

A House Divided

How Unaffordable Housing Drives UK Inequality

August 2016

Introduction

Housing is an issue that is rarely far from the news. Sky high rents, insecure accommodation, and the lack of affordability for first time buyers, these are issues familiar to us all, in many cases because we've experienced them directly. Housing is an emotive subject, because it is about more than bricks and mortar. A solid roof over our heads, a stable home, and ideally, a place we can call our own - these are universal desires, and for many of us they are the bare minimum for a dignified and respectable standard of living.

But in the UK today many continue to struggle to achieve such basic necessities. In particular, for those young people who are able to rent, many continue to be locked out of owning their own home. First time buyer figures remain static, and overall home ownership in England has fallen to its lowest level in 29 years, according to the English Housing Survey¹.

Even those who do own property now find themselves relying on the financial support of family to do so. A quarter of all home owners, 32% in London, and 57% of the under 35s, received help from friends and family to buy the home they live in².

There has been no fall in the desire of people to own their own homes in recent years, in fact 77% of the public say that they would like to own their own home (including over 60% of non-owners)³. But rising house prices and static wage growth have made it impossible for many people to get a foot on the property ladder. At the same time, rising rents have meant those same people often face far higher housing costs than homeowners.

This has a real effect on people's lives. Young people renting and socially renting are less comfortable financially and less happy than homeowners⁴, and not being able to buy a home is having an effect on people's transition into family life⁵.

In this briefing note we analyse official statistics to show how divided housing wealth is, how difficult it is for those without property wealth to move into homeownership, and how big the gap in housing wealth is between the very richest and ordinary households. In doing so we also highlight how some of the richest people in the UK have grown their financial empires through the country's dysfunctional property market.

¹ <https://www.gov.uk/government/collections/english-housing-survey>

² http://www.legalandgeneralgroup.com/assets/portal/pdf/BOMAD_FINAL_PDF.pdf

³ http://natcen.ac.uk/media/1123184/ybs-first-time-buyers-report_final-for-website.pdf

⁴ <https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/articles/youngpeopleswellbeingandpersonalfinance/uk2013to2014>

⁵ <http://www.tandfonline.com/doi/full/10.1080/13676261.2016.1184241>

Home ownership in the UK

Around a third of working age households hold no housing wealth. Of those renting without housing wealth:

- 86% have less than the £8,838.65 needed for even a 5% deposit for a mortgage on an average first home⁶
- 95% have less than the £35,354.60⁷ needed for a full 20% deposit on a mortgage on an average first home.
- 87% have less than a quarter of the deposit needed (£10,452.70) for an average house⁸
- 78% have less than a quarter of the deposit needed (£3,629) for an average house in Burnley⁹ (the local authority area with the lowest average house price)

What is the gap in housing wealth?

Although a third of working age households holds no housing wealth, not everyone is locked out of the property market by high prices. The wealth of the richest 100 people in the UK increased by £15bn last year. **That alone could pay for 71,000 average priced homes.** By way of comparison, there are around 50,000 households in Oxford.

It's not only that the wealthiest can afford such huge volumes of housing while many millions are unable to even get a mortgage. In many cases they are also accruing further wealth through our dysfunctional property market.

Nearly a quarter of the richest 100 people in Britain last year accumulated their wealth, in part, through interests in housing. They saw their wealth rise by £6.929bn, or the equivalent cost of 33,144 average priced houses. These 24 people had a combined wealth of £78.55bn, the equivalent of 375,740 average priced houses.

⁶ The average house for a first time buyer costs £176,773. According the House Price Index April 2016 <https://www.gov.uk/government/publications/uk-house-price-index-april-2016/uk-house-price-index-april-2016#headline-statistics>

⁷ This assumes a deposit of 20% is required

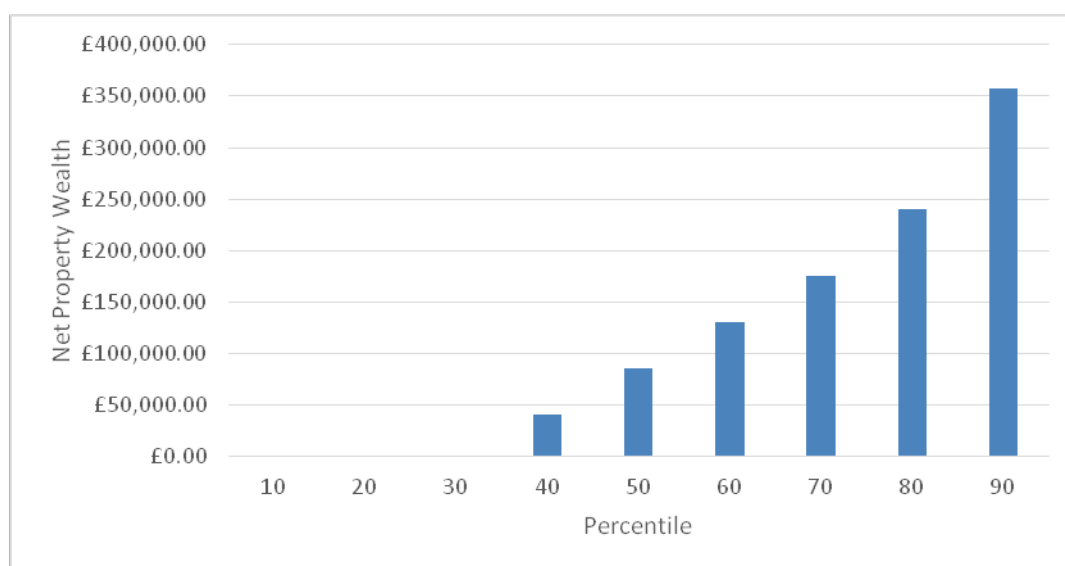
⁸ The average house price is £209,054 according the House Price Index April 2016. This assumes a mortgage requiring a 20% deposit

⁹ The average house price in Burnley is £72,583 according the House Price Index April 2016

The Data

Using the Wealth and Assets survey¹⁰ (produced by the Office for National Statistics) we can see who has property wealth and who doesn't. Property wealth here is the value of people's main residence (if they own it) and any other property minus the value of mortgage liabilities and equity release. Roughly a third of the population have no property wealth. The average household has £85,000 of property wealth, whilst any household with more than £357,000 is in the wealthiest 10% in terms of property wealth.

Figure 1: Net Property wealth for all households



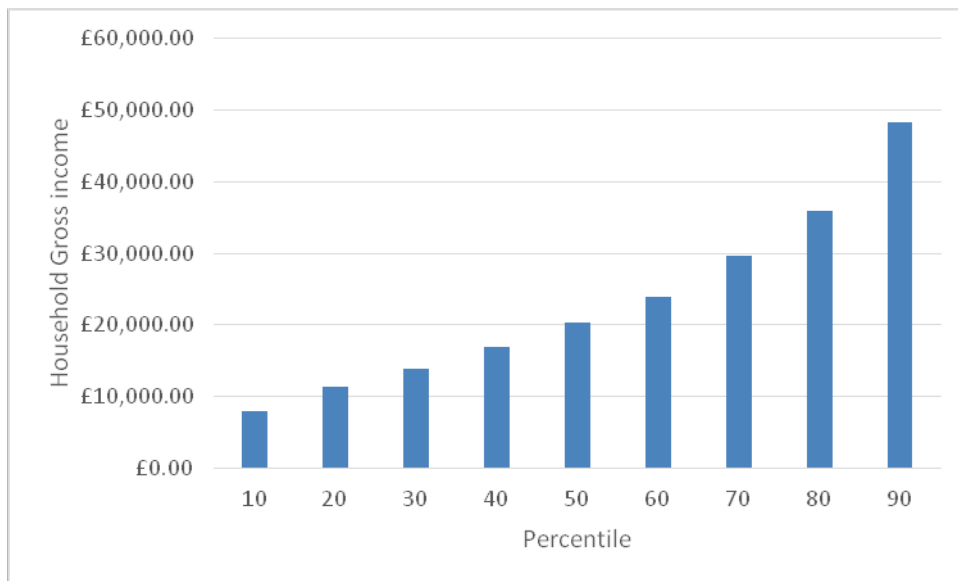
When you look only at the savings and incomes of those who rent and who also have no property wealth, you can see that for many of these households their incomes and level of savings are well below the level necessary to secure a mortgage and buy their first home.

As you can see from figure 2, over 70% of renters have less than £30,000 gross¹¹ household income. This is well below the minimum level of income most banks would require a person to have when looking to purchase their average first home. Typically mortgage lenders provide mortgages to a value of just less than four times a person's salary. That means over 70% of renters, with less than £30,000 gross household income, could borrow up to a maximum of around £100,000, significantly less than the £176,773 needed for the average first time buyer's house.

¹⁰ Office for National Statistics. Social Survey Division. (2016). *Wealth and Assets Survey, Waves 1-4, 2006-2014*. [data collection]. 4th Edition. UK Data Service. SN: 7215, <http://dx.doi.org/10.5255/UKDA-SN-7215-4>.

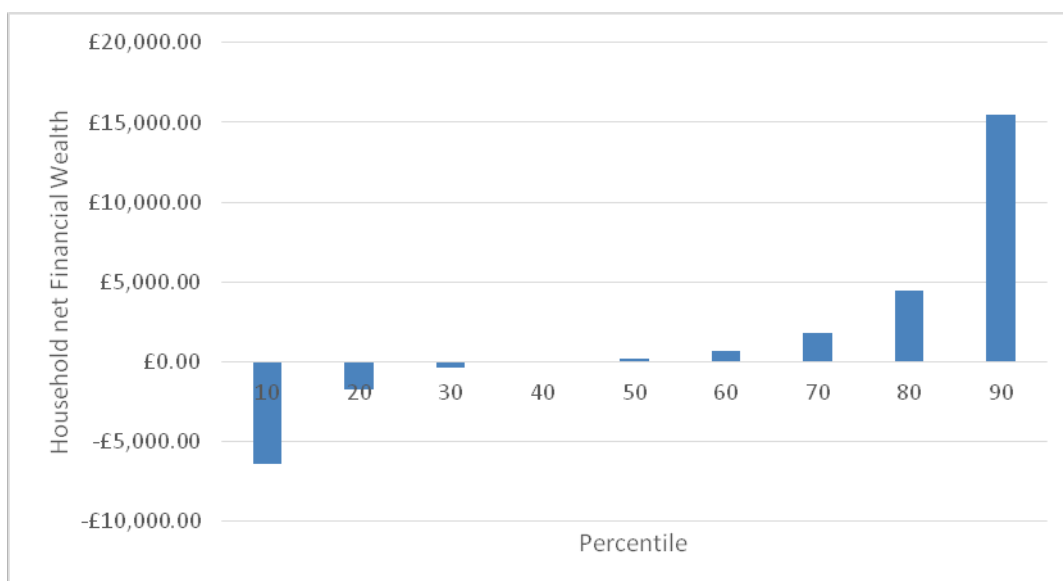
¹¹ Before tax

Figure 2: Household Gross income for renters with zero property wealth



As discussed above, their level of saving is also well below the amount needed to afford a deposit. Here we are using their net financial wealth, which includes all their savings and anything in their current account minus their debt, to measure their ability to afford a deposit. As you can see from figure 3, roughly a third of these households are in debt. The average household in this group only has £200 of net financial wealth with 90% having less than £15,515. A 20% deposit on the average first home is £35,354.60 - well above what can be afforded by 90% of households in this group. Even a 5% deposit on the average first home would require £8,838.65, more than 86% of these households have.

Figure 3: Household net financial wealth for renters with zero property wealth



Conclusion

The UK's housing crisis is well documented, but in truth it is a crisis that does not affect all people equally. Many young people, and those on low and middle incomes, are locked out of property ownership, and left struggling to afford sky high rents. The well off, and older generations, meanwhile have enjoyed the greater security and financial benefits of owning property. This division is even starker when you consider those at the very top, many of which have gained considerable wealth from their involvement in the UK's dysfunctional property market.

Home ownership is not a simple story of the rich versus the rest of us. Many ordinary people from older generations have worked hard, saved and moved onto the property ladder. In doing so, they have often benefitted from an increase in their home's value, but this has been an unexpected bonus. Houses weren't bought as cash cows, they were bought to be homes, to raise children and retire in, and in many cases, to be passed on to future generations. Nobody should be criticised for seeking the security of owning their own home.

However, it is equally true that the affordability of a home is a distant dream for many young, working people, and that this has a profound effect on their lives. Moreover, there is reasonable concern that a small number of people have been able to significantly increase their wealth compared to others due to their involvement in property businesses. The richest 1,000 people in the UK now have more wealth than the poorest 40%; this is in large part due to extreme differences in housing wealth.

For those 'winners' who can afford to buy housing, there is the reward of often lower costs and an asset that increases exponentially in value. For those less fortunate, there is a swift ratcheting up of housing costs via rents, with no increase in wealth.

Housing inequality is therefore both a symptom and a driver of wealth inequality. It creates and perpetuates a divided society of home owners and renters, with increasingly divergent wealth and living standards.

Many young people work hard and save, and are frustrated to see the mirage of home ownership remain out of reach. Many people within older generations are equally aghast at seeing their children and grandchildren prevented from having the same opportunities they had to own their own home. But housing inequality, and current housing policy, artificially pits one generation against another, potentially stoking up significant intergenerational discord in future.

To prevent this, and to reduce housing inequality, we need a drastic overhaul of our housing policy. We need to replace our council tax system, which hits the poorest hardest, with a progressive property tax, and we need ambitious but achievable plans to build more genuinely affordable housing. Anything less sells us short, and resigns the UK to being a country of the 'housing haves' and the 'renting rest'.

Acknowledgements

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