



**intergenerational
foundation**

Fairness for Future Generations

Hoarding of Housing:

The intergenerational crisis in the housing market

by Matt Griffith for IF.org.uk

“A factor is quietly at work that has the potential to profoundly shape the longer-term nature of home-ownership and mortgage lending in the UK. Housing wealth is slowly but surely becoming more concentrated in the hands of older households, and the number of older households with housing wealth is growing fast.”

Council for Mortgage Lenders

“The money borrowed by young families ended up in the bank accounts of older households... The increase in house prices over the decade to 2007 – and the massive financial flows associated with that appreciation – represent a huge redistribution of wealth between different households within our society.”

Spencer Dale, Bank of England Chief Economist

“Modern British politics has been about incomes. We have seen a switch to a new kind of politics: the politics of assets. On the back of rising house prices, many people suddenly find themselves well-off. The rise represents a straight transfer away from the young, who have to pay the high house prices and the onerous mortgages which result from them. It represents a transfer of wealth on an unparalleled scale to older people.”

Lord David Lipsey

19th October 2011

Executive Summary

The Intergenerational Foundation (IF) is a newly established non-party-political charity that seeks to promote the rights of younger and future generations in British policy-making.

IF commissioned Matthew Griffith, a housing expert, to undertake research into the intergenerational tensions around the use of housing in England. IF believes that a debate should be held over how we use our existing housing stock, not just on planning and building issues.

The following report will provide clear evidence that there is an intergenerational crisis in how we use our housing stock.

- The current housing crisis is not principally about Britain having enough housing but about the way it is shared between older and younger generations.
- Under-occupation of houses is encouraged by the tax system and there are now 25 million surplus bedrooms in under-occupied houses in England. 'Hoarding of living space' (under-occupation) is increasing very rapidly.
- Under-occupied housing has increased from 20% of all households to about 33%, according to the English Housing Survey.
- The divide between the housing-haves and housing-have-nots has moved from being one dominated by class to one dominated by age. The huge increase in housing wealth by the older generation was broadly matched by a big increase in mortgage debt by younger people. This is important as housing wealth has grown rapidly – from about the same as GDP in 1980 to about twice that level over the last 30 years.
- House ownership is virtually unaffordable for younger people in the parts of Britain where there is work. As a result, private renting has increased by over 50% during the last 8 years.
- 16 million people now live in under-occupied properties in England. This is equivalent to 37% of the total English housing stock.
- Downsizing amongst the over 65s in the UK has stagnated, unlike the US.
- What is needed is a tax system which is better at balancing income taxes and wealth-related taxes, and reflects the social costs of the over-consumption of housing.
- The crisis in British housing has become politically destabilising as younger people increasingly consider that unfairness in this area is breaking the intergenerational pact.
- Policy options include:
 - abolishing stamp duty for those downsizing
 - changes to planning rules to increase the supply of suitable housing for people downsizing
 - 'nudge' policies such as the withdrawal of some 'universal' benefits for those living in houses worth over £500,000
 - a property value tax
 - abolition of council tax concessions for single occupation

Introduction

The pattern of housing use is shaped by the needs of the family lifecycle. Young people leave the parental home in their twenties and thirties. They may meet a partner, look to move in together and begin to have children. By their late forties and early fifties, their own children will have become teenagers and will start again to leave the family home. And the cycle continues once more.

This generational cycle is intimately linked with housing – the decision to leave home depends on being able to afford to buy or rent elsewhere, the decision to form a life partnership requires a home to move into, whilst security of tenure matters when deciding to have children, just as having enough rooms in which children can grow matters for all types of life outcomes.

In the UK this housing lifecycle is now fundamentally out of step with the patterns of housing ownership and wealth. There are large and growing generational imbalances in rates of home ownership and in levels of housing wealth and debt.

Those who need property the least are now the group that holds the most. The ability of groups in their late twenties and early thirties to ‘settle down’ and have children is running into the physical obstacle of the lack of housing space.

There are now over 25 million empty bedrooms in under-occupied homes in England – rooms that are surplus to need based on the English Housing Standard. Very many of these are in the homes of the retired, and by 2026 empty bedrooms in the homes of the retired will exceed 10 million. The British ‘family home’ is increasingly not owned by families, but by older, post-reproductive couples and single people.

This strikes at the heart of the intergenerational compact – for future generations to continue to thrive, having a housing market that works is central. But at present it is one of the large and growing inequalities between old and young.

The lifecycle of housing is breaking down partly due to the behaviour of older groups: rather than downsizing, more and more older people are staying on in the family home and hoarding housing wealth. Whilst these older groups may think they are keeping an ‘asset’ for future generations, the negative impact is felt primarily among the young, who face higher lifetime levels of debt and smaller living space as a result.

The distribution of the existing housing stock matters. The growth in new UK supply is extremely slow, at less than 1% a year. It has also been characterised by the building of small properties.

How housing is occupied has traditionally not been a policy concern in UK political debate, in part due to the political weight of older homeowners. But the growing concentration of ownership, the pressure on housing need from increasing household numbers, combined with the slow growth in new home building means that how we use existing stock becomes a much more pressing concern.

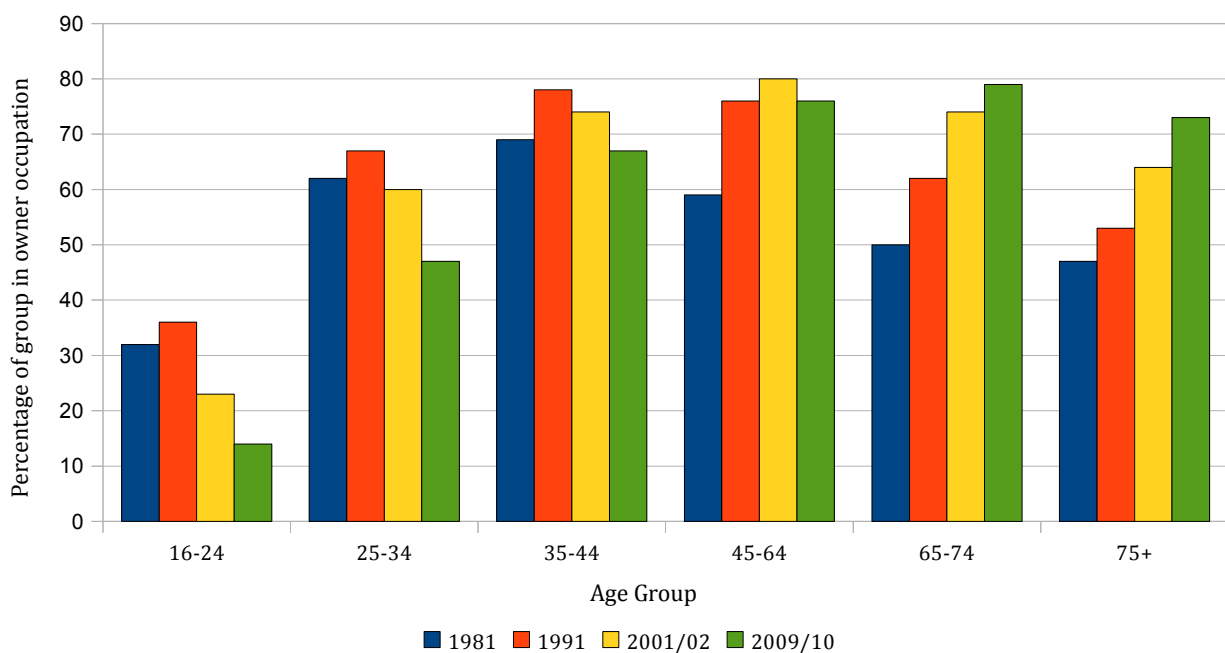
Owner-occupation

British owner-occupation rates have experienced a strong upward trend since the end of the First World War. It has long been a central assumption of post-war government policy that every generation would have more home owners than their parents. Echoes of the ‘property owning democracy’, first set out by Anthony Eden in the 1940s, continue to reverberate in political discussion.

The reverse of the 80-year upward trend in owner-occupation has been quite recent, peaking at 70.9% in 2003 and declining to a level of 67.4% in 2009/10¹. Oxford Economics predict that, in England, the proportion of people living in owner-occupied homes will fall to 63.8% in 2021 (Oxford Economics 2011).

Many commentators view this as a perhaps inevitable ‘flattening out’ of a market close to its natural level of capacity. However, when you look at the trends within owner-occupation, there is a clear generational story that is not being told. We can see a definite split in the experience of home ownership rates based upon age.

Figure 1: Percentage of each age group that are owner occupiers, 1981 to 2009/10



(Source: English Household Survey)

Despite the stalling of the growth of owner-occupation at the aggregate national level, older generations have continued to see an upward march in home ownership, whilst for younger groups the reversal of the home ownership dream has been happening for much longer than the headline figures suggest.

Between 1991 and 2009/10, owner-occupation levels in the 16 to 24 age group has fallen 61% (from 36% to 14%), whilst owner-occupation in the 25 to 34 age group fell 30% (from 67 to 47%). Home ownership in the 35 to 44 age group also fell 14% (from 78 to 67%).

In marked contrast, levels of owner-occupation continued to rise significantly in older groups. Between 1991 and 2009/10 the 65 to 74 age group saw a 14% increase in home ownership (from 62 to 79%) whilst those aged over 75 saw home ownership rise from 53 to 73%.

Over a longer time period, this trend of growing home ownership amongst the old is even clearer. In 2008/9 75% of people aged over 65 owned their own home, up from 49% in 1981 – a 53% rise.ⁱⁱ

We are seeing important changes in the way that Britons are experiencing home ownership and how ownership is distributed – and this change is strongly conditioned by age. Scratch beneath the assumption of Britain reaching a healthy plateau of national home ownership, and you find two generational housing cycles.

The Future Ageing of Home Ownership

The momentum behind these two trends is strong.

The current demographic group with the largest levels of home ownership is between 55 and 65 years of age – with rates of 80% home ownership.ⁱⁱⁱ

Home ownership within older demographic groups was boosted by the post-war boom in house building and the Right to Buy policy of the 1980s. Both gave a powerful downward push to house prices and an ability for middle and lower income groups to purchase their own homes.

There were two broad phases to this growth in home ownership. In the earlier post-war period, those in privately rented accommodation on middle incomes were increasingly able to move into owner-occupation, whilst in the latter period during the 1980s this shift was added to by a decline in the social housing sector and the uptake of home ownership by lower income groups.

As this demographic hump of the 'baby boomers' passes into retirement, and older generations with much larger numbers of people in the social rented sector die, retirement will increasingly be dominated by owner-occupiers.

The Pensions Policy Institute estimates that over the next few years we are likely to see 80% of people over state pension age being owner-occupiers (PPI 2010).^{iv}

These increases will be occurring alongside the growing demographic importance of older people. Older households as a percentage of UK households are projected to rise from 24.8% in 1971 to 30.4% in 2026 (Holmans 2009). Owner-occupier households aged 65 and above are projected to make up well over one-fifth of all English households by 2026 (Croucher et al 2009).

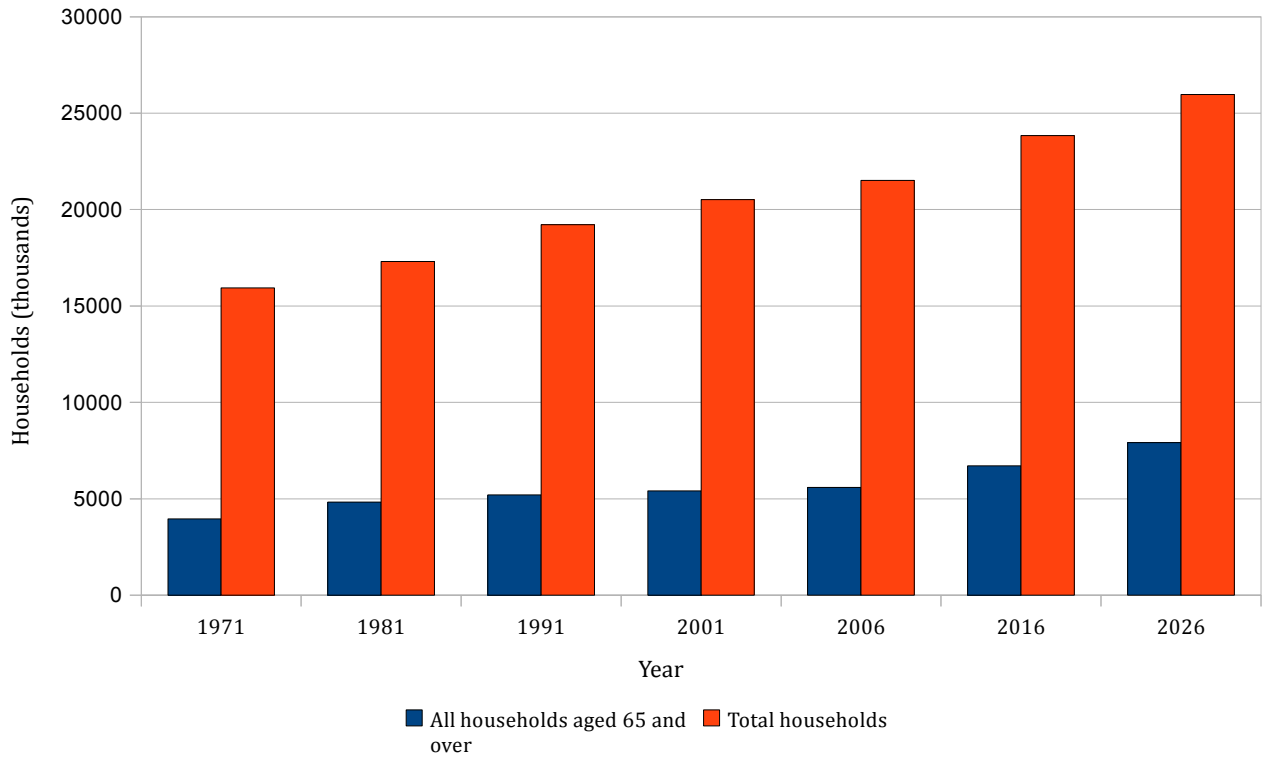
These households will be smaller than average, with over 90% of all older households either single or couples without any dependent children (Holmans 2009).

The shrinking of household size gives an important character to the ageing of home ownership. There will be very strong rises in single-person older households, which are projected to rise 136% from 1971 to reach 4 million households in 2026. The number of married couples over 65 is also set to double to 3.2 million in 2026 (Croucher et al 2009).

The ageing UK population will be one where outright home ownership will be the norm. It will also be one dominated by small households. This has important implications for the distribution of housing stock that we will come to later.

The growth in home ownership has also occurred alongside a growing number of older households buying more than one house, for investment or leisure reasons, which adds to generational imbalances of housing ownership and wealth. Close to a fifth of people between 50 and 59 years old now own a second home.^v

Figure 2: Growth of Old Households, England



Young People and Home Ownership: Decline and Fall

The fate of younger demographic groups looks likely to be one of continued falling home ownership.^{vi}

The continued rise in owner-occupation rates among older groups means that the predicted fall in national levels of owner-occupation is going to be felt overwhelmingly among younger cohorts.^{vii}

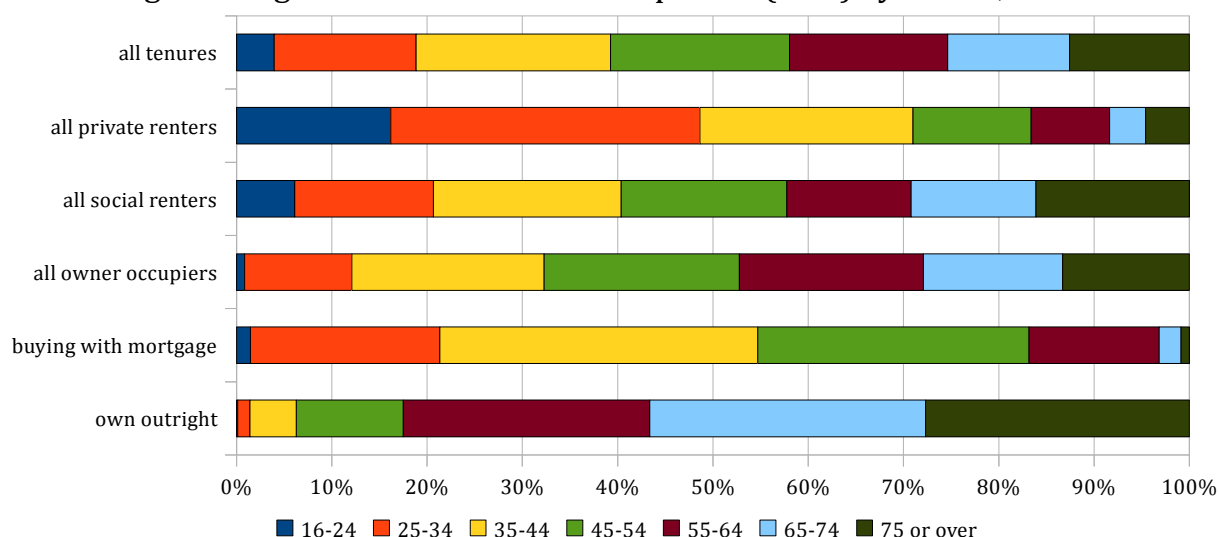
Behind the decline in young home ownership are much stiffer headwinds than those faced by their parents' generation.

The UK has had flagging housebuilding rates since the 1980s, with the decline of social housebuilding not being compensated for by either building by housing associations or the private sector (Morton 2009). During the same period, forty years of mortgage market liberalisation has put a continuous upwards pressure on housing demand and prices. Investment demand has become a much more important presence in the residential housing market, whilst demand across the market has been raised by the consumption of more housing (notably from older groups) as people have become wealthier (IPPR 2011).

These constraints are being added to by current economic pressures on younger age groups, through high rates of youth unemployment, stagnant wages and higher levels of non-secured debt (particularly the likely steep growth of student debt^{viii}). All of which are reducing the ability of younger age groups to 'get on the ladder'.

The consequence is that home ownership is being replaced by the private rented sector as the likely default housing option for younger people. Two-thirds of all new households created in 2008/09 found their first home in the private rented sector (DCLG 2010a).

Figure 3: Age of household reference person (HRP) by tenure, 2008-09



Over 70% of those in the private rented sector (PRS) are now aged between 16 and 44 (see above), whilst over 80% of those who own their property outright are over 55. 86% of those aged 16 to 24 find themselves either in social housing or the private rented sector, whilst over 50% of those aged 25 to 34 are not in owner-occupation.

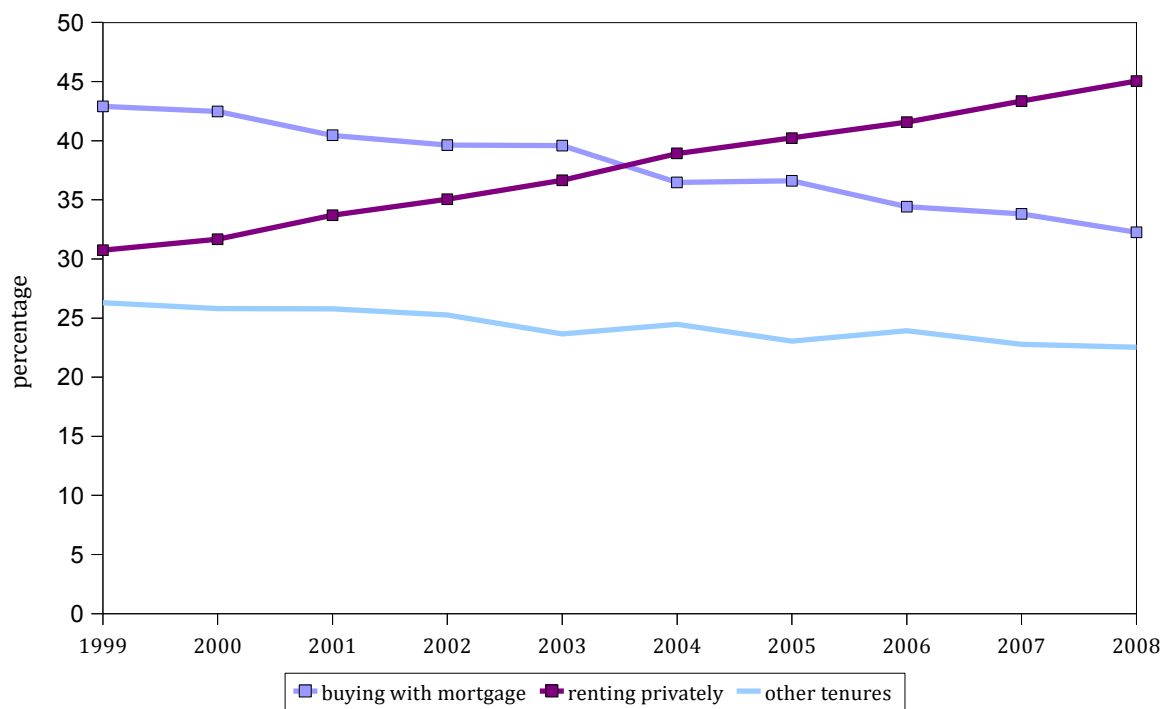
The growth of the private rented sector is also projected to continue to increase to 20% of households in 2020 from 14% of households in 2008.^{ix} Alongside growing owner-occupation rates amongst older households and sluggish levels of new house building, this growth of the rented sector is likely to come primarily at the expense of home ownership among younger groups.

The age profile of those in the private rented sector is increasingly starting to resemble what used to be the young family homeowner in their late twenties, thirties and early forties.

There are questions about whether renting is suitable for meeting the needs of this new non-home-owning demographic. The government minister, Greg Clark, recently said that life in the private rented sector was ‘destroying family life’.^x There is a relative lack of security of tenure provided by the private rented sector. For example, the PRS, although only accounting for 14.2% of all households, accounts for about 50% of all household moves each year.^{xi} The change in tenure away from ownership for this group therefore poses questions of the current suitability of the sector for child-rearing and family stability. It also removes an ideal vehicle for saving from many young families.

The trend of more young people in the private rented sector is, unsurprisingly, mirrored by the decline in those buying a home with a mortgage.

Figure 4: Trend in tenure of households with HRP aged less than 30, England, 1999 to 2008



Source: CLG Survey of English Housing 2007/08

This trend away from younger age groups buying a home is causing a deeper shift within the structure of homeownership. Below the headline trends we can also see a distinctive change in home ownership patterns towards an increasing number of those who own their homes outright – and away from those who are buying with a mortgage.

We are witnessing a greater stratification of home ownership. An increasing number of home owners are those who own outright and, as we have seen in the previous chapter, this has a strong correlation with age.

Housing Wealth

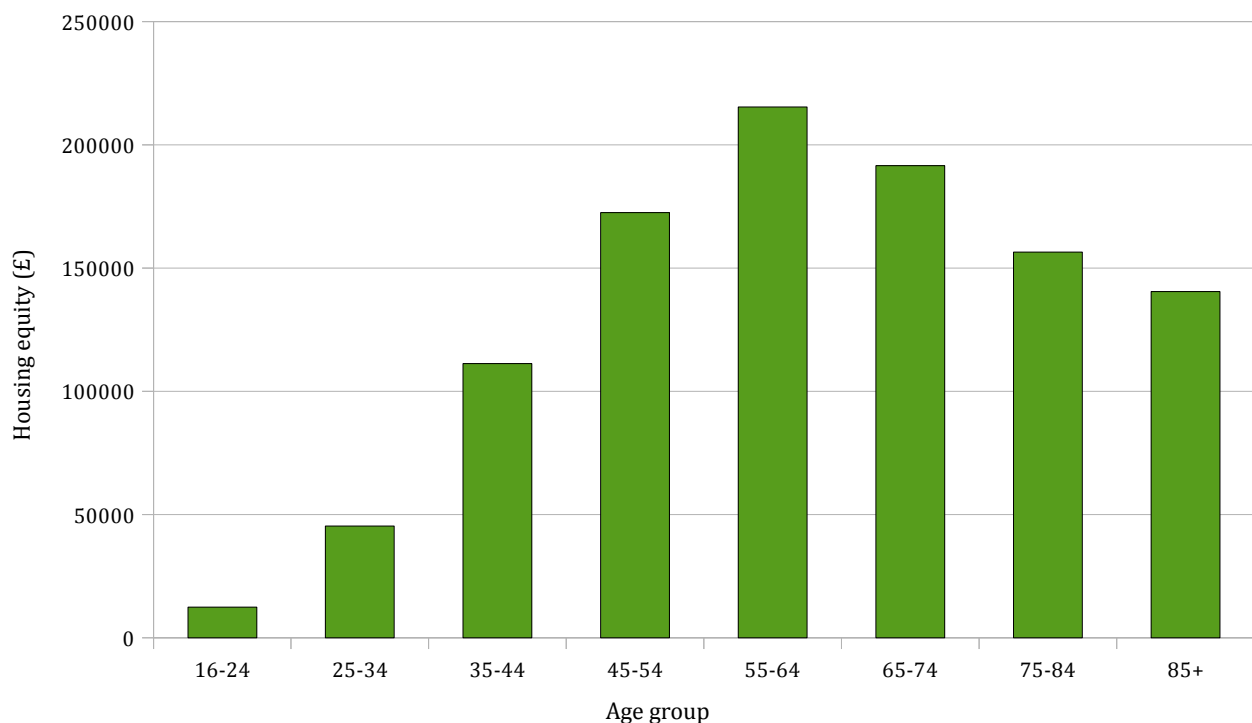
The lifecycle of housing wealth has always created an uneven distribution among generations. New entrants to the housing market tend to have negative net housing wealth due to mortgage debt. Their wealth increases as mortgage repayments combined with capital appreciation erode debt and increase equity. Wealth peaks and should then decline when housing consumption reduces as family size shrinks.^{xii}

However the distribution of housing wealth between generations has become strikingly more unequal over the past twenty years. Older groups now own more housing wealth than ever before and housing wealth makes up a much larger chunk of the total wealth of UK households.^{xiii} Housing has made a major contribution to a growing generational imbalance in the UK household balance sheets of assets and liabilities.

Although rising housing wealth has been a great windfall for older generations, the imbalance has potentially significant detrimental implications for the lifetime wealth and life chances of younger groups.

The current distribution of housing wealth by age was recently captured by the ONS in its survey of UK household wealth.^{xiv}

Figure 5: Mean housing equity per person, by age group

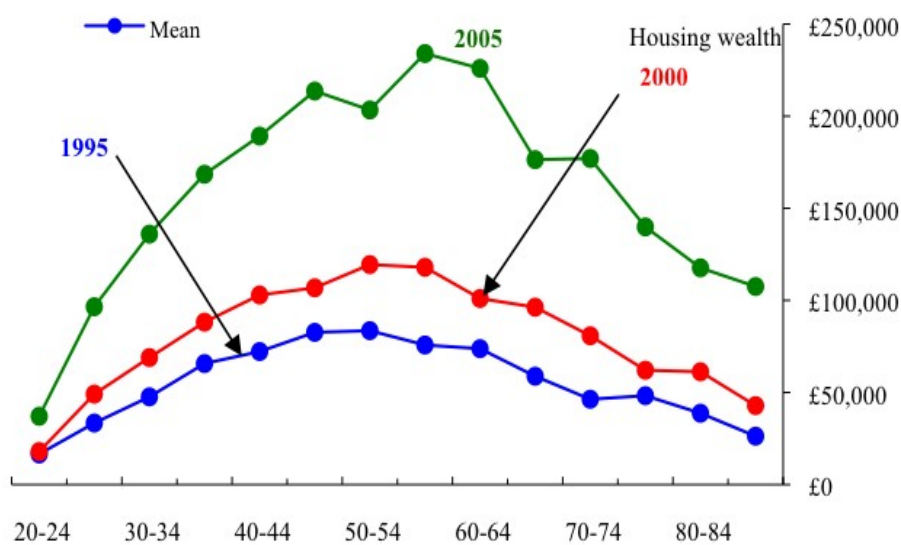


(Source: Office for National Statistics, wealth study: statistics available from the online version of the report)

The ONS' wealth study gives details of the distribution of net household property wealth, but excludes households with zero net property wealth. Cross-referencing this data against the percentage of property owners in the same age brackets, we can find how much housing equity people in each age bracket own, as shown above.

Official data tracking housing wealth over time is limited. But using data from the Bank of England, we can see an explosive growth in housing wealth since 1993 and this has primarily benefited older cohorts – notably those now in their late forties, fifties and sixties. Housing wealth ‘boomed to the advantage, in particular, of older generations... the distribution of housing wealth has become more skewed’ (BOE 2010).

Figure 6: Housing wealth by age 1993-2005



Intergenerational inequalities in the distribution of this housing wealth are now highly pronounced.^{xv}

Housing wealth is a reflection of the balance of housing value set against housing debt – known as housing equity. Figures from the UK Housing Review 2008/9 indicate a substantially higher total of £2.7 trillion housing equity for home-owner households with a household representative aged 60 or over^{xvi} (Croucher et al 2009).

The CML estimated that households over 60 accounted for 44% of all equity owned by households in 2006 (Holmans 2009).

This is not just an inevitable life cycle imbalance. The boom in housing wealth over the past thirty years has been substantial relative to other economic indicators – notably GDP, total household wealth and earnings.

Older home-owner households now have far higher levels of housing equity relative to previous generations. In 1980 housing equity was roughly equal to UK GDP, but by 2007 housing wealth was equivalent to 185% of the GDP (NHPAU 2009).

The Royal Commission on the Distribution of Income and Wealth (1977) estimated that the value of dwellings as a proportion of net personal wealth increased from 18% in 1960 to 37% in 1975. Chris Hamnet estimated that this had risen to over 50% by 1990 and has grown substantially since. (Hamnet 2007).^{xvii}

The proportion of personal wealth held in the form of housing doubled between 1971 and 2002 and has increased since. House prices (and therefore net housing wealth) since 1990 have also increased far more rapidly than earnings compared to the pre-1990 period.

Due in part to the growth in levels of home ownership by older groups and the size of wealth holdings by current pre-retirement age groups in their fifties and sixties, this growth in older housing wealth is projected to continue strongly.

The Pensions Policy Institute estimates there will be a 40% real increase in the housing wealth of pensioners by 2030 and this rises to a 70% increase for those in households aged over 75. The number of households which will have 'medium or high' value houses in retirement will increase by a third to stand at 5.2 million households by 2030 (PPI 2010).

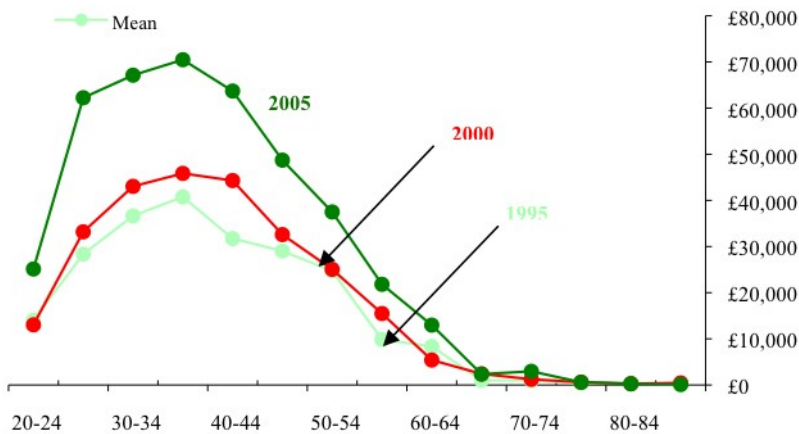
Alan Holmans at Cambridge University calculated that the £1 trillion of housing equity held by older households in 2006 would increase to more than £1.4 trillion in real terms by 2026 if house prices remained constant in real terms. But if house prices increased broadly in line with earnings this figure climbs to more than £2.3 trillion (Holmans 2009).

Housing Equity and Housing Debt

Of course, 'housing wealth' is distinctive from other forms of wealth. A growth in housing wealth does not represent the greater economic productivity of bricks and mortar. Housing wealth's value is largely determined by the market price paid for it by succeeding generations, and this value is closely related to the level of mortgage debt.

While UK households acquired over £750 billion of financial assets between 2000 and 2008, they also accumulated an additional £1 trillion of debt over the same period (Dale 2009). In short, the growth in housing wealth has been broadly mirrored by the growth in housing debt.

Figure 7: Secured debt by age group 1995–2005



Over the past thirty years the housing assets built up by older generations have come, overwhelmingly, from the higher mortgage debts of younger generations. The huge increase in saving by one part of the population was broadly matched by a big increase in borrowing by another part.

Higher levels of housing wealth have meant a very large redistribution of wealth between different households within British society. Increased housing wealth has been a windfall gain for some, but represents an increase in long-term liabilities for others.

To quote Spencer Dale, a Bank of England Senior Economist, 'Changes in house prices do not result in significant changes in aggregate household wealth: for every winner gaining from higher house prices is a loser facing less affordable housing... The money borrowed by young families ended up in the bank accounts of older households.'

The unequal distribution of gains and losses between generations of households has been exacerbated by the deteriorating position of the UK's net household balance sheet.

At the end of 2009, the UK household sector had debts totalling £1.53 trillion, of which £1.19

trillion, or 78%, was secured on dwellings.^{xviii}

Internationally comparable figures show that UK households have more debt, and more mortgage debt, relative to their income than households in any other major economy. Household indebtedness has increased more in the UK since 2002 than in any other rich nation, and almost all the increase in household indebtedness in the UK has been as a result of more mortgage borrowing.^{xix}

The household sector shifted from being a net lender in the 1990s to a net borrower in the 2000s. Much of this extra borrowing was in mortgage lending. Total gross mortgage lending in the UK tripled between 1999 and 2007, from £115 billion to £364 billion (Hamnett 2009).

The deterioration in the balance within the UK household sector again splits along age lines, with younger generations taking the burden of extra borrowing, against the increased assets of older generations.

The growth in property wealth, at a rate faster than underlying income growth and faster than UK GDP, has been facilitated via expanded debt holding.

This in turn has been caused by substantial shifts in mortgage and credit markets. The wealth transfers between generations come effectively by extending the debt burden of younger generations and a consumption of a larger percentage of their current and future lifetime earnings via debt repayments.

It is important to realise that these changes are to a large extent 'one-off' structural shifts in the balance of housing debt within the economy – due to the liberalisation of credit markets and the drop in long-term global interest rates. Younger cohorts are highly unlikely to benefit from such windfall gains in value in future, as it is hard to see either how the level of mortgage debt can grow in relative terms (the UK already has the highest level of mortgage debt to GDP in the world), or how the price of credit can realistically drop much further.

This is clearly a form of intergenerational bequest where the balance of benefits has been stacked against younger groups. There is a well grounded concern that younger people's long-term financial health is being damaged by this generational imbalance within the housing market and the transfers of assets and liabilities it has created.

If they have been able to buy a house, younger groups are paying a high proportion of their income on housing to the detriment of other forms of retirement saving (Lloyd 2007). Or, if they are unable to afford a house, they are spending larger amounts of their lifetime income on rent, which transfers wealth from the renter to the landlord and reduces longer-term asset accumulation through saving.

Some observers point to the role of gifted deposits and inheritance as creating new and generous intergenerational wealth flows that make the growing inequalities of housing wealth and ownership less important. But there is little evidence that these counter flows are either as effective or anywhere near as large as the total rise in property wealth or the counterbalancing increase in mortgage debt (Lloyd 2007).

'Gifted deposits' are one-off and arbitrary transfers that are entirely dependent upon wealth and generosity – which is bad news for social mobility. Most people are likely to inherit housing wealth

when they are in the 45 to 60 age group (Clarke 2008), at a stage when they likely to have seen their children leave or preparing to leave home. Housing wealth flows from inheritance therefore look set to increase wealth imbalances. The Council for Mortgage Lenders also points out that the level of property inheritance is also likely to be substantially lower and received later than many people expect – due to increased longevity (CML 2009).

Under-Occupation

For UK families there is an increasing mismatch between housing need and housing ownership.

The ageing of housing wealth and the growing generational imbalance in home ownership has important implications for housing use, and in turn the life cycle of housing need based around family reproduction.

Declining home ownership and the rising use of private rented accommodation, alongside large increases in mortgage debt among younger groups have potentially serious long-run implications. Some of these implications concern the security of tenure and differing generational stakes in owner-occupation. Other implications are potentially long-run and detrimental economic burdens being placed upon the shoulders of younger groups.

But the most pressing practical housing concern for raising a family is one of the use of current housing stock: will one have a bedroom for one's children? Will one have a garden or outside space in which the children can play and grow? Here there are also growing intergenerational inequalities, which follow on from the growing inequalities we have already examined in home ownership and housing wealth.

As housing wealth shifts irresistibly up the demographic scale, the 'family home' is increasingly in the hands of an ageing population that is no longer actively raising Britain's families.

The distribution of housing space in the UK is not evenly spread – some households live in overcrowded accommodation, with not enough bedrooms to go round. This is particularly noticeable for families whose growth puts pressure on housing space. Other households are 'rattling around' homes with bedrooms significantly in excess of the number of people living there.

According to figures based on the English Housing Survey, England's households held over 25 million surplus bedrooms in 2009/10.

The government has a measure of overcrowding called the 'bedroom standard': this is a method of calculating housing need for single people, couples and families with children. The definition of 'under-occupied' usually means that households have at least two bedrooms more than they require.^{xx} Even according to this, more generous, measure there were over 18 million surplus bedrooms in 'under-occupied' houses in 2009/10.

There are now 8 million under-occupying households in England, equivalent to 37% of total households. 16 million people live in under-occupied properties in England, so it is reasonable to assume that in the UK, over one in three households are under-occupied.

Number of bedrooms household has	Bedrooms surplus to actual need	Number of 'under-occupied' bedrooms
1	-184,803	0
2	3,703,818	0
3	12,212,935	9,577,136
4	6,710,529	6,120,560
5	2,118,294	2,055,346
6	402,037	468,090
7	197,000	99,303
8	46,452	19,052
9	7,429	22,205
10	36,126	6,160
Total	25,262,401	18,367,852

Under-occupation levels have seen substantial growth in recent years.

Households considered to be under-occupying have risen from a fifth of all households in 1971 to over a third in 2009/10 (Harding 2007b).

Between 2003 and 2008/9, there was a 45% increase in the number of under-occupied homes in England.

This has been strongly driven by the underlying demographic changes we have already reviewed – particularly of ageing, shrinking household size, and the changing distribution of home ownership and wealth.

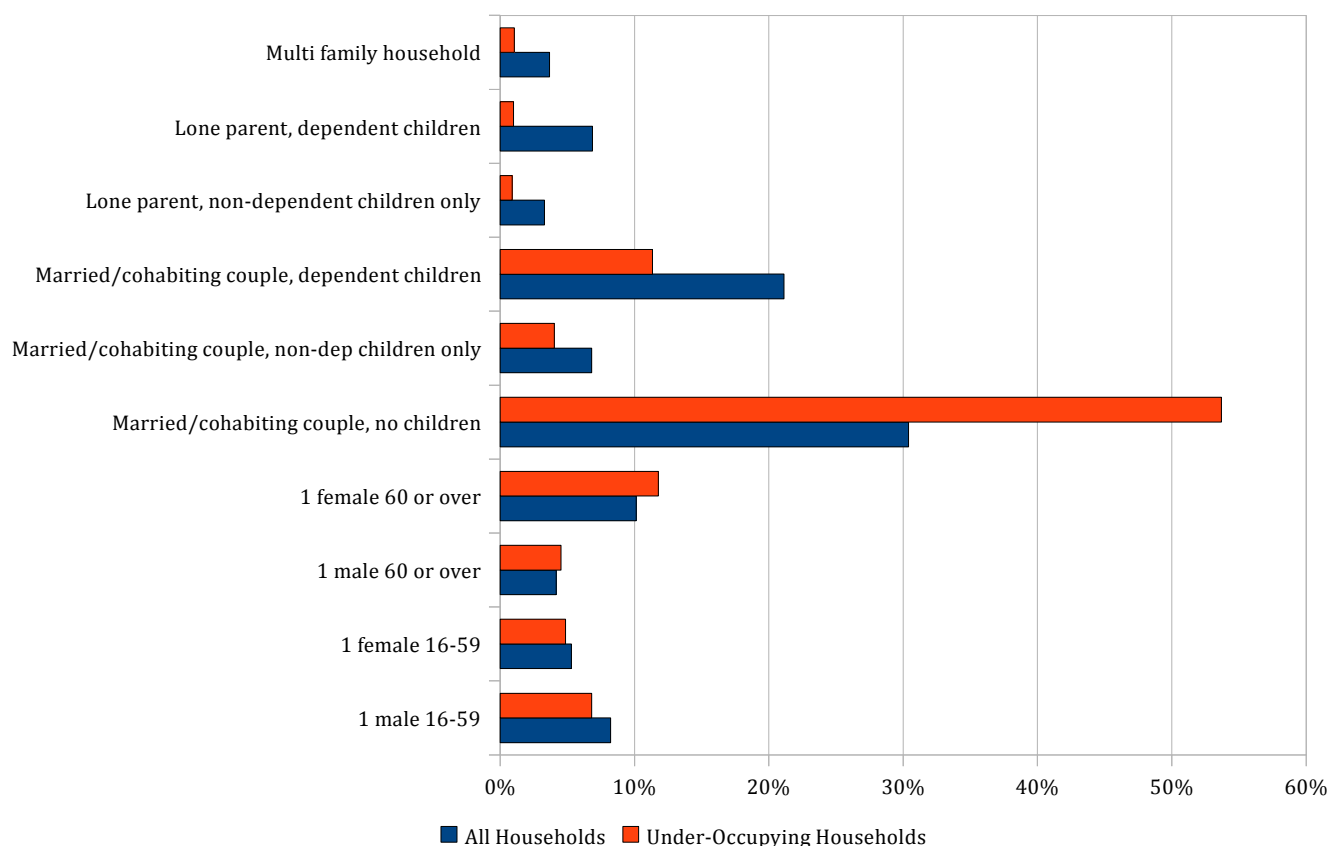
Under-occupation and household type

The growth in under-occupation is in part related to the changing nature of household composition and the growth of particular household groups.

Couples living without children in the home tend to be the most likely to have spare rooms. Of the 4.1 million under-occupying households in this category, two-thirds are aged between 50 and 79 compared to 11% aged under 34. This suggests that a large proportion of this group are 'empty nesters' (couples who remain in the family home once their children have moved out).

The other category of household most likely to be under-occupying housing is single-person households aged over 60.

Figure 8: Household type and under-occupation



(Source: Survey of English Housing, three year average 2005/6–2007/8)

The percentage of single-person households under-occupying their dwelling rose from 43% in 2003 to 57% in 2008.^{xxi}

Analysis of the latest government household data by the [Intergenerational Foundation](#) shows that the requirement for *more* bedrooms is concentrated in the households which currently have one, two or three bedrooms needing an additional bedroom.

The greatest *excess* of bedrooms is amongst households who currently have three bedrooms but only require one.

In short, those households which are suffering most from over-crowding are growing families in smaller properties, whilst an expanding new older demographic of single people or couples is holding more housing space than it really needs.

Under-occupation and Age

Under-occupation has a strong correlation with age.

51.5% of those aged over 65 lived in 'under-occupied' homes, as shown below. 83.4% (4.64 million) of those aged over 65 lived in homes with one or more bedrooms above the bedroom standard in 2009/10. Only 13.6% of those aged between 16 and 29 lived in 'under-occupied homes'.^{xxii}

Under-occupation by age group 2009/10

Age of household reference person	Under-occupied/two or more above standard (2009/10)
16 – 29	13.6%
30 – 44	23.7%
45 – 64	44.5%
65 or over	51.5%

As shown below, the recent trend has been for under-occupation to increase in older households and decrease in younger households.

Between 2008 and 2009, the number of people aged 65 and over in this bracket increased by nearly 5% – by an additional 124,568 people. Whilst the number of younger people under-occupying property decreased by nearly 18%.

Change in levels of under-occupation 2008/9 to 2009/10

Age Group	Change in numbers of under-occupied households 2008/09–2009/10
16-29	-67,658
30-44	-81,520
45-64	70,915
+65	124,568

Those aged over 60 held over 11 million excess bedrooms and nearly 9 million surplus 'under-occupied' bedrooms in 2009/10. 50% of single-person households over 60 (3.7 million people) now have three bedrooms or more.

As we have seen, owner-occupation and the growth of single- and couple-households have a strong correlation with older age cohorts.

The strong momentum in the increase of older owner-occupier households is also creating a strong momentum for under-occupation of the housing stock.

On current trends, between 2006 and 2026 we will see:

- An increase of 630,000 owner-occupier couple-households aged 65 and over living in houses with three bedrooms or more, including 160,000 with four bedrooms or more
- An increase of 145,000 widow and widower one-person households with three or more bedrooms.

An increase of 250,000 one-person owner-occupier households aged 65 and over living in family-size homes can be forecast in the 20 years from 2006, together with over 600,000 couple-households (Croucher et al 2009).

If these patterns of housing use remain the same, by 2026 England will have 1.4 million single pensioners living in homes with three or more bedrooms, and over 2 million married-couple pensioners living in homes with three or more bedrooms.

Analysis

The UK's housing life cycle has broken down

As we have seen, home ownership is becoming more and more the preserve of older age groups. Older generations have also benefited from an unprecedented windfall gain of housing wealth, transferred from the future incomes of younger generations. These trends are all projected to grow strongly over the next twenty years, as housing continues to become increasingly weighted towards older households.

This is not just a question of ownership or the value of housing assets, but also one of the use of housing stock. The 'family home' is increasingly being held in the hands of people who are not raising families. A large percentage of UK homes are becoming both greyer and emptier.

How to deal with growing imbalances of housing wealth and consumption

How housing is occupied has traditionally not been a policy concern in UK political debate, in part due to the political weight of older homeowners. But the growing concentration of ownership, the pressure on housing need from increasing household numbers, combined with the slow growth in new home building means that how we use existing stock becomes a more pressing concern.

The distribution of existing housing stock matters. **Close to 40% of current housing stock is under-occupied in England, and this figure is set to grow further.** The growth of ageing and shrinking household units provides a momentum towards inefficient use of stock that make simply building more homes an inadequate response. When so many young families are struggling to raise children in unsuitable and overcrowded accommodation this becomes a question of intergenerational fairness as well as of efficiency.

Areas with high levels of under-occupation also coincide with areas of high housing demand. This is in contrast to other housing stock issues, such as empty homes.^{xxiii} There are high levels of under occupation in the South West, South East and East of England – at around 40% of households – all of which face growing housing pressure and very poor affordability levels.^{xxiv} If one is looking at an effective way to target housing use more efficiently it makes good sense to tackle under-occupation – both because of its location and its importance.^{xxv}

This overlap also occurs between housing need and housing wealth. The highest levels of housing equity are held by home-owners in London, where the average exceeds £300,000 for all households aged 60 or over. Over 90% of older home-owners in London and the South East have housing equity of £120,000 or more (as do over 80% of those in the South East and South West) (Croucher et al 2009).

How we encourage and facilitate better use of housing should therefore be a pressing question for policy-makers.

There are multiple ways to ensure that housing stock is used efficiently, for example encouraging

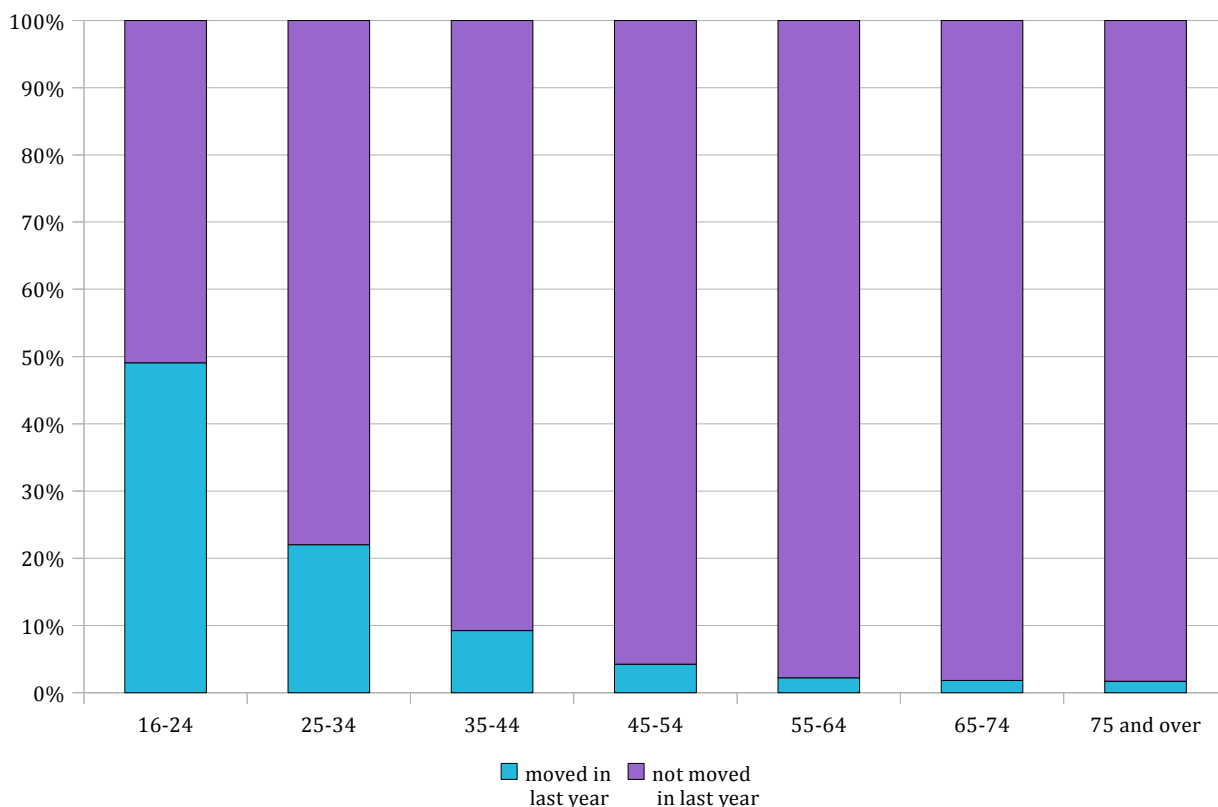
more people to let out rooms within their houses; but the most obvious and effective method is to encourage downsizing.

Making Downsizing Happen

Under-occupation among ageing households in Britain is exacerbated by the very low levels of mobility of older households – UK households are simply not downsizing.

The UK has low levels of housing mobility and this decreases as the population gets older.

Figure 9: Whether moved in last year by age, 2008-09



(Source: English Housing Survey)

According to one survey of the 65+ age group, the average length of time lived in the present home was 22 years (Harding 2007b). Evidence from the 1990s also suggests that retired households do not utilise property wealth as quickly as expected (Banks et al 2000).

The UK also has much lower levels of downsizing than the US. Over any five-year period one in every eight British homeowners will move, compared to one in every five US homeowners. Among owner-occupiers, differences in mobility become even more pronounced as people get older – in the US the probability of moving increases as you get older than 60, in the UK the probability diminishes.^{xxvi}

Perverse Policy Priorities

Much of current policy towards ageing households works against achieving the freeing up of family homes – the ‘lifetime home’ approach favours modification to existing dwellings rather than downsizing, whilst efforts to encourage equity release make it more likely that older homeowners will stay in larger houses rather than move.

Planning reform has also been problematic. Current density targets on house building have dealt a deathblow to the building of new bungalows, one of the most attractive housing options for older people looking to downsize. Meanwhile, the focus on building more units for smaller households has often led to the building of small one- and two-bedroom city centre apartments, which are unattractive to older residents and tend to be bought by either investors or younger households.

Obstacles to Downsizing

In a rational world, many older people would be looking to capitalise on their new levels of wealth and tailor their housing needs by downsizing. They are under-utilising an expensive good from which they could realise substantial amounts of money. Why isn't downsizing in the UK happening, and how can it be encouraged?

The cultural and social rationale of over-consumption

'Home' is more than an economic good. It has significant personal and cultural resonances, particularly if one has raised a family in a space that has come to mean a great deal. 'Memories', the space for grandchildren to visit, remaining in one's local community and the desire to keep a garden may all exert a powerful set of reasons for not downsizing.

However, cultural incentives may also not be solely based on sentimentality. There are many examples of older people moving into large homes well after children have 'flown the nest'. Part of this behaviour could be attributed to being status-driven. Housing is a visible and large consumption good that gives signals as to our relative position in society. Proving one has a high social status commensurate with one's wealth may be driving some older households' housing choices.^{xxvii}

Disincentives to move

The traditional explanation to low levels of downsizing are the disincentives provided by the immediate transaction costs of moving.

Moving entails the logistical costs of moving, alongside (usually quite substantial) estate agent fees and the payment of stamp duty. Stamp duty is often cited as a significant obstacle, although it is often smaller than estate agent costs.

Incentives to stay: 'as safe as houses'

What is less prominent in the debate around downsizing and over-consumption is the fact that there are significant incentives to continue to over-consume housing in the UK. Holding on to a family home is often a rational economic decision, as well as an emotional one.

There are several reasons behind the economic rationale for over-consumption.

The first is that housing has become widely seen as a highly effective store of wealth and a hedge against inflation. The performance of UK housing during the post-war period has consistently shown house prices perform well against inflation – keeping track with earnings growth, and in the past decade vastly outstretching it. And although there have been four large property market corrections since the 1970s, only two of these have seen corrections in nominal cash terms – which may give homeowners some comfort from the effect of 'money illusion' – and a significant element of adjustment in all four has been only in real terms.

For older households who are no longer wage earners, property has therefore proven a good counterbalance to other forms of more fixed income investments that tend to suffer during inflationary periods (notably the interest-bearing savings account).

The second is the perceived high performance and stability of property when compared to other assets. The truth of this view is debatable (much depends on which periods are measured) and a large body of analysis sees other forms of investment as performing better.

However, the experience of the housing market since the 1970s has produced both powerful total returns and a strong folklore of its strength as an asset class. These returns are also the only available to the novice investor that take advantage of the amplifying power of debt-based leverage (aka a mortgage) – and consistent capital gains coinciding with a long-run period of credit liberalisation have proven a heady and successful mix for many people now in or entering retirement.

Whatever its past or future gains, property has proven itself less volatile in the short run than other investments. Property market crashes happen slowly and are masked by inflation – they provide much less of a perceived risk than stocks or shares.

Generous taxation of housing

But alongside matters of investor psychology is also the fact that housing is a privileged investment – both in tax terms and how the housing market is treated by government.

There is a clear tax bias in the favouring of housing wealth in comparison to other wealth and investments.

Tax treatment of home ownership accrues no tax penalty to capital gains for the primary property, whilst capital gains avoidance on secondary property is widespread. In contrast, other savings are taxed, whilst any capital uplift from other forms of investment faces a capital gains tax. Straight earned income is usually taxed at a higher rate than all three.

These tax benefits, particularly the absence of the taxing of capital gains, makes property highly attractive as both a long-term investment vehicle and a short-term method of seeking capital returns.

Council Tax incentives to retain housing

The only ‘wealth taxes’ that exist on a primary residency in the UK is through Council Tax. But Council Tax is regressive – both in terms of wealth (taxing those with greater incomes proportionately less than those with smaller incomes), and also in terms of space, as it taxes those with larger properties proportionately much less than those with smaller properties (see Barker 2004). This is reinforced by the single person’s Council Tax discount – which can be a discount of up to 25% for the same-sized property.

Council Tax therefore creates yet another significant tax incentive to continue to over-consume, and does not reward downsizing in its treatment of single people staying in oversized properties. Council Tax when combined with stamp duty creates a significant barrier to mobility in the housing market and encourages inertia amongst older home owners.

Finally, the housing market also benefits from significant 'moral hazard'. Investors assume that, given the importance of the housing market to both key core political constituencies and to the economy as a whole, the government will always intervene asymmetrically in favour of the home owner in both a housing market boom and a housing market bust. Government is seen as likely to give a large advantage to owner-occupiers over other forms of tenure and other investment vehicles. Unfortunately this assumption has a strong basis in truth, and is likely to add to investment incentives to over-consume housing.

Uncertainty

A final important factor driving over-consumption is high levels of uncertainty about the future – often an important factor in driving 'hoarding' type behaviour.

Retirement creates significant uncertainty both for future spending levels and future costs. Retired people are not just uncertain as to how long they will live, but they may also face significant unspecified future costs – notably in the cost of care and ageing.

The framework of the future of care provision and finance remains obscure, despite commissioned reviews both by the current and the previous government. Planning for retirement and ageing is made even more uncertain with this lack of clarity from government and may give strong incentives for older households to seek strategies that maximise assets and wealth rather than 'decumulate'.

The pursuit of wealth accumulation coupled with future uncertainty means that homeowners are inclined to consume more housing in order to maximise wealth for use in later life (Jarvis, 2008; Smith and Searle, 2006).

Policy Options to Reduce the Hoarding of Housing

Changes to the taxation of property should be central to efforts to improve housing use and encourage downsizing. But this does not have to be simply a matter of raising taxes – the current property taxes perform their tasks badly, encouraging over-consumption and penalising mobility. Tax reform could set out positive incentives as well as penalising the hoarding of unused bedrooms.

Specific measures could include:

Abolishing stamp duty for those downsizing

Stamp duty is a hindrance to further mobility, and has proven ineffective at dampening the housing market cycle of boom and bust. A more sensible measure to achieve both objectives might be a form of annual capital gains tax on the primary residency – which would reduce incentives to over-consume, reduce the drag on mobility from stamp duty, and put a more meaningful check on speculative investment flows.

'Nudge' policies such as withdrawal of some 'universal' benefits for those living in houses worth over £500,000

This would give a signal of the value of housing to society and encourage downsizing, whilst limiting expenditure on high net-wealth individuals in a simple and understandable way.

Changes to the planning regime to increase the supply of suitable housing for people downsizing

Often people do wish to downsize but suitable properties are not available.

The introduction of a land value tax

So that there is an incentive to downsize and an understood cost of absorbing socially important resources.

Abolition of council tax concessions for single occupation

This would eliminate a perverse incentive which currently encourages single occupants to remain in large houses.

Case Studies

The Intergenerational Foundation took two streets at random in England – one in rural Wiltshire and one in a South London suburb – and analysed the number of bedrooms and the number of actual occupants of the houses. Both locations covered housing traditionally considered to be family housing and are anonymous to protect privacy. Both locations were in roads with above-average wealth and relatively high house prices.

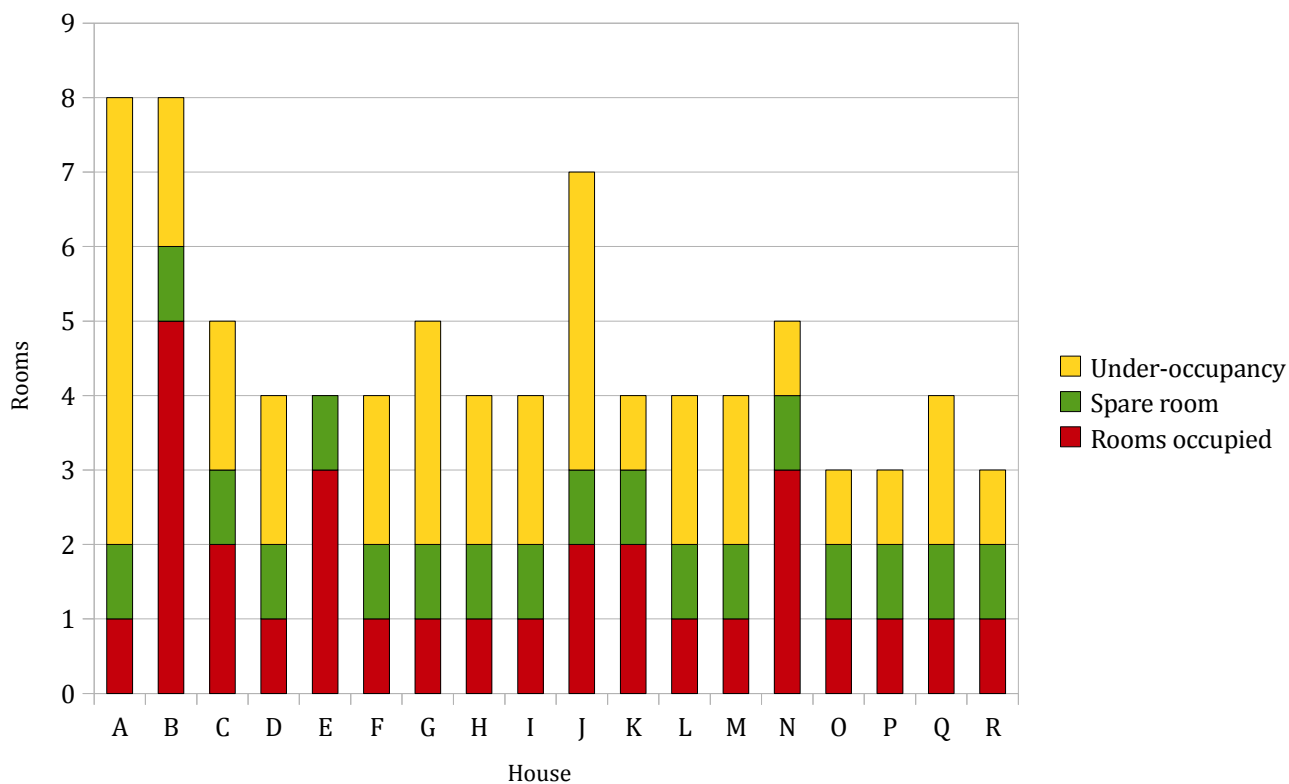
The illustrations below show the size of each house, the bedrooms occupied, the spare room allowance and then the under-occupied rooms. The number of under-occupied rooms is shown at the top section of the bar charts.

In the urban case, there were 14 houses with 20 empty bedrooms (in addition to the spare rooms allowance). Roughly 70% of the homes were under-occupied.

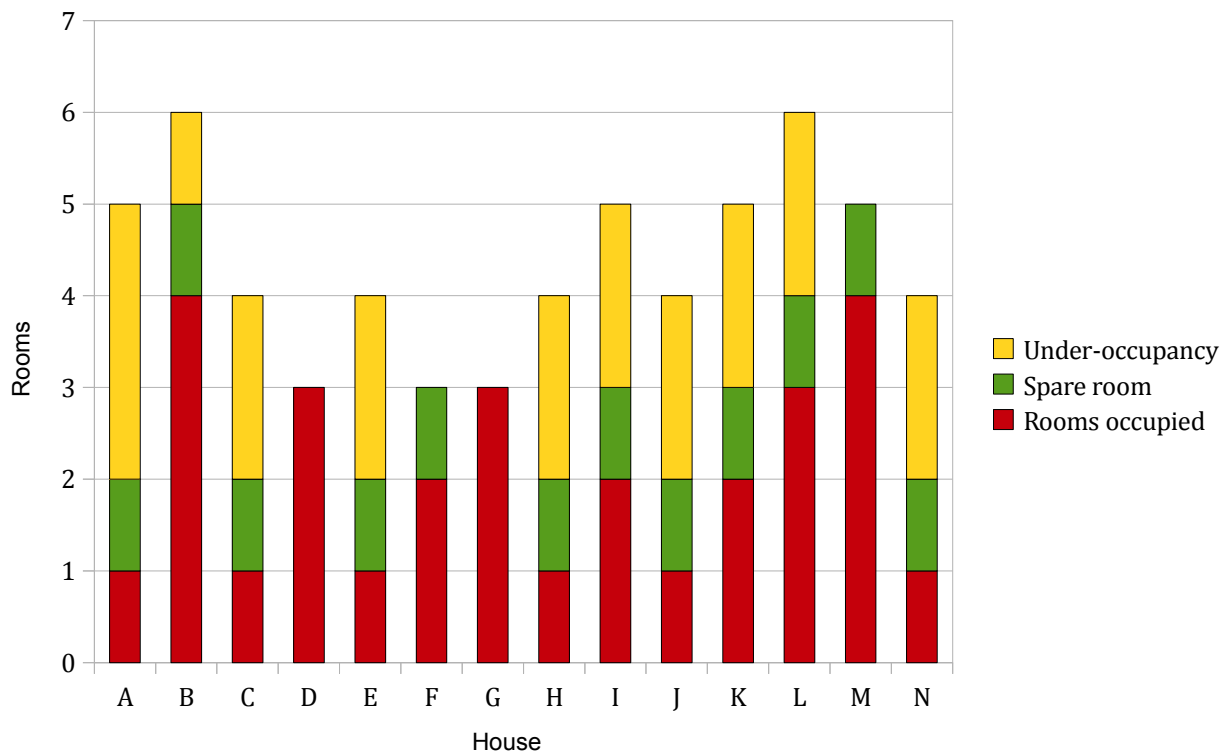
In the rural case, there were 18 properties with 36 empty bedrooms (in addition to the spare rooms allowance). Over 90% of the homes in this case were under-occupied.

See graphs overleaf.

Case Study 1 – Use of Bedrooms in a Rural Village (Wiltshire)



Case Study 2 – Use of Bedrooms in an Urban Street (South London)



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- ⁱ From Table FT1101 (S101): *Trends in Tenure 1918-2009*, DCLG, available on their website
- ⁱⁱ English Household Survey 2009/2010
- ⁱⁱⁱ By age of household head, average 2006-2008. Data supplied by ONS in personal correspondence
- ^{iv} A Council for Mortgage Lenders study by Alan Holmans at Cambridge University put this figure slightly lower - with a projected increase in older households in owner-occupation of over 2.8 million from 71% of all households aged 60 and over in 2006 to 75% in 2026
- ^v <http://blogs.telegraph.co.uk/news/neilobrien1/100042684/are-old-people-winning-the-generation-clash-and-is-there-even-a-clash/>
- ^{vi} The decline in the number of first-time buyers has been happening at a fairly steady rate since 2001, but the credit crunch, and its associated impact on youth unemployment and credit availability, has meant that the decline in younger home ownership has steepened in recent years.
- ^{vii} Unfortunately there are no official projections for the future number of younger people in owner-occupation. Future projections for younger groups suffer from greater levels of uncertainty, as they are more reliant upon the ability of young people to purchase homes, which in turn depends on uncertain factors like the price of houses and the availability of mortgage finance.
- ^{viii} Recent BIS estimates suggest that the additional increases in tuition fees mean that student debt will add £124bn to the burden of personal debt by 2047 <http://www.independent.co.uk/news/education/education-news/student-debt-will-soar-to-163200bn-official-figures-show-2341382.html>
- ^{ix} From Table 801: *Household characteristics, tenure trend, from 1918*, DCLG, available on their website; projection made in 2011 by National Landlords Association
- ^x Speech on 4 October 2011, reported e.g. in the *Daily Mail* <http://www.dailymail.co.uk/news/article-2045371/Planning-reform-High-house-prices-destroying-family-life.html>
- ^{xi} Property Industry Alliance (2010) *Submission to the HM Treasury Consultation on Investment in the UK Private Rented Sector* London: Property Industry Alliance
- ^{xii} This model assumes that participants are home owners; renters (in both the private and social sectors) lose out from capital appreciation and the benefits of debt-based leverage in an inflationary environment, even if they may gain from lack of debt-servicing costs and cheaper rental costs in comparison to ownership.
- ^{xiii} The history of housing capital gain combined with the power of mortgage-based leverage has made housing wealth an important part of UK household wealth, and one with great attraction to both individuals and government.
- ^{xiv} The age group with the highest mean net property wealth is 55 to 64, with a mean of £271,400 in 2006/08; this group is followed closely by those aged 65 to 74, with a mean value of £253,500. The 16 to 24 age group had the lowest net property wealth in 2006/08. The mean in this group was £62,700, and the median value was £30,000. In 2006/08, the mean value for property owners in the 75 to 84 age group was £224,100, and for those aged 85 and over it was £222,600.
- ^{xv} The aggregate value of housing wealth held by those aged 50 to pension age – 60 for women and 65 for men (7.1 million people) – was £1,280bn, more than twice the housing wealth held by any other age group. The next wealthiest group were those between pension age and 75 (5 million people), whose housing wealth was £600bn. This is despite these groups being smaller in population terms than the 35–44 age group (8.9 million). See *Financial Times*, 16 February 2010, <http://www.ft.com/cms/s/0/c3cc07bc-1b3c-11df-953f-00144feab49a.html#>
- ^{xvi} Although estimates of equity for the over-65s vary significantly – the Institute of Actuaries and the CML estimate it was in the region of ‘at least’ £1.1 trillion (Institute of Actuaries, 2004: source Williams) in the middle 2000s
- ^{xvii} Other estimates of the value of housing wealth as a proportion of UK household wealth differ: the ONS estimates that property wealth equalled 39% of estimated total UK wealth in 2006–08, whilst Thomas and Dorling estimated that housing wealth represented 42% of household wealth in 2002. Wilcox estimates that housing assets as a proportion of all assets rose from 35% in 1995/96 to 50% by 2003/04 (Wilcox, 2007). Much of the variability lies in different estimates of the value of pension and financial wealth. ONS does not provide data on how this wealth had changed proportionally over time.
- ^{xviii} The Blue Book 2010, Table 6.1.9 http://www.statistics.gov.uk/downloads/theme_economy/bluebook2010.pdf
- ^{xix} OECD key economic tables, data from 2008
- ^{xx} Bedroom Standard: The ‘Bedroom Standard’ is used as an indicator of occupation density. A standard number of bedrooms is calculated for each household in accordance with its age/sex/marital status 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.

This notional standard number of bedrooms is then compared with the actual number of bedrooms (including

bedsitters) available for the sole use of the household. Bedrooms converted to other uses are not counted as available; bedrooms not actually in use are counted unless uninhabitable. Households are said to be overcrowded if they have fewer bedrooms available than the notional number needed. Households are said to be under-occupying if they have two or more bedrooms more than the notional number needed.

^{xxi} pg 33 <http://www.decc.gov.uk/assets/decc/Statistics/fuelpoverty/610-annual-fuel-poverty-statistics-2010.pdf>

^{xxii} This data refers to the age of the household reference person and household head.

^{xxiii} Empty homes have their highest levels in areas of low housing demand, for example the North East and North West England, and low levels in areas of high housing demand, for example South East England (see Hughes 2011).

^{xxiv} English Household Survey 2008/09: Table 1.9

^{xxv} Under-occupation is the largest issue in the way that current housing stock is utilised. The number of empty homes in the private sector that are empty for longer than six months is just 300,000 homes compared to 8 million under-occupied homes.

^{xxvi} Banks J, Blundell R, Oldfield Z and Smith J (2010) *Housing Mobility and Downsizing at Older Ages in Britain and the USA* London: LSE Economica

^{xxvii} For a discussion of housing consumption and status see 'Social Status and the Demand for Housing', Alex Marsh, University of Bristol, School for Policy Studies