At any cost?

The case for stable house prices in England

Shelter

October 2013

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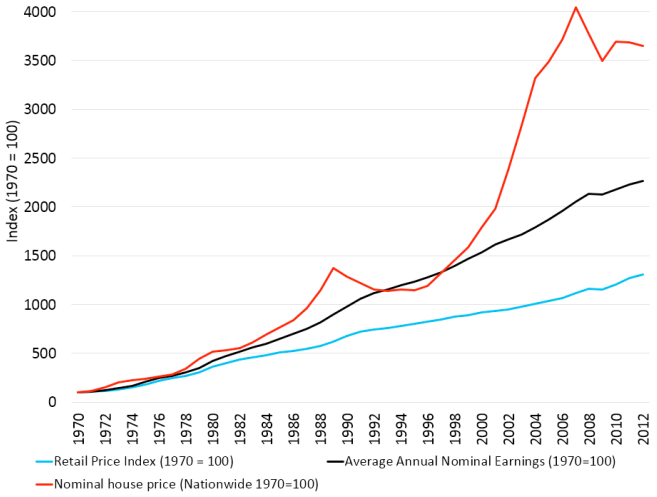
Executive Summary

Introduction

For too long, the debate on house prices has assumed that the only way is rapidly up.

From 1997 to 2012, median house prices in England rose 249% while median full-time earnings rose just 51%.[1] House prices inflated faster than wages across all of England over that period. Recent data shows prices rising well above wages and inflation again, with rises across all English regions.[2]

House prices, wages and inflation[3]



Many families on typical incomes are already priced out of home ownership. Recent research by Shelter showed that it would take the average family 12 years to save up for the deposit on a home of their own.[4]

Some young people are fortunate and can rely on financial help from their parents – the Bank of Mum and Dad last year forked out a staggering £2 billion in support for first time buyers – but most young people can't rely on this kind of assistance.[5] As a result, home ownership among young families on normal incomes is falling precipitously, and has been since well before the financial crisis began.

Rising house prices shut many families out of home ownership altogether. They also force others, desperate not to be left out, to take on dangerous levels of debt and increase the risk of negative equity and repossession. This combination of worsening affordability and an entrenched pattern of a long boom followed by a short sharp bust is disastrous for the security and aspirations of ordinary families.

New modelling for Shelter presented in this report shows that continued house price inflation similar to that we've seen in the past would lead to a major shift in the chances of normal families owning a home of their own.

- If house prices keep inflating as in previous years then many double-earner families would be priced out. More than half of the typical two-earner families modelled were unable to get on the ladder by the age of 65.
- In London, the situation will be even starker if prices keep booming. Fewer than 1 in 5 of the London families modelled were able to become owners by the age of 65 with prices inflating as in the past.

The model also considers typical families' chances of owning a home of their own if house prices were stable.

With stable house prices the chances of ordinary families owning a home of their own increases in all regions and for all income groups, according to the model. Almost 9 in 10 modelled two-earner families were homeowners by the age of 65 under a stable house price scenario, compared to just 4 in 10 under a boom and bust scenario.

Attitudes are changing

With the chances of home ownership declining for families on normal incomes it is no wonder that recent surveys show that the majority of voters (66%) do not want house prices to rise – they would rather see them remain stable, or even fall.[6]

1. Nominal price for both. Median house price for England, ONS Table 582; Median full-time weekly earnings for England, ONS ASHE Survey 1997 and 2012 Table 7.1a. This picture varies across the country with prices rising 383% in inner London compared to 201% in Burnley.
2. Nationwide, House Price Index, September 2013
3. Inflation (RPI) and earnings data were taken from Lawrence H. Officer, 'What Were the UK Earnings and Prices Then?' MeasuringWorth, 2012. House price data was taken from Nationwide. Methodology can be found in G. Clark 'Average Earnings and Retail Prices, UK, 1209-2010', University of California, 2011
4. A home of their own, Shelter, 2013
5. Support for first time buyers, NatCen, 2013
6. YouGov, October 2013, Sample 4500 GB adults

With changing popular attitudes towards house price rises, there has come a gradual shift in tone from some politicians, including some in government. With ownership falling fast and more and more people concerned about the affordability of homes, the political calculus on house prices may be shifting too.

How to stabilise prices

We need an end to the era of unaffordable and rising house prices, if families are to have a chance of owning a home of their own.

It's time for an era of stable house prices – with politicians taking the lead – so that families on normal incomes can catch up.

The chronic undersupply of homes means that there are too many families chasing too few places to live, especially in the parts of our country which generate the most jobs. This puts upward pressure on house prices.

We need to build at least the 250,000 homes per year in England needed to meet the growing number of households.[7] Building these homes will reduce the pressure caused by the growing housing shortage and so help stabilise prices.

Particularly important is providing better housing options for low and middle income families currently priced out of the conventional mortgage market and trapped renting privately, such as more social housing and a better deal on shared ownership homes.[8]

Equally important is the mortgage market itself. We can't stabilise house prices or solve the housing shortage by pumping more and more mortgage credit into the same number of homes. That's why the government's Help to Buy mortgage guarantee policy is the wrong solution – it is likely to push up prices and put pressure on consumers to take out bigger mortgages, without ensuring that enough homes are built.

The government should withdraw the second phase of Help to Buy (Mortgage Guarantee).[9] Instead, it should allow the mortgage market to adjust to the sensible requirements of the Mortgage Market Review (MMR) in 2014, which will require lenders to ensure borrowers can afford their mortgages.[10] We need sensible, proportionate lending – not a return to dangerously high levels of mortgage debt.

Finally, house price inflation is not just a problem for priced out families, but one for the entire economy. The mortgage market was at the heart of the financial crisis in 2007/08 and the risk of another debt-fuelled housing bubble in England is causing serious concern among many leading economic organisations.

The government and the Bank of England should work together to make use of their existing macro-prudential tools for dealing with booming house prices, as well as looking at developing new measures.[11]

These tools should be deployed if house price inflation breaches agreed limits (RICS recently proposed one such threshold).[12] Where possible, such policies should be applied regionally to reflect the differences in English housing markets. There is room for debate on the details of such proposals, but what is clear is that any approach to taming house price inflation will need to draw on a wide range of Bank of England and Treasury tools.

Only by acting across all three areas – building, lending and wider economic policies – can house price inflation be tamed. More than anything, this will take political leadership to usher in a new era of stable house prices. If politicians fail to act, the young families' dreams of owning a home of their own will be dashed.

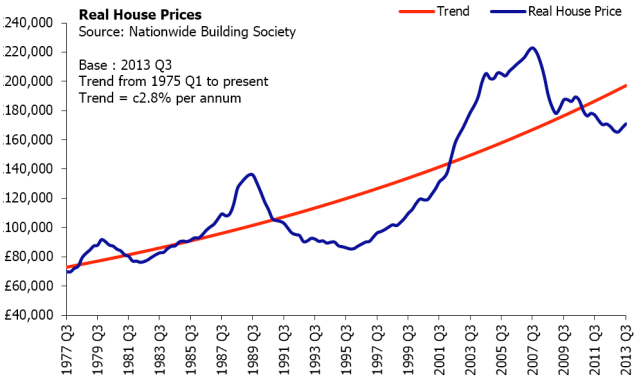
7. Solutions to the Housing Shortage, Shelter, 2013
8. Homes for Forgotten Families, Shelter, 2013
9. In September 2013, the Prime Minister announced that Help to Buy: mortgage guarantee was being 'brought forward'. In practice that meant that banks would be allowing customers to apply to use the scheme, but lending won't commence until January 2014.
10. See: Consultation Response: FSA Mortgage Market Review: Responsible Lending, Shelter, 2010
11. Shelter will explore the detail of these measures further in future work. Tools could include LTV and LTI ratio controls, taxes on speculation and foreign investment, control of non-bank lending, limiting the re-emergence of securitisation in the market, wider reform of property taxation.
12. YouGov poll for Shelter, total sample size was 4,500 adults. Fieldwork was undertaken between 3rd - 9th October 2013. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+). 66% said they would like to see 'house prices stay at their current level' or 'house prices go down'.

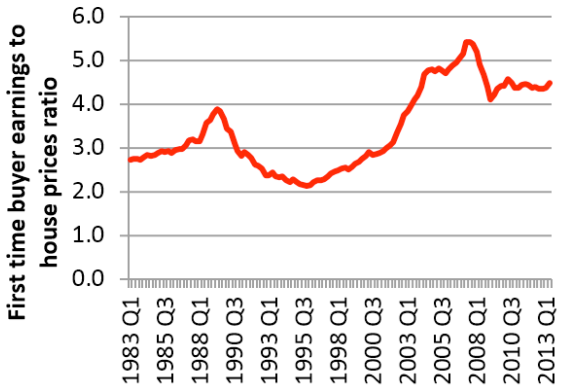
Rising prices, falling ownership

Rising prices

House prices have risen dramatically over the last 35 years, with repeated boom and bust cycles since the 1970s. The busts have corresponded with periods of economic recession.

The period 1995 to 2007 saw the fastest house price inflation, with average prices more than doubling in real terms (i.e. adjusted for inflation).





Headline house prices tell a powerful story on their own. But what really matters to home buyers is the ratio between their income and the price of the home they want to buy. This determines their ability to save for a deposit, their ability to secure a mortgage, and the ongoing affordability of their mortgage payments.

The ratio between average earnings for first time buyers and average first time buyer house prices has increased in a similar pattern to real house prices – because while house prices have risen dramatically, wage growth has lagged behind. This explains why, even though house prices have fallen in real terms since 2010, affordability has not improved – because wage rises have been small or non-existent.

Falling ownership

This worsening pattern of affordability across the country has had a huge impact on home ownership levels among new families on typical incomes. Rates of home ownership have fallen steadily as house prices have become unaffordable, while rates of private renting have risen.[13]

Change in proportion of age groups owning a home (2003-2013)

Contrary to the assertions of some market commentators and politicians, this is not just an issue for priced-out Londoners.[14]

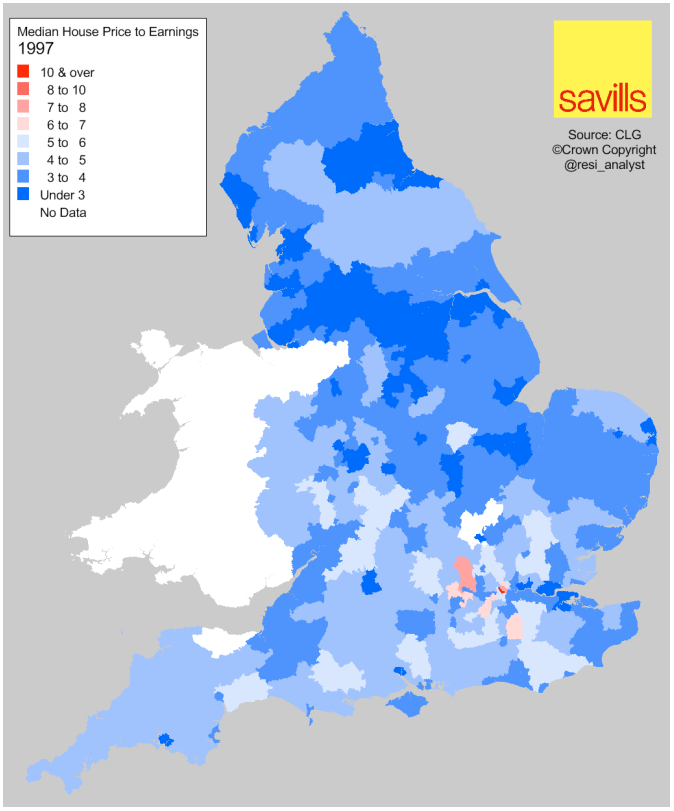
Sources: Department for Communities and Local Government, 2003 and 2013. Survey of English Housing 2001/2 and English Housing Survey 2011/12.

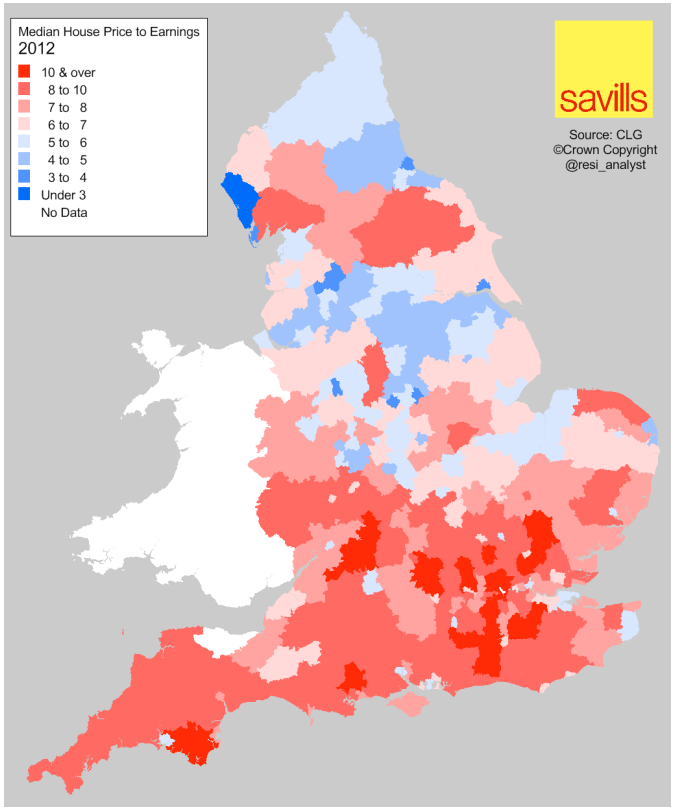
Analysis by housing market experts at Savills below shows the dramatic shift in affordability across England in just 15 years.[15] In 1997, the house price to earnings ratio for average families was between 3 and 5 across most of the country, with only a few areas in and around London with ratios over 6. By contrast in 2012 the ratio of average house prices to average earnings was between 6 and 8 across almost all of the south east, south west and Midlands, with northern regions seeing ratios between 5 and 7.

13. Homes for Forgotten Families, Shelter, 2013

14. For example, in September 2013 the Chancellor George Osborne dismissed fears of a house price boom by referring to 'barely rising' prices outside of London (FT, George Osborne dismisses fears of overheating housing market).

House price affordability (1997 and 2012)[15]





So while it is true that the London market is driving the resurgence in house price inflation we've seen over the last few quarters, it must be acknowledged that homes are already unaffordable for families on normal incomes across most of England.

Any further rise in house prices without faster rises in earnings will make home ownership a more distant dream for millions of families right across the country. Without intervention, we are likely to see a continued steady fall in the number of families who can afford to buy a home of their own.[16]

15. Graphs re-produced with kind permission of Neal Hudson of Savills Research Department. Data, CLG

16. Housing in Transition – understanding the dynamics of tenure change, Shelter and Resolution Foundation, 2012

Why do house prices inflate?

The behaviour of house prices is complex and the result of many factors, relating to both the supply of homes into the market and demand from buyers. These include:

Supply

- The number of homes put up for sale by owners
- The number of new homes built overall – and regional trends in supply – how many homes are being built in high demand areas?
- The cost and availability of land to build new homes
- The number of planning permissions granted
- The provision of infrastructure

Demand

- Population growth and other demographic trends, particularly ageing
- Availability of mortgages to consumers
- State of the mortgage market and wider wholesale financing market (such as for RMBS)[17] for mortgage lenders
- Distribution of growth and employment across the country
- Household savings rates
- Wealth and income distribution through the population
- Second home ownership levels
- Bank of England base rate and mortgage rates
- Consumer confidence and the media
- Levels of investment in the housing market – both foreign and domestic, including buy-to-let investment
- Taxes, such as Stamp Duty Land Tax

Particularly important to house prices is the role of credit, as most homes are bought with mortgages. This means that house prices can be pushed up – or down – regardless of the level of need for homes or the supply of new ones, by changes in the availability of credit. This is precisely what happened in both the price boom of 1997-2008, and the subsequent market bust.

Unlike many other markets, house prices are not just the product of a simple supply and demand equation. The key concept is of 'effective' demand – which simply means the amount buyers are able and willing to pay for homes. How much people can borrow is determined by how much banks are prepared to lend, based on the borrower's wealth, income and wider economic factors like interest rates. Both the banks' appetite for lending and households' appetite for borrowing are also affected by their expectations of future price rises.

Effective demand for homes, and hence prices, is not set by the level of need but by the ability and willingness of people to pay for homes in a particular market. To quote the IMF: 'housing booms and busts are intimately linked with the provision of credit'.[18]

We therefore cannot stabilise house prices with supply-side measures alone. In fact, demand can rise even as supply increases, as more people rush to get onto the ladder before they are priced out for good, or to make investment profits on rising asset values. In other words, rising prices can encourage more people to buy, pushing prices up further. This pro-cyclical effect has been particularly pronounced in some recent house price bubbles – such as those in Spain and Ireland during the 2000s.

To stabilise house prices we therefore need to address both supply and effective demand. An end to irresponsible mortgage lending, combined with increased house building and recognition of the wider economic factors that influence prices, is the only pragmatic approach to solving the problem of runaway house prices.

Aren't inflating house prices inevitable?

Ever-inflating house prices are not an inevitable part of an advanced economy, nor are they necessary to encourage enough homes to be built.

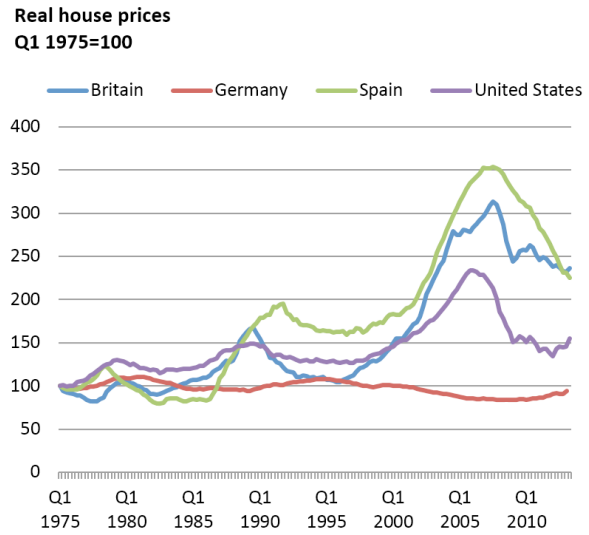
Compare Germany, the UK, Spain and the United States over recent decades. Germany has seen relatively stable house prices alongside a strong and dynamic economy, while the UK, the US and Spain have experienced rapid house price inflation followed by stagnation or price falls.

Stable house prices in Germany are linked to many factors – a secure and large rented sector, an interventionist approach to land management, cultural norms, population trends and higher levels of self-build, to name a few. The UK does not, however, necessarily need to mirror all these trends to secure German stable house prices.

17. Residential Mortgage Backed Securities (RMBS)

18. Forever Blowing Bubbles, IPPR 2011

House price index for the UK, Germany, Spain and United States[19]



Take private renting. Over the last decade there has been rapid growth in the private rented sector in England, but this has not led to a dampening in house price inflation.[20] Unlike Germany, private renting in England is often expensive, insecure and with poor housing conditions. Until renting is seen as an option that works for families, there is likely to continue to be a strong aspiration for home ownership – putting upward pressure on prices.

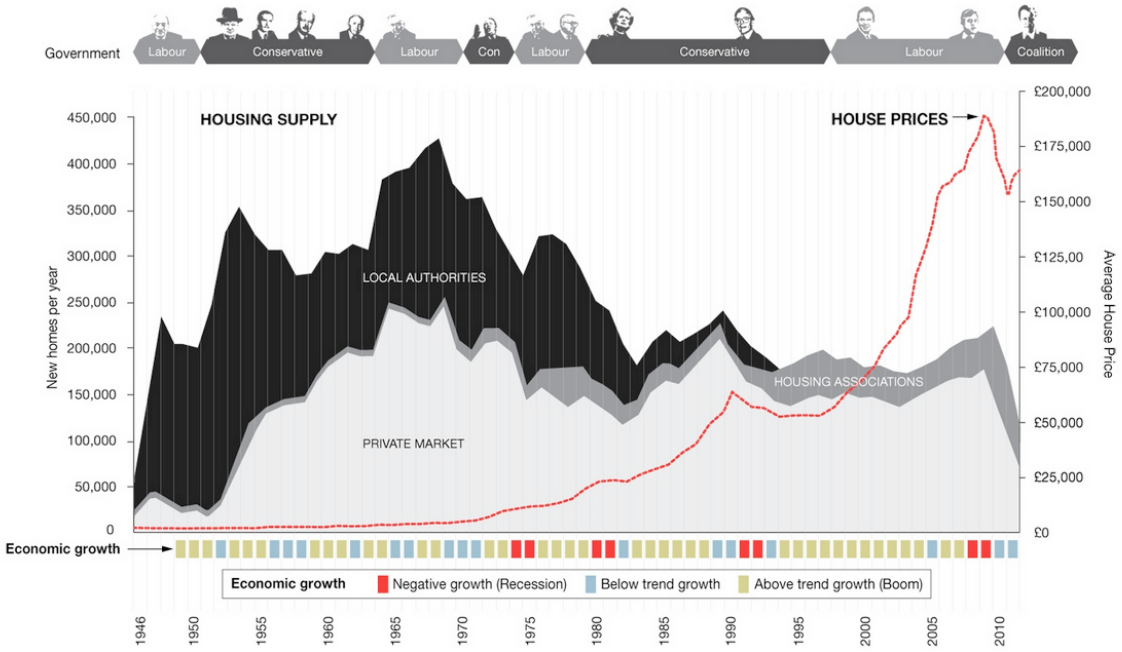
Are rising house prices needed to get homes built?

While Germany shows that rising house prices are not necessary for economic growth, it is often argued that they are needed for getting homes built. In the UK, the high cost of land and the necessity of developers to buy land some years in advance of building and selling homes means that assumptions about future house price inflation are crucial in the house building process.[21]

Developers bid for land based on their estimate of where house prices will be by the time the new homes come to be sold: the one that predicts the highest house price will be able to bid most and win the site.[22] If house prices don't rise as fast as expected, development can become unprofitable and stall. After house prices fell in 2007, the number of homes built per year in England fell substantially.

This dependency on rising prices is a genuine problem, but the solution cannot be to stoke house prices even further. It is worth noting that during the 1950s and 1960s, before the era of rapid house price inflation even began, we were able to build up to four times as many new homes per year as we have done in recent years. Equally, in the years of most rapid house price inflation (1997–2003) we were building record low numbers of homes.[23]

House building in England (1945-2012)



19. FHFA; Nationwide; OECD; Standard & Poor's; national statistics; The Economist
20. DCLG, English Housing Surveys. Nationwide, House Price Index.
21. Solutions for the Housing Shortage, Shelter, 2013
22. Why aren't we building enough homes? In Green conservatism: protecting the environment through open markets, Green Alliance, 2013

As house prices have boomed, diversity in the house building sector has declined with fewer small and medium sized builders able to survive price falls.

Our model of house building has become ever more dependent on rising prices and a small number of major builders. Rather than leading to higher levels of home building, we've seen a steady ratcheting down in annual housing supply following each boom/bust cycle.[24]

While house builders' output and share prices have been boosted as house price inflation has increased in recent months there are signs that some investors are sceptical about future growth. One fund management group suggested that the boom in share prices could not be sustained over the next five years without higher wages as consumers won't be able to afford repayments on mortgages.[25]

There is no inevitable link between house price inflation and housing supply. Instead, we should look at making changes to the way we deliver new homes – such as delivering more non-market homes, improving the supply of cheap land for house building and ensuring that the development industry is competitive and innovative. After all, even the major house builders themselves don't think they alone can deliver the number of homes we need over the medium term.[26]

There is a major housing shortage in England, but the way to solve it is not to pump up already unaffordable house prices.

23. DCLG, Live Tables on Housing Starts and Completions
24. Solutions for the Housing Shortage, Shelter, 2013
25. Telegraph, House builder share boom not sustainable, October 2013
26. FT, Builders attack Ed Miliband's 'wild plan' for 200,000 homes per year, 2013

Help to Buy: the wrong response

What is Help to Buy?

Responding to both the decline in home ownership and the very low levels of house building after the financial crisis, the government launched the Help to Buy scheme in April 2013.

The scheme is in two parts:

1. Help to Buy: equity loan

The smaller first part of Help to Buy launched in April 2013 and applies only to new build homes. Buyers require just a 5% deposit and the government will top this up with a loan of up to 20% of the property's value. This means buyers require a 75% mortgage.
The scheme is running for three years and aims to provide £3.5bn of investment.

There are already signs that the scheme is having some impact, with new housing sales by the major house builders increasing, albeit from a very low base.[27] Of course, higher sales and starts are to be expected when the government is providing a major subsidy to sales prices.

There is a risk that Help to Buy equity loans will push up the price of new build homes, which would ultimately mean higher costs for home buyers who will eventually have to pay back the loans.

2. Help to Buy: mortgage guarantee

The second part of Help to Buy was launched by the Prime Minister in October 2013 and applies to both new builds and the secondary market.[28] The guarantee is intended to reduce the risk to lenders of higher loan to value (LTV) mortgage lending by protecting the lender from some losses in the event of a default.

The government will charge lenders a commercial fee for each loan extended under the scheme, which will vary dependent on the LTV. The aim of this fee is to cover the government in the case of defaults.[29]

The scheme will run for three years and the government estimates it could support £130bn of mortgage lending over that period. There are some restrictions, such as a cap on the total value of homes eligible (£600,000) and restrictions on use for buy to let.

What does it mean for house prices?

Help to Buy is a significant intervention into the demand side of the housing market, both in the new build market and the secondary market.

By stimulating demand, the government hopes to increase the supply of new build homes and to increase transactions in the secondary market.[30] However, as the effective demand from buyers increases, there is also a risk of upward pressure on house prices.

The government's own financial forecaster – **the Office for Budget Responsibility** – has said that the mortgage guarantee scheme is more likely to lead to higher prices than homes being built. Other analysts have been more scathing.[31]

The IMF: 'may lead to even higher house prices which may reduce affordability of housing'

Mervyn King, as Governor of the Bank of England: 'we mustn't let this turn into a permanent policy'

The OECD: 'without a sufficient supply response, some measures could create upward pressure on house price'

Institute of Directors: 'the world must have gone mad'

Institute for Public Policy Research (IPPR): 'bubblicious'

Policy Exchange: 'risks detonating a bomb under the UK economy'

Adam Smith Institute: 'will worsen Britain's housing crisis'

The Daily Mail: 'the making of another sub-prime disaster'

The Financial Times: 'political trickery'

The Guardian: 'a gigantic risk to the taxpayer'

The Economist: 'the economics are dubious'

Societe Generale: 'truly a moronic policy'

Fathom Consulting: 'Had we been asked to design a policy that would guarantee maximum damage to the UK's long-term growth prospects… this would be it.'

27. DCLG Live Table 222, Permanent dwellings started and completed by tenure
28. While the scheme was launched in October 2013, loans will not be extended by participating lenders until January 2014.
29. Help to Buy Mortgage Guarantee Scheme Rules, HM Treasury, 2013
30. Help to Buy Mortgage Guarantee, HM Treasury, 2013

In September 2013, the Chancellor announced that the Bank of England would have greater responsibility for oversight of Help to Buy: mortgage guarantee.[32] This signals that the government is aware of the potential house price inflation that could occur as a result of state backed mortgage guarantees.

Help to Buy doesn't solve the real problem: affordability

To understand the reason state mortgage guarantees are the wrong way to approach declining housing affordability we need to understand why the effective demand for homes has fallen.

Demand for home purchases has declined for two reasons: credit constraints and affordability problems.

- Credit constraints: the financial crisis led to major lenders and regulators re-evaluating their tolerance to risk and therefore increasing the conditions on mortgage lending, in particular the size of deposit required to secure a loan. This meant many potential home buyers could not afford the deposit for a mortgage.
- Affordability: the gap between earnings and house prices has grown steadily over several decades. House prices did not re-align to an affordable ratio with wages after the recession. For families on median incomes, a family sized home is not affordable across most of England even on a 90% mortgage.[33]

Help to Buy deals with the short term credit problem by using the government's balance sheet to try and make high loan to value (LTV) mortgages as accessible as they were in the years before the banking crisis. In effect, it makes available high LTV mortgages for consumers, but with the government taking some of the risk of these large loans from lenders.[34]

However the long term problem – declining affordability – is not addressed.

In fact, state mortgage guarantees actually increase the mortgage payments borrowers have to make each month, by allowing them to take out bigger mortgages. There are very real risks for consumers in taking out such large loans, especially as current interest rates are at historic lows, and any future rises could see many families struggling to afford monthly payments.

Using state mortgage guarantees to boost effective demand without a corresponding increase in supply is not sensible or sustainable, and fails to tackle the root problems in the housing market. Increasing the availability of 95% mortgage products may be tempting as a quick fix to short term credit constraints, but over the medium term it fails to make homes any more affordable relative to incomes.

Help to Buy is likely to make house price inflation worse, not better.

31. All quotations from newspapers are taken from editorials.
32. Help to Buy mortgage guarantee, gov.uk
33. Homes for Forgotten Families, Shelter, 2013. It is worth noting also that for those families who have been able to borrow a mortgage since 2007/08 they are likely to have very low interest rates. If rates rise in future, servicing their debt will be much harder.
34. In the US, Fannie Mae and Freddie Mac provide guarantees of US mortgages. Following the 2007/08 financial crash, US taxpayers were forced to bail out these organisations. President Obama has since sought to wind down Fannie Mae and Freddie Mac to reduce the risk to the government's finances in future.

Attitudes to house prices

Most people don't want price rises

There is an implicit assumption in much of the press coverage of rising house prices that most people want house prices to keep inflating. Words such as 'healthy', 'recovery' and 'growth' pepper coverage of house price inflation.

Yet the evidence on public attitudes to rising house prices does not correspond to these assumptions.[35] In October 2013, YouGov asked about people's attitudes to house prices in Britain over the next few years.

- The majority of people surveyed (66%) wanted house prices to fall or stay the same, compared to a quarter (25%) who wanted them to rise.[36]
- The age group who want stable or falling house prices most strongly are those aged 60 or over (71%).
- Opposition to rising house prices is consistent across all English reasons, with majorities wanting falling or stable prices in the south west (69%), West Midlands (67%), north east (66%) and London (64%).[37]
- Even among outright homeowners (those without mortgages), more people want prices to stay the same or fall than want them to rise (67% vs 28%).

Further evidence of the public's scepticism about rising house prices comes from the 2010 British Social Attitudes Survey:[38]

- 45% of those asked thought house prices in their area were 'too high', compared to just 4% who thought that they were 'too low'. 46% thought prices were 'about right' (the rest said 'don't know').
- Even among those who own their home, 40% thought that house prices in their area were 'too high' compared to 4% who said 'too low'. 53% think that they are 'about right'.

People's attitudes to house prices are nuanced. If asked whether they would like their own home to go up in value, homeowners are more likely than not to agree.[39] This is unsurprising given that the more any one person's home 'outperforms' the rest of the market the more potential purchasing power they will have. Yet their far more critical attitude towards general house price rises shows that there would not be opposition to policies designed to stabilise house prices.

People want homes they can afford and homes their children can afford. They don't want ever rising house prices which lock out younger families from home ownership.

And it's not just voters...

Voters' attitudes to house prices are starting to be reflected by some politicians and commentators. Former housing minister Grant Shapps argued in 2011 that government should usher in a 'new age of house price stability'.[40]

Bank of England governor Mark Carney said in August 2013 that he is 'personally' ready to use Bank tools to

35. YouGov poll for Shelter, total sample size was 4,500 adults. Fieldwork was undertaken between 3rd - 9th October 2013. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+). 66% said they would like to see 'house prices stay at their current level' or 'house prices go down'.
36. 10% said that they did not know.
37. Other regions % who want stable or falling: north east (66%), north west (64%), Yorkshire and Humber (64%), east Midlands (65%), West Midlands (67%), east (67%), London (64%).
38. 2010 NatCen British Social Attitudes Housing survey results (cross-tab analysis conducted via the UK Data Service)
39. YouGov also asked the question but asked respondents to consider 'your own house'. The majority of home owners were in favour of the value of their own home rising, but one third of respondents said that they would like their home to stay the same price.

head off the risk of any housing bubble caused by the Help to Buy scheme.

A shift in attitudes to house prices is underway among both the public and in policy making circles. However, there is much further to go – especially among politicians – in recognising that ever inflating house prices are neither useful nor popular.

Findings

Testing house price scenarios

In order to understand the potential effects of future house price rises, Shelter commissioned consultants HATC to create a detailed economic model.[41]

The goal of the model is to understand how different rates of house price inflation affect different households in different parts of England. In particular, to compare the impact on typical families of scenarios in which house prices are stable with those in which they rise.

How does the model work?

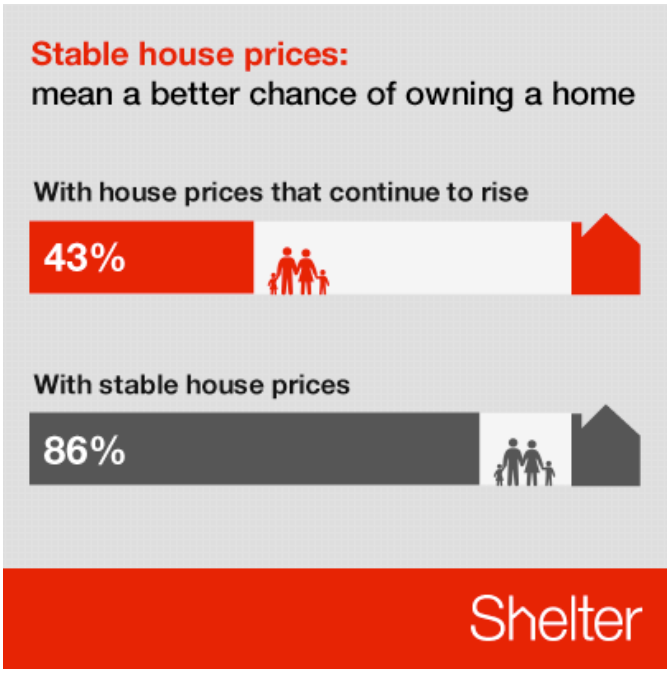
The model creates stylised households based on income, location, family structure (two earners, single parents) and the year at which the household starts looking to buy a home (from 1997 to 2010). The model then tracks these households through their lives to age 65, making assumptions about income progression, changing family size and a range of economic factors.

The model can be used to compare how these households fare in a range of house price scenarios, two of which are presented opposite.

1. If the 'long boom and short bust' cycle of house prices over the last 40 years were to continue.[42]
2. If house prices were to become stable in cash terms from now on.

For each scenario, we can estimate the proportion of households who would be able to purchase a suitably sized home without substantial financial assistance before the age of 65.[43]

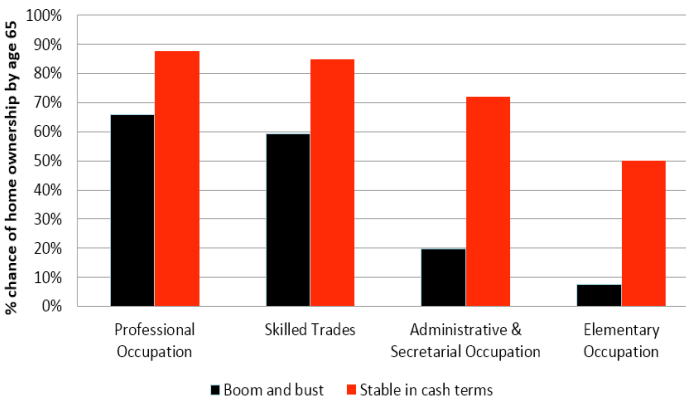
Overall, the model seeks to test the commonly held assumption that house price increases are generally a 'good thing' for most people.



As with all models, a number of assumptions must be made. One assumption is that deposits to buy a home must be saved by families and are not gifted. Clearly, this means that the results should not be taken as a forecast of what will happen, but rather a way to understand how different house price scenarios could impact on typical families' chances of home ownership.

Below, we cut the data from the model by different factors such as family size, location and income. The results show the chance of owning a suitably sized home for the family by the age of 65 under different house price scenarios.

Chances of owning a home by income under different house price scenarios



40. BBC, Minister Grant Shapps wants stable house prices, January 2011
41. For more detail on the structure of this model and the assumptions it makes, a technical paper has been published. Technical Note, At what cost? Shelter, 2013
42. The boom and bust scenario conforms to a trend of 2.8% real annual house price growth as taken from the 2004 Barker Review.

The first factor to compare using the model is the chance of home ownership for different income groups under alternative house price scenarios.

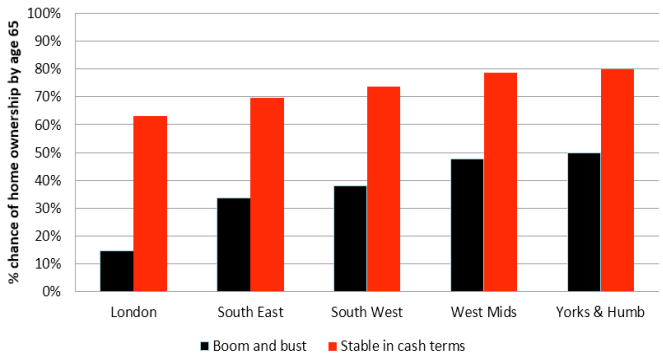
The income groups considered in the model are representative of the four largest professional groupings in England, according to the ONS.

- Professional (median salary £38,815)
- Skilled (median salary £22,245)
- Administrative (median salary £19,268)
- Elementary (median salary £13,479)

The model shows that the chance of home ownership by age 65 is severely constrained for all income groups in a rising house price scenario compared to a stable house price scenario.

- Higher income families. Around two-thirds of higher income households modelled became home owners by age 65 under a boom and bust house price scenario. This rises to more than 80% under a stable house price scenario.
- Lower income families. For lower income groups, the model suggests that home ownership is an impossible dream under a rising house prices scenario. Those on mid to low incomes (administrative and secretarial) would have just a 1 in 5 chance of home ownership, while those on low incomes would have less than 1 in 10 chance. Lower income groups would have between a 50% and 70% chance of owning a home by age 65 if house prices were stabilised.

Chances of owning a home by location under different house price scenarios

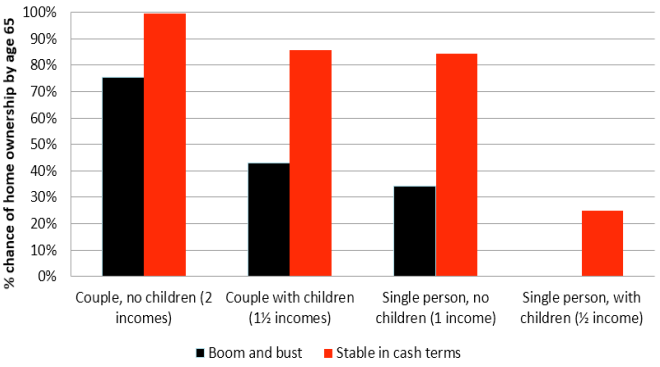


The second factor compared in the model is the location of families aiming to get onto the housing ladder.

There are large regional differences in house price affordability across England. However, in all regions the model suggests that future house price stability would increase the chance of home ownership for typical families.

- If house prices continue on a boom and bust trajectory, then the chance of owning a home by age 65 falls to just 15% in London. If house prices are stabilised, typical families would have over a 60% chance of home ownership in London.
- In all regions considered, the chance of home ownership for typical families would be below 50% under a house price boom and bust scenario.
- The chance of home ownership is above 60% in all regions in a stable house price scenario.

Chances of owning a home by family structure under different house price scenarios



The model can also be used to compare the prospects of different family structures under alternative house price inflation scenarios.

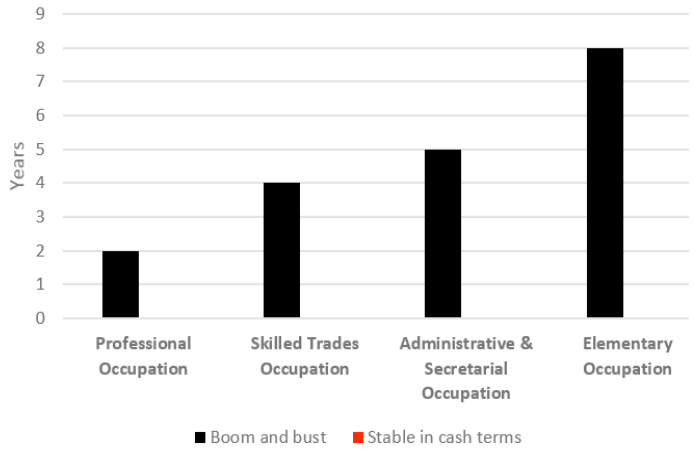
Whether or not people live as a couple and/or have children has a large impact on their chances of owning a home. However, our model suggests that the chance of owning a home for families is greatly reduced if boom and bust house prices continue.

- Couples with children where one parent works part time have over an 80% chance of home ownership if house prices remain stable according to the model. If house prices boom and bust, their chance of getting on the ladder by age 65 falls to just over 40%.
- For single people without children, future house price trends matter enormously. If prices are stabilised, typical families in the model have over an 80% chance of home ownership. If prices rise as in recent years this falls to around 1 in 3.

Feeling trapped?

House price inflation doesn't only impact on the ability for a household to buy their first home. It also affects their ability to trade up to a larger, more suitable home over their lifetime. Being stuck in homes that are too small for them has negative consequences for families' daily lives, health and wellbeing.

Years trapped in homes that are too small under different house price scenarios



The modelling shows that under long boom and short bust conditions, households on the highest income level would typically only be trapped in such accommodation for around two years before being able to trade up, while those in the lowest income level would typically be trapped for eight years.

However, the number of years trapped in unsuitable accommodation over the same projected period falls to zero for all income groups if house prices are stabilised at nominal value, allowing families to move to larger accommodation with greater ease.

This demonstrates that even many of those already on the property ladder stand to gain from stabilising house prices.

Conclusions

The model presented in this report compares the chances of typical families in England of getting onto the housing ladder in their lifetime under different house price scenarios.

The clear conclusion from the model is that for all family structures, incomes and locations in England, there is significantly better prospect of becoming a homeowner if house prices are stable than if they are rising as they have in the past.

Equally, there are benefits for those already on the ladder. Existing homeowners will find it easier to move into family sized homes if their family size changes under a stable house price scenario than under a boom and bust house price scenario.

Recommendations

Home ownership is still the dream for the majority of families, but the chances of achieving it will be vastly reduced if house prices keep inflating as they have in the past.[44] Recent polling suggests people understand this problem and that the majority now want an era of stable house prices.

More than anything, we need political leadership. Politicians have the tools to stabilise house prices, and other countries such as Germany show that stable house prices can be part of a successful economy. It is time for an era of stable house prices.

How can we achieve this?

The chronic undersupply of homes means that there are too many families chasing too few places to live, especially in the parts of our country which generate the most jobs. This puts upward pressure on house prices.

We need to build at least the 250,000 homes per year in England needed to meet the growing number of households.[45] Building these homes will reduce the pressure caused by the growing housing shortage and so help stabilise prices.

Particularly important is providing better housing options for low and middle income families currently priced out of the conventional mortgage market and trapped in a private rented sector which is not fit for families.[46]

Equally important is the mortgage market. We can't stabilise house prices or solve the housing shortage by pumping more and more mortgage credit into the same number of homes. That's why the government's Help to Buy mortgage guarantee policy is the wrong solution – it is likely to push up prices and put pressure on consumers to take out bigger mortgages, without ensuring that enough homes are built.

The government should withdraw the second phase of Help to Buy (Mortgage Guarantee).[47] Instead, it should allow the mortgage market to adjust to the sensible requirements of the Mortgage Market Review (MMR) in 2014, which will require lenders to ensure borrowers can afford their mortgages.[48] We need sensible, proportionate lending - not a return to dangerously high levels of mortgage debt.

Finally, house price inflation is not just a problem for priced out families, but one for the entire economy. The mortgage market was at the heart of the financial crisis in 2007/08 and the risk of another debt fuelled housing bubble in England is causing serious concern among many leading economic organisations.

The government and the Bank of England should work together to make use of their existing macro-prudential tools for dealing with booming house prices, as well as looking at developing new measures.[49]

These tools should be deployed if house price inflation breaches agreed limits (RICS recently proposed one such threshold).[50] Where possible, such policies should be applied regionally to reflect the differences in English housing markets. There is room for debate on the details of such proposals, but what is clear is that any approach to taming house price inflation will need to draw on a wide range of Bank of England and Treasury tools.

Only by acting across all three areas – building, lending and wider economic policies – can house price inflation be tamed. More than anything, this will take political leadership to usher in a new era of stable house prices. If politicians fail to act, the young families' dreams of owning a home of their own will be dashed.

43. 'Suitably sized' means suitable for the size of that household. This is important when considering the probability of home ownership, as of course a family of four may be able to afford to buy a studio flat.
44. Public Attitudes to Housing, Joseph Rowntree Foundation, 2010
45. Solutions to the Housing Shortage, Shelter, 2013
46. Homes for Forgotten Families, Shelter, 2013
47. In September 2013, the Prime Minister announced that Help to Buy: mortgage guarantee was being 'brought forward'. In practice that meant that banks would be allowing customers to apply to use the scheme, but lending won't commence until January 2014.
48. Consultation Response: FSA Mortgage Market Review: Responsible Lending, Shelter, 2010
49. Shelter will explore the detail of these measures further in future work. Tools could include LTV and LTI ratio controls, taxes on speculation and foreign investment, control of non-bank lending, limiting the re-emergence of securitisation in the market, wider reform of property taxation.
50. RICS called for a house price inflation 'limit' of 5% per year to trigger tighter policies to dampen house price inflation. RICS Economic Research, 2013. More research is needed into whether such a threshold should be linked to prices alone, or the ratio between prices and wages, and what level the threshold should be.

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