

A Surveyors View on the Growing Divide between Homeowners and Renters



As we discussed in a recent blog article, [Millennials are facing unprecedented barriers to entry when looking to buy their own home](#). But it is not just Millennials that are facing these challenges. In the UK, there is currently a widening gap between homeowners and renters.

While this gap is caused by a number of factors, it is our estimation that it is primarily the result of the increase in the cost of housing overall. With a few exceptions, house prices have consistently risen over the last decade. This, coupled with the level of deposit needed to buy a house, means that even a 5% deposit can now be tens of thousands of Pounds in the south of England. For many, this is simply unattainable. In this article we want to explore some of those reasons and present a few views on how this trend could be counteracted.

Factors affecting the cost of homeownership

In addition to the aforementioned comments regarding the deposit amounts that are required to buy a home, many mortgage providers do not take the ability of the applicant to consistently pay their rent into account. In many cases, the monthly rent being paid is greater than the monthly cost of the mortgage, and yet some mortgage companies do not make allowance for this when evaluating the application. This results in many prospective homeowners being turned down by the mortgage provider, despite having the potential ability to cover their monthly mortgage contributions.



Related to this, increased interest rates and the availability of credit also play a significant role in determining the affordability of homes, as any loans or mortgages are pushed beyond the scope of some hopeful homeowners. And as the cost of living increases during the current crisis, money that would have been put towards a deposit on the purchase of a property is instead being spent on higher energy bills and the increased food costs.

At a more fundamental level, rising construction costs have also severely impacted the ability for housing developers to profitably build new homes. This potential reduction in profitability is constricting the supply of new homes, exacerbated by the imminent end of the government's "Help To Buy: Equity Loan" initiative.

Factors affecting the affordability of rented accommodation

However, it is not just those who are seeking to buy property that are being affected. As people are forced to wait longer to build up a deposit to buy a house, they are forced to stay in rented accommodation. As is generally the case in any economic model, this restriction in supply pushes rental prices up. While you would expect an increase in rental prices to encourage more people to seek to become landlords, the proposed introduction of more stringent laws under the Renters' Reform Bill, which appear to favour tenants more heavily, is actually resulting in many landlords selling up, reducing the available stock of rented accommodation even further.

Possible steps that can help housing remain affordable

While the challenges the UK property market is facing are significant, they are not insurmountable. Arguably one of the most critical steps in tackling the issue is to increase the supply of affordable housing. Local Councils have been selling their housing stock since the 'Right to Buy' era in the 1980's. In addition, they have been building fewer new homes, relying on housing associations to make up the shortfall. This has resulted in an overall decrease in the availability of affordable housing stock. With an ever-increasing overall population the UK is facing rapidly decreasing availability of council housing.

When a developer seeks permission to build housing, the responsible council will currently negotiate with the developers to determine what percentage of the scheme could provide, based on the total private home sales. A report recently compiled and published by the Housing and Finance Institute and think-tank Localis suggests that a possible alternative solution would be to instead ask how many half-market rent

homes could be built from the set number of homes allowed under the development scheme. The report suggests that this could provide a solution to the stock levels and true affordability of homes provided.

A further important step in talking the current challenges would be to increase access to credit while simultaneously reducing the cost of borrowing for homeowners. This would of course need to be done carefully, to ensure that it does not cause a period of greater economic weakness, however the housing market needs to reach a maturity where prices are stable and not ever increasing.

We recognise that this goes against a cultural norm in the UK, where property is an investment even when it is owned as a home and the owners do not intend to sell at any point. As such, this could be difficult to overcome.

That said, when looking at other developed countries such as New Zealand, Australia, America and China, we are seeing that their large cities – for example New York, Sydney and Hong Kong – are suffering from similar high prices to London, but with even greater levels of house ownership that are unaffordable to a younger generation than are found in the UK.

In our estimation, the problem with unaffordable housing is that a younger generation is forced out to the surrounding areas, meaning they then have to commute into town and city centres to work. This damages not only the sense of community, but also results in less spending and economic activity in the city as it becomes difficult to find lower paid workers.

Another cultural norm that needs to be addressed is that of ‘house prices always go up’ and that owning your own home is necessary. We believe that if these cultural norms can be challenged, demonstrating that long-term rental options are equally valid, as is already accepted in many of the European countries, then this would help stabilise the housing market. By encouraging people to rent rather than buy, better income is provided for landlords, which will hopefully encourage more people to become landlords and fewer existing landlords to leave the market, ultimately increasing the stock levels. This would result in the stabilisation of house prices overall in relation to wages.

How developers and investors can help tackle the issue

Developers and investors play a critical role in in tackling the growing divide between homeowners and renters. However, to do this, they need to focus on developing affordable housing options that cater to the needs of different populations and not simply build 2-bedroom luxury flats.



Of course, as we have already discussed, for this change to happen, developers need to be incentivised by national and local governmental policy, so that they build homes for the whole community. This could be through the building of smaller homes, developing shared housing models and using innovative construction techniques to reduce costs.

Investors can also support affordable housing development by investing in projects that provide long-term returns, such as lower-cost rental housing, and can work with policymakers to create incentives that encourage the development of housing of this kind.

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As we can see, the growing divide is a complex issue that requires a multifaceted approach to tackle it. With government pushing change to cultural norms and working closely with developers and investors to provide a realistic way to increase housing stock levels, we believe that the UK property market can stabilise and ensure that younger generations have suitable options for their housing needs.



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