

UK owner-occupation rate should approach 75%

Given the economic advantages, home ownership in the UK will continue to rise, says Adrian Coles

OWNER-OCCUPATION has grown strongly in the United Kingdom in the 20th century. From less than 10% in 1914, the figure rose to 63% in 1986 and is forecast to rise to nearly 75% by the year 2000. This article looks at the reasons for the emergence of owner-occupation as the dominant tenure in the UK and changes in the levels of owner-occupation among particular age groups.

The growth in owner-occupation

Before 1960 the lack of interest in housing tenure, relative to the pre-occupation with the subject found in British housing circles today, means that statistics on the subject are rare. The earliest year for which any estimate is available is 1914; it is commonly assumed that in that year 10% of dwellings in England and Wales were owner-occupied, although there is no direct evidence to confirm this figure.

In terms of numbers, there may have been 800,000 owner-occupied dwellings in 1914 out of a total of 7.9 million. The vast majority of the remainder were privately rented, with just 20,000 homes in the public rented sector.

The first reasonably reliable estimate of dwelling tenure is for 1938. In that year 3.7 million dwellings were owner-occupied, equivalent to 32% of the total of 11.4 million dwellings in England and Wales. (Housing statistics in the UK are often difficult to interpret because of the differing



geographic areas covered. Some statistics refer just to England and some to England and Wales; others cover Great Britain, which is England, Wales and Scotland, while some of the more comprehensive statistics cover the UK, which is Great Britain plus Northern Ireland.)

The next estimates were not prepared until 1951 and, perhaps surprisingly, show a decline in the level of owner-occupation in England and Wales to 31%. The long-term upward trend in owner-occupation really began in the 1950s; by 1960 owner-occupation in England and Wales stood at 44%, passing 50% in Great Britain in 1970, 55% in 1979 and 60% in 1984.

At the end of 1986 almost 63% of the 22 million dwellings in Great Bri-

tain were owner-occupied. Table 1 shows the growth in owner-occupation in Great Britain since 1961.

Reasons for the growth in owner-occupation

A number of reasons have been put forward to explain the growth of owner-occupation. Some writers have concentrated on the emotional aspects of home ownership and the Englishman's need to control the environment in which he lives by owning the bricks and mortar which surround him. The famous phrase "The Englishman's home is his castle" is a reflection of this. However, many would assert that the effects of government policy provide a more rational explanation of recent trends.

The first important point is the presence of stringent rent controls. In the private sector "fair rents" are set by a rent officer, who is required to ignore economic factors such as scarcity and the number of people seeking rented accommodation when making his recommendations.

The result has been that since 1915 (when rent controls were introduced on a "temporary" basis) the returns available to investors in rented housing have not been sufficient to attract an adequate supply to the market. Those who own rented housing have often sold into the owner-occupied market once vacant possession becomes available, often on the death of elderly and long-established tenants.

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The second important factor is the unique deductibility of mortgage interest for tax purposes. Other types of debt do not enjoy this concession. Owner-occupiers with mortgages pay a rate of interest which is lower, by an amount equivalent to the basic rate of tax (currently 27p in the pound), than the gross rate charged by the lender. The lender recovers the difference from the government.

This assistance is available on mortgage loans up to £30,000 (the current average existing mortgage in the UK is £15,000 and the current average new mortgage £25,000), and for those with high incomes relief at their marginal rate (which can be as high as 60p in the pound) is available.

In the past tax relief was offset by a tax on the notional income occupiers obtained from their own houses, but this was abolished in 1963. Also, no capital gains tax is payable on any profits made on the resale of owner-

occupied homes.

This is a complex area and a number of other investments are, in fact, exempt, but housing is generally regarded as being favourably treated in this respect. The owner-occupied housing market, therefore, operates in a uniquely favourable fiscal environment.

The sale of public sector rented accommodation to sitting tenants is especially important in explaining the recent rise in owner-occupation. Since 1980, when the Conservative Government introduced a statutory "Right to Buy" for most public sector tenants, a million dwellings, equivalent to over one sixth of the stock, have been sold, all at substantial discounts to their free market values.

Tenants have also been encouraged to buy by the rapid rise in public sector rents in the early 1980s, which

resulted in a substantial reduction in general subsidies to council housing (although poorer tenants' income support has been increased). The chart shows the level of council house sales in recent years.

The economic environment has reinforced government policy. High rates of inflation, often in excess of interest rates in the 1970s, rapidly reduced the value of owner-occupiers' mortgage debt while at the same time increasing property values, and for many years housing was seen as the only hedge against inflation available to ordinary people.

The return to positive real interest rates and lower inflation rates has not reduced the attractiveness of holding mortgage debt, or of owner-occupation, because of the enhancement by government of the incentives in favour of owner-occupation and also because of structural changes in the mortgage market, which have increased the competition to provide finance for home owners.

Table 1. Housing Tenure, Great Britain 1961-1986

Year (end-year unless specified)	Owner-occupied (% of Total)	Public Sector Rented (% of Total)	Private Sector Rented & Other (% of Total)	Total Dwellings (000s)
April 1961	42.3	25.8	31.9	16,273
April 1966	46.6	28.4	25.0	17,468
1966	47.2	28.7	24.1	17,660
1968	48.8	29.5	21.7	18,234
1970	50.0	30.4	19.6	18,731
April 1971	50.1	30.4	19.5	18,833
1971	50.6	30.6	18.9	19,000
1972	51.6	30.5	17.9	19,214
1973	52.5	30.4	17.1	19,417
1974	53.0	30.7	16.3	19,629
1975	53.4	31.1	15.5	19,837
1976	53.7	31.4	14.8	20,127
1977	54.1	31.7	14.2	20,378
1978	54.7	31.7	13.7	20,626
1979	55.3	31.5	13.1	20,826
1980	56.2	31.2	12.7	21,031
April 1981	56.4	31.1	12.5	21,061
1981	57.1	30.6	12.3	21,182
1982	58.6	29.5	11.9	21,338
1983	59.9	28.6	11.5	21,521
1984	60.9	27.9	11.1	21,715
1985	61.9	27.3	10.8	21,895
1986	62.9	26.6	10.4	22,072

Sources: Housing and Construction Statistics No. 29, 1st Quarter 1979; Housing and Construction Statistics 1975-1985 (HMSO); Hansard, 23 February 1987 (HMSO).

Owner-occupation and age

One of the unusual aspects of housing policy in the UK is that adults are (perhaps inadvertently) encouraged to purchase houses at a very young age. The virtual absence of a market rented sector, combined with allocation policies in the public rented sector that discriminate against the young and childless, means that the easiest way for young single people and married couples to establish a household is to buy. In Britain in 1984 28% of heads of households under the age of 25 were owner-occupiers, a very high proportion by international standards.

It is notable, however, that in recent years the proportion of young households that are owner-occupiers has declined significantly, from 34% in 1979 to 28% in 1984. This may be due to the recession, which has had a particular impact on the ability of young people to obtain jobs. In all other age groups owner-occupation has increased since 1979. Table 2 shows figures for 1972 (the earliest which are available), 1979 (the year

before the introduction of Right to Buy) and 1984 (the latest which are available).

The most rapid growth since 1972 has been in the 30-59 age groups and the two groups within this category now have the highest rates of owner-occupation. This is partly due to the ageing of 1972's main owner-occupier groups, the 25-44-year-olds, and partly due to more people buying their own homes in middle age.

In particular, local authority sales to sitting tenants have expanded owner-occupation amongst the over-40s; the average age of those buying their own council house in 1985 was 43, compared to 31 for all first-time buyers.

Despite the decline in home ownership among very young households, the future growth of the overall level of home ownership seems assured. Market research undertaken for The Building Societies Association in 1986 showed that 77% of adults saw owner-occupation as their ideal tenure in two years' time, with 80% expecting to be owners in 10 years' time; among 20-34-year-olds over 90% expected to be in this category by the mid-1990s. Given the current institutional arrangements, there seems little doubt that the actual rate of owner-occupation will rise to well over 70% during the 1990s. ■

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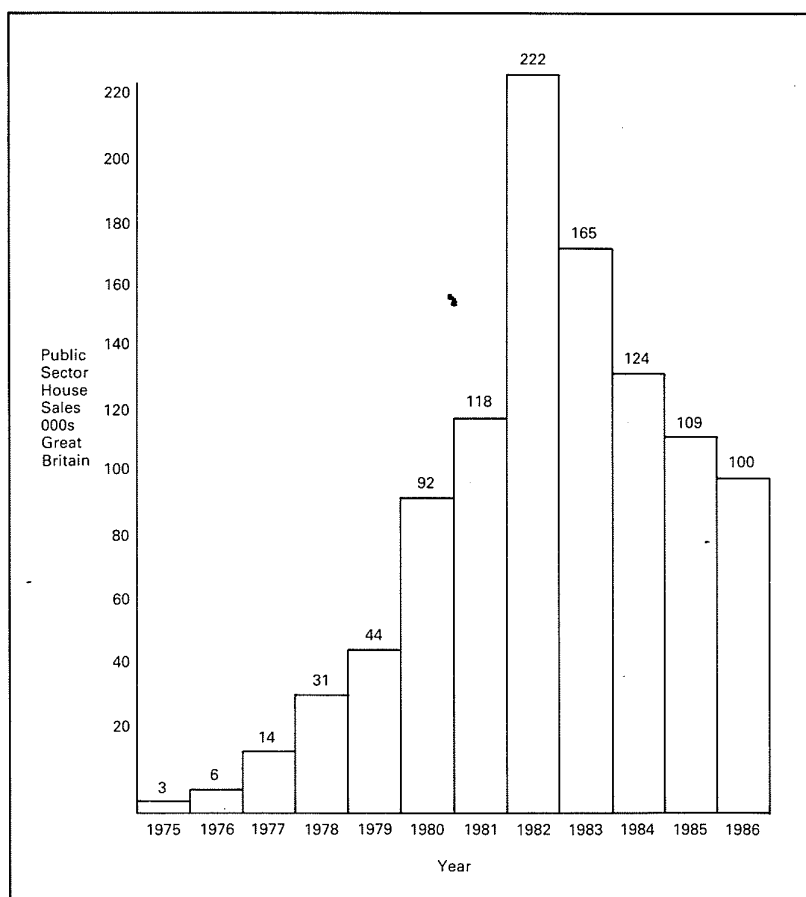


Table 2. Tenure by Age of Head of Household, Great Britain

Age of Head	Percentage of Households in Age Group in Owner-Occupation		
	1972	1979	1984
Under 25	32	34	28
25-29	51	52	57
30-44	57	63	71
45-59	49	54	66
60-64	46	44	53
65-69	48	47	49
70-79	44	42	48
80+	46	41	45

Source: *General Household Survey*. 1972, 1979, 1984, Office of Population Censuses and Surveys.