The housing ladder is broken

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Why has buying a home become so difficult for young people in Britain?

In this Funding the Future podcast, I talk to my son James about the extraordinary generational divide in housing.

When I was 25, I bought a three-bedroom flat in London for £28,500 with a deposit of just £250. Young people today can face house prices approaching £300,000 or considerably more, while being expected to find deposits of many tens of thousands of pounds.

At the same time, high rents make saving increasingly difficult. Student loan repayments reduce disposable income and can also affect mortgage affordability, and for those without access to the bank of mum and dad, home ownership can seem impossibly distant.

But this is about much more than house prices.

James argues that young people need permanence, independence and somewhere they can genuinely call home. Housing insecurity affects relationships, decisions about having children, careers and people's ability to build independent lives.

We discuss social housing, affordable rents, shared ownership, rent controls and whether government should help provide long-term, predictable housing finance.

The housing market my generation entered no longer exists. Telling young people simply to work harder and save more does not address that reality.

If the market cannot provide affordable, secure homes, government must act, and we discussed what it might do. We hope Andy Burnham is listening.

https://www.youtube.com/watch?v=mHI3XLlAa3Q?si=WlivRYTJf-Q3MQVK

This is the audio version:

https://www.podbean.com/player-v2/?i=puisw-1b5187e-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

There is no transcript for this podcast, but this is my summary of the discussion:

Why housing has become unaffordable for young people

I recently recorded a Funding the Future podcast with my son, James, who also works with me on Funding the Future. We discussed something that divides our generations in a way that is hard to ignore: housing.

When I was 25, I bought my first home in London. I was able to borrow roughly three times my earnings and bought a three-bedroom flat in Tooting for £28,500. My deposit was £250, or less than one per cent of the purchase price.

James is now around the age I was then. His experience could hardly be more different.

The average UK house price is now around £273,000. A 20 per cent deposit on that is about £55,000. In places such as Ely, where we live, homes can easily cost £300,000 to £400,000, making even a five per cent deposit a considerable obstacle.

That is before considering the difficulty of saving.

James pointed out that large numbers of young people are spending an extraordinary proportion of their income on rent. For some, half their monthly salary disappears simply to secure somewhere to live. Once travel, food, energy and the ordinary costs of having a life are taken into account, saving tens of thousands of pounds for a deposit becomes almost impossible.

Student debt makes matters worse. Under the current Plan 5 arrangements, graduates repay nine per cent of income above £25,000. When income tax and National Insurance are added, the marginal deduction rate for someone earning only a little over that amount can reach 37 per cent.

There is another sting in the tail. Student loan repayments are also taken into account when mortgage lenders assess affordability. Young graduates therefore face something that looks like a tax when it is deducted from their pay and like a debt when they try to borrow to buy a home.

James described that as the worst of both worlds. I think he has a point.

The result is a profound inequality between those young people who have access to the bank of mum and dad and those who do not. Those whose parents can provide a deposit, clear student debt or offer other financial support have an enormous advantage over those who must rely entirely upon their own income.

But our discussion went beyond the numbers.

James made what I thought was one of the most important observations in the podcast. Young people should not have to choose between living their lives and saving enough money to have somewhere permanent to live.

Housing is about much more than property ownership. It is about having a home.

Without secure housing, relationships, decisions about having children, careers and people’s sense of belonging are all affected. A generation living in temporary accommodation, expensive rented housing or back in their parents’ homes because there is no realistic alternative is being denied something previous generations took much more readily for granted.

James described this as a lack of permanence and a lack of place. I think that matters enormously.

So what can be done?

We agreed that simply building more expensive private housing is not enough. Building £400,000 executive homes does nothing for a young person who cannot afford the deposit or mortgage required to buy one.

We need substantially more social housing. We also need genuinely affordable housing designed around people’s incomes rather than developers’ desired selling prices.

We discussed whether rent controls should have a role. We considered shared ownership. We also discussed whether government could take much of the instability out of housing finance by providing, directly or through a public institution, long-term mortgages at fair and predictable rates.

James was also clear that he would have no objection to living in council or housing association accommodation. As he put it, a home is a home. What matters is that it is good, the rent is fair and the tenant is treated properly.

That suggests something important about what housing policy should be trying to achieve.

There needs to be a realistic route between living in the parental home and having a permanent home of your own. Secure social or affordable rented housing could provide that transition, allowing young people to establish independent lives while also giving them the chance to save if they eventually want to buy.

The housing market I entered nearly 45 years ago no longer exists. Pretending that today's young people can achieve what my generation did simply by working harder or saving more is absurd. The economic circumstances are fundamentally different.

And not everyone has a bank of mum and dad.

Housing is an essential need. It has to be paid for before almost anything else in life can happen. That is precisely why housing costs matter so much when we measure poverty.

If the market cannot provide secure and affordable homes for a generation of young people, government has to act.

That was where James and I ended up agreeing.

The ball is now in the government's court.

Poll

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