Communities and Local Government

Housing Wealth Inequality

Economics paper 6: Volume 1

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November 2010
Department for Communities and Local Government

This research was commissioned by the previous government.

The findings and recommendations in this report are those of the authors and do not necessarily represent the views of the Department for Communities and Local Government.

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Communities and Local Government Publications
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Fax: 0300 123 1125

Email: product@communities.gsi.gov.uk
Online via the Communities and Local Government website: www.communities.gov.uk

November 2010

Product Code: 08ACST05774

ISBN: 978-1-4098-0971-5

Foreword

Using evidence and analysis is at the heart of what we do in Communities and Local Government (CLG). The Department has a large and active research programme covering a wide range of policy issues, and economic analysis forms an important part of that work. We need to rigorously assess the costs and benefits of government policy, understand the choices and tradeoffs in reaching policy decisions, and consider how regulations and incentives might affect behaviour.

We are publishing a series of Economics Papers, highlighting key pieces of analytical work undertaken within or on behalf of the Department. These papers will range across the broad policy spectrum for which the Department is responsible, including spatial policies, housing, planning, migration, regeneration, cohesion, and local government.

This paper is the sixth in the CLG Economics Papers Series. Housing has become a large part of our lives and more people rely on housing investment to form their wealth assets. Volume I of this paper sets out the results of a seminar held in CLG which looked at understanding the different forms of wealth inequality and its effects on social mobility and chances. Volume II consists of an article by Gwilym Price and Eric Levin from the University of Glasgow, which examines changes to housing wealth inequality.

We hope that you find it of interest, and would be happy to receive comments and reactions to this and subsequent papers in the series.

Electronic copies of this and earlier reports can be downloaded from our website: www.communities.gov.uk/corporate/researchandstatistics/research1/economicspapers

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Grant Fitzner
Chief Economist and Director of Analytical Services
Communities and Local Government

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Chapter 1

Introduction and background

1.1 Objectives of the paper

Communities and Local Government hosted a seminar to discuss Housing Wealth Inequality and its possible implications for housing policy on 26 February 2007. This note summarises the key points from the seminar, and comprises three chapters. Chapter two identifies the key points arising from the position papers that invitees were asked to provide prior to the seminar followed with outputs from the discussion. Chapter three presents the detailed papers. This document provides a record of the discussion but it is not a statement of departmental policy, nor does it necessarily reflect the views of the Department.

The attendees at the seminar were Yvette Cooper MP (previously Communities and Local Government), and seven external experts: John Hills (London School of Economics); Chris Hamnett (Kings College London): Kate Barker (Bank of England); Gwilym Pryce (University of Glasgow); Peter Williams (National Housing and Planning Advice Unit); Steve Machin (University College London); and Chris Curry (Pensions Policy Institute). Short biographies of the external attendees are provided in annex A.

In writing their position papers, the experts were urged to give a wide ranging and personal view on housing wealth inequality, the challenges it presents and potential solutions. **This resulted in some discussion of the role of taxation in housing, which Communities and Local Government does not set. The views presented here are those of the attendees and should not be considered an indication of current Government thinking on tax policy.**

The seminar was conducted at a point where house prices were facing rapid increase and does not reflect the changes that have taken place since then. House prices have since declined and there have been significant policy changes, such as stamp duty. Other proposals are also being considered to assist the failing market. Nonetheless, the issues in the papers remain relevant.

Chapter 2

Housing Wealth Inequality – Seminar

2.1 Summary of position papers

Chris Hamnett

Chris Hamnett's paper suggests that there are substantial inequalities in the distribution of housing wealth in Britain, particularly in terms of age and region. It also points out that the distribution of housing wealth is also related to social class and income. The paper describes the sharpest inequality as being between the 70 per cent of households who are home owners and the 30 per cent who do not own.

However, it moves on to highlight that housing wealth has historically been a force for wealth equalisation. Like some of the other papers, it makes the point that over the last 40-50 years the increase in homeownership and the value of the housing market have created a large asset owning class and reduced wealth inequality between the very rich and those on middle to low incomes.

It is noted that housing wealth inequality is partly a product of income inequality. As income inequality increases, those on higher incomes will be able to pay relatively more when purchasing a house. This can exacerbate variations in house prices and so the level of housing wealth inequality across different neighbourhoods. The simultaneously high wages and house prices in London provides an example of how this effect extends across different regions of the country.

Peter Williams

Peter Williams's paper also highlights increases in house prices across all regions as evidence for the widening gap in wealth between homeowners and tenants. It further describes how this growth in value has reduced inequality among the property owning classes and to some extent narrowed the gap between the rich and the modestly well off. It concludes that housing wealth may have worked moderately to reduce inequality across the regions.

Citing Burrows and Wilcox (2000), the paper notes that out that half of those who are defined as poor own their own home. The high numbers of homeowners on low incomes means that (despite having access to housing assets) some homeowners may still be in need of financial support from the state and that social welfare policy will need to take greater consideration of this in the future.

Several warnings are provided against unrealistic expectations about how house prices and housing wealth may evolve in the future. It is suggested that we may be entering what he terms a 'mature' homeownership market where homeownership rates have now stabilised. In his view this could place limits on the potential for house prices to drive further inequality in the wealth distribution.

Gwilym Pryce

Gwilym Pryce's paper identifies significant housing wealth inequality across ethnic and socio-economic groups. However it admits that a precise estimate is currently not available in the UK. The paper attributes rising housing wealth inequality to cumulative differences in the levels and rate of change of house prices.

The paper suggests that it is the inequalities in housing wealth accumulation which are likely to have adverse effects on access to education, racial segregation and spatial concentrations of poverty. It describes how school performance can become 'capitalised' in house prices making it difficult for low income families to take advantage of the best schools.

The redistributive effect of housing wealth across generations is also examined, along with the concept of real house price appreciation as a transfer of wealth from future home-owners to present home-owners.

The paper concludes that the negative effects of current housing wealth inequality are likely to lead to further concentration of housing wealth in the future, due to cumulative differences in the levels and rate of change of house prices. Inequality across generations is also incontrovertible – real house price appreciations amounts to a transfer of wealth from future home-owners to present home-owners. It is further noted that the 'low end' of the market as being more susceptible to collapse and hence increasing the chances of rising inequality within the owner occupier market.

Chris Curry

Chris Curry's paper identifies housing wealth inequality as a significant correlate of inequality amongst the elderly. The paper observes significant housing wealth inequality at older ages and highlights that more than 20 per cent of individuals aged 50 or older in England have no (or negative) housing wealth.

It is argued that those without housing wealth are at greater risk from social exclusion. Evidence is also presented to show that individuals with no housing wealth are also less likely to have access to other forms of wealth such as savings and pensions.

The paper views housing wealth as a mitigator of poverty at older ages. It describes not having to pay rent, the opportunity for equity release and the use of property as an investment as all providing ways of reducing living costs or subsidising incomes in old age.

As the current generation of homeowners enter old age, and the portion of homeowners in older age groups increases, it is expected that the equity release market will grow. However, the size of this market will be constrained by reluctance amongst homeowners and relatively high interest rates currently charged by equity release providers. Reluctance among home-owners may partly be caused by the reduced entitlements to state benefits for those receiving income through equity release in old age.

Steve Machin

Steve Machin's paper draws attention to the segregation of neighbourhoods that is often associated with the concentration of housing wealth. It describes the effects of neighbourhood segregation on crime, labour market opportunities and the further accumulation of housing wealth.

Citing evidence from Gibbons et al, (2006), the paper highlights that in Britain, crime is highly concentrated in particular places, is persistent over time, and are associated with areas that have lower levels of housing wealth.

The paper concurs with some of the other experts on the capitalisation of school performance into higher housing values. It expresses the view that parents' willingness to pay and the increased demand for particular schools is an important economic phenomenon that causes concentration of housing wealth in particular places. It is also noted that this will lead to increased economic inequality in the future as those children who are able to get a better education are more likely to do well in the labour market in the future.

The paper also argues that housing wealth inequality and regional differences in house prices serve to reinforce regional differences in unemployment amongst low skilled workers.

2.2 Policy considerations

The experts were also asked to consider what actions they would take to mitigate the effects of housing wealth inequality.

This generated a range of responses from encouraging saving in other forms of assets (such as hours price linked savings accounts) to increased taxation of housing assets. However, most of the experts agreed that Government should be careful to avoid policies that could affect confidence in the housing market.

Most of the position papers highlighted the already increasing taxation of housing wealth as an increasing number of houses creep towards the threshold for inheritance tax. Peter Williams noted that this may increase the incentive to 'spend' housing assets rather than pass them on to the next generation.

Some of the papers discussed the benefits of increasing homeownership through shared ownership. However they stressed that those who continued renting would not benefit from this policy and that overall it required faith in the continued performance of the housing market. Peter Williams highlighted some previous research arguing that the benefits of owning housing assets have been overstated, and that the Government should do more to encourage saving in other forms of assets.

Steve Machin's paper suggested focusing on mitigating the effects of housing wealth inequality through regeneration, by making better use of social housing to create mixed communities and a review of the selection mechanisms for schools.

There was also a brief mention of the potential for developing financial products to make it possible for the wealth of non-owners to keep pace with that of owners.

2.3 Seminar discussion

The seminar was structured around four broad themes. The first part of the discussion was aimed at establishing the problem and why housing wealth inequality should be of concern to policy makers. The discussion then moved on to the drivers of housing wealth inequality and possible future trends. This was followed with some consideration of the potential implications for policy and a concluding session where the chair invited suggestions for future analytical work in this area.

Why is housing wealth inequality a problem?

It was generally agreed that housing wealth inequality should be a concern for policy makers. However, the discussion brought out the need to consider housing wealth in the context of other forms of wealth (and the different returns they have offered in recent years). The increases in housing wealth for the current generation may have been offset by poor performance in the pensions market. An assessment of the relative gains or losses for homeowners should be taken into account.

Equally, it was agreed that when comparing changes in housing wealth we should consider how housing is different to other forms of assets. An individual may appear to have significant amounts of wealth in their home; however there is often limited scope to withdraw equity.

The discussion reviewed some of the issues covered in the attendees' position papers. Following this, it was generally agreed that housing wealth inequality should be a concern to policy makers for two main reasons:

The first was the ability of housing wealth to transmit inequality across generations. As with other forms of assets housing wealth can be passed down to the next generation. However, housing wealth can also affect access to good public services and high performing schools. The experts agreed that this could have an effect on the life chances of the children of homeowners' and so could lead to inequality in social opportunity between those with housing wealth and those without.

The second area of concern was how housing wealth and investment in housing assets may lead to an inefficient use of the housing stock. The experts felt that investment in housing could be leading to under occupation of larger dwellings. In their view this represents an inefficient use of what is a scarce economic resource.

In addition to the points raised in the position papers there was also some brief discussion of long term care and how some individuals will be forced to use their housing wealth to finance living costs in old age. This may create arbitrary inequalities between families with elderly relatives.

Future trends and drivers

Higher house prices were seen as the main driver of housing wealth inequality. When considering a range of future scenarios the experts looked at the potential prospects for further sustained increases in house prices. Low long term interest rates and undersupply were both seen as important factors. The point was also raised that (in the very long term) migration could increase the pressure on house prices if supply did not react to increased demand.

The discussion on future trends covered the possibility of slower house price inflation and its potential to frustrate relatively new homeowners. These individuals may have stretched themselves to get on the housing ladder in the hope of capital gains matching those experienced by current homeowners. Slower growth in house prices and lower returns to investment could lead to disappointment and frustration amongst these new homeowners.

As in the position papers, income inequality was also identified as a significant driver of housing wealth inequality. The suggestion was put forward that the rise in housing wealth inequality over the last twenty years could partly be a symptom of wage inequality in the 1980s. The effect of income inequality may place limits on our ability to deal with housing wealth inequality through housing policy alone.

Policy implications

The attendees saw rising housing wealth inequality as providing a case for either shared equity policies or some form of financial instrument to increase renters' exposure to the returns to housing investment.

When discussing policy implications the group reiterated their two main concerns of inequality caused by housing wealth and the inefficient use of the housing stock.

The chair endeavoured to use the experts' knowledge to improve understanding of the size of investment that would be required to solve this problem. The conclusion was that this was a difficult question to answer and that it depended on the current position in the house price cycle.

Future analytical work

Overall the discussion found agreement on a number of issues surrounding the extent and effects of housing wealth inequality. It also raised a number of further issues for consideration and some new areas for investigation.

It was decided that in order to further the policy agenda a better understanding of the following issues would be required: (1) the interaction of the owner occupier, first time buyer and buy to let markets; (2) how housing wealth cascades between different generations and whether this will cause further concentration of wealth; (3) the interaction between school performance, housing wealth and life chance and; (4) whether there is role for Government in promoting financial products to widen access to housing investment returns

Chapter 3

Housing Wealth Inequality – Economic Papers

3.1 Housing and wealth in Britain

by Chris Hamnett, Professor of Geography, King's College London

Housing wealth and the growth of home ownership

The growth of home ownership in Britain in the post-war period greatly widened the distribution of wealth and helped to reduce the inequality of wealth ownership which was extremely marked in the interwar period and before. Housing wealth should not necessarily be seen as a problem. In many ways, it has proved a powerful force for greater wealth equality and wealth redistribution.

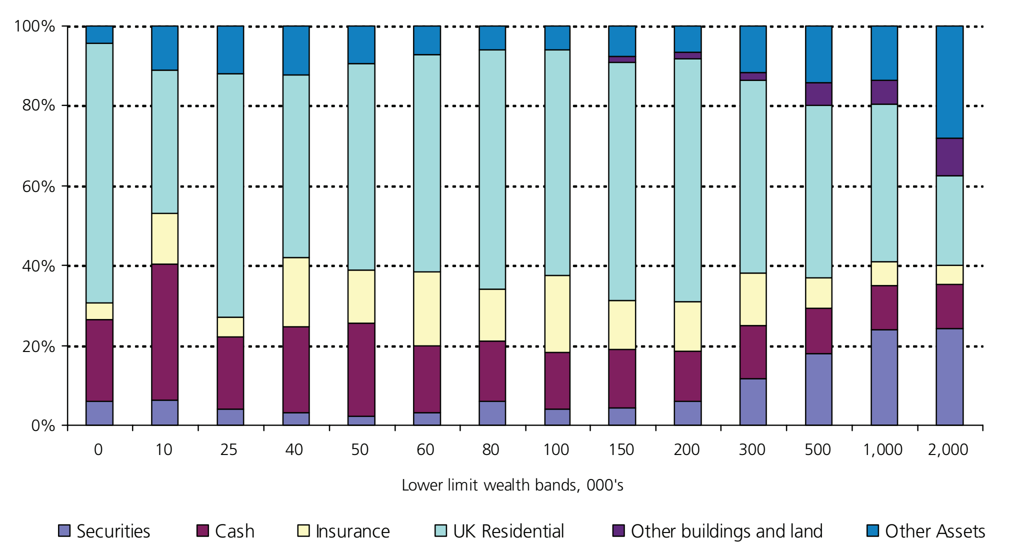
The reasons for this development are simple. Prior to the expansion of mass home ownership, housing was owned by a relatively small number of private landlords and was a relatively small element of wealth compared to land and stocks and shares. The growth of ownership (from 10 per cent in 1914 to 25 per cent in 1939, and 50 per cent in 1971) combined with rapid house price inflation from 1970s onwards greatly increased the value of housing in wealth holdings and widened its distribution (Hamnett, 1992: Hamnett and Seavers, 1999). Housing wealth is, crudely, a product of the level of home ownership and the level of house prices. A sharp fall in house prices would reduce the extent of housing wealth. After several decades of expansion, home ownership levels seem to have stabilised at around 70 per cent of all households. Sharp falls in house prices, such as occurred from 1989-2002 and from autumn 2007, can lead to substantial negative equity for those who bought near the top of the market.

The Royal Commission on the Distribution of Income and Wealth (1977) estimated that the value of dwellings as a proportion of net personal wealth increased from 18 per cent in 1960 to 37 per cent in 1975, and that had risen to over 50 per cent by 1990. The proportion then fell back in the housing market slump of the early 1990s, but has recovered since 1995 as house prices have risen. In 2003 housing accounted for 50 per cent of gross identified personal wealth (IPW), but the proportion varies from a low of 22 per cent of IPW for those with wealth of more than £2m to a high of 61 per cent for those with wealth of £200,000-£300,000 and accounts for over 50 per cent of those with gross

IPW of £60,000-£300,000 (see figure 1). In the higher wealth bands, stocks and shares traditionally account for a high proportion of wealth. For many people, their house is their major asset and, with the reduction in fully funded company pension schemes, housing may represent an important source of insurance for old age. The figures exclude those without a grant of representation, in other words, those with estates below a minimum level, currently £25,000. There are therefore a substantial number of individuals who do not enter the wealth tables.

There is one group – tenants who are exempt from this widening of wealth ownership: although the expansion of the Right to Buy (RTB) scheme under the Conservatives has greatly increased the spread of housing wealth among ex council tenants. This is not however an argument to expand the RTB. On the contrary, it led to a one off transfer of assets to individuals many of whom have subsequently sold and either entered the mainstream market or, particularly in London, rented them out to become small landlords. It also led to a substantial reduction of the social housing stock which has caused supply problems. The growth of the buy to let market in recent years may have led to a small but significant shift back towards the concentration of housing wealth in the hands of residential landlords rather than individual owner occupiers.

Figure 1 The distribution of assets in identified gross personal wealth, 2003



Geographical differences in the distribution of housing wealth

The distribution of housing wealth broadly reflects the regional distribution of house prices. Higher house prices lead to higher levels of housing wealth in a region. Thus, London and the South East have the highest average household housing wealth.

The gross value of the housing stock, and also housing wealth, is disproportionately concentrated in London and the South East where house prices are highest (Hamnett, 1992). Multiplying the total housing stock by average regional house prices suggests that London and the South East account for just over 40 per cent of housing wealth in the UK. However, this is not a windfall gain, as houses in London and the South East also require much larger mortgages and higher income to pay for them although eventually the owner is left with a larger capital asset. To some extent, the high levels of housing wealth in the South East can be seen as a form of enforced saving for most domestic buyers who are not able to purchase outright and do not have ultra high incomes.

If we accept the proposition that the inequalities in the geography of housing wealth broadly reflect differential house prices, we can look back historically to examine the scale of regional house price variation. As shown in various publications (Hamnett, 1991, 1999), regional variations in house prices have been marked for over 35 years with London and the South East having consistently higher house prices than the rest of Britain. The magnitude of the gap has fluctuated cyclically however, with London tending to lead house price booms, and then slow down dramatically while the rest of the country quietly catches up. I would argue that, over the last 35 years, measuring from peak to peak, or trough to trough, that the gap has remained broadly similar as has the regional difference in embedded housing wealth.

The social correlates of housing wealth

Analysis of the British Household Panel Survey (BHPS) data shows that housing wealth is related to household income, length of ownership and age. Households with higher incomes tend to buy more expensive housing which, over time, results in a higher level of housing wealth. Second, house price inflation means that the longer a household has owned, the greater the equity and embedded wealth in the property. This is generally related to age. Young households entering the home ownership market have a high level of debt and little equity. Older households tend to have paid off most of their mortgage and have a much higher level of equity in their home (Hamnett and Seavers, 1996).

Conversely, outright owners tend to have much lower incomes than younger mortgage buyers as many of them are retired. Therefore, high levels of housing wealth do not necessarily indicate high incomes. It may instead represent a lifetime of slow housing wealth accumulation. This has proved the case with a number of ethnic minority buyers who purchased housing cheaply many years ago in what were then relatively cheap areas (in Hackney, Lambeth or other parts of London for example) but who now find themselves in possession of substantial housing wealth.

Housing wealth and inheritance

Housing wealth is traditionally transmitted and released via inheritance and, to an unknown but growing extent, via trading down and realisation of housing assets to fund retirement or to pay for care. Both Hamnett et al (1991, 1993) and Holmans and Frosztega (1994) have made detailed estimates of the value and incidence of housing inheritance. The data on the distribution of inheritance show a disproportionately high incidence among the higher social classes, existing home owners and in regions with a history of higher home ownership. This is not surprising in that, given what we know about the history of home ownership, the lag between the growth of ownership post war and contemporary inheritance. Many of the homes passing on death today belonged to owners who first bought in the 1950s and 60s, when home ownership was much more the preserve of the middle classes. This will slowly change over the next 20-30 years as widening home ownership is reflected in wider housing inheritance. The children of social housing tenants generally fail to inherit house property as parents are the principal benefactors.

Housing wealth, regional inequality and social mobility

To some extent housing wealth is a reflection of achieved social mobility in that those with a sequence of good jobs and good incomes are most easily able to purchase more expensive or better quality housing in more attractive areas. Over time, and assuming no drop into negative equity, their purchases will be transformed into housing wealth. In this sense, higher levels of housing wealth are the result of sustained prosperity and a life time cycle of earnings. In addition, it is much more possible for those with high levels of embedded housing wealth to trade down and retire to an area of their choice.

The ability to sell up (in whole or part) in an area of high house prices and move to an area with lower prices can, of course, have negative effects on house prices in areas such as Devon and Cornwall (now one of the most highly priced areas in Britain). Given the low level of local earnings and incomes (among the lowest in Britain), it is unlikely that demand is being driven by local buyers who are effectively priced out of the market. High house prices and associated levels of housing wealth in part of the country can thus have effects on other parts of the country in terms of displaced or spill-over demand.

On the other hand, those without substantial incomes or housing wealth are unlikely to be able to achieve certain forms of geographic social mobility such as moving from the north of England to the South East for work obligations or lifestyle choices. It is difficult to see if anything could be done to reduce these effects using policy, given that they are driven by unequal levels of income in different parts of Britain. Average earnings in the City of London are some four times those in Cornwall. In this respect housing wealth inequalities represent and reflect embedded earnings inequalities between regions.

Housing wealth, credit and intergenerational home ownership

Housing wealth also provides a financial resource as re-mortgaging can help release equity. In some cases, the cash released is used to finance housing improvement or extensions and so represents a form of investment. In other cases, cash released may be used for various forms of consumption such as car purchases. Finally, housing may provide the security on which to borrow to fund business developments. Little is known about this and it is unlikely to be large scale. More generally however home ownership tends to be linked to higher credit ratings and may allow people to borrow more cheaply on credit cards and the like. This is more a function of tenure status than housing wealth per se but it may point to the existence of a two class society where credit ratings are concerned.

What is perhaps an important development in the current era of high house prices is the role of parental housing wealth to help young people gain a foothold on the housing ladder. Parents may borrow against the security of their home or take out a larger mortgage to give money to their children to provide a deposit for their purchase. Little is known about this but it may be of growing importance in high price regions. Housing wealth is seen by some people as an alternative to company pensions and can help to fund care for the elderly. In that sense, it generates a greater sense of financial independence.

Wealth and taxation

There are currently two main forms of tax on housing wealth. The first is stamp duty on purchases which has been increased substantially on higher value properties. This represents a tax on turnover and could be differentially increased so that higher value properties faced higher stamp duties. This could capture a fraction of housing wealth and might slow sales at the top end of the market. The second is inheritance tax which is not housing specific and currently kicks in at over £300,000. Unless the threshold is raised, rising house prices will bring more and more property into the inheritance net which is unlikely to prove politically popular. It would, of course, be possible to consider a wealth tax, akin to the French impot d'solidarite, where those with assets of more than £500,000 face an annual levy on their wealth.

It can be argued that housing wealth should not be considered in isolation, and should instead be seen as a part of overall wealth holdings. As noted earlier, housing wealth has historically been a major force for wealth redistribution in Britain, especially since the early growth of home ownership in the interwar era. Housing is now a form of widespread popular wealth ownership, which should be seen as socially and politically beneficial. While the high prices paid in parts of London and the South East may seem grotesque, they reflect ultra high incomes and unequal ability to pay. While the high levels of housing wealth generated by high house prices may be undesirable, it would be politically unpopular to seek to limit mass housing wealth accumulation. It would be much more acceptable to progressively increase the level of stamp duty on high priced properties.

Conclusions

Housing wealth is certainly very unequally distributed, with a minority of households having housing wealth of £500,000 or a million pounds and over. On the other hand, most first time buyers are stretching themselves to get on the housing ladder. This is not new. It has always been difficult for most people to get the money together to buy a house for the first time. It is important, however, not to lose sight of the fact that notwithstanding its unequal distribution housing wealth has underpinned a significant widening of wealth ownership in Britain and has created a mass asset owning class. It is important to ensure that this is not undermined by another housing bust as happened in the first half the 1990s. The 1990s housing bust led to over half a million repossessions and widespread negative equity. It was arguably an important factor in the swing from Conservative to Labour in the South East (Hamnett, 1999).

Postscript

This paper was written in early 2007 and from mid 2007 to 2008, market conditions sharply deteriorated. The housing market slump in 2008 appears to be as sharp, or sharper, than that of the early 1990s and has led to higher levels of both negative equity and repossessions. In this respect, housing wealth is contingent rather than guaranteed and the rate of housing wealth gains or losses depends on when the property was purchased.

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3.2 Housing wealth inequality, "a personal view"

by Dr Peter Williams, NHPAU

Introduction

We have been asked to address four main questions but before doing so it is appropriate to make a number of general comments.

First, we are having this discussion during a period in which there has been prolonged and substantial house price inflation. Most commentators agree that house price inflation will slow and some argue there will be a modest housing market recession. Moreover, the government's policy stance, although assuming continued house price inflation, is beginning to tackle the acute under-supply which has been **one** of the major factors in the market in recent years.

Second and related to this, under-supply is being tackled through higher density developments, increased use of brownfield sites and Section 106 agreements. While all this is logical, one unintended consequence is that the supply of larger homes has diminished and the proportion of new 1 and 2 bedroom homes has increased. One by-product of this is that the under-supply of larger homes and conversely the over-supply of smaller homes in some areas, has contributed to the differential property price inflation, with larger homes seeing bigger price increases than smaller homes. Larger homes tend to be occupied by the better off and this is therefore adding to the pressures government is concerned about.

Third, housing has performed well compared to a number of other assets. As a consequence of this and a loss of confidence in a range of other investments (including pensions) the housing market has seen substantial activity from an investment point of view alongside the more common purchases for use.

Fourth, home ownership rates across the UK have been rising throughout the post-war period albeit with significant regional variations (Forrest et al, 1990).

Growth rates have since slowed considerably. This sustained and now slowing growth has resulted in what might be termed a mature home ownership market with substantial number of owners across the entire age spectrum but in particular at middle and older age groups where home ownership rates can exceed 70 per cent by some margin (and will increase substantially over the next 20 years – 70-79 age group from 71 per cent to 78 per cent by 2021 and 80 plus age group from 66 per cent to 76 per cent). Given typical dates of purchase for these older age groups and subsequent market experience, they have secured substantial housing equity which can be deployed now and over the next 20/30 years. The basic point here is depending upon subsequent trends in home ownership, the costs and benefits of this mature home ownership economy may be with us for a significant but possibly time-limited period.

Fifth, given this maturity and perhaps the very specific features we are confronting, we have to recognise that we need to guard against interventions that might seriously damage the market or indeed the expectations of the households currently in this market. Any substantial intervention would have to be phased in over time to allow adjustment to the new circumstances. We would also need to be very clear that any proposed intervention was going to deliver towards identifiable policy objectives.

Sixth, Hills (Hills,1996 and 2004) has made clear in his substantial contributions around this topic, unravelling the interplay between housing wealth inequality and inequality overall. Resolving ways forward will be a complex and challenging process and one fraught with policy and political risks.

Seventh, we need to be clear if we are discussing UK or England when making fiscal considerations.

In what forms does housing wealth inequality exist?

The Minister's comments on wealth inequality, the role housing plays (Guardian 22/3/05) and the need to protect the most vulnerable are appropriate here. As she notes, wealth inequality is still rising despite rising incomes because many still fall behind in terms of assets. *"For example, single parents have seen their real income increase by a third since 1997. But two-thirds of them still have no savings and most do not own their own home. Put aside pensions and you find that the bottom half of the population owns just six per cent of the nation's wealth. According to Shelter, the top 30 per cent of families with children now own 50 per cent of the nation's housing wealth – up from 42 per cent in 1993"*.

Thomas and Dorling (2004) rightly point to the ways in which housing wealth is unevenly distributed across the UK population and that on average and on an area basis, the well off have benefited most from house price inflation due to differential house price increases (Thomas and Dorling, 2004). Indeed their report for Shelter paints a very stark picture of the ways home ownership and housing wealth are exacerbating inequality in Great Britain and its constituent countries and regions (see also Dorling et al 2005).

Thomas and Dorling cover the period 1980 to 2002 when housing wealth had reached £2.4tr and moved from being 22 per cent of the Nation's wealth to 42 per cent. In January 2007 HBOS released research which updated this to 2006 (Halifax, 2007). Halifax calculated that the value of the UK's housing stock had risen to £3.8tr, a 78 per cent increase in the last five years while mortgage debt had reached £1.1tr. Unmortgaged housing equity thus stood at an estimated £2.7tr. Housing wealth was 2.2 times the value of private holdings of financial assets (shares, deposits, bonds). Over the five years, Northern Ireland had seen the biggest growth in housing asset values of 165 per cent, followed by the North, Yorkshire and Humberside, Wales, and the North West. London's housing assets had grown by 53 per cent (but 245 per cent over 10 years, Northern Ireland was 376 per cent over the same period). London made up around 17 per cent of total housing wealth in the UK.

As this data might suggest, house price inflation has resulted in the gap between those with housing wealth and those without increasing over the period. At the same time housing wealth has had an ameliorating effect on the distribution of wealth within the property owning classes in different regions and countries within the UK and to a modest degree reduced regional differentials. More importantly at a UK level, because housing wealth is widely distributed compared to other forms of wealth and in wealth holding terms is of particular significance to middle and lower income households, it has had the effect of narrowing some of the differentials between the rich and the modestly well off. These are points Smith takes up in her report *Banking on Housing* (Smith, 2005). The rise of home ownership over the decades has boosted the wealth held by middle and lower income households (and this can be seen in the rising number of estates where housing was the major asset). Not only are over half defined as poor home owners (Burrows and Wilcox, 2000) but home ownership is the most heterogeneous tenure in terms of socio-economic group.

Has it been worsening? Is it likely to get worse?

As the previous discussion suggests, depending upon how the question is posed in relation to the overall distribution of wealth or within the residential property asset owning groups, the problem has been getting worse or better. Certainly it requires careful disaggregating and detailed analysis over time. Perhaps the bigger issue is how this is contributing to inter-generational inequalities.

It has been suggested that up to 50 per cent of first time buyers under the age of 30 are now using parental equity to help them access the housing market (Tatch, 2006). In other words, the benefits reaped by one generation are being passed to the next. Obviously, not all home owners and many non-owners will be able to offer assistance so, over time, differentials may increase. There is also evidence to suggest that the children of home owners tend to marry the children of home owners so this segmentation is further reinforced over time with households potentially being the beneficiary of two property inheritances (Hamnett et al, 1991).

HBOS (2006) has estimated that £360bn at 2006 prices will pass from one generation to the next over the period 2006 to 2019/20. This reflects the passage of baby boomers born after 1945 into retirement and beyond. 78 per cent of this age group are home owners. This transfer will not be spread evenly across the UK with HBOS estimating that the South England will account for 54 per cent of it (compared to 4 per cent for Wales). Such projections are subject to assumptions re trends in house prices, equity extraction, inheritance tax and residential care costs to name but a few of the factors that might eat into this forecast value.

Is housing wealth inequality a problem? How does it compare with other factors?

As the Minister has noted in her Guardian article, *"Many of the problems caused by inequality of wealth are really problems of poverty. After all, those with high incomes or high qualifications and considerable borrowing power can worry less about that rainy day. So the most powerful difference we can make is still in tackling poverty, low incomes and raising education opportunities"* (Cooper, 2005).

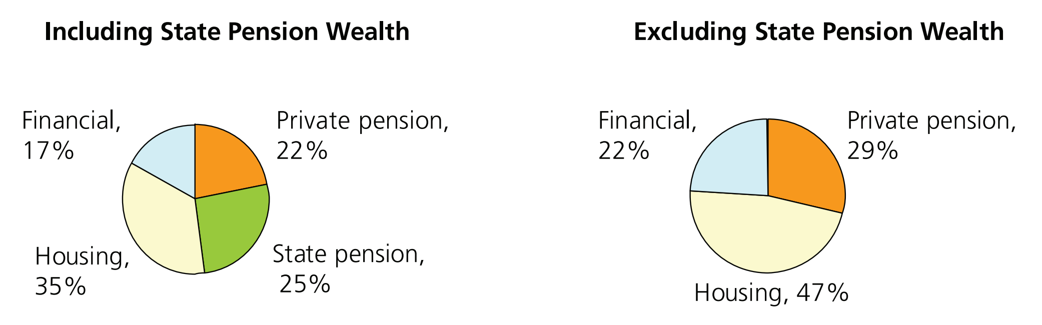
Banks et al (2002) in their study of the distribution of financial wealth in the UK (using the 2000 BHPS) rightly argue that housing wealth should be considered alongside changes in financial assets. They showed that in the lower wealth sub-group, increases in gross housing wealth over the period 1995 to 2000 have dwarfed increases in financial assets over the same period. They comment;

> *"One-quarter of those with no financial assets in either 1995 or 2000 owned a house, and for this group the median increase in the house value was £16,000 and the mean increase was around £27,500. Even amongst those with zero or low financial wealth in 1995 the gains in house value could be substantial. However, since home-ownership is less prevalent amongst lower wealth groups than it is at or near the top of the financial wealth distribution, the impact of gains in the housing market will not tend to offset inequalities in financial wealth. For example, amongst the whole group with zero assets in 1995, over half did not accumulate any housing wealth over the period, and seventy five percent accumulated only £6,000 or less."*

This suggests that, in terms of the overall distribution of wealth, housing wealth is a problem; it is not enjoyed by all and as an asset it has outperformed many of the other vehicles households might use to strengthen their wealth holdings. As we know such a performance is not guaranteed for ever.

A JRF study in 1999 (Rowlinson et al, 1999) estimated that housing wealth accounted for a third of all wealth if state pension wealth is included in the total. The study concentrated on three types of wealth: financial savings, housing wealth, and pension wealth. It was clear from the analysis of the 1995-06 *Family Resources Survey* that housing and pension wealth were by far the most important forms of wealth (see figure 1).

Figure 1



Given the recent performance of the housing market and the overall significance of housing wealth, it evidently has a major impact on overall patterns of inequality. But we must recognise that because of the pressures on many households, eg through under-performing pensions, we might expect to see a significant portion of this wealth used in the current holder's lifetime rather than re-distributed to relatives/across generations.

We also know that housing wealth can act to exacerbate/ ameliorate other divisions and inequalities in life chances such as education, health, social networks and labour market position. For example, school performance is priced in the housing market and those with housing wealth are more able to 'buy in' to that performance, in part offsetting any increased housing costs with reduced schooling costs (Gibbons and Machin, 2006). Housing wealth can be used to meet education costs, eg university fees and thus secure privileged places in the labour market.

What can we do to lessen the impact and scale of housing wealth inequality?

The taxation and use of housing wealth is increasing. With the Inheritance Tax (IHT) threshold for estates currently set at £285,000, HBOS estimated in August 2006 that 8 per cent of all owner occupied homes would be caught by this (with a particular impact on the detached home market and specific regional markets). Over the five years to 2003-04 the number of estates paying IHT has gone up 72 per cent and in 2005-06 the government collected £3.3bn via IHT (49 per cent increase over five years). As IHT impact grows and with continued pension problems the incentive for existing owners to draw down on the value of their homes is also increasing. Total lifetime mortgage and home reversion plan take up is running at over £300m per quarter, ie well over £1bn a year and this market continues to grow, albeit slowly.

CML research (Rowlingson, 2005) indicates that the most common uses for funds drawn down were property repairs and improvements, paying bills and debts and funding regular living costs. This suggests that for some households equity release plays a key role in helping them manage current circumstances. We can probably expect to see this continue, not least as expectations rise going forward. Moreover, we know households will be facing higher council tax and utility bills and increased transport costs.

The impact of IHT is both on lifetime use and subsequent generations. It stimulates use in lifetime and through this and subsequent taxation on death, it reduces the benefits flowing to subsequent households. Council tax banding reflects property values and should the up ratings be introduced in England as they have elsewhere this charge will further 'tax' property wealth. There have been suggestions that an explicit wealth tax should be introduced as per other countries, set at x per cent of the value of the home and levied annually. This would be deeply unpopular.

The IPPR study on housing wealth (Maxwell and Sodha,2006) does not enter into debates about taxation but argue that government should do more to encourage an assets 'buffer' over a housing buffer. IPPR argues that housing wealth 'cannot do everything. For too long its potential has been overstated'.

Setting aside wider issues for the moment, there is no doubt government could do more to help home owners, especially in helping poor home owners access their wealth. The current benefits system penalises anyone on benefits who then draws down capital or income from their home because they then lose those benefits. This is in urgent need of attention.

As this might suggest there is a lack of coherence across government regarding housing wealth. Social welfare policy still treats home owners as the 'haves' even though we know that many are very poor. Likewise for housing policy, where home owners are often barred from accessing social housing even though their needs may be considerable. It should not take mortgage default to be able to access social housing. Across government we have different departments suggesting they wish to charge their costs against any housing equity (legal costs, social security benefits, care costs, education and health costs) and become a charge on any estate. In thinking about how one might tackle housing wealth inequality we must also ensure there is joined up thinking across government.

Research suggests between 80 per cent and 90 per cent of households aspire to become home owners. The government has set a target of 75 per cent and estimates suggest this will be achieved given demographic change over time (older renters being replaced by younger owners). One answer to the question of inequality is simply to continue down this path, expanding home ownership and thus to a degree, limiting disadvantage. However, clearly that will not resolve all of the problems being raised here, many of which lie outside the housing arena. Within housing, enhancing movement between tenures will maximise opportunities for households to move in and out of home ownership over the life cycle. Estimates suggest that over 80 per cent of households can reasonably expect to be home owners at some point in their lives. For those who cannot and will never enter home ownership and to secure any of the benefits that may flow from it, property related savings schemes might be an alternative. However, all of this puts a considerable pressure on the performance of property as an asset. We have been through an unusual period and it would seem unwise to build on going policy on what might turn out to be a relatively short lived experience.

Postscript

As we now all know average house prices have been falling in the UK for over year (since mid 2007) and it is likely this trend will continue for at least another 12 months and then flatten off. Estimates of peak to trough falls vary significantly and there are important regional/property type variations. These changes will have some impact upon housing wealth inequalities but it is too early to be precise about that. Moreover since the reduction in prices has also been accompanied by a credit squeeze which has hit first time buyers substantially (and especially those without access to a deposit) any 'evening out' will be counteracted by the differential impact of the squeeze.

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3.3 Has house price inequality risen or fallen since 1996?

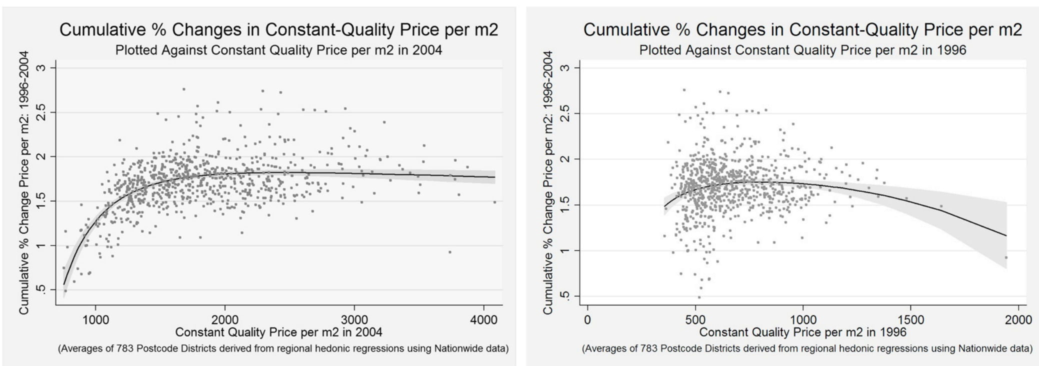
by Gwilym Pryce, Professor of Urban Economics and Social Statistics, University of Glasgow

This note offers some preliminary results from an analysis of Nationwide data that seeks to map house price inflation against initial house price levels in 1996 for 783 postcode districts across the UK. The analysis is motivated by an attempt to verify the Thomas and Dorling (2004) results.

Thomas and Dorling (2004) rank Census tracts where average housing prices were highest in 2003. However, this can give a misleading impression of changes to housing wealth inequality[1]. Consider the following two graphs. Figure 1 first plots cumulative constant quality % changes in price per square metre[2] over the period 1996 to 2004 against the "final outcomes" – ie the 2004 constant quality price per square metre. This gives a very strong impression of growing inequality over time: the areas with the lowest price per square metre have increased least in price.

Now compare these results with those of Figure 2 which plots the same cumulative constant quality % changes in price per square metre over the period 1996 to 2004 against the "starting conditions" – ie the 2004 constant quality price per square metre. This is a more meaningful comparison because it allows us to see how low and high house price areas in 1996 have faired. The horizontal pattern to the scatter of data in figure 2 suggests that there is no simple relationship between starting conditions and house price accumulation.

Figure 2



[1] I am very grateful to my colleague Dr Eric Levin (Department of Urban Studies, University of Glasgow) for pointing out this statistical anomaly.

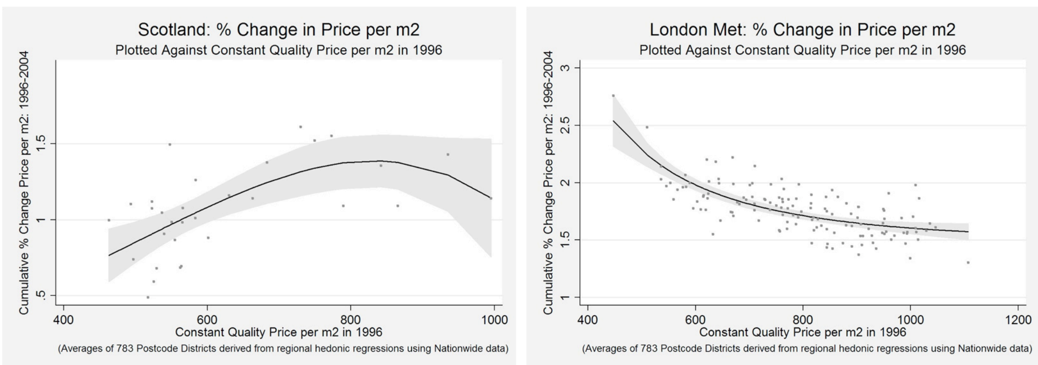
[2] I have attempted to measure the price change in a "constant quality" unit of housing, rather than raw house prices, in order to eliminate changes to selling price that occur as a result of extensions, conversions and other major changes to dwelling structure.

Figure 2 does indicate, however, that there is "negative heteroscedasticity" in this relationship: ie there is much greater variation in the cumulative price increase in areas with low house prices in 1996 than for those with high house prices in 1996. Some of the low price areas have done spectacularly well, while others have experienced relatively small price improvements. In comparison, very few high house price areas in 1996 have performed either particularly well or particularly badly. Further work is needed to verify whether this heteroscedasticity represents genuine differences in house price volatility between areas, or whether it is a methodological phenomenon (eg due to fewer transactions, and hence larger random variation, in low price areas).

Intra-regional inequalities

If we consider whether house price inequality has been rising or falling within particular regions, we find that house price inequality in most regions appears to have been stable over the 1996-2004 period. There are some regions, however, where there has been either a significant fall in house price inequality (eg London Met) and one region (Scotland) where house price inequality appears to have risen. More work is needed to investigate whether these intra-regional results hold true using larger samples and longer time periods.

Figure 3



Conclusion

The implication of these preliminary results is that, for the UK as a whole, spatial inequalities in value of a square metre of housing (holding dwelling type, size, and attributes constant) have remained stable, at least at postcode district level. Note, however, that the absolute financial gains will not have been constant – someone living in a 500 m^2 house would have made five times the capital gains of someone living in a 100 m^2 house. The results also suggest that house price inequalities within particular regions may have not been stable, rising in some areas (Scotland) but falling in others (London).

Further work needs to be done to establish whether these findings hold true at different spatial scales (i.e. other than for postcode district level analysis), over different time periods and for different datasets, and whether price per m^2 in different *types* of property has experienced different rates of appreciation.

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3.4 Housing inequality at older ages

By Chris Curry, Research Director, Pensions Policy Institute

Introduction

The Pensions Policy Institute (PPI) promotes the study of pensions and other provision for retirement and old age. The PPI is unique in the study of pensions, as it is independent (no political bias or vested interest); focused and expert in the field; and takes a long-term perspective across all elements of the pension system. The PPI does not make policy recommendations, or support any one reform solution, but exists to contribute facts and analysis to help all commentators and policy decision-makers.

This paper has been prepared for a seminar to discuss the subject of housing inequality. It concentrates on housing inequality amongst individuals in older age groups (aged 50 and older), and highlights the potential impact of housing inequality on incomes and living standards at older ages[3].

There is significant housing inequality at older ages

Housing wealth therefore plays an important part in reducing living costs and providing a potential additional source of capital and income in retirement. However, housing wealth is not evenly distributed among older people. As seen in Chart 1, more than 20 per cent of individuals aged 50 or older in England have no (or negative) housing wealth[4].

[3] See Curry (2004) *Property or Pensions?* PPI for a more detailed discussion of the potential uses of housing equity for funding retirement

[4] Negative housing wealth occurs where the value of outstanding loans secured on property is higher than the property value.

Chart 1[5]

Chart 1 shows the decile points of the distribution of housing wealth for adults aged 50 and older in England and Wales. So for example, 50 per cent of adults in this group have housing wealth of less than £150,000, and 50 per cent have housing wealth of £150,000 or more.

Housing wealth also varies by age, with net housing wealth higher for individuals aged 60 to 69 than for those aged 70 or older[6]. Not having housing wealth is associated with being at increased risk of Social Exclusion (Table 1). Table 1 illustrates that this is true for the many different types of social exclusion, not just in financial terms[7].

Table 1 The risk of social exclusion by housing wealth[8]

%	Social	Cultural	Civic	Services	Neighbourhood	Financial	Material
No Housing Wealth	18	16	18	16	21	24	20
All older people	12	11	12	9	13	10	11

5 Provisional PPI analysis of wave 2 of the English Longitudinal Study of Aging (ELSA)

6 Pensions Commission (2004) *Pensions: Challenges and Choices: The first report of the Pensions Commission*

7 See Barnes et al (2006) *The Social Exclusion of Older people: Evidence from the first wave of the English Longitudinal Study of Ageing* (ELSA) ODPM for full definitions of the different types of social exclusion

8 Barnes et al (2006)

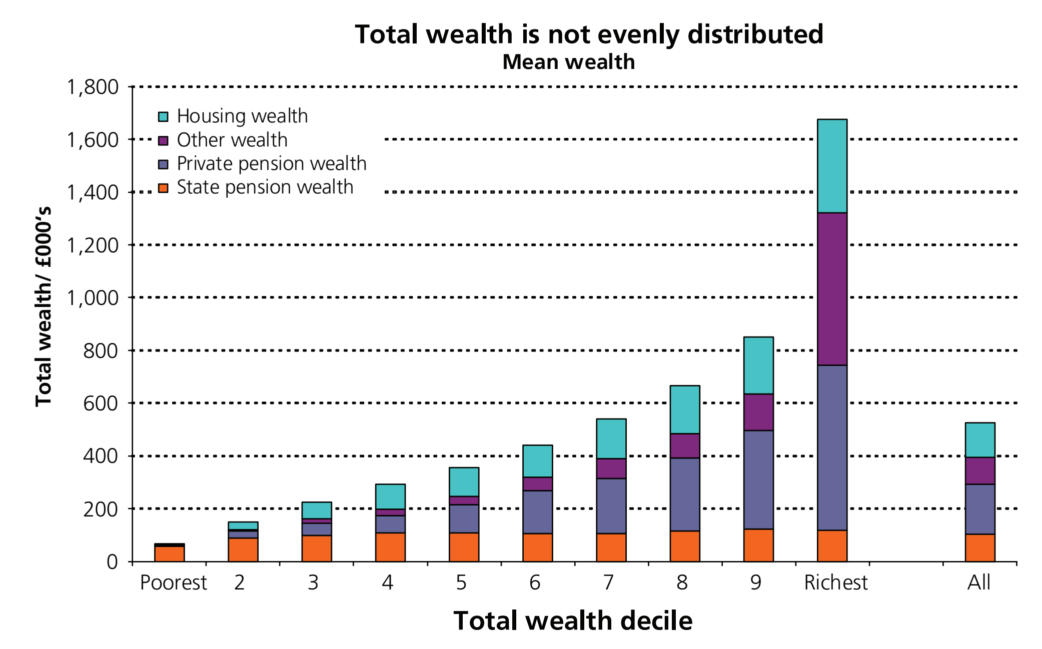
Any positive amount of housing wealth reduced the risk of social exclusion below the risk facing all older people as a group[9].

Housing wealth is correlated with other wealth

Chart 1 highlights the unequal distribution of housing assets – other types of assets (for example pension assets and non-pension financial assets are also unevenly distributed[10]). But holdings of these types of assets are positively correlated: individuals with high levels of housing wealth are more likely to have high levels of pensions and other financial wealth.

For example, for individuals aged between 50 and state pension age in England, the average wealth of the 10 per cent with the lowest wealth levels was just over £60,000 (including accrued state pension rights), compared to the average of over £1.6m for the 10 per cent with the highest wealth levels (chart 2)[11].

Chart 2[11]



Source: INSTITUTE FOR FISCAL STUDIES analysis of ELSA, All 50 to SPA

9 Barnes et al (2006)

10 Marmot et al (2005) *Health, wealth and lifestyles of the older population in England: THE 2002 ENGLISH LONGITUDINAL STUDY OF AGEING* IFS

11 Reproduced from an IFS presentation at *Prepared for retirement? The adequacy and distribution of retirement resources in England*, October 2005

Housing wealth is an important mitigator against poverty at older ages

Housing wealth can help to prevent poverty in three ways:

- owning your own home can reduce day-to-day living costs in retirement
- equity released by homeowners can be used to provide extra income
- property can be used as part of an investment portfolio generating retirement income.

Housing can reduce living costs

Home ownership can improve the standard of living in retirement by reducing costs. Owning your own home in retirement reduces living costs relative to paying rent (not having any housing wealth) by up to 45 per cent[12].

Homeowners may face large one-off expenditures, for maintenance or improvements to maintain the quality of their housing, on top of a low level of on-going maintenance. This may result in a need to set aside a lump-sum, or save throughout retirement in order to meet these costs. An alternative is to use equity release.

Higher living costs may not affect low income non-home owners, where any rent is likely to be paid for by Housing Benefit (if it is claimed).

Some – but not all – housing equity can be released

If people over state pension age want to release equity in their home, there are a number of different ways of doing so.

Selling the house would immediately release all of the equity available in the property. However, this equity would be reduced by the purchase of another property to live in, or living costs increase by the rental cost of alternative accommodation.

Equity can also be released using financial products, commonly called equity release products. There are currently two main types of equity release product[13]:

- equity can be released by taking out a lifetime mortgage. This is a loan which is secured against the property. The loan is normally repaid when the house is sold, or on the death of the pensioner. The interest accruing can be repaid on a monthly basis, or rolled-up and added to the original amount borrowed, and repaid at the end of the loan period

[12] Parker (2002) *Modest but Adequate – a reasonable living standard for older households aged 65-74* Family Budget Unit report for Age Concern England

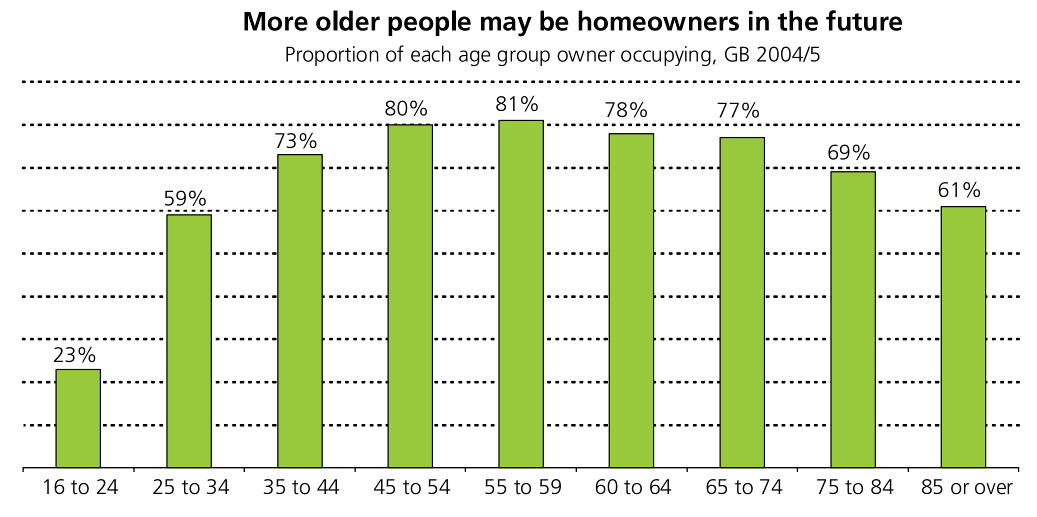
[13] CML (2003) *Unlocking the value of your home: A guide to equity release*; Age Concern (2003) *Raising Income or Capital from your home Age Concern Fact Sheet 12*

- alternatively equity can be released through a home reversion scheme. All, or part, of the property is sold to a reversion company, who then own that proportion of the property. The pensioner lives rent-free in the property, until death.

At the end of 2005 there were over 100,000 lifetime mortgages outstanding, worth £5,307m[14]. Additionally up to £250m is released each year through home reversions[15]. However, this represents significantly less than 1 per cent of pensioner housing wealth[16].

The equity release market is expected to grow further, as the number of older households and the proportion of pensioners with housing equity increases (chart 3).

Chart 3[17]



Changing attitudes to equity release (for example, the fact that one-third of people plan to use property to provide retirement income[18]) also suggests further growth in the market. Most people saving in property see it as an additional, rather than main source of retirement income[19]. But one-in-eight of all working people expect property to be the main source of retirement income[20].

14 CML statistics. Figures refer to the end of 2005.

15 SHIP press release referenced in CML (2004 HMT) *Regulating home reversion plans: Response by the Council of Mortgage Lenders to the HM Treasury Consultation document*

16 PPI calculations based on information extrapolated from CML (2004 HMT)

17 Family Resources Survey 2004/5

18 ABI (2003) *The state of the nation's savings*

19 ABI (2003)

20 ABI (2003)

The growth of the equity release market is constrained, as not all of the equity in housing can be released. Most products will only release a portion of the equity, to ensure that the interest can be repaid by the value of the house when it is sold. The amount of equity that can be released depends on the age at which it is taken. Taking equity earlier reduces the amount that can be withdrawn, as the interest is expected to accrue over a longer period of time.

For example:

- most lifetime mortgage lenders will offer equity release of between 15 per cent and 20 per cent of the value of the property to someone aged 65. By age 75, this often increases to 30 per cent. The maximum that most lenders will offer to those aged in their 90s[21] is 50 per cent of the property value
- alternatively, equity can be released in the form of an income stream. The maximum size of the income stream available is also age-related. For example, a 65-year-old could obtain a monthly income of around 0.13 per cent of their property value (£260 a month for a house worth £200,000), while a 90 year-old could secure a monthly income of 1.2 per cent of their property value[22]
- although home reversion schemes offer to buy all of a property, the amount received for the property is considerably lower than the full market value. At best, a 65-year-old could expect 35 per cent of the market value, and the maximum amount paid to older pensioners is around 60 per cent of the market value[23].

There are a number of reasons why pensioners may choose not to move house:

- many pensioners have an emotional attachment to their home, and are reluctant to sell it in order to 'trade-down' to a smaller property
- there also has to be somewhere to trade down to – the increase in value of the pensioner's house is likely to have been matched by increases in the value of other houses, meaning that significant equity can only be released by moving to a smaller property, or to a less expensive area
- the home is still often considered to be a family asset that will be passed down to children or grandchildren. Some pensioners are reluctant to spend what they see as their children's inheritance[24]. There is no evidence that today's elderly population are changing their attitudes towards inheritance[25].

21 PPI internet search
22 PPI internet search. Assumes no lump sum is taken.
23 Age Concern (2003)
24 Gay (2004) *Retirement realities: shocked and struggling* National Consumer Council
25 Hancock et al (2002) *Attitudes to inheritance: an exploratory study* Joseph Rowntree Foundation

But pensioners may also be reluctant to use equity release products:

- the interest rates charged by equity release providers often appear high, relative to other mortgage products. This is because providers have to cover both the longevity risk of a homeowner living for a long period of time, and the investment risk that the property will be worth less than the outstanding loan when the homeowner dies. Interest rates are set at higher levels to cover these uncertainties, and to compensate for the fact that the provider does not receive any payments for a long time after making the loan. These higher interest rates can make equity release products unattractive
- it can be difficult to move house under equity release plans, if for example one partner in a couple dies and the remaining partner wishes to move to a new house of lower value, part of the loan may need to be repaid
- any money that is released from housing could reduce entitlement to the Pension Credit (PC) and Council Tax Benefit (CTB). If any equity is released, it could increase the amount of income and/or capital taken account for benefits[26]. It is not counted as capital or income if it is not released
- equity release products still have an image problem after mis-selling and bad product design in the late 1980s left many pensioners in debt. This should be helped by the regulation of lifetime mortgages by the FSA from 31 October 2004.

While a desire to preserve a family home as an asset to be passed on to future generations may limit the scope for equity release for the current generation of retired homeowners, it may increase the potential for equity release for future generations. But the impact of inherited housing wealth will depend on a number of different factors:

- if inherited property is retained, the number of people with more than one property would increase
- if inherited property is sold, and the proceeds are re-invested in a family house, there may be more equity in the new family home, but similar reasons to today to not release it
- if property is inherited by people who do not already own their own home, inheritance could become a more common way of getting on to the housing ladder. Recent trends suggest that increased prices have made it difficult for first-time buyers to enter the market, and the average age of first-time buyers has been increasing.

[26] Entitlement is not affected during an 'assessed income period', where changes to income or capital need not be reported. See Age Concern (2003*) Equity Release and income-related benefits from October 2003 onwards* Age Concern Information Sheet 7 for further details.

It is likely that there will be some combination of these different outcomes, leaving the overall impact uncertain.

Few people will be able to release significant amounts of equity from their homes

The uneven distribution of housing wealth suggests that only a minority of people will have sufficient housing equity to provide a reasonable stream of retirement income (table 2). The positive correlation between wealth types suggests that these people are also likely to have private pension provision, and so may have less need to release equity.

Table 2 Maximum equity release at age 65 at each decile point of the distribution of housing wealth, adults aged 50+ in England[27]

Decile Point	Value	Maximum lump sum	Maximum monthly income
10	£0	£0	£0
20	£0	£0	£0
30	£84,000	£16,800	£110
40	£120,000	£24,000	£156
50	£150,000	£30,000	£195
60	£180,000	£36,000	£234
70	£205,000	£41,000	£267
80	£250,000	£50,000	£325
90	£350,000	£70,000	£455

Applying the maximum proportion of house value that can be released as equity at age 65 (20 per cent) to the median housing wealth of adults aged over 50 in England of £150,000 gives an income stream of £195 a month. Half of all people aged 50 or older can release less than this, and a fifth could release nothing. A house value of one-third of a million pounds is required to get equity release of £100 a week[28] (which when combined with likely state pensions would provide a retirement income of £200 – £250 a week, broadly in line with many aspirations). Only around 10 per cent of older adults have access to this much housing wealth

This analysis implies that for many people it will only be possible to release relatively small amounts of housing equity. For these people, the predominant benefit of home ownership will be to reduce living costs, rather than to provide a significant amount of income throughout retirement.

[27] Provisional PPI calculation

[28] PPI calculation

Very few people will have sufficient amounts invested in property to allow them to use investment income from property instead of private pension provision.

Property other than the home can be used as an investment

As well as using their home to provide retirement income, people can also obtain retirement income through investing in other properties. This could mean buying a holiday home, or one or more properties to rent out (also known as buy to let). At retirement, these properties can be sold to release equity, or retained and rented out to provide an income stream. Providing retirement income is often reported to be a major motivation of part-time buy to let landlords[29], and 15 per cent of all people in work say they plan to use income from properties *other than their home* as retirement income[30].

These plans may be beginning to be transformed into action. The number of mortgages advanced for buy to let has increased rapidly, from 28,700 advanced in 1998 to over 200,000 advanced in 2005, and there are now more than 700,000 buy-to-let mortgages outstanding[31]. However, only 3 per cent, or less than one million of all non–retired people report owning more than one property[32]. A similar proportion (less than 3 per cent, or 250,000) retired adults also report owning more than one property.

3.5 Economic and social issues to do with levels and changes in housing wealth inequality in Britain

By Stephen Machin, Professor of Economics, University College London

Background

This paper sets out some comments and observations on economic and social issues related to housing wealth inequality in Britain. The focus is largely on the consequences of different levels of inequality and their implications for economic and social outcomes. I have selected five areas of study to highlight where increasing housing wealth inequality has potentially important implications.

Theoretical arguments

As with many other questions pertaining to economic resources it is evident there are trade offs between equity and efficiency that are attached to the distribution of housing wealth. The twin forces of supply and demand are the key drivers of the distribution at any point in time, but there are other consequences that need

29 Bevan and Rhodes (2003) *Private landlords and buy-to-let*, Joseph Rowntree Foundation

30 NOP (2003), compared to the figures in Chart 3 where the 32% planning to use property included those using their own home

31 CML statistics

32 PPI analysis of the Family Resources Survey 2004/5

to be considered if one wishes to say something about whether the amount of inequality (or alternatively the spread of the distribution) is at a reasonable level.

Areas where housing wealth inequality matters

In this section I consider five areas where the distribution of housing wealth has implications for individual and economy wide economic and social outcomes:

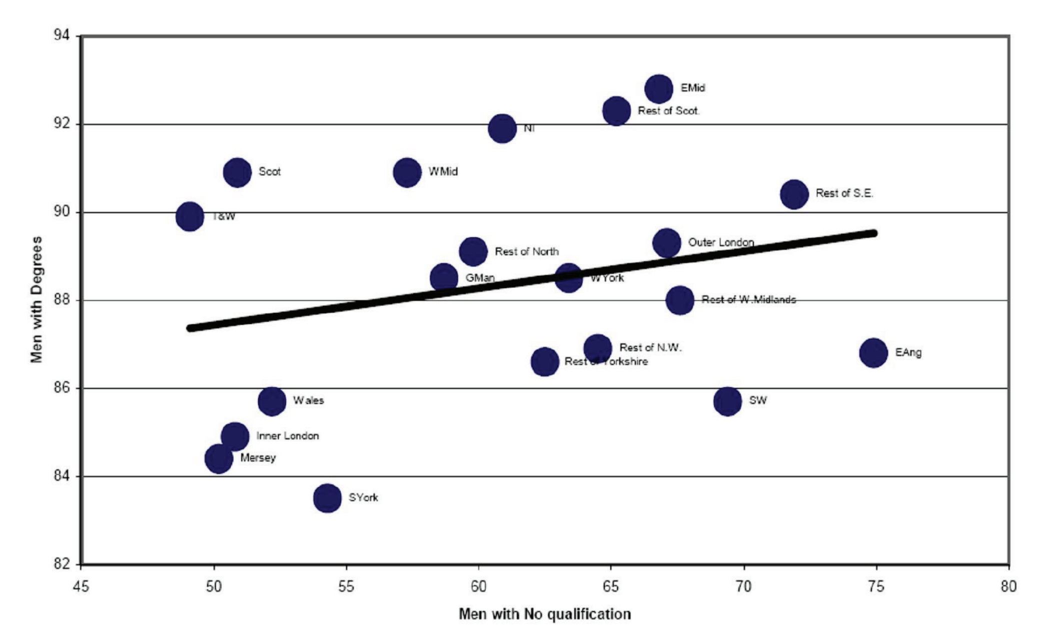
1. The Labour Market

There has been a great deal of discussion over the years about whether, and if so how, the functioning of the labour market is affected by housing (for example, see the work by Cameron and Muelbauer, 1998, 2001). This includes the often cited notion that social housing constrains labour mobility. It also includes issues to do with transport costs and commuting decisions that are linked with residential choices.

Housing and labour mobility needs to be looked at separately for workers in different skill groups. For example, the labour market for graduates works well in the UK and potential employers and employees seem to match well for the most part. The only real housing wealth issue here seems to be the question of first time buyers in places where house prices are high, notably in London. But for the unskilled (those with few or no educational qualifications) labour market mobility is severely constrained and this has caused a concentration of low skilled people living in low prosperity areas with poor housing values.

That there are much bigger regional disparities in the labour market outcomes of low education individuals as compared to their more educated counterparts is shown in the following figure 1 which shows that regional differences in employment are almost non-existent for graduates and extremely marked for those with no formal education qualifications:

Figure 1 Comparison of working age male employment rates by region, spring 2003



Source: Labour Force Survey (excludes full-time students)

The real question is: why are there such persistent differences in employment among low skilled labour, which are almost completely absent for educated labour? It is evident that spatial mismatch is not only due to the labour market and employment policy but also closely linked to the nature of localised housing and rental markets (especially social housing), access to transport and general questions of information. Higher levels of housing wealth inequality act to reinforce these problems unless the labour market prospects in areas with low value housing (especially among the low skilled) can be improved.

2. Schooling Market

A finding of recent research is that parents are willing to pay large amounts of money to live in neighbourhoods with better performing schools (see, *inter alia*, Gibbons and Machin, 2003, 2006). Differences in school performance are capitalised into higher housing values. This willingness to pay and the increased demand for particular schools is an important economic phenomenon that causes concentration of housing wealth in particular places.

It is well established that better education also pays off significantly in the labour market in terms of higher wages and better job prospects and so, other things constant, this is likely to lead to higher levels of economic inequality in future.

3. Social Mobility

Social mobility has been declining in Britain over the last few decades (Blanden et al, 2005). Inequalities in parental income and wealth have been important drivers of this fall in mobility. In particular, expansions of the higher education system have disproportionately favoured children from richer (or at least above average income) backgrounds and this has contributed to the fall in mobility. The argument about inequalities in education does, however, apply to other inequalities. Current rises in housing wealth inequality are, if they benefit individuals from the top half of the income distribution, also likely to have such a disequalising effect in future.

In this context it is important to not only look at the current situation, but also to appraise the longer term cross-generation implications. Some of the same issues raised in discussions about the disequalising effects of education expansion apply to housing wealth inequality and the implications that current levels have for future outcomes of individuals and their children.

4. Neighbourhoods

Spatial concentrations of housing wealth and social housing in particular neighbourhoods have serious implications for economic and social outcomes. There is evidence from the cohort studies that growing up in an area with less good housing has negative consequences for adult economic and social outcomes including education, personal health and labour market success (Sigle-Rushton, 2004).

5. Crime

US discussions have made it clear that high levels of inequalities (housing wealth among them) have negative consequences. In Britain it is evident that crime is highly concentrated in particular places, is persistent over time, and are associated with lower levels of housing wealth (see Gibbons et al, 2006). It is interesting that some US work that moves people between neighbourhoods (like the Moving to Opportunity programme studied in Duncan at al, 2004) leads to reductions in the chances of becoming a victim of crime.

Some policy discussion

Policy can make a difference to levels of housing wealth inequality in a number of ways, among them trying to facilitate access to high quality public services in currently deprived (low housing value) areas and helping to reduce the crowding of the poor into a minority of wards by making these areas more attractive. This is not an argument for gentrification, which is the almost complete replacement of poor populations with affluent ones in an area, but more of one creating more mixed populations in the areas currently in the most deprived 10 per cent of wards and of making inner cities areas more attractive places for people to live.

In the case of schools, the proximity criterion in school admissions is key to driving housing values up and weakening of the link between where children live and the schools they attend can ensure that schools do not perpetuate geographical patterns of disadvantage and advantage. This requires choice backed by access and support (such as buses, informing and engaging with parents) and a blind selection mechanism for oversubscribed places.

Social housing reform can also play a role in creating more mixed communities (as well as enabling greater mobility as discussed above). Currently social housing subsidies are rationed to those who are in acute housing need (which is in turn strongly related to poverty and poor employment) and can only be secured through residence in social housing in one local authority (LA). An LA has no duty to offer housing to those already housed in another LA and so shifting tenure type or moving across LA boundaries normally results in loss of the subsidy. As social housing units, with only some exceptions, are concentrated in certain communities, this exacerbates the concentration of deprivation.

This issue has been partly recognised and most new build social housing are of smaller units often dotted around towns and cities. However, there is very little new build and this does not address these issues for the existing stock. A possible solution is to make the subsidy a long-term housing cost reduction for any family being assessed as having long-term need. It would then no longer be attached to one local authority and could be taken with the tenant when they move area or even into buying a house. Housing Associations would be able to rent to anyone at full cost but those eligible to the subsidy would pay a lower rent. This would reduce the concentration of deprivation on social housing, creating more mixed communities while also supporting more mobility.

In summary, neighbourhood segregation and the coincident levels of housing wealth inequalities are driven by mechanisms whereby the better off are able to secure more attractive neighbourhoods, which includes better labour market opportunities, good schools and low crime levels. Social housing allocation mechanisms and school admissions policies also create greater patterns of residential segregation in Britain. Whether the degree of segregation is worsening depends on the measure used, but there clearly is no substantive recent improvement. These neighbourhood disparities have important social consequences for their residents. Addressing such neighbourhood effects through increased funding for schools, crime reduction and wider neighbourhood renewal could help create a virtuous circle as these are factors that make neighbourhoods attractive. Addressing the way that social housing allocation and schools admissions policies create segregation will also present further potential benefit.

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Annex A

Notes on contributors to the seminar papers

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Peter Williams is a member of the board of the National Housing Planning Advice Unit (NHPAU) and is an independent consultant on housing and mortgage markets and housing policy He is an Executive Director of the Intermediary Mortgage Lenders Association.

Chris Curry is the Research Director at the Pensions Policy Institute (and ex GES at DWP). His area is reforms to the pension system itself but he might be able to advise on who the experts are on intergenerational wealth.

Steve Machin is Professor of Economics at University College London, and is an expert on international changes in wage and employment structure, with particular attention to technological change and the declining role of labour market institutions; the economic impact of minimum wage floors; intergenerational earnings and educational attainment nobility in Britain; employer provided training and job mobility; child development and relative success or failure in the youth labour market; crime and the labour market in Britain.

Annex B

Other contributors

John Hills is Professor of Social Policy and Director of the ESRC Research Centre for Analysis of Social Exclusion (CASE) at the London School of Economics. His research interests include income distribution and the welfare state, social security, housing and taxation. He recently undertook a review of The Future Roles of Social Housing in England.

Kate Barker is an external member of the Monetary Policy Committee and was previously Chief Economic Adviser at the CBI. She has also held positions in the Ford Motor Company, National Institute of Economic and Social Research. She led the independent Review of UK Housing Supply in March 2004 and also the review of Land Use Planning in 2006.

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ISBN 978-1409809715
9 781409 809715

ISBN: 978 1 4098 0971 5