre for Cities: The housebuilding crisis: The UK's 4 million missing homes, February 2023

18 Financial Times: Housing associations in England warn ´we can't build houses` April 2024

19 Tado: UK homes losing heat up to three times faster than European neighbours, press release

20 ONS: Energy efficiency of housing in England and Wales: 2023, released November 2023

The UK has an older housing stock compared to the rest of Europe. In England and Wales, which account for the majority of UK housing, 22 per cent and 33 per cent of homes, respectively, were built before 1930. In contrast, across Europe, only 18 per cent of homes were built prior to 1946.[21]

This reflects the compounding effect of lower build rates in the past few decades as well as reduced rates of demolition and replacement in recent years.

The availability of homes in the UK is also affected by the extent to which existing homes are unoccupied or under-occupied.[22] A reduction in either category frees up more housing space.

A recent report by the Home Builders Federation (HBF)[23] reveals that England had the lowest percentage of vacant homes, at 2.7 per cent, of all OECD countries in 2020. This figure is consistent with a very restricted housing market and means that the number of vacant homes is, considered relatively, not a major concern – albeit if some of the 800,000 homes currently sitting empty in the UK could be brought back in use, it would help address the supply issue.

However, the UK has a relatively high level of under-occupied homes, with Eurostat data showing it was 15 percentage points higher than the EU average in 2016.[24] According to the 2022-2023 English Housing Survey, 40 per cent of the English housing stock is under-occupied, representing 9.8 million homes.[25] This percentage is higher among owner-occupiers, and in particular owner-occupiers aged over 65.

To give a sense of scale, freeing up one bedroom from 10 per cent of this stock, by helping those who wish to downsize to do so, would be equivalent to releasing approximately 327,000 three-bedroom houses onto the market. That is more than the previous government's annual target for new-builds in England.[26]

2.2.2 Summary of demand trends

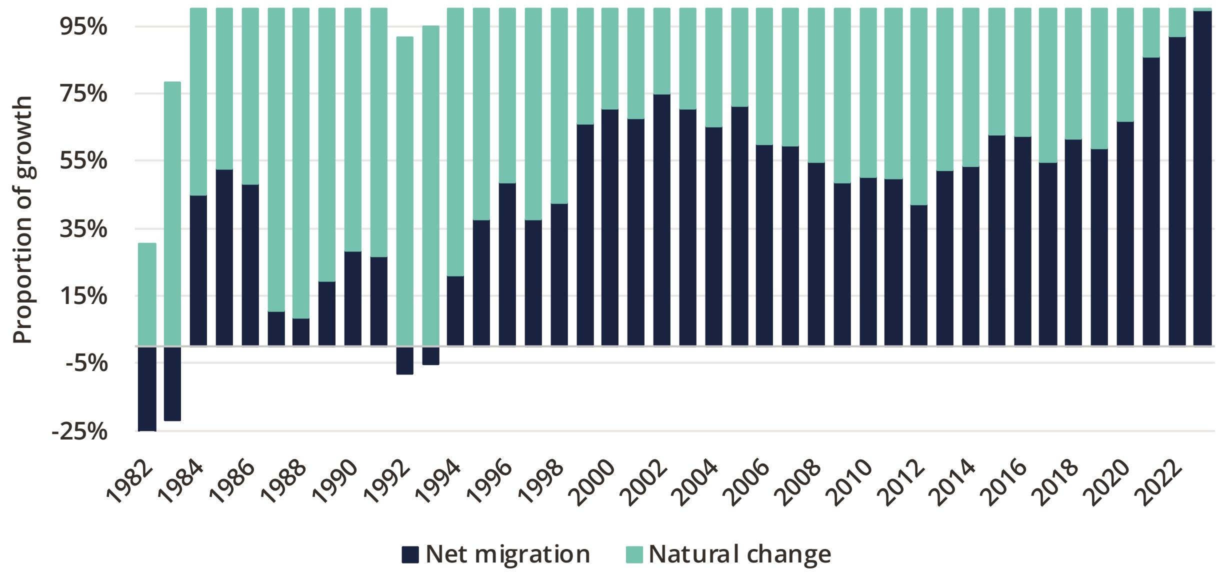
The other key to understanding the UK housing market is the shape of demand, how it impacts the market, and how it has changed over time.

Population growth increases the need for homes. In the last decade the UK[27] population grew at an average of 0.7 per cent per year,[28] driven increasingly by net migration (accounting for 70 per cent of this increase)[29]. As new arrivals to the UK usually seek private rental accommodation, this increases demand in the rental market in the short - to medium-term.

21 Home Builders Federation: Housing Horizons: Examining UK Housing Stock in an International Context, October 2023
22 Under-occupation refers to a household having more rooms than it needs: The ONS classes a dwelling as under-occupied if there are two more rooms than needed according to the bedroom standard, whereas Eurostat classes a dwelling as over-crowded if there is just one more room than necessary.
23 The Home Builders Federation: Housing horizons: Examining UK housing stock in an international context, October 2023
24 Eurostat: Overcrowded and under-occupied dwellings
25 This assumes that just one room could be released from each under-occupied home, meaning that releasing 10 per cent of this stock of 9.8 million, would bring 980,000 new bedrooms onto the market (9.8 million * 10 per cent). It further assumes that the average new home has three bedrooms (the median home size in recent years) and hence these 980,000 new rooms are equivalent to 327,000 new homes (980,000 / 3).
26 Using England and Wales as a proxy.
27 Frontier Economics analysis of data provided by ONS: Population estimates for England and Wales: mid 2023, published July 2024
28 See Figure 29 and Figure 31.
29 See Figure 29 and Figure 31.

Figure 3

Factors for population growth in England and Wales



Source: ONS: Population estimates for England and Wales: mid 2022, published November 2023

Other demographic shifts are also increasing pressure on the housing market. Despite no large changes in the size of households over the past couple of decades,[30] an ageing population is transforming housing needs in the UK. The percentage of people aged over 75 is projected to increase from around nine per cent today to around 13 per cent in 2050.[31] This will impact the demand for certain types of housing.

Demand is also affected by the level and distribution of households' wealth and income. In real terms (after adjusting for inflation), net wealth between 2018-2020 had increased by an average of 20 per cent[32] across the population compared to 2006-2008. But young people have found it harder to buy a home. The average age of first-time buyers has increased from around 31 in 2003- 2004 to almost 34 in 2022- 2023,[33] and the percentage of people aged between 25 and 34 who are homeowners has fallen from 62 per cent in 1981 to 40 per cent today.

2.3 Market outcomes

The interaction between the limited housing supply and an increasing demand has made homeownership much more expensive, leading to fewer properties being purchased and sold each year.

As with the previous section, this part of the report summarises only the underlying research, sharing the main conclusions about prices, affordability, transaction volumes, and tenures. We provide a more detailed analysis and evidence in Annex C.

30 ONS: Household total wealth in Great Britain: April 2018 to March 2020, released January 2022
31 ONS: Principal projection - England and Wales Summary, released January 2024
32 Using Great Britain as a proxy for the UK. Net wealth as defined by ONS: Household total wealth in Great Britain: April 2018 to March 2020, released January 2022, as: (i) net property (value of residences less mortgage debt), (ii) physical (household contents, vehicles), (iii) private pension and (iv) net financial (savings or investments less financial liabilities).
33 Gov UK: English Housing Survey 2022-23, Annex tables, Chapter 3, December 2023

2.3.1 Homeownership affordability

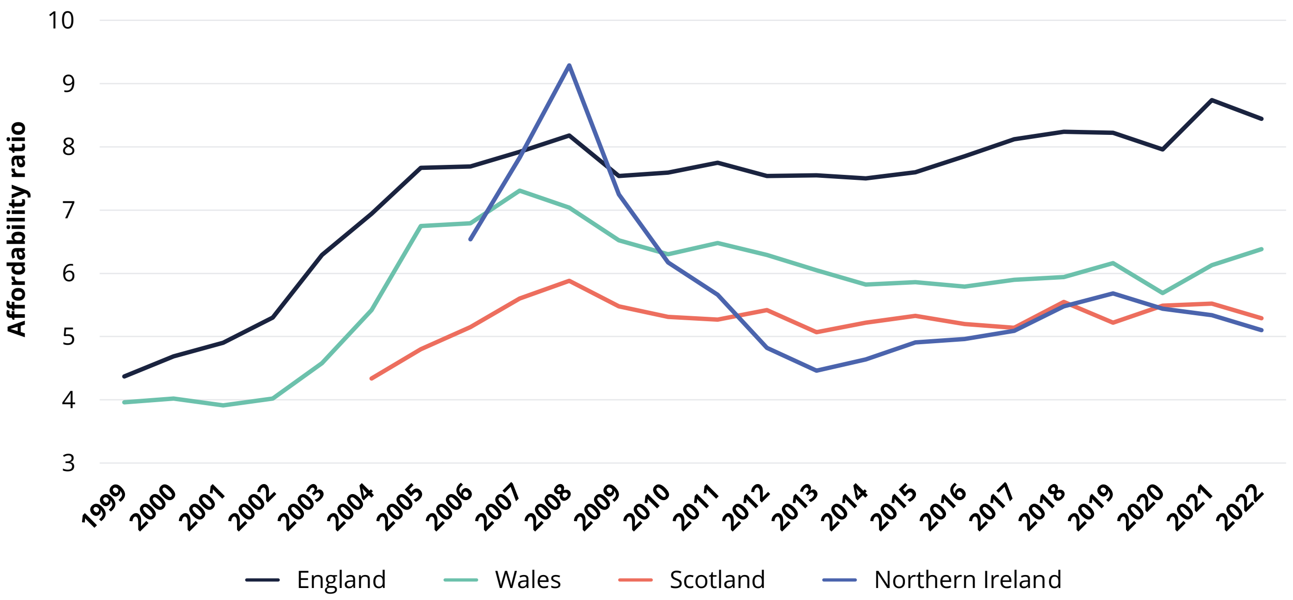
Average property prices have risen significantly in relation to wages in recent years across the UK. This, together with higher interest rates and more stringent affordability requirements (covered in Section 2.4), makes it harder for people to afford their first home.

Using England as an example, it is now far less affordable to buy a home than it was three decades ago. Property prices have risen from an average of £53,000 in 1995 to £303,000 in 2023,[34, 35] a growth rate of 6.4 per cent a year.[36] Other UK nations have recorded similar increases.[37]

Property prices have risen faster than wages in 19 out of the last 25 years. The average property in England and Wales is 4.5 times as expensive as in 1997 while wages have only doubled over the same period.[38] As a result, the Affordability Index (the ratio of property prices to wages) has significantly worsened in England and Wales since 1999, as seen in Figure 4. Although Scotland and Northern Ireland show a more positive picture, average property prices still exceed wages by over five times. Matters are, as expected, more challenging in London, where median property prices are 13.9 times greater than yearly median wages, compared with just 5.3 times in the North East.[39]

Figure 4

Affordability ratio of properties in England, Wales, Scotland, and Northern Ireland



Source: ONS: Housing Purchase Affordability, UK: 2022, July 2023

34 Data for house prices is presented in nominal terms and not adjusted for inflation. Gov. UK: Land Registry, accessed January 2024

35 The average property value as of March 2023 in the UK is £288k. Gov: UK House Price Index for June 2023, published 16 August 2023

36 Data for house prices is presented in nominal terms and not adjusted for inflation. Gov. UK: Land Registry, accessed January 2024

37 Average prices have risen at compound annual growth rates of 7.5 per cent in Wales, 5.5 per cent in Scotland and 5.2 per cent in Northern Ireland. Analysis of data provided by Gov. UK: Land Registry, accessed January 2024

38 Housing affordability in England and Wales: 2022, released March 2023

39 ONS: Housing Purchase Affordability, UK: 2022. These figures are for the median (50 per cent) income decile.

Affordability is a particular challenge for first-time buyers, who may struggle to raise the initial deposit they need. In the last seven years, the median deposit required to buy a home has increased from £22,000 to £30,000.[40] The average age of a first-time buyer has risen to almost 34[41] and more than half of those owning a home with a mortgage earn over £50,000 a year in England,[42] well above the median earnings of £35,000.[43] The challenging environment for first-time buyers has also led to longer mortgage terms to keep monthly repayments affordable. More than half of mortgaged first-time buyers in 2021-2022 took out a loan term longer than 30 years.[44] The typical first-time buyer in England can expect to be paying their mortgage until well into their 60s.

More and more people need family support (often referred to as the 'Bank of Mum and Dad') to purchase a home. While in 2022-2023 87 per cent of first-time buyers funded their deposit using savings, over 35 per cent required help from friends and family – a substantial increase from 27 per cent in 2021-2022.[45] In 2003-2004 roughly 22 per cent of first-time buyers needed family support.[46]

Tighter affordability requirements introduced following the 2008 global financial crisis, including a detailed income and expenditure assessment and 'stress testing' repayments, have made it harder for borrowers to secure mortgages. In addition, the increased capital requirements placed on lenders for advancing higher LTV mortgages may have widened the interest rate gap between high and low LTV mortgages, further exacerbating the affordability challenge for those with smaller deposits.

Restricted access to credit for would-be property owners means that the proportion of homeowners with a mortgage continues to fall. Residential property sales are currently around 60 per cent lower[47] than the levels seen before the global financial crisis, despite population growth and a broadly benign economic environment for much of the past 15 years.

2.3.2 Private rental prices and affordability

Private rental affordability is important as rent takes up a substantial proportion of tenants' income. An increasing share of the population live in private rental accommodation while the proportion living in social rent or owner-occupied properties has declined.[48] High rents mean tenants may struggle to afford other purchases or to live in their desired locations and many may find it hard to save a deposit to buy a home.

Average rents have increased, although in some cases, by less than average wages.

In England, rents have increased from £153 a week in 2009 to £209 today,[49] representing a compound annual growth rate of 2.3 per cent,[50] which is slightly higher than inflation (two per cent) during this period.[51]

40 Gov UK: English Housing Survey, 2015-2016, 2016-2017, 2017-2018, 2018-2019, 2019-2020, 2020-2021, 2021-2022, and 2022-2023

41 Gov UK: English Housing Survey 2022-2023

42 Refers to the salary of the household reference person. Gov UK: English Housing Survey data on tenure trends and cross tenure, FA1331 (S188)

43 ONS: Employee earnings in the UK: 2023

44 English Housing Survey 2021-22

45 Gov UK: English Housing Survey 2022-23; The sum of percentages can be greater than 100 as people can respond with multiple answers (For example a person can fund a home purchase with both savings and family support)

46 Gov UK: English Housing Survey 2022-23

47 Gov UK: Land Registry: UK House Price Index, accessed March 2024

48 See Figure 6

49 Gov UK: English Housing Survey data on social and private renters, updated July 2023

50 Frontier analysis of data provided by Gov UK: English Housing Survey data on social and private renters, updated July 2023

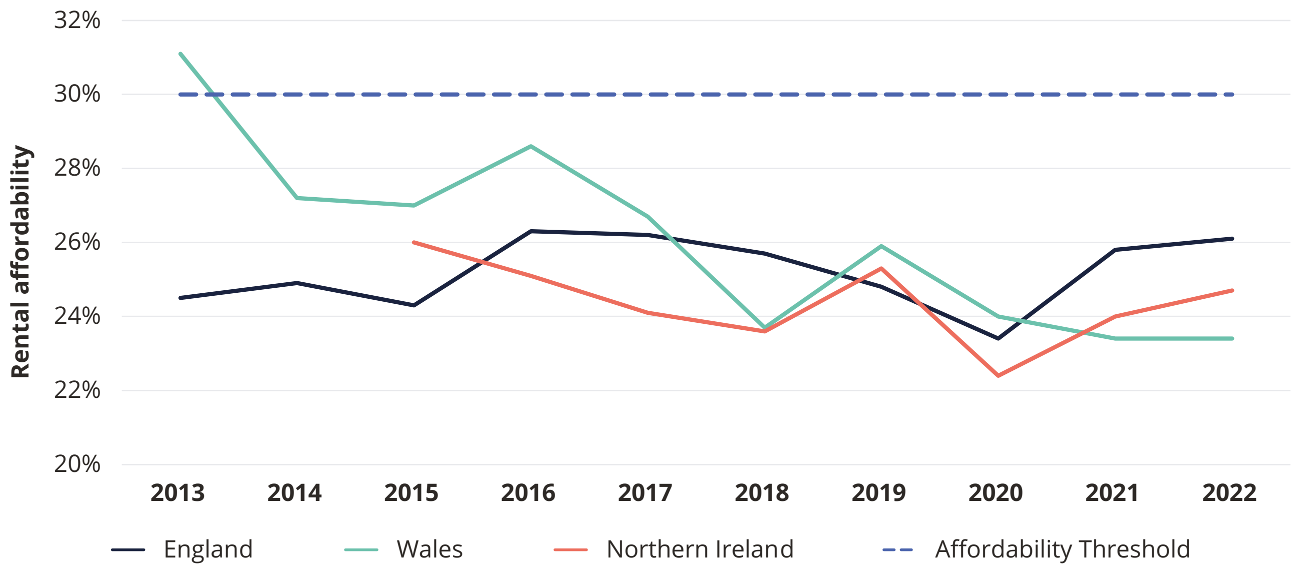
51 Frontier analysis of data provided by ONS: CPI index.

However, median rental affordability in England has neither worsened nor improved. The rental affordability ratio has hovered around 25 per cent over the last decade, showing that rental costs grew commensurately with wages (at least until 2022, the latest year for which ONS data is available).

As shown in Figure 5, current rental affordability levels are similar in Wales and Northern Ireland. Wales's rental costs have become more affordable since 2013.[52]

Figure 5

Shrinking gap in rental affordability



Source: ONS: Private rental affordability, England, Wales and Northern Ireland: 2022, October 2023

Note: Rental affordability in the figure above is calculated as the proportion of the median private rental household come to median rent. The dashed line at 30% is the rental affordability line, which the ONS defines as a property which is "deemed affordable if a household would spend the equivalent of 30% or less of their income on rent…"

It is also worth noting that there are regional differences in each devolved nation. Rents are less affordable in capital cities. For example, in London which is one of the most expensive places to rent in Europe,[53] median rental costs are 35 per cent of median wages.

Industry research,[54] which is more current than ONS data, also suggests rental affordability is worsening. While the most recent rental cost increases are in part due to higher interest rates,[55] other factors such as taxation, greater legal and statutory obligations are also adding to landlords' costs, with implications for rent. However, the supply and demand imbalance remains the primary driver for high rental costs.

2.3.3 Movements across housing tenures

The net effect of the trends observed in the market over the last 40 years is reflected in the composition of the housing stock by tenures presented in Figure 6:

52 ONS: Average weekly earnings in Great Britain: December 2023

53 Deloitte: Property index

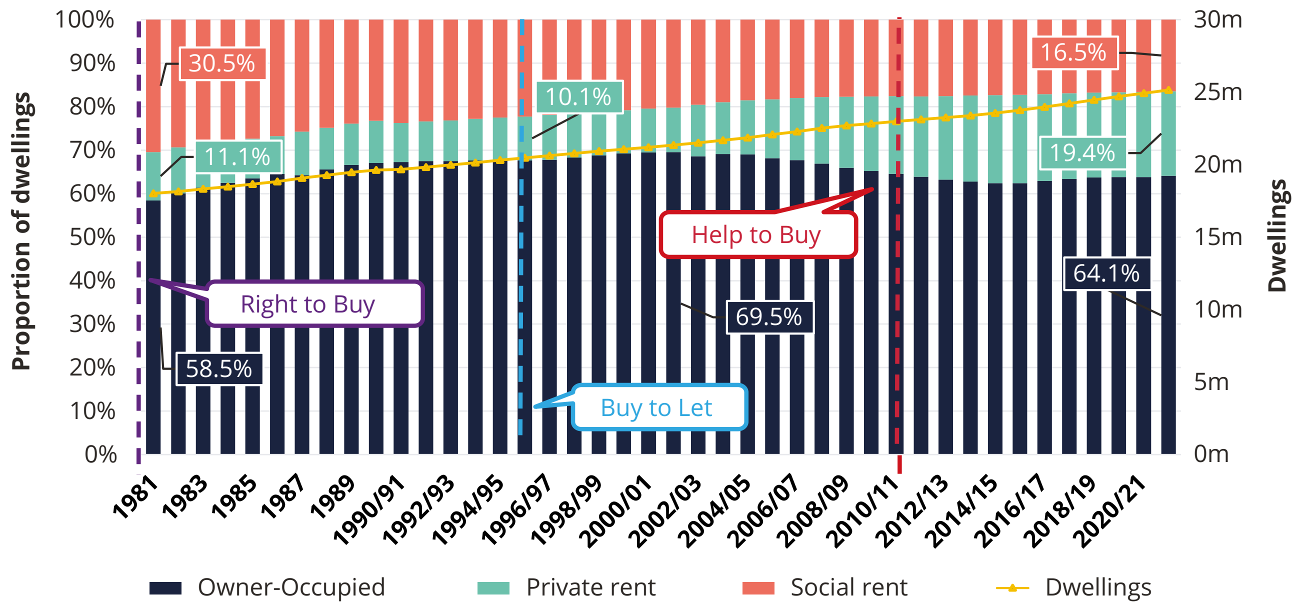
54 Zoopla: Rental Market Report: June 2024

55 While many landlords do not have a mortgage, prices in markets are determined by the costs faced by the marginal supplier. In the case of the rental sector, increases in mortgage costs push up the rents that the marginal landlord (who currently makes the lowest profit) must charge in order to break even, meaning they must either increase their rents, or sell their home, reducing supply. This leads to a reduction in supply and an increase in prices across the sector.

- Owner-occupation has fallen back to 64 per cent from a peak of 70 per cent in the early 2000s.
- Social rented properties have almost halved as a proportion of all home types.
- The private rental market has grown significantly as the other two forms of tenure have declined. This could be either because of the inability to find social housing (the number of people on the waiting list for social rented properties currently stands at 1.2 million),[56] or because of mortgage affordability challenges making it hard for renters to find a home to purchase.

Figure 6

Change in proportion of tenure in England between 1981 and 2022



Source: Frontier analysis of data provided by UK Gov Dwelling stock; Table LT 104

Note: Data from 1991 onwards is year to end 31 March. The last year of available data is financial year 2021/22. Shared ownership dwellings are included in owner-occupied dwellings. Owing to disruptions caused by the coronavirus pandemic, there was a lower response rate for the Local Authority Housing Statistics (LAHS) return for 2020 than in previous years. From 2003 the figures for owner-occupied and the private rental sector for England have been produced using an improved methodology as detailed in the dwelling stock release. Prior to this change, vacancy was not accounted for.

2.4 Supply of demand for finance

The mortgage affordability challenges articulated above occurred alongside stricter rules imposed on banks in the aftermath of the global financial crisis and the outcomes of the Mortgage Market Review (MMR) implemented by the FCA.[57] In addition to the FCA's rules, the Bank of England's Financial Policy Committee (FPC) required that a maximum of 15 per cent of a total mortgage portfolio may have a Loan to Income (LTI) ratio of 4.5 times income, or higher. Furthermore, the FPC introduced a higher[58]

56 Gov UK: Social housing lettings in England, tenants: April 2021 to March 2022, February 2024.

57 FSA: Mortgage Market Review: Responsible lending

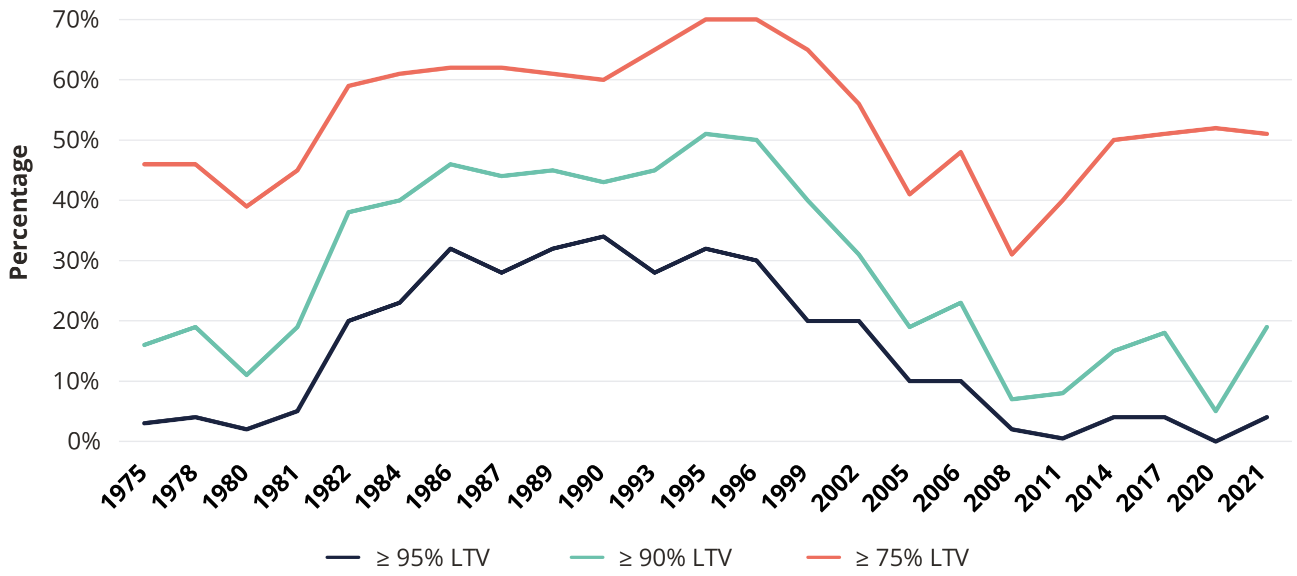
58 Until August 2022 when the Bank of England relaxed this requirement

affordability stress test for borrowers, than that required by the FCA.

Both FPC rules had the effect of increasing the required deposit, hence reducing the LTI rates on the amount borrowed. A higher deposit also reduces the LTV of the mortgage. Combined with higher capital requirements for high LTV mortgages, the result has been a big drop in the share of new mortgages at 95 per cent LTV or above: from close to 30 per cent in the 1980s-2000s to about five per cent in 2022.[59] Since April 2021, banks have reintroduced a 95 per cent LTV — in part owing to the previous government's mortgage guarantee scheme to make homeownership more accessible, but levels are still significantly lower than in the early 2000s.[60] The Labour Party has proposed extending and rebranding the mortgage guarantee scheme as the "Freedom to Buy" scheme.[61]

Figure 7

Share of new mortgage lending at or above different LTV's



Source: Frontier analysis of data provided by the Bank of England: How does household financial resilience compare to the early 1990s recession?, January 20023

59 Bank of England: How does household financial resilience compare to the early 1990s recession? January 2023

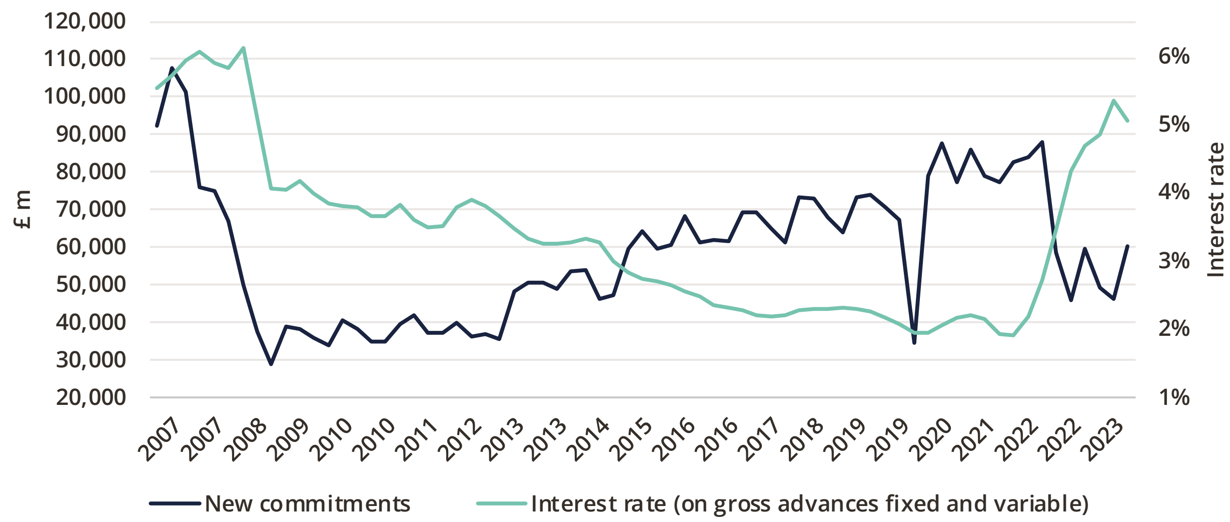
60 See annex for further details

61 Labour Party Homes Policy: How we will keep mortgage rates low and help first-time buyers with a new freedom to buy scheme (2024c) The Labour Party.

In recent years, higher interest rates have also affected people's ability to buy a home. As shown in Figure 8, higher interest rates have resulted in increased monthly repayments and affordability constraints, leading to a big drop in the number of new mortgages granted in 2023.[62]

Figure 8

As interest rates have increased, the amount of new lending has fallen



Source: FCA: Mortgage lending statistics, updated June 2024, MLAR statistics: detailed tables

Note: The data presented above is for new commitments in the regulated and non-regulated market. New commitments are the amount of new lending that a lender has agreed to advance in coming months to home movers, re-mortgagers, first-time buyers, and those seeking a further advance. In the context of the report, the value of new commitments is used as a proxy for the amount of new lending. The interest rate data above is the overall weighted average for gross advances at fixed and variable rates.

2.5 Assessment of existing and recent policy actions

In this section we assess the advantages and disadvantages of recent policies that have significantly impacted the housing market. The list is not intended to be exhaustive but aims to provide an overview of the most impactful. Right to Buy is included in Annex D since this policy was introduced some time ago.

As an overall reflection, we note that most of these policies (Help to Buy, Right to Buy and shared ownership) have been targeted towards supporting demand for homeownership. Furthermore, as the rate of government - and/or local authority-sponsored home-building has fallen significantly in recent decades, private developers have had to pick up the shortfall through their planning obligation contributions.

In some cases, the measures have triggered a short-term boost to housing construction. However, none have tackled the underlying

62 FCA: Mortgage lending statistics, updated September 2024m MLAR statistics: detailed tables

market failures which constrain the supply of new homes, as discussed in Section 3. Without such steps, the underlying problems, such as high house prices, elevated private rental costs, and long social housing waiting lists, will persist.

2.5.1 Help to Buy

Help to Buy was introduced in England and Scotland in 2013, and in Wales in 2014. The scheme was designed to assist first-time buyers and existing homeowners by reducing the deposit required to buy a property. Help to Buy is closed in England and Scotland but will continue in Wales until March 2025. Its principal component was the government-financed Home Equity Loan – meaning the loan amount increases with the value of the house. The scheme allowed eligible buyers to borrow up to 20 per cent of the property's value, provided they contributed a deposit of at least five per cent.[63] This loan was interest free for the first five years; thereafter interest was charged at a rate of 1.75 per cent of the equity loan amount, increasing annually with inflation.[64] In England, eligibility was limited to new-build properties, and the value of the property purchase was capped at £600,000, although this was later reduced to reflect average purchase prices of first-time buyers in different regions.

Help to Buy had two core aims:[65]

- To help prospective homeowners obtain a mortgage in order to increase homeownership.
- To incentivise housebuilding in England (and Scotland), so addressing the shortage in the housing stock, by boosting demand for new-build properties.

The National Audit Office[66] found that Help to Buy in England achieved both of these objectives.[67] Around two-fifths of the 221,000 people who benefited from the government's equity loan would have otherwise been unable to purchase a home, and the number of new-builds sold increased from nine per cent to 12 per cent of overall housing sales.[68] By the time Help to Buy closed in England in 2022, the scheme had supported almost 400,000 households to purchase a new home, of which almost 330,000 (85 per cent) were first-time buyers.[69, 70] Up to the end of 2022-2023, repaid equity loans had generated a positive return to the Exchequer of almost £700 million.

However, the scheme was also subject to criticisms, including:

- It was not targeted only to those who needed support. It is estimated that about three-fifths of the scheme's beneficiaries could have bought a property without using Help to Buy.[71]
- It increased demand and raised prices:[72] As the scheme targeted demand without directly addressing supply constraints, it led to price increases and so created cross-subsidies between those able to benefit from the scheme and others who found that prices were pushed beyond their reach.

63 The scheme also included a Help to Buy ISA, in which the government topped up savers' savings by 25 per cent, provided they used these savings to buy a house.

64 Gov UK: Help to Buy: Equity Loan The loan was interest free during the first five years, and in the sixth year there was an interest rate of 1.75 per cent. In subsequent years, this interest rate increased by inflation according to a formula which changed over the course of the scheme. For houses bought prior to April 2021, the interest rate increased by RPI + 1 per cent, meaning that the interest rate in year 7 would be 1.75 per cent X (1 + RPI + 1 per cent). For houses bought from April 2021 until the end of the scheme it increased by CPI +2 per cent.

65 National Audit Office: Help to Buy: Equity Loan scheme - progress review, June 2019

66 National Audit Office: Help to Buy: Equity Loan scheme - progress review, June 2019

67 The Welsh Government's review of Help to Buy showed positive results overall, but the Scottish Government closed the scheme in 2021

68 National Audit Office: Help to Buy: Equity Loan scheme - progress review, June 2019

69 Borrowers in London were able to borrow up to 40% from 2016 onwards, while borrowers in Scotland were able to borrow up to 15%

70 Gov: Help to Buy: equity loan scheme: data to 31 May

71 National Audit Office: Help to Buy: Equity Loan scheme - progress review, June 2019 This review preceded the adjustment that was made to the scheme in April 2021 in order to make it better targeted, for example by lowering maximum house prices to average levels by region and limiting to first-time buyers.

72 House of Lords: Meeting Housing Demand

2.5.2 Social and affordable rental housing

Affordable housing consists primarily of three types: social rent, affordable rent, and shared ownership.[73]

Social housing was introduced in the late 19th century, with the aim of providing affordable housing for people on lower incomes who would otherwise struggle to pay rent in the private market. The most significant period for social housing construction was from the 1950s through to the late 1960s, when local councils built a substantial proportion of new homes.[74]

The rental levels of social and affordable housing are regulated. In England, social rental levels are set through the National Rent Regime. Based on a blend of local income and property values, they are around 50 per cent of market rents,[75] although this varies by region. Affordable rent can be no more than 80 per cent of local market rental.[76]

Most affordable and social housing is owned and managed by registered providers, such as housing associations or local councils. New social housing is typically funded through a mixture of government grants, private debt finance and investment. In some cases, it can be directly funded by housing providers themselves. The planning system also supports the provision of affordable and social housing by enabling local planning authorities to place obligations on developers to provide a proportion of affordable housing in planning agreements. In England, these are known as section 106 obligations (section 75 in Scotland[77]). Because the sector relies on debt financing, lenders must consider the risks to which they are exposed. This means that policy stability particularly in relation to rent and capital grants is key to catalysing this funding.

Social and affordable housing offers two major benefits:

- It helps those on lower incomes who struggle to afford housing in the private sector. This, in turn, reduces homelessness and improves outcomes in areas such as education, health, and employment. In the medium - to long-term, this may lower costs to the public purse (for example spending on the NHS and welfare benefits) and boost economic growth.[78, 79, 80]
- It increases the overall stock of housing (this was especially the case when local councils built a substantial proportion of socially rented homes). The Competition and Markets Authority (CMA) recently found that "housebuilding has only reached the desired levels in periods where significant supply was provided via local authority building".[81]

The main costs vary between social rent and affordable rent accommodation; the former requires more funding. In addition, the social housing policy agenda includes elements such as rent policy, grant settlements and economic regulation which provide confidence to funders but incur administration costs. These costs can be significant.[82] However, a recent study by

73 These are the largest three types by volume delivered, making up 94 per cent of the total in the last decade. There are other types of housing, including First Homes, which we describe in Annex A1

74 Parliament: History of social housing

75 Gov UK: Fact Sheet 9: What is affordable housing? published November 2023

76 There are different approaches to rent setting and rent policies in Wales and Northern Ireland; in Scotland there is no formal rent policy framework, but rents must be affordable as a requirement of the Scottish Housing Regulator's regulatory framework.

77 Section 106 funding is described further in Annex A1

78 Economics. (2021). The Impacts of Social Infrastructure Investment. Local Trust

79 Frontier Economics. (2014). Assessing the Social and Economic Impact of Affordable Housing Investment: A Report Prepared for G15 and the National Housing Federation. Great Places

80 (2010). Financial benefits of investment in specialist housing for vulnerable and older people: A report for the Homes & Communities Agency. Housing Learning and Improvement Network.

81 Housebuilding Market Study, page 22

82 Capital Economics estimates the required subsidy to be £72.6k per new social house. Capital Economics: Increasing Investment in Social Housing

the National Housing Federation (NHF) in England concluded that the upfront costs of social housing are outweighed over an 11-year period[83] by the fiscal benefits, such as reduced housing benefit payments, National Health Service (NHS) savings, and less spending on homelessness.

2.5.3 Shared ownership

This section focuses on shared ownership as part of the affordable housing tenure.[84, 85] Shared ownership allows buyers to purchase a share of a property (at least ten per cent) from Private Registered Providers (PRPs). In addition to their mortgage payments on the share purchased, they also pay a subsidised rent on the share they do not own. Over time, tenants may progressively buy a larger share of the home in a process known as "staircasing". Eligibility is targeted at first-time buyers or people who cannot afford to live in the type of home they need. In England, there is currently a household income cap of £80,000 (£90,000 in London).[86, 87] As with social housing, shared ownership homes are funded through a mix of private financing, government grants and developer contributions. In Northern Ireland, the co-ownership model is a form of equity sharing scheme which is popular and well established.

There are two benefits of the shared ownership scheme:

- First, it helps first-time buyers overcome the deposit barrier by allowing them to purchase their home in stages, reducing the initial capital outlay required for the deposit.[88] It also limits their exposure to property market fluctuations since they acquire only a share of the property, although this can be a drawback in times of rising prices.
- Second, the building of new government-subsidised shared ownership properties increases the overall supply of new houses in the UK.

Despite these benefits, shared ownership comes with a cost in the form of a subsidy either from government or section 106 contributions. There is an opportunity cost in both cases, as the funding could be directed instead to areas such as affordable housing or public services.

While tenants, in theory, can staircase up to full ownership, it can be difficult to save for, on top of existing rental and mortgage commitments. For the same reason, it is difficult for those in smaller shared ownership homes to move to a larger one if the size of their household increases.

2.5.4 Affordability rules on mortgages

As mentioned in 2.4 above, in 2014, the FCA introduced new rules to protect consumers following its MMR. The new rules included enhanced (and evidenced) affordability checks, whilst self-certification mortgages were banned (as were interest-only mortgages without a proven repayment vehicle).

83 National Housing Federation: Investing in social housing could add over £50bn to the economy, February 2024
84 https://www.gov.uk/shared-ownership-scheme
85 A small amount of private shared ownership is available through companies such as Tembo and Wayhome in the UK, backed by investment companies such as pension funds. These options are comparatively expensive, however, as the rent is not subsidised and stamp duty is due on the full cost of the homes.
86 Gov: Shared Ownership Homes: Who can apply
87 In Scotland, buyers need to demonstrate that they do not have enough income and savings to buy outright. In Wales, there is an income cap of £60k.
88 Another scheme aimed at improving affordability for first-time buyers is First Homes. We have not included a description within the main report as there have been just 1,093 completions of this housing type since its inception until the end of the most recent financial year (see Gov UK: Additional affordable homes by Tenure, England, Table 1000c, published November 2023). However, we give a brief description in Annex A1

At the same time, the FPC introduced two regulations at a macro-prudential level to avoid a deterioration of underwriting standards and a build-up of household debt. The overall purpose was to maintain financial stability. The FPC's regulations consisted of:

- The "LTI flow limit", which capped the percentage of mortgages banks and building societies could grant with a Loan to Income (LTI) ratio of 4.5 times (or above). Such loans were allowed to comprise no more than 15 per cent of their total mortgage portfolio.
- The "affordability test", which mandated that all mortgage lenders assess whether customers could manage potential future increases in interest rates by testing them at three percentage points above the rate the mortgage reverted to after any initial fixed rate period. Although officially removed in August 2022 lenders are still bound by the FCA's Mortgage Conduct of Business (MCOB) Sourcebook[89] which requires an evaluation of customer affordability including a stress test. Consequently, mortgage lenders continue to conduct their own stress tests to ensure prudent lending. It is worth noting that the 'level' of individual lenders' stress tests has reduced from the FPC limit of three percentage points above the reversion rate, to levels closer to one percentage point.[90]

The combination of FCA and FPC rules has strengthened underwriting standards and enhanced financial stability. In contrast to the period during and immediately after the global financial crisis, recent interest rate increases since 2021 have not led to substantial rises in mortgage arrears. However, they have likely reduced the amount a customer can borrow with a mortgage, and increased the initial deposit required, thereby affecting people's capacity to afford a home.

The Building Societies Association recently suggested that regulation has tilted too far towards financial stability, to the detriment of would-be homebuyers, and called for a review of the 15 per cent cap on mortgages with an LTI greater than 4.5.[91]

89 Responsible lending and financing
90 Bank of England: An FPC Response - Consultation on withdrawal of the affordability test recommendation.
91 Building Societies Association: First-Time Buyers Age-old problems, modern solutions A roadmap for change April 2024, 5

03

Diagnosis of key problems facing the UK housing market

3 Diagnosis of key problems facing the UK housing market

Our diagnosis of the main problems

The analysis presented in the preceding section indicates that the **principal problem faced by the UK's housing market, namely low affordability for both buyers and renters, is due primarily to the inadequate supply of housing.** This stems from a relatively small housing stock (compared to similar countries), the slow rate at which new homes are built, and inefficiencies in the use of existing homes.

Economic theory suggests measures that increase demand for housing without expanding the quantity of homes available may lead to price increases. Government policies that have primarily targeted affordability will have increased demand, but they have not supported the expansion in housing supply needed to improve affordability in the long term. Policies such as Help to Buy have tried to maintain the balance between supporting buyers and promoting the construction of new housing. However, they have not sufficiently delivered long-term improvements in overall supply and have failed to tackle underlying affordability issues.

Measures to address the provision and use of UK housing are therefore essential to restore sustainable levels of affordability. However, given that it can take decades for such measures to bear fruit, policies to help first-time buyers in the meantime are also important. Similarly, ensuring good outcomes for landlords and tenants in the private and social rental sectors is important given the significant role they play.

This section outlines key problems in the UK housing market. Section 4 will offer potential remedies.

3.1 Identified problems in the UK housing market

The debate about the UK housing market has primarily focused on two key areas:

1. The insufficient development of new homes. A widely recognised shortfall in construction over the past five decades has resulted in a sub-optimal housing stock; and
2. The increasing affordability challenges facing first-time buyers.

These two problems are explored below, but they are not the only sources of failure. This section will cover other issues – such as the growing share of homes that are under-occupied and the sub-optimal outcomes in the private and social rental markets.

3.1.1 Insufficient development of new homes

As outlined in Annex A, the rate of growth of the UK's housing stock has consistently fallen short of both the needs of the UK population. The result is fewer homes per capita than the EU and OECD averages. The chronic undersupply has been caused in part by a series of interconnected issues within the developer market.

One significant contributory factor is the general uncertainty surrounding UK housing policy in recent decades. Since the financial crisis of 2007-2008, there have been seven prime ministers, 13 secretaries of state for local government, housing and communities[92] and twenty-one[93] housing ministers. With each new administration comes shifts in economic perspectives and housing market priorities. Frequent turnover in political leadership has generated uncertainty among both home builders and local councils. In the face of such unpredictability, the most rational response for these stakeholders has often been to take no action, ultimately leading to a reduction in the number of new homes being built. Adding to the problem is an externality effect at the local government level. Local councils, which are responsible for granting planning permissions, are not intrinsically incentivised to account for the wider societal benefits of increased housing. While new housing projects may offer such benefits, concerns among existing residents about potential falls in local property values or heightened strain on local amenities can influence the decision-making process. The new Labour government has said that it will continue to put local authorities and communities at the heart of housebuilding, restoring mandatory housebuilding targets, removed by the previous administration.[94] This may reduce the externality effect and align local governments' priorities with national objectives. However, prospective residents have little influence over decisions and cannot easily participate in the local democratic process. Ignoring the benefits that would accrue to would-be residents often results in fewer housing projects than is societally optimal.

These two uncertainties are compounded by the difficulties in the overall planning system set out previously. Importantly, given that planning applications are decided locally, national home builders and developers must deal with planning criteria and requirements that can vary from one part of the country to another. We support the new government's manifesto commitment to *"ensure local communities continue to shape housebuilding in their area, but where necessary make full use of intervention powers to build the houses we need".*[95]

Taken together, these uncertainties create information asymmetries because local authorities hold information about the chances of a plan being accepted that is not available to developers. This results in longer lead times for developers and an increased risk of applications being rejected or altered. In turn, this inflates the overall costs of development and reduces the incentive to build. These issues have had a particularly large impact on smaller developers, who often work on one site at a time. For these businesses, planning uncertainty on any

92 Or previous similar role, for example. secretary of state for housing, communities and local government and secretary of state for communities and local government

93 Inside Housing: Timeline: the 20 housing ministers since 1997, July 2022 and BBC: New housing minister Rachel Maclean will be 15th since 2010, February 2023

94 Labour Party (2024) Change: Labour Part Manifesto 2024 [online]. The Labour Party.

95 Manifesto 2024 [online]. The Labour Party.

given project can pose an existential risk. Tellingly, the number of small developers has fallen since the 1980s, although there may be other reasons for this decline.[96]

These risks and uncertainties have ripple effects throughout the entire home-building market, resulting in insufficient construction of new homes. The requirement for nutrient neutrality, for example, intended to promote biodiversity, has significantly impacted new housing developments. Research by HBF has shown that the burden of complying with this regulation through mitigation schemes has led to the blocking of 150,000 new build homes.[97] The new government intends to implement solutions to unlock the building of homes impacted by this policy "without weakening environmental protections."[98] These improvements will enable them to meet their communities' needs. However, it will make interventions where necessary to ensure houses are being built to meet demand. For example, by restoring mandatory housebuilding targets, removed by the previous government.[99]

3.1.2 Inefficiencies in the use of existing homes

As described in Annex A.2, 9.8 million households, constituting 40 per cent of England's homes,[100] are currently under-occupied.[101] This indicates a lot of unused rooms, resulting in inefficient use of the housing stock. Some of these homeowners want to move but cannot (for reasons explored below). Even if a small proportion of owners of underoccupied properties were to move to smaller homes, there would be an immediate increase in the supply of larger homes on the market.

Among homeowners (including mortgage holders and those who own outright), the overall level of under-occupation stands at 55 per cent.[102] The rate increases with age: 46 per cent of home-owners aged between 35 and 65 live in an underoccupied home versus 65 per cent of those over 65.[103] In addition, two million people over 55 are currently living in properties that fail to meet the minimum decent homes standard.[104, 105]

There are several reasons why people choose to remain in their current homes rather than downsizing. These include family considerations, emotional attachment to the property, a desire to maintain ties with the local community or the amenities provided by the property e.g., a garden, or space to accommodate visitors. It is essential that these reasons, and the preferences of owner occupiers, are understood and respected.

Barriers that hinder individuals from moving to a smaller property, thus freeing up space, can be either financial or physical.

Financial disincentives, in the form of both actual and perceived costs (which may differ due to lack of information or awareness), put obstacles in the way of potential downsizers. Taxes or moving costs can be a major financial barrier both for first-time buyers and last-time buyers seeking a property better suited to their current life stage.

For example, stamp duty in England (and equivalent devolved taxes in Scotland and Wales), may be a significant barrier for older homeowners who may wish to downsize. In addition, there is limited availability of impartial guidance on inheritance tax laws and the extent to which complicated rules around downsizing relief might affect homeowners' inheritance tax liability. This lack of clarity over the tax implications both complicates the decision-making process and acts as a financial disincentive to moving.

Physical barriers exist due to the shortage of housing that is suitable for those seeking a smaller property (for example, access requirements).[106] Location and proximity to the homeowner's current community, the necessity for specific features and home adaptations (such as a single-storey layout and safe bathrooms), and open spaces are all important considerations for potential homebuyers. The shortage of appropriate homes is a significant obstacle for those considering downsizing.

An estimated 4 million people in the UK aged 55 and over wish to move but cannot find properties that meet their needs in terms of *"location, tenure and affordability"*.[107] There are also challenges related to the high cognitive and physical impact that moving imposes. This burden is particularly pronounced for people moving much later in life when their physical, mental, or emotional resilience may have diminished.

Addressing these challenges requires sensitivity. However, by finding ways to overcome the various barriers they face, more older people will be able to live in the type of home they want and in their preferred location, enabling better use of existing housing.

3.1.3 Sub-optimal outcomes in the private rental market

As detailed in Section 2.3.2 private rental costs, as a proportion of wages, have remained consistently high over the past decade – hovering around 25 per cent in England. This issue is particularly acute in London, where rents consume 35 per cent of income, making it one of the least affordable cities in Europe to rent.[108]

The current average rental yield for the UK is 5.5 per cent according to Zoopla,[109] and 4.75 per cent according to Tembo.[110] This carries two significant implications:

1. The main factor behind high rents is the general shortage of housing supply in the UK. This results in inflated property prices which mean that landlords charge higher rents to cover costs and make a return.
2. Minor fluctuations in landlords' expenses could cause them to operate at a loss. If they then decide to sell their properties, the supply of private rental housing shrinks (unless these properties are bought by another landlord).

96 Competition and Markets Authority: Summary of CMA market study final report into housebuilding, 26 February 2024
97 HBF: Nutrient Neutrality: four years on.
98 Labour Party (2024) Change: Labour Part Manifesto 2024 [online]. The Labour Party. page 39
99 Manifesto 2024 [online]. The Labour Party.
100 Gov. UK: English Housing Survey Headline report 2022-23, 14 December 2023
101 Households are said to be under-occupying their property if they have two or more bedrooms more than the notional number needed according to the bedroom standard definition. The bedroom standard is used by government as an indicator of occupation density. A standard number of bedrooms is calculated for each household in accordance with its age/sex/marital status composition and the relationship of the members to one another. A separate bedroom is allowed for each married or cohabiting couple, any other person aged 21 or over, each pair of adolescents aged 10-20 of the same sex and each pair of children under 10. Any unpaired person aged 10-20 is notionally paired, if possible, with a child under 10 of the same sex, or, if that is not possible, he or she is counted as requiring a separate bedroom, as is any unpaired child under 10.
102 Gov. UK: English Housing Survey Headline report 2022-23, 14 December 2023.
103 Gov UK: English Housing Survey, Housing across the life course, 2018-19, published July 2020.
104 Centre for Ageing Better: Four million older people thwarted from desired house move for lack of suitable alternatives, August 2023
105 A decent home must meet all four criteria: (i) the current statutory minimum standard as per the HHSRS, (ii) it is in a reasonable state of repair; (iii) it has relatively modern facilities and services; and (iv) it provides a reasonable amount of thermal comfort. Please find more information here: Gov UK: Housing statistics and English Housing Survey glossary.
106 At the UK level, CBRE: Undersupply of 614,000 Senior Living Units Presents Opportunity For Mid-Market, October 2023, estimates the shortage of senior living units at 614k.
107 Centre for Ageing Better: Four million older people thwarted from desired house move for lack of suitable alternatives, August 2023.
108 Deloitte: Property Index Overview of European Residential Markets, August 2023
109 Zoopla: The highest yielding areas for buy-to-let property in the UK, December 2023
110 Tembo: Is buy to let worth it in 2024? January 2024

In recent years landlords have faced rising marginal costs due to regulatory and tax changes. These include increases in stamp duty, a reduction in capital gains tax allowances and the removal of mortgage interest tax relief.[111] In Scotland, there have also been (temporary) caps on rental increases and some of the highest taxes on additional properties in the UK.[112] Additionally, across the UK, landlords bear a heavy administrative burden due to the multitude of assessments and paperwork required for each tenancy. The increase in costs and associated red tape may deter people from becoming landlords, which could reduce the supply of private rental properties and so push up rents further. Current rental demand is high, with 15 enquiries for every available rental property.[113]

Addressing the financial and administrative costs for landlords will help to ensure a sufficient supply of private rental properties and curb rent increases. Improvements in the environment for landlords (in terms of reducing the administrative burden, or tax benefits for property improvements) should create better outcomes in terms of quality of housing for tenants. In England, the Renters' Rights Bill, a new version of the Renters (Reform) Bill, should address the poor and inequitable practices of some landlords without disenfranchising those who provide good-quality homes. Like its predecessor, a key proposal of this bill is to abolish section 21 'no-fault evictions', which is intended to redress the power imbalance between tenants and their landlords.[114]

Although the private rental market works well for many renters, those on lower incomes may face affordability challenges when trying to access good quality housing[115]. Historically, many of these households would have had access to social rented property, but as noted in section 2.3.3, this tenure has shrunk significantly over recent years. Therefore, any solutions intended to address the challenges this cohort of renters face, need to begin by increasing the supply of social and affordable housing.

In Scotland, *The Housing (Scotland) Bill*[116] has been published and proposes long term rent controls in areas where data supports the introduction of such measures. Rent control measures could, however, risk destabilising the local rental market and disenfranchising landlords in areas where they are implemented.

In Wales, officials have consulted[117] on housing adequacy and fair rents and a White Paper which may propose a system of rent controls is expected this year. As with the other nations, officials and policymakers will need to consider how reforms address rental affordability, provide fair outcomes for tenants, and improve housing quality, while ensuring that responsible landlords are supported.

111 Bank of England: The buy-to-let sector and financial stability, December 2023
112 Revenue ScotlandL Additional Dwelling Supplement (ADS) April 2024
113 Rental Market Report: March 2024
114 His Majesty King Charles III, 2024, The King's Speech, 17 July, House of Lords
115 Joseph Roundtree Foundation: Renters on low income face a policy black hole: homes for social rent are the answer October 2021
116 Scottish Parliament: Housing (Scotland) Bill March 2024
117 Welsh Government: Written Statement: The Launch of a Green Paper Call for Evidence of Housing Adequacy and Fair Rents June 2023

3.1.4 Financing of affordable housing

The landscape of affordable housing in the UK has changed significantly in recent years. The share of UK homes available for social and affordable rent has fallen from 30 per cent in the 1980s to 16 per cent in 2022.[118] This decline is attributable to reduced construction of new social and affordable houses and implementation of the Right to Buy scheme.

The number of new government funded affordable housing schemes declined to around 20,000 a year in the most recent decade.[119] The delivery of new affordable homes relies heavily on section 106 contributions from developers as part of the planning process. The consequence of these changes has been a chronic under-provision of affordable homes. A total of 1.2 million households are currently on the waiting list for social housing.[120]

Furthermore, housing associations are finding it increasingly difficult to provide enough affordable homes. Large housing associations have warned that building new affordable homes is becoming *"financially impossible"*, prompting some to cease new construction[121]. This mounting under-supply is creating an increasingly challenging affordable housing sector, with demand continuing to outstrip supply. Taking steps to better meet the demand for affordable housing would:

- Provide accommodation for low-income families and individuals. This could be achieved in two ways:
  1. Regularly increasing Local Housing Allowance (LHA): By ensuring that LHA keeps pace with rental market changes, more properties in the private rental sector (PRS) would become accessible to people on social housing waiting lists. Although LHA was increased in April 2024, this was a one-off adjustment rather than an annual update. While regularly increasing LHA could make more properties available for social housing tenants, it may have knock-on effects on other parts of the PRS, such as potentially driving up rents for those not receiving housing benefits.
  2. Building more affordable housing: Constructing a greater number of affordable homes would directly address the shortage of suitable accommodation for low-income households. This approach could help ease pressure on the PRS by allowing existing tenants to move into more appropriate and secure tenures. If implemented on a large enough scale, this measure has the potential to improve housing affordability for all renters over time by increasing the overall supply of housing and reducing competition for available properties.
- Provide a pathway to ownership, via shared ownership schemes, for those unable to purchase a property without additional support. This is discussed further in Section 4.2.1.

118 Analysis of data provided by: Gov UK: Live tables on dwelling stock (including vacants)
119 As defined in section 2.5
120 Gov UK: Social housing lettings in England, tenants: April 2021 to March 2022, February 2024
121 Housing associations in England warn 'we can't build houses' (ft.com)

04

Our policy recommendations

4 Our policy recommendations

In the previous sections, we highlighted the main challenges confronting the UK housing market. In this section we set out our recommendations to tackle these challenges.

The insufficient supply of new homes and the inefficient use of existing properties – two of the main issues identified – will not be solved overnight. There is therefore a case for helping specific groups with the problems they face. For example:

- Helping first-time buyers struggling to save enough for a deposit.
- Enabling last-time buyers to move to homes better suited to their needs.
- Supporting landlords and tenants in the private rental sector, where outcomes for both parties are currently sub-optimal.

Our recommendations therefore balance measures that are expected to be permanent or longer term in nature with others designed to be transitory.

As a result, the actions set out in this report should sit within a long-term housing strategy, ideally with cross-party agreement, with commitment that stretches beyond the election cycle.

We propose policy recommendations in three areas to address the UK's housing market problems. These should be viewed as a package. Each recommendation targets specific objectives, and selective implementation of just one – in the absence of the others – could have unintended consequences. For example, providing support to first-time buyers without building enough new homes would likely lead to price increases and negative outcomes for home buyers.

The three areas of policy recommendation are:

1. **Support for the home building industry:** reducing uncertainty and construction lead times, increasing construction levels, fostering growth, and creating job opportunities.
2. **Support for buyers** to acquire the homes that meet their requirements:
   - **Support for first-time buyers:** providing options to improve affordability, especially for first-time buyers struggling to save enough for the deposit.
   - **Support for last-time buyers:** facilitating the transition for those seeking to downsize by promoting suitable housing options, help to address knowledge gaps, and lowering financial barriers to downsizing.
3. **Support for the rental market:** asking governments across the nations to clearly define the role of the PRS and implement reforms that benefit both landlords and tenants. Additionally, we propose streamlining some of the mandatory requirements for landlords by consolidating and recording them on a government supported, digital, private rented sector database. This database would bring together key information for landlords, tenants, and councils which mortgage lenders could also access. Significant reforms to landlord-tenant law have already been implemented in the devolved nations, where separate landlord registration and licensing schemes are already in place.

Each recommendation is explored further and includes an outline of its rationale with high-level costs and benefits. It is important to note that these proposals serve as policy suggestions to be explored and refined further.

In addition, where appropriate and relevant, we include references to recommendations made by others who have conducted research in similar areas and with which UK Finance broadly agrees. However, we have not reviewed the methodology or evidence underlying these recommendations.

4.1 Support for the home building industry

The new government has made planning reform and housebuilding a centrepiece of its election campaign – promising to "get Britain building again". Policy measures aimed at reducing uncertainty in the development process and tackling the structural shortcomings in the planning system could significantly boost construction, increase employment, and stimulate growth.

As discussed in Section 3.1.1, the lack of incentives for local authorities, coupled with complexity in the planning system, resulted in problems with the preparation, adoption, and maintenance of local plans. The upshot is prolonged lead times and risks for developers, resulting in new housing consistently falling short of previous governments' targets.

To address this issue, it could be beneficial to shift the existing planning framework towards a more rules-based system. This change could draw inspiration from the CMA[122] recommendation to include "effective monitoring and enforcement of local plans". The government would monitor and assess local authorities' compliance with their obligations with the aim of increasing housing completions. This could build on lessons learned from successful international examples such as the "zoning" policy in Auckland, New Zealand. Land could be categorised into zones with specific criteria for housing development approval. If these criteria were met, projects would be given the green light automatically, streamlining the current ad-hoc approval procedures.

The criteria should aim to simplify the planning system and could be established at either local or national level. They would be aligned strategically with local needs or national targets and tailored to maximise the use of available land. When establishing the criteria, we welcome the Labour government's initiative to review the option of building on brownfield and 'grey belt' sites to meet the UK's long-term housing needs.[123, 124] The Labour government expects local authorities regularly to review their green belt boundaries to release lower quality green belt land ('grey belt'). for development to support house building targets.

122 Competition Market Authority: Housebuilding Market Study February 2023
123 Financial times: Is the greenbelt up for grabs? January 2024
124 Our plan to build more homes (2024) GOV.UK.

The grey belt will need to be clearly defined to ensure good quality, biodiverse green belt land cannot wilfully be allowed to deteriorate for commercial purposes. The planning system should be designed to accommodate different types of housing development corresponding to the diverse needs of first-time, second- (or subsequent) steppers, last-time buyers and renters.

The CMA has provided valuable insights that could inform specific amendments to the planning system. For example, promoting a greater variety of tenure and the building of smaller-scale developments could speed up the construction of new homes.[125] The CMA's recommendations also include suggestions regarding local targets and the enforcement of local plans. Making information about planning rules publicly accessible would also enhance transparency in the planning process.

We envisage that the improvements we recommend would be brought in gradually: the current planning system would evolve, not disappear.

Costs and benefits of recommended policies

The effectiveness of any of these recommendations hinges on their implementation. The success of a rules-based planning system depends on setting exact rules and implementation criteria. Rules that are overly restrictive or overly relaxed could have unintended consequences.

If done effectively, the transition to a more rules-based planning system could create a surge in new housing supply, resulting in lower prices and increased homeownership. This increase in supply would be driven by three main factors:

1. Shorter **development timescales:** Simplifying the planning approval process would reduce lead times, although more up-front planning may be required. This reduction would cut developers' costs and risks, likely accelerating housebuilding rates.
2. **Consistency in planning:** The current planning system suffers from significant geographical variations. England, Scotland, Wales, and Northern Ireland all have different planning systems, and each local authority sets its own rules with little consistency. Moving towards a rules-based planning system, which is flexible enough to meet regional needs, would increase transparency and promote alignment between parts of the country with similar characteristics. Consistency will also be improved if local authorities are held accountable for their planning procedures by means of government monitoring.
3. **Certainty for developers:** Developers would have confidence that meeting the set criteria would guarantee approval for their projects. This could encourage them to invest in further developments, thus boosting supply.

In addition, a rules-based planning system would cut the planning authorities' administrative costs by introducing a degree of simplification to the approval process.

However, implementing a rules-based planning system poses its own **challenges and risks:**

- **Initial implementation costs:** Any change will entail initial time and investment costs for strategic reviews, upfront planning, and non-programmed administrative tasks. Helping market participants to understand and engage with the new rules will also cost money.
- **Risk of poor implementation:** Any change carries risks. In this case, there is a risk of poor implementation of the rules. Rules that are excessively strict may hinder housing development. Conversely, rules that are too lax could fail to reduce uncertainty or even create further market distortions, potentially leading to a backlash against the policy shift.

125 [CMA: Housebuilding market study, February 2024]

- **Risk of market paralysis:** Delaying implementation of planning policy changes or pursuing a complete overhaul of the existing system could worsen market outcomes. A comprehensive reform could entail significant risk and require a lengthy transition period, exacerbating housing market paralysis. We therefore recommend prioritising planning reform in the first 12 months of this new parliamentary term, and a gradual evolution of the current system to give enough time to complete the required legislative processes without bringing the housing market to a halt.

4.2 Support for buyers

Research suggests that some potential homeowners are not currently able to buy their desired home. They include:

- First-time buyers, who are unable to raise the initial deposit.
- Last-time buyers, who face barriers to moving to a home that may better meet their evolving needs.

This section sets out our recommendations to support these two types of buyers. As they are at opposite ends of the housing lifecycle, the proposed initiatives are complementary: the more last-time buyers who can purchase a suitable home, creates an increase in the number of larger homes available for purchase.

4.2.1 Support for first-time buyers

As described in Section 2.3.1, house-price affordability has deteriorated in recent decades. Median[126] house deposits in England have risen from £22,000 to £30,000 over the past seven years. This worsening affordability is a consequence of property prices increasing faster than salaries.

Building more homes will boost supply, but there will be a lag before this is reflected in property prices. In the meantime, there is a case for helping first-time buyers (for a limited period) to afford their first home. We believe this support should be aimed primarily at those who can afford monthly mortgage repayments but may struggle to finance the deposit. The London School of Economics and Political Science's (LSE) *A Road Map to a Coherent Housing Policy* backs the use of short-term support – given "current economic and financial constraints" – to help those in need climb onto the housing ladder.[127]

To this end, we make two policy recommendations:

1. Explore ways to mitigate low affordability and lower the deposit barrier for first-time buyers.
2. Maintain nil-rate bands on stamp duty in England at their current levels for first-time buyers.

Mitigating low affordability

The aim is to make it easier for first-time buyers to afford their first home by reducing the deposit required. There are different ways to do this, each with its own advantages and disadvantages. For example, the government has said it will introduce a permanent "Freedom to Buy" scheme which will replace the current mortgage guarantee scheme.[128]

Another option is to increase the availability of shared ownership, which allows people to buy their home in stages, reducing the initial deposit. Despite recent increases in the number of shared ownership homes being constructed, the total built only represents about one per cent of the UK's housing stock.

126 [Average deposits in England rose from £48.8k to £50k between 2015/16 and 2022/23. See 2015/16 and 2022/23 English Housing survey here: Gov UK: English Housing survey]

127 [London School of Economics: A Road Map to a Coherent Housing Policy, January 2024]

128 The Labour Party.(2024.) Labour Party homes policy: How we will keep mortgage rates low and help first-time buyers

To tackle this problem, we suggest:

- Increasing the provision of shared ownership homes, and doing so in conjunction with the shift to rules-based planning outlined above.
- A review of the consumer experience of shared ownership, such as the consultation recently launched by the Shared Ownership Council (SOC) on their new draft Code of Good Practice.

We would like to see more housing associations that operate/own shared ownership properties sign-up to the Shared Ownership Council's Consumer Code. This will help to ensure consistency across the sector.

This recommendation aligns with the wider support for making shared ownership more transparent, appealing, fair, and accessible through recent changes to the minimum initial shares and the staircasing process.

Expanding shared ownership housing could be achieved through a combination of increased government funding and section 106 contributions from developers (which currently account for 51 per cent of funded shared ownership properties).[129] However, given the limits on section 106 contributions most additional funding will need to come from the government, in partnership with institutional and long-term investors.

Costs and benefits of the policy

There are three potential benefits to increased shared ownership:

- It facilitates long-term homeownership by enabling people to move gradually towards full ownership.
- It reduces demand in the PRS, lowering rents and easing overcrowding.
- It increases overall housing supply, addressing the CMA's concerns about insufficient private developer-led home building.[130]

In addition, sales of shared ownership properties by housing associations provide a degree of cross-subsidy for their development of new social rented homes.

As for the costs of this policy, as described above, shared ownership requires a subsidy from either the government or section 106 contributions from developers. Both have an opportunity cost.

Maintaining current stamp duty nil-rate bands

This proposal aims to reduce transaction costs and make it less expensive for people to buy a home by keeping stamp duty nil-rate bands at their current, temporary, level (£250,000 for all transactions and £425,000 for first-time buyers) instead of reverting to previous levels (£125,000 lower in each case), as scheduled for 2025.[131]

Furthermore, we recommend that these limits are adjusted annually in line with the Office of National Statistics (ONS) House Price Index (HPI). Changes to equivalent taxes in the devolved nations should also be considered.

Costs and benefits of this policy

A core benefit of this policy would be:

- **Less capital is required to buy a home:** Purchasing a home requires a significant sum of money to cover items such as the deposit, stamp duty, legal and survey fees etc. Maintaining the stamp duty nil-rate band would reduce the sum required, making ownership more accessible.

However, there are two main **costs** to consider:

- **Potential loss of government revenue:** If the government extends the current temporary reductions in stamp duty or makes them permanent, it may collect less in taxes from property transactions. The shortfall could be offset by an increase in the number of transactions, but the overall impact on government finances needs to be considered.
- **Perceived fairness:** Stamp duty has a greater impact on those purchasing more expensive properties, so decreasing stamp duty rates could be seen as disproportionately benefitting the wealthy, which some might consider unfair.

It is worth noting, policies that aim to make it easier to buy a home, if implemented in isolation, could lead to increases in property prices. It is therefore important to increase the construction of new homes alongside policies supporting first-time buyers to ensure balanced market dynamics.

Other recommendations made for first-time buyers that we support

Making it easier to obtain a mortgage is another option to help first-time buyers achieve homeownership. One way would be to recalibrate current macroprudential rules, by reducing capital requirements on mortgages or flexing LTV or LTI criteria for certain segments of the population.In April 2024 the Building Societies Association (BSA) released a report recommending reforms which could help first-time buyers.

The report noted: "The 15% cap on lending above 4.5 times income has limited the use of higher loan-to-value mortgages in more expensive housing markets. However, there should be a review of the Financial Policy Committee (FPC) flow limit to focus on first-time buyer support. While the 15% cap on lending above 4.5 times income may be less relevant today given higher mortgage rates, an immediate review should be undertaken to assess whether it would be beneficial to adjust the limit and to target mortgages above the cap at first-time buyers." We broadly support the BSA's recommendation"

4.2.2 Support for last-time buyers

In addition to helping first-time buyers, we also support assisting those who wish to consider downsizing. Research suggests that many people who wish to downsize face obstacles. The Centre for Ageing Better found that four million people over the age of 55 would like to move, but only a fifth of them anticipate being able to do so because of a variety of hurdles.[132] Removing these obstacles could help a significant number of would-be homeowners. It could enable more people to downsize and free up underutilised homes, thereby expanding overall housing provision.

The previous government recognised the barriers to downsizing and the importance of supporting last-time buyers as key issues when it launched its Older Peoples Housing Taskforce[133].

We identify three types of obstacles to downsizing which could be partially mitigated through policy interventions:

1. **Shortage of suitable properties:** There may be a lack of appropriate housing options, in terms of both location and features, that meet the needs of people seeking to downsize. As noted in the Mayhew Review, *Future-Proofing Retirement Living*, it is difficult for those looking to downsize to find appropriate properties.[134] It is important that these properties allow for independence, adequate living space and reasonable utility costs while also having access to amenities such as shops, local communities, medical centres, and other important facilities.
2. **Upfront moving costs:** Expenses such as stamp duty (and equivalent devolved taxes) and removal costs can create a financial barrier obstructing those looking to downsize.

129 Gov UK: Live tables on affordable housing supply, December 2023
130 CMA: Housebuilding market study, February 2024
131 Stamp Duty Land Tax — temporary increase to thresholds
132 Centre for Ageing Better: Locked out: A New Perspective on Older People's Housing Choices, August 2023
133 Gov UK: Older People's Housing Taskforce
134 The Mayhew Review: Future-proofing retirement living

3. **Information gap:** Many people may not fully understand the available options or steps they would need to take to downsize. They may have limited awareness of the tax implications (and Inheritance Tax exemptions provided by HMRC) and have incomplete knowledge of the home-financing options available from various institutions.

To overcome these barriers, we recommend policy initiatives in three areas to support last-time buyers:

- Ensuring that the findings from the research carried out by the Older People's Housing Taskforce are implemented.
- Establishing an independent advice service to assist over 55s with their housing needs, and
- Minimising upfront costs and providing financial solutions.

Research by the Older People's Housing Taskforce

The Older People's Housing Taskforce has completed its review of the appropriate level of older people's housing. It considered the enablers of, and barriers to growth of supply. It also considered the options to increase the range and choice of specialised housing for this cohort of the population.

Our policy suggestion is to ensure that:

- The government looks at the needs of those aged 55-65 (the age group that is often the keenest and most able to move), and the barriers they encounter.
- A range of later-life mortgage lenders are consulted given the important role that play in facilitating older people's housing.
- The findings of the report are actionable and implemented by the new government.

We also recommend that the Taskforce's findings inform the planning process and that the following areas are considered in detail:

- **Location preferences:** Understanding preferred areas based on factors such as proximity to amenities and connection to family and friends. The study should also consider the existing competition for those sites and how feasible it is to build properties for the elderly people in these locations.[135, 136]
- **Desired home characteristics:** Understanding what specific features are required, such as the size of the property and accessibility, is key for this age group.
- **Changing needs by age group:** Recognising evolving needs from late 50s to 80s, to accommodate lifestyle changes and potential mobility restrictions. The ideal home should fit all these evolving needs because people are less likely to wish to downsize once they turn 70 due to the physical challenges and mental stress involved.

To effectively increase the availability of suitable housing, the planning process must consider these needs alongside competing commercial land uses.[137] Integrating this understanding into planning can ensure homes are constructed in appropriate locations. Coordinating this policy with a rules-based planning approach (as outlined in Section 4.1), should incentivise investment in homes for this age group, thus boosting supply. The new government's target to build 1.5 million homes within its first five years must include a long-term, targeted strategy for building suitable housing (of all types, across all tenures) and associated infrastructure for older people.

135 [Savills: Elderly people and their homes, September 2019]
136 [Centre for Ageing Better: Locked out: A New Perspective on Older People's Housing Choices, August 2023]
137 [CMA: Housebuilding Market Study, February 2024]

Benefits and costs of policy initiatives in this area

There could be two benefits:

- The first, direct, effect would be an improvement in the well-being of people previously unable or unwilling to downsize because their new home is better suited to their needs and preferences.
- The second, indirect, effect flows from the impact on the overall owner-occupied UK housing market. If more people were to downsize, larger properties would be freed up for those looking to move up the housing ladder. New owners of these properties might make (or be required to make) energy efficiency improvements, which could help the government reach its ambitious net-zero housing targets.

The 2022 Mayhew report Future-proofing retirement living[138] directly supports our finding that there is a need to build more properties suitable for retirement – noting and incorporating the wants and needs of older people.

The cost associated with implementing the study's recommendations is expected to be relatively modest compared to the potential benefits. The main risk lies in the possibility of drawing incorrect conclusions about the future anticipated needs of this demographic, which could result in homes being built that are unsuitable. There is also a significant risk of not effectively integrating the study's findings into a rules-based planning framework. If that is not done, the study's outcomes may not translate into actionable policies and initiatives.

Providing independent and impartial advice to over 55s with housing needs

Moving property can be a daunting task. And for the over 55s, assessing available options can often be a barrier to action. As a result, many remain in homes that may no longer suit their evolving needs. As people age, the emotional, physical, and logistical challenges of moving home increase, so providing support becomes more important.

Currently, gaps exist in both the availability of appropriate housing and the understanding of the financial implications associated with downsizing, including taxation issues associated with the release of equity.

At present, mortgage products available for those over the age of 55 include repayment, term interest-only, retirement interest only (RIO), equity release and hybrid mortgages (which combine some of the features of the other products). Despite the wide range of available products, there are two considerations which may hinder those seeking to downsize from making a good financial decision:

- The needs of 'later life' and 'mainstream' customers are merging, as the age of first-time buyers is increasing, and they are taking out longer mortgages with extended terms to improve affordability.
- At the same time, the population is working and living longer.

This report has explored some of the shifts in demographics and supply and demand imbalances that have contributed to the age of first-time buyers increasing, and borrowers taking out longer-term mortgages to help with affordability.

UK Finance data suggests that over the last 20 years, the proportion of mainstream mortgages ending after expected retirement age has increased from 20 per cent to 60 per cent. Borrowers' attitudes towards repaying mortgages in retirement are changing too.

138 [International Longevity Centre UK: The Mayhew Review – Future-proofing retirement living: Easing the care and housing crises, November 20222]

Moving to a smaller property, however, does not necessarily mean moving to a less expensive one, or one that does not require a mortgage. Some homeowners may wish to unlock housing wealth to improve their lifestyles (including moving to a more suitable home), while others may want to use their housing equity to help other family members onto the property ladder.

At present, outcomes for older customers making complex decisions about which mortgage is suitable for their needs and circumstances depend too much on the product specialism of the adviser(s) they use. There are currently no regulatory requirements, or guidance, for mortgage or financial advisers to inform the customer of other later-life borrowing options – or the financial implications of the decisions they make. Likewise, no comprehensive service sets out in a credible, unbiased manner the full range of mortgage options and tax implications to people considering downsizing.

This recommendation aims to address these information gaps by establishing an independent advice service to offer impartial guidance on housing options later in life and how they can be financed. An alternative approach could be to widen the remit of an existing service such as the Money and Pension Service (MaPS) to offer impartial guidance on housing options later in life and how they can be financed. We also recommend ensuring mortgage advisers have the necessary qualifications, experience, and tools to guide customers through the suite of options available or refer them to another adviser.

This advice service would be government-backed, free to access at point of delivery, independent (potentially through kitemarking), and would include the following features:

- **Addressing knowledge gaps:** Providing clear information on the financial implications of downsizing, including aspects such as inheritance tax and impacts on state benefits. For those needing a mortgage to downsize, the service could function as a clear, unbiased portal for information on the options available and manage a referral process to more specialist advice.
- **Offering a full range of options, avoiding silos:** Ensuring that the service provides comprehensive, one-stop advice on both housing options (including the types of mortgages available), and financial options, (including advice on how to meet upfront costs).[139]
- **Independence, free-to use, neutrality and visibility:** The service would be fully independent and be seen as such, ensuring that it does not serve any one business interest and does not push people towards downsizing. Instead, it would present a range of options and their implications in a neutral, straightforward, and transparent manner. We recommend that it is a free service in order to reduce frictions and promote usage.

In addition, regulations need to be updated to ensure that a siloed approach to mortgage advice does not occur, as this could lead to poor consumer outcomes.

To address this issue, the adequacy of advisers' qualifications and the regulatory frameworks in which they operate should be evaluated and updated, as highlighted by the Equity Release Council.[140]

- We recommend that the FCA update the MCOB rules to better integrate later-life and mainstream advice processes and lending requirements. For example, consideration should be given to amending the existing mortgage advice framework to make sure older borrowers receive comprehensive, holistic, guidance on the options available to them.

139 Equity Release Council: Later Life Lending: Great Expectations
140 Equity Release Council: Later Life Lending: Great Expectations

The *Mayhew*[141] report directly supports our recommendation of providing financial advice to those last-time buyers who want to move into retirement housing or something similar.[142]

Costs and benefits of initiatives in the policy area

Action in this area could create several benefits:

- **Increased understanding:** People over the age of 55 would gain a better understanding of available housing and financial options, potentially allowing access to a broader range of financial products.
- **Increase downsizing:** By reducing information barriers, more people may be able to move into homes better suited to their needs. This shift could free up properties for those looking to move up the housing ladder, reducing overall housing pressures.
- **Improvements in housing quality:** As new homeowners tend to improve their homes, for example by making them more energy efficient, the quality of the UK housing stock may increase, helping the UK Government achieve its net-zero housing targets.

The primary financial cost associated with this policy is the establishment of the service itself. The cost of operating the service could vary depending on whether it is operated publicly or privately and exactly how it will function. The key **risk** to implementation is the perception that the service is not independent, which could affect trust and uptake.

Minimising upfront costs and providing financial solutions

As well as addressing the needs of those aged over 55 and helping them overcome some of the barriers to downsizing, it will be important to offer financial support to lighten the burden of making the move.

Costs could potentially be reduced through measures such as a stamp duty exemption for last-time buyers. Additionally, financial solutions could be provided to help meet upfront costs, which could be partially recouped once the current home is sold. Both the LSE's *A Road Map to a Coherent Housing Policy*[143] and the Mayhew report[144] echo our recommendation to support last-time buyers by exempting older people (in its report those aged 65 and older) from stamp duty to encourage a more efficient use of the housing stock.

Costs and benefits of the policy

The costs and benefits would have to be assessed once specific ways of helping last-time buyers with their upfront costs have been identified and solutions developed. At a high level, the benefits would be similar to those generated by the policies outlined earlier: more downsizing, improved well-being for those moving to a better-suited home, and better use of UK housing stock. The cost of the policy will depend on how the support is provided and the associated financial implications (i.e., reduced tax revenue, increased government spending).

141 The Mayhew Report: Future-proofing retirement living
142 The Mayhew Report: Future-proofing retirement living
143 London School of Economics: A Road Map to a Coherent Housing Policy, January 2024
144 The Mayhew Report: Future-proofing retirement living

Other recommendations for last-time buyers that we support

The *Mayhew* report, which focuses on the housing needs of older people, suggests that the repurposing of high streets could improve the supply of housing for last-time buyers. We believe this is a good example of the sort of policy the government could test with a pilot high street. Will it in fact enhance the town centre while increasing choice for those wishing to downsize?

4.3 Support for the rental market

The PRS is a significant and important part of the housing market, accounting for about 19 per cent of the UK's properties in 2023.[145] As evidenced in our research, PRS tenants are a large and growing cohort. Private renters tend to earn less than homeowners but more than those in the social rented market. It is therefore important to consider the role that regulation can play in this sector.

As mentioned in Section 3.1.3, landlords have had to cope with increasing marginal costs over the last few years for various reasons. These included increases in stamp duty for BTL purchases, a reduction in the capital gains tax exemption, removal of mortgage interest tax relief (MITR) (for non-incorporated landlords), and higher interest rates.[146] Landlords also bear a heavy administrative burden in the form of numerous legal and statutory assessments.

As a result, many have in recent years either taken the decision to exit the BTL market or to pass their increased costs on to tenants. In both instances, the outcome is the same: higher rents.

The Westminster, Scottish and Welsh governments are at various stages of considering and implementing rental reforms which will improve the rights of tenants. At a high level, we back reforms that protect tenants providing they are proportionate and fair to landlords too. In England, the new government must work quickly to set out and implement the reforms in the forthcoming Renters' Rights Bill to avoid uncertainty for both landlords and tenants.[147]

To support the PRS, we recommend government action in the following policy areas:

- **Clarification of PRS role:** We ask that the governments across the nations set out their long-term plans to establish the current and future role the PRS should play. Given the key role the sector plays in the provision of housing (often to those on below-average incomes – who either are unable to buy or prefer to rent), the governments should evaluate how to protect tenants without unduly burdening landlords. It should also assess the optimal role for the sector vis-à-vis owner-occupied supply. Clarity would, in turn, inform future long-term, joined up housing policies which consider the PRS within the planning system, benefitting tenants and landlords alike.
- **Integration of administrative processes:** Consolidate all necessary regulatory/administrative tasks under the proposed digital private rented sector database, to bring together key information for landlords, tenants, and councils (as proposed in the Renters' Rights Bill[148].) While a primary reason for the development of the portal is to support tenants' decision-making, this could also be used as an instrument to integrate landlords' administrative burdens. Currently, landlords are required to complete a range of annual, ad-hoc and one-off tasks (including reference checks, right to rent checks, energy performance certificates, legionella risk assessments, electrical and gas safety checks and certification, and deposit protection documentation). At present there is no central database for storing or accessing this data. Centralising these processes digitally through a portal would increase visibility of compliance, improve processes, reduce marginal costs, and minimise the risk of accidental non-compliance. A more streamlined process for compliance could encourage more investment into the sector, increasing the supply of rental properties in the long run. The portal should be built and operated by government, but with input from stakeholders in the PRS and mortgage sectors. In this way, information could be shared to identify and drive out the small number of 'rogue' landlords whose rental properties are sub-standard or poor quality.
- **Greater support for the social and affordable rental sector:** The policies described in both this and earlier sections aim to make the PRS more affordable by lowering the cost of housing overall and reducing rents. However, even if the proposals are implemented, there will continue to be some who are unable to buy a home and for whom renting privately is unaffordable. As a result, we support policy recommendations that aim to build more social and affordable housing. The Joseph Rowntree Foundation argues that for many cohorts social housing remains the most appropriate tenure, and LHA must continue to be linked to local rental levels "to improve the experience of renting in the private sector".[149]

Costs and benefits of the policies

Action in these suggested policy areas would have the following benefits:

- Lightening the administrative and overhead burdens on PRS landlords.
- Establishing a centralised, digital private sector database bringing together key information for landlords, tenants and councils could enhance tenant outcomes by reducing accidental non-compliance by landlords and improve the government's oversight of the sector.
- If mortgage lenders had direct access to the database, they could provide an extra layer of enforcement by denying mortgage finance to unfit landlords, while potentially rewarding compliant ones.
- This could encourage further professionalisation of the sector and contribute to the removal of the small number of rogue landlords.
- Greater clarity on the intended role of the PRS sector would enhance policy consistency.

However, there are also some costs to consider:

- Set-up and maintenance costs of the proposed national landlord register and property portal. These could be met by charging an initial registration fee per landlord and per property, followed by an annual subscription fee on a per property basis.

145 Analysis of data provided by Gov UK: Live tables on dwelling stock (including vacants), December 2023
146 Bank of England: The buy-to-let sector and financial stability, December 2023
147 [1] His Majesty King Charles III. 2024. The King's Speech. 17 July, House of Lords
148 Gov UK: Guide to the Renters (Reform) Bill, published May 2023
149 Joseph Rowntree Foundation: Housing affordability since 1979: Determinants and solutions, January 2023

Other recommendations on the private rental market that we support

Short-term rentals (for example under 90 days) can have positive benefits to the visitor economy, providing additional income for property owners and more choice for visitors. However, the pervasiveness of short-term lets can also adversely impact the available supply of housing, especially in high-demand or tourist-heavy areas, adding pressure to rental affordability. The LSE's *'A Road Map to a Coherent Housing Policy'* supports this latter view[150] and proposes a change to the short-term rental tax system (for example via a registration scheme rather than licensing) to improve outcomes in the private rented sector.[151] The previous government intended to introduce measures that would give communities a better understanding of the local short-term let market, primarily by way of a mandatory registration scheme[151] and planning reforms. We broadly support the introduction of a low-cost, mandatory, nationwide register that is not overly burdensome on existing landlords. In a similar vein to the private rented sector database being proposed in the Renter's Rights Bill, providing direct access to mortgage lenders could add an extra level of scrutiny and assist in ensuring landlord compliance. The implementation of such changes should be done in a way that improves outcomes for local residents and the overall private rented sector, whilst providing clarity and support for landlords reliant on short-term rental income.

We broadly support some of the policy recommendations made by the SMF in its report *Where next for the private rented sector?* Specifically, in relation to how standards of private properties could be improved, for example, by providing tax incentives to landlords making green upgrades.[153]

Although we have not assessed the SMF's policy recommendations, UK Finance's Net Zero Homes: Time for a Reset report recommends that fiscal levers (tax, grants, and subsidies) could be used by government to encourage energy efficient upgrades. We also broadly agree with the SMF's view that there is scope to build on the national landlord register to create a voluntary kitemark scheme to help identify landlords who meet specific criteria which would provide more "secure and stable" housing and give tenants "greater control over where they live".[154] The new government has committed to applying Awaab's Law into the private rented sector, requiring landlords to fix damp and mould related issues within strict timeframes[155] – this a measure we fully support.

150 London School of Economics: A Road Map to a Coherent Housing Policy, January 2024
151 London School of Economics: A Road Map to a Coherent Housing Policy, January 2024
152 GOV.UK: Delivering a registration scheme for short-term lets, February 2024
153 Social Market Foundation: Where next for the private rented sector? March 2022
154 Social Market Foundation: Where next for the private rented sector? March 2022
155 Prime Minister's Office. (2024). The King's Speech 2024 background briefing notes. GOV.UK.

Recommendations we back on the social rented and affordable housing markets

We also broadly support the call to build more social rented homes that the NHF and Shelter make in their report, 'The economic impact of building social housing.'[156] There will always be a part of the population who cannot afford to buy or to rent in the PRS. While we have not reviewed the methodology and assumptions in detail, the report suggests that a one-off investment in building 90,000 additional social homes could have the dual benefit of providing homes for those who cannot afford other tenure types while potentially boosting economic growth and generating returns for the government.[157, 158] The LSE's *A Road Map to a Coherent Housing Policy* also sees a "clear cut" case for building more social housing.[159]

We concur with separate recommendations made in the NHF report Let's end the housing crisis.[160] To make homes more affordable, it calls for an "increase in direct funding, planning reform and certainty around the rents that housing associations can charge." [161] Our recommendations addressing planning reform, set out in Section 4.1, will feed through to the affordable housing market by providing a degree of certainty on rents and an increase in funding. We endorse policy calls for action, such as those made by the Joseph Rowntree Foundation, for "more options for people on lower incomes to be able to access a home with social rent or below market rent, with much greater supply and availability of these genuinely affordable homes." [162]

4.4 Trade-offs and interdependencies across policies

It is important to acknowledge that there are always trade-offs across policies. Some come with a fiscal cost to the government, either through reduced taxation or increased expenditure. These include the recommendations to reduce stamp duty and increase funding for shared ownership. As there is a limited pot of money, the trade-offs between these options must be assessed.

In addition, there are dependencies between policies. Measures which increase demand (for example by cutting stamp duty for first-time buyers) will raise prices unless they are accompanied by steps to increase the provision of new homes, such as rules-based planning or more effective use of existing housing.

As there is a limited pot of money, the trade-offs between these options must be assessed.

156 Shelter: Research: The economic impact of building social housing, published February 2024
157 Shelter: Investing in social housing could add over £50bn to the economy, February 2024
158 The report says returns of £37.8bn to the economy within three years by building 90k social rented homes would come mainly by supporting the construction industry and through savings in housing benefits and universal credit, an increased tax take, reduced NHS outlays and a reduction in homelessness.
159 London School of Economics: A Road Map to a Coherent Housing Policy, January 2024
160 NHF – Let's end the housing crisis
161 Spending on affordable housing in England to be slashed in 2024 (ft.com)
162 Joseph Rowntree Foundation: Housing

05

Conclusions

5 Conclusions

It is widely recognised that there is a shortage of affordable, safe, and secure homes in the UK. This report pinpoints key issues that are hindering the market from working well and proposes recommendations to tackle them.

The housing sector is made up of multiple inter-related sub-markets, including construction, homeownership, social housing and rental, as well as the financing associated with each. While collectively they have distinct outcomes, changes in one market can have cascading effects on others. Recognising this interdependency is vital to identifying solutions to the UK's housing problems and designing policy interventions.

When researching this report, we found that:

- The UK has fewer homes per capita than comparable countries. Despite an acceleration in construction in the past two decades, the number of homes per 1,000 people is lower than in other OECD and EU nations. Indeed, the gap has widened over the last decade.
- In the last 60 years there has been a marked drop in the number of homes constructed by local authorities, with housing associations only partially making up the shortfall.
- The social housing sector has undergone significant change in the last 20 years. Social rent housing has been displaced by affordable rent and shared ownership properties, while funding for affordable housing, once overwhelmingly in the form of government grants, now comes increasingly from private finance and investment and section 106 contributions.

The availability of homes for both purchase and rental is not just reliant on construction; it also depends on the turnover and utilisation of the existing housing stock. Our research finds that:

- Vacancy rates suggest a constrained housing market in the UK. For example, in 2020 England had the lowest percentage of vacant homes among OECD nations – just 2.7 per cent.[163]
- Existing properties are significantly under occupied. In England about ten million homes, or 40 per cent of the overall stock, have two or more spare bedrooms.[164]
- At the same time, the population has been growing, meaning that the number of homes per capita has not increased. This is intensifying the strain on the housing market and reshaping housing needs.

163 The Home Builders Federation: Housing horizons: Examining UK housing stock in an international context, October 2023
164 Gov.UK: English Housing Survey, March 2024

The UK population is ageing. Current projections[165] indicate that those aged over 60 are expected to increase from 25 per cent to 37 per cent of the UK population in less than a century. As this occurs, demand will shift towards housing tailored to meet the needs of this demographic.

The interplay of all these dynamics has resulted in rising prices and declining affordability:

- A typical home now costs up to seven times the average salary in England, up from four times in 2000. This decline in affordability has coincided with a more constraining regulatory environment for mortgage finance.
- Worsening affordability has hit young people aspiring to own a home particularly hard; the average age of a first-time buyer rose from 31 in 2003 to 33 in 2022. It now takes ten years[166] on average to save for a deposit.
- Tighter regulation has restricted the availability of credit, contributing to financial market stability. However large portions of society remain unable to buy a home, and the proportion of households who have a mortgage has declined markedly.
- Rental affordability in the PRS had been persistently low – but stable – for several years; it has deteriorated recently due to rising interest rates, cost of living pressures and increased demand.
- Lastly, there is significant pressure on the availability of social or affordable housing, with over 1.2 million households on the social housing waiting list.[167]

There are too few homes because of a series of interconnected problems affecting the home building market. These include policy uncertainties and misaligned incentives at the local government level, where planning permission is granted. The upshot is extended lead times and the risk that planning applications will be rejected. This affects all developers but particularly smaller, more bespoke ones.

Inefficient use of the housing stock is partly a function of the financial and physical barriers faced by those who may wish to move to a smaller home later in life.

The main focus of policy should therefore be on enhancing the provision of safe and secure new homes of the right size, in the right locations and across all tenures. They must also be built to the most energy efficient standard possible. However, given the time required for policy changes to take effect, it is important to consider more immediate targeted measures to alleviate the affordability challenges faced by specific groups. We recommend action in three policy areas to be used as a package to tackle the market's problems.

Support for the home building industry: A shift in the existing planning system to make it more rules-based, potentially using Auckland's zoning policy as an example, in order to reduce uncertainty, and lead times, for developers. Monitoring changes to the planning system will be important to ensure effective implementation. If executed well, these changes should reduce inconsistencies and developer risk, leading to greater overall housing provision.

Support for buyers: Two groups face particular difficulties in acquiring the homes they need:

1. first-time buyers face challenges in raising the initial deposit, and
2. last-time buyers, who are confronted by a series of barriers to moving to a home more appropriate for their requirements.

165 ONS: Population projection, updated January 2024
166 Generation Rent: Saving for a mortgage deposit now takes a decade, July 2023
167 Gov.UK, Department for Levelling Up: Social housing lettings in England, tenants: April 2021 to March 2022, February 2024

We propose a set of recommendations to support these two groups pending an increase in the overall provision of homes.

- **Support for first-time buyers:** Policies to improve affordability for first-time buyers for a limited period – while supply constraints are relieved. We recommend tackling the deposit barrier for this group, for example by expanding the supply of shared ownership homes. We also propose making the current, temporary stamp duty nil-rate bands for first-time buyers permanent.
- **Support for last-time buyers:** This set of recommendations includes:

1. Ensuring that the Older People's Housing Taskforce[168] findings and recommendations are implemented.
2. Providing a 'free to consumer', one-stop independent, government-endorsed service to advise those aged over 55 on housing and funding options, with the aim of closing information gaps and giving elderly people the confidence to move home.
3. Minimising upfront purchase costs through steps that potentially might include an exemption from stamp duty for last-time buyers.

Support for the rental market: To ensure that UK rental reforms are proportionate and fair to both landlords and tenants, we recommend the following from the Government:

- **Providing clarity on the role of the PRS** for both tenants and landlords and make the agreed role an integral part of long-term, joined up housing policy across the tenures.
- **Integrating administrative process** through the proposed creation of a digital private rented sector database (as outlined in the King's Speech briefing) to bring together key information for landlords, tenants, and councils. Tenants will be able to access information to inform choices when entering new tenancies. Landlords will be able to quickly understand their obligations and demonstrate compliance, providing certainty for tenants and landlords alike.

  Additionally, providing mortgage lenders access to the portal would allow them to use the information to inform lending decisions, while improving standards, potentially by denying finance to rogue landlords.
- **Providing greater support for the social and affordable rental sector** to help those who struggle to afford accommodation in the private market. For example, **for renters on social housing waiting lists or relying on benefits** LHA must be reviewed regularly to ensure it keeps pace with market rents.

Coordinated action that transcends the political cycle will be required in each of these areas to overcome the challenges facing the UK housing market and deliver, on a long-term basis, the homes the country needs.

168 Gov UK: Older People's Housing Taskforce

Annex A – Supply side elements

Annex A – Supply side elements

A.1 Introduction to supply

This section explores the components of housing supply for potential homebuyers and tenants of private or public landlords.

It is structured into two main parts where we examine:

- The UK's current housing landscape by analysing the overall stock and changes over time, comparing it with international markets.
- How the existing housing stock is used and assess if it is meeting effectively the diverse housing needs of the UK.

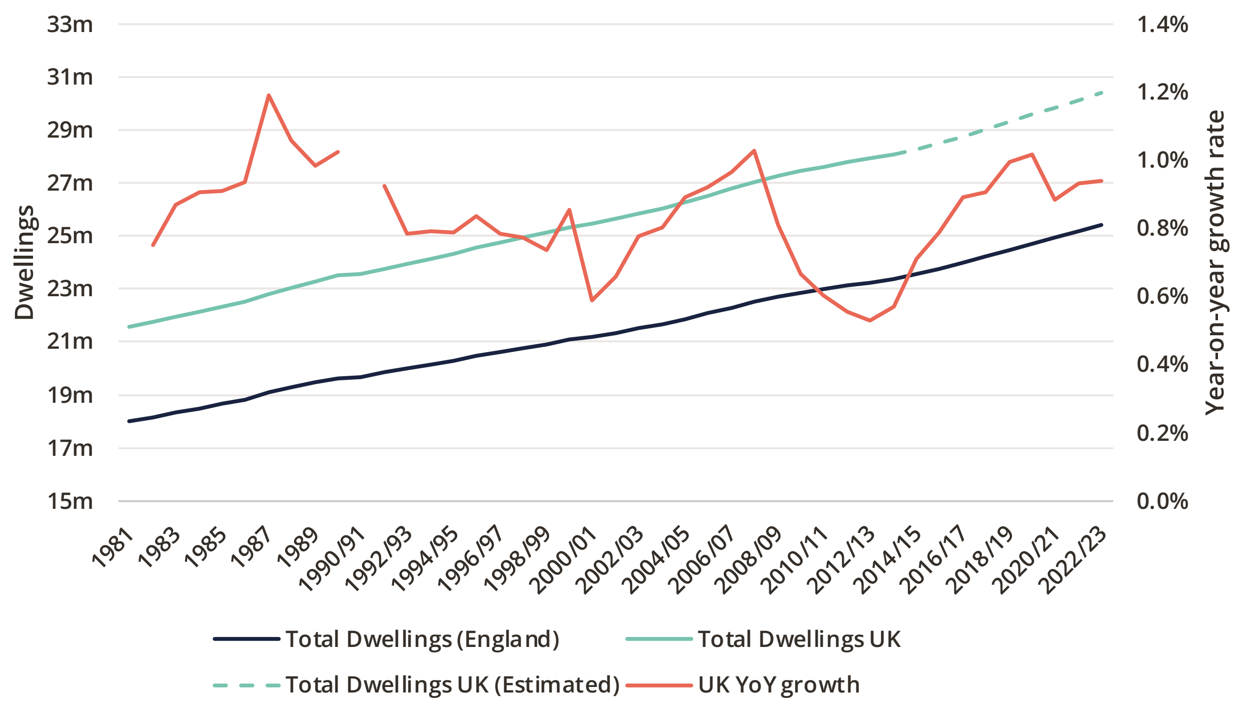
Stock of Housing

Existing homes

As of 2023, the UK had an estimated 30.4 million homes,[169] showing a consistent annual increase of approximately 0.9 per cent since 1981

Figure 9

Number of homes in England and the UK over time



Source: Frontier analysis of data provided by Gov. UK: Housing Supply: Live tables on dwelling stock (including vacant), Table LT 104, LT 101, LT 106, LT 107, LT 108, LT 109 published 14 December 2023.

Note: The data presented above is for all dwelling types in England in the UK. Data prior to 1991 is provided in a calendar year, as such there is a gap in the YoY growth rate calculation between 1990 and 1991. Shared ownership dwellings are currently included in owner-occupied dwellings. From 2003 the figures for owner-occupied and the private rental sector (PRS) for England have been produced using a new improved methodology as detailed in the dwelling stock release. Prior to this, vacancy was not accounted for. Data for the UK (LT 101) was last published for the 2014/15 financial year. Dwellings for the UK are estimated for the financial year 2014/15 onward using the historic proportion of England's stock to the UK, assuming that the increase of stock in Scotland, Northern Ireland and Wales did not change.

Despite the continuous and steady increase, the UK growth rate and stock of homes appear relatively low compared to the OECD average and other EU countries. According to the OECD, there were 434 homes per 1,000 people in the UK[170] in 2019. This was seven per cent lower than the OECD average of 468 and 12 per cent lower than the EU average. This difference is even greater when compared to other Western European countries, being 15 per cent lower than Germany and 26 per cent lower than France. Despite construction efforts, this gap has widened over the past decade.[171]

169 The term 'homes' includes detached, semi-detached and terraced homes and flats. Frontier analysis of data provided by Gov UK: Housing Supply: Live tables on dwelling stock (including vacant), Table LT 104 LT 101, LT 106, LT 107, LT 108, and LT 109, published 14 December 2023. See notes in Figure 9.

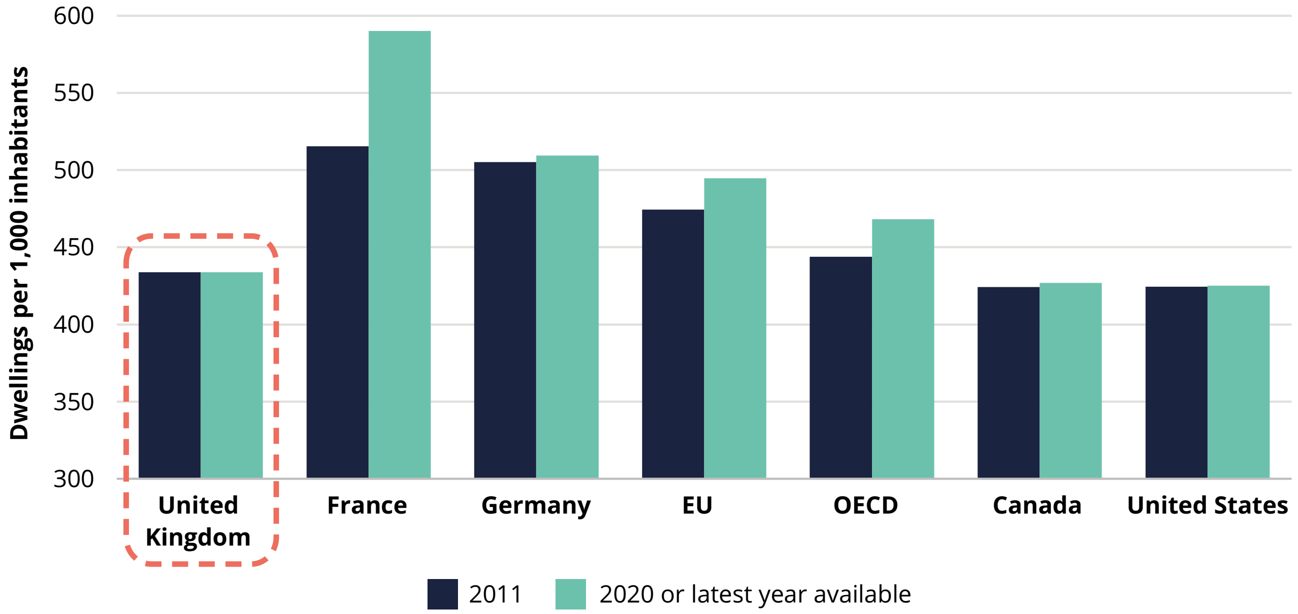
170 Where England is used as a proxy for the UK

171 OECD: Housing market, Housing stock and construction, updated 18 October 2022

A commonly used metric to evaluate the number of 'missing' homes is to compare the UK housing stock to its population relative to the EU. By this measure, the UK appears to be lacking approximately four million homes.[172]

Figure 10

Number of homes per 1,000 people



Source: OECD: Housing market, Housing stock and construction, updated 18 October 2022.
Note: See tab HM1.1.1 for each country's reference year. The orange dashed line is to indicate the UK.

Composition of homes by area and type

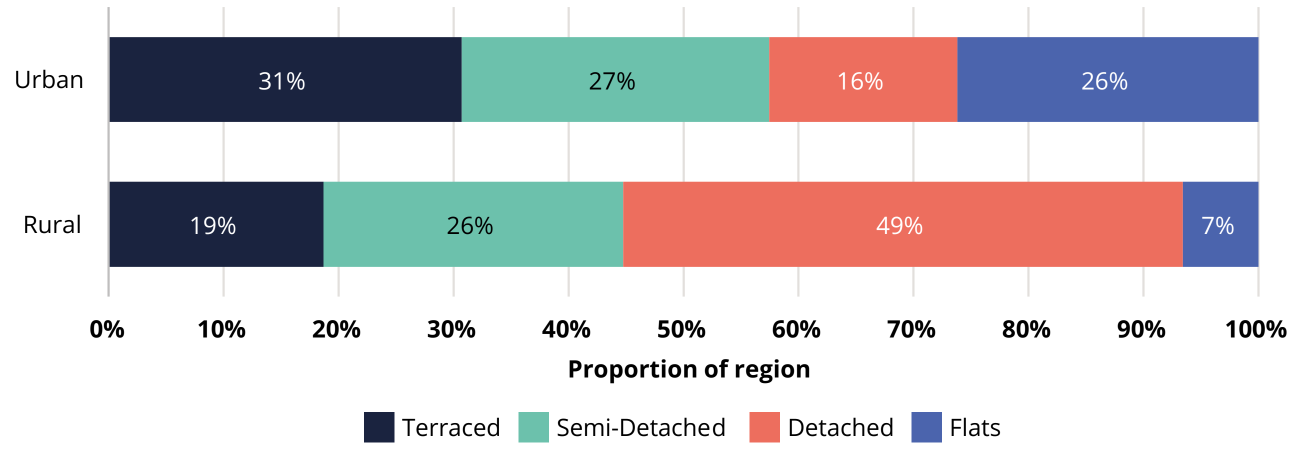
When analysing the composition of homes in England by area, over 85 per cent are in urban areas. This aligns closely with the percentage of the UK population residing in these areas (83 per cent, as of 2019).[173]

However, the composition of homes in rural and urban areas differs significantly. As shown in Figure 11, nearly half (49 per cent) of the homes in rural areas are detached houses. In contrast, urban areas have a more evenly distributed housing composition, with flats currently accounting for about one quarter of all homes.

172 Centre for Cities: The housebuilding crisis: The UK's 4 million missing homes, February 2023
173 Gov UK: Urbanisation Trends, updated Spring 2021

Figure 11

Proportion of homes in rural and urban areas in England, 2020



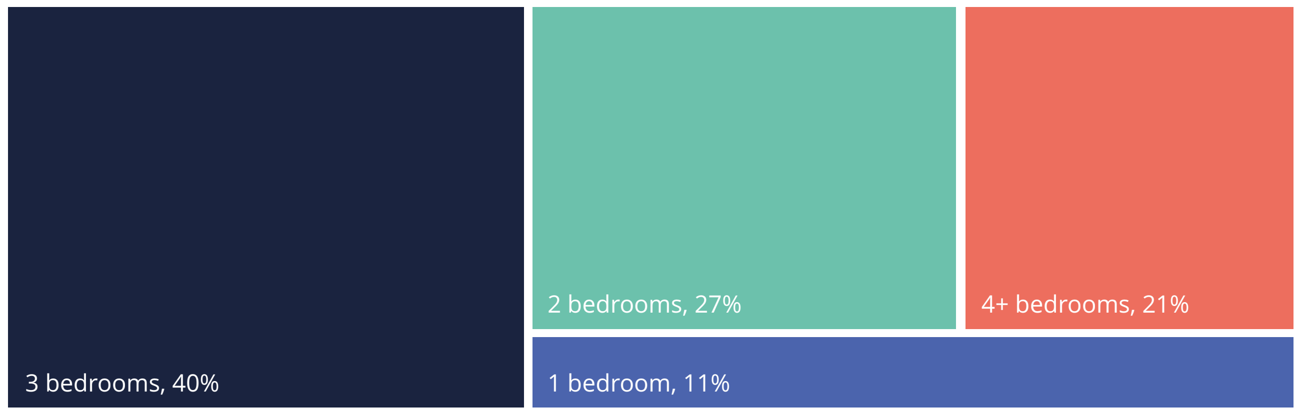
Source: Frontier analysis of data provide by Gov UK: Housing Supply: Statistical Digest of Rural England, published November 2023.
Note: 'Terraced' dwellings includes both end of terrace and terrace.

Composition of homes by size

Another important characteristic to consider is the size of the property. This is relevant because housing needs evolve as household composition changes. As depicted in Figure 12, in 2021, smaller one-bedroom homes represented only 11.3 per cent of homes in England and Wales. Two-bedroom, three-bedroom and four-bedroom homes made up 27 per cent, 41 per cent and 21 per cent of homes respectively. However, when compared to Germany, the distribution of home sizes differs. For example, in 2022 in Germany, less than five per cent of homes were one-bedroom, 10 per cent were two-bedroom, 22 per cent were three-bedroom and 65 per cent had four or more bedrooms.[174] However, the distribution of property size is not sufficient to determine how the stock is used; we must also consider how many people live in the household.

Figure 12

Number of bedrooms in homes in England and Wales, 2021



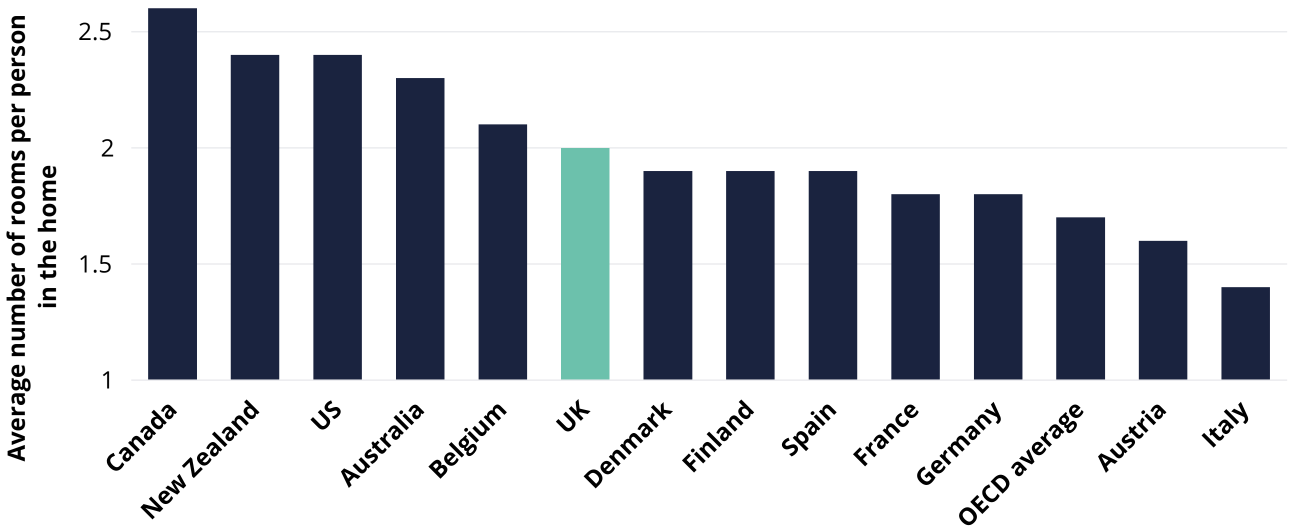
Source: Frontier analysis of data provided by ONS: Housing, England and Wales: Census 2021, published 1 November 2023.

174 DE Statis: Housing, Dwelling stock by years, July 2023

Another helpful metric is the number of bedrooms per person. As shown in Figure 13 below, this metric varies between countries. On average, in the UK, there are two bedrooms per person, while the OECD average is 1.7.

Figure 13

Average number of bedrooms per person by country, by latest year



Source: OECD: Better Life Index, Housing.
Note: The year in which the data was collected may differ between countries. The green column indicates the UK.

Composition of homes by energy efficiency

Energy efficiency is a critical factor in assessing the quality of existing homes in the UK. It plays a pivotal role in reducing energy consumption, lowering utility costs for residents, addressing environmental concerns, and enhancing overall comfort levels.

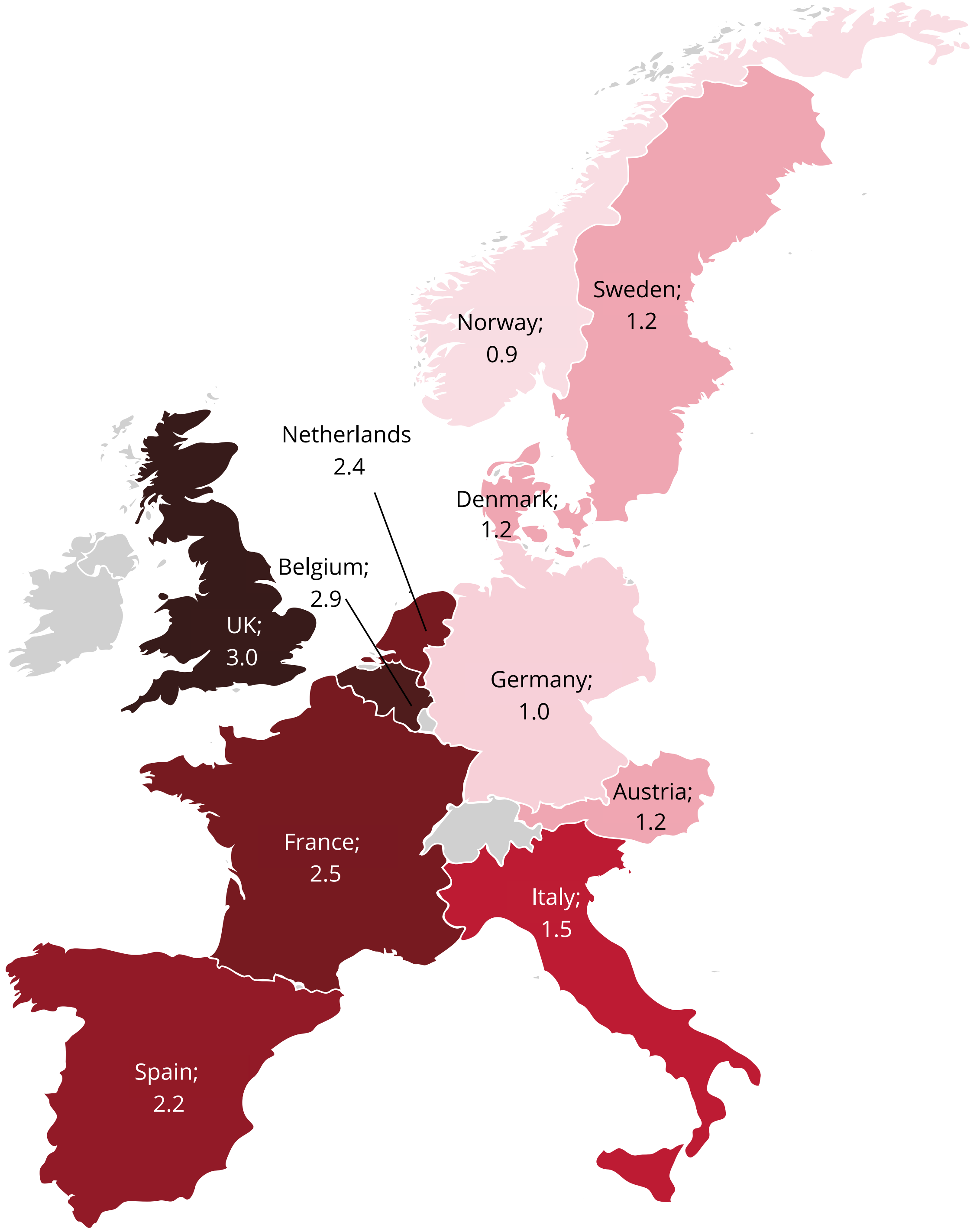
The new government has set ambitious targets to improve energy efficiency. It has committed to ensuring all properties in the PRS reach a minimum Energy Performance Certificate (EPC) rating of band C by 2030.[175, 176]

Homes in the UK are generally less energy efficient than those in the EU. A 2020 study by Tado[177] indicated that homes in the UK lose heat at a faster rate than those in the EU. As shown in Figure 14, homes in the UK lose on average three degrees Celsius after five hours, while homes in Germany and Norway lose about one degree Celsius.

175 Miliband, Ed. "Clean Energy Superpower Mission." House of Commons Debates, vol. 752, 18 July 2024
176 House of Commons Library: Energy efficiency of UK homes, February 2024
177 Tado: UK homes losing heat up to three times faster than European neighbours, press release

Figure 14

Home temperature loss (Celsius) after five hours, by country

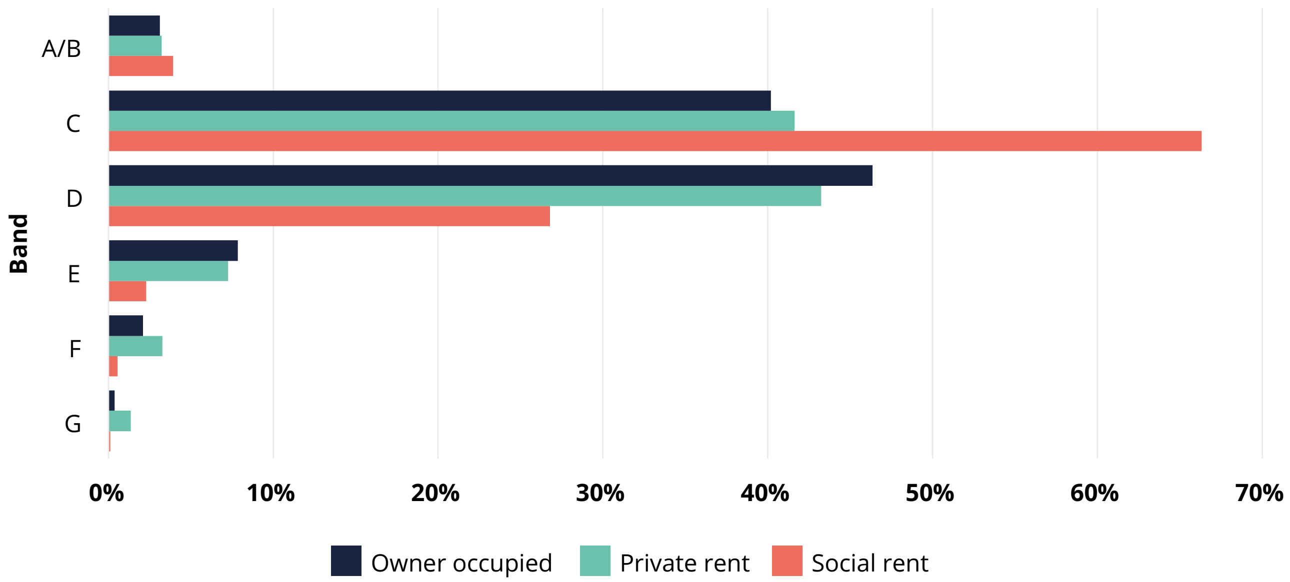


Source: Tado: UK homes losing heat up to three times faster than European neighbours, press release.
Note: Based on a sample of over 80,000 European homes. Home temperature loss is calculated after five hours, with a temperature of 20 degrees Celsius inside the home and 0 degrees Celsius outside the home.

The energy efficiency of homes in England has substantially improved over the past decade. Between 2010 and 2022, homes achieving an EPC A-C energy efficiency rating[178] increased from 14 per cent to 48 per cent. However, nearly half of homes still fall within the EPC D or E category – underscoring the continued need for further enhancement in energy performance.

Figure 15

Energy efficiency rating bands by tenure, 2022



Source: Gov UK: English Housing Survey 2022 to 2023, Chapter 5, published December 2023.

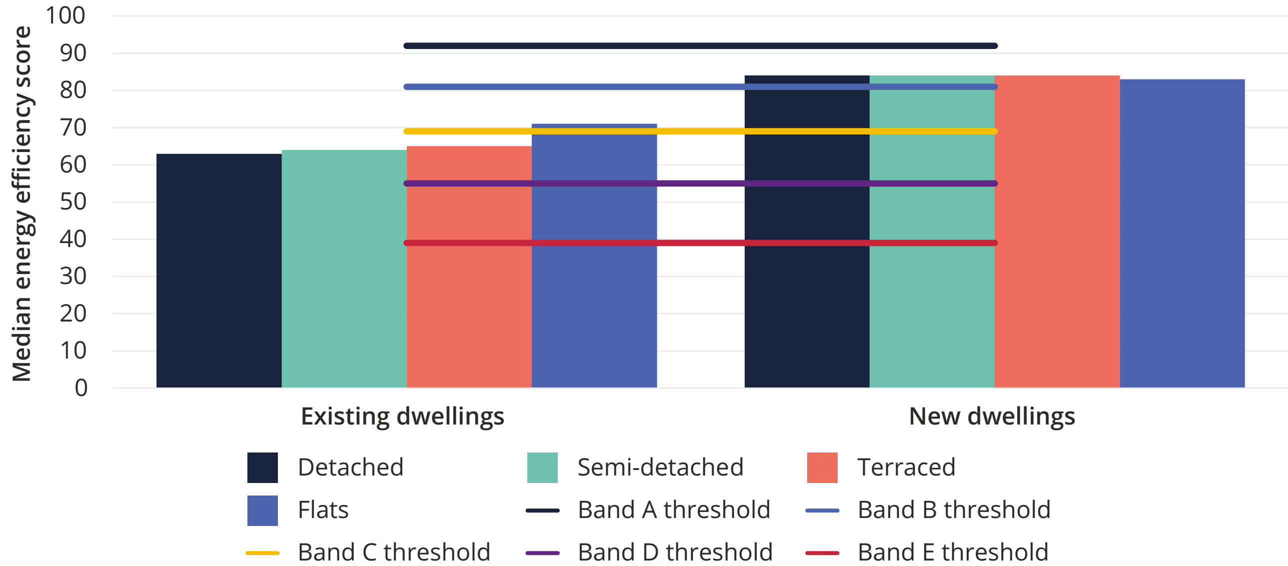
The age of homes is the most significant factor influencing the distribution and median energy efficiency rating for England and Wales.[179] According to the ONS, 'age of the property is the biggest single factor in energy efficiency of homes',[180] with homes built before the 1930s[181] being the most inefficient. The age of homes is unevenly distributed across the England and Wales, with London having the highest proportion of older homes, while the South West has the highest proportion of new homes.[182]

178 Gov UK: English Housing Survey, Energy Report, 2020-21
179 ONS: Housing, England and Wales: Census 2021, published 1 November 2023
180 ONS: Housing, Age of the property is the biggest single factor in energy efficiency of homes, released January 2022
181 ONS: Energy efficiency of housing in England and Wales: 2023, released November 2023
182 ONS: Housing, Age of the property is the biggest single factor in energy efficiency of homes, released January 2022

As new construction accounts for approximately 0.8 per cent of homes,[183] achieving the Government's objective for improving efficiency will largely depend on retrofitting existing properties, although homes built since 2013 have met higher 'Part L'[184] building standards. While flats appear to be significantly more efficient than other types of homes, for the existing stock, this difference is mostly linked with construction standards, as energy efficiency is similar for all new dwellings, irrespective of their type.

Figure 16

Median energy efficiency score for new and existing homes by property type



Source: Frontier analysis of data provided by ONS: Housing, England and Wales: Census 2021, published 1 November 2023.

Note: The horizontal lines indicate the minimum energy efficiency score for each band rating. For example, the horizontal red line, indicates that homes with efficiency scores between 39 (horizontal red line) and less than 55 (purple line – indicated as "Band D") have an EPC rating of "Band E". Statistics for existing dwellings were created using data from the latest EPC record available for existing dwellings in a financial year. Existing dwellings are those that are required to undergo an energy performance assessment as they are either being sold or let and are not newly constructed or converted. Statistics for new dwellings are generated using data from new dwelling EPC records. A new dwelling is any dwelling that has been newly constructed, created by conversion or has undergone a change of use and is now required to have an energy performance assessment.

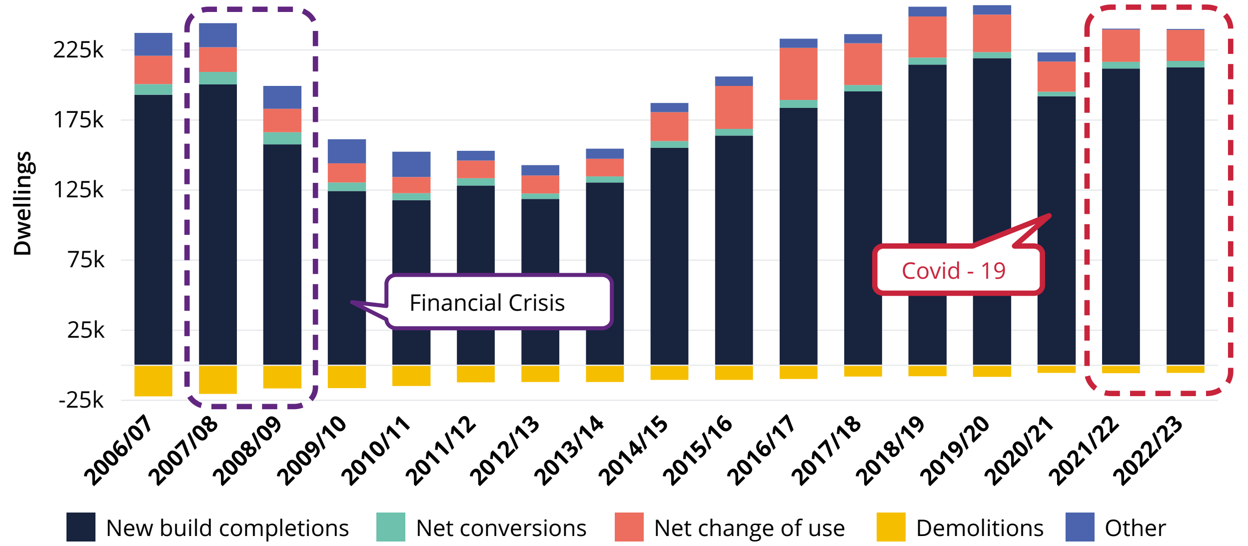
183 Frontier analysis of data provided by Gov UK: Live tables on dwelling stock (including vacants), Table 118 and LT104
184 Building regulations in England set standards for the energy performance of new and existing buildings. Part L covers the conservation of fuel and power. More information can be found here: Gov UK: Conservation of fuel and power: Approved Document L, February 2023

How the existing stock is changing

The growth in the number of homes in the UK has predominantly been driven by the construction of new homes. However, net changes of use, and net conversions also contributed to approximately 14 per cent of the change between 2006 and 2022, as depicted in Figure 17. On average, there have been 215,000 homes added per year over the last decade.[185]

Figure 17

Net additional dwellings in England



Source: Frontier analysis of data provided by Gov UK: Annual net additional dwellings and components, England, updated November 2023.

Note: The purple dashed line indicates the 2008 financial crisis, and the red dashed line indicates the Covid-19 pandemic.

There has been a noticeable change in who has been contributing to the construction of new homes. During the post-war era of the 1950s to the late 1960s, local authorities played a key role in building new homes, which peaked at 425,000 per year in 1968.[186] However, as illustrated in Figure 18, construction by local authorities declined in the 1970s, with private sector construction expanding in recent decades. The private sector accounted for 81 per cent[187] of new homes built between 1980 and 2008, with a much smaller contribution from housing associations.[188]

Following the global financial crisis in the early 2000s, construction of new homes experienced a significant downturn. Build rates picked up again in the late 2010s, notably after the Government's implementation of Help to Buy.[189]

185 This includes new build completions, net change of use and demolitions. If only considering new builds, there have been an average of 188k homes added to the stock per year over the last decade. Frontier analysis of data provided by Gov UK: Annual net additional dwellings and components, England, updated November 2023

186 Parliament: History of social housing

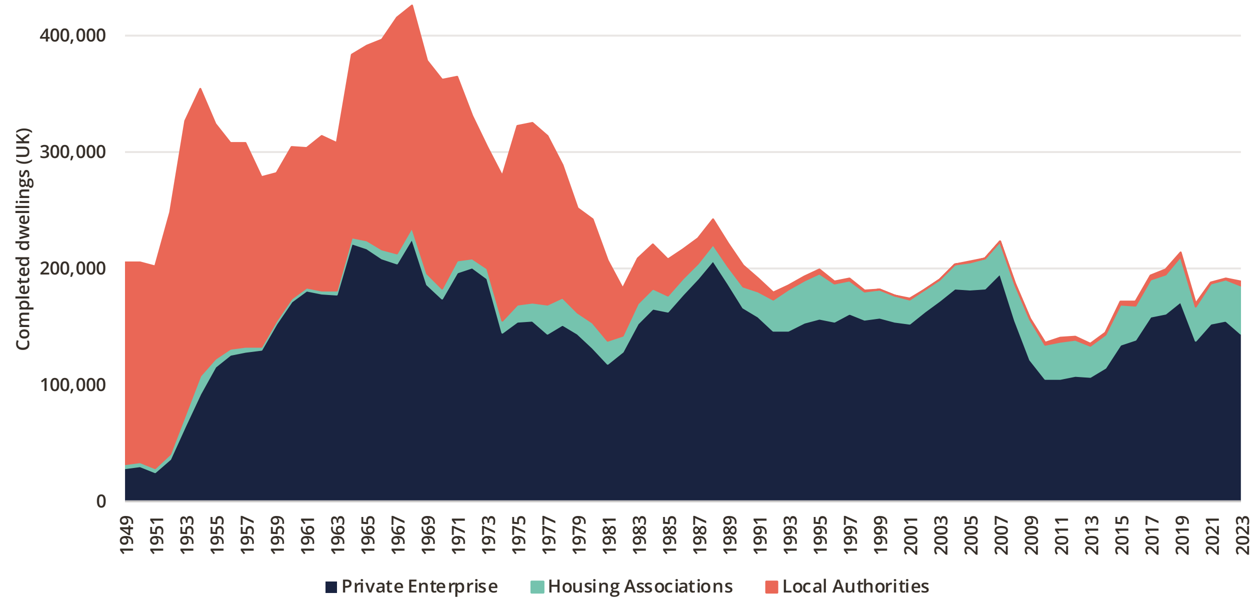
187 Frontier analysis of data provided by ONS: permanent dwellings started and completed, UK, updated September 2023

188 See notes to Figure 18

189 This will be covered in more detail in 2.5.1

Figure 18

Completed homes by sector per year, in the UK



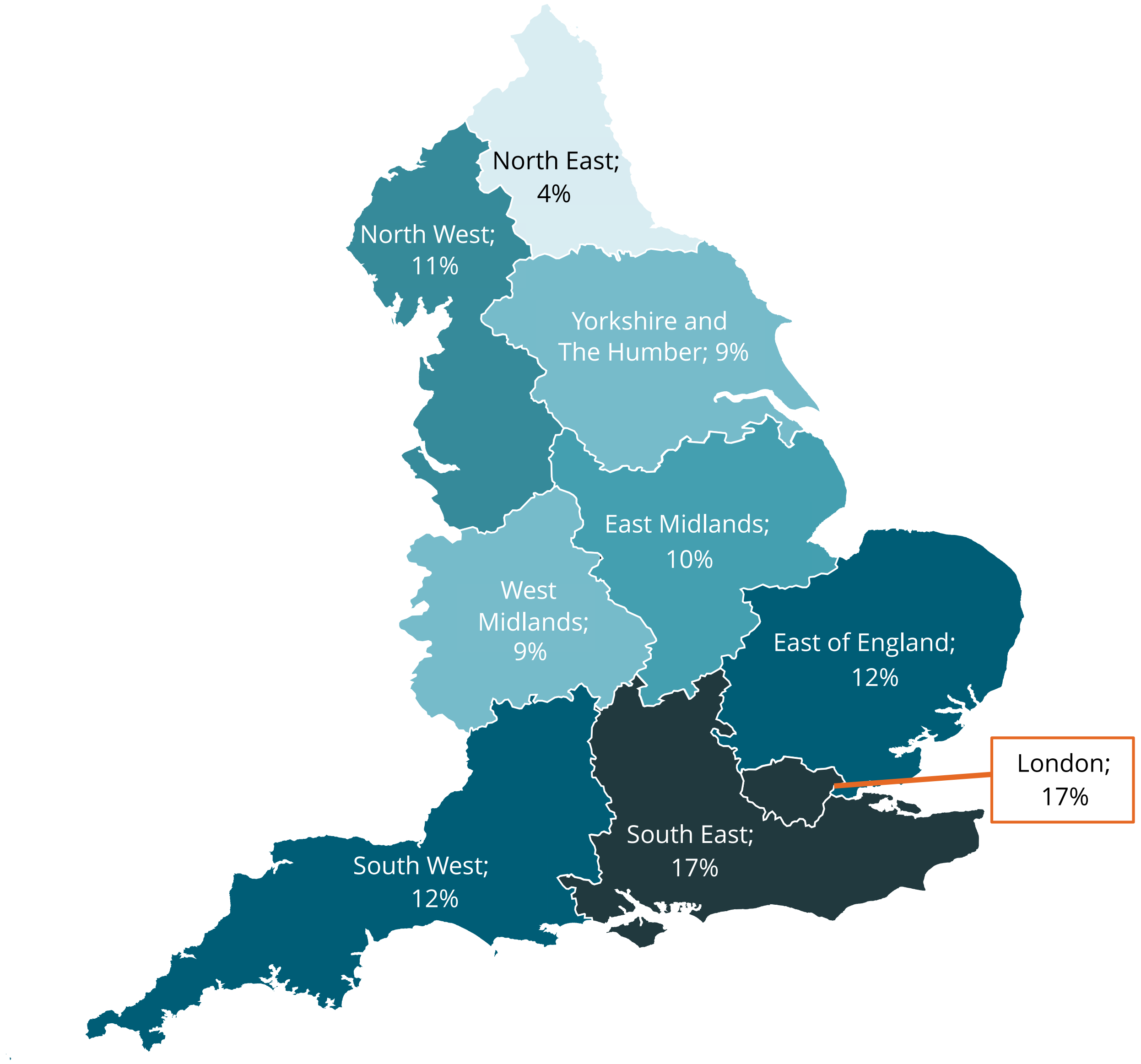
Source: ONS: permanent dwellings started and completed, UK, updated September 2023.

Note: This data is for newly built dwellings in the UK, specifically on completions. Data for 2021 does not include Wales. The data provided above is per calendar year. We have received comments indicating that the data presented above typically undercounts homebuilding, particularly in urban areas. There is concern that the data is not properly capturing private building by housing associations and social housing by private builders under section 106. The purpose of this graph is to illustrate the relative contributions of sectors to the housing stock. Despite the data not being precise, it can provide an idea of the change in the composition of who is promoting construction.

As shown in Figure 19, in terms of geographical distribution, most new homes constructed in England have been concentrated in the South East, and London regions, while the North East has seen significantly fewer new homes constructed.

Figure 19

Allocation of additional newly built homes by region in England, financial years 2000-2023

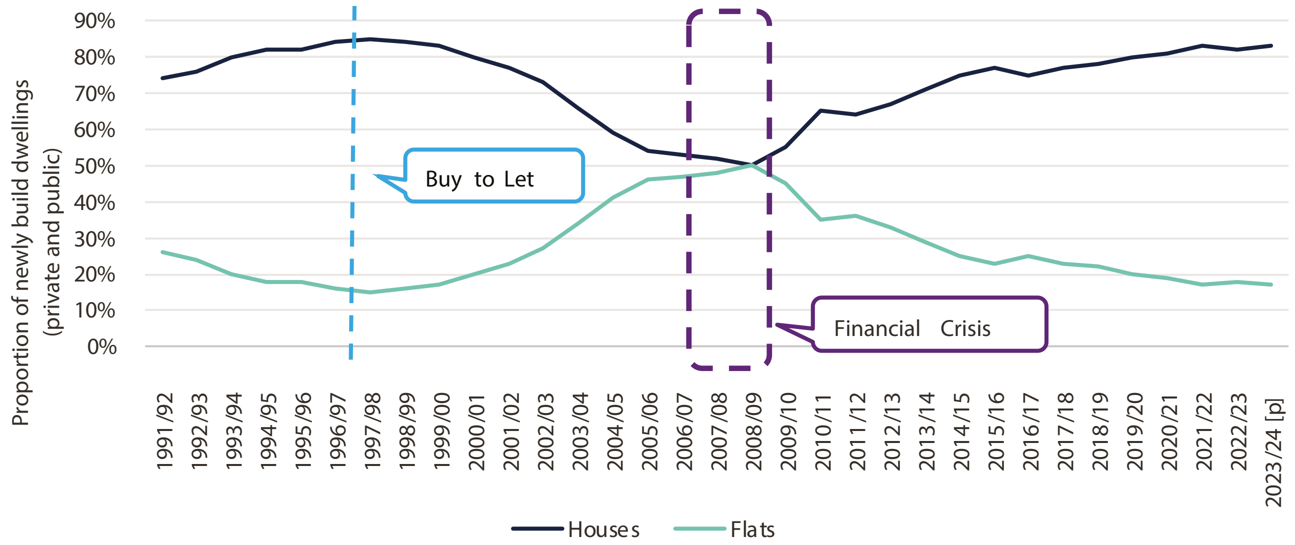


Source: Frontier analysis of data provided by Gov UK: Annual net additional dwellings and components, England, updated November 2023.

The construction of flats peaked in 2008-2009, accounting for nearly half of all new build homes, as illustrated in Figure 20. However, since then, there has been a declining trend in flats as more houses have been built.

Figure 20

House and flat build completions in England



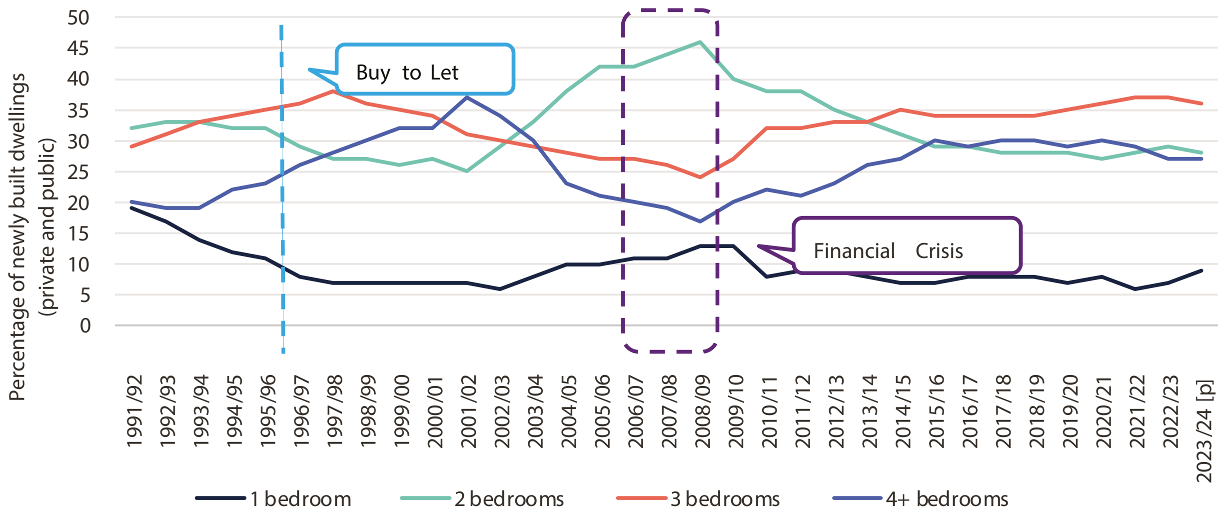
Source: Frontier analysis of data provided by Gov UK: permanent dwellings completed, Table 254 updated September 2023.

Note: These figures are for newly built dwellings only and for all tenures. Figures for 2001/02 onwards are based on just NHBC figures, so there is some degree of variability owing to partial coverage. The data above is for all tenure types and private enterprise and housing associations. The sky blue dashed line indicates the introduction of Buy to Let in 1996 and the purple dashed line indicates the 2008 financial crisis.

As shown in Figure 20 above, currently, over 80 per cent of new homes added to the housing stock are houses. This is consistent with the findings in Figure 21 below that 60 per cent of the recent new housing stock has been made up of homes with three or more bedrooms. Smaller properties (such as those with one or two bedrooms) make up a significantly lower share of the new build stock than pre-financial crisis.

Figure 21

Home completion by bedrooms in England



Source: Frontier analysis of data provided by Gov UK: permanent dwellings completed, Table 254 updated September 2023.

Note: These figures are for newly built dwellings only and for all tenures. Figures for 2001/02 onwards are based on just NHBC figures, so there is some degree of variability owing to partial coverage. The data above is for all tenure types and private enterprise and housing associations. The sky blue dashed line indicates the introduction of Buy to Let in 1996 and the purple dashed line indicates the 2008 financial crisis.

Affordable housing completions

Affordable housing aims to provide accommodation for those unable to purchase their own home or rent in the PRS due to affordability issues. There are four main types of affordable housing tenure:

- **Social rent:** Is a form of housing where the level of rent is calculated according to a formula, primarily based on the levels of income in the local area.
- **Affordable rent:** Is capped at 80 per cent of the local market rental levels.[190] Affordable rent is typically more expensive for the tenant than social rent. The degree of difference varies by region, but on average, affordable rents are 30 per cent higher than social rents.[191] However, affordable rent requires a lower average reduction to local market rental levels than social rent.
- **Shared ownership:**[192] Allows tenants to purchase a share of at least ten per cent of the home from the housing provider. The tenant will continue to pay a subsidised rent on the remaining (unowned) share while repaying their mortgage on the share they have purchased. Tenants may progressively buy a larger share of the home until they own 100 per cent. As the purchaser is buying a percentage of the property, the deposit required for a mortgage is lower than it would be if they were buying a whole property.

190 L&Q Social housing rent

191 Inside Housing: Affordable rent costs double the equivalent social rent in parts of England

192 Gov.UK: Shared ownership-scheme: buying, improving and selling

- **First Homes:** A scheme, at the discretion of local authorities, in which buyers can purchase their home with a discount of 30 per cent or more. Different local authorities may set their own rules as to how this is implemented, with some prioritising key workers. Currently, the First Homes scheme makes up just three per cent of affordable housing delivery. The previous government stated that in the future, First Homes should account for at least 25 per cent of all affordable housing units delivered by developers through section 106 planning obligations (see below). The new Labour government now proposes removing this requirement as part of changes to the National Planning Policy Framework.[193]

All four types of affordable housing are funded through a mixture of government grants, private debt finance and investment. The planning system allows local planning authorities to place obligations on developers to provide a proportion of affordable housing in planning agreements under their section 106 funding. Section 106 funding obligates developers to ensure their new developments enhance the community, for example, by funding schools and other local amenities to offset the increase in demand these additional homes create in the local area. However, it is frequently used to fund affordable housing.

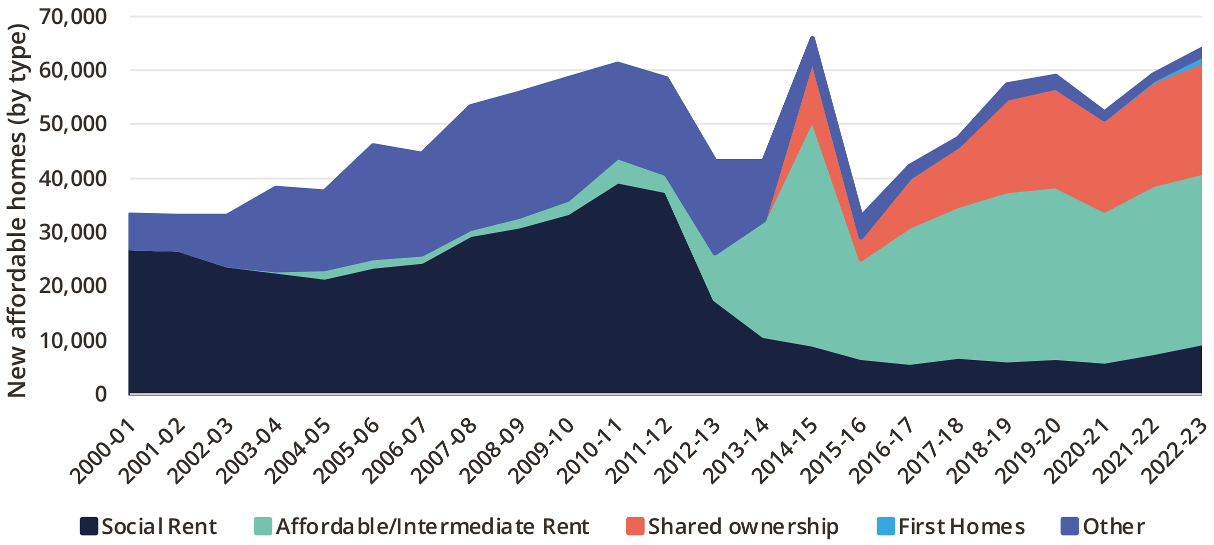
In addition, each tenure has conditions on who is allowed to access them based on income and other criteria, such as key worker status.

Until 2011-2012, the dominant form of affordable housing was social rent, making up nearly two-thirds (65 per cent) of all affordable housing completions in that year. However, since then, affordable rent and shared ownership tenures have become the dominant types of affordable housing due to shifts in government policy, consisting of 52 per cent and 22 per cent, respectively, from 2012-2013 onwards.

193 Gov UK: Guidance, First Homes, updated December 2021

Figure 22

New affordable housing by type



Source: Frontier analysis of data provided by Gov UK: Additional affordable homes by Tenure, England, Table 1000, published November 2023

Note: Affordable/Intermediate rent includes Affordable, Intermediate and London Affordable. Shared ownership figures for 2014/15 and 2015/16 are based on Homes England and the GLA figures only. Shared ownership units funded by other means are counted as affordable home-ownership. Prior to 2014/15, all shared ownership units are counted as affordable home-ownership.

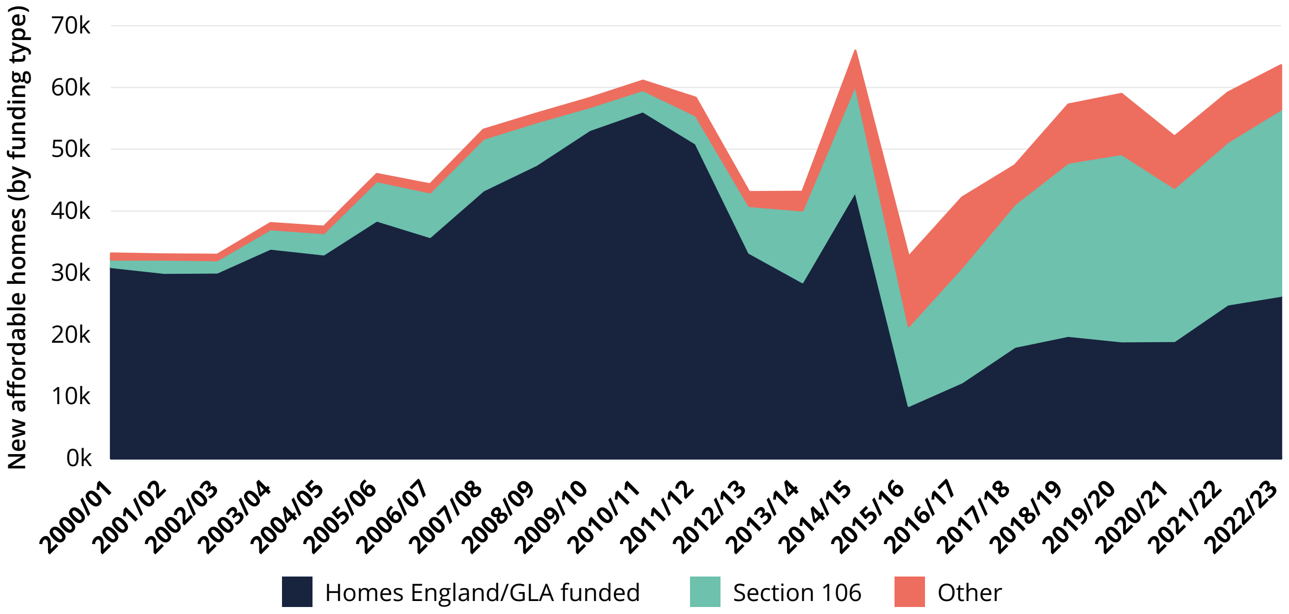
All types of affordable housing require some form of subsidy. Figure 23 shows the breakdown of funding types over time. Historically, most new affordable housing was funded by the government through Homes England (formerly the Homes and Communities Agency) and the Greater London Authority (GLA). However, in recent years, the level of government funding has reduced, and increasingly new affordable homes are funded by private developers through their section 106[194] obligations.

These obligations are designed to mitigate the impacts of new developments through 'developer contributions' to provide infrastructure or affordable housing. In 2023, 47 per cent of affordable housing completions were funded by section 106 obligations.[195] Section 106 obligations are inherently tied to private housing developments. Therefore, a reduction in private development has the potential to reduce the availability of new affordable housing.

194 Legislation Gov.UK: Town and Country Planning Act 1990, Changes over time for: Section 106, May 2024
195 Gov UK: Affordable housing supply in England: 2022 to 2023, November 2023

Figure 23

Affordable housing by funding type



Source: Frontier analysis of data provided by Gov UK: Additional affordable homes by Tenure, England, Table 1000c, published November 2023.

A.2 Utilisation of homes

The previous subsection gave an overview of the housing stock in the UK, examining its evolution over time and how new construction has developed. However, to gain a complete understanding of the supply of homes for purchase or rent, the utilisation of existing homes needs to be understood. This involves two main factors:

- **Flows across tenures:** Looking at the distribution of homes across the various sub-markets making up the overall UK housing market by examining how many homes serve as primary residences, how many are rented by private landlords and, how many are available for social or affordable rental purposes. The number of homes in each market directly depends on the flow of homes across markets.
- **Utilisation of the space:** The extent to which the available housing is effectively used, and the issues related to under-utilisation (such as vacancies or under-occupation) and over-utilisation (such as overcrowding) within the properties.

Flows across tenures

When exploring the supply of UK homes, it is important to understand that the same home can serve various purposes.

Across the different tenures (owner-occupied, social/ affordable rent and private rent), there are multiple links. The outcomes of one market influence the availability of homes and the need for homes in other markets. For instance, assuming the overall number of homes remains constant, an increase in people purchasing their social rented home through Right to Buy would increase the stock of owner-occupied homes but reduce the availability for social/ affordable rent.

As interest rates rise, some landlords may not be able to afford their mortgage payments (and other costs) and are forced to sell their property. In doing so, that property may be ‘recycled’ back into the stock of rental properties, or it may enter the owner-occupier market. Therefore, a reduction in private rental homes from the market (due to a landlord selling the property) could increase the supply of homes for owner-occupation while simultaneously reducing the availability of rental homes (potentially raising rental prices).

A shortfall in social and affordable rented homes would force some into the PRS, potentially pushing private rents up due to increased demand.

These three inter-relationships have been evidenced in the historical trends of flows across housing tenures over the past 40 years:

- From 1981 to 2022, there was a decline in the proportion of social rented homes from 31 per cent to 16 per cent.[196] These homes have moved into the owner-occupied tenure.
    - This decline was primarily influenced by the Right to Buy scheme implemented in the 1980s, enabling social housing tenants to purchase their homes at discounted rates.
    - Over two million homes were sold through Right to Buy schemes between April 1980 and March 2022. As Figure 24 shows, social rent homes are a smaller proportion of the overall stock due to lack of replacement for the social rent homes purchased through Right to Buy.
- Despite a surge in homeownership to 70 per cent in 2002, primarily driven by Right to Buy, soaring property prices have made homeownership less attainable, leading to a decline in owner occupation to 64 per cent by 2022.[197]
    - The UK’s average homeownership rate is below the EU average of 69 per cent – 4th lowest amongst EU countries – though similar to France, but above Germany.[198]

The PRS has nearly doubled since the 2000s because of the affordability challenges faced by first-time buyers, the increase in availability of BTL mortgages, the reduced provision of social rent homes, and favourable expense and taxation allowances during the 1990s and 2000s.

There are currently 1.2 million people on the waiting list for social housing, highlighting the need for affordable housing options.[199]

196 Frontier analysis of data provided by Gov. UK: Housing Supply: Live tables on dwelling stock (including vacants), Table LT 104, England: 1981 to 2022, published 14 December 2023

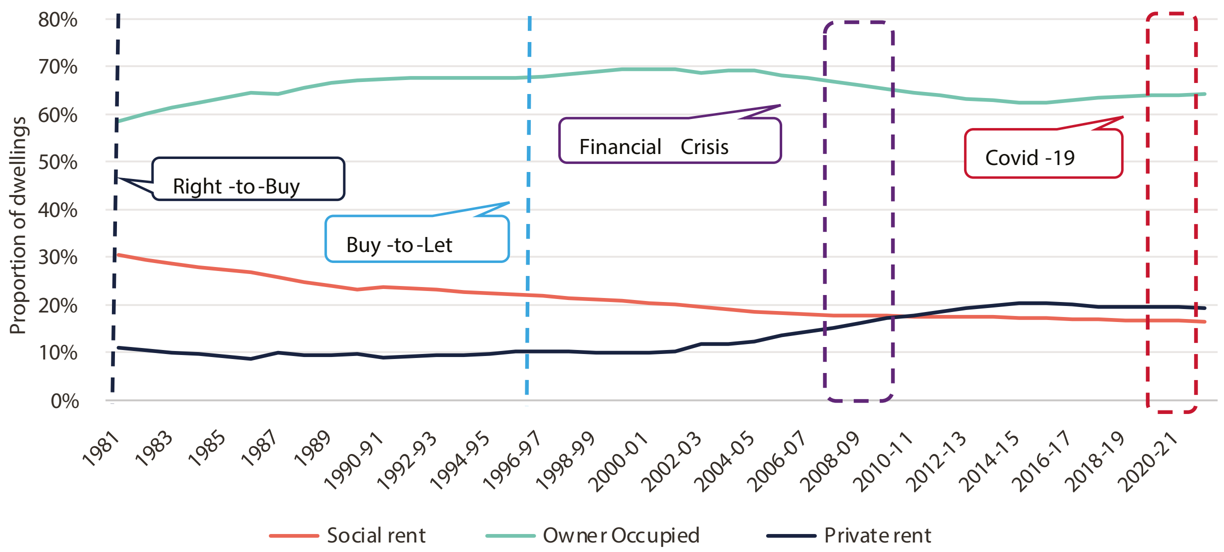
197 Frontier analysis of data provided by Gov. UK: Housing Supply: Live tables on dwelling stock (including vacants), Table LT 104, England: 1981 to 2022, published 14 December 2023

198 Eurostat: 7 in 10 people in the EU live in a dwelling they own

199 Gov UK: Social housing lettings in England, tenants: April 2021 to March 2022, February 2024

Figure 24

Proportion of housing stock by tenure



Source: Frontier analysis of data provided by Gov. UK: Housing Supply: Live tables on dwelling stock (including vacants), Table LT 104, England: 1981 to 2022, published 14 December 2023.

Note: Data prior to 1991 is a calendar year. The data from 1991 onwards is a financial year. Social rent includes dwellings classified under Private Registered Providers, Local Authorities and other public rent. The black dashed line indicates the introduction of Right to Buy in 1980, the sky blue dashed line indicates the introduction of Buy to Let in 1996, the purple dashed line indicates the 2008 financial crisis and the red dashed line indicates the Covid-19 pandemic.

Occupancy of the housing stock

While assessing the total housing stock and the flows between housing tenures is important, it is equally important to analyse how efficiently these homes are used. Under-utilisation of the stock diminishes the availability of homes in the market, while over-occupancy can result in sub-optimal outcomes and health and well-being issues for residents.

Vacancy rates

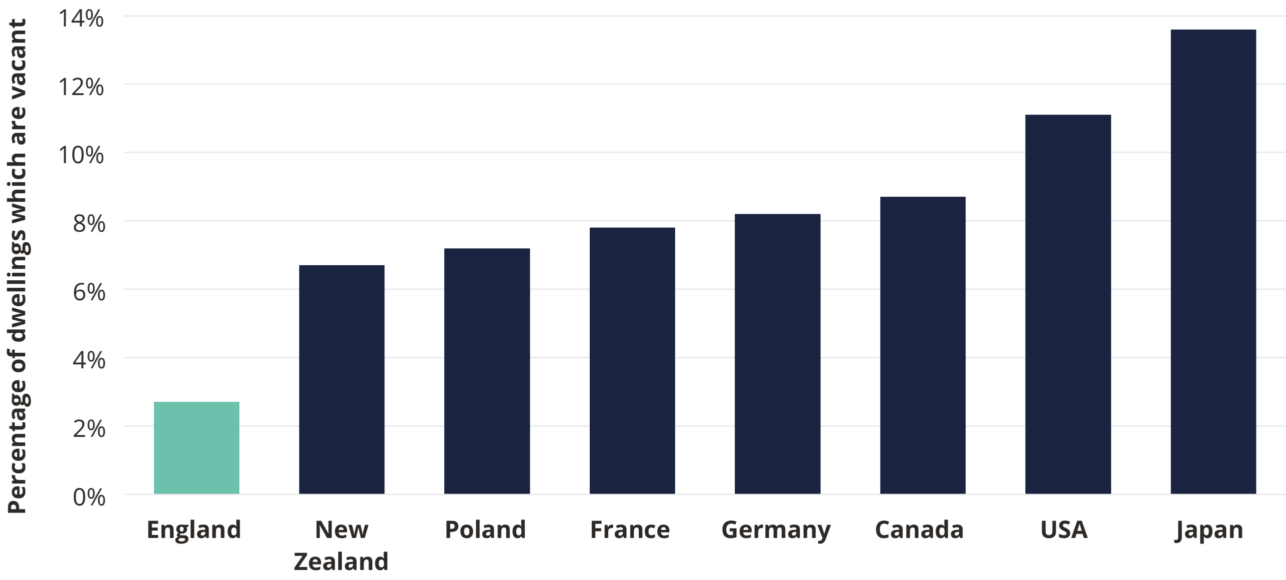
The level of vacant homes, defined as homes not currently used for occupation or rental purposes, can serve as an indicator of how well the housing market is functioning. An excess of vacant homes can lead to sub-optimal use of housing resources. Conversely, if the vacancy rate is too low, it can result in a lack of flexibility in the market, making the search for housing more challenging and potentially driving prices upwards.

The overall vacancy rate in the UK suggests a constrained housing market compared to its international counterparts. A recent report by the HBF[200] (as shown in Figure 25) reveals that England had the lowest percentage of vacant homes (at 2.7 per cent) amongst OECD countries in 2020 despite recent increases in home building activity. Consequently, the housing market in England is sub-optimal in terms of flexibility, posing difficulties for people seeking homes.

It is worth noting, however, that vacancy rates are improving slightly in England but vary significantly across regions. More recently, according to the English Housing Survey, in 2022, there were approximately 1.1 million vacant homes in England.[201]

Figure 25

England has lower vacancy rates compared to other countries, 2020



Source: Home Builders Federation: Housing Horizons: Examining UK housing stock in an international context, October 2023.

200 The Home Builders Federation: Housing horizons: Examining UK housing stock in an international context, October 2023

201 Gov UK: English Housing Survey 2022-23, December 2023; Properties in between lets and those that are vacant for a longer period are both classified as vacant in the EHS

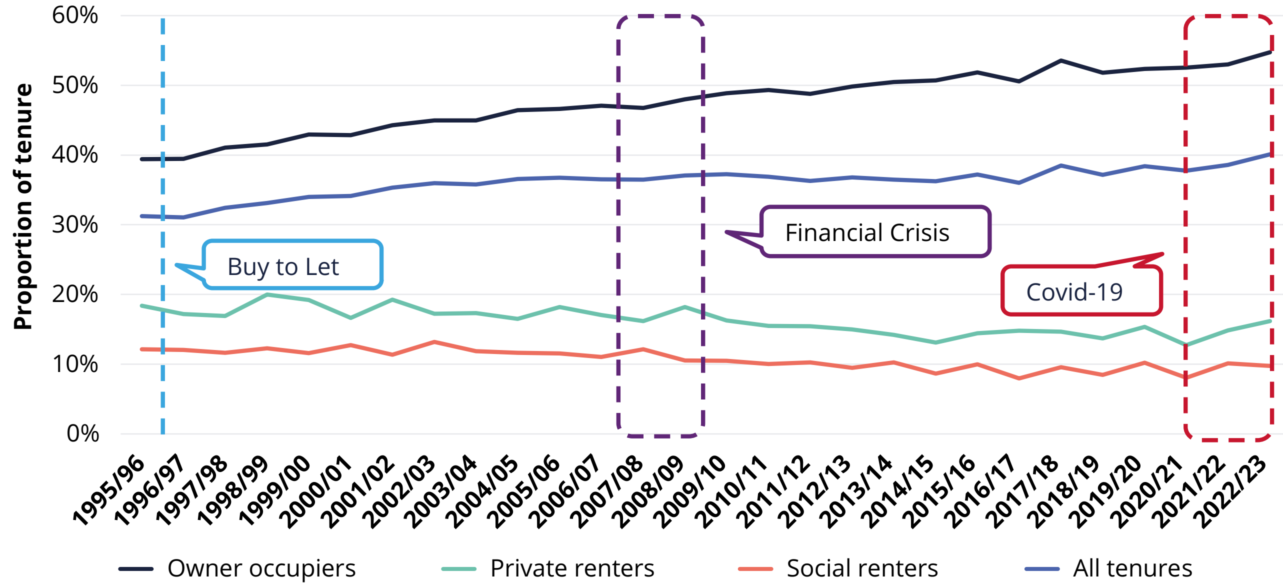
Under-occupied homes

The UK Government defines the 'under-occupation' of a home as when a property has at least two bedrooms more than is necessary.[202] The 2022-2023 English Housing Survey found an average under-occupation rate of 40 per cent (equivalent to almost ten million households) in England, rising from 30 per cent in 1995-1996.[203]

To give a sense of scale, releasing one bedroom from ten per cent of this stock would be roughly equivalent to releasing an additional 327,000 new homes into the market, which is larger than the previous government's annual target for new builds.[204]

Figure 26

Under-occupation by tenure in England



Source: Gov. UK: English Housing Survey Headline report 2022-23, Annex tables, published 14 December 2023.

Note: The sky blue dashed line indicates the introduction of Buy to Let in 1996, the purple dashed line indicates the 2008 financial crisis and the red dashed line indicates the Covid-19 pandemic.

As Figure 26 illustrates, owner-occupiers have the highest rate of under-occupation, with 55 per cent living in under-occupied homes. Internationally, the UK's under-occupancy rate surpasses the EU average. Eurostat data from 2016 indicates that the proportion of people living in under-occupied dwellings was slightly above 50 per cent for the UK,[205] while the EU average was close to 35 per cent.[206]

Although the under-occupation prevalence is significant across most groups, it is particularly high amongst those aged over 65. More than 60 per cent of the owner occupiers in this age bracket reside in under-occupied homes. This ratio remains above 35 per cent for people aged between 16 and 34 and approaches 45 per cent for those aged between 35 and 64.

202 Gov. UK: Housing statistics and English Housing Survey glossary. 'Households are said to be under-occupying their property if they have 2 or more bedrooms more than the notional number needed according to the bedroom standard definition.'

203 Gov. UK: English Housing Survey Headline report 2022-23, Annex tables, published 14 December 2023

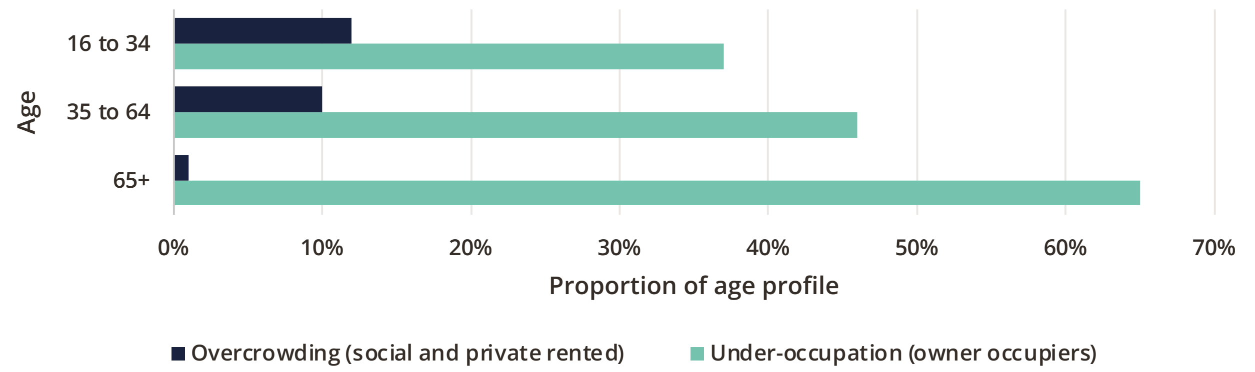
204 Frontier analysis. This assumes that just one room could be released from each under-occupied home, meaning that releasing 10 per cent of this stock of 9.8m would release 980k new bedrooms onto the market (9.8 million * 10 per cent). It further assumes that the average new home has three bedrooms (the median home size in recent years). Hence, these 980k new rooms are equivalent to 327,000 new homes (980,000 / 3)

205 The ONS classes a dwelling as under-occupied if there are two more rooms than needed, whereas Eurostat classes a dwelling as over-crowded if just there is just one more room than necessary. See here: Eurostat: Glossary: Under-occupied dwelling

206 Eurostat: Overcrowded and under-occupied dwellings, June 2018. Note: The percentages shown by Eurostat for the UK differ from those shown in Figure 26. This is because the Eurostat definition differs from the ONS definition

Figure 27

Housing across the life course – overcrowding and under occupation



Source: Gov UK: English Housing Survey, Housing across the life course, 2018-19, published July 2020

Note: The 'Overcrowding' percentages relate to the share of those in the social rented and private rented sectors who are in overcrowded circumstances, by age group. The 'Under occupation' percentages relate to the share of owner-occupiers who live in under-occupied dwellings. Both definitions use the Government's 'bedroom standard' (Gov UK: English Housing Survey 2022 to 2023, Chapter 4, December 2023).

While excess space in rental properties has a direct financial consequence – as renters must pay rent on the empty rooms – for homeowners, the excess space may be perceived as almost costless since there are no monthly outgoings associated with it. This potentially hinders homeowners from moving to a smaller property. Releasing just a small fraction of homes with excess space could have a substantial impact on supply, provided there are homes of the right characteristics and in the right location for those who are looking to downsize.

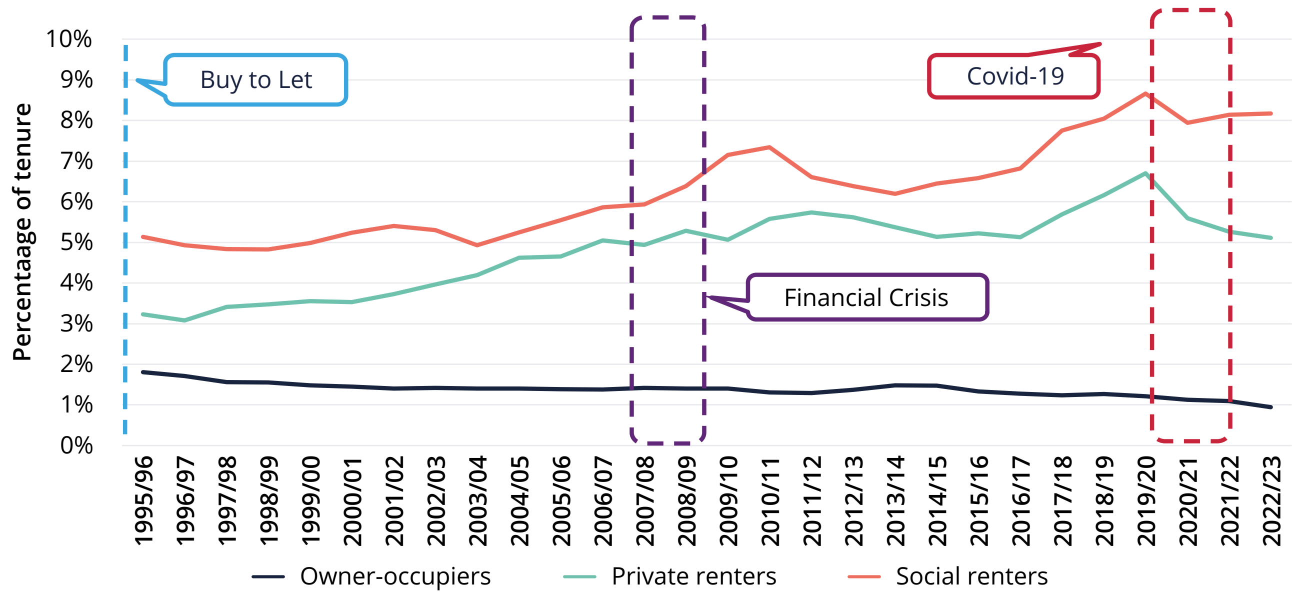
Overcrowding

Overcrowding can be defined in multiple ways. However, the Ministry of Housing, Communities and Local Government (MHCLG) applies the bedroom standard to determine the number of bedrooms required to avoid undesirable sharing.[207]

As illustrated in Figure 28, when breaking down overcrowding rates by tenure in England, social renters experience the highest rates at eight per cent, followed by private renters at five per cent. The most recent 2018-2019 Housing Across the Life Course report by the English Housing Survey identified that overcrowding is more prevalent in the social rented sector, and particularly high amongst social renters aged 16 to 34.[208]

Figure 28

Overcrowding rate by tenure, England



Source: Gov UK: English Housing Survey, Headline Report 2022 to 2023, published December 2023.

Note: The sky blue dashed line indicates the introduction of Buy to Let in 1996, the purple dashed line indicates the 2008 financial crisis and the red dashed line indicates the Covid-19 pandemic.

207 For more details, see here: Gov UK: English Housing Survey 2022 to 2023, Chapter 4, December 2023

208 Gov UK: English Housing Survey, Housing across the life course, 2018-19

Annex B – Demand side elements

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B.1 Introduction to demand

This section explores the household driven demand factors in the UK housing market and their evolution over time. These factors include the preferences, financial capacity, and demographic influences that drive people and families to seek different types of homes. By analysing these elements, we can better understand where housing pressures are greatest and identify barriers that may hinder certain parts of the population from accessing suitable housing.

This analysis is divided into three subsections:

1. **Growth in overall housing demand,** which explores increases in the population and the primary drivers behind these, providing insights into the overarching demand for housing.
2. **Changes in household composition and preferences,** which assesses how these evolved over time and how this created pressures for specific types of homes. Understanding the evolution of housing needs over a person's lifetime is helpful to understand shifting demand dynamics.
3. **Changes in wealth,** which explores households' capacity to afford to buy or rent and their financial capabilities.

B.2 Growth in overall housing demand (UK population)

The growth of the UK population is a fundamental driver of the overall demand for housing since increases in the population push up the number of households and, in turn, the need for homes. The rate and origin (natural change or net migration) of population growth shape the pace and specific characteristics of household formation, as well as overall housing needs.

Office of National Statistics (ONS) definition of a household

A household is generally defined as a 'group of people living together in a single residence and sharing common living spaces, arrangements for meals and economic resources'.

According to the ONS (2011), a 'household' is 'one person living alone, or a group of people (not necessarily related), living at the same address who share cooking facilities and share a living room, sitting room or dining area. A household can consist of a single family, more than one family or no families in the case of a group of unrelated people'.

Source: ONS: Families and households statistics explained, May 2023.

Population growth is influenced by two main factors:

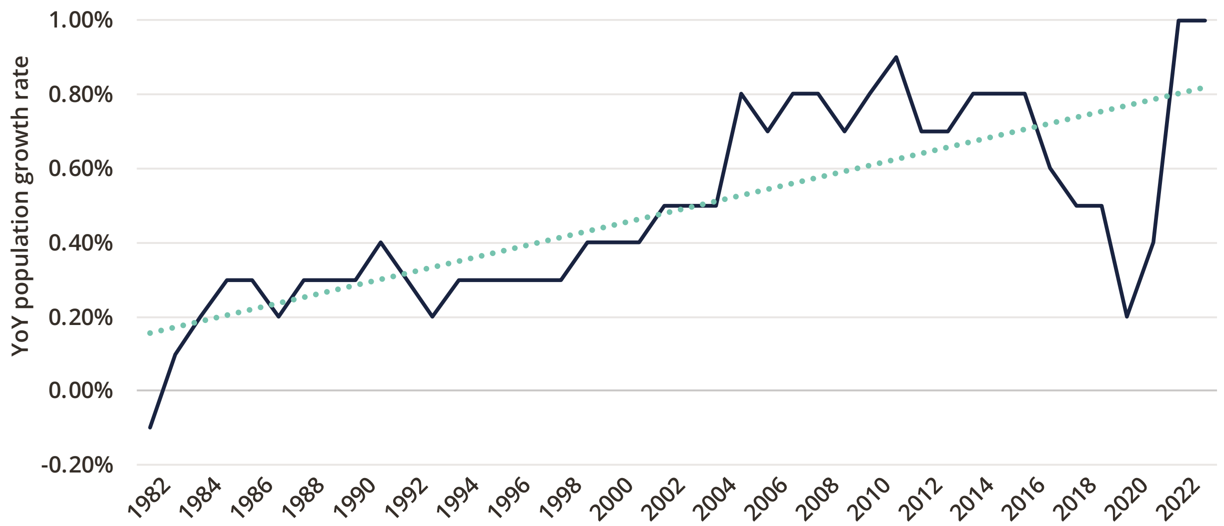
1. **Net migration:** The difference between the number of people arriving in, and those leaving, the UK. Migration patterns play a significant role in shaping population dynamics and housing demand.
2. **Net natural change:** This is the difference between the number of births and the number of deaths of the existing population. Natural population change is influenced by factors such as birth rates, mortality rates and life expectancy.

Population growth rate

As illustrated in Figure 29, the average population growth rate in England and Wales has witnessed a notable increase over the past few decades, albeit with interruptions due to significant events such as Covid-19 and Brexit. From 1985 to 1998 in England and Wales (which constitute most of the UK and therefore mirror its population growth), the year-on-year (YoY) growth was 0.3 per cent, increasing to 0.8 per cent from 2005 to 2015 and peaking at one per cent in mid-2022.[209]

Figure 29

Historic population growth rate in England and Wales



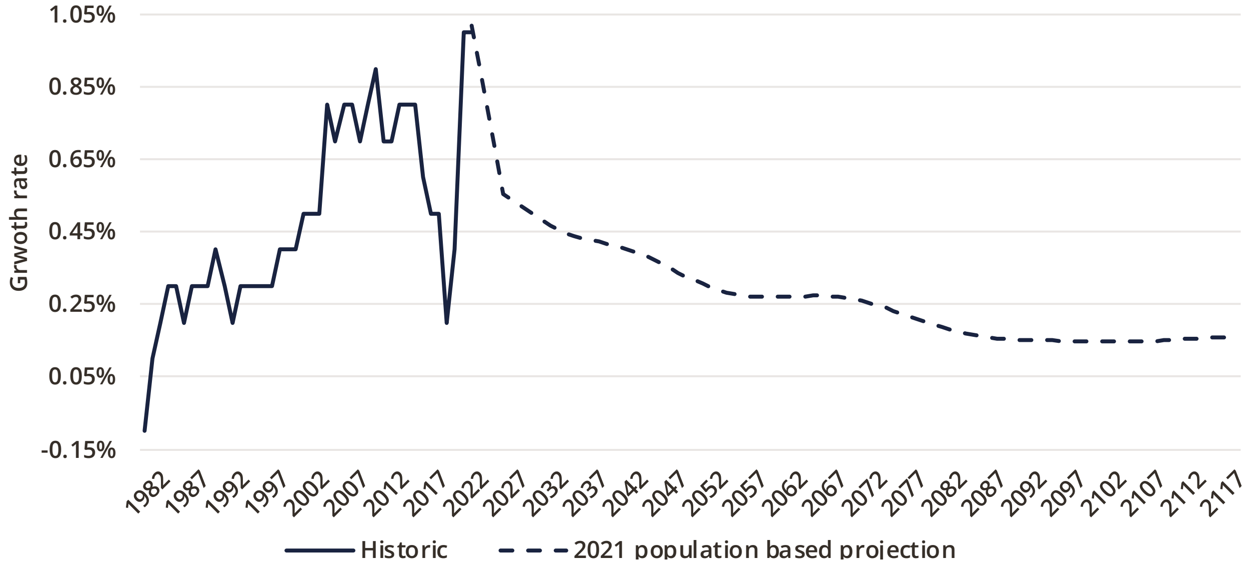
Source: ONS: Population estimates for England and Wales: mid 2022, published November 2023.
Note: The green dotted line indicates the linear trend.

Looking ahead, the projected average YoY growth rate, based on the 2021 population, is expected to decrease due to a falling birth rate and a decrease from the peak of net migration.

209 Frontier analysis of data provided by ONS: Population estimates for England and Wales: mid 2022, published November 2023

Figure 30

Official projections based on 2021 population in England and Wales



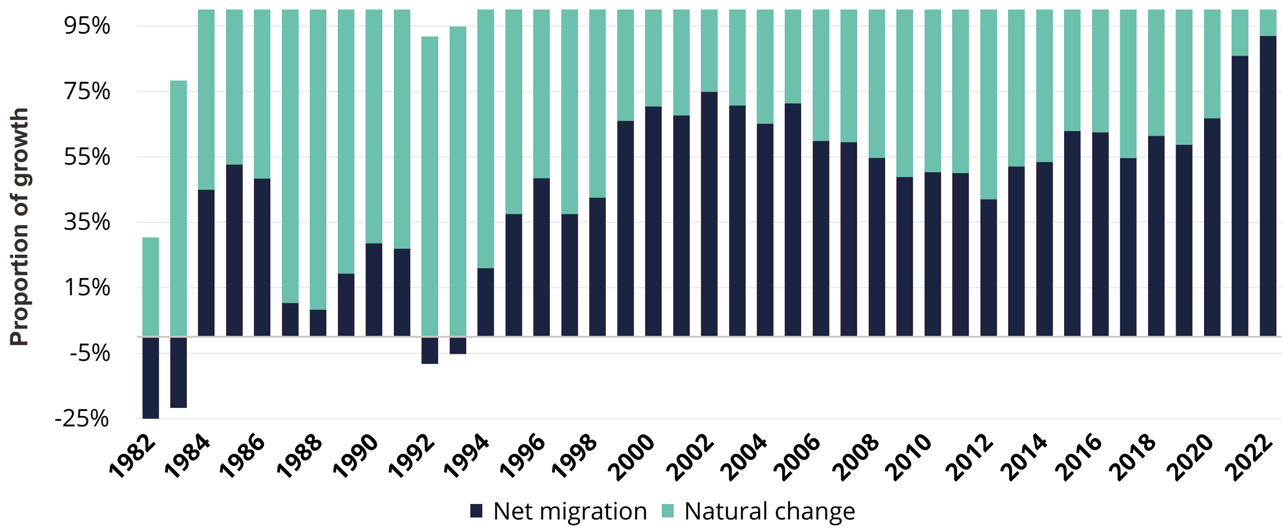
Source: ONS: Population estimates for England and Wales: mid 2022, published November 2023 and ONS: Principal projection – England and Wales, 2021 based population, released January 2024.

Factors underlying population growth

More recently, England's population growth has been driven by net migration, a marked shift from the 1980s and 1990s when growth was primarily fuelled by natural change. Net migration's share of population growth peaked in England in 2022, accounting for over 90 per cent of the total change. Much of this change can be attributed to a backlog of migration that built up during the Covid-19 pandemic, leading to a surge in migration once restrictions were lifted in 2022.

Figure 31

Factors of population growth in England and Wales



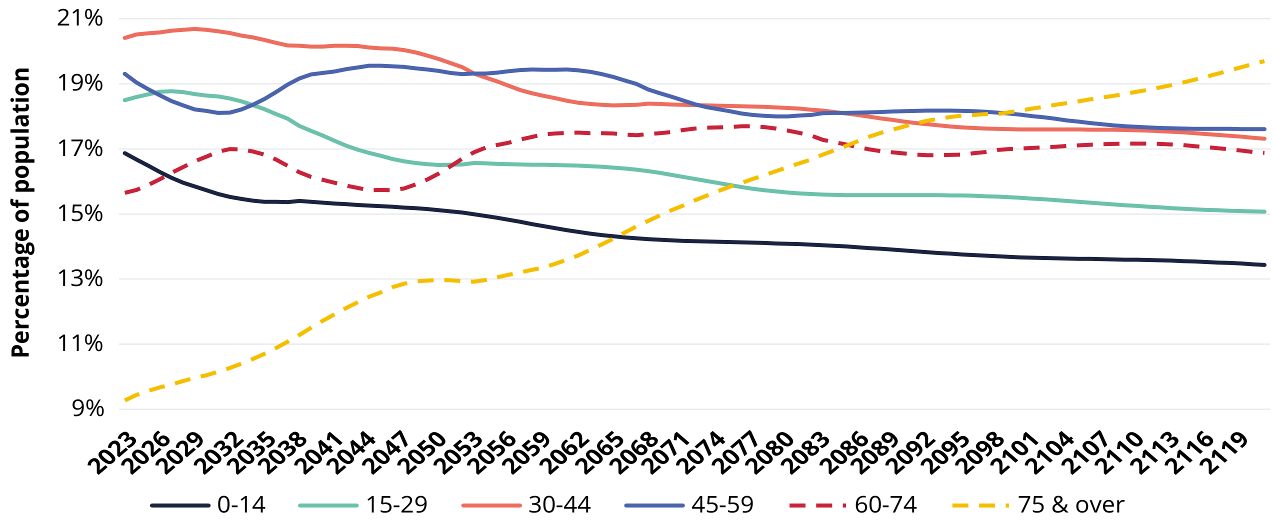
Source: ONS: Population estimates for England and Wales: mid 2022, published November 2023.

The drivers of population growth can directly impact the demand for housing. Population growth resulting from net migration puts immediate pressure on the housing market, particularly for rental properties, as those migrating (whether individuals or families) require housing upon arrival. In contrast, growth from natural change has a delayed impact on the need for housing, since it takes roughly 20 years for new-borns to form their own households.

Additionally, demographic shifts, particularly in terms of age, contribute to the evolving composition of the UK population. Data from the ONS[210] projects a notable increase over the next 15 years in the proportion of the UK population aged above 75, and this trend will continue over the coming century, as shown in Figure 32.

Figure 32

Age projection in England and Wales



Source: ONS: Population projection, Updated January 2024.

Note: Projected populations at the mid-year point by each age group's last birthday.

Extended life expectancy can also impact housing supply, as it reduces the number of homes released to the market. This demographic shift can directly impact the need for housing as older people may be more likely to desire smaller, more manageable homes, potentially driving the need for downsizing options. Finally, accessibility needs associated with ageing may increase the appeal for specific types of housing tailored to meet these requirements.

However, housing needs are likely to vary at the local level. Therefore, it is essential to assess the geographical distribution of the population growth when thinking about current and future housing policy.

210 ONS: National population projections: 2021-based interim, released January 2024

B.3 Changes in household composition and preferences

This sub-section explores household formation and changes in household composition. Increases in population feed into housing demand through the impact on the rate of household formation. In a population with many young people, a significant number of households are expected to form as individuals become independent. Conversely, in an older population, new household formation tends to be more modest.

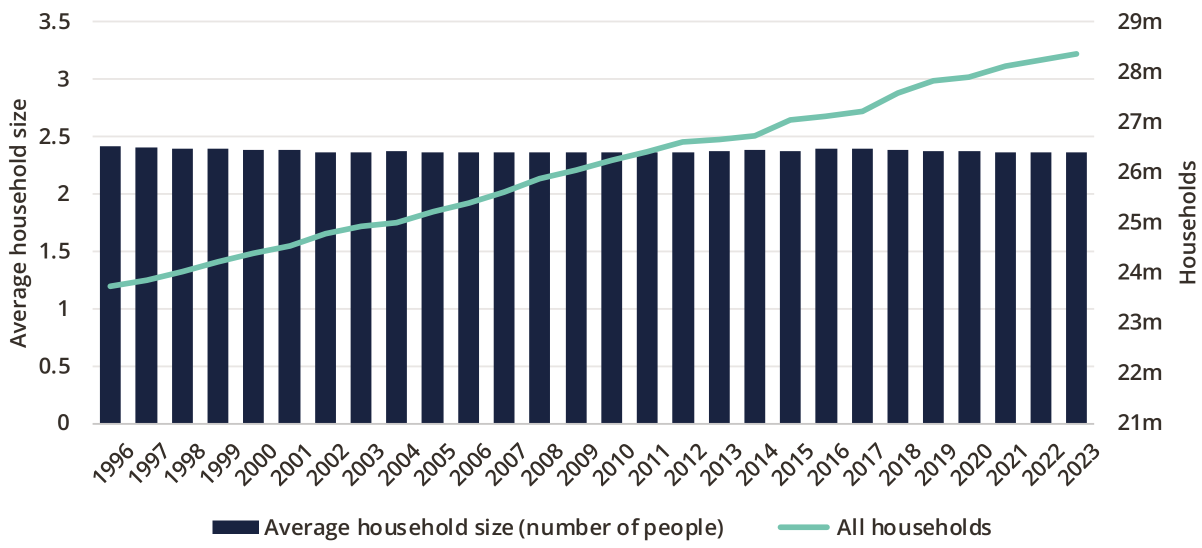
The demand for housing is shaped by the characteristics and preferences of these new households. For example, an increase in household size would lead to a shift towards wanting larger homes while simultaneously increasing the availability of smaller homes as people move. Moreover, shifts in consumer preferences over time can also impact the desire for homes of certain sizes.

Household formation

According to ONS data,[211] there were an estimated 30 million households in the UK in 2023, an increase of 1.7 million from 2012. Average household sizes have stayed relatively constant, at around 2.4 individuals, meaning the annual growth in households is consistent with the growth rate of the overall population (0.6 per cent).

Figure 33

Number of household and size, UK, 1996-2022



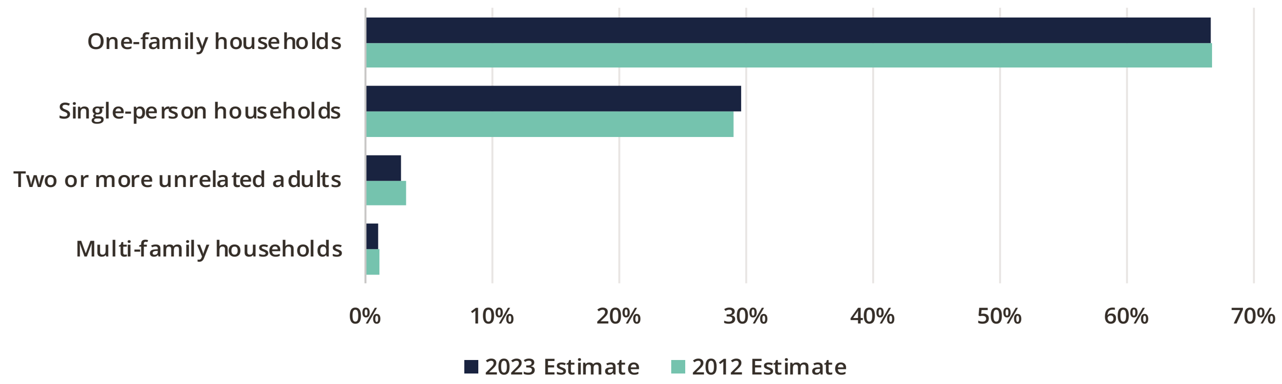
Source: Frontier analysis of data provided by ONS: Families and households, released May 2023.

211 ONS: Families and households in the UK: 2022, released May 2023

Despite household sizes remaining stable, two notable trends contribute to an overall increase in the need for homes: a rising preference for living alone (up 2.1 per cent since 2012)[212] and a significant decrease in multi-family households (down nine per cent).[213] With single person households comprising almost 30 per cent of total households, this group has a substantial impact on the overall need for housing.

Figure 34

Percentage of households by type, UK, 2012 and 2022



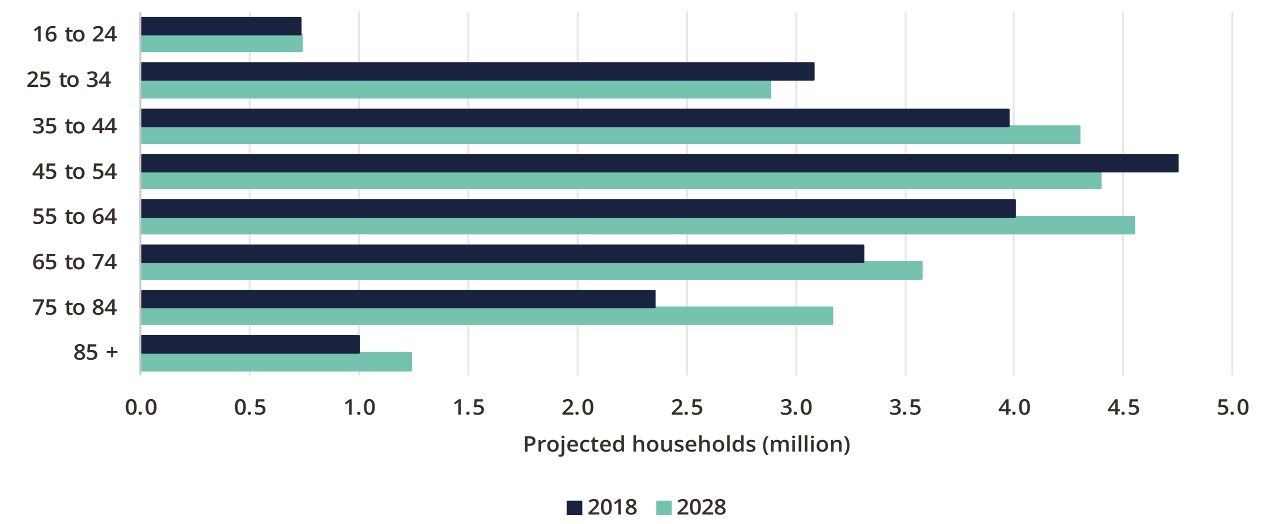
Source: ONS: Families and households in the UK: 2022, released May 2023.

The 2018 ONS projections indicate that the number of households in England is expected to grow from 23.2 million to 24.8 million by 2028 (a 7.1 per cent increase),[214] and the average age of the household reference person (HRP)[215] is expected to rise. It is expected that households with an HRP age of 55 will increase by 17.5 per cent between 2018 and 2028, with households with an HRP over 75 expected to see a 31 per cent increase.

212 ONS: Families and households in the UK: 2022, released May 2023
213 ONS: Families and households in the UK: 2022, released May 2023
214 ONS: Household projections for England: 2018-based, June 2020. These trends may differ slightly depending on the countries included
215 Defined as the eldest economically active person in the household or the eldest inactive person – if there is no economically active person

Figure 35

Projected households by age of household reference person (HRP), England, 2018 and 2028



Source: ONS: Household projections for England: 2018-based, June 2020.

Housing demand changes based on people's shifting preferences and needs, which are often influenced by their stage of life. As demographics alter, society's overall housing requirements also change. Evidence suggests a growing preference for larger properties over time, particularly among first-time buyers who have shown a preference for three-bedroom homes.[216] However, this has recently reversed in response to higher interest and mortgage rates. Most first-time buyers opted for one or two-bedroom properties in the first quarter of 2023 for the first time since 2010. This shift was particularly noticeable in London, where affordability challenges are most pronounced. Only 37 per cent of homes purchased by first-time buyers in London had three or more bedrooms, the lowest proportion on record.[217]

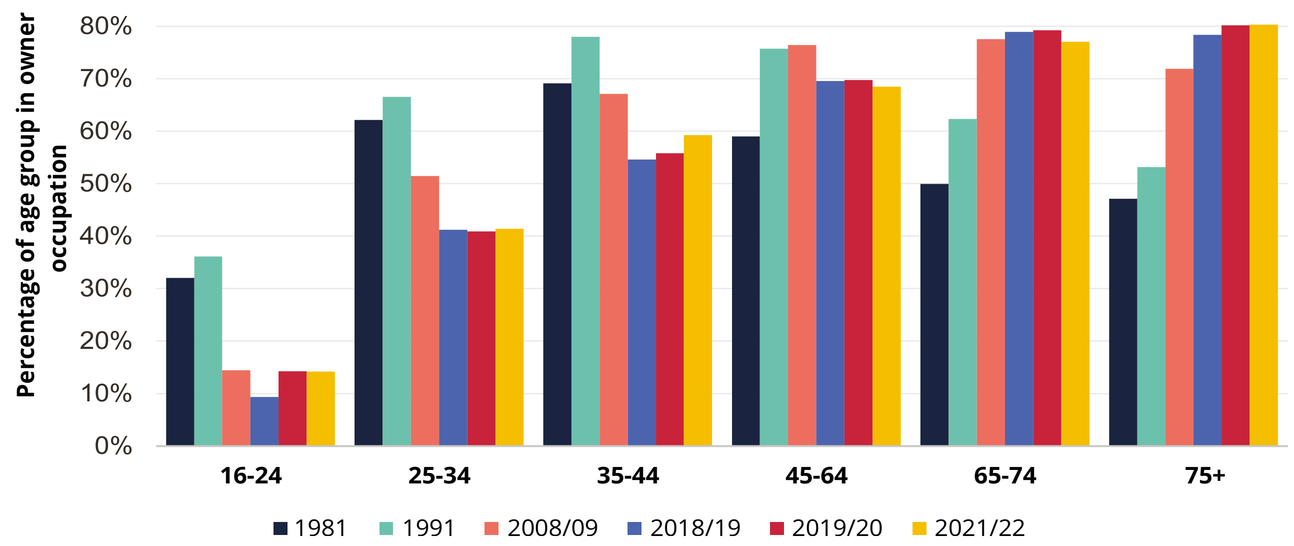
216 Zoopla: 5 surprising reasons for the 3-bed home shortage, November 2023
217 Hamptons: Four trends for the future. Market Insight Summer 2023, Four trends for the future

Life cycle and housing

Recent evidence shows there is a reduction in affordability for first-time buyers. Since 2008, there has been a reduction in the proportion of people between the ages of 25 and 44 who own a home. Homeownership among over 65s remains high at nearly 80 per cent.

Figure 36

Changes in the composition of owner-occupiers

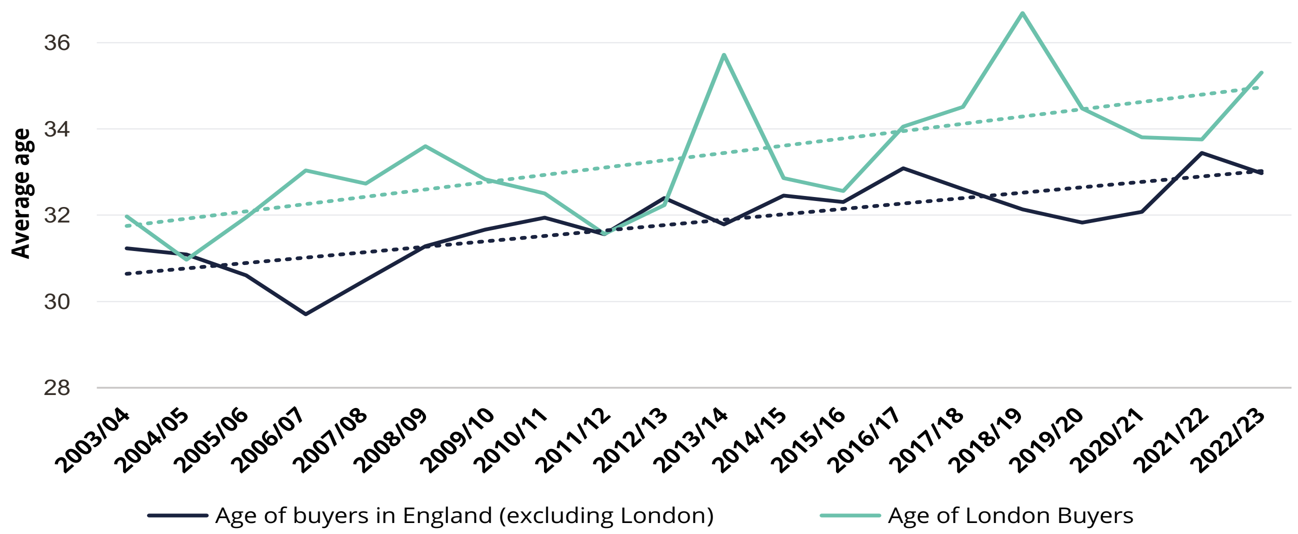


Source: Gov UK: English Housing Survey data on owner-occupiers, recent first-time buyers and second homes, updated July 2023.

As shown in Figure 37, this situation is mirrored in the increased average age of first-time buyers in England, particularly in London. As the size of the mortgage is driven by both wealth (in the form of a deposit) and income (required for mortgage repayment), the ability to purchase a home will also be affected by these factors.

Figure 37

Average age of recent first-time buyers in England



Source: Gov UK: English Housing Survey 2022 to 2023, Annex tables, Chapter 3, December 2023.
Note: The teal and navy blue dashed lines indicate the linear trend line.

While there is no official data on this, a recent survey by Zoopla[218] found that 41 per cent of over 65s in the UK describe themselves as living in a property larger than they need. This aligns with the observed increase in under-occupied housing, which has risen from 40 per cent to 55 per cent in the past 25 years.

The composition of social housing tenants shows that nearly 60 per cent of new social housing in 2021-2022 consisted of single-adult households, a trend that has remained consistent since 2007-2008.[219] There has been a slight increase (to 21 per cent) in single-parent social letting households.[220]

B.4 Changes in wealth and homeownership

Housing demand is also influenced by the distribution of wealth among different segments of the population. Changes in the overall wealth levels and disparities in wealth directly impact households' ability to afford housing, leading to variations in demand, across socio-economic segments.

As of March 2020, the median household net wealth[221] in Great Britain was £302,500,[222] (a 20 per cent increase compared to 2006-2008, after adjusting for inflation). Inequality[223] has remained stable over the period 2006-2020. Figure 38 shows that the median household wealth is significantly higher for those over the age of 55, particularly compared to those aged between 25 and 44. The growing concentration of wealth in older households is partly a result of the differences in homeownership rates between generations.

Regionally, household median wealth was highest in the South East at £503,400, showing a 43 per cent increase since 2006 (after adjusting for inflation), while it was lowest in the North East at £168,500.[224]

218 Zoopla: 5 surprising reasons for the 3-bed home shortage, November 2023

219 Gov UK: Social housing lettings in England, tenants: April 2021 to March 2022, February 2024

220 Gov UK: Social housing lettings in England, tenants: April 2021 to March 2022, February 2024

221 Net wealth as defined by ONS: Household total wealth in Great Britain: April 2018 to March 2020, released January 2022: (i) net property (value of residences less mortgage debt), (ii) physical (household contents, vehicles), (iii) private pension and (iv) net financial (Savings or investments less financial liabilities)

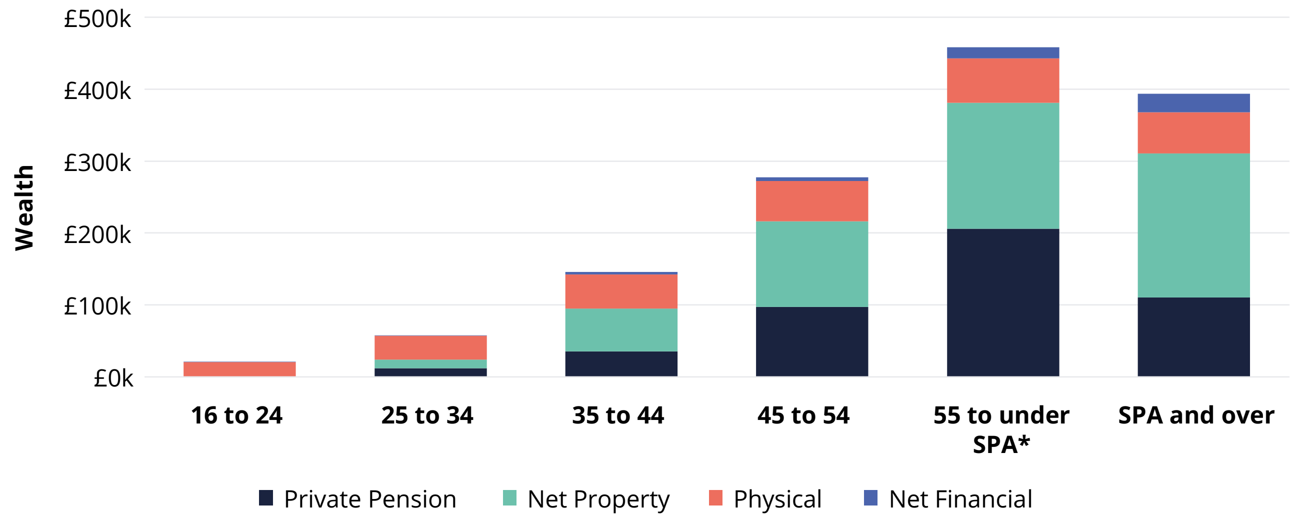
222 ONS: Household total wealth in Great Britain: April 2018 to March 2020, released January 2022

223 As measured by the Gini coefficient, which 'is a measure of the way in which different groups of households receive differing shares of total household income'. ONS: The Gini Coefficient, revised April 2022

224 ONS: Household total wealth in Great Britain: April 2018 to March 2020, January 2020

Figure 38

Median household wealth by age, Great Britain, April 2018 to March 2020



Source: ONS: Household total wealth in Great Britain: April 2018 to March 2020, released January 2022.

*SPA = state pension age

Annex C – Market outcomes

Annex C – Market outcomes

The interaction between the availability of and the need for homes, alongside the mortgage environment, has resulted in changing market outcomes in the UK housing sector. These are reflected in the lower number of homes being purchased and sold and an increase in property prices, which impact affordability. This section reviews these elements and their effect on the market across tenures.

C.1 Property prices

Prices are a key market outcome examined to understand how supply and demand interact in the housing sector. To fully understand housing market outcomes, two distinct forms of prices need exploring: the average price of a house and the average rental cost. Understanding both, in the context of wage inflation, enables us to explore affordability trends in the housing market.

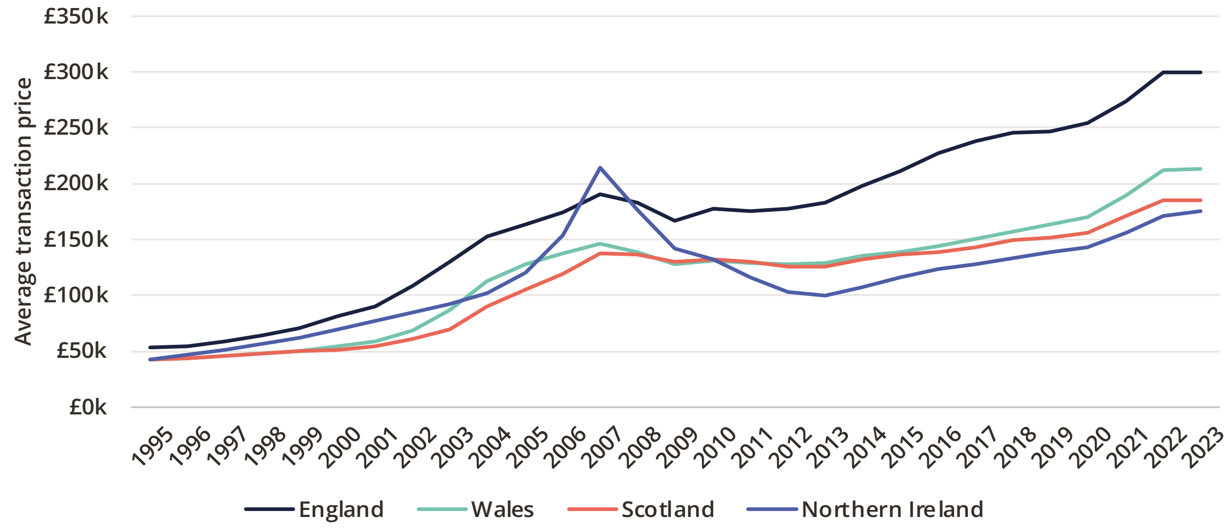
Average property price

The average house price in England has increased significantly over the past few decades. As shown in Figure 39, property prices in England have increased from an average of £53,000 to £303,000 between 1995 and 2023[225] (annualised growth rate of 6.4 per cent). Meanwhile property prices in Wales have grown at a higher annualised growth rate of 7.5 per cent. Property prices in Scotland and Northern Ireland have grown at a slightly lower annualised growth rate of 5.5 per cent and 5.2 per cent respectively during the same period.

225 The average property value as of March 2023 in the UK is £288k. Gov: UK House Price Index for June 2023, published 16 August 2023

Figure 39

Average annual property price in England, Wales, Scotland, and Northern Ireland



Source: Frontier analysis of data provided by Gov. UK: Land Registry, accessed January 2024.

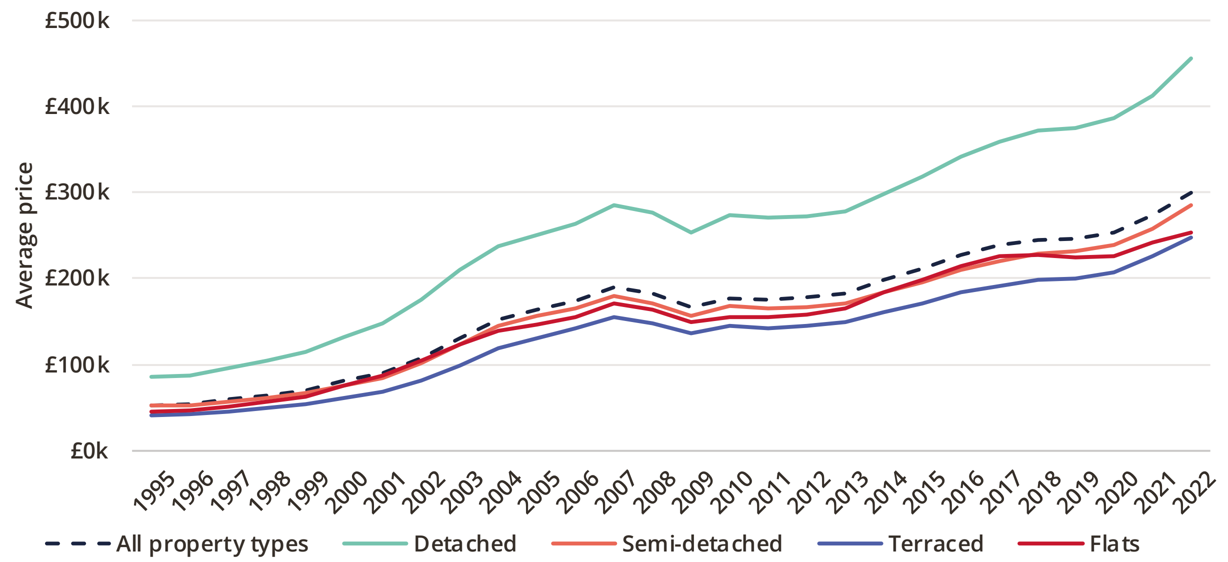
Note: Data is provided monthly. Prices are the average by calendar year. UK House Price Index (UK HPI) data for property prices is presented in nominal terms and is not adjusted for inflation.

The prices of homes and the growth rate of those prices have also varied depending on the property type. In England, Wales, Scotland, and Northern Ireland, detached houses have consistently been the most expensive.[226] Figure 40 below shows the average price per year of homes in England by type, and Table 1 shows the percentage increase in property prices by property type and country.

226 Gov. UK: Land Registry, accessed January 2024

Figure 40

Average property price by type in England



Source: Frontier analysis of data provided by Gov.UK: Land Registry, accessed January 2024.

Note: Data is provided monthly. The average value is calculated as the average for the year ending in December. UK HPI data for house prices is presented in nominal terms and is not adjusted for inflation. Data for England is provided monthly. The UK HPI uses data from the HM Land Registry. Sales are only available for inclusion in the UK HPI after property purchases have been registered and, thus, are based on completed sales. The data does not include advertised or approved prices. Due to the length of registration, some transactions may only become included after revisions to the data are made.

Table 1

Percentage increase of property price, by type

	Detached	Semi-detached	Terraced	Flats	Period
England	435%	452%	493%	453%	1995 to 2023
Wales	388%	406%	424%	311%	1995 to 2023
Scotland	108%	110%	118%	86%	2004 to 2023
Northern Ireland	56%	51%	40%	28%	2005 to 2023

Source: Frontier analysis of data provided by Gov. UK: Land Registry, accessed January 2024.

Note: Data is provided monthly. The average value is calculated as the average for the year ending in December. UK HPI data for house prices is presented in nominal terms and is not adjusted for inflation.

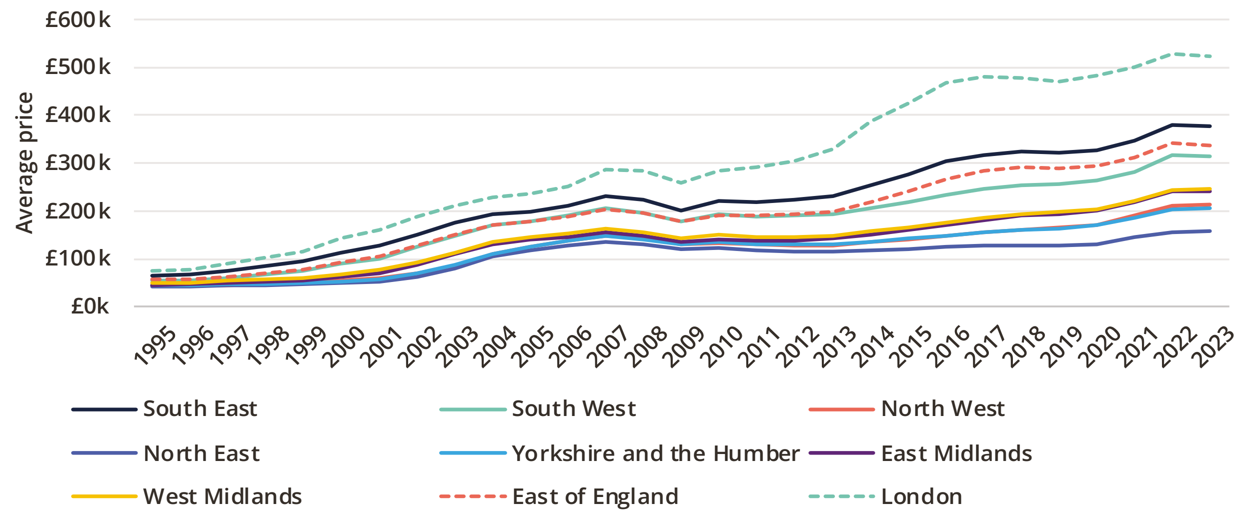
When looking at England in particular, average property prices have been consistently rising across all regions. London stands out with the highest average property prices, exceeding £500,000, while the North East exhibits the lowest prices, around £160,000. In addition, differences in property prices between regions have increased in the past three decades. London's average property price increased almost sevenfold between 1995 and 2023, despite the reductions observed during the global financial crisis and in 2019.[227] Meanwhile, in the North East, average property prices have only increased fourfold in the same period.[228]

227 ONS: UK House Price Index: December 2020, February 2021

228 Hamptons: London leavers buy 73,950 homes outside the capital, December 2020

Figure 41

Average annual home price by region in England



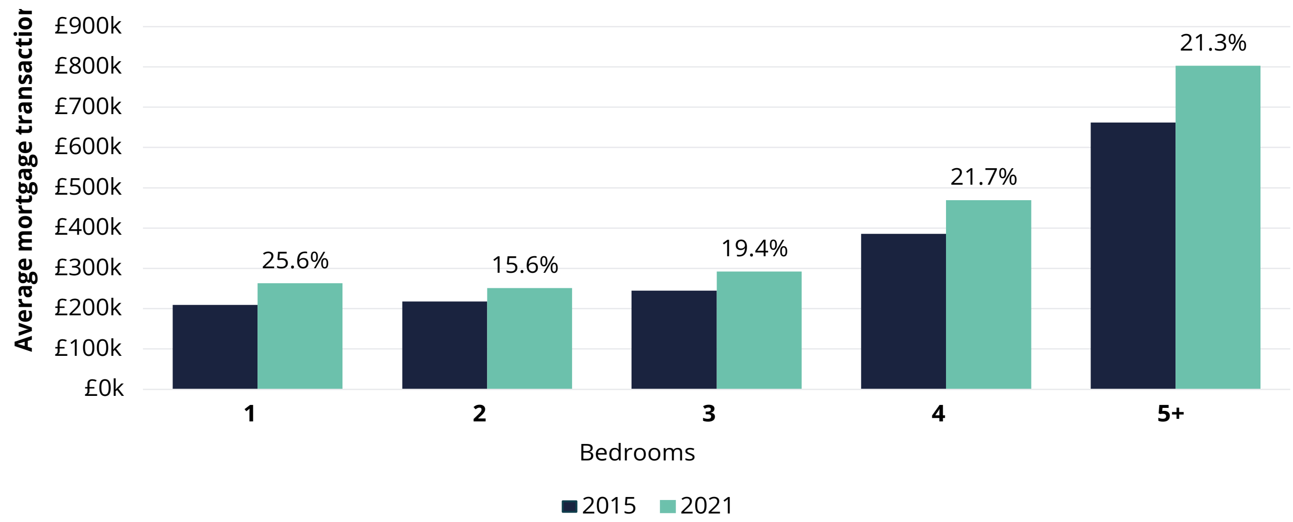
Source: Frontier analysis of data provided by Gov. UK: Land Registry, accessed January 2024.

Note: Data is provided monthly. Prices are the average by calendar year. UK HPI data for house prices is presented in nominal terms and is not adjusted for inflation.

All sizes of homes have experienced significant price increases over the past six years, but price increases have been greatest for the largest (with more than four bedrooms) and smallest properties (one bedroom), with respective increases of 22 per cent and 26 per cent between 2015 and 2021.

Figure 42

Average house prices by bedrooms in England 2015 vs 2021



Source: Frontier analysis of data provided by ONS: simple average house prices, released June 2022.

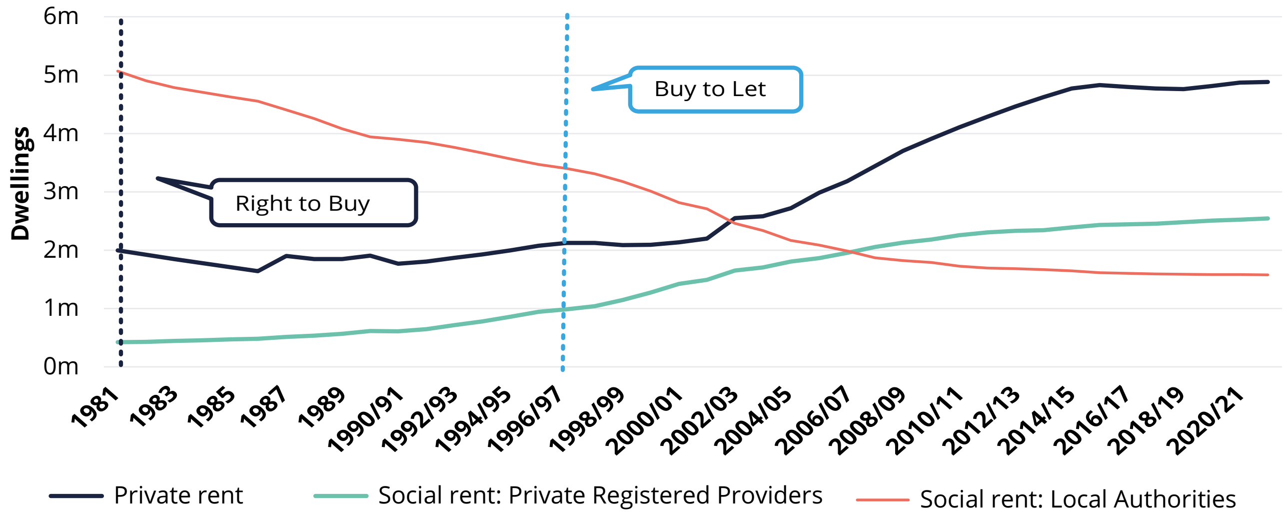
Note: A special aggregate of simple average house prices by bedrooms, using data from the Regulated Mortgage Survey. The percentage represents the percentage increase in price between 2015 and 2021.

Average rental prices

In 2023, there were an estimated nine million homes in England in the private rented and social rent markets. As shown in Figure 43, since the introduction of Right to Buy in 1980, there has been a decrease in the number of homes available for social rent by local authorities. On the other hand, there has been a significant increase in the number of homes in the private rented market, enhanced by the introduction of BTL mortgages in 1996.

Figure 43

Homes in the private and social rental sector in England



Source: Frontier analysis of data provided by Gov. UK: Housing Supply: Live tables on dwelling stock (including vacant), Table LT 104 and LT 101, England: 1981 to 2022, published 14 December 2023.

Note: The navy blue dashed line indicates the introduction of Right to Buy in England in 1980. The sky blue dashed line indicates the introduction of Buy to Let in England in 1996. The data presented above is for all dwelling types in England. Data prior to 1991 is provided in calendar year. From 2003 the figures for owner-occupied and the PRS for England have been produced using a new improved methodology as detailed in the dwelling stock release. Prior to this, vacancy was not accounted for.

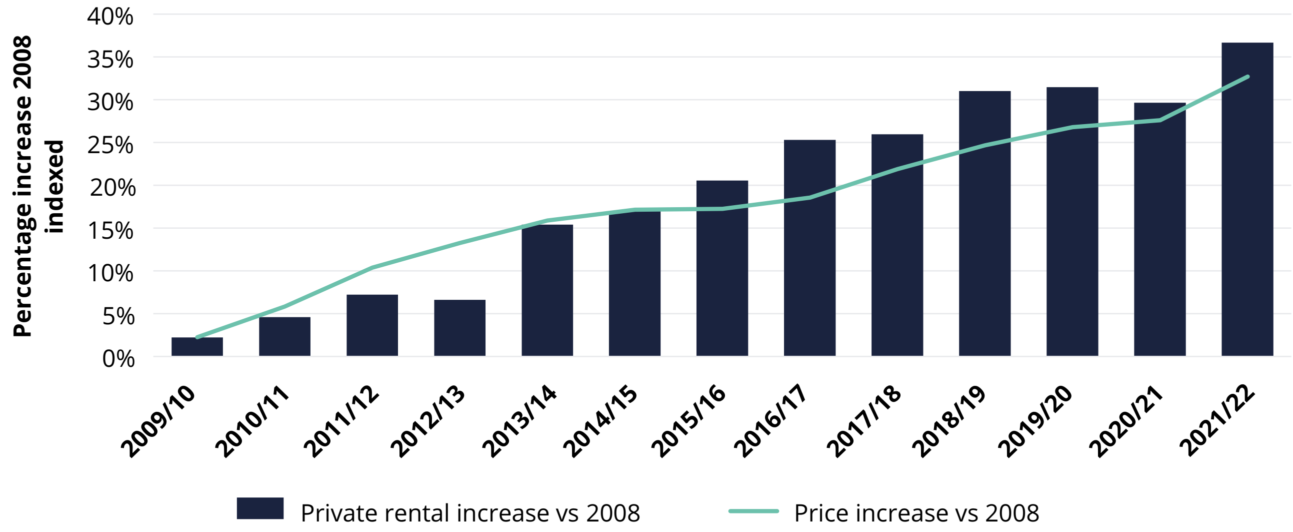
Average rental price per week is the most common metric to track rental price growth. It reflects the market outcome of the supply of, and demand for, private rental properties.

In England, average weekly rental prices have experienced a sharp increase over the past two decades across all property sizes and geographies. The average weekly rental prices have risen by 36 per cent since 2008,[229] equivalent to a 2.3 per cent annualised growth rate – slightly outpacing inflation since 2014.

229 Gov UK: private and social renters; ONS: Household disposable income; ONS: 2017 CPI; and ONS: 2023 CPI

Figure 44

Private rental prices have outstripped growth in prices



Source: Frontier analysis of data provided by Gov UK: English housing survey data on social and private renters, Table FA3211 and ONS: CPI, February 2024.

C.2 Affordability

'Affordability' compares average wages to average property (or rental) prices to determine the financial barriers to purchasing or renting a home. To explore how affordability has evolved recently, the change in average income is compared to the observed rise in property prices.

Affordability holds particular significance for first-time buyers as declining affordability may delay prospective homeowners entering the housing market and make homeownership unobtainable for others. Rental affordability also has an indirect effect on individuals' ability to buy a property (as it may take longer to save for a deposit when paying high rents) and direct effects on disposable income and the factors such as the location, size, and quality of homes people can rent.

Homeownership affordability

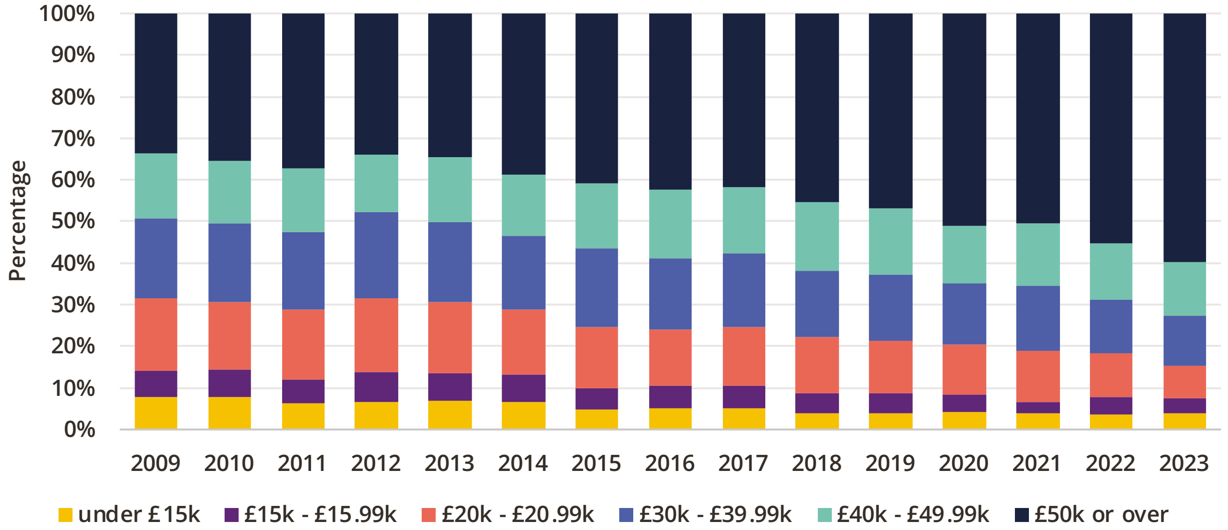
Homeownership, or purchase affordability, evaluates how easy or difficult it is for the average person to buy a home in the current housing market.

In the past 15 years, the average income of those buying a home with a mortgage has significantly increased. Between 2008 and 2023, the percentage of buyers with a household income greater than £50,000 increased from 34 per cent to 59 per cent.[230] Though this might suggest a growing ability to afford homes, it is important to contextualise this with changes in property prices - and the capacity to finance the purchase - to accurately assess affordability.

230 Gov UK: English Housing Survey data on tenure trends and cross tenure, FA1331 (S188)

Figure 45

Annual income of household for those buying with mortgage



Source: Frontier analysis of data provided by English Housing Survey data on tenure trends and cross tenure.

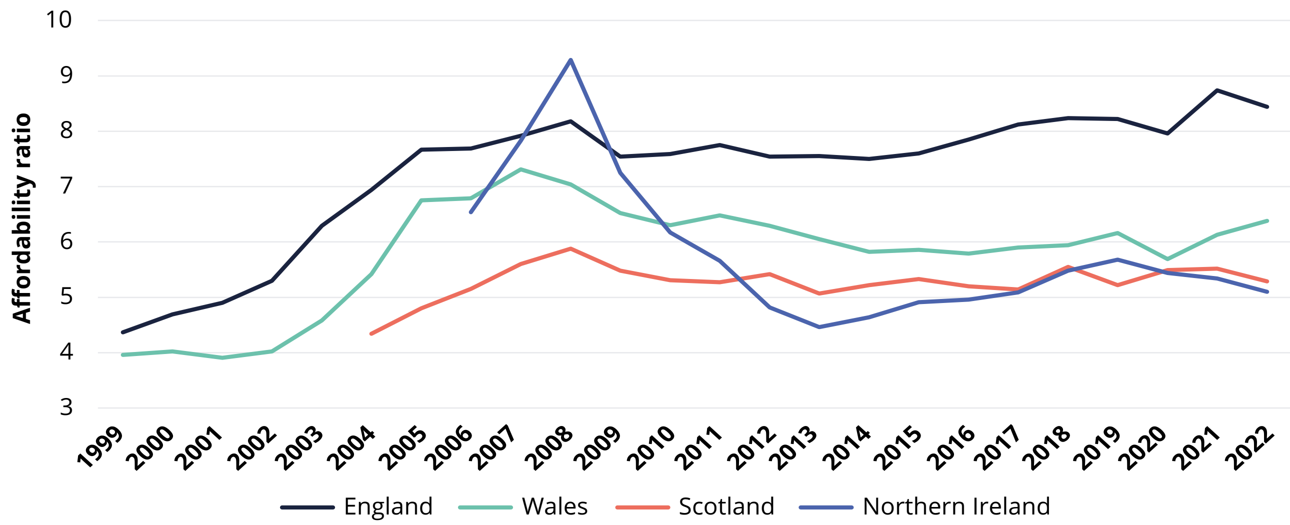
Note: Figures represent mean gross values.

At present, buying a home is considerably less affordable than three decades ago. Data from 1999 reveals that the affordability gap in England and Wales has widened significantly, while affordability in Scotland has remained constant, and improved slightly in Northern Ireland.

The ONS affordability ratio (median property prices divided by median income) shows that in 2022, the median property price in England was approximately 8.4 times the average annual salary versus 4.4 times in 1999. Affordability in Northern Ireland has, however, slightly improved between 2006 and 2022, decreasing from 6.5 to 5.1 times the average annual salary.

Figure 46

Affordability ratio of properties in England, Wales, Scotland, and Northern Ireland

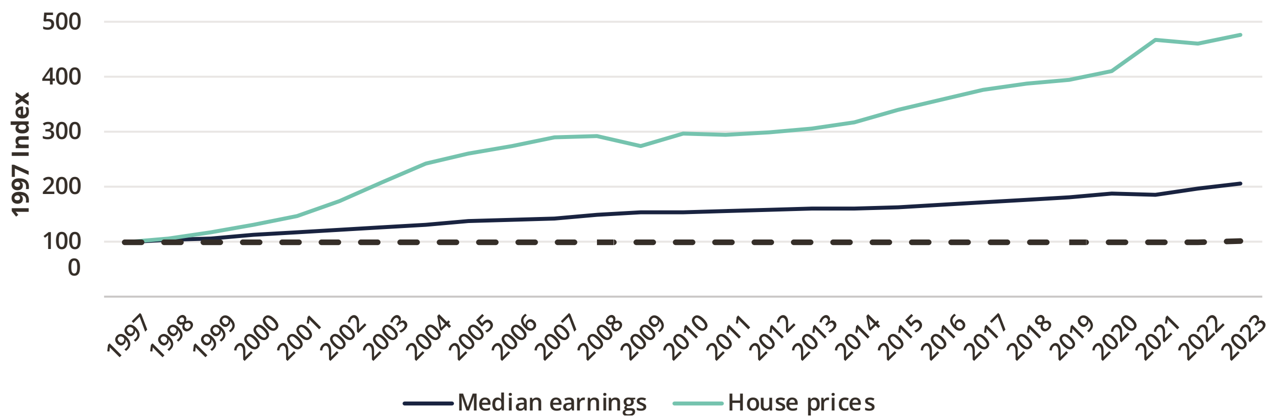


Source: ONS: Housing Purchase Affordability, UK: 2022, July 2023.

The average property in 2023 was 4.8 times as expensive as in 1997, whereas wages only doubled over the same period. As a result, the gap between the two has increased significantly over the last 30 years.

Figure 47

Mean incomes vs Property prices (indexed to 1997), Wales and England

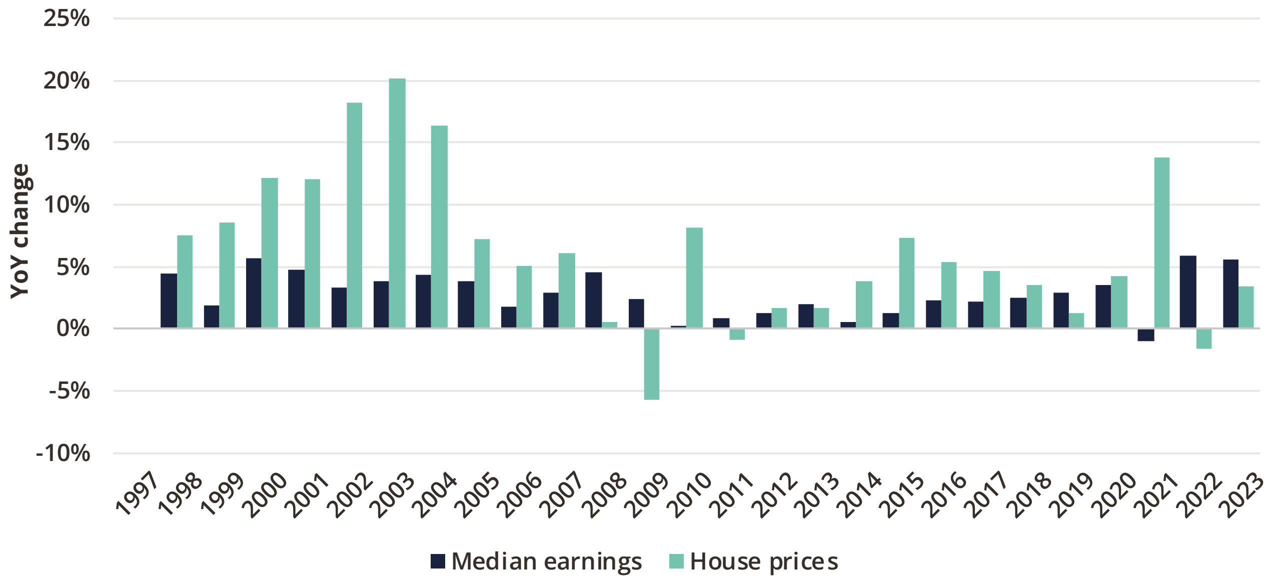


Source: Frontier analysis of data provided by ONS: Housing affordability in England and Wales: 2023, released March 2024.

Figure 48 highlights that in 19 out of the last 26 years, the growth in property prices has outpaced that observed in wages. The only exceptions to this were during the global financial crisis (when property sales plummeted), during Covid-19 and during recent increases in interest rates. Wage growth is much stickier and less volatile than changes in property prices. When property prices increase suddenly, it is harder for individuals to save for larger deposits as wages will not necessarily increase at the same rate.

Figure 48

Changes in average property prices and wages in England and Wales



Source: Frontier analysis of data provided by ONS: Housing affordability in England and Wales: 2023, released March 2024

Policy recommendations explored in this report will to address these issues by understanding the elements that have led to this worsening market outcome.

Rental affordability

As with homeownership affordability, understanding rental affordability – by comparing income growth to rental price growth – is essential to appreciate how market outcomes are evolving in the market.

The ONS defines the rental affordability threshold as 'rents being 30 per cent of income'.[231] As shown in Figure 5, between 2013 and 2022, rental affordability in England and Northern Ireland remained relatively stable at around 25 per cent and 24 per cent, respectively.

Although ONS rental affordability data beyond 2022 is currently unavailable, there are indicators that the situation may have worsened in recent years.

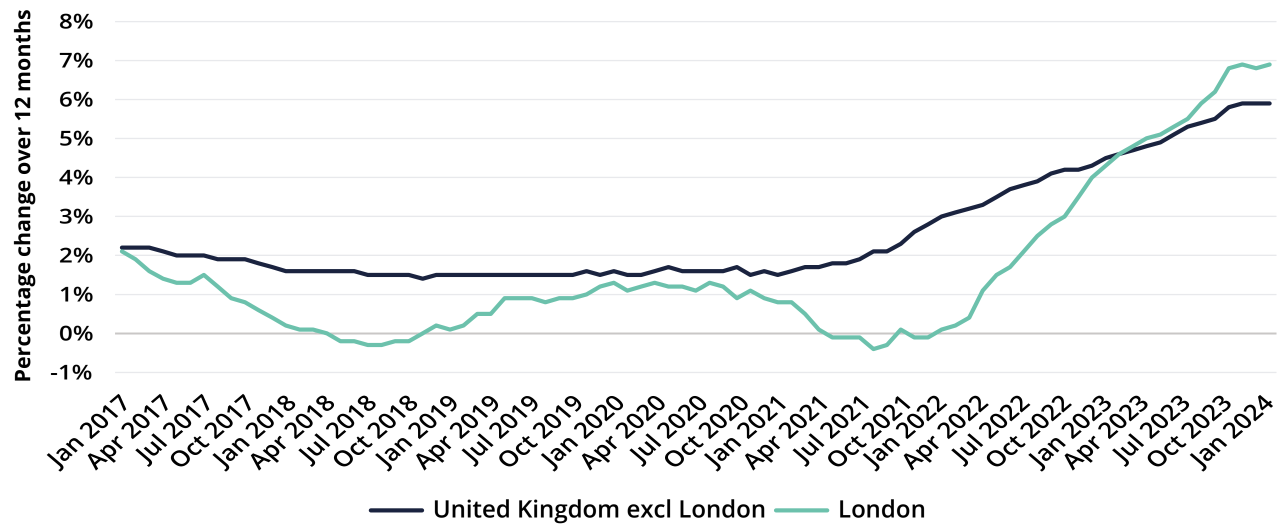
- Rising interest rates have increased costs for landlords with a mortgage (which account for 45 per cent of the UK rental stock).[232] As a direct consequence of these increased costs, some landlords have opted to sell their rental properties, which may have led to a reduction in the overall number of private rental properties available to renters (where these were sold to homeowners).[233]
- According to Zoopla, rental affordability worsened in 2023, when rental price increases outstripped wage growth. Despite wages showing significant growth of 7.2 per cent,[234] the report shows an average YoY rent increase of 9.7 per cent – with a further increase of five per cent expected in 2024.[235]

231 ONS: Private rental affordability, England, Wales and Northern Ireland: 2022, October 2023
232 The buy-to-let sector and financial stability | Bank of England
233 The buy-to-let sector and financial stability | Bank of England
234 ONS: Average weekly earnings in Great Britain: December 2023
235 Zoopla: Rental Market Report: December 2023, December 2023

As shown in Figure 49, there has been a rapid acceleration of rental prices in the UK (excluding London), and London in the 12 months to January 2024. Private rental prices increased 5.9 per cent in the UK (excluding London) and 6.9 per cent in London.[236]

Figure 49

UK private rental prices have steadily increased since 2021



Source: Index of Private Housing Rental Prices, UK: January 2024, February 2024.
Note: Estimates are not seasonally adjusted.

As with purchase affordability, tackling rental affordability is crucial to improving outcomes in the UK housing market. As rental affordability worsens, people find it increasingly challenging to save for, and purchase, their first home as more income is absorbed by rental expenses.

236 ONS: Index of Private Housing Rental Prices, UK: January 2024, released February 2024

C.3 Transaction volumes

Alongside property prices, transaction volumes are an important market outcome to consider when assessing the UK housing market.

Residential property transactions

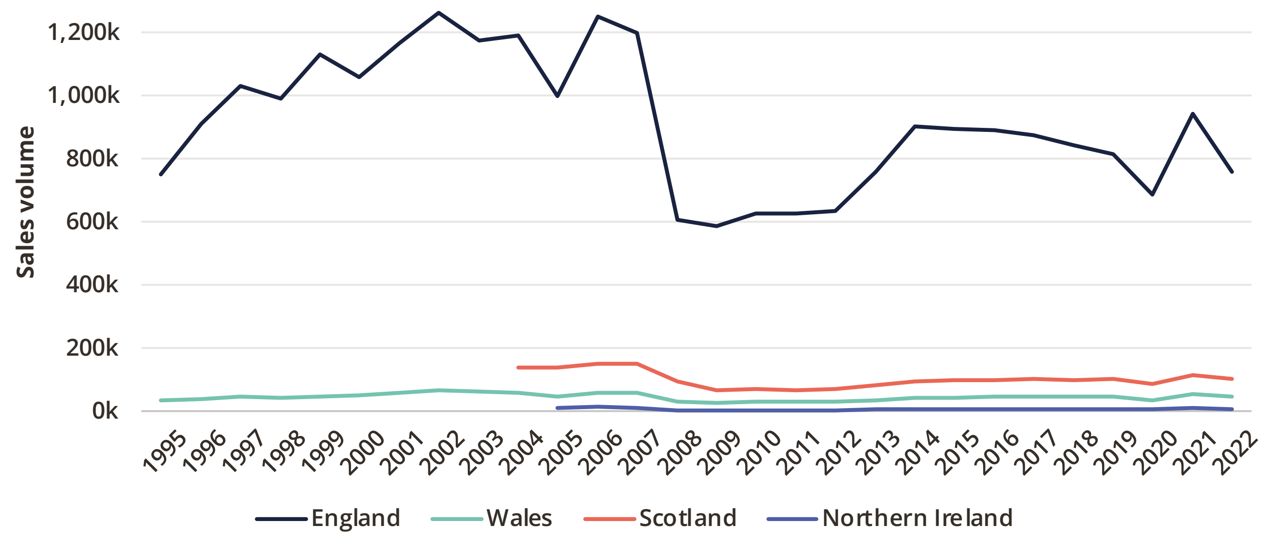
As shown in Figure 50, despite an upward trend in home purchases in the late 1990s, overall residential property transactions have declined since their peak just before the 2008 global financial crisis. The impact of the crisis was immediate. In one year, transaction volumes dropped by 50 per cent in England and 47 per cent, 37 per cent and 63 per cent in Wales, Scotland, and Northern Ireland, respectively.[237] This reduction is consistent with a demand in adjustment, as prices also fell during the financial crisis.

Since this period, however, transaction volumes have stabilised at this lower level. This has been the case, particularly for England, with around 760,000[238] transactions in 2022. This stagnation of transactions has occurred while property prices have continued to rise.

More recently, however, due to increased interest rates and the cost-of-living challenges experienced in 2022 and 2023, both volumes and prices appear to have declined.[239]

Figure 50

Residential property sales for England, Wales, Scotland, and Northern Ireland



Source: Frontier analysis of data provided by Gov. UK: Land Registry, accessed July 2024.

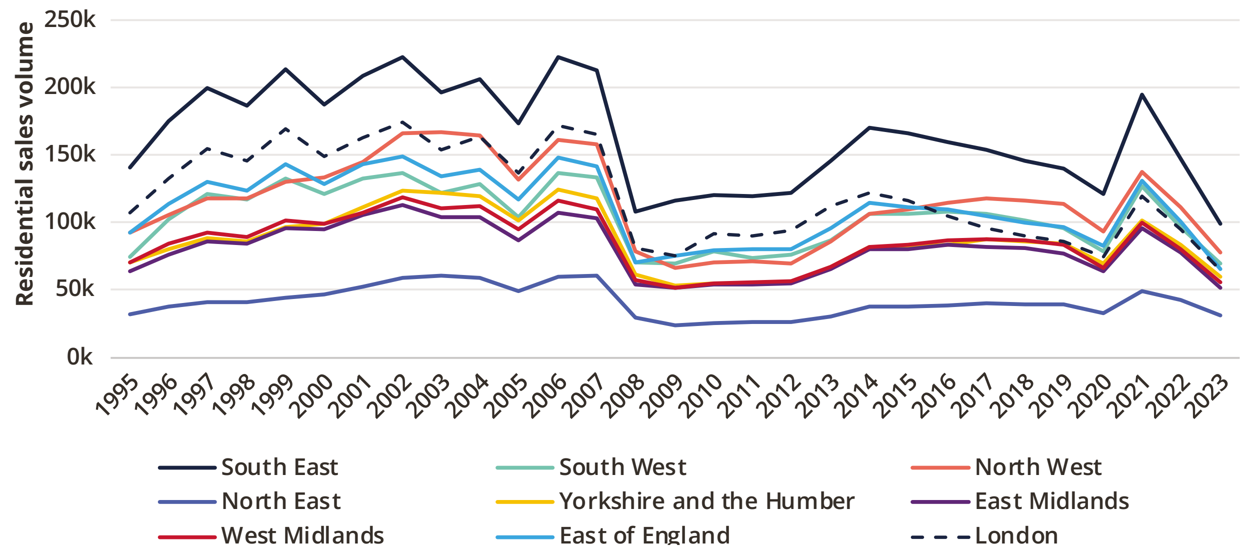
Note: Data for England, Wales and Scotland is provided monthly. Data for Northern Ireland is provided quarterly. Data presented above is for a/the calendar year. The UK HPI uses data from HM Land Registry, Registers of Scotland and Land and Property Services Northern Ireland. Sales are only available for inclusion in the UK HPI after property purchases have been registered and, thus, are based on completed sales. The data does not include advertised or approved prices. Due to the length of registration, some transactions may only become included after revisions to the data are made. Seasonally adjusted transaction data from 2005 onwards for properties valued over £40,000 can also be found at Gov UK: Property transactions in the UK.

237 Gov UK: Land Registry: UK House Price Index, Accessed March 2024. See note in Figure 50
238 See note in Figure 50
239 Gov UK: UK House Price Index for December 2023, released February 2024

Transaction volumes follow the same general trend in all regions of England, as evidenced in Figure 51.

Figure 51

Residential property sales by region in England



Source: Frontier analysis of data provided by Gov. UK: Land Registry, accessed July 2024.

Note: Data for England and its regions is provided monthly. The UK HPI uses data from HM Land Registry. Data presented above is for a/the calendar year. Sales are only available for inclusion in the UK HPI after property purchases have been registered and, thus, are based on completed sales. The data does not include advertised or approved prices. Due to the length of registration, some transactions may only become included after revisions to the data are made.

Private rental availability

All else being equal, a decrease in the number of private landlords is likely to result in increased price pressures in the rental market – if their properties move out of the private rented market and into the owner-occupied market.

Although not a perfect approximation of the provision of supply to the rental sector, there has been a decline in BTL mortgages since 2015, as shown in Figure 52. The reduction in BTL mortgages is likely to be attributable to various factors. Some of these include stamp duty changes in 2015 (which imposed a three per cent additional transaction cost on BTL property purchases in England), a reduction in capital gains tax allowances, recent interest rate increases, and changes to tax deductions on mortgage interest payments (for non-incorporated BTL landlords).[240] All of which have made a harsher environment for BTL landlords.

240 Bank of England: buy-to-let sector and financial stability, December 2023

Figure 52

Proportion of new property purchase loans which are Buy to Let (BTL)

Source: Frontier analysis of data provided by FCA: Mortgage lending statistics, updated June 2024.
Note: This data only assesses the proportion of loans for property purchase, and does not consider loans for remortgages. This is for residential loans to individuals: All (Regulated and Non-regulated).

The introduction of BTL mortgages in 1996 serves as an example of how regulation can impact the utilisation of existing housing stock. The growth in BTL lending was in response to the demand for private rental properties which, in turn, decreased the stock of properties available for owner-occupation.

The decline in the proportion of loans attributable to BTL indicates that potential BTL landlords may not be entering the market at the same rate as previously. If fewer BTL properties are being purchased for private rental this raises concerns that there may not be sufficient new BTL landlords (or properties) to replace those exiting the market, potentially leading to a further reduction in the PRS supply.

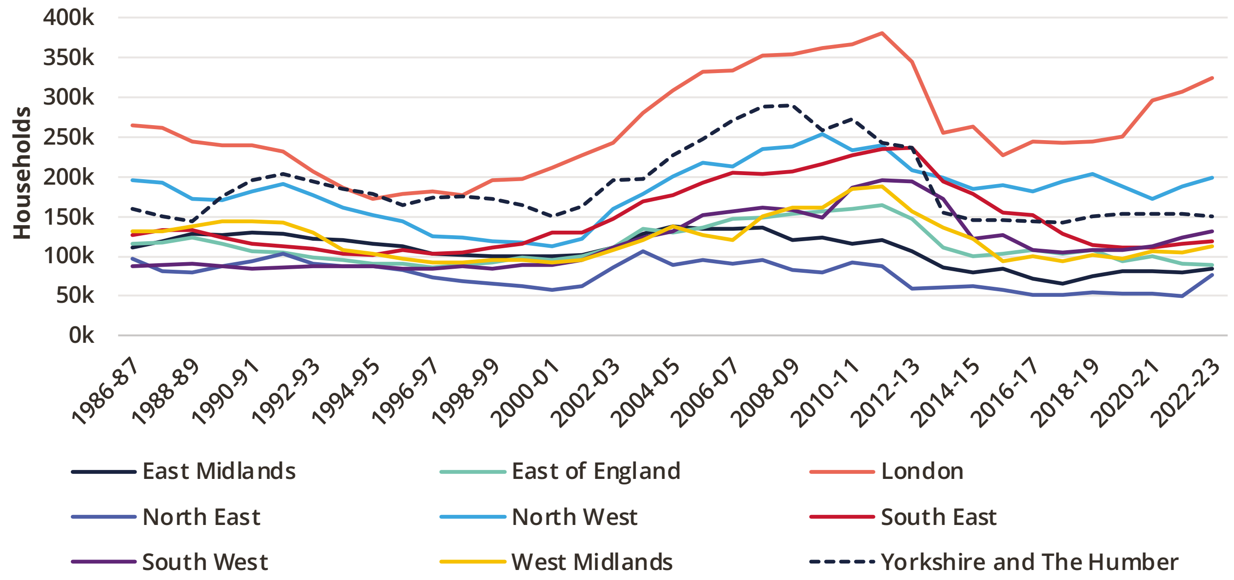
Social rental volumes and shortages

In addition to assessing the volume of transactions in the residential housing market, which affects both the owner-occupied and private rental sectors, it is important to consider the evolution of availability in the social rental housing market.

Waiting lists for social housing have grown over time, with a peak in most regions during the post-financial crisis period, as illustrated in Figure 53 below.[241]

Figure 53

Households on the waiting list by region



Source: Gov UK: rents lettings and tenancies, LT 600, updated December 2023.
Note: The number of households on the waiting list is not the same as the number of households waiting. Local authorities periodically review their lists to remove households who no longer require housing, so the total number of households on waiting lists may overstate the number of households who still require social housing at any one time. The Localism Act 2011 has contributed to a decrease in the size of waiting lists, as it allowed local authorities to set their own qualification criteria. Since households can be on the waiting list of more than one local authority, there is the potential for double counting.

There has been a steady increase in affordable housing waiting lists, especially in areas such as London (the region with the greatest private rental affordability challenges, as discussed in the previous section). In 2021-2022, approximately '12 per cent of households remained on the waiting list for five years or more before securing a social letting'.[242] This trend indicates a gradual reduction in the availability of social housing over the past few decades, exacerbating pressure on the PRS.

241 Note that these lists display the upper bound for those in need of a home as individual local authorities review lists periodically, and it is possible for one household to be on a waiting list in multiple local authorities.

242 Gov UK: Social housing lettings in England, tenants: April 2021 to March 2022

C.4 Changes in tenure

Changes across tenure are driven by the interactions between supply and demand in the different housing markets and consequent affordability levels. As outlined in the introduction to this report, the three main housing tenures have become imperfect substitutes for one another, and hence, dynamics in each one influence the other.

Since 1981, England's total housing stock has increased at an average annual rate of 0.9 per cent, resulting in around 30.4 million properties by the end of March 2023.[243]

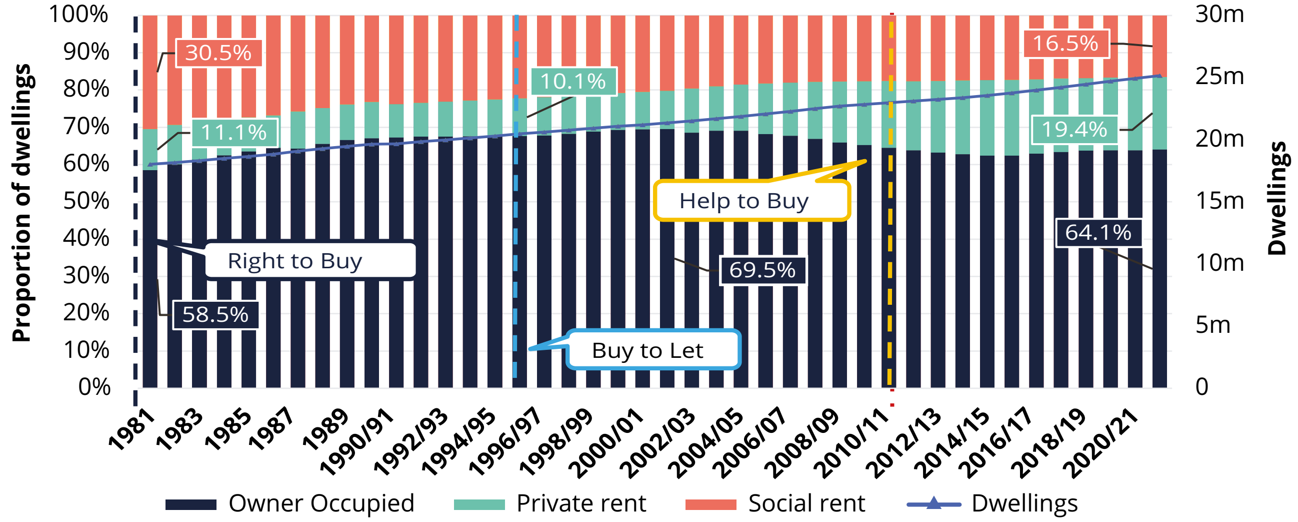
As shown in Figure 54, while the composition of tenures has changed over time, owner-occupation has consistently remained the most common. However, it has fallen slightly in recent years due to the affordability challenges noted above.

Over the past four decades, social renting has experienced a steady decline. This is partly attributed to the introduction of the Right to Buy scheme in 1980, which facilitated tenants' purchase of their council home at a discounted price and the failure of successive governments to replace social housing sold as part of the scheme. However, while there has been a reduction in the proportion of dwellings rented from local authorities (down from 28 per cent in 1981 to six per cent in 2022), there has been an increase in social rent provided by Private Registered Providers (PRPs), increasing from two per cent of dwellings in 1981 to ten per cent in 2022.

The PRS has witnessed substantial growth since the early 2000s, through a mixture of would-be first-time buyers being unable to get on to the housing ladder (due to affordability challenges) and the inability of other groups to find social housing (the number of people on the waiting list for social rent properties currently stands at 1.2 million[244]). This has resulted in a much broader range of households residing in the PRS than 20 years ago.

Figure 54

Change in proportion of tenure in England between 1981 and 2022



Source: Frontier analysis of data provided by UK Gov Dwelling stock; Table LT 104.

Note: The percentages in the figure above are for specific years. Data from 1991 onwards is year end March 31. The last year of available data is financial year 2021/22. Shared ownership dwellings are included in owner-occupied dwellings. Due to disruptions caused by the Covid-19 pandemic, there was a lower response rate for the LAHS return for 2020 compared to previous years. From 2003 the figures for owner-occupied and the PRS for England have been produced using a new improved methodology as detailed in the dwelling stock release. Prior to this, vacancy was not accounted for. The navy blue dashed line indicates the start of Right to Buy. The sky blue dashed line indicates the introduction of Buy to Let mortgages in 1996.The yellow dashed line indicates the introduction of Help to Buy in the UK in 2013.

243 It is currently understood that in the data from 2003 onwards, total dwelling stock includes vacant dwellings

244 Gov UK: Social housing lettings in England, tenants: April 2021 to March 2022, February 2024

Household movements between tenures

Another way of assessing changes in tenure is to review individual household movements.

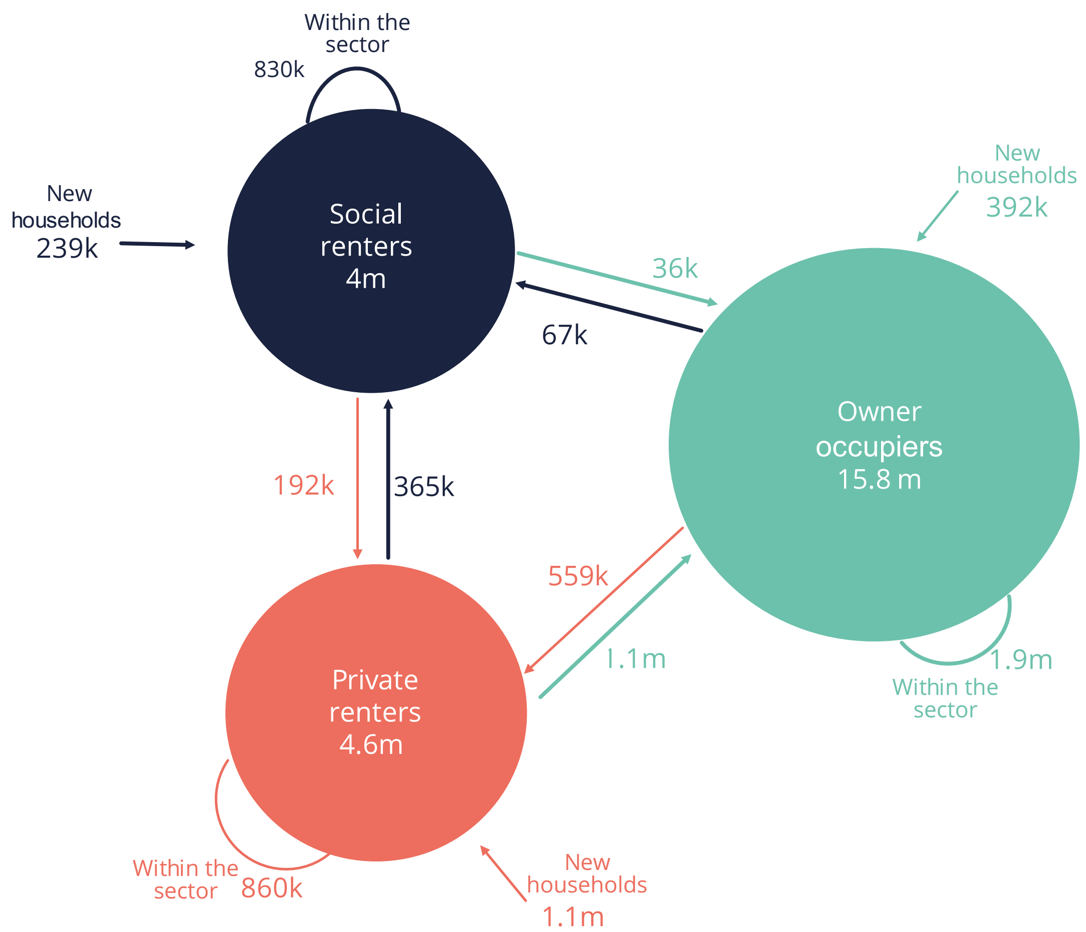
As shown in Figure 55, in England, there are currently 15.8 million households classified as owner-occupiers (accounting for 65 per cent of households), 4.6 million (19 per cent) as private renters and four million (16 per cent) as social renters.

The movements between tenures between 2017-2018 and 2022-2023 speak to the lifecycle of households, with most new households entering the PRS (1.1 million) as opposed to social rent (239,000) or owner-occupied (392,000). Households then move away from private rent, predominantly into owner-occupation, with a net flow of 573,000.

However, these net movements are smaller than the new households entering the PRS. Consequently, this sector has grown as a share of the population in recent years.

Figure 55

Changes in housing tenure in England between 2017-2018 to 2022-2023



Source: Frontier analysis of data provided by Gov. UK: English housing survey 2017/18-2022/23.

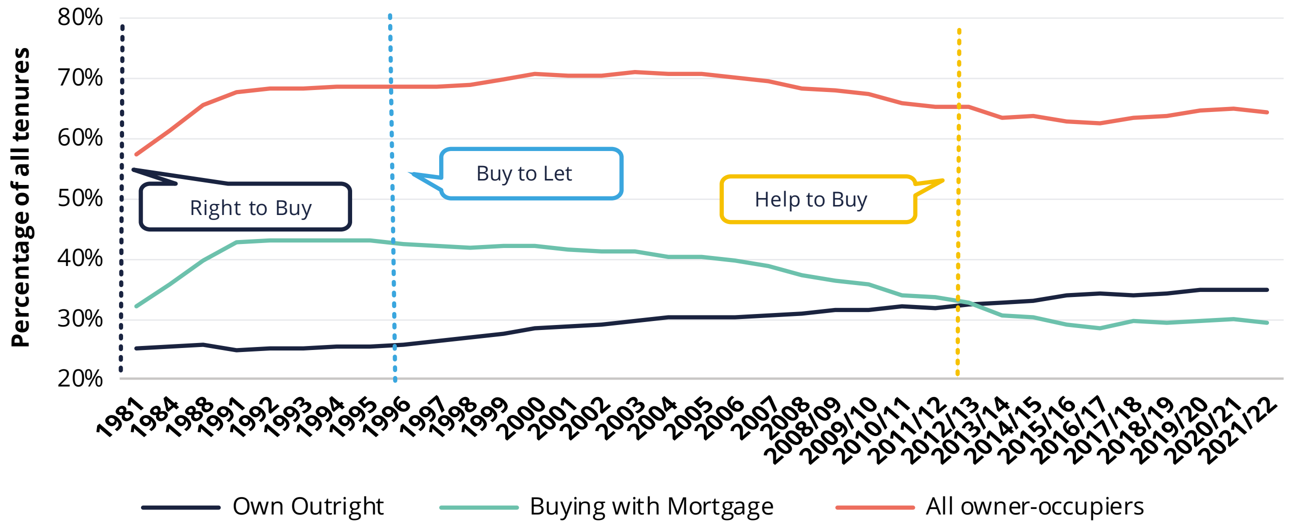
Note: This analysis is conducted by summing the movements between and within tenures from 2017/18 to 2022/23. The total number within the tenure is based on the 2022/23 levels. There was no data provided for 'number of new households' in owner occupier in 2021/22 and movement from owner-occupation to social rent in 2020/21. There was no data for movement from social rent to owner-occupier between 2018/19 and 2021/22. There was no data for movement from social rent to private rent in 2020/21.

Changes in the composition of owner-occupation

Figure 56 shows the split of homeowners who own their home with, or without, a mortgage (own outright). The percentage of households who are outright owners increased from 25 per cent to 35 per cent between 1981 and the financial year 2021-2022. Conversely, the percentage of households buying with a mortgage exhibited a steady rise from 32 per cent to 42 per cent by 2001 but gradually declined to 30 per cent by 2021. This trend is partly a result of the reduction in first-time buyers coupled with pre-existing homeowners paying off their mortgages, moving them to outright ownership.[245]

Figure 56

Owner-occupation profiles in England



Source: Gov UK: English Housing Survey 2021 to 2022: Headline report, December 2022.

Note: There are certain periods in which data was missing – we have dropped those observations. The navy blue dashed line indicates the start of Right to Buy. The sky blue dashed line indicates the introduction of Buy to Let mortgages in 1996. The yellow dashed line indicates the introduction of Help to Buy in the UK in 2013.

245 Gov UK: English Housing Survey 2021 to 2022: Headline report, December 2022

C.5 Supply and demand for UK housing financing

Mortgages play a crucial role for most people in purchasing residential properties and are a fundamental component of a well-functioning housing market. Mortgage conditions directly impact buyers' ability to purchase a property, as ability to purchase is directly linked to financing costs.

There are two components related to mortgages which impact consumers' ability to buy a home (and hence demand), in different ways: the proportion of the value of the property the person can finance through the mortgage (or Loan to Value ratio) and the interest rate charged on the amount borrowed. The following sub-sections describe these in detail.

Loan to Value (LTV)

The amount of financing a potential homeowner can obtain for the purchase of a property determines what home they can afford for a given level of deposit – with higher LTV loans facilitating the purchase of more expensive homes for a given deposit level. The LTV obtained depends on a range of factors relating to the customer's ability to repay the mortgage, which a lender must consider when assessing a mortgage application. These include:

- The Loan to Income (LTI) ratio: The value of the loan in relation to the customer's income. If this is high, it may indicate that it could be harder for the customer to afford the loan.
- The customer's monthly repayments in relation to their net income. The monthly repayments are a product of the interest rate, the length of the loan, and the size of the loan.
- LTV ratio: The percentage of the loan in relation to the value of the property purchased. The deposit the customer pays makes up the remainder. Higher LTV ratios expose lenders to risk if property prices fall

As a result, the LTV customers can acquire depends on a complex mix of factors. These include:

Property prices as a proportion of a customer's income. For a given LTI ratio, increasing property prices in relation to incomes will increase the deposit required. Increasing the amount of the deposit in relation to the value of the property reduces the LTV ratio.

Interest rates: Higher interest rates will reduce the value of the loan a customer can acquire on a given income as the monthly repayments will increase.

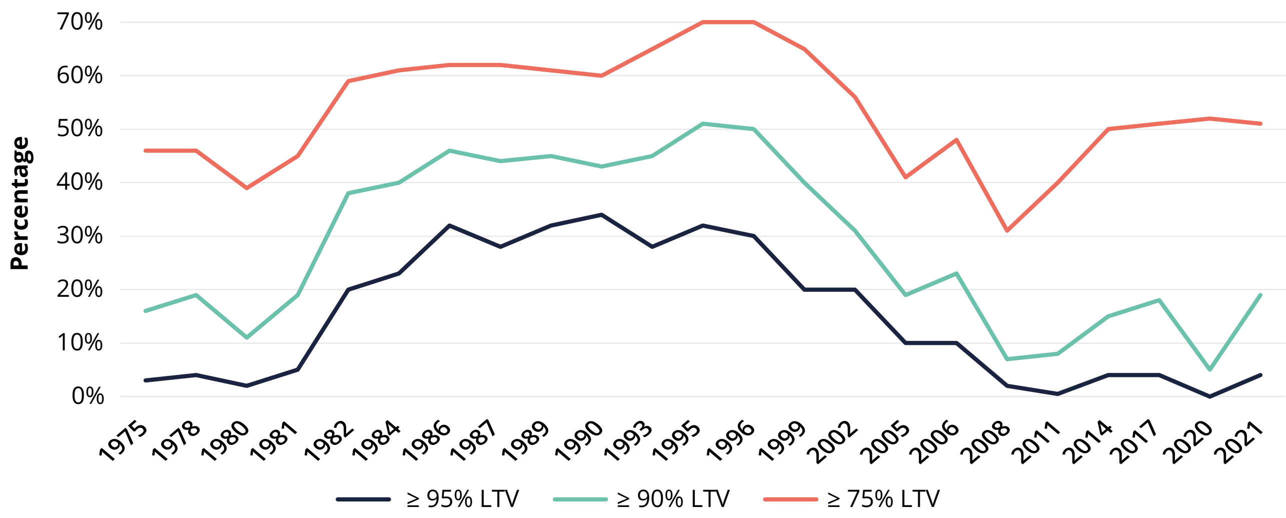
Prudential regulation: As described in Section 2.5, the Bank of England's Financial Policy Committee has set limits on the LTI lenders can offer.

The FCA has separate affordability test requirements which mortgage borrowers must pass. Tougher affordability rules and LTI caps will lower the maximum LTV since they reduce the amount a customer, on a given income, can borrow.

Of these three, both property prices and prudential regulation have affected the LTV customers can obtain in recent years. Prudential regulation has reduced the loans customers can acquire for a given income, while property prices have risen in relation to income. In addition, as described below, interest rates have risen since December 2021. Taken together, this has reduced the number of high LTV loans granted to borrowers in recent years. As illustrated in Figure 57, between the 1980s and 2000s, the share of new mortgage lending at or above a 95 per cent LTV was close to 30 per cent. The proportion of mortgages above 95 per cent LTV has reduced significantly (nearing two per cent in 2020), and since the 2008 global financial crisis, the maximum LTV has generally been 90 per cent.[246]

Figure 57

Share of new mortgage lending at or above different LTVs



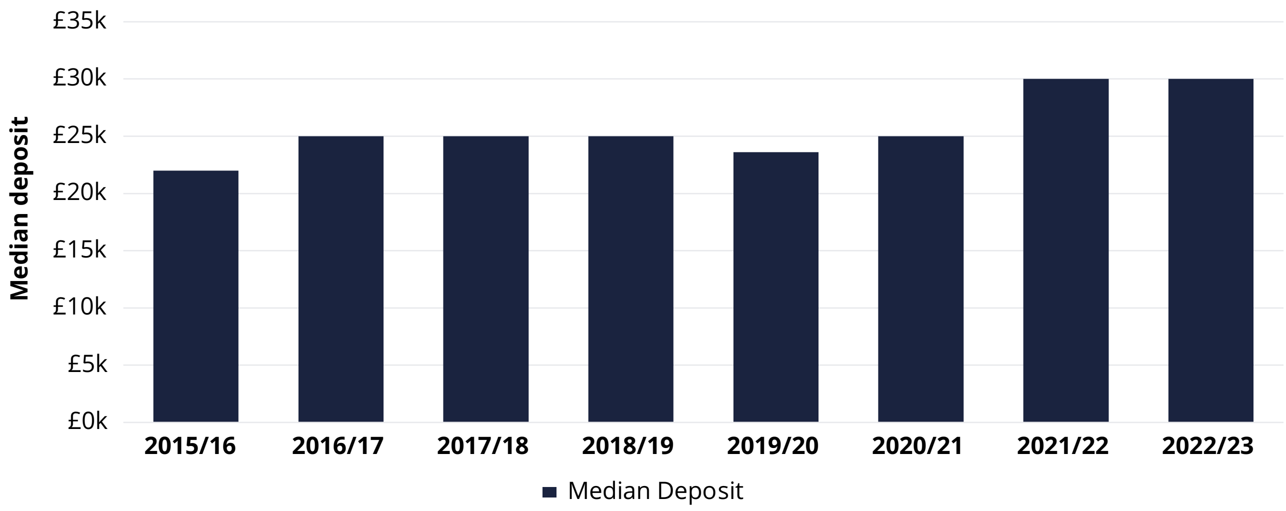
Source: Frontier analysis of data provided by Bank of England: How does household financial resilience compare to the early 1990s recession?, January 2023.

246 Bank of England: How does household financial resilience compare to the early 1990s recession? Published January 2023

The factors described above have meant that for many mortgage customers, in order to obtain a mortgage at lower LTV, they have had to increase the value of their initial deposit. As depicted in Figure 58, the median deposit has risen substantially from £22,000 in 2015-2016 to £30,000 in 2022-2023. This is part of the reason for the increasing age of first-time buyers described earlier (see Figure 37).

Figure 58

Median deposits have increased over time in England



Source: Frontier analysis of data provided by Gov UK: English Housing Survey, 2015/16, 2016/17, 2017/18, 2018/19, 2019/20, 2020/21, 2021/22 and 2022/23.

Mortgage interest rates

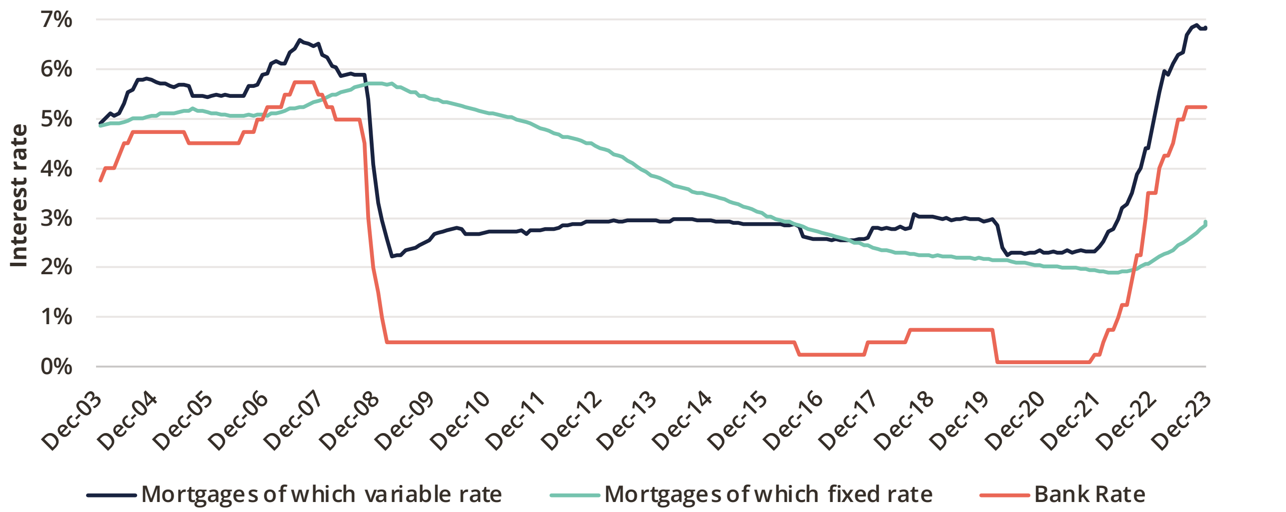
Increases in mortgage interest rates have two effects:

- **Existing mortgage holders** will see an increase in the monthly repayments they must make.[247] This can reduce their disposable income and, hence, their consumption in the rest of the economy. For customers on 'variable rate' mortgages the increase in repayments will be seen almost immediately, whereas for those borrowers on a 'fixed rate' mortgage their monthly payments will change when the product reaches maturity.
- **For new mortgage holders,** an increase in interest rates will result in higher monthly repayments. This will, make the mandatory 'affordability test' for the loan harder to pass.

Figure 59 shows the Bank of England's base rate and effective interest rate on fixed rate and variable rate mortgages. In the period from December 2021 to August 2023 base rate increased from 0.1 per cent to 5.25 per sent with a reduction to 5 per cent seen in August 2024. Those who are on variable rate mortgages have felt this change immediately. New fixed rate mortgage rates will also change with expected future changes to the Bank of England base rate. However, those already on fixed rate mortgages will only see a change when the fixed period ends, meaning that the average effective interest rate of fixed rate mortgages increases more slowly.

Figure 59

Monthly average effective interest rate in the UK



Source: ONS: How increases in housing costs impact households, published 9 January 2023; Bank of England, Official Bank Rate history, accessed July 2024; and Bank of England, Monthly average interest rates (CFMZ6K8 and CFMZ6KA).

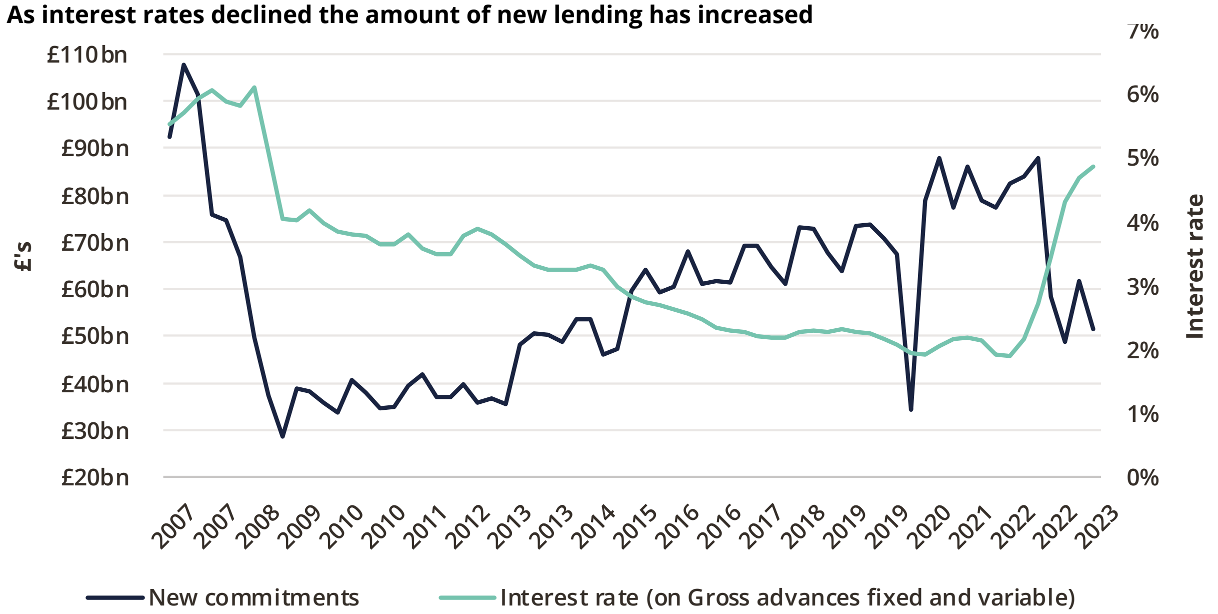
Note: The effective interest rate is the average interest rate on loans which the Bank of England has calculated in a standard way, as per Bank of England: Effective interest rates.

247 Those on fixed mortgages products will experience a lag in this effect, since their payments will only increase when their current deal ends, and they must take out a new mortgage at a higher rate

Consequently, the number and value of new mortgages granted have significantly decreased. As indicated in Figure 60, new mortgage commitments, which had been on a positive trajectory since the end of the 2008 global financial crisis, have notably declined as interest rates have risen.

Figure 60

As interest rates declined the amount of new lending has increased



Source: Frontier analysis of data provided by FCA: Mortgage lending statistics, updated December 2023, MLAR statistics: detailed tables.

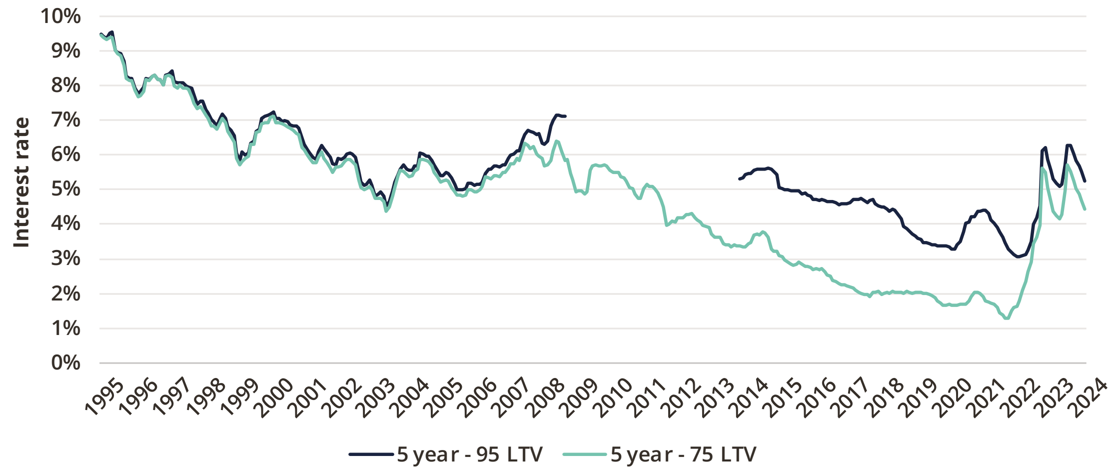
Note: The data presented above is for new commitments in the regulated and non-regulated markets. New commitments are the amount of new lending that a lender has agreed to advance in coming months to home movers, remortgagers, first-time buyers and those seeking a further advance. In the context of the report, the value of new commitments is used as a proxy for the number of new lending. The interest rate data above is the overall weighted average interest rate for fixed and variable rates on gross advances.

Relationship between LTV and interest rates

The LTV level also impacts the interest rate charged on the mortgage. The higher the LTV, the greater the perceived risk the loan is to the lender. Lenders are required to hold more capital against high LTV loans, increasing their costs. This leads to higher interest rates being charged on higher LTV mortgages. As shown in Figure 61, the difference in interest rates charged on higher LTV versus lower LTV loans increased after the 2008 global financial crisis.

Figure 61

Interest rates vary depending on LTV



Source: Bank of England, IUMWTL and IUMBV42, accessed July 2024.

Note: Data between October 2008 and October 2013 for 5 year – 95 LTV is not available.

Annex D – Right to Buy

Annex D – Right to Buy

Right to Buy was introduced in 1980 and enabled eligible social housing tenants to purchase their homes from the local authority or housing association at a discounted price. There have been several changes to Right to Buy over the years, but under the current rules, tenants are able to purchase their property using the scheme, once they have lived in social housing for three years. The discount tenants receive increases with their length of tenure and can be up to a maximum of 70 per cent, with an average discount of 41 per cent.[248] The new Labour government has announced changes to Right to Buy and has commenced a review of the increased discounts which were introduced in 2012. A consultation on wider changes to Right to Buy has been announced, and local councils are being given new flexibilities on their use of Right to Buy receipts (proceeds from the sale of social rented homes in England via the Right to Buy scheme).

Impact and critique

A total of two million homes were sold as part of the Right to Buy scheme from its inception until March 2022, with 15,000 purchased through Right to Buy and Right to Acquire in the most recent year.[249] This has enabled millions of social housing tenants to become homeowners, who otherwise may have struggled to do so. Between 1981 and 2002, homeownership increased from 58 per cent to 70 per cent, with Right to Buy being a significant contributing factor in this.

However, the two key criticisms of Right to Buy are:

- While increasing homeownership, it reduced substantially the availability of social housing. Social housing's share of the housing stock has fallen from 30 per cent in the early 1980s, to 16 per cent today. This was caused by a combination of a significant reduction in the building of new social housing, and the substantial conversion of existing social homes into private ownership through Right to Buy. As of March 2023, the social housing waiting list in England includes 1.3 million families.[250]
- Although it has allowed some to enter homeownership, it does not increase the overall stock of housing and, hence, overall supply. Instead, it merely shifts supply from the public market (social housing) into the private market (owner-occupied, and potentially subsequently into the PRS).

248 Gov UK: Social Housing sales and demolitions 2021-22: Right to buy sales, January 2023
249 Gov UK: Social Housing sales and demolitions 2021-22: Right to buy sales, January 2023
250 Gov UK: Social housing lettings in England, tenancies: April 2022 to March 2023, updated March 2024