

WHAT WILL THE HOUSING MARKET LOOK LIKE IN 2040?

With home ownership and social renting in decline and the growth of private renting, the housing system is changing. This research examines the relationship between poverty and housing by studying the circumstances of 5,000 people over an 18-year period. It also projects how this relationship will change by 2040.

Key points

- More than a third of people experienced poverty during the 18-year study period. For most it was temporary. However, 10 per cent of people experienced 'chronic poverty' – two or more spells of poverty lasting for three consecutive years.
- Settled owners experienced above average levels of temporary poverty, whereas settled social renters experienced rates of chronic poverty 3.5–5 times the average.
- However, 85 per cent of people in chronic poverty did not experience unsatisfactory housing. Moreover, housing deprivation is not only an inner-city phenomenon – as deprivation generally is – but reflects a complex pattern of housing standards, prices and quality.
- Private renting is projected to grow to house a fifth of the population in England by 2040, with social renting declining to house one in ten.
- Private rents are forecast to rise by around 90 per cent in real terms between 2008 and 2040 – more than twice as fast as incomes. This would push up to 50 per cent of private renters into poverty by 2040.
- Setting social rents closer to market rents could put an extra 1.3 million people in poverty by 2040. This is likely to be an underestimate as even this would require £20 billion extra housing benefit.
- Looking to 2040, poverty levels in England can be contained to one in four of the population *only if*:
 - housing supply nearly doubles to 200,000 units a year by 2040;
 - social rents are indexed to inflation plus 1 per cent rather than moving closer to market rents;
 - Housing Benefit continues to support rents at 2008 levels; and
 - the proportion of social rented housing does not decline.

The research

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BACKGROUND

Historically, the UK has one of the highest poverty rates in western Europe. Nonetheless, key elements in the housing system including social rented housing, Housing Benefit, and mortgage-free retirement help to limit poverty rates.

However, our understanding of the relationship between income poverty and housing is limited because the evidence is generally based on snapshot surveys. These tell us little about how this relationship changes during people's lives. It is vital that it is better understood so policymakers can respond effectively to ongoing changes in the housing system.

This research examines the circumstances of 5,000 individuals recorded in the British Household Panel Survey from 1991 to 2008. While this falls short of tracing people's entire lives, at 18 years, it provides much greater insight than other studies.

Researchers created 'housing pathways', combining information about the types of tenure individuals were in throughout the period with events in their lives over the same time, such as changes in household composition, earnings, and retirement.

The research examined how these pathways related to poverty and 'housing deprivation' (living in either damp or hard-to-heat accommodation and experiencing overcrowding). It distinguishes between three kinds of poverty:

- chronic poverty: two or more spells lasting for at least three consecutive years;
- recurrent poverty: at least three spells lasting one or two years;
- temporary poverty: one or two spells of poverty lasting for one or two years.

Housing pathways and poverty

There are very clear associations between housing pathways and both the chances of experiencing poverty and the nature of that poverty over the 18-year period.

People with settled pathways rooted in home-ownership experienced above-average levels of temporary poverty but below-average levels of chronic poverty. Associated events – including rising incomes, having children and retirement – suggest a generally benign experience over the course of a lifetime.

In marked contrast, people whose housing pathways were founded in social renting throughout the 18-year period were at much greater risk of poverty than the sample as a whole. However, what is most striking and disturbing is the chronic nature of poverty for most social renters. Their associated life events are diverse and include rising incomes (though without income level being identified) and retirement. It is clear that people living in social rented housing have very low incomes for much of their lives.

The pattern of life events is clearer for people who moved from renting to home-ownership.

- People moving from private renting to home-ownership and whose life events reflect earlier adulthood (labour market change, marital change and having children) experienced relatively high levels of temporary poverty, but apparently no chronic or even recurrent poverty. In contrast, those making the same tenure transition, but with no significant life event patterns, experienced much higher levels of chronic poverty compared to settled home-owners.
- People who moved from social rented housing to home-ownership (suggestive of exercising the Right to Buy) experienced life events consistent with later working life and retirement (children leaving home, and ageing combined with falling incomes). Their risk and experience of poverty lay somewhere between that of settled home-owners and settled social renters.

Similarly, life events consistent with unstable incomes are associated with fluctuation between home-ownership and private renting. Generally, these people experienced high levels of temporary poverty and low levels of chronic poverty. People who changed marital status were the exception; they experienced higher levels of chronic poverty.

The data did not include enough people who only used private renting during the period to permit an analysis of this group.

Housing deprivation

Looking at poverty and housing conditions together, between 88–93 per cent of people who experienced housing deprivation during the study period also experienced some form of poverty. Moreover, between 60–73 per cent of people who experienced severe housing deprivation also experienced chronic poverty.

However, more than 85 per cent of people who experienced chronic poverty did not experience severe housing deprivation. In other words, while people who experienced chronic poverty were six times as likely to experience housing deprivation as those not in poverty, the vast majority avoided such housing deprivation.

Housing deprivation is not universally an urban phenomenon. While the ten English local authorities with the highest concentrations of housing-related deprivation are all in London, in Wales and Northern Ireland rural authorities are more strongly represented.

Projections for 2040

The research also examines the effects of expected trends in economic and income growth, house prices, housing supply and social and market rents on poverty rates in England by 2040 (Figure 1).

The effects of key factors were applied to people in the last wave of the British Household Panel Survey (2008). These factors include expected economic and income growth, and changes in house prices, housing supply and social and market rents.

Figure 1 indicates the projected poverty levels in 2040 depending on whether social rents rise in line with inflation plus 1 per cent, or rise to 65 per cent of market levels (as is implied by the ‘affordable rent’ policy).

Figure 1 – Projected poverty rates (2040)



The modelling suggests that poverty can be contained at existing levels only under four conditions:

- the supply of new housing rises to 175,000 units a year in the 2020s, 190,000 by 2030 and 200,000 by 2040;
- social rent rises are limited to 1 per cent over inflation;
- Housing Benefit (or equivalent) meets a similar proportion of rent as in 2008;
- tenure patterns remain unchanged.

This means that the figures given here are likely to be an underestimate of the real impact of poverty in 2040.

Poverty rates are especially sensitive to social rent setting. If social rents are constrained, falling social rents relative to incomes counterbalance the upward pressure of market rents on private tenants' poverty rates. However, if social rents were to move to 65 per cent of market rents, the overall poverty rate would rise by 2.5 percentage points. This represents an extra 1.3 million people. Even this scenario depends on the real costs of Housing Benefit (or equivalent) rising by 125 per cent. In turn, this implies an additional cost of £20 billion across Great Britain compared to 2008.

Moreover, the forecast suggests that by 2040:

- social renting will decline to house only a tenth of the population compared to around one in seven today;
- private renting will grow to house a fifth of the population compared to around one in six today;
- median house prices will increase to £263,000;
- compared to 2008, private rents will rise by 90 per cent – more than twice as fast as incomes – pushing up to 50 per cent of private renters into poverty.

Conclusion

The housing system is changing, as private renting grows and social rents, at least in some parts of England, rise towards market levels. The ability of Housing Benefit to protect tenants from higher rents has already been reduced in response to rising cost pressures, and this seems set to continue.

Taken together, these pressures represent such a change to the British housing system that, in 25 years' time, poverty rates are likely to be higher and the relationship between poverty and housing deprivation stronger.

About the project

The research was carried out by Mark Stephens, Chris Leishman, Glen Bramley, Ed Ferrari and Alasdair Rae of Heriot-Watt University and the University of Sheffield. The main dataset is taken from the British Household Panel Survey. Economic forecasts were generated from long-run econometric and simulation models. The research used two measures of poverty: living in a household whose net income, after housing costs, is below 60 per cent of national median income, and estimated income required to avoid deprivation.

FOR FURTHER INFORMATION

The full report, **What will the housing market look like in 2040?** by Mark Stephens et al, is published by the Joseph Rowntree Foundation. It is available as a free PDF at www.jrf.org.uk

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