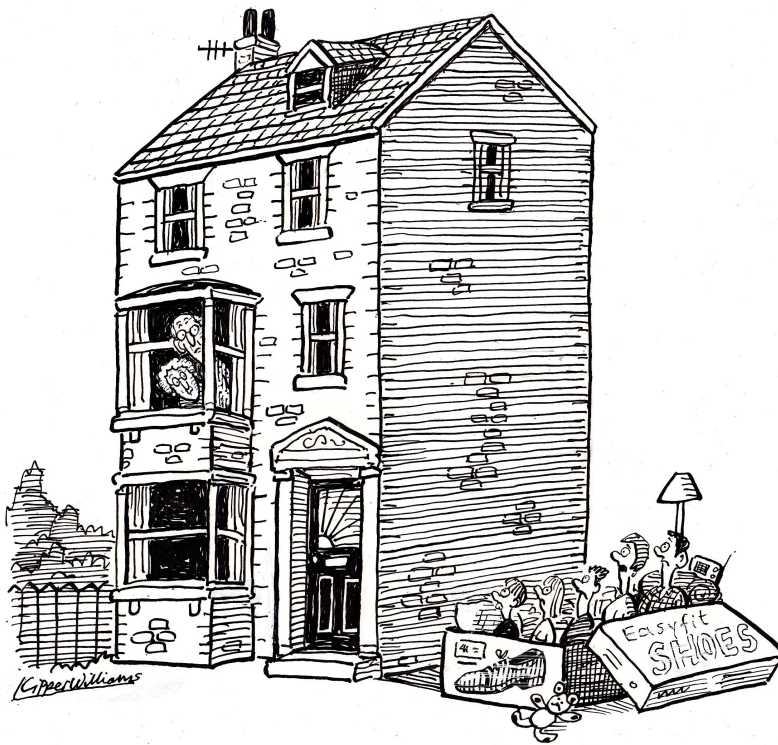


# Empty Bedrooms Undermine New Building:

How house-building is being thwarted by increasing under-occupation



October 2014





The Intergenerational Foundation ([www.if.org.uk](http://www.if.org.uk)) is an independent, non-party-political charity that exists to protect the rights of younger and future generations in British policy-making.

Whilst increasing longevity is to be welcomed, our changing national demographic and expectations of entitlement are placing increasingly heavy burdens on younger and future generations. From housing, health and education to employment, taxation, pensions, voting, spending and environmental degradation, younger generations are under increasing pressure to maintain the intergenerational compact whilst losing out disproportionately to older, wealthier cohorts.

IF questions this status quo, calling instead for sustainable long-term policies that ensure younger and future generations are better protected by policy-makers.

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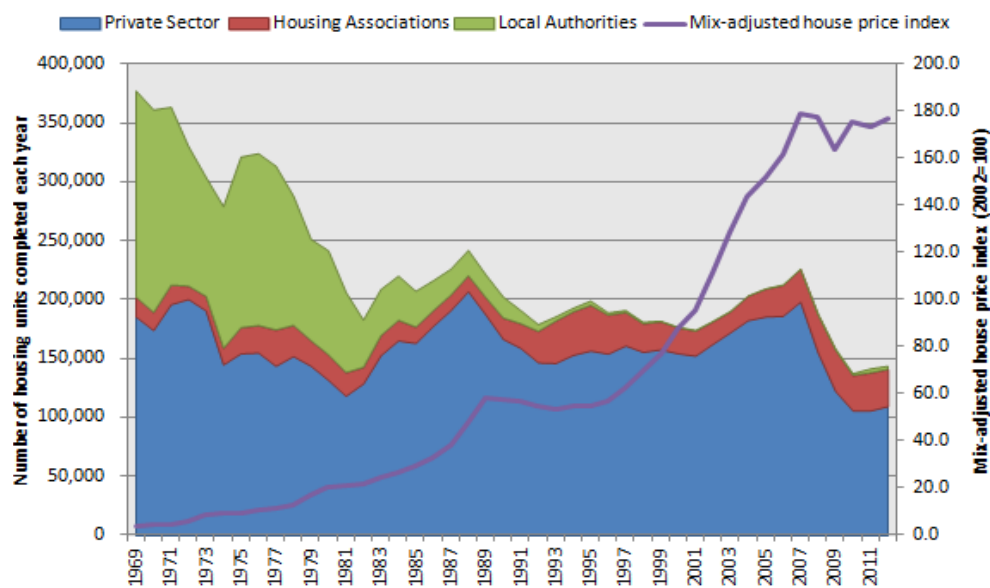
## Executive Summary

- Britain is failing not only to build enough new houses to keep up with demand, but is using its existing housing stock less efficiently than in the past due to increasing under-occupation in the private sector over the past decade, particularly by older people.
- The number of under-occupying households in England and Wales rose by almost 1 million between the 2001 and 2011 censuses, new research from the Intergenerational Foundation (IF) reveals.
- Around two million rooms were taken out of productive use during this period, equivalent to 17% of all the new rooms built in the same period.
- This means that fully half of all households in England & Wales are now under-occupying their properties – 11.7 million of a total of 23.4 million, according to the latest census.
- England is forecast to see a rise of 232,000 new households per year on average over the next 30 years, yet just 136,000 new homes have been completed each year on average **over the last decade**. Moreover, IF's report shows that the number of new houses required is actually significantly higher than official estimates. We will have to build more houses just to keep the same number of rooms available for use, because of the growing under-occupation problem.
- Older “empty nester” households who under-occupy account for over a third of all households in the typical local authority area in England and Wales.
- IF believes that if more “empty nesters” could be encouraged to downsize to smaller properties, millions of family homes would be freed up (particularly in the Home Counties and other economically important areas), effectively creating extra housing without so many new homes needing to be built. We outline a number of effective policy options to help achieve this aim in this report.



## Introduction

Most people are aware that Britain is currently suffering from an acute shortage of affordable housing, which has been created by our fundamental failure to deliver enough new homes to keep up with demand over recent decades. As Fig.1 demonstrates, this has had a strong inflationary impact on average house prices:

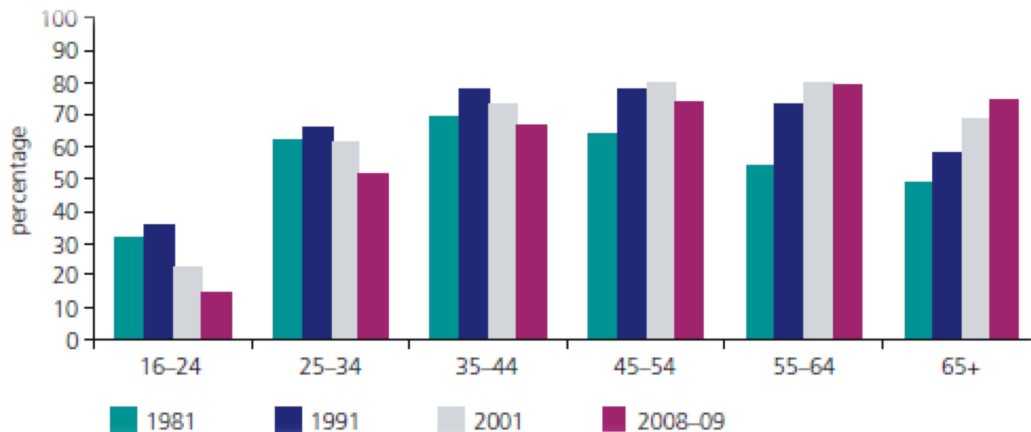


*Fig.1 Comparison between the numbers of new housing units completed each year by tenure and the value of the ONS mix-adjusted house price index, UK, 1969–2012<sup>1</sup>*

As a result, a growing number of young people are finding themselves locked out of owner-occupation, forcing them to accept the option of either putting their independence on hold while they live with their parents for much longer than they desire to, or coping with the expense and insecurity which accompanies living in the private rental market (Fig.2).

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<sup>1</sup>Fig.1 is based on data taken from Department for Communities and Local Government (DCLG) *Live Table 241: permanent dwellings completed, by tenure, United Kingdom, historical calendar year series* and Table 33 within ONS (2014) *House Price Index, December 2013: Annual Tables 20 to 39*



*Fig.2 Percentage of owner-occupier household reference persons (HRPs) within different age groups, 1981, 1991, 2001, 2008–2009<sup>2</sup>*

Although the root of the problem is clearly the failure to build enough new homes, discussions of how to solve Britain's housing crisis often seem to treat building more new homes as the only possible solution. However, IF believes that this view is too simplistic: Fig.1 shows that new supply has been inadequate for decades. This suggests there are long-standing structural barriers such as the planning system. It now appears unlikely that the Coalition Government will be able to report a significant increase in house building during its time in office, despite making a pledge to “get Britain building”, making large-scale changes to the planning system and spending a great deal of political capital on this issue.<sup>3</sup>

IF believes that while building new homes is important, there are other dimensions to the housing crisis which have received insufficient attention. One of the most significant of these is the growing problem of under-occupation within our existing housing stock; as Fig.2 demonstrates, the failure to build enough new housing has combined with social trends such as rising longevity to create a situation in which the allocation of housing space is increasingly skewed towards older age cohorts, while a growing number of young families – especially those with children – are bearing the brunt of the housing crisis and are forced to endure overcrowded and insecure housing conditions as a result.

Previous IF research, entitled *Hoarding of Housing: The Intergenerational Crisis in the Housing Market*, estimated that English houses contained 25 million bedrooms which no-one sleeps in on a regular basis (2009/10), based on data from the English Housing Survey. The proportion of total households which are officially “under-occupied” increased from 20% in 1971 to over 33% in 2009/10. This means that they contain at least one additional room when measured against the English Housing Survey's “Bedroom Standard”. This is the official measure of how many

<sup>2</sup> DCLG (2010) *English Housing Survey: Household Report 2008–9* London: DCLG

<sup>3</sup> Stratton, Allegra (2014) “Ministers Warned of Decrease in House Building” *BBC News* 2 July 2014



rooms different types of household need, based on the following assumptions about bedroom sharing:

*The Housing (Overcrowding) Bill of 2003 defines the bedroom standard as: “(4) For the purposes of the bedroom standard a separate bedroom shall be allocated to the following persons—*

*(a) A person living together with another as husband and wife (whether that other person is of the same sex or the opposite sex)*

*(b) A person aged 21 years or more*

*(c) Two persons of the same sex aged 10 years to 20 years*

*(d) Two persons (whether of the same sex or not) aged less than 10 years*

*(e) Two persons of the same sex where one person is aged between 10 years and 20 years and the other is aged less than 10 years*

*(f) Any person aged under 21 years in any case where he or she cannot be paired with another occupier of the dwelling so as to fall within (c), (d) or (e) above.”<sup>4</sup>*

There is a strong intergenerational aspect to this problem: according to the English Housing Survey, the two largest groups of homeowners who under-occupy their properties are “empty-nesters” (couples aged between 50 and 79 whose children have moved out of the parental home) and single-occupant pensioner households.<sup>5</sup>

The fact that such a large share of our national housing stock is used so inefficiently exacerbates the housing crisis. Under-occupation keeps potentially usable accommodation off the market; as a result, more accommodation needs to be built to compensate. Under-occupation of larger houses clogs up the housing ladder, preventing families getting onto it and climbing up it. All over Britain, there appears to be an increasing mismatch between the physical housing stock and the size of the *households* (groups of people living together) that occupy it. Another piece of IF research, *Understanding Downsizing*, showed that many older people living in large houses feel “imprisoned” by them, as they struggle with high utility bills and the physical demands of property upkeep.<sup>6</sup> At the same time, millions of households with children live in conditions that are overcrowded; therefore if housing policy was able to find new ways of assisting with re-allocating housing space between these two groups it would have huge social and political advantages.

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<sup>4</sup> ONS (2014) *Overcrowding and under-occupation in England and Wales* Newport: ONS

<sup>5</sup> Griffith, Matt (2011) *Hoarding of Housing: The Intergenerational Crisis in the Housing Market* London: Intergenerational Foundation

<sup>6</sup> Leach, Jeremy (2012) *Understanding Downsizing – Why people choose to downsize or not* London: Intergenerational Foundation



Although it would be ludicrous to suggest that the government should “force” people to move house, housing policy could be much better targeted to encourage more efficient use of the

housing stock. IF has argued that the tax system currently encourages inefficiency. Reform of the banding structure of Council Tax and removal of discounts for single occupiers, particularly encourage older people to downsize in much larger numbers. Downsizing has become relatively rare in Britain but is much more common in other countries such as the US. The potential benefits if more older people downsized would be enormous: a report published by Demos in 2013 found that a third of all over-60s living in the UK said they would be interested in downsizing, which would potentially release over £400 billion worth of housing wealth.<sup>7</sup>

If it were possible to achieve a better match between the number of rooms that different households have and the number they actually need, it would go a long way towards ameliorating the housing crisis without requiring so many new homes to be built. Unfortunately, the growth of under-occupation is currently having the opposite effect – so many additional rooms are effectively being taken out of use that the country will have to build additional new housing to compensate. The rest of this report will examine this problem in more detail, analysing how much of Britain’s new build property has been offset by growing inefficiency in allocation over recent years.

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<sup>7</sup> Wood, Claudia (2013) *The Top of the Ladder* London: Demos

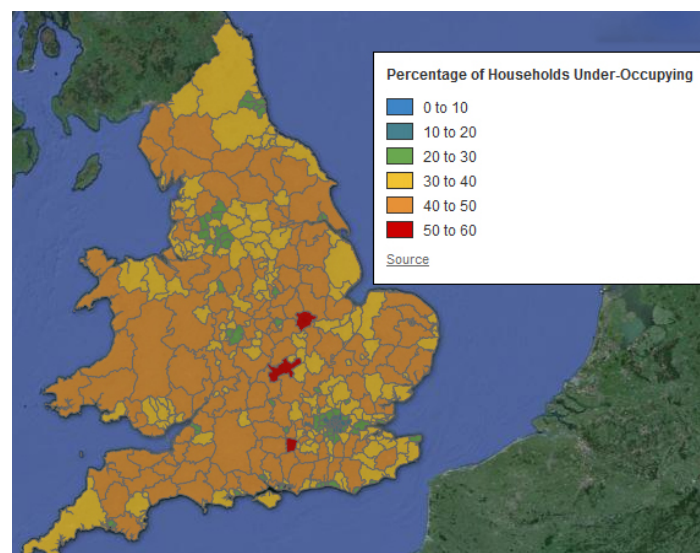


## How many “missing” bedrooms are there?

Under-occupation is widespread, and getting worse: according to the 2011 census, half of all households (11.7 million of the 23.4 million households in England and Wales) <sup>8</sup> have an occupancy rating greater than +2. This means they have at least two more rooms than they need when measured against the Bedroom Standard (this is how under-occupation is officially defined). A comparison with data from the 2001 census shows that the number of under-occupying households increased by 9% during the decade between the two censuses, which adds up to almost a million additional under-occupying households.<sup>9</sup>

## Where are the “missing” bedrooms?

Fig. 3 demonstrates that under-occupying households are not distributed evenly across England and Wales:



*Fig.3 Percentage of households with an occupancy rating higher than +2 at the 2011 census by Local Authority area<sup>10</sup>*

Although half of all households in England and Wales under-occupy, there is significant local variation, from under 8% in the London Borough of Tower Hamlets to over 50% of all households in Rutland and South Northamptonshire.

<sup>8</sup> ONS (2011) *2011 Census Data: DC4104EWla - Tenure by occupancy rating (rooms) by household composition* Newport: ONS

<sup>9</sup> ONS (2001) *2001 Census Data: Table: S53 Household composition by tenure and occupancy rating* Newport: ONS

<sup>10</sup> ONS (2011) *2011 Census Data: DC4104EWla - Tenure by occupancy rating (rooms) by household composition* Newport: ONS



Interestingly, under-occupying households tend to be found predominantly in more sparsely-populated areas outside the larger towns and cities. This is partly down to economics – space is more expensive in areas with higher house prices, so it tends to be used more efficiently – although it also relates to the particular types of household which disproportionately under-occupy (see next section).

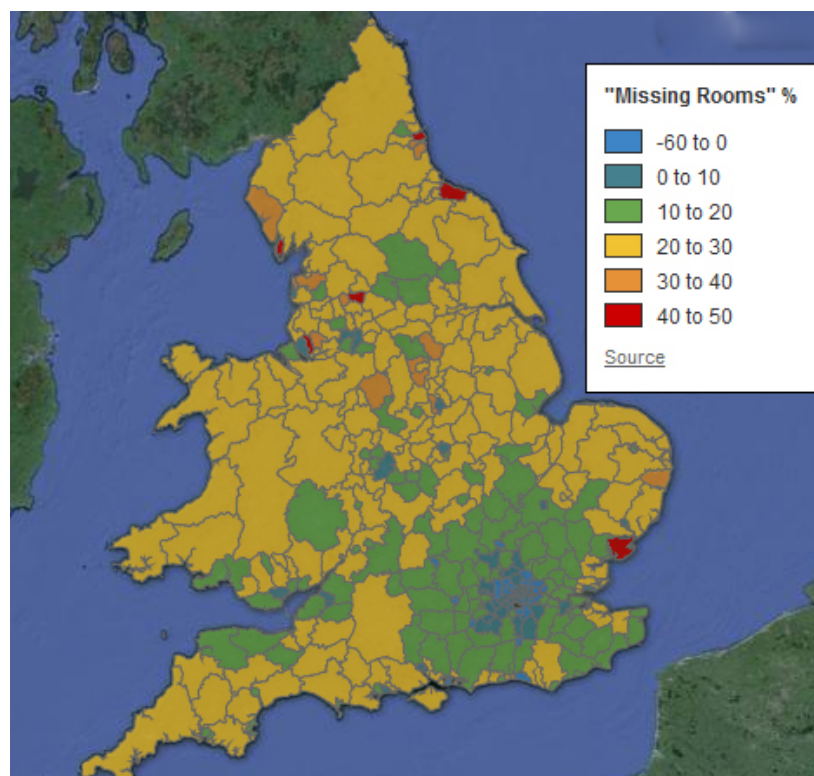
The 20 local authorities which have the highest proportion of under-occupying households are listed below (Fig.4). Although they are largely in rural areas, many of them are within reasonable commuting distance of major towns and cities, where extra housing supply is needed:

Rank	Local Authority	County	% Under-occupying Households
1	Rutland	Rutland	53.1
2	South Northamptonshire	Northamptonshire	50.5
3	Hart	Hampshire	50.1
4	Rushcliffe	Nottinghamshire	49.6
5	Monmouthshire	Monmouthshire	49.3
6	Daventry	Northamptonshire	49.1
7	Wokingham	Berkshire	49.1
8	Chiltern	Buckinghamshire	49.1
9	Harborough	Leicestershire	48.7
10	Bromsgrove	Worcestershire	48.3
11	Surrey Heath	Surrey	48.2
12	Cotswold	Gloucestershire	48.0
13	Melton	Leicestershire	47.9
14	North Kesteven	Lincolnshire	47.9
15	Uttlesford	Essex	47.8
16	West Lindsey	Lincolnshire	47.6
17	South Cambridgeshire	Cambridgeshire	47.3
18	Hambleton	North Yorkshire	47.3
19	Vale of White Horse	Oxfordshire	47.3
20	South Bucks	Buckinghamshire	47.2

*Fig.4 Ranking of local authority areas in England and Wales by the proportion of households which under-occupy*

The increase in the number of under-occupying households between 2001 and 2011 reduced the overall supply of dwelling space; it meant that at least 2 million rooms were effectively taken out of use across England and Wales as a whole. This is significant because, if we are using our national housing stock less efficiently, then we need to build additional new housing in order to house the same number of people.

As the censuses also revealed that the housing stock of England and Wales expanded by 11.6 million rooms during that decade, this means that roughly 17% of the increase in the number of rooms was absorbed by the growth of under-occupation.<sup>11</sup> The proportion of “missing rooms” varied significantly between different local authorities, reflecting the differences in how many new rooms they added and how much under-occupation grew. These differences are displayed in Fig.5:



*Fig.5 Total rooms “lost” because of increased under-occupation as a percentage of total rooms added, 2001–2011, by Local Authority area<sup>12</sup>*

The contrast between different local authority areas looks even starker in Fig.5 than was the case in Fig.4. A small number of local authorities (mostly in inner London) actually saw a net increase in the number of rooms on account of a fall in the level of under-occupation. At the

<sup>11</sup> This estimate assumes that all households with an occupancy rating of +2 had only two spare bedrooms, almost certainly an underestimate.

<sup>12</sup> Fig.5 is based on figures from several different tables about room numbers and occupancy rating from the 2001 and 2011 censuses.



opposite extreme, some local authority areas saw the equivalent of almost half of the new rooms which they added through new building being taken out of productive use by the rise of under-occupation. The local authority areas where this happened to the greatest extent tended to be in the north of England. This could be due to lower house prices both discouraging new development and making it cheaper for property-owners to use additional space.

The impact of growing under-occupation is that the country will need to build more housing to maintain the same amount of housing availability. This will be an enormous challenge, given that there is already a profound shortfall of new housing. According to government figures, the average number of new dwellings completed each year in England over the last decade was just 136,000, yet this will need to increase dramatically to match the number of households which is forecast to grow by 232,000 per annum over the next thirty years.<sup>13</sup> However, the evidence presented here suggests that the potential shortfall will effectively be even greater, as on a national basis around 20% more rooms would need to be built to make up for the 17% which are taken out of use by under-occupation.

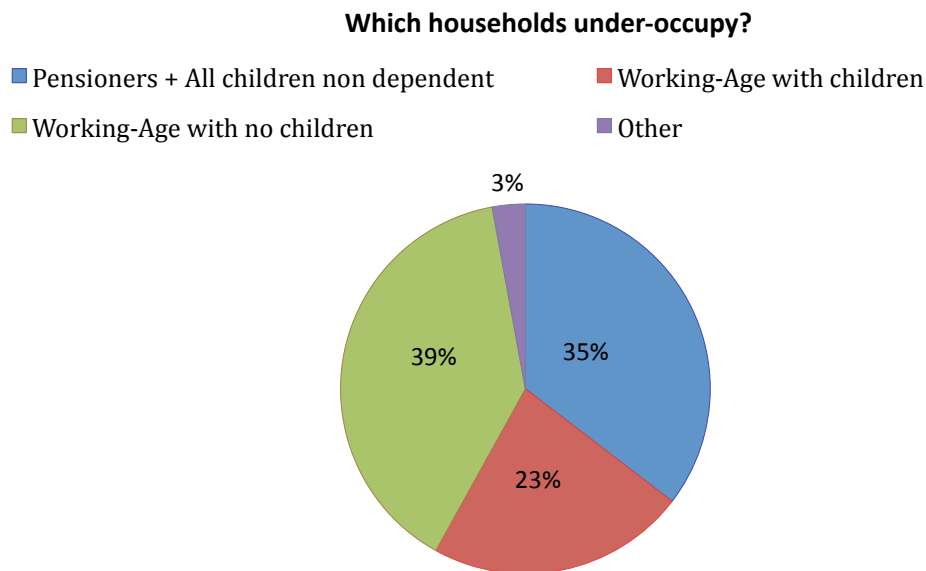
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<sup>13</sup> Smith, Louise (2014) *Planning for Housing* London: House of Commons Library



## Who are the under-occupiers?

Households that under-occupy mostly belong to two groups: older “empty nesters” and working-age households without children (Fig.6).



*Fig.6 Share of under-occupying households by household characteristics, 2011 census<sup>14</sup>*

Under-occupation is clearly a phenomenon which is heavily influenced by people’s life-course. Households which consist only of working-age adults are naturally more likely to under-occupy than those that have children, simply because they contain fewer people; conversely, the size of households tends to shrink once all the children have obtained their independence, which is why older people are also more likely to under-occupy. Households with children are much more likely to suffer from the opposite problem – not having enough space – as they make up a disproportionate share of the 2 million households in England and Wales which suffer from over-crowding (Fig.7).<sup>15</sup>

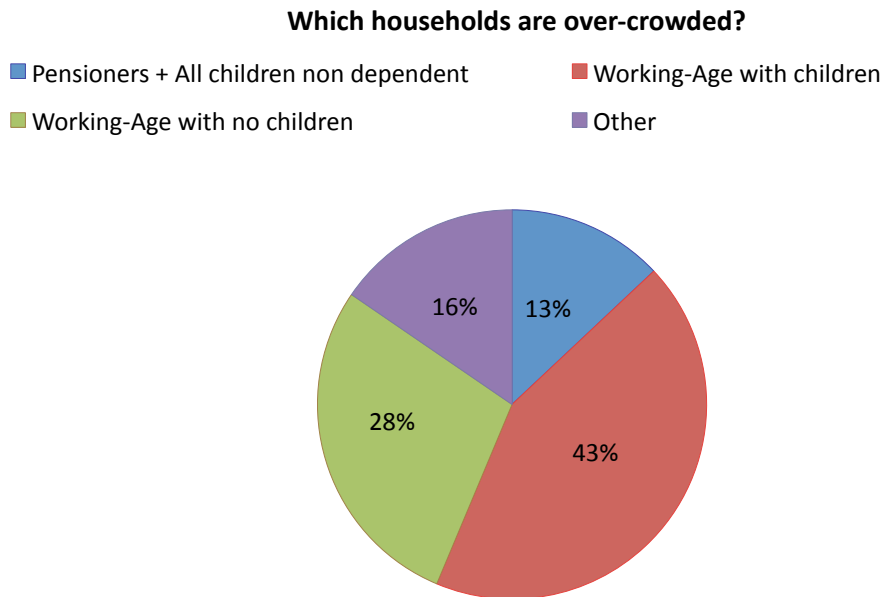
The fact that so many working-age households with children suffer from over-crowding, while so many older households are under-occupying, suggests that the housing market is failing to allocate space to the households who need it most. The fact that we have failed to build enough new housing over recent decades has not only dramatically pushed up prices, it has also created

<sup>14</sup>ONS (2011) *2011 Census Data: DC4104EW1a - Tenure by occupancy rating (rooms) by household composition* Newport: ONS

<sup>15</sup> “Over-crowding” is defined by the ONS as having fewer rooms than a household is reckoned to need when measured against the Bedroom Standard.



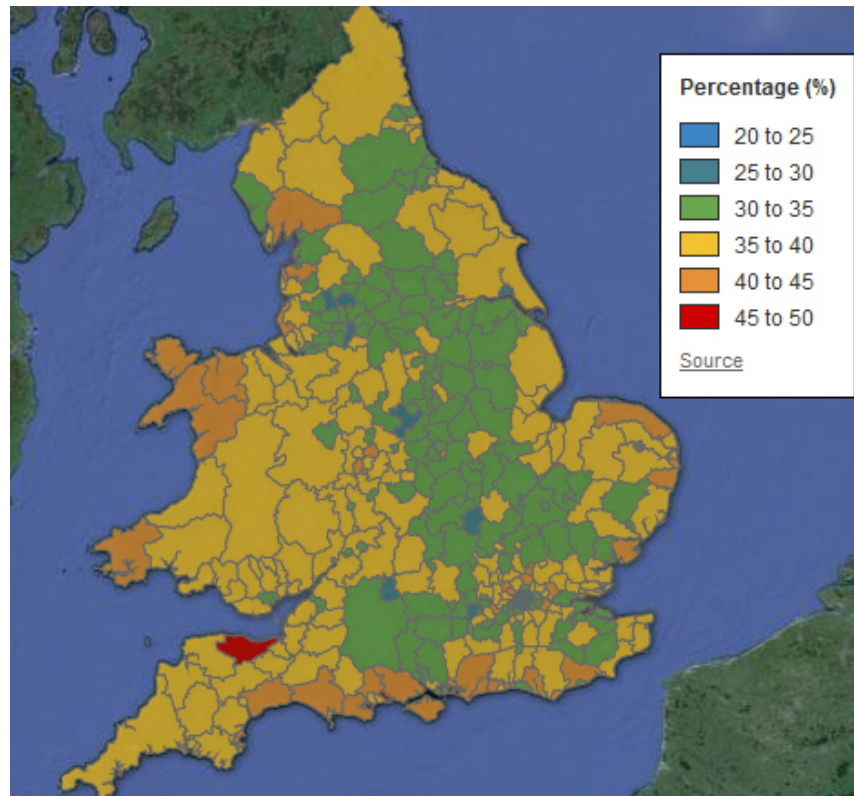
a shortage of appropriate “family-sized” accommodation, as so many “empty nesters” have continued to hang on to the homes where they raised their children rather than downsizing to smaller properties which are more in tune with their actual housing needs. IF’s research into why older people choose to downsize or not found that many were reluctant to do so because they had a sentimental attachment to the homes where they had brought up their families; but just as important in many cases was the shortage of suitable properties for them to downsize into. This suggests that there is unmet demand for downsizing among members of the older generation which, if it were unlocked, would do much to ameliorate the housing crisis.



*Fig.7 Share of over-crowded households by household characteristics, 2011 census<sup>16</sup>*

What could make the successful promotion of downsizing even more beneficial is the geographical distribution of under-occupying older households. Despite the general pattern which this report has identified for under-occupiers to live outside the larger towns and cities, this is not the case for older under-occupiers (Fig.8).

<sup>16</sup> ONS (2011) *2011 Census Data: DC4104EW1a - Tenure by occupancy rating (rooms) by household composition* Newport: ONS



*Fig.8 Older under-occupying households as a proportion of total households by local authority area, 2011 census<sup>17</sup>*

In some parts of the country, older households under-occupying account for almost half of the total number of households: nationwide the average is roughly a third of all households in the typical local authority area, but this rises to 49% in Christchurch, 46% in West Somerset and 44% in North Norwich, the three local authorities which have the highest levels. Strikingly, there are large numbers of older under-occupiers living in the suburban regions of large towns and cities, particularly around London and the South East, but also in the North West and the West Midlands. Again, part of this is due to the failure of the housing market to respond to changes in people's life cycles, which has left millions of suburban "family houses" that were built during the earlier post-war period being occupied by older "empty nesters" because of a lack of suitable alternative accommodation for them to downsize to.

It won't be enough to solve Britain's housing crisis by itself, but there is potentially a great prize on offer here: if more of these older households could be encouraged to downsize it would have the beneficial effect of freeing up large numbers of homes in economically important parts of the country, which would be perfect for younger families to move into.

<sup>17</sup> Ibid.



## How can we encourage more downsizing?

Several policy changes will be needed to encourage more downsizing among older households. IF proposes the following options which should be considered for further analysis and policy formulation:

- **Reform Council Tax** (1) The banding structure of Council Tax is one element of the relative cost of occupying houses of different sizes. A steeper structure with higher upper bands would discourage under-occupation and reduce costs for overcrowded households.  
(2) Households where somebody lives alone currently receive a Council Tax discount, even though this encourages under-occupation. More people would be encouraged to downsize if property were taxed so that they were penalised for using their houses less efficiently instead.
- **Reform Stamp Duty** – Stamp Duty can create a disincentive for downsizers by lowering the amount of equity they can unlock through moving to a smaller property. The burden of Stamp Duty could be reduced by lowering the rate paid by households which are downsizing, or even exempting them completely. This would require an appropriate legal definition of downsizing but it could increase churn in the housing market thereby increasing revenue as increasing numbers of transactions take place.
- **Reduce the obstacle of the Affordable Housing Obligation** – Housing developments that contain more than 9 units have to include 35% affordable housing units, with an especially steep transition between 10 and 15 units (“affordable” housing is defined by regulations). It is often provided via Housing Associations, which buy the affordable units from the developer for values that can be as low as 10% of the market price of the other units. Although increasing the supply of affordable housing may be desirable for other reasons, the current structure of this obligation distorts the market. The large burden it places on house builders (equivalent to a levy of about 30% on schemes with over 9 units), encourages them to only build larger units for the ones they hope to sell at full market value, leading to a shortage of smaller properties which it would be suitable for an older household to downsize into. One possible way of reforming this policy could be to relate the obligation to floor space rather than the number of units.
- **Create greater incentives for people to rent out rooms in their own homes** – For older households who don’t want to downsize, another way of using Britain’s housing stock more efficiently would be to encourage more of them to rent out rooms. Recent research by the home insurer Liverpool Victoria has revealed a doubling to 2.7% over the past five years of homeowners taking in lodgers. The research also showed average rents paid by lodgers of £3,000 p.a. nationally and £4,400 in London. Various policy options could potentially be employed to encourage this, but one of the most obvious would be to raise the Rent a Room Allowance (now £4,250 pa), or make Renting a Room tax free, thus encouraging and simplifying it at negligible cost to the Treasury.