Redfern review into the decline of homeownership

Wednesday 16 November 2016

First major review into home ownership in over a decade reveals that the financial squeeze on young people is at the heart of the decline in the number of home owners and calls for a long-term, cross-party approach to housing issues

Home ownership is the tenure of choice for 80% of us

Declines in home ownership have been steepest amongst young people – over 20% in 12 years

The two biggest drivers of the fall in home ownership since the financial crisis in 2008 have been the marked relative fall in incomes of would-be first time buyers and their access to mortgage finance

Although home ownership is important, if we want to create a fair market that is accessible for all, we must focus consistently on all housing tenures

Housing market solutions need to be consistent and long-term, which will take open, constructive cross-party dialogue

We propose the establishment of an independent Housing Commission that can own this strategy and take a non-partisan approach to long term housing decisions

As long as conditions remain broadly the same, we expect the rate of decline in home ownership to stabilise in the near term, giving a sound basis for future, sustainable improvement

Launched today (Wednesday 16 November), the Redfern Review, led by Pete Redfern, Chief Executive of Taylor Wimpey, is an independent report commissioned by Shadow Secretary of State for Housing, John Healey MP, supported by an advisory panel of Terrie Alafat CBE, Dame Kate Barker CBE, Andy Gray and Ian Mulheirn.

It is the most comprehensive review into home ownership and the wider housing market in over a decade and draws on bespoke polling, focus group evidence and expert analysis as well as new modelling from Oxford Economics. It also suggests areas for discussion and future policy development that could improve the housing position of young people in a sustainable way.

Pete Redfern, Chief Executive of Taylor Wimpey, who led the Review, said:

"The detailed analytical work of the Review reveals the challenges that young people face in buying their first home and highlights the impact on them of long-term falls in relative incomes and ability to borrow.

"We must focus on supporting today's younger generation and creating a genuine long-term housing strategy independent of short-term party politics if we are to improve the position in a sustainable way for future generations."

John Healey MP, the Shadow Secretary of State for Housing, said:

"The Redfern Review is the first major inquiry into home ownership in over a decade. It sets out the causes of the recent decline in home ownership with unprecedented analytical rigour and detail, drawing on extensive new modelling done by Oxford Economics, as well as bespoke national polling, focus groups and wide-ranging input from housing professionals and experts.

"At root, this decline in home ownership matters to me because it matters to so many people in this country that we are determined to serve. And it matters too because the shrinking opportunity for young people on ordinary incomes to own a home is at the centre of the growing gulf between housing haves and housing have-nots. Housing is at the heart of widening wealth inequality in our country.

"Labour is determined to get to grips with the falling number of home owners and this Review gives us, and politicians of all parties, the foundation to do that."

Primary causes of the decline in home ownership

The Review's analysis indicates that the **primary causes of the 6.2 percentage point fall in home ownership between 2002 and 2014** are as follows:

- The biggest contribution to the fall in the home ownership rate after the financial crisis came from the higher cost of and restrictions on mortgage lending for first time buyers – namely **tougher first time buyer credit constraints**. This is estimated to have cut 3.8 percentage points off the UK home ownership rate from 2002 to the end of 2014.

- The biggest contributor to the fall in the home ownership rate before the financial crisis was the **rapid increase in house prices**. Between 2002 and 2014, higher real house prices are estimated to have reduced the private home ownership rate by 2.6 percentage points.

- The third major driver of the fall has been the decline in the incomes of younger people, aged 28-40, relative to people aged 40-65, i.e. **the income of first time buyers relative to that of non-first time buyers**. This younger age group's average income fell from approximate parity with the over-40s to some 10% below in the wake of the financial crisis. This reduced the relative buying power of would-be first time buyers, pulling down the home ownership rate over the period by around 1.4 percentage points.

The Review also analyses the causes of the house price boom of 1996-2007, and the maintenance of prices at historically high levels in the period since the recession of 2008-2010. The main trends are macro-economic, with rising household incomes and employment and falling interest rates being the main drivers.

In common with other studies, we find that the impact of new supply on house prices in the short term is very small. For example, even increasing home production to around 300,000 for one year would reduce prices by only c.0.6%, given recent rates of household formation. New household formation and supply have been broadly in balance over the last 20 years and therefore the significant increases in house prices over that period have not been driven primarily by supply constraints.

We strongly encourage the current and future Governments to look long term at home ownership issues and to adopt a principle-led strategy against which individual, short term actions can be assessed.

Establishment of an independent Housing Commission

We propose the establishment of an **independent Housing Commission**, analogous to the Infrastructure Commission, which can own this strategy and take a non-partisan approach to long-term housing decisions. Its primary role would be to understand and make recommendations on:

- The impact of policy changes on long-term supply quantum, quality and effectiveness to meet future demand

- The reasons for key house price trends and the effectiveness of fiscal and monetary policy in maximising stability

We recommend a review of Help to Buy and Starter Homes to ensure that they deliver the best long-term result to the people that need it most, and maximise their impact on home ownership, whilst minimising their inflationary effects.

Despite our focus on home ownership, the Review encourages the current and future Governments to focus on maintaining a consistent, healthy environment for all tenures, because while home ownership is important, a fair housing market also needs both a healthy private rented sector and a supportive social housing sector.

Background: key findings of the Redfern Review

Since its peak in the early 2000s, the rate of home ownership has fallen significantly in England and the UK, falling from 70.9% in England in 2003 to 63.6% in 2014/15. The declines have been the steepest among young people. The Redfern Review has been supported and challenged by a strong independent advisory panel and with extensive external modelling commissioned from Oxford Economics to identify the root causes of the fall in home ownership since 2003. The conclusions were divided into those that directly impact home ownership and those that have a more general impact on the housing market.

Key drivers of the 6.2 percentage point fall in home ownership rate between 2002 and 2014

- Tougher first time buyer (FTB) credit constraints
    - FTB credit constraints have caused 3.8 percentage points of the 6.2 percentage point fall in home ownership
    - A 1 percentage point increase in FTB credit constraints reduces the home ownership rate by 2.2%

- Rising real house prices
    - The rise in real house prices has caused 2.6 percentage points of the 6.2 percentage point fall in home ownership
    - A 10% increase in real house prices reduces the home ownership rate by 1.3%

- The fall in FTB incomes relative to non-FTB incomes
    - Falling FTB incomes has caused 1.4 percentage points of the 6.2 percentage point fall in home ownership
    - A 10% increase in FTB incomes relative to non-FTB incomes increases the home ownership rate by 1.67%

- Key causes of the fall in home ownership rate pre- and post-financial crisis
    - Rapidly rising real house prices was the main cause of the fall in the home ownership rate before the financial crisis (between Q1 2002 and Q2 2008) – accounting for more than twice the 2 percentage point fall
    - FTB credit constraints were the main cause after the financial crisis, as real house prices were already falling (between Q1 2008 and Q4 2014) – contributing 4.3% to the overall fall in the home ownership rate

Home ownership conclusions

The main drivers of the reduction in home ownership over the last twelve years are **macroeconomic** and **closely connected with the relative financial strength (earning and borrowing power) of young people** compared to older generations (the key group who will contribute to and benefit from increases in home ownership rates):

- Policy changes can be made that help mitigate some of these impacts, but if these trends continue, **the long term impacts will not be limited purely to housing**

- **Even with a significant increase in supply, home ownership rates will not necessarily increase** (but supply increases would be in the interests of the younger age group of potential buyers)

- To genuinely increase home ownership rates, we need to challenge relative wage rates (which is outside the scope of this Review), mortgage lending standards or provide specific subsidies for certain 'qualifying' groups

- **Targeting a specific home ownership level is not only difficult but may also be damaging** to the underlying interests of those we are trying to help and also the wider market, by encouraging unsustainable house price growth and unsustainable home ownership. We believe that current trends have largely run their course and home ownership should stabilise over the near future

- However, **we must continue to focus on the housing situations of individuals in the potential home owning group**
    - Help to Buy is a useful tool to help young people in to first time home ownership, but we remain concerned about the inflationary aspects of the scheme, and recommend it is targeted more exclusively to FTBs and at lower price points on a regional basis. Help to Buy can be a useful counter cyclical tool long term, to provide support when conditions are weak

- Far more could and should be done to provide a **healthy and stable renting environment**, providing a better opportunity for young people to save and a better set of conditions for longer term renters

Broader housing environment and supply conclusions

These conclusions stem from the belief that the biggest housing issue for young people is the cost of accessing home ownership, not the ongoing cost of it (i.e. house prices):

- **House prices don't always closely reflect availability of housing**. All long term sustainable solutions to high house prices and availability depend on increasing long-term supply

- **Increased new supply does not directly improve the home ownership rate**. It will have a suppressing impact on house prices (and thus affordability) but it is a slow, cumulative process

- There therefore needs to be a **change in attitude toward supply**. We don't doubt that politicians – local and national – and the broader public, accept the need for increased supply, but there needs to be an approach based on how to effectively deliver the results we all want, regardless of short-term politics

- **What is needed is decades of consistent supply improvements**, in both quantum and particularly location. That can only be achieved with a long-term plan, with principles agreed by all main political parties and where any short-term decisions are taken in line with the principles and that plan

- **We can significantly improve supply where it is needed, in the long-term, in a sustainable way, but only if we adopt a long-term, principle-driven approach.** This must include a stable and supportive environment for all main housing tenures

- **Supply can make the difference. However, it is supply over the very long term**
  - Therefore policy suggestions on this should be weighted towards long term strategy and cross party and independent support for sustainable policies
  - Short termism is the biggest problem to deal with in policy setting

<u>Key policy options</u>

The below policy options may support the rate of home ownership and housing supply in a sustainable way and are intended to stimulate further debate and discussion rather than being firm recommendations:

- Help to Buy should be refocused so that it is targeted more exclusively at first time buyers and at lower price points on a regional basis – extending its term beyond 2021 for this restricted group.

- Starter Homes should be retained but on exception sites only and with the first time buyer discount retained in perpetuity

- More support should be given to programmes that promote savings among young people. The maximum scale of lifetime ISAs should be increased and consideration should be given to increasing the level of Government contribution

- The 'one for one' replacement policy for Right to Buy should be extended so that all council homes sold through the scheme are replaced, rather than just some of them

- Rental conditions for tenants should be improved whilst avoiding unnecessarily increasing landlords' costs

Calls for a long-term strategy for the housing market

- Long-term increases in supply, sustained over 20+ years, will be needed to reduce overall housing market pressure
- Longer-term thinking and cross-party co-operation is needed so developers can safely invest in larger projects and in infrastructure
- There should be cross-party agreement on: 10- and 20-year housing targets; new settlements and urban extensions and investment in affordable housing
- A set of readily deployable counter-cyclical tools, which could be enacted in the case of a downturn, should be in place consistently
- A Housing Commission should be set up in parallel with the Infrastructure Commission
- There should be improved resourcing for planning departments

For all the details on the analysis conducted by the Redfern Review team into the decline in home ownership and the key policy options, please see the full Review and accompanying materials which will be posted on Wednesday 16 November: http://www.redfernreview.org/

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NOTES TO EDITORS

About the Redfern review

The Redfern Review was commissioned by John Healey MP, the Shadow Secretary of State for Housing, in October 2015 and led by Pete Redfern, Chief Executive of Taylor Wimpey.

The Review team has been supported and challenged by a strong independent advisory panel, with external modelling for the Review commissioned from Oxford Economics.

The Redfern Review drew on an expert panel of advisers from housing and economics:
- Terrie Alafat CBE - Chief Executive, Chartered Institute of Housing and former Director of Housing at the Department for Communities and Local Government
- Dame Kate Barker CBE – former Bank of England Monetary Policy Committee member and author of the Barker Review of Housing Supply
- Andy Gray – former Managing Director of Mortgages at Barclays and Deputy Chair of the Council of Mortgage Lenders
- Ian Mulheirn - Director of Consulting at Oxford Economics and former Director of the Social Market Foundation

Submissions were taken from organisations and individuals including: Affinity Sutton; Anchor; Lord Richard Best; Britain Thinks; Capital Economics; the Council for Mortgage Lenders; G L Hearn; High Fliers Research; Hometrack; Jefferies; KPMG; London First; Notting Hill; Osborne

Clarke; Oxford Economics; the Resolution Foundation; the Royal Institute of Chartered Surveyors; Savills; Smith Institute; Lord Matthew Taylor and Yorkshire Building Society.

Key stats on home ownership from Redfern Review modelling

- 35% of household wealth in the UK (at £3.9 trillion) is housing wealth
- Around 80% of people in England aspire to own their own home
- Real house prices rose 151% from the end of 1996 to the end of 2006, while real earnings have risen by only around 39%
- In England, the rate of home ownership has fallen from 70.9% in 2003 to 63.6% in 2014/15. The declines have been steepest among young people
    - Whilst the rate of home ownership fell from 70.9% in 2003 to 63.6% today overall (-7.3 percentage points), for those aged 25-34 it fell from 58.6% to 36.7% (-21.9 percentage points)
    - There are one million more 25-34-yearolds still living at home with their parents today than in 1996, despite the population of that age group having only risen by only 300,000
    - Home ownership among the under-45s has fallen by 860,000 people in the last ten years
    - 53% of people acknowledged that buying a home has become "much more difficult" in the last ten years
- There are 1.3 million people on the waiting list for social rented accommodation
- Between 2002 and 2014, the home ownership rate in the UK fell by 6.2%
- Between 2002 and 2014, the home ownership rate in the private housing sector (i.e. excluding the social rented sector) declined by around 11%