Brexit and the Housing Crisis

One of the themes of Brexit is that it has exposed the cleavage between the young and the old, at least in Great Britain (voting patterns in Northern Ireland were somewhat distinct). According to the data that we have, older voters are more likely to support leaving the European Union than younger ones. Interestingly, this pattern is as true in Scotland as it is in England and Wales – all groups (young and old) were less likely to support leaving the EU in Scotland but the differences between them are similar to their English (and Welsh) counterparts.

This has led to an outpouring of emotion, with many younger people arguing that “the old have stolen my future”, whilst older people have argued that the young “have no experience”, particularly of life outside the EU. These views, however, need moderating. The young and the old are distinct in many ways other than age. Firstly, young adults are far more likely to have a degree-level education. Educational background is the single strongest predictor of how one voted in the referendum.

Additionally, there are a number of differences in financial circumstances, location and, unsurprisingly, home ownership. After controlling for these factors, some academics have found that one’s propensity to vote for Brexit was not chiefly driven by age[1], although the under-30s did have a stronger propensity to vote Remain.

Brexit, however, is far from the only generational divide. Indeed, a sense that the interests of the young and the old are divergent is neither specific to Britain, nor to the present day. The 1960s and ‘70s saw dramatic social changes instigated by a younger generation that chafed against the mores and attitudes of their forebears. In turn, the sexual revolution and liberal attitudes that were ushered in provoked a furious backlash from those (often older) who saw that era as one of ‘moral decay’. In Japan, the phenomenon of the *rougai* demonstrates precisely the challenges presented by demographic change and generational differences.

It is this Brexit angle that has led me to consider the issue of inter-generational access to housing. As a millennial (the so-called “generation rent”) this has particular salience. The difficulties associated with becoming a homeowner have been discussed ad-nauseum in the media (rather less-discussed but no less pressing are the difficulties associated with trading up to a larger house for a growing family).

The reality, however, is much more nuanced. Although privately renting a house is expensive, this is not a new development. The table below details rents across England (sadly data for the rest of the UK are not available before 2011) relative to 2006:

Nominal Rents

Year	*England*	*North East*	*North West*	*Yorkshire and The Humber*	*East Midlands*	*West Midlands*	*East*	*London*	*South East*	*South West*
2006	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2007	102.7	102.4	102.4	103.3	102.1	102.1	102.3	103.0	102.4	103.0
2008	106.2	105.4	104.5	106.4	104.2	104.4	105.1	107.7	105.7	106.8
2009	107.9	107.6	105.9	107.8	104.5	105.2	106.1	110.1	107.5	108.2
2010	107.1	107.8	106.3	108.2	103.5	104.3	104.6	109.4	106.0	107.4
2011	109.7	109.1	107.7	109.4	104.3	105.4	106.3	113.4	108.7	108.9
2012	112.8	109.9	108.7	110.5	106.0	106.7	108.1	119.2	111.4	111.0
2013	115.3	110.5	109.2	111.6	107.2	107.8	109.3	123.8	113.3	112.6
2014	117.1	110.9	109.7	112.1	108.5	109.1	110.5	126.6	115.3	114.2
2015	120.0	111.4	110.4	112.9	110.3	110.9	113.2	131.3	118.2	116.1
2016	123.1	112.4	111.7	114.5	113.1	113.0	116.7	135.3	122.1	118.3
2017	125.4	112.9	113.2	116.3	116.1	115.3	119.5	137.0	125.4	121.1
2018	126.6	113.1	114.5	118.0	119.2	117.2	121.7	136.9	127.3	123.5

Source: ONS Index of Private Housing Rental Prices

Moreover, these figures do not adjust for either inflation or salary changes. Relative to median full-time employee wages[2], the overall cost of renting a house has barely budged since 2006. If we deflate by wages, the results are as below:

Real Rents

Year	England	North East	North West	Yorkshire and The Humber	East Midlands	West Midlands	East	London	South East	South West
2006	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2007	99.5	100.2	98.5	100.4	100.8	99.6	100.0	99.3	99.2	99.1
2008	98.6	99.1	96.8	98.7	98.3	96.3	99.0	99.6	97.9	98.5
2009	98.0	97.8	97.0	97.8	94.2	96.6	97.9	99.2	97.1	97.6
2010	96.8	96.1	96.9	98.3	94.2	96.3	97.0	97.7	95.6	97.2
2011	97.8	96.4	97.8	97.7	94.5	94.4	95.8	99.9	96.7	97.2
2012	99.4	95.0	97.0	97.9	93.7	94.5	96.7	103.5	98.0	98.0
2013	99.5	94.2	95.4	96.3	93.6	92.7	96.4	106.6	99.3	96.8
2014	100.7	91.5	95.2	96.6	94.4	95.2	96.3	109.5	100.0	96.8
2015	101.8	90.3	94.4	96.5	96.0	94.0	97.0	112.6	101.0	97.1
2016	102.1	90.4	93.5	95.0	96.6	93.3	97.8	113.3	101.9	97.3
2017	101.8	89.6	92.8	95.2	97.6	93.5	98.2	111.6	102.9	96.9
2018	100.1	88.4	91.9	94.5	97.0	92.1	97.7	108.7	102.4	95.8

Source: Authors calculations from ONS Index of Private Housing Rental Prices and Annual Survey of Hours and Earnings[2]

So what has happened? Firstly, rents relative to incomes have diverged across the country. Whilst the rent-to-income ratio in the North East have fallen by over 10% in a decade, that in London has grown. What is true for rents is true on steroids for house prices. The table below illustrates house prices in each region[3], deflated by median full-time earnings[2] in that region:

House Prices to Incomes (2006 = 100)

Year	England	North East	North West	Yorkshire and The Humber	East Midlands	West Midlands	East	London	South East	South West
2006	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2007	105.6	104.0	103.7	104.7	105.0	103.3	106.6	110.2	106.7	104.8
2008	97.2	96.0	95.7	95.8	94.6	93.3	98.6	104.2	98.1	95.0
2009	86.7	85.7	86.6	86.0	82.5	85.1	87.5	92.4	86.7	85.0
2010	92.0	85.3	88.2	89.0	87.3	89.8	94.9	101.1	94.7	91.6
2011	89.7	80.9	85.2	85.1	85.4	84.9	91.7	101.8	92.7	88.9
2012	89.7	78.4	83.1	83.9	83.6	84.3	92.7	105.0	93.8	88.7
2013	90.4	77.0	81.8	82.1	84.4	83.3	94.1	112.8	96.5	88.0
2014	97.5	76.3	85.1	85.8	89.8	89.2	101.9	132.9	105.0	92.3
2015	102.8	76.7	86.9	88.6	94.8	90.9	109.9	145.2	112.7	96.5
2016	108.1	78.0	89.6	90.3	99.1	94.3	119.6	155.8	120.8	101.1
2017	111.0	78.3	92.2	92.6	103.4	97.8	124.6	155.8	124.0	103.4
2018	111.2	78.2	93.6	93.5	105.3	99.4	124.9	151.0	124.0	104.1

Source: Authors calculations from ONS House Price Index[1] and Annual Survey of Hours and Earnings[2]

So what do we have? I would contend that we have a *regional* housing crisis and a broader national problem. Only in London and its commuter belt have prices risen dramatically relative to earnings (on top of the already explosive growth visible in the decade beforehand). Divergent housing costs also affect labour mobility: the cost of taking a job in London is forgoing the ability to ever own my own home. This sits in stark contrast to the rest of England and other countries in the UK, where the issues are rather different.

Firstly, median full-time wages give only a very incomplete picture of earnings. As stressed by my colleague Professor De Ruyter,[4] work has become notably less secure in this period. We have some evidence suggesting that self-employed earnings (which are not covered by the employee wage data used above) have fallen dramatically in real terms since the mid-2000s. We also know that part-time work, temporary contracts and other forms of insecurity have grown, whilst pension entitlements have been dramatically reduced for many workers.

It is this that feeds into the housing problem (at least outside of London). Whilst rents might be stable (or even have fallen) relative to incomes, far more people are renting privately because getting a mortgage has become more challenging. Whereas before the financial crisis, when house prices were growing strongly, self-certification was common and lenders would happily lend at high-multiples of income that is no longer the case. Just at the moment when employment has become a more precarious experience, it has become harder for those workers with non-standard contracts or fluctuating earnings to borrow in order to buy a house.

Many (including myself!) believe that this tightening of lending criteria, much of which has been mandated by financial regulators, is emphatically a good thing. Few of us want to return to the bad-old-days of financial risk-taking run amok, with 125% mortgages and high loan-to-income ratios. However, it does mean that those without equity – principally the young – are considerably less able to acquire it. All of which reminds us that, whatever form Brexit takes, the cleavages in our society that it has exposed will be challenging to heal.

1. Liberini, F., et al., *Was Brexit caused by the unhappy and the old?* CAGE Working Paper 342, Warwick University., 2017.
2. Office for National Statistics, *Annual Survey of Hours and Earnings, 1997-2018*, O.f.N. Statistics, Editor. 2018.
3. Office for National Statistics, *UK House Price Index*. 2019, ONS: [online].
4. De Ruyter, A. and M. Brown, *The Gig Economy: Old Wine in a New Label?* 2019, Newcastle-Upon-Tyne: Agenda.