



IFS Green Budget 2018

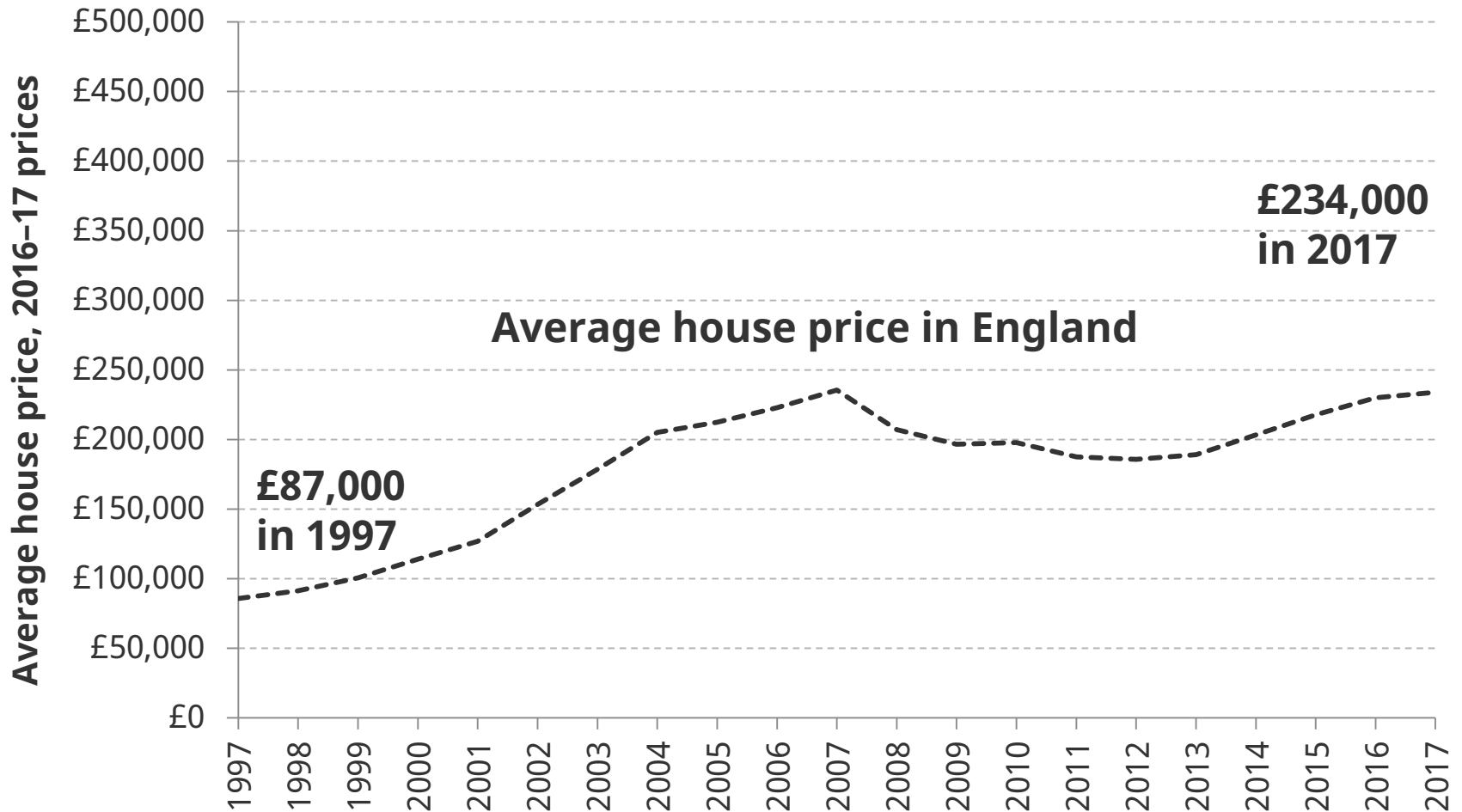
Barriers to homeownership for young adults

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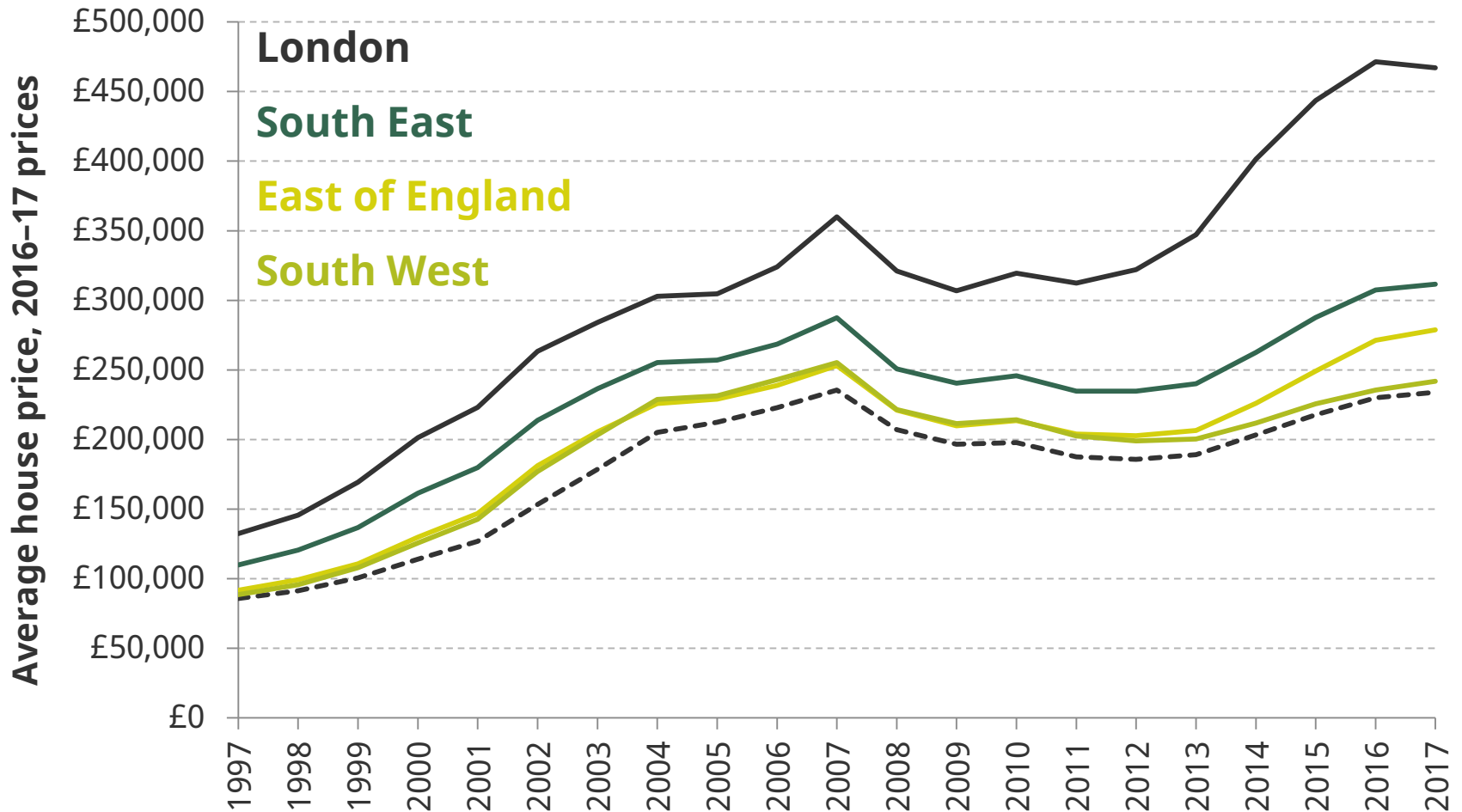
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House prices increased by 173% in 20 years



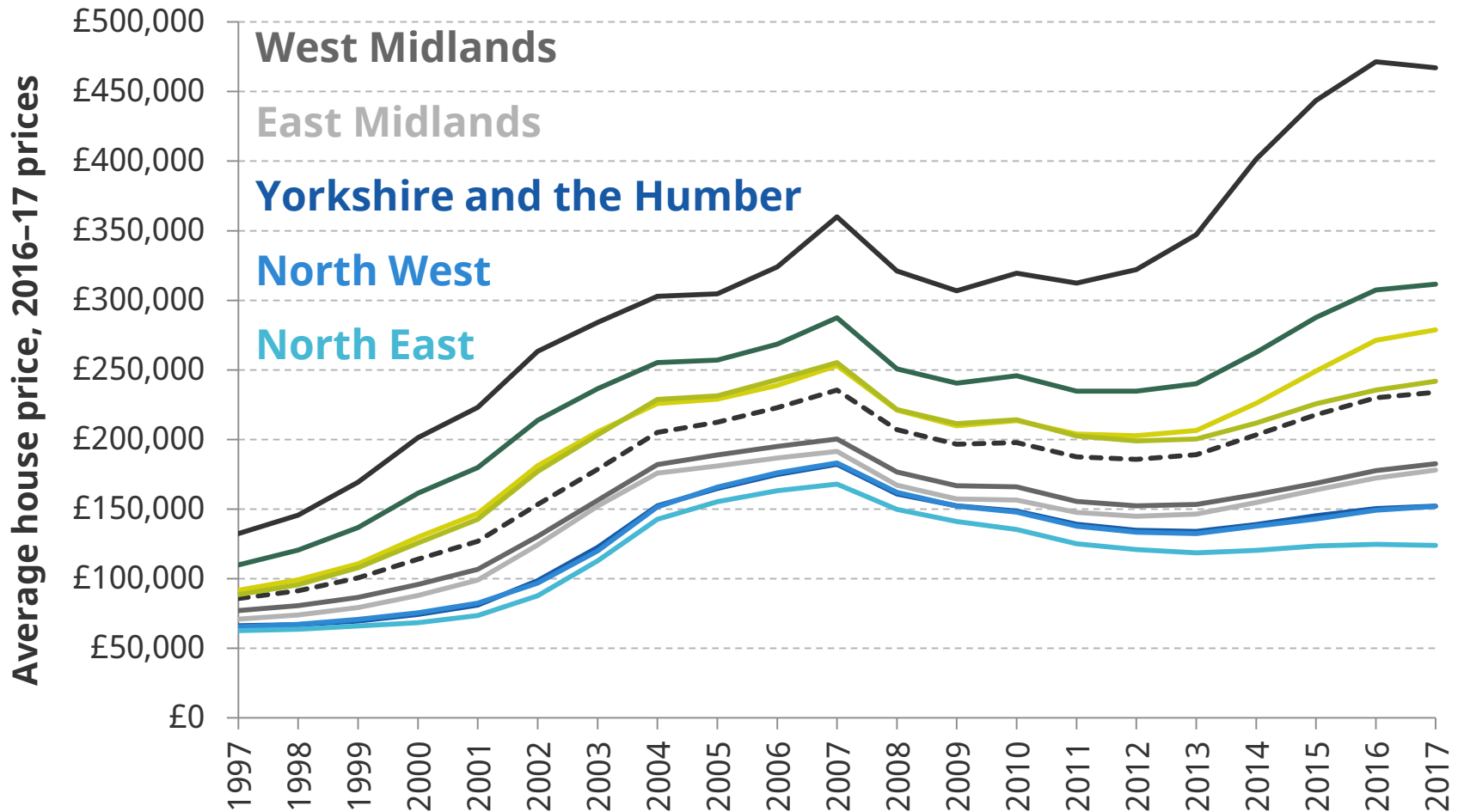
Source: Figure 9.3 of the Green Budget

House prices increased by 173% in 20 years



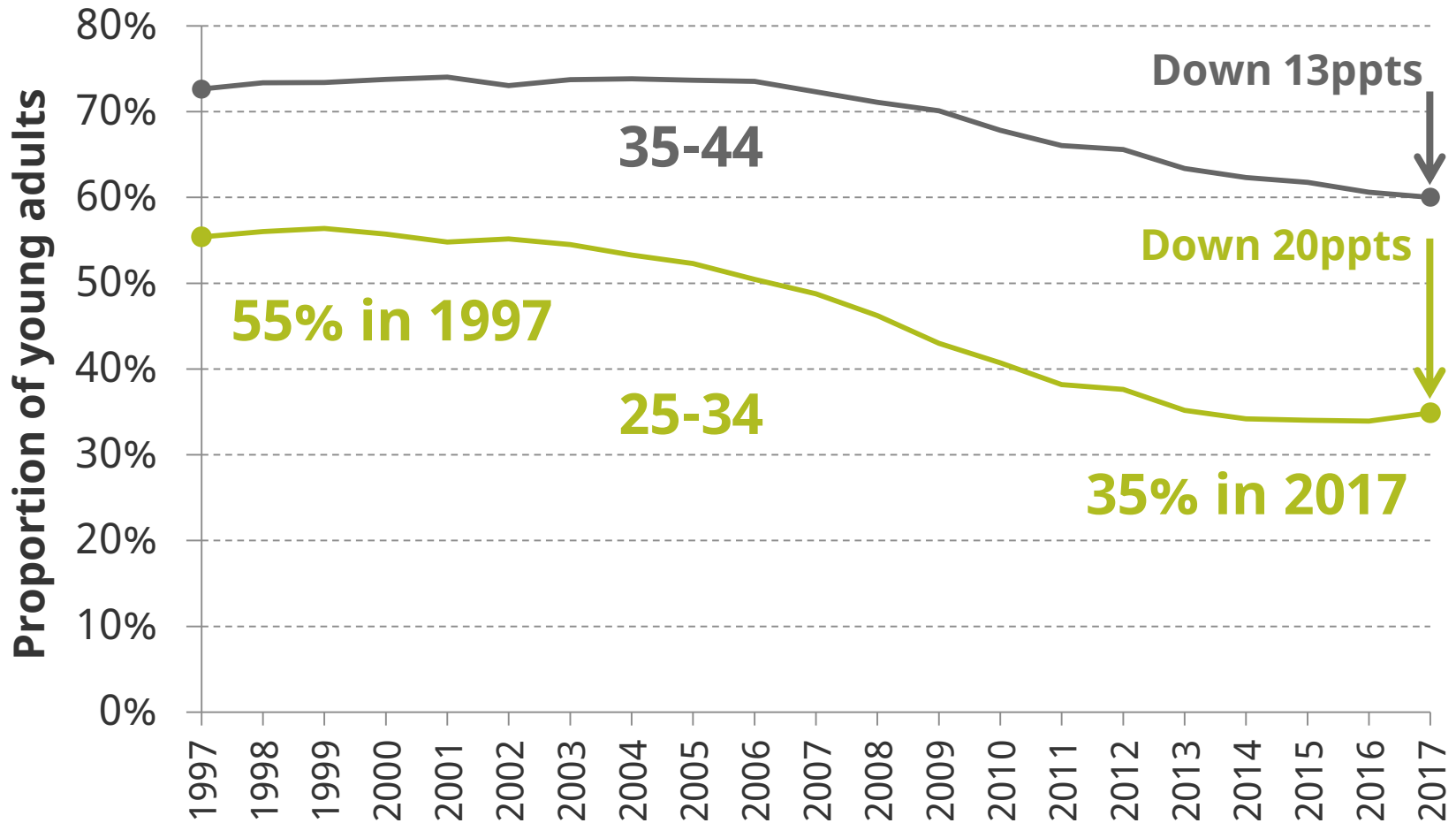
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House prices increased by 173% in 20 years



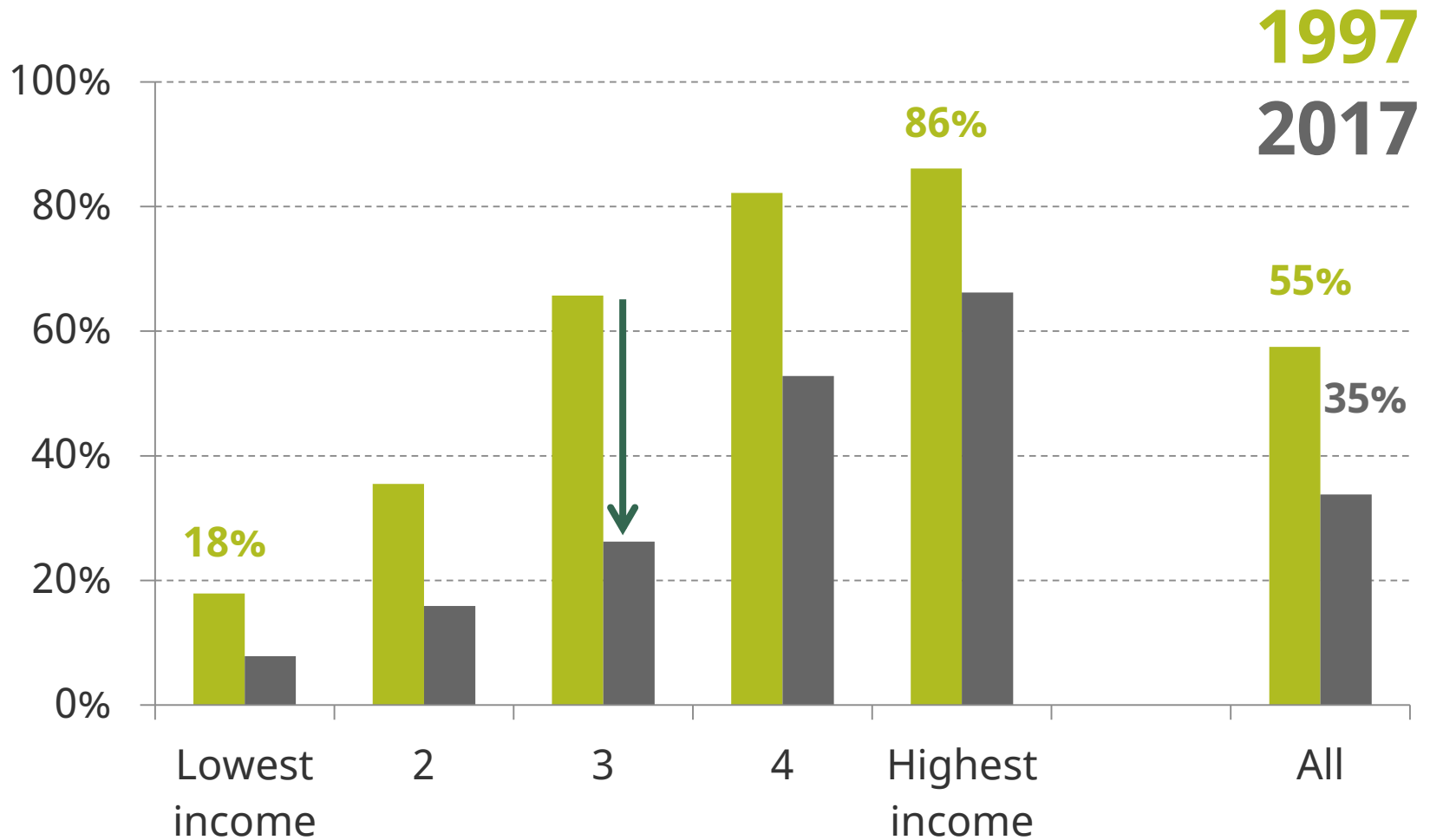
Source: Figure 9.3 of the Green Budget

Home ownership amongst 25- to 34- year olds has fallen from 55% to 35%



Source: Figure 9.1 of the Green Budget

Homeownership fell most for middle income young adults



Source: Figure 9.1 of the Green Budget

Two key barriers to homeownership

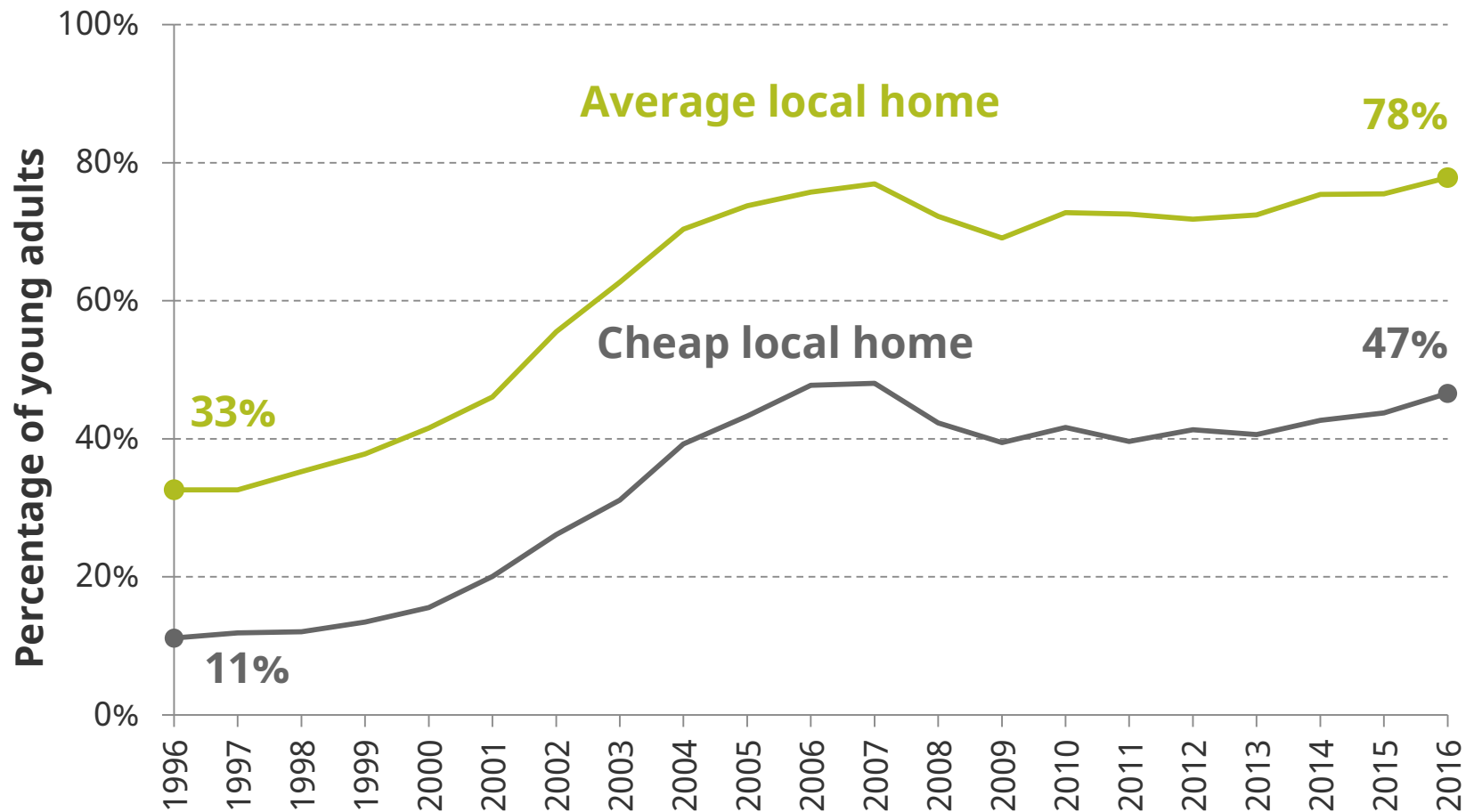
Saving for a 10% deposit (loan-to-value)

- Most mortgages require at least a 10% deposit

Borrowing enough to cover the rest (loan-to-income)

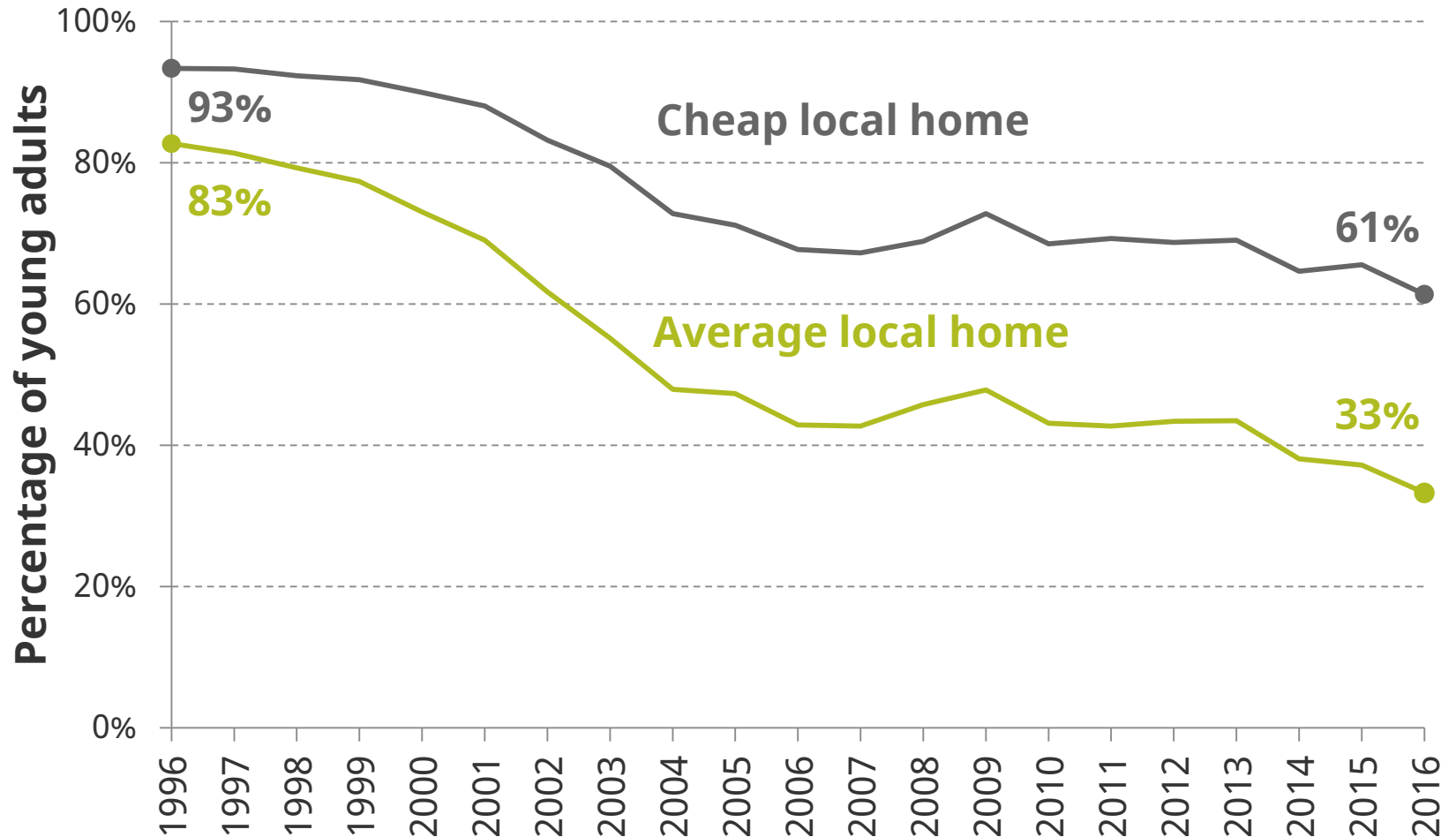
- Very hard to borrow more than 4.5 times salary

Proportion of young adults for whom a 10% deposit is more than 6 months net income



Source: Figure 9.11 of the Green Budget

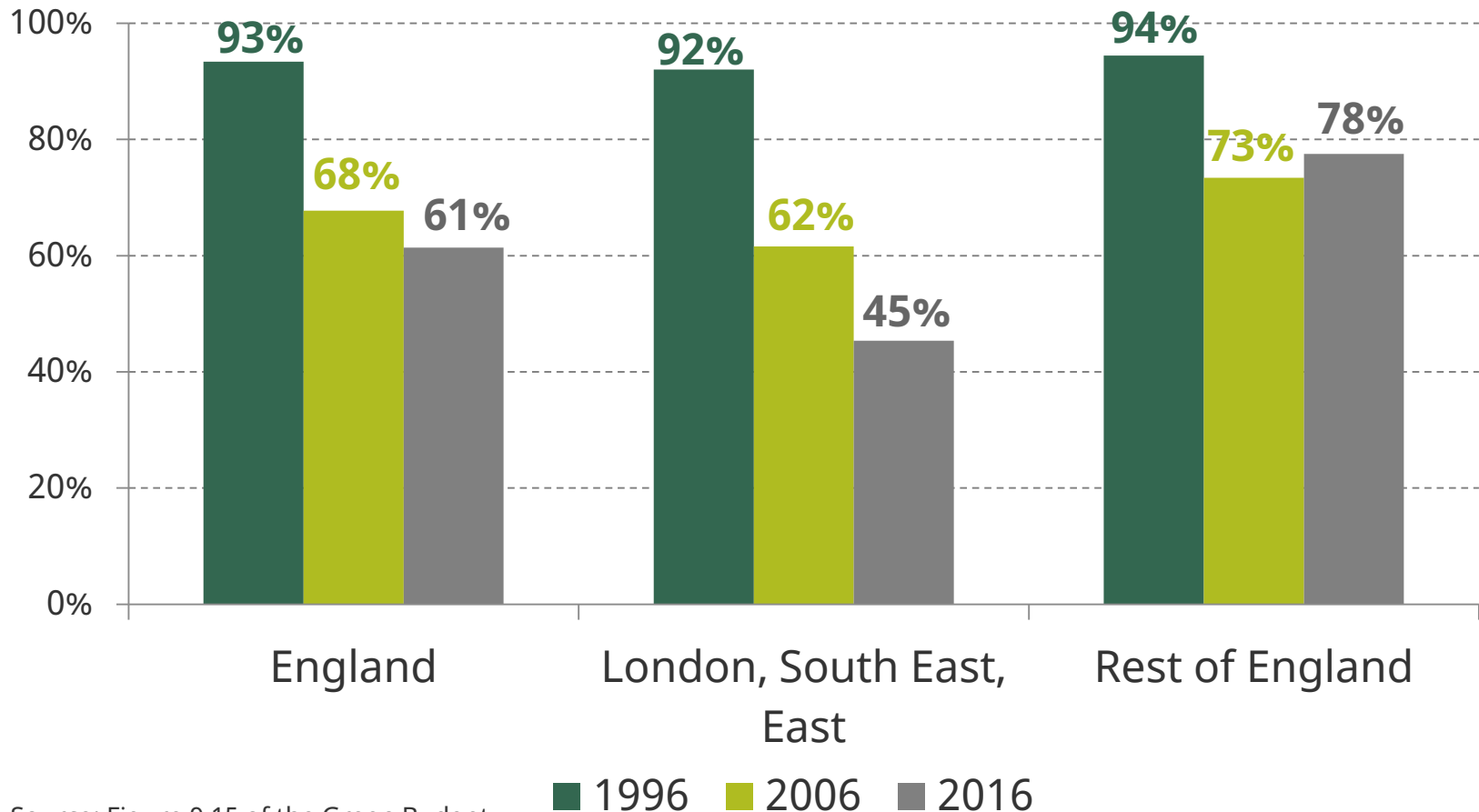
Proportion that could buy if they borrowed 4.5 times their salary and had a 10% deposit



Source: Figure 9.14 of the Green Budget

Barriers to homeownership are particularly high in London and the South East

Proportion of young adults that could buy one of the cheapest local homes if they borrowed 4.5 times their salary and had a 10% deposit



Source: Figure 9.15 of the Green Budget

What can be done?

Fewer restrictions on mortgage lending

- Good reasons not to do this

Give young first-time buyers a financial advantage in the market

- e.g. Cuts to stamp duty, Lifetime ISA, Help-to-Buy
- Could increase homeownership but also push up house prices

Disadvantage other buyers in the housing market

- e.g. restricted mortgage interest tax relief, stamp duty surcharge
- Could increase homeownership but also push up rents

What can be done?

Supply and the responsiveness of supply to demand are key in determining prices

3 broad approaches to increasing supply

More social housing (incl. “affordable rent”/“shared ownership”)

- Potential to boost homeownership but could crowd out land for private development

What can be done?

Supply and the responsiveness of supply to demand are key in determining prices

3 broad approaches to increasing supply

More social housing (incl. “affordable rent”/“shared ownership”)

Loosening planning restrictions that inhibit development

- Good reasons for some planning restrictions
- But come at a cost: recent study suggests prices in SE could be 25% lower if had planning constraints like NE (Hilber and Vermeulen 2016)
- Big effects from big constraints, e.g. green belt is 13% of England
- Lots of reforms but still fundamentally “case-by-case”

What can be done?

Supply and the responsiveness of supply to demand are key in determining prices

3 broad approaches to increasing supply

More social housing (incl. “affordable rent”/“shared ownership”)

Loosening planning restrictions that inhibit development

Addressing other barriers that inhibit development

- Variety of policies trying to address barriers to otherwise profitable developments
- How important are these barriers? How can government identify them? How effective are their solutions?

Conclusion

Big property price increases over the last 20 years

- Key reason for declining homeownership amongst young adults who are unable/unwilling to buy
- Lead to increased inequalities between older and younger generations and within the young generation

Key is enabling homes to be built in places people want to live

- Biggest barriers to construction in areas where demand is highest
- Broader implications for economic productivity, time spent commuting and inequality in access to job opportunities