England: A housing time bomb

by: Jules Birch, for Inside Housing 17/12/2012

The big shift from owning to renting revealed in the census has potentially massive implications for government spending on housing costs.

The headline results revealed by the Office for National Statistics last week were that home ownership fell from 68.3 per cent of households if England and Wales in 2001 to 63.5 per cent in 2011. Private renting increased from 9 per cent to 15 per cent and social renting fell from 19.3 per cent to 17.6 per cent.

However, within that total for home ownership, the proportion of households owning outright actually increased, so the really significant change was the fall in the number buying with a mortgage from 8.4 million (38.8 per cent of households) in 2001 to 7.6 million (32.7 per cent) in 2011.

As I highlight on my other blog, if mortgaged ownership had maintained its 2001 share of total tenure, there would now be an extra 1.4 million households with between one and ten years on the housing ladder. Instead they are tenants, mostly of buy-to-let landlords. The number of outstanding buy-to-let mortgages in 2011 was – by complete coincidence of course – 1.4 million. I also have more analysis of the overall trends in tenure, including the areas with the highest and lowest owning and renting.

In this blog I want to concentrate on two long-term consequences of this change.

The first is obviously the growth of the private rented sector beyond what might be considered its traditional role as a flexible housing option for the young. As research by Shelter – and last week's Labour policy paper – highlighted the sector is now home to more than a million families with children and its short-term tenancies look increasingly ill-suited to people who need long-term stability.

At the same time, the government appears to want an increase in private renting financed by pension funds and institutions along the lines recommended by the Montague report. So with mortgage lending constrained and social housing investment in short supply, further growth in private renting looks inevitable. Many housing associations are seeing an opportunity for expansion by applying professional management standards to a portfolio that can be used to diversify their business and cross subsidise their affordable housing. And changes to the homelessness legislation will create expanding demand for private rented homes for homeless families from local authorities.

Which brings me to the second long-term consequence of the change in tenure. Expanding home ownership has formed a key part of moves towards asset-based welfare over the last 20 years. Owners have an asset to fall back on later in life. Once they have paid off their mortgage, their only housing costs are council tax and repair and maintenance, and when it comes to long-term care or income in retirement, the equity in their home is a potential source of income.

In contrast, renters not only have no asset to fall back on and use to pay for their care or living expenses, but they also have to continue to pay rent in retirement. Unless they have built up substantial pension assets – and all the trends are against this too – that means the state will have to step in and help with housing benefit. The more private renting continues to grow, the higher that housing benefit bill will be.

The census confirms that home ownership is shrinking and so is the scope for asset-based welfare. A report by the Strategic Society Centre in the summer highlighted this issue alongside the long-term growth in the number of pensioners from 12.6 million now to 15.9 million in 2020 and 18.8 million in 2060 (when today's 20-year-olds will be over 70).

In 2009/10, 1.5 million pensioner households received housing benefit and up to another 390,000 were entitled to claim but did not do so. They claimed an average of £69 a week at a total cost of £5.3 billion.

The report projected that by 2060 around 40 per cent of pensioners – 7.5 million – will be renting and that around half of them will receive housing benefit. It put the total cost of pensioner housing benefit in 2060 at £13.4 billion or £8.1 billion a year more than now.

However, even that projection was based on some very conservative assumptions about tenure and rents. For a start, it was based on a forecast that home ownership in England would fall to 63.8 per cent in 2021. Last week's Census revealed that it was already lower than that in 2011.

As things stand, home ownership looks certain to fall even more over the next ten years. A report for the Joseph Rowntree Foundation in June warned of a looming housing crisis with an extra 1.5 million under-30s forced into private renting by 2020. Another out today from the Building Societies Association says that one in four prospective first-time buyers believes that it will take them at least 10 years to save a deposit.

Second, the estimate was based on the same £69 a week average pensioner housing benefit claim as now. While that allows a comparison in today's terms, it does not reflect the continuing shift in tenure *within* renting. About 11 per cent of current pensioners receiving housing benefit rent privately compared to 28 per cent of non-pensioners. If the shift to private renting (and even within social housing to higher rents) continues, the proportion of pensioners paying higher private rents looks set to rise significantly in the longer term and so does the housing benefit bill.

So that projection that the housing benefit bill will rise by 40 per cent as a result of changes in tenure and demographics is likely to prove a highly conservative estimate. Faced with those kind of numbers, what should the government do?

The Strategic Society Centre argued for 'aggressive steps to increase rates of ownership': 'Since declining rates of home-ownership will have severe fiscal consequences in the long-term, policymakers should therefore explicitly target the highest possible rates of owner-occupation consistent with economic stability (i.e. a lack of "housing bubbles", or high-rates of foreclosures) and labour market flexibility. In short, policymakers should not be neutral to tenure. Higher rates of home-ownership are ultimately cheaper for the taxpayer.'

It added that policy makers should also look at over-consumption and multiple ownership of housing including second homes and buy-to-let investment. As I argued on my other blog, the census results show less a fall in home ownership than a fall in owner-occupation. Many of those 1.4 million buy-to-let mortgages are being paid by people who see their investment as their pension. Far better, surely, to come up with incentives for pension investment that do not push up house prices and leave the taxpayer to pick up much of the long-term bill. Alongside the increases in housing supply now supported by all parties, the job of government would be to strike the right long-term balance between tenures.

The looming housing timebomb should also mean increased investment in genuinely affordable housing and intervention in the private rented sector to go with measures to make it easier to get on the housing ladder at affordable prices. There is a debate to be had about whether that should just mean increased regulation and greater security or rent control too but it is one that is needed urgently.

The complete opposite, in other words, of what we currently do: short-term schemes to boost ownership for a few that just increase prices and make it less accessible for everyone else; laissez-faire policies for the private rented sector; and the slow death of social housing.

Oh yes, and squeezing entitlement to housing benefit, first for the under-25s, then for the under-35s, then for private tenants, then for social tenants. So far pensioners have been protected from any cuts – but for how much longer if nothing changes?