

**Call for evidence response:  
“Affordable Housing Commission”**

**To:** The Affordable Housing Commission

**By:** The Intergenerational Foundation

**Date:** 01 April 2019

The Intergenerational Foundation ([www.if.org.uk](http://www.if.org.uk)) is an independent think tank researching fairness between generations. IF believes policy should be fair to all – the old, the young and those to come.

**Introduction:**

The Intergenerational Foundation (IF) is pleased to have the opportunity to respond to the Affordable Housing Commission. Since it was formed in 2011, IF can claim to have played an important role in leading the debate about intergenerational fairness in the UK – particularly with regard to the housing crisis, which has been one of our major areas of work – and we are regularly consulted by the media and policy-makers to provide our expertise on this issue.

We would like to make a number of points about the current housing affordability challenge in the UK (particularly with regard to how it relates to young people and intergenerational fairness) which are set out in the following sections of this document.

**1. Unaffordable housing is exacerbating intergenerational inequality**

Housing is one of the key areas of intergenerational inequality in the UK today. Most parts of the UK, but especially London and the South East, have seen dramatic rises in house prices over the past 25 years which has inevitably benefited property-owners at the expense of people who do not own their own homes.

This has huge implications for intergenerational equity because property owners are disproportionately likely to be older people who got on the housing ladder when it was still relatively affordable in the 1970s and 1980s, whereas because today’s young adults did not have that opportunity, they must either buy or rent their housing in an over-inflated housing market or live with their parents for much longer than was considered usual by previous generations.

## 2. Young adults have endured by far the biggest rises in housing costs over the past 15 years

Further evidence that young adults are the biggest victims of the housing crisis is provided by Fig.1, which shows the average amount which different age groups were spending on their housing costs, according to the age of the Household Reference Person (HRP)<sup>1</sup>, in both 2001-02 and 2016-17, after the data have been both equivilised and adjusted for inflation:

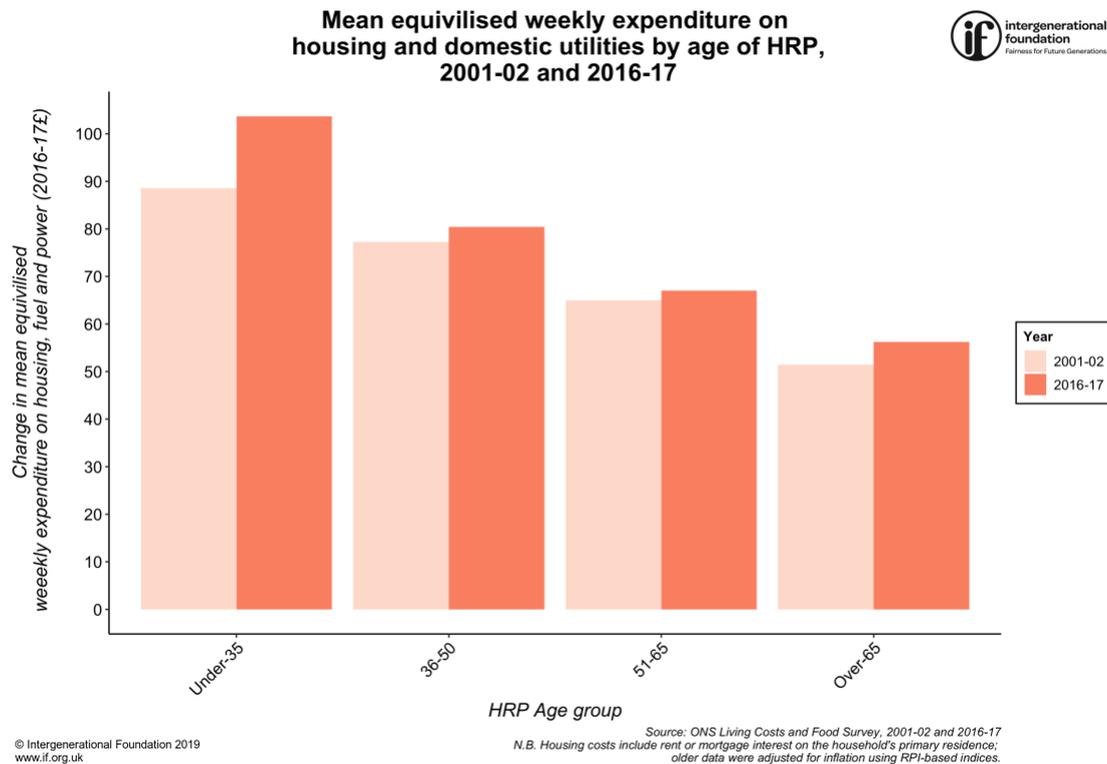


Fig. 1

Whilst all age groups experienced an increase in their housing costs during this period, Fig.1 shows that households where the HRP is under 35 had both the highest absolute housing costs and experienced by far the largest rise during this period. Mean equivilised expenditure on housing and domestic utilities rose by 17% in real terms between 2001-02 and 2016-17 among households where the HRP was under 35, compared with an increase of only 5% among all households overall. This was largely explained by the increasing propensity of young adults to live in the private rented sector over this period, which has meant that many of them have not been able to benefit from the reduced cost of servicing a mortgage during an era when interest rates have been extremely low by historical standards.

<sup>1</sup> HRP is a term used in government social surveys to refer to the person in whose name the accommodation where a household lives is either owned or rented, or, if it is owned or rented jointly, the household member with the highest income.

### **3. The growth of private renting has created winners and losers among different generations**

As IF argued in our 2013 research report *Why BTL equals “Big Tax Let-off”: How the UK tax systems hands landlords an unfair advantage*,<sup>2</sup> the growth of the private rented sector has been highly beneficial to wealthier members of today’s older generation (particularly Baby Boomers born between 1946 and 1964) largely at the expense of Millennials (born 1980 to 2000). As the Commission must be well aware, the private rented sector has expanded hugely since the mid-1990s: in 1996/97 about 2.1 million households were renting privately (one in ten of all households), whereas by 2016/17 this had grown to 4.7 million households (about one in five).<sup>3</sup> We argued in our report that this growth has occurred for a number of reasons: the failure to build enough new housing, which has pushed owner-occupation out of the reach of first-time buyers; the liberalisation of the private rental sector following the 1988 Housing Act, which removed rent controls; innovation within the financial services sector, which sought to create a market for buy-to-let mortgages; low interest rates, which made buy-to-let mortgages especially attractive while reducing the returns to other types of asset; the shrinkage of the social rented housing sector, which created a new market for private landlords letting to low-income tenants receiving Housing Benefit; the higher risk-adjusted returns of property investment in comparison to stock markets during the 1990s and 2000s; and favourable tax treatment with respect to tax relief on mortgage interest, depreciation and Capital Gains Tax, which our report argued should be reformed (reforms which we are pleased to say the government has subsequently adopted).

As it was predominantly wealthy middle-aged and older people who had the necessary capital to take advantage of the favourable environment for the private rented sector during the 1990s and 2000s, the age profiles of landlords and tenants are very different. According to a survey undertaken by the Association of Residential Letting Agents (ARLA) in 2012, nearly two-thirds of landlords in the UK are aged 46 to 65 and the average age of a landlord is around 53.<sup>4</sup> By contrast, the average age of a private renter in 2016/17 was 40, and about 65% of them are aged between 16 and 44.<sup>5</sup>

### **4. The growth of private renting raises a number of challenges for policy-makers**

The fact that so many more young adults now live in the private rented sector raises a number of important issues for policy-makers. Firstly, the majority of them do not want to live in the private rented sector for the long term: according to a 2013 survey of non-homeowners conducted by Halifax, there is a

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<sup>2</sup> Kingman, D. (2013) *Why BTL equals “Big Tax Let-Off”: How the UK tax system hands landlords an unfair advantage* London: The Intergenerational Foundation

<sup>3</sup> Ministry of Housing, Communities and Local Government (2018) *English Housing Survey 2016/17* London: Ministry of Housing, Communities and Local Government

<sup>4</sup> Association of Residential Letting Agents (ARLA) (2012) *ARLA Survey of Residential Investment Landlords* Warwick: ARLA

<sup>5</sup> Idem. At Footnote 4.

fundamental mismatch among people who rent privately between their aspirations of homeownership and the affordability crisis they face in today's housing market. This survey found that 79% of non-homeowners aged 20–45 would like to become owner-occupiers one day, but just 44% of people in this age group are actually owner-occupiers at the moment. Within this group, 39% of them said they would like to own a home but didn't think they would ever be able to afford it. The results of this survey also hinted at the broader negative impacts for society if many of these people never manage to become homeowners: 47% did not believe it was right to have children until they owned their own home, while 57% said they didn't think they would ever be able to retire if they were still renting.<sup>6</sup> As well as undermining the notion that Britain is a "property-owning democracy" if millions of people who would like to own their homes cannot do so, this is likely to have increasing political repercussions if it feeds through into a broader sense of dissatisfaction with the economic *status quo*.

Secondly, the cost of renting is far more economically burdensome for tenants than other housing tenures, with the result that they have lower disposable incomes and find it much harder to save up enough money to get on the property ladder eventually. On average, privately renting households spend 33% of their total income on rent (net of Housing Benefit), whereas the average household which has a mortgage spends only 17.2% of its total income on repayments and interest.<sup>7</sup> The cost of private renting is also a key reason why, according to the government's official measure of relative poverty, there are 14 million people who live in poverty on an after housing costs (AHC) basis compared with the smaller figure of 10.4 million people before housing costs (BHC).<sup>8</sup>

Thirdly, private renting is also far less stable than other housing tenures. In 2013/14, one in four private renters moved house, compared to only 5% of social renters and 3% of owner-occupiers; 29% had moved three or more times in the previous five years (which rose to 37% in London). In the immediate term, this exposes tenants to having to pay moving costs and contributes to rental inflation because landlords can let existing properties at higher prices more quickly; over the longer term, moving this frequently creates a high degree of instability for tenants, particularly on the quarter of families with children who are private renters, as it disrupts children's schooling and gives families less of a stake in their local communities.<sup>9</sup> The reason why renting privately in England is so unstable is because tenants enjoy virtually zero legal protection from being evicted if they are renting under the Assured Shorthold Tenancy (AST) agreements which predominate within the private rented sector, which usually last for either 6 or 12 months. Landlords are free to increase the rent each time

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<sup>6</sup> Halifax Bank (2013) *Generation Rent: A Society Divided* Halifax: Halifax Bank

<sup>7</sup> Ministry of Housing, Communities and Local Government (2019) *English Housing Survey 2017 to 2018: headline report* London: Ministry of Housing, Communities and Local Government

<sup>8</sup> Department for Work and Pensions (2018) *Households below average income: 1994/95 to 2016/17* London: Department for Work and Pensions

<sup>9</sup> Bibby, J. (2016) *Renting families move so often they are nearly nomadic – new research* London: Shelter

an AST gets renewed, and can seek a court order to have a tenant evicted for no legal reason (even if the tenant isn't in rent arrears) as long as they have lived in the property for a total of more than six months.<sup>10</sup> This is completely different to the situation in Ireland and most other European countries which have large private rented sectors, where tenants enjoy greater protection from eviction.

## 5. Unaffordable housing is likely to worsen overall inequality

In addition to the issues mentioned above, the growth of private renting among today's younger adults is likely to have significant implications for patterns of wealth accumulation within this cohort. As well as providing a place to live, housing is also one of the two main vehicles (alongside pension schemes) through which the vast majority of people accumulate wealth which they can either borrow against, drawdown in later years, or leave to their offspring if they desire to.

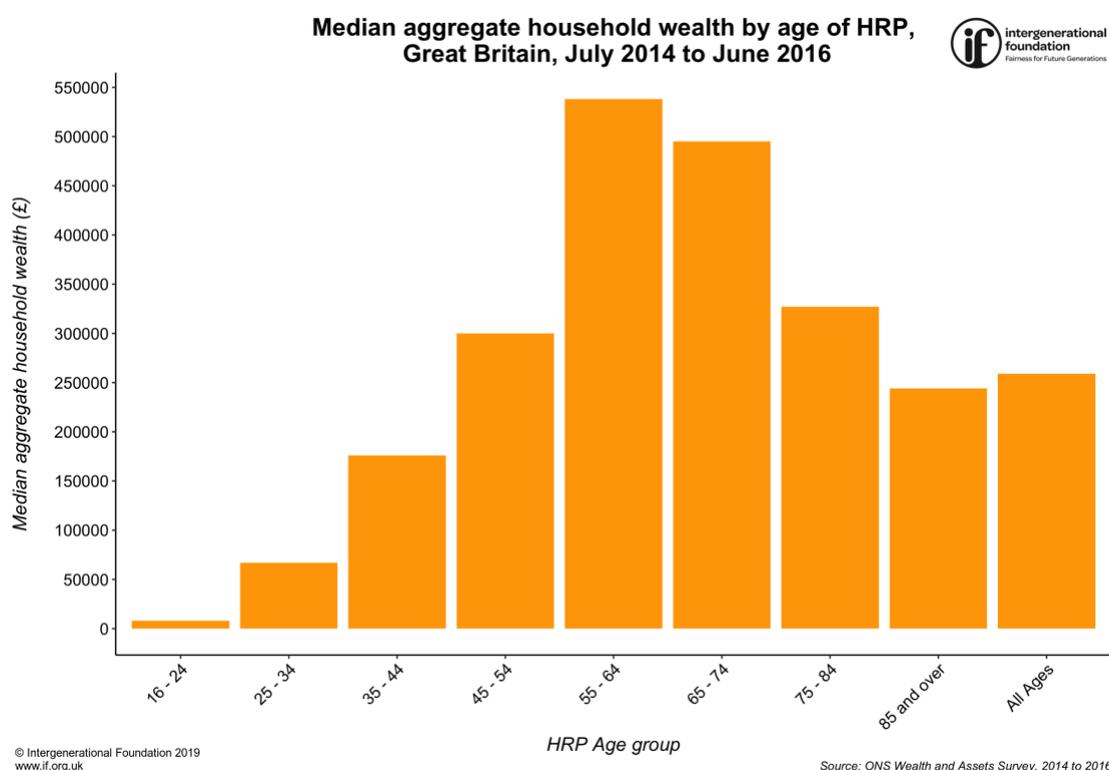


Fig. 2

The substantial decline in home-ownership is one of the main reasons why today's young adults have accumulated significantly less overall wealth on average than previous generations had done by the same stage in life. Research has shown that the average person who was born between 1981 and 1985 (i.e. the oldest Millennials) had only accumulated *half* of the total net wealth by age 30 of someone who was born during the previous five-year birth cohort (i.e. the youngest members of the Generation X). The comparatively

<sup>10</sup> Shelter (2017) *Unsettled and insecure: The toll insecure private renting is taking on English families* London: Shelter

poor performance of the Millennial generation at building up wealth in comparison to Generation X and the Baby Boomers is placed in stark relief by Fig.2; data from the most recent Wealth and Assets survey show that half of all households where the HRP is aged 25 to 34 have less than £67,000 in total wealth (including property and pensions), whereas half of all those where the HRP was aged 55 to 64 had more than £538,000. Professor Sir John Hills of the LSE has estimated that for households aged 25 to 34 to catch up with the levels of wealth enjoyed by older generations they would effectively need to save 50% of their incomes each year, which seems unfeasible when their incomes have been so stagnant over recent years and housing costs are so high for the members of this generation who rent privately.<sup>11</sup> It is very unlikely that today's young adults will ever achieve the same levels of home ownership that were enjoyed by their parents' and grandparents' generations. This has serious knock-on effects for social equality as it will make inherited housing wealth more valuable to those fortunate members of the Millennial generation who are lucky enough to inherit property wealth from their parents and grandparents.

## 6. Encouraging older generations to downsize could improve housing affordability

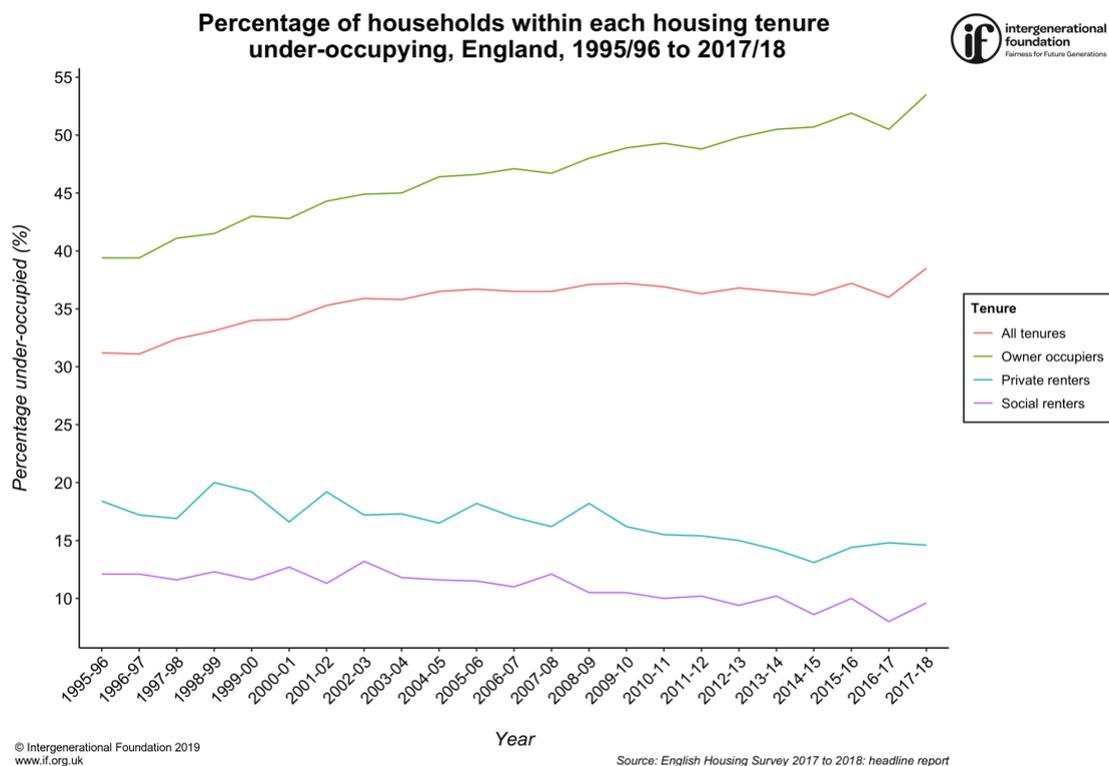


Fig.3

IF believes that encouraging older homeowners to downsize into smaller properties is one of the keys to achieving a more efficient allocation of the housing stock between people of different ages, but one of the reasons why

<sup>11</sup> Quoted in: "Young people 'unlikely to attain wealth of parents' generation' – study", *The Guardian*, 12 March 2015

there isn't more downsizing in the UK currently is because planning policy doesn't do enough to ensure that suitable homes exist in the right places to facilitate it.

One of the features of the housing affordability crisis in the UK is that since the mid-1990s – i.e. most of the period during which it has become substantially more valuable – housing has started being used less and less efficiently. Fig. 3 demonstrates that the percentage of households in England which are classified as “under-occupying” their current dwelling (this means they have at least two additional rooms above the number of rooms which they are assessed to need under the government's Bedroom Standard) has risen steadily throughout this period, almost entirely because of dwellings which are owner-occupied. By contrast, rental accommodation – where tenants must pay directly for every square metre of space they occupy – has seen a fall in under-occupation, which is what you would expect as the price per square metre of real estate has increased. In addition to the fact that housing has been a rapidly-appreciating asset, one of the other main reasons for the inefficiency with which owner-occupied housing is used is government policy, which encourages older homeowners to remain in homes that are larger than they need because housing wealth is comparatively lightly taxed, whilst the process of moving house incurs a high tax liability through Stamp Duty.

IF has previously proposed a solution to this problem. In a 2016 research report<sup>12</sup> we argued that it would be feasible to “unlock” millions of additional new homes from within our existing housing stock by making it easier for older property owners to “downsize-in-situ” through a new wave of subdividing big houses into smaller dwellings. We argued that the government should create a new householder permitted development right, subject to prior approval, which would enable a homeowner to subdivide without needing to submit a full planning application. Our report shows that there are 4.4 million owner-occupied households in England that have two or more spare bedrooms – potentially enough space to be divided into at least two flats that would comply with the new National Space Standards – and even if only 2.5% of these 4.4 million households subdivided their properties into two flats, it would produce more new housing than the entire private sector currently builds each year.

At present, homeowners have to submit a full planning application and get it approved in order to subdivide their properties, and the fact that fewer than 4,500 homes are being subdivided each year despite record house prices suggests that many people who could have an economic incentive to subdivide their homes are not doing so. Making it more straightforward for homeowners to subdivide would be beneficial for the following reasons:

- The government needs new approaches to reach its target of building a million new homes by 2020;
- The evidence shows that these homes would be in the “right” places: predominantly areas with the highest future demand for new housing, and

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<sup>12</sup> Kingman, D. (2016) *Unlocking England's Hidden Homes* London: The Intergenerational Foundation

surrounded by existing communities, jobs and infrastructure (including commuter hubs);

- Creating new homes in this way would reduce the development pressures on areas where the government is keen to prevent new housing from being built, such as the green belts on the edges of towns and cities;
- Homeowners would benefit from unlocking a proportion of their housing wealth, reduced household bills and lower Council Tax without having to leave their current addresses;
- We need to adapt our existing housing stock to match the trend towards a rapidly growing population where more people live in small households.

One particular area where this policy could create a “win-win” for the government would be its potential impact on the supply of housing for older people. There are now 4.26 million people over the age of 65 who live in homes with at least 3 bedrooms, and evidence suggests that 1 in 5 older homeowners would like to downsize (not to mention that there are 1.8 million homeowners aged over 65 living with health problems that could make larger homes unsuitable for them), but the vast majority either don’t want to leave their existing communities or can’t find suitable properties to downsize into. Therefore, making it easier for people to convert large homes could help older homeowners to “downsize-in-situ”, enabling adaptations such as converting the downstairs area of a large property into a smaller dwelling while creating a new flat upstairs for the owner to rent or sell. This could provide the benefits of helping them remain independent for longer and make them financially self-sufficient. Importantly, it is likely that these subdivisions would be undertaken by existing homeowners who would have the incentive of being able to unlock some of their existing housing equity, so the disincentives which prevent large homebuilders from developing more housing (i.e. the threat to their profits from bringing too many units onto the market at once) won’t apply to them.

The full report demonstrates that applications to subdivide larger properties are frequently rejected by local planning authorities under the current system because the resulting properties would be of a higher density than those in the surrounding area. However, recent planning reforms have supported the principle of building at higher densities to increase supply, so this proposal would be in keeping with wider planning objectives. The report also argues that the quality of the subdivided housing units which would result from the implementation of this policy could be assured using the prior approval process, in order to prevent the creation of excessively small homes, mitigate traffic and parking impacts, and so on.

IF does not suggest that this proposal could solve Britain’s housing crisis on its own, but we do believe it could be used to address some of the immediate need for new housing by creating new units more quickly than most alternative methods would be likely to achieve.

## **7. Unaffordable housing is leading to increasing age segregation**

An aspect of the housing crisis which hasn’t received enough attention so far is the effect which it has had on age segregation; that is, the increasing tendency

for members of different generations to live in distinct geographical locations.

Another one of our 2016 research reports<sup>13</sup> demonstrated that age segregation has become increasingly pronounced since the early 1990s. Comparing rural areas and urban ones, we found that the average age of someone living in a rural area had risen twice as rapidly between 1991 and 2014 as the average age of someone living in an urban area (using the ONS's classification system for categorising places as either rural or urban); 60% of the neighbourhoods in England and Wales where over half the population is above 50 are now in rural areas, whereas virtually all the neighbourhoods in which half the population is under 30 are in urban ones. We also looked at how patterns of where people live have shifted within the 25 largest urban areas in England and Wales, which showed that age segregation has also become more entrenched within these large cities. Most strikingly, the average child (someone under the age of 16) who lives in one of these large cities lives in a neighbourhood where just 5% of their neighbours will be over 65; in other words, children and their parents are now quite unlikely to share their neighbourhoods with very many older people.

When we analysed how the median age (the age of the middle person in the age distribution) differed between the different neighbourhoods of these cities, what we tended to find was that during the period between 1991 and 2014 the cores of these cities had become much more youthful, whereas the suburbs and surrounding areas had got significantly older. One of the main reasons for this is likely to be that young adults aren't moving to the suburbs in the way that they would have done in previous generations because they are more likely to be renting privately in inner-city neighbourhoods.

We argued that the growth of age segregation has negative impacts for wider society, as it is likely to undermine social capital by inhibiting mixing between people of different generations; and it is likely to contribute towards political polarisation because different generations have different cultural attitudes and beliefs; and these differences are likely to have a big impact in a political system which revolves around geographically-based constituencies.

## **Conclusion**

We have attempted to give IF's perspective on some of the causes of, and possible solutions to, the UK's housing affordability crisis. We would be happy to provide additional evidence if the Affordable Housing Commission would like to hear more from us. If you would like to learn more about the work of the Intergenerational Foundation please contact:

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<sup>13</sup> Kingman, D. (2016) *Generations Apart: the growth of age segregation in England and Wales* London: The Intergenerational Foundation