

# THE HOUSING MARKET: CHALLENGES AND POLICY RESPONSES

Stephen Aldridge\*

This article summarises the long-run decline in housing affordability in England and suggests this is substantially attributable to shortfalls in housing supply. Public attitudes to housing have become increasingly pro-development in recent years and the current policy framework – summarised in the article – seeks to provide a comprehensive and rounded response to the challenges facing the housing market.

Keywords: housing affordability, housing supply, housing policy.

JEL codes: R21, R28, R31, R38, H72.

Though there have long been concerns about housing supply, housing issues have moved up the policy agenda in recent years. These issues were set out in the 2017 Housing White Paper, *Fixing our broken housing market*, with housing supply and affordability being key concerns. This short article summarises the challenges and sets out the current policy responses.

## Challenges

*Housing affordability is under pressure, especially in London and the South East*

Data from the Office for National Statistics show that the median house price in England was 7.9 times median earnings in 2017, up from 3.5 times median earnings in 1997 (see figure 1).<sup>1</sup> The median house price rose 283 per cent over this period, while incomes rose 71 per cent. In London the ratio of house price to earnings is 12.4, while in the South East it is 10.3.

While low interest rates have meant the cost of servicing a mortgage has fallen relative to income over the past decade, other changes have made it increasingly difficult for first time buyers to get a step on the housing ladder in the first place: deposit requirements have increased significantly since the financial crisis; the number of new mortgages issued to first time buyers is low by historical standards; and according to Legal & General's *Bank of Mum and Dad* Report, family and friends are crucial to getting a foot on the housing ladder and expected to put up £5.7 billion

to help first time buyers this year (Legal & General, 2018). Over a quarter of home owners say they receive assistance from family and friends when purchasing their home.

*The rise in the number of concealed households is consistent with these affordability trends*

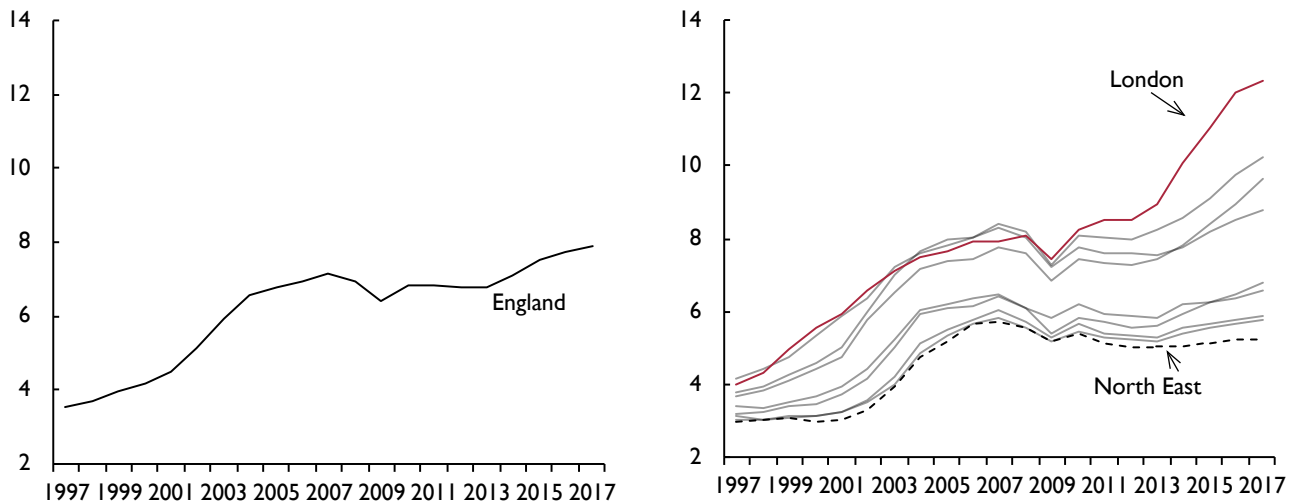
Based on the Labour Force Survey, it has been estimated that the number of concealed households has risen 50 per cent over the past 20 years from 1.6 million in 1996 to 2.5 million in 2016.<sup>2</sup>

A concealed household is defined here as a household which contains more than one family unit, where a family unit is defined as either a single person, or a married/cohabiting couple, or a married/cohabiting couple and their never-married children who have no children of their own living with them, or a lone parent with such children. This figure does not therefore include single adults living in their parental home, which we know has been rising in recent years: ONS data show that the percentage of 20–34 year olds living with parents has increased from 21 per cent in 1996 to 26 per cent in 2017, an increase of 714,000.<sup>3</sup>

While there are of course good reasons for multiple family units to live in a single household, and for young adults to live with their parents, rising affordability pressure does appear to be constraining the ability for new households to form.

\*Director for Analysis and Data, Ministry of Housing, Communities and Local Government. E-mail: Stephen.Aldridge@communities.gsi.gov.uk.

**Figure 1. Housing affordability measured by ratio of median house price to median earnings – England and English regions**



Source: ONS House price to workplace-based earnings ratio. House price data are taken from ONS House Price Statistics for Small Areas release for the year ending in September. Earnings data are taken from the Annual Survey of Hours and Earnings.

*Most people still want to own their home notwithstanding these trends*

A YouGov poll in 2016 found that 84 per cent of 18–34 year olds who do not currently own a home want to (HBF and YouGov, 2016).

*Though there are various ways of looking at it, a shortfall in housing supply is clearly indicated*

One approach is to compare the outturn increase in housing supply (net additions) with the *projected* increase in household formation over the same period. Over the ten years to 2014, the increase in housing supply – 1.7 million – was nearly 500,000 units lower than projected increase in household formation – of 2.3 million. The equivalent shortfall for 1992–2014 is 937,000.

Household formation may not of course be independent of the increase in housing supply since reduced supply can be expected to feed back to household numbers. This is particularly true of actual outturn household numbers but trend based future projections of household numbers will be influenced by past constraints on housing supply.

An alternative approach is to compare the increase in housing supply with the increase in the population (since the population may be more safely assumed to be exogenous).

Using housebuilding completions as the measure of supply shows a ratio of 0.46 for England as a whole, over the period 1991 to 2014, with the range varying from 0.31 in London to 0.66 in the North West and 0.9 in the North East (National Infrastructure Commission, 2016). In other words, housing supply has been particularly constrained in the London and the South East.

Figure 2 illustrates this point by comparing completions relative to the population in each of the nine English planning regions (over 1991–2014) with the cumulative increase in house prices from 2004–17. This suggests that relative supply may play a role in explaining relative price changes.

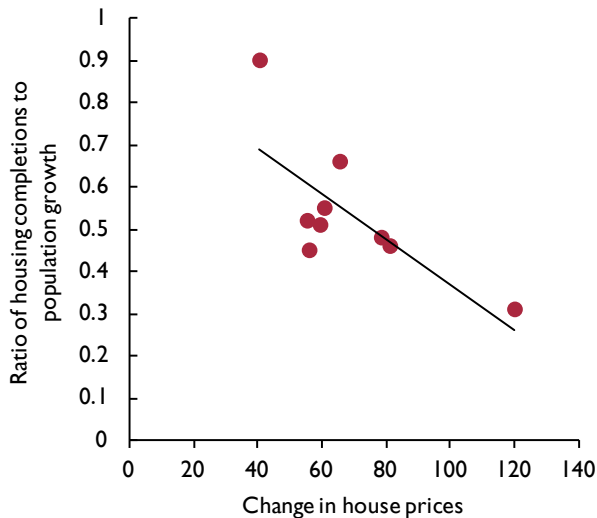
*Public attitudes are shifting, with support for local development increasing*

The British Social Attitudes Survey shows overall support for homes being built in people's local area almost doubled from 28 per cent to 55 per cent between 2010 and 2017 (see figure 3).<sup>4</sup>

*More houses can be built*

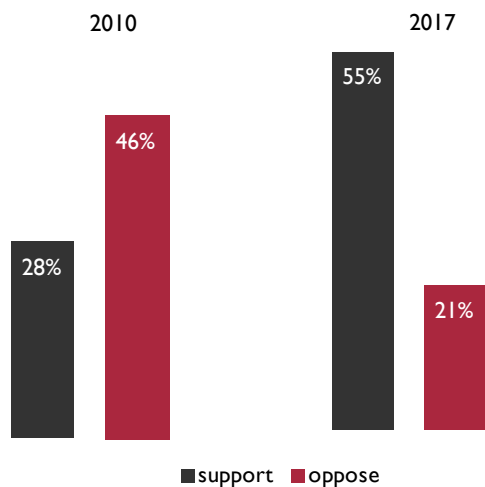
Germany provides an example of what's possible. Since 1951 it has built 30 million new homes, while the UK has built 16 million (IPPR, 2016). As John Muellbauer (2015) has shown, housing affordability has improved significantly in Germany as a result.

Figure 2. Change in house prices in English regions versus the ratio of housing completions to population growth



Source: 'Commentary', *National Institute Economic Review* (2018), 243, February.

Figure 3. Public attitudes to more homes being built in their local area, England



Source: British Social Attitudes Survey 2010, 2017.

*It will take sustained increases in supply to have an impact on affordability but by credibly committing to such sustained increases in supply in the future, we may make housing more affordable today*

To be effective in reducing house prices, it is important that higher levels of housebuilding are sustained over a number of years, with the right type of homes being built

in the right places. But, as with any asset, expectations of future price growth affects the price today. So, if people believe we will build 300,000 homes in every year from the mid-2020s that may impact on prices today.

### Policy responses

As outlined in the 2017 Housing White Paper, *Fixing our broken housing market*, building more homes depends on dealing with problems at each stage of the house building process.

#### *Ensuring local authorities are planning for enough homes in the right places*

In pursuit of this, new standard methods for establishing the minimum number of homes that should be built in each local authority are being introduced. The proposed approach<sup>5</sup> takes into account household projections now published by the Office of National Statistics to establish how many new homes will be needed to meet rising need. These figures are then increased in areas which have the greatest affordability pressures.

#### *Improving information on where development land is available*

Since the start of the year local planning authorities in England have been required to publish a register of brownfield (previously developed) land that is suitable for housing. The resulting 'Brownfield Land Register' provides valuable new intelligence for developers and communities on available brownfield sites and an indication of how many homes this could support.<sup>6</sup>

Building on this, the Department recently formed a new team to improve access to land and planning data more generally and stimulate the market for digital tools that could open up new opportunities to build more houses in the right places. This team will work closely with the new Geospatial Commission to enable better use to be made of all UK government data linked to location.

#### *Making better use of surplus public sector land*

The public sector land programme seeks to release land with capacity for at least 160,000 homes in England from the central government estate by end March 2020. And a £45 million Land Release Fund for land remediation and infrastructure has been established to enable local authorities to bring forward their land for housing where it would otherwise not have been possible.

#### *Speeding up the pace of development*

Alongside planning reform and better use of data, it is important to get homes built faster. Rt Hon Sir Oliver Letwin MP is currently conducting a review to 'explain

the significant gap between housing completions and the amount of land allocated or permissioned in areas of high housing demand, and make recommendations for closing it’.

His analytical report suggests the absorption rate – the rate at which newly constructed homes can be sold into the local market without materially disturbing the market price – is a fundamental driver of build out rates.<sup>7</sup> Potential ways to overcome the problem of the absorption rate are to increase diversity of development on large sites (building types, tenures etc.), and to encourage new entrants into the house building industry (given small builders appear to build out more quickly).

There are a number of interventions currently in place to facilitate and speed up the development of more housing. First, the Housing Infrastructure Fund which helps local authorities fund infrastructure that will unlock housing. At the 2017 Budget, funding for the Housing Infrastructure Fund more than doubled to £5 billion.

Second, Housing Deals for areas of high housing demand. At the 2017 Budget the Department announced the Oxfordshire housing deal, allocating up to £215 million to support the region to deliver 100,000 homes by 2031. Further housing packages have been agreed with Greater Manchester and the West Midlands.

Third, the Home Building Fund, which comprises a short-term fund aimed at small and medium sized builders and a more general long-term fund both intended to improve access to development finance.

Fourth, the Help to Buy Equity Loan scheme which provides equity loans to help those lacking a large enough deposit to purchase a newly built home. The 2015 evaluation of the scheme found significant additionality and estimated that the scheme had contributed 14 per cent to total new house building since the introduction of the policy.<sup>8</sup> At Budget 2017 a further £10 billion was announced to continue the scheme in full until 2021, which could support around 135,000 house purchases.

Fifth, the Affordable Homes Programme which directly supports the building of new homes both for rent and for sale. At Budget 2017 a further £2 billion was allocated to the programme, bringing total funding for the scheme to over £9 billion from 2016–21.

And sixth, a more muscular Homes England which brings together land, money, expertise, and planning and compulsory purchase powers, with a clear remit to facilitate delivery of new homes, where they are most needed. For example, through the accelerated construction programme it will help to ensure that surplus public sector land is built out for new homes more quickly, with a focus on support for non-major builders and modern methods of construction.

## NOTES

- 1 ONS dataset: Ratio of house price to workplace-based earnings (lower quartile and median), 1997 to 2017, accessed at <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/ratioofhousepricetoworkplacebasedearningslowerquartileandmedian>.
- 2 James Gleeson’s analysis of LFS data, accessed at <https://jamesgleeson.wordpress.com/2017/11/20/yes-there-is-a-housing-shortage/>.
- 3 ONS dataset: Young adults living with their parents, accessed at <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/datasets/youngadultslivingwiththeirparents>.
- 4 MHCLG analysis of British Social Attitudes Survey: Public attitudes to house building, accessed at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/714160/Public\\_attitudes\\_to\\_house\\_building\\_BSA\\_2017.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/714160/Public_attitudes_to_house_building_BSA_2017.pdf).
- 5 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/652888/Planning\\_for\\_Homes\\_Consultation\\_Document.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/652888/Planning_for_Homes_Consultation_Document.pdf).
- 6 <https://schemas.opendata.esd.org.uk/brownfield>.
- 7 <https://www.gov.uk/government/publications/independent-review-of-build-out-draft-analysis>.
- 8 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/499701/Evaluation\\_of\\_Help\\_to\\_Buy\\_Equity\\_Loan\\_FINAL.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/499701/Evaluation_of_Help_to_Buy_Equity_Loan_FINAL.pdf).

## REFERENCES

- HBF and YouGov (2016), ‘Why buy new? Home buyer intentions and opinions’, accessed at <https://www.hbf.co.uk/news/new-survey-shows-home-buyers-financial-worries-and-the-changing-attitudes-of-young-people/>.
- IPPR (2016), ‘German model homes – a comparison of UK and German housing markets’, accessed at <https://www.ippr.org/files/publications/pdf/German-model-homes-Dec16.pdf>
- Legal and General (2018), ‘Bank of Mum and Dad’, accessed at <https://www.legalandgeneral.com/retirement/retirement-news/2018/bank-of-mum-and-dad-report-2018.pdf>.
- Muellbauer, J (2015), ‘Britain’s housing affordability crisis: what can be done?’, presentation to MHCLG seminar.
- National Infrastructure Commission (2016), ‘The impact of population change and demography on future infrastructure demand’, accessed at [https://www.nic.org.uk/wp-content/uploads/2906064-NIC-Population-and-Demography-Document-v1\\_lw.pdf](https://www.nic.org.uk/wp-content/uploads/2906064-NIC-Population-and-Demography-Document-v1_lw.pdf).