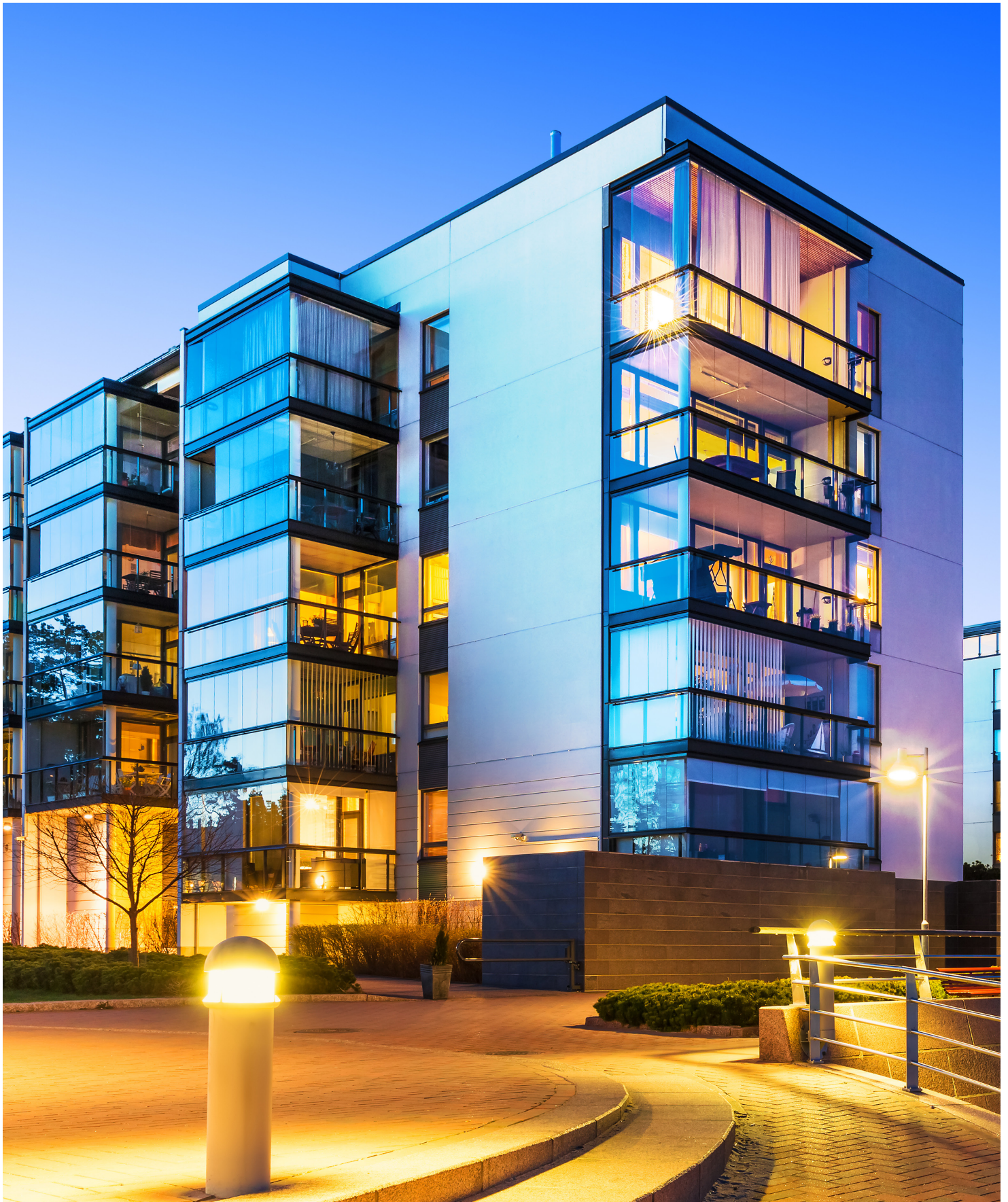


Changing drivers of tenure



Reaching equilibrium or temporary respite?

Levels of private renting and mortgaged owner occupation are changing due to a combination of structural and short term drivers. What exactly is behind the shift? And will the experience of Covid-19 make a difference?

According to the English Housing Survey the number of households in the private rented sector more than doubled between 2000-01 and 2013-14 as the number of mortgaged owner occupiers fell by 1.5m.

This not only reflected increased barriers to home ownership, as deposit affordability became the overriding hurdle to get on the housing ladder. It also reflected a significant increase in the amount of private rented

accommodation, provided by a seemingly ever-growing band of buy to let investors.

A change in direction

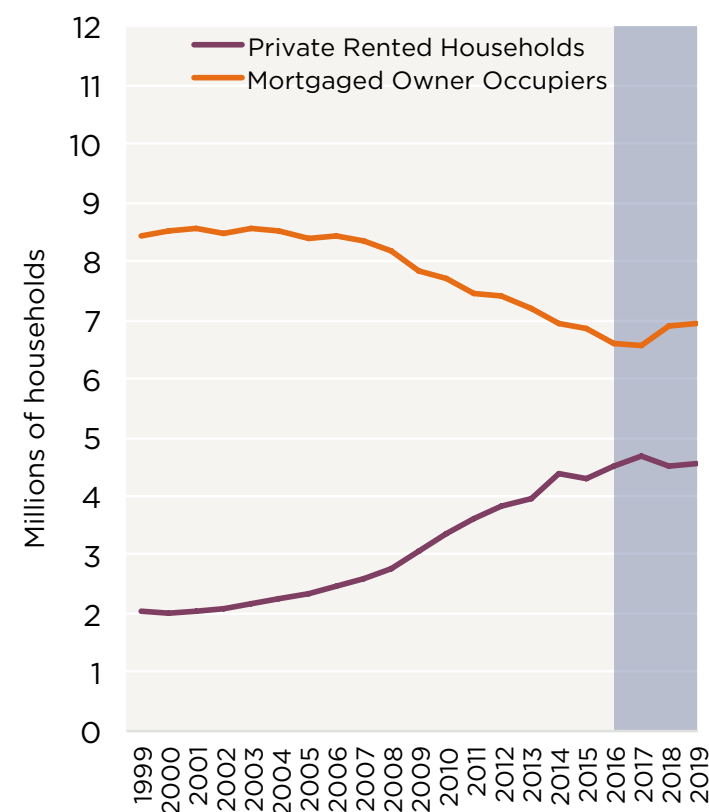
However, over the past five or so years we have seen private renting plateau and owner occupation bottom out according to both the English Housing Survey and, importantly, the more extensive Labour Force Survey. Indeed, there are signs that levels of private renting

has been falling and that owner occupation has been on the rise.

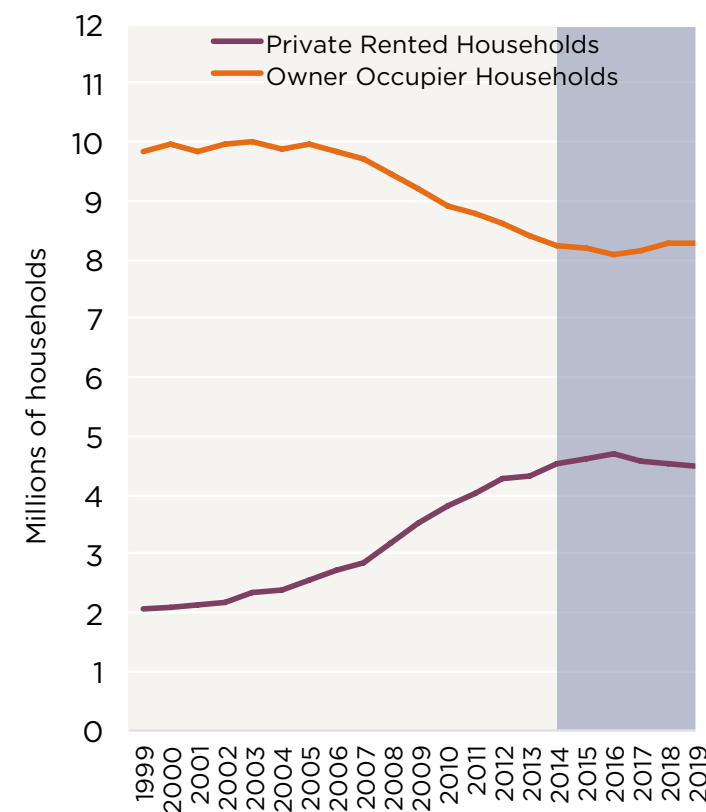
That reflects some structural changes in the housing market but also some shorter term factors, which in the past few years have supported first time buyer (FTB) numbers and restricted the supply of private rented accommodation from buy to let (BTL) investors.

Changing trends private renting and mortgaged occupation

English Housing Survey (England)



Labour Force Survey (UK)



Source English Housing Survey, Labour Force Survey

What's behind the change in mortgaged owner occupation?

First time buyer numbers have exceeded 350,000 according to UK Finance in each of the past two years, having been below 260,000 in 2013 and somewhat less than that a year earlier.

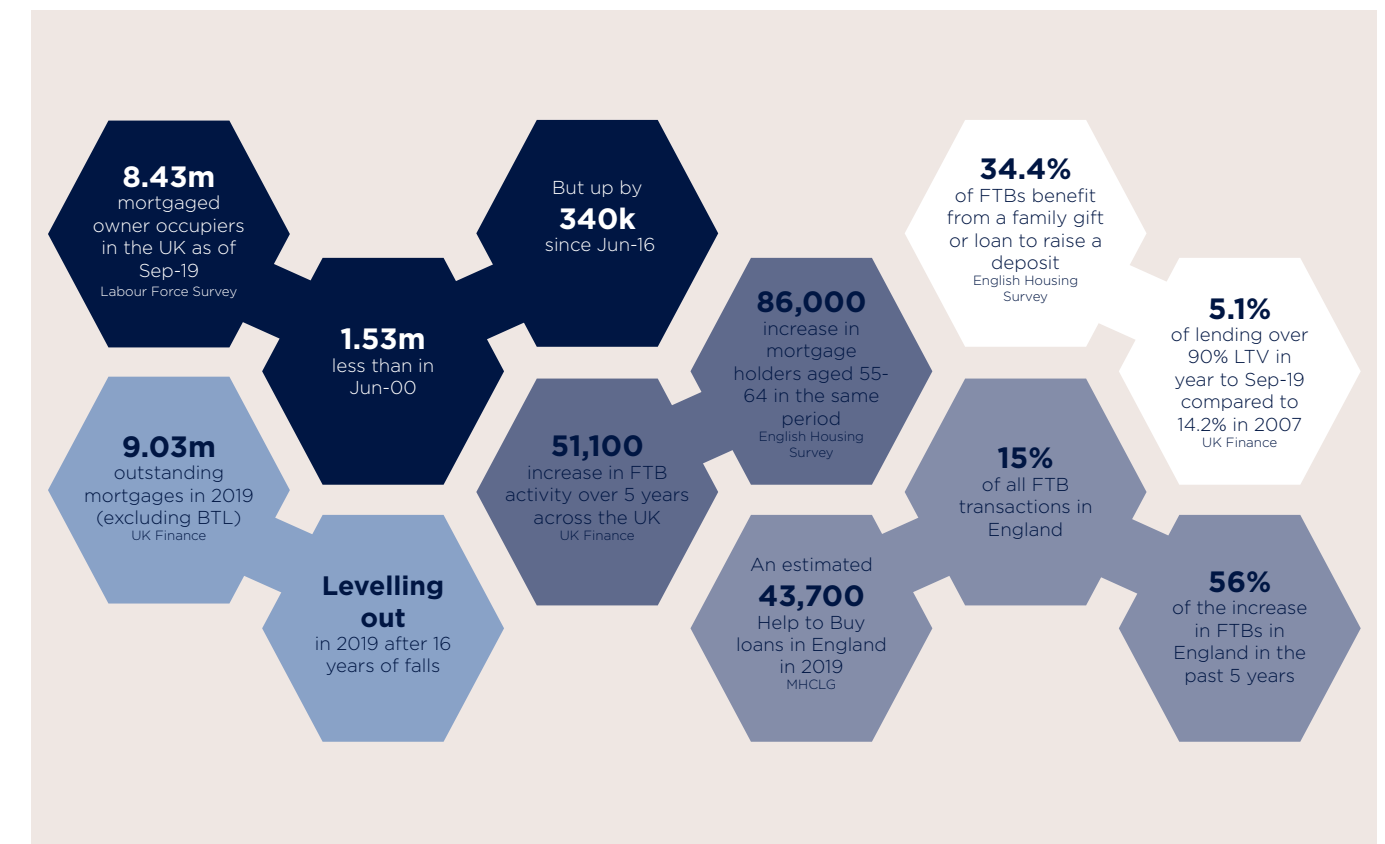
Yet there is little evidence to suggest that the deposit hurdle facing first time buyers has eased substantially. Though we saw an increase in lending above a 90% loan to value (LTV) ratio (at a progressively lower cost to borrowers) in the run up to Covid-19, lending remained confined to 5% of the mortgage market, some way short of the 14% seen prior to the Global Financial Crisis.

And in recent weeks, as the coronavirus situation has

unfolded, we have seen the high street lenders reduce the availability of higher LTV lending.

It is, of course, too early to tell the extent to which it will have a lasting impact on mortgage availability, or indeed the effect it will have on government plans to encourage lenders to offer more long-term fixed-rate mortgages at higher LTVs (i.e. with a lower deposit). But it further brings into question the extent to which lending at higher LTVs can make a material difference to the numbers fulfilling their aspiration of home ownership over the mid-term.

Key numbers - mortgaged owner occupation change at both ends



Source As stated, otherwise Savills Research

Bridging the deposit gap

Perhaps more importantly we have seen a change in the way deposits are funded. There has been significant increase in the support from the bank of Mum and Dad, as parents and grandparents more frequently help younger generations to get their first step on the housing ladder. In all likelihood this has now become

an entrenched means by which people graduate to home ownership. But in the short term, the falls in the stock market and the knock-on impact this may have on older households' pension provisions may curtail its availability.

That is likely to place more emphasis on Help to Buy, as and when housebuilders

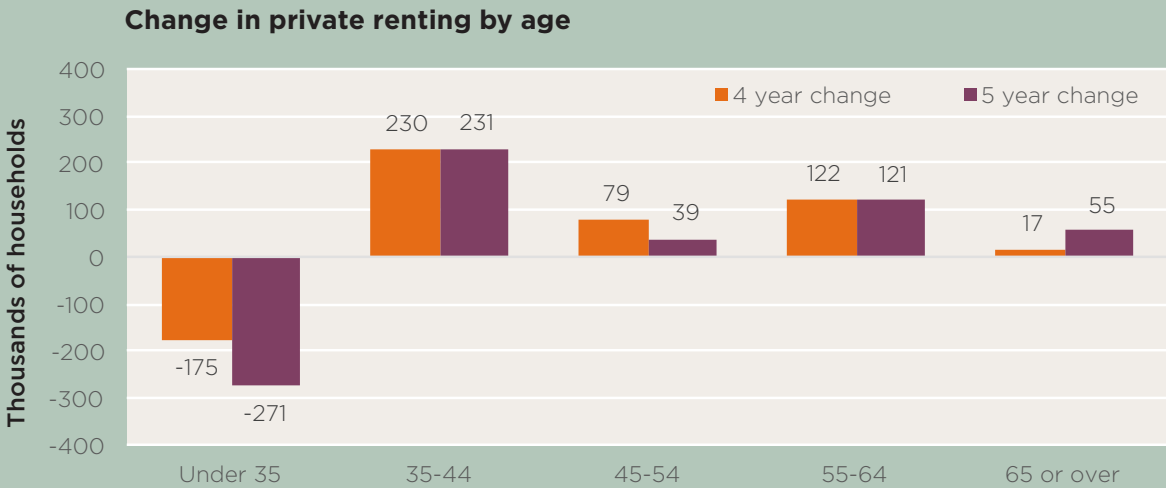
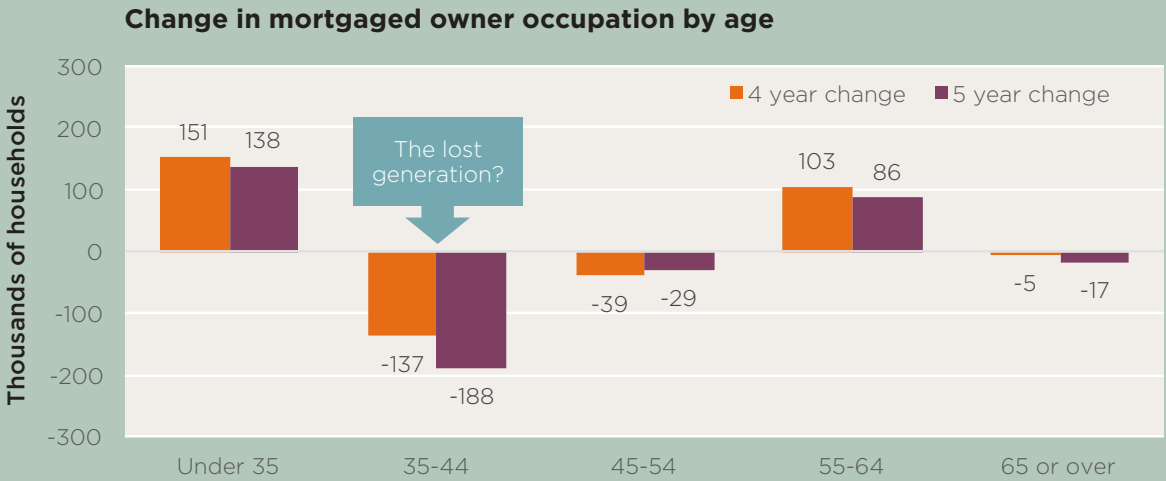
resume construction. Before recent events Help to Buy was supporting over 40,000 first time buyers per annum across England, but even as life returns to normal it will take time to scale back up and it is scheduled to cease in April 2023.

Fewer leaving mortgaged home ownership

It would be a mistake to think that the growth in mortgaged owner occupation is just about more people buying their first home. It is also about fewer older households paying off their mortgage debt.

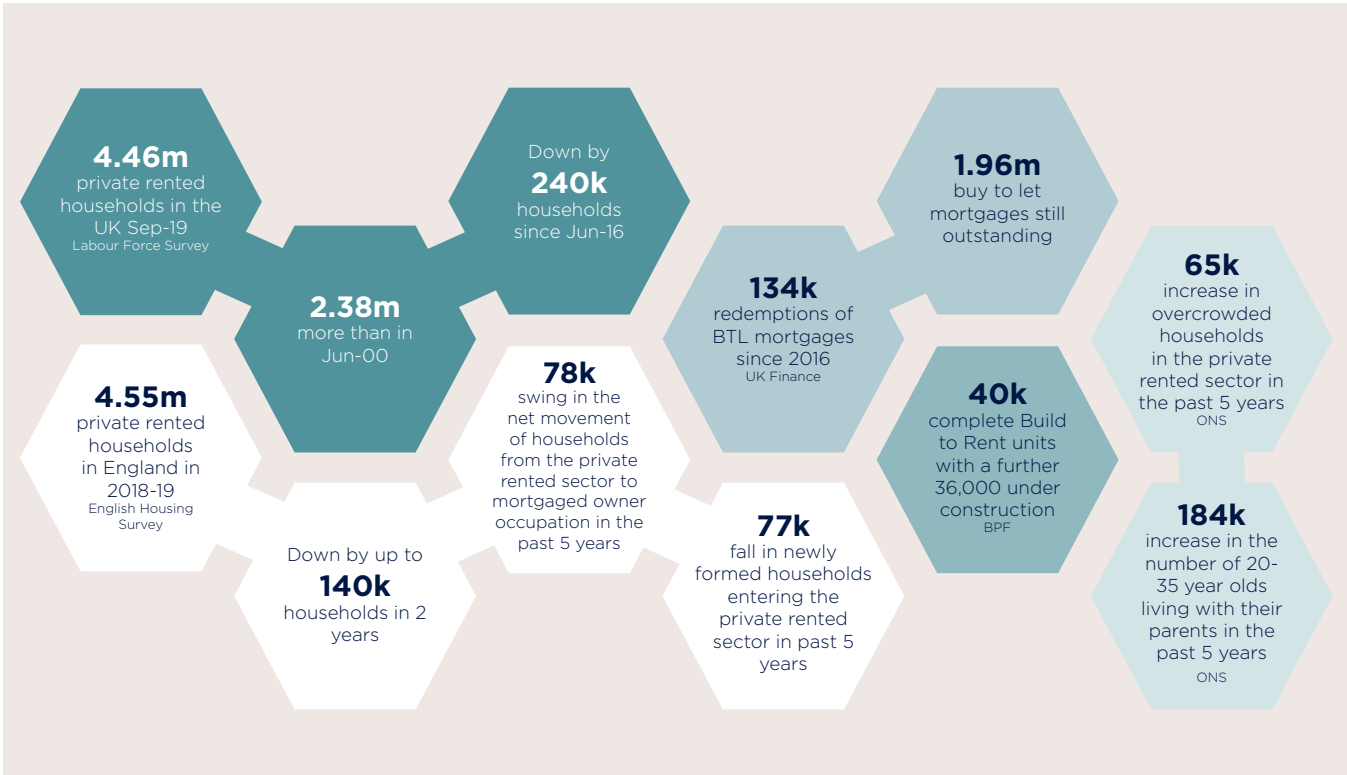
While un-mortgaged owner occupation is growing, this essentially reflects large increases in the number of households over the age of 65 (despite a significant under-provision of retirement housing). By contrast the number of those in the 55 to 64 age band who continue to hold a mortgage has risen by 86,000 in the past 5 years, as the average mortgage term increases.

Continued evidence of under-supply in the private rented sector
There is no doubt that a recent fall in the number of private rented households reflects a swing in numbers of younger households, often under the age of 35, migrating into mortgaged owner occupation, even though home ownership among the 35-44 year old continues to fall. But it also reflects a fall in the number of new households entering the private rented sector, given issues of under-supply; an under-supply which sits against the context of a long-term trend of more young people living with their parents and a big increase in overcrowding in the sector.



Source English Housing Survey

Key numbers - private rented sector part structural, part undersupply



Source As stated, otherwise Savills Research

Bye, bye, buy to let?

New buy to let lending has fallen dramatically and UK Finance data reveals 134,400 (BTL) mortgages have been redeemed since 2016 (38,000 per year). Restrictions on the tax relief for mortgage interest payments have been a key driver of this. This is likely to bite harder if, as and when interest rates start to rise.

Moreover, in the short term we believe the finances of this group of landlords will be more exposed to coronavirus-related non-payment of rent and a build-up of rental arrears. The experience of this, coming on top of other pressures, could easily hasten the departure of even more mortgaged landlords from the sector.

With some 1.96m buy to let mortgages still outstanding, this and other regulatory changes (such as the proposed abolition of no-fault evictions) is likely to further deter private landlords.

That leaves significant scope for expansion of a Build to Rent sector that is attracted to the long-dated income from single and multifamily schemes. Institutional investors could be an important source of demand for new build stock if housebuilders scale

supply back up faster than demand from households. Currently Build to Rent accounts for just 1% of all private rented homes in the UK, compared to 45% in the US and 35% in Germany. As we reported in last year’s research report ‘The Sky’s the Limit’, we believe the Build to Rent sector has the capacity to increase in scale from £10bn today to £550bn at full maturity.

Equilibrium: a state in which opposing forces or influences are balanced

So where does all of that leave us? In theory at least there should be equilibrium between tenures when the underlying forces of mortgage accessibility on the one side and investor appetite on the other are balanced. It follows that growth in the level of private renting and a fall in the level of owner occupation could not continue at the same pace forever. But, as the experience of the recent past tells us, forecasting where they go next is more difficult, particularly given the prospect of disruption in the housing market over the next six months, the mortgage markets in particular and tax environment

for buy to let investors. Ultimately the equilibrium point will be dictated by a number of demand and supply drivers: the way projected population growth feeds into new households, how mortgage regulation continues to be applied, the ability of the government to encourage lenders to offer more mortgage products at higher LTVs as we emerge from the coronavirus pandemic, the extent to which new policies such as First Homes gain traction, and, as importantly, the extent to which institutional investors fill the gap left by mortgaged private investors.

5 key takeaways

- 1** Multiple sources indicate that growth in private renting has plateaued and that falls in mortgaged owner-occupation have bottomed out over the past five years.
- 2** Mortgaged owner-occupation has been boosted by an increase in first-time buyers. Higher loan-to-value mortgages, Help to Buy, and support from the bank of Mum and Dad have helped support this growth. But we've also seen a rise in older households holding mortgage debt for longer.
- 3** Despite the increase in first time buyer activity, private renting has continued to increase and mortgaged owner occupation fall in the 'lost generation' of 35-44 year olds.
- 4** In the short term we expect first time buyer numbers to fall, along with the transactional activity in the rest of the market. Help to Buy has a limited life-span and Covid-19 may prevent any increase in higher LTV lending and curtail activity from the bank of Mum and Dad.
- 5** We expect Covid-19 to add to pressure on private landlords in an already undersupplied rental market. That leaves significant capacity for the expansion of Build to Rent, which currently accounts for less than 1% of privately rented homes.



Savills Research

We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market.

Research

Lucian Cook

Director
+44 (0) 7967 555 418
lcook@savills.com

Jacqui Daly

Director
+44 (0) 7968 550 399
jdaly@savills.com

Lawrence Bowles

Director
+44 (0) 7855 999 466
lbowles@savills.com

Richard Valentine-Selsey

Associate Director
+44 (0) 7870 403 193
richard.valentineselsey@savills.com

Andrew Brentnall

Director
Operational Capital Markets
+44 (0) 7967 555 578
abrentnall@savills.com