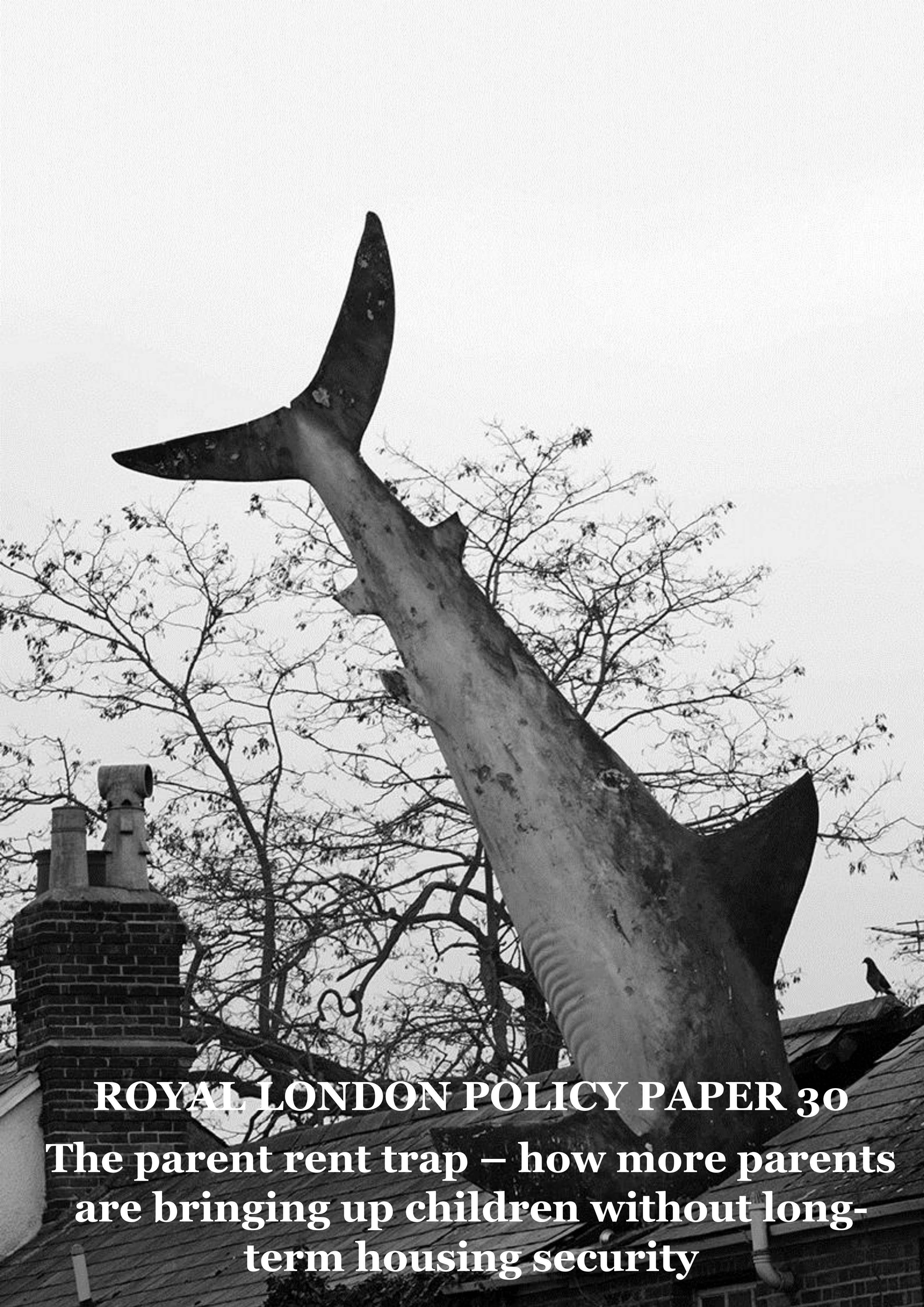

ROYAL LONDON POLICY PAPER 30

The parent rent trap – how more parents are bringing up children without long-term housing security

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THE PARENT RENT TRAP – HOW MORE PARENTS ARE BRINGING UP CHILDREN WITHOUT LONG-TERM HOUSING SECURITY

1. INTRODUCTION

Renting versus owning – how things used to be

Renting a home was once regarded as a rite of passage for the young and carefree – something single people did in their late teens and early twenties, while in the early days of a career and crucially, before 'settling down' to have children.

The accommodation might have been a bit rough and ready, but in the circumstances, that didn't matter too much. Besides, renting was cheaper than owning and any money saved by living somewhere a little less than desirable would eventually go towards a deposit.

Buying a home of your own, was, by contrast, what you did once you had decided to settle, usually after getting married. You would buy somewhere just big enough to start a family and would consider moving to accommodate another child or two a few years on. Deposits were generally affordable after a few years of saving. Owning your own home was (and largely still is) considered part of providing children with a stable upbringing.

***Fast forward* to 2019…**

We are eleven years after the financial crisis and a decade on from a long period of loose monetary policy and low interest rates that have helped to fuel the rise in house prices. This chain reaction has benefited only those already on the housing ladder. It has made it much harder for those not in home ownership - including young people thinking of starting a family or those who already have children - to afford their own home.

The private rented sector now accounts for 19 per cent – or one in five - of all UK homes, up from one in ten 15 years ago, according to the English Housing Survey. Around 4.5 million households now pay rent to a landlord rather than paying off a mortgage or owning their own home outright. Of these, around 1 in 3 have dependent children.

It's not just house prices that are rising - rents are on the up too. As we show later in this paper, rents are on average now about 25 per cent higher than mortgage outgoings.

Partly as a result of rising house prices and rising rents, young people are buying their first home later in life. Later, more often than not, than the age at which they have their first child.

Consequently, **for the first time in living memory**, **babies are as likely to be born into rented accommodation as a home owned by their parents.**

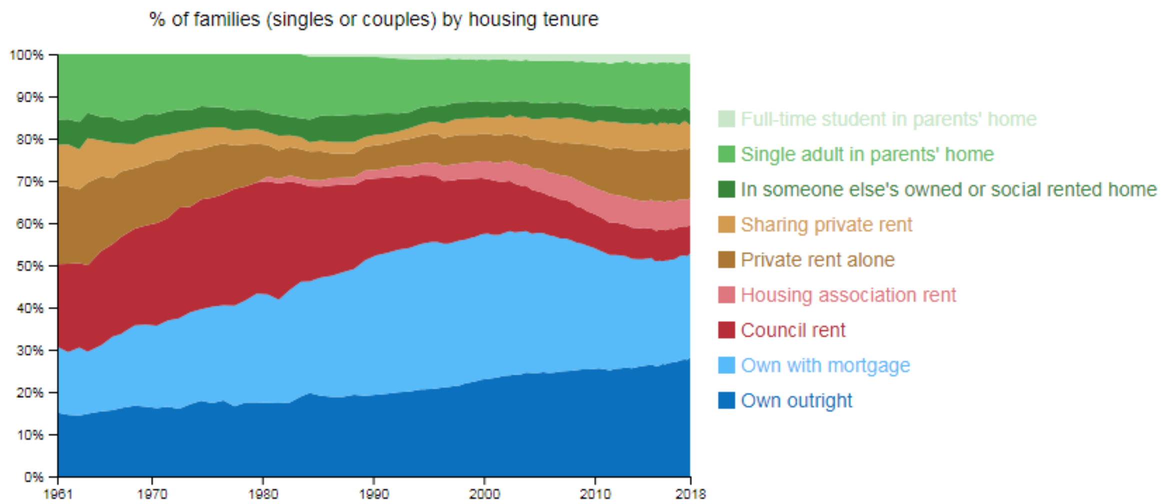
This policy paper will outline the scale of the problem, as well as suggest some likely causes and consequences of the 'parent rent trap' among Britain's young families.

2. WHAT IS THE PARENT RENT TRAP?

a) Long-term trends in housing tenure

The context for this report is the dramatic shifts that we have seen in housing tenure in the UK over the last fifty years. Figure 1 is drawn from a recent report by the Resolution Foundation[1] and shows tenure patterns in the UK for the period 1961-2018.

Figure 1. Housing tenure in the UK 1961-2018



At the start of this period, less than one in three families owned their own home (whether outright or with a mortgage) whereas around two in five were renting from a local authority or a private landlord. Overall home ownership rates rose steadily until the early part of this century, fuelled by a combination of a relaxation of mortgage lending and the government's 'right to buy' scheme for council tenants. The 'right to buy' led to a dramatic fall in the proportion of council tenants and this was exacerbated by the move towards using housing associations rather than local authorities to deliver new social housing. Roughly half of all social renting is now in the housing association sector.

Trends which seemed inexorable have however now started to stall or even reverse. Whilst the numbers of (predominantly elderly) people who own their homes outright has continued

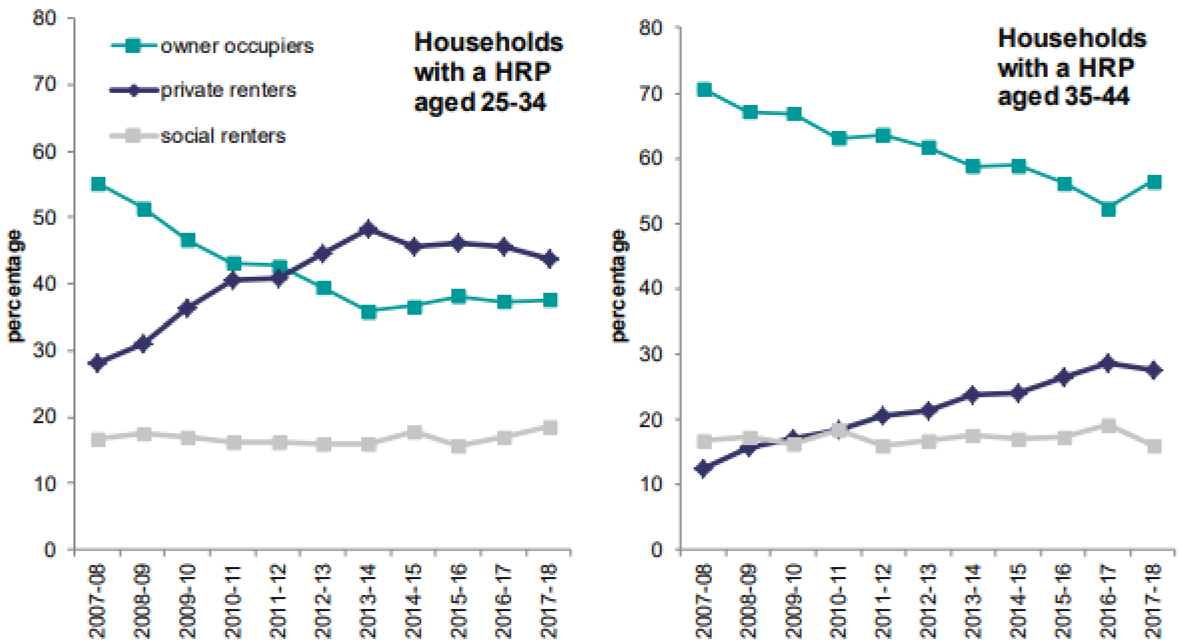
[1] https://www.resolutionfoundation.org/data/housing/

to rise, the proportion with mortgages has fallen back from a peak of around 35 per cent in the late 1990s to around 25 per cent now. By contrast, the proportion renting privately has risen from a low of around 6-7 per cent to around 12 per cent today. As we discuss in the next section, the growth in private renting seems to have occurred particularly amongst families with children.

b) Tenure trends by age

In 2017/ 18, 44 per cent of 25 to 34 year olds were renting privately, up from 28 per cent ten years' earlier. Over the same period, the proportion of 25 to 34-year olds who own their own home has fallen from 55 per cent to 38 per cent. This now means that households with occupants aged between 25 and 34 are more likely to be renting privately than buying their own home. Recent trends are summarised in Figure 2, based on the English Housing Survey.

Figure 2. Trends in tenure, households headed by someone aged a) 25-34 and b) 35-44



Source: English Housing Survey 2017-18, Figure 1.4

Although most 35 to 44-year olds have bought their own home, the proportion within this age bracket who are renting privately is now more than one in four, up from 13 per cent in 2007/8 to 28 per cent in 2017/18. In other words, once couples have passed the age where they are likely to have had at least one if not two children, they are finding it harder than was the case ten years ago to get out of renting and into their own homes.

The typical ages of a first-time mother and father are 29 and 33 respectively – falling squarely in the demographic most likely to be renting a home from a private landlord rather than repaying their own mortgage. By contrast, the average age of a first-time buyer is 34.

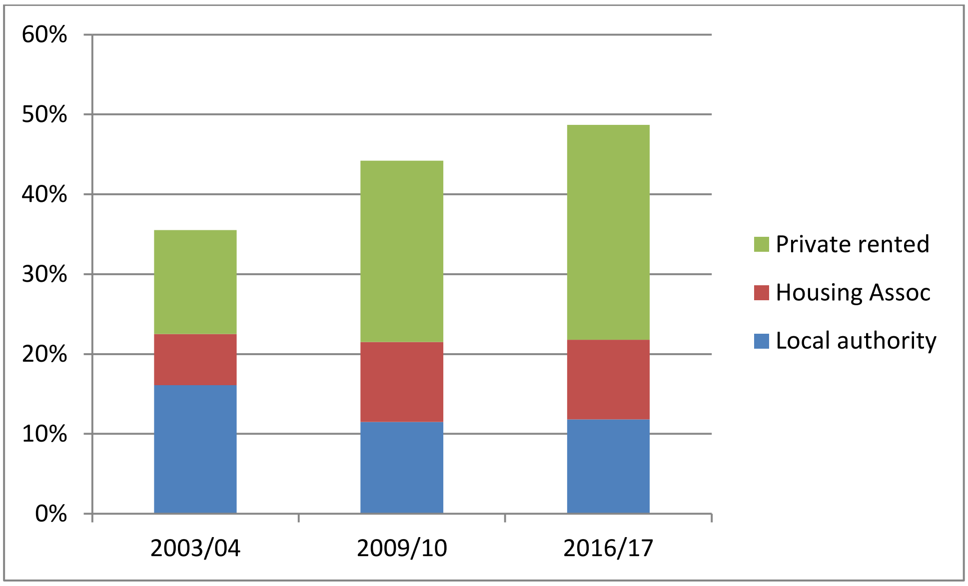
We look specifically at the position of families with children in the next section.

c) Families with children in rented accommodation

As noted earlier, private rented accommodation has for some time been seen as a transitional tenure type, primarily for younger, single people before moving on to buying a home and starting a family. But new analysis by Royal London of the government's Family Resources Survey (FRS) suggests that an increasing proportion of families with children are now finding themselves in rented accommodation as a long-term tenure.

Figure 3 shows the results of analysis of three years of data from the FRS – 2003/04, 2009/10 and 2016/17, designed to track trends over time in housing tenure and focusing on the houses into which babies were born in each year.

Figure 3. Proportion of babies born into a) private rented accommodation, b) local authority properties and c) housing association properties in 2003/04, 2009/10 and 2016/17



Source: Royal London analysis of the Family Resources Survey, various years

As Figure 3 shows, there has been a sharp rise in the proportion of new-borns being born into rented accommodation rather than a home owned by their parents. The proportion being born into social housing has remained remarkably stable (though with a switch away from local authority and towards housing association) but all of the growth over the period has been in private rented accommodation. **We find that roughly half of all babies in the UK are now born into rented accommodation and more than half of these are born to parents living in potentially insecure private rented accommodation.** This compares with just over one in three babies born into rented accommodation in 2003/04.

Across the United Kingdom as a whole, the number of families with dependent children living in private rented accommodation has risen by 94 per cent in the last decade, from 940,000 in 2006/07 to 1.8 million in 2016/17. The biggest regional increases in England over the period were in the North East and Yorkshire and the Humber, with 138 per cent and 120 per cent rises in the number of privately renting families respectively (see Table 1).

Table 1. Number of families with dependent children living in private rented accommodation in 2006/07 and 2016/17 by nation and English region

Region	2016/17	2006/07	Absolute Increase	Percent Increase
North East	79,661	33,436	46,225	138%
North West	185,520	90,055	95,465	106%
Yorks and the Humber	150,761	68,623	82,138	120%
East Midlands	111,097	64,962	46,135	71%
West Midlands	153,715	76,016	77,699	102%
East of England	187,506	102,273	85,233	83%
London	315,976	164,361	151,615	92%
South East	266,944	151,337	115,607	76%
South West	148,183	74,217	73,966	100%
Scotland	92,029	51,987	40,042	77%
Wales	57,174	29,938	27,236	91%
Northern Ireland	64,904	29,151	35,753	123%
Total	1,813,470	936,356	877,114	94%

Source: Royal London calculations based on Family Resources Survey 2006/07 and 2016/17

The English Housing Survey also tells us that between 2007-08 and 2017-18, the number of households with dependent children in the private rented sector in England increased by about 795,000. Over the same 10-year period, there was a corresponding decrease of 702,000 in the number of households with children who are buying their home with a mortgage.

So the rise in the proportion of babies being born into private rented accommodation is a consequence of the rise in the proportion of people in their late twenties and early thirties – the typical age of first-time parents - who are renting.

The danger here, as we discuss later, is that these families may never be able to afford to escape the rent trap, leading to other financial resilience issues for both the parents and their children further down the line.

The irony is that having children may have put home ownership and housing security further out of their grasp, at the time when they want to achieve it the most.

3. WHY DOES THIS MATTER?

3.1 Families getting trapped in long-term renting, with long-term financial consequences

Table 2 shows the numbers of families with dependent children living in private rented accommodation in 2017/18

Table 2 Families with dependent children in private rented accommodation, 2017/18

Family Type	Number of Families
Couple with dependent children	878,000
Couple with dependent and independent children	110,000
Lone parent with dependent children	481,000
Lone parent with dependent and independent children	62,000
TOTAL	**1,531,000**

Source: English Housing Survey 2017/18, Annex Table 1.3

As Table 2 shows, over 1.5 million families with dependent children are living in private rented accommodation in England alone. Long-term renting for families can become self-perpetuating for several reasons:

a) *renting has become more expensive than owning with a mortgage.*

The wider the gap between the cost of rising monthly rents and falling monthly mortgage repayments, the harder it will be for people in rented accommodation to save up for a deposit. This differential, which shows no signs of narrowing or reversing, could be the single biggest cause of the parent rent trap.

b) *mortgages have become harder to come by for parents with childcare costs because of lending constraints*[2]

The cost of childcare is taken into account as a basic living cost when lenders are assessing affordability. Because these costs are high, lenders may not be willing to offer as big a loan to a couple as they would have done if there were no childcare costs. While childcare costs drop significantly once children reach school-age, the period during which a household with two children can have at least one child in early years childcare could be five years or more, losing a serious chunk of time that could have been spent paying off a mortgage.

Currently, private renters pay 45 per cent of income in rent v 18 per cent for households with a mortgage.[3] Guidance from Shelter is that housing costs should take up no more than 35 per cent of post-tax household income to be affordable[4]. Renters have much lower disposable income and ability to save. This constraint is perennial, unlike housing costs for mortgage borrowers, which decline in real terms over time.

Long-term, the consequence of this inability to save is that some private renters may never be able to afford to buy. They will therefore face housing costs in retirement – a time when typically, homeowners have paid off their mortgages and are living free of housing costs. Parents stuck in the rent trap face working for longer to cover ongoing housing costs, particularly if they have also not been able to save enough into a pension.

3.2 Impact on family life of insecure tenancies and the risk of having to move at short notice

If families are becoming trapped in the private rented sector for the long-term, this can have a significant impact on their security as a family. Many will be renting on the basis of an assured shorthold tenancy lasting as little as 6-12 months.

Renting privately from a landlord is fundamentally less secure than owning your own home with a mortgage. There is a risk of eviction at any point once the term of a tenancy agreement has come to an end, because of a piece of legislation known as "Section 21" of the 1988

[2] **MCOB 11.6.12** https://www.handbook.fca.org.uk/handbook/MCOB/11/6.html
[3] 1.45 pg. 15 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/774820/2017-18_EHS_Headline_Report.pdf
[4] Shelter's definition of affordable housing https://blog.shelter.org.uk/2015/08/what-is-affordable-housing/

Housing Act, which allows landlords to give two months' notice to tenants without giving a reason.

One notable current risk to tenants whose original tenancy agreement has expired is the crackdown by government on buy-to-let landlords.

Most privately rented dwellings are owned by private individual landlords. Many landlords are now reducing their portfolios, or exiting the market altogether, as the Government has removed incentives for landlords since 2016. In the short term, this could result in families who are renting being evicted when landlords sell their properties. With a reduced supply of nearby rented accommodation, they may find it hard to find a replacement home.

According to Knight Frank, 9 per cent of moves from one privately rented home to another in the last 12 months were because the tenant was "forced" to move.[5] According to official homelessness statistics, the end of an assured shorthold tenancy (AST) has been an increasingly common cause of loss of last home over the last eight years, rising from 11 per cent, of households in 2009 to 25 per cent of households in 2018.

While owning a home with a mortgage carries a risk of repossession if you don't manage to keep up repayments, this is a risk that is more within the control of the family, rather than in the hands of a landlord, who can cite many reasons other than not keeping up with rent payments as reason for eviction.

For families wanting to establish roots and make a house into a home, the risk of eviction causes practical issues such as difficulties with schooling, as well as emotional issues, ie. the anxiety that you might at any moment be asked to leave your home. These were well covered in a 2013 report by the housing charity Shelter[6].

It could also cause long term financial resilience problems (a lack of savings and dependence on debt) for the children as well as their parents, who face an increasingly steep uphill battle with housing costs and an ever-reducing chance of owning their own home.

For parents trying to create stability for their children, the possible implications of this lack of security of tenure might be:

- Difficulty securing and maintaining school/ nursery places
- Loss of proximity to support networks (eg. grandparents close at hand);
- Complications to travel arrangements to work from home, from school to work;
- Implications for mental health.

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[5] https://content.knightfrank.com/research/707/documents/en/the-uk-tenant-survey-2019-6118.pdf
[6] https://england.shelter.org.uk/__data/assets/pdf_file/0005/656708/Growing_up_renting.pdf

3.3 Vulnerability to income shocks caused by gaps in the welfare state for renters

In the past, one of the advantages of living in rented accommodation was that – unlike with a mortgage – if you lost your job or fell sick, you could be confident that your rent would be paid in full via the housing benefit system. However, this is far from being the case today. A policy paper by Royal London entitled "Renters at Risk"[7] identified a series of reasons why renters could be at risk of rent arrears and eviction following an income shock. Key considerations include:

- Rent bills which are sustainable on the basis of two incomes may be unaffordable on the basis of a single income, but the fact that one person still has a wage may dramatically reduce the amount of help available to pay the rent through the benefits system;

- The benefit system is not based on the actual rent a family is paying but on the rent for the size of property is deemed to need. A family that has a spare bedroom is likely to find that part of their rent is not covered by benefit, a feature known pejoratively by some as the 'bedroom tax';

- The benefit system is based on rents across a broad market area and allowable rents are (broadly) designed to cover (or exceed) around one third of rents in the area; those renting in more desirable parts of an area will find that there is a shortfall between their actual rent and the rent that the benefits system is willing to cover; this factor can be combined with the previous factor (on spare bedrooms) to create a substantial shortfall in eligible rent for benefit purposes;

While mortgage lenders can agree payment terms and offer leniency when owner occupiers struggle to meet their mortgage debts, private landlords have no such obligations. In the event of a prolonged period on benefit, families could be forced to move to cheaper accommodation or may in the worst case become homeless.

[7] https://www.royallondon.com/siteassets/site-docs/media-centre/policy-papers/royal-london-policy-paper-7-renters-at-risk.pdf pg. 3

4. HOW DID THE PARENT RENT TRAP HAPPEN?

Before moving on to suggest some potential policy responses to the 'parent rent trap', it is worth stepping back to consider the combination of factors which has led to this problem.

a) House prices have soared…

The rise in renting is not down to personal preference - home ownership remains an aspiration for 58 per cent of private renters - but rather a result of the continued constraints on the affordability and availability of homes to own, as well as on the mortgages with which to buy them.

Higher house prices, stricter lending criteria, a shortage of supply of affordable new homes (both to buy and to rent), competition for available properties from buy to let landlords and an increasing proportion of income being taken up by rent (leaving less for savings), have put home ownership further out of reach, for longer.

Although the latest figures put the number of first-time buyers getting mortgages at its highest for 12 years in 2018, according to UK Finance, the average age of a first-time buyer remains the highest it has ever been, at 34. In 1997, the average age was 26.[8]

In 1993, the average house price was 4.9 times the average household salary of a household headed by a 16- to 24-year-old. In 2016, it was 8.2 times (a decline from its peak of 11.2 times in 2007, but still unaffordably high).[9]

b) … But rents also unaffordable for many

Renters are now stuck between a rock and a hard place. Before the financial crisis, monthly rents were typically lower than a mortgage on a similar property. Now, renting itself is also becoming difficult to afford – not because of a deposit requirement, but because the monthly cost of renting is now generally higher than the cost of monthly mortgage repayments – by a whopping 20 per cent.

Among 25 to 34 year olds, 55 per cent were renting in 2018, up from 35 per cent in 1998. So an estimated 1.8 million people[10] that 20 years ago would have already bought or be about to buy their first home are now paying 25 per cent extra, on average, for the privilege of renting.

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8 https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/articles/milestonesjourneyingintoadulthood/2019-02-18

9 https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/articles/milestonesjourneyingintoadulthood/2019-02-18

The mean rent in the private rented sector is £844 a month (£10,128 a year).[11]

In contrast, average mortgage repayments for 2017/18 for were £678 a month (£8,136 a year).[12]

Rent now takes up an average 45 per cent of household income, against 18 per cent of household income for a mortgage[13], according to the English Housing Survey.

It is also worth noting that for parents in the rent trap, the rent they pay is likely to remain roughly static over time, or even rise slightly every year (rent rises of between 1 and 2 per cent a year)[14]. Whereas for families with a mortgage, those mortgage repayments often come down over time, as house prices rise and the amount of mortgage outstanding as a proportion of the value of the home comes down, resulting in lower mortgage rates – and therefore lower monthly repayments.

Without an increase in the supply of rental accommodation to push down the cost of renting, families who are stuck in renting have no such downward slide in real housing costs to look forward to.

c) Meanwhile, lenders are likely to lend less to couples with children than those without…

Unfortunately for couples who have children before they buy their first home, the fact that they have had children is likely to count against them when they apply for their first mortgage, as a result of mortgage market guidelines introduced in 2014. That's because lenders now consider all household costs when assessing affordability, including childcare costs, when considering a mortgage application[15]. Full time nursery care for one child between the ages of 1 and 3 costs around £1,000 a month on average, which can seriously dent a couple's ability to afford a loan for a family-sized property. If lenders offer a mortgage

[10] https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesscotlandandnorthernireland

[11] https://www.gov.uk/government/statistics/private-rental-market-summary-statistics-october-2017-to-september-2018--2

[12] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/expenditureonmortgagesbymortgageholdersuktable29

[13] (excluding housing benefit) Pg 15 , 1.45: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/774820/2017-18_EHS_Headline_Report.pdf

[14] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/indexofprivatehousingrentalprices/january2019

[15] **MCOB 11.6.12** https://www.handbook.fca.org.uk/handbook/MCOB/11/6.html

to a couple with childcare costs, it may be for a lower amount than they might otherwise have received.

d) And the rise of the private landlord….

Competition to buy affordable first-time properties from private landlords - with deeper pockets and bigger deposits - than your typical first-time buyer, has made their lives harder. The rise of the buy-to-let landlord over time has increased the pool of rented accommodation and decreased the supply of homes to buy. This rise was helped along by rates on buy-to-let mortgages being more generous than those available for "riskier" first-time buyers in the aftermath of the financial crisis (although in recent months, competition among lenders has made more higher loan-to-value loans available to first-time buyers again).

The Government has curbed some of the appeal of buy-to-let by scrapping mortgage interest tax relief and increasing stamp duty on buy to let purchases by 3 per cent in 2016. These tougher measures have had some of the desired effect, although may also have some undesirable consequences in the short term for renting families.

5. WHAT CAN BE DONE TO HELP PARENTS IN THE RENT TRAP?

a) Current policy

Recent Government policy has focused on efforts to boost the spending power of first time buyers. This has included assistances with deposits such as Help-to-Buy ISAs and the newer Lifetime ISAs, as well as other help-to-buy initiatives designed to help those with small deposits. Government has also sought to reduce the number of properties being bought by small landlords for buy-to-let.

To some extent, these measures appear to be working, in so far as they are getting more people on the housing ladder. First time buyer numbers have risen in the last 12 months to the highest level for 12 years and there is evidence that fewer landlords are making purchases, while some are selling up.

However, by increasing the ability of buyers to afford a limited supply property at current prices rather than focusing on increasing supply of affordable (family) homes to buy, house prices remain at unaffordable levels for many.

Similarly, although in theory, reducing the number of buy to let landlords frees up property for aspiring owner occupiers to buy, in the short term, the consequences of landlords selling up could be an increase in evictions of families who rent. That's because even if the property is sold with the tenant family "in situ", the buyer of that property, in the current market, is likely to be an owner occupier who wants to live there. Consequently, the renting family would have to find somewhere else to rent at short notice. ***In the short term, as the Government crackdown on buy to let landlords takes effect, the increase in the number of private landlords selling up is a real risk to the families who rent homes from them.***

For the wider economy, the inability of young families to escape rental accommodation means an increase in demand for suitable homes for families to rent in a specific location, ie. close to a school. This in turn pushes rents up for family-sized accommodation in that area – increasing the financial strain on these young families and potentially increasing the burden on the welfare state.

b) Potential policy initiatives

The issues we have highlighted in this paper reflect long-term and deep-rooted trends and need a 'joined-up' policy response. Some areas to review could include:

- The effect of Section 21 of the 1988 Housing Act which allows for 'no-fault' evictions and which reduced tenant security. This has recently been abolished in Scotland, and the Westminster government should review the evidence on the impact that this has had.

- Planning and housebuilding policy – if families could buy affordable homes earlier, they might not need to rent for so long. The focus should be on building affordable family-sized homes for first time buyers with or without children.

- An assessment of the impact of current policy towards buy to let landlords on the tenants who currently rent from them – eg have reduced subsidies for buy-to-let landlords created short-term instability for families?

- If the drop in the number of landlords is causing a shortage of rented accommodation for tenant families, examine the case for incentivising larger institutional landlords, such as pension funds, through the planning system, to build, own and manage affordable long term rental accommodation.

- Could lenders be encouraged to take into account a family's sustained ability to pay rent for a property over time when assessing their ability to afford a mortgage? If a family has consistently and reliably paid their rent over several years, and these monthly payments exceed what their monthly mortgage costs would come to, this could be used as evidence in affordability calculations.

6. CONCLUSIONS

The UK housing market has seen dramatic changes in recent years. After a period of several decades in which the growth of owner-occupation seemed unstoppable, we have now seen a fall in the proportion of families buying a home with a mortgage and a rise in private renting. That rise has in particular affected families with children, 1.5 million of whom in England alone are now living in private rented accommodation. Roughly half of all babies born in Britain this year will be born in a home which is not owned by their parents, and more than half of these will be born into a privately rented home. In many cases, the family could be evicted at very short notice with devastating consequence for the family concerned.

As we have seen, once families begin to rent for the long-term they can easily become trapped in renting. Renting is now often more expensive than buying with a mortgage, especially at current mortgage rates. This in turn makes it even harder for families to set aside the funds for a deposit to buy their own home. Long-term renting also increases the chance that these families will reach retirement as renters and will have to use their limited pension savings not only to afford day-to-day living expenses but also rental bills through retirement.

Public policy measures to address these issues have had limited effect. There are now more first-time buyers but house prices remain close to record levels relative to average earnings. Recent changes in the buy-to-let market have created additional uncertainty for tenants as landlords sell up, again potentially at short notice.

Too little policy attention has been paid to the position of families with children trapped for the long-term in potentially insecure private rented accommodation. We have suggested some measures which could improve the situation, including greater security of tenure for such families, but we urge policy makers and politicians of all sides to work together to tackle this issue and to give real security to millions of parents and children across the land.