



**SWP 48/87 FISCAL AUSTERITY AND THE EXPANSION OF
HOME OWNERSHIP IN THE UNITED KINGDOM**

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ABSTRACT

This chapter addresses the problems involved in executing in current economic conditions the policy of expanding home ownership in the UK beyond the existing high levels. It is concerned with the process by which the expansion may be brought about and the characteristics of the households involved. The flow of new entrants to owner-occupation in 1983 was studied in order to determine their social, economic and other characteristics. Particular attention is paid to social class differences, the evaluation of housing choice and financial factors pertaining to house purchase. Comparisons are made with other buyers.

INTRODUCTION

During the present century, housing tenure in Britain has changed dramatically. Between 1914 and 1983, the owner-occupied proportion of the housing stock has risen from 10 per cent to 60 per cent while the privately-rented sector has declined from 90 per cent to around 10 per cent, with the balance of around 30 per cent in 1983 represented by public sector rented accommodation (BSA, 1983 and DOE, 1984).¹ The promotion of home ownership has been a policy goal of successive British governments regardless of political persuasion, though particularly of Conservative governments. Currently, it has become the primary goal of housing policy.

The current high level of owner-occupation raises fundamental questions as to how the policy of further expansion is to be achieved in practice.² The policy also begs several other questions: for which households is a switch from renting to owning feasible? What are the financial implications for mortgage borrowers? Are there lessons for the housing construction industry? These questions provide the immediate stimulus for the work reported here. The aim of the present study is to extend and develop our knowledge of the processes at work in the UK housing market, and thereby to clarify some of the practical implications of current housing policy.

A major difference between the approach adopted here and that taken in previous studies of the housing market concerns the distinction between the stock of existing households and the flow of new households. Studies of tenurial change have generally been cross-sectional studies of the stock of households at different points in time, with little or no information about flows. We focus on the flow of new entrants into owner-occupation (i.e. those becoming owner-occupiers for the first time). Central to the analysis is the breakdown of this flow according to social class. This is important because there are marked social differences in housing tenure. We only report results related to the UK as a whole but it should be appreciated that considerable differences exist at the local level.

Next, we provide a brief profile of the social stratification and other characteristics of existing households according to tenure. Its purpose is to provide a background picture of the "stock" situation from which the flows that we analyse originate. The empirical analysis examines (a) the characteristics of new entrants to the housing market in 1983; (b) the relationship between housing choice, housing attributes and social class; and (c) financial aspects of expanding owner-occupation. In a concluding section we bring together the key points of the analysis and comment on

the wider debate about the wisdom of a policy of expanding home ownership at the expense of other forms of tenure.

STOCK OF HOUSEHOLDS: SOCIAL STRATIFICATION OF TENURE

Figure 1 shows the "stock" of households in 1982 according to socio-economic group and tenure. Clearly, there is a marked social stratification: owner-occupation is the predominant form of tenure at the top of the social class scale (i.e. professional and non-manual occupational groups), while renting (both public and private) is predominant at the bottom of the scale (i.e. manual workers). At the same time, however, a notable proportion of the skilled manual group are to be found in both tenure categories. The figure also highlights that council house³ renting increases as one moves down the social class scale, with about two-thirds of unskilled manual workers and about half of those in semi-skilled occupations living in this form of accommodation. About three-quarters of all households living in rented accommodation are public sector tenants.

Therefore, it follows that the most important source of recruitment for the future expansion of owner-occupation is that group of households currently living in rented accommodation and who are in non-manual or skilled manual

occupations. This group constitutes about 15 per cent of total households and 42 per cent of those in the rented sector alone. Two-thirds of the group are in the skilled manual rather than non-manual class.

PROFILE OF NEW ENTRANTS

We turn now to the characteristics of new entrants to the housing market, broken down by social class, including comparisons with other buyers where appropriate. An exceptionally large data base is used covering all the house-purchase transactions (over 153,000 after editing ⁴) for which the Halifax Building Society ⁵ made an offer of an advance on mortgage in 1983. This Society is the largest building society in the UK and has good national coverage (Fleming & Nellis, 1985b). Almost 40 per cent of the total data base involved first-time buyers (i.e. new entrants), while the remainder had been former owner-occupiers.

The social class grading system used is similar but not identical to that employed for the official statistics (as in Figure 1) ⁶. It is based on a classification of "social grades" used for many market research purposes in the UK, and groups people into one of six classes on the basis of occupation. Figure 2 shows a breakdown of social class, according to this classification, for

first-time buyers (FTBs) and former owner-occupiers (FOOs)⁷

The Social Classification of New Entrants in 1983

The class distribution of the new entrants splits very evenly between the non-manual and manual groups. More than 75 per cent are drawn from the skilled or lower non-manual and skilled manual categories. In contrast, two-thirds of other buyers (former owner-occupiers) fall within the higher social classes A, B and C1.

Previous Tenure and Social Class of New Entrants

With regard to the previous tenure of new entrants, an important distinction needs to be drawn between those who are simply new entrants to owner-occupation from other tenures and those who are also completely new households entering the housing market for the first time. Half the new entrants in our sample are drawn from the latter category - shown as "living with relatives" in Table 1. Of the other new entrants, twice as many are drawn from the private-rented sector as from the public-rented sector⁸.

Cross-classification of the origin of new entrants by social class is revealing. There is a clear pattern showing that a markedly higher proportion of the new

entrants are new households as one moves down the social scale (Table 1). Also, the share of the public sector is invariably related to social class. By contrast, those entering from the private-rented sector come predominantly from the higher social classes. This is an interesting finding particularly when coupled with the fact that the average age of new-entrant buyers declines also as one moves down the social scale. The latter may be associated with career progression patterns (i.e. because of the time-lags involved in reaching higher occupational classes). But it is consistent too with the proposition that the route to higher social classes may require a greater geographical mobility and that this is facilitated by renting rather than owning accommodation in the early years.

Comparison of the origin of the new entrants by tenure with the stock of households in different tenures is also revealing with regard to the nature of the changes taking place in the structure of the British housing market. Of the stock of rented tenures in 1982 held by economically active heads of household, three quarters were local authority tenures (Figure 1). But the proportion of new entrants from this sector (excluding subsidised council-house sales) is little more than one quarter of total entrants from the rented sector as a whole and only about one half when subsidised council-house sales are

included. Given the social stratification in these tenures, the flow figures support the fears that are now expressed by several commentators about the process of "polarization" in the UK housing market; that is, as the privately rented sector declines in size it is feared that British housing will become polarised between the owner-occupied and local authority rented sectors (Hamnett, 1984).

Age, Marital Status, Dependent Children and Social Class

The economic capacity to enter the owner-occupied market is likely to depend on age and social class. Accommodation needs and preferences are also likely to be related to these factors as well as marital status and the number of dependent children. We now turn, therefore, to examine these other characteristics of new entrants and other buyers.

Age. In each social class new entrants to the UK housing market are younger than former owner-occupiers with a mean age of 28 years as against 35.6 years⁹. For both groups age increases as class increases.

Marital Status and Dependent Children. Among new entrants only one-third are married compared with four fifths of former owner-occupiers. The proportion of married new entrants tends to be higher among social

classes A and B. The mean number of dependent children is lower for new entrants (0.3) than other buyers (1.1). In both groups it is highest among social class A buyers but otherwise it varies little.

HOUSING CHOICE, HOUSING ATTRIBUTES AND SOCIAL CLASS

Housing choice is determined by an amalgam of factors relating to personal preferences, income, wealth and family circumstances¹⁰. Here we are only able to consider choices expressed in terms of the attributes of the houses actually bought. In this section, we examine the relationships between buyer type (FTB or FOO), social class and the characteristics of the houses purchased in order to shed some light on the possible housing supply implications of the further expansion of home ownership. Details relating to three particular house characteristics - type, size and age - are presented in Tables 2 and 3.

House type. The distribution of choices according to buyer type and social class is shown in Table 2. There are some striking differences. Over 40 per cent of new entrants buy terraced houses as against 17 per cent of other buyers. Only 5 per cent of new entrants buy detached houses as against 32 per cent of former owner-occupiers. This is to be explained in terms of income differences since detached houses tend to be the most

expensive properties and terraced houses the least expensive. The difference in purchasing patterns by buyer type remains pronounced for each social class but becomes less marked as one moves up the scale of social classes with a marked switch in preferences towards detached houses. More than half of class A borrowers buy houses of this type. It is obvious that increasing penetration of the lower social classes into owner-occupation will put pressure on particular sectors of the housing market in terms of property types, and it has obvious implications for house builders in meeting demand from new buyers at the lower end of the scale at a price they can afford.

Size of house. Two measures of house size are used: number of habitable rooms and number of bedrooms. Again, the differences by buyer type and social class are pronounced and consistent. New entrants buy smaller houses than other buyers: on average 4.7 as against 5.8 habitable rooms and 2.5 as against 3.1 bedrooms. For both buyer types, mean house sizes increase as one moves up the scale of social classes and the differential by buyer type tends to increase (Table 3).

Age of house. New entrants, on average, buy older houses than other buyers. This is a general pattern across the social classes. This notable age difference is probably explicable by the fact that new entrants

concentrate their purchases on terraced houses and these tend to be the oldest and cheapest properties. However, the relationship between age and house price is not a consistently inverse relationship. Many old houses command a substantial premium over their modern counterparts in the UK. Table 3 shows that there is a tendency for the higher social classes (particularly Class A) to buy older houses - this is especially marked in the case of former owner-occupiers. In these cases, incomes are higher and prices are higher too.

FINANCIAL ASPECTS OF EXPANDING OWNER-OCCUPATION

We turn finally to the financial aspects of the house-purchase transactions of new entrants in 1983 according to social class. Since all of the transactions studied in this investigation represent "effective" demand (i.e., where the desire to purchase has been backed up by the ability to pay and success in obtaining loan finance), all buyers are by definition intra marginal. The ability of households living in rented accommodation to enter the owner-occupied sector largely depends upon the relative movement of real incomes as against house prices and mortgage interest rates. In particular, the further expansion of home-ownership depends upon the way these factors impinge upon that group of households and potential households who are not currently owner-

occupiers but wish to become so and, further, on whether any steps can be taken to bring sub-marginal households into the intra-marginal category. The largest sectors of the household population which are not currently owner-occupiers are those in the lower social classes. Among these classes the financial problems confronting house purchase are particularly severe, if not insurmountable, at least under current financial arrangements.

House Prices and Social Class

There are very considerable differences in house prices according to social class and buyer type. The mean price paid by new entrants (FTBs) is £14,000 (or 40 per cent) less than that paid by other buyers (FOOs). Mean price rises as one moves up the social class scale and the differential by buyer type consistently increases. Class A new entrants pay more than twice as much as those in Class D: £36,229 as against £17,471.

The price comparisons made above are based on simple average prices for each category of buyer. Although comparisons on this basis are informative, their interpretation raises a problem because the differentials reflect not only the influence of social class preferences as such, but also differences in the mix of house types and their various other attributes. ¹¹ To

bring out the influence of social class we employ regression analysis, to hold the influence of other factors on price constant. The results allow us to compute "standardised" price differentials. (For technical details see Fleming and Nellis, 1984, 1985b).

Standardisation has the consistent effect of reducing the magnitude of the price differentials between classes, regardless of FTB or FOO status. However, the remaining differences are still substantial (Figure 3). Thus, new-entrant buyers in Class D buy houses at prices 31 per cent less than those bought by Class A buyers as against a difference of 52 per cent on a non-standardised basis. The corresponding figures for existing owner-occupiers are 34 and 61 per cent. Broadly speaking, all buyers (both FTBs and FOOs) in Class B buy at 10 per cent less than those in Class A, Class C1 at approximately 20 per cent less, those in Class C2 at about a quarter less and those in Class D at about one third less.

Incomes and Social Class

The average income of new entrants is much less than that for other buyers: £7,707 as against £10,125. In each group income rises very considerably with social class, with a two to one difference between Class A and Class D buyers.

Financial Ratios: Prices, Incomes and Advances

Table 4 shows ratios between the three financial variables of house prices, incomes and mortgage advances. For each of the three ratios, new entrants differ markedly from former owner-occupiers. In particular:

- (i) new entrants buy houses priced, on average, at three times their income, compared with a ratio of 3.8 for former owner-occupiers;
- (ii) despite the difference in price-to-income ratios, new entrants require a much larger proportionate advance than former owner-occupiers: 86 per cent of the purchase price as against 61 per cent in the case of the latter;
- (iii) the above patterns are reflected in the advance-to-income ratios: new entrants require advances of two and a half times income against a little over twice for former owner-occupiers.

The financial relationship by social class follows a fairly consistent pattern for both new entrants and other buyers. In each group the price/income ratio tends to rise and then fall as one moves down the social scale (with the exception of former owner-occupiers in social class D). The advance/income ratios follow a similar

pattern. The advance/price ratio tends to rise and then stabilise.

Financial Implications

Important financial implications follow from the analysis:

1. Although new entrants buy cheaper houses, their financing requirement does not decline proportionately because a much larger proportionate advance is required.

2. To the extent to which home ownership is expanded through the recruitment of more and more households in social classes C2 and D (manual workers) in particular, the financing requirements increase because they require larger absolute advances on average.

3. Further expansion of owner-occupation may require the further development of financial schemes to bring households into the market who would otherwise remain sub-marginal. This development might involve further extension of "low-start" mortgage schemes to deal with the "front-loading" problem ¹², the need for longer repayment periods, possibly greater subsidisation for new entrants than exists at present and possibly the inducement of financial institutions to make larger percentage advances.

DISCUSSION AND CONCLUSION

The stimulus for the work reported here arises from the current housing policy stance in the UK which aims to increase the extent of owner-occupation. A significant expansion of home-ownership has already been achieved. This has been accompanied by the development of a debate about the political, economic and social significance of owner-occupation (see Ball, 1983; Merrett, 1982; Murie and Forrest, 1980; and Gray, 1983). Given the high level already attained and the social stratification of housing tenure that exists, the current housing policy raises fundamental questions about how further expansion is to be accomplished. Who are the households that will be induced to shift from one tenure sector to the other? How is the policy to be made operational, if at all, for those in the lower social classes? The answers to these questions have not been spelt out. The basic aim of this chapter has been to extend our knowledge of the process of change involved by focusing on the interface between the rented and owner-occupied sectors at the point where former tenants enter the owner-occupied market.

The salient point about the social class distribution of new entrant households is that they are drawn fairly evenly from the manual and non-manual classes. But of

the new entrants from lower social classes, the main source is new households rather than previous renters. They also tend to be younger, with a smaller proportion who are married and with fewer dependent children - findings which are consistent with the hypothesis that new entrants in lower social classes face the choice of home ownership or starting a family. On the supply-side of housing provision, the findings confirm that the increased penetration of owner-occupation among the lower social classes will focus demand on the cheaper parts of the housing stock with limited amenities. It seems unlikely that new building will readily provide the means of directly meeting the needs and financial capacity of new entrants in the lower income/lower social class categories. On the financial side, a salient finding is that despite the fact that new entrants buy cheaper houses, those in lower social classes require bigger proportionate and absolute advances than former owner-occupiers. A principal financial implication is that the further expansion of home ownership involves the need to finance higher advance/income ratios.

The current policy stance does, of course, have wider implications. It is claimed that the desire for home ownership is a natural one (DOE, 1977) and surveys have shown a preference for this form of tenure (BSA, 1984). However, it may well be that such preferences have been

shaped by a system in which the alternative to owner-occupation has become council housing (the private-rented sector having suffered such a rapid decline under the dual influence of rent controls and fiscal preferences to owner-occupiers). Housing is becoming socially polarized between the owner-occupied and public-rented sector. The social and political desirability of this development is debatable. There is evidence too that the narrowing of choice in this way has affected fertility by virtue of the financial pressures placed upon young house purchasers (Murphy, 1984). Further, the virtual disappearance of the private-rented sector has also had unfortunate effects on the labour market in reducing the mobility of labour (Bonnar, 1979). Finally, the problem of mortgage default is becoming an important issue (Doling et al., 1985). The latter suggest that the time is fast approaching when the British Government "will need to think more about not only getting people into owner-occupation but also about keeping them there".

These are important issues but they do not form the focus of this paper. Our purpose has been to shed some light on some of the practical implications of the policy stance and, in particular, its implementation through a detailed study of the process of, and the participants in, the changes taking place in the UK housing market.

FOOTNOTES

We thank the Halifax Building Society for their co-operation and assistance. Mr Nellis also acknowledges financial support from Cranfield School of Management.

- (1) This pattern of tenure varies considerably in different parts of the UK. For example, Scotland has a higher proportion of public-sector housing or new town homes, with correspondingly fewer owner-occupied homes (53% and 38% respectively in 1983) - see CSO (1985)
- (2) Apart from the issue of expanding owner-occupation, fears are also emerging concerning the ability of current home-owners to remain in the owner-occupied sector. In particular, it is reported that an increasing number of home-owners are experiencing financial difficulties especially via neglect of repairs and maintenance to their properties and through increasing mortgage arrears and possession. The result is "that although increasing numbers of people are entering owner occupation, increasing numbers are also being forced to leave it" (Doling, et. al., 1985).
- (3) That is, housing provided by local government authorities. The terms "council housing", "local

authority housing" and "public sector housing" are used synonymously.

- (4) The data base was arrived at after excluding properties sold at "non-market" prices, such as sales to sitting tenants (e.g., sales of council houses and sales between relatives.) Council houses are sold at a discounted price under "Right-to-Buy" legislation.
- (5) Building Societies are mutual savings and loan institutions which specialise in the provision of finance for house purchase in the UK.
- (6) Full details of the classification are set out in Monk (1970). A useful comparison of the classification with that used by the Registrar General and others will be found in Reid (1981).
- (7) Our discussion pays no attention to category E because of its residual nature covering persons who are not economically active.
- (8) The inclusion of subsidised council-house sales in the analysis would raise the ratio of public-sector buyers to just above that for private-sector buyers.
- (9) According to a recent survey, Britain has one of the highest levels of young owner-occupiers in the world. This survey shows that in 30 per cent of households in the UK, the head of the house is under 25 years old. Among young homeowners in other industrial countries, the closest is Australia,

where 23 per cent of heads of households are under 25; in the United States the figure is 18 per cent; Canada 17 per cent; the Netherlands 16 per cent; France 7 per cent and in West Germany only 4 per cent (BSA, 1985).

- (10) For example, the stage of the family life cycle which the buyer has reached will have an important bearing on the demand for different sizes of house - see Donnison (1967, pp.215-6).
- (11) For a discussion of UK house-price data in this context, see Fleming and Nellis (1985a).
- (12) That is, a burden of mortgage repayments which is heavy relative to income in the early years but which lessens over time under inflationary conditions as the monetary value of the mortgage debt is fixed but incomes rise.

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TABLE 1

Previous Tenure and Social Class of New Entrants (%)

Social Class	Living with Relatives	Previous Tenure		
		Private	Local Authorities & Housing Associations	Other (incl. Rented from Employer)
A	29%	36%	10%	25%
B	35	35	11	18
C1	48	28	11	13
C2	61	17	15	7
D	64	15	17	5
<u>ALL</u>	<u>54</u>	<u>23</u>	<u>13</u>	<u>11</u>

TABLE 2

Housing Choice - Type of House (5)

Dwelling Type	FTBs					All FTBs	All FOOs
	SOCIAL CLASS						
	A	B	C1	C2	D		
Detached House	18.8	11.6	5.5	3.4	2.3	5.0	32.2
Semi-det House	25.4	28.9	29.9	31.8	27.6	30.2	33.2
Terraced House	24.5	28.8	36.7	45.8	56.6	41.8	16.8
Bungalow	7.6	8.0	6.1	6.2	4.4	6.2	13.2
Flat	23.7	22.7	21.8	12.8	9.1	16.9	4.6

TABLE 3

Housing Choice - Size and Age of House

Social Class	Size of House				Average Age of House (years)	
	Habitable Rooms		Bedrooms		FTBs	FOOs
	(mean number)		(mean number)			
	FTBs	FOOs	FTBs	FOOs		
A	5.3	7.0	2.8	3.7	51.1	53.6
B	4.9	6.2	2.6	3.4	46.2	41.5
C1	4.7	5.7	2.4	3.1	44.9	36.9
C2	4.7	5.4	2.5	2.9	46.8	35.6
D	4.8	5.2	2.5	2.8	53.8	39.5
ALL	4.7	5.8	2.5	3.1	47.0	38.5

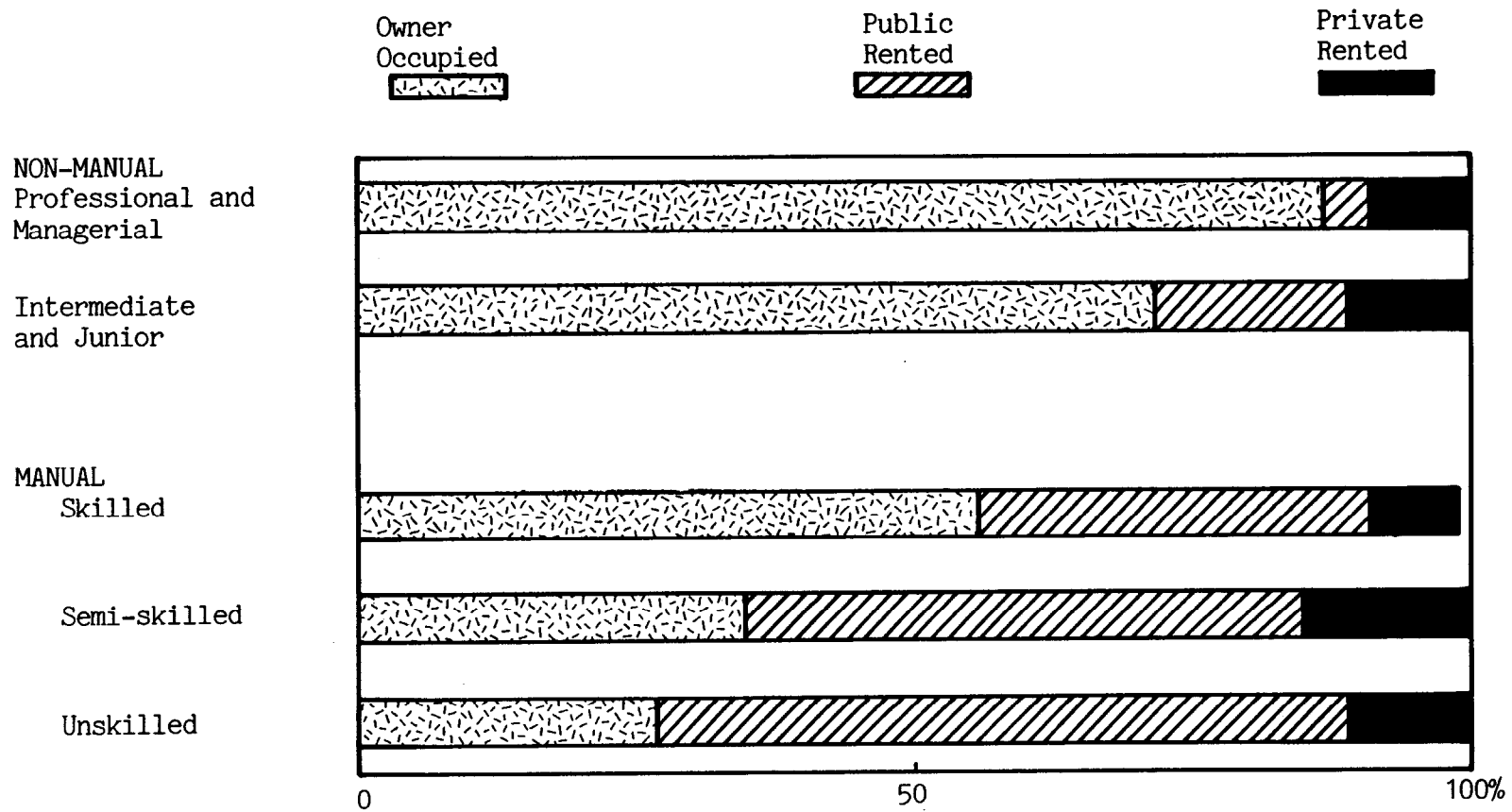
TABLE 4

Financial Ratios

Ratio	Buyer	Social Class					
	Type	A	B	C1	C2	D	ALL
Price/ Income	FTB	2.82	2.95	3.11	2.98	2.95	3.04
	FOO	3.59	3.70	3.81	3.73	3.88	3.81
Advance/ Price	FTB	0.81	0.83	0.86	0.87	0.87	0.86
	FOO	0.55	0.59	0.62	0.62	0.62	0.61
Advance/ Income	FTB	2.21	2.40	2.61	2.53	2.48	2.54
	FOO	1.85	2.06	2.24	2.18	2.16	2.16

FIGURE 1

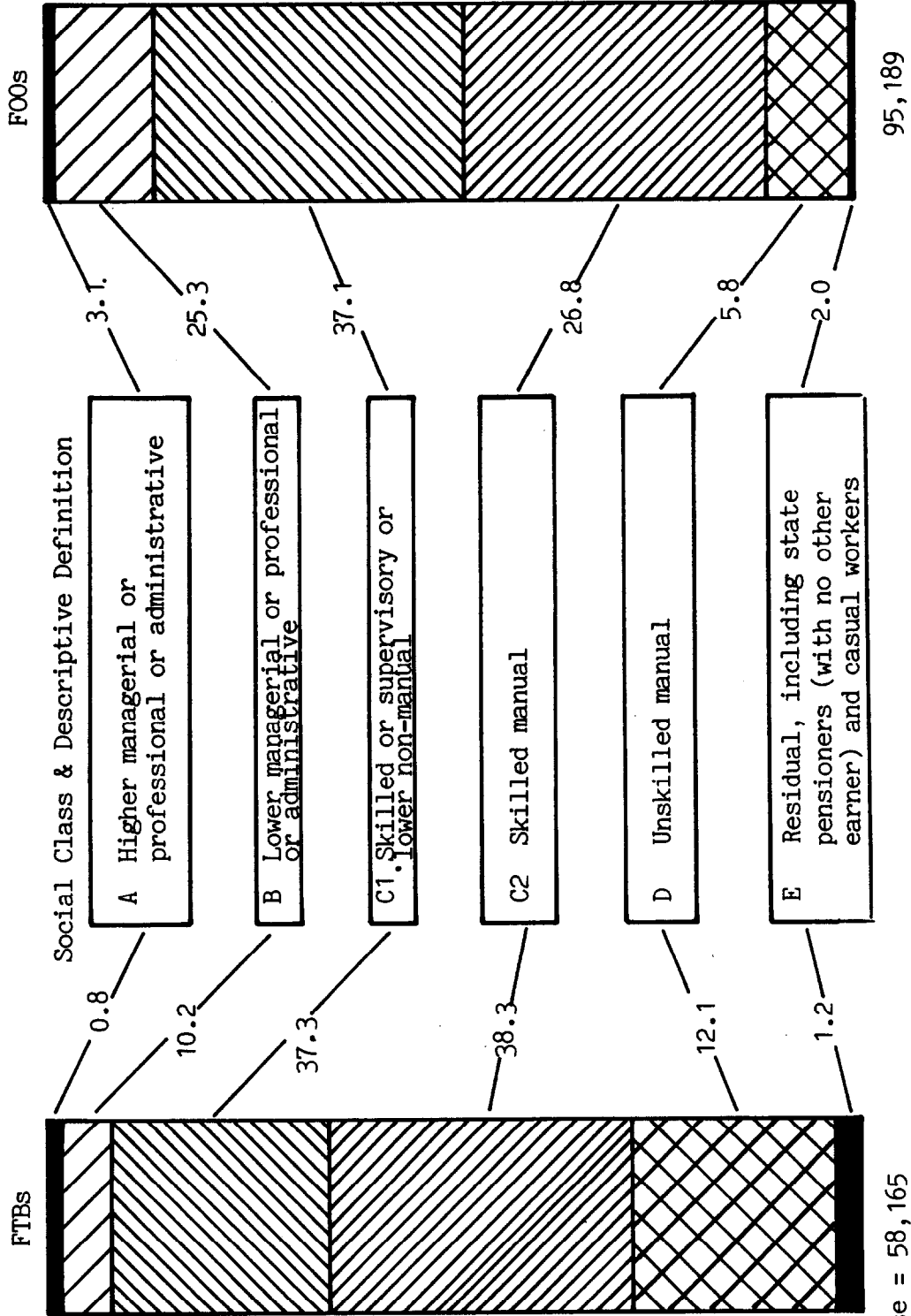
STOCK SITUATION: SOCIAL STRATIFICATION OF TENURE (1982)



Source: OPCS (1984)

FIGURE 2

SOCIAL CLASSIFICATION OF HOUSE-BUYERS (%)



FTBs = First-time buyers: FOOs = Former owner-occupiers

FIGURE 3

HOUSE PRICE DIFFERENTIALS BY SOCIAL CLASS

Standardised (S) and Non-standardised (N/S)

