Cambridge Centre for Housing & Planning Research

Housing in Transition: Understanding the dynamics of tenure change

A report for the Resolution Foundation and Shelter

by

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Executive Summary

- The report is based on two elements of analysis. The first examines the Survey of English Housing and its successor the English Housing Survey. We explore past trends over the period 1993/94 to 2009/10, breaking the data down by tenure, region, household type and household income.

- The second, projects these trends forwards to 2025 and explores how tenure structures may develop under three different economic scenarios – a continuing weak economy, a central cautious expansion from a low base, and a robust recovery.

- The main findings are:

  1993-2010

  - The balance of tenures in England is changing with the rise of outright ownership and private renting and falls in mortgaged home ownership and social renting.

  - There are big differences in trends between England as a whole and London in particular, notably with respect to the growth in private renting and the role of social housing

  - Homeownership has been declining among younger age groups throughout the period. It is now declining among the middle aged.

  - Across England, Low to Middle Income (LMI) households tend to be owners – and increasingly outright owners. In London social renting is far more important.

  2010 - 2025

  - Projecting these trends forward suggests that while major changes continue, their speed and trajectory depends on the shape and scale of any recovery.

  - In England as a whole, most families with children can attain and sustain home ownership almost regardless of the extent of recovery. But in London on more cautious scenarios, both mortgaged ownership and social renting are overtaken by the private rented sector.

- The Implications for the Policy Agenda

  - The most immediate policy issue lies with the growth of the private rented sector as mainstream housing provision not least for families.

- o Social renting still plays a key role for lower income households especially in London with consequences for the economy if it declines further.

- o For policy purposes, we can no longer discuss home ownership as a single tenure - outright ownership and buying with a mortgage are two very different segments of the market meeting quite different needs at different stages in housing careers.

- o Mortgaged home ownership has been falling and there are real policy choices about what to do– just wait for a recovery or intervene to support increased entry? Low interest rates and flat prices open up new opportunities.

- o The projections highlight how trends might play out. If the economy remains weak there will be far more households in private renting both through choice and through constraint. . This puts even higher priority on the better growth scenarios being achieved.

- o In London both social and private renting play larger roles for lower income employed households and families as well as those in need of additional subsidy. If the economy remains weak the PRS becomes an ever bigger force – by default rather than by plan. Social housing in London is particularly vulnerable as a consequence of the affordable rents regime, changes in tenancy arrangements, the Right to Buy programme and many other factors

- o The housing opportunities of lower to middle income households are increasingly restricted, with ever larger numbers in the PRS. However, especially outside London, significant improvements in the economy and credit availability allow many more to achieve ownership. Among families with dependent children, home ownership and increasingly the PRS will dominate across England. In London social renting will remain important but the PRS will take most of the strain.

- o Finally, this report does not aim to address the issues around the lack of housing supply and the shortage of housing investment. Without this investment, if and when the economy improves, the most likely immediate outcome is further pressure on house prices.

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1. Introduction

Over the past decade it has become increasingly apparent that England's housing market is changing and that this might not just be a cyclical response but rather the result of long term structural shifts (Williams, 2007; Miles, 2012, Savills, 2011, Whitehead and Williams, 2011). In the early 2000s the proportion of owner-occupiers began to decline while at the same time we have observed the steady rise of the private rented sector. All of this was given added momentum by the global financial crisis and its aftermath through tighter regulation and more demanding capital requirements as well as economic recession. The upshot has been reduced mortgage availability, tighter credit standards and more expensive loans as well as more uncertain demand.

The government has estimated there are over 1 million households who have been excluded from home ownership in recent years. Taken together with cutbacks in funding for social housing and continued growth in household numbers there has been an almost inevitable increase in private renting. The rate of change is slow on an annual basis but it becomes much more evident when viewed over a longer period and then projected forward.

The Resolution Foundation's report *Essential Guide to Squeezed Britain* published in January 2012 clearly evidenced the growing pressures on low to middle income (LMI) households which by the Foundation's definition include roughly one third of working age households in Britain. Identifying housing as a critical component of household living standards and the largest single household expense, the report noted the radical shift taking place with under 35s finding it particularly difficult to access home ownership. Thirty four per cent were owners in 2009/10 as compared to over 51% ten years ago while the proportion renting privately had tripled from 14% in the late 1980s and 28% in 2003/04 to 47% in 2009/10.

Shelter likewise has produced a regular stream of reports commenting on the shortage of homes, the mortgage crisis, the rise in families in the private rented sector and the lack of social housing. In 2012 it published its briefing *Held Back Households* commenting on the housing difficulties now been faced by low and middle income families (Hughes, 2012).

These reports highlight the strains now existing in England not least for families with children and the likelihood that these tensions will continue for some time. Reflecting this, the Resolution Foundation and Shelter came together to commission CCHPR to develop a fuller picture of the current tenure situation and how this might develop in the future. The work began in early 2012 and was completed in May 2012.

The aim of the research was to look back at tenure patterns as far as the detailed data would allow and to look forward to 2025. Particular attention was to be given to low to middle income households (ie those in the bottom 10 – 50% of the income distribution where low paid and retired households are concentrated) and the position of households with children. Both groups of households have been at the centre of successive policy announcements by the government aimed at helping hard working families, but who are also facing increasingly difficult and restricted housing choices.

The report presented here offers an overview of the main findings rather than covering every detail. We have chosen to develop a narrative around the key themes that emerged from the research rather than force the reader through that detail to find them. Appendices A and B provide more detailed evidence from the research – first the analysis of past trends and then looking forward through the central projection and these are posted separately on the website. We have also posted some further analysis on the CCHPR website in Appendix C.

2. Methodology

There were two core elements of the research - looking back and looking forward, These are both reported on in section 4 of this report based around our ten main findings.

The first element of the project involved a review of existing projections, notably that by Oxford Economics (OE) for the NHF (NHF, 2011) and other relevant macro forecasts with commentary on how underlying fundamentals have been changing. Section 3 of the report provides the details and is used in specifying our projection scenarios.

Looking back included a detailed analysis of the Survey of English Housing/English Housing Survey from 1993/94 to 2009/10 – some 17 years and through parts of two housing cycles. In 1993/94 England was slowly recovering from the 1989/1991 downturn. This then built up into a period of growth through to 2006/07. Thereafter we experienced the downturn to the end of the decade and beyond with a 32% fall in real house prices from 2007 to the beginning of this year (UK; Ball, 2012).

We have undertaken a detailed review of all the relevant data looking back broken down by;

- England, London and Rest of England;
- tenure (owned outright, owned with a mortgage, all owned, privately rented, housing association rented, council rented, all social rented, other and all tenures),
- household type (couples with children, couples without children, lone parents, single person working, single person retired – then families with children), and
- household income (low to middle income –defined as the 10th to 50th percentile - and lowest quartile).

This generates a large number of tables and figures. A small number are included in the main report exemplifying our findings. Detailed supporting material is given in Appendix A.

We had hoped to be able to explore in some detail the roles of intermediate tenures and the 'other' category'. In practice the numbers of these groups in these surveys are insufficient to support any detailed breakdowns of the data. In the available statistics intermediate tenures tend to be captured in owner-occupation with a mortgage while the 'other' category, mainly made up of rent free and company lets, is normally included in private renting. Our analysis mainly followed this approach concentrating on four tenures – ownership with and without a mortgage, social renting and private renting. In examining these data we were very aware that they are based on survey results. As such there are biases – notably with respect to London and the numbers of single people under 60 which both impact on the observed scale of the private rented sector. As with any sample data, especially when broken down by a number of variables, there are caveats as to the validity of sample sizes on which generalisations are then drawn. We have been cautious in the breakdowns we have used as a consequence. In particular we have pooled two years together (eg,1993 and 1994 are treated as one and so on throughout the period) to increase the sample size in the English Housing Survey analysis.

The second core element of the research involved detailed projections of housing tenure trends through to 2025. These are built around a set of assumptions and obviously different assumptions produce different results. Our starting point is the ONS household projections to provide the basic information on household types and proportions. We then look at three economic scenarios for the period to 2025: a cautious central scenario by which the economy moves towards the a return to the 2000 - 2009 average growth pattern from 2015, reaching this average by 2020 and then remaining stable; a weak scenario building from negative to zero growth and continuing constraints on mortgage availability; and a robust/optimistic scenario where there is both economic growth and available but higher cost housing finance.

Tables1 and 2 provide a summary of the macro economic assumptions for England and London respectively. In addition we also analyse a number of scenarios for the social sector, also shown in these tables.

The four economic variables we have used to define these scenarios are: mortgage interest rates and loan to value ratios for first time buyers which reflect the cost of borrowing and deposit constraints; real income growth which is the main determinant of demand; and finally housing completions used here only as a measure of housing market conditions and general expectations. The scenario evidence thus provides an analysis of how projected demand for housing might be translated into tenure mix under different market conditions reflected in these the four variables.

Table 1: England: Modelled assumptions

	Weak	Cautious	Robust
Standard variable mortgage interest rate (%)			
reference level drawn from 2000 to 2009	4.0 (lowest)	6.2 (average over period)	7.6 (highest)
range	4.0 to 4.1	4.1 to 6.2	4.4 to 7.6
phasing	4.1 to 2017 then 4.0.	4.1 to 2015 then annual rise to 2024.	Annual increase.
First Time Buyer LTV (%)			
reference level drawn from 2000 to 2009	75 (lowest)	88 (average over period)	90 (highest)
Range	75 to 70	76 to 85	78 to 90
phasing	Phased decline over period.	76 to 2015 then steady rise to 2025.	Annual increase.
Real income growth (%; 3 year moving average)			
reference level drawn from 2000 to 2009	-1.4 (lowest)	0.6 (average over period)	2.3 (highest)
Range	-1.0 to 0.0	-1.0 to 0.4	0.0 to 2.3
phasing	Annual increase from negative to zero by 2015 then static at 0.0%.	Steady increase over period from negative to real growth of 0.4% at end of period.	Steady increase over period from zero to real growth of 2.3% at end of period.
Building completions in private sector			
reference level drawn from 2000 to 2009	89,540 (lowest)	125,965 (average over period)	145,680 (highest)
Range	82,988 to 89,540	82,988 to 125,965	90,473 to 145,680
phasing	From the beginning, steady annual increase.	From the beginning, steady annual increase.	From the beginning, steady annual increase.
Constraint on social rented housing stock (3 cases for each scenario)			
a. constant	Remaining at the 2010 level of stock (4,108,653 units) through the observation period.		
b. decrease – 2 cases	Decreasing by 50,000 units per annum throughout the period. (i) all excess demand going to private renting and (ii) half going to owner-occupation		
c. increase	Increasing by 50,000 units per annum throughout the period.		

Table 2: London; Modelled assumptions

	Weak	Cautious	Robust
Standard variable mortgage interest rate (%)			
reference level drawn from 2000 to 2009	4.0 (lowest)	6.2 (average over period)	7.6 (highest)
range	4.0 to 4.1	4.1 to 6.2	4.4 to 7.6
phasing	4.1 to 2017 then 4.0	4.1 to 2015 then annual rise to 2024	Annual increase
First Time Buyer LTV (%)			
reference level drawn from 2000 to 2009	75 (lowest)	86 (average over period)	90 (highest)
Range	75 to 70	76 to 83	78 to 90
phasing	Phased decline over period	76 to 2015 then steady rise to 2025	Annual increase
Real income growth (%; 3 year moving average)			
reference level drawn from 2000 to 2009	-1.4 (lowest)	0.9 (average over period)	2.8 (highest)
Range	-0.8 to 0.0	-0.8 to 0.9	0.0 to 2.8
phasing	Annual increase from negative to zero by 2015 then static at 0.0%.	Annual increase from negative to 0.9% by 2019 then static at the level.	Steady increase over period from zero to real growth of 2.8% at end of period.
Building completions in private sector			
reference level drawn from 2000 to 2009	10,330 (lowest)	13,291 (average over period)	17,890 (highest)
Range	10,330 to 11,314	11,390 to 13,291	11,854 to 17,890
phasing	From the beginning, steady annual decrease.	Static at 11,390 to 2015 then annual increase.	From the beginning, steady annual increase.
Constraint on social rented housing stock (4 cases for each scenario)			
a. constant	Remaining at the 2010 level of stock (800,895 units) through the observation period.		
b. decrease – 2 cases	Decreasing by approx. 1.36% per annum to 650,000 units in 2025. (i) all excess demand going to private renting and (ii) half going to owner-occupation		
c. Increase	Increasing by approx. 1.36% p.a. to 952k units in 2025.		

It should be noted that because of the need to use the government's household projections as a basis for the projections, the starting estimates of tenure mix are not strictly comparable to those from the English Housing Survey. This issue is discussed further in Appendix B. It does not affect the projected trajectories but means that there are some differences in the starting proportions reflecting survey biases.

It should further be stressed that these projections are based on past trends in behaviour which are themselves the result of observed house prices, supply and other factors affecting tenure outcomes. As such they are projections not forecasts. There is no attempt to model price or supply directly.

Our weak scenario is generally rather less optimistic than the shorter term OE forecast in assuming negative real income growth to 2015 and then zero real income growth thereafter, while the OE projection assumes real increases. The cautious scenario is more in line with current macro forecasts except to the extent that it assumes improvement but no real income growth until 2018. It is more positive in that it expects deposit requirements to decline slowly from 2015 but with commensurate rises in mortgage interest rates. Housing investment is seen to increase very slowly from current low levels of activity. As such the cautious scenario reflects a slow overall improvement in the economy – but no signs of the sort of bounce back that has occurred after past recessions. To address this possibility, the robust/optimistic scenario assumes positive and increasing growth rates after 2015 up to 2.5% by 2025. While this may look over-optimistic in the current depressed environment, it is not out of line with past behaviour - especially given the sharp declines experienced in the last few years. Indeed until last year when GDP started to flat line it might have been regarded as the most likely as long as the world economy returned to trend levels of growth.

One issue of particular importance in projecting the future is what assumptions to make about the availability of social rented housing. The scale of the sector has remained fairly constant over the last few years after a period of fairly rapid decline. Most unconstrained projections would show it increasing as the demand from households, who on past trends would have been located in the sector, feeds through. . However the general expectation is that growth in this sector is unlikely to be significant even if the currently planned output of 170,000 units to 2015 is delivered. This is mainly because of the government's new emphasis on private renting taking on more of the role played by social renting. Equally, if the new Right to Buy proves popular the sector is likely to decline in the short and medium term not least because it takes time to provide the promised replacements. At the same time financial incentives may lead housing associations to provide more intermediate and even market housing while the government will probably move further in the direction of meeting aspirations for home ownership through the Right to Buy, new build incentives and intervention in the mortgage market. Going forward from 2015 it is unclear that the new affordable housing programme that is delivering the 170,000 new homes (a mix of affordable rent and social rent) will go into a second round to take supply beyond that date. The evidence from associations is that their capacity will be severely constrained without additional grant or other funding solutions.

Because of these uncertainties we have included four social sector scenarios;

- one where the number remains constant over the whole period to 2025;
- one where the sector declines consistently over the period with 50,000 units per annum transferring out of the sector nationally and an equivalent reduction of about 10,000 per annum in London - with all excess demand going into the private rented sector. This reflects a less interventionist approach by government with respect to owner-occupation and intermediate tenures;

- one with the same decline but half going into owner-occupation with a mortgage and half into the private rented sector, reflecting the possible outcomes of intermediate tenures and the Right to Buy policy over the full decade; and
- one where the social housing stock increases by 50,000 per annum in England and by a comparable proportion in London. For the all income bands" projections we assume that where this happens, households will, where possible, choose social renting before private renting. However for LMI households additional social provision could be filled by "non-LMI" SR demand, so no adjustment was made.

Actual outcomes almost certainly lie within the limits of these scenarios so can easily be interpolated. Again this has generated a significant volume of tables and figures in addition to those in the main report. Appendix B provides the full set of projections for the cautious scenario. Those for the weak and robust scenarios are available on the CCHPR website.

An important point to reiterate with respect to the projections is that there is an implicit assumption that the projected numbers of households will be allowed to form, ie, overall demand will be met in numerical terms. However within the social rented sector the numbers of households accommodated in the sector is constrained to meet the supply under the different scenarios – excess demand is then allocated to the private rented sector or half to the owner-occupied sector.

Prior to the turn of the century supply did indeed keep pace with household formation across the country– and over a thirteen year period that trend might return. However continuing and worsening supply constraints may prevent households being able to form in the future. This would affect the total number of households rather more than the tenure proportions which are central to this analysis. Thus, almost certainly, the trajectories identified in this report will remain the same.

The final element of the project, presented in section 5, builds on the findings from the data analyses to clarify some of the most important implications for policy. This concentrates on the costs and benefits of different tenures in meeting the needs of the full range of households and supporting the growth agenda through the provision of adequate and affordable housing for all.

3. Background: A view from the Oxford Economics Report 2011 and other forecasts

In 2011 Oxford Economics (previously Oxford Economics Forecasting) published its *Housing Market Analysis* report which set out in broad terms the changing nature of the housing market. The report was produced for the National Housing Federation (NHF), the trade body for housing associations in England.

Although commissioned by the NHF, the OE model was run according to their standard base forecast to ensure that there was no suggestion it had been distorted in any way. The OE report offered what might now be seen as a relatively positive view of the economy, suggesting it had settled into a slow recovery. At the same time the report argued that the housing market had softened with lending remaining subdued and lenders taking a tougher line. OE also suggested any housing market recovery would be concentrated in London and the South East.

The report provided a stimulus to the Resolution Foundation and Shelter to pose further questions and to commission the research reported here. As a starting point to our own work it is therefore relevant to review the findings of the OE report and in particular to consider how their assumptions about the economy and the housing market have unfolded to date

In their detailed analysis OE argued that:

(a) **Mortgage lending**: credit supply remained tight and deposit requirements had increased. Although mortgage pricing had eased, demand remained subdued except in the buy to let sector. First time buyer deposit requirements had increased from 15% in 2007 to 30% in 2008/9 and income multiples were down from a peak of around 3.2 (FTBs). In 2000 a single buyer needed to be in the 19th percentile or above in income terms. By 2010 he/she had to be in the 10th percentile or above. Mortgage volumes were seen as depressed.

(b) **House building**: OE described a tentative recovery and they anticipated a 10% per annum growth in housing starts though it was seen as likely to decelerate in the mid-decade as credit constraints bit. OE expected the number of starts at the end of the decade to be around where they were in 2007. London and South East were key drivers of the recovery. Planning permissions were edging up and financial constraints on developers were easing. Policy changes were impacting in terms of lower outputs given the abandonment of targets and thus the suggestion that it would take till 2020 to see numbers get beyond 2007 levels.

(c) **Demographics and household formation**: OE noted strong population growth with natural growth outstripping net migration. OE expected net inward migration to tail off over the medium term as compared to the assumptions in the current government projections. As a consequence they expected population growth to slow faster than government estimates. OE assumed household size would continue to fall and thus the number of households would grow in relation to population.

How are these assumptions turning out? In overall terms, OE's view that there would be a slow recovery in 2011 and 2012 building up over the medium term looks optimistic. It was based on earlier predictions that after such a deep recession the economy would bounce back relatively quickly as has happened in past cycles. This seemed to be the case in the immediate period after recession but the economy since then has flat lined mainly because of European uncertainties. It therefore seems appropriate at least to postpone significant improvement.

Taking each of the specific areas above in turn we comment as follows on OE expectations and on subsequent developments:

(a) **Mortgage lending to 2012:** The outturns for 2010 and 2011 in terms of net and gross mortgage lending were £135bn gross and £8bn net in 2010 and £141bn gross and £9bn net in 2011. This pattern was roughly in line with the Bank of England (BoE) credit conditions survey as reported by OE. Updating the figures, in the first two months of 2012 some £20.4bn had been advanced with a CML central forecast of £133bn gross and £5bn net for 2012 (CML, 2011a). The latest Q1 BoE credit conditions survey points to a slight increase in demand for the next three months while lenders expected to supply slightly less funding. Product innovation may help mortgage credit availability to improve slightly over the coming months. Overall, lenders were expecting demand for residential mortgages to ease back across the board in 2012. While there has been an increase in higher LTV loans, funding constraints remain considerable. At the end of March 2012 the government withdrew the 0% rate of SDLT for first time buyers buying homes up to £250,000 and this may depress activity – although this may be offset to a degree by the start in April of the government's Newbuy mortgage indemnity scheme aimed at supporting 95% LTV loans for first time and other buyers purchasing newly built homes under the £500,000 price threshold.

(b) House building: OE was optimistic and talked of a recovery gathering momentum in 2009 and continuing through 2010 and onward. Indeed private sector starts, not seasonally adjusted were 59,990 in 2009, 78,800 in 2010 but then faded slightly to 77,430 in 2011. The Home Builders Federation new housing pipeline report (Q4 2011 published in 2012) described the flow of new residential approvals as 'extremely weak'. Approvals in GB were 109,000 in 2011, 7% down on previous year.

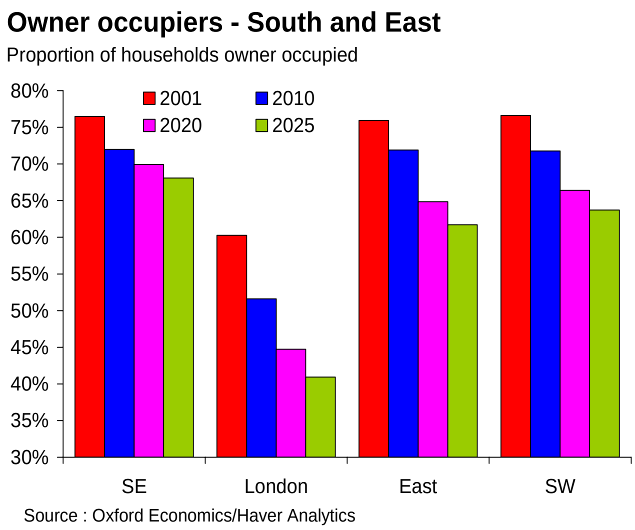
The New Homes Bonus scheme was introduced in April 2011 and is detailed in the House of Commons Note SN/SP/5724. The evidence to date suggests that at best, it has had a modest impact in terms of encouraging new development. The government has been cautious in terms of the data supplied to evidence its impact and there is a mismatch between the collection basis for the NHB –council tax records and more conventional completions statistics published by DCLG. The NHB is paid on any newly registered home on which CT is to be paid – it includes empty homes brought back into use and conversions.

(c) Demographics and household formation: OE noted population growth had been faster than they had predicted (as a result of lower out-migration and more, particularly student, in-migration). However it took the view that this would subside and argued the UK population would grow more slowly than official estimates suggested. In addition OE assumed a continued decline in the number of persons per household which supported their view that households will rise in number by 2.5m from 2011 to 2020. CCHPR has recently completed its own re-assessment of the population and household projections for England to 2026 based on 2008 household projections (Holmans, 2012). This work suggests there is demand and need for over 250,000 net additions to the stock per annum through to 2026, based on rather lower household estimates.

The statistics employed by OE offer up a general view of the housing market as recovering slowly albeit still facing considerable difficulties. Our view, based upon subsequent developments, is that the hoped for recovery has been more limited than expected – notably flat-lining in 2011 and showing very limited growth in 2012. Although the housing market is perhaps performing rather better than the economy as a whole (eg, with lower possession rates) it is still 'struggling'. The rate of recovery is therefore likely to be slower than anticipated. OE assumed that over the coming decade wages would grow by 4% per annum in England in nominal terms and by 4.7% per annum in London, over the period 2012-2020. Again this now looks optimistic. Having said that OE still expected home ownership rates to fall as is evidenced by the chart from the report provided below.

The OE report provides a useful backdrop for the Resolution Foundation and Shelter analysis even though the rate of recovery has been slower than anticipated. Its use is also limited by its limited coverage of housing – for instance with respect to the impact of change on different income and household groups. Our analysis and projections concentrate on increasing our understanding of these differential impacts.

Owner occupation to 2025 the Oxford Economics view



Other forecasts, notably the Office of Budget Responsibility (OBR, 2011) and the HM Treasury comparison of independent forecasts (HM Treasury, 2011) provide estimates of the key macro-economic drivers of the housing market – interest rates, loan to value ratios and income growth. However they provide almost no detail on housing per se except with respect to construction and monetary flows. We have used the OE and other forecasts to help specify assumptions with respect to macro-economic, housing market and mortgage conditions as a basis for the scenarios. All expect interest rate rises and income growth recovery though there is considerable variation around scale and timing. There is considerable uncertainty around what might happen to the loan to value ratio – and little basis for prediction except to the extent that higher mortgage and savings rates should provide more funding.

Taking account of the evidence of 2011 and 2012 to now and the range of forecasts, we have taken relatively pessimistic economic growth assumptions in our weak and cautious recovery scenarios as compared to OE, HMT and OBR models, especially for the next 3 years. Our robust recovery scenario however is somewhat above current mid-point forecasts but by no means out of line with past bounce back recoveries. Overall, our range of assumptions look plausible in relation to the scenarios set out in the relevant OBR and HMT reports and are used with demographic projections to estimate tenure change across a range of household types, income groups and London as compared to the country as a whole.

4. Tenure change in England: looking back, looking forward

Ten key findings stand out from our analysis of the data and projections of trends based on three scenarios. In this section we set out these findings accompanied by figures clarifying past trends and looking forward using mainly the **weak** and **cautious** recovery scenarios. We use these more pessimistic scenarios because they reflect current expectations most clearly and also point to the difficulties that will be encountered were the economy not to bounce back strongly – and thus highlighting the need to develop policy in ways that can make the housing system more resilient.

What is evident at the outset is that simply tracking home ownership as a whole and at the England level masks the realities of changes taking place. As will become evident a serious tenure transformation has been underway for some time, reflecting not only the costs of housing and difficulties of access but also the impact of an ageing population and past housing policies. This is working its way across household groups but differs significantly between London and the rest of the country as well as between income groups and age cohorts. The big question of course is whether this restructuring is a temporary or permanent transformation and, as we show in the projections, this depends very much on the forward trajectory of the economy.

Our ten main findings are:

1. The balance of tenures across England is changing. Within owner-occupation there is a rise in outright ownership and a fall in mortgaged home ownership while, within the rented sector, there are big rises in private renting and falls in social renting.
2. There are large differences in tenure patterns and how they are changing between England as a whole and London in particular, notably with respect to the growth in private renting.
3. Projecting forward suggests these trends are maintained under a weak economic scenario but to some extent the status quo is maintained if cautious recovery assumptions are met.
4. Tenure structures among different household types are much more varied than the aggregate picture, and especially when examined at the London level.
5. Bringing age into the equation shows the emptying out of home ownership in the younger age groups and the growth of outright ownership among older households.
6. Social renting has continued to play a core role in provision especially in London. The implications of any serious reduction in that sector are illustrated under the different economic scenarios.
7. LMI households in England have very different tenure patterns as compared to London. In England ownership has been dominant, although the balance between outright and mortgaged is shifting, while in London social renting has tended to dominate.
8. Trend analysis however points to the continuing growth in private renting among LMI households. This is dramatically portrayed in the weak recovery scenario for LMI households where, in both England and London, the private

rented sector becomes much more important - and dominates other tenures in the latter.

9. Focussing particularly on families with children shows that it is within this group that mortgaged ownership has been maintained in England as a whole while falling in London. Our projections suggest that even under the weak scenario the current pattern in England where home ownership dominates is resilient up to 2025. However, in London major tenure shifts take place with both mortgaged ownership and social renting being overtaken by the private rented sector.
10. Finally, even under the cautious recovery scenario, and to a greater degree under a robust recovery, we see mortgaged home ownership return to near its traditional levels in both England and London

1. The changing balance of tenure in England

Here we consider the changing balance of tenures in England over the period 1993-2010.

Figure 1 gives an overview based on four categories of tenure, owner-occupation split into owned outright and buying with a mortgage; renting split into social and private. While buying with a mortgage has remained the largest sector it has been falling away particularly in the last few years and declined from 43% to 35% over the seventeen year period. Outright ownership on the other hand steadily moved upwards from 25% to 34%. Social housing declined fairly consistently in proportional terms while private renting was rising - and more rapidly since the mid-2000s. In terms of owning versus renting the proportions were around 68% owner-occupation and 32% renting near the end of the decade.

In Figure 2 we break down the rented sector in more detail. Over the period council renting moved from being the third most important tenure to one of the least important, while the core private renting nearly doubled from 7% to 12% (with the trend being particularly strong over the last few years). The other category includes households not classified elsewhere but mainly it comprises non-traditional private renting (rent free/related to employment) which has remained relatively stable at around 2% of all households. The big stories are the rise of outright ownership, the long term decline of council housing and the more recent fall in mortgaged home ownership and that we should note most of all.

Figure 1: Housing tenure (4 tenures), England

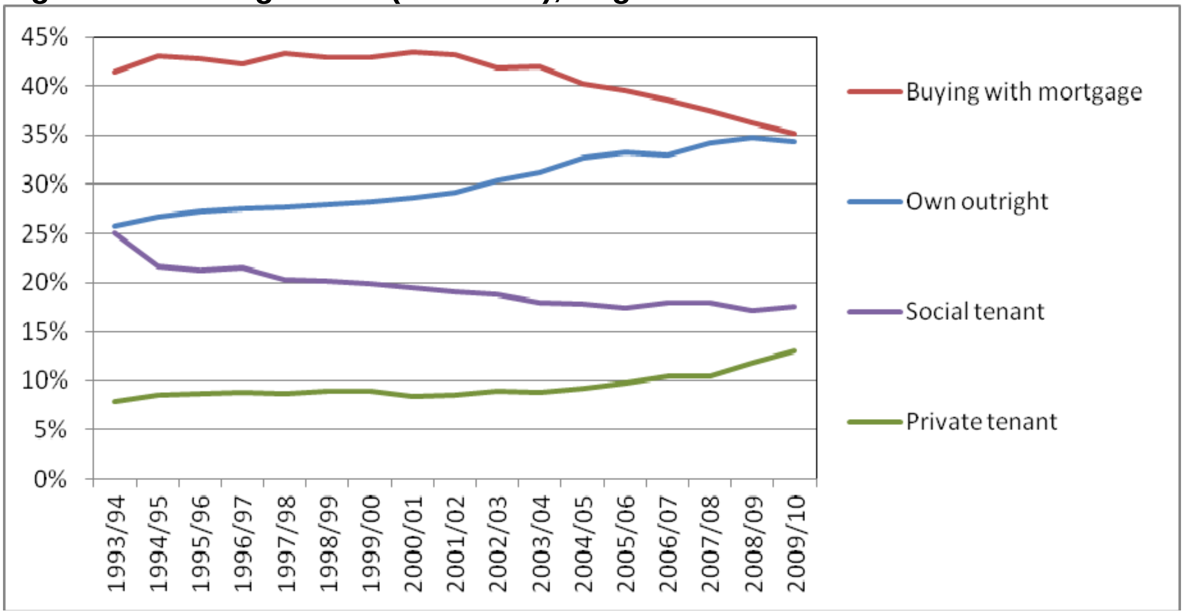
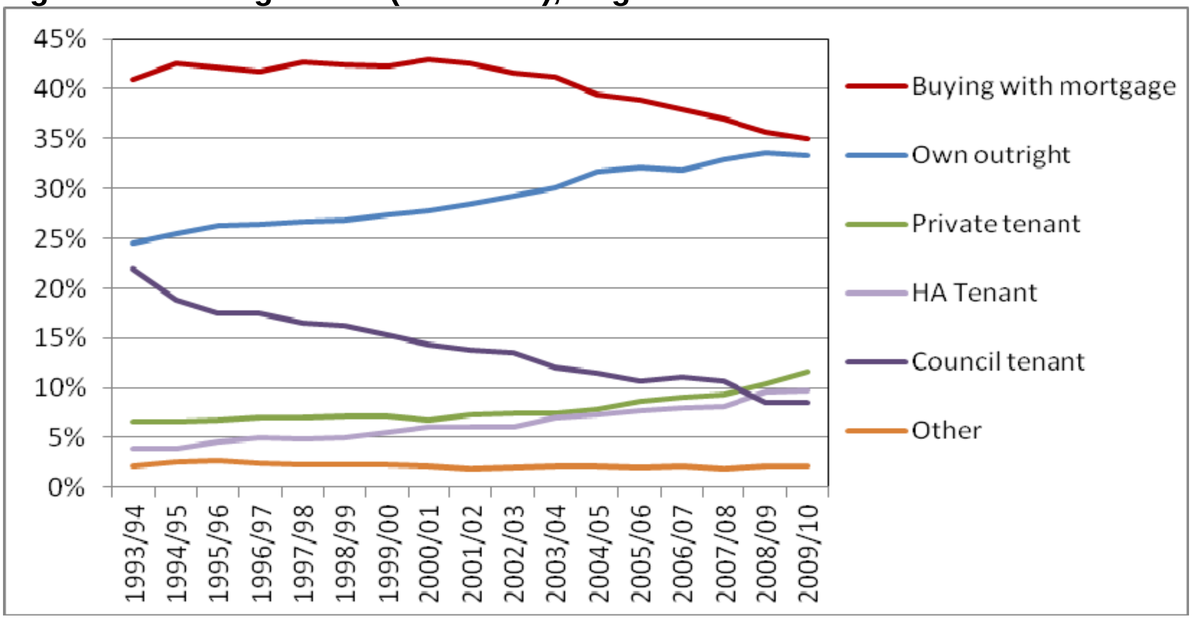


Figure 2: Housing tenure (6 tenures), England

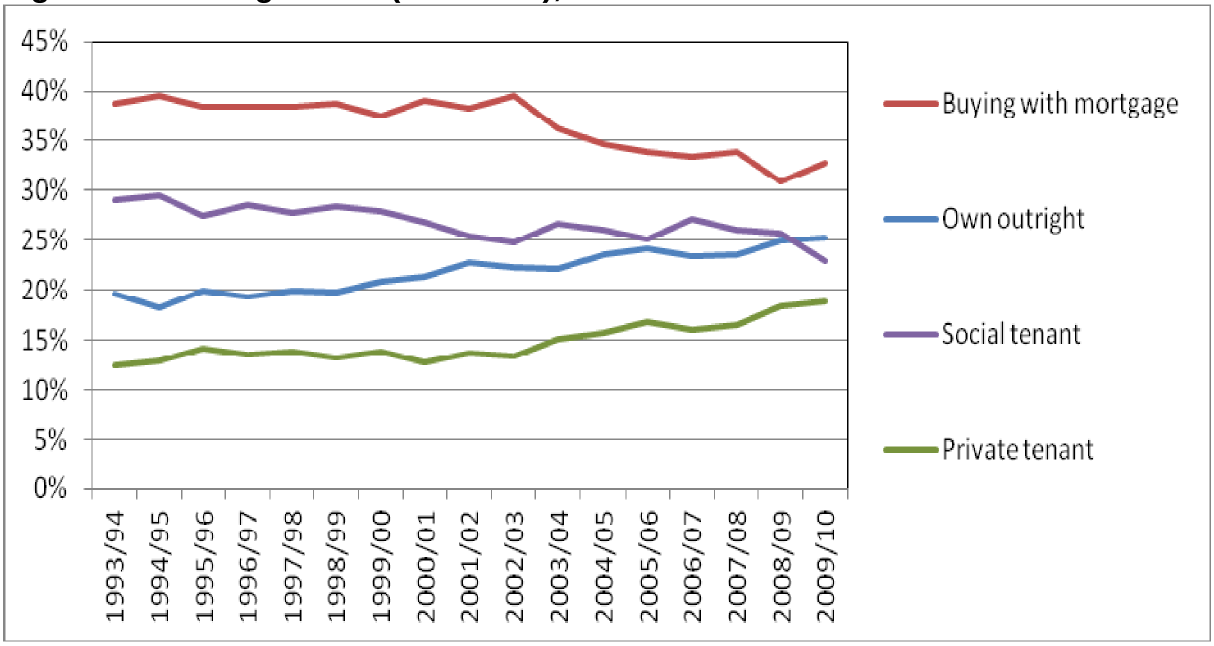


2. A different picture in London

In London, the trajectories are not dissimilar but renting, and especially social renting is far more important as compared to the country as a whole. In Figure 3 it is evident there has been a steady decline in buying with a mortgage after 2002 while outright ownership has slowly risen over the period. Social renting has declined from around 30% to 23% while private renting has risen strongly from 12% to 19%.

Overall owner-occupation is running at around 55% while renting accounts for about 45% of all households – a very significant change from the 68%/32% split at the beginning of the period. If this trend continues tenants will soon outnumber owners with important political, social and economic implications.

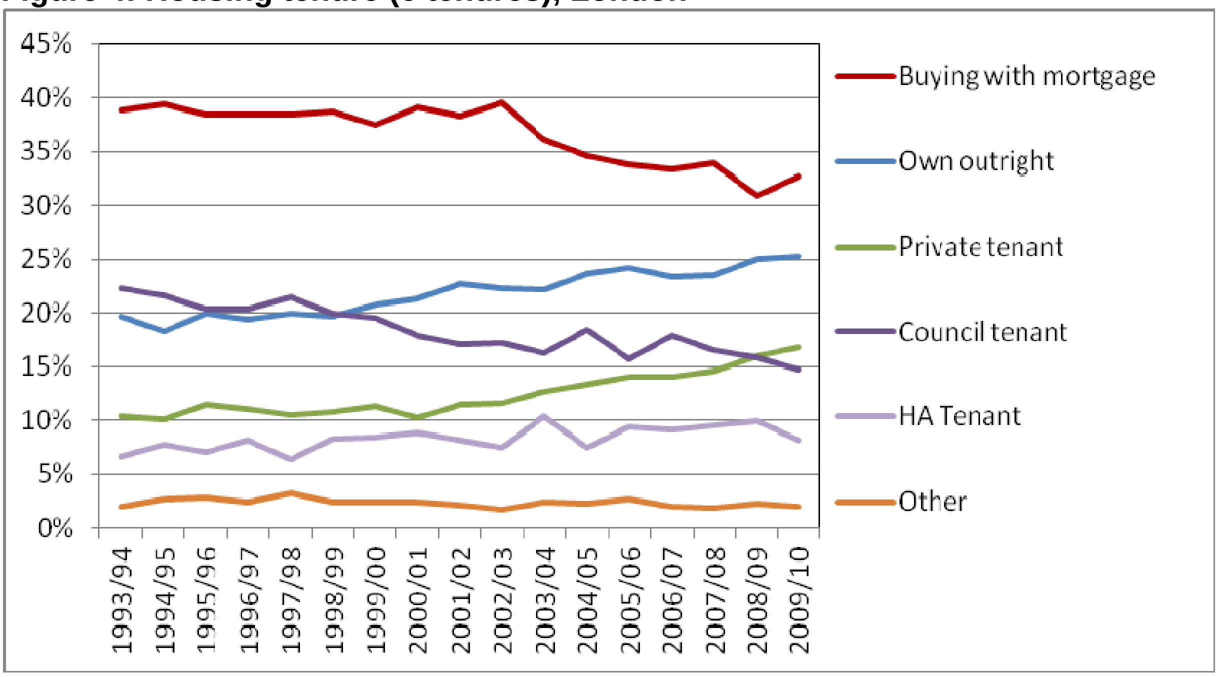
Figure 3: Housing tenure (4 tenures), London



Note: for both figures, the survey results for 2009/10 look out of line with past trends, especially in relation to buying with a mortgage. This in part reflects the smaller sample.

Looking in more detail at the rental split in Figure 4, it is clear that within social housing, council housing is much more important in London than in England. Even so, the decline in council provision has been of the order of 7% of all households and by 2009 it had been overtaken by private renting. Housing association renting showed growth over the period but less than elsewhere in the country. But most importantly private renting in London has been rising more rapidly than in England, growing particularly strongly from 2000. Moreover that growth is probably an underestimate because of the difficulties with the sample in London.

Figure 4: Housing tenure (6 tenures), London



3. Projecting tenure forward in England and London

Here we examine what might happen to households if we project these trends forward. As discussed earlier we have analysed three distinct economic scenarios – weak, where there is no real growth over the whole period to 2025 if anything, worsening credit conditions and a very slow recovery in the housing market; a cautious recovery scenario where only by 2018 is there real economic growth and some improvement in both the mortgage and housing markets – which might be regarded as the currently most likely; and a robust recovery after 2015 rising to 2.3% real growth in 2025. This last would reflect a strong bounce back in the economy – and internationally. For the most part we concentrate on the first two scenarios.

We have, as already discussed, made assumptions about what might happen to the provision of social rented housing (SR; which includes the government's affordable renting programme). Our first scenario is that the social sector remains static in terms of the scale of provision (it therefore inevitably trends downwards –from 18% to 16% over the period to 2025). We then allocate those unable to enter this sector either all to private renting or half to private renting (PR) and half to home ownership (OOm). The second set of assumptions allows for a decline in social rented housing which is consistent with longer term trends and some policy initiatives (discussed in section 2). A third set of assumptions allows the social rented sector to grow by 50,000 homes per annum. The captions to the figures make clear which economic and social sector scenarios are depicted.

Figure 5 sets out what is currently perhaps the expected scenario - the continuing weak economy in England. Mortgaged ownership falls away from 31% in 2012 to 27% in 2025, while outright ownership continues to grow (from around 33% to 35%) as a result of past decisions. Overall ownership falls from 65% to 62%. This is in line with many current commentators' predictions. Private renting rises from 18% to 22%. The social rented stock is held constant in numbers terms and therefore falls from 18% to 16%.

Figure 5: Household projections by tenure (%): England
(Scenario: weak economic recovery; social rented stock: constant; excess SR demand: all to PR)

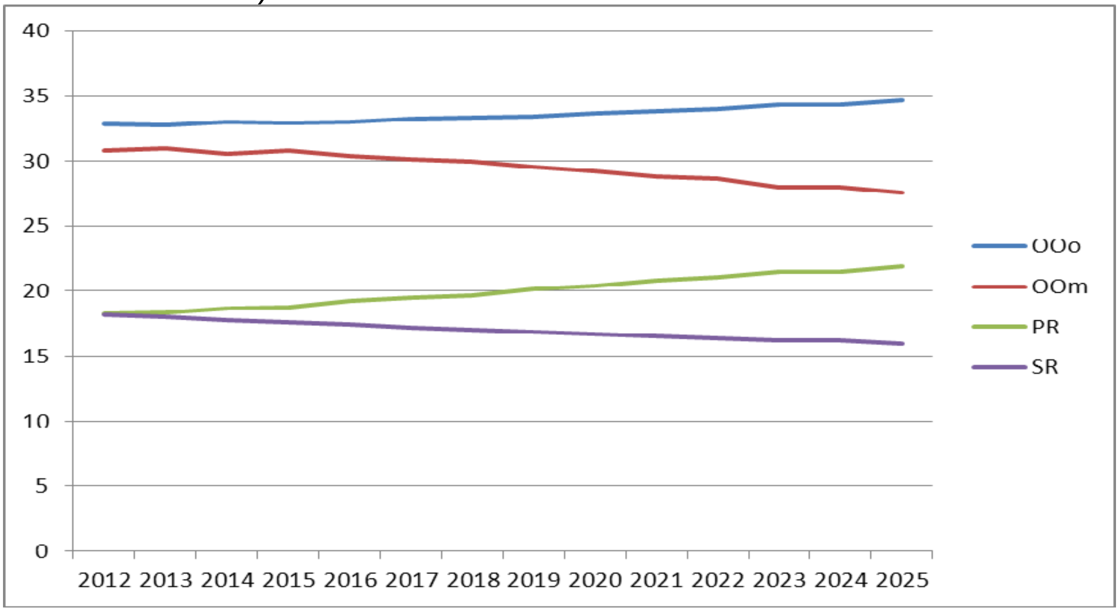


Figure 6 looks at the slightly more optimistic but still cautious view of economic recovery. Then we see mortgaged home ownership, stabilising and expanding modestly from 2014 back to 33% at the end the period. Outright ownership is now above mortgaged ownership and remains roughly stable to end at 32%, initially this is higher than mortgaged homeownership but by the end of the period it is very slightly below. Overall ownership levels rise very slightly from 64% to 65% over the period. Private renting runs roughly comparable to social renting until 2012 and then overtakes social housing as the proportion of social housing falls (remembering it is constrained). Basically, it flat lines to the end of the period when it accounts for 18% of all households.

So a cautious scenario suggests a picture of little change from the current depressed conditions. But there is still suppressed demand so better macro-economic conditions would generate higher levels of mortgaged ownership.

Figure 6: Household projections by tenure (%): England (Scenario: cautious recovery; social rented stock: constant; excess SR demand: all to PR)

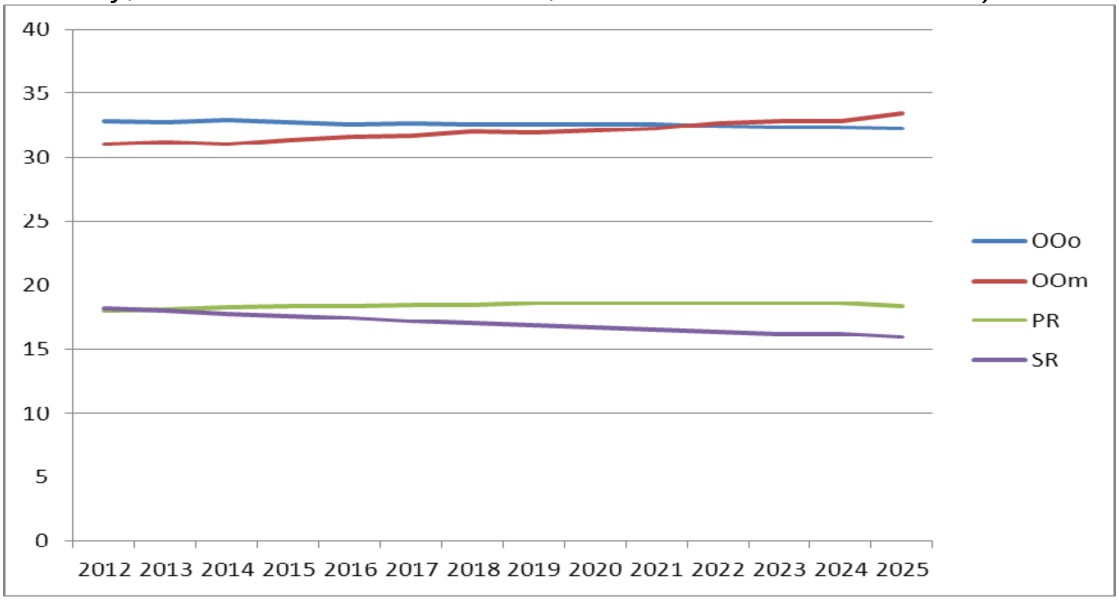


Figure 7 below shows what happens to the weak recovery projection when we change the social housing assumption to growth of 50,000 homes per annum. It has no impact on the decline of mortgaged home ownership but clearly blunts the rise of the PRS. This is even more evident in Figure 8 where under a cautious recovery scenario where that level of maintained growth reverses the rise in the PRS. Even so, allowing for an increase in the social rented stock has less impact on overall tenure patterns than might have been anticipated.

Figure 7: Household projections by tenure (%): England (Scenario: weak recovery; SR stock: increase; Excess SR demand/supply (if projected): adjusted by PR sector

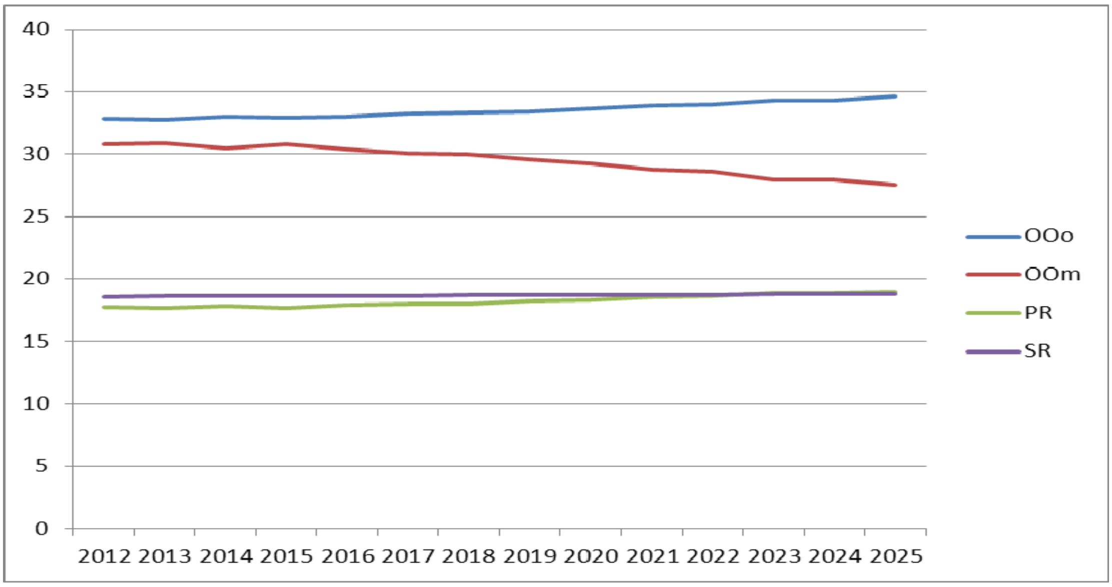
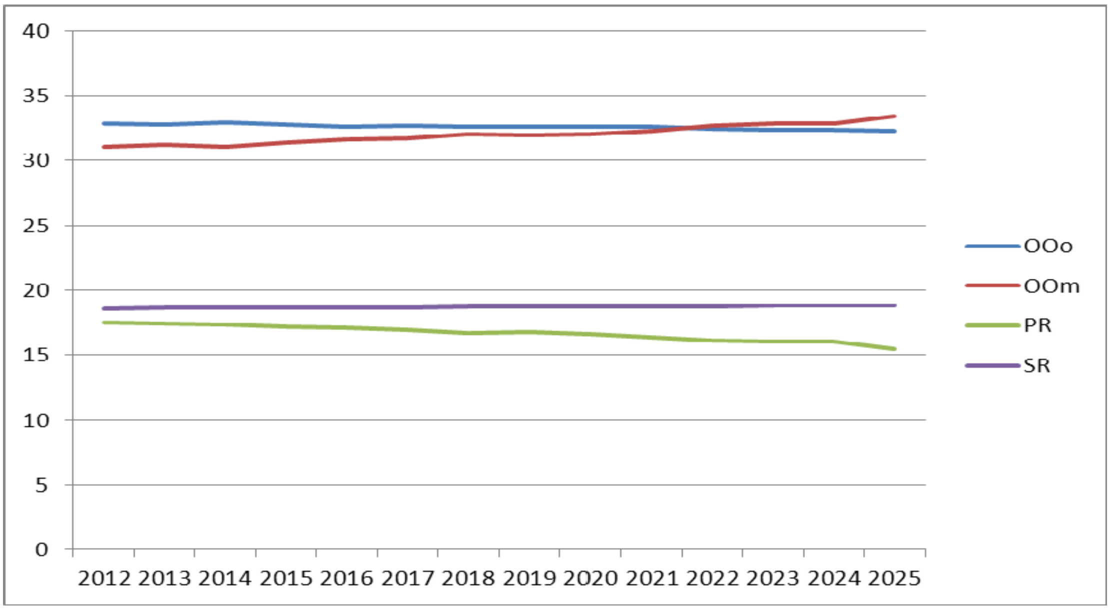
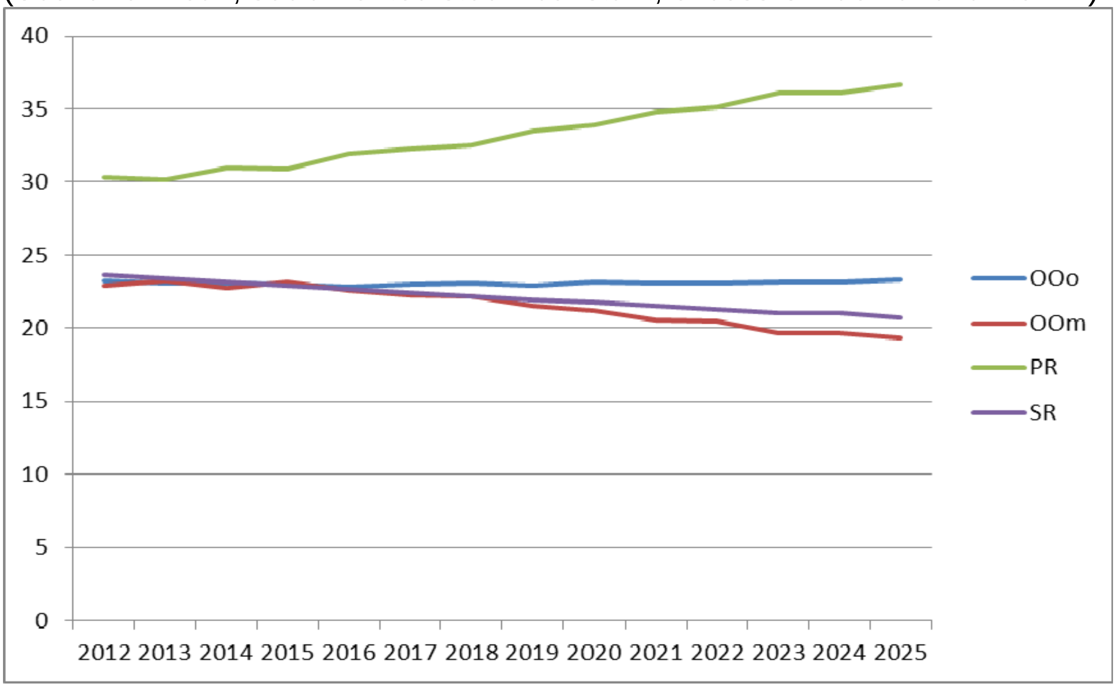


Figure 8: Household projections by tenure (%): England (Scenario: cautious recovery; SR stock: increase; Excess SR demand/supply (if projected): adjusted by PR sector



In London, the picture is far more dramatic given the different balance between tenures at the beginning of the period. In the weak scenario with social housing maintained in numbers terms (Figure 9) even by 2012 it is the private rented sector that is powering ahead and continues to increase from 30% of households to around 37% by 2025. Mortgaged home ownership falls away to 19% (from 23% in 2012) while outright ownership remains constant. London becomes a city of renters.

Figure 9: Household projections by tenure (%): London
(Scenario: weak; social rented stock: constant; excess SR demand: all to PR)



In Figure 10 which is based on a cautious recovery while holding social rented stock constant, we still observe some dramatic shifts. Private renting moves up, from under 24% in 2012 to 29% by 2025, while mortgaged ownership starts to rise from around 24% to 29% in 2025. As such it overtakes private renting in the early part of the next decade. With outright ownership falling very slowly by perhaps 1% to 23%, renting is the majority tenure over much of the period. However, by the end of the period the overall level of ownership in the capital returns to over 50%.

In Figure 11 we look again at the weak economic scenario but allow for an increase in the social rented stock. Although this dampens the rise of the PRS there is still considerable growth in that sector to nearly one third of all London households. However, social and private renting is seen to substitute for one another, reflecting the considerable demand pressures which come into play when home ownership is less accessible.

Figure 10: Household projections by tenure (%): London (Scenario: cautious recovery; social rented stock: constant; excess SR demand: all to PR)

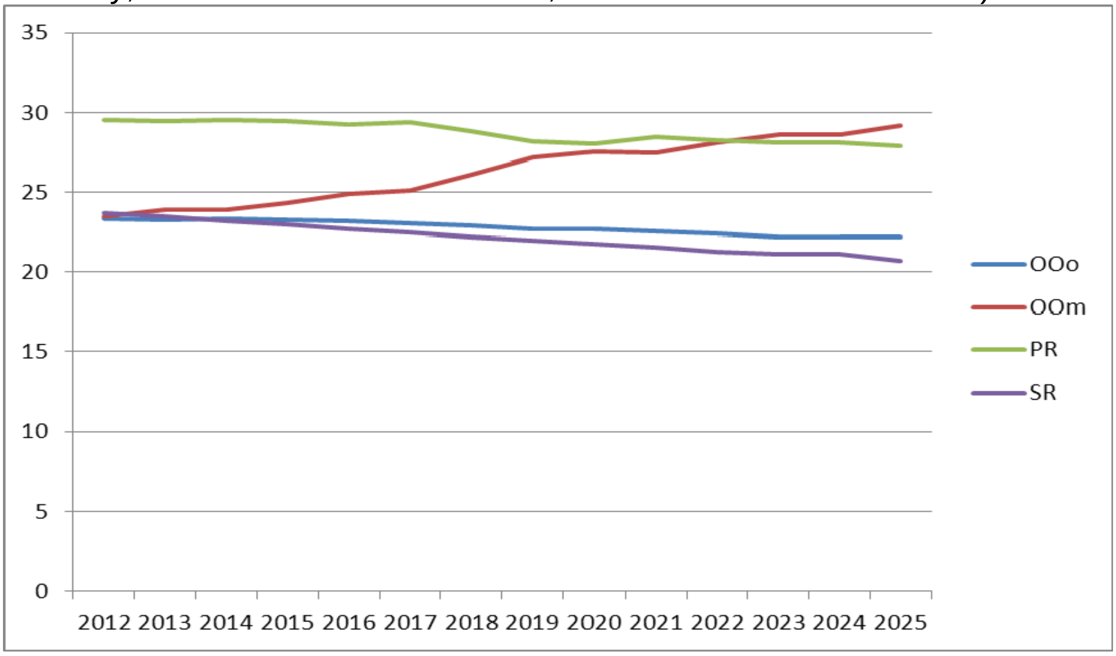
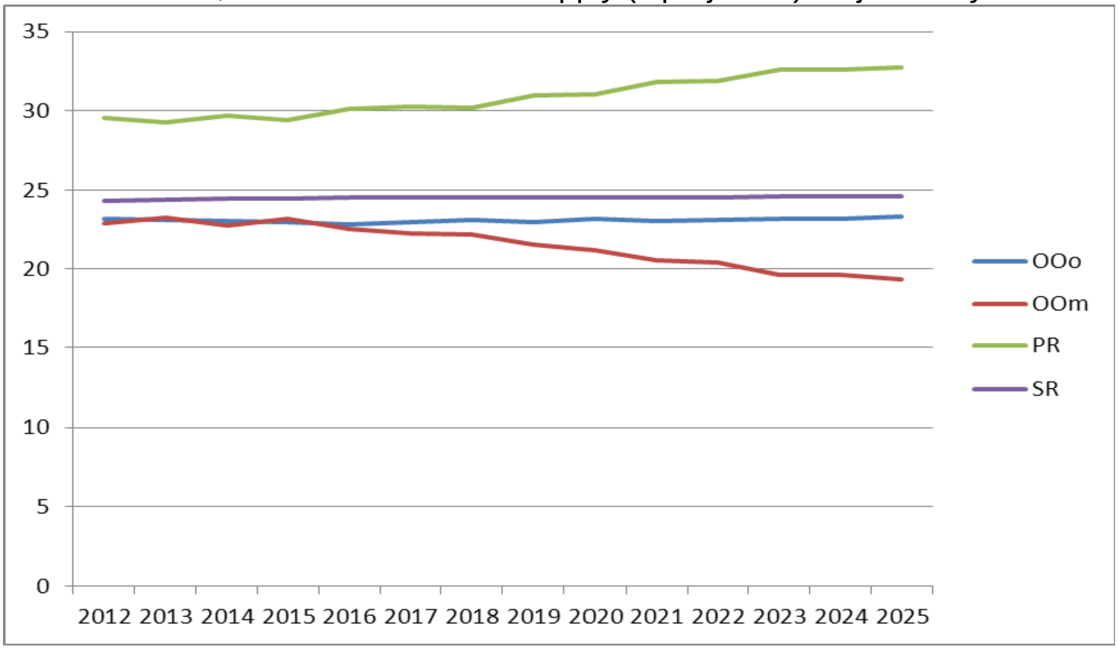
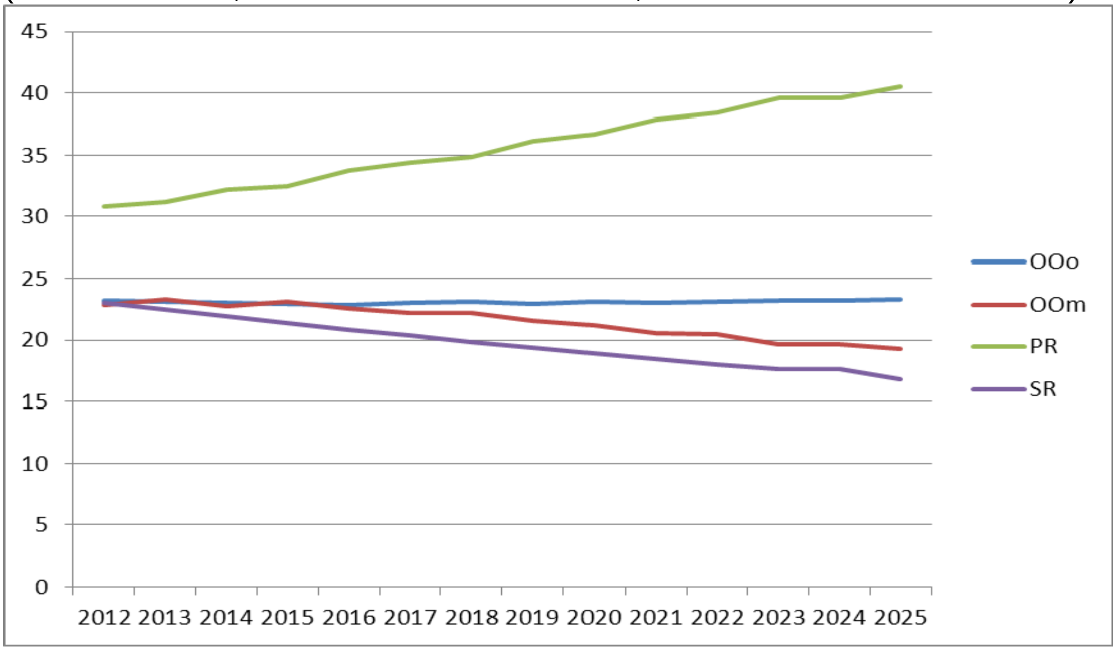


Figure 11: Household projections by tenure (%): London (Scenario: weak; SR stock: increase; Excess SR demand/supply (if projected): adjusted by PR sector)



Finally, figure 12 shows the other extreme, with a declining social sector and all the pressures on private renting. Under this scenario, owner-occupation with a mortgage drops below 20% while more than 40% of Londoners live in the private rented sector.

Figure 12: Household projections by tenure (%): London
(Scenario: weak; social rented stock: decline; excess SR demand: all to PR)



It must be remembered that these are scenarios. What will actually happen will lie somewhere within the extremes and policy and other structural factors will change in response to such massive pressures. But the trajectories are clear. Unless the economy picks up, England and particularly London will be more and more dependent on rented housing. Equally, the worse the economy the more likely it is that this rented housing will be in the private sector.

4. Household type

Over the period, the mix of household types has remained surprisingly static across England over the period except to the extent that the proportion of families with children (and within this perhaps even of lone parents forming separate households) has fallen and, in the survey, accounts for fewer than one in three households.

In London however, the proportion of both families with children and lone parents has remained fairly stable over the period and is now higher than in the rest of the country. This reflects three main demographic trends in London: (i) fewer older households in proportional terms remain in London after decades of outmigration to other regions; (ii) far more households, proportionately, of child bearing age, in part as a result of past immigration; and (iii) a decline especially in the late 2000s in the outmigration of families from London.

Table 3 shows how the majority tenure in England and London varies between household types and the proportions of each household in that tenure. Owning outright dominates among single households and couples without children – because these groups are themselves concentrated among older households. The majority of couples with children are buying with a mortgage – although in London it is only just in the majority, at 53%, as compared to 2 in 3 in England overall. For lone parents, social renting is the most important tenure, especially in London.

Table 3: Dominant tenure by household type 2008/09

Household type	Dominant tenure	Proportion in the tenure England %	Proportion in the tenure London %
All households	**Buying with mortgage**	36	31
Single person	**Owning outright**	40	32
Couple with no children	**Owning outright**	50	40
Couple with children	**Buying with a mortgage**	66	53
Lone parent	**Social renting**	44	56

Source: SEH/ EHS

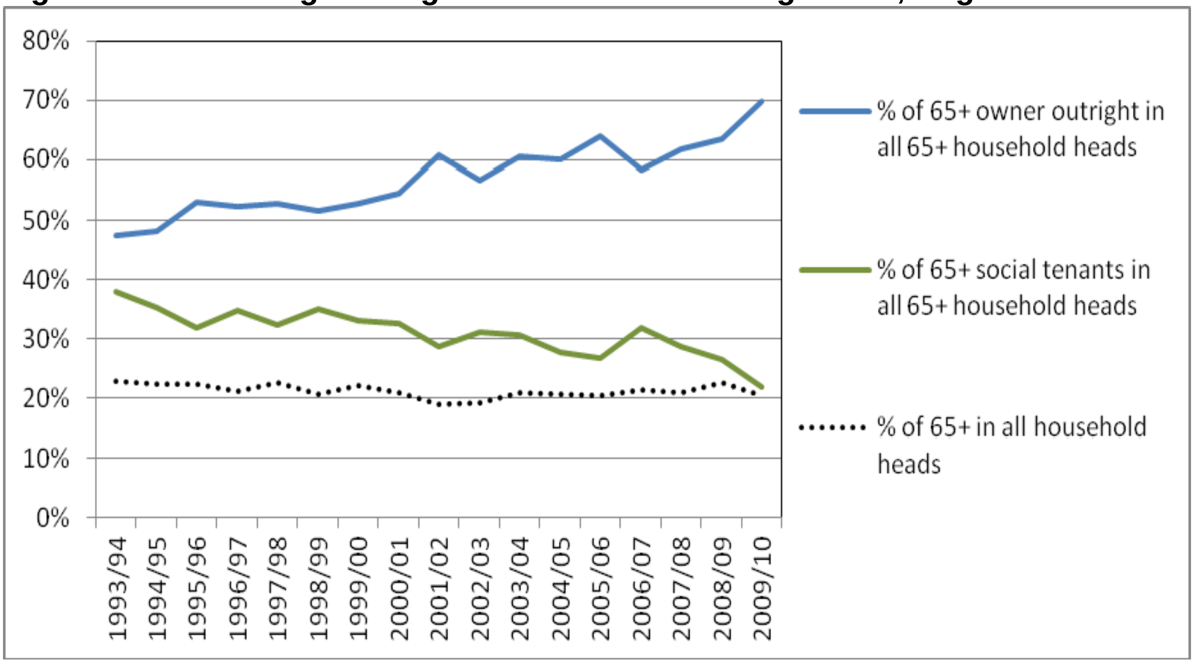
Table 4: Buying with a mortgage by household type

Household type	England %		London %	
	1994/95	2008/09	1994/95	2008/09
Single person	21	20	25	23
Couple no children	40	33	42	31
Couple with children	66	66	60	53
Lone parent	28	26	23	18
All households	43	36	39	31

Source: SEH/ EHS

Looking particularly at the trends in buying with a mortgage we again find very different patterns between household types (Table 4). In England as a whole the proportion of couples with children buying with a mortgage has remained surprisingly constant over the period – while in London it has fallen. On the other hand, the proportion of couples without children who are buying has declined right across the country – reflecting both the growth in outright ownership and difficulties in buying. In this context, Figure 13 clarifies that the shift from mortgaged to owned outright over the period is far more an outcome of tenure shift among older households rather than any increase in the proportion of older households in the population. Indeed the proportion of older households has remained stable over the whole period.

Figure 13: Percentage change in household head aged 65+, England

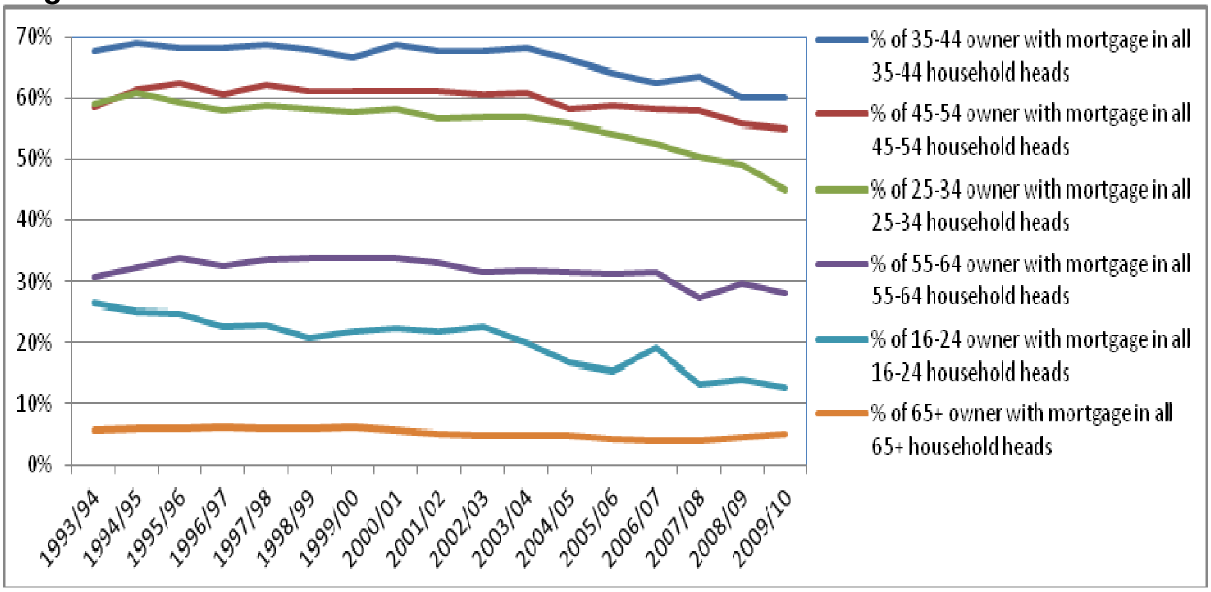


5. The decline of mortgaged home ownership by age band

The evidence suggests an age cohort effect. In Figure14 we therefore look at the change in tenure by age band over the 17 year period. We can see that the level of mortgaged ownership in each age band has changed in very different ways with some remaining stable and others declining sharply. The biggest falls are in the 35-

44 age band (down from a peak of 69% to 60%), and particularly 25-35 year olds (down from a peak of 60% to 45%) and 16-24 year olds (down from a peak of 27% to 13%). These are very significant shifts in a 17 year period and, given the age bands involved –the three youngest groups, this has implications going forward as to the level of home ownership overall. Two further points to stress – first this refers to England as a whole rather than a particular region which reinforces the significance of the finding and second, while it is possible for mortgaged home ownership rates to recover (NHPAU, 2009), tightening access to credit might mean that such a catch up is never achieved by this or subsequent generations.

Figure 14: Household heads, owning with mortgage, by age group (%), England



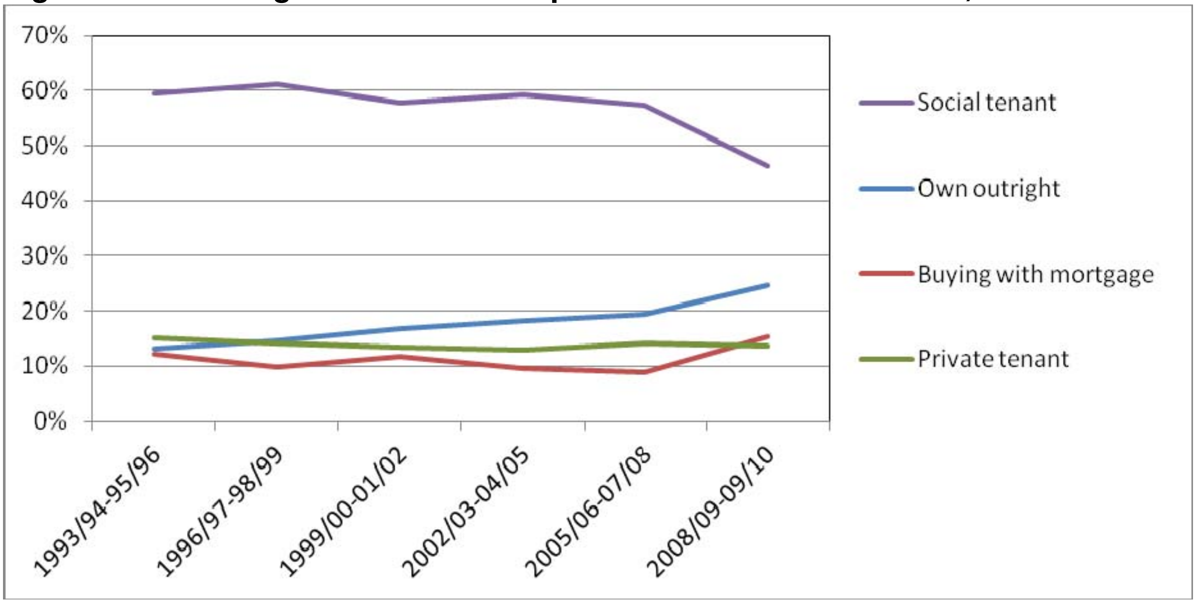
6. The erosion of the role of social renting

We have already touched on this issue under findings 1 and 2 and Figures 1-8 but we return to it here to underline the issue. The trends show that the importance of social renting has fallen across the country. But the biggest story with respect to social housing is in London where social, and particularly council, renting is still very important.

To give a little more detail, Figure 15 shows how social housing has in the past been accommodating around 60% of London households in the lower quartile of the income range and still provides for almost half of all such households. This compares with around 1 in 3 such households in England as a whole. One reason for this is that poorer households in London tend to be younger – so, as we have already noted, there are far fewer outright owners, a sector which elsewhere in the country includes larger numbers of poorer households.

Evidence presented below under the findings on households with children (finding 7) and LMI households (finding 8) reinforces the point that social housing still pays a mainstream role in the London economy for a wide range of households who need assistance with their housing costs.

Figure 15: Housing tenure of lower quartile income households, London



Social renting is a key factor in London's competitive position and not least in relation to its very substantial service based sector. Its role is very different dependent on investment in social provision and on the state of the economy (see Figures 9 – 12 for different scenarios). In particular, were social housing to decline and all households who might have been housed there accommodated in the private rented sector, then the impact on both sectors is very considerable.

Policy has tended to see social housing as a problem rather than a solution. But the much higher rents in London's private rented sector will impact on both wages and competitiveness as well as on the housing benefit bill. The question here is what might the consequences of the projected decline be and if social housing is as important as we suggest what might be done to sustain its role? Figure 11 suggests that even allowing for an increase in the social rented sector the demand pressures for that sector along with the extra demand generated by the contraction of mortgaged home ownership are such that the PRS still grows significantly.

7. Families with dependent children

Helping hard working families sits at the heart of the government's stated policy aims. This group includes couples and lone parents with dependent children but also multi- adult households where there is also one or more dependent children. In Figures 16 and 17 under the weak scenario, we look ahead to see how families with dependent children might fare over time in England overall and London in particular.

In England, mortgaged home ownership among families falls away from just under 50% to 47% and private renting edges into second place over social renting. In London we see a sharp decline in mortgaged home ownership –from32% to 27% and a sharp rise in private renting from 25% to 33%. London thus sees the beginning of a tenure transformation for this group of households.

Figure 16: Household projections by tenure (%): Families with dependent children; England (Scenario: weak; social rented stock: constant; excess SR demand: all to PR)

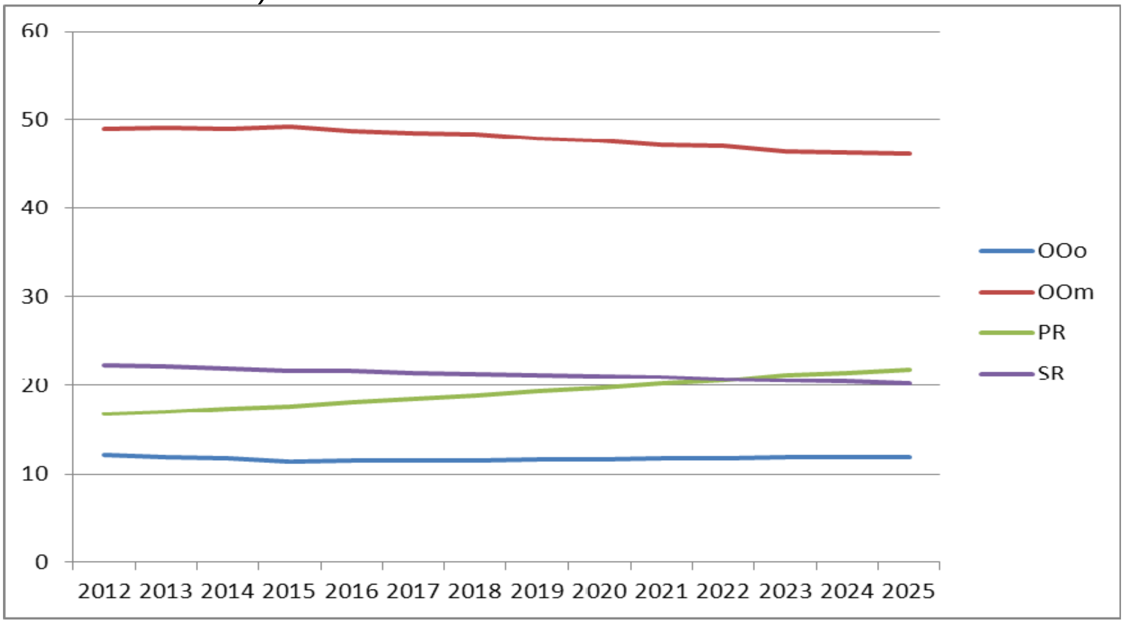
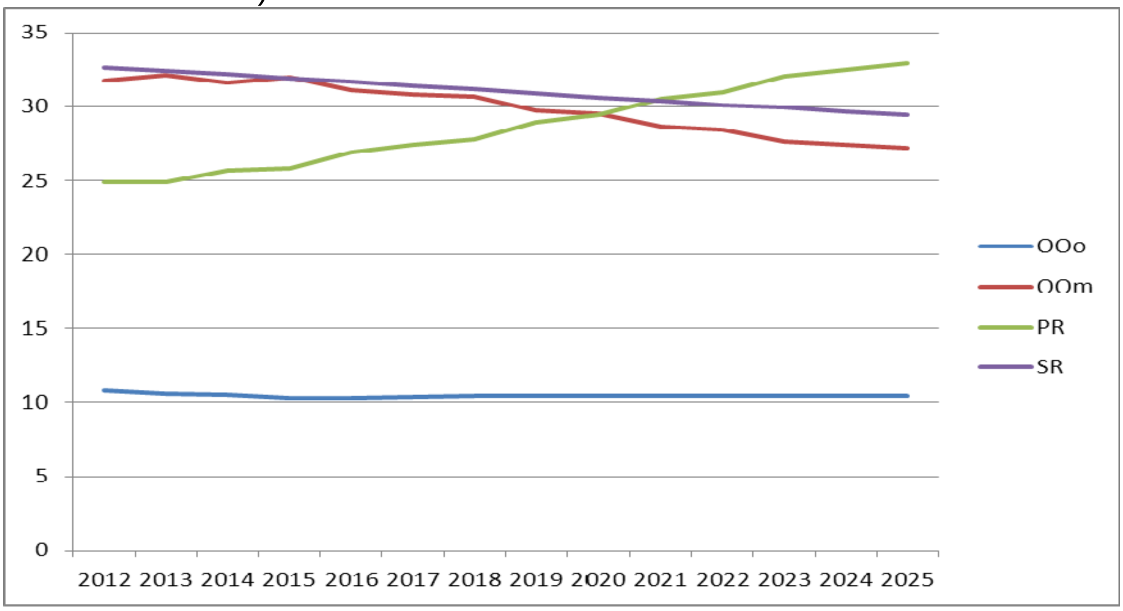
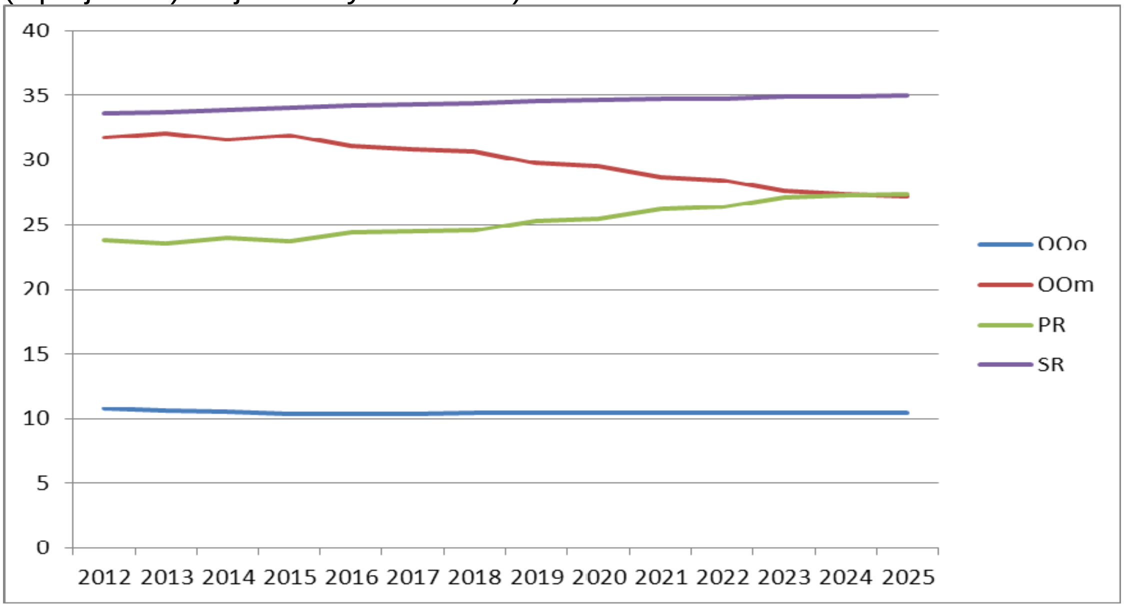


Figure 17: Household projections by tenure (%): Families with dependent children; London (Scenario: weak; social rented stock: constant; excess SR demand: all to PR)



In Figure 18 again under a weak economic scenario for London we relax the assumption about a contracting social rented sector and allow for this to grow. The social rented sector grows a little from 33% to 35% and is continuously above all other sectors. On the other hand, mortgaged home ownership continues to fall but private renting grows to house considerably more than one in four households.

Figure 18: Household projections by tenure (%): Families with dependent children; London (Scenario: weak; SR stock: increase; Excess SR demand/supply (if projected): adjusted by PR sector)



In Figure 19 we see the impact of the rather more positive but still cautious central scenario - and where half of the excess social demand goes to owner-occupation, probably a more likely outcome given the government's emphasis on supporting the tenure. Under this scenario owner-occupation with a mortgage grows relatively rapidly in England back up to nearly 60%. This is consistent with the evidence over the last decade when mortgaged ownership held up relatively well among family households. Figure 20 shows the same scenario for London where higher incomes, assistance into owner-occupation and declining social renting lead to a quite rapid reversal of the decline in mortgaged ownership. Even so, this group still accounts for fewer than 50% of households.

Figure 19: Household projections by tenure (%): Family with dependent children; England (Scenario: cautious; social rented stock: decline; excess SR demand: half each to PR and OOm)

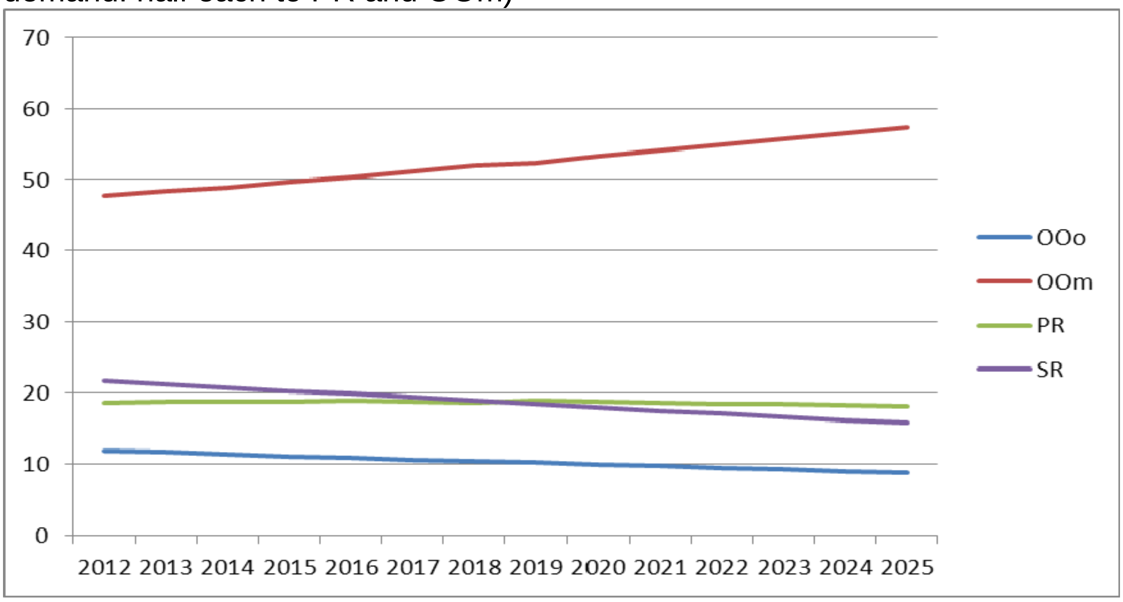
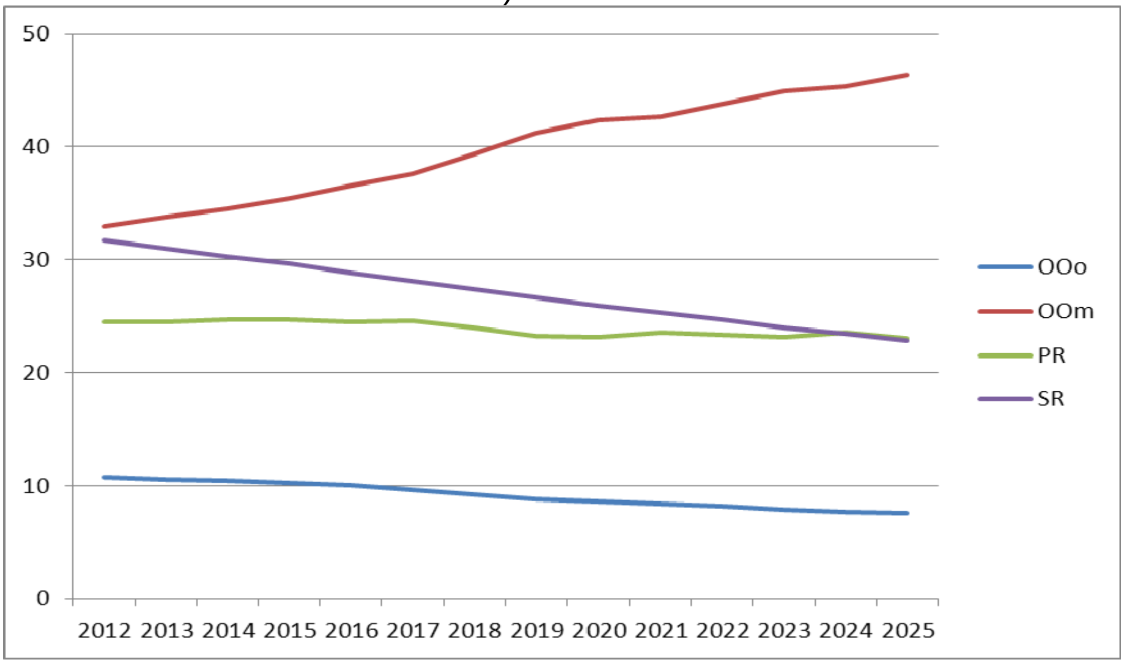


Figure 20: Household projections by tenure (%): Family with dependent children; London (Scenario: cautious; social rented stock: decline; excess SR demand: half each to PR and OOm)



8. LMI Households

Of particular importance in tenure restructuring is how those in the lower part of the income spectrum are faring and here we use the Resolution Foundation's grouping of 10% to 50% of income as constituting low to middle income households (LMI). Additional lower quartile analyses are given in Appendix A. At this LMI household level it is clear from Figure 21 that, in England, social housing was extremely important to this group of households at the start of the period but by the 2000s this dominant position was under 'challenge' from outright ownership. Here we can see the impact of the Right to Buy in driving up outright ownership (and conversely bringing down social renting). Buying with a mortgage remains stable at around 22/23% but renting from private landlords shows a slow rise, accelerating in the second half of the 2000s. In London social housing remains crucial for LMI households and is the dominant tenure (Figure 22; 47% at start of period in the early 1990s down to 43% at the end of the first decade of the 2000s).

Figure 21: Tenure of LMI households, England

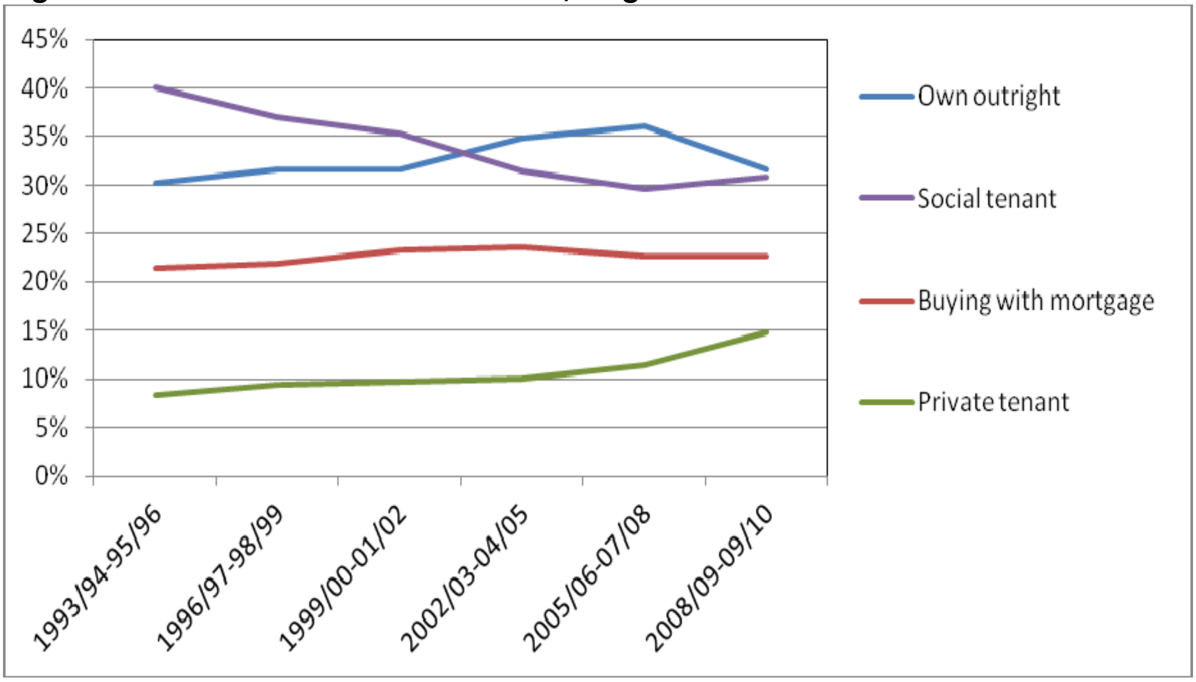
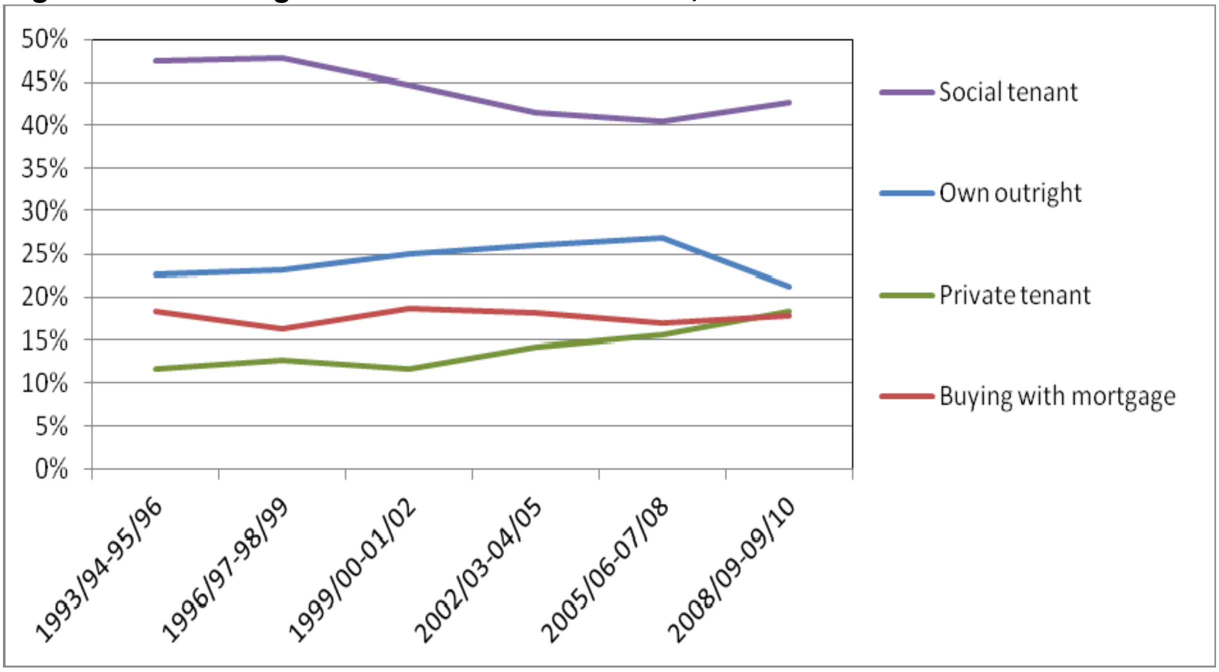


Figure 22: Housing tenure of LMI households, London



Projecting these trends forward we see in Figures 23 and 24 that in a weak economic scenario in both England and London the social rented sector continues to play a vital role for LMI households, while mortgaged home ownership falls away. Somewhat surprisingly, the private rented sector in England shows little growth over the period in proportionate terms, while owning outright rises as a result of cohort effects to become the largest sector for this group. Social renting is almost stable. In London the role of the social sector in housing around 45% of all LMI households is maintained. Those who would have expected to buy with a mortgage are mainly in the private rented sector.

Figure 23: Household projections by tenure (%): LMI households; England
(Scenario: weak; social rented stock: constant; excess SR demand: all to PR)

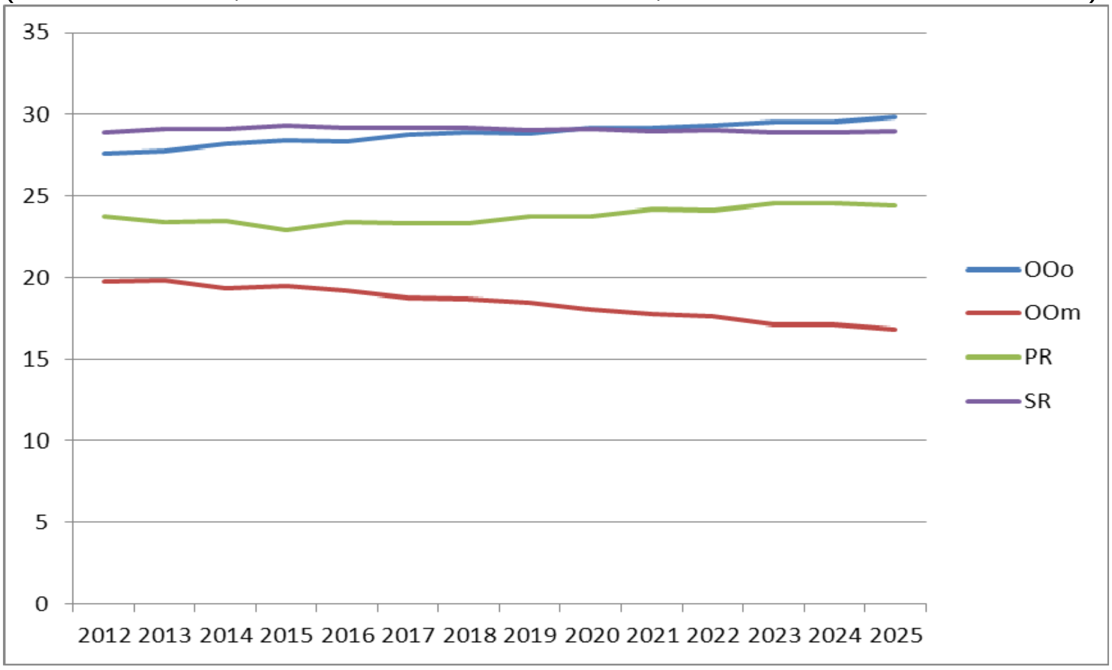
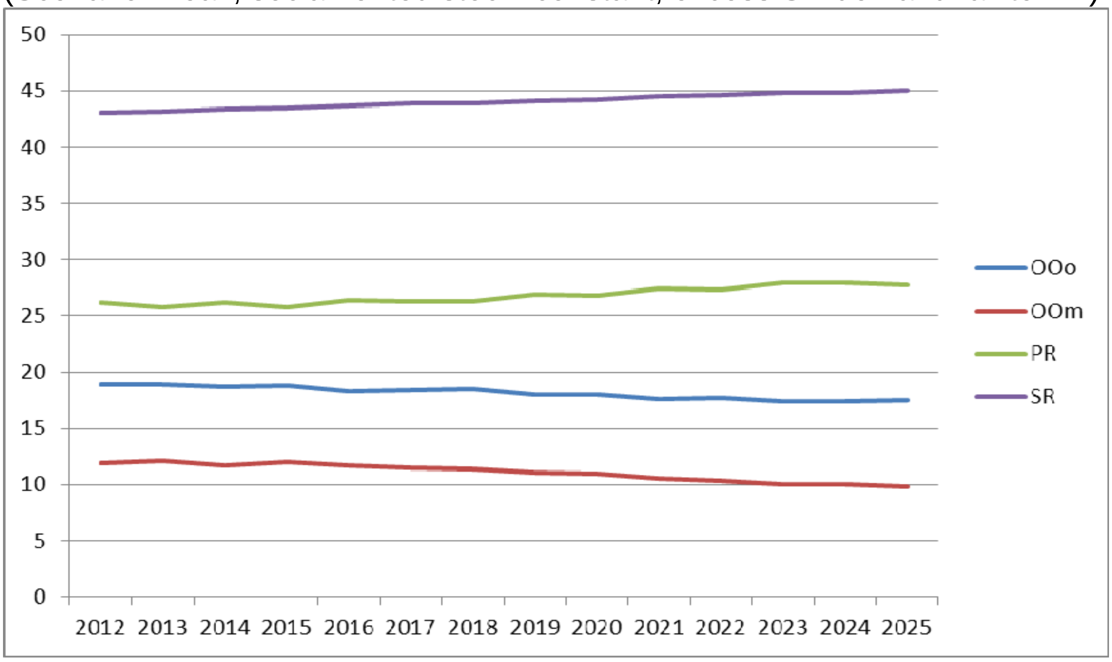


Figure 24: Household projections by tenure (%): LMI households; London
(Scenario: weak; social rented stock: constant; excess SR demand: all to PR)



9. The increasing dominance of private renting for LMI households under certain scenarios

As is clear much turns on the path of any economic recovery. Figure 25 illustrates another possibility with a weak scenario but with a declining social renting in England. Private rented sector increases, most notably after 2017, to around 27% in 2025. Outright ownership holds up but mortgaged ownership falls away from 20% to only 17% of all households. However, in Figure 26 with a relaxation of the assumption regarding social renting and instead allowing for an increase, we can see a sustained social rented sector and a reduction in the growth of the PRS especially later in the period.

In Figure 27 on London, we see a similar fall in mortgaged home ownership and a dramatic rise in private renting. But even with social housing in decline it still remains the largest tenure until 2025 – although probably not for much longer. By then private renting accommodates over 35% of all LMI households in London.

Figure 25: Household projections by tenure (%): LMI households; England
(Scenario: weak; social rented stock: decline; excess SR demand: all to PR)

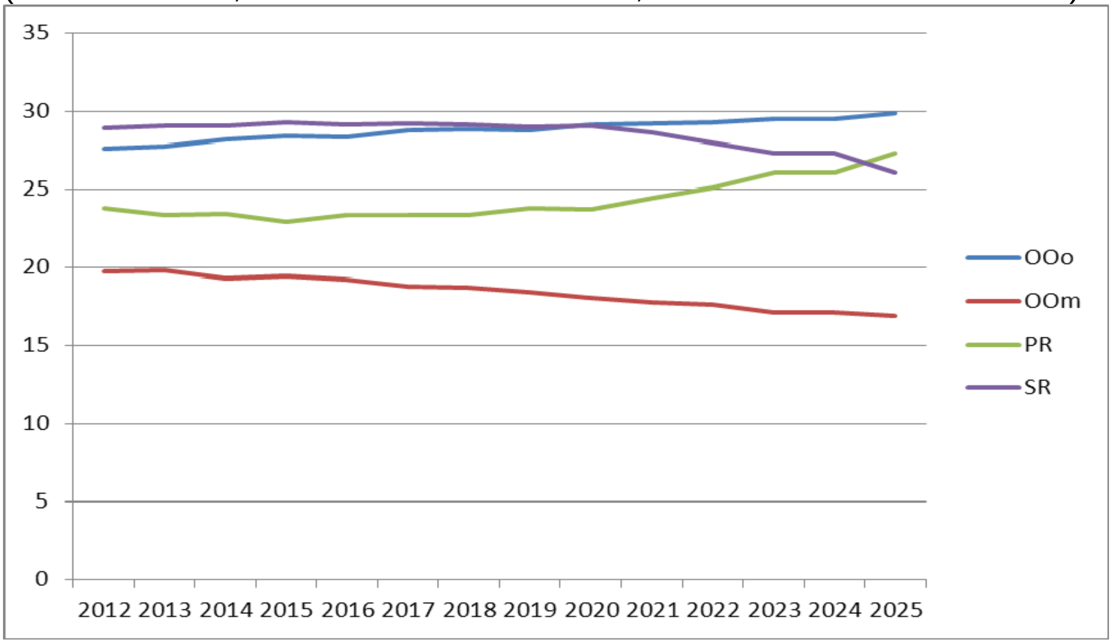


Figure 26 : Household projections by tenure (%) LMI Households; England
(Scenatio: weak; social rented stock : increase; Excess SR demand (if projected): all to PR)

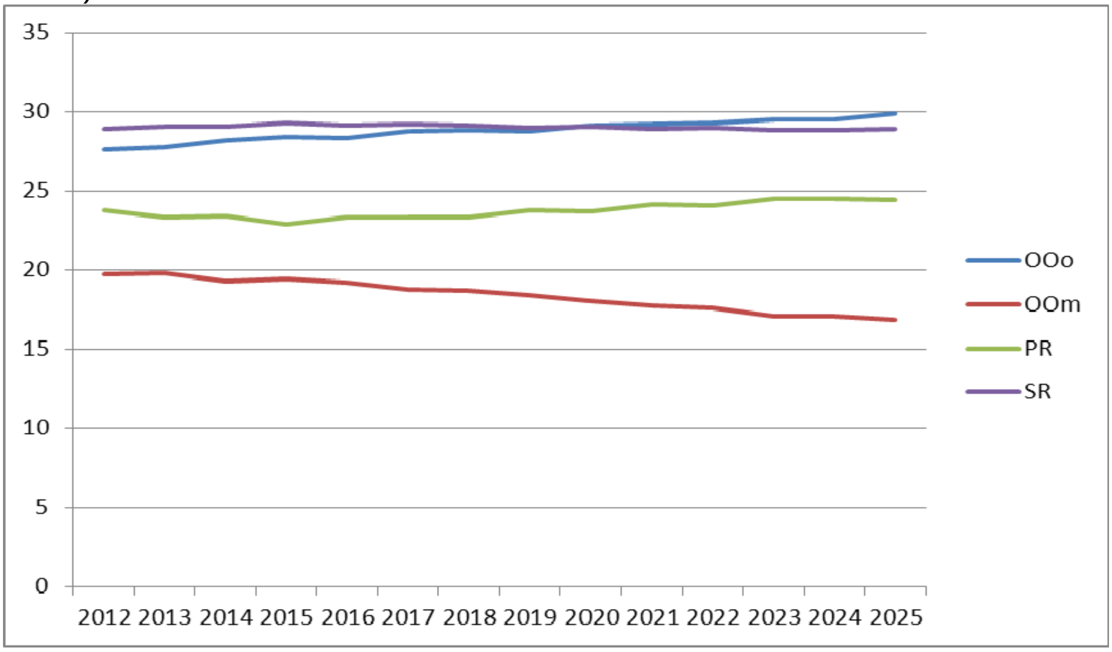
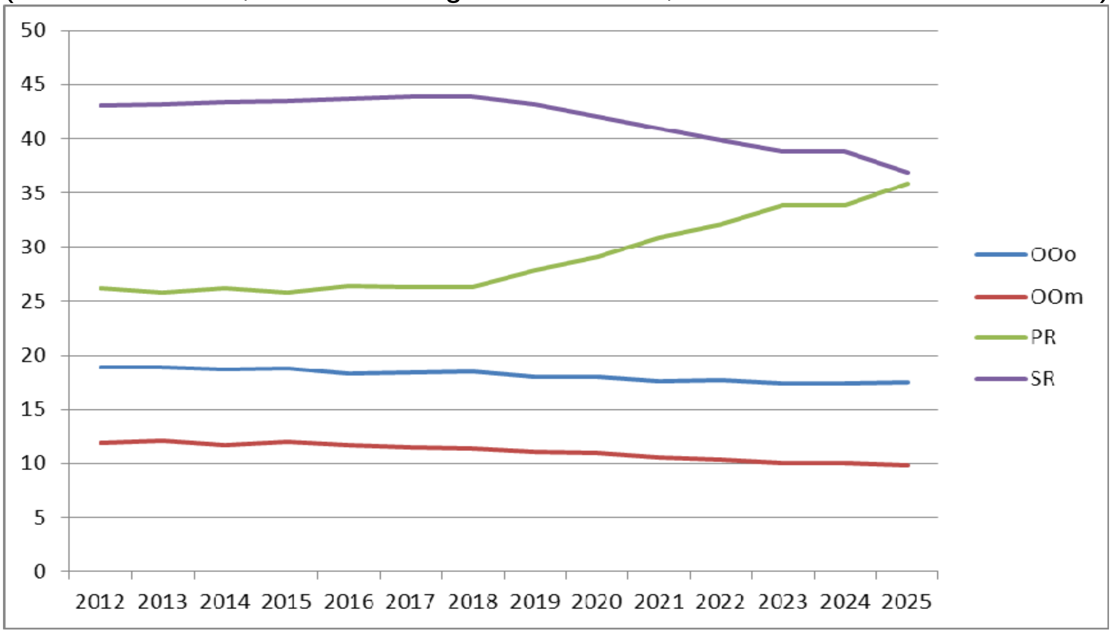


Figure 27: Household projections by tenure (%): LMI households; London
(Scenario: weak; social housing stock: decline; excess SR demand: all to PR)



Figures 28 and 29 take this a stage further by looking at LMI households with dependent children in England and London. Social renting falls away, both in the country as a whole and in London - in England down to below 30% and in London to 42%. At the same time the PRS rises by 5% across the country and by more than 10% in London. Importantly, although these are LMI households, the proportion of children in London with parents in this group is higher at around 50%.

What these weak economic recovery scenarios show is that declines in social housing could dramatically increase the dependence on private renting among lower income households, who remain excluded from owner-occupation. As a result more than one in four family households on lower incomes could be private tenants and more than a third of such households in London could rent privately. We will return to the policy implications this may have in section 5.

Figure 28: Household projections by tenure (%): LMI households; families with dependent children; England (Scenario: weak; social rented stock: decline; excess SR demand: all to PR)

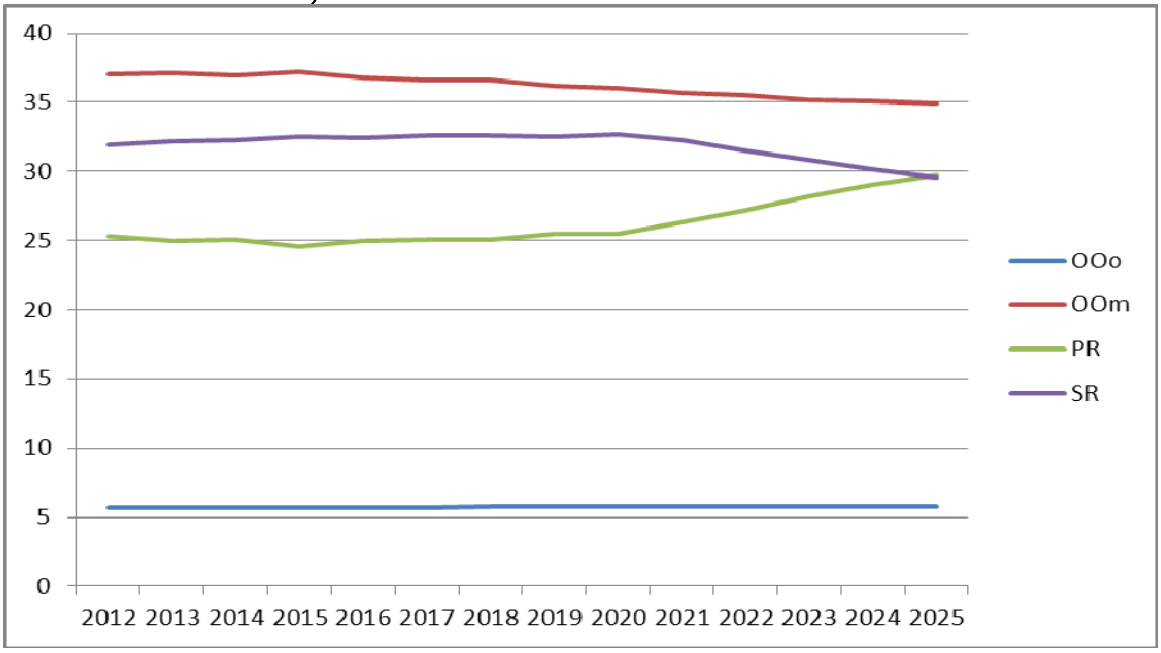
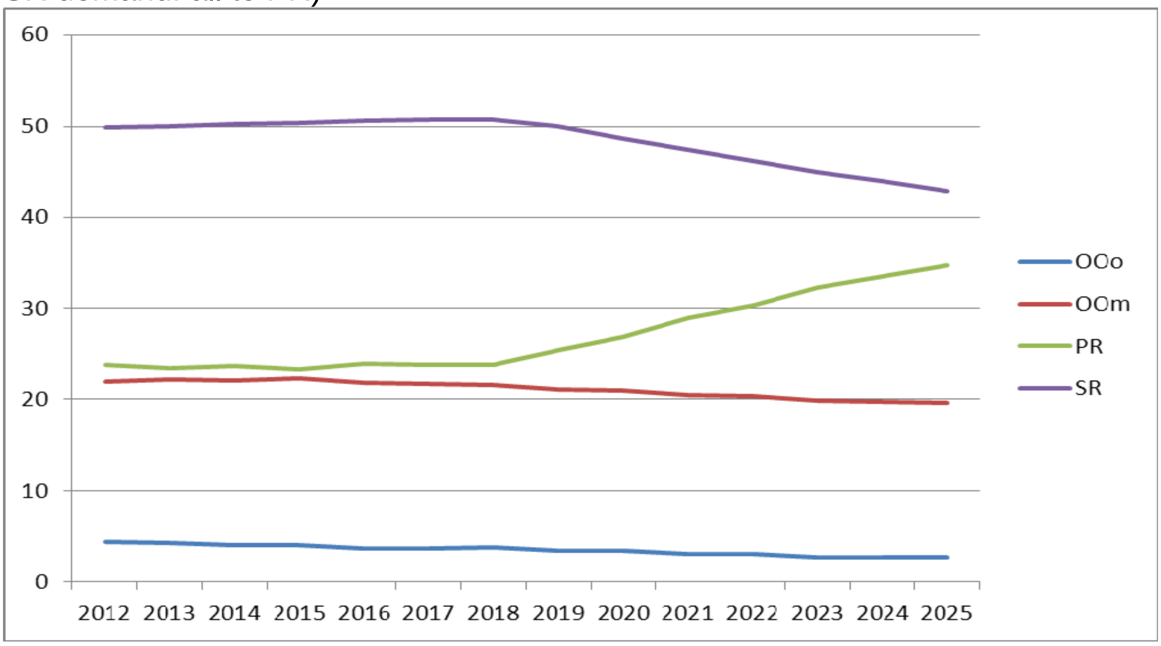


Figure 29: Household projections by tenure (%): LMI households; families with dependent children; London (Scenario: weak; social rented stock: decline; excess SR demand: all to PR)



10. But there's another story?

Even under our cautious scenario which is still modestly gloomy compared to some forecasts, the decline in buying with a mortgage and the increase in private renting starts to reverse as the economy 'improves' towards the end of the period. Under the robust scenario by which real income growth starts to kick in at the end of the decade, owner-occupation with a mortgage returns to centre stage. Equally if we assume that the social rented sector declines, some households who would otherwise have been social tenants become owner-occupiers (for instance through Right to Buy) this changes the picture with respect to tenure mix.

If we assume some transfer to owner-occupation instead of assuming that all excess social housing demand moves into private renting, under the cautious scenario we see significant growth in mortgaged ownership back above levels observed in the late 2000s while private renting falls slowly back to 17% in England (Figure 30). In London we also see mortgaged home ownership recover steadily under the cautious scenario to become the most important tenure while private renting by the end of the period houses almost one in four of all Londoners (Figure 31).

Figure 30: Household projections by tenure(%): England (Scenario: cautious; social housing stock: decline; excess SR demand: half each to PR and OOm)

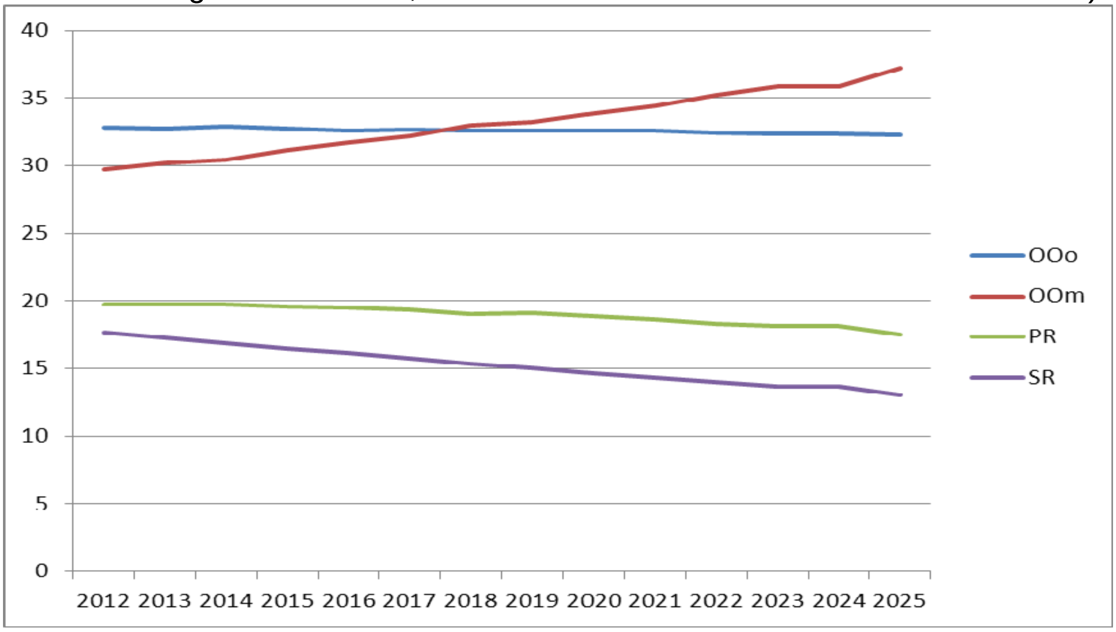
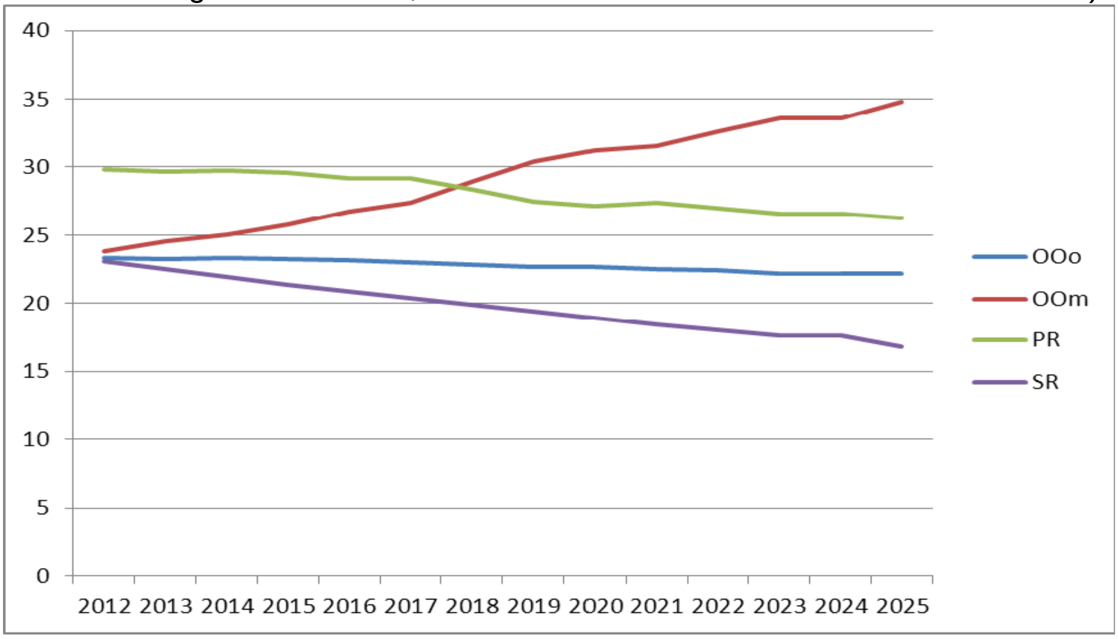


Figure 31: Household projections by tenure (%): London (Scenario: cautious; social housing stock: decline; excess SR demand: half each to PR and OOm)



Under the robust economic scenario these trends are reinforced (Figures 32 and 33) In England 44% of household become mortgaged owners, resulting in an historically high overall owner-occupation rate of 72% – although this is still well below that predicted by government in the mid-2000s. Private renting is then neck and neck with social renting, at 14% of households in both tenures. In London the pattern is similar, but with a sharper rate of increase in mortgaged owners to some 47% of all Londoners at the end of the period and an owner-occupation rate of 66% while private renting falls back below 20%.

These scenarios clarify how much tenure structure depends on two distinct factors – the economy and housing policy. If the government emphasises owner-occupation through a range of policy measures and these policies are underpinned by a robust economic recovery owner-occupation could return to more ‘normal’ levels even if credit remains tighter than in the past (although easier than at the present time). But a resilient housing policy, ie, one which would be sustainable through the economic cycle, would place most emphasis on ensuring that a decent affordable home can be found in all tenures at all times.

Figure32: Household projections by tenure (%): England (Scenario: robust; social rented stock: decline; excess SR demand: half each to PR and OOm)

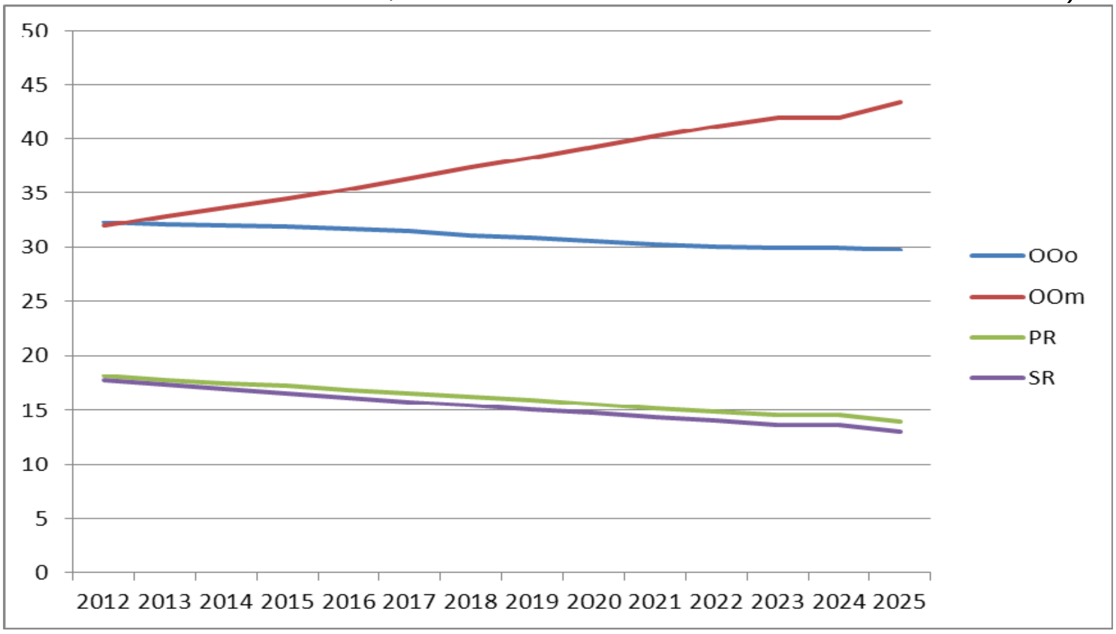
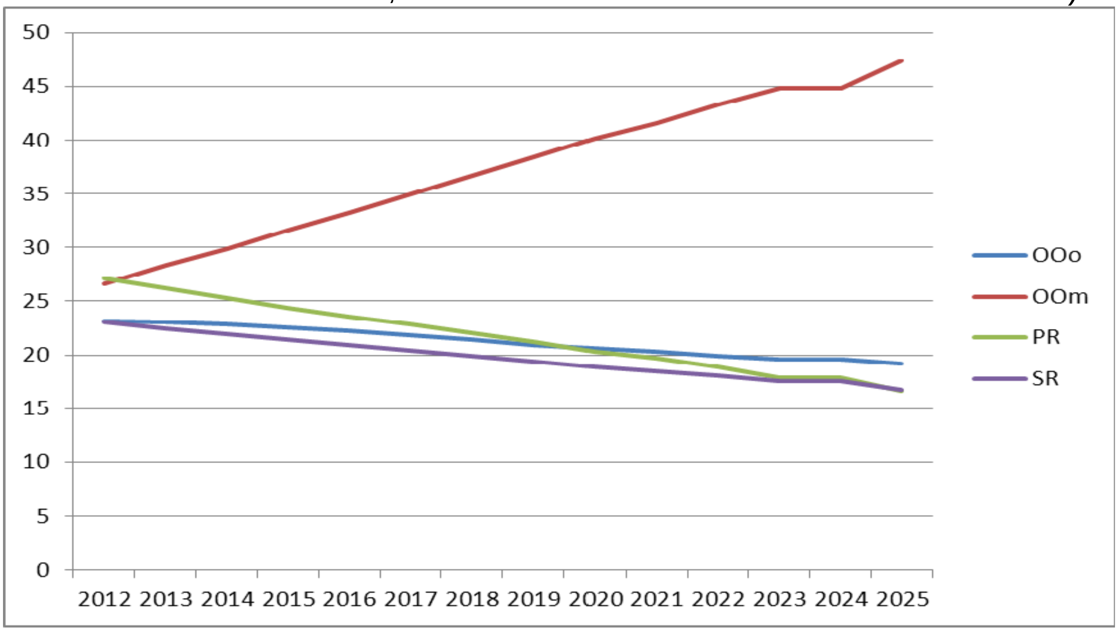


Figure 33: Household projections by tenure (%): London (Scenario: robust; social rented stock: decline; excess SR demand: half each to PR and OOm)



5. The Implications for the Policy Agenda

While projections are inherently just that – projections of past trends based on data which themselves are by no means perfect – the trajectories that we have set out here appear to be quite robust under a range of economic scenarios which are neither unduly optimistic or pessimistic.

This report raises some important questions for policy makers and provides some of the necessary evidence to guide future policy thinking and decisions.

Private renting

The most immediate issue lies with the growth of the private rented sector as mainstream housing provision. Whether or not this growth will be maintained – or even stabilised -depends as much on what happens in the owner occupied sector as it does on the incentives to those who are landlords by choice. Landlords' rates of return are also affected by expected capital gains – if these are low then higher rents will probably be needed to maintain the scale of provision.

Although it is legally possible to provide any length of lease, beyond issues about the costs of turnover and assuming sustained demand, there are no incentives in place at present to provide longer term security and more suitable conditions for family households. International evidence suggests that while longer term leases can benefit both sides there must be far more certain contractual arrangements in place – especially with respect to eviction and rental security - if these are to be acceptable to households. Given the actual and potential expansion of the PRS the government must engage with this debate and explore what might be done. Simple transparent forms of regulation together with high quality management are necessary conditions for attracting the scale of investment needed to underpin the growth in the PRS if these projections became a reality.

Clearly the current emphasis has been upon attracting more institutional and company investment. The current Montague review on barriers to investment in the private rented sector (Montague, 2012) may clarify matters and make further recommendations around investment in this sector. The evidence to date suggests that investors are interested in suitable large scale developments and possibly also large scale transfer from social renting as a way of entering the sector.

We note that institutional investment has been falling in all European countries so it is probably unlikely to be the holy grail in terms of new supply though it can clearly contribute (Kochan and Scanlon, 2011). The government's revised Real Estate Investment Trust regime may also assist here. However it remains unclear at this stage whether there is investment capacity to fund the projected expansion of the PRS. Buy to Let mortgages have been at the centre of the expansion to date and it is possible these products will also be drawn into the proposed European mortgage directive and thus be regulated. This may impact upon lender appetite to offer them as well as on pricing and terms.

Social renting

Social renting has continued to play a core role in providing homes for lower income households. This is particularly true in London where a higher proportion of lower income and family households are accommodated in social and affordable housing. Were the availability of social housing is to decline further there would be major implications for wages among service workers and for growth potential in the London economy.

In this context the affordable rents regime provides some potential for expanding the social sector at near market rents. This is more likely to help those outside London, LMI and working families but certainly not for all. Equally low cost homeownership policies and possibly some new form of intermediate renting (perhaps through employers) might provide some capacity to offset the decline in the availability of social renting for lower income working households.

At the same time given the rise in outright ownership it is likely that the RTB has been an important factor in this, thus giving older households the opportunity to secure lower housing expenditures. The immediate problems in repeating the experiment of the 1980s lay in (i) the scale of likely sales, (ii) possible regional and local variations and (iii the further erosion of social renting. It is very clear the 1 for 1 replacement policy will not provide homes in similar areas and probably not at similar quality or size or number. Most importantly, affordable rents do not provide the same product at the same rent levels as social housing. It seems very likely we will see an erosion of what might be seen as traditional social housing and its replacement with a higher cost product and thus sustained pressure on the budgets of lower income households.

Home ownership

The rise of outright ownership is a very clear feature of both past trends and our projections to 2025. In policy terms although the overall level of home ownership is important as a general measure of well-being we need to recognise it has two distinct component parts which at the present time are moving in quite different directions. Outright ownership and buying with a mortgage are in some respects two very different segments of the market meeting quite different needs at different stages in housing careers. Clearly the two sector connect and not least through the inheritance process– though the evidence to date suggests that this is a much slower process than many anticipated partly because of greater longevity and linked to that more use being made of that wealth by the existing older household. Having said that, assisted home ownership is now the normal route of entry into home ownership (around 65% of FTB entrants in Quarter 2 2011: CML, 2011b). While this assistance will not be exclusively from parents who are owners it is likely that many will be. Thus exclusion from entry to home ownership is likely to be a factor impacting upon the rates of entry by subsequent generations. The decline of home ownership thus becomes a factor in rising inequality over time.

Mortgaged home ownership is declining and there are real policy choices about what to do about this – wait for a recovery or support the tenure with additional subsidy or loans? The government has made modest gestures in this direction with its First Buy and NewBuy schemes and other assistance to builders. But these are modest given the scale of pent up demand. It is clear that people do want to buy and that if the economy improves and funding is easier there will be massive pressure to enter owner-occupation. One option might be a much bigger intermediate ownership programme – but to date with only around 250,000 homes provided since 1980 by this route, it is a relatively small base to build upon in terms of creating a new tenure category though we have now accumulated considerable experience in running such programmes. .

If we assume that home ownership in the future will be more restricted because of controls on access to mortgages, tighter credit assessment and continued stretched affordability then this intermediate market needs to become much bigger. It may be possible to expand the shared equity market through institutional investors buying part-shares or alternatively we could see a bigger public sector programme being funded through the liquidation and disposal of existing public sector shares in shared ownership and shared equity.

Another related option – which might also address ownership aspirations, is a new approach to rent to buy – this might be seen as another form of intermediate renting. Government has perhaps opened this up through the affordable rent regime although it was introduced for other investment related reasons – notably to enable higher borrowing by housing associations. It may bring in a different client group with greater mortgaging potential and it is possible it could then lead through to ownership options. Current Rent to Buy models are too inflexible and do not address issues of appropriate location. This is an area for further work.

The evidence suggests important generational shifts - with the future for home ownership not being like the past at least for a substantial number of the current younger generation who must expect to rent. As noted above, some existing owner parents will be eating into their property based equity holdings through higher costs of care and longevity while on the other hand their offspring are saddled with the need for higher deposits/repayment of education loans etc. The upshot is that facilitating their entry to ownership may not be as easy as some suggest and given their own circumstances, their entry will be significantly delayed or in some cases rendered impossible.

These are increasingly important elements which are not fully reflected in the projections based on past behaviour. Even so, even under the cautious and certainly under the robust case a home ownership recovery does begin almost immediately and could be quite rapid in the latter.

Overall, there is probably a window of opportunity to take action in policy terms because of low interest rates and flat house prices. The government could gradually increase its level of support for home ownership without inflating prices.

The projections highlight the strengthening of trends over time. If the economy were to remain weak this would put increasing pressure on government to embrace a more sustainable PRS future. Yet this is not where most people want to be. It puts even higher priority on the cautious and robust scenarios being secured - and of taking account of the implications of policy on growth potential as well as housing market outcomes when determining housing policy. Given regional divergence and the extreme pressures in London it also argues for more emphasis on economic development and infrastructure investment in and around the capital moving further up the list of priorities (along with a wider regional economic strategy).

London, LMI households and families

London clearly has been a city of extremes in terms of low home ownership and high social renting – but with a large role for private renting for lower income employed households and families as well as those in need of additional subsidy. Under a weak case scenario the PRS becomes an ever bigger force – by default rather than by plan. But even under some cautious scenarios the rise in PRS is significant. We need a policy for private renting in London that takes account of all the different constituents - and does not just concentrate on constraining the welfare bill.

Social housing remains very important in London and yet it is vulnerable as a consequence of the RTB, changes in tenancy arrangements and many other factors. Social housing is a vital part of London's competitive position – especially in accommodating so many who work to support the service economy. This needs to be properly recognised.

Those on low to middle incomes are clearly under pressure. Their housing opportunities have changed greatly – and mainly for the worse - over the last decade and this is likely to continue. . Under the weak economic scenario there is a big rise in the PRS for such households and all the pressures that will bring. This will not feel like a reward for hard work – anything but. In London social renting dominates but outright ownership is becoming more important following on from the growth in homeownership in the 1970s and 80s. So under these scenarios London moves to being a more market dominated city compared to what it was in the past. This might be seen as a plus - but it does pose challenges to the London economy, especially if income distribution does not improve.

Among families with dependent children in England home ownership and increasingly the PRS dominate, especially in scenarios where social renting is constrained. In London, social renting still dominates for such households, especially among those on low incomes. But potentially, especially if the RTB is popular, that position will be challenged by 2025. Everywhere there are large numbers of family households in the private rented sector. This will almost certainly continue, and for those who miss out on other options there is the prospect of private renting into old age – something that is unlikely to be welcomed.

And finally

Looking ahead and depending upon scenario and location, government may get away with its limited policy interventions or be deeply challenged. At this point in time a robust recovery seems somewhat distant – the most likely economic scenario will be somewhere between the weak and cautious scenarios. Our view is that although this analysis can and should be debated and challenged, it is as rigorous as anything else in the public domain.

We are seeing a re-working of tenure choices and expectations. Government has choices as to whether it responds to the possible outcomes set out in this report or whether it waits to see what happens. Certainly it needs to show that it has done equivalent thinking if it is to challenge these findings.

Finally, the biggest issue that has not been addressed by this report is the impact of under-supply and the lack of investment in additional housing. In the absence of improved supply, if the economy improves, whatever the longer term trajectories set out here, the most likely immediate outcome will be pressure on house prices and even greater volatility in the housing market.

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