Chapter 2

Divided generations

– housing's growing impact on inequality

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Historically the discourse on housing has been dominated by issues of class and income group. However in this decade the focus has shifted towards the issue of social divisions between generations and not least in relation to the housing market. Two relatively recent books highlight this – Howker and Malik's *Jilted Generation: How Britain Has Bankrupted Its Youth* and Willett's *The Pinch: How the Baby Boomers Took Their Children's Future – And Why They Should Give it Back*.[1]

Similarly the campaign groups Generation Rent (formerly the National Private Tenants Organisation) and Priced Out have both highlighted the consequences of the generational divides that have opened up in housing, with younger households less and less likely – or able – to become homeowners rather than private tenants (see further discussion in Commentary Chapter 3).

Clearly there have always been differentials between the generations with respect to housing – contrast outright ownership enjoyed by 57 per cent of those aged 65 and over (see Compendium Table 31a) and the struggle to become a mortgaged owner in the younger age bands (see Compendium Tables 30-38). Table 1.2.1 below highlights the tensions.

Table 1.2.1 **Percentage of each age group that are homeowners in the UK, 1981 to 2011**

	Age group					
Year	16-24	25-34	35-44	45-64	65-74	75+
1981	**32.0**	**62.1**	**69.1**	**59.0**	**50.0**	**47.1**
1991	**36.1**	**66.5**	**78.0**	**75.7**	**62.3**	**53.2**
2001	**23.4**	**59.6**	**73.9**	**79.7**	**74.2**	**64.4**
2011	**10.0**	**42.8**	**63.6**	**73.7**	**78.2**	**72.9**

Source: English Housing Surveys 2001/02 and 2012 to 2013.
Note: Data for 2001 and 2011 are for financial years 2001/02 and 2011/12 respectively.

Recent work by the Resolution Foundation has highlighted the challenges facing low- to middle-income households in general and younger households in particular. As their report *The Home Stretch: coping with high housing costs* notes:

> *'The high cost of one-bedroom properties presents particular challenges for young people who are most likely to need smaller homes, limiting their ability to move to major cities in search of work. The same group also receives less help with Housing Benefit and other benefits from the state which compounds the struggle. In fact, both major parties are indicating that they will remove Housing Benefit entirely from the under 25s in the next parliament.'*

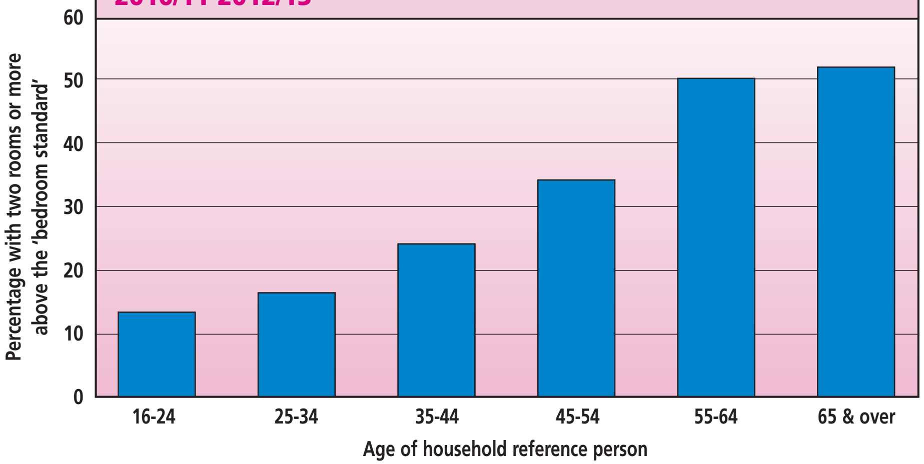
As this suggests, it is not just about access to homeownership even though that dominates the headlines.[3] There is a general problem of access to housing for considerable numbers of younger, low- to middle-income households whether owned or rented (the income gulfs are shown in Figure 2.2.1 in last year's *Review* (p.42); see also Commentary Chapter 3 in the current *Review*).

In HSBC's report *The Property Haves and Have Nots* the outlook for 25-36 year olds is examined in some detail.[4] The research highlights the impact that delayed house purchase has on securing a longer-term family home and the consequential knock-on effects this may have regarding the household's ability to help their own children buy homes. This reality of generational advantage and disadvantage has been building over the decades. In the past the evidence has suggested that although different cohorts of households experience differential access to homeownership at the outset, reflecting the economic cycle, in the fullness of time they catch up.[5] However, as discussed in Commentary Chapter 3, with the structural shifts in the mortgage market this may no longer be possible in the same way. None of this is to argue that complete generations are excluded, rather the process becomes ever more exclusive as shown in the 2014 report by insurance company Legal & General, *Let's House Britain*. It charts in graphic terms the pressures on 'Generation Y' around the more tightly closed door of homeownership.[6]

Similar themes are developed with considerable strength by the Intergenerational Foundation in a report which argues that the current housing crisis is more about the way housing is shared between older and younger generations and that the crisis has moved from being a class issue to one of age.[7] The rise in under-occupation by older households, the concentration of housing wealth amongst them and the modest scale of downsizing currently undertaken – reflecting the considerable incentives to overconsume housing – are seen as evidence for this. It is suggested that 'younger people increasingly consider that unfairness in this area is breaking the intergenerational pact'. The Foundation argues this should be addressed via a combination of carrots and sticks including abolishing stamp duty for those who downsize from larger homes, increasing the supply of suitable housing for people downsizing, the withdrawal of some 'universal' benefits for those living in houses worth over £500,000, a property value tax and the abolition of council tax concessions for single occupation.

Latest figures from the English Housing Survey show that in overall terms over one-third of all dwellings (36.6 per cent) are under-occupied. This is defined as households occupying dwellings with at least two more rooms than are deemed to be required by the 'bedroom standard'. It does not include the further one-third of households with just one room above the bedroom standard, as that is now the social norm. This also squares with the survey evidence suggesting than when older households are willing to contemplate downsizing this typically means moving to nothing smaller than a two-bedroom dwelling.[8] Even so, over half of all older households in England are under-occupiers by this slightly more generous contemporary standard (see Figure 1.2.1).

Figure 1.2.1 **Under-occupation by age band in England, average 2010/11-2012/13**



Source: English Housing Survey Households Report 2012-13.

Downsizing

With growing awareness of the housing consequences of an ageing population it is no surprise there has been an upsurge of work related to downsizing, the lack of options for older households and the overall impact this would have on the market if this weakness were to be addressed.[9] Evidence from other countries suggests downsizing is not as common in the UK as it is, for example, in the USA or Australia.[10] The recent report of the All Party Parliamentary Group on Housing and Care for Older People on the affordability of retirement housing highlighted many of the tensions,[11] as did Wood's report for Demos.[12] Judd *et al* found that in Australia purpose-built retirement housing was a key driver of this market, in contrast to the UK where such housing is in short supply, not least because of difficulties with planning permission. The All Party Parliamentary Group concludes:

> *'...if just half of those interested in downsizing were able to do so, 4 million older people would be able to move, freeing up 3.5 million homes, of which over 2 million would be 3 bedroom properties. This would create a 'whole chain' effect, where families would be able to move into larger homes, freeing up 'second stepper' properties, and in turn, freeing up property at the bottom of the housing chain for first time buyers.'*

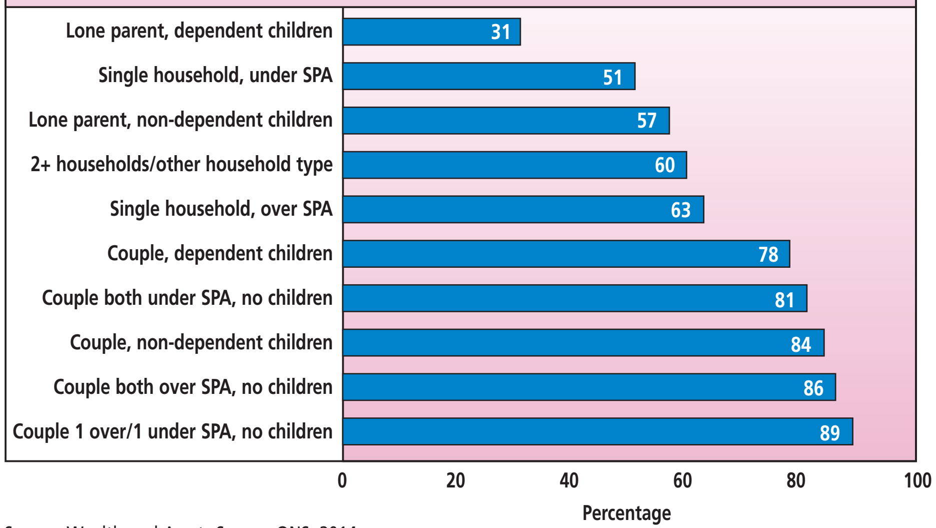
This highlights a key problem and an important issue. Housing policy tends to focus on single agendas, for example on first-time buyers. What it normally fails to do is join up agendas, as with downsizing – tackling the issue would address the needs of older households as well as the wider housing supply agenda, but from a different direction. In particular, the All Party Parliamentary Group make the case for focusing shared ownership on the high proportion of older homeowners willing to downsize, but who cannot afford to access the market for new outright ownership retirement homes due to the modest value of their current properties.

Housing wealth

Mention of older households and housing inevitably opens up the question of the concentrations of housing wealth held by that generation, a process that has been exacerbated by recent house price rises. Lloyds Banking Group estimated that in the past decade (2003-2013) the increase in the value of properties (£1.72 trillion) was almost three and a half times the rise in mortgage debt (£503 billion) despite the downturn.[13] As a consequence net housing wealth had grown by £1.22 trillion (58 per cent) since 2003 (also see Compendium Table 45). Clearly that was unevenly distributed as the ONS showed very clearly in in its report *Wealth in Great Britain*.[14] Over a third of all property-based wealth is held by households where the reference person is 65 or older. Figure 1.2.2 highlights the sharp differentials in ownership by household type which then flow through into this property-based wealth.

Housing has been viewed as an almost unchallengeable store of wealth – to the extent that governments in the UK and abroad have built programmes of asset-based welfare in the belief that homeownership could itself be one way in which poverty can be eradicated. Headlines such as *The Times'* recent 'Houses now earning more than salaries of the majority of Britons' give a sense of this mood.[15] This was always a questionable assumption – many of the poorest in society are homeowners – typically retired and living on lower incomes (see Compendium Tables 36a, 36b and 37) – and there are clearly strong concentration risks which derive from having most or all of your wealth in a single asset in a single location. Moreover, in recent years the presumptions around the transformative power of ownership have been subject to growing challenge in the context of the debates around the wider distribution of wealth and inequality by, for example, Piketty and Forrest.[16]

Figure 1.2.2 **Household ownership rates by household type, Great Britain 2010-2012**



Source: Wealth and Assets Survey, ONS, 2014.
Note: SPA is State Pension Age (65 for men and 60 for women).

Of course there are inextricable links between housing wealth, downsizing and the performance of the housing market compared to other assets, as well as with savings and pensions and income into retirement. The rise of the buy to let market is a further expression of this with older households looking to supplement pension income by the acquisition of further property assets aided by access to interest-only mortgages that are denied to most first-time buyers. This has the effect of helping build the so-called perfect storm, with older and already privileged homeowners buying more homes to rent out to those who are unable to compete in the housing market (see also Commentary Chapters 3 and 6). Ultimately the value stored can only become really liquid as other households, including those denied access to the market, are able to buy those assets. These are complex dynamics and require detailed assessment.

Despite the value of the housing wealth held by older households, the equity release market remains poorly developed in the UK and indeed its funding has been impeded by the government's recent announcements regarding the end of compulsory annuities – a major source of finance for equity release and a further example of the ways policies are developed in isolation. Recently proposals were set out for a UK Equity Bank, a state agency which would help people release income from their homes in the form of a lifelong annuity in return for selling a portion of the equity in their homes to the state.[17]

Downsizing remains the most important mechanism for extracting housing wealth alongside the roughly 100,000 'last time sales' per annum, i.e. those made on death.[18] However, in total such wealth extraction has remained negative in recent years as households have injected more equity than has been withdrawn (see Compendium Table 7). Equity release in the formal sense of taking out an equity release product has been rising. In 2013 total lending was estimated at £1.07 billion, a rise of 36 per cent over the last two years.[19] A provider of such products, Key Retirement Solutions, suggests that homeowners aged over 65 who own their homes outright now have property wealth totalling £801 billion, with recovering house prices boosting that figure by £33 billion in 2013.[20]

Taxation

As discussed in Commentary Chapters 3 and 6 and not least reflecting the generational divides discussed here, the issues of property-based taxation have loomed rather larger in recent years. The mansion tax proposal focussed on homes worth more than £2 million has attracted attention, and potentially affects around 60,000 homes, two-thirds of which are in London.[21] However, alongside that, Kate Barker has re-iterated the case for a capital gains tax as set out in the Mirrlees Report of 2011.[22] While recognising the political challenges of bringing such a tax into being, Barker rightly makes the point that (p.90) 'if politicians are not prepared to face up to the need for much more housebuilding, they must instead face up to taxing capital gains on housing'. Such a tax could have a substantial impact on the housing wealth of older households though there would have to be transitional mechanisms alongside the normal tax reliefs.

Conclusions

Our focus on the divided generations has highlighted the acute tensions that now exist in and around the housing market in relation to the 'haves' and 'have nots'. We should not ignore the more positive bridges that exist – most clearly through the 'Bank of Mum and Dad' which now supports around two-thirds of first-time buyer purchases. Products that cross the generational divide – family mortgages of one sort or another – are now much more common and formalised (with safeguards for both parties and properly managed). In essence the challenge is to deal with the gap between asset-rich and possibly income-poor parents, on the one hand, and income-adequate but asset-poor children, on the other. Solving this conundrum will be an important contribution to dealing with lower housing supply and market liquidity. With households living longer and the housing stock now supporting three or four generations rather than two or three, this is becoming a pressing concern.

Key Reading

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Morton, A. (2013) *Housing and Intergenerational Fairness*. London: Policy Exchange.

Select Committee on Public Service and Demographic Change (2013) *Ready for Ageing*. HL Paper 140, Report of Session 2012-13. London: House of Lords.

References

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3 Pennington, J. (2012) *No place to call home: The social impacts of housing undersupply on young people*. London: Institute for Public Policy Research.

4 HSBC (2014) *The Property Haves and Have-Nots – The Outlook for today's 25-36 year olds*. Press Release, February 2014. London: HSBC.

5 Hood, A. and Joyce, R. (2013) *The Economic Circumstances of Cohorts Born between the 1940s and the 1970s*. IFS Report R89. London: Institute of Fiscal Studies.

6 Legal & General (2014) *Let's House Britain*. London: Legal & General.

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8 Croucher, K., Wilcox, S. and Holmans, A. (2009) *An Examination of the Housing Needs and Supply for an Ageing Society*. London: RICS research.

9 See for example Croucher *op.cit.* and Ball, M. *et al* (2011) *Housing Markets and Independence in Old Age: Expanding the opportunities*. Reading: Henley Business School, University of Reading.

10 See Banks, J. *et al* (2012) 'Housing Mobility and Downsizing at Older Ages in Britain and the USA' in *Economica* (79)313, pp.1-26; Fannie Mae (2014) *Are Aging Baby Boomers Abandoning the Single-Family Nest?* Fannie Mae Housing Insights, Volume 4, Issue 3. Washington DC: Fannie Mae; Judd, B. *et al* (2014) *Downsizing amongst older Australians*. Australian Housing and Urban Research Institute Final Report No. 214. Melbourne: AHURI.

11 All Party Parliamentary Group on Housing and Care for Older People (2014) *The affordability of retirement housing; An inquiry by the All Party Parliamentary Group on Housing and Care for Older People*. London: DEMOS.

12 Wood, C. (2013) *The top of the ladder*. London: DEMOS.

13 Lloyds Banking Group (2014) *UK household wealth close to £8 trillion*. Press release, May 2014. London: Lloyds Banking Group.

14 Office of National Statistics (2014) *Wealth in Great Britain, Wave 3 2010-2012*. London: ONS (see www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-3/2010-2012/index.html).

15 *The Times* (2014) 'Houses now earning more than salaries of the majority of Britons'. December 12th, 2014, p.4.

16 Forrest, R. (2014) *Home Ownership and Housing Wealth Reconsidered*. Presentation at the Urban Studies seminar, The Edges of Home Ownership, 30 September and 1 October 2014. Delft: TU Delft; Piketty, T. (2013) *Capital in the Twenty-First Century*. Cambridge: Cambridge, Harvard.

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18 For discussion see Reinold, K. (2011) *Housing equity withdrawal since the financial crisis*. BoE Quarterly Bulletin Q2. London: Bank of England.

19 Equity Release Council (2014) *Equity Release Market Report*. Spring. London: ERC.

20 Key Retirement Solutions (2014) *Pensioner property wealth is record £801 billion*. Press release, February 22nd (see www.keyrs.co.uk/news/equity-release/pensioner-property-wealth-record-801-billion).

21 Knight Frank (2013) *Taxing high value homes: An analysis of proposals for a mansion tax*. London: Knight Frank.

22 Barker, K. (2014) *Housing; where's the plan?* London: London Publishing Partnership; Mirrlees, J. *et al* (2011) *Tax by Design*. London: IFS.

What Generation are you? Millennial, Gen X, Gen Z, Baby Boomer. A listing and short description of each generation.Â These are Western Cultural Generations. Japan and Asia and portions of Europe will have their own generational definitions based on major cultural, political, and economic influences. Which Generation are You? Generation Name. Births Start. Births End. Youngest Age Today*. Oldest Age Today*. The Lost Generation The Generation of 1914. 1890. 1915. 105. 130. The Interbellum Generation. Divided Generations? Age and the Challenge of Modernizing the Conservative Party. January 2013 Â· SSRN Electronic Journal.Â Cyberkids or divided generations? Characterising young peopleâ€™s internet use in the UK with generic, November 2011 Â· New Media & Society.