

Policy: briefing

Held-back households

How the housing system squeezes people on low-middle incomes

Summary

More and more people from all walks of life are finding that their housing is unaffordable and that their housing choices are constrained, impacting negatively on other aspects of their lives.

Policy makers are increasingly concerned about the group sometimes referred to as the 'squeezed middle' or 'low-middle earners': those households who don't earn sufficiently high wages to live in care-free comfort, but are not the poorest in society. At the same time, there has been an increased focus on intergenerational fairness. Today's 20- to 30-somethings argue that they face a far greater debt burden, and fewer opportunities for job stability and wealth accumulation than the baby boomer generations that came before them.

The housing system is central to this squeeze on low to middle earners. As our housing market comes under increasing pressure, a large number of households find themselves struggling to find and maintain suitable and stable housing choices, or to meet their reasonable housing aspirations. Many are only just coping with the current cost of their housing and are vulnerable to any change in their situation or reduction to their income. This group is increasingly held-back, frustrated and excluded:

- Two out of three young people believe they have no chance of owning a home
- One in five low-middle earners struggle to keep up with their mortgage or rent
- The cost of housing has pushed three million households into poverty

The needs of these households may not be as acute as those at the sharpest end of the housing crisis; families overcrowding in unsanitary conditions, or the thousands forced to sleep rough

every night. Shelter continues to develop policy and campaign on behalf of those hit hardest by the housing crisis. But Shelter also argues that the housing system must be understood as a whole. Systemic failings, such as the lack of housing supply compared to demand, are the root causes of housing problems that affect people across different tenures and income brackets, in turn putting pressure on the lowest income households.

This briefing outlines the housing problems that confront families who are held-back by the housing system, and sets out why it is so vital that policy makers recognise the needs of this group and begin to tackle the root causes of their housing problems. This is a pressing need given the continued sluggishness in both the housing market and the wider economy; prospects will not improve for held-back households if their wages continue to stagnate but the cost of housing remains high.

We identify four main areas where further research and policy development are needed. We will be publishing further work on these key topics over the coming year:

- Promoting market stability to end the cycles of housing boom and bust that leave households locked out of homeownership, stuck in unsuitable homes, or threatened with repossession
- Exploring the role of housing subsidies and benefits in helping hard-pressed families keep their heads above water
- Creating a private rented sector that gives more stability and certainty to the growing number of renting families
- Thinking afresh about housing tenure, and developing appropriate allocation policies and tenancy strategies

Who are held-back households?

A typical family living in England today, on an average salary,¹ has few housing choices. Working, but on modest wages, they have recently seen their real incomes drop as a result of rising inflation and stagnant wages.

Various attempts have been made to define this 'middle' group, most easily identified through reference to relative income. The Resolution Foundation, for example, defines low-middle earners as 'members of the working-age population in income deciles 2-5 who receive less than one-fifth of their gross household income from means-tested benefits', some 5.8 million households.²

A broader view might also include lower income pensioners and other benefit reliant groups such as the recently unemployed and those who are in work but depend on benefits to top-up their low incomes.

Attempts have also been made to define a group squeezed by the housing system, often in relation to tenure choices:

- 'Forgotten households': Shelter identified nearly 900,000 who are frozen out of 'affordable' housing, would not be able to buy, and are not in receipt of housing benefits.³
- 'Generation rent': A recent report published on behalf of Halifax defined this group as the two-thirds of non-homeowning 25-40 year olds who "believe they have no prospect whatsoever of buying a home".⁴
- A middle group could also be defined in relation to housing satisfaction. There is a loose correlation between income level and housing satisfaction, but satisfaction with accommodation is more strongly associated with tenure and age. Older, homeowner households are the most likely to be 'very satisfied' with their housing.⁵

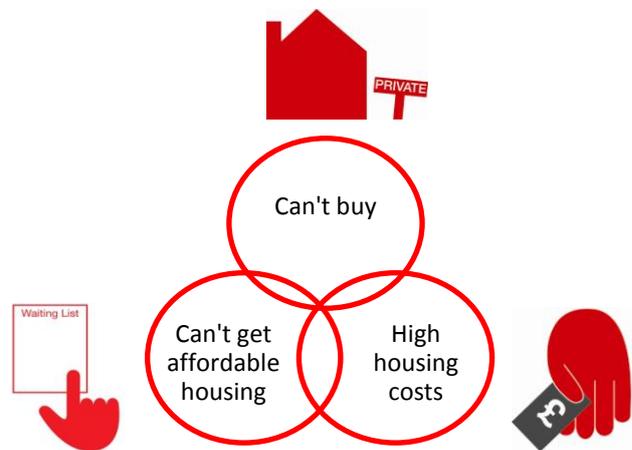
Whichever approach is taken to defining this group, it remains clear that those households who are not high earners, do not receive high levels of support from the state and do not have access to inherited

wealth, have extremely limited choices, and that housing costs are putting a squeeze on their finances and their aspirations. As more of them crowd into the private rented sector, additional demand is placed on an already high-pressure market. This in turn affects poorer households at the bottom end of the sector.

Any policy aimed at assisting the squeezed middle must deal with the challenges of housing. Shelter is particularly concerned with housing outcomes for squeezed families with children. We believe that stable, decent, affordable housing is essential to give children a good start in life.

Housing choices

Accessing housing is a key problem for these households.



- It is increasingly hard to get a social rented home, particularly in high-demand areas. The number of households on housing waiting lists in England has increased by over 70 per cent since 1997,⁶ meaning that those wishing to access the relatively low rents and long-term tenancies afforded by social housing⁷ face a long wait. The undersupply of social housing means that it has been increasingly allocated to those with the highest levels of need.

¹ In England in 2010 the median gross annual pay was £21,575, and the mean was £27,186. Source: *2010 Annual Survey of Hours and Earnings (ASHE)*, Table 8.7a.

² *Essential Guide to Squeezed Britain: Annual Audit of Low-to-Middle Earners*, Resolution Foundation 2012

³ Hughes, N. *The Forgotten Households: is intermediate housing meeting affordable housing needs?* Shelter 2010

⁴ Blackwell, A, & Park, *The Reality of Generation Rent Perceptions of the first time buyer market*, NatCen 2011

⁵ DCLG *Survey of English Housing* (online) - Table S129

⁶ *Housing Strategy Statistical Appendix (HSSA) 2009/10*

⁷ In its current form - changes brought forward in the Localism Act 2011 will reduce default tenure lengths and allow for higher rent levels.

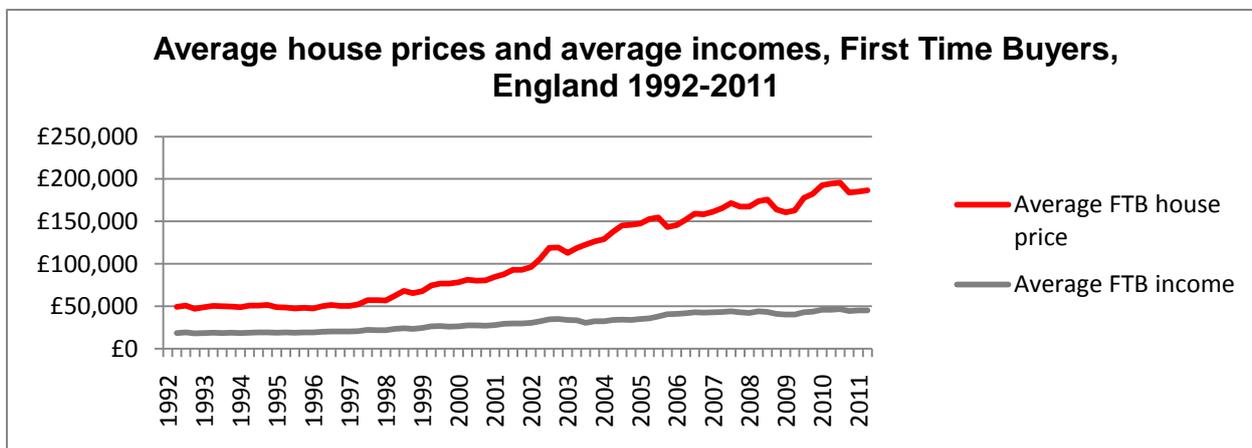


Figure 1: Average FTB incomes and average house prices, 1992-2011, England. Source: DCLG Live Table 514

- Other quasi-public housing options, such as low cost home ownership schemes and intermediate rent, are at present too small in scale to significantly increase choice or improve affordability in the housing market, generating few benefits for held-back households. Moreover, low cost home ownership schemes are generally not low-cost enough for households earning less than average incomes.⁸
- Buying a first home is an unrealistic option for households who are not high earners and do not have significant help to build a deposit. This is especially true of younger families; the high cost of housing and inability to save due to other budget pressures mean that simply gathering a deposit is a near impossible task for many would-be buyers. In 2005 the average age of a first time buyers was 29; today the average age for those buying without assistance is 33.⁹ Other factors including low demand and tightened credit conditions are at play, but soaring house prices relative to fairly stagnant incomes (as Figure 1 above demonstrates) are the main driver of the decline in home ownership.

With other choices so limited, squeezed families are increasingly stuck in the private rented sector - the number of families renting privately has risen by more than 600,000 since 2003/04.¹⁰ The flexibility and relatively easy access of the sector often make it a suitable option for a first independent home. But for those families seeking a stable, decent quality, well managed long term family home, the sector can be more problematic.¹¹ Renting privately does not allow families to build housing wealth either, contributing to worsening wealth inequality between the generations.

Helping these families need not mean simply increasing access to home ownership, which can be a difficult, risky and costly option for some. Improving the private rented sector itself, so that it provides some of the benefits of home ownership, may be a more immediate and cost-effective way to improve outcomes for this group.

Housing affordability

Affordability of housing is a key issue for low-middle earners, with the Resolution Foundation reporting that around a fifth of this group are struggling to keep up with the costs of their mortgage or rent.¹²

Reflective of wider tenure trends, the majority of the low-middle earner group are mortgaged homeowners. They can face difficulties keeping up with costs. Shelter research suggests that 18 per cent of mortgage holders find it a constant struggle to keep up with payments, often resorting to measures such as paying with a credit card, borrowing from friends or family or digging into savings to make ends meet.¹³ A life event like job loss or relationship breakdown can easily push these people into a spiral of debt.

Younger, lower income borrowers are more likely to fall into negative equity¹⁴ and more likely to take out riskier loans at high loan-to-value or high loan-to-income ratios.

The cost of housing also puts an affordability squeeze onto the growing number of families in the private rented sector. Although it has often been considered the cheaper housing option, Shelter

⁸ Hughes, N. *The Forgotten Households: is intermediate housing meeting affordable housing needs?* Shelter 2010

⁹ CML News and Views Issue no. 24, December 2011

¹⁰ English Housing Survey 2006/07 - 2010/11

¹¹ Shelter - forthcoming; Jones, E. *Fit for purpose? Options for the future of the private rented sector*, Shelter 2007

¹² *Essential Guide to Squeezed Britain: Annual Audit of Low-to-Middle Earners*, Resolution Foundation 2012

¹³ *Attitudes to housing affordability: Summary of findings*, Shelter 2011

¹⁴ *CML Housing Finance Issue 01 2011 Housing equity: a market update*, Council of Mortgage Lenders 2011

analysis reveals that private rents are unaffordable in over half of local authorities in the country.¹⁵

Private landlords can raise rent levels with relative ease, and cuts in housing benefit will undoubtedly put a further squeeze on renting households at the lower end of the earnings spectrum. Such high costs impact on other aspects of family life. Recent research by Shelter shows that 38 per cent of families with children who are renting privately have cut down on buying food to pay their rent.¹⁶

Housing futures

What will happen if we do not address the housing needs of this group, whose squeezed incomes and lack of decent housing choices are holding them back in life? Housing costs are a key determinant of economic chances, and the effects of unaffordable housing are already having negative effects on people's lives and limiting their life choices in serious ways.

- Over a fifth of 18- to 44-year olds without children admit they are delaying starting a family because of a lack of affordable housing.¹⁷
- 5.6 million people report that housing costs have affected their ability to move for work.¹⁸
- Millions of people are driven into poverty and trapped in debt and benefit dependency because their housing costs are too high. 10.3 million people in the UK are living in poverty before their housing costs are paid, but this rises to 13.3 million after housing costs are paid.¹⁹

On current trends the private rented sector will continue to grow, potentially housing as many as 24 per cent of all households within ten years, as owner occupation drops to 60 per cent. Regional trends are even starker; in London private renters are set to overtake homeowners.²⁰

These tenure trends need not be problematic in and of themselves, but they do raise important questions:

- How can low-middle earners forced to rent privately achieve the stability and high standards they deserve?
- How can they keep up with rising housing costs?
- How will they finance retirement without savings or housing equity to fall back on?
- What effects will there be on social mobility?

Even those low to middle income households who have managed to buy a home are finding that the housing market is holding them back. It is estimated that 800,000 recent buyers are in negative equity.²¹ Negative equity need not be disastrous, but it does mean that these homeowners have fewer choices, as trading up, moving to a new location, or moving to a larger home to accommodate a growing family become ever harder for them. This could lead to more overcrowding and worsening labour mobility among low earning homeowners.

Policy responses

Despite the growing recognition that the housing system is failing low to middle income households, policy responses so far have been weak and patchy.

It is widely accepted that a significant increase in the level of house-building is needed. Until the imbalance between supply of housing and demand for housing is addressed house prices will remain high, rogue landlords will be able to exploit the market, and the state must continue to subsidise the housing costs of the poorest households in order to avoid a surge in homelessness. The government has committed itself to increasing housing supply through changes to the planning system and the New Homes Bonus as an incentive for house building. But it is not yet clear that these will lead to significant numbers of new homes, particularly at a time when direct capital investment in new homes has been scaled back dramatically.²²

Another response is to develop new tenure models aimed explicitly at people whose incomes fall within a certain bracket. There have been numerous models of intermediate housing which subsidise the cost of owning for low-middle income households, such as shared ownership or shared equity. Intermediate schemes are politically popular, but generally do not address the underlying problems which prompted them, and are often poorly

¹⁵ Reynolds, L. *Private Rent Watch Report 1 - Analysis of local rent levels and affordability*. Shelter, 2011

¹⁶ See Shelter press release: *Rents in over half of England are unaffordable, new research shows*, 13/10/2011

¹⁷ Turfrey, B. *The Human Cost - How the lack of affordable housing impacts on all aspects of life*, Shelter 2010

¹⁸ Ibid

¹⁹ *Households Below Average Income: an analysis of the income distribution 1994/5-2009/10*, DWP 2011

²⁰ Heywood, A. *The End of the Affair - implications of declining home-ownership*, The Smith institute 2011

²¹ *CML Housing Finance Issue 01 2011 Housing equity: a market update*, Council of Mortgage Lenders 2011

²² The 2010 spending round saw a cut of 60% to new affordable housing budgets. See Shelter, *Comprehensive spending review briefing*, Shelter 2011

targeted.²³ Similarly, the new Affordable Rent homes (at up to 80 per cent of market rents) may meet the needs of some held-back households, but it will also take investment away from cheaper, more secure 'traditional' social housing.

Most recently, the government has sought to assist first-time-buyers by part-underwriting mortgages on newly built homes. This initiative may help some to buy, but does not address the high cost of homes that is squeezing middle income families, and could leave buyers saddled with unsustainable debts and vulnerable to negative equity.

While held-back households struggle, higher income homeowners receive a significant share of government support in the form of generous taxation treatment of their housing wealth. At the lower-income range of the spectrum, renters receive housing benefits to help pay for the high cost of their rental payments, as figure 2 below demonstrates.

Helping held-back households

Rather than develop ad-hoc schemes which prop up the market, Shelter starts with the view that we must address the fundamental issues which create problems for those who are squeezed by high housing costs or unable to access decent housing choices; those whose lives are held back by housing. Over the next few months, we will be conducting further research and analysis into key areas that we have identified as potential solutions.

Reducing housing market volatility

The highly cyclical housing market has negative effects on lower income households. They are either unable to afford booming house prices, or are pushed towards risky credit deals and unsustainable levels of debt to get a foot on the ladder. When the market collapses they are frozen out of credit, and those who have bought a home are exposed to negative equity and have difficulty selling.

To find effective ways to reduce volatility we need to better understand the relationships between housing and credit markets, and what drives lenders', buyers' and sellers' behaviour in the market - including the role of property taxes. At present, the property taxation system strongly incentivises home ownership and does little to support the squeezed middle. To inform the debate we also need to understand what the effects of different house price trends would be: the winners and losers, and the impacts on the wider economy. Shelter will be publishing a series of short briefings to explore these questions and develop recommendations on how to improve the functioning of the market.

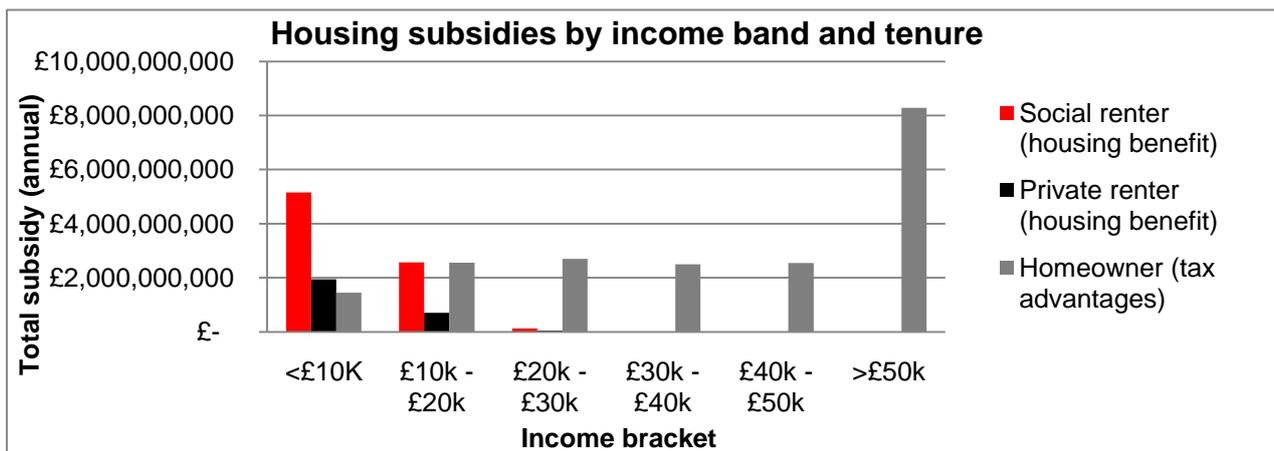


Figure 2: Housing subsidies by income band and tenure. Source: Shelter calculations adapted from LSE analysis using DWP Family Resources Survey and housing benefit statistics 2004

²³ Hughes, N. *The Forgotten Households: is intermediate housing meeting affordable housing needs?* Shelter 2010

Re-founding housing benefit

Thirty years after its implementation, housing benefit is to be fundamentally reformed under the new Universal Credit. The high cost of housing benefit has long been a subject of criticism, and there are many problems with the way the existing system works. This growth has stemmed mainly from policy decisions taken over recent decades to shift public spending away from capital investment - bricks and mortar - and onto individual subsidies to enable people to house themselves in the market. And there remains a positive case for housing benefit, which provides both a vital safety net and a longer term support for low earning families hit by high housing costs.

Shelter will explore the role subsidies play in ensuring low to middle income households can find and maintain decent quality accommodation in places where they can thrive. We will investigate how the best elements of housing benefit can be retained in the future, and how its problems can be overcome, and ask whether there are other forms of subsidy that could better meet the needs of this group in the future.

A new deal for the private rented sector

The growing number of held-back families who rent privately can face instability, poor conditions, bad management and increasingly unaffordable rents. A private rented sector that offers tenants more stability and more certainty could help to address many of the problems faced by families on low-middle incomes, and to equalise tenure choices. A better private rented sector also needs to work for landlords, and proposals to improve the position of tenants must also consider their potential market impacts.

Building on our work targeting rogue landlords²⁴ and comparing international tenure models,²⁵ Shelter will be looking more closely at the case for change in the private rented sector, and exploring how stability and predictability could be promoted, particularly for families with children.

Providing the right tenure choices

Spending cuts, changes to grant funding rules and a new local government financing regime mean that

there is far less public money available to support new affordable homes - but also greater freedom for councils to use their resources as they see fit.

At the same time, the Localism Act 2011 has fundamentally changed the framework governing affordable housing and the role of local government in it. Local authorities will have more discretion over tenancy and allocations strategies - meaning they will have to consider carefully how to respond to the needs of different groups. Meanwhile housing associations must adapt to providing the new Affordable Rent homes, and are under pressure to leverage their assets to 'do more with less'.

As housing providers and families seek to adapt to the new landscape of affordable housing provision, we will assess the evidence on how different tenures can meet housing need, and the wider social implications of local housing policies.

Next Steps

The housing system is exacerbating the problems of low-middle income households. Limited choices, unsuitable and unaffordable housing holds them back from realising their aspirations and puts a significant squeeze on their household finances. Unless policy makers recognise the centrality of housing to the lives of families in the squeezed middle and take urgent action, these effects will continue to worsen.

Shelter believes that the failings of the housing system require a strategic approach to address its fundamental problems. Our policy programme for 2012 will address these questions and propose policy responses that can help held back households as well as those struggling on lower incomes.

If you would like to know more about this programme, or get involved, please contact Nicola Hughes, Senior Policy Officer at nicola_hughes@shelter.org.uk

²⁴ See Shelter's 'Evict Rogue Landlords' campaign at <http://bit.ly/hsXfJR>; *Policy briefing: Asserting authority - calling time on rogue landlords*, Shelter 2011

²⁵ *Policy Briefing: Generation Rent - learning from different rental markets*, Shelter 2011