

Residential  
Analysts

# **A HOUSING CRISIS?**

**More like a series of  
local crises needing  
local solutions**

15<sup>th</sup> October 2018

## A HOUSING CRISIS?

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### Acknowledgements

The analysis in this report was originally undertaken for Sky News' Line 18 programme.

The film is available to watch here [www.youtube.com/watch?v=ap5dcnbRWvY](http://www.youtube.com/watch?v=ap5dcnbRWvY)

This report was first published in the 2018 Housing Market Intelligence report.

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## A HOUSING CRISIS? More like a series of local crises needing local solutions

We have seen in recent years growing public and political recognition that there is a crisis in housing. This has brought housing ever nearer to the top of the domestic political agenda and led to a widening debate on the causes and potential solutions.

### Competing Simplifications

However, despite a growing consensus that there is a housing crisis there has been little consensus around what constitutes the current housing crisis and how to solve it. Indeed, the current housing debate has become “bedevilled by rival simplifications”<sup>1</sup>. Several quite often competing explanations have emerged for why we have a housing crisis.

For many it is our failure to build homes at the same rate as projected household formation. This failure might be assigned to the planning system, the greenbelt, housebuilder business models, the land market, or NIMBYs. For others, the crisis is a result of falling interest rates, rising credit supply, low income growth, wealth and income inequality, tax incentives, or simply our fixation on house price growth. For some, there is no shortage of homes, rather a poor distribution. We should perhaps add to this list that for others there isn’t really a housing crisis or if there is one it is concentrated in small pockets.

Despite the apparent contradictions in this mix of positions over the root cause of a housing crisis, each of the arguments that support these differing views may hold a grain if not significant elements of truth.

Housing is a complex and interconnected system within the economy and society. There is no simple single housing market. There are multiple markets defined by location, property type, tenure, and price. The demand within these markets is perhaps even more varied, driven by demographics, income, wealth, health, employment, migration, education, family and personal relationships and an array of preferences.

It seems reasonable, given this complexity, to suggest that there is probably no simple single housing crisis. Instead what we are probably witnessing is multiple overlapping issues that affect different parts of the country and different types of people in different ways and to varying degrees. There may be factors that influence all housing markets across the UK, indeed across much of the globe. There will, however, be others that impact more locally and within specific housing sectors.

If this is the case, as we believe it is, it is important that we better understand the similarities and differences in the causes and how they impact on different groups in different places. That is, if we wish to find a sustainable solution to the “housing crisis”.

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<sup>1</sup> *Prospects for land, rent and housing In UK cities by Michael Edwards*

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### Taking A Closer Look

Our new research for Sky News represents a step in that direction. It looks at how the crisis in housing varies across the UK and, indeed, it does support the view that there is a range of different and sometimes overlapping housing crises.

While some of the underlying causes impact across the nation (e.g. low interest rates), some of the contributing factors in, as the programme showed for example, London are very different to those in Cumnock, a former mining town in East Ayrshire.

To understand how these housing crises vary by location, we have identified five of perhaps the most important reasons presented as the underlying cause of a housing crisis. There are undoubtedly other causes creating other forms of housing crisis, but the ones we hear the most frequently debated that are relevant to the population most widely are:

- The lack of supply
- The cost & availability of credit
- Poor distribution of housing
- Poor quality of housing
- Weak demand

Using a database of housing market and economic indicators across the UK, we have sought to rank each local authority according to the five crises, allowing us to identify locations where each of the five crises are most severe. However, this does not mean that a low ranking immediately suggests that this area is not affected by the crisis in question. Even at the local authority level there can be a wide range of housing markets, each with very different characteristics.

The following five sections examine the narratives around each of the five “crises” and illustrate where the data suggests they are most prevalent at a local authority level.

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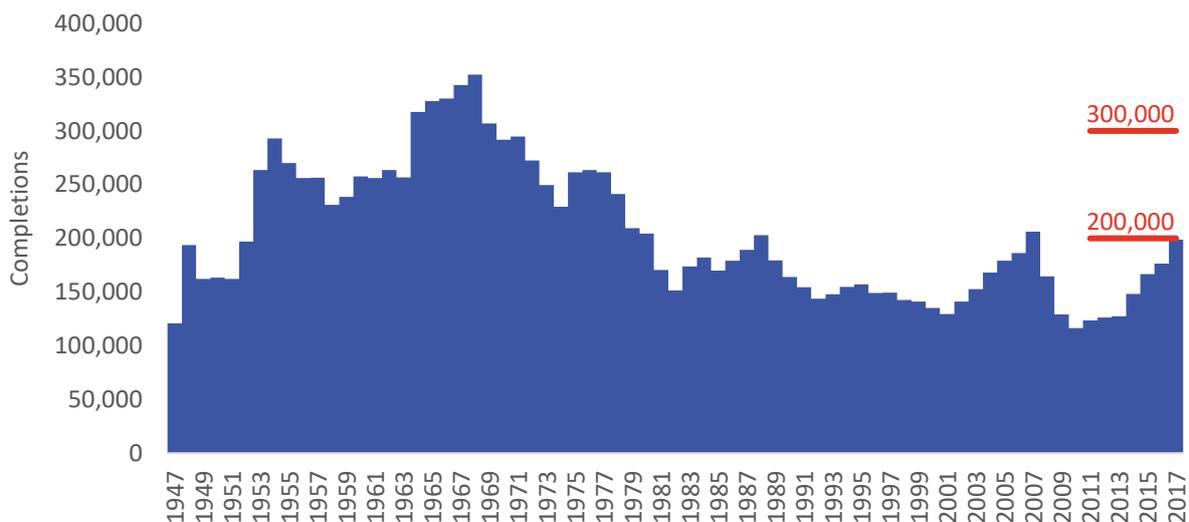
## Lack of supply

House prices are unaffordable because we have not been building enough new homes is the most popular housing crisis narrative. A typical argument is that new-build supply has consistently failed to meet the rate of projected household formation and increasing new housing supply to this rate or above is widely seen as the solution to the crisis.

This approach characterises the government’s current housing policy approach with a housebuilding target of 300,000 per year in England.

Figure 1 – New Housebuilding Completions, England

Source: MHCLG Table 120, Table 244 and Author’s Estimates



Unfortunately, this argument is based on a restricted view of how the market works in terms of the stock and flow of housing. While overall stock is important, new-build homes account for a relatively small proportion, 10% to 12% of all homes sales.

This means that the second-hand market provides most of the available housing supply at any given time. What’s more the overall stock is being sold less often. Currently on average less than 5% of the stock is sold each year.

More importantly, household projections are not an indicator of housing demand. They are, at best, a crude indicator of housing need as they rest on historic rates of household formation. So, they could be significantly underestimating or overestimating the future rate of household formation, especially at local levels. Importantly, if followed without caution they could accelerate past trends, which may be undesirable.

The lack of supply argument is often linked to the view that building more homes would reduce house prices and so is a solution to unaffordable housing. This argument is limited. The academic evidence suggests that increasing new supply will probably only limit future price rises rather than improving current levels of unaffordability. Even then it will take many years, possibly even decades to have an effect. This is not to say that increasing new supply is not important. It is. And while it may not improve affordability on its own, it is an essential part of the overall solution.

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To identify where the lack of supply is most severe we created a ranking based on indicators for the cost of renting relative to earnings, over-crowding, population growth, change in number of dwellings, and vacancy rates.

The results show, that while the lack of supply is frequently assumed to be a national issue, it is very much a London and South East problem with some other localised hotspots. Of the top twenty ranked local authorities 18 are in London. Slough is the highest ranked non-London market though it sits adjacent to the capital.

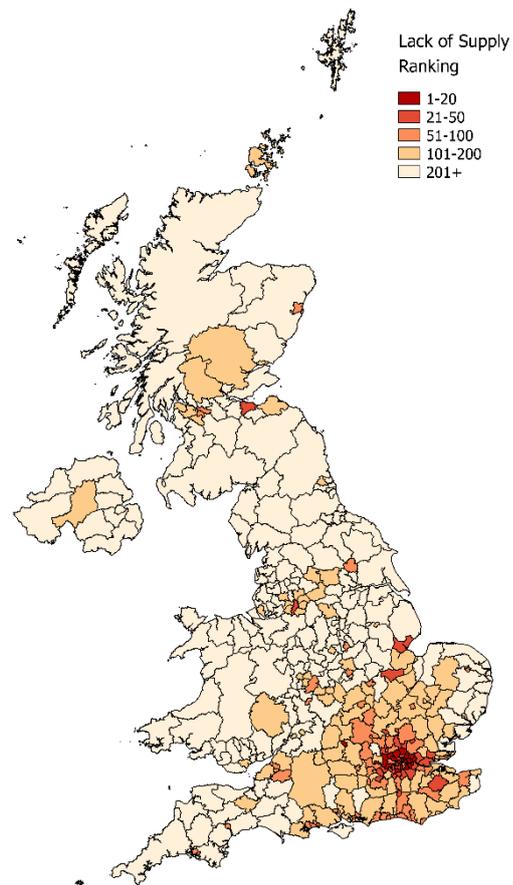
Across the wider south of England, it tends to be towns and cities that appear higher in the rankings. For example, Oxford is the only other non-London local authority that appears in the top 20. More rural areas surrounding these markets may also be suffering from a lack of supply but the unsatisfied demand from typically younger households is displaced into nearby urban markets with larger private rented sectors.

**Figure 2 – Lack of Supply Ranking**  
*Highest number = most affected local authority*

### Top 20 Local Authorities

Rank	LA Name	Region
1	Newham	London
2	Tower Hamlets	London
3	Brent	London
4	Hounslow	London
5	Barking & Dagenham	London
6	Waltham Forest	London
7	Islington	London
8	Lambeth	London
9	Redbridge	London
10	Greenwich	London
11	Hackney	London
12	City of Westminster	London
13	Barnet	London
14	Enfield	London
15	Hillingdon	London
16	Slough	South East
17	Harrow	London
18	Oxford	South East
19	Merton	London
20	Lewisham	London

### Local Authority Ranking



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## The Cost & Availability of Credit

A lack of supply may be the most popular housing crisis narrative, but the evidence suggests that perhaps the single most important factor in the rapid rise in house prices across the UK has been the fall in interest rates.

The lower cost of mortgage debt and its greater availability (particularly prior to the credit crunch) have had a profound impact on the UK's housing market over the last thirty years. Those within the housing market are seen to have done very well, while those seeking to enter the market have increasingly struggled.

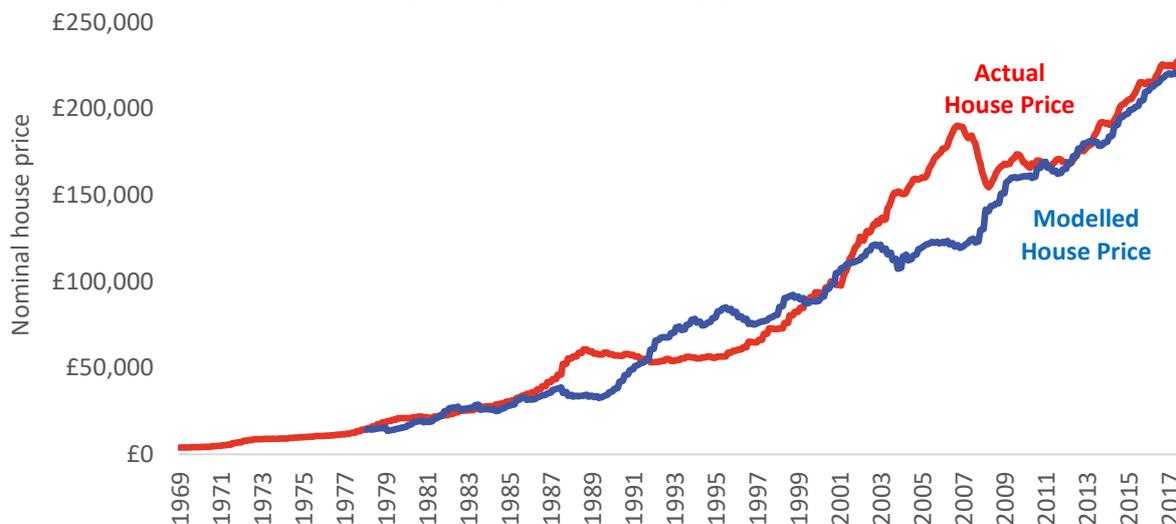
Simple affordability measures comparing house prices to earnings or incomes suggest there has been a structural shift in housing affordability since the late 1990s. However, these measures fail to account for the impact of falling mortgage rates.

As Figure 3 shows, a model using average earnings and mortgage rates could explain most of the rise in house prices since the early 1980s. The two exceptions being the 1980s/90s boom/bust and the 2004-07 bubble. Indeed, the model suggests that national house prices are almost exactly where you'd expect given current record low mortgage rates.

Figure 3 - The Role of Mortgage Rates in House Prices

Note: The model uses fixed assumptions on loan-to-value, mortgage term, and mortgage payments as % of earnings

Source: ONS House Price Index, ONS average earnings, UK Finance mortgage rate



It is not just the lower cost of mortgage debt that has caused problems but also the increased availability of mortgage debt, particularly during the 2004-07 bubble. For example, the rapid growth in buy-to-let lending has contributed to the financialisation of housing, with homes increasingly thought of as an investment rather than a place for people to live.

Local markets across the UK have all been affected by the cost and availability of credit but some more so than others. To identify where the cost and availability of credit has caused the most problems we created a ranking based on indicators for house prices relative to earnings, second-home ownership, the cost of renting versus buying, and the size of the private rented sector.

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This ranking therefore identifies those local authorities where having access to housing equity is most important, with the lowest rental yields, and high levels of multiple property ownership including second and buy-to-let homes. Central London boroughs appear at the top of the rankings with some of the most stretched affordability, lowest rental yields, and high levels of second-home ownership. These are possibly the markets where homes are most frequently viewed as financial assets and so global trends in the cost and availability of money have the most immediate effect.

The highest ranked market outside of London is Cambridge (7th) thanks in a large part to the flows of wealth from London due to relocating commuters and investors. More rural and coastal areas appear further down the top twenty list reflecting their desirability as second-home hotspots, again largely fuelled by wealth flowing out from London over the last twenty years. While the flow of wealth out from London can have some positive impact on local economies, it has undoubtedly created affordability problems for existing residents who find themselves increasingly priced out of their local market.

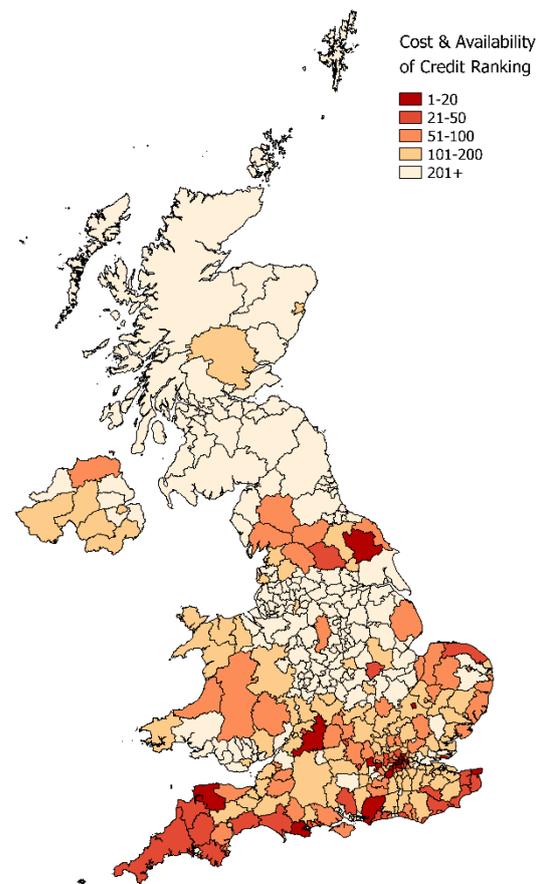
Figure 4 – Cost & Availability of Credit Ranking

*Highest number = most affected local authority*

### Top 20 Local Authorities

Rank	LA Name	Region
1	City of London	London
2	City of Westminster	London
3	Kensington And Chelsea	London
4	Camden	London
5	Islington	London
6	Hammersmith & Fulham	London
7	Cambridge	East
8	Wandsworth	London
9	Purbeck	South West
10	Tower Hamlets	London
11	Haringey	London
12	Chichester	South East
13	Thanet	South East
14	Elmbridge	South East
15	Cotswold	South West
16	North Devon	South West
17	Richmond upon Thames	London
18	Ryedale	Yorks & Humber
19	Southend-on-Sea	East
20	Windsor & Maidenhead	South East

### Local Authority Ranking



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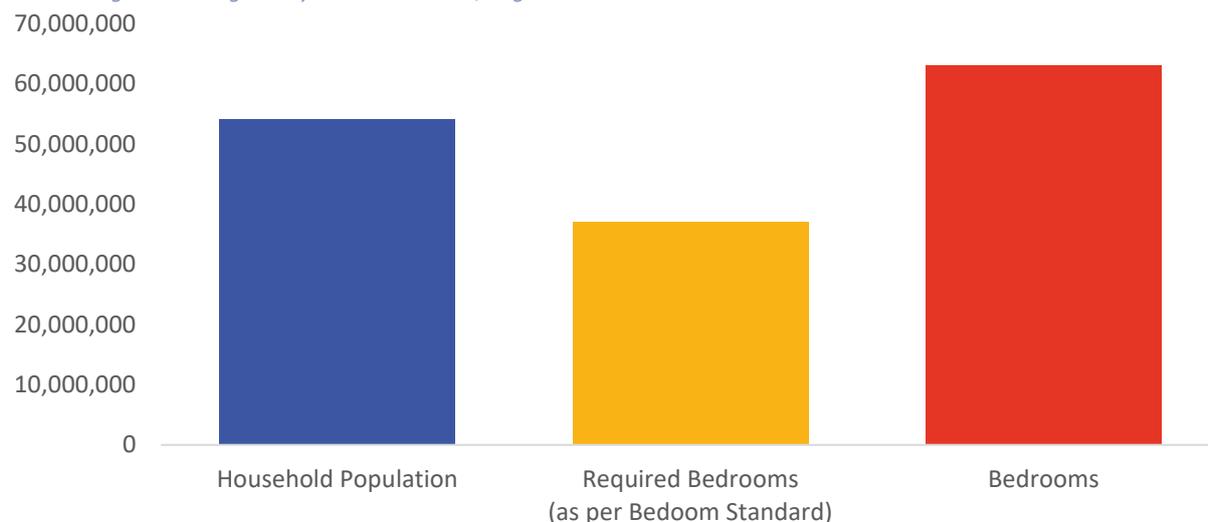
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## Poor Distribution of Housing

Some argue that there is not a lack of housing but that it's just poorly distributed. Analysis at a national level suggests this is correct. The 2015 English Housing Survey shows there are enough bedrooms in England for everyone to have their own with 9 million left over. The problem is housing is unevenly distributed, mostly across generations but also spatially and within generations.

Figure 5 - Household Population, Bedrooms Required According to Bedroom Standard and Actual Number of Bedrooms

Source: English Housing Survey 2015 Stock Data, England



Unfortunately, there is no simple solution to the existing distribution of housing. Some of it is in the wrong location, too far from employment opportunities. A large amount of it is held by older generations still living in family homes long after their children have left. Any suggestion of forcing people out of homes they own presents severe political, not to say moral, challenges and there are still too few affordable and appropriate options to encourage potential downsizers. Instead we are faced with a polarised market. Older generations living in large homes they own outright while younger generations struggle to rent or buy homes that don't always meet their needs.

To identify where the distribution of housing is most extreme we created a ranking based on indicators for large amounts of under-used housing along with high rates of older residents and home improvement. Many of the highest-ranking local authorities are found in rural or coastal locations, away from major employment markets. Rutland is ranked highest thanks to the highest rate of under-occupied housing and the highest number of bedrooms per person in the country.

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Some of the highest ranked areas feature national parks. These include Derbyshire Dales, Ryedale, West Devon and South Hams. Perhaps surprisingly there are also two districts, Chiltern and South Bucks, near London.

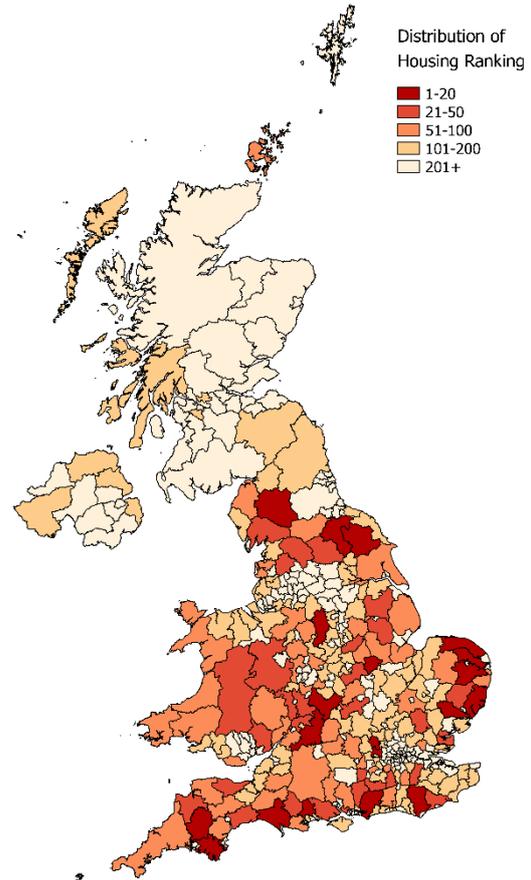
Figure 6 – Distribution of Housing Ranking

*Highest number = most affected local authority*

### Top 20 Local Authorities

Rank	LA Name	Region
1	Rutland	East Midlands
2	Cotswold	South West
3	Derbyshire Dales	East Midlands
4	Stratford-on-Avon	West Midlands
5	Ryedale	Yorkshire & Humber
6	Chiltern	South East
7	West Devon	South West
8	South Hams	South West
9	Suffolk Coastal	East
10	Hambleton	Yorkshire & Humber
11	Chichester	South East
12	South Norfolk	East
13	North Norfolk	East
14	East Dorset	South West
15	Eden	North West
16	Broadland	East
17	South Bucks	South East
18	West Dorset	South West
19	Wealden	South East
20	Babergh	East

### Local Authority Ranking



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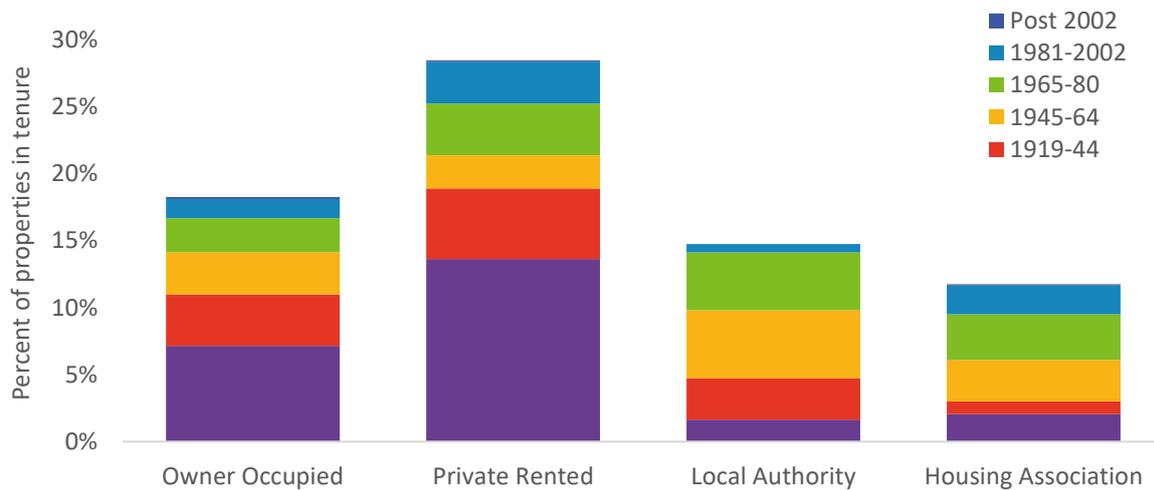
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## Poor Quality of Housing

In some areas the problem is not a lack of homes but that too many of them are in disrepair. There have been improvements in quality in recent years, particularly in the social rented sector through the Decent Homes Programme. However, as Figure 7 shows, there’s still a significant proportion of homes across all tenures that are not of an appropriate quality.

Figure 7 - Non-Decent Homes by Tenure and Build Period

Source: English Housing Survey 2015 Stock Data



Many of the effects of poor-quality housing are often unappreciated or under-appreciated. Poor housing not only puts strain on the lives of the residents, but the problems spill over, particularly into the health and education systems and are linked to lower productivity in the economy. A BRE Trust report in 2016 suggested that poor quality homes in England cost the NHS £1.4 billion a year and wider society £18.6 billion<sup>2</sup>.

More than 20% of homes in England were built over 100 years ago and are mostly owned by private individuals. In wealthier areas, many spend more on renovating and refurbishing existing homes than they do on buying new homes. In less wealthy areas, the homes face a gradual decline. Unfortunately, in all areas they will have to last because, at the current rate of housing demolition, the average home in England has an expected lifespan of over 2,000 years.

To identify where the poor quality of housing is most severe we have created a ranking based on the age of homes, their energy performance, their type and the quality of the local environment. Given a lack of data, this ranking is focused on England and Wales.

The analysis finds the locations with the poorest quality homes are typically coastal areas where there is insufficient investment in the existing period housing. Places like Blackpool, Scarborough and Thanet all appear near the top. Liverpool is the only city to appear in the top twenty and its challenges with poor quality housing and its impact on economic activity are indicative of how the housing crisis is about more than just housing.

<sup>2</sup> The full cost of poor housing, BRE 2016

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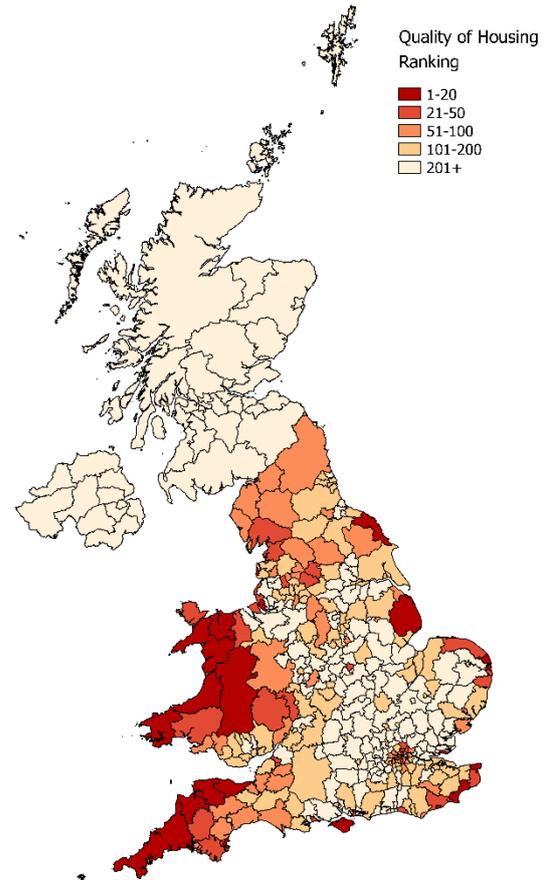
For instance, local authorities like Liverpool would love to attract investment from national or multi-national companies but the lack of high-quality executive level housing puts companies off. Without these homes, the local authority may struggle to attract the high-end jobs, while the private sector may be reluctant to build the up-market homes unless there are suitable people with the well-paid jobs there to buy them.

Figure 8 – Quality of Housing Ranking  
*Highest number = most affected local authority*

### Top 20 Local Authorities

Rank	LA Name	Region
	Ceredigion	Wales
	Blackpool	North West
	Conwy	Wales
	Scarborough	Yorkshire and The Humber
	Gwynedd	Wales
	Thanet	South East
	West Somerset	South West
	Torbay	South West
	Isle of Wight	South East
	Cornwall	South West
	Pembrokeshire	Wales
	Great Yarmouth	East
	North Devon	South West
	Liverpool	North West
	Torridge	South West
	Shepway	South East
	Southend-on-Sea	East
	Powys	Wales
	Hastings	South East
	East Lindsey	East Midlands

### Local Authority Ranking



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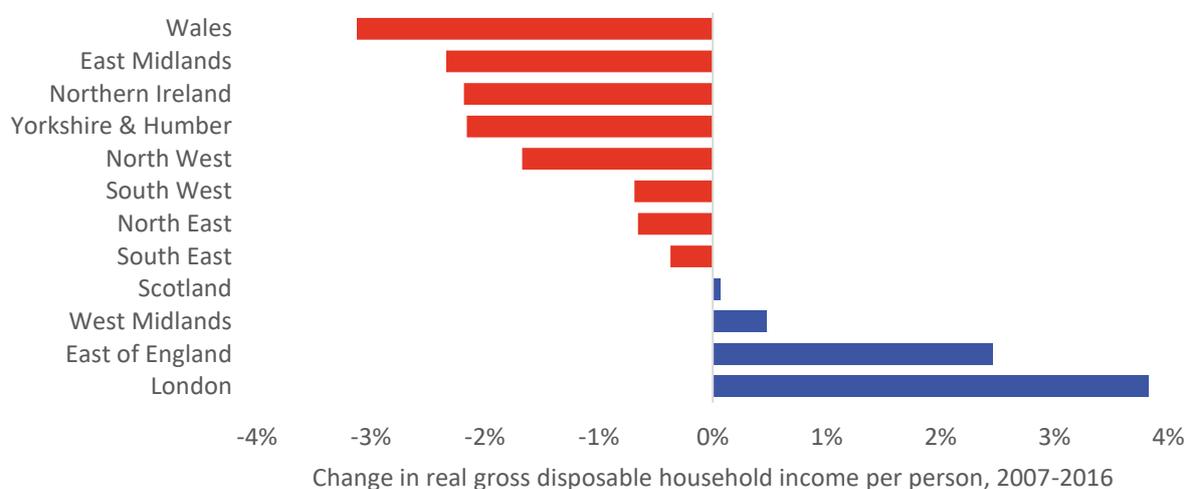
## Weak Demand

For many places, the biggest housing issue is less obviously about more homes and housebuilding and more about economic activity. A lack of opportunities, low (or negative) income growth, and employment insecurity all mean that people are unable or unwilling to rent or buy appropriate housing.

Rising incomes are an essential part of a healthy housing market, but, as Figure 9 shows, real household incomes are still below 2007 levels across much of the UK. In many places the most important solution to the housing crisis is not new supply but new jobs and rising incomes.

Figure 9 - Real Gross Disposable Household Income Growth by Region/Country, 2007-2016

Source: ONS



To identify where weak demand is most severe we have created a ranking based on three sub-categories. These are: weak demographic demand where the population is ageing and people are leaving, weak housing market demand where house price and sales activity are weak, and weak economic demand where job opportunities are poor and incomes are low with limited growth.

The local authorities most affected by weak demand are typically found in Wales, the north of England, south west Scotland, and Northern Ireland. The underlying causes for these high rankings vary.

For example, North East Lincolnshire comes in at number 8 overall but is ranked much higher for weak demographic demand than housing market or economic demand. Hyndburn (3rd overall), on the edge of Blackburn in the North West, ranks highly on weak housing market demand but less so on weak demographic and economic demand

Meanwhile Blaenau Gwent (10th overall), in south Wales, ranks highly on weak economic demand but less so on demographic and housing market sub-categories.

New supply is not a panacea for these markets. Indeed, it may even accelerate decline if the more affluent residents leave existing urban areas for new build estates.

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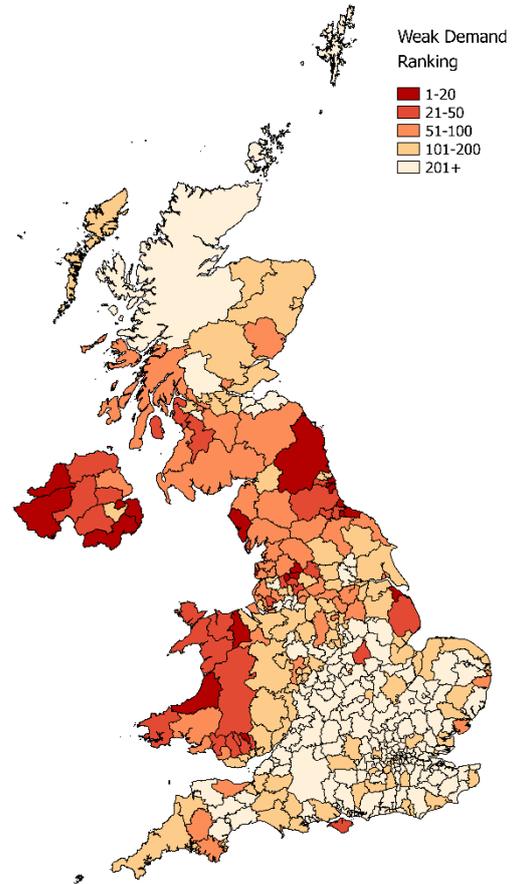
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Figure 10 – Distribution of Housing Ranking  
 Highest number = most affected local authority

### Top 20 Local Authorities

Rank	LA Name	Region
1	Derry City and Strabane	Northern Ireland
2	Redcar and Cleveland	North East
3	Hyndburn	North West
4	Belfast	Northern Ireland
5	Hartlepool	North East
6	Fermanagh and Omagh	Northern Ireland
7	Pendle	North West
8	North East Lincolnshire	Yorkshire and The Humber
9	Blackpool	North West
10	Blaenau Gwent	Wales
11	Copeland	North West
12	Ceredigion	Wales
13	Burnley	North West
14	South Tyneside	North East
15	Denbighshire	Wales
16	Northumberland	North East
17	Newry Mourne & Down	Northern Ireland
18	Ards and North Down	Northern Ireland
19	Middlesbrough	North East
20	Sunderland	North East

### Local Authority Ranking



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### Conclusion

The five broad narratives discussed above, along with others, each play a part in understanding and defining “the housing crisis”. What the separation of these narratives also reveals is that applying a one-size-fits all policy at a national level may well solve some problems, but is also likely to exacerbate others.

The analysis also shows how potentially dangerous categorising these differing crises into simple regional or north versus south categories would also be in terms of policy. The chances are that in every local market more than one of these five narratives would be recognisable to the people who live there.

Therefore, understanding the local complexities and interactions that run through the housing market is essential to resolving the problems they create. A simply constructed supply-focused approach to solving the housing crisis, using household projections and average price to earnings ratios, appears not to be the silver bullet that will rid us of our current housing crisis. Certainly, new-build supply on its own is unlikely to greatly improve affordability and will not help those places where the crisis is less about supply and more about a lack of income.

Housing policy that better recognises these complexities would be an important step towards making housing available, affordable, and appropriate for everyone that needs it. It would also be more useful than simply setting a nice round number national target for new homes.