Resolution Foundation

The Resolution Foundation Housing Outlook

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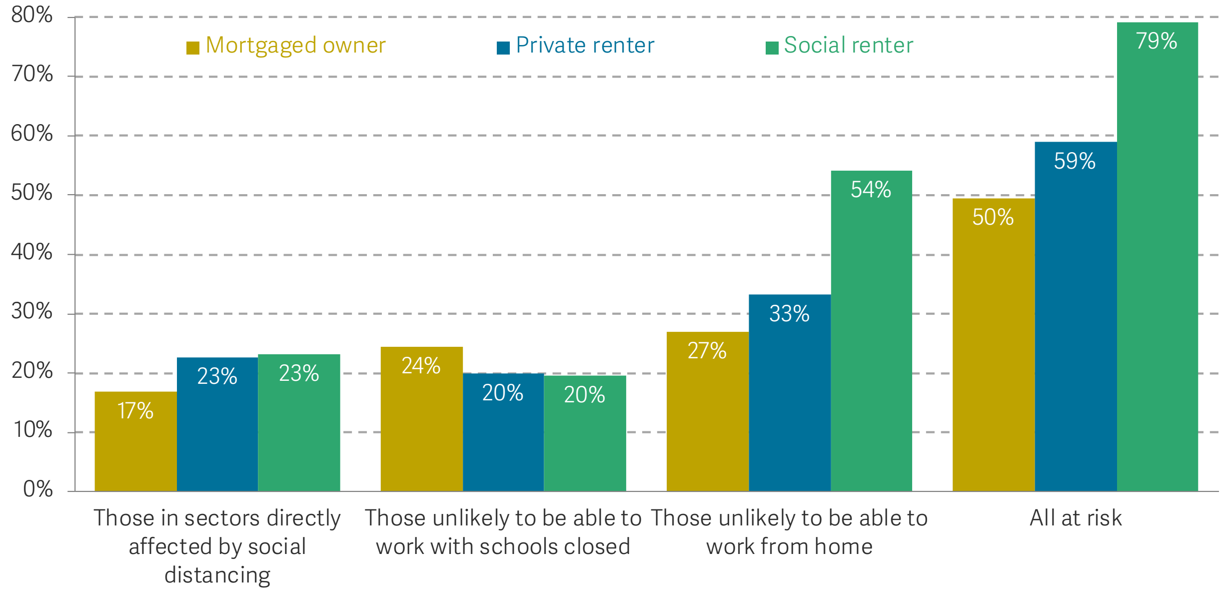
This is just the second Resolution Foundation Housing Outlook, but it is being published in a radically different world to the first Outlook of January 2020. While housing itself played a central role in the downturn of 2008, today the economic crisis is being driven by a fall off in activity as jobs disappear or becoming very difficult to undertake. In this note we analyse what this coronavirus income shock means for families as they seek to manage their housing costs in the coming months, and assess the ways they are being helped to weather the storm. Critically, we suggest that even with more generous housing costs support, significant numbers of renters could build up rent arrears. Further action from government as well as forbearance from landlords will likely be required if an uptick in housing stress is to be averted.

Spotlight | Housing and the coronavirus income shock

For many families, housing is the largest single expenditure they make each month, and one that is difficult to easily adjust (even compared to other essentials such as clothing or heating). At the time of writing, we estimate that between one-third to one-half of the UK's labour force is unable to work, either because people are in sectors severely affected by the crisis; they have school age children but are not key workers; or they perform non-essential jobs that cannot be done from home (although some in this group may still be travelling to work). Coronavirus may not discriminate in terms of who gets ill, but it clearly does have differential economic impacts. Figure 1 shows how the income shock is currently being experienced across housing tenures.

FIGURE 1: **The coronavirus income shock is experienced differently across tenures**

Housing tenure and ability to work, April 2020: UK



NOTES: Economically active individuals only.

SOURCE: RF analysis of ONS, Labour Force Survey.

While the Government has rapidly put in place very welcome policies to support incomes (including its job retention scheme, support for the self-employed and by increasing the value of universal credit), the truth remains that many families will still see their living standards substantially reduced for a period of time. But how are those affected going to manage their housing costs in the months to come?

To begin, mortgagors are not only least likely to be severely affected by the coronavirus income shock, they are also more likely than those in other tenures to have a financial buffer to help them adjust: one-quarter have in excess of £10,000 in savings, compared to just seven per cent of all renters (although it is worth noting that another quarter of mortgagors have no savings at all). The Bank of England's interest rate cut in March has marginally reduced monthly payments for the one-quarter on tracker mortgages, but far more usefully, the Government's insistence (and lenders' willingness) to offer borrowers a three-month mortgage holiday will provide a respite for many. Moreover, and in contrast to the recession of the early 1990s, while the inevitable downward effect on house prices will be a source of anxiety, few are likely to enter negative equity territory (the upside of the high loan-to-value ratios lenders have required since the 2008 crisis).

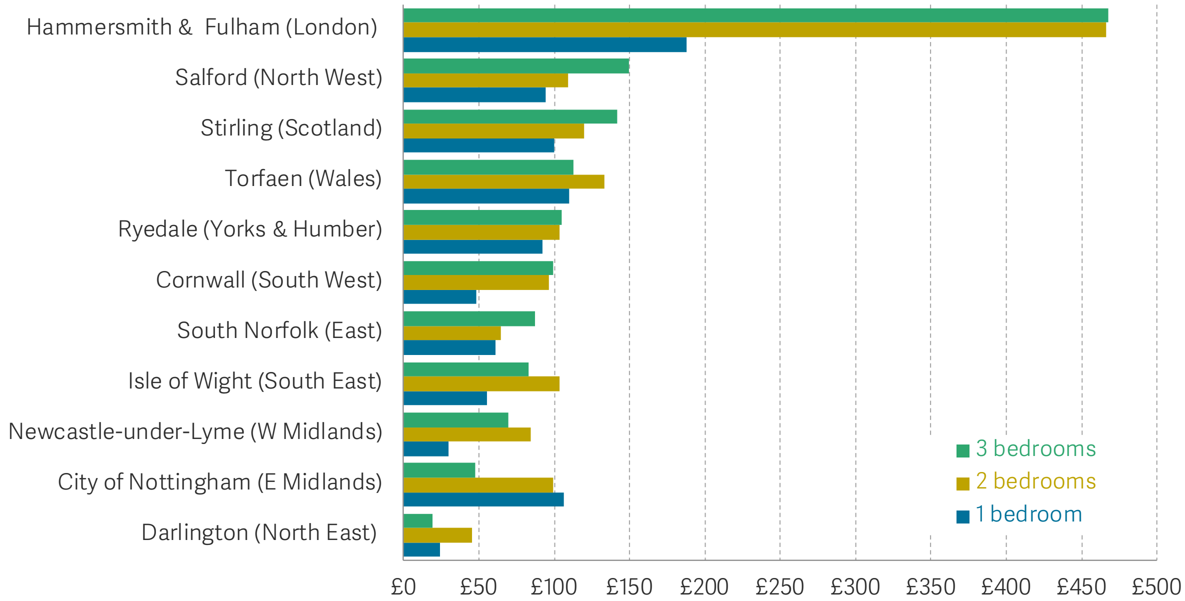
In contrast, renters of both stripes – who even prior to the crisis spent more of their incomes on housing costs than owners – look set to be harder hit by the income shock. In the absence of a long-term relationship with a lender, or the security of some equity in their home, help for this group will largely come from the state. Renters do not start from a strong place in this regard: the average share of rent covered by housing benefit (the housing element of universal credit or its equivalent in the legacy system – hereafter HB) has fallen substantially since 2011. However, the Government has rightly acted quickly to bolster HB adequacy for private renters in recent weeks, repegging the local housing allowance (LHA) rates to local rents after seven years of minimal uprating at a cost of £1 billion.

This welcome move means private renters with constrained incomes can now receive support with housing costs up to the 30th percentile of local rents. Stepping back, however, it is clear that this is not a wholesale solution and could still leave many with significant shortfalls. It is reasonable to expect a large number of private renters seeking support from the benefits system in the coming weeks to live in homes priced significantly above the LHA rates (note, for example, that 84 per cent were not in receipt of HB prior to the crisis meaning many are unlikely to have chosen their homes with benefit levels in mind). So how is the typical private renter affected by the coronavirus income shock likely to fare in the foreseeable future?

Looking at the difference between local rents at the 30th percentile and the median gives an idea of just how stretched some might be. In Figure 2 we show the area in each region with the largest gap between housing support and median rents. As this makes plain, a family living in a three-bedroom property in Hammersmith and Fulham at the median rent will have to find an additional £468 a month on top of HB to cover their rent. Even in less expensive parts of the country such as the North West, private renters are still likely to struggle: those living in a two-bedroom property in Salford would need to find an extra £109 per month. The length of time such families will require support from the benefits system is an unknown, but clearly hundreds of pounds of arrears are not out of the question: a family in a two-bed property in Torfaen in Wales could amass a debt of nearly £400 over three months, for example, in the absence of other funds from which to pay their rent.

FIGURE 2: **Many private renters could see large shortfalls between actual rents and housing support**

Estimated gap between 30th percentile and median private rents (calendar month): selected Broad Rental Market Areas, GB



NOTES: Figures are for September 2019, the month to which LHA rates are pegged. London excludes City of London. See L Judge, Moving Matters, Resolution Foundation May 2019 for full description of median rents methodology.

SOURCE: RF analysis of LHA rates and RF Index of private rents.

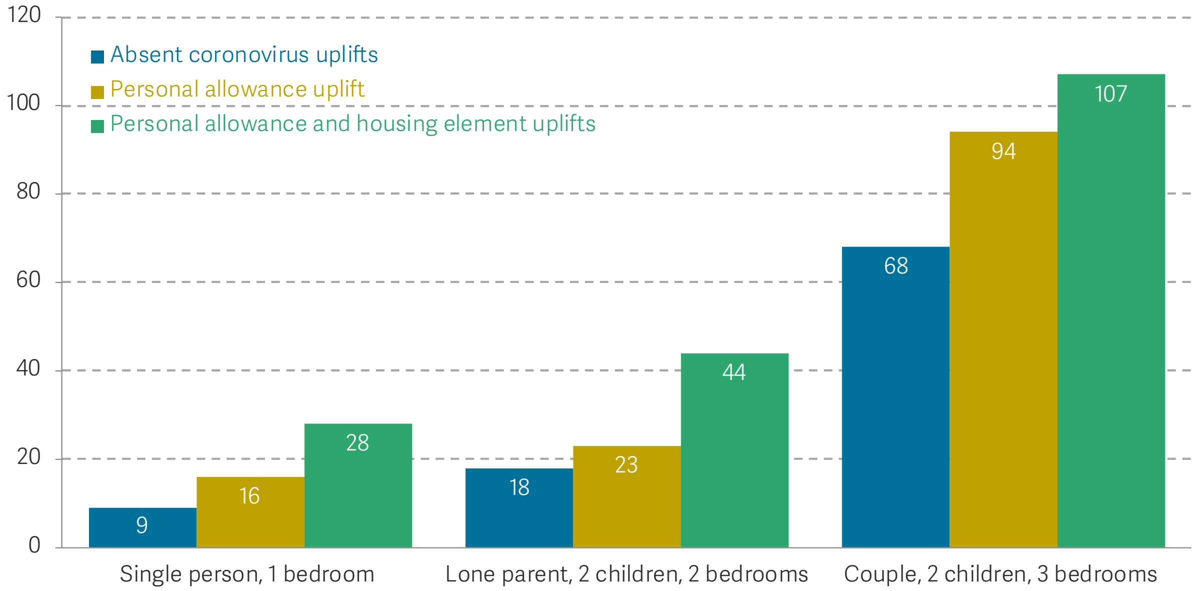
So how could those that fall out of work with rents above the 30th percentile be supported in these troubled times? Some degree of forbearance from private landlords could be expected: they are not highly leveraged as a group (39 per cent of landlords have no mortgage) and less than half report holding property for the income stream. However, allowing renters' housing security to rest in the gift of individuals is less than ideal. While the Government recently extended the period of notice a landlord must give a tenant in England and Wales from two to three months, the evidence suggests it may be necessary to go further and offer renters greater assurance that their homes will be safe for the foreseeable future (for example, by aligning with Scotland where renters now have a six-month grace period in the event of rent arrears).

Private renters in lower priced properties are still not home and dry, however. Even if families are living in homes priced at or below the 30th percentile, the actual level of support they (and, indeed, many social renters) receive with their housing costs via HB could be reduced by the continued operation of the benefit cap. Introduced in 2013, the cap restricts total benefits that can be paid to workless couples or single parents to £20,000 per year, and to singles without children to £13,400 (or £23,000 and £15,410 respectively for those living in Greater London). Designed to incentivise claimants into work, today the cap's policy rationale is clearly at odds with both the public health requirements, and the labour market realities of rising unemployment and waning vacancies.

In Figure 3 we show how the housing uplift combined with the recent boost in the value of the UC personal allowance will result in many more private renters running up against the strictures of the cap. We estimate, for example, that couples with two children living in a three-bedroom home will now fall foul of the cap in 107 out of 152 local areas, resulting in their not receiving support in line with their assessed need.

FIGURE 3: **Uplifts to the value of UC will be tempered by the benefit cap**

Number of Broad Rental Market Areas where full UC award will breach the benefit cap



NOTES: 152 BRMAs nationwide. Assumes no earnings and housing costs at 30th percentile of local rents.

SOURCE: RF UC calculator.

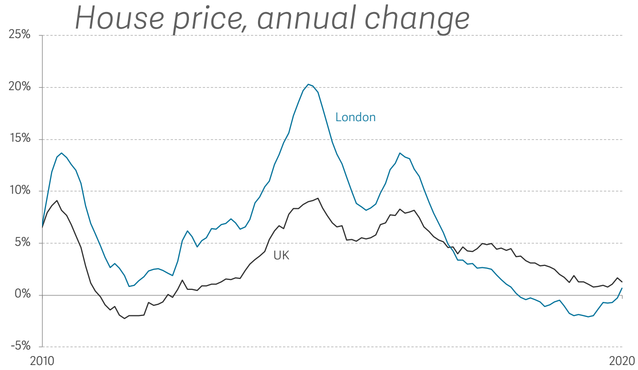
The Government's coronavirus package has been swift and extensive, but without further action far more renters than owners look set to struggle with their housing costs in the foreseeable future. Increasing security of tenure would protect those renters who cannot help but run up arrears as they adjust to the massive coronavirus income shock. But alongside this, the evidence suggests the smartest move right now might be to help as many families as possible pay their rents in full by suspending the benefit cap.

Housing indicators | Exploring key trends in the UK housing market, and what this means for households and policy makers

View the interactive data behind our housing indicators at resolutionfoundation.org/housingoutlook

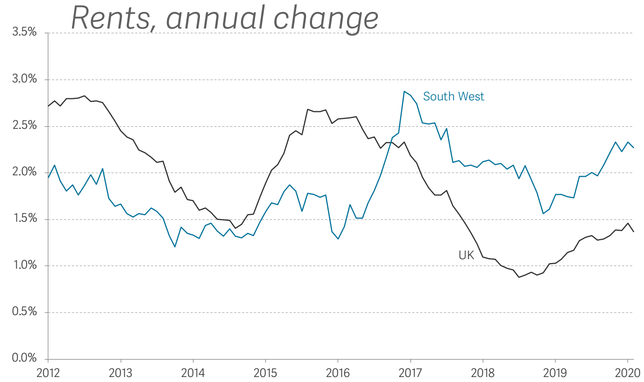
Housing market trends

House price, annual change



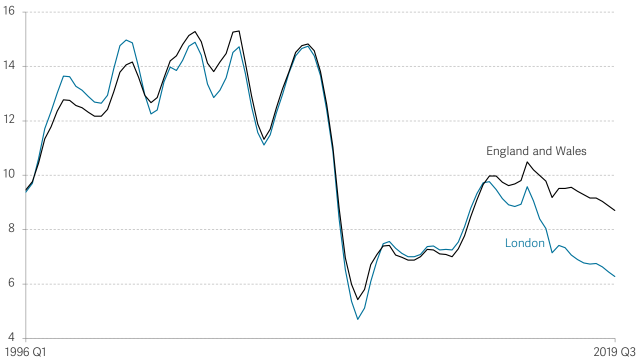
UK house price growth has been slowing for a number of years, but picked up slightly in the latest data. We'll be watching this closely over the coming months.

Rents, annual change



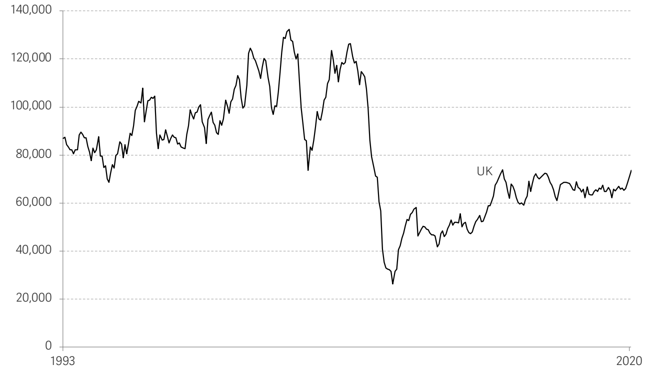
Rents have been edging upwards over the past year, after a significant slowdown in growth since 2015.

Transactions per 1,000 households



Transactions were recovering towards pre-crisis levels, but have been on a downward trajectory in recent years and are expected to plummet, given the lockdown.

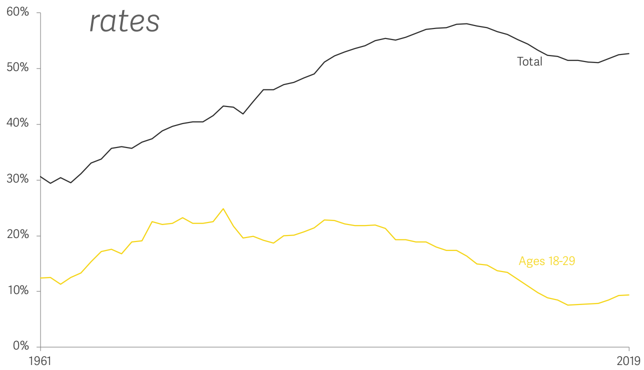
Monthly number of mortgage approvals



Mortgage approvals had slightly picked up over the past quarter, having been flat for around five years, but new lending is expected to be extremely sluggish in the coming months.

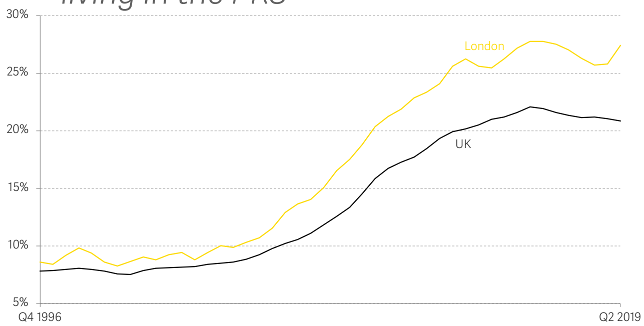
Housing and living standards

Home ownership rates



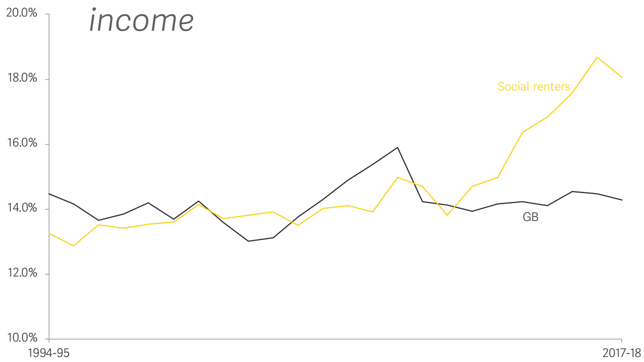
Home ownership rates have ticked up since 2016, but look to have levelled off in the very latest data

Share of families with children living in the PRS



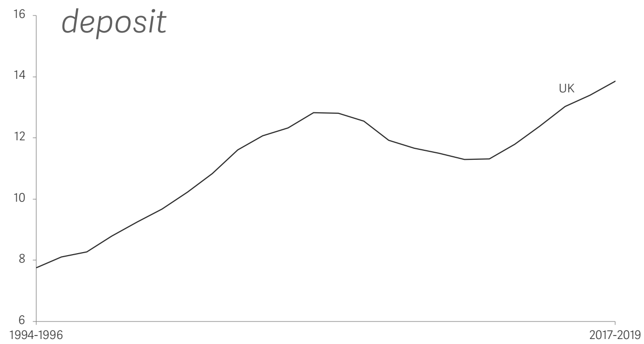
The share of families with children that live in the PRS has increased almost three-fold since the 1990s.

Housing costs as a share of income



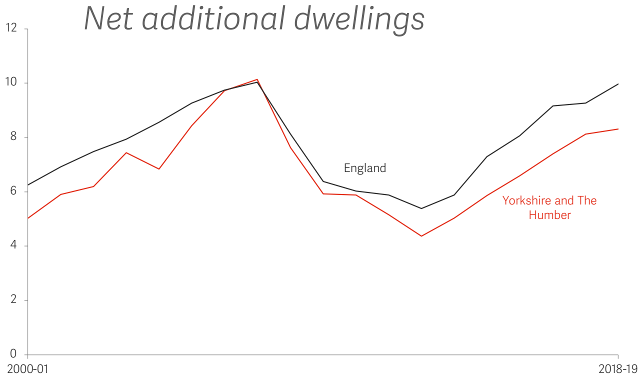
Housing costs as a share of income have fallen for mortgagors post-crisis but increased fast for social renters.

Years to save for a typical deposit

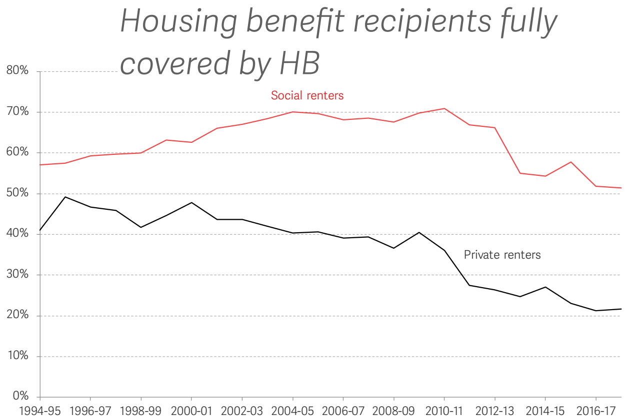


It would take 14 years for a typical young adult to save for a deposit, up from less than 8 in the mid-1990s.

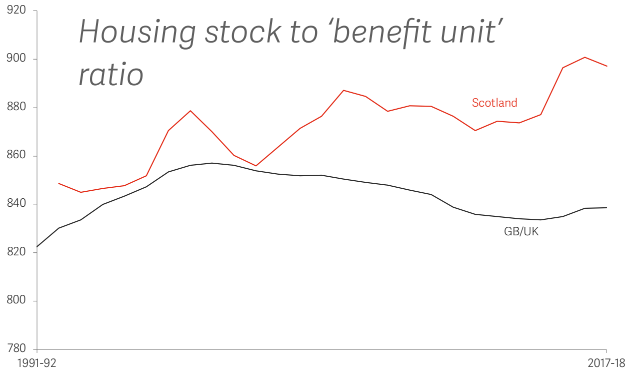
Housing and policy



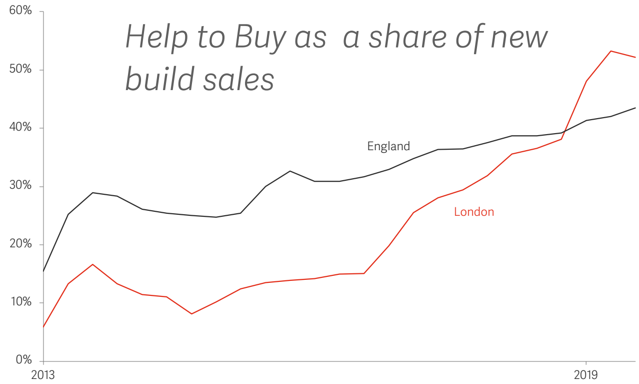
Overall net additions have recovered to their pre-crisis levels, but not in all parts of the country, and the coronavirus crisis will have a marked impact on housing output.



The share of families in receipt of housing benefit whose housing costs are fully covered fell throughout the 2010s.



Relative to the number of families, the UK's housing stock has declined since the turn of the century.



Help to Buy has accounted for a growing share of new build sales across England, and particularly in London.

Regional focus | Overcrowding across the UK

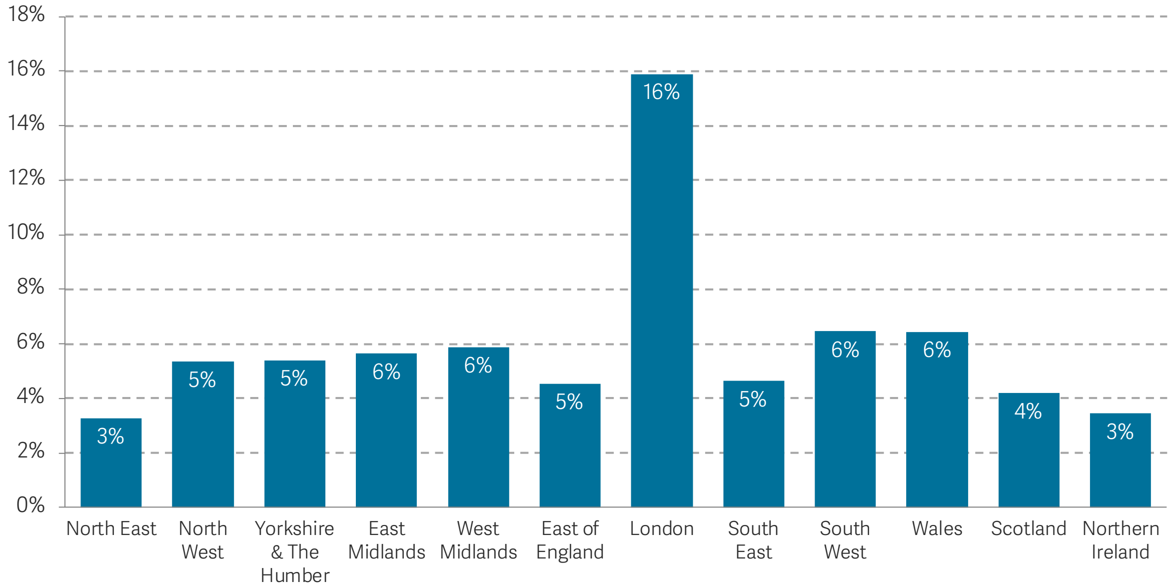
With the 'stay at home' the message heard loud and clear, housing matters more than ever. But the coronavirus lockdown will be particularly challenging for the 1.8 million-plus families living in the UK in overcrowded homes. We know that overcrowding is most prevalent in the social rental sector – where 13 per cent of families live in overcrowded conditions, as opposed to around 10 per cent of those in the private rental sector, and just 2 per cent of owner-occupiers. However, overcrowding also varies significantly across the country, suggesting families in different regions of the UK will be experiencing lockdown very differently (see Figure 4).

Perhaps unsurprisingly given high housing costs, significant demographic differences and a higher level of social renting, London has by far the highest proportion of families living in overcrowded conditions: 16 per cent, or 1 in 6 families. Beyond the capital, however, we still observe very different rates of overcrowding, with Northern Ireland and Scotland particularly low at 3 and 4 per cent respectively.

In contrast, 6 per cent of families in the East Midlands live in overcrowded housing – over 3 percentage points more than in the North East. The extent to which families can access other facilities (gardens, parks and the like), and how overcrowding might impact on their wellbeing, are issues we will be looking at in more detail over the coming weeks. For now, though, it is clear that the Government should bear such families in mind as it grapples with possible further restrictions on access to open spaces.

FIGURE 4: **Overcrowding is particularly concentrated in London**

Proportion of working age family units living in overcrowded housing, by region: 2017-18



NOTES: Overcrowding is defined according to the bedroom standard i.e. a separate bedroom for each adult couple; any other adult aged 21 or over; two adolescents of the same sex aged 10 to 20; and two children regardless of sex under the age of 10. A family unit is a single adult or couple, and any dependent children.
SOURCE: RF analysis of DWP, Family Resources Survey.